

To the shareholders of
the Open Joint Stock Company

“Central Telecommunication Company”

Auditors’ report
on the financial statements
of Open Joint Stock Company
“Central Telecommunication Company”
For the 2008 reporting year

Set out below is an unofficial translation of the auditors’ report on the statutory financial statements of the Open Joint Stock Company “Central Telecommunication Company” as at and for the year ended 31 December 2008. The statutory financial statements to which the auditors’ report relates have been prepared in accordance with the accounting and reporting regulations of the Russian Federation. Russian accounting and reporting regulations differ from accounting frameworks in other jurisdictions. Consequently, the accompanying statutory financial statements are not intended to present the financial position, financial performance and cash flows of the Open Joint Stock Company “Central Telecommunication Company” in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation.

Information on the audit firm

<i>Name of the audit firm:</i>	Closed Joint Stock Company KPMG.
<i>Location (legal address):</i>	18/1, Olympiysky prospect, Room 3035, Moscow 129110.
<i>Postal address:</i>	18, Krasnopresnenskaya Naberezhnaya, Block C, floor 31, Moscow 123317.
<i>State registration:</i>	Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585. Included in the Unified State Register of Legal Entities on 13 August 2002 by Moscow's Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.
<i>Licence:</i>	Audit Licence No. E 003330 issued on the basis of Order No. 9 of the Ministry of Finance of the Russian Federation on 17 January 2003. The Licence was extended until 17 January 2013.
<i>Accredited professional audit organisation membership:</i>	Member of the Chamber of Auditors of Russia.

Information on the audited company

<i>Name of audited company:</i>	Open Joint Stock Company "Central Telecommunication Company"
<i>Location (legal address):</i>	23 Proletarskaya str., Khimki, Moscow Region, 141400.
<i>Postal address:</i>	Bldg 2, 6 Degtyarny per., 115142, Moscow
<i>State registration:</i>	State registration certificate #127 of June 20, 1994; registered by an Order #567-r by the Chief of Moscow Region's Administration The Company was registered in the Uniform State Register of Legal Entities under #1025006174710 on November 01, 2002 by the Khimki's Inspectorate of the Ministry of Tax and Duties of the Russian Federation. Certificate series 50 #00149453477 of an entry made about a legal entity registered until July 1, 2002 to the Uniform State Register of Legal Entities.

Auditors' Report

To the shareholders of Open Joint Stock Company "Central Telecommunication Company"

We have audited the accompanying financial statements of Open Joint Stock Company "Central Telecommunication Company" (hereinafter referred to as the Company) for 2008.

The financial statements include 71 pages and comprise:

- the balance sheet as of December 31, 2008;
- the statement of profits and losses for 2008;
- appendices to the balance sheet and profit and loss statement, including:
 - statement of changes in equity for 2008;
 - cash flow statement for 2008;
 - attachments to the balance sheet;
- explanatory notes to the financial statements.

The Company's executive body is responsible for compliance with accounting procedures, preparation and presentation of these financial statements. Financial statements are statements provided for by the Federal Law "On Accounting."

Our responsibility is to express an opinion on the fairness of the financial statements in all material respects on the basis of our audit.

We conducted our audit in accordance with the Federal Law "On Audit Activities," the Federal Rules (Standards) on Auditing, the Rules (Standards) for Auditing Activities, KPMG's internal corporate standards on audit, and also with rules and standards approved by the Russian Audit Chamber.

The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatements.

The audit was performed on a selective basis and included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements concerning the financial and business operations of the audited entity; assessing the compliance with accounting principles and rules used in the preparation of the financial statements, and significant estimates made by management of the audited entity; as well as the evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the fairness of these financial statements.

In our opinion, the Company's financial statements reflect fairly, in all material respects, the financial position of OJSC CenterTelecom as of 31 December, 2008 and the results of its operations for the period from 1 January through 31 December, 2008 in accordance with regulations of the Russian Federation insofar as they relate to the preparation of financial statements.

30 March 2009

Andrei Viktorovich Shvetsov

Director of CJSC KPMG

(PoA #182 dated October 2, 2006)

Akylbek Yerkozha Akylbekuly

Engagement manager

Auditor's qualification certificate #K029616

valid for an indefinite period

BALANCE SHEET

	as of December 31, 2008	Form # 01 according to OKUD
The organisation	OJSC CenterTelecom	Date (year, month, day) 2008.12.31
The taxpayer's identification number	5000000970	OKPO 01140111
Type of activity	telecommunications services	INN 5000000970
The organisational-legal form / ownership form	open joint stock company/mixed	OKVED 64.20
Unit of measurement:	ths. RUR	OKOPF/OKFS 47/31
Address	Bld.2, 6, Degtiarny per., Moscow, 125993, Russia	OKEI 384
		Date of approval
		Date of sending (receipt)

ACTIVE PART	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
I. NON-CURRENT ASSETS					
Intangible assets		110	110	1 137	2 370
Fixed assets	5.1.	120	120	33 288 904	35 885 960
Construction in progress	5.2.	130	130	1 550 389	1 066 103
Profit bearing investments in tangible assets		135	135	1 450	1 439
Long-term financial investments		140	140	963 894	620 343
<i>including:</i>					
investments in subsidiary companies	5.3.		141	548 801	548 786
investments in associated companies	5.3.		142	25	25
investments in other organizations	5.3.		143	25 728	23 973
other long-term financial investments	5.4.		144	389 340	47 559
Deferred tax assets	5.5.	145	145	368 615	297 809
Other non-current assets	5.6.	150	150	5 071 582	4 991 707
Total section I		190	190	41 245 971	42 865 731

ACTIVE PART	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
II.CURRENT ASSETS					
Inventories		210	210	1 034 453	923 148
<i>including:</i>					
raw materials, consumables и other similar assets	5.7.	211	211	515 606	481 475
work in progress (distribution costs)		213	213	13	
finished products and goods for resale		214	214	49 684	31 014
shipped goods		215	215	604	363
expenses of future periods		216	216	468 546	410 296
other stocks and costs		217	217		
VAT on purchases	5.8.	220	220	591 412	218 710
<i>including:</i>					
payments expected in over 12 months after the reporting date			221	91 723	30 339
payments expected within 12 months after the reporting date			222	499 689	188 371
Accounts receivable (with payments expected to be received in more than 12 months after the reporting date)		230	230	2 778	1 153
<i>including:</i>					
buyers and customers		231	231		
advances given			232		
other debtors			233	2 778	1 153
Accounts receivable (with payments expected to be received within 12 months after the reporting date)		240	240	3 520 990	4 524 098
<i>including:</i>					
buyers and customers	5.9.	241	241	2 682 952	2 993 904
advances given			242	265 151	218 783
other debtors	5.10.		243	572 887	1 311 411
Short-term financial investments	5.4.	250	250	819 619	547 822
Cash		260	260	461 238	506 301
Other current assets		270	270	1 755	1 266
Total section II		290	290	6 432 245	6 722 498
BALANCE (sum of lines 190+290)		300	300	47 678 216	49 588 229

PASSIVE PART	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
III. CAPITAL AND RESERVES					
Charter capital	5.11.	410	410	6 311 999	6 311 999
Additional capital		420	420	70 946	70 945
Reserve capital	5.13.	430	430	167 378	349 112
Treasury shares bought back from the shareholders	5.12.	411	440		
Retained profits (uncovered loss) of past years		470	460	13 809 922	12 704 266
Retained profits (uncovered loss) of the reporting period		470	470	X	2 585 494
Total section III		490	490	20 360 245	22 021 816
IV. LONG-TERM LIABILITIES					
Loans and borrowings	5.15.	510	510	14 422 537	9 116 717
<i>including:</i>					
loans			511	3 947 813	5 846 700
borrowings			512	10 474 724	3 270 017
Deferred tax liabilities	5.16.	515	515	1 353 923	1 652 760
Other long-term liabilities	5.17.	520	520	647 694	242 484
Total section IV		590	590	16 424 154	11 011 961
V. SHORT-TERM LIABILITIES					
Loans and borrowings	5.15.	610	610	4 314 442	9 446 616
<i>including:</i>					
loans			611	44 007	1 779 753
borrowings			612	4 270 435	7 666 863
Account payable	5.18.	620	620	4 958 040	5 955 833
<i>including:</i>					
suppliers and contractors		621	621	3 144 683	3 720 505
advances received		625	622	538 252	762 910
employees related liability		622	623	1 119	3 822
statutory and extra-budget funds		623	624	10 573	32 574
taxes and duties		624	625	215 013	700 423
other creditors		625	626	1 048 400	735 599
Shareholders (participants) related liability in respect of dividend payments		630	630	29 895	16 788
Income of future periods	5.19.	640	640	433 056	405 794
Reserves for impending expenses	5.20.	650	650	610 619	509 292
Other short-term liabilities	5.21.	660	660	547 765	220 129
Total section V		690	690	10 893 817	16 554 452
BALANCE (sum of lines 490+590+690)		700	700	47 678 216	49 588 229

Reference in respect of assets accounted for off-balance sheet

Item description	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
Leased fixed assets including capital leases	5.22.	910	901	5 745 647	12 372 478
		911	911	4 682 950	11 305 043
Materials and other assets accepted for custodian storage		920	902	137 760	92 538
Goods taken on commission		930	903	8 277	28 200
Bad debts written off to losses		940	904	573 514	572 744
Guaranties (for liabilities and payments) received	5.23.	950	905	8 995 592	6 039 206
Guaranties (for liabilities and payments) given	5.24.	960	906	1 694 150	917 037
Depreciation of housing facilities		970	907	14 539	14 099
Depreciation of the outward infrastructure facilities and other similar objects		980	908	2 148	2 256

Reference of net assets value

Item description	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
Net assets			1000	20 793 301	22 427 610

General Director _____ V. A. Martirosyan
(signature) (name)

Chief Accountant _____ A. D. Kartashov
(signature) (name)

March 30, 2009

STATEMENT OF PROFITS AND LOSSES

		Form # 02 according to OKUD	
	for 2008	Date (year, month, day)	2008.12.31
The organisation	OJSC CenterTelecom	OKPO	01140111
The taxpayer's identification number	5000000970	INN	5000000970
The type of activity	telecommunications services	OKVED	64.20
The organisational-legal form / ownership form	open joint stock company/mixed	OKOPF/OKFS	47/31
Unit of measurement:	ths. RUR	OKEI	384

Indicator	Notes	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	2a	3	4
I. Income and expenses from ordinary activities					
Net revenue from sales of products, goods, works, services (net of VAT, excise tax and other similar mandatory payments)	6.1.	010	010	33 715 158	32 409 127
including revenue from sales of telecommunications services			011	31 872 408	30 821 429
Costs of goods, products, works, services sold	6.2.	020	020	(26 351 202)	(23 973 921)
including telecommunications services			021	(25 411 948)	(23 128 374)
Profit (loss) from operations (lines 010-020)		050	050	7 363 956	8 435 206
II. OTHER INCOME AND EXPENSES					
Interest receivable		060	060	186 652	77 415
Interest payable		070	070	(1 759 120)	(1 844 585)
Income from participation in other organisations		080	080	19 804	26 752
Other income	6.3.	090	090	2 210 257	1 059 061
including reimbursement of loss related to provision of universal telecommunications services			091	1 559 404	36 873
Other expenses	6.3.	100	100	(3 975 061)	(2 408 024)
Profit (loss) before tax (lines 050+060-070+080+090-100)		140	140	4 046 488	5 345 825
Profit tax expenses (lines - 151+/-152+/-153+/-154) including:	6.4.		150	(1 460 994)	(1 711 152)
deferred tax liabilities		142	151	(297 002)	(229 869)
deferred tax assets		141	152	(70 806)	(39 554)
current profit tax		150	153	(1 093 098)	(1 567 582)
Profit tax on adjusted returns for past periods		151	154	(88)	125 853
Net profit (loss) for the period (lines 140-150)		190	190	2 585 494	3 634 673
BY REFERENCE					
Imputed expenses/income on profit tax	6.4.		201	(971 157)	(1 282 998)

Indicator	Notes	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	2a	3	4
Permanent tax liabilities	6.4.	200	202	(489 837)	(428 154)
Permanent tax assets	6.4.	200	203		

Indicator	Notes	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	2a	3	4
Basic profit (loss) per share	6.5.		301	1.47461	2.07300
Diluted profit (loss) per share	6.5.		302		

* to be completed in annual financial statements

Description of certain income and expense items

Indicator	Indicator code	Line code	Reporting period		Similar period of the previous year	
			profit	loss	profit	loss
1	1a	2	3	4	5	6
Fines, penalty fees and forfeits either admitted or in respect of which recovery is awarded by a court of law (or a court of arbitration)		401	18 885	(2 685)	13 222	(2 735)
Profit (loss) of past years		402	34 133	(70 307)	108 199	(333 353)
Reimbursed amounts of losses caused by default on a obligation or improper fulfillment of an obligation		403	22 723	(6 255)	9 004	(1 003)
Exchange rate differences in respect of foreign currency operations		404	6 497	(1 016 275)	238 085	(35 714)
Estimated reserves		405	1 111	(800 256)	324 854	(30 440)
Written off amounts of receivables and payables on which the period of limitation has expired		406	3 517	(2 760)	46 493	(3 681)

General Director _____ V. A. Martirosyan
(signature) (name)

Chief Accountant _____ A. D. Kartashov
(signature) (name)

March 30, 2009

STATEMENT OF CHANGES IN EQUITY

Form # 03 according to OKUD

for The organization The taxpayer's identification number Type of activity The organisational-legal form / ownership form Unit of measurement:	2008 OJSC CenterTelecom 5000000970 telecommunications services open joint stock company/mixed ths. RUR	Date (year, month, day) OKPO INN OKVED OKOPF/OKFS OKEI	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><th style="text-align: center;">CODES</th></tr> <tr><td style="text-align: center;">0710003</td></tr> <tr><td style="text-align: center;">2008.12.31</td></tr> <tr><td style="text-align: center;">01140111</td></tr> <tr><td style="text-align: center;">5000000970</td></tr> <tr><td style="text-align: center;">64.20</td></tr> <tr><td style="text-align: center;">47/31</td></tr> <tr><td style="text-align: center;">384</td></tr> </table>	CODES	0710003	2008.12.31	01140111	5000000970	64.20	47/31	384
CODES											
0710003											
2008.12.31											
01140111											
5000000970											
64.20											
47/31											
384											

1. Changes in equity

Indicator	Indica- tor code	Line code	Authorized capital	Earned capital	Reserve capital	Retained profit (uncovered loss)	Total
1	1a	2	3	4	5	6	7
Balance as of December 31, 2006		100	6 311 999	70 946	64 985	10 800 044	17 247 974
2007							
Changes in accounting policy		101	x	X	x	(2 622)	(2 622)
Result from fixed asset revaluation		102	x		x		
Other		103	x		x		
Balance as of January 1, 2007		104	6 311 999	70 946	64 985	10 797 422	17 245 352
Changes in capital items:							
Foreign currency translation differences		200			102 393	3 011 954	3 114 347
Net profit of the reporting year		201	x		x	x	
Dividends		202	x	X	x	3 634 673	3 634 673
Allocations to the reserve fund		203	x	X	x	(520 326)	(520 326)
Additional shares issue on account of own sources		204	x	X	102 393	(102 393)	
Increase in the par value of shares		205			x		
Changes in capital by disposal of fixed assets		206			x		
Other		207	x		x		
Increase in capital due to:							
additional shares issue on account of shareholders		208					
reorganization of the legal entity		210				537	537
other		211			x	x	
		212					
		213				537	537

