Open Joint Stock Company
CenterTelecom

Consolidated Financial Statements
for the year ended 31 December 2008

OJSC CenterTelecom
Consolidated Financial Statements
For the year ended 31 December 2008

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC CenterTelecom

We have audited the accompanying consolidated financial statements of OJSC CenterTelecom ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis four audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
28 May 2009

OJSC CenterTelecom

Consolidated Balance Sheet as at 31 December 2008

(in millions of Russian Roubles)

	Notes	31 December 2008	Restated 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	43 188	36 448
Intangible assets and goodwill	8	5 143	5 088
Investments in equity accounted investees	10	1	1
Non-current investments	11	117	476
Other non-current assets	9	380	338
Total non-current assets		**48 829**	**42 351**
Current assets			
Inventories	12	485	529
Trade and other receivables	13	3 926	2 839
Income tax receivable		298	339
Current investments	11	429	827
Other current assets	14	554	743
Cash and cash equivalents	15	570	569
Total current assets		**6 262**	**5 846**
TOTAL ASSETS		**55 091**	**48 197**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	17	6 900	6 900
Treasury shares	17	(1)	(1)
Other reserves		2	12
Retained earnings		13 657	10 358
Total equity attributable to shareholders of the Company		**20 558**	**17 269**
Minority interest		3	5
Total equity		**20 561**	**17 274**
Non-current liabilities			
Loans and borrowings	18	12 758	15 121
Employee benefits	19	2 229	2 641
Other non-current liabilities	20	351	375
Deferred tax liabilities	32	1 269	1 079
Total non-current liabilities		**16 607**	**19 216**
Current liabilities			
Loans and borrowings	18	11 577	6 346
Accounts payable and accrued expenses	22	5 404	4 483
Other current liabilities	23	776	554
Provisions	21	166	324
Total current liabilities		**17 923**	**11 707**
Total liabilities		**34 530**	**30 923**
TOTAL EQUITY AND LIABILITIES		**55 091**	**48 197**

ЦЕНТР ТЕЛЕКОМ

General Director
V.A. Martirosyan

Chief Accountant
A.D. Kartashov

The accompanying notes on pages 10 – 61 form an integral part of these consolidated financial statements

OJSC CenterTelecom

Consolidated Income Statement for the year ended 31 December 2008

(in millions of Russian Roubles, except per share amounts)

	Notes	2008	Restated 2007
Revenues	26	**34 794**	**33 457**
Personnel costs	27	(9 110)	(10 821)
Depreciation and amortisation	7,8	(5 173)	(4 207)
Materials, repairs and maintenance, utilities	28	(2 887)	(2 663)
Interconnection charges		(3 132)	(3 083)
Other operating income	29	1 668	593
Other operating expenses	30	(7 063)	(5 198)
Operating profit		**9 097**	**8 078**
Share of result of equity accounted investees (net of Income tax)	10	(1)	30
Financial income		137	205
Interest expenses	31	(2 680)	(2 363)
Forex (loss)/ gain, net		(1 006)	199
Other financial expenses		(35)	(3)
Profit before income tax from continuing operations		**5 512**	**6 146**
Income tax expense	32	(1 292)	(1 811)
Profit for the year		**4 220**	**4 335**
Attributable to:			
Shareholders of the Company		4 222	4 335
Minority interest		(2)	-
		4 220	**4 335**
Basic and diluted earnings per share (in Russian Roubles)	33	**2,007**	**2,061**

The accompanying notes on pages 10 – 61 form an integral part of these consolidated financial statements

OJSC CenterTelecom
Consolidated Statement of Cash Flows
for the year ended 31 December 2008

(in millions of Russian Roubles)

	Notes	2008	Restated 2007
Cash flows from operating activities:			
Profit before income tax		**5 512**	**6 146**
Adjustments for:			
Depreciation and amortisation	7,8	5 173	4 207
Loss on disposal of property, plant and equipment		50	165
Impairment losses on intangible assets (Amdocs, Oracle)	8	966	-
(Reversal of) allowance for impairment of inventories and other assets		(1)	4
(Reversal of) allowance for impairment of receivables	13	215	(379)
Share of result of equity accounted investees		1	(30)
Interest expenses	31	2 497	2 177
Other financial income and expenses		904	(401)
Other non-cash items		(5)	(8)
Operating cash flows before changes in working capital and provisions		**15 312**	**11 881**
Decrease/(increase) in inventories		44	(73)
(Increase)/decrease in trade and other receivables		(1 275)	297
Decrease in other current assets		189	26
(Decrease)/increase in provisions and employee benefits		(412)	114
(Decrease)/increase in accounts payable and accrued expenses		(13)	166
(Decrease)/increase in provisions		(158)	270
Decrease/(increase) in other operating assets and liabilities		239	(106)
Cash flows generated from operations before income tax and interest paid		**13 926**	**12 575**
Interest paid		(2 473)	(2 254)
Income tax paid		(1 068)	(1 354)
Cash flows from operating activities		**10 385**	**8 967**
Investing activities			
Acquisition of property, plant and equipment		(5 743)	(5 768)
Proceeds from sales of property, plant and equipment and constructions in progress		280	159
Acquisition of intangible assets		(1 414)	(1 086)
Acquisition of subsidiaries net of cash acquired		-	6
Proceeds from disposal of current investments		716	840
Interest received		137	67
Dividends received		-	24
Cash flows utilized in investing activities		**(6 024)**	**(5 758)**

The accompanying notes on pages 10 – 61 form an integral part of these consolidated financial statements

(in millions of Russian Roubles)

	Notes	2008	Restated 2007
Financing activities			
Proceeds from loans and borrowings		6 670	4 170
Repayment of loans and borrowings		(4 372)	(3 280)
Repayment of bond issue		(2 874)	-
Proceeds from promissory notes		-	168
Repayment of promissory notes		(702)	(3 191)
Repayment of finance lease obligations		(2 146)	(1 221)
Repayment of vendor financing liability		-	(29)
Dividends paid to shareholders of the Company		(936)	(501)
Dividends paid to minority shareholders of the subsidiaries		-	(1)
Cash flows utilized in financing activities		**(4 360)**	**(3 885)**
Net increase/(decrease) in cash and cash equivalents		**1**	**(676)**
Cash and cash equivalents at beginning of year		**569**	**1 245**
Cash and cash equivalents at end of year	15	**570**	**569**

The accompanying notes on pages 10 – 61 form an integral part of these consolidated financial statements

OJSC CenterTelecom
Consolidated Statement of Changes in Equity
for the year ended 31 December 2008
(in millions of Russian Roubles)

	Note	Share capital: Preference shares	Share capital: Ordinary shares	Share capital: Treasury Shares	Retained earnings	Other reserves	Total equity attributed to shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2006 (as previously reported)		**1 725**	**5 175**	**(1)**	**6 431**	**-**	**13 330**	**6**	**13 336**
Effect of errors correction	2	-	-	-	112	-	112	-	112
Balance at 31 December 2006 (restated)		**1 725**	**5 175**	**(1)**	**6 543**	**-**	**13 442**	**6**	**13 448**
Revaluation of available-for-sale investments		-	-	-	-	11	11	-	11
Profit for the year (restated)		-	-	-	4 335	-	4 335	-	4 335
Revaluation reserve arising on acquisition		-	-	-	-	1	1	-	1
Total recognised income and expenses for the year					**4 335**	**12**	**4 347**	**-**	**4 347**
Dividends to shareholders of the Company		-		-	(520)	-	(520)	-	(520)
Dividends to minority shareholders of subsidiaries		-	-	-	-	-	-	(1)	(1)
Balance at 31 December 2007 (restated)	2	**1 725**	**5 175**	**(1)**	**10 358**	**12**	**17 269**	**5**	**17 274**
Disposal of available-for-sale investments		-	-	-	-	(10)	(10)	-	(10)
Profit for the year		-	-	-	4 222	-	4 222	(2)	4 220
Total recognised income and expenses for the year					**4 222**	**(10)**	**4 212**	**(2)**	**4 210**
Dividends to shareholders of the Company	34	-	-	-	(923)	-	(923)	-	(923)
Balance at 31 December 2008		**1 725**	**5 175**	**(1)**	**13 657**	**2**	**20 558**	**3**	**20 561**

The accompanying notes on pages 10 – 61 form an integral part of these consolidated financial statements

1 General Information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC CenterTelecom (hereinafter “the Company”) and its subsidiaries (“the Group”) for the year ended 31 December 2008, were authorised for issue by the General Director and the Chief Accountant on 28 May 2009.

Company

The Company, OJSC CenterTelecom, was incorporated as an open joint stock company in the Russian Federation.

The Company’s official address: Russia, 141400, Moscow reg., city of Khimky, Proletarskaya st., 23.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, data transmission services, rents out communication and radio communication channels in the territory of the 17 Federal Districts of the Russian Federation.

OJSC Svyazinvest, which is controlled by the Russian Government, owned 50,69% of the Company’s ordinary voting shares as at 31 December 2008 and is the Company’s Parent Company.

Information of the Company’s main subsidiaries is disclosed in Note 6. All the subsidiaries are incorporated under the laws of the Russian Federation unless otherwise stated.

Liquidity and Financial Resources

As at 31 December 2008, the Company’s current liabilities exceeded its current assets by 11 661 (as at 31 December 2007: 5 861). Profit before tax amounted to 5 512 (2007: 6 146).

To date the Company has significantly relied on both short-term and long-term borrowings to finance development of its communications networks. This financing has historically been proved through financial lease, bank loans, bonds and vendor financing.

In 2009 the Company expects to generate funds from the following sources: cash proceeds from operating activities; issue of promissory notes; placement of Rouble bonds on the Russian market; and raising funds from domestic and foreign lending institutions. Moreover, management believes that some of existing contractual payment terms relating to current operations could be extended in case of a shortage of working capital.

The Company has a program in place to ensure meeting an obligation to settle its liabilities when they fall due. The Company management has reached preliminary agreement with a number of lending institutions which are prepared to provide required financing.

Management believes that if necessary, certain capital investment projects may be deferred or curtailed in order to fund the Company’s current operating needs.

2 Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Going concern

The financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

Presentation of Financial Statements

Consolidated financial statements comprise the Company, its subsidiaries and associates are prepared using unified accounting policies.

The consolidated financial statements of the Company are presented in millions of Russian Roubles, rounded to the nearest million, unless stated otherwise.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS; and that available-for-sale investments are stated at fair value.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2008. Adoption of new and revised standards did not have significant effect on the financial statements of the Company.

