Open Joint Stock Company North-West Telecom

Consolidated Financial Statements

Year ended December 31, 2008 with Report of Independent Auditors

Open Joint Stock Company North-West Telecom

Consolidated Financial Statements for the year ended December 31, 2008 prepared in accordance with International Financial Reporting Standards (IFRS)

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of OJSC NWT

We have audited the accompanying consolidated financial statements of OJSC NWT ("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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from 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 auditors' 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 policies 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 audit opinion.

Opinion

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

May 29, 2009

Open Joint Stock Company North-West Telecom
Consolidated Balance Sheet
as of December 31, 2008
(in millions of Rubles)

	Notes	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	**9**	**43,207**	34,846
Intangible assets	**10**	**5,207**	4,619
Long-term accounts receivable		**6**	39
Other non-current assets	**11**	**393**	233
Investments in associates	**12**	**84**	125
Non-current financial assets	**13**	**44**	263
Total non-current assets		**48,941**	40,125
Current assets			
Inventories	**14**	**460**	304
Trade and other receivables	**15**	**2,596**	1,892
Prepaid income tax		**315**	42
Other current assets	**16**	**384**	718
Current financial assets	**13**	**327**	6,416
Cash and cash equivalents	**17**	**1,001**	503
Total current assets		**5,083**	9,875
Assets Available for sale	**8**	**162**	-
TOTAL ASSETS		**54,186**	50,000
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**19**	**2,855**	2,855
Treasury shares	**19**	**(67)**	(67)
Unrealized gain on available-for-sale investments		**-**	152
Additional paid-in-capital		**2,525**	2,525
Retained earnings		**24,406**	23,397
Total equity attributable to equity holders of the parent		**29,719**	28,862
Minority interest		**-**	-
Total shareholders' equity		**29,719**	28,862
Non-current liabilities			
Long-term borrowings	**20**	**13,366**	5,652
Pension liabilities and other employee benefits	**21**	**2,108**	1,838
Long-term accounts payable		**22**	-
Other non-current liabilities		**358**	304
Deferred income tax liabilities	**32**	**1,079**	1,234
Total non-current liabilities		**16,933**	9,028
Current liabilities			
Short-term borrowings	**20**	**2,726**	5,246
Accounts payable and accrued liabilities	**23**	**4,281**	4,220
Income tax payable		**-**	2,164
Other current liabilities	**24**	**520**	450
Short-term provisions	**22**	**7**	30
Total current liabilities		**7,534**	12,110
Total liabilities		**24,467**	21,138
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**54,186**	50,000

General Director ____________ V.A. Akulich   Chief Accountant ___________ M.M. Semchenko

The accompanying notes on pages 8-81 form an integral part of these consolidated financial statements.

Open Joint Stock Company North-West Telecom
Consolidated Income Statement
for the year ended December 31, 2008

(in millions of Rubles)

	Notes	2008	2007
Revenues	**25**	**25,176**	24,226
Payroll costs	**26**	**(8,221)**	(7,603)
Depreciation and amortization	**9,10**	**(5,514)**	(4,562)
Services of telecommunication operators		**(1,904)**	(1,813)
Materials, repairs and maintenance, utilities	**27**	**(3,299)**	(2,580)
Other operating income	**28**	**2,587**	506
Other operating expenses	**29**	**(4,229)**	(3,691)
Operating income		**4,596**	4,483
Profit from investments in associates	**12**	**13**	27
Financial costs	**30**	**(1,066)**	(1,152)
Other income and expenses from financing and investment activities	**31**	**(195)**	9,916
Profit before income tax		**3,348**	13,274
Income tax	**32**	**(787)**	(3,161)
Profit for the year		**2,561**	10,113
Profit for the year attributable to:			
Equity holders of the parent		**2,561**	10,113
Minority holders of subsidiaries		**-**	-
Basic and diluted earnings per share (Russian Rubles) for the year	**33**	2.28	8.98

General Director ___________ V.A. Akulich   Chief Accountant __________ M.M. Semchenko

Open Joint Stock Company North-West Telecom

Consolidated Cash Flow Statement

for the year ended December 31, 2008

(in millions of rubles)

	Notes	2008	2007
Cash flows from operating activities			
Profit before tax		**3,348**	13,274
Adjustments			
Depreciation and amortization	**9,10**	**5,514**	4,562
Profit (loss) on disposals of property, plant and equipment and intangible assets	**28**	**(35)**	44
Reversal of doubtful debt provision	**15**	**(23)**	(29)
Movements in provisions and pensions		**245**	201
Profit from investments in associates	**12**	**(13)**	(27)
Financial costs	**30**	**1,066**	1,152
Profit from disposals of long-term investments	**31**	**(219)**	(9,603)
Interest income on financial assets	**31**	**(314)**	(162)
Currency exchange gain (loss), net	**31**	**754**	(159)
Other non-cash items		**(26)**	-
Operating profit before adjustment for non-cash items		**10,297**	9,253
Decrease (increase) in inventories		**(157)**	4
Decrease (increase) in trade and other receivable		**(678)**	291
Decrease in other current assets		**251**	185
Increase in accounts payable and accrued liabilities		**96**	622
Decrease in other current liabilities		**1**	-
Cash flows generated from operations		**9,810**	10,355
Interest paid		**(944)**	(1,137)
Income tax paid		**(3,304)**	(1,319)
Net cash flows provided by operating activities		**5,562**	7,899
Cash flows from investing activities			
Purchase of property, plant and equipment and construction in progress		**(14,099)**	(9,083)
Proceeds from disposal of property, plant and equipment and intangible assets		**407**	187
Purchase of intangible assets		**(896)**	(658)
Purchase of subsidiaries, net of cash acquired		**-**	(2,307)
Proceeds from disposal of interest in associates		**273**	-
Purchase of financial assets		**(3,027)**	(8,105)
Proceeds from disposal of financial assets		**9,203**	12,137
Interest received		**314**	57
Dividend received		**-**	1
Net cash flows used in investing activities		**(7,825)**	(7,771)

The accompanying notes on pages 8-81 form an integral part of these consolidated financial statements.

Open Joint Stock Company North-West Telecom

Consolidated Cash Flow Statement

for the year ended December 31, 2008

(in millions of Rubles)

	Notes	2008	2007
Cash flows from financing activities			
Proceeds from borrowings		**4,859**	10,245
Repayment of borrowings		**(3,453)**	(7,929)
Proceeds from bond issue		**2,999**	-
Repayment of bonds		**-**	(1,050)
Repayment of promissory notes		**(6)**	(7)
Repayment of vendor financing		**(16)**	(44)
Repayment of finance lease obligations		**(150)**	(213)
Proceeds from other long-term liabilities		**54**	-
Dividend paid to shareholders of the parent		**(1,504)**	(871)
Net cash flows provided by financing activities		**2,783**	131
Effect of exchange gain (loss) on cash and cash equivalents		**(22)**	-
Increase in cash and cash equivalents, net		**498**	259
Cash and cash equivalents at the beginning of year		**503**	244
Cash and cash equivalents at the end of year		**1,001**	503

General Director _____________ V.A. Akulich   Chief Accountant __________ M.M. Semchenko

The accompanying notes on pages 8-81 form an integral part of these consolidated financial statements.

Open Joint Stock Company North-West Telecom

Consolidated Statement of Changes in Equity

for the year ended of December 31, 2008

(in millions of Rubles)

		Share capital								
	Notes	Preference shares	Ordinary shares	Treasury shares	Retained earnings	Additional-paid-in capital	Unrealized gain on available-for-sale investments	Total shareholders' equity	Minority interests	Total equity
Balance at December 31, 2006		622	2,233	(67)	13,809	2,525	7,295	26,417	-	26,417
Changes in fair value of investments available for sale							28	28		28
Sale of investments available for sale on disposal							(7,171)	(7,171)		(7,171)
Profit for the year					10,113			10,113		10,113
Dividends paid to equity holders of the parent					(525)			(525)		(525)
Balance at December 31, 2007		**622**	**2,233**	**(67)**	**23,397**	**2,525**	**152**	**28,862**	**-**	**28,862**
Changes in fair value of investments available for sale							(152)	(152)		(152)
Profit for the year					2,561			2,561		2,561
Dividends paid to equity holders of the parent					(1,552)			(1,552)		(1,552)
Balance at December 31, 2008		**622**	**2,233**	**(67)**	**24,406**	**2,525**	**-**	**29,719**	**-**	**29,719**

General Director ____________ V.A. Akulich

Chief Accountant ___________ M.M. Semchenko

The accompanying notes on pages 8-81 form an integral part of these consolidated financial statements.

1. General information

Authorization for issue

The consolidated financial statements of Open joint stock company North-West Telecom (hereinafter "the Company" or "OJSC NWT") and its subsidiaries (hereinafter "the Group") for the year ended December 31, 2008 were authorized for issue by the General Director and the Chief Accountant of the Company on May 29, 2009.

The Company

OJSC NWT is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The registered office of the Company is 14/26, Gorokhovaya Str., St. Petersburg, Russia.

The Company provides telephony services (including local and intrazone telephony), telegraph, data transmission services, rent of communication channels and wireless communication services in the North-West Region of the Russian Federation.

Open joint stock company Svyazinvest, a federal holding company controlled by the Russian Federation, owns 50.76% of the Company's voting shares as of December 31, 2008 and is the parent company for OJSC NWT.

The details of the main subsidiaries of the Company are disclosed in Note 7. All subsidiaries are incorporated in accordance with the laws of the Russian Federation unless stated otherwise.

Liquidity and financial resources

As of December 31, 2008 current liabilities of the Group exceeded its current assets by 2,289 (December 31, 2007: 2,235). Profit of the Group before taxation in 2008 and 2007 was 3,348 and 13,274, respectively.

In 2008 the Group saw a decline across most liquidity ratios. The ongoing global financial crisis caused instability in the stock markets affecting the financial situation, operating performance and general economic outlook for the Group. Thus, interest rate under Russian rubles loan agreements entered into in 2009 is 13.75% p.a. versus average weighted rate on borrowings of 8.34% p.a. in 2008 (2007: 7.87%). Due to a significant weakening of the Russian Ruble against the major currencies, exchange losses on currency-denominated liabilities in the 4th quarter of 2008 totaled to 736. Moreover, as the Ruble continued to weaken, in the period from January 1, 2009 through the date of approval of these financial statements exchange losses on currency-denominated liabilities reach approximately 430.

In addition, in the reporting period the liquidity ratios were affected by the following:

1) Increase in short-term obligations due to short-term portion of certain long-term loans and borrowings, specifically:

- 4th bond issue: 500;
- Syndicated loan: 885 (36.3 million US Dollars);

1. General information (continued)

Liquidity and financial resources (continued)

2) Decrease in short-term investments due to promissory notes of 6,200 redeemed. The proceeds were mainly used in investment activity.

In 2008 the Group settled the following short-term liabilities (excluding interest) in accordance with the contractual payment schedules or ahead of schedule:
- Syndicated loan: 834 (22.2 million Euro);
- OJSC Savings Bank of Russian Federation (referred to as OJSC Sberbank hereinafter), CJSC Raiffeisenbank and CJSC ING Bank (Eurasia): 2,579.

In 2008 the Group borrowed short and long-term funds to finance its operations, primarily in the form of bank loans and bond issues. In 2008 the Group timely and in full met its obligations when they fell due.

In 2008 the Group's management monitored compliance with financial performance requirements set forth in the loan agreements. As of December 31, 2008 the Group's financial performance indicators were in line with the covenants imposed by the loan agreements.

The Group manages its liability portfolio to ensure that short-, mid- and long-term instruments are mixed in equal proportions. Average liability duration target, including new borrowings, is established as 2.5 years.

The Group has an action plan in place to maintain and improve current liquidity level in 2009 and raise long-term debt which includes the following:
- Placement of the 6th bond issue of 3,000 in 2009 subject to market conditions (decision to issue securities registered with the Federal Financial Markets Service on October 16, 2008 is valid through October 16, 2009);
- Up to 4,000 further bond offerings during 2009;
- Raising a total of 1,540 in mid-term loan facilities from OJSC Sberbank in 2009;
- Reduction of 8,055 in investment costs in 2009 as compared with the previous year.

The Group's management believes that, where necessary, some projects may be deferred or scaled down commensurate with the financing needed to support the Group's current operations. Also, maturity dates under certain current operations may be deferred to bridge working capital gap, if any.

The above measures are expected to ensure cash inflows sufficient to finance operations in 2009, including refinancing of the short-term liability under the existing borrowings.

Telecommunications legislation

Establishment of new tariffs based on tariff plans

In conformity with current Russian laws regulating the activities of natural monopolies, the Group is included in the register of natural monopolies in the area of communications. As a result, tariffs for a number of communication services provided by the Group are established by the Federal Tariff Service (hereinafter, "the FTS"). In accordance with the FTS Order of November 23, 2007 No. 357-c/2 the Group increased local telephony tariffs effective February 1, 2008.

The Russian FTS sets tariffs for local telephone services using the economically justifiable costs method based on gross revenue required to cover the cost of services, part of other costs and standard profit. The Company provides interconnection services and traffic transmission services to operators. The Company is included in the register of operators that have a prominent position in the public telecommunication network. Tariffs charged by the Company for interconnection and traffic transmission services are subject to state regulation.

1. General information (continued)

Telecommunications legislation (continued)

Interconnection and traffic transmission services

Pursuant to Decree No. 666 of the Russian Government, dated October 12, 2007, Concerning Amendments to Certain Acts of the Russian Government Related to Telecommunication Issues, since March 1, 2008 services related to maintenance of communication facilities representing interconnection points have been excluded from the scope of interconnection services.

Russian Government Decree No. 776 of November 14, 2007 Concerning Amendments to the Russian Government Decree No. 627 of October 19, 2005 establishes that since March 1, 2008 an operator is entitled to determine a threshold for traffic transmission services (not exceeding 1,000 minutes/month per interconnection point supporting one connection at a time) subject to guaranteed payment by the buyer of traffic transmission services, if the amount of services provided in the billing period is below the established threshold.

Pursuant to Russian Government Resolution of October 19, 2005 No. 627 On State Regulation of Prices for Interconnection and Traffic Transmission Services Provided by Operators That Have a Prominent Position in the Public Telecommunication Network, since January 1, 2008 the compensatory mark-up was canceled on the tariffs for intrazone call initiation services introduced by the same Resolution since January 1, 2006 in the amount of 0.38 Rubles/minute established by the FTS Order of December 20, 2007 No. 732-c/6.

Plans to digitalize the Group's networks

At the end of 2008 66.65% of local telephone networks have been digitalized. Commissioning of new electronic telephone exchanges and replacement of quasi-electronic and analog telephone exchanges with electronic ones helped the Group improve quality and range of services and meet industry requirements.

The Group generally anticipates that considerable investments will be required to reach the 100.00% digitalization goal.

Universal telecommunication services

Starting from 2005 Russian Federation Government guarantees provision of universal telecommunication services that include local telephone connection services using payphones, access to the information and inquiry service system and availability of free-of-charge 24-hour emergency services calls, as well as data transmission services and access to the Internet using multiple access points, in hard-to-reach and geographically remote areas of the Russian Federation.

The Group has tendered for the right to provide universal telecommunication services, specifically telephone services using payphones, in its licensed areas. In 2007, the Group won 14 tenders and entered into 88 agreements with the Federal Telecommunications Agency, which outline the terms and conditions of providing universal telephone services using payphones. In 2008, no tenders were held by the Federal Telecommunications Agency for the right to provide universal telecommunication services.

As of December 31, 2008, the Group had to install the total of 25,824 payphones (December 31, 2007: 12,777) pursuant to the above agreements, and actually 25,824 payphones were placed in service. Thus, the Group fully met its contractual obligations to the Federal Telecommunications Agency with respect to payphones to be placed in service.

1. General information (continued)

Telecommunications legislation (continued)

Universal telecommunication services (continued)

Universal telecommunication services are subject to tariffs calculated by the Federal Telecommunications Agency and indicated in the agreements that outline the terms and conditions of providing universal telecommunication services. The established tariffs for universal telecommunication services do not cover the costs the Group incurs to provide these services. The excess of economically justified costs incurred to provide universal telecommunication services over revenue received based on the established tariffs constitutes losses from provision of universal telecommunication services which are reimbursable from the Universal Service Fund.

The rules for replenishing and spending the Universal Service Fund are approved by the Russian Federation Government Resolution No. 243 of April 21, 2005. In accordance with i. 5 of the Resolution, the income and expense sections of a draft federal budget for the relevant year include operator contributions to the Fund and amounts to be expensed from the fund in line with the budgetary classification of the Russian Federation. Thus, the Universal Service Fund constitutes one of the state budget funds.

Losses are reimbursed by the Federal Telecommunications Agency subject to the procedure set by Government of the Russian Federation in Resolution No. 246 of April 21, 2005 and indicated in agreements that determine the terms and conditions of providing universal telecommunication services. In 2007, pursuant to the agreements, the Group was reimbursed for losses on a semi-annual basis. Since the third quarter of 2007, losses have been reimbursed on a quarterly basis. The Federal Telecommunications Agency takes the final decision on the amount of such reimbursement based on the annual results after the Group submits an independent auditors' opinion confirming that:

- Losses claimed for reimbursement have been calculated correctly;
- Separate accounting has been performed correctly by the Group;
- The Group has made contributions to the universal service fund in full.