Indicator	Indicator code	Line code	Authorized capital	Earned capital	Reserve capital	Retained profit (uncovered loss)	Total
1	1a	2	3	4	5	6	7
Decrease in capital due to:		220					
decrease in the number of shares		221		x	x		
decrease in the par value of shares		222		x	x	x	
reorganization of the legal entity		223					
other		224					
Balance as of December 31,2007		300	6 311 999	70 946	167 378	13 809 913	20 360 236
2008							
Changes in accounting policy		301	x	x	x		
Result from fixed asset revaluation		302	x		x		
Other		303	x		x	9	9
Balance as of January 1, 2008	100	304	6 311 999	70 946	167 378	13 809 922	20 360 245
Changes in capital items:		400		(1)	181 734	1 480 554	1 662 287
Difference arising from foreign currency translation		401	x		x	x	
Net profit (loss) of the reporting year		402	x	x	x	2 585 494	2 585 494
Dividends		403	x	x	x	(923 207)	(923 207)
Deductions to the reserve fund	110	404	x	x	181 734	(181 734)	
Additional shares issue on account of own sources	121	405			x		
Increase in the nominal value of shares	122	406			x		
Changes in capital by disposal of fixed assets		407	x		x		
Other		408		(1)		1	
Increase in capital due to:		410					
additional shares issue on account of shareholders	121	411			x	x	
reorganization of the legal entity	123	412					
other		413					
Decrease in capital due to:		420				(716)	(716)
decrease in the number of shares	132	421		x	x		
decrease in the par value of shares	131	422		x	x	x	
reorganization of the legal entity	133	423					
other		424				(716)	(716)
Balance as of December 31,2008	140	500	6 311 999	70 945	349 112	15 289 760	22 021 816

2. Reserves

Indicator	Indicator code	Line code	Balance as of the beginning of the year	Received	Used/ recovered	Balance as of the end of the year	
1	1a	2	3	4	5	6	
Reserves established in accordance with legislation: Reserve Fund data of 2007 data of 2008 Reserves established in accordance with the charter documents: Company's Employee Share Ownership Fund data of 2007 data of 2008 Valuation reserves: Provision for doubtful debts data of 2007 data of 2008 Provisions of impairment in value of financial investments data of 2007 data of 2008 Provisions of impairment in value of inventories data of 2007 data of 2008 Provisions of impairment in value of non-current assets data of 2007 data of 2008 Provisions for future expenses data of 2007 data of 2008 Provisions for contingent liabilities data of 2007 data of 2008 Provisions for consumed services in the absence of supporting primary documentation data of 2007 data of 2008		601	64 985	102 393		167 378	
		602	167 378	181 734		349 112	
		603					
		604					
		605	984 296	152 979	(551 153)	586 122	
		606	586 122	396 745	(283 166)	699 701	
		607	1 076 636	31 152	(4 054)	1 103 734	
		608	1 103 734	53 230		1 156 964	
		609	14	3 356	(14)	3 356	
		610	3 356	1 382	(2 582)	2 156	
		611					
		612			569 717	569 717	
		613	680 930		1 138 199	(1 208 510)	610 619
		614	610 619		1 521 981	(1 623 308)	509 292
		615	126 570	547 765	(126 570)	547 765	
		616	547 765	211 444	(539 080)	220 129	
		617			157 157	(14 241)	142 916
		618		142 916	62 339	(90 473)	114 782

General Director _____ V. A. Martirosyan
 (signature) (name)

Chief Accountant _____ A. D. Kartashov
 (signature) (name)

March 30, 2009

CASH FLOW STATEMENT

for **2008** Form # 04 according to OKUD
 Date (year, month, day) **2008.12.31**

The organization **OJSC CenterTelecom** OKPO **01140111**

The taxpayer's identification number **5000000970** INN **5000000970**

Type of activity **telecommunications services** OKVED **64.20**

The organisational-legal form / ownership form **open joint stock company/ mixed** OKOPF/OKFS **47/31**

Unit of measurement: **ths. RUR** OKEI **384**

CODES
0710004
2008.12.31
01140111
5000000970
64.20
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Indicator	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	3	4
Cash balance at beginning of reporting year		010	461 240	874 476
OPERATING ACTIVITIES				
Cash flows from operating activities		020	43 871 319	45 197 909
cash received from buyers, customers		021	36 078 111	38 296 205
cash received as an agent		022	6 063 009	6 401 789
other earnings		023	1 730 199	499 915
Cash spent to pay:		030	(31 719 238)	(34 703 637)
payments for goods, works, services, raw material and other current assets purchased	150	031	(10 991 240)	(10 240 806)
payroll	160	032	(7 043 989)	(7 296 014)
payment of interest	170	033	(1 563 752)	(1 660 501)
payment of taxes and levies	180	034	(7 141 219)	(7 924 098)
settlements of agency agreements		035	(2 980 690)	(6 256 648)
other expenses		036	(1 998 348)	(1 325 570)
Net cash flows from operating activities		040	12 152 081	10 494 272
INVESTMENT ACTIVITIES				
Cash flows from investment activities		050	3 492 174	2 833 918
proceeds from sale of fixed asset items and other non-current assets	210	051	268 825	179 746
proceeds from sale of securities and other financial investments	220	052	2 937 277	2 507 061
dividends, income from participation received	230	053	16 497	29 463
interest received	240	054	163 705	66 597
proceeds from repayment of borrowings provided to other entities	250	055	100 997	32 144
other income from investing activities		056	4 873	18 907

Indicator	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	3	4
Cash spent to pay:		060	(10 544 487)	(9 289 446)
purchase of fixed assets, income-bearing investments in tangible assets and intangible assets	290	061	(8 081 816)	(7 801 081)
purchase of stock, shares, interests	280	062	(197)	(27 824)
purchase of debt securities and other financial investments	300	063	(2 230 000)	(1 328 000)
loans provided to the entities	310	064	(232 474)	(132 541)
other expenses on investment activities		065		
Net cash flows from investment activities	340	070	(7 052 313)	(6 455 528)
FINANCIAL ACTIVITIES				
Cash flows from financing activities		080	7 090 852	4 330 884
proceeds from loans and borrowings provided by other entities		081	7 074 830	4 318 091
other income from financing activities		082	16 022	12 793
Cash disbursements for:		090	(12 145 559)	(8 782 866)
repayment of loans and borrowing (net of interest)		091	(7 697 218)	(6 327 462)
repayment of financial lease obligations		092	(3 609 129)	(1 999 172)
dividend payments	170	093	(839 160)	(455 921)
other expenses on financing activities		094	(52)	(311)
Net cash flows from financing activities		100	(5 054 707)	(4 451 982)
Net increase (decrease) in cash and cash equivalents		110	45 061	(413 238)
Balance of cash as of the end of the reporting period		120	506 301	461 238
Effect of changes in the exchange rate of foreign currency to the ruble		130	(2)	(896)

General Director _____ V. A. Martirosyan
(signature) (name)

Chief Accountant _____ A. D. Kartashov
(signature) (name)

March 30, 2009

ANNEX TO THE BALANCE SHEET

Form # 05 according to OKUD

as of	December 31, 2008	Date (year, month, day)
The organization	OJSC CenterTelecom	OKPO
The taxpayer's identification number	5000000970	INN
Type of activity	telecommunications services	OKVED
The organisational-legal form / ownership form	open joint stock company/mixed	OKOPF/OKFS
Unit of measurement:	ths. RUR	OKEI

CODES
0710005
2008.12.31
01140111
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1. Intangible assets

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Intellectual property assets (exclusive rights to results of intellectual property)	010	101	2 582	1 536	(967)	3 151
including the rights of: <i>a patent holder to an invention, industrial design, utility model</i>	011	102	569			569
<i>a beneficiary to computer software programs, databases</i>	012	103	1 930		(967)	963
<i>an owner to a trademark and a service mark, the name of the place of origin of goods</i>	014	104	83	1 536		1 619
<i>other</i>	015	105				
Other	040	106				
Total		110	2 582	1 536	(967)	3 151

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Amortization of intangible assets - total	050	120	1 445	781
including the rights of: <i>a patent holder to an invention, industrial design, utility model</i>		121	108	179
<i>a beneficiary to computer software programs, databases</i>		122	1 299	524
<i>an owner to a trademark and a service mark, the name of the place of origin of goods</i>		123	38	78
<i>other</i>		124		

2. Fixed assets

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Buildings		201	4 860 663	181 524	(37 560)	5 004 627
Installations and transmission devices		202	18 011 763	1 351 964	(86 277)	19 277 450
Machinery and equipment		203	32 342 517	5 049 196	(162 452)	37 229 261
Vehicles		204	610 705	47 401	(205 517)	452 589
Computers and office equipment		205	2 902 366	610 752	(43 591)	3 469 527
Housing stock		206	73 833		(6 433)	67 400
Land plots and objects of the utilization of natural resources		207	36 181	1 392	(38)	37 535
Other fixed assets		208	1 204 972	147 632	(36 587)	1 316 017
Total		210	60 043 000	7 389 861	(578 455)	66 854 406

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Depreciation of fixed assets - total	140	220	26 754 096	30 968 446
including:				
<i>buildings</i>		221	1 139 352	1 206 681
<i>installations and transmission devices</i>		222	7 451 419	8 237 388
<i>machinery and equipment</i>		223	15 413 366	18 473 295
<i>vehicles</i>		224	487 299	364 222
<i>computers and office equipment</i>		225	1 579 298	1 967 336
<i>housing assets</i>		226		
<i>other types of fixed assets</i>		227	683 362	719 524

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Fixed assets items out of line 210 leased out - total		230	414 386	467 263
including:				
<i>buildings</i>		231	176 626	296 807
<i>structures and transmission devices</i>		232	26 993	881
<i>machinery and equipment</i>		233	10 513	24 997
<i>vehicles</i>		234	195 189	132 441
<i>other types of fixed assets</i>		235	5 065	12 137
Fixed assets items out of line 210 laid-up		240	8 093	153 415

BY REFERENCE	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Revaluaton of fixed assets: historical (replacement) cost depreciation Fixed assets items received on lease – total including: <i>buildings</i> <i>strucutures and transmission devices</i> <i>machinery and eqiupment</i> <i>vehicles</i> <i>other types of fixed assets</i> Out of line 210: Real estate items under operation which are in process of the state registration	171 172	250		x
		251		x
		252		x
		260	5 745 647	12 372 478
		261	671 971	992 311
		262	315 281	676 902
		263	4 510 984	10 169 981
		264		
		265	247 411	533 284
		270	810 173	1 064 937

3. Income-bearing investments into inventories

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Property for leasing		301				
Property granted under hire contract		302				
Other		303	1 500			1 500
Total		310	1 500			1 500

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Depreciation of income-bearing investments in tangible assets		311	50	61

4. Expenditures on R&D and technology works

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received	Written off	As of the end of the reporting year
1	1a	2	3	4	5	6
R&Ds competed, outcomes of which are utilized for operating or managerial needs of the organization	310	400	1 439	1 000	(1 079)	1 360

FOR REFERENCE	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Amount of expenses for research, development and engineering projects in progress	320	401	2 542	

BY REFERENCE	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Expenditures referred to operating expenses		402	1 080	1 080
Amount of expenses for research, development and engineering projects which have not yielded positive results that are taken to other expenses		403	2542	

5. Financial investments

Indicator	Indicator code	Line code	Long-term		Short-term	
			As of the beginning of the reporting year	As of the end of the reporting year	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4	5	6
Contribution to charter (pooled) capital of other entities - total including subsidiaries and associates	510	501	574 554	572 784	554	
State and municipal securities	511	502	548 826	548 811		
Securities of other entities	515	503				
Loans, granted	520	504	389 340	47 559	701 867	290 348
Deposits	525	505			100 397	232 474
Other	530	506			15 000	25 000
	535	507			1 801	
Total	540	510	963 894	620 343	819 619	547 822
Included in the total financial investments which have current market value: - Contributions to charter (pooled) capital of other entities - total						
including subsidiaries and associates	550	511				
State and municipal securities	551	512				
Promissory notes	555	513				
Other	560	514				
	565	515				
Total	570	520				
BY REFERENCE						
For financial investments which have current market value changes in value as a result of adjustment	580	521				

6. Expenses for ordinary operations (classified by type of expenses)

BY REFERENCE	Indicator code	Line code	Reporting year	Previous year
1	1a	2	3	4
Material costs	710	601	(6 653 803)	(5 737 708)
Payroll	720	602	(7 333 957)	(8 352 172)
Deductions to meet social needs	730	603	(1 691 451)	(1 894 952)
Depreciation and amortization	740	604	(4 277 697)	(3 834 186)
Other costs and expenses	750	605	(6 394 294)	(4 154 903)
Total by type of expenses	760	610	(26 351 202)	(23 973 921)
Changes in balances (increase [+], decrease [-]: or work in progress	765	621	(13)	(36)
Prepaid expenses	766	622	(58 250)	(194 854)

7. Guarantees and collateral

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Guarantees and collateral received - total		710	8 995 592	6 039 206
including:				
bank guarantees		711		
third party securities		712	8 989 330	6 036 160
promissory notes		713		
Pledged property		714	6 262	3 046
including:				
items of property, plant and equipment		715		
securities and other financial investments		716		
other property		717	6 262	3 046
other		718		
Securities issued - total		720	1 694 150	917 037
including:				
third party securities		721	1 003 803	226 690
promissory notes		722		
Pledged property		723	690 347	690 347
including:				
items of property, plant and equipment		724	690 347	690 347
securities and other financial investments		725		
other property		726		
other		727		

8. Government grants

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Government grants received in the reporting period - total	910	810	945	
including:				
Funds to finance capital expenditures		811	945	
Funds to finance current expenditures		812		

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received over the reporting period	Repaid over the reporting period	As of the end of the reporting year
1	1a	2	3	4	5	6
Government loans - total	920	820				
Funds to finance capital expenditures		821				
Funds to finance current expenditures		822				

General Director _____ V. A. Martirosyan
 (signature) (name)

Chief Accountant _____ A. D. Kartashov
 (signature) (name)

March 30, 2009

**EXPLANATORY NOTES
to Financial Statements of
CenterTelecom OJSC for 2008**

Central Telecommunication Company OJSC

Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

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Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

2 General Information on the Company and its Operations

Open Joint Stock Company Central Telecommunication Company, abbreviated name CenterTelecom OJSC, TIC 5000000970, (hereinafter the “Company”) is registered by Order No. 567-r of the Head of Administration of the Moscow Region dated June 09, 1994; Certificate of State Registration No. 127 of June 20, 1994.

In accordance with the Federal Law “On State Registration of Legal Entities”, the Company was registered with the Inspectorate of the RF Ministry for Taxes and Levies for Khimki, Moscow Region, in the Unified State Register of Legal Entities on November 1, 2002, with Main State Registration Number 1025006174710.

The Certificate of Registration with the Unified State Register of Legal Entities about the legal entity registered before July 1, 2002, dated November 1, 2002, No. 001494534.

The Company’s registered office: 23 Proletarskaya str., Khimki, Moscow Region, 141400, the Russian Federation.

The Company employed 31,517 persons as of December 31, 2008 (46,637 persons as of December 31, 2007).

Registrar:

Full trade name: *Open Joint Stock Company Associated Registration Company*

Postal address: *P.O.Box 162, 15a Kalanchevskaya str., Moscow, 107078*

Registrar’s license number: *10-000-1-00314*

Date of issue: *March 30, 2004*

Valid for: *unlimited term*

Issuing authority: *the Federal Commission for Securities Market*

Auditor:

Name: *KPMG CJSC*

Registered office: *office 3035, 18/1 Olimpiysky prospect, Moscow, 129110*

Postal address: *Building C, 18 Krasnopresnenskaya naberezhnaya, Moscow, 123317*

Auditor’s license:

License number: *E003330*

Date of issue: *January 17, 2003, issued by Order №9 by the Ministry of Finance of the Russian Federation, extended until January 17, 2013.*

Board of Directors:

Chairman of the Board of Directors:

- **Sergei Ivanovich Kuznetsov** (from June 25, 2008 to March 12, 2009 was Deputy Chairman of the Board of Directors);

Members of the Board of Directors:

– **Nikolai Bagratovich Arutyunov** – Director of Analytics Department, Moscow Representative Office of NCH Advisors Inc.;

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

- **Mikhail Alexeyevich Alexeyev** – Member of the Board of Directors, CenterTelecom;
- **Boris Dmitriyevich Antonyuk** – Member of the Board of Directors, CenterTelecom;
- **Igor Konstantinovich Danilenko** – Director, Prosperity Capital Management (UK) Ltd. (LLC);
- **Dmitry Evgenyevich Yerokhin** - Member of the Board of Directors, CenterTelecom;
- **Alexander Nikolaevich Kiselev** – General Director, Russian Post Federal State Unitary Enterprise (from June 25, 2008 to March 12, 2009 was a Chairman of the Board of Directors);
- **Viktor Abramovich Polischyuk** – Advisor to the General Director (Honorary President), Russian Telecommunications Network OJSC;
- **Viktor Dmitriyevich Savchenko** – Deputy General Director, Svyazinvest OJSC;
- **Elena Petrovna Selvich** – Deputy General Director, Russian Post Federal State Unitary Enterprise;
- **Yurievich Tsyganov** – Managing Director, KIT Finance Investment Bank (LLC).

