Open Joint Stock Company
VolgaTelecom

Consolidated Financial Statements
for the year ended 31 December 2008

OJSC VolgaTelecom
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 "VolgaTelecom"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC "VolgaTelecom" (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 cash flow statement 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 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 the 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 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
25 May 2009

OJSC VolgaTelecom
Consolidated Balance Sheet as at 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	**43,911**	41,292
Intangible assets and goodwill	8	**4,764**	4,936
Other long-term assets	9	**311**	567
Investments in associates	10	**162**	146
Investments	11	**27**	68
Total non-current assets		**49,175**	47,009
Current assets			
Inventories	12	**483**	455
Trade and other receivables	13	**2,628**	2,634
Income tax receivable		**87**	24
Other current assets	14	**408**	708
Investments	11	**204**	7
Cash and cash equivalents	15	**1,678**	495
Assets held for sale	7	**150**	150
Total current assets		**5,638**	4,473
TOTAL ASSETS		**54,813**	51,482
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	17	**3,854**	3,854
Retained earnings and other reserves		**23,353**	22,047
Total equity attributable to shareholders of the parent		**27,207**	25,901
Minority interest		**31**	253
Total equity		**27,238**	26,154
Non-current liabilities			
Loans and borrowings	18	**9,486**	8,347
Employee benefits	19	**1,984**	1,686
Other long-term liabilities	20	**499**	593
Deferred tax liabilities	31	**2,151**	2,914
Total non-current liabilities		**14,120**	13,540
Current liabilities			
Loans and borrowings	18	**7,541**	7,269
Accounts payable and accrued expenses	22	**5,246**	3,887
Income tax payable		-	13
Other current liabilities	23	**659**	608
Provisions	21	**9**	11
Total current liabilities		**13,455**	11,788
Total liabilities		**27,575**	25,328
TOTAL EQUITY AND LIABILITIES		**54,813**	51,482

General Director __________ Vladimir I. Rybakin Chief Accountant __________ Nikolay I. Popkov

OJSC VolgaTelecom
Consolidated Income Statement for the year ended 31 December 2008
(in millions of Russian Roubles, except per share amounts)

	Notes	2008	2007
Revenues	24	**32,063**	30,036
Personnel costs	25	**(8,738)**	(8,343)
Depreciation and amortization	7,8	**(6,688)**	(5,538)
Interconnection charges		**(3,789)**	(3,896)
Materials, repairs and maintenance, utilities	26	**(2,752)**	(2,739)
Other operating income	27	**1,170**	870
Other operating expenses	28	**(5,805)**	(4,663)
Operating profit		**5,461**	5,727
Share of results of associates		**16**	17
Financial income	30	**129**	73
Interest expenses	29	**(1,780)**	(1,324)
Other financial expenses	30	**(168)**	(2)
Profit before income tax		**3,658**	4,491
Income tax expense	31	**(722)**	(1,439)
Profit for the year		**2,936**	3,052
Attributable to:			
Shareholders of the Company		**2,906**	3,006
Minority interest		**30**	46
		2,936	3,052
Basic and diluted earnings per share (in Russian Roubles)	32	**8.86**	9.16

OJSC VolgaTelecom
Consolidated Statement of Cash Flows
for the year ended 31 December 2008
(in millions of Russian Roubles)

	2008	2007
Cash flows from operating activities:		
Profit before income tax	**3,658**	4,491
Adjustments for:		
Depreciation and amortisation	**6,688**	5,538
Loss on disposal of property, plant and equipment	**1,022**	206
Bad debt expenses	**167**	(104)
Share of results of associates	**(16)**	(17)
Interest expenses	**1,780**	1,324
Financial income and other financial expenses, net	**39**	(71)
Other	**-**	12
Operating cash flows before changes in working capital and provisions	**13,337**	**11,395**
(Increase)/decrease in inventories	**(29)**	77
Increase in trade and other receivables	**(101)**	(80)
Decrease/(increase) in other current assets	**308**	(212)
Increase in employee benefits	**104**	228
Increase in accounts payable and accrued expenses	**651**	329
(Decrease)/increase in provisions	**(2)**	11
Increase in other operating assets and liabilities	**(44)**	(41)
Cash flows generated from operations before income taxes and interest paid	**14,225**	**11,707**
Interest paid	**(1,679)**	(1,175)
Income tax paid	**(1,562)**	(1,026)
Cash flows from operating activities	**10,984**	**9,506**
Investing activities		
Acquisition of property, plant and equipment	**(7,138)**	(9,130)
Proceeds from sales of property, plant and equipment	**452**	168
Acquisition of intangible assets	**(644)**	(775)
Acquisition of subsidiaries and minority interests, net of cash acquired	**(985)**	(852)
Proceeds from sales of subsidiaries, net of cash disposed	**-**	6
Acquisition of other investments	**(300)**	-
Proceeds from sale of other investments	**102**	8
Interest received	**122**	15
Dividends received	**-**	8
Cash flows utilised in investing activities	**(8,391)**	**(10,552)**
Financing activities		
Proceeds from loans and borrowings	**9,637**	9,158
Repayment of loans and borrowings	**(6,008)**	(5,977)
Repayment of bond issue	**(3,456)**	(5)
Proceeds from promissory notes	**265**	-
Repayment of promissory notes	**(185)**	(128)
Repayment of vendor financing liability	**(255)**	(261)
Repayment of finance lease obligations	**(546)**	(1,069)
Dividends paid to shareholders of the Company	**(858)**	(638)
Dividends paid to minority shareholders of subsidiaries	**(4)**	(1)
Cash flows (utilised in)/from financing activities	**(1,410)**	**1,079**
Net increase in cash and cash equivalents	**1,183**	**33**
Cash and cash equivalents at beginning of year	**495**	**462**
Cash and cash equivalents at end of year	**1,678**	**495**

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

	Note	Share capital						
		Preference shares	**Ordinary shares**	**Retained earnings**	**Valuation reserve**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2006	17	963	2,891	20,255	6	24,115	473	24,588
Profit for the year				3,006	-	3,006	46	3,052
Total recognised income and expense for the year				**3,006**	**-**	**3,006**	**46**	**3,052**
Dividends to shareholders of the Company		-	-	(633)	-	(633)	-	(633)
Dividends to minority shareholders of subsidiaries		-	-	-	-	-	(1)	(1)
Acquisition of minority interest		-	-	(587)	-	(587)	(265)	(852)
Balance at 31 December 2007	17	**963**	**2,891**	**22,041**	**6**	**25,901**	**253**	**26,154**
Profit for the year		-	-	2,906	(5)	2,901	30	2,931
Total recognised income and expense for the year				**2,906**	**(5)**	**2,901**	**30**	**2,931**
Dividends to shareholders of the Company		-	-	(857)	-	(857)	-	(857)
Dividends to minority shareholders of subsidiaries		-	-	-	-	-	(5)	(5)
Acquisition of minority interest		-	-	(738)	-	(738)	(247)	(985)
Balance at 31 December 2008	17	**963**	**2,891**	**23,352**	**1**	**27,207**	**31**	**27,238**

1 General Information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC VolgaTelecom (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 25 May 2009.

Company

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

The Company's official address: Russia, 603000, Nizhniy Novgorod, Maxim Gorky square, Dom Svyazi.

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

OJSC Svyazinvest, which is controlled by the Russian Government owned 50.67% of the Company's ordinary voting shares as at 31 December 2008 and is the Company's Parent Company.

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

Liquidity and Financial Resources

As at 31 December 2008 the current liabilities of the Group exceeded its current assets by 7,817 (as at 31 December 2007: 7,315).

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

In 2009, the Group expects to generate funds from the following sources: cash proceeds from operating activities; issue of promissory notes; offering of rouble bonds in the Russian market; and raising funds from domestic and foreign lending institutions. Moreover, management believes that the existing contractual payment terms relating to certain significant supplies could be renegotiated, and certain capital investment projects may be deferred or curtailed in order to fund the Group's current operating needs.

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

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.

Presentation of Financial Statements

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

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

Basis of Accounting

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 Treasury 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 has no impact on the financial position or performance of the Group.
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 has no impact on the financial position or performance of the Group.
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 has no impact on the financial position or performance of the Group.

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	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 financial data of operating segments to be presented based on information used by the Group'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 prepare 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.

(in millions of Russian Roubles)

Standard	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 service. 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 principles 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 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.

(in millions of Russian Roubles)

Standard	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 Group 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 Group 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 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	35.9332

3 Summary of Significant Accounting Policies

3.1 Principles of Consolidation

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

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

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

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.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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.

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. The cost of property, plant and equipment at 1 January 2003, the date of transition to IFRSs, was determined by reference to its fair value at that date. Cost includes expenditures that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Cost includes the cost of replacing part of the property, plant and equipment when that cost meets the recognition criteria. Cost of each major inspection are capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria are satisfied. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement 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.

(in millions of Russian Roubles)

3.2.2 Depreciation and Useful Life

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

The Group applies the following useful lives:

	Years
Buildings	10-50
Transmission devices (radio and communication lines)	10-15
Other constructions (exclusive communication lines)	7-50
Switches	2-10
Other telecommunication equipment	2-15
Transportation equipment	4-10
Computers, office and other equipment	2-7
Other property, plant and equipment	1-10
Land	Not depreciated

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

3.2.3 Assets Received 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. Goodwill on an acquisition of associates is included in the investments in associates.

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 defined on 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. The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. The recoverable amount is the higher of value in use and net selling price.