Information on the amount of reimbursed losses from universal telecommunication services is provided in Note 28.

2. Basis of presentation of the financial statements

Statement of compliance

These consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

Going concern

The consolidated financial statements are prepared based on the assumption that the Group will continue as a going concern in the foreseeable future, and its assets will be recovered and liabilities met as they become due.

Presentation of financial statements

The consolidated financial statements of the Croup are prepared based on standalone financial statements of the parent and its subsidiaries and associates prepared under unified accounting policy.

The consolidated financial statements are presented in millions of Russian Rubles with all values being rounded off to the nearest million, except when otherwise indicated.

2. Basis of presentation of the financial statements (continued)

Basis of accounting

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following items: property, plant and equipment recognized at fair value, which was used as the deemed cost of the property, plant and equipment as of the date of transition to IFRS; available-for-sale investments measured at fair value.

Changes in accounting policies

The accounting policies used in preparing the 2008 consolidated financial statements are consistent with those used in preparing the 2007 consolidated financial statements, except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2008. Adoption of new and revised standards did not have any effect on the result of operations or financial position of the Group.

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

New / amended Standard / Interpretation	Essence of amendments	Effect
IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*	Determines whether certain transactions should be accounted for as equity-settled or as cash-settled schemes under the requirements of IFRS 2, and relates to the accounting treatment of share-based payment arrangements that involve two or more entities within the same group.	The Interpretation did not have any effect on the financial position or performance of the Group.
IFRIC 12 *Service Concession Arrangements*	Applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.	The Interpretation did not have any effect 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*	Provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employment benefits.	The Interpretation did not have any effect on the financial position or performance of the Group.

2. Basis of presentation of the financial statements (continued)

IFRSs and IFRIC Interpretations issued but not yet effective

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

Standard / Interpretation	Essence of amendments	Effective date
IFRS 8 *Operating Segments*	Requires disclosure of operation segments and cancels requirement for determination of primary (industry sector) and secondary (geographic) segments. Amends segment information assessment principle, requiring operation segments financial data to be presented in the same evaluation as for segment information provided to Group's management in order to making decision, concerning distribution of resources between segments and valuation of segment's performance. Requires disclosure of factors used for operation segment definition.	Applicable for annual reporting periods, starting on or after January 1, 2009.
IAS 1 (as amended in 2007) *Presentation of Financial Statements*	Separates change in shareholder's capital from other changes in equity. Statement of changes in equity will provide detail information only for operations with shareholders, while other changes in equity (income and expenses, recognized immediately in equity) will be recorded within the single line. Introduces new report for gross income, where both income and expenses lines recorded in income statement and income and expenses, recognized immediately in equity, should be recorded. Changes of income and expenses recognized immediately in equity can be presented in gross income report or in two separate reports: income statement and gross income report.	Applicable for annual reporting periods, starting on or after January 1, 2009.
IAS 23 (as amended in 2006) *Borrowing Costs*	Eliminates option of immediate expensing borrowing costs, attributable to assets with long period of time needed for preparing them for use or sale.	Applicable for annual reporting periods, starting on or after January 1, 2009.
Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*	Require some financial instruments and liabilities connected with liquidation to be classified as equity in some circumstances. Define disclosure for instruments with early repayment option and classified as equity.	Applicable for annual reporting periods, starting on or after January 1, 2009.

(in millions of Rubles)

2. Basis of presentation of the financial statements (continued)

IFRSs and IFRIC Interpretations issued but not yet effective (continued)

Amendments to IFRS 2 *Share-based Payments for Vesting Conditions and cancellations*	Define vesting condition as evident or not evident requirement for service rendering. Other terms are not vesting conditions and should be considered, when estimating fair value of equity instruments transferred. If rights to equity instrument were not transferred because of condition, which is not vesting condition, and which fulfillment was under control of organization or its counteragent, then cancellation of instrument should be recognized.	Applicable for annual reporting periods, starting on or after July 1, 2009.
IFRS 3 (as amended in 2008) *Business Combinations*	Introduces several amendments for group of companies accounting. Those changes will influence amount of goodwill and financial results subject to reporting in acquisition period and further periods.	Applicable for annual reporting periods, starting on or after July 1, 2009.
IAS 27 (as amended in 2008) *Consolidated and Separate Financial Statements*	Requires treating change of share in subsidiary Group as equity operation. Amends treatment requirements for subsidiary losses and loss of control for subsidiary Group.	Applicable for annual reporting periods, starting on or after July 1, 2009.
IFRIC 13 *Customer Loyalty Programmes*	Requires bonus terms provided for client loyalty support to be treated as separate component of trade transaction. Part of received consideration fair value is assigned to those bonus terms and transferred to future reporting period, until bonus terms will be fulfilled.	Applicable for annual reporting periods, starting on or after July 1, 2008.
IFRIC 15 *Agreements for the Construction of Real Estate*	Defined criteria for construction contracts and principles of revenue recognition to be accounted under IAS 11 Construction contracts and IAS 18 Revenue.	Applicable for annual reporting periods, starting on or after January 1, 2009.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Defines, for what risks, connected with foreign investments hedge accounting is acceptable and amends treatment rules for those operations	Applicable for annual reporting periods, starting on or after October 1, 2008.
IFRIC 17 *Distributions of Non-cash Assets to Owners*	Explains how non-cash assets are distributed between owners. Also considers situations, where Group provides option for receiving non-cash assets or their cash equivalent.	Applicable for annual reporting periods, starting on or after July 1, 2009.

2. Basis of presentation of the financial statements (continued)

IFRSs and IFRIC Interpretations issued but not yet effective (continued)

IFRIC 18 *Transfers of Assets from Customers*	Explains circumstances, in which assets, transferred by clients should be recognized as Group's assets, and defines approaches for their valuation when initially recognized. Also considers situations, where client provides cash for purchase of those assets.	Applicable for annual reporting periods, starting on or after July 1, 2009.
Amendments for IAS 39 and IFRS 7 *Reclassification of financial assets*	Defines rules for reclassification of financial assets between different categories and requirements for disclosure for those reclassifications.	Applicable for annual reporting periods, starting on or after July 1, 2008.
IFRS annual improvement project	Project stipulates improvements eliminating inefficiency for several existing standards.	Effective dates are individual for every amendment approved

Currently the Group is evaluating the effect on the financial position and performance of the Group, if any, of the above not yet effective IFRSs and IFRIC Interpretations.

3. Summary of significant accounting policies

3.1 Principles of consolidation

The consolidated financial statements represent the financial statements of OJSC NWT and its subsidiaries as of December 31, 2008 and 2007. The financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent Group based on unified accounting policies.

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

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

Minority interest represents the portion of profit or loss and net assets not owned by the Group and is presented in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

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.

3. Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

Additional interest acquired in subsidiaries

The difference between the cost and carrying value of additional interest acquired in the net assets of a subsidiary is reported in shareholders' equity as of the date of transaction as acquisition of minority interest and is charged to retained earnings and reserves.

3.2. Property, plant and equipment

Cost of property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. All other repairs and maintenance 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. If the carrying amount exceeds the recoverable amount, the carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the income statement. An impairment loss recognized for an asset in prior years is reversed if in the current period the recoverable amount determined based on changed estimates exceeds the carrying amount.

Depreciation and useful life

Depreciation is calculated on a straight-line basis. The Group uses the following depreciation periods:

Land, buildings and constructions	**Years**
Land	Non-depreciable
Buildings	7-70 years
Transfer mechanisms (communication lines)	15 years
Other constructions (except communication lines)	7 - 30 years
Switches and transmission devices	
Switches	10 years
Other network equipment	3 - 10 years
Vehicles and other property, plant and equipment	
Vehicles	3 -10 years
Computers and office equipment	2 - 6 years
Other property, plant and equipment	1 - 7 years

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate at each financial year-end.

As of January 1, 2007, the Group's management reassessed the remaining useful lives of items of property, plant and equipment, which resulted in the revision of the remaining useful lives of certain items of property, plant and equipment.

Reassessment of the remaining useful lives was caused by rapid replacement of telecommunication equipment and technologies, including new industry requirements to communication network digitalization.

3. Summary of significant accounting policies (continued)

3.2. Property, plant and equipment (continued)

Depreciation and useful life (continued)

The Group actively introduces services and technologies related to broadband access to Internet, engages in the upgrades of fixed-line network infrastructure and implements packet switching.

Following the adoption by the Russian Federation Ministry of Communications and Information Technologies of order No. 142 of November 17, 2006, the Group reassessed the remaining useful lives for equipment to be replaced due to the conversion to a closed numbering plan.

Effect of reassessment of remaining useful lives is disclosed in Note 9.

The period of validity of the Group's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Based on the Russian licensing legislation and prior experience, management believes that the operating licenses will be renewed without significant cost, which would allow the Group to realize the cost of its property, plant and equipment through normal operations.

Property, plant and equipment received free of charge

Production equipment and other assets attributable to the OJSC NWT's core business transferred to the Group free of charge outside the privatization process are capitalized at market value at the date of transfer. Transfers of equipment mainly relate to the rendering by the Group of future services to the transferor using the assets transferred. In this case, the Group recognizes the deferred revenue in the amount of the fair value of the received property, plant and equipment and reflects them in the income statement on the same basis that the equipment is depreciated.

3.3 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on the acquisition of an associate is included in investments in associates. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

3. Summary of significant accounting policies (continued)

3.3 Intangible assets (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment loss can not be reversed in future periods.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets other than goodwill

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

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

The Group assesses whether the useful life of an intangible asset is finite or indefinite.

Intangible assets with finite lives are amortized 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 financial year-end. Changes in the expected useful life are accounted for by changing the amortization period, and treated as changes in accounting estimates.

Useful lives of other intangible assets are determined on a case-by-case basis.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite life assessment is no longer supportable, the Group changes the assessment from indefinite to finite and changes the accounting treatment of such assets in the future periods.

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 or construction of a qualifying asset, including construction in progress. Other borrowing costs are expensed as incurred.

Interest on loans and borrowings received to finance capital expenditures is capitalized to property, plant and equipment and intangible assets during the period of the construction and implementation stage. Other interest expenses are charged to income statement.

3.5 Associates

Associates are entities in which the Group generally owns between 20.00% and 50.00% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for using the equity method of accounting.

3. Summary of significant accounting policies (continued)

3.6 Investments and other financial assets

The Group's investments are classified into the following categories: loans and receivables; investments held to maturity; financial assets available for sale; and financial assets at fair value through profit or loss.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not classified as "financial assets valued at fair value through profit or loss", directly attributable transaction costs.

The Group determines the classification of its financial assets at initial recognition. At each financial year-end, the Group reviews the classification of financial assets to the extent it is appropriate and allowed by the standards.

Purchases and sales of financial assets in the normal course of business are recognized on the trade date, which is the date when the asset is delivered to the purchaser.

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit and loss. Investments are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains and losses from investments held for trading are recognized in the income statement.

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 allowance for impairment. If there is objective evidence of impairment loss on loans and receivables carried at amortized cost, 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 losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed on initial recognition). The carrying amount is reduced by using the provision account. The loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Short-term receivables are reported in the amount of the invoice issued net of any doubtful debt provision. The provision is based on historical collectibility and specific collectibility analysis of significant accounts. Bad debts are written off in the period when they are classified as irrecoverable.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has ability and intention to hold them to maturity.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any other category. After initial measurement, available for sale financial assets are measured at fair value with gains or losses, less corresponding tax effect, recognized separately in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

3. Summary of significant accounting policies (continued)

3.7 Inventories

The cost of inventories comprises all purchase costs and other costs incurred in bringing the inventories to their current condition. The cost of inventory is determined on a weighted average basis.

Inventories are reported at the lower of historical cost as of the balance sheet date and disposal value less costs to sell.

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 and carrying an insignificant risk of change in value.

3.9 Equity

Share capital

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

Treasury shares

Treasury shares are stated at weighted average cost.

Minority interest

Minority interest represents the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination or incorporation.

Dividends

Dividend 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 sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.10 Financial liabilities

For the purposes of these financial statements, Borrowings include loans, bonds and promissory notes, vendor financing, and finance lease obligations.

Loans and borrowings

Loans and borrowings are initially recognized at the fair value of the consideration received less 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 interest expense over the period of the borrowings.

Financial guarantees

Financial guarantees issued by the Group arise from a contract that requires a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

3. Summary of significant accounting policies (continued)

3.10 Financial liabilities (continued)

Financial guarantees (continued)

Financial guarantee contracts are recognized initially at fair value adjusted for transaction costs which directly relate to the issuance of the guarantees. Subsequently, financial guarantee contracts are measured at the higher of best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount initially recognized less, when appropriate, cumulative amortization.

3.11 Lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to achieve a constant rate of interest of the remaining balance of the liability. Finance costs are reflected directly 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 income statement 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 expense in current period. In addition, the Group creates an accrual for future vacations.

Unified social tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Group by the application of a regressive rate (from 26.00% to 17.00%) to the annual gross remuneration of each employee.

Pension plans and post-employment benefits

The Group provides additional pension benefits to its employees using pension plans that require contributions to be made to a separately administered fund. The Group uses two types of pension plans: defined contribution plan and defined benefit plan. The Group also provides certain benefits of a defined nature such as lump-sum payments upon retirement and death and other long-term employee benefits of a defined benefit nature such as jubilee payments and financial aid to the Group's old age and disabled pensioners.

Defined benefit plans

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit actuarial valuation 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 exceeded 10.00% 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.

3. Summary of significant accounting policies (continued)

3.12 Employee benefits (continued)

Pension plans and post-employment benefits (continued)

Defined benefit plans (continued)

The past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the 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 defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution plans

As the Group receives services from employees, the Group accrues its respective commitments under the pension plan by way of recognition of the liability (accrual) less any contributions made as of the date of such accrual, and in correspondence with the recognition of expenses in line Payroll Costs of the income statement. Where the amount of contribution exceeds the respective liability as of the balance sheet date, the Group recognizes the excess as an asset (prepaid expense) to the extent the prepayment may be offset against future payments or returned to the Group. If contributions under defined contribution plans relate to a service period exceeding 12 months, then at the end of the period in which employees provided services to the Group the amounts related to that period are discounted at a rate established as the market rate of return on first-class corporate bonds ruling at the balance sheet date.

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 of the obligation 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.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as in interest expense.

3.14 Hedging

Derivative financial instruments are initially recognized at fair value as of the date of the derivative contract and subsequently revalued to fair value. The method of recognition of the resulting gains or losses depends on whether or not the derivative is designated as hedging instrument, and if it is, then on the nature of the item being hedged. Certain derivatives are designated by the Group as cash flow hedges. At the inception of a transaction, the Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objectives and hedging strategies. Also, the Group documents its estimate, both at the inception and in the course of hedging, as to whether the derivates used in the hedging transactions can efficiently compensate for changes in the cash flows generated by the items being hedged.

3. Summary of significant accounting policies (continued)

3.14 Hedging (continued)

With respect to cash flow hedging, the effective portion of changes in fair value of derivative instruments designated and qualifying as cash flow hedges is reported in the income statement in the periods when the hedged item affects profit or loss. If the hedge is treated as a cash flow hedge then the gain or loss on remeasuring the forward contract is recognized in equity. This amount is included in net profit or loss in the same period or periods during which the hedged item (the liability) affects net profit or loss, that is, when the liability is remeasured for changes in foreign exchange rates.

When a hedging instrument expires or is sold, or when hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in equity on the hedging instrument should remain there until the forecast transaction is ultimately recognized in profit and loss. If the forecast transaction is no longer expected to occur, then the cumulative gain or loss recognized in equity, if any, should be immediately recognized in profit or loss.

3.15 Government grants

Government grants are recognized if there is reasonable certainty that they will be received, and that all relevant criteria will be met. If a grant is given to fund a particular expense, it is to be recognized as income in the same periods as the expense to which it relates, on a regular basis. If a grant is given to fund an asset, it is to be recognized as deferred revenue. If the Group is in receipt of in-kind grant assistance, then both the asset and the grant are recognized at cost and reported in the income statement over the anticipated useful life of the asset in equal annual amounts.

3.16 Deferred income tax

Income tax expense is a sum of current tax for the period and the deferred tax recognized as 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 bases 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 combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to be applied in the period when the asset is realized or liability settled, based on legislation that has 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 and it is probable that the temporary difference will not reverse in the foreseeable future.

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 utilized.

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.

3. Summary of significant accounting policies (continued)

3.17 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenues from services are recognized in the period when services are rendered. Revenue from time-based telephone connections and data transmission services depends on the volume of traffic processed for the period.

Local telephone calls, including universal telecommunication services

Local telephone calls include the provision to subscribers of local services (urban and rural telephony) and universal telecommunication services.

If the fixed payment scheme is applied then revenue is represented by the subscription fee only. If the time-based billing scheme is applied, the revenue depends on the duration of the telephone connections. If the combined billing scheme is applied, the revenue depends on the fixed payment and the duration of the telephone connections for the excess of the subscriber's calls over the monthly limit. Customers of the Group use the service via installed fixed telephones; the service could be also accessed by means of payphones. The Group recognizes revenues from local calls in the period when the service is rendered.