Management Board:

Chairman of the Management Board:

- **Vaagn Artavazdovich Martirosyan** – General Director, CenterTelecom OJSC.

Members of the Management Board:

- **Alexander Pavlovich Gribov** – Administrative Director, CenterTelecom OJSC;
- **Konstantin Yurievich Zverev** – Director for Information Technologies, CenterTelecom OJSC;
- **Alexander Dmitriyevich Kazakov** - Director of Security Department, CenterTelecom OJSC;
- **Andrei Dmitriyevich Kartashov** – Chief Accountant, CenterTelecom OJSC;
- **Vadim Mikhailovich Kondratov** – Deputy General Director, Technical Director, CenterTelecom OJSC;
- **Dmitry Anatolievich Parkhomenko** – Director for Legal Issues and Relations with Governmental Authorities, CenterTelecom OJSC;
- **Viktoria Vladimirovna Polikarpova** – Advisor to the General Director, CenterTelecom OJSC;
- **Pavel Leonidovich Repin** - Deputy General Director, Commercial Director, CenterTelecom OJSC;
- **Evgeny Borisovich Stepanov** – Deputy General Director, HR Director, CenterTelecom OJSC.

Audit Committee:

Chairman of the Audit Committee:

- **Olga Grigorievna Korolyova** – Chief Accountant, Svyazinvest OJSC;

Members of the Audit Committee:

- **Elena Olegovna Konkova** – Chief Specialist, Internal Audit Directorate, Svyazinvest OJSC;

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

- **Lyudmila Alexeyevna Kormilitsyna** - Chief of Department in the Corporate Governance and Law Directorate, Svyazinvest OJSC;
- **Alexei Vadimovich Kravchenko** - Deputy Chief of Methodology Department in the Directorate for Accounting, Taxation and Statistics, Svyazinvest OJSC;
- **Olga Viktorovna Lunina** – Chief of the Department for Tariffs for Telecommunications Services, Svyazinvest OJSC;
- **Ekaterina Alexandrovna Punina** – Chief Specialist, Department in the Corporate Governance and Law Directorate, Svyazinvest OJSC;
- **Natalia Valeriyevna Uzlova** - Deputy Chief of the Department in the Directorate for Accounting, Taxation and Statistics, Svyazinvest OJSC.

The Company renders the following services:

- Intra-zone telecommunications services;
- Local telephone services:
 - Including universal telecommunications services,
- Interconnection and traffic transfer services;
- Services associated with the provision of long distance telecommunications services by long distance telecommunications operators;
- Mobile radio communications, fixed line communications, radio and TV broadcasting services;
- Mobile (cellular) communications;
- Telegraph communications services, data transmission and telematic communications services;
- Other services related to core operations;
- Leasing services;
- Other services related to non-core operations.

Intra-zone telecommunications services

Intrazone telephone communications services include the provision to users of:

- telephone connections between users connected to the fixed telephone communications network within any constituent entity within the Russian Federation;
- telephone connections between users connected to the fixed telephone communications network and users connected to a mobile communications network, when numbers of the calling subscriber and the called subscriber and (or) user are included in the numbering pool in accordance with numbering zones that are defined geographically or not defined geographically as assigned to the same constituent entity of the Russian Federation.
- intrazone telephone connections via public pay phones
- intrazone telecommunications channels

Local telephone communications services

Local telephone communications services include provision of local telephone connections (city and rural telephone communications) and universal telecommunications services.

Central Telecommunication Company OJSC **Explanatory Notes to Financial Statements for 2008**

(RUR thousand unless otherwise stated)

Universal telecommunications services are provided on the basis of tariffs established by the Federal Agency for Telecommunications and are included in a contract for the provision of universal telecommunications services.

Established tariffs on universal telecommunications services do not cover the Company's costs connected with the services' provision. The excess of economically justified expenditures for the provision of universal telecommunications services over income received based on the established tariffs generates a loss related to the provision of universal telecommunications services which must be reimbursed out of the universal service reserve.

Interconnection and Traffic Transmission Services

Interconnection services include services related to the establishment of points of interconnect (POI) and POI maintenance services rendered to interconnected operators until March 1, 2008.

Traffic transmission services include:

- services related to the transmission of traffic of telephone communications operators (call initiation, call termination and transit of a call);
- services related to the transmission of traffic of data transmission operators;
- services related to the transmission of traffic of telegraph communications network operators.

Services in Support of Long-Distance Domestic and International Communications Services Provided by Long-Distance Domestic and International Communications Operators (Cooperation and Agency Services)

The Company is an agent for operators of long-distance domestic and international telephone communications in the provision of such services to subscribers. In this connection, the Company has made agreements with Rostelecom OJSC and Interregional TransitTelecom OJSC and provides services that support long-distance domestic and international communications in accordance with these agreements. Such services, in particular, include:

- processing of a subscriber's order when providing international and domestic long-distance communications access using both direct-dialing and operator-assisted services.
- bill processing for long-distance domestic and international communications services;
- preparation, generation and storage of necessary documents and reporting forms;
- agency services on collection of payments from subscribers; information and inquiry services on behalf and at the expense of operators of long-distance domestic and international communications;
- activities on claims and actions; document delivery.

Liquidity and Financial Resource

In 2008 the Company attracted short and long term credit to finance development of its telecommunications network. Loans have been attracted in the form of leasing, bank loans and suppliers' credits.

As of December 31, 2008 the Company's current liabilities exceeded its current assets by RUR9,831,954 (compared with RUR4,461,572 as of December 31, 2007).

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

In 2009 the Company anticipates the receipt of funds from the following sources: cash proceeds from core operations, issuance of the Company's promissory notes, placement of ruble bonds in Russian market, and the attraction of investments from domestic and foreign credit organizations. Moreover the Company's management assumes that the Company will be able to postpone payment dates on some current operations in the event of a working capital deficiency.

The Company's plan anticipates that all the Company's obligations will be fulfilled in a timely manner. The Company's management has concluded preliminary agreements with a number of credit organizations for financing in the necessary amounts.

The Company's management believes that the terms of implementation of a number of projects can be postponed or the scale of projects can be reduced if this proves necessary for the financing of the Company's current operations.

3 Accounting Policy

These financial statements of the Company are prepared on the basis of the following accounting policy.

Basis of Preparation of the Company's Annual Accounting Records

The Company keeps accounting records in accordance with Federal Law No. 129-FZ, dated November 21, 1996, "About Accounting" (as amended on July 23, 1998, March 28 and December 31, 2002; January 10, May 28, June 30, 2003, and November 3, 2006) and the Statute Concerning Accounting and Reporting in the Russian Federation as approved by Order No. 34n of the Ministry of Finance of the Russian Federation, dated July 29, 1998 (as amended on December 30, 1999, March 24, 2000, September 18, 2006 and March 26, 2007), as well as applicable Accounting Statements.

Financial statements of the Company for 2008 have been prepared in accordance with the same Law and regulations based on the assumption that the Company will proceed with its activities in the foreseeable future, and neither intends, nor needs to be liquidated or to reduce its activities considerably; consequently, liabilities will be met in the applicable procedure.

Assets and Liabilities Denominated in Foreign Currencies

Official exchange rate of a foreign currency to Ruble as of the date of relevant transaction was applied in accounting for economic transactions denominated in foreign currencies. Cash assets and liabilities denominated in foreign currencies are reflected in the financial statements in the amounts calculated based on the exchange rates fixed by the Central Bank of the Russian Federation as of the reporting date (RUR per currency units):

Currency	December 31, 2008	December 31, 2007
US dollar	29.3804	24.5462
Euro	41.4411	35.9332

Exchange differences that have arisen over the year on transactions with assets and liabilities, as well as through recalculation as of the reporting date, are referred to other income and expenses.

Central Telecommunication Company OJSC **Explanatory Notes to Financial Statements for 2008**

(RUR thousand unless otherwise stated)

The ruble equivalent of currency balances as of the year beginning and foreign currency flows over the year in the Cash Flow Statement are calculated based on the official exchange rate as of December 31, 2008, hence, comparable data are calculated based on the official exchange rate as of December 31, 2007.

Short and Long Term Assets and Liabilities

In the accounting statement assets (liabilities) are classified as short term where their circulation (maturity) term does not exceed 12 months after the reporting date. The remaining assets and liabilities are classified as long term assets (liabilities).

Intangible Assets

Intangible assets are shown in the statements at historical cost less amortization accumulated over the whole term of use.

Value of intangible assets is amortized by the straight-line method within the fixed useful life. The useful life is defined by the designated committee and approved in the applicable procedure based on the expected period of the item use, within which the Company intends to gain economic benefits (income) from its use.

Fixed Assets

Fixed assets are accepted for accounting at historical cost.

Historical cost of fixed assets purchased against consideration is the amount of actual costs for purchase, construction and manufacture, excluding value added tax and other recoverable taxes (except for the cases provided for by the laws of the Russian Federation).

Historical cost of fixed assets purchased in exchange for goods (inventories) other than money is the value of transferred or transferable assets. The latter has been measured based on the price, at which the Company usually defined value of similar goods (inventories) in comparable conditions.

Fixed assets are shown in the Balance Sheet at historical (replacement) cost less depreciation accrued over the full term of usage.

Fixed assets include real estate accepted for use and actually used prior to state registration of the title.

Depreciation of fixed assets is accrued by the straight-line method based on the accepted useful life:

buildings	-	7 – 100 years
transmission facilities	-	15 – 50 years
other facilities	-	7 - 59 years
analogue switching units	-	8 – 30 years
digital switching units	-	3 – 30 years
other telecommunications network equipment	-	3 - 30 years
vehicles	-	3.5 – 10 years
computer and office equipment	-	3 – 12 years

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

other items - 2 – 16 years

Land is not depreciated.

Commissioned housing stock and external improvements are not depreciated.

Expenses on all types of repair are included in operating expenses for the reporting period. No provision for future expenses on fixed assets repair was made.

Depreciation on the fixed assets received under financial lease contracts starting from 2006 and accounted for as the Company's fixed assets is accrued by the straight-line method based on the established useful life.

Financial Investments

Financial investments, for which no current market value is determined, are reflected in the balance sheet at their historical cost.

Historical cost of financial investments:

- acquired against consideration is measured as the total of the Company's actual expenses on their acquisition;
- acquired under contracts providing for non-cash payment is measured as the value of the assets transferred by the Company;
- in the form of contributions to the capital of subsidiaries, associates and other companies is measured as the monetary value agreed upon by the founders (participants) of such companies.

Financial investments, for which a stable material impairment is determined, are shown in the Balance Sheet net of provision for impairment of financial investments.

The Company employs straight-line charging of the difference between total actual costs for debt securities for which no current market value is determined and their nominal cost (discount). Discount accounting is applied at sale (redemption) of the securities.

Determination of the value of non-equity securities which are disposed of is made on the basis of each security's historical cost.

Inventories

Inventories are carried in the financial statements at the actual acquisition cost, which is understood as follows:

- inventories purchased against consideration – total amount of actual costs, including the cost of bringing the inventories to usable condition, excluding value added tax and other recoverable taxes;
- inventories manufactured by the organization – total amount of manufacturing costs;
- inventories received under gift contracts (free of charge), as well as those remaining upon disposal of fixed assets and other property – the current market value as of the date of entering in accounting records;

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2008

(RUR thousand unless otherwise stated)

- inventories received under agreements that provide for non-cash payment – value of the assets transferred or transferable by the organization.

Goods in retail are carried at selling prices.

Assets subjected to the conditions set forth in clause 4 of Accounting Statement 6/2001 “Fixed Assets Accounting” and valued under RUR 20,000 per unit are included in Inventories.

Inventories are reflected in the financial statements net of impairment provision. The provision was created in the amount difference between the current market value and the actual cost of inventories that are obsolete, damaged (partially damaged) or impaired. Expenses on creation of the provision have been charged to other expenses.

Inventories to be disposed of (except for precious metals) are measured at average weighted cost.

Precious metals are depreciated at unit cost.

Deferred Expenses

Expenses incurred by the Company during the reporting period, but related to future reporting periods are reported as deferred expenses. Such expenses are written off for designated purposes equally within the periods to which they relate.

Expenses related to the purchase and implementation of software products and databases are charged to current assets with effect from the first day of the month after the month of the start of the software and database operation. The date of the start of the Oracle software operation is the date of its operation in the Company’s first branch.

Deferred expenses related to purchase and implementation of software products and databases to be used for the period of over 12 months are reflected in the Balance Sheet as other non-current assets.

Trade Accounts Receivable

Trade accounts receivable are reflected in the financial statements taking into account VAT paid to the budget after receipt of payment on accounts receivable, and measured based on the prices fixed by the agreements between the Company and buyers (customers) taking into account all discounts (extra charges) provided by the Company. Bad debts were written off from the balance sheet as they were recognized as such.

Accounts receivable for services, works, goods, products, fixed assets, inventories and other property sold that have not been repaid when due in accordance with the agreements and not secured by relevant guarantees are reflected net of provisions for doubtful debts.

The amount of the provision is determined individually for every debt based on the inventory carried out depending on the debtor’s solvency and probability of debt repayment

As an individual review of every doubtful debt on telecommunications services is impossible in telecommunications companies because of a great number of subscribers, the provision is created in the amount of 100 percent of all outstanding debts for telecommunications services, overdue 90

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days and more as of the date of provision creation. No provision is created for debts overdue less than 90 days.

Provisions for doubtful debts are charged to an increase in other expenses.

Prepaid Expenses and Other Accounts Receivable

Prepaid expenses receivable are reflected in the financial statements less provisions for doubtful debts made after an inventory count of prepaid expenses on which the receipt of assets (services) is doubtful.

Other accounts receivable are reflected in the financial statements less provisions for doubtful debts based on an inventory count of other accounts receivable on which the receipt of services is doubtful.

Expenses for provisions are charged to an increase in other expenses.

Loans and Borrowings Received

The Company transfers long-term payables on loans and borrowings to short-term payables, when the principal debt matures in 365 days according to the terms of the loan and (or) credit agreement.

The Company conducts a re-valuation of the cost of loans and borrowings denominated in foreign currencies and/or in standard conventional units as of each reporting date. Differences occurring as a result of re-valuation are charged to other expenses.

Interest on loans and borrowings are classified as other costs in the interest calculation period, excluding the portion of interest which should be included in the cost of investment asset.

Additional expenses incurred in connection with receipt of loans or borrowings include expenses related to:

- provision of legal and consultancy services to the Company;
- provision of agency services to the Company on placement of paper credits and bonded loans;
- expert examinations;
- consumption of telecommunications services;
- other expenses directly related to receipt of cash loans.

Additional expenses related to receipt of loans and borrowings, placement of debt liabilities, are recognized by the Company as expenses of the period, in which they were incurred.

Interest on loans (borrowings) received are accrued on a monthly basis in accordance with the procedure specified by the relevant agreement.

The amount of discount payable to the note holder on cash borrowings obtained through issue of the Company's promissory notes is charged to deferred expenses with further write-off to other expenses in equal installments on a monthly basis within the term of promissory notes circulation.

The amount of discount on cash borrowings obtained through issue of the Company's bonds, in case of sale of the bonds issued at the price other than par value thereof (with discount), is charged

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to deferred expenses with further write-off to other expenses in equal installments on a monthly basis within the term of bonds circulation.

Revenue Recognition

Revenues from sale of products and services are recognized on an accrual basis, i.e. as the services are provided and reflected in the financial statements net of value added tax and discounts given to buyers.