3.4 Borrowing Costs

The borrowing costs are capitalized by the Group 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 Associates

Associates 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. Associates are accounted for under the equity method.

3.6 Investments and Other Financial Assets

The Group’s financial assets are classified as 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 Group 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 or by the Group.

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. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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 Group 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 two 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. No gain or loss on purchase, sale or cancellation of treasury shares is recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

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

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 Group 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 Group 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

Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Group also accrues expenses for employee benefits as the related services are provided.

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 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 Group 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 Group 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 Group 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.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liability.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted.

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.

Revenue arising from separable installations and connection activities is recognised when it is earned, upon activation.

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

The Group calculates basic earnings per share amounts for profit or loss attributable to equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of participating equity instruments outstanding (the denominator) during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.17 Segment reporting

The Group comprises the following main business segments:

- fixed line telecommunication services
- mobile telecommunication services

Management believes that the Group operates in one geographical segment.

Management evaluates the results of operations and makes investment and strategic decisions on the basis of the analysis of the Group as a whole.

4 Significant Accounting Judgments and Estimates

4.1 Judgments

In applying the accounting policies, management has made the following judgments, estimates and assumptions besides the accounting estimates, which most significantly affect the amounts reported in the financial statements:

Lease Classification

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operational lease. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement, but not its legal form.

Revenue Recognition(principal/agent)

Agency fees relates to the sale of services where the Group acts as an agent in the transaction rather than as the principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal, management considered the following factors:

- Although the Group collects the revenue from the final customer, all credit risk is borne by the supplier of the goods.
- The Group cannot vary the selling prices set by the supplier.

4.2 Estimation Uncertainty

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 Group 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 amounted to 43,911 (as at 31 December 2007: 41,292). Refer to Note 7 for detailed information.

Impairment of Non-current assets and of goodwill

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 service, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount on 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 Group 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. The impairment loss recognized for 2008 is nil. (2007: nil).

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 of 31 December 2008, the fair values of unlisted available-for-sale investments amounted to 20 (2007: 29). More details are provided in Note 11.

Allowance for impairment of accounts receivable

Provision for impairment is based on the historical data related to collectibility of accounts receivable and creditworthiness analysis for 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, Impairment loss of receivables amounted to 727 (2007: 644). More details are provided in Notes 13 and 14.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuations which rely 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. Should adjustments to the key assumption be 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 1,984 (2007: 1,686). More details are provided in Note 19.

Litigation and Claims

The Group 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.

(in millions of Russian Roubles)

5 Segment Information

	2008			
	Fixed line	**Mobile**	**Intercompany elimination**	**Total for the Group**
Revenue				
Revenue from external customers	27,449	4,614	-	32,063
Inter-segment sales	232	185	(417)	-
Total	**27,681**	**4,799**	**(417)**	**32,063**
Segment result	4,544	917	-	5,461
Operating profit	**4,544**	**917**	**-**	**5,461**
Share of result from associates				16
Financial income				129
Interest expenses				(1,780)
Other financial expenses				(168)
Income tax				(722)
Profit for the year				**2,936**
Assets and liabilities				
Segment assets	46,694	8,520	(713)	54,501
Investments in associates	-	-	-	162
Assets held for sale	-	-	-	150
Consolidated total assets	**-**	**-**	**-**	**54,813**
Segment liabilities	(25,465)	(2,823)	713	(27,575)
Consolidated liabilities	**(25,465)**	**(2,823)**	**713**	**(27,575)**
Other segment information				
Capital expenditure				
Property, plant and equipment	(7,574)	(2,208)	-	(9,782)
Intangible assets	(759)	(84)	-	(843)
Depreciation and amortization	(5,621)	(1,066)	-	(6,687)
Bad debt provision accrual	(156)	(10)	-	(167)
Goodwill	-	870	-	870

(in millions of Russian Roubles)

	2007 (corrected)			
	Fixed line	**Mobile**	**Intercompany elimination**	**Total for the Group**
Revenue				
Revenue from external customers	26,590	3,446	-	**30,036**
Inter-segment sales	195	198	(393)	-
Total	**26,785**	**3,644**	**(393)**	**30,036**
Segment result	4,695	1,024	8	5,727
Operating profit	**4,695**	**1,024**	**8**	**5,727**
Share of result from associates				17
Financial income				73
Interest expenses				(1,324)
Other financial expenses				(2)
Income tax				(1,439)
Profit for the year				**3,052**
Assets and liabilities				
Segment assets	43,958	7,456	(228)	51,186
Investments in associates		-	-	146
Assets held for sale	-	-	-	150
Consolidated total assets	**-**	**-**	**-**	**51,482**
Segment liabilities	(23,374)	(2,191)	237	(25,328)
Consolidated liabilities	**(23,374)**	**(2,191)**	**237**	**(25,328)**
Other segment information				
Capital expenditure				
Property, plant and equipment	(7,654)	(2,034)		(9,688)
Intangible assets	(797)	(88)		(885)
Depreciation and amortization	4,685	893		5,578
Impairment loss from inventory	(3)	-		(3)
Bad debt provision accrual / reversal	(122)	18		(104)
Goodwill	-	870	-	870

The Group provides fixed line and mobile telecommunication services, as well as other services outside communication segment. Management believes that the Group operates in one geographical segment.

Rates and prices on inter-segment operations are established in the same way as prices on operations with third parties. Segment income, expenses and financial results allow transfer inter-segments operations eliminated while being consolidated.

Unallocated expenses, assets and liabilities are expenses, assets and liabilities that arise at the entity level and relate to the entity as a whole.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables, and operating cash, investments, income tax assets and excluding investments in associates and assets held for sale that relate to the entity as a whole.

Segment liabilities include operating liabilities, pension benefits and long-term liabilities on social contributions, current income tax payable, financial liabilities, provisions and deferred income tax liabilities.

(in millions of Russian Roubles)

Capital expenses include purchases of property, plant and equipment including those arising on business combinations. Impairment losses and provisions are allocated to the segment only if they are attributable to the segment assets.

6 Consolidated subsidiaries

The following subsidiaries are controlled by the Group

		Ownership, %		Voting Shares, %	
Subsidiary	**Activity**	**2008**	**2007**	**2008**	**2007**
CJSC NSS	Mobile communication	**100**	100	**100**	100
CJSC Transsvyaz	Fixed line communication	**100**	100	**100**	100
OJSC Omrix	Fixed line communication	**74**	74	**74**	74
OOO Nizhegorodsky teleservice	Fixed line communication	**100**	100	**-**	-
OOO Nizhegorod teleservice	Investing activities	**-**	100	**-**	-
CJSC Ulyanovsk-GSM	Mobile communication	**100**	60	**100**	60
CJSC Orenburg-GSM	Mobile communication	**51**	51	**51**	51
CJSC Narodny Telephone Saratov	Mobile communication	**50+1 share**	50+1 share	**50+1 share**	50+1 share

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

Acquisitions

In July 2008, the Group acquired additional 40% of ordinary voting shares of OOO Ulyanovsk-GSM for 985 and increased its share to 100%. Excess of purchase contribution paid over balance value of net assets is reflected in equity in amount of 738.

Other operations with subsidiaries

In January 2008 OOO Nizhegorod teleservice was reorganized in the form of merger with OOO Nizhegorodsky Teleservice.

(in millions of Russian Roubles)

7 Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other	Construction in progress and equipment for installation	Total
Cost					
At 31 December 2006	**25,682**	**19,491**	**5,413**	**1,806**	**52,392**
Additions	-	-	-	9,688	9,688
Transfer from construction in progress	3,043	4,413	1,732	(9,188)	-
Disposals	(181)	(55)	(8)	(224)	(468)
Disposal of subsidiaries	-	(15)	-	-	(15)
Reclassification to assets held for sale	-	-	-	(150)	(150)
At 31 December 2007	**28,544**	**23,834**	**7,137**	**1,932**	**61,447**
Additions	-	-	-	9,782	9,782
Transfer from construction in progress	2,242	4,960	1,496	(8,698)	-
Disposals	(508)	(611)	(153)	(342)	(1,614)
Reclassification to assets held for sale	(228)	(55)	(1)	(12)	(296)
At 31 December 2008	**30,050**	**28,128**	**8,479**	**2,662**	**69,319**
Accumulated Depreciation and impairment losses					
At 31 December 2006	**(6,329)**	**(6,392)**	**(2,325)**	**-**	**(15,046)**
Charge for the year	(1,644)	(2,372)	(1,138)	-	(5,154)
Disposals	28	17	-	-	45
At 31 December 2007	**(7,945)**	**(8,747)**	**(3,463)**	**-**	**(20,155)**
Charge for the year	(1,845)	(2,509)	(1,844)	-	(6,198)
Disposals	259	436	131	-	826
Reclassification to assets held for sale	66	53	-	-	119
At 31 December 2008	**(9,465)**	**(10,767)**	**(5,176)**	**-**	**(25,408)**
Net book value					
At 31 December 2006	19,353	13,099	3,088	1,806	37,346
At 31 December 2007	20,599	15,087	3,674	1,932	41,292
At 31 December 2008	**20,585**	**17,361**	**3,303**	**2,662**	**43,911**

Finance Lease

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

	2008	2007
Buildings and structures	627	-
Switches and transmission devices	2,299	2,227
Construction in progress and equipment for installation	-	2
Vehicles and other fixed assets	68	67
Total net book value of plant and equipment	**2,994**	**2,296**

Depreciation of property, plant and equipment for 2008 in the amount of 6,198 (2007: 5,154) was recognised in Depreciation and amortisation in the consolidated income statement.