Intrazone telephone services

Intrazone telephone services include the following client services:

- Telephone connections between subscribers of fixed line telephone network within the territory of a constituent entity of the Russian Federation;
- Telephone connections between subscribers of fixed line telephone network and subscribers of mobile communication network where subscriber numbers of the calling party and destination party are included in the numbering capacity within, respectively, geographically identifiable and geographically unidentifiable numbering areas assigned to the same constituent entity of the Russian Federation;
- Payphone-based intrazone telephone connections;
- Lease of intrazone communication channels.

The Group recognizes revenues from intrazone telephone services in the period when the services are rendered.

Data transfer and telematics services (Internet)

The Group recognizes revenues from data transfer and telematics services in the period when the services are rendered.

Installation and connection fees

Installation and connection fees for indefinite period contracts are paid in cash and by the contribution of fixed assets consisting of cable and duct, commonly referred to as the "last mile". Connection fees for fixed-line services received in cash are recognized when the installation and connection are complete. For installation and connection fees contributed in the form of fixed assets, revenue is deferred and recognized as income on the same basis that respective fixed assets are depreciated.

Interconnection and traffic transmission services

Services to operators include interconnection revenues from Russian operators and charges for maintenance of interconnection points, revenues received from the local and inter-regional calls initiation from the Group's network/termination in the Group's network and in the networks of interconnected operators. The Group recognizes revenues from operators in the period when the services are rendered.

3. Summary of significant accounting policies (continued)

3.17 Revenue recognition (continued)

Assistance and agency service fees

Fees on assistance services include fees for services provided to long-distance /international operators under assistance agreements. These services comprise billing and subscriber invoicing for long-distance calls, delivery of bills, collection of respective receivables and some other services. The Group recognizes revenues related to assistance services in the period when the services are rendered.

Other telecommunication services

Other telecommunication services primarily consist of revenues from development of the technical specifications and negotiation of the projects, as well as revenues received by public switched telephone network (PSTN) stations from the rent of direct lines and local junctions and subscription fees for wired-radio outlets. The Group recognizes revenues related to other services in the period when the services are rendered.

Other revenues (non-core activities)

Revenues other than those related to telecommunication services primarily consist of revenues received from transportation and construction services, recreation services and sale of goods, products, work and services provided by auxiliary units.

Reimbursement of losses from universal telecommunication services is recognized in the period to which it relates, but not when those losses were reimbursed. The reimbursement is recorded in Other operating income line of the income statement.

Dividend income is reflected when dividends become due to the Group.

3.18. Earnings per share

IAS 33, as revised, requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a nominator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

The Group's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 33).

3.19 Foreign currency transactions

The consolidated financial statements are presented in Russian Rubles (Rubles), which is the Group's functional and presentation currency. 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 are retranslated to the functional currency at the rate of exchange ruling at the balance sheet date. All resulting differences are taken to the income statement as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as of the date when the fair value was determined.

Transactions in Rubles where the respective assets and liabilities are denominated in foreign currencies (or conventional units) are reported in the Group's financial statements similar to transactions denominated in foreign currencies.

(in millions of Rubles)

3. Summary of significant accounting policies (continued)

3.19 Foreign currency transactions (continued)

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

Exchange rates as of December 31	2008	2007
Russian Rubles to US Dollar	**29.3804**	24.5462
Russian Rubles to Euro	**41.4411**	35.9332

4. Significant accounting judgements and estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing 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 assesses the remaining useful lives of property, plant and equipment at each reporting date. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment and intangible assets

The determination of impairment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment and intangible assets' impairment.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of goodwill

In order to determine whether the goodwill is impaired, it is necessary to estimate the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As of December 31, 2008, the carrying amount of the goodwill amounted to 942 (2007: 942). More details are provided in Note 10.

4. Significant accounting judgements and estimates (continued)

Fair values of unlisted available-for-sale investments

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related 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 December 31, 2008, the fair values of unlisted available-for-sale investments amounted to 21 (2007: 224). More details are provided in Note 13.

Allowance for doubtful accounts

Provision for impairment is based on the historical data related to collectibility of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2008, allowances for impairment of accounts receivable have been created in the amount of 238 (2007: 315). More details are provided in Note 15.

Pension and long-term social obligations

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. As of December 31, 2008, net defined benefit obligations amounted to 2,108 (2007: 1,838). More details are provided in Note 21.

Litigations

Management exercises considerable judgment in measuring and recognizing provisions 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. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As of December 31, 2007 and 2008, the Group created no provision against potential litigation. More details are provided in Note 36.

Deferred tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. As of December 31, 2008, the carrying amount of deferred tax assets amounted to 389 (2007: 524). More details are provided in Note 32.

(in millions of Rubles)

4. Significant accounting judgements and estimates (continued)

Reclassifications

In the consolidated financial statements as of December 31, 2008 there were a certain reclassifications made to conform to the current presentation. The most significant reclassification is related to the interest cost, which is accrued under defined benefit obligations. Comparative amounts were reclassified in accordance with the current presentation as follows.

In 2007 the Group accrued its respective commitments under the pension plan by way of recognition of the liability (accrual) less any contributions made as of the date of such accrual, and included this amount into the line Wages, Salaries, Other Employee Benefits and Payroll Taxes of the consolidated income statement.

In 2008 the Group recognized expenses on the defined benefit plans, net of interest income and expense amounts, in the line Payroll Costs of the consolidated income statement. Interest income and expenses are included, respectively, in lines Other Income and Expenses from Financing and Investment Activity and Financial Costs of the consolidated income statement.

Previous classification:

	2007
Wages, salaries, other employee benefits and payroll taxes	**7,797**

Current classification:

	2007
Payroll costs	7,603
Interest expense on pension and long-term social obligations (part of Financial Costs)	194
	7,797

5. Segment information

The Group operates in one industry, i.e. wireline telecommunication services in the territory of the North-West region of Russia. The Group's structure is based on territorial units, which service the corresponding parts of the Group's network. Management considers that the Group operates in one geographical and operating segment.

6. Business combinations

On January 22, 2007 the Group completed acquisition of 100.00% ordinary voting shares in CJSC Petersburg Transit Telecom. The purchase price amounted to 2,571 (97 million of US Dollars). The sales agreement for the share in CJSC Petersburg Transit Telecom provided for installment payments over 2007. Accordingly, the acquisition cost was determined as the fair value of the liability to OJSC Telecominvest assumed as of the date of acquisition and amounted to 2,521. After initial recognition at fair value liability to OJSC Telecominvest was carried at amortized cost using the effective interest rate of 6.70% and the Group recorded interest expense of 50 which was included in the line Financial costs of the consolidated income statement.

The main activity of CJSC Petersburg Transit Telecom is provision of traffic transition and other interconnection services to operators. The purchase of CJSC Petersburg Transit Telecom was aimed to expand the Group's operations, and improve the quality and competitiveness of the services it provides in the telecommunications market.

(in millions of Rubles)

6. Business combinations (continued)

The acquisition of CJSC Petersburg Transit Telecom was accounted using the purchase method in accordance with provisions of IFRS 3 *Business Combinations*. Accordingly, the results of operations and financial positions of CJSC Petersburg Transit Telecom were consolidated by the Group beginning from January 22, 2007. The information on the acquisition cost, fair value of identifiable assets, liabilities and contingencies of CJSC Petersburg Transit Telecom and goodwill as of the date of acquisition is disclosed below:

	January 22, 2007
Property, plant and equipment	1,117
Intangible assets, including	432
- Customer base	236
- Software	157
- Other intangible assets	39
Other non-current assets	9
Accounts receivable	382
Short-term investments	80
Cash and cash equivalents	196
Other current assets	57
Short-term liabilities	(459)
Deferred tax liability	(204)
Total fair value of net assets	**1,610**
Acquisition cost	**2,521**
Goodwill	**911**

The disclosure of carrying value of assets, liabilities and contingencies of CJSC Petersburg Transit Telecom in accordance with IFRS, immediately before the business combination, is impracticable as CJSC Petersburg Transit Telecom had not been an IFRS reporter.

Based on the fair value of identifiable assets, liabilities and contingencies determined in accordance with IFRS 3, the acquisition cost exceeded the fair value of the share acquired in the net assets of CJSC Petersburg Transit Telecom by 911. In accordance with IFRS 3, the amount was reported on the balance sheet in the line Intangible assets. Management believes that the goodwill relates to the expected synergies and other benefits from expected synergies and other benefits from combining the assets and activities of CJSC Petersburg Transit Telecom with those of the Group.

The purchase consideration was fully paid in cash. Due to US Dollar weakening during 2007, the Group reported foreign exchange gain of 68 which was included in the consolidated income statement. The table below summarizes net cash costs incurred in the acquisition:

Cash paid	2,503
Less: cash received in the acquisition of the subsidiary	(196)
Net cash expense	**2,307**

Profits of CJSC Petersburg Transit Telecom from January 22, 2007 through the reporting date and included in the calculation of consolidated profit for 2007 totaled 123. Had the combination taken place in the beginning of the year, the Group's profit would be 10,125 and revenue - 24,307.

(in millions of Rubles)

7. Subsidiaries

The accompanying consolidated financial statements include the assets, liabilities and financial results of OJSC NWT and its subsidiaries as listed below:

Subsidiary	Core activity	Equity interest, other participating interest, %		
		2008	**2007**	**2006**
CJSC AMT	Security investment	**100.00**	100.00	100.00
LLC Artelecom Service	Lease of the Group's assets	**-**	-	100.00
CJSC IK Svyaz	Consulting services	**-**	-	100.00
OAO Kolatelecom	Communication services	**50.00**	50.00	50.00
LLC Novgorod Deitacom	Communication services	**100.00**	100.00	100.00
LLC Parma Inform	Communication services	**100.00**	100.00	100.00
CJSC Petersburg Transit Telecom	Communication services	**100.00**	100.00	-
LLC RPK Svyazist	Children and adult recreational and leisure services	**100.00**	100.00	100.00
CJSC SPiC	Information services	**-**	100.00	100.00

All of the above companies are Russian legal entities incorporated under Russian laws, and have the same financial year as the Group.

In April 2007, following the decision of the Board of Directors, corporate procedures were completed with respect to restructuring of the following OJSC NWT wholly-owned subsidiaries: CJSC AMT and CJSC IK Svyaz - through the merger of CJSC IK Svyaz with CJSC AMT.

In December 2007 voluntary liquidation procedures were completed with respect to LLC Artelecom Service. Assets received by the Group as a result of the liquidation in the amount of 39 (including property, plant and equipment of 32 and cash of 7) were transferred to the Arkhangelsk branch of the Company.

On January 22, 2007 the Group completed acquisition of 100.00% ordinary voting shares in CJSC Petersburg Transit Telecom. The shares were purchased with a view to expand the Group's operations, and improve the quality and competitiveness of the services it provides in the telecommunications market.

In July 2008, following the decision of the Board of Directors, voluntary liquidation procedures were completed with respect to CJSC SPiC. As of the liquidation date, net assets of CJSC SPiC were equal to 2. As a result of the liquidation of CJSC SPiC the Group received cash in the amount of 2.

Management believes that the Group has control over OJSC Kolatelecom as it has a majority (over 50.00% of votes) in the Board of Directors, necessary to vote on all matters within the Board of Directors' competence. Therefore, OJSC Kolatelecom is treated as a subsidiary in the consolidated financial statements of the Group.

8. Assets and liabilities available for sale and discontinued operations

As of December 31, 2008 the Group recognized assets available for sale in the amount of 162 (2007: 0). The assets comprised buildings which the Group intends to sell during 2009 based on Program of the property management approved by Board of Directors. In accordance with the Program the Group will sell property which is not planned to be used in operations in the future. The management expects that the above assets will be sold at prices exceeding their carrying value as of December 31, 2008.

The Group does not intend to discontinue any of its operations.

(in millions of Rubles)

9. Property, plant and equipment

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Construction in progress and equipment for installation	Total
Cost					
As of December 31, 2006	**19,519**	**15,403**	**2,722**	**1,705**	**39,349**
Additions	-	-	-	9,995	9,995
Additions due to acquisition of subsidiaries	163	868	65	21	1,117
Put in operation	2,826	5,643	1,068	(9,537)	-
Disposals	(129)	(169)	(98)	(24)	(420)
As of December 31, 2007	**22,379**	**21,745**	**3,757**	**2,160**	**50,041**
Additions	-	-	-	13,977	13,977
Put in operation	5,043	7,311	1,356	(13,710)	-
Disposals	(342)	(110)	(82)	(46)	(580)
Reclassifications	(112)	112	48	(48)	-
Transfer to assets held for sale	(218)	-	-	-	(218)
As of December 31, 2008	**26,750**	**29,058**	**5,079**	**2,333**	**63,220**
Accumulated					
As of December 31, 2006	**(4,616)**	**(5,258)**	**(1,465)**	**-**	**(11,339)**
Charge for the year	(1,206)	(1,971)	(945)	-	(4,122)
Disposals	66	129	71	-	266
As of December 31,	**(5,756)**	**(7,100)**	**(2,339)**	-	**(15,195)**
Charge for the year	(1,375)	(2,824)	(937)	-	(5,136)
Disposals	102	85	75	-	262
Reclassifications	22	(22)	**-**	**-**	**-**
Transfer to assets held for sale	56		**-**	**-**	56
As of December 31,	**(6,951)**	**(9,861)**	**(3,201)**	**-**	**(20,013)**
Net book value as of December 31, 2006	**14,903**	**10,145**	**1,257**	**1,705**	**28,010**
Net book value as of December 31, 2007	**16,623**	**14,645**	**1,418**	**2,160**	**34,846**
Net book value as of December 31, 2008	**19,799**	**19,197**	**1,878**	**2,333**	**43,207**

In 2007, the Group changed its accounting estimates with respect of the useful lives of certain property, plant and equipment (Note 3), which resulted in an increase in depreciation of 527 in 2007.

Certain property, plant and equipment items were reclassified during 2008 as a result of an asset register revision. The reclassifications did not have a material effect on the depreciation expense for the periods presented or accumulated depreciation as of December 31, 2008.

(in millions of Rubles)

9. Property, plant and equipment (continued)

As of December 31, 2008 and 2007 the net book value of property, plant and equipment received under finance lease contracts amounted to:

	Buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Total
Cost	17	690	11	718
Accumulated depreciation	(2)	(171)	(11)	(184)
Net book value at December 31, 2007	**15**	**519**	**-**	**534**
Cost	7	252	-	259
Accumulated depreciation	(1)	(78)	-	(79)
Net book value at December 31, 2008	**6**	**174**	**-**	**180**

As of December 31, 2008 the historical cost of fully depreciated property, plant and equipment was 5,677 (2007: 4,788).

In 2008 the Group increased construction in progress cost by adding capitalized interest of 95 (2007: 30).

Property, plant and equipment amounting to 1,049 (2007: 956) was pledged as security for loans and borrowings (Note 20).

For the purpose of impairment testing of long-lived assets the recoverable amount of each cash generating unit has been determined based on value in use calculation. The Group has two cash generating units; OJSC NWT and CJSC Petersburg Transit Telecom and OOO Novgorod Deitacom. Value in use calculation uses cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period were extrapolated. The discount rate before income tax applied to the cash flow projections is 20.89% (2007: 15.27%) cash flows attributable to OJSC NWT and CJSC Petersburg Transit Telecom cash generating unit and 21.77% (2007: 14.72%) for cash flows attributable to OOO Novgorod Deitacom cash generating unit. Those discount rates represent weighted average of cost of capital of cash generating units calculated at nominal basis that reflects time value of money and risks associated with each individual cash-generating unit. No impairment was identified as of December 31, 2008.

(in millions of Rubles)

10. Intangible assets

	Goodwill	Licenses	Software	Customer base	Other	Total
Cost						
As of December 31, 2006	**47**	**26**	**3,006**	**12**	**195**	**3,286**
Additions	-	2	838	-	17	857
Additions due to acquisition of subsidiaries	911	-	157	236	39	1,343
Disposals	-	(4)	(67)	-	(30)	(101)
As of December 31, 2007	**958**	**24**	**3,934**	**248**	**221**	**5,385**
Additions		10	956	-	4	970
Disposals		(3)	(64)	-	-	(67)
As of December 31, 2008	**958**	**31**	**4,826**	**248**	**225**	**6,288**
Impairment in value						
As of December 31, 2006	(16)	-	-	-	-	(16)
Provision for the year	-	-	-	-	-	-
As of December 31, 2007	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Provision for the year	-	-	-	-	-	-
As of December 31, 2008	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Accumulated amortization						
As of December 31, 2006	**-**	**(10)**	**(386)**	**(8)**	**(2)**	**(406)**
Charge for the year	-	(7)	(339)	(3)	(91)	(440)
Disposals	-	3	63	-	30	96
As of December 31, 2007	**-**	**(14)**	**(662)**	**(11)**	**(63)**	**(750)**
Charge for the year	-	(7)	(314)	(1)	(56)	(378)
Disposals	-	3	60	-		63
As of December 31, 2008		**(18)**	**(916)**	**(12)**	**(119)**	**(1,065)**
Net book value as of December 31, 2006	**31**	**16**	**2,620**	**4**	**193**	**2,864**
Net book value as of December 31, 2007	**942**	**10**	**3,272**	**237**	**158**	**4,619**
Net book value as of December 31, 2008	**942**	**13**	**3,910**	**236**	**106**	**5,207**

Oracle E-Business Suite

As of December 31, 2008 software included Oracle E-Business Suite application with net book value of 984 (2007: 914). As of December 31, 2008 accumulated capitalized interest related to the Oracle E-Business Suite totaled 137 (2007: 132). In 2008 the capitalization rate was 6.94% (2007: 6.70%).