The changes in accounting policies resulted from adoption of the following new or revised standards and interpretations:

Introduced/ Amended Standard / Interpretation	Content of changes	Effects
IFRIC 11 IFRS 2 – Group and Own Share Transactions	The Interpretation defines when such transactions should be accounted for as equity-settled or cash-settled transactions under the requirements of IFRS 2. It provides for the accounting of share-based payment arrangements that involve two or more entities within the same group.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC 12 Service Concession Arrangements	The Interpretation sets out general principles on recognising and measuring obligations and related rights in service concession arrangements.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	The Interpretation provides guidance on how to define the minimum amount of a surplus in a defined benefit plan which may be recognised as a defined benefit asset in accordance with IAS 19 Employee Benefits.	The Interpretation did not have a material impact on the financial position or performance of the Company.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

IFRSs and IFRIC Interpretations not yet effective

The Company has not adopted the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Standard/Interpretation	Content of change	Effective date
IFRS 8 Operating Segments	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	To be applied for annual reporting periods beginning on or after 1 January 2009.
IAS 1 (as revised in 2007) Presentation of Financial Statements	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	To be applied for annual reporting periods beginning on or after 1 January 2009.
IAS 23 (as revised in 2006) Borrowing Costs	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	To be applied for annual reporting periods beginning on or after 1 January 2009.
Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	The Amendments require that certain financial instruments and liabilities arising on liquidation be classified as equity if certain conditions are met. They also define what information is to be disclosed with regard to puttable financial instruments classified as equity.	To be applied for annual reporting periods beginning on or after 1 January 2009.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Standard/Interpretation	Content of change	Effective date
Amendments to IFRS 2 Share-Based Payment – Vesting Conditions and Cancellations	The Amendments define the term vesting conditions as an explicit or implicit requirement of completing the services. Other conditions are non-vesting conditions and should be taken into account when measuring the fair value of equity instruments granted. If the rights to an equity instrument were not transferred due to the failure to meet a non-vesting condition which was to be met by an entity or its counterparty, an equity instrument should be derecognised.	To be applied for annual reporting periods beginning on or after 1 January 2009.
IFRS 3 (as revised in 2008) Business Combinations	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	To be applied for annual reporting periods beginning on or after 1 July 2009.
IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	To be applied for annual reporting periods beginning on or after 1 July 2009.
IFRIC Interpretation 13 Customer Loyalty Programmes	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	To be applied for reporting periods beginning on or after 1 July 2008.
IFRIC Interpretation 15 Agreements for the Construction of Real Estate	The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.	To be applied for reporting periods beginning on or after 1 January 2009.
IFRIC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules.	To be applied for reporting periods beginning on or after 1 October 2008.
IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	To be applied for reporting periods beginning on or after 1 July 2009.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Standard/Interpretation	Content of change	Effective date
IFRIC Interpretation 18 Transfers of Assets from Customers	The Interpretation clarifies the circumstances in which assets transferred from customers should be recognized in the entity's financial statements, and establishes approaches to the measurement of their cost on initial recognition. The Interpretation also discusses situations when the customer provides cash to the entity to acquire such assets.	To be applied for reporting periods beginning on or after 1 July 2009.
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets	The Amendments set out rules of reclassification of financial assets to different categories and establish disclosure requirements in respect of reclassifications made.	To be applied for reporting periods beginning on or after 1 July 2008.
Various improvements to Financial Reporting Standards	Improvements to various Standards eliminate a number of inconsistencies in the current versions of International Financial Reporting Standards.	The effective dates vary depending on each particular Improvement adopted.

As at 31 December 2008, management of the Company did not complete the assessment of the impact of Standards and Interpretations not yet effective at that date on the Company's accounting policies.

Foreign currency transactions

The functional and presentation currency of the Company is the Russian Rouble (RUR). Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate ruling at that date. All resulting differences are recognised in the income statement as foreign exchange gains (losses) except for differences arising on the translation of available-for-sale equity instruments. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The exchange rates as of 31 December, 2008 and 2007 were as follows:

Exchange rates at 31 December	2008	2007
US Dollar	29,3804	24,5462
EURO	41,4411	25,9332

Revision of Historical Financial Information

In the course of the preparation of the financial statements for 2008, the Company identified some errors which related to the historical financial information. The errors related to 2007 and previous years were corrected through revision of the comparable information for 2007 and adjustments to assets, liabilities and retained earnings as of 31 December 2006, correspondingly. There were also certain adjustments made of reclassification nature.

As a result of the above adjustments, profit for 2007 attributable to shareholders of the Company increased by 26 and retained earnings as at 31 December 2007 increased by 138.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

The effect of errors correction on earnings per share amounted to 0,013 RUR/share.

Only lines corrected	**Before adjustments**	**Error correction**	**Reclassification**	**Total adjustments**	**Total after adjustments**
ASSETS					
Non-current assets					
Property, plant and equipment	36 332	116		116	36 448
Intangible assets and goodwill	5 061	27		27	5 088
Total non-current assets	42 208	143	-	143	42 351
Current assets					
Trade and other receivables	2 670	-	169	169	2 839
Other current assets	916	-	(173)	(173)	743
Current investments	823	-	4	4	827
Total current assets	5 846	-	-	-	**5 846**
TOTAL ASSETS	**48 054**	**143**	-	**143**	**48 197**
EQUITY AND LIABILITIES					
Shareholders' equity					
Retained earnings	10 220	138	-	138	10 358
Total equity attributable to shareholders of the Company	17 131	138	-	138	17 269
Total equity	17 136	138	-	138	17 274
Non-current liabilities					
Deferred tax liabilities	1 036	43	-	43	1 079
Other non-current liabilities	430	(55)	-	(55)	375
Total non-current liabilities	19 228	(12)	-	(12)	19 216
Current liabilities					
Accounts payable and accrued expenses	5 001	17	(535)	(518)	4 483
Other current liabilities	-	-	554	554	554
Provisions	343	-	(19)	(19)	324
Total current liabilities	11 690	17	-	17	11 707
Total liabilities	30 918	5	-	5	30 923
TOTAL EQUITY AND LIABILITIES	**48 054**	**143**	-	**143**	**48 197**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Only lines corrected	Before adjustments	Error correction	Reclassifi-cation	Total adjust-ments	Total after adjustments
Revenues	33 452	5	-	5	33 457
Depreciation and amortization	(4 249)	42	-	42	(4 207)
Personnel costs	(11 007)	-	186	186	(10 821)
Materials, repairs and maintenance, utilities	(2 583)	-	(80)	(80)	(2 663)
Other operating income	379	-	214	214	593
Other operating expenses	(5 047)	(17)	(134)	(151)	(5 198)
Operating profit	**7 862**	**30**	**186**	**216**	**8 078**
Interest expenses	(1 972)	-	(391)	(391)	(2 363)
Forex gain, net	-	-	199	199	199
Financial income	199	-	6	6	205
Profit before income tax from continuing operations	**6 116**	**30**	**-**	**30**	**6 146**
Income tax expense	(1 807)	(4)	-	(4)	(1 811)
Profit for the year	**4 309**	**26**	**-**	**26**	**4 335**
Attributable to:					
Shareholders of the Company	4 309	26	-	26	4 335

3 Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OJSC CenterTelecom and its subsidiaries as of 31 December 2008 and 2007.

All intra-group balances, transactions, income and expenses resulting from operations within the Company and recognized in the assets are entirely eliminated.

Subsidiaries are fully consolidated as of the date of acquisition, being the date when the Group acquired control over the subsidiary, and continue to be consolidated until the date when such control ceases.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group’s share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group’s share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Acquisition of Minority Interest in Subsidiaries

Any difference between carrying value of net assets attributable to Minority interest acquired and respective consideration is recognized in equity.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

3.2 Property, Plant and Equipment

3.2.1 Cost of Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Cost of each major inspection is capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria is satisfied. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement of income when the expenditure is incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

3.2.2 Depreciation and Useful Life

Depreciation of property, plant and equipment is calculated on a straight-line basis.

The Company applies the following useful lives:

	Years
Buildings and constructions	11-50
Transmission devices	10-15
Switches	3-15
Other telecommunication equipment	3-10
Land	Not depreciated

The property, plant and equipment's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each reporting date.

As of 31 December 2008, the Group's management reassessed the remaining useful lives of items of property, plant and equipment. Based on the analysis performed, there were no property, plant and equipment items that required change in the useful lives.

3.2.3 Assets Received from Free of Charge

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

3.3 Intangible Assets and Goodwill

3.3.1 Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

Goodwill on an acquisition of an equity accounted investees is included in the investments in equity accounted investees.

3.3.2 Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of other intangible assets are determined at individual basis.

3.3.3 Impairment

Goodwill, intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the caring value over the recoverable amount is recognised as impairment loss. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed.

3.4 Borrowing Costs

The borrowing costs are capitalized by the Company as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset including construction in progress. Other borrowing costs are expensed when incurred.

3.5 Equity accounted investees

Equity accounted investees are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in equity accounted investees are accounted for under the equity method.

3.6 Investments and Other Financial Assets

The Company's financial assets are classified as either financial assets at fair value revalued through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

At the initial recognition, financial assets are measured at fair value, plus, for instruments other than recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The Company determines the classification of its financial assets at initial recognition and reviews the classification of financial assets when appropriate and is allowed by standards.

Purchases and sales of financial assets are recognized on the settlement date, which is the date that the investment is delivered to a buyer.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity.

All other investments, which were not classified to any of the three preceding categories, are available-for-sale investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

3.7 Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location.

The cost of inventories is determined on the weighted average basis.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8 Cash and Cash Equivalents

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less.

All these items are included as a component of cash and cash equivalents for the purpose of the balance sheet and statement of cash flows.

3.9 Shareholders' Equity

3.9.1 Share Capital

Ordinary shares and non-cumulative non-redeemable preference shares are both classified as equity.

3.9.2 Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. The gain or loss on purchase, sale or cancellation of treasury shares is not recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

3.9.3 Minority Interest

Minority interest at the balance sheet date represents the minority shareholders' share of the fair value of the identifiable assets and liabilities of the subsidiaries at the date of the acquisition or the date when the subsidiary was established and the minorities' share of movements in equity since the date of the acquisition or establishment.

3.9.4 Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.10 Financial Liabilities

3.10.1 Borrowings Received

For presentation purposes, loans and borrowings in these consolidated financial statements include banking and corporate loans, bonds and promissory notes, vendor financing and financial lease obligations.

Borrowings are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

3.11 Leases

At the commencement of the finance lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the Company recognizes finance lease as the assets and liabilities in their balance sheet at amount equal to their fair value or, if lower, at the discounted present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to produce a constant rate of interest of the remaining balance of the liability. Finance costs are recognised in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

3.12 Employee Benefits

3.12.1 Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for future vacation payments.

3.12.2 Pensions and Other Post-Employment Benefit Plans

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial "projected credit unit" method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Upon introduction of a new plan or improvement of an existing plan past service cost is recognized as an expense on a straight line basis over the average period until the amended benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognises profit or loss arising on curtailment or final settlement under a defined benefit plan at the moment of such curtailment or settlement.

3.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3.14 Income Tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business acquisition and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3.15 Revenue Recognition

Revenue from service contracts is accounted for when the services are provided. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

Interest income is calculated using the effective interest rate which presents the expected future cash flows during the estimated useful life of a financial instrument to the net carrying amount of the financial asset.

Reimbursement of losses from universal telecommunication services is recognized in the period in which the loss occurred.

Dividend income is recognised in the income statement on the date that the Group’s right to receive payment is established.