(in millions of Russian Roubles)

As at 31 December 2008 the historical cost of fully amortised property, plant and equipment amounted to 4,503 (2007: 3,113).

In 2008, the Group increased the cost of construction-in-progress by the capitalised interest in the amount of 93 (2007: 34). Capitalisation rate in 2008 was 9% (2007: 8%).

As at 31 December 2008 carrying value of assets pledged under loan and leasing contracts amounted to 6,002 (2007: 4,777)

As at 31 December 2008, the Group classified some assets as assets held-for-sale included in the disposal group. The net balance value of these assets was 177 as at 31 December 2008.

Loss from revaluation of assets held-for-sale in amount of 27 (2007–nil) was recognized in "Other operating expenses" in consolidated income statement.

	Buildings	**Switches and transmission devices**	**Construction in progress and equipment for installation**	**Vehicles and other**	**Total**
Cost as at 31 December 2008	228	55	12	1	296
Accumulated depreciation as at 31 December 2008	(66)	(53)	-	-	(119)
Impairment loss	(27)	-	-	-	(27)
Net book value as at 31 December 2008	**135**	**2**	**12**	**1**	**150**

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 test performed no impairment was identified.

Key assumptions management used in the calculation of value in use are as follows:

- for all 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;
- discount rate was estimated in nominal terms on the weighted average cost of capital basis. After tax discount rate is 17.4%; pre-tax discount rate is 22.89%;
- projected growth in revenue and expenses is as follows: 2009 – 2%; 2010 – 3%, 2011 – 3.5% 2012 – 3.5% and in 2013 and later – 4%.

Management believes that any possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

(in millions of Russian Roubles)

8 Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
Cost								
At 31 December 2006	**870**	**633**	**3,349**	**61**	**64**	**1**	**2**	**4,980**
Additions	-	19	863	-	-	-	**3**	**885**
At 31 December 2007	**870**	**652**	**4,212**	**61**	**64**	**1**	**5**	**5,865**
Additions	-	17	826	-	-	-	-	**843**
Disposals	-	-	(524)	-	-	-	(1)	**(525)**
At 31 December 2008	**870**	**669**	**4,514**	**61**	**64**	**1**	**4**	**6,183**
Accumulated amortisation and impairment losses								
At 31 December 2006	**-**	**(82)**	**(381)**	**(25)**	**(16)**	**-**	**(1)**	**(505)**
Charge for the year	-	(65)	(345)	(6)	(7)	-	(1)	**(424)**
At 31 December 2007	**-**	**(147)**	**(726)**	**(31)**	**(23)**	**-**	**(2)**	**(929)**
Charge for the year	-	(65)	(413)	(6)	(6)	-	-	**(490)**
At 31 December 2008	**-**	**(212)**	**(1,139)**	**(37)**	**(29)**	**-**	**(2)**	**(1,419)**
Net book value								
At 31 December 2006	870	551	2,968	36	48	1	1	**4,475**
At 31 December 2007	870	505	3,486	30	41	1	3	**4,936**
At 31 December 2008	**870**	**457**	**3,375**	**24**	**35**	**1**	**2**	**4,764**

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 1,211 (2007: 1,376).

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	**1,376**	1,166
Additions	**295**	339
Amortisation charge	**(132)**	(129)
Write-off	**(293)**	-
Disposals	**(35)**	-
As at 31 December	**1,211**	1,376

Full implementation of Oracle E-Business Suite software was completed in 2008 (prior to 2008 – only payroll and property, plant and equipment modules were put into operation).

In 2008, the Group wrote-off cost of 7,529 licenses of E-Business Suite 2003 Professional User and 308 licenses of Enterprise Asset Management due to decrease in headcount in amount of 248 and capitalized interest in amount of 45.

Amdocs Billing System Software

As at 31 December 2008, the software included a software product Amdocs Billing Suite with the carrying amount of 1,044 (2007: 1,234).

This software product was purchased for the purpose of implementation of an integrated automated billing system. Implementation of an integrated automated billing system based on the Amdocs Billing Suite platform is expected to last for 4 to 5 years.

(in millions of Russian Roubles)

The Group will start amortization of that asset after its put in use pro rata of modules implemented. Until that 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	**1,234**	1,187
Additions	-	47
Write-off	**(190)**	-
As at 31 December	**1,044**	1,234

Purchase of Amdocs Billing Suite software was approved by the Board of Directors in 2004. Implementation of unified automated ERP system on Amdocs platform is planned for the year 2010.
In 2007 the Group decided to suspend implementation of the project of unified ERP system on Amdocs platform and reconsidered terms and functionality. In connection with that, in 2008 the Group wrote-off value of the asset in part related to modules which will not be used in amount of 190 (including capitalized interest of 6).

HP Open View UIM Software

As at 31 December 2008, the software included a software product HP Open View IUM purchased for implementation of data collection and processing system.

	2008	2007
Cost of licenses	**352**	352
Implementation expenses	**143**	17
Total	**495**	369

In 2008 the Group completed its implementation.

Amortisation of intangible assets

Amortisation charge for 2008 in the amount of 490 (2007: 424) was recorded in line “Depreciation and amortization” of Consolidated Income Statement.

Impairment Testing of Intangible Assets not ready for use

The Group performed impairment testing of intangibles not implemented, as well as other intangible assets, goodwill and intangible assets with indefinite useful lives. No impairment was revealed as the result of the test as at 31 December 2008. Key assumptions are disclosed in Note 7.

Allocation of goodwill to cash generating units shown in Note 5. At 31 December 2008 the carrying value of cash generating unit is 4,727, the recoverable amount is 9,941.

9 Other long-term assets

	2008	2007
Long-term advances given for the investing activities	**301**	548
Long-term VAT	**9**	17
Long-term receivables	**1**	2
Total	**311**	567

(in millions of Russian Roubles)

10 Investments in associates

Equity accounted investees	Activity	2008 Ownership Interest, %	2008 Voting shares, %	2008 Carrying value
CJSC Samara-Telecom	Telecommunication services	28%	28%	141
CJSC AKB S-Bank	Banking services	42%	42%	21
Total				**162**

Equity accounted investees	Activity	2007 Ownership Interest, %	2007 Voting shares, %	2007 Carrying v alue
CJSC Samara-Telecom	Telecommunication services	28%	28%	125
CJSC AKB S-Bank	Banking services	42%	42%	21
Total				**146**

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

The Group has the following investments in associates net assets of which are negative as at 31 December 2008 and 2007:

Equity accounted investees	Ownership	Net assets 2008	Net assets 2007
CJSC Nizhegorodsky radiotelephone	50%	**(41)**	(41)

Changes in the carrying amount of investments in associates for the years ended 31 December 2008 and 2007 are disclosed below:

	2008	2007
Investments in associates at 1 January	**146**	129
Share of results from associates	**16**	17
Investments in associates at 31 December	**162**	146

The following is summarized financial information, in aggregate, in respect of significant associates:

Equity accounted investees	Ownership Interest, %	Assets	Liabilities	Revenues	Net profit
2008					
CJSC Samara-Telecom	**28%**	**572**	**(66)**	**361**	**54**
CJSC AKB S-Bank	**42%**	**223**	**(171)**	**13**	**2**
2007					
CJSC Samara-Telecom	28%	517	(66)	325	59
CJSC AKB S-Bank	42%	316	(267)	17	2

(in millions of Russian Roubles)

11 Investments

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

	2008	2007
Long term financial investments available-for-sale	**20**	29
Long term deposits	**-**	30
Long term loans given	**7**	9
Total long-term financial investments	**27**	68
Short-term investments held to maturity	**202**	-
Short term loans given	**2**	7
Total short-term financial investments	**204**	7
Total financial investments	**231**	75

Financial investments as at 31 December 2008 and 2007 are listed below:

	2008		2007	
Group	**Ownership interest ,%**	**Carrying value**	**Ownership interest,%**	**Carrying value**
Long–term investments				
OJSC NTK Zvezda	**1.668%**	**48**	1.668%	48
OJSC Svyazintek	**13%**	**15**	13%	15
CJSC Leasing Point	**7.3%**	**12**	7.3%	12
Other	**-**	**7**	-	16
Provision for impairment	**-**	**(62)**	-	(62)
Total	**-**	**20**	**-**	29

On 30 December 2008 the Group purchased promissory note of BSGV for 200 with maturity date at 13 February 2009. Face value of promissory note amounted to 203, discount on promissory note amounted to 3. Promissory note was paid off on 13 February 2009. Management believes that the fair value of the promissory notes to not be materially different from their carrying amounts.

12 Inventories

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

	2008	2007
Spare parts	**142**	98
Cable	**64**	80
Finished goods and goods for resale	**30**	46
Construction materials	**23**	37
Household equipment	**18**	22
Fuel	**7**	5
Other inventory	**199**	167
Total	**483**	455

As of 31 December 2008 the Group established the allowance for obsolete inventories in the amount of 3 (2007: 3).