Under the delivery contract, the Group acquired a non-exclusive license for 7,638 users of Oracle E-Business Suite 2004 Professional.

The Group is in the process of phased implementation of Oracle E-Business Suite. In 2006 the Group completed the first phase of Oracle E-Business Suite implementation and started to use the modules of time keeping and non-current asset accounting. The Group amortizes the value of the mentioned software starting from the in-service date over the useful life of 10 years.

Implementation of Oracle E-Business Suite software is expected to be continued in 2009.

(in millions of Rubles)

10. Intangible assets (continued)

Oracle E-Business Suite (continued)

The table below shows movements in the carrying value of Oracle E-Business Suite in years ended December 31, 2008 and 2007:

	2008	2007
As of January 1	**914**	792
Implementation costs incurred	**170**	229
Accrued depreciation	**(100)**	(107)
As of December 31	**984**	914

Amdocs Billing Suite

As of December 31, 2008, software also included Amdocs Billing Suite with net book value of 927 (2007: 927) including accrued capitalized interest of 72 (2007: 72) related to the implementation of Amdocs Billing Suite.

The software was acquired with a view to implement a unified billing system. The Group started implementing the project in May 2006. The project on implementing the unified billing system based on Amdocs Billing Suite is expected to take 4 to 5 years to complete. The Group expects to continue implementing Amdocs in 2010-2011.

The Group will commence amortizing this asset from the date of software implementation pro rata to the cost of implemented modules over their estimated useful life that is to be determined before the in-service date. Until then, management periodically assesses the asset for impairment.

Unified Pre-Billing System HP Open View IUM

As of December 31, 2008, software also included unified pre-billing system HP Open View IUM with a net book value of 214 (2007: 214). The software was purchased in December 2006 with a view to implement unified computerized settlement system Amdocs Billing Suite. A unified pre-billing function is necessary to ensure centralized settlements with interconnected operators and to transfer data to Amdocs Billing Suite.

The HP Open View IUM implementation project is expected to take 3-4 years to complete. System implementation project started in October 2006. The software implementation costs in 2008 were nil (2007: 6).

The Group will commence amortizing this asset from the date of software implementation over its estimated useful life that is to be determined before the in-service date. Until then, management periodically assesses the asset for impairment.

Communication Network Operating Support Systems

As of December 31, 2008 included in software was a communication network operating support system product (SEPSS) with net book value of 1,012 (2007: 673), including capitalized interest of 31 (2007: 26). In 2008 capitalization rate was 6.94% (2007: 6.70%).

The SEPSS project is being implemented with a view to computerize network accounting, network and service management processes and is expected to take 3-4 years to complete. Software implementation started in May 2006.

The Group will commence amortizing this asset from the date of software implementation pro rata to the cost of implemented modules over their estimated useful life that is to be determined before the in-service date. Until then, management periodically assesses the asset for impairment.

10. Intangible assets (continued)

HP OpenView Service Activator

As of December 31, 2008 included in software was HP OpenView Service Activator software with the net book value of 139 (2007: 101).

The HP OpenView Service Activator software is being implemented with a view to create an integrated system of activation of services and is expected to take 2 years to complete. The project was started in March 2008.

In November 2008 the Group started to use the HP OpenView Service Activator software. The Group amortizes the asset starting from the in-service date over the useful life of 10 years.

Information Service Support System software (SPISU)

In 2008, the Group purchased information service support system software for 76 with a view to help the Group to enhance its competitive position on the telecom market and a high-performance tool to support core business in the field of sales and client service and to generate additional income from paid information services. The SPISU project involves establishing resource centers at branches. Server and telecommunication equipment will be based in St. Petersburg branch.

Currently the Group is implementing phase 1 of the project started in late 2008, which involves field survey and design work and building the main site in St. Petersburg branch. Implementation cost capitalized as part of the above software amounted to 45 as of December 31, 2008.

In June 2009 the Group expects to start the St. Petersburg site and integrate Kaliningrad, Pskov and Leningrad Region branches as a single business-process. The stage will involve the design of an internet site to support sales and services. In 2010 resource centers are expected to be established to cover the remaining Company's branches.

The Group will commence amortizing this asset from the date of software implementation pro rata to the cost of implemented modules over their estimated useful life that is to be determined before the in-service date. Until then, management periodically assesses the asset for impairment.

Amortization of intangible assets

Amortization of 378 charged on intangibles in 2008 (2007: 440) was included in line Depreciation and Amortization of the consolidated income statement.

Goodwill and intangible assets recognized in business combinations

In 2007 the intangible assets recognized separately as a result of acquisition of CJSC Petersburg Transit Telecom (Note 6) represent resources from which future economic benefits are expected to flow to the Group and include the following classes:

- Customer base;
- Software;
- Other intangible assets.

The customer base is an intangible asset that represents contractual relations with the clients of CJSC Petersburg Transit Telecom and has indefinite useful life. This asset is not amortized and tested for impairment annually or more frequently if there is an indication that the intangible asset may be impaired.

The computer software includes acquired intangible assets with estimated useful lives of 3 years.

The goodwill recognized as a result of acquisition of CJSC Petersburg Transit Telecom is attributed to the expected synergies and other benefits from combining the assets and activities of CJSC Petersburg Transit Telecom with those of the Group.

(in millions of Rubles)

10. Intangible assets (continued)

Impairment test of intangible assets not yet available for use and intangible assets with indefinite useful life

The Group performed impairment tests of intangible assets not yet available for use and intangible assets with indefinite useful life as of December 31, 2008 and 2007. As a result of analysis, no impairment of intangible assets was identified.

In 2006 the Group recognized goodwill resulted from acquisition of LLC Novgorod Datacom that was subsequently restructured through merger with another Group's subsidiary LLC Novgorod Deitacom. As of December 31, 2008 before impairment testing of 2008, the carrying value of goodwill attributable to LLC Novgorod Deitacom net of impairment recognized in prior periods was 31. The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period were extrapolated. The discount rate applied to the cash flow projections is 21.77% (2007: 14.72%) that represents weighted average of cost of capital of cash generating unit calculated at nominal basis. No additional impairment was identified in 2008.

In 2007 the Group recognized goodwill of 911 resulted from acquisition of CJSC Petersburg Transit Telecom. The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five years period. Cash flows beyond the five year period were extrapolated. The discount rate applied to the cash flow projections is 20.89% (2007: 15.27%) that represents weighted average of cost of capital of cash generating unit calculated at nominal basis.

As a result of tests performed no impairment of goodwill was identified as of December 31, 2008.

11. Other non-current assets

As of December 31, 2008 and 2007, other non-current assets included:

	2008	2007
Long-term advances, investment activities	**363**	223
Long-term advances, operating activities	**30**	10
Total	**393**	233

12. Investments in associates

As of December 31, 2008 and 2007 the Group's investments in associates included:

Associate	Core activity	2008 Equity interest, other participating interests, %	Voting stock, other participating interests, %	Carrying value
CJSC WestBaltTelecom	Communication services	**28.00**	**28.00**	**84**
Total				**84**

Associate	Core activity	2007 Equity interest, other participating interests, %	Voting stock, other participating interests, %	Carrying value
CJSC WestBaltTelecom	Communication services	28.00	28.00	71
ICJSC Medexpress	Insurance services	25.00	25.00	54
Total				125

(in millions of Rubles)

12. Investments in associates (continued)

All of the above companies are Russian legal entities incorporated in accordance with Russian law, and have the same financial year as the Group.

In 2008 and 2007 the Group did not identify any impairment in value of investments in associates.

Pursuant the decision of the OJSC NWT Board of Directors meeting held in March 2008, the Group sold 197,572 ordinary registered shares in ICJSC Medexpress, amounting to 25.00019% of its charter capital with carrying value of 54, to OJSC Rosno for 273.

Gains (losses) on equity interest and/or other participating interests sold or otherwise disposed of are disclosed in Note 31.

Movement in the carrying value of investments in associates for the years ended December 31, 2008 and 2007 is presented below:

	2008	2007
Investments in associates as of January 1	**125**	98
Profit from investment in associates	**13**	27
Disposal of investments in associates	**(54)**	-
Investments in associates as of December 31	**84**	125

The table below shows aggregated information on the major associates:

Associate	Equity interest, other participating interests, %	Assets	Liabilities	Sales revenue	Profit (loss) for the year
2008					
CJSC WestBaltTelecom	**28.00**	**347**	**(47)**	**296**	**45**
2007					
CJSC WestBaltTelecom	28.00	297	(43)	291	50
ICJSC Medexpress	25.00	807	(588)	874	55

13. Financial assets

	2008	2007
Long-term financial assets available-for-sale	**21**	224
Long-term loans given	**20**	23
Other long-term financial assets	**3**	16
Total non-current financial assets	**44**	263
Short-term investments	**292**	6,394
Short-term loans given	**21**	22
Other short-term investments	**14**	-
Total current financial assets	**327**	6,416
Total financial assets	**371**	6,679

As of December 31, 2007 short-term investments consisted of Ruble-denominated promissory notes receivable in the amount of 6,312 including interest in the amount of 112 and bank deposits maturing from 3 months to 1 year in the amount of 82. The mentioned promissory notes were issued by OJSC AKB Svyaz-Bank.

(in millions of Rubles)

13. Financial assets (continued)

As of December 31, 2008 short-term investments included bank deposits maturing from 3 months to 1 year in the amount of 292.

As of December 31, 2007 promissory notes receivable were as follows:

Number of promissory notes received under contract	Annual interest rate	Par value
BF-01/037		
9 promissory notes	7.50%	1,800
13 promissory notes	8.50%	2,600
4 promissory notes	8.50%	800
BF-01/038		
5 promissory notes	8.50%	1,000
Interest accrued		112
Total		6,312

All promissory notes issued as of December 31, 2007 were paid during 2008.

Two promissory notes maturing on March 12, 2008 were paid before maturity on March 5, 2008 at 7.75% p.a. One note maturing on April 12, 2008 was paid before maturity on April 9, 2008 at 8.00% p.a. Interest accrued of 142 was included in line Other income and expenses from financing and investment activities in the consolidated income statement.

On May 28, 2008 the Group purchased 15 interest-bearing promissory notes issued by OJSC AKB Svyaz-Bank for the total amount of 3,000.

Number of promissory notes received under contract	Annual interest rate	Par value
C/35/2008		
3 promissory notes	7.75%	600
12 promissory notes	9.00%	2,400
Total		3,000

All promissory notes received in 2008 were paid in 2008.

One note maturing on August 27, 2008 was paid before maturity on August 11, 2008 at 6.90% p.a. Interest accrued totaling 86 was included in line Other income and expenses from financing and investment activities in the consolidated income statement.

As of December 31, 2008 and 2007, there were no pledged short-term investments.

No value adjustments with respect to other long-term or short-term investments were made in 2008.

As of December 31, 2008 and 2007, financial assets available for sale included the following:

	2008		2007	
Group	Equity interest, other participating interests, %	Fair value	Equity interest, other participating interests, %	Fair value
Long-term financial assets				
OJSC AKB Svyaz Bank (CJSC Russian Industrial Bank)	**0.23**	**-**	9.00	208
Other long-term investments		**21**		31
Impairment of other investments		**-**		(15)
Total		**21**		**224**

(in millions of Rubles)

13. Financial assets (continued)

Investment in OJSC AKB Svyaz Bank as of December 31, 2008 includes investment in CJSC Russian Industrial Bank as the latter was merged into OJSC AKB Svyaz Bank in 2008.

In 2008 the Group engaged an independent appraiser to determine the fair value of an equity investment in OJSC AKB Svyaz Bank. The investment was reported at 0 (nil) as of December 31, 2008. As of December 31, 2007 the fair value of unquoted equity investment in CJSC Russian Industrial Bank was determined by an independent appraiser at 208.

The table below summarizes movements in the provision for impairment of other long-term investments:

	2008	2007
Balance as of January 1	**15**	19
Reversal of provision	**(15)**	-
Write-off of investments	**-**	(4)
Balance as of December 31	**-**	15

14. Inventories

As of December 31, 2008 and 2007 inventories comprised the following:

	2008	2007
Spare parts	**139**	94
Cable	**95**	63
Construction materials	**30**	30
Finished products and goods for resale	**28**	4
Tools, household items	**19**	22
Fuel	**15**	17
Other inventories	**134**	74
Total	**460**	304

The cost of inventories expensed in 2008 was 995 (2007: 785).

As of December 31, 2008 and 2007 the Group reported no inventories which were obsolete, fully or partially lost their original qualities, or whose current market value was impaired. Thus, no inventory impairment provision was created.

As of December 31, 2008 and 2007 no inventories were pledged as security for borrowings.

15. Trade and other receivables

As of December 31, 2008 and 2007 accounts receivable were as follows:

	Total, 2008	Doubtful debt provision	Net, 2008
Trade receivables, core activities	**1,536**	**(198)**	**1,338**
Trade receivables, non-core activities	**137**	**(36)**	**101**
Personnel	**2**	**-**	**2**
Other accounts receivable	**1,159**	**(4)**	**1,155**
Total	**2,834**	**(238)**	**2,596**

(in millions of Rubles)

15. Trade and other accounts receivable (continued)

	Total, 2007	Doubtful debt provision	Net, 2007
Trade receivables, core activities	1,776	(270)	1,506
Trade receivables, non-core activities	125	(20)	105
Personnel	3	-	3
Other accounts receivable	303	(25)	278
Total	2,207	(315)	1,892

As of December 31, 2008 and 2007 trade receivables on core operations consist of the following balances:

	Total, 2008	Doubtful debt provision	Net, 2008
Individual customers	**624**	**(88)**	**536**
Telecom operators	**527**	**(60)**	**467**
Corporate customers	**301**	**(42)**	**259**
Government customers	**84**	**(8)**	**76**
Social security bodies – tariff compensation related to providing benefits to certain subscriber groups	**-**	**-**	**-**
Total trade receivables, core activities	**1,536**	**(198)**	**1,338**

	Total, 2007	Doubtful debt provision	Net, 2007
Individual customers	649	(91)	558
Telecom operators	770	(104)	666
Corporate customers	269	(55)	214
Government customers	79	(11)	68
Social security bodies – tariff compensation related to providing benefits to certain subscriber groups	9	(9)	-
Total trade receivables, core activities	1,776	(270)	1,506

As of December 31, 2008 and 2007 balances related to the compensation of losses incurred on universal communication services included in Other receivables above totaled to 1,019 and 222, respectively.

Movements in the doubtful debt provision are presented in the table below:

	2008	2007
Balance as of January 1	**315**	352
Accrual (reversal) of provision	**(23)**	(29)
Accounts receivable written-off	**(54)**	(8)
Balance as of December 31	**238**	315

(in millions of Rubles)

16. Other current assets

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

	Total, 2008	Provision for impairment	Net, 2008
Other prepaid taxes	**198**	**-**	**198**
Prepayments and advances	**99**	**(1)**	**98**
VAT receivable	**64**	**-**	**64**
Deferred expenses	**15**	**-**	**15**
Other current assets	**9**	**-**	**9**
Total	**385**	**(1)**	**384**

	Total, 2007	Provision for impairment	Net, 2007
Other prepaid taxes	318	-	318
VAT receivable	153	-	153
Deferred expenses	140	-	140
Prepayments and advances	74	-	74
Other current assets	33	-	33
Total	718	-	718

17. Cash and cash equivalents

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

	2008	2007
Cash at bank and on hand	**921**	405
Short-term deposits and notes with original maturities of three months or less	**80**	98
Total	**1,001**	503

As of December 31, 2008 the Group had no restricted cash.

Maturities of short-term deposits vary from 11 days to 3 months depending on the current cash requirements and carry interest at the effective deposit rates. Effective interest rates on short-term deposits maturing within three months vary from 3.00% to 7.50%.

Maturity of short-term notes varies from 15 days to 213 days. Effective interest rates on short-term notes vary from 7.00 to 9.00%.

18. Significant non-cash transactions

In 2008 the Group did not acquire any property, plant and equipment under finance leases. Equipment received in 2008 on a free of charge basis totaled to 4 (2007: 3).

Non-cash transactions have been excluded from the consolidated cash flow statement.

(in millions of Rubles)

19. Share capital

The par and carrying values of the issued and fully paid ordinary and preference shares were as follows as of December 31, 2008:

Share type	Outstanding shares (thousands)	Par value of a share (Rubles)	Total par value	Total carrying value	Treasury shares
Ordinary	881,045	1	881	2,233	28
Preference	250,369	1	250	622	39
Total	**1,131,414**		**1,131**	**2,855**	**67**

The difference between the nominal and carrying value of shares reflects the effect of inflation in periods preceding January 1, 2003. All issued shares were fully paid up.

The treasury shares are represented by the shares of the Company owned by its subsidiary CJSC AMT.