3.16 Earnings per Share

For the purpose of calculating earnings per share, the Company classifies preferred shares as participating equity instruments.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

4 Significant Accounting Judgments and Estimates

The key assumptions concerning the future events and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful Life of Property, Plant and Equipment

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2008 is 43 188 (as at 31 December 2007 – 36 448). Refer to Note 7 for detailed information.

Impairment of Non-current assets

Identification of indicators of impairment of non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount at a cash-generating unit level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on a cash-generating unit level, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows.

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

Fair value of assets and liabilities in Business Acquisition

At the acquisition date the Company recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

Impairment testing requires value in use estimation of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As of 31 December 2008, the carrying amount of the goodwill amounted to 11 (2007: 11). Refer to Note 8 for detailed information.

Fair Values of Unlisted Available-for-Sale Investments

Fair value of investments which are not actively traded is determined using valuation techniques, including those based on reference to recent arm's length market transactions between knowledgeable, willing parties; based on reference the current fair value of another instruments that are substantially the same; or based on discounted cash-flow analysis and option pricing model.

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date. As

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

of 31 December 2008, the fair values of unlisted available-for-sale investments amounted to 23 (2007: – 37). Refer to Note 11 for more information.

Allowance for impairment of receivables

Allowance for impairment is based on the historical data related to collectability of accounts receivable and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As of 31 December 2008, an allowance for impairment of receivables amounted to 747 (2007 - 617). Refer to Notes 13 and 14 for more details.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As of 31 December 2008, net defined benefit obligations amounted to 2 229 (2007 - 2 641). More details are provided in Note 19.

Litigation and Claims

The Company exercises considerable judgment in measuring and recognizing loss and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As of 31 December 2008, the best estimation of the litigation provision amounts to 34 (2007 - 0). More details are provided in Note 21.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

5 Segment Information

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

The Group provides telecommunications services on the territory of the Central Federal District of the Russian Federation. A range of services are provided using the same equipment and communication channels. Therefore, management believes that the Group currently has only one business and geographical segment.

6 Subsidiaries

The following subsidiaries are controlled by the OJSC CenterTelecom:

		Ownership, %		**Voting Shares, %**	
Subsidiary	**Activity**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
CJSC "Vladimir Teleservice"	Communication services	**100**	100	**100**	100
LLC "Mobilcom"	Communication services	**100**	100	**100**	100
CJSC "Teleport Ivanovo"	Communication services	**100**	100	**100**	100
LLC "Telecom Terminal"	Repair and maintenance	**100**	100	**100**	100
LLC "Telecom Stroy"	Communication services	**100**	100	**100**	100
OJSC "RTS"	Communication services	**100**	100	**100**	100
LLC "Tver' Telecom"	Communication services	**85**	85	**85**	85
LLC "Svyaz-Service-Irga"	Communication services	**-**	70	**-**	70
LLC "Vladimirsky Taxophone"	Communication services	**51**	51	**51**	51
CJSC "Telecom Ryazanskoy Oblasty"	Communication services	**50,9**	50,9	**50,9**	50,9
CJSC "Telecom-R"	Communication services	**100**	100	**100**	100
CJSC "CenterTelecomService"	Communication services	**100**	**100**	**100**	**100**
CJSC "Operatorsky Center"	Communication services	**100**	100	**100**	100

All entities listed above are Russian legal entities established pursuant to the legislation of Russian Federation and have the same reporting date as the Company.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

7 Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Other assets	Construction in progress and equipment for installation	Total
Cost					
At 31 December 2006	**21 898**	**18 155**	**3 725**	**1 727**	**45 505**
Additions	-	-	-	7 584	7 584
Acquisition of subsidiaries	-	23	3	-	26
Transfer from construction in progress	1 346	5 160	967	(7 473)	-
Disposals	(43)	(99)	(74)	(233)	(449)
At 31 December 2007	**23 201**	**23 239**	**4 621**	**1 605**	**52 666**
Additions	-	-	-	11 908	11 908
Transfer from construction in progress	1 685	6 810	3 719	(12 214)	-
Disposals	(178)	(49)	(357)	(243)	(827)
At 31 December 2008	**24 708**	**30 000**	**7 983**	**1 056**	**63 747**
Accumulated Depreciation					
At 31 December 2006	**(5 466)**	**(4 843)**	**(1 960)**	**-**	**(12 269)**
Charge for the year	(1 472)	(1 782)	(866)	-	(4 120)
Disposals	23	71	77	-	171
At 31 December 2007	**(6 915)**	**(6 554)**	**(2 749)**	**-**	**(16 218)**
Charge for the year	(1 251)	(2 424)	(1 111)	-	(4 786)
Disposals	81	9	355	-	445
At 31 December 2008	**(8 085)**	**(8 969)**	**(3 505)**	**-**	**(20 559)**
Net book value					
At 31 December 2006	**16 432**	**13 312**	**1 765**	**1 727**	**33 236**
At 31 December 2007	**16 286**	**16 685**	**1 872**	**1 605**	**36 448**
At 31 December 2008	**16 623**	**21 031**	**4 478**	**1 056**	**43 188**

Depreciation charge for 2008 in the amount of 4 786 (2007 – 4 090) was recorded in line “Depreciation and amortization” of the consolidated income statement.

As at 31 December 2008, the historical cost of fully amortised property, plant and equipment amounted to 5 064 (2007 - 4 539).

In 2008, the Company increased the cost of construction-in-progress by the capitalised interest in the amount of 181 (2007: - 0). Capitalisation rate in 2008 was 10,78% (2007 – 0%).

Property, plant and equipment with the total value of 683 (2007- 747) were pledged as a collateral under loan agreements. Assets acquired under finance lease contracts secure finance lease liabilities.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Finance Lease

The net book value of plant and equipment held under finance leases at 31 December 2008 and 2007 amounted to:

	2008	2007
Switches and transmission devices	6 288	5 181
Other fixed assets	3 105	784
Total net book value of plant and equipment held under finance leases	**9 393**	**5 965**

Additions of property, plant and equipment acquired under financial lease agreements in 2008 amounted to 4 938 (2007- 2 292).

Impairment testing

For the purpose of impairment testing, the recoverable amount of each cash generating unit has been determined based on value in use calculation. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a discount rate which reflects time value of money and risks associated with each individual cash generating unit.

As a result of the impairment testing, the recoverable amounts of cash generating units exceeded their carrying amounts.

The following key assumptions were made by the Group's management in determining the recoverable amount of the cash generating units:

- Cash flow projections cover a period of five years, cash flows beyond five-year period have been extrapolated;
- Cash flow projections were prepared in nominal terms;
- A post-tax discount rate of 17,4% was applied in determining the value in use. The Rouble-denominated discount rate was estimated in nominal terms based on weighted average cost of capital;
- The implied pre-tax WACC is 20,2%;
- Projected growth rates in revenue and expenses are as follows: 5% in 2009 – 2013 and after 2013 – 4%;
- A terminal value was derived at the end of a five-year period assuming 4% future growth rate.

The estimated cash flows are not particularly sensitive to a change in the above assumptions.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

8 Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Customer base	Trademark	Total
Cost						
At 31 December 2006	**995**	**153**	**3 662**	**94**	**37**	**4 941**
Additions	-	4	1 608	-	-	1 612
Acquisition of subsidiaries	11	-	2	-	2	15
At 31 December 2007	**1 006**	**157**	**5 272**	**94**	**39**	**6 568**
Additions	-	7	1 546	-	-	1 553
At 31 December 2008	**1 006**	**164**	**6 818**	**94**	**39**	**8 121**
Amortisation and Impairment losses						
At 31 December 2006	**(995)**	**(58)**	**(194)**	**(85)**	**(31)**	**(1 363)**
Charge for the year	-	(23)	(85)	(9)	-	(117)
At 31 December 2007	**(995)**	**(81)**	**(279)**	**(94)**	**(31)**	**(1 480)**
Impairment loss	-	-	(1 111)	-	-	(1 111)
Charge for the year	-	(25)	(362)	-	-	(387)
At 31 December 2008	**(995)**	**(106)**	**(1 752)**	**(94)**	**(31)**	**(2 978)**
Net book value						
At 31 December 2006	**-**	**95**	**3 468**	**9**	**6**	**3 578**
At 31 December 2007	**11**	**76**	**4 993**	**-**	**8**	**5 088**
At 31 December 2008	**11**	**58**	**5 066**	**-**	**8**	**5 143**

Oracle E-Business Suite (OEBS)

As at 31 December 2008, the software included a software product Oracle E-Business Suite with the carrying amount of 2 498 (2007 – 2 714).

Interest expenses capitalised in 2008 and related to the implementation of Oracle E-Business Suite amounted to 73 (2007 - 241). Applicable capitalisation rate was 10,78% (2007 – 10,98%).

The Company started to use Oracle E-Business Suite software, with depreciation charge commencing from the date of its implementation (April 2008) over its useful life of 10 years.

Changes in the carrying amount of the software product Oracle E-Business Suite for years ended 31 December 2008 and 2007 are disclosed below:

	2008	2007
As at 1 January	**2 714**	**1 931**
Implementation expenses	754	783
Amortisation charge	(210)	-
Impairment losses	(760)	-
As at 31 December	**2 498**	**2 714**

During 2008, the Company has recognised an impairment loss with respect to excessive licenses due to a reductions of personnel, in the amount of 760, including capitalised interest of 190.

Amdocs Billing Suite

As at 31 December 2008, the software included a software product Amdocs Billing Suite with the carrying amount of 945 (2007 – 1 446).

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

As a result of the Company's decision on revision of implementation terms of Amdocs, the impairment loss of 351 was recognised resulting in 206 being recorded in Other operating expenses for the year and 145 - as a reduction of respective accounts payable.

During 2009-2010 years, the Company intends to implement a CRM Amdocs using its existing Amdocs licenses. The volume of licenses required in the CRM Amdocs as well as utilisation of the other components of Amdocs software will be reconsidered based on the results of implementation of CRM Amdocs project.

The Company shall start depreciating this asset after it is put into operation in proportion to the cost of implemented modules. Until that moment management intends to periodically test the asset for impairment.

Changes in the carrying amount of the software product Amdocs Billing Suite for years ended 31 December 2008 and 2007 are disclosed below:

	2008	2007
As at 1 January	**1 446**	**1 362**
Implementation expenses	-	84
Impairment loss	(351)	-
Transfer to other software (ASR START)	(150)	-
As at 31 December	**945**	**1 446**

ASR Start Billing Software

As at 31 December 2008, the software included a software product ASR Start with the carrying amount of 671 (2007 – 277).

The Company embarked on the operation of ASR Start software product functionality and proceeded with its depreciation commencing from the date of its implementation (January 2008) over its useful life of 7 years.

Changes in the carrying amount of the ASR Start software product for the years ended 31 December 2008 and 2007 are disclosed below:

	2008	2007
As at 1 January	**277**	**-**
Implementation expenses	429	277
Amortisation charge	(35)	-
As at 31 December	**671**	**277**

Hewlett-Packard Open View Internet Usage Manager (HP Open View)

As at 31 December 2008, the software included a software product HP Open View with the carrying amount of 455 (2007 – 330).