(in millions of Russian Roubles)

13 Trade and Other Receivables

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

	Gross as at 31 December 2008	Bad debt provision	Net as at 31 December 2008
Receivables from customers for operating activity	2,735	(632)	2,103
Receivables from customers for non-operating activity	162	(55)	107
Receivables from agents and commissioners	76	-	76
Settlements with personnel	9	-	9
Other receivables	353	(20)	333
Total	**3,335**	**(707)**	**2,628**

	Gross as at 31 December 2007	Bad debt provision	Net as at 31 December 2007
Receivables from customers for operating activity	2,692	(570)	2,122
Receivables from customers for non-operating activity	100	-	100
Receivables from agents and commissioners	95	(33)	62
Settlements with personnel	6	-	6
Other receivables	364	(20)	344
Total	**3,257**	**(623)**	**2,634**

Receivables for customers from operating activity as at 31 December 2008 and 2007 comprises the following:

	Gross as at 31 December 2008	Bad debt provision	Net as at 31 December 2008
Receivables from individuals	1,263	(254)	1,009
Receivables from commercial organizations	497	(95)	402
Receivables from budget organizations	157	(8)	149
Receivables from interconnect operators	784	(241)	543
Tariff compensation from the state budget	34	(34)	-
Total	**2,735**	**(632)**	**2,103**

	Gross as at 31 December 2007	Bad debt provision	Net as at 31 December 2007
Receivables from individuals	1,178	(222)	956
Receivables from commercial organizations	533	(128)	405
Receivables from budget organizations	128	(8)	120
Receivables from interconnect operators	798	(157)	641
Tariff compensation from the state budget	55	(55)	-
Total	2,692	(570)	2,122

The following table summarizes the changes in the Impairment loss of receivables:

	2008	2007
Balance at 1 January	**623**	859
Accrual of the allowance	**166**	**-**
Reversal of the allowance	**-**	(103)
Decrease due to write-off	**(82)**	(133)
Balance at 31 December	**707**	623

As at 31 December 2008 the receivable for tariff compensation from the state budget related to granting discounts to certain categories of privileged subscribers amounted to 1.25% of total accounts receivable from customers (2007: 2.11%). These receivables originated prior to January 2005, when Article 47 of the Federal Law No. 126-FZ On Communications dated 7 July 2003 came into force changing the procedure of providing telecommunication service benefits to individual customers. Prior to January 2005, those end-users (eligible for such a privilege) paid only 50% of the service fees and the remaining 50% were subject to compensation from the state budget.

(in millions of Russian Roubles)

In 2008, the Group legally enforced settlement from the federal budget of such outstanding receivables in the amount of 12 (2007: 322).

As of 31 December 2008, the Group assessed the recoverability of accounts receivable for settlements with privileged customers and accrued an allowance of 55.

14 Other Current Assets

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

	Gross as at 31 December 2008	Allowance for Impairment at 31 December 2008	Net as at 31 December 2008
Advances given	178	(4)	174
VAT receivable	72	-	72
Other prepaid taxes	30	-	30
Deferred expenses	96	-	96
Other current assets	52	(16)	36
Total	**428**	**(20)**	**408**

	Gross as at 31 December 2007	Allowance for Impairment at 31 December 2008	Net as at 31 December 2007
Advances given	199	(4)	195
VAT receivable	148	-	148
Other prepaid taxes	254	-	254
Deferred expenses	94	-	94
Other current assets	34	(17)	17
Total	**729**	**(21)**	**708**

15 Cash and Cash Equivalents

As at 31 December 2008 and 2007 cash and cash equivalents comprised cash in bank and in hand. The Group did not have any restricted cash balances as of 31 December 2008 (2007: nil).

(in millions of Russian Roubles)

16 Non-cash transactions

Sales revenues arising as a result of mutual offset, offsetting receivables from the provision of goods and services against payables owed for supply of goods and services from the same counterparty to the Group, were 1,024 and 18 in 2008 and 2007 respectively. Non-cash transactions are based on market prices.

	2008	2007
Total number of counterparties with non-cash payments	80	48
OJSC Rostelecom	882	-
FGUP Pochta Rossii	36	7
CJSC Envision Group	36	-
OJSC MTS	25	-
Other	45	11
Total	**1,024**	**18**

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 on issue (millions)	Par value (RUR)	Total par value	Carrying value
Ordinary	246	5	1,230	2,891
Preference	82	5	410	963
As at 31 December 2008	**328**		**1,640**	**3,854**

The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated until 1 January 2003.

All shares have been issued and fully paid.

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

		Ordinary shares		Preference shares	
Shareholders	**Share capital %**	**Number (thousands)**	**%**	**Number (thousands)**	**%**
Legal entities, total	92.27	237,573	96.59	65,031	79.32
OJSC Svyazinvest	38.0	124,634	50.67	-	-
-shareholders holding more than 5% of charter capital,	49.2	99,027	40.26	62,301	75.99
including					
CJSC ING Bank	17.88	31,483	12.8	27,152	33.12
- CJSC Depozitarno-Cliringovaya Kompania	14.66	31,630	12.86	16,442	20.05
- Non-commercial partnership National depositary centre	16.66	35,914	14.6	18,707	22.82
- other legal entities	5.07	13,912	5.66	2,730	3.33
Individuals	**7.73**	**8,397**	**3.41**	**16,952**	**20.68**
Total	**100**	**245,970**	**100**	**81,983**	**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 preferred 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. The annual amount of dividends on a preference share may not be less than dividends on an ordinary share. 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.

(in millions of Russian Roubles)

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

Distributable earnings of the parent 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 to 17,662 and 15,444, respectively.

In October 1997 the Company entered in to Depository Agreement with the Bank of New-York and registered Level 1 American Depositary Receipts (ADR). In April 2002 this agreement was reconcluded with JPMorgan Chase Bank. Each ADR represents 2 shares of common stock of the Company.
According to Order of the Federal Financial Markets Service of the Russian Federation No. 05-1232/pz-n dated 15 December 2004, the Company was authorized to circulate 65,673,880 shares outside the Russian Federation in the form of ADR.

As at 31 December 2008, the Company registered the issue of 9,148,092 ADR (as at 31 December 2007 – 14,481,559) and deposited 18,296,184 ordinary shares (as at 31 December 2007 – 28,963,118), which amounted to 7.4% (as at 31 December 2007 – 11.8%) of all 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	**18,893,631**	**37,787,262**	**15.4**	**11.5**
Disposals 2007	(4,412,072)	(8,824,144)	(3.6)	(2.7)
31 December 2007	**14,481,559**	**28,963,118**	**11.8**	**8.8**
Disposals 2008	(5,333,467)	(10,666,934)	(4.4)	(3.2)
31 December 2008	**9,148,092**	**18,296,184**	**7.4**	**5.6**

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

Stock market	CUSIP(WKN)	ADR ticker	ISIN
OTC USA	928660109	VLGAY	-

(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	8,141	4,398
Bonds	4,822	8,240
Vendor financing	583	381
Promissory notes	146	306
Lease liability	1,772	956
Less: Current portion of long–term borrowings	(5,978)	(5,934)
Total long–term loans and borrowings	**9,486**	**8,347**
Short–term loans and borrowings		
Bank loans	1,232	1,228
Accrued interest	81	107
Promissory notes	250	-
Current portion of long–term loans and borrowings	5,978	5,934
Total short–term loans and borrowings	**7,541**	**7,269**
Total loans and borrowings	**17,027**	**15,616**

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
CJSC Unicredit Bank	Mosprime +2.75%-3.6%	3,149	833	RUR	2010-2013	None
OJSC Sberbank	8%-15%	2,129	1,430	RUR	2009-2011	Pledge
CJSC VTB	7.5%	1,500	1,500	RUR	2012	
CJSC BSGV	Mosprime + 2.75%-2.8%	927	29	RUR	2009-2011	Pledge
Ministry of Finance of Russian Federation	2%	112	122	EUR	2012	Pledge
CJSC BSGV	Libor + 0-3.5%	105	-	USD	2010-2011	Pledge
Sozidanie Fund	-	86	123	RUR	2009-2011	None
CJSC Unicredit Bank	Libor + 3.25%	46	207	USD	2009	None
OJSC Svyazbank	11% -13%	45	45	RUR	2009	Pledge
CJSC Unicredit Bank	Euribor + 3.25%	42	109	EUR	2009	Pledge
Total		**8,141**	4,398			

OJSC Sberbank

The long-term debt to Sberbank is mainly represented by the loans received in 2007-2008, denominated in Roubles. The loans mature in 2009-2011, interest rates vary from 8% to 15%. As at 31 December 2008 the outstanding loans amounted to 2,129. The loan is secured by the property, plant and equipment with a carrying value of 1,104.

CJSC Bank Societe Generale Vostok (BSGV)

The long-term loans from BSGV were received in 2008, denominated in Roubles and USD. The loans mature in 2010-2011.

Interest rate on loans denominated in USD equals LIBOR +3.5% p.a., interest rate on loans denominated in RUR equals Mosprime +2.75-2.8% p.a. As at 31 December 2008 the outstanding liability was 1,032. The loan is secured by the property, plant and equipment with a carrying value of 144.

CJSC Unicredit Bank

The long-term loans from UniCredit Bank were received in 2006-2008, denominated in Roubles, EURO and USD. The loans mature in 2009-2013, interest rates are LIBOR+3.25%, Euribor+3.25%, Mosprime +2.75%-3.6%. As at 31 December 2008 the outstanding liability was 3,237. The loans are secured by property, plant and equipment with carrying value of 64.

OJSC Vneshtorgbank (VTB)

The long-term debt to Vneshtorgbank is represented by the loans received in 2007 denominated in Roubles. The loans mature in 2012, interest rate is 7.5%. As at 31 December 2008 the outstanding balance was 1,500.

Ministry of Finance of Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Group to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of Russian Federation. The loans are denominated in Euro. Initial currency of loan was Deutschemark (DM). Later liability was converted to Euro.