The Group's shareholding structure as of December 31, 2008 was as follows:

Shareholders	Equity interest, %	Ordinary shares (thousands shares)	Ordinary shares %	Preference shares (thousands shares)	Preference shares %
Legal entities, total	88.88	838,188	95.14	167,431	66.87
OJSC Svyazinvest	39.53	447,231	50.76	0	-
Holders of over 5.00% of equity	49.35	390,957	44.38	167,431	66.87
including:					
NP National Depositary Center	17.62	125,370	14.23	74,000	29.56
CJSC Deposit Clearing Group	13.64	86,916	9.87	67,446	26.94
CJSC UBS Nominees	11.71	109,815	12.46	22,666	9.05
CJSC ING Bank (Eurasia)	6.19	66,965	7.60	3,073	1.23
Others	0.19	1,891	0.22	246	0.09
Individuals, total	10.57	39,852	4.52	79,713	31.84
Treasury shares	0.55	3,005	0.34	3,225	1.29
Total	**100**	**881,045**	**100.00**	**250,369**	**100.00**

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 reorganization or liquidation of the Company and amendments to the Company's charter which restrict the rights of preference shareholders.

Preference shares have no rights of redemption or conversion into ordinary shares but carry non-cumulative dividends per share of 10.00% of net profit for the year per statutory financial statements prepared under the Russian accounting principles divided by the number of shares that comprise 25.00% of share capital of the Company. If the Company fails to pay dividends, or has no profits in any year, the preference shareholders have the right to vote on all issues within the competence of a general shareholders' meeting.

Owners of preference shares have the right to participate in and vote on all issues within the competence of annual general shareholders' meetings following the annual shareholders' general meeting at which a decision not to pay or to pay partially dividends on preference shares has been taken until the first full payment of dividend on such shares. The annual amount of dividends on preference shares may not be less than dividends on ordinary shares. 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 (Note 33).

(in millions of Rubles)

19. Share capital (continued)

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

Distributable profits of all OJSC NWT companies are limited to their respective undistributed profits and are governed by the national accounting legislation. The Comapny's profit for the 2008 determined in accordance with Russian legislation was 3,622 (2007: 11,305).

In September 2001 the Group signed a depositary agreement with JP Morgan Chase Bank regarding placement of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement, each ADR represents 10 ordinary shares of the Group (before July 31, 2008 – 50 ordinary shares). As of December 31, 2008 3,657,670 (2007: 1,084,818) ADRs represented 36,576,700 (2007: 54,240,900) deposited ordinary shares, which constituted 4.15% (2007: 6.16%) of all ordinary shares issued.

The table below shows movements of registered ADRs in 2007-2008:

	ADRs (thousands)	Ordinary share equivalent (thousands)	Ordinary shares, %	Share capital, %
December 31, 2006	1,083	54,136	6.14%	4.78%
Increase in 2007	2	105		
December 31, 2007	1,085	54,241	6.16%	4.79%
Increase (decrease) in 2008	**2,573**	**(17,664)**		
December 31, 2008	**3,658**	**36,577**	**4.15%**	**3.23%**

Effective July 31, 2008 the conversion factor for Level 1 ADRs issued against ordinary shares was changed. The new ADR conversion factor is as follow: 1 ADR equal to 10 ordinary shares of the Group (prior to July 31, 2008 ADR conversion factor was: 1 ADR equal to 50 ordinary shares of the Group).

The ADRs are currently traded in the following exchanges:

Exchange	**CUSIP (WKN)**	**ADR ticker**	**ISIN**
US over the counter market	663316107	NWTEY	US6633161079
Frankfurt Stock Exchange	A0BLXU	SQ4	US6633161079
Berlin Stock Exchange	A0BLXU	SQ4	US6633161079

20. Borrowings

As of December 31, 2008 and 2007, outstanding borrowings comprised the following:

	2008	2007
Long-term borrowings		
Loans	**7,904**	5,630
Bonds	**7,989**	4,992
Promissory notes	**19**	22
Vendor financing	**1**	16
Finance lease obligations	**12**	139
Interest payable	**8**	7
Other long-term borrowings	**11**	13
Current portion of long-term borrowings	**(2,578)**	(5,167)
Total long-term borrowings	**13,366**	5,652

(in millions of Rubles)

20. Borrowings (continued)

	2008	2007
Short-term borrowings		
Loans	**2**	3
Interest payable	**146**	76
Total short-term borrowings	**148**	79
Current portion of long-term borrowings	**2,578**	5,167
Total short-term borrowings	**2,726**	5,246
Total borrowings	**16,092**	10,898

As of December 31, 2008 the Group had open credit line agreements with OJSC Sberbank, CJSC Raiffeisenbank Austria, CJSC ING Bank (Eurasia) for the total amount of 2,025 (2007: 3,289). As of December 31, 2008 the Group utilized 1,800 (2007: 2,100) of the above amount, accordingly, upon request, the Group is entitled to receive 225 under the credit lines to finance working capital and investment financing purposes. Also, as of December 31, 2008 the Group had not drawn Tranche B of the syndicated loan with ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG amounted to 15 million US Dollars.

As of December 31, 2008 bank loans were secured by pledged property, plant and equipment with a total carrying value of 1,049 (2007: 956).

Short-term borrowings

Loans

In 2008 the Group entered into 4 revolving loan facility agreements with OJSC Sberbank for 1,155 with two agreements for the total of 625 maturing in 120 days each and two agreements for the total of 530 maturing in 90 days each. Under the agreement the Group drew and repaid a total of 926. The last agreement expired on January 23, 2009. Interest rates under the agreements varied from 8.00 to 8.25% p.a. The loans were unsecured.

In February 2008 the Group entered into a framework loan agreement with CJSC Natixis Bank with a debt ceiling of up to 350. All loans matured on June 30, 2009. The interest rate was a combination of a margin (2.00% p.a. for loans issued for four to six months; 1.75% p.a. for loans issued for less than four months) and MosPrime rate. Loans obtained under the framework agreement were unsecured. The agreement was early terminated in December 2008, and no funds were ever drawn under the agreement.

Long-term borrowings

Below is a summary of the long-term borrowings as of December 31, 2008 and 2007:

	2008			2007		
Description	**Long-term portion**	**Current portion**	**Total**	**Long-term portion**	**Current portion**	**Total**
Loans	5,858	2,046	**7,904**	3,633	1,997	**5,630**
Bonds	7,493	496	**7,989**	1,994	2,998	**4,992**
Promissory notes	-	19	**19**	-	22	**22**
Vendor financing	1	-	**1**	1	15	**16**
Finance lease obligations	-	12	**12**	12	127	**139**
Interest payable	8	-	**8**	7	-	**7**
Other long-term borrowings	6	5	**11**	5	8	**13**
Total long-term borrowings	**13,366**	**2,578**	**15,944**	**5,652**	**5,167**	**10,819**

(in millions of Rubles)

20. Borrowings (continued)

Long-term borrowings (continued)

Loans: long-term portion

Below is a summary of the long-term loans, net of current portion, as of December 31, 2008 and 2007:

Counterpart	Contractual interest rate, % p.a.	2008	2007	Contractual currency	Maturity date	Security: y/n, type
ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch)	5.5206	3,903	-	US Dollars	November 2011	No security
Bank Austria Creditanstalt AG and CJSC UniCredit Bank	Tranche A: 3.74625-5.96063 Tranche B: 3.485 – 6.13688	1,855	2,430	US Dollars	Tranche A – from January 2009 to October 2010 Tranche B – from July 2009 to July 2012	No security
The Russian Ministry of Finance	3.00	100	118	Euro	Annual repayments till December 31, 2011	Telecom equipment
Sberbank of Russia	7.75	-	178	Rubles	October 2009	Telecom equipment
CJSC ING Bank (Eurasia)	8.28 - 18.36	-	250	Rubles	October 2009	No security
CJSC Raiffeisenbank	8.15 - 19.01	-	457	Rubles	October 2009 (repaid before maturity on January 26, 2009)	No security
Citibank N.A	6.699-7.119	-	200	Euro	January 2009	No security
Total		**5,858**	**3,633**			

ING Bank N.V, Natixis, ZAO UniCredit Bank, WestLB AG (London Branch)

In 2008 the Group obtained a 150 million US Dollar syndicated loan with Bayerische Hypo-und Vereinsbank AG, London Branch acting as agent, and ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG, London Branch acting as original authorized lenders.

The facility comprises two tranches: Tranche A – 135 million US Dollars, Tranche B – 15 million US Dollars.

Tranche A was fully drawn on November 14, 2008. The loan is repayable in equal quarterly installments from February 9, 2010 to November 7, 2011.

Tranche B has not been drawn yet as there was no need for the funds due to the curtailment of the 2009 investment program.

The interest rate under the loan is a combination of interest margin of 2.75%, Libor established for US Dollar for the three month period and mandatory cost rate (if applicable). Interest under the agreement is accrued and payable on a quarterly basis.

Transaction costs totaled to 2,392 thousand US Dollars (arrangement fee of 2,362 thousand US Dollars, annual agency fee of 30 thousand US Dollars).

The loan is not secured with property, plant and equipment.

The loan was obtained to fund investment projects, pay current payables and finance operations.

As of December 31, 2008 the amount outstanding under the syndicated loan was 3,903 and accrued interest of 29.

20. Borrowings (continued)

Long-term borrowings (continued)

Loans: long-term portion (continued)

CJSC UniCredit Bank

In 2007 the Group obtained a 100 million US Dollar syndicated loan. CJSC International Moscow Bank (since December 25, 2007 the bank changed its name to CJSC UniCredit Bank) and Bank Austria Creditanstalt AG are acting as the Authorized Arrangers, with Bank Austria Creditanstalt AG acting as Agent and CJSC UniCredit Bank acting as Original Lender.

The loan facility is issued in two equal tranches.

Tranche A was received on July 30 and August 13, 2007 in the amount of 40 million US Dollars and 10 million US Dollars, respectively. The debt is repayable in equal quarterly installments from January 19, 2009 to July 19, 2010.

Tranche B was provided on August 13 and September 10, 2007 in the amount of 20 million US Dollars and 30 million US Dollars, respectively. The debt is repayable in equal quarterly installments from July 19, 2010 to July 19, 2012.

The interest rate under the loan is a combination of interest margin, Libor established for US Dollar for the respective interest period and mandatory cost rate. Interest margin for Tranche A is 0.95% p. a. and for Tranche B is 1.25% p.a.

Transaction costs totaled 1,020 thousands US Dollars.

The loan was obtained to refinance the current payables and to fund investment projects. During fiscal year 2008 the Group did not make early debt repayment.

As of December 31, 2008 the amount outstanding under the syndicated loan was 2,920 (2007: 2,430), including the current portion of 1,065 (2007: 0). Accrued interest amounted to 18 (2007: 23). The loan is not secured by property, plant and equipment.

The Russian Ministry of Finance

A long-term credit facility was granted to the Group in 1995-1996 by the Russian Federation Ministry of Finance (hereinafter the Ministry) to finance telecom equipment purchases from various foreign vendors. Vnesheconombank acted as credit agent on behalf of the Russian Government. The currency of the original and supplementary agreements is Euro. As of December 31, 2008 the total amount due to the Ministry (Vnesheconombank acts as an agent) was 137 (2007: 143), including short-term portion of 37 (2007: 25). Accrued interest amounted to 5 (2007: 4). The debt matures by 2011 and is reported at amortized cost using effective interest rate of 7.00%. The loan is secured by property, plant and equipment with net book value of 224 (2007: 69).

(in millions of Rubles)

20. Borrowings (continued)

Long-term borrowings (continued)

Loans: current portion of long-term borrowings

The table below summarizes the current portion of long-term loans as of December 31, 2008 and 2007:

Lender	Effective interest rate, % p.a.	2008	2007	Contractual currency	Maturity date	Security: y/n, type
Bank Austria Creditanstalt AG and CJSC UniCredit Bank	Tranche A: 3.74625-5.96063 Tranche B: 3.485 - 6.13688	1,065	-	USD	Tranche A – quarterly from January 2009 Tranche B – quarterly from July 2009	No security
CJSC Raiffeisenbank	8.15 - 19.01	286	343	RR	October 2009 (early repaid December 29, 2008)	No security
CJSC ING Bank (Eurasia)	8.28 - 18.36	250	250	RR	October 2009	No security
Citibank N.A	6.699-7.119	230	799	EURO	January 2009	No security
OJSC Sberbank	7.75	178	580	RR	October 2009	Telecom equipment
The Russian Ministry of Finance	3.00	37	25	EURO	December 31, 2009	Telecom equipment
TOTAL		**2,046**	**1,997**			

CJSC Raiffeisenbank

Loans payable to CJSC Raiffeisenbank are represented by a non-revolving loan for a total of 500 drawn in tranches in 2006-2007. The agreement expires on October 26, 2009. Interest rate is a combination of a margin of 2.30% p.a. and 3 month MosPrime rate and is subject to revision every three months. Interest under the agreement is accrued and payable on a monthly basis.

As of December 31, 2008 principal amount outstanding was 286 (2007: 800, including short-term portion of 343). Interest payable amounted to 1 (2007: 1). The loan is unsecured.

CJSC ING Bank (Eurasia)

As of 31 December, 2008 outstanding loans payable to CJSC ING Bank (Eurasia) are represented by a non-revolving loan for a total of 500 received on April 23, 2007. The agreement expires on October 23, 2009. Interest rate is a combination of a margin of 2.40% p.a. and 3 month MosPrime rate and is subject to revision every three months. Interest under the agreement is accrued and payable on a monthly basis.

As of December 31, 2008 principal amount outstanding was 250 (2007: 500, including short-term portion of 250). Interest payable amounted to 9 (2007: 1). The loan is unsecured.

Citibank N.A

In December 2005, a 50,000 million US Dollar syndicated loan with Citibank N.A. acting as Arranger and Citibank International PLC acting as Agent. The Group has fully drawn down the credit facility. Transaction costs totaled 553 thousand Euro.

Interest rate is set at Euribor+2.00% p.a. plus mandatory cost rate. The agreement expired on January 24, 2009. Interest is accrued and payable on a quarterly basis. As of December 31, 2008 the outstanding syndicated loan was 230 (2007: 999 including short-term portion of 799). The loan is unsecured.

20. Borrowings (continued)

Long-term borrowings (continued)

Loans: current portion of long-term borrowings (continued)

OJSC Sberbank

Outstanding loans as of 31 December, 2008 payable to OJSC Sberbank are represented by three non-revolving loan facility agreements:

- Agreement dated October 14, 2004 for a total of 75 drawn in tranches in 2004. The agreement expires on October 13, 2009. Interest rate is 7.75%;
- Agreement dated October 15, 2004 for a total of 500 drawn in tranches in 2004–2005. The agreement expires on October 14, 2009. Interest rate is 7.75%;
- Agreement dated December 24, 2004 for a total of 225 drawn in tranches in 2004–2005. The agreement expires on December 22, 2009. Interest rate is 7.75%.

As of December 31, 2008 principal amount outstanding was 178 (2007: 758, including short-term portion of 178), and interest payable 0.3 (2007: 2). All loans are secured with property, plant and equipment.

Restrictions and covenants

The current loan agreements impose the following restrictions on the Group:

Conditions potentially giving rise to the demand for early repayment

Under the existing borrowing arrangements the Group has to comply with certain conditions, including maintenance of certain financial performance standards.

Under the loan agreements with Bank N.V, Natixis, ZAO UniCredit Bank, WestLB AG (London Branch); CJSC UniCredit Bank, CJSC ING Bank (Eurasia); Citibank N.A the Group agrees to maintain the following financial performance standards (computed based on unaudited interim half-year and audited annual IFRS financial statements:

- Net debt to EBIDTA ratio – maximum 3:1;
- EBITDA to net interest ratio – minimum 4:1;
- Net debt to net capitalization – maximum 1.

EBITDA is calculated as Total consolidated Profit for the year + Financial costs +Income tax + Profit (loss) form investment in associates except for dividends received in cash + Extraordinary and exceptional items – Profit for the year attributable to the minority holders of subsidiaries + Depreciation and amortization.

Loan agreement with CJSC Raiffeisenbank Austria:

- Threat of court proceedings, rulings or decisions of a court of other government authority against the Group for an amount exceeding 150;
- Overdue taxes, duties and other tax and social security liabilities exceeding 150;
- Evidence of bankruptcy;
- Disposal/transfer of assets exceeding 10.00% of total Group’s assets, during a fiscal year;
- Receipt by the Bank of a debt collection order for an amount exceeding 150; a court or other relevant order to seize or block the Group’s bank account or other property valued over 150, if such debt collection order or court order is not cancelled prior to execution, or such seizure or block is not lifted within 3 working days.

20. Borrowings (continued)

Restrictions and covenants (continued)

Conditions potentially giving rise to the demand for early repayment (continued)

The table below summarizes the current portion of long-term loans as of December 31, 2008 and 2007:
Loan agreement with CJSC ING Bank (Eurasia):

- All or a material proportion of (over 15.00% of total) property, liabilities or assets of the Group are foreclosed, attached or taken into possession by the person in whose favor the encumbrance was created;
- The Group takes a decision (or other measures are taken, or court action initiated) on dissolution or liquidation of the Group, external management, amicable settlement with creditors, or a liquidator, external manager, interim receiver or a similar official is appointed with respect of the Group.

Loan agreements with OJSC Sberbank:

- Monthly receipts to the settlement account of the Group – minimum 1,100;
- The Group goes into insolvency (bankruptcy), third party bankruptcy proceedings against the Group;
- Decision on restructuring or liquidation;
- Loss of collateral;
- Prosecution brought against the Group or claim on the Group’s assets in the amount exceeding 5.17 million US Dollars.