Changes in the carrying amount of the HP Open View software product for the years ended 31 December 2008 and 2007 are disclosed below:

	2008	2007
As at 1 January	**330**	**-**
Licenses	-	284
Implementation expenses	125	46
As at 31 December	**455**	**330**

The implementation of HP Open View is planned to be completed in 2009.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Licences

As at 31 December 2008 Company held licenses for the following activities:

- Local and Intrazone communication services;
- Local services using coin services and collective access facilities;
- Mobile services (GSM-900, GSM-1800, NMT-450,AMPS/D-AMPS standards);
- Rent of real circuit, channels, transmissions, and broadcast channels;
- Telematic communications services;
- Data transfer services;
- Communication services for the purposes of cable television.

Amortisation of intangible assets

Amortisation charge for 2008 in the amount of 387 (2007 - 117) was recorded in line “Depreciation and amortization” of the consolidated income statement.

9 Other non-current assets

As at 31 December 2008 and 2007 other non–current assets are as follows

	2008	**2007**
Long-term advances given for CIP additions	199	191
Long-term advances given for software products	191	157
Allowance for impairment of long-term advances given	(10)	(10)
Total	**380**	**338**

10 Investments in equity accounted investees

		2008		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
OJSC “Telecommunication Company Rinfotels”	Communication services	26	26	1
Total				**1**

		2007		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares,%**	**Carrying value**
OJSC “Telecommunication Company Rinfotels”	Communication services	26	26	1
Total				**1**

The above entity is Russian legal entity established pursuant to the legislation of Russian Federation and have the same reporting date as the Company.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

11 Investments

As at 31 December 2008 and 2007 the Company's investments comprised the following:

	2008	**2007**
Promissory notes	91	453
Non-current investments available-for-sale	26	23
Total non-current investments	**117**	**476**
Promissory notes	384	794
Investments held to maturity	44	15
Investments available-for-sale	-	14
Current loans given	1	4
Total current investments	**429**	**827**
Total investments	**546**	**1 303**

As at 31 December 2008, promissory notes receivable, which are classified in to "loans and receivables" category of financial assets, were issued by OJSC "RTK-Leasing". Promissory notes are stated at amortised cost using effective interest of 12.61%-16.78%.

As at 31 December 2008 and 2007, short-term financial investments available-for-sale comprised deposits with an original maturity of over three months to 1 year:

Company	**Date of agreement**	**Expiration date**	**Interest rate ,%**	**2008**	**207**
OJSC "Sberbank RF"	June 2008	December 2009	8,3%	20	-
OJSC AKB "Svyaz Bank"	October 2006	July 2009	5,5%	15	15
CJSC KB "LOCO-Bank"	June 2008	June 2009	11%	9	-
Total short-term investments				**44**	**15**

Financial investments available-for-sale as at 31 December 2008 and 2007 are listed below:

	2008		**2007**	
Company	**Ownership interest ,%**	**Carrying value**	**Ownership interest,%**	**Carrying value**
Long–term investments				
OJSC "SvyasIntek"	18	21	18	21
CJSC "SK Kostars""	9	3	-	-
Others	0,09-9,3	2	0,09-9,3	2
Short–term investments				
CJSC "SK Kostars""	-	-	9	3
CJSC "Oscol Telecom"	-	-	12,41	8
CJSC "Teleservice"	-	-	6,6	2
OJSC "Komset"	-	-	5,17	1
Total investments		**26**		**37**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

12 Inventories

Inventories as at 31 December 2008 and 2007 comprised the following:

	2008	**2007**
Cable	117	98
Spare parts	63	54
Implements	58	42
Raw materials and consumables	51	86
Telecom utilities	34	15
Payment cards	26	36
Building materials	1	21
Other inventories	135	177
Total	**485**	**529**

13 Trade and Other Receivables

Receivables as at 31 December 2008 and 2007 comprised the following:

	Gross as at 31 December 2008	**Allowance for impairment of receivables**	**Net as at 31 December 2008**
Receivables from customers for core activity	3 298	(571)	2 727
Receivable from universal service fund	638	-	638
Receivables from customers for non-core activity	252	(67)	185
Receivables from agents and commissioners	17	-	17
Settlements with personnel	5	-	5
Other receivables	456	(102)	354
Total	**4 666**	**(740)**	**3 926**

	Gross as at 31 December 2007 (restated)	**Allowance for impairment of receivables**	**Net as at 31 December 2007**
Receivables from customers for core activity	3 037	(494)	2 543
Receivables from customers for non-core activity	170	(43)	127
Receivables from agents and commissioners	10	-	10
Settlements with personnel	5	-	5
Other receivables	230	(76)	154
Total	**3 452**	**(613)**	**2 839**

Receivables for customers for core activity as at 31 December 2008 and 2007 comprised the following:

	Gross as at 31 December 2008	**Allowance for impairment of receivables**	**Net as at 31 December 2008**
Receivables from individuals	1 471	(180)	1 291
Receivables from commercial organizations	621	(115)	506
Receivables from budget organizations	269	(48)	221
Receivables from interconnect operators	907	(198)	709
Tariff compensation from the state budget	30	(30)	-
Total	**3 298**	**(571)**	**2 727**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

	Gross as at 31 December 2007	Allowance for impairment of receivables	Net as at 31 December 2007
Receivables from individuals	1 219	(122)	1 097
Receivables from commercial organizations	434	(67)	367
Receivables from budget organizations	152	(10)	142
Receivables from interconnect operators	1 070	(133)	937
Tariff compensation from the state budget	162	(162)	-
Total	**3 037**	**(494)**	**2 543**

The Company issues Rouble denominated invoices to government and commercial organizations for communications services on a monthly basis. The Company sends invoices for services to individuals on a monthly basis and substantially relies on the individuals' timely payment of services as per invoices. All customer payments are based upon tariffs, denominated in Roubles and effective upon service provision.

The following table summarizes the changes in the allowance for impairment of receivables:

	2008	2007
Balance at January, 1	**(613)**	**(1 082)**
Accrual of allowance	(215)	-
Reversal of allowance	-	379
Write-off of receivables	88	90
Balance at 31 December	**(740)**	**(613)**

14 Other Current Assets

As at 31 December 2008 and 2007 other current assets comprised the following:

	Gross 2008	Allowance for impairment	Net 2008
Advances given	235	(7)	228
VAT receivable	125	-	125
Prepayment of other taxes	138	-	138
Deferred expenses	34	-	34
Other current assets	29	-	29
Total	**561**	**(7)**	**554**

	Gross 2007	Allowance for impairment	Net 2007
Advances given	274	(4)	270
VAT receivable	378	-	378
Prepayment of other taxes	26	-	26
Deferred expenses	35	-	35
Other current assets	34	-	34
Total	**747**	**(4)**	**743**

The information on changes of allowance for impairment of other current assets is presented in the table below.

	2008	2007
As at 1 January	**(4)**	**(4)**
Increase during the period	(7)	-
Impairment loss	4	-
As at 31 December	**(7)**	**(4)**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

15 Cash and Cash Equivalents

As at 31 December 2008 and 2007 cash and cash equivalents comprised the following:

	2008	2007
Cash on hand and at bank	563	569
Short-term deposits up to 3 months	7	-
Total	**570**	**569**

The interest rate on short-term deposits with a maturity of up to three months varies from 9,50% to 11%.

16 Significant non-cash transactions

Included in revenues are non-cash transactions amounting to 2 857 (2007: 14), of which 2 836 relates to Rostelecom. These transactions represent mainly mutual offset of the balances with the same customer or supplier incurred in the course of normal operating activity.

Non-cash transactions above have been excluded from the consolidated statement of cash flows.

17 Share Capital

As at 31 December 2008 the par value and carrying value of the issued and fully paid ordinary and preference shares were as follows:

	Number of shares authorised (thousands)	Treasury shares	Number of shares on issue (thousands)	Total par value	Carrying value	Treasury shares	Carrying value
As at 31 December 2006	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**
Preference, class A	525 993	-	525 993	1 578	1 725	-	1 725
Ordinary	1 578 007	(240)	1 577 767	4 733	5 175	(1)	5 174
As at 31 December 2007	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**
Preference, class A	525 993	-	525 993	1 578	1 725	-	1 725
Ordinary	1 578 007	(240)	1 577 767	4 733	5 175	(1)	5 174
As at 31 December 2008	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**

Nominal value of ordinary and preference share is 3 RUR/share. All authorised shares have been issued and fully paid.

The difference between the par value and the carrying amount of shares represents the effect of inflation in the periods prior to 1 January 2003.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

The Company's shareholding structure as at 31 December 2008 was as follows:

	Share capital	Ordinary shares		Preference shares	
	%	Number (thousands)	%	Number (thousands)	%
Total legal entities	**92,69**	**1 493 346 110**	**94,63**	**456 865 111**	**86,86**
OJSC "Svyazinvest"	38,02	799 867 813	50,69	-	-
-subsidiaries and associated companies, incl.:	0,01	239 766	0,02	-	-
- CJSC "Operatorsky Center"	0,01	239 766	0,02	-	-
-shareholders holding more than 5% of charter capital, incl	52,87	662 401 885	41,98	449 990 800	85,55
- CJSC "Deposit-Liring company" (nominee shareholder)	11,98	142 684 706	9,04	109 352 782	20,79
- CJSC "UBS Nominees" (nominee shareholder)	7,65	61 950 858	3,93	99 003 245	18,82
- CJSC commercial bank company "Citybank" (nominee shareholder)	7,71	38 673 286	2,45	123 647 277	23.51
- CJSC "ING bank (Evrasia)" (nominee shareholder)	11,38	178 086 614	11,29	61 408 098	11,67
- Non-commercial Partnership "National Depositary center"	14,14	241 006 421	15,27	56 579 398	10,76
Other legal entities	1,79	30 836 646	1,95	6 874 311	1,31
Individuals, inc.:	**7,31**	**84 660 723**	**5,37**	**69 127 711**	**13,14**
- employees	1,89	19 911 018	1,26	19 952 105	3,79
- others	5,41	64 749 705	4,10	49 175 606	9,35
Total	**100**	**1 578 006 833**	**100**	**525 992 822**	**100**

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders.

The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated from 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preference shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. If annual dividend paid by the Company on each ordinary share in any year exceed the amount of dividend on each preference share of class A, then preference dividend is to be increased to the level of ordinary share dividend. Thus, the owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (refer Note 33).

In case of liquidation, the Company's assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares, are distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Distributable earnings of the Company are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2008 and 2007 amounted 15 289 and 13 810, respectively.

In accordance with the Company's Dividend policy, dividends may only be declared to the shareholders of the Company from net income as shown in the Company's Russian statutory financial statements. The Company reported net income of 2 585 and 3 635 in its statutory financial statements in 2008 and 2007, respectively.