Revenues from sale of products through exchange of commodities (barter) are measured at the value of inventories received or receivable by the Company as calculated based on the prices at which the Company normally measures the value of similar inventories in comparable circumstances.

Proceeds from lease out of the Company's property are included in operating income.

Dividends are recognized in other income as they are declared.

Reimbursement of losses connected with the provision of universal telecommunications service is recognized in the period of services provision in the amount subject to reimbursement on the basis of a calculation of loss reimbursement for this period.

Expenses Recognition

The Company calculates full production cost of the services provided, work performed, products sold without breakdown into managerial and commercial expenses. Expenses are recognized by activities in accordance with Order No. 54 of the Ministry of Information Technologies and Telecommunications of the Russian Federation dated May 2, 2006, "Approval of Procedure for Separate Accounting by Telecommunications Operators of Revenues and Expenses by Types of Activities, Telecommunications Services Provided and Parts of Telecommunications Network Used to Provide Such Services".

The Company makes provisions for services rendered on which supporting primary documentation for the accounting and reporting system has not been submitted but at the same time the accruals terms have been implemented in accordance with the Accounting Statement "Company Accrual Basis Accounting" (PBU 10/1999). Expenses based on these provisions are charged to operating expenses, as well as to other expenses depending on the type of activities.

Provisions Made by the Company

The Company makes the following types of provisions:

- financial investments impairment provisions;
- provisions for decreases in inventory cost;
- provisions for doubtful debts;
- provisions for contingent liabilities;
- provisions for services rendered and work performed in the absence of supporting primary documentation for the accounting and reporting system;

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- provisions for costs to be incurred:
 - yearend remuneration of the members of the Board of Directors
 - quarterly remuneration of the members of the Board of Directors, Managing Board, Audit Commission, Committees in the Board of Directors
 - bonuses paid to the Company’s employees for the reporting period (month, quarter)
 - yearend bonuses paid to the Company’s employees;
 - regular and additional vacations of the Company’s employees provided by the current legislation.

Changes in Accounting Policy for 2008

In 2008 in accordance with the Accounting Statement “Accounting for Fixed Assets” (PBU 6/2001) as approved by Order No. 26n of the Ministry of Finance of the Russian Federation dated March 30, 2001 the Company has raised the limit on the value of assets included in fixed assets from RUR10,000 to RUR20,000 per unit.

Since January 1, 2008, assets in relation to which the conditions provided by Clause 4 of the Accounting Statement “Accounting for Fixed Assets” (PBU 6/2001) have been fulfilled and where the cost does not exceed RUR20,000 per unit shall be reflected in the financial statements and in the balance sheet in inventory.

Changes in Accounting Policy for 2009

No accounting policy changes likely to have substantial influence on the financial statements were made for 2009.

4 Comparative Data

Comparative data in the Company’s financial statements for 2008 are generated by adjusting the financial statements for 2007 and bringing them into correspondence with indicators for 2008.

Changes in the opening balance as of January 01, 2007

Indicator		Balance as of Dec 31, 2007	Corrections	Balance as of Jan.1, 2008
<i>I. NON-CURRENT ASSETS</i>				
Deferred tax assets	145	368,606	9	368,615
Total Section I	190	41,245,862	9	41,245,971
ASSETS	300	47,678,207	9	47,678,216
<i>III. CAPITAL AND RESERVES</i>				
Retained profit (uncovered loss) for past years	460	10,175,240	3,634,682	13,809,922
Retained profit (uncovered loss) for the reporting period	470	3,634,682	(3,634,682)	-
Total section III	490	20,360,236	9	20,360,245
LIABILITIES	700	47,678,207	9	47,678,216

Retained profit for 2007 in the amount of 3,634,682 is transferred from the item 470 “Retained profit (uncovered loss) of the reporting period” to the item 460 “Retained profit (uncovered loss) for past years”.

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Correction of deferred tax asset in the amount of 9 is made by increasing the amount in the item 145 “Deferred tax assets” at the expense of the item 460 “Retained profit (uncovered loss) for past years”.

The changes in the opening balance do not entail a correction in the comparative data in the Profit and Loss Statement for 2007.

Changes in the comparative information for 2007 in the Profit and Loss Statement:

Indicator		Prior to correction	Corrections	After corrections
I. Operating income and expenses				
Production cost of goods, products, works, services sold	120	(23,968,956)	(4,965)	(23,973,921)
including that from telecommunications services	121	(23,123,409)	(4,965)	(23,128,374)
Sales profit	050	8,440,171	(4,965)	8,435,206
II. Other income and expenses				
Other expenses	100	(2,412,989)	4,965	(2,408,024)

The amount in the items 120 and 121 “Production cost of goods, products, works, services sold” decreased and the amount in item 050 “Sales profit” increased in connection with a transfer of expenses on mobilization training and civil defense from item 100 “Other expenses” for the purpose of comparability.

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5 Notes to Significant Balance Sheet items

5.1 Fixed assets (item 120 of the Balance Sheet)

Change in the value of fixed assets:

Indicator	2008	2007
Historical cost of fixed assets as of beginning of the year	60,043,000	54,595,405
Increase in value of fixed assets, total	7,389,861	5,823,035
<i>including</i>		
purchase of new assets	580,212	790,865
construction, modernization and reconstruction of the existing items	6,403,692	4,949,410
transfer of off-balance sheet lease facilities to fixed assets	394,512	69,159
received free of charge	11,016	9,428
Other income	429	4,173
Decrease in value (disposal) of fixed assets, total	(578,455)	(375,440)
<i>including</i>		
sale of fixed assets	(234,028)	(103,033)
write-off, partial liquidation of fixed assets	(337,557)	(265,910)
other disposals	(6,870)	(6,497)
Historical cost of fixed assets as of the end of the year	66,854,406	60,043,000
Depreciation accumulated as of the beginning of the year	(26,754,096)	(23,112,935)
Depreciation of off-balance sheet lease facilities	(394,512)	(69,159)
Depreciation accrued over the period	(4,326,846)	(3,885,091)
Depreciation of disposals:		
depreciation of items sold	191,379	62,556
depreciation of items written off	313,002	245,636
depreciation of other disposals	2,627	4,897
Depreciation accumulated as of the end of the year	(30,968,446)	(26,754,096)
Net fixed assets value as of the beginning of the year	33,288,904	31,482,470
Net fixed assets value as of the end of the year	35,885,960	33,288,904

The largest portion of constructed fixed assets is represented by industrial equipment: switching units (33.83%), other telecommunications network equipment (28.15%), and telecommunications lines (19.11%). Purchased new assets are represented by switching units (32.24%) and other telecommunications network equipment (30.68%).

The historical cost of fixed assets, which are depreciated by 100%, was 10,267,764 as of December 31, 2008 (8,316,855 as of January 1, 2008).

Fixed Assets Received under Lease Contracts

As of December 31, 2008, the Company has concluded 87 financial lease contracts for the lease of switching units, public pay phones and other network equipment.

Terms range from 36 to 60 months.

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Value of fixed assets received under lease contracts:

Indicator	As of January 1, 2008	As of December 31, 2008
Fixed assets reflected on the Company's balance sheet:		
- historical cost of fixed assets	4,832,034	3,940,516
- depreciation charged on fixed assets	(3,047,829)	(2,977,467)
- book value of fixed assets	1,784,205	963,048
Fixed assets on the lessor's balance sheet:		
- contractual cost of fixed assets	4,682,950	11,305,043

Amounts of future lease payments:

Term of payments	Amounts of payment, total	including:	
		on fixed assets on the Company's balance sheet (included in liabilities in items 520 and 620 of the Balance Sheet)	on fixed assets on the lessor's balance sheet (not included in liabilities)
2009	3,437,265	198,890	3,238,375
2010 - 2013	6,697,753	475,991	6,221,762
Total	10,135,018	674,881	9,460,137

5.2 Construction in progress (item 130 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Investments into non-current assets, total:	1,168,397	775,628
<i>including:</i>		
construction, modernization and reconstruction of fixed assets	1,153,040	729,710
investments into fixed assets under leasing contracts	11,211	41,102
acquisition of fixed assets	1,379	4,573
R&D in progress	2,542	-
other	225	243
Equipment to installation	381,992	290,475
TOTAL	1,550,389	1,066,103

Change in value of investments into non-current assets

Indicator	2008	2007
Investments into non-current assets as of beginning of the year	1 168 397	1 870 318
Investments for the reporting period, total	6 812 529	5 265 635
<i>including:</i>		
acquisition of new assets	279,438	323,913
construction, modernization and reconstruction of fixed assets	6,520,860	4,932,294
received free of charge	11,016	9,428
other income	1,215	-
Disposal of investments for reporting period, total	(7,205,298)	(5,967,556)
<i>including:</i>		
put into operation	(6,997,456)	(5,749,703)
other disposals	(207,842)	(217,853)
Investments into non-current assets as of the end of the year	775,628	1,168,397

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5.3 Financial investments (items 141, 142, 143 of the Balance Sheet)

Investments in subsidiaries, associates and other companies:

Company name	Type of activities	Value of investments	Share in authorized capital, %	Share of voting stock, %
As of January 1, 2008				
Subsidiary companies				
- RTS OJSC	telephony, data transmission, telematic services, rent of communications channels, system integration	1,449,085	100	100
- Operatorsky Tsentr CJSC	data transmission, telematic services	150,514	100	100
- Telecom-R CJSC	telephone communications services	28,900	100	100
- TverTelecom LLC	local telephone communications, data transmission, telematic services (the company is in the process of liquidation)	17,247	85	85
- Vladimir Teleservice CJSC	Internet, IP-telephony services	2,948	100	100
- MobilCom LLC	mobile radiotelephone communications MRT-1327, ST-11	2,250	100	100
- Telecom Stroi LLC	utilities maintenance, boiler unit operation, civil engineering, cleaning	511	100	100
- Telecom of Ryazan Region CJSC	switch services for subscribers of Ryazan affiliated branch of CenterTelecom OJSC	486	50.9	50.9
- Telecom Terminal LLC	sales and repair of terminal devices	260	100	100
- Teleport Ivanovo CJSC	sales of telecommunications means, data transmission network services, cellular communications	151	100	100
- Vladimirsky Taksofon LLC	local communications services through universal card phones	93	51	51
- CenterTelecom Service CJSC	local communications services, data transmission, rent of channels	75	74.9	74.9
- PVP Svyaz-Service-Irga LLC	design and laying of communication lines, technological telecommunications equipment installation	15	70	70
Provision for impairment	-	(1,103,734)	-	-
Total for subsidiary companies (item 141)	-	548,801	-	-
Associated companies				
- Rinfotels Telecommunication Company OJSC	data transmission on X25, X28 protocols, Frame Relay, TCP/IP, Internet, telephony	25	26	26
Total for associated companies (item 142)	-	25	-	-
Other entities				
- Svyazintek OJSC	Project management, consulting services, organization of information systems	20,604	18	18

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Company name	Type of activities	Value of investments	Share in authorized capital, %	Share of voting stock, %
- Costars Insurance Company CJSC	life insurance for telecommunications companies' employees	2,815	9.30	9.30
- AKB Svyaz-Bank OJSC	banking	1,796	0.04	0.04
- KB Link-Bank OJSC	banking	300	4.90	4.90
- Comset OJSC	cable TV	155	5.17	5.17
- NTC Comset CJSC	R&D	35	11.09	11.09
- Startcom CJSC	R&D	19	3.70	3.70
- Informsvyaz-Chernozemie Information Company CJSC	data transmission: IP-telephony, Internet access, digital communications channels	4	4	4
Total for other entities (item 143)	-	25,728	-	-
As of December 31, 2008				
Subsidiary companies				
- RTS OJSC	telephony, data transmission, telematic services, rent of communications channels, system integration	1,449,085	100	100
- Operatorsky Tsentr CJSC	data transmission, telematic services	150,514	100	100
- Telecom-R CJSC	telephone communications services (the company is in the process of liquidation)	28,900	100	100
- TverTelecom LLC	local telephone communications, data transmission, telematic services (the company is in the process of liquidation)	17,247	85	85
- Vladimir Teleservice CJSC	Internet, IP-telephony services	2,948	100	100
- MobilCom LLC	mobile radiotelephone communications MRT-1327, ST-11 (the company is in the process of liquidation)	2,250	100	100
- Telecom Stroi LLC	utilities maintenance, boiler unit operation, civil engineering, cleaning (the company is in the process of liquidation)	511	100	100
- Telecom of Ryazan Region CJSC	switch services for subscribers of Ryazan affiliated branch of CenterTelecom OJSC	486	50.9	50.9
- Telecom Terminal LLC	sales and repair of terminal devices	260	100	100
- Teleport Ivanovo CJSC	sales of telecommunications means, data transmission network services, cellular communications	151	100	100
- Vladimirsky Taksofon LLC	local communications services through universal card phones	93	51	51
- CenterTelecom Service CJSC	local communications services, data transmission, rent of channels	75	74.9	74.9
Provision for impairment	-	(1,103,734)	-	-
Total for subsidiary companies (item 141)	-	548,786	-	-
Associated companies				

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Company name	Type of activities	Value of investments	Share in authorized capital, %	Share of voting stock, %
- Rinfotels Telecommunication Company OJSC	data transmission on X25, X28 protocols, Frame Relay, TCP/IP, Internet, telephony	25	26	26
Total for associated companies (item 142)	-	25	-	-
Other entities				
- Svyazintek OJSC	Project management, consulting services, organization of information systems	20,604	18	18
- Costars Insurance Company CJSC	life insurance for telecommunications companies' employees	2,815	9.30	9.30
- AKB Svyaz-Bank OJSC	banking	1,796	0.04	0.04
- KB Link-Bank OJSC	banking	496	5.40	5.40
- NTC Comset CJSC	R&D	35	11.09	11.09
- Startcom CJSC	R&D	19	3.70	3.70
- Informsvyaz-Chernozemie Information Company CJSC	data transmission: IP-telephony, Internet access, digital communications channels	4	4	4
Provision for impairment	-	(1,796)	-	-
Total for other entities (item 143)	-	23,973	-	-

Provision for impairment of investments in subsidiaries, associates and other companies:

Name of the company	Provision as of Jan 1, 2007	Provision made	Provision recovered	Provision as of Dec 31, 2007
Provision for impairment of subsidiary companies				
- RTS OJSC	1,053,085	-	-	1,053,085
- Operatorsky Tsentr CJSC	-	30,641	-	30,641
- TverTelecom LLC	17,247	-	-	17,247
- Telecom Stroi LLC	-	511	-	511
- TeleRossVoronezh CJSC	585	-	(585)	-
- MobilCom LLC	2,250	-	-	2,250
Total	1,073,167	31,152	(585)	1,103,734
Provision for impairment of other entities				
- Comset OJSC	155	-	(155)	-
- Optimum-Svyaz CJSC	10	-	(10)	-
- Contribution to joint activities	3,304	-	(3,304)	-
Total	3,469	-	(3,469)	-
Total provisions	1,076,636	31,152	(4,054)	1,103,734

Name of the company	Provision as of Jan 1, 2008	Provision made	Provision recovered	Provision as of Dec 31, 2008
Provision for impairment of subsidiary companies				
- RTS OJSC	1,053,085	-	-	1,053,085
- Operatorsky Tsentr CJSC	30,641	-	-	30,641
- TverTelecom LLC	17,247	-	-	17,247
- Telecom Stroi LLC	511	-	-	511

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- MobilCom LLC	2,250	-	-	2,250
Total	1,103,734	-	-	1,103,734
Provision for impairment of other entities				
- AKB Svyaz-Bank OJSC	-	1 796	-	1,796
Total	-	1 796	-	1,796
Total provisions	1,103,734	1 796	-	1,105,530

Changes in the provisions for impairment of equity investments are reflected in the Profit and Loss Statement as a net estimation. Excess of expenses for the creation of provisions over income from their recovery is reflected in Item 100 "Other expenses" in the amount of 1,796 (27,098 in 2007).

Income received in the form of dividends from financial investments is reflected in Clause "Income from participation in other entities" of the Profit and Loss Statement in the amount of 19,804 (26,752 in 2007).

In accordance with decision by the Board of Directors the Company acquired AKB Link-Bank OJSC's stake (19,672 common shares) for 196.