Restrictions on operations:

The loan agreement with Citibank N.A.:

- Asset sales in a year < 10.00% of total assets;
- Equity acquisitions in a year < 50 million Euro;
- Investment programs in a year < 200 million Euro;
- Loans and guarantees given < 10 million Euro;
- Dividends for a year < 100.00% of net profit for the year.

Any departure by the Group from the above restrictions is subject to prior approval of the Principal Lenders.

Syndicated term loan agreements with Bank Austria Creditanstalt AG and CJSC UniCredit Bank acting as lenders and agreement with ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch), as arrangers:

- Asset sales in a year < 10.00% of total assets;
- Loans and guarantees given < 10 million Euro;
- Dividends for a year < 100.00% of net profit for the year;
- New pledges or other security for liabilities incurred < 150 million US Dollars.

Any departure by the Group from the above restrictions is subject to prior approval of the Principal Lenders. Such prior approval of the Principal lenders is also required for any restructuring (merger, acquisition, spin-off, divestiture).

Loan agreement with CJSC ING Bank (Eurasia):

- Dividends for a year < 100.00% of net profit for the year;
- Loans and guarantees given < 10 million Euro;
- Merger, combination with or acquisition of other entity < 100 million Euro;
- Asset sales in a year < 10.00% of total assets.

As of December 31, 2008, the Group complied with all of the above restrictions and covenants.

(in millions of Rubles)

20. Borrowings (continued)

Bonds

The table below summarizes bond details, net of bonds due and payable during one year, as of December 31, 2008 and 2007:

Bond ID *(name / number)*	2008	2007	Effective rate	Maturity date	Offer date	Coupon interest
4-03-00119-A (serial number 03)	3,000	-	8.60% p.a.	February 24, 2011	-	8.60% p.a.
4-04-00119-A (serial number 04)	1,498	1,994	8.10% p.a.	Decmber 08, 2011	-	8.10% p.a.
4-05-00119-A (serial number 05)	2,995	-	15.00% p.a.	May 21, 2013	June 1, 2010	3 month MosPrime + 2.12% p.a., but not to exceed the 15.00% p.a. ceiling
Total long-term portion	**7,493**	**1,994**				
4-03-00119-A (serial number 03)	-	2,998	8.60% p.a.	February 24, 2011	-	8.60% p.a.
4-04-00119-A (serial number 04)	496	-	8.10% p.a.	Decmber 08, 2011	-	8.10% p.a.
Total short-term portion	**496**	**2,998**				
Total Bonds	**7,989**	**4,992**				

The table below shows movements in bonds payable for the period from December 31, 2006 through December 31, 2008:

Bonds payable as of December 31, 2006	**6,032**
Repayment of the 2nd bond issue	(1,050)
Amortization of issue costs	10
Bonds payable as of December 31, 2007	**4,992**
5th bond issue	3,000
Issue costs	(5)
Amortization of issue costs	2
Bonds payable as of December 31, 2008	**7,989**

In 2008 the Group had outstanding 3rd, 4th and 5th issue bonds.

In December 2004, the Group registered the 3rd issue of 3 million of certified coupon bonds with par value of 1,000 Rubles each carrying 24 interest bearing coupons. Payments under the first coupon are due on the 91st day from the date of bond placement, and other coupon payments are effected every 91 day. The interest rate under coupons 1 through 12 is set at 9.25% p.a. The interest rate for coupons 13-24 was established by the Board of Directors on February 11, 2008 at 8.60% p.a. The bonds mature in February 2011, in 2184 days from the date of placement. The nominal bond value is repayable in installments as follows: 30.00% - February 25, 2010, 30.00% – August 26, 2010, and 40.00% – February 24, 2011.

Under the terms of the issue bondholders were entitled to early redemption in February 2008 (classified within the short-term borrowings as of 31 December, 2007 in the amount of 2,998). 2,177,779 bonds were presented for payment, or 72.59% of total issue. The cost of bonds presented for payment including accrued coupon was 2,181. On March 6, 2008 the Group fully met its obligations to repurchase 3rd issue bonds. OJSC AKB Svyaz Bank purchased early redeemed 3rd issue bonds. The mentioned above nominal bond value will be repaid under general terms of the issue: 30.00% - February 25, 2010, 30.00% – August 26, 2010, and 40.00% – February 24, 2011.

20. Borrowings (continued)

Bonds (continued)

In 2008 the Group fully met its coupon obligations under coupon 12 at 9.25% p.a. in the total amount of 69, and coupons 13-15 at 8.60% p.a. in the total amount of 193. Coupon payment per bond was 23.06 Rubles for coupon 12 and 21.06 Rubles for coupons 13-15.

As of December 31, 2008 the outstanding loan totaled to 3,000 classified within long-term borrowings. As of December 31, 2007 the outstanding loan totaled to 2,998 classified within the short-term portion. Interest payable amounted to 24 (2007: 24).

In October 2006, the Group registered the 4th issue of 2 million certified coupon bonds with par value of 1,000 Rubles each carrying 20 interest bearing coupons. Payments under the first coupon are due on the 91st day from the date of bond placement, and other coupon payments are effected every 91 day. The interest rate under coupons is set at 8.10% p.a. The nominal bond value is repayable in installments as follows: 25.00% – December 10, 2009; 25.00% – December 9, 2010; 50.00% – December 8, 2011. Under the terms of the issue, bondholders are not entitled to present the bonds for redemption at fixed dates within 12 months from the date of these financial statements. The Bond Resolution and Prospectus provide an option for early redemption at the Group's initiative on the 728th day from the date of placement. Bond premium payable on early redemption is 20 Rubles per bond.

In 2008 the Group fully met its coupon obligations under coupons 5-8 at 8.10% p.a. in the total amount of 162. Coupon payment per bond was 20.19 Rubles.

As of December 31, 2008 the outstanding loan totaled to 1,994 with 1,498 (2007: 1994) classified within long-term borrowings and 496 (2007: 0) within current portion of long-term borrowings. Interest payable amounted to 12 (2007: 9).

In May 2008, the Group registered the 5th issue of 3 million certified coupon bonds with par value of 1,000 Rubles each carrying 20 interest bearing coupons due every 91 day starting from the 91st day of the date of bond placement. Under the terms of the issue, bondholders are entitled to early redemption on June 2010 at nominal value. The interest rate under first coupon was determined as the sum of 3 month MosPrime rate as of the last working day before the date of placement and the 3 month MosPrime rate premium of 2.12%, and amounted to 8.40%. Interest rates under 2-20 coupons will be measured as the 3 month MosPrime rate plus a premium within the maximum rate of 15.00%. The redemption schedule for nominal amount is as follows: 25.00% on May 22, 2012; 25.00% on November 20, 2012; 50.00% on May 21, 2013. Under the terms of the issue, the Group is entitled to early redemption on any coupon maturity date during the period from the 728 th through 1729 th day of the issue, with bond premium payable on early redemption of 2.5 Rubles per bond. Under the terms of the issue, bondholders are not entitled to present the bonds for redemption at fixed dates within 12 months from the date of these financial statements.

In 2008 the Group fully met its coupon obligations under coupon 1 at 8.40% p.a. in the total amount of 63, with coupon payment per bond being 20.94 Rubles; under coupon 2 at 9.73% p.a. in the total amount of 73, with coupon payment per bond being 24.26 Rubles.

As of December 31, 2008 the outstanding loan totaled to 2,995 classified within long-term borrowings and interest payable of 44.

(in millions of Rubles)

20. Borrowings (continued)

Finance Lease Obligations

	2008		2007	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion	**13**	**12**	150	127
Over 1 year to 5 years	**-**	**-**	13	12
Total minimum lease payments	**13**	**12**	163	139
Less finance charges	**(1)**	**-**	(24)	-
Present value of minimum lease payments	**12**	**12**	139	139
Less current finance lease obligations	**(12)**	**(12)**	(127)	-
Long-term finance lease obligations	**-**	**-**	12	139

In 2008 and 2007, the Group's primary lessors were OJSC RTC-Leasing and OJSC Leasing-Telecom. In 2008, effective interest rate on lease liabilities ranged from 11.00% to 41.97% p.a. (2007: 11% to 41.97%).

OJSC RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. Future minimum lease payments due to OJSC RTC-Leasing under the leases as of December 31, 2008 comprised 11 (2007: 151), including principal amount of 10 (2007: 128) and interest of 1 (2007: 23).

Pursuant to agreements concluded with OJSC RTC-Leasing, the lessor is entitled to adjust the lease payment schedule in the event of change of certain macroeconomic conditions, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

OAO Leasing-Telecom purchases vehicles from domestic and foreign suppliers and leases the vehicles. Future minimum lease payments due to OJSC Leasing-Telecom under the leases as of December 31, 2008 were 2 (2007: 11), including principal amount of 2 (2007: 10) and interest of 0.12 (2007: 1).

As of December 31, 2008 finance lease obligations were denominated in Russian Rubles.

21. Pensions and other employee benefits

Under a collective agreement, the Group maintains non-government pension plans and other social benefits to its current and retired employees.

Non-government pension fund Telecom-Soyuz, which is related to the Group (Note 39), maintains non-government pension schemes for OJSC NWT under defined contribution plans.

As of December 31, 2008 there were 27,430 participants in the Group's defined contribution pension plan (December 31, 2007; 28,093). In 2008 the Group's contributions under defined contribution and defined benefit pension plans totaled 152 (2007: 258).

The majority of employees are eligible for defined benefit plans. The defined benefit pension plan provides old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men, subject to a minimum years-of-service requirement.

The amount of payments is calculated using the formulae determined for each regional branch of the Group. According to such formulae the amount of benefit depends on a number of parameters, including an employee's position and salary at the retirement date and number of years with the Group.

(in millions of Rubles)

21. Pensions and other employee benefits (continued)

Non-government pension fund Telecom-Soyuz also maintains the defined benefit pension plan.

The Group also provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon retirement, lump-sum payments upon death, jubilee payments and financial aid to retired employees.

As of December 31, 2008 there were 14,086 working employees participating in the defined benefit pension plan in the Group and 13,344 pensioners eligible to the other post-employment benefits provided by the Group (December 31, 2007: 14,708 and 13,385, respectively).

As of December 31, 2008 and 2007 the Group's liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2008	2007
	-	-
Present value of defined benefit obligations	**2,571**	2,404
Fair value of plan assets	**(32)**	(31)
Excess of plan liabilities over plan assets	**2,539**	2,373
Unrecognized past service cost	**(410)**	(495)
Unrecognized actuarial losses	**(21)**	(40)
Net pension liability in the balance sheet	**2,108**	1,838

As of December 31, 2008 average remaining employee working life assessed by management was 10 years (2007: 10 years).

Net expense under the defined benefit plans in 2008 and 2007 was as follows:

	2008	2007
Current service cost	**135**	164
Interest cost	**162**	194
Expected return on plan assets	**(1)**	(3)
Actuarial gain (loss)	**26**	(8)
Past service cost – guaranteed portion	**8**	
Amortization of past service cost – non-guaranteed portion	**100**	100
Curtailment	**1**	4
Net expense for the defined benefit plan, total	**431**	451
Actual return on plan assets	**1.8**	7.29

Expenses on the defined benefit plans, net of interest income and expense amounts, were included in line Payroll Costs of the consolidated income statement. Interest income and expenses are included, respectively, in lines Other Income and Expenses from Financing and Investment Activities and Financial Costs of the consolidated income statement.

(in millions of Rubles)

21. Pensions and other employee benefits (continued)

Changes in the present value of defined benefit obligations in 2008 and 2007 were as follows:

	2008	2007
Net defined benefit obligation at January 1	**2,404**	2,742
Current service cost	**135**	164
Interest cost on benefit obligation	**162**	194
Past service cost	**23**	-
Benefits paid	**(46)**	(31)
Obligations paid on settlement	**(116)**	(236)
Actuarial gains (losses) on the obligation	**9**	(429)
Net defined benefit obligation at December 31	**2,571**	2,404

Changes in the fair value of defined plan assets in 2008 and 2007 were as follows:

	2008	2007
Fair value of plan assets at January 1	**31**	41
Expected return on plan assets	**1**	3
Contributions by employer	**162**	254
Benefits paid	**(46)**	(31)
Assets used in settlement	**(116)**	(236)
Fair value of plan assets at December 31	**32**	31

The Group's expected defined benefit pension contribution to its non-government pension fund in 2009 is 233.

The overall expected rate of return on assets as at December 31, 2008 and 2007 is determined based on the market prices prevailing on these dates and the structure of the plan assets portfolio.

Actual return on plan assets in 2008 was 5.80% (2007: 17.81%).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2008	2007
Shares of other Russian companies	**8.29%**	14.60%
Russian municipal bonds	**19.75%**	28.00%
Other Russian corporate bonds	**49.00%**	48.20%
Russian corporate promissory notes	**0.84%**	3.50%
Other assets	**22.00%**	5.70%

As of December 31, 2008 and 2007 the principal actuarial assumptions of defined benefit pension plans were as follows:

	2008	2007
Discount rate	**9.00%**	6.60%
Expected return on plan assets	**10.28%**	7.47%
Future salary increase	**10.24%**	9.20%
Relative salary increase due to career progression	**1.00%**	1.00%
Rate used for calculation of annuity value	**4.00%**	6.00%
Increase in financial support benefits	**6.00%**	5.00%
Staff turnover	**5.00%**	5.00%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

(in millions of Rubles)

21. Pensions and other employee benefits (continued)

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

	2008	**2007 corrected**	**2006 corrected**	**2005 corrected**	**2004 corrected**
Defined benefit obligation	**2,571**	2,404	2,742	1,960	1,470
Plan assets	**(32)**	(31)	(41)	(137)	(67)
(Deficit)/surplus	**2,539**	2,373	2,701	1,823	1,403
Experience adjustments on plan liabilities	**(58)**	501	(220)	(53)	301
Experience adjustments on plan assets	**-**	5	(6)	(2)	(24)

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments on plan liabilities in 2008 and earlier periods were caused by one-time significant excess in the number of retired employees and in benefit payments over the original long-term forecast.

22. Provisions

	Headcount optimization program	**Other provisions**	**Total**
Balance as of December 31, 2006		8	8
Created to reflect new circumstances	30		30
Utilized during the year		(8)	(8)
Balance as of December 31, 2007	30		30
Created to reflect new circumstances	**7**	**-**	**7**
Reversed unused amounts	**(30)**	**-**	**(30)**
Balance as of December 31, 2008	**7**	**-**	**7**

Headcount optimization program

As part of the on-going efforts to streamline business processes, the Company adopted the Performance Improvement Program, as approved by the Board of Directors, with the goal to maintain the Group's competitive strength on the communications market and to maximize profit. In particular, the program has a strong focus on streamlining the organizational structure and headcount numbers.

The program involves phased staff reduction over the period from 2006 to 2008. In 2008, the Group reduced headcount by about 614 positions. As of December 31, 2008 58 employees had been notified of the forthcoming reduction (pursuant to article 180 of the Russian Labor Code). The provision created against future severance payments totaled to 7 and are included in line Payroll Costs (2007: 30) of the consolidated income statement.

Future severance payments with respect to other positions subject to reduction subsequent to year 2008 cannot be reliably measured at this point in time.

(in millions of Rubles)

23. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities as of December 31, 2008 and 2007 comprised the following:

	2008	2007
Payables to suppliers and contractors for property, plant and equipment	**1,442**	1,575
Salaries and wages payable	**856**	894
Payables to suppliers and contractors under current operations	**532**	504
Taxes and mandatory social insurance payable	**517**	426
Payables to telecommunications operators	**218**	205
Payables to suppliers and contractors for software purchases	**214**	152
Dividend payable	**69**	21
Payables to consignors and principals	**41**	47
Other accounts payable	**392**	396
Total	**4,281**	4,220

As of December 31, 2008 accruals for the unused vacation and bonuses to employees for 2008 totaling 581 (2007: 767) were included in Salaries and Wages Payable.

Taxes and social contributions payable as of December 31, 2008 and 2007 were as follows:

	2008	2007
Unified social tax	**222**	228
Assets tax	**191**	141
Personal income tax	**80**	33
Value added tax	**19**	21
Other taxes	**5**	3
Total	**517**	426

Other accounts payable as of December 31, 2008 and 2007 were as follows:

	2008	2007
Accounts payable to telecom operators under assistance agreements	**331**	344
Universal service fund contributions payable	**61**	52
Total	**392**	396

24. Other current liabilities

	2008	2007
Advances received, operating activities	**408**	426
Advances received, non-operating activities	**101**	18
Deferred income	**11**	6
Total	**520**	450

(in millions of Rubles)

25. Revenues

	2008	2007
Local telephone calls	**12,884**	12,786
Telegraph, data transfer and telematics services (internet)	**4,631**	3,320
Interconnection and traffic transmission services	**3,027**	3,815
Intrazone telephone services	**2,417**	2,208
Services under assistance and agency agreements	**712**	778
Mobile radio services, wire and radio broadcasting, television	**417**	386
Other revenues	**1,088**	933
Total	**25,176**	24,226

Intrazone and local telephony services included revenue from the rent of communication channels of 458 and 183, respectively (2007: 319 and 143).

Telegraph, data transfer and telematics services (internet) revenue included revenue from the data transfer and telematics services (internet) of 4,433 (2007: 3,105).