In July 2005 the Group received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount overdue to the bank equal 227 (6.6 million Euro) as at the date of receiving the claim. In December 2006 at the stage of legal proceedings the Group signed an amicable agreement with Ministry of Finance. On 21 March 2006 terms of the amicable agreement was approved by Arbitration Court of Nizhny Novgorod region. The amicable agreement came into force on 27 December 2006 and stipulated a restructuring of the Group’s liability on the following terms: liability on penalty interest accrued for non-timely payments was forgiven and remaining amount of restructured liability would be paid in equal annual payments by 1 January 2012.

As at 31 December 2008 the outstanding restructured liability to the Ministry of Finance amounted to 112 (2.9 million Euro), including short term part of 31 (1 million Euro). Interest on restructured liability is accrued at an effective rate of 6.5% and payable annually not later than on December 31.

(in millions of Russian Roubles)

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 interest rate	Date of maturity	Date of early redemption offer	Coupon interest
VT_2	**10**	2,980	22.83%	2009	03.12.2009	13%
VT_3	**1,835**	2,283	8.91%	2010	-	8.50%
VT_4	**2,977**	2,977	8.54%	2009	10.09.2009	7.99%
Total	**4,822**	8,240				

In December 2005 the Group registered two bond issues (VT-2 and VT-3) consisting of 5,300,000 bonds (3,000,000 and 2,300,000 respectively) with a par value of RUR 1,000 each. Bond issues have 10 coupons payments. Payments on the 1st coupon was made on 182nd day after placement (in June 2006), payment on other coupons will be made every 182 days. Coupon interest rate for VT-2 issue was determined as 8.2% till 2009, for VT-3 issue as 8.5% till maturity date. Bonds are payable in the proportion determined in percentage of par value starting from December 2008. The bonds should be fully repaid in November 2010.

In December 2008 the Group has fulfilled its liability of early redemption of VT-2 issue bonds in amount of 2,389 of par value. In December 2008 the Group also repaid first 20% of par value of VT-2 and VT-3 issue bonds in amount of 600 and 460, respectively.

In 2008 the Group repaid coupon interest for 5th and 6th coupons in amount of 440. Coupon interest for one bond was RUR 40.89 (for VT-2) and 42.38 (for VT-3).

As at 31 December 2008 outstanding short-term liability for VT-2 issue was 11, outstanding liability for VT-3 issue was 932 (including coupon interest of 12) and 920 classified as short-term and long-term respectively.

In September 2006 the Group registered bond issue consisting of 3,300,000 bonds (VT-4) with a par value of RUR 1,000 each. Bond issue has 28 coupons payments. Payments on the 1st coupon was made on 91st day after placement (in June 2006), payment on other coupons will be made every 91 days. Coupon interest rate was determined as 7.99% till September 2009. Bonds are payable in the proportion determined in percentage of par value starting from December 2008. The bonds should be fully repaid in September 2011.

That bond issue (VT-4) has an option of early redemption at par value on 10 September 2009. Liability in amount of 2,977 was reflected as short-term.

In 2008 the Group repaid coupon interest for 6th, 7th, 8th and 9th coupons in amount of 239. Coupon interest for one bond was RUR 19.92.

Promissory notes

The table below summarizes the information about the promissory notes issued as at 31 December 2008 and 2007.

Narrative	Effective interest rate	2008	2007	Currency	Maturity date
ISG	8.59%	146	306	RUR	2009

In July 2006 the Group purchased HP Open View IUM Hewlett-Packard software from CJSC "ISG" for the implementation of data collection and processing system. In relation to purchasing the software the Group issued Rouble denominated promissory notes in the amount of 464. According to the redemption schedule the promissory notes will be settled 2007-2009. The outstanding amount as at 31 December 2008 is 144. The effective interest rate is 8.59%.

(in millions of Russian Roubles)

Vendor financing

The table below summarize the information about the vendor financing of the Group as at 31 December 2008 and 2007:

Counteragent	Effective interest rate	2008	2007	Currency of the promissory note	Date of maturity	Security
CISCO Capital	12.49%	320	-	RUR	2011	-
Huawei technology	5%-9.23%	99	196	USD	2009	-
Metrosvyaz Limited	11%	95	80	USD	2009	-
ZTE Corporation	LIBO	38	25	USD	2009-2011	-
Alcatel-Lucent	12.49%	30	-	EUR	2010	-
Huawei BETO	9.23%	1	1	USD	2009	-
Alcatel	-	-	74	EUR		-
ARD Satcom Service	-	-	5	USD		-
Total		**583**	**381**			

Huawei Technologies Co. Ltd.

The Group's long-term vendor financing from Huawei Technologies Co. Ltd represent amounts payable for the telecommunication equipment under contracts signed in 2005-2007. The amount outstanding as of 31 December 2008 is 99. The amount payable under these agreements is denominated in US Dollars. These agreements bear an effective interest rates ranging from 5% to 9.23%. Equipment received under these agreements is pledged to the supplier until the final payment is made.

CISCO Capital

Vendor financing from CISCO Capital represents amount payable for the telecommunication equipment received under contracts signed in 2008. Outstanding liability as at 31 December 2008 is 320.

Metrosvyaz Limited

The Group's long-term vendor financing from Metrosvyaz Limited represents amounts payable for the equipment and CDMA services under contracts signed in 2005. The amounts payable under these agreements are denominated in US Dollars. The amount outstanding as of 31 December 2008 is 95. Equipment received under these agreements is pledged to the supplier until the final payment is made.

(in millions of Russian Roubles)

Short-term 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
OJSC Sberbank	16%	**700**	700	RUR	2009	Pledge
CJSC BSGV	20%-22.74%	**305**	-	RUR	2009	Pledge
CJSC BSGV	4.16%-8.74%	**215**	123	USD	2009	Pledge
OJSC VTB	13.90%	**10**	-	RUR	2009	-
CJSC Promsvyazbank	13.50%	**2**	-	RUR	2009	Pledge
CJSC Gazprombank	12%	**-**	4	RUR	2008	Pledge
CJSC Unicredit Bank	Libor + 3.25%	**-**	114	USD	2009	-
CJSC Unicredit Bank	7.7%-8.87%	**-**	278	RUR	2009	Pledge
OJSC Binbank	11%	**-**	9	RUR	2008	-
Total		**1,232**	1,228			

OJSC Sberbank

The short-term debt to Sberbank is represented by the loan received in 2008, denominated in Roubles. The loans mature in 2009, interest rate is 16%. As at 31 December 2008 the outstanding loans amounted to 700. The loan is secured by the property, plant and equipment with a carrying value of 945.

CJSC Bank Societe Generale Vostok (BSGV)

The short-term debt to BSGV is represented by the loans received in 2007-2008, denominated in Roubles and USD. The loans mature in 2009, interest rate is 4.16%-8.74% for loans denominated in USD and 20%-22.74% for loans denominated in RUR. As at 31 December 2008 the outstanding loans amounted to 520. The loan is secured by the property, plant and equipment with a carrying value of 474.

Promissory notes

The table below summarizes the information about the promissory notes issued as at 31 December 2008 and 2007.

Narrative	Effective interest rate	2008	2007	Currency	Maturity date
OJSC Svyazbank	12.375%	250	-	RUR	2009

(in millions of Russian Roubles)

Finance Lease Obligations

	2008		2007	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	791	544	475	336
2 to 5 years	1,553	1,228	784	620
Total minimum lease payments	**2,344**	**1,772**	**1,259**	**956**
Less amount representing finance charges	(572)	-	(303)	-
Present value of minimum lease payments	**1,772**	**1,772**	**956**	**956**
Less current portion of long term financial lease obligation		(544)		(336)
Long-term financial lease obligations		**1,228**		**620**

In 2008 and 2007, the Group's primary lessors were OJSC RTC-Leasing. In 2008, the effective interest rate on lease liabilities varies from 16.59% to 21.61% per annum (2007: 16.82% to 22.85% per annum).

Finance lease assets under finance lease agreements with OJSC RTC-Leasing mainly comprise telecommunication equipment. The Group's obligations to OJSC RTC-Leasing as at 31 December 2008 amounted to 1,735 (2007: 914).

Under finance lease agreement signed with OJSC RTC-Leasing the lessor is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

19 Employee Benefits

According to the collective agreement the Group contributes to post-employment benefit 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, and provided that a condition for a minimum service period of 10 years is met. The amount of the retirement benefit depends on a number of parameters, including an employee's position with the Group at the retirement date.

Non-government pension fund Telecom-Soyuz, which is a related party of the Group (see note 38), maintains the defined benefit pension plan.

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

There were 15,224 active employees participating to the defined benefit pension plan of the Group, 17,465 pensioners eligible to the post-employment and post-retirement benefits (as at 31 December 2007– 17,167 and 16,986 respectively).

(in millions of Russian Roubles)

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	2,560	2,861
Fair value of plan assets	-	-
Present value of unfunded obligations	**2,560**	**2,861**
Unrecognized past service cost	(374)	(557)
Unrecognized actuarial losses	(202)	(618)
Net pension benefits	**1,984**	**1,686**

As at 31 December 2008 management estimated employees' average remaining working lives at 10 years (2007: 10 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
Service cost	173	162
Interest cost	194	171
Net actuarial gains recognised in year	7	56
Past service cost recognized in current year	-	87
Amortization of past service cost – non–guaranteed portion	109	109
Curtailment or final settlement effect	10	-
Net expense for the defined benefit pension plans	**493**	**585**

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

The amounts of interest expenses are recognised in "Interest expenses" in the consolidated income statement.