In August 2001, the Company placed Level I American Depositary Receipts (ADRs). In August 2008 each depository receipt equals to 25 ordinary shares of the Company (before that date: 100).

As at 31 December 2008, the Company registered an issue of 843 848 ADRs (31 December 2007 – 454 600) and deposited 21 096 200 of ordinary shares (31 December 2007 – 45 460 000), which is 1,34% (2007 – 2,88%) of total issued ordinary shares.

The following table represents ADR registration for 2007-2008:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
31 December 2006	**420 989**	**42 098 900**	**2,67**	**2,00**
Additions	33 611	3 361 100		
31 December 2007	**454 600**	**45 460 000**	**2,88**	**2,16**
Change in conversion rate	1 363 800	-		
Disposals	(974 552)	(24 363 800)		
31 December 2008	**843 848**	**21 096 200**	**1,34**	**1,00**

Currently ADR's are traded on the following stock markets:

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

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

18 Loans and Borrowings

As at 31 December 2008 and 2007 borrowings comprised the following:

	2008	2007
Long–term loans and borrowings		
Bank loans	7 765	4 473
Bonds	5 645	8 495
Promissory notes	3 076	3 778
Vendor financing	32	27
Lease liability	6 454	3 624
Accrued interest	498	428
Loans from individuals	78	71
Less: Current portion of long–term borrowings	(10 790)	(5 775)
Total long–term loans and borrowings	**12 758**	**15 121**
Short–term loans and borrowings		
Accrued interest	787	571
Current portion of long–term loans and borrowings	10 790	5 775
Total short–term loans and borrowings	**11 577**	**6 346**
Total loans and borrowings	**24 335**	**21 467**

Long-term loans and borrowings

Bank loans

The table bellow summarizes the information about the most significant bank loans as at 31 December 2008 and 2007.

Counteragent	Interest rate per loan agreement	2008	2007	Currency, per the loan agreement	Date of maturity	Security
Deutsche Bank AG	8,34%	3 294	2 752	US Dollars	31/10/2010	Unsecured
OJSC Sberbank RF	7,9%- 9,5%	1 757	1 424	Rouble	19/04/2009	Unsecured
Bank Societe Generale Vostok (BSGV)	2,75%+Libor, 2,95%+ Libor	1 229	-	US Dollars	08/08/2011	Unsecured
OJSC ORGRESBANK AB	3,2%+ Libor	1 221	-	US Dollars	08/08/2011	Unsecured
Vnesheconombank	2%	264	297	Euro	01/01/2012	Pledge of assets

Deutsche Bank AG

In October 2006 the Company raised a long-term US Dollar-denominated loan of USD 115 000 000 originated by Deutsche Bank AG (initial lender). After provision of the loan the originator issued credit notes linked to the loan. The loan matures in 2010. As of December 31, 2008, the outstanding amount was 3 294. Accrued interest is payable on the last day of the period of interest which is 3 months.

OJSC Sberbank RF

In April 2007, the Company entered into a loan agreement with OJSC Sberbank RF for a revolving credit line with a debt limit of 3 000. The loan matures on 19 April 2009. The Company pays the bank interest at 7,9% p.a. for using the loan. As of 31 December 2008, the outstanding amount was 1 710.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Bank Societe Generale Vostok (BSGV)

In August 2008, the Company entered into two loan agreements with the Bank Societe Generale Vostok (BSGV) for USD 21 000 000 each and the repayment date of 8 August 2011. As of 31 December, 2008, the outstanding amount on these loan agreements was 1 229.

OJSC ORGRESBANK AB

In August 2008, the Company entered into two loan agreements with OJSC ORGRESBANK AB for USD 42 000 000. The repayment date is 8 August 2011. As of 31 December, 2008, the outstanding amount of these loan agreements was 1 221.

Vnesheconombank

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of Russian Federation. The respective loans were denominated in Euro.

In December 2006 at the stage of legal proceedings the Company signed an amicable agreement with Ministry of Finance on 12 March 2007. The amicable agreement came into force on 27 December 2006 and stipulates a restructuring of the Company’s liability: penalty interest accrued for untimely payments in the amount of Euro 5 068 170 is forgiven and the principal amount will be paid in equal annual instalments till 1 January 2012. Interest on the restructured loan is payable at 2% per annum.

As at 31 December 2008, the outstanding liability was accounted for at amortised cost using the effective interest rate of 7.9%, and amounted to 264, including short-term part of 83.

In March 2007, the Company pledged plant ad equipment in the amount of 447 as collateral under this amicable agreement.

Bonds

The table below summarizes the information about the bonds issued as at 31 December 2008 and 2007:

Narrative of the issue	2008	2007	Effective rate	Date of maturity	Interest on coupon
Bond issue 04	5 519	5 519	14,80%	21/08/2009	13,8%
Bond issue 05	126	2 976	9,52%	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	9,3%

During the period 17 to 30 August 2004, the Company registered an issue of bearer interest bonds, series 04, in amount of 5 622 595 with a par value of 1 000 Roubles each. The bonds provide semi-annual coupons. The coupons bear interest at the rate of 13,80% per annum.

The bonds mature on 21 August 2009. These payables are classified as the current portion of long-term payables.

In February 2008, the Company met in full its obligation to pay coupon yield on the 7th coupon of the bonds issue 04. The total coupon yield was 389. The coupon yield per bond was 69.19 Roubles.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

In August 2008, the Company met in full its obligation to pay coupon yield on the 8th coupon of the bonds issue 04. The total coupon yield was 389. The coupon yield per bond was 69.19 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

In June 2006, the Company registered an issue of bearer interest bonds, series 05, with a par value of 1 000 Roubles each. The bonds have 10 coupon periods. Payments under coupons are made once in every 182 days from the date of placement. The coupon interest rate for the period before 2 September 2008 was determined as 8.9% per annum and after that date before maturity of 9,3% per annum. The date of placement is 5 September 2006. The bonds are redeemed as follows:

02.03.2010 - 10% of the par value

31.08.2010 – 20% of the par value

01.03.2011 – 30% of the par value

30.08.2011 – 40% of the par value.

Proceeds from the bonds issue were used to refinance the Company’s debt.

The bonds issued provide a put option to the bondholders exercisable at specified date. The first put option date was 4 September 2008. Respectively, the outstanding amount of 2 976 was classified as current portion of long-term debt as at 31 December 2007.

In September 2008, it was another put option exercisable on the bonds issue 05 in the amount of 3 000. As a result, the Company has got a claim for redemption of bonds in the amount of 2 874 and 126 in relation to non-redeemed bonds was reclassified into non-current liabilities.

In March 2008, the Company met in full its obligation to pay coupon yield on the 3d coupon of the bonds issue 05. The total coupon yield was 121. The coupon yield per bond was 40.34 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

In September 2008, the Company met in full its obligation to pay coupon yield on the 4th coupon of the bonds issue 05. The total coupon yield was 121. The coupon yield per bond was 40,34 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

Promissory notes

The table below summarize the information about the promissory notes issued by the Company as at 31 December 2008 and 2007:

Narrative	Effective interest rate	2008	2007	Currency of the promissory note	Date of maturity	Security
OJSC “Promsvyazbank”	10,17 - 11,26%	2 679	2 679	Rouble	2009-2011	Unsecured
LLC “SV Capital Finance”	10,06 - 10,56%	390	1 091	Rouble	2009-2011	Unsecured

OJSC “Promsvyazbank

In September 2006, the Company entered into a promissory notes issue agreement with OJSC “Promsvyazbank” to finance its working capital. The promissory notes mature in 2009-2011 and bear effective interest of 10,17-11,26%. The outstanding amount of the promissory notes as of 31 December 2008 was 2 679, including short-term portion of 923. The accrued interest as of

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

31 December 2008 amounted to 711, out of which 479 was reported in non-current borrowings and 232 - in current.

LLC "SV Capital Finance"

On 18 December 2006 the Company entered into a promissory notes agreement with LLC "SV Capital Finance". The outstanding amount of the promissory notes as of December 31, 2008 is comprised of current liability of 323 and non-current liability of 67. The accrued interest as of 31 December 2008 in the amount of 70 is included in current loans and borrowings and in the amount of 15 – in non-current. Promissory notes mature in 2009-2011 and bear effective interest of 10,06-10,56%.

Finance Lease Obligations

	31.12.2008		**31.12.2007**	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion (less than 1 year)	3 143	2 168	2 193	1 697
More than 1 to 5 years	5 441	4 286	2 357	1 927
Total minimum lease payments	**8 584**	**6 454**	**4 550**	**3 624**
Less financial expenses	**(2 130)**	**-**	(926)	-
Discounted value of minimum lease payments	**6 454**	**6 454**	**3 624**	**3 624**

In 2008 and 2007, the Company's primary lessors were OJSC "RTC-Leasing", CJSC "Petroleasing-Management" and OJSC "VTB-leasing". In 2008, the effective interest rate on lease liabilities ranged from 13,61% to 30,41% per annum (2007: 13,61% to 33,73% per annum).

The finance lease assets under finance lease agreements with OJSC "RTC-Leasing" mainly comprise commutators, paystations and other telecommunication services.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

19 Employee Benefits

According to the collective agreement the Company contributes to post-employment pension plans and also provides additional benefits for its active and retired employees.

Defined Benefit Pension Plans

The majority of the employees are eligible for defined benefit schemes. The defined benefit pension plans cover most of employees and provide old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men subject to a condition for minimum service period of 15 years for average employees and 4 years for executives is met. The amount of retirement benefit depends only on an employee's position upon retirement.

The non-government pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 37).

The Company also provides other long-term employee benefits such as a lump-sum payment upon retirement, jubilee payment, death-in-service payments and other support payments of a defined benefit nature to former employees.

As at 31 December 2008 the number of employees was 31 517 (inc. 8 067 of participants of defined benefit pension plans) and 14 982 of former employees eligible to the post-employment and post-retirement benefits, (as at 31 December 2007 – 46 637, 12 001 and 14 938 respectively).

As at 31 December 2008 and 2007 the net liabilities of defined benefit pension and other post-employment benefit plans comprised the following:

	2008	**2007**
Present value of fully unfunded obligations on defined benefit plans	(2 290)	(2 884)
Fair value of plan assets	-	-
Present value of unfunded obligations	**(2 290)**	**(2 884)**
Unrecognized past service cost	89	229
Unrecognized actuarial losses	(28)	14
Net pension benefits	**(2 229)**	**(2 641)**

As at 31 December 2008 management estimated employees' average remaining working lives at 7 years (2007 - 7 years).

The amount of the net expense for the defined benefit pension and other post-employment benefit plans recognized in 2008 and 2007 is as follows:

	2008	**2007**
Current service cost	(126)	(139)
Interest cost	(183)	(186)
Expected return on plan assets	-	2
Net actuarial gains recognised in year	13	75
Past service cost - guaranteed part	(1)	1
Amortization of past service cost - non-guaranteed part	(128)	(127)
Curtailment effect	363	0
Final settlement effect	5	(1)
Net expense for the defined benefit plans	**(57)**	**(375)**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

The amount of net expense for the defined benefit pension and other post-employment benefit plans, excluding interest expenses, is included in the consolidated income statement in the line “Personnel costs”.