The value of the shares disposed of in the amount of 709, and also additional expenses in the amount of 270, were included in other expenses and shown in item 100 of the Profit and Loss Statement. Proceeds from sale are 10,108 and are shown in item 090 of the Profit and Loss Statement.

5.4 Other long- and short-term financial investments (item 144 and 250 of the Balance sheet)

Other financial investments include (item 144 of the Balance Sheet):

Entity name	Financial investments' type	Book value as of reporting date	Annual interest rate	Maturity date
As of January 1, 2008				
RTK-Leasing OJSC	promissory note	389,178	discount	from 24.01.2009 up to 24.12.2011
AK Voronezh	promissory note	104	discount	28.02.2012
AK Voronezh	promissory note	58	discount	14.03.2011
Total		389,340		
As of December 31, 2008				
RTK-Leasing OJSC	promissory note	67,434	discount	from 24.01.2010 up to 24.12.2011
AK Voronezh	promissory note	104	discount	28.02.2012
AK Voronezh	promissory note	58	discount	14.03.2011
Provision for impairment		(20,037)		
Total		47,559		

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Other short-term financial investments include (item 250 of the Balance Sheet):

Entity name	Financial investments' type	Book value as of reporting date	Annual interest rate	Maturity date
As of January 1, 2008				
RTK-Leasing OJSC	promissory note	701 867	discount	c 24.01.2008 по 24.12.2008
AKB Svyaz-Bank OJSC	deposit	15,000	5.5%	01.07.2008
RTS OJSC	borrowings	100,397	11%	14.05.2008, 17.06.2008, 15.07.2008, 14.08.2008, 14.11.2008
RTS OJSC	debt acquired on basis of assignment of receivables	1,802	-	2008
Other	shares for stock broking	553	-	2008
Total		819,619		
As of December 31, 2008				
RTK-Leasing OJSC	promissory note	321,744	discount	From 24.01.2009 up to 24.12.2009
AKB Svyaz-Bank OJSC	deposit	15,000	5.5%	01.07.2009
KB LOKO-Bank CJSC	deposit	10,000	11%	18.06.2009, 22.06.2009
RTS OJSC	borrowings	232,474	11%	09.01.2009, 05.02.2009, 06.05.2009, 04.06.2009, 05.07.2009, 06.08.2009, 06.11.2009
Provision for impairment		(31,396)		
Total		547,822		

Provision for impairment of other long term and short term financial investments:

Name of the company	Provision as of Jan 01, 2008	Provision made	Provision recovered	Provision as of Dec 31, 2008
Long term financial investments				
RTK-Leasing OJSC	-	19 956	-	19 956
AK Voronezh	-	52	-	52
AK Voronezh	-	29	-	29
Total	-	20 037	-	20 037
Short term financial investments				
RTK-Leasing OJSC	-	31 396	-	31 396
Total	-	31 396	-	31 396

Changes in the provisions for impairment of long term and short term investments are reflected in the Profit and Loss Statement as a net estimation. Any excess of expenses for the creation of provisions over income from their recovery is reflected in Item 100 "Other expenses" in the amount of 51,433 (0 in 2007).

Debt securities

Nominal value of RTK-Leasing promissory notes was 550,525 as of December 31, 2008 (1,382,221 as of December 31, 2007).

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Effective interest rate on RTK-Leasing promissory notes was 12.61 – 16.78% as of December 31, 2008 (10.12 – 16.78% as of December 31, 2007).

Loans Given

In 2008 the Company in accordance with a decision of the Board of Directors gave a loan in the amount of 232,474 to Russian Telecommunications Network OJSC on commercial terms (132,541 in 2007).

Russian Telecommunications Network's amounts owed on the loan were 232,474 as of December 31, 2008 (100,397 as of December 31, 2007).

Accounts Receivable Acquired Through the Assignment of Receivables

In September 2007 the Company acquired from RTS OJSC for 1,802 the right of recovery of Tvertelecom LLC's receivables in the sum of 6,184.

In 2008 Russian Telecommunications Network OJSC repaid a debt to the Company in full.

5.5 Deferred tax assets (item 145 of the Balance Sheet)

Movement of deferred tax assets in 2008:

Indicator	2008	2007
Balance as of beginning of the year	368,615	408,884
Created over the reporting period on deductible temporary differences	461,553	371,664
Reflected in accordance with deductible temporary differences for previous period	-	(37,630)
Repaid to reduce tax payments	(532,359)	(373,588)
Balance correction on basis of deductible temporary difference	-	9
Written off in disposals	-	(724)
Balance as of end of the year	297,809	368,615

In 2008 the amount of deferred tax assets was calculated on the basis of a 24% tax rate.

Starting January 1, 2009 tax legislation provides for a decrease in profit tax from 24% to 20%. It will result in a re-calculation of the amount of deferred tax assets. A decrease in deferred tax assets by 49,635 will be reflected in the financial statement for 2009 at the expense of retained profit.

5.6 Other non-current assets (item 150 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Deferred expenses for software purchase	4,168,776	4,377,505
Advances paid for purchase and creation of non-current assets	336,381	369,858
Discount on long-term part of promissory note issues	564,923	242,984
Other	1,502	1,360
Total	5,071,582	4,991,707

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The following software is included into deferred expenses on the purchase of software products:

Oracle E-Business Suite Software

The Company's expenses on the purchase and installation of Oracle E-Business Suite corporate management software (hereinafter referred to as "OeBS") are reflected in deferred expenses on the purchase of software products and databases:

Indicator	2008	2007
Balance as of the beginning of the year	1,914,111	1,372,370
Implementation costs	680,980	541,741
Depreciation for the reporting period	(151,018)	-
Provision for impairment	(569,717)	-
Balance as of the end of the year	1,874,356	1,914,111

Starting April 2008 the Company put OeBS fully into operation.

Expenses on the purchase and installation of Oracle E-Business Suite software will be written off to operating expenses after the start of the software operation within its useful life, which is established to be in the range of 10 years.

In December 2008 the Company's management acknowledged a decrease in OeBS cost by 569,717 on the basis of estimation of the number of actual users registered in the course of implementation of the software system.

Provision for impairment of OeBS is reflected in the Profit and Loss Statement in Item 100 «Other expenses.»

Amdocs Billing Suite Software

The Company's expenses on the purchase and implementation of Amdocs Billing Suite software are included in deferred expenses on the purchase of software products and databases:

Indicator	2008	2007
Balance as of the beginning of the year	1,445,662	1,260,874
Expenses for implementation	-	184,788
Correction of the cost including charging to other expenses	(350,999)	-
Transferred to the Start Automated Billing System software	(150,010)	-
Balance as of the end of the year	944,653	1,445,662

In connection with the Company's decision made in 2008 on the revision of the terms of implementation a decrease in the cost of the Amdocs software in the amount of 350,999 was acknowledged. The amount of 205,880 was reflected in the Profit and Loss Statement in Item 100 "Other expenses". A further 145,119 was reflected in Item 621 "Suppliers and Contractors" of the Balance Sheet resulting in a decrease in accounts payable.

In 2009-2010 the Company plans to implement Amdocs CRM Solutions on basis of licenses for Amdoc functional modules purchased before.

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The issue of establishing the number of necessary Amdocs licenses to be used in the CRM program and also the practical use of additional Amdocs software will be reviewed after the implementation of the Amdocs CRM program is completed.

Expenses on the purchase and installation of Amdocs Billing Suite software will be written off to operating expenses after the start of the software operation.

Start Automated Billing System Software

The company's expenses for the purchase and installation of the Start Automated Billing System software are reflected in deferred expenses:

Indicator	2008	2007
Balance as of the beginning of the year	277,456	-
Implementation costs	414,379	277,456
Depreciation for the reporting period	(34,522)	-
Balance as of the end of the year	657,313	277,456

Since January 1, 2008 the Company has been gradually putting into operation the Start Automated Billing System in its branches for settlements for telecommunications services with the Company's subscribers.

Expenses on the purchase and installation of the Start Automated Billing System software will be written off to operating expenses on the basis of its useful life, which is established to be in the range of seven years.

Network Elements Use Data Collection and Processing Platform Software

The company's expenses for the purchase and installation of Network Elements Use Data Collection and Processing Platform (DCPP) software are reflected in deferred expenses:

Indicator	2008	2007
Balance as of the beginning of the year	330,009	-
Implementation costs	125,137	330,009
Balance as of the end of the year	455,146	330,009

Expenses for the purchase and installation of DCPP software will be written off to operating expenses after the start of the software operation.

It is planned to put DCPP software into operation in 2009.

5.7 Inventories

Cost of Raw Materials, Consumables and Other Similar Assets Excluding Provision for Inventory Value Impairment (Item 211 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Cable	115 455	134 207
Spare parts	55 334	64 512

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Implements and tools	41 647	53 386
Raw materials and auxiliary supplies	85 736	51 208
Expendable materials and components for telecommunications	14 649	34 449
Telecoms services payment cards	36 261	26 378
Office supplies and components for office equipment	21 266	22 447
Stationery	28 722	20 805
Modems	18 821	18 312
Household items	16 263	13 863
Construction materials	40 204	12 829
Other	41 248	29 079
Total	515 606	481 475

Expenses for the provision for impairment of inventories were 2,156 as of December 31, 2008 (3,356 as of December 31, 2007).

Deferred Expenses (item 216 of the Balance Sheet)

The decrease in deferred expenses is mainly connected with a straight-line recognition of discount on paper credits included in interest expense. An amount of discount on paper credits was 320,963 as of December 31, 2008 (408,477 as of December 31, 2007).

5.8 VAT on purchased assets (item 220 of the Balance Sheet)

The considerable decrease in VAT by 372,702 is due mainly to a decrease in VAT on leasing liabilities and commissioned capital construction items.

5.9 Short-term trade accounts receivable (item 241 of the Balance Sheet)

Indicator	Total receivables	Provision for doubtful debts	Receivables net of provision for doubtful debts
As of January 1, 2008			
Settlements with consumers on core activities:			
with individuals	1,176,921	(108,924)	1,067,997
with commercial organizations	356,315	(45,670)	310,645
with state-financed organizations	164,262	(18,465)	145,797
with telecommunications operators	1,225,965	(127,766)	1,098,199
with social security authorities for reimbursement of expenses related to the granting of privileges to certain categories of subscribers	162,100	(162,100)	-
Settlements with customers for non-core activities	88,782	(32,245)	56,537
Settlements for assets sold	4,369	(592)	3,777
Total as of January 1, 2008	3,178,714	(495,762)	2,682,952
As of December 31, 2008			
Settlements with consumers on core activities:			
with individuals	1,469,467	(157,989)	1,311,478
with commercial organizations	521,323	(86,111)	435,212
with state-financed organizations	268,941	(47,598)	221,343
with telecommunications operators	948,921	(192,848)	756,073

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with social security authorities for reimbursement of expenses related to the granting of privileges to certain categories of subscribers	29,780	(29,780)	-
Settlements with customers for non-core activities	242,064	(65,294)	176,770
Settlements for assets sold	106,064	(13,036)	93,028
Total as of December 31, 2008	3,586,560	(592,656)	2,993,904

In 2008 the Company recovered 76,131 from the Federal Budget in judicial proceedings as a part of receivables.

In December 2008 the Company assessed the possibility of payment of debts on compensation for expenses related to granting privileges to certain categories of subscribers, considering possible recovery of debts as a result of legal claims. The provision for doubtful debts as of December, 2008 was 29,780.

As of December 31, 2008 an increase in accounts receivable on settlements for telecommunications services with telecommunications operators was mainly caused by offset of claims with Rostelecom OJSC for 2008.

5.10 Other accounts receivable to be paid within 12 months after the reporting date (item 243 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements on reimbursement of losses related to universal telecommunications service provision	-	638,116
Settlements on taxes and duties	341,517	409,376
Settlements on social insurance and security	16,201	16,513
Settlements with personnel on salaries and other operations	5,692	2,770
Settlements with advance holders	1,489	1,650
Settlements with attorneys (factors, agents)	143,176	159,062
Settlements on property and personal insurance	3,776	858
Settlements on claims	22,051	22,277
Settlements on due income	987	4,364
Other settlements	113,967	146,801
Provision for other accounts receivable	(75,969)	(90,376)
Total	572,887	1,311,411

Movement of provision for doubtful debts on accounts receivable in 2007 including other accounts receivable and prepaid expenses:

Indicator	Amount
Provision as of January 1, 2008	586,122
Provision established in the reporting period	396,745
Provision restored in the reporting period	(219,435)
Provision used in the reporting period	(63,731)
Provision as of December 31, 2008	699,701

Change in doubtful debts provision on accounts receivable is reflected in Profit and Loss Statement in net value. Excess of the expense in establishing the provision over income from its recovery in the amount of 177,310 is reflected in Item 100 "Other expenses" (324,854 for 2007).

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5.11 Charter capital (item 410 of the Balance Sheet)

Charter capital amounts to 6,311,999 and is comprised of common and preferred shares with the par value of RUR 3.00 each:

Type of a share	Number of shares in circulation, items	Total, nominal value, RUR
Common	1,578,006,833	4,734,020,499
Preferred Type A	525,992,822	1,577,978,466
Total	2,103,999,655	6,311,998,965

Shareholders	Share in charter capital, %	Common shares		Preferred shares	
		Number (items)	%		
Legal entities, total	92.69	1,493,346,110	94.63	456,865,111	86.86
including:					
- Svyazinvest OJSC	38.02	799,867,813	50.69	-	-
- subsidiary and associated companies	0.01	239,766	0.02	-	-
including:					
- Operatorsky Tsentr CJSC	0.01	239,766	0.02	-	-
- registered entities holding more than 5% of the charter capital, total	52.87	662,401,885	41.98	449,990,800	85.55
including:					
- Depository Clearing Company CJSC (nominee)	11.98	142,684,706	9.04	109,352,782	20.79
- UBS NOMINEES CJSC (nominee)	7.65	61,950,858	3.93	99,003,245	18.82
- KB CITIBANK CJSC (nominee)	7.71	38,673,286	2.45	123,647,277	23.51
- ING Bank (Eurasia) CJSC (nominee)	11.38	178,086,614	11.29	61,408,098	11.67
- National Depository Center Not-for-Profit Partnership	14.14	241,006,421	15.27	56,579,398	10.76
- other legal entities, total	1.79	30,836,646	1.95	6,874,311	1.31
Individuals, total	7.31	84,660,723	5.37	69,127,711	13.14
including:					
- Company's employees	1.89	19,911,018	1.26	19,952,105	3.79
- other	5.41	64,749,705	4.10	49,175,606	9.35
Total	100	1,578,006,833	100	525,992,822	100

The Company's charter capital is paid up in full.

Preferred shares type A allow owners to take part in general meetings of the Company's shareholders but do not include voting rights on matters other than those related to the Company's reorganization and liquidation, and amendments to the Company's Charter which limit the rights of preferred share owners. An annual dividend on preferred shares is paid in the amount of 10% of the Company's net profit for the previous financial year in accordance with the financial statement prepared in accordance with Russian Accounting Standards. When the Company does not pay a dividend or when the Company does not have profit for the reporting year, preferred share owners are granted the right to vote on all matters at the general meeting of the shareholders. Preferred share owners have the right to take part in annual general meetings (AGMs) of the shareholders and to vote on all AGM matters starting from the AGM immediately following the AGM which decided

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not to pay a dividend or to pay a dividend on preferred shares partially. The annual amount of dividend on preferred shares cannot be less than the dividend on common shares.

On 22 August, 2001, the Company registered a Level 1 American Depository Receipt (ADR) issue. Each depository receipt is equal to 100 common shares of the Company. The Federal Financial Markets Service of the Russian Federation, by Order No. 58/pz-i issued January 19, 2005, gave permission for the circulation of 623,312,699 common shares of the Company in the form of ADRs. In accordance with amendments to the F-6 form registered by the US Securities and Exchange Commission (SEC) on June 3, 2008, and also with amendments to the Depository Agreement concluded by CenterTelecom OJSC, JPMorgan Chase Bank, N.A. and holders of CenterTelecom's American Depository Receipts, the ratio will be changed from 1 ADR per 100 common shares to one ADR per 25 common shares. Since August 1, 2008 Each CenterTelecom American Depository Share confirmed by American Depository Receipt will represent 25 common shares of the company.