Changes in the present value of the defined benefit obligation are as follows:

	2008	2007
Net liability as at 1 January	2,861	2,377
Service cost	173	162
Interest cost	194	171
Actuarial (gain)/losses	(399)	170
Past service (asset)/cost	(74)	167
Benefits paid	(68)	(58)
Settlement and curtailment (gain)/loss	(127)	(128)
Net liability as at 31 December	**2,560**	**2,861**

Movements in the net assets of defined benefit pension during 2008 and 2007 are described by the following factors:

	2008	2007
Present value of plan assets as at 1 January	-	-
Contributions	195	186
Benefits paid	(68)	(58)
Settlement	(127)	(128)
Present value of plan assets as at 31 December	**-**	**-**

Contributions to be paid in 2009 amount to 112.

(in millions of Russian Roubles)

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	9.00%	6.60%
Future salary increases	10.24%	9.20%
Rate used for calculation of annuity value	4.00%	6.00%
Increase in financial support benefits	6.00%	5.00%
Staff turnover	7% up to 50 years Nil after 50 years	7% up to 50 years Nil after 50 years
Mortality tables (source of information)	USSR 1985/86	USSR 1985/86

Historical information on the defined benefit plans is as follows:

	2008	2007	2006	2005	2004
Defined benefit obligation	2,560	2,861	2,377	1,919	1,555
Plan assets	-	-	-	(110)	(202)
Deficit	2,560	2,861	2,377	1,809	1,353
Experience adjustments on plan liabilities	(249)	(51)	(134)	(121)	4
Experience adjustments on plan assets	-	-	(4)	3	2

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

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	453	540
Special purpose financing	46	53
Total	**499**	**593**

21 Provisions

	Personnel dismissal provision	Total
Balance at 31 December 2006	-	-
Accrued	28	28
Utilised	(17)	(17)
Balance at 31 December 2007	**11**	**11**
Accrued	8	8
Utilised	(10)	(10)
Balance at 31 December 2008	**9**	**9**

(in millions of Russian Roubles)

Personnel Dismissal Provision

To increase the efficiency of business processes the Group adopted a Program of staff optimisation approved by Board of Directors and aimed at modification of organisation structure, redistribution of functions and transfer of some functions to outsourcing.

The Group made a provision in amount of 9 for termination payments to the employees who as of 31 December 2008 had been notified of their forthcoming termination (*in accordance with the procedure set forth in article 180 of the Russian Labour Code).*

22 Accounts Payable and Accrued Expenses

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

	2008	2007
Accounts payable to suppliers of fixed assets	2,178	1,306
Accounts payable to personnel	813	824
Trade accounts payable	688	532
Other taxes payable	650	281
Accounts payable to interconnect operators	351	411
Accounts payable to suppliers of intangible assets	92	99
Payables to agents	28	27
Dividends payable	19	20
Other accounts payable and accrued expenses	427	387
Total	**5,246**	**3,887**

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

	2008	2007
Value-added tax	388	34
Property tax	169	165
Personal income tax	27	26
Unified social tax	57	48
Other taxes	9	8
Total	**650**	**281**

23 Other current liabilities

	2008	2007
Advances received from operating activity	635	584
Advances received from non-operating activity	22	21
Deferred income	2	3
Total	**659**	**608**

(in millions of Russian Roubles)

24 Revenues

	2008	2007
Local telephone calls	10,934	11,119
New services (Internet, ISDN, ADSL, IP-telephony)	5,095	3,253
Long distance and intra-zone telephone services	4,829	4,814
Cellular services	4,658	4,167
Revenues from interconnected operators	4,427	4,741
Radio and TV broadcasting	703	622
Agent fees and revenue from assistance services	548	590
Other telecommunication services	111	132
Other revenues	758	598
Total	**32,063**	**30,036**

Income from intra-zone services and local telephone calls include income from channel rent in amount 501 and 162 respectively (2007: 440 and 140).

The Group generates revenue by the following major customer groups:

Customer groups	2008	2007
Individuals	17,597	16,240
Corporate customers	6,951	5,607
Interconnect operators	2,345	2,056
Governmental customers	5,170	6,133
Total	**32,063**	**30,036**

25 Personnel costs

	2008	2007
Salary expenses	6,524	6,105
Social taxes	1,527	1,469
Pension expenses	317	429
Employees dismissal	9	9
Other staff expenses	361	331
Total	**8,738**	**8,343**

26 Materials, repairs and maintenance, utilities

	2008	2007
Materials	1,181	1,406
Repairs and maintenance	859	706
Utilities	712	627
Total	**2,752**	**2,739**

27 Other operating income

	2008	2007
Reimbursement of losses from universal telecommunication services	883	320
Fines and penalties	63	85
Reimbursement of other losses	1	1
Bad debt provision reversal	-	104
Other income	223	360
Total	**1,170**	**870**

(in millions of Russian Roubles)

28 Other operating expenses

	2008	2007
Other services and services related to the administration	1,048	914
Loss from disposal of PPE and other assets	1,022	145
Taxes, other than income tax	747	712
Agency fee	578	482
Advertising expenses	376	337
Rent	345	287
Fire and other security services	333	318
Universal service fund payments	313	281
Member fees, charity contribution, payments to labour unions	294	358
Audit and consulting fees	287	230
Bad debt expense	167	-
Transportation and postal services	56	52
Insurance	26	58
Cost of goods sold	5	1
Fines and penalties	3	4
Other expenses	205	484
Total	**5,805**	**4,663**

29 Interest expenses

	2008	2007
Interest expense on loans and borrowings	1,292	942
Interest expense on finance lease	289	207
Interest expense on pension benefits	194	171
Bank services	5	4
Total	**1,780**	**1,324**

30 Financial income and other financial expenses

	2008	2007
Interest income from the financial assets	122	15
Dividend income	7	3
Gain from the sale of share in “Vyatkasvyazservice”	-	12
Forex gain, net	-	43
Financial income	**129**	**73**
Forex losses, net	(165)	-
Loss from the impairment of investments	(3)	-
Loss from sale of other investments	-	(2)
Other financial expenses	**(168)**	**(2)**

(in millions of Russian Roubles)

31 Income Tax

Federal law No. 224-FZ dated 26 November 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	(1,485)	(1,346)
Deferred tax benefit/(expense)	763	(93)
Total income tax for the year	**(722)**	**(1,439)**
Current income tax	(1,491)	(1,380)
Adjustments of the current income tax for the previous year	6	34
Total current income tax expense for the year	**(1,485)**	**(1,346)**
Deferred tax benefit/(expense) related to the temporary differences	**333**	**(93)**
Change in tax rate	**430**	**-**
Total deferred income tax expense for the year	**763**	**(93)**
Total income tax for the year	**(722)**	**(1,439)**

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

	2008	%	2007	%
Profit before income tax	3,658	100	4,491	100
Statutory income tax rate	24%		24%	
Theoretical tax charge at statutory income tax rate	(878)	(24)	(1,078)	(24)
Increase/(decrease) resulting from the effect of:				
Adjustment of the current tax for the previous periods	6	-	(34)	-
Non-taxable income	67	2	128	3
Non-deductible expenses	(394)	(11)	(378)	(9)
Tax losses not recognized in previous periods	47	1	-	-
Reclassification of differences from temporary to permanent	-	-	(77)	(2)
Change in tax rate	430	12	-	-
Total actual income tax	**(722)**	**(20)**	**(1,439)**	**(32)**

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

	1 January 2007	Recognised in income	31 December 2007	Recognised in income	31 December 2008
Property, plant and equipment	(2,822)	(36)	(2,858)	383	**(2,475)**
Intangible assets	(366)	(67)	(433)	183	**(250)**
Investments	(13)	8	(5)	4	**(1)**
Inventories	1	-	1	16	**17**
Trade and other accounts receivable	33	(11)	22	3	**25**
Loans and borrowings	(17)	24	7	(3)	**4**
Finance lease liabilities	(61)	(32)	(93)	249	**156**
Pension liabilities	157	(8)	149	(12)	**137**
Accounts payable and accrued expenses	267	29	296	(60)	**236**
Total deferred income tax liability, net	**(2,821)**	**(93)**	**(2,914)**	**763**	**(2,151)**

The Group has not recognized a deferred tax liability in respect of the temporary difference which related to investments in subsidiaries in the amount of 473 (2007: 695), as management believes that the Group is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

32 Earnings per Share

The Company does not have financial instruments which may be converted into ordinary shares, therefore, the diluted earnings per share equal to basic earnings per share.

Earnings per share amount is calculated by dividing the profit attributable to ordinary and to preference shareholders (see note 17) by the weighted average number of ordinary and preference shares outstanding respectively during the year.

The following is a reconciliation of the profit attributable to ordinary and preference shareholders:

	2008	2007
Net profit for the year attributable to the shareholders of the Group	2,906	3,006
Less: attributable to preference shareholders	727	752
Attributable to ordinary shareholders	**2,179**	**2,254**
Number of ordinary shares, in millions	246	246

(in millions of Russian Roubles)

33 Dividends Declared and Proposed for Distribution

In June 2008, shareholders resolved on the general shareholder meeting to approve dividends for year ended 31 December 2007 in the amount of 2.1346 roubles per ordinary share and 4.0534 roubles per preference share.

The total sum of dividends to be paid amounted:

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, roubles
Declared and approved for 2007			
Preference shares	81,983,404	4.0534	332,311,530
Ordinary shares	245,969,590	2.1346	525,046,687
Total	**327,952,994**		**857,358,217**

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, roubles
Recommended for 2008			
Preference	81,983,404	3.8689	317,185,592
Ordinary	245,969,590	1.6819	413,696,253
Total	**327,952,994**		**730,881,845**

The amount of dividends to be paid is recommended by the Board of Directors and is subject to the approval by shareholders at the shareholders meeting.