The amount of interest cost is recognised in “Interest expenses” line of the consolidated income statement.

The movements in the net liability for defined benefit pension and other post-employment benefit plans in 2008 and 2007 are as follows:

	2008	**2007**
Employee benefit obligation as at 1 January 2008	(2 884)	(2 677)
Current service cost	(126)	(139)
Interest cost	(183)	(186)
Past service cost	(1)	(3)
Benefits paid	61	62
Discharge	370	-
Liabilities extinguished on settlements	409	251
Actuarial gains/(losses)	64	(192)
Employee benefit obligation as at 31 December 2008	**(2 290)**	**(2 884)**

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2008 and 2007 were as follows:

	2008	**2007**
Present value of plan assets as at 1 January	-	51
Expected return on plan assets	-	2
Employer contribution	471	262
Benefits paid	(61)	(62)
Assets distributed on settlement	(410)	(251)
Actuarial loss	-	(2)
Present value of plan assets as at 31 December	**-**	**-**

The Company plans to contribute to 327 to its non-government pension fund in 2009.

As at 31 December 2008 and 2007 the principle actuarial assumptions of defined benefit pension and other post-employment benefit plans were as follows:

	2008	**2007**
Discount rate	9%	6,6%
Future salary increase	10,24%	9,2%
Rate used for calculation of annuity value	4%	6%
Increase in financial support benefits	6%	5%
Staff turnover	9% till 50 years 0% after 50 years	9% till 50 years 0% after 50 years
Mortality tables (source of information)	USSR 1985/1986	USSR 1985/1986

Amounts for the current and previous four periods are as follows:

	2008	**2007**	**2006**	**2005**	**2004**
Defined benefit obligation	(2 290)	(2 884)	(2 677)	(3 022)	(2 895)
Plan assets	-	-	51	229	(420)
(Deficit)/surplus	(2 290)	(2 884)	(2 626)	(2 793)	(3 315)

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Experience adjustments on plan liabilities	(149)	(207)	398	(113)	608
Experience adjustments on plan assets	-	(2)	7	(18)	7

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and what has actual occurred.

Experience adjustments on plan liabilities in the year 2008 and prior periods were caused primarily by non-recurring considerable excess of actual number of dismissed employees, as well as of the change in the amount of benefits set out in the term of the plan, over initially projected changes in respective parameters for the long-term perspective.

20 Other non-current liabilities

	2008	**2007**
Deferred income	346	362
Long-term accounts payable and other liabilities	5	13
Total	**351**	375

21 Provisions

	Personnel dismissal	**Provision for legal claims**	**Tax provision**	**Other provisions**	**Total**
Balance at 31 December 2006	**35**	**-**	**12**	**7**	**54**
Accrued	324	-	-	**-**	**324**
Utilized	(35)	-	(12)	-	**(47)**
Reversed	-	-	-	(7)	**(7)**
Balance at 31 December 2007	**324**	**-**	**-**	**-**	**324**
Accrued	132	34	-	**-**	**166**
Reversed	(324)	-	-	**-**	**(324)**
Balance at 31 December 2008	**132**	**34**	**-**	**-**	**166**

Personnel dismissal

To increase the efficiency of business processes the Company adopted a Program of staff optimisation approved by the Board of Directors (Protocol of 27 March 2008 # 17). The program is aimed at modification of organisation structure, redistribution of functions and transfer of some functions to outsourcing.

The Company has made a provision for termination payments to the employees who are committed to be made redundant in 2009. The expense of creating the provision is included in the line “Personnel costs” of the consolidated income statement.

Provision for Legal Claims

The provision for legal claims recognized in the financial statements represents a provision with respect to a claim prosecuted against the Company. The amount of the provision as at 31 December 2008 is expected to be fully utilized in 2009. Management of the Company believes that the amount of a final settlement related to litigation will not exceed the amount of the provision as at 31 December 2008.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

22 Accounts Payable and accrued expenses

As at 31 December 2008 and 2007, the Company's accounts payable and accrued expenses comprised the following:

	2008	2007
Accounts payable to suppliers of fixed assets	2 118	1 113
Accounts payable to suppliers of intangible assets	263	309
Accounts payable to interconnected operators	228	383
Trade accounts payable	711	651
Other taxes payable and social insurance	761	291
Salaries and wages payable	587	724
Payables to OJSC "Rostelecom"	543	521
Universal service fund liability	88	87
Agent fees	82	43
Other accounts payable	23	361
Total	**5 404**	**4 483**

Other accounts payable as of 31 December 2007 include outstanding settlements with non-commercial partnership "NP CIPRT" in the amount of 306. The liability was fully settled in 2008.

As at 31 December 2008 and 2007 taxes payable comprised the following:

	2008	2007
Value-added tax	521	87
Property tax	185	171
Unified social tax	33	11
Other taxes	22	22
Total	**761**	**291**

23 Other current liabilities

	2008	2007
Advances received from core activity	756	514
Advances received from non-core activity	20	40
Total	**776**	**554**

24 Contingencies and Operating Risks

Operating environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

Management believes that as of 31 December 2008, it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Insurance

Insurance services are still developing in Russia and many services, available in other countries, are not yet widespread in the Russian Federation. During 2008 and 2007 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses or third party liability in respect of property or environmental damage arising from accidents relating to the Company’s property or the Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

Legal Proceedings

During the year the Company participated (both as plaintiff and defendant) in a number of legal proceedings that arose in the course of ordinary business activity. In the Company management’s opinion, at present there are no current legal proceedings or suits that might have a significant impact on the Company’s performance or financial position and that were not recognized or disclosed in these consolidated financial statements.

Licenses

The majority of the Company’s revenues were received from business transactions conducted on the basis of licenses issued by the Russian Federation Ministry for Telecommunications and Information Technologies. Key operations licenses and additional licenses expire during the period from 2009 to 2012. Suspension of the Company’s key licenses for the provision of telecommunications services or inability to extend some or all licenses may have a major negative impact on the financial position and business performance.

The Group regularly extended validity of licenses and the Company’s management believes that in the future the licenses held will be extended without additional expenses in the course of ordinary business.

Reduction of staff headcount

The program of staff optimisation provides for a gradual staff headcount decrease in 2008-2011. During 2008, the Company has made redundant 10 559 of its employees. During 2009, the Company plans to further decrease its headcount by 3 787. The provision was created for respective termination payments (refer Note 21).

25 Financial Instruments

The Company’s principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Company’s operations. Short term deposits are also actively used as a financial

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instrument to place available funds. The Company has other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations.

Capital Management Policy

The Company's capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing the cost of capital.

The main methods of capital management are profit maximisation, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, usage of different classes of borrowed funds.

The Company performs capital management using financial independence ratio and net debt/equity, net debt/EBITDA ratios.

The financial independence ratio is calculated as shareholders' equity to the balance sheet total at the end of the period. Net debt/shareholders' equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/ EBITDA, is calculated as net debt at the year-end to EBITDA for the previous period. The rations used in capital management are determined using statutory accounting information.

The Company's policy is to maintain financial independence ratio within a range of 0,3-0,6; net debt/shareholders' equity - within a range of 1,5-0,5; net debt/ EBITDA - within a range of 2,5-0,9.

The ratios determined based on statutory financial statements for 2008 and 2007 were as follows:

	2008	**2007**
Financial independence ratio	0,45	0,43
Net debt / shareholders' equity	0,82	0,97
Net debt / EBITDA	1,43	1,36

During 2008, international rating agency Standard&Poor's confirmed long-term credit rating of the Company as "B+", at the same time revised projection from "Positive" to "Stable" and also confirmed corporate credit rating based on national scale at "ruA+".

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Income and expenses on financial instruments

2008	**Consolidated Income Statement**								**Total**
	Other operating expenses	**Interest expenses**	Other financial income and expenses						
	Bad Debt expenses	**Interest expense**	**Interest income**	**Dividends income**	**Gainon disposal of the asset**	**Impairment loss**	**Forex loss/gain**	**Other**	
Cash and cash equivalents	-	-	29	-	-	-	-	-	29
Accounts receivable	(215)	-	-	-	-	-	-	-	(215)
Financial assets available-for-sale	-	-	-	3	14	(1)	-	(3)	13
Promissory notes	-	-	106	-	-	(51)	-	-	55
Loans issued	-	-	2	-	-	-	-	-	2
Total financial assets	**(215)**	**-**	**137**	**3**	**14**	**(52)**	**-**	**(3)**	**(116)**
		-							
Bank loans	-	(406)	-	-	-	-	(960)	3	(1 363)
Bonds	-	(897)	-	-	-	-	-	-	(897)
Promissory notes issued	-	(281)	-	-	-	-	-	-	(281)
Vendor financing	-	-	-	-	-	-	(13)	-	(13)
Finance lease	-	(912)	-	-	-	-	-	-	(912)
Interest payable	-	-	-	-	-	-	(38)	-	(38)
Other financial liabilities	-	(1)	-	-	-	-	-	-	(1)
Accounts payable	-	-	-	-	-	-	5	-	5
Total financial liabilities	-	**(2 497)**	-	-	-	-	**(1 006)**	**3**	**(3 500)**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

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2007	Consolidated Income Statement								Total
	Other operating expenses	Interest expenses	Other financial income and expenses						
	Recovery of Bad Debt expenses	Interest expense	Interest income	Dividends income	Gain / (loss) on disposal of the asset	Impairment loss / reversal	Forex gain / loss	Other	
Cash and cash equivalents	-	-	18	-	-	-	-	-	18
Accounts receivable	379	-	-	-	-	-	-	-	379
Financial assets available-for-sale	-	-	-	3	-	-	-	-	3
Promissory notes	-	-	185	-	-	-	-	-	185
Loans issued	-	-	2	-	-	-	-	-	2
Total financial assets	**379**	**-**	**205**	**3**	**-**	**-**	**-**	**-**	**587**
		-							
Bank loans	-	(349)	-	-	-	-	191	(5)	(163)
Bonds	-	(957)	-	-	-	-	-	-	(957)
Promissory notes issued	-	(396)	-	-	-	-	-	-	(396)
Vendor financing	-	(1)	-	-	-	-	(3)	-	(4)
Finance lease	-	(473)	-	-	-	-	-	-	(473)
Interest payable	-	-	-	-	-	-	2	-	2
Other financial liabilities	-	(1)	-	-	-	-	-	-	(1)
Accounts payable	-	-	-	-	-	-	9	-	9
Total financial liabilities	**-**	**(2 177)**	**-**	**-**	**-**	**-**	**199**	**(5)**	**(1 983)**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

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Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the Company's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Company's income statement, balance sheet and/or statement of cash flows. The Company is exposed to foreign exchange risk in relation to its liabilities denominated in foreign currencies.