As of December 31, 2008, the Company registered an issue of 843,848 ADRs (454,600 as of December 31, 2007) and deposited 21,096,200 common shares (45,460,000 shares as of December 31, 2007) or 1.34% of all issued common shares (2.88% as of December 31, 2007).

Registered ADRs circulated for 2007-2008:

	ADRs (number)	Equivalent number of common shares	Common shares, %	Charter capital, %
January 1, 2007	420,989	42,098,900	2.67	2.00
Increase in 2007	33,611	3,361,100		
January 1, 2008	454,600	45,460,000	2.88	2.16
Increase (decrease) in 2008	389,248	(24,363,800)		
December 31, 2008	843,848	21,096,200	1.34	1.00

To date the Company's ADRs are traded on the following stock exchanges:

Stock Exchange Name	CUSIP (WKN)	ADR ticker	ISIN
Over-the-counter(OTC) Market (USA)	15548M108	CRMUY	US15548M1080
Frankfurt Stock Exchange (FSE)	798404	CRMUy.F	US15548M1080
Berlin Stock Exchange (BerSE)	798404	CRMUy.BE	US15548M1080

5.12 Treasury shares (item 440 of the Balance Sheet)

The Company did not own any repurchased shares as of December 31, 2007 and as of December 31, 2008.

5.13 Reserve capital (item 430 of the Balance Sheet)

In accordance with the resolution of the General Shareholder Meeting, dated June 25, 2008, in 2008 the Company increased the reserve capital in the amount of 181,734 from the net profit of 2007.

According to the Charter of the Company, the reserve fund is created by obligatory annual contributions of at least 5 percent of the Company's net profit until the fund's specified amount is reached.

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5.14 Dividends

In 2008, in accordance with the resolution of the General Shareholders Meeting, dividends for the year ended December 31, 2007, were declared in the amount of RUR0.3547131 per common share and RUR0.6910119 per preferred share.

Amounts payable in dividends are:

Type of share	Number of shares (items)	Dividend per 1 share, RUR	Total amount of dividends, RUR
For 2006			
Preferred Type A shares	525,992,822	0,3893300	204,784,785
Common shares	1,578,006,833	0,1999621	315,541,561
Total	2,103,999,655	-	520,326,346
For 2007			
Preferred Type A shares	525,992,822	0,6910119	363,467,299
Common shares	1,578,006,833	0,3547131	559,739,693
Total	2,103,999,655	-	923,206,992

The enclosed financial statement reflects decrease in retained profit by the dividend amount for 2007. Dividends for 2008 are not reflected. They will be reflected as a decrease in retained profit for the year ended December 31, 2009, after their approval at the annual General Shareholder Meeting of the Company.

5.15 Loans and borrowings (items 510 and 610 of the Balance Sheet)

Indicator	Jan 1, 2008	Dec 31, 2008	Interest rate, %	Currency	Maturity Date	Collateral
Long term debt						
Bank loans						
Deutsche Bank AG	2,822,813	3,378,748	8.34	US\$	31.10.2010	No collateral
Bank Société Générale Vostok CJSC	-	616,988	2.95 + LIBOR	US\$	08.08.2011	No collateral
Bank Société Générale Vostok CJSC	-	616,988	2.75 + LIBOR	US\$	08.08.2011	No collateral
ORGRESBANK	-	616,988	3.2 + LIBOR	US\$	08.08.2011	No collateral
ORGRESBANK	-	616,988	3.2 + LIBOR	US\$	08.08.2011	No collateral
Sberbank RF	1,125,000	-	7.9	RUR	19.04.2009	No collateral
Loans, total (item 511)	3,947,813	5,846,700				

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Indicator	Jan 1, 2008	Dec 31, 2008	Interest rate, %	Currency	Maturity Date	Collateral
Borrowings						
Series 4 bond issue	5,622,595	-	13.8	RUR	21.08.2009	Guarantee
Series 5 bond issue	-	126,125	9.3	RUR	02.03.2010 -10% of nominal value; 31.08.2010 - 20% of nominal value; 01.03.2011 - 30% of nominal value; 30.08.2011 - 40% of nominal value	Guarantee
Promissory notes issued	4,505,972	2,861,548	discount	RUR	2010 - 2011	No collateral
Other borrowings						
Ministry of Finance of the Russian Federation	255,240	196,243	2.0	Euro	01.01.2012	Pledge
Population	90,917	86,101	from 0,1 to 1	RUR	2010 - 2013	No collateral
Borrowings, total (item 512)	10,474,724	3,270,017				
Long term debt, total (item 510)	14,422,537	9,116,717				
Short term debt						
Bank loans						
Deutsche Bank AG	40,545	48,530	8.34	US\$	29.01.2009	No collateral
Sberbank RF	3,462	1,720,928	7.9	RUR	13.01.2009, 19.04.2009	No collateral
Bank Société Générale Vostok CJSC	-	2,535	2.95 + LIBOR	US\$	13.01.2009	No collateral
Bank Société Générale Vostok CJSC	-	2,430	2.75 + LIBOR	US\$	13.01.2009	No collateral
ORGRESBANK	-	2,665	3.2 + LIBOR	US\$	13.01.2009	No collateral
ORGRESBANK	-	2,665	3.2 + LIBOR	US\$	13.01.2009	No collateral
Loans, total (item 611)	44,007	1,779,753				
Borrowings						
Series 4 bond issue	282,760	5,905,355	13.8	RUR	19.02.2009, 21.08.2009	Guarantee
Series 5 bond issue	3,079,110	3,888	9.3	RUR	03.03.2009	Guarantee
Promissory notes issued	811,822	1,644,425	discount	RUR	within 2009	No collateral
Other borrowings						
Ministry of Finance of the Russian Federation	85,127	98,121	2.0	Euro	31.12.2009	Pledge

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Indicator	Jan 1, 2008	Dec 31, 2008	Interest rate, %	Currency	Maturity Date	Collateral
Population	11,616	15,074	from 0.1 to 1	RUR	within 2009	No collateral
Borrowings, total (item 612)	4,270,435	7,666,863				
Long term debt, total (item 610)	4,314,442	9,446,616				
Including short term part of long term loans and borrowings	4,314,442	9,446,616				

ORGRESBANK's loans

In August 2008 the Company concluded contracts for the provision of loans for the total sum of US\$42,000,000. The loans are to be repaid by August 8, 2011. Interest on the debt is payable in according to the following rate: margin – 3.2% per annum + 1 month LIBOR. The loan agreements are not secured.

Bank Société Générale Vostok CJSC's Loans

In August 2008 the Company concluded two contracts for the provision of loans with Bank Société Générale Vostok CJSC:

- for US\$21,000,000. The loan is to be repaid by August 8, 2011. Interest on the debt is payable according to the following rate: margin – 2.95% per annum + 1 month LIBOR. The loan agreement is not secured.

- for US\$21,000,000. The loan is to be repaid by August 8, 2011. Interest on the debt is payable according to the following rate: margin – 2.75% per annum + 1 month LIBOR. The loan agreement is not secured.

Bonds

In August 2004 the Company placed 5,622,595 interest-bearing series 4 bonds with RUR1,000 nominal value each. The bonds have 10 coupons. The coupon payment is made every 183 days.

Interest rate on the coupons is fixed at 13.8% per annum. The date of placement for the series 4 bond is August 17-31, 2004.

The series 4 bonds are subject to redemption on August 21, 2009. In connection with this in August 2008 the full amount of the debt was re-classified from long term to short term debt.

In February 2008 the Company performed its obligation on the seventh coupon of series 4 bonds. The total amount of coupon yield charged was 389,027. The amount of coupon yield charged per bond was RUR69.19. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

In August 2008 the Company performed its obligation on the eighth coupon of series 4 bonds. The total amount of coupon yield charged was 389,027. The amount of coupon yield charged per bond was RUR69.19. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

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In June 2006, the Company registered an issue of 3,000,000 series 5 interest-bearing documentary non-convertible bonds, with nominal value of RUR1,000 each. The bonds have 10 coupons. The coupon period is 182 days.

Interest rate on the coupons is fixed at 8.09% per annum up to September 2, 2008 and at 9.3% per annum from September 3, 2008 and up to redemption date. The date of placement for the series 5 bond is September 05, 2006. The bonds are subject to redemption as follows:

March 2, 2010 - 10% of the nominal value;
August 31, 2010 - 20% of the nominal value;
March 1, 2011 - 30% of the nominal value;
August 30, 2011 - 40% of the nominal value.

Proceeds from the issue of the bonds are allocated for refinancing of debt liabilities of the Company. The bonds issued envisage an offer that allows the bond holders to present them to the Company on specified dates. The closest offer date is September 4, 2008. In connection with these arrears in the amount of 3,000,000 in September 2007 was classified as short term liabilities.

In September 2008, the offer on the series 5 bond issue in the amount of 3,000,000 became due. Bonds were called for redemption to the Company in the amount of 2,873,875 and due to this fact the amount of non-redeemed bonds of 126,125 was reclassified as long-term liabilities.

In March 2008 the Company performed its obligation on the third coupon of series 5 bonds. The total amount of coupon yield charged was 121,020. The amount of coupon yield charged per bond was RUR40.34. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

In September 2008 the Company performed its obligation on the fourth coupon of series 5 bonds. The total amount of coupon yield charged was 121,020. The amount of coupon yield charged per bond was RUR40.34. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

Credit liabilities to the Ministry of Finance of the Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term finance to the Company for the purchase of telecommunications equipment from various foreign vendors. Vnesheconombank acted as agent providing the credit to the Company on behalf of the Government of the Russian Federation.

In December 2006, at the stage of litigation, the Company entered into an amicable agreement with the Ministry of Finance of the Russian Federation, which was approved by the Arbitration Court of Moscow Region on March 12, 2007. The amicable agreement is effective from December 27, 2006, and provides for settlement through restructuring of debt with simultaneous write-off of debt on late payment interest in the amount of EUR 5,068,169.86 accrued for late performance of payment obligations. Payment (repayment) of the restructured debt will be made by equal installments on an annual basis until January 1, 2012.

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Currency of the agreement was the Euro. Interest on the restructured debt is accrued in the amount of 2% per annum and is payable on an annual basis not later than December 31 of the relevant year.

In order to secure obligations under the amicable agreement, the Company entered into a property pledge agreement No. 7651/07-DO, dated March 9, 2007, with the Ministry of Finance of the Russian Federation for the total pledge value of 690,347 exclusive of VAT. The pledge agreement expires upon performance of the obligations under the amicable agreement.

As of December 31, 2008, the total amount of the restructured debt to the Ministry of Finance of the Russian Federation was 294,364 (EUR 7.103 million), including the short term portion and interest in the amount of 98,121 (EUR 2.368 million).

Paper credits

On December 18, 2006, CenterTelecom OJSC concluded two bill deals: a promissory notes issue agreement and a sale and purchase agreement. The purpose of these agreements was to reduce expenses on lease payments under lease contracts with RTK-Leasing OJSC.

Promissory notes have been chosen as a tool to implement a reduction of the above expenses on leasing payments. In particular, the following agreements were made:

Promissory notes sale and purchase agreement provides for the purchase of promissory notes issued by RTK-Leasing OJSC.

The total principal amount under the agreement is 2,269,969 and corresponds to the amount of the Company's debt to RTK-Leasing OJSC on lease payments as of September 30, 2006, repayable between March 1, 2007, and September 30, 2011. The current value of the promissory notes of RTK-Leasing OJSC was calculated on the basis of the market rate and was 1,925,070.

Agreement of promissory notes issue provides for the issue of promissory notes of CenterTelecom OJSC. As a result of the issue of own promissory notes, CenterTelecom OJSC received an amount sufficient to purchase the promissory notes of RTK-Leasing OJSC, namely 1,925,070. Amount of the promissory notes of CenterTelecom OJSC under the agreement was defined in accordance with the analysis of their market profitability in the 4th quarter of 2006, and reached 2,201,618.

Each relevant promissory note of RTK-Leasing OJSC and CenterTelecom OJSC is to be matured one business day prior to the date of the lease payments.

The concluded deals do not directly relate to the lease contracts, but they allow the reduction of expenses of CenterTelecom OJSC for the difference between income to be received through redemption of promissory notes of RTK-Leasing OJSC and expenses on repayment of discount on the promissory notes issued.

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Long-term loans and borrowings repayment schedule as of December 31, 2008:

Indicator	Loans	Bond issues	Promissory notes issues	Other borrowings	Total
2010	3,378,746	37,838	1,843,454	20,315	5,368,640
2011	2,467,954	88,287	1,018,094	23,196	3,509,244
2012	196,243	-	-	16,168	212,411
2013 and later	-	-	-	26,422	26,422
Total	6,042,943	126,125	2,861,548	86,101	9,116,717

The Company's expenses related to the receipt and use of loans and borrowings are charged to:

Indicator	2008	2007
- other expenses	1,766,147	1,845,546
- cost of investment assets	636	306
Total	1,766,783	1,845,852

5.16 Deferred tax liabilities (item 515 of the Balance Sheet)

The movement of deferred tax liabilities in 2008 was as follows:

Indicator	2008	2007
Balance as of beginning of the reporting period	1 353 923	1 124 593
Created over the reporting period at taxable temporary differences	320 382	151 749
Stated at adjusted taxable difference for the previous period	-	81 975
Paid on increase in tax payments	(23 380)	(3 855)
Written off after items disposal	1 835	(539)
Balance as of end of the year	1 652 760	1 353 923

In 2008 the amount of deferred tax liabilities was calculated on the basis of a 24% tax rate.

Starting January 1, 2009 the tax legislation provides for a decrease in profit tax from 24% to 20%. This will result in a re-calculation of the amount of deferred tax assets. The resulting 275,460 decrease in deferred tax liabilities will be reflected in the financial statement for 2009 at the expense of retained profit.

5.17 Other long-term liabilities (item 520 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements on equipment leasing	601,297	198,890
Settlements with suppliers and contractors	39,203	39,203
Other	7,194	4,391
Total	647,694	242,484

Long-term accounts payable decreased by 405,210 against the previous year, which is mainly due to the conversion of the long-term portion of lease payables to short-term debt.

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5.18 Accounts payable

Trade accounts payable (item 621 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements with suppliers and contractors for purchase and construction of fixed assets	1,102,224	1,988,560
Settlements with suppliers and contractors on ongoing operations	390,183	609,675
Settlements on equipment leasing	863,530	475,991
Settlements with suppliers and contractors on software purchase	309,129	262,344
Settlements with telecommunications operators	479,617	383,935
Total	3,144,683	3,720,505

Overdue accounts payable as of December 31, 2008 reached 756,984 (123,627 as of December 31, 2007) including:

Lender	Overdue accounts payable (more than 10,000)
Compulink USP LLC	193,749
Business Computer Center CJSC	157,275
General DataComm LLC	126,436
Telecom MTK CJSC	85,286
TEL MTK CJSC	30,159
Svyazstroi-4 OJSC	29,892
Mediatel CJSC	15,943
IskraUralTel CJSC	13,116
Technoserv AS LLC	12,498
Elektrosistemy LLC	12,172

The 747,063 increase in accounts payable on settlements with suppliers and contractors is mainly connected with increase in debt on settlements with suppliers and contractors on purchase and construction of fixed assets and on ongoing operations.

Settlements on advances received (item 622 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements on advances received on core operations:	498,401	743,331
- advances received from individuals, commercial and state-funded organizations	436,891	639,292
- advances received from telecommunications operators	6,371	12,885
- advances received from the sale of telecommunications services card payment vehicles	55,139	91,154
Settlements on advances received on non-core operations and unsold assets:	39,851	19,579
Total	538,252	762,910

Settlements with the budget on taxes and duties (item 625 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements on value added tax	34,394	498,502
Settlements on profit tax	463	5,559

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Settlements on property tax	168,485	182,592
Settlements on other taxes	11,671	13,770
Total	215,013	700,423

The 485,410 increase in accounts payable on settlements with the budget on taxes and duties is mainly due to a growth of accounts payable on value added tax caused by a change in the tax legislation of the Russian Federation as starting January 1, 2008 the taxable period is each quarter, and prior to January 1, 2008 the taxable period was each month.