Other revenues included rentals of 932 (2007: 621) mainly represented by revenue from lease of duct-work.

The Group identifies revenue by the following major customer groups:

By customer group	**2008**	**2007**
Individual customers	**12,937**	12,134
Corporate customers	**6,276**	5,539
Telecommunication operators	**3,761**	4,575
Government customers	**2,202**	1,978
Total	**25,176**	24,226

In 2008, the Group changed to a new revenue reporting format. To ensure comparability, the Group reclassified the 2007 revenues as follows:

	2007, unadjusted	**2007, adjusted**
Local telephone calls	12,598	12,786
Telegraph, data transfer and telematics services (internet)	3,313	3,320
Interconnection and traffic transmission services	3,802	3,815
Intrazone telephone services	2,195	2,208
Services under assistance and agency agreements	774	778
Mobile radio services, wire and radio broadcasting, television	384	386
Other telecommunication services	248	-
Other revenues	912	933
Total	**24,226**	**24,226**

(in millions of Rubles)

26. Payroll costs

	2008	2007
Salaries and wages	**6,206**	5,511
Unified social tax	**1,386**	1,283
Pension contributions and long-term social obligations	**258**	266
Headcount optimization	**7**	30
Other payroll costs	**364**	513
Total	**8,221**	7,603

Other payroll costs primarily consist of voluntary medical and other employee insurance costs and payments under the collective agreement and individual employment contracts.

27. Materials, repair and maintenance, utilities

	2008	2007
Repair and maintenance	**1,590**	1,186
Materials	**1,009**	803
Utilities	**700**	591
Total	**3,299**	2,580

28. Other operating income

	2008	2007
Reimbursement of losses from universal telecommunication services	**2,382**	369
Gain on disposal of property, plant and equipment and intangible assets	**35**	-
Reversal of doubtful debt provision	**23**	29
Fines, late payment interest, penalty for breach of contract	**15**	25
Other income	**132**	83
Total	**2,587**	506

In 2008 based on the agreements determining the terms and conditions of providing universal telecommunication services that have been entered into with the Federal Telecommunications Agency, the Group received reimbursement of losses from the provision of universal telecommunication services in the following amounts:

- Current year services – 2,191 (2007: 147),
- Prior year services – 222 (2007: 5).

In 2008 loss from the provision of universal telecommunication services amounted to 2,413 (2007: 369) and was confirmed by the independent auditors. The difference between the loss claimed for 2008 and loss reimbursed for 9 months of 2008 was reimbursed in accordance with the established procedures (Note 40).

(in millions of Rubles)

29. Other operating expenses

	2008	2007
Assets tax	**680**	532
Agency fees	**556**	430
Security and fire protection services	**425**	376
Other contracted services and management costs	**349**	226
Advertising expenses	**237**	272
Audit and consultancy fees	**235**	257
Universal service fund contributions	**234**	216
Transportation services	**203**	107
Office rental expenses	**195**	175
Membership fees, charity and labor union contributions	**155**	129
Contributions to Non-Commercial Partnership	**109**	148
Business travel and representation expenses	**105**	85
Taxes other than income tax	**89**	82
Remuneration to Board of Directors, Management Board and Audit Committee	**87**	35
Assets rental	**85**	78
Post services	**64**	59
Bank charges	**58**	63
Information services	**44**	31
Training	**24**	27
Property insurance	**17**	49
Loss on disposal of property, plant and equipment and other assets	**-**	44
Other expenses	**278**	270
Total	**4,229**	3,691

Other expenses include primarily expenses related to social expenditures and other operating expenses.

30. Financial costs

	2008	2007
Interest expense on loans, bonds, promissory notes and vendor financing, net of capitalized interest	**877**	900
Interest expense on pension and long-term social obligations	**162**	194
Interest expense of finance leases	**23**	58
Debt service costs	**4**	-
Total	**1,066**	1,152

In 2008 and 2007 capitalized interest comprised the following:

	2008	2007
Interest capitalized in the cost of property, plant and equipment	**95**	30
Interest capitalized in the cost of intangibles	**10**	11
Total	**105**	41

(in millions of Rubles)

31. Other income and expenses from financial and investment activities

	2008	2007
Interest income on financial assets	**314**	162
Dividend	**1**	-
Profit on disposal of other long-term investments:	**-**	9,603
OJSC Telecominvest	**-**	9,603
Profit on disposal of equity interest in associates:	**219**	-
ICJSC Medexpress (Note 12)	219	-
Currency exchange gain (loss), net	**(754)**	159
Ineffective portion of hedge	**(9)**	(8)
Other	**34**	-
Total	**(195)**	9,916

32. Income tax

Federal Law of November 26, 2008 No. 224-FZ introduces amendments to the tax legislation whereby statutory income tax rate is decreased from 24.00% to 20.00% effective January 1, 2009.

For the years ended December 31, 2008 and 2007, income tax included:

	2008	2007
Current income tax expense	**950**	3,712
Adjustments to current income tax for previous years	**(56)**	(72)
Deferred income tax benefit	**(107)**	(479)
Total income tax expense	**787**	3,161

In 2008 the Group exercised its right under article 11.4 of the St.Petersburg Government order On Tax Concessions No. 81-11 of June 14, 1995 and applied a reduced corporate income tax rate (13.50% instead of 17.50%) on income tax payable to the St.Petersburg budget.

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

	2008	2007
Profit before tax	**3,348**	13,274
Statutory income tax rate	**24.00%**	24.00%
Theoretical tax charge at statutory income tax rate	**804**	3,186
Increase (decrease) resulting from the effect of:		
Adjustments for the changed statutory income tax rate	**(230)**	-
Adjustments to current income tax for previous years	**(56)**	(72)
Expenses not deductible for income tax purposes	**299**	336
Anticipated dividend from subsidiaries	**(6)**	11
Effect from tax relief	**(42)**	(284)
Other	**18**	(16)
Total income tax charge for the year at the effective rate of 23.51% (2007: 23.81%)	**787**	3,161

(in millions of Rubles)

32. Income tax (continued)

The composition of deferred income tax assets and liabilities as of December 31, 2008 and 2007 and their movement in 2008 was as follows:

	December 31, 2006	Movement during 2007 recognized in: Equity	Movement during 2007 recognized in: Profit for the period	Additions with acquired subsidiaries	December 31, 2007
Tax effect of deferred tax assets:					
Accounts payable and accrued liabilities	99	-	108	1	208
Accounts receivable	11	-	21	9	41
Pension liabilities	263	-	(20)	-	243
Finance lease	41	-	(9)	-	32
Deferred tax assets, total	414	-	100	10	524
Tax effect of deferred tax liabilities:					
Property, plant and equipment	(1,515)	-	209	(111)	(1,417)
Investments in associates and other investments	(2,455)	2,256	143	-	(56)
Intangible assets	(209)	-	38	(103)	(274)
Dividend from subsidiaries	-	-	(11)	-	(11)
Deferred tax liabilities, total	(4,179)	2,256	379	(214)	(1,758)
Total deferred tax assets (liabilities), net	(3,765)	2,256	479	(204)	(1,234)

	December 31, 2007	Movement during 2008 recognized in: Equity	Movement during 2008 recognized in: Profit for the period	Movements due to change in tax rates	December 31, 2008
Tax effect of deferred tax assets:					
Accounts payable and accrued liabilities	**208**	**-**	**(128)**	**22**	**102**
Accounts receivable	**41**	**-**	**(21)**	**-**	**20**
Pension liabilities	**243**	**-**	**(44)**	**54**	**253**
Finance lease	**32**	**-**	**(21)**	**3**	**14**
Deferred tax assets, total	**524**	**-**	**(214)**	**79**	**389**
Tax effect of deferred tax liabilities:					
Property, plant and equipment	**(1,417)**	**-**	**464**	**(257)**	**(1,210)**
Investments in associates and other investments	**(56)**	**48**	**1**	**-**	**(7)**
Intangible assets	**(274)**	**-**	**80**	**(52)**	**(246)**
Dividend from subsidiaries	**(11)**	**-**	**6**	**-**	**(5)**
Deferred tax liabilities, total	**(1,758)**	**48**	**551**	**(309)**	**(1,468)**
Total deferred tax assets (liabilities), net	**(1,234)**	**48**	**337**	**(230)**	**(1,079)**

(in millions of Rubles)

32. Income tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of a Group may not be set off against current tax liabilities and taxable profits of another Group and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one Group is not offsettable against deferred tax liability of another Group.

The Group did not report deferred tax liability of 63 (2007: 70) with respect to temporary differences arising on investment in subsidiaries, as the Group is able to control the timing of the reversal of these temporary differences, and has no intention to decrease the temporary differences in the foreseeable future.

33. Earnings per share

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

	2008	**2007**
Profit for the year attributable to equity holders of the parent	**2,561**	10,113
Weighted average number of ordinary shares and other equity instruments outstanding (millions)	**1,131**	1,131
Adjusted for weighted average number of treasury shares (millions)	**(6)**	(6)
Basic and diluted profit per share (Russian Rubles) for the year attributable to equity holders of the parent	**2.28**	8.98

34. Dividends declared and proposed for distribution

In 2008, in accordance with the decision of the general shareholders meeting, dividends were declared for the year ended December 31, 2007 of 0.642 Rubles per ordinary share and 3.997 Rubles per preference share.

Dividends payable amounted to:

Share type	**Number of shares**	**Dividend per 1 share (Rubles)**	**Total dividend (Rubles)**
For 2007			
Preference shares	250,369,337	3.997	1,000,726,240
Ordinary shares	881,045,433	0.642	565,631,168
Total	1,131,414,770	-	1,566,357,408

Dividends paid in 2008 for the year ended December 31, 2007 totaled to 1,503.

In 2009, the Board of Directors proposed that the general shareholders' meeting approve a dividend for 2008:

Share type	**Number of shares**	**Dividend per 1 share (Rubles)**	**Total dividend (Rubles)**
For 2008			
Preference shares	250,369,337	1.281	320,723,121
Ordinary shares	881,045,433	0.617	543,605,032
Total	1,131,414,770	-	864,328,153

Dividends paid to shareholders are determined by the Board of Directors and officially approved at the annual shareholders' meeting. In accordance with Russian legislation, earnings available for dividends are limited to the Company's profits based on financial statements prepared in accordance with Federal law On Joint Stock Companies and Russian accounting regulations. Retained earnings of the Comapny in accordance with Russian accounting standards as of December 31, 2008 and December 31, 2007 totaled to 22,099 and 19,921 respectively, including the net profit for 2008 and 2007 of 3,622 and 11,305, respectively.

(in millions of Rubles)

35. Operating lease

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

	2008	2007
	Minimum lease payments	**Minimum lease payments**
Current portion (up to 1 year)	**422**	488
1 to 5 years	**346**	400
Over 5	**1,201**	1,098
Total	**1,969**	1,986

The Group's expenses on operating lease recognized in lines Other Operating Expenses and Services of Telecommunication Operators of the consolidated income statement in 2008 totaled 553 (2007: 536).

As of December 31, 2008 and 2007, minimum lease payments under operating leases where the Group is a lessor, were allocated by years as follows:

	2008	2007
	Minimum lease payments	**Minimum lease payments**
Current portion (up to 1 year)	**289**	236
1 to 5 years	**160**	104
Over 5	**231**	137
Total	**680**	477

Operating leases primarily include lease agreements for land, premises and communication channels.

The Group's revenue on operating lease recognized in line Revenue of the consolidated income statement in 2008 totaled 932 (2007: 621).

36. Contingencies and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks to meet market economy conditions. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances (Note 1), unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

36. Contingencies and operating risks (continued)

Political environment

Changes in the political environment, legislation, tax and regulatory framework can affect the Group's business and profitability. The nature and frequency of such changes and the attendant risks are usually uninsurable and unpredictable, as indeed is their impact on the future business operations and profitability of the Group.

Taxation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Group's management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

At December 31, 2008 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. At the same time, based on the outcome of the recent tax audits of the Group and other OJSC Svyazinvest group companies, Group's management assumes there is a risk that the tax authorities may impose significant charges on matters that are given ambiguous interpretation in the tax legislation, specifically, on matters related to the measurement of revenue under interconnection and traffic transmission agreements. The amount of claims that are possible but not yet brought or the probability of unfavorable outcomes cannot be currently determined.

The financial statements as of December 31, 2008 do not contain the adjustments that may be required as a result of these uncertainties and the approaches taken by the Group.

Current and pending claims

During the year, the Group was party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

In 2008 two related cases brought by the OJSC NWT were heard in the Arbitration Court for St. Petersburg and Leningrad Region:

- Lawsuit seeking to invalidate the Federal Antimonopoly Service Office for St. Petersburg (hereinafter UFAS) decision and instruction requiring the OJSC NWT to stop abusing the dominating position on the local telephony market and to give individual subscribers the right to choose a local telephony payment scheme at their convenience.

  On January 26, 2009 Arbitration Court for St. Petersburg and Leningrad region ruled the UFAS decision and the related instruction to be illegal. UFAS filed an appeal with the Thirteenth Arbitration Court which on May 18, 2009 ruled to cancel the ruling of the first instance. The OJSC NWT is going to appeal to the Federal Arbitration Court for the Northwest District against the Thirteenth Arbitration Court ruling.

- Lawsuit seeking to invalidate the UFAS ruling imposing an administrative penalty of 43 for abusing the dominating position in the market. As of 31 December 2008 this lawsuit was suspended pending the outcome of the above case.

36. Contingencies and operating risks (continued)

Current and pending claims (continued)

In October 2008 the Interregional Inspectorate No. 7 for Major Taxpayers of the Federal Tax Service of Russia finalized the field tax audit of OJSC NWT for 2005-2007 and, based on the tax audit findings, in November 2008 made Decision to hold OJSC NWT liable for a tax offence and to impose additional taxes, late payment interest and penalties totaling to 223. OJSC NWT challenged the tax authority's decision to charge additional taxes, late payment interest and penalties of 222 and appealed to the Federal Tax Service of Russia through the Interregional Inspectorate No. 7 for Major Taxpayers with no response received so far. In May 2009 OJSC NWT filed a lawsuit to the Moscow Arbitration Court to invalidate Decision of November 24, 2008 No. 16 of the Interregional Inspectorate for Major Taxpayers No.7 of the Federal Tax Service of Russia.

In addition, in April 2009 the Interregional Inspectorate for Major Taxpayers No.7 of the Federal Tax Service of Russia completed a desk audit of OJSC NWT based on the adjusted 2006 value added tax return. Based on the audit findings, a Decision was made that OJSC NWT should to reduce the amount of value added tax claimed for refund by a total of 88.

In May 2009 OJSC NWT filed an appeal to a higher-level tax authority. If the Federal Tax Service of Russia issues an adverse decision on the appeal, OJSC NWT intends to apply to Moscow Federal Arbitration Court.

Management believes that the Group has sufficient grounds and arguments to successfully defend the above tax cases in court and that the Group's tax, currency and customs positions will be sustained. For this reason, the Group did not accrue any contingent liability with respect to the tax audit findings referred to above in its financial statements as of December 31, 2008.

Licenses

The Group's major revenues are derived from financial and economic activity carried out in accordance with licenses issued by the Russian Federation Ministry of Communications and Information Technologies. Main operational licenses and supplementary licenses expire during the period from 2008 to 2029. Suspension or termination of the Group's main licenses or failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

The Group renewed these licenses on a regular basis in the past and believes that it will be able to renew licenses without additional costs in the normal course of business.

In 2009 the Group does not expect to obtain any new licenses or extend existing licenses.

The Government of the Russian Federation is in process of liberalization of telecommunications market for which additional licenses for rendering telecommunication services have been granted to a number of alternative operators. It is possible that the Group's future results of operations and cash flows could be materially affected by the increased competition in a particular period but the effect can not be reliably determined at this point of time.

Insurance

During 2008, the Group did not maintain insurance coverage on a significant part of their property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(in millions of Rubles)

36. Contingencies and operating risks (continued)

Garanties and suereties

Other accounts payable include guarantees and sureties issued by the Group. As of December 31, 2007 the Group stood as guarantor on a number of loan facilities provided mainly by OJSC Sberbank to CJSC RTC-Leasing, a lessor of telecommunication equipment. The guaranteed obligation totaled to 568, the fair value being 8. As of December 31, 2008 the guarantees were fully settled.

37. Financial instruments and risk management

The Group's principal financial instruments comprise bank loans, bonds, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Group's operations. Also, the Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from 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, improving the structure of payables, and reducing the cost of borrowed capital.

The main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt burden, debt capital management, debt portfolio restructuring, use of different classes of borrowed funds. The Group manages its capital using financial independence ratios, net debt/equity, and net debt/EBITDA. Capital management function is maintained at the level of major entities within the Group. As part of its capital management policy, the Group is also working to increase its credit ratings. The Group's capital management policy has not changed significantly in 2008 compared with 2007.

Under the internal Company's instruction the EBITDA is calculated as Total consolidated Profit for the year + Financial costs +Income tax + Depreciation and amortization.

The financial independence ratio is calculated as shareholders' equity to the balance sheet total as of the end of the period. Net debt/equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/EBITDA is calculated as net debt as of the year-end to EBITDA for the previous period. Ratios used to support capital management are calculated based on the Russian statutory accounts.