Financial assets and liabilities of the Company by currency:

As at 31 December 2008	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	570	-	-	570
Accounts receivable	3 853	73	-	3 926
Financial assets available-for-sale	23	-	-	23
Promissory notes	512	-	-	512
Loans issued	8	-	-	8
Other financial assets	3	-	-	3
Total financial assets	**4 969**	**73**	**-**	**5 042**
Bank loans	1 757	5 744	264	7 765
Bonds	5 645	-	-	5 645
Promissory notes issued	3 076	-	-	3 076
Vendor financing	-	32	-	32
Finance lease	6 454	-	-	6 454
Interest payable	1 183	102	-	1 285
Other financial liabilities	78	-	-	78
Accounts payable	4 626	1	16	4 643
Total financial liabilities	**22 819**	**5 879**	**280**	**28 978**

As at 31 December 2007	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	569	-	-	569
Accounts receivable	2 764	74	1	2 839
Financial assets available-for-sale	37	-	-	37
Promissory notes	1 253	-	-	1 253
Loans issued	13	-	-	13
Total financial assets	**4 636**	**74**	**1**	**4 711**
Bank loans	1 424	2 752	297	4 473
Bonds	8 495	-	-	8 495
Promissory notes issued	3 778	-	-	3 778
Vendor financing	-	27	-	27
Finance lease	3 616	8	-	3 624
Interest payable	940	59	-	999
Other financial liabilities	71	-	-	71
Accounts payable	4 176	2	14	4 192
Total financial liabilities	**22 500**	**2 848**	**311**	**25 659**

For the period from 1 January 2008 through 31 December 2008 the Rouble to the US Dollar decreased by approximately 19,69% and also decreased by approximately 15,33% in relation to the Euro.

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(in millions of Russian Roubles)

The sensitivity analysis of profit before tax to foreign exchange risk is shown in the table below:

	USD			EUR		
	Changes in exchange rate, %	**Effect on profit before income tax**	**%**	**Changes in exchange rate, %**	**Effect on profit before income tax**	**%**
2008	+10	(581)	-10,54	+5	(14)	-0,22
	-10	581	10,54	-5	14	0,22
2007	+10	(276)	-5	+5	(15)	-0,24
	-10	276	5	-5	15	0,24

Interest Rate Risk

The interest rate risk is a risk that changes in interest rates on financial instruments used by the Company will influence the financial performance and cash flows of the Group.

The following table presents the Company's financial instruments that are exposed to interest rate risk as of 31 December 2008 and 2007:

As at 31 December 2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	563	-	7	570
Accounts receivable	-	-	3 926	3 926
Financial assets available-for-sale	-	-	23	23
Promissory notes	512	-	-	512
Loans issued	8	-	-	8
Other financial assets	-	-	3	3
Total financial assets	**1 083**	**-**	**3 959**	**5 042**
Bank loans	5 314	2 451	-	7 765
Bonds	5 645	-	-	5 645
Promissory notes issued	3 076	-	-	3 076
Vendor financing	32	-	-	32
Finance lease	6 454	-	-	6 454
Interest payable	-		1 285	1 285
Other financial liabilities	78	-	-	78
Accounts payable	-	-	4 643	4 643
Total financial liabilities	**20 599**	**2 451**	**5 928**	**28 978**

As at 31 December 2007	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	560	-	9	569
Accounts receivable	-	-	2 839	2 839
Financial assets available-for-sale	-	-	37	37
Promissory notes	1 253	-	-	1 253
Loans issued	13	-	-	13
Total financial assets	**1 826**	**-**	**2 885**	**4 711**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

As at 31 December 2007	Fixed rate	Variable rate	No rate	Total
Bank loans	4 473	-	-	4 473
Bonds	8 495	-	-	8 495
Promissory notes issued	3 778	-	-	3 778
Vendor financing	27	-	-	27
Finance lease	3 624	-	-	3 624
Interest payable	-		999	999
Other financial liabilities	71	-	-	71
Accounts payable	-	-	4 192	4 192
Total financial liabilities	**20 468**	**-**	**5 191**	**25 659**

The sensitivity analysis of profit and equity to the interest rate risk is shown in the table below:

	LIBOR		
	Changes in exchange rate, basis points	**Effect on profit before income tax**	**%**
2008	+100	(25)	-0,45
	-100	25	0,45
2007	+100	-	-
	-100	-	-

Liquidity risk

The Company monitors its risk of a shortfall of funds using a recurring liquidity planning tool. This tool considers the maturity of financial liabilities and financial assets as well as projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

As of 31 December 2008 financial assets and liabilities had the following maturities:

	2009	2010	2011	2012	2013 and later	Total
Cash and cash equivalents	570	-	-	-	-	570
Accounts receivable	3 926	-	-	-	-	3 926
Financial assets available-for-sale	-	-	-	-	23	23
Promissory notes	453	95	2	-	-	550
Loans issued	1	1	1	1	4	8
Other financial assets	-	3	-	-	-	3
Total financial assets	**4 950**	**99**	**3**	**1**	**27**	**5 080**
Bank loans	1 840	3 382	2 543	-	-	7 765
Bonds	5 519	38	88	-	-	5 645
Promissory notes issued	1 245	1 227	596	-	8	3 076
Vendor financing	-	32	-	-	-	32
Finance lease	3 143	2 499	1 525	1 176	241	8 584
Interest payable	1 596	941	476	-	5	3 018
Other financial liabilities	15	8	19	12	24	78
Accounts payable	4 643	-	-	-	-	4 643
Total financial liabilities	**18 001**	**8 127**	**5 247**	**1 188**	**278**	**32 841**

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The cash flows in the above table include interest expenses accrued at the year end as well as interest expenses to be accrued in future on existing debt portfolio.

Credit Risk

Credit risk is the risk that counter-party will fail to settle its obligation and cause the Company to incur a financial loss.

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 13).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by state and other non-commercial organizations.

The analysis of trade receivables aged but not impaired is provided below:

As of 31 December 2008		**Post due (days)**			
	Total	**<30**	**31-90**	**61-90**	**91-180**
Corporate customers	87	53	21	9	4
Individuals	143	96	28	12	7
Governmental customers	62	33	15	7	7
Interconnected operators	137	69	35	33	-
Total	**429**	**251**	**99**	**61**	**18**

As of 31 December 2007		**Post due (days)**			
	Total	**<30**	**31-90**	**61-90**	**91-180**
Corporate customers	50	34	10	4	2
Individuals	100	79	13	5	3
Governmental customers	25	18	4	2	1
Interconnected operators	48	37	6	5	-
Total	**223**	**168**	**33**	**16**	**6**

Hedging

In the years 2008 and 2007 the Company did not hedge its foreign exchange risks or interest rate change risks.

Fair-value of financial instruments

Financial assets, used by the Company relate to one of the following categories:

a) Investments held to maturity;

b) Financial assets available-for-sale;

c) Financial assets at fair value;

d) Loans and receivables;

e) Liabilities shown at amortised costs.

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The table below summarises the information on fair values of the Company's financial assets and liabilities as at 31 December:

		2008		2007	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	D	570	570	569	569
Accounts receivable	D	3 926	3 926	2 839	2 839
Financial assets available-for-sale	B	23	23	37	37
Promissory notes	D	512	512	1 253	1 253
Loans issued	D	8	8	13	13
Other financial assets	B	3	3	-	-
Total financial assets		**5 042**	**5 042**	**4 711**	**4 711**
Bank loans	E	7 765	7 765	4 473	4 473
Bonds	E	5 645	5 698	8 495	10 653
Promissory notes issued	E	3 076	3 076	3 778	3 778
Vendor financing	E	32	32	27	27
Finance lease	E	6 454	6 454	3 624	3 624
Interest payable	E	1 285	1 285	999	999
Other financial liabilities	E	78	78	71	71
Accounts payable	E	4 643	4 643	4 192	4 192
Total financial liabilities		**28 978**	**29 031**	**25 659**	**27 817**

26 Revenues

By revenue type	**2008**	**2007**
Local telephone services	15 676	15 393
Intra-zone telephone services	5 953	5 665
Data transmission, telematic services (Internet)	4 885	3 398
Interconnection services	3 969	4 745
Fees on assistance services and agency fees	1 123	1 223
Radio and TV broadcasting	710	710
Installation and access services	569	751
Channel rent services	379	309
Cellular services	291	278
Telegraph services	230	252
Other telecommunication services	120	67
Other revenues	889	666
Incl. rent of property, plant and equipment	*567*	*299*
Total	**34 794**	**33 457**

The Company generates revenue by the following major customer groups:

Customer groups	**2008**	**2007**
Individuals	18 536	17 661
Corporate customers	8 313	7 263
Governmental customers	2 907	2 565
Operators	5 038	5 968
Total	**34 794**	**33 457**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

27 Personnel costs

	2008	2007
Salary expenses	6 984	7 919
Unified social tax	1 725	1 945
Employee benefits	(115)	199
Staff redundancy expenses	177	418
Other personnel costs	339	340
Total	**9 110**	**10 821**

Other personnel costs are mainly represented by voluntary medical and other insurance of employees and payments under collective agreement and labour contracts.

28 Materials, repairs and maintenance, utilities

	2008	2007
Materials	808	1 055
Repairs and maintenance	1 202	821
Utilities	877	787
Total	**2 887**	**2 663**

29 Other Operating Income

	2008	2007
Reimbursement of losses from universal services fund	1 559	37
Reversal of allowance for impairment of receivables	-	379
Fines, late payment interest, penalty for breach of contract	42	22
Write-off of payables	4	46
Other income	63	109
Total	**1 668**	**593**

Other income is mainly represented by Income obtained under the court decision and other.

During 2008, according to the terms of agreements concluded with the Federal Telecommunications Agency for provision of universal telecommunication services the Company received from the Universal services fund a compensation of losses incurred due to provision of universal telecommunication services in the following amounts:

- for current year services - 885 (2007 – 37),
- for previous year services - 3 (2007 – 0).

Losses from provision of universal telecommunication services during 2008 amounted to 1 559 (2007 - 37) and were confirmed by an independent audit firm.

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(in millions of Russian Roubles)

30 Other Operating Expenses

	2008	2007
Transportation services	1 044	304
Taxes, other than income tax	861	800
Agency fee	709	444
Rent of premises	685	632
Fire and other security services	406	398
Third party services and management charges	372	274
Universal service fund payments	334	319
Advertising expenses	263	151
Allowance for impairment of receivables	215	-
Non-commercial partnership "NP CPRT" contributions	149	306
Postal services	136	144
Audit and consulting fees	124	274
Credit organizations services	119	145
Maintenance of buildings and constructions	102	116
Member fees, charity contribution, payments to labour unions	95	99
Maintenance of network equipment	64	81
Civil defence costs	56	48
Education expenses	51	64
Travel allowance and representative expenses	34	39
Insurance of assets	22	80
Losses on disposal of property, plant and equipment	50	165
Impairment of Oracle	760	-
Impairment of Amdocs	206	-
Other expenses	206	315
Total	**7 063**	**5 198**

31 Interest Expenses

	2008	2007
Interest expense on loans and borrowings	1 585	1 704
Interest expense on long-term employee benefits	183	186
Interest expense on finance lease	912	473
Total	**2 680**	**2 363**

The amount of the interest capitalized was as follows:

	2008	2007
Capitalized to property, plant and equipment	181	-
Capitalized to intangible assets	73	241
Total	**254**	**241**

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(in millions of Russian Roubles)

32 Income Tax

Federal law No. 224-FZ dated 26.11.2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from 1 January 2009.