Other accounts payable (item 626 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Settlements on the agency agreement with Rostelecom OJSC	545,628	529,219
Settlements on provision for universal telecommunications service	83,330	86,298
Settlements with principals	8,485	23,351
Settlements on the agency agreements related to provision of telecommunications services	31,802	58,316
Settlements with Not-for-Profit Partnership	305,443	-
Settlements on deferred value added tax	42,267	-
Other settlements	31,445	38,415
Total	1,048,400	735,599

Other accounts payable decreased by 312,801 against 2007, which is mainly due to payment of debt to the Research Center for Telecommunications Development Problems Not-for-Profit Partnership in the amount of 305,443.

5.19 Deferred income (item 640 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Purpose finance funds	294	225
Deferred income, total	432,762	405,569
including		
- gratuitous proceeds	287,442	273,070
- other deferred income	145,320	132,499
Total	433,056	405,794

5.20 Reserves for future expenses (item 650 of the Balance Sheet)

Indicator	As of January 1, 2008	Charged	Used	Charged to other expenses	As of December 31, 2008
Provision for unused vacations	310,867	685,125	(709,441)	-	286,551
Provision for annual bonus payments	57,256	67,421	(67,491)	(6,888)	50,298
Other provisions, total	242,496	769,435	(814,451)	(25,037)	172,443
Including provisions for monthly and quarterly bonus payments	234,014	769,435	(805,969)	(25,037)	172,443
Total	610,619	1,521,981	(1,591,383)	(31,925)	509,292

The Company's expenses with respect to provisions for future expenses are charged to:

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Indicator	2008	2007
- expenses for core operations	1 519 497	1 137 638
- cost of investment assets	2 483	-
- other expenses	1	561
Total	1 521 981	1 138 199

5.21 Other short-term liabilities (item 660 of the Balance Sheet)

Indicator	As of January 1, 2008	Charged	Used	Charged to other expenses	As of December 31, 2008
Provision for contingent liabilities related to headcount optimization	418,165	177,381	(354,662)	(54,818)	186,066
Other provisions	129,600	34,063	(129,600)	-	34,063
Total	547,765	211,444	(484,262)	(54,818)	220,129

The Company's expenses with respect to provisions for contingent liabilities are charged to:

Indicator	2008	2007
- expenses for core operations	179,124	418,130
- other expenses	32,320	129,635
Total:	211,444	547,765

Provision for contingent liabilities for headcount optimization program

Within the framework of the Company's efficiency policy CenterTelecom OJSC accepted a Program for Optimization of the Personnel Number approved by the Company's Board of Directors. The program provides for a gradual reduction of the personnel number in 2008-2012.

Other provisions

In December 2007 the Company formed a contingent liabilities provision in the amount of 129,600 for communications and legal services necessary for representation of the Company's interests in judicial proceedings. This provision was used in full in 2008.

In December 2008 the Company formed a contingent liabilities provision in the amount of 34,063 which can be charged to the Company in the course of legal proceedings on grounds of lawsuits filed against the Company.

5.22 Leased fixed assets (item 901 of the Balance Sheet)

The increase in the value of fixed assets leased in the amount of 6,626,831 is related to the entering into agreements for financial lease contracts.

The Company concluded contracts with RTK-Leasing OJSC for the financial lease of a property complex for the purpose of telecommunications services and universal telecommunications services provision.

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The total amount of payments under the agreements made will be 7,002,492 within their terms (36 months, 60 months).

5.23 Assets received as collateral received for liabilities and payments (item 905 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Third party guarantee	8,989,330	6,036,160
Pledged property	6,262	3,046
Total	8,995,592	6,039,206

2,956,386 decrease in collateral and payments received is mainly caused by the Company's fulfillment of obligations on the series 5 bond issue.

5.24 Assets pledged as collateral for liabilities and payments (item 906 of the Balance Sheet)

Indicator	As of January 1, 2008	As of December 31, 2008
Third party guarantees	1,003,803	226,690
Property pledged	690,347	690,347
Total	1,694,150	917,037

777,113 reduction in the value of assets pledged as collateral was connected with a change in debt by guarantees.

6 Notes to Significant Profit and Loss Items

6.1 Revenue for ordinary activities

Revenues from sales of products, goods, services provision and works performance (net of VAT, excise taxes and similar statutory payments):

Indicator	2008	2007
Local telephone communications	16,012,059	16,004,616
Intra-zone telephone communications	6,249,630	5,852,810
Telegraph communications, data transmission and telematic services	4,816,799	3,265,987
Including data transmission and Internet access related services	4,587,922	3,081,928
Interconnection and traffic transfer	3,792,570	4,685,055
Cooperation and agency services	1,055,130	1,147,750
Mobile radiotelephony, wire broadcasting, radio broadcasting, TV	710,409	708,380
Mobile radiotelephony (cellular communications)	290,937	278,036
Other communications services (core activities)	4	8
Income from other sales (non-core activities)	787,620	466,485
including income from the lease of assets	571,866	304,190
Total	33,715,158	32,409,127

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Income rose by 1,306,031 against 2007, mainly on the types of services listed below.

Local telephone communications

In 2008 income from local telephone communications and the provision of telephone lines to individual subscribers amounted to 11 393 003 (11,350,413 in 2007), including:

1. Income from local telephone connections based on:
 - tariff plan with subscriber based flat fee – 3,823,097 (4,324,088 for 2007);
 - tariff plan with time based billing – 591,721 (540,239 for 2007);
 - tariff plan with combined payment system – 144,887 (129,857 for 2007).
2. Income from the provision of a local telephone line to a subscriber regardless of type – 6,833,298 (6,356,229 for 2007).

Income from local telephone communications and provision of a local telephone line to corporate clients amounted to 2,500,696 (2,481,170 in 2007), including:

1. Income from local telephone connections based on:
 - tariff plan with subscriber based flat fee – 551,357 (637,103 for 2007);
 - tariff plan with time based billing – 478,427 (522,077 for 2007);
 - tariff plan with combined payment system – 4,188.
2. Income from the provision of a telephone line to a subscriber regardless of type – 1,466,724 (1,321,990 for 2007).

Income from local telephone communications includes income from universal telecommunications services in the sum of 98 (17 for 2007).

Interconnection and traffic transfer services

The Company's income from interconnection services was 70,936 in 2008 (289,451 in 2007), including:

- payment for POI organization – 17,390 (16,762 in 2007);
- payment for POI maintenance – 53,546 (272,689 in 2007).

Decrease in income from POI maintenance is explained by the exclusion of this type of service from a list of interconnection services beginning March 1, 2008 in accordance with a Decree by the government of the Russian Federation #666 "On Amendments to Some Governmental Acts Related to Telecommunications Issues" of October 12, 2007.

The Company's income from traffic transfer services in 2008 was 3,721,634 (4,395,604 in 2007).

Decrease in income from traffic transfer is mainly due to cancellation of compensation adjustment for local and zonal call initiation since January 1, 2008.

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Services in support of long-distance domestic and international communications services provided by domestic and international long-distance communications operators (cooperation and agency services)

The Company's income from cooperation and agency services rendered in accordance with an agreement concluded with Rostelecom amounted to 1,047,146 (1,139,826 in 2007), and 7,266 from services in accordance with an agreement concluded with MTT OJSC (7,356 in 2007).

Telegraph communications, data transmission and telematic services

The Company's income from telegraph communications, data transmission and telematic services in 2008 amounted to 4,816,799 (3,265,987 in 2007), including:

- Data transmission services and Internet access provision – 4,587,922 (3,081,928 in 2007);
- Telegraph communications services – 228,877 (184,059 in 2007).

Non-monetary settlements

In 2008 a part of the Company's revenue from the provision of services, performance of work and sales of goods was received in non-monetary form on the basis of agreements providing non-cash payments:

Indicator	2008	2007
Total number of companies with which the Company conducted settlements in non-monetary form	18	141
Total revenue on this type of operation:	2,856,919	14,395
with Rostelecom OJSC	2,835,535	-
with Russian Post FSUE	20,003	12,144
with Elikson OJSC	1,029	-
with Svyaz-Servis LLC	-	1,059
with other companies	352	1,192
Revenue for agreements providing non-monetary form of payments (% of total annual revenue)	8.47	0.04
Revenue for agreements with associated companies providing non-monetary form of payments (% of total annual revenue)	8.41	-

Cost of the services rendered, work performed and goods sold was established by the Company on the basis of standard commercial terms.

6.2 Costs for ordinary activities

Expenses on the sale of products, goods, provision of services, performance of works:

Indicator	2008	2007
Salary expenses	7,333,957	8,352,172
Social insurance charges	1,691,451	1,894,952
Fixed assets depreciation	4,277,697	3,834,187
Expenses on telecoms operators' services (excluding Rostelecom OJSC)	2,652,026	2,735,497
Material costs	1,791,164	1,925,205
Third party expenses	3,085,954	1,799,636

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Expenses on operating rent payments	2,952,176	1,363,850
including ongoing lease payments	2,310,548	756,805
Agency services	674,622	395,171
Charges to non-governmental pension fund	418,951	251,263
Charges to provision for universal service	328,499	313,636
Expenses on software and databases	280,049	111,791
Expenses on Rostelecom OJSC services	144,406	549,631
Expenses on property insurance	20,162	78,666
Taxes and duties included in operating expenses	60,483	57,665
Other expenses	639,605	310,599
Total	26,351,202	23,973,921

The increase in costs on core activities in 2008 amounted to 2,377,281 against 2007.

The reduction in salary expenses is caused by a headcount reduction conducted by the Company as part of a headcount optimization program (see Item 5.21 of the present Explanatory Note).

The reduction in material costs is caused by the Company's activities connected with the optimization of costs and business processes restructuring.

The increase in third party expenses is mainly caused by increased expenses for public paid telephones maintenance as a part of the universal service program implemented by the Company in the Central Federal District of the Russian Federation and for optimization of business processes.

The increase in expenses on rent payments is due to a rise in lease payments which in turn is connected with the universal service program implemented by the Company in the Central Federal District of the Russian Federation.

In accordance with current Russian legislation these expenses of the Company will be compensated through payments from the Universal Service Fund (see Item 6.3. of the present Explanatory Note).

The increase in expenses on agency services is connected with a re-distribution of expenses as a part of the Company's optimization of business processes.

Expenses on contingent liabilities provision for headcount reduction program

The item "Salary expenses" includes expenses for the establishment of a provision for the headcount reduction program in the amount of 177,166 (see Item 5.21. of the present Explanatory Note).

Expenses on telecommunications operators' services

The Company incurs expenses on interconnection and traffic transfer services rendered to telecommunications operators whose networks are interconnected with the Company's network.

The Company's expenses for traffic transfer services in 2008 amounted to 2,349,290 (1,846,456 in 2007), expenses on interconnection services were 2,574 (2,630 in 2007), expenses on Internet access provision were 183,074 (422,036 in 2007), and other expenses amounted to 117,088 (464,375 in 2007).

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The Company's expenses on provision for interconnection and traffic transfer services rendered to the telecommunications operators in the amount of 31,130 (57,230 in 2007).

Expenses on Universal Telecommunications Services

The Company's expenses on universal telecommunications services in 2008 were 1,540,473 (63,992 in 2007).

Of this amount labor expenses were 24,069 (17,213 in 2007), expenses for fixed assets depreciation were 71,741 (20,840 in 2007), lease payments amounted to 870,159 (308 in 2007) and third party expenses reached 238,678 (15,245 in 2007).

Losses from universal telecommunications services rendered through public pay telephones were 1,559,404 in 2008 (36,701 in 2007).

Expenses on charges to non-governmental pension fund

Expenses on charges to the non-governmental pension fund in 2008 amounted to 418,951 (251,263 in 2007) (see Item 7 of the present Explanatory Note).

6.3 Other income and expenses

Other income:

Indicator	2008	2007
Reimbursements of losses from universal telecommunications services	1,559,404	36,873
Income from the sale and other disposal of fixed assets	242,782	80,085
Income from the sale and other disposal of other assets	151,263	61,511
Fines, penalties and forfeits for breach of agreements; proceeds from loss recovery	41,608	22,226
Write-off of deferred income	39,381	42,341
Profit of past years discovered during the reporting year	34,133	108,199
Exchange differences on assets and liabilities payable in foreign currencies	5,198	208,656
Income from write-off of accounts payable	3,517	46,493
Exchange differences on assets and liabilities payable in rubles	1,299	29,429
Income from provision for commodities and materials' impairment	1,111	-
Income from provision for doubtful debts	-	324,854
Other income	130,561	98,394
including:		
provision for contingent liabilities and provision for costs to be incurred	86,743	95,306
income received in accordance with court ruling	16,256	1,245
income as a consequence of force majeure circumstances	3,805	730
income from the write-off of penalties and fines on taxes restructuring	1,964	388
other	21,793	725
Total	2,210,257	1,059,061

Other income for 2008 increased and amounted to 1,151,196 against 2007.

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Reimbursement of losses from the provision of Universal Telecommunications Services

In 2008 on grounds of calculation made by the Company its losses incurred in connection with rendering of universal telecommunications services subjected to reimbursement were reflected as other expenses.

Correctness of the calculation of an amount of losses incurred by the Company in connection with rendering of universal telecommunications services is subjected to confirmation by an independent audit company RSM Top-Audit LLC (license #E-004827 issued on August 1, 2003).

In 2008 the Company received from provision of universal telecommunications services a reimbursement of losses related to universal services in the following amounts:

- for the services rendered in the current year – 885,099 (36,701 in 2007),
- for the services rendered in the previous year – 36,189 (172 in 2006).

Other expenses:

Indicator	2008	2007
Exchange differences on assets and liabilities payable in foreign currencies	960,383	1,940
Expenses on taxes and duties	799,453	734,333
Provision for impairment of Oracle E-Business Suite	569,717	-
Expenses related to sale and other disposal of fixed assets	294,350	289,670
Expenses on write-off of Amdocs Billing Suite software	205,880	-
Expenses on provision for doubtful debts	177,310	-
Membership dues to associations, not-for-profit partnerships	150,027	309,343
Payments to personnel not included in operating expenses	96,028	113,129
Expenses on fees for credit organizations' services	80,080	99,048
Expenses related to sale and other disposal of assets	75,159	61,077
Charges for social needs and for trade union organizations	73,324	51,094
Losses of past years discovered during the reporting year	70,307	333,353
Expenses related to charitable activities, cultural events and other similar events	69,156	72,164
Expenses on mobilization training and civil defense	56,008	43,085
Exchange differences on assets and liabilities payable in rubles	55,892	33,774
Expenses for provision for impairment of financial investments	53,230	27,098
Expenses on services related to representation of the Company's interests in courts with regard to tax audit	38,241	-
Provision for contingent liabilities	32,320	129,600
Non-operating expenses	27,717	21,821
Fines, penalties and forfeits for breach of agreements, damage recovery	8,940	3,738
Write-off of accounts receivable	2,760	3,681
Other expenses	78,779	80,076
Total	3,975,061	2,408,024

The increase in other expenses in 2008 against 2007 in the amount of 1,567,037 was mainly caused by a re-evaluation of debt on the Company's loan agreements denominated in foreign currency, by establishment of a provision for impairment of Oracle E-Business Suite and by the write-off of expenses on Amdocs Billing Suite software.