34 Operating lease

The table below summarizes minimum lease payments under operating lease contracts where the Group acts as a lessee:

	2008	2007
	Minimum lease payments	Minimum lease payments
Less than 1 year	**61**	59
From 2 to 5 years	**65**	65
More than 5 years	**393**	227
Total	**519**	351

Group mainly rents land, premises and telecommunication equipment.

For part of rented equipment the Company concluded sub-rent contracts. The Group's income under this contract as at 31 December 2008 amounted nil (2007 – 5).

In 2008 operating lease expenses included in line "Other operating expenses" of Consolidated Income Statement amounted 444 (2007 – 398).

The table below summarizes minimum lease payments under operating lease contracts where the Group acts as a lessor:

	2008	2007
	Minimum lease payments	Minimum lease payments
Less than 1 year	**8**	14
From 2 to 5 years	**6**	9
More than 5 years	**1**	2
Total	**15**	25

Main subjects of operating lease contracts where the Group acts as a lessor is telecommunication equipment.

In 2008 revenue from operating lease reflected in line “Revenue” of Consolidated Income Statement amounted 205 (2007 – 171).

35 Commitments

As of 31 December 2008 and 2007 the Group’s contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 654 and 7,164 respectively.

As of 31 December 2008 and 2007 contractual obligations with regard to acquire fixed assets were 320 and 258 respectively.

36 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 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 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.

The Group appealed to Moscow Arbitration Court on decision of tax bodies (Intraregional Inspectorate of the Federal Tax Service on major taxpayers #7) on penalties in amount of 173 issued upon results of on-site tax audit for the period 2004-2006. On 3 February 2009 act of tax bodies was declared void by decision of Moscow Arbitration Court. Tax bodies filed an appeal on decision of Arbitration Court.

Insurance

The Group undertakes risk management measures, including acquisition of insurance policies. During 2008 the Group maintained insurance coverage on a significant part of its property, plant and equipment, professional indemnity of directors, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Group’s property or the Group’s operations. As a natural monopoly, the Group has to select a provider of insurance services on an open tender, to meet the requirements of the Federal Law No, 135-FZ “On Protection of Competition”.

Legal Proceedings

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

Licenses

The majority of the Group'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 Group's key licenses for the provision of telecommunications services or inability of extends 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 Group's management believes that in the future the licenses held will be extended without additional expenses in the course of ordinary business.

37 Financial Instruments

The Group's principal financial instruments comprise accounts receivable, accounts payable, 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 Group's operations. Short term deposits are also actively used as a financial instrument to place available funds. The Group has other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Capital Management Policy

The Group's capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, restructuring of payables and debts, 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 capital management, debt portfolio restructuring, use of different classes of borrowed funds.

The Group's policy is to maintain certain ratios within acceptable limits, including the financial independence ratio, the net debt/shareholders' equity ratio, and the net debt/EBITDA ratio.

As of the balance sheet date Fitch international rating agency and Standard and Poor's confirmed the Group's short term credit risk at "BB-", with "Stable" outlook.

Capital management is conducted at the level of separate significant legal entities of the Group. The ratios of financial independence, net debt/shareholders' equity and net debt/EBITDA are calculated using the statutory accounting data. 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 Group's capital management policy was not changed in 2008 compared to 2007.

(in millions of Russian Roubles)

Income and expenses on financial instruments

2008	Consolidated income statement						Consolidated statement of changes in equity	Total
	Other operating expense	Financial expenses	Other income and expenses					
	Bad debt provision	Interest expense	Interest income	Dividends income	Impairment loss	Forex gain/loss	Change in fair value	
Cash and cash equivalents	-	-	120	-	-	-	-	120
Accounts receivable	(166)	-	-	-	-	-	-	(166)
Financial assets	-	-	-	7	(3)	-	(5)	(1)
Investments held to maturity	-	-	1	-	-	-	-	1
Loans issued	-	-	1	-	-	-	-	1
Total financial assets	**(166)**	**-**	**122**	**7**	**(3)**	**-**	**(5)**	**(45)**
Loans and borrowings	-	(549)	-	-	-	(71)	-	(620)
Bonds	-	(613)	-	-	-	-	-	(613)
Promissory notes	-	(25)	-	-	-	-	-	(25)
Vendor financing	-	(27)	-	-	-	(46)	-	(73)
Finance lease	-	(289)	-	-	-	-	-	(289)
Interest payables	-	(78)	-	-	-	-	-	(78)
Accounts payable	-	-	-	-	-	(48)	-	(48)
Total financial liabilities	**-**	**(1,581)**	**-**	**-**	**-**	**(165)**	**-**	**(1,746)**

(in millions of Russian Roubles)

2007	Consolidated income statement						Consolidated statement of changes in equity	Total
	Other operating expense	Financial expenses	Other income and expenses					
	Bad debt provision	Interest expense	Interest income	Dividends income	Financial assets disposal	Forex gain/loss	Change in fair value	
Cash and cash equivalents	-	-	7	-	-	-	-	7
Accounts receivable	103	-	1	-	-	-	-	104
Financial assets	-	-	-	3	10	-	1	14
Investments held to maturity	-	-	6	-	-	-	-	6
Loans issued	-	-	1	-	-	(3)	-	(2)
Total financial assets	**103**	**-**	**15**	**3**	**10**	**(3)**	**1**	**129**
Loans and borrowings	-	(296)	-	-	-	16	-	(280)
Bonds	-	(523)	-	-	-	-	-	(523)
Promissory notes	-	(5)	-	-	-	-	-	(5)
Vendor financing	-	(21)	-	-	-	25	-	4
Finance lease	-	(207)	-	-	-	-	-	(207)
Interest payables	-	(96)	-	-	-	-	-	(96)
Accounts payable	-	-	-	-	-	5	-	5
Total financial liabilities	**-**	**(1,148)**	**-**	**-**	**-**	**46**	**-**	**(1,102)**

(in millions of Russian Roubles)

Foreign Exchange Risk

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

The liabilities of the Group denominated in USD were 680 as at 31 December 2008 (2007: 910)

For the period from 1 January 2008 through 31 December 2008 the Rouble to the US Dollar and Rouble to EURO decreased by approximately 19.69% and 15.33%, respectively.

The Group does not use any tools to manage foreign exchange risks.

The following table presents the Group's financial instruments that are exposed to foreign exchange risk as of 31 December 2008 and 2007.

2008	**RUR**	**USD**	**EURO**	**Other**	**Total**
Cash and cash equivalents	1,676	1	1	-	1,678
Accounts receivable	2,625	2	1	-	2,628
Financial assets	20	-	-	-	20
Investments held to maturity	202	-	-	-	202
Loans issued	9	-	-	-	9
Total financial assets	**4,532**	**3**	**2**	**-**	**4,537**
Loans and borrowings	(8,853)	(366)	(154)	-	(9,373)
Bonds	(4,822)	-	-	-	(4,822)
Promissory notes	(394)	-	-	-	(394)
Vendor financing	(320)	(233)	(30)	-	(583)
Finance lease	(1,772)	-	-	-	(1,772)
Interest payables	(79)	(2)	-	-	(81)
Accounts payable	(4,479)	(79)	(35)	(3)	(4,596)
Total financial liabilities	**(20,719)**	**(680)**	**(219)**	**(3)**	**(21,621)**

2007	**RUR**	**USD**	**EURO**	**Other**	**Total**
Cash and cash equivalents	494	1	-	-	495
Accounts receivable	2,633	1	-	-	2,634
Financial assets	29	-	-	-	29
Investments held to maturity	30	-	-	-	30
Loans issued	16	-	-	-	16
Total financial assets	**3,202**	**2**	**-**	**-**	**3,204**
Loans and borrowings	(4,951)	(444)	(231)	-	(5,626)
Bonds	(8,240)	-	-	-	(8,240)
Promissory notes	(306)	-	-	-	(306)
Vendor financing	-	(307)	(74)	-	(381)
Finance lease	(956)	-	-	-	(956)
Interest payables	(97)	(10)	-	-	(107)
Accounts payable	(3,441)	(149)	(16)	-	(3,606)
Total financial liabilities	**(17,991)**	**(910)**	**(321)**	**-**	**(19,222)**

(in millions of Russian Roubles)

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

	USD			Euro		
	Forex change, %	**Effect on income before income tax**		**Forex change, %**	**Effect on income before income Tax**	
2008	**+10%**	**(68)**	**-2%**	**+5%**	**(11)**	**0%**
	-10%	**68**	**2%**	**-5%**	**11**	**0%**
2007	+10%	(91)	-2%	+5%	(16)	0%
	-10%	91	2%	-5%	16	0%

Interest Rate Risk

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

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

2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	1,644	-	34	1,678
Accounts receivable	-	-	2,628	2,628
Financial assets	-	-	20	20
Investments held to maturity	202	-	-	202
Loans issued	9	-	-	9
Total financial assets	**1,855**	**-**	**2,682**	**4,537**
Loans and borrowings	(5,104)	(4,269)	-	(9,373)
Bonds	(1,835)	(2,987)	-	(4,822)
Promissory notes	(394)	-	-	(394)
Vendor financing	(545)	(38)	-	(583)
Finance lease	(1,772)	-	-	(1,772)
Interest payables	(27)	(54)	-	(81)
Accounts payable	-	-	(4,596)	(4,596)
Total financial liabilities	**(9,677)**	**(7,348)**	**(4,596)**	**(21,621)**

2007	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	453	-	42	495
Accounts receivable	-	-	2,634	2,634
Financial assets	-	-	29	29
Investments held to maturity	30	-	-	30
Loans issued	16	-	-	16
Total financial assets	**499**	**-**	**2,705**	**3,204**
Loans and borrowings	(5,044)	(582)	-	(5,626)
Bonds	(2,283)	(5,957)	-	(8,240)
Promissory notes	(306)	-	-	(306)
Vendor financing	(356)	(25)	-	(381)
Finance lease	(956)	-	-	(956)
Interest payables	(48)	(59)	-	(107)
Accounts payable	-	-	(3,606)	(3,606)
Total financial liabilities	**(8,993)**	**(6,623)**	**(3,606)**	**(19,222)**

(in millions of Russian Roubles)

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

	LIBOR			Mosprime		
	Changes in exchange rate, %	**Effect on profit before tax**		**Changes in exchange rate, %**	**Effect on profit before tax**	
			%			**%**
2008	**+1**	**(1)**	**0**	**+1**	**(41)**	**-1**
	-1	**-**	**-**	**-1**	**41**	**1**
2007	+1	-	-	+1	-	-
	-1	-	-	-1	-	-

Changes in EURIBOR would not influence significantly profit and equity.