Income tax charge for the years ended 31 December 2008 and 2007 comprised the following:

	2008	2007
Current income tax expense	(1 102)	(1 455)
Deferred tax expense	(190)	(356)
Total income tax for the year	**(1 292)**	**(1 811)**
Current income tax	(1 102)	(1 580)
Adjustments of the current income tax for the previous year	-	125
Total current income tax expense for the year	(1 102)	(1 455)
Deferred tax expense related to the temporary differences	(442)	(356)
Effect of change in tax rate from 24% to 20%	252	-
Total deferred income tax expense for the year	(190)	(356)
Total income tax for the year	**(1 292)**	**(1 811)**

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2008	2007
Profit before income tax and minority interest	**5 512**	**6 146**
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	(1 323)	(1 475)
Increase/(decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	-	125
Non-deductible expenses	(221)	(461)
Change of tax rate	252	-
Total actual income tax	**(1 292)**	**(1 811)**
Effective tax rate	**23%**	**29%**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

Deferred income tax assets and liabilities as at 31 December 2008 and 2007, and their movements in 2008 and 2007 were as follows:

	31 December 2006	Origination and reversal of temporary differences	31 December 2007	Origination and reversal of temporary differences	Change of tax rate	31 December 2008
Deferred tax assets						
Accounts payable and accrued expenses	257	21	278	(45)	(39)	194
Trade and other receivables	17	(9)	8	(1)	(1)	6
Non-current finance leas liability	38	162	200	555	(126)	629
Employee benefits	370	38	408	(52)	(60)	296
Other non-current liabilities	51	(12)	39	(4)	(6)	29
Current finance lease liability	(21)	193	172	210	(64)	318
Total deferred tax assets	**712**	**393**	**1 105**	**663**	**(296)**	**1 472**
Deferred tax liability						
Property, plant and equipment	(1 054)	(648)	(1 702)	(1 267)	495	(2 474)
Intangible assets	(386)	(103)	(489)	193	49	(247)
Other	17	(10)	7	(31)	4	(20)
Total deferred tax liabilities	**(1 423)**	**(761)**	**(2 184)**	**(1 105)**	**548**	**(2 741)**
Deferred tax liabilities, net	**(711)**	**(368)**	**(1 079)**	**(442)**	**252**	**(1 269)**

The Company has not recognised a deferred tax liability in respect of investments in subsidiaries in the amount of 21 (2007 – 33), as managements believes that the Company is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

In the context of the Company's current structure, tax losses and current tax assets of the different companies cannot be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one company is not offset against a deferred tax liability of another company.

33 Earnings per Share

The Company has no financial instruments which may be converted into ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share.

	2008	2007
Profit for the year attributable to equity holders of the Parent, in thousand Roubles	4 222 369	4 335 215
Weighted average number of ordinary shares outstanding (thousands)	2 103 760	2 103 760
Basic and diluted earnings per share at the balance sheet date, in Roubles	**2,007**	**2,061**

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

34 Dividends Declared and Proposed for Distribution

In June 2008 in accordance with the decision of general meeting of shareholders, the dividends were declared in the amount of 0,3547131 Roubles per ordinary share and 0,6910119 Roubles per preference share for year ended 31 December 2007.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
Declared and approved for 2007			
Preference shares	525 992 822	0,6910119	363 467 299
Ordinary shares	1 578 006 833	0,3547131	559 739 693
Total	**2 103 999 655**		**923 206 992**

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting. Profit available for dividends is limited to profit of the Company, determined in accordance with the Russian statutory accounting principles.

35 Operating Lease

As of 31 December 2008 and 2007 minimum lease payments under non-cancellable operating leases where the Company is a lessee were allocated by years as follows:

	2008 Minimum lease payments	2007 Minimum lease payments
Current portion (less than 1 year)	473	363
From 1 to 5 years	423	194
Over 5 years	482	383
Total minimum lease payments	**1 378**	**940**

The main objects of operating lease where the Company is a lessee are premises.

The Company's operating lease expenses recorded in line "Other operating expenses" of the consolidated income statement in the amount of 685 in 2008 (2007: 622).

36 Capital Commitments

As of 31 December 2008 and 2007 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 449 and 641 respectively.

As of 31 December 2008 and 2007 the Company's contractual obligations on acquiring fixed assets were 163 and 14 respectively.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

37 Balances and Transactions with Related Parties

The nature of the significant Company's related party transactions in 2008 and 2007 is presented below:

	OJSC "Svyazinvest"	**Subsidiaries of OJSC "Svyazinvest"**	**Equity accounted investees**	**State-controlled companies**	**Other**
2008					
Provision of telecommunication services, interconnection and traffic transmission services	-	2 449	5	845	90
Agent services	-	1 045	-	21	-
Rent income	-	6	4	-	1
Other income	-	36	-	36	1
Purchase of telecommunication services, interconnection and traffic transmission services	-	158	-	32	55
Purchase of other services	-	60	-	1 813	743
Purchase of goods and other assets	-	52	-	-	-
Interest income	-	-	-	126	-
Interest expenses	-	-	-	115	-
Dividends payable	259	-	-	-	-
2007					
Provision of telecommunication services, interconnection and traffic transmission services	-	3 448	7	707	124
Agent services	-	1 138	-	10	4
Rent income	-	3	-	-	-
Other income	-	5	1	34	1
Purchase of telecommunication services, interconnection and traffic transmission services	-	668	-	16	45
Purchase of other services	-	27	-	1 247	636
Purchase of goods and other assets	-	-	1	-	17
Interest income	-	-	-	4	-
Interest expenses	-	-	-	44	-
Dividends payable	146	-	-	-	-
Loans received	-	-	-	26	-

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

As of 31 December 2008 and 2007 significant outstanding balances with related parties were as follows:

	OJSC "Svyazinvest"	Subsidiaries of OJSC "Svyazinvest"	Equity accounted investees	State-controlled companies	Other
At December 31, 2008					
Trade and other receivables, net of allowance	-	404	-	162	106
Accounts payable	-	577	-	92	85
Loans received (inc. interest)	-	-	-	1 982	-
At December 31, 2007					
Trade and other receivables, net of allowance	-	873	-	123	102
Accounts payable	-	674	-	86	77
Loans received (inc. interest)	-	-	-	1 434	-

Other related parties comprise the following categories: key management personnel; parties exercising significant influence over the Company; non-state pension funds; other parties recognised as related parties but not included in separate categories.

OJSC SvyazInvest

OJSC SvyazInvest is Open Joint Stock Company, incorporated under the laws of the Russian Federation.

As of 31 December 2008 Russian Government held 75% minus one ordinary share of OJSC Svyazinvest.

Svyazinvest Group comprises 7 interregional telecommunications companies (MRKs), OJSC Rostelecom, OJSC Tsentralny Telegraph, OJSC Dagsvyazinform and other telecom subsidiaries.

Subsidiaries

The Company performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from the Company's consolidated financial statements according to IFRS requirements.

The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are fixed by a regulatory body and are at the same level as similar tariffs for other counteragents. Subsidiaries do not influence the Company's transactions with other counteragents. More details of the nature of interrelations between the Company and its subsidiaries are presented in Note 6.

OJSC Rostelecom

OJSC Rostelecom, controlled by Svyazinvest, is the primary provider of domestic long-distance and international telecommunication services in the Russian Federation.

The annual revenue from OJSC Rostelecom relates to traffic transmission services provided by the Company to OJSC Rostelecom under the interconnection agreement and to the fees received under the assistance agreement which is a combination of agent agreement and service agreement.

The expense associated with OJSC Rostelecom relates to payments for call termination to networks of other telecommunication operators, if the call is initiated from a mobile radiotelephony network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Company.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

(in millions of Russian Roubles)

The respective amounts included in the consolidated financial statements as of 31 December 2008 and 2007 and for the years then ended were as follows:

	2008	**2007**
Provision of telecommunication services, interconnection and traffic transmission services	2 363	3 425
Agent services	1 046	1 128
Rental income	4	-
Other income	36	-
Purchase of telecommunication services, interconnection and traffic transmission services	134	578
Purchase of other services	58	-
Trade and other receivables	355	729
Inc. Allowance for impairment	(3)	-
Accounts payable	543	521

Transactions with State-controlled Companies

State-controlled organisations represent a significant component in the Company's customer base.

State-controlled organisations do not exert significant influence on the Company's operations with other companies.

Non-Commercial Partnership Centre for Research of Problems in Development of Russian Telecommunications (NP CIPRT)

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications (hereinafter "the Partnership") is an entity that is controlled by OJSC Svyazinvest through its subsidiaries.

During 2008, the Company ceased to be a member of the Partnership. In 2008 the Partnership received membership fees amounting to 149 (2007 - 306).

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries which own collectively 100% of its share capital. OJSC Svyazintek provides to the Company services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

In 2008 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 310 (2007: 370) that were capitalised in cost of respective intangible assets.

Non-government Pension Fund Telecom Soyuz

The Company signed centralised pension agreement with a non-state pension fund Telecom-Soyuz (Note 19). In addition to the state pension, the Company provides the employees with a non-state pension and other post-employment benefits through defined benefit plans.

The total amount of contributions to non-state pension fund paid by the Company in 2008 amounted to 421 (2007: 259). The fund retains 3% of every pension contribution of the Company to cover its administrative costs.

Remuneration of Key Management Personnel

The key management personnel represent members of the Management Committee, Internal Audit Committee and the Board of Directors of the Company, with number of members of 27 as of 31 December 2008 and 29 as of 31 December 2007.

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

Remuneration to key management personnel for 2008 includes salaries, bonuses and other remuneration in the amount of 119 (2007 - 118).

38 Subsequent Events

Dividends

Annual dividend per share shall be approved by the Company’s General Shareholders’ Meeting in June 2009. The Board of Directors recommended to the General Shareholders’ Meeting to approve dividend for 2008 of 0,2457683 Roubles per ordinary share and 0,4915455 Roubles per preference share (2007 – 0,3547131 and 0,6910119 respectively). Total amount of dividends payable by the Company will amount to 388 per ordinary shares and 259 per preference shares (2007: 560 and 363 respectively). Following the approval by the General Shareholders’ Meeting, annual dividend payable to shareholders will be recognized in the financial statements for 2009.

Lease Back

In May 2009, the Company entered into a lease back transaction with CJSC RG Leasing, based on the results of the open tender. Under the terms of the transaction, the Company will sell the telecommunication equipment for the amount of 6 167 (inc. VAT) to RG Leasing and RG Leasing will supply the same equipment to the Company under finance lease terms. The five-year finance lease agreement bears interest of 18,92%. The amount of cash that is going to be raised by the Company as a result of the transaction is 4 137 (net of advance).

** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*