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6.4 Profit tax expenses

The Company defined the following components of profit tax in 2008:

Indicator	Amount	Tax rate	Amount	Components of profit tax
Book profit	(4 046 488)	24%	(971 157)	Conditional expense on profit tax
Taxable temporary differences	1 237 508	24%	297 002	Deferred tax liabilities
- differences arisen	1 334 924	24%	320 382	- deferred tax liabilities created
- differences repaid	(97 416)	24%	(23 380)	- deferred tax liabilities repaid
Deductible temporary differences:	295 023	24%	70 806	Deferred tax assets
- differences arisen	(1 923 138)	24%	(461 553)	- deferred tax liabilities created
- differences repaid	2 218 161	24%	532 359	- deferred tax liabilities repaid
Continuing taxable differences	(2 040 988)	24%	(489 837)	Continuing tax liability
Tax base under the tax return	4 554 575	24%	(1 093 098)	Current tax
Amount of tax for previous periods	-	-	88	Current tax for previous period (after payment)

The Company's expenses on profit tax for 2007 amounted to:

Total	(1 460 994)
including	
- theoretical expense on profit tax	(971 157)
- permanent tax liabilities	(489 837)

The Company's expenses on profit tax for 2008 are shown in the Profit and Loss Statement as an aggregate amount of:

Total	(1,460,994)
including	
- current tax	(1,093,098)
- deferred tax liabilities	(297,002)
- deferred tax assets	(70,806)
- profit tax under adjusted returns for previous periods	(88)

Continuing taxable differences that resulted in adjustment of conditional profit tax, total	(2,168,944)
including:	
expenses on impairment of Oracle E-Business Suite software cost	(569,717)
expenses generating cost, but not accounted for the purpose of profit taxation	(309,509)
expenses on write-off of Amdocs Billing Suite software	(205,880)
expenses on not-for-profit partnership	(150,027)
book value of written off assets (excluding fixed assets)	(182,877)
payments to personnel not included in operating expenses	(96,015)
Continuing taxable differences that resulted in adjustment of conditional profit tax, including	
book depreciation of fixed assets that are non-depreciable property in accordance with the Tax Code of the Russian Federation	(94,311)
provision for doubtful debts	(71,390)
non-deductible VAT	(73,339)
losses of past years discovered during the reporting year	(56,803)
expenses on provision for impairment of financial investments	(53,230)
charitable activities, membership fees in non-commercial organizations	(43,237)
expenses on social needs not referred to in payments to personnel	(41,717)
expenses on cultural events	(25,919)

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charges for trade union organizations	(24,406)
expenses on write off and other disposal of assets (excluding fixed assets)	(18,161)
differences between residual value of fixed assets in accounting and tax accounting by write-off	(13,353)
loss during the reporting period on activities related to the use of auxiliary production and facilities (in accordance with Article 275.1 of the Tax Code of the Russian Federation)	(10,762)
interest on loans and borrowings	(7,423)
expenses on membership in other organizations	(3,500)
other deductible differences	(117,368)
Continuing deductible differences that resulted in adjustment of conditional profit tax, total	127,956
including:	
profit of past years discovered over the reporting year	31,168
income in the form of dividends received	19,804
income equal to amount of depreciation charged on proceeds that were not levied with profit tax as of the moment of receipt	17,164
income in the form of interest for breach of terms of VAT return based on Moscow Arbitration Court ruling	9,410
other deductible differences	50,410
Temporary taxable differences, total	(1,237,508)
including:	
difference in depreciation methods and generation of historical cost of fixed assets in accounting and tax accounting	(641,601)
difference in methods of deferred expenses reflection in financial accounting and tax accounting	96,978
provision for doubtful debts from 45 to 90 days on accounts receivable in the bookkeeping records	(54,766)
Amount of reimbursement of losses connected with the provision of universal telecommunications services	(638,119)
Temporary deductible differences, total:	(295,023)
including:	
use of provision for contingent liabilities related to headcount optimization	(220,315)
provision for contingent liabilities related to judicial proceedings	(97,495)
provision for costs to be incurred, works to be conducted	55,355
sum differences	38,273
amount of discount on promissory notes	(27,428)
use of provision for unused vacations	(23,779)
charges to provision for bonuses and rewards	(7,053)
gratuitous proceeds that are subject to taxation at the moment of receipt, but accounted for in deferred income according to the accounting regulations	(10,048)
losses from the sale of fixed assets items	(2,533)

6.5 Earnings per share

Basic earnings per share reflect the share of profit for the reporting year due to shareholders holding common shares. It is calculated as a ratio of basic profit for the reporting year to the average weighted number of outstanding common shares over the reporting year.

Basic profit for the reporting year equals net profit (item 190 of the Profit and Loss Statement) less dividends on preferred shares for 2008 in the amount recommended by the Company's management to the Board of Direction, however not approved as of the date of the financial statements for 2008.

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Indicator	2008	2007
Basic profit for the reporting year, RUR thousand	2,326,945	3,271,206
Average weighted number of outstanding common shares over the reporting year, thousand shares	1,578,007	1,578,007
Basic profit per share, RUR	1,47461	2,07300

The Company did not additionally issue any common shares in 2008. The Company did not hold any securities, or issue conditions which would provide for conversion into additional common shares. There were no events related to an increase in the number of common shares. Therefore, the Company makes no calculations of diluted earnings per share.

The Company makes no calculations of diluted earnings per share, as it did not additionally issue any common shares in 2008, did not hold any securities, or issue conditions which would provide for conversion into additional common shares. There were no events related to an increase in the number of common shares.

7 Affiliates

The Company discloses the most essential information about affiliates and Telecom-Soyuz Non-Governmental Pension Fund in the present Explanatory Note.

Parent organization

The Company is controlled by Svyazinvest OJSC, which owns 50.69% of ordinary shares which account for 38.02 % of the Company's charter capital. The remaining common shares are distributed among a large number of shareholders.

Interactions with affiliates for the reporting period:

Name of affiliate	Svyazinvest OJSC	Svyazinvest OJSC's subsidiaries	The Company's subsidiaries	The Company's affiliates	Other
2007					
Sale of telecommunications services, interconnection and traffic transfer services	-	3,457,794	78,193	7,442	124,539
Sale of cooperation and agency services	-	1,137,997	3,067	-	4,041
Income from the lease of assets	-	2,564	3,927	-	343
Sale of other services and products	-	5,329	1,758	1,035	676
Sale of fixed assets and other assets	-	-	34	-	-
Purchase of telecommunications services, interconnection and traffic transfer services	-	825,349	138,816	-	44,928
Purchase of other services	-	27,048	104,474	-	636,042
Purchase of products and other assets	-	46	67,369	1	17,225
Interests on loans receivable	-	-	6,117	-	-
Dividends receivable	-	-	26,736	35	6
Dividends payable	146,380	-	44	-	2
Contributions to charter capital	-	-	28,900	-	-
Loans given	-	-	132,541	-	-

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Name of affiliate	Svyazinvest OJSC	Svyazinvest OJSC's subsidiaries	The Company's subsidiaries	The Company's affiliates	Other
2008					
Sale of telecommunications services, interconnection and traffic transfer services	-	2,405,366	71,050	4,535	89,542
Sale of cooperation and agency services	-	1,046,138	-	-	82
Income from the lease of assets	-	5,826	4,129	4,482	960
Sale of other services and products	-	36,307	2,826	-	661
Purchase of telecommunications services, interconnection and traffic transfer services	-	157,888	31,048	-	55,036
Purchase of other services	-	59,755	14,499	-	742,572
Purchase of products and other assets	-	52,157	1,523	-	1
Interests on loans receivable	-	-	20,631	-	-
Dividends receivable	-	-	16,412	-	-
Dividends payable	259,430	-	78	-	3
Loans given	-	-	232,474	-	-
Accounts receivable written off on grounds of impossibility of recovery or expiry of the period of limitation:	-	-	11	-	155
- including from provision for doubtful debts	-	-	11	-	155

In 2008 prices for settlements on operations with affiliates were set up on the basis of standard commercial terms.

Status of settlements with affiliates as of reporting date

Name of affiliate	Svyazinvest OJSC	Svyazinvest OJSC's subsidiaries	The Company's subsidiaries	The Company's affiliates	Other
As of January 1, 2008					
Accounts receivable	-	873,468	66,276	638	102,239
- provision for doubtful debts	-	-	(45,918)	-	(116)
- accounts receivable minus provision for doubtful debts	-	873,468	20,358	638	102,123
Loans given (including interest)	-	-	100,397	-	-
Accounts payable	-	673,889	12,422	-	77,451
As of December 31, 2008					
Accounts receivable	-	411,293	69,815	337	107,714
- provision for doubtful debts	-	(7,768)	(45,933)	-	(1,651)
- accounts receivable minus provision for doubtful debts	-	403,525	23,882	337	106,063
Loans given (including interest)	-	-	232,474	-	-
Accounts payable	-	577,065	2,124	-	84,603

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Revenue intensive transactions with affiliates

Rostelecom OJSC

Rostelecom OJSC, the control stake in which is owned by Svyazinvest OJSC, is the major domestic and international long distance telecommunications operator in the Russian Federation.

The amounts in the table “Status of Settlements with Affiliates as of Reporting Date” include the following indicators:

Indicator	2008	2007
Sale of telecommunications services, interconnection and traffic transfer services	2,363,180	3,419,393
Sale of cooperation and agency services	1,046,138	1,137,997
Income from the lease of assets	3,986	2,564
Sale of other services and products	36,222	3,014
Purchase of telecommunications services, interconnection and traffic transfer services	134,239	796,031
Purchase of other services	57,796	718
Purchase of products and other assets	15	47

The amounts in the table “Status of Settlements with Affiliates as of Reporting Date” include the following indicators:

Indicator	As of January 1, 2008	As of December 31, 2008
Accounts receivable	843,238	354,364
- provision for doubtful debts	-	(2,758)
- accounts receivable minus provision for doubtful debts	843,238	351,606
Accounts payable	634,347	542,794

Income from Rostelecom OJSC includes income from zone call initiation, call termination from and to the Company’s networks and from and to interconnected operators’ and also income from cooperation agreement.

Expenses for Rostelecom OJSC include payments for the termination of calls to other telecoms operators’ networks, if the calls are initiated from mobile radiotelephony network, and also payments for interconnection services.

Accounts payable to Rostelecom OJSC include payables for services rendered to the Company and payables on cooperation contract in the amount of subscribers’ payments to the Company for long-distance domestic and international communications services rendered by Rostelecom OJSC.

Svyazintek OJSC

Svyazintek OJSC was formed by Svyazinvest OJSC’s subsidiaries which own 100% in Svyazintek OJSC with the purpose of implementation and support of information systems, and also for coordination, management and implementation of the centralized industry’s IT programs in Svyazinvest Group’s companies.

In 2008 Svyazintek OJSC provided services related to the implementation and further maintenance of information systems for the Company, in particular, Oracle E-Business Suite software, and

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related to the development of technical specifications for the Complex Information Security System (CISS) and the technical architecture of the Unified Management System.

The Company's expenses on Svyazintek OJSC's services for 2008 amounted to 310,006 (369,701 for 2007). The expenses are included in deferred expenses for purchase of software in the sum of 305,078 (369,701 in 2007) and in non-current assets in the amount of 4,928 (0 in 2007).

Prepaid expenses to Svyazintek OJSC as of December 31, 2008 reached 102,303 (97,782 as of December 31, 2007), the Company's accounts payable to Svyazintek OJSC was 69,039 (67,895 as of December 31, 2007).

The Company's management

Expenses for remuneration of the Company's management (general director and his deputies, member of the Managing Board and the Board of Directors) include:

Indicator	2008	2007
Short term remuneration, total	116,588	113,624
<i>including</i>		
labor payments including bonuses and fees	109,392	102,712
expenses on annual vacations payments	3,685	7,212
Taxes and obligatory payments charged to budgets and off-budgetary funds	2,519	3,046
Expenses on medical treatment and medical services	992	654
Long term remuneration, total	1,847	4,068
<i>including</i>		
payments (contributions) on non-governmental pension agreements	1,847	4,068

The list of members of the Company's Board of Directors and Management Board is represented in section 2 of the present Explanatory Note.

Operations with Telecom-Soyuz Non-Governmental Pension Fund (Telecom-Soyuz NPF)

The company concluded an agreement for retirement insurance with Telecom-Soyuz NPF and provides non-governmental pensions in addition to state pension to most part of its employees using retirement plans with established amounts of pension contributions and pension payments.

The Company's Pension Plan with established pension contributions provides that pension contributions are to be paid both by the Company and by the employee during the employment term. A retirement pension is paid to an employee reaching the employment age limit (55 years for women and 60 years for men). According to the Company's Pension Plan the amount of pension depends on an employee's job position in the Company. A time record giving the right for a non-governmental pension paid by the Company shall be not less than 15 years for an employee and not less than 4 years for a top manager.

Starting from September 1, 2008 a change in the scheme of the non-governmental pension award and payment to pre-retirement age employees (not more than 2 years prior to the officially established retirement age) released as a result of staffing measures, was made. Award and payment of the nongovernmental pension is paid beginning a month following the month of the end of payments provided for by Clause 178 of the Labor Code of the Russian Federation and other legal

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acts regulating the term of retaining of average monthly salary. The amount of contribution reached 2,982 (in September-December 2008).

The total amount of contributions to the non-governmental pension plan paid by the Company in 2008 was 421,107 (259,708 in 2007) and was mainly included into operating expenses as other expenses. The fund retains 3% of each contribution to provide for its own operations and for the coverage of its administrative expenses.

Research Center for Telecommunications Development Problems Not-for-Profit Partnership

The Research Center for Telecommunications Development Problems Not-for-Profit Partnership (NP) OJSC was a related party to the Company up to October 2008. As of December 31, 2008 the NP is not a related party as a consequence of the Company's withdrawal from NP participation.

The total amount of contributions to the Partnership paid by the Company in 2008 was 149,048 (306,443 for 2007).

The Company's accounts payable to Research Center for Telecommunications Development Problems NP as of December 31, 2008 amounted to 0 (305,443 as of December 31, 2007).

8 Contingencies

Business environment

Political and economic changes taking place in the Russian Federation have already influenced and will probably have an impact on companies operating in Russia. Moreover, the reduction in capital markets activity and lending taking place recently has led to increased economic uncertainty. The present financial statement reflects the management's view on the impact of the Russian Federation's business environment on the Company's operations and financial performance. The future economic situation's actual influence can differ from the management's view on it.

Taxation

Interpretation by the Company's management of the impacts of Russian industrial, tax, currency and customs laws on the Company's operations and activities may be contested by appropriate federal agencies. Tax authorities may change their position in the course of interpretation of the legislation with regard to certain economic operations and in the course of tax calculation auditing. Consequently, tax authorities may raise claims as to such transactions and accounting methods that have been accepted without any claims in the past. As a result, substantial additional taxes, penalties and fines may be charged. Evaluation of the amounts of claims on possible but not filed lawsuits and also estimation of probability of unfavorable results are not possible. Tax audits may cover three calendar years immediately prior to the year of audit.

The management believes that in general it has interpreted the relevant provisions of laws correctly as of December 31, 2008, and the probability of keeping the Company's status in terms of compliance with the requirements of the tax, currency and customs laws is high.

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Guarantees issued

The Company acted as a guarantor for third parties in the total amount of 226,690 (1,003,803 in 2007). The Company does not expect any material liabilities in relation to such guarantees.

Litigation

The Company is a defendant in a number of arbitration proceedings including those which have been filed by tax authorities. However the Company's management assumes that results of these proceedings will not have a significant impact on the Company's financial performance.

9 Post Balance Sheet Events

Dividends

The amount of annual dividend per share will be approved by the Company's General Shareholder Meeting in June 2009.

The Company's management plans to recommend that the Board of Directors approve the level of dividends for 2008 for further approval by the General Shareholder Meeting in the amount of RUR0.2457683 per common share and RUR0.4915455 per preferred share (RUR0.3547131 and RUR0.6910119 respectively in 2007). The total amount of dividends for 2008 will reach 387,824 per common share and 258,549 per preferred share (559,740 and 363,467 for 2007 respectively).

Upon approval the annual dividends payable will be reflected in the financial statements for 2009.

Personnel dismissal

Within the framework of the Program for Headcount Optimization approved by the Company's Board of Directors (Minutes of Meeting dated March 27, 2008, #17), for the period from December 31, 2008 to the date of signing of the present financial statement for 2008 the Company paid severance pay in the amount of 52,728 including: 38,332 to 2,172 employees who were dismissed up to January 1, 2009, and 14,396 to 911 employees who were dismissed during the period from January 1, 2009 until the date of signing of the present financial statement for 2008.

General Director _____ /V.A. Martirosyan/

Chief Accountant _____ /A.D. Kartashov/