Liquidity risk

The Group monitors its risk of a shortfall of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations. The Group'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	1,678	-	-	-	-	1,678
Accounts receivable	2,627	1	-	-	-	2,628
Financial assets	-	-	-	-	20	20
Investments held to maturity	202	-	-	-	-	202
Loans issued	2	1	-	1	-	4
Total financial assets	**4,509**	**2**	**-**	**1**	**20**	**4,532**

	2009	**2010**	**2011**	**2012**	**2013 and later**	**Total**
Loans and borrowings	(2,310)	(2,685)	(1,702)	(2,300)	(400)	(9,397)
Bonds	(3,931)	(920)	-	-	-	(4,851)
Promissory notes	(416)	-	-	-	-	(416)
Vendor financing	(330)	(137)	(148)	-	-	(615)
Finance lease	(791)	(604)	(459)	(379)	(111)	(2,344)
Interest payables	(1,813)	(1,105)	(601)	(316)	(69)	(3,904)
Accounts payable	(4,596)	-	-	-	-	(4,596)
Total financial liabilities	**(14,187)**	**(5,451)**	**(2,910)**	**(2,995)**	**(580)**	**(26,123)**

These flows include the repayment of principal amount as well as interest payments and other additional payments to be made during respective period

Credit Risk

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

Financial assets, which potentially expose the Group to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

(in millions of Russian Roubles)

The Group 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. Part of accounts receivable is represented by state and other non-commercial organizations.

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

			Post due (days)					
2008	**Total**	**Not overdue**	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	**402**	351	28	12	11	-	-	-
Individuals	**1,009**	898	61	30	20	-	-	-
Governmental customers	**149**	130	13	4	2	-	-	-
Interconnected operators	**543**	481	59	2	1	-	-	-
Total	**2,103**	1,860	161	48	34	-	-	-

			Post due (days)					
2007	**Total**	**Not overdue**	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	405	337	30	22	16	-	-	-
Individuals	956	819	74	38	25	-	-	-
Governmental customers	120	100	11	6	3	-	-	-
Interconnected operators	641	599	20	11	7	3	1	-
Total	**2,122**	**1,855**	135	77	51	3	1	-

Hedging

In the year 2008 the Group did not hedge its foreign exchange risks or interest rate change risks.

Fair-value of the financial instruments

The Group estimates the fair value of its financial assets and liabilities to not be materially different from their carrying amounts except in the following instances:

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loong-term bank loans	3,473	2,763	3,113	2,509
Bonds	4,822	4,503	8,240	8,279
Total	**8,295**	**7,266**	**11,353**	**10,788**

(in millions of Russian Roubles)

38 Balances and Transactions with Related Parties

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

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest, including OJSC Rostelecom	Associates	Other
2008		-	-	-
Provision of telecommunication services, interconnection and traffic transmission services	-	1,506	48	-
Agent services	-	476	-	-
Rent income	-	1	2	-
Other income	-	13	3	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	(256)	(26)	-
Purchase of other services	-	(45)	(1)	(471)
Purchase of goods and assets	-	(56)	-	(184)
Dividend income	-	-	-	2
Dividends payable	(244)	-	-	-
2007				
Provision of telecommunication services, interconnection and traffic transmission services	-	2,038	79	2
Agent services	-	642	8	-
Rent income	-	2	1	-
Other income	-	10	-	1
Revenue from disposals of property, plant and equipment	-	-	-	15
Purchase of telecommunication services, interconnection and traffic transmission services	-	(561)	(44)	-
Purchase of other services	-	(39)	(3)	(485)
Purchase of goods and assets	-	(1)	-	(313)
Interest income	-	-	-	1
Dividend income	-	-	-	3
Dividends payable	(197)	-	-	-

The nature of the significant Group's related party transactions balances outstanding as of 31 December 2008 and 2007 is detailed below:

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	Other
2008	-	-	-	-
Trade and other receivables, net	-	209	5	9
Bad debt provision	-	-	21	
Loans issued (including interest)	-	-	4	
Trade payables	-	321	1	78
2007				-
Trade and other receivables, net	-	279	19	42
Trade payables	-	311	5	69

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, the Russian Government held 75% minus one ordinary share of OJSC Svyazinvest.

OJSC Svyazinvest is the Company's parent company. The Russian Government is the party with ultimate control over the Company.

No publicly available financial statements are produced by the Company's parent company, ultimate controlling party or any other intermediate controlling party.

Svyazinvest Group comprises 7 interregional telecommunications companies (MRK), OJSC Rostelecom, OJSC Tsentralnyy Telegraph, OJSC Dagsvyazinform and other subsidiary operating telecommunications companies.

Carriers that are a part of Svyazinvest Group are operators of general use telecommunications network providing services of local, intra-zone, intercity and international telephone communication, communication services in data transmission networks, telematics services, telegraph communication services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services on providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communications.

Subsidiaries

The Company performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances after transactions with subsidiaries are excluded from the Group'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.

OJSC Rostelecom

OJSC Rostelecom, a majority-owned subsidiary of 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 Group 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 annual 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 network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Group.

(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	**1,394**	1,892
Agent services	**475**	639
Rent income	**1**	1
Other income	**12**	6
Purchase of telecommunication services, interconnection and traffic transmission services	**(185)**	(92)
Purchase of other services	**(32)**	(12)
Trade and other receivables	**189**	258
Accounts payable	**(291)**	(300)

Transactions with State-controlled Companies

State-controlled organisations are a significant element in the Group's customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates.

State-controlled organisations have no effect on Group's interactions with other organizations.

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications (hereinafter the Partnership) is an entity OJSC Svyazinvest controls through its subsidiaries. As at 31 December 2008 Partnership is not a related party of the Group due to the fact that the Company has withdrawn from Partnership.

In 2008 the Partnership received membership fees amounting to 117 (2007 - 221).

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries which own collectivelly 100% of its share capital. OJSC Svyazintek provides to the Group 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 Group incurred expenses on services provided by OJSC Svyazintek in the amount of 267 (2007: 291). Out of that amount 83 (2007 – 69) is included in Consolidated Income Statement, and 184 (2007 - 222) is capitalized in non-current assets.

Remuneration of Key Management Personnel

The key management personnel consists of members of the Management Committee and the Board of Directors of the Group.

(in millions of Russian Roubles)

Remuneration for members of the Board of Directors and the Management Committee of the Group for 2008 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 159 (2007 - 93). The remuneration amounts are stated exclusive of the unified social tax.

	2008	2007
Current remuneration	**159**	**93**
Including		
Salary	147	86
annual vacation	5	2
Social taxed	5	3
Medical services	2	2
Long-term remuneration	**11**	**10**
Including		
Payments under pension plans	5	5
Other payments for social guarantees	6	5

Non-government Pension Fund Telecom Soyuz

The Group has an agreement for the administration of a non-state pension plan with the non-state pension fund Telecom-Soyuz and in addition to the state pension it provides the majority of employees with non-state pension benefits using defined contribution and defined benefit remuneration schemes upon completion of employment.

Defined contribution pension schemes provide for contributions by both the Group and employees during his/her employment. The Group's and employees' contributions are accumulated on particular employees' pension accounts in the non-state pension fund Telecom-Soyuz. The size of the pension assigned to an employee under these schemes is determined by the amount of savings accumulated by the date of the employee's retirement.

Defined benefit pension schemes provide for pension coverage based on the age and disability. The condition of retirement pension coverage is an employee's reaching the age that entitles him/her to state retirement pension coverage: at present 55 years old for women and 60 years old for men. According to the pension scheme the size of pensions is a certain amount of money that depends on employees' positions. In order to receive the right for non-state pension coverage an employee's term of service in the Group at the time of retirement should be no less than 10 years.

The total amount of contributions for non-state pension coverage paid by the Group in 2008 was 221 (2007 - 208) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of the Group to cover own expenses for activities under the charter and administrative costs.

39 Subsequent Events

Dividends

The Board of Directors recommended dividends for 2008 of 1.6819 Roubles per ordinary share and 3.8689 Roubles per preference share. Total amount of dividends proposed equals 414 on ordinary shares and 317 on preference shares. It is subject to the approval at the annual shareholders' meeting to be held in June 2009. Following the approval annual dividend payable to shareholders will be recognized in the 2009 financial statements (see also note 33).