The Group's capital management policy is to maintain the following ratios:
- Financial independence ratio: minimum 0.55;
- Net debt/equity ratio: maximum 1.00;
- Net debt/EBITDA ratio: maximum 1.60.

As of December 31, 2008 and 2007 ratios used to support capital management were as follows:

	2008	2007
Financial independence ratio	**0.58**	0.61
Net debt/equity ratio	**0.49**	0.37
Net debt/EBITDA ratio	**1.61**	0.57

As of the balance sheet date the Group's long-term international credit rating was confirmed by Standard & Poor's at BB-/stable outlook (2007: BB-/stable outlook). As part of its capital management policy, the Group is working to maintain its current credit rating and improve it to BB+/stable.

37. Financial instruments and risk management (continued)

Income and expenses on financial instruments

2008	**Income statement**										
	Other operating income	**Financial expense**	**Other income and expenses**						**Statement of changes in equity**		**Total**
	Reversal of doubtful debt provision	**Interest expense**	**Interest income**	**Dividend**	**Gain (loss) on asset disposal**	**Ineffective portion of hedge**	**Currency exchange gain (loss)**	**Income from changes in fair value of derivatives**	**Reclassification of change in fair value**	**Change in fair value**	
Cash and cash equivalents	-	-	70	-	-	-	(22)	-	-	-	**48**
Accounts receivable	23	-	-	-	-	-	-	-	-	-	**23**
Financial assets available-for-sale	-	-	-	1	219	(9)		-		(152)	**59**
Investments held to maturity	-	-	244	-	-	-	-	-	-	-	**244**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	2	-	-	**2**
Total financial assets	**23**	**-**	**314**	**1**	**219**	**(9)**	**(22)**	**2**	**-**	**(152)**	**376**
Loans	-	(368)	-	-	-	(11)	(721)	-	-	-	**(1,100)**
Bonds	-	(513)	-	-	-	-	-	-	-	-	**(513)**
Finance lease obligations	-	(23)	-	-	-	-	-	-	-	-	**(23)**
Accounts payable	-	-	40	-	-	-	(11)	-	-	-	**29**
Total financial liabilities	**-**	**(904)**	**40**	**-**	**-**	**(11)**	**(732)**	**- -**	**--**	**--**	**(1,607)**

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Income and expenses on financial instruments (continued)

2007	Income statement									
	Other operating income	Financial expense	Other income and expenses					Statement of changes in equity		Total
	Reversal of doubtful debt provision	Interest expense	Interest income	Dividend	Gain (loss) on asset disposal	Ineffective portion of hedge	Currency exchange gain (loss)	Reclassification of change in fair value	Change in fair value	
Cash and cash equivalents	-	-	27	-	-	-	-	-	-	**27**
Accounts receivable	29	-	-	-	-	-	-	-	-	**29**
Financial assets available-for-sale	-	-	-	-	9,593	-	-	(7,171)	28	**2,450**
Investments held to maturity	-	-	135	-	-	-	-	-	-	**135**
Total financial assets	**29**	**-**	**162**	**-**	**9,593**	**-**	**-**	**(7,171)**	**28**	**2,641**
Loans	-	(418)	-	-	-	(8)	87	-	-	**(339)**
Bonds	-	(482)	-	-	-	-	-	-	-	**(482)**
Finance lease obligations	-	(58)	-	-	-	-	-	-	-	**(58)**
Accounts payable	-	--	-	-	-	-	72	-	-	**72**
Total financial liabilities	**-**	**(958)**	**-**	**-**	**-**	**(8)**	**159**	**--**	**--**	**(807)**

37. Financial instruments and risk management (continued)

Foreign exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the Group's financial performance and cash flows. Assets and liabilities denominated in foreign currencies give rise to a potential foreign exchange risk.

The Group's financial assets and liabilities are denominated in the following currencies:

2008	**Rubles**	**US Dollars**	**Euro**	**Other**	**Total**
Cash and cash equivalents	**807**	**194**	**-**	**-**	**1,001**
Accounts receivable	**2,602**	**-**	**-**	**-**	**2,602**
Long-term financial assets available for sale	**21**	**-**	**-**	**-**	**21**
Short-term investments	**292**	**-**	**-**	**-**	**292**
Loans given	**41**	**-**	**-**	**-**	**41**
Other short-term investments	**14**	**-**	**-**	**-**	**14**
Other financial assets	**11**		**-**	**-**	**11**
Financial assets, total	**3,788**	**194**	**-**	**-**	**3,982**
Loans	**716**	**6,823**	**367**	**-**	**7,906**
Bonds	**7,989**	**-**	**-**	**-**	**7,989**
Promissory notes	**1**	**-**	**18**	**-**	**19**
Vendor financing	**1**	**-**	**-**	**-**	**1**
Finance lease obligations	**12**	**-**	**-**	**-**	**12**
Interest payable	**102**	**47**	**5**	**-**	**154**
Other long-term borrowings	**2**	**9**	**-**	**-**	**11**
Accounts payable	**3,664**	**56**	**5**	**-**	**3,725**
Financial liabilities, total	**12,487**	**6,935**	**395**	**-**	**19,817**

2007	**Rubles**	**US Dollars**	**Euro**	**Other**	**Total**
Cash and cash equivalents	503	-	-	-	503
Accounts receivable	1,931	-	-	-	1,931
Long-term financial assets available for sale	224	-	-	-	224
Short-term investments	6,394	-	-	-	6,394
Loans given	45	-	-	-	45
Other financial assets	47	-	--	-	47
Financial assets, total	**9,144**	**-**	**-**	**-**	**9,144**
Loans	2,061	2,430	1,142	-	5,633
Bonds	4,992	-	-	-	4,992
Promissory notes	1	-	22	-	23
Vendor financing	16	-	-	-	16
Finance lease obligations	139	-	-	-	139
Interest payable	47	29	7	-	83
Other long-term borrowings	5	8	-	-	13
Accounts payable	3,654	62	26	-	3,742
Financial liabilities, total	**10,915**	**2,529**	**1,197**	**-**	**14,641**

Over the period from January 1, 2008 through December 31, 2008 the Ruble decreased by approximately 19.69% and by 15.33% in relation to the US Dollar and Euro, respectively, which resulted in an increase in the Ruble equivalent of the borrowings by approximately 762 and 93 respectively.

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Foreign exchange risk (continued)

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

	US Dollars			Euro		
	Changes in exchange rate, %	Effect on profit before income tax Roubles	Effect on profit before income tax %	Changes in exchange rate, %	Effect on profit before income tax Rubles	Effect on profit before income tax %
2008	**+13.80**	**(923)**	**-28,11**	**+ 1.10**	**(4)**	**-0,13**
	+31.80	**(2,128)**	**-66,13**	**+18.30**	**(72)**	**-2.16**
2007	+10.00	(244)	-1,88	+5.00	(61)	-0,45
	-10.00	244	1,88	-5.00	61	0,45

Estimates of reasonably possible changes take into account expectation of significant devaluation of Russian Ruble in 2009.

The Group uses forward contracts as a tool to partially manage foreign exchange risks (see paragraph Hedging below).

Interest rate risk

Interest rate risk is the risk that changes in market interest rates on financial instruments used by the Group may negatively impact the Group's financial results and cash flows.

Interest rates on the Group's financial assets and liabilities are as follows:

2008	Fixed rate	Floating rate	Interest-free	Total
Cash and cash equivalents	**80**	**-**	**921**	**1,001**
Accounts receivable	**-**	**-**	**2,602**	**2,602**
Long-term financial assets available-for-sale	**-**	**-**	**21**	**21**
Short-term investments	**292**	**-**	**-**	**292**
Loans given	**2**	**-**	**39**	**41**
Other short-term investments	**-**	**-**	**14**	**14**
Other financial assets	**-**	**-**	**11**	**11**
Financial assets, total	**374**		**3,608**	**3,982**
Loans	**317**	**7,589**	**-**	**7,906**
Bonds	**4,994**	**2,995**	**-**	**7,989**
Promissory notes	**19**	**-**	**-**	**19**
Vendor financing	**1**	**-**	**-**	**1**
Finance lease obligations	**12**	**-**	**-**	**12**
Interest payable	**-**	**-**	**154**	**154**
Other long-term borrowings	**11**	**-**	**-**	**11**
Accounts payable	**-**	**-**	**3,725**	**3,725**
Financial liabilities, total	**5,354**	**10,584**	**3,879**	**19,817**

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Interest rate risk (continued)

2007	Fixed rate	Floating rate	Interest-free	Total
Cash and cash equivalents	98	-	405	503
Accounts receivable	-	-	1,931	1,931
Long-term financial assets availablefor-sale	-	-	224	224
Short-term investments	6,394	-	-	6,394
Loans given	2	-	43	45
Other financial assets	-	-	47	47
Financial assets, total	**6,494**	**-**	**2,650**	**9,144**
Loans	904	4,729	-	5,633
Bonds	1,994	2,998	-	4,992
Promissory notes	23	-	-	23
Vendor financing	16	-	-	16
Finance lease obligations	139	-	-	139
Interest payable	-	-	83	83
Other long-term borrowings	13	-	-	13
Accounts payable	-	-	3,742	3,742
Financial liabilities, total	**3,089**	**7,727**	**3,825**	**14,641**

Sensitivity analysis of profit before tax to the interest rates risk is shown in the table below:

LIBOR

	Changes in interest rate, bps	Effect on profit before income tax Rubles	%
2008	**+55**	**(38)**	**-1,88**
	-55	**38**	**1,88**
2007	+10	(2)	-0,02
	-10	2	0,02

MosPrime RZBM

	Changes in interest rate, bps	Effect on profit before income tax Rubles	%
2008	**+1,180**	**(417)**	**-12,60**
	-1,180	**417**	**12,60**
2007	+10	(1)	-0,01
	-10	1	0,01

Other

	Changes in interest rate, bps	Effect on profit before income tax Rubles	%
2008	**-**	**-**	**-**
	-	**-**	**-**
2007	+10	(3)	-0,02
	-10	3	0,02

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Interest rate risk (continued)

Our analysis shows limited sensitivity of profit to interest rate risk under EURIBOR, the effect of movements in the interest rate of ±30 basis points on profit before income tax will be less than 1 (2007: less than 1).

Loans and borrowings that assume interest rate to be dependent upon LIBOR are represented in US Dollars, upon EURIBOR – in Euro, upon MosPrime RZBM – in Russian Rubles.

Liquidity risk

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and other financial assets (e.g. accounts receivables) 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.

The table below summarizes the Group's financial asset and liability maturities:

	2009	**2010**	**2011**	**2012**	**2013 onwards**	**Total**
Cash and cash equivalents	1,001	-	-	-	-	1,001
Accounts receivable	2,596	6	-	-	-	2,602
Long-term financial assets available-for-sale	21	-	-	-	-	21
Short-term investments	292	-	-	-	-	292
Loans given	21	13	7	7	9	57
Other short-term investments	14	-	-	-	-	14
Other financial assets	11	-	-	-	-	11
Financial assets, total	**3,956**	**19**	**7**	**7**	**9**	**3,998**
Loans	2,516	3,437	2,633	350	-	8,936
Bonds	1,368	3,050	2,755	1,893	1,612	10,678
Promissory notes	19	-	-	-	15	34
Finance lease obligations	12	-	-	-	-	12
Interest payable	134	-	6	-	-	140
Other long-term borrowings	2	1	-	-	-	3
Accounts payable	3,725	-	-	-	-	3,725
Financial liabilities, total	**7,776**	**6,488**	**5,394**	**2,243**	**1,627**	**23,528**

Distribution of borrowings by maturity is based on contractual undiscounted cash flows. These flows include the repayment of principal amount as well as interest payments and other additional payments to be made during respective periods. In case when the interest rate included floating part, this part for projection was set as equal to the interest rate as at December 31, 2008. Liquidity analysis is disclosed in more details in Note 1.

Credit risk

Credit risk is the risk that counter-party will fail to discharge 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 Rubles)

37. Financial instruments and risk management (continued)

Credit risk (continued)

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. Recovery of this debt is influenced by political and economic factors. Management believes that as of December 31, 2008 there is no significant risk of loss to the Group beyond the provision already recorded.

The Group places spare cash on deposits with a number of Russian commercial financial institutions and in short-term promissory notes issued by Russian commercial banks. To manage credit risk the Group places spare cash in different financial institutions, and the Group's management analyzes the risk of default of these financial institutions on a regular basis.

The table below contains ageing analysis of overdue but not impaired trade accounts receivable:

2008		**Overdue (days)**					
	Total	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	**32**	**18**	**10**	**3**	**1**	**-**	**-**
Individuals	**49**	**35**	**9**	**3**	**2**	**-**	**-**
Government customers	**7**	**6**	**1**	**-**	**-**	**-**	**-**
Telecommunication operators	**26**	**20**	**4**	**2**	**-**	**-**	**-**
Total	**114**	**79**	**24**	**8**	**3**	**-**	**-**

2007		**Overdue (days)**					
	Total	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	19	12	5	1	1	-	-
Individuals	57	43	9	3	2	-	-
Government customers	14	7	1	5	1	-	-
Telecommunication operators	39	25	11	2	1	-	-
Total	129	87	26	11	5	-	-

Given the prior debtor performance experience, the above accounts receivable are not impaired.

The Group has significant concentration of cash (28.93%) in OJSC AKB Svyaz-Bank.

Hedging

As a result of the existence of a syndicated loan denominated in a foreign currency (Euro), the Group assumes a risk that the Ruble expenses related to the liability may increase in case of an increase in the exchange rate of Euro to Ruble (holds a short position in the currency). To mitigate or minimize the potential adverse effect of a decrease in the exchange rate of Ruble to the currency in which the syndicated loan is denominated, the Group has chosen to hedge its foreign exchange risks.

The Group used a forward currency contract as a hedging instrument – a derivative financial instrument under which the Bank is to transfer within an agreed period the basic asset (Euro) to the Group, while the Group is to accept and pay for the basic asset at the price (forward price) and on the terms agreed between the parties as of the date of the contract.

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Hedging (continued)

The first phase of the foreign exchange risk hedging completed in 2006 involved the hedging transaction entered into with CJSC KB Citibank on September 7, 2006. The instrument is used to hedge 20.00% of the amount outstanding under the syndicated loan or 10 million Euros and involves a currency sale (Euro) at a single forward rate in accordance with the following schedule:

	2007	2008	2009
Hedged amount	183	168	39

The second phase of the foreign exchange risk hedging was completed on March 5, 2007 when the Group entered into a contract with OJSC Gazprombank to hedge 40.00% of the amount outstanding under the syndicated loan, or 20 million Euro, which involves a currency sale (Euro) at a single forward rate in accordance with the following schedule:

	2007	2008	2009
Hedged amount	311	311	78

In March, June, September and December 2007 the Group fully discharged its liability to purchase currency (Euro) under the hedging contracts.

As of December 31, 2008 and 2007, net amount outstanding under the syndicated loan was:

	2008 (thousands Euro)	2007 (thousands Euro)
Amount outstanding under the syndicated loan	5,556	27,799
Principal amount hedged	(1,111)	(16,667)
Net debt (open currency position)	4,445	11,132

In the event of a 18.30% change in the exchange rate, the net effect on the consolidated income statement in money terms will be 30 (2007 in the event of a 2.50% change in the exchange rate: 12).

The cash flows relate to outstanding loans and the hedged risks and, as such, affect the profit or loss for the period in which the movement in the exchange rate took place. Accordingly, the amounts were not deferred or excluded from the hedging reserve in equity.

As of December 31, 2008, the fair value of the forward contract classified as hedge was 4 (2007: 16), including 15 (2007: 5) classified as ineffective portion of the hedge and included in line Ineffective portion of hedge within the line Other income and expenses from financing and investment activities of the consolidated income statement, and 19 (2007: 21) classified as effective portion of the hedge included in line Currency Exchange Gain (Loss), net as compensation for the respective exchange loss on the outstanding loan that is also within the line Other income and expenses from financing and investment activities in comsolidated income statement.

In 2008, the Group hedged its foreign exchange risk under the syndicated loan for a total of 168 (2007: 494) using the framework currency translation and deposit agreement with CJSC KB Citibank as hedging instrument to exercise forward transactions being derivative financial instruments under which a bank is to transfer within an agreed period the basic asset (Euro) to the Group or to perform an alternative financial liability, while the Group is to accept and pay for the basic asset at the price (forward price) and on the terms agreed between the parties as of the date of the contract.

The Group estimates the efficiency of its hedging arrangements under the framework currency translation and deposit agreement with CJSC KB Citibank at 80.50% (2007: 97.80%).

(in millions of Rubles)

37. Financial instruments and risk management (continued)

Hedging (continued)

n 2008 the Group did not designate the forward contract with OJSC Gazprombank as hedging instrument since it failed to be an effective hedge. Therefore, this financial instrument was classified as financial asset at fair value through profit and loss with fair value of 14 (2007: nil) as of December 31, 2008. Fair value of the derivative represents future cash flows determined by future foreign exchange rates changes against the rates determined by the contract, estimated at the reporting date. The net income of 5 related to the change in fair value of the forward contract was included in the other income and expenses from financing and investment activities in the consolidated income statement for the year ended December 31, 2008 (2007: nil).

In 2008 OJSC NWT did not hedge its interest rate risks.

Fair value of financial instruments

Financial instruments used by the Group are classified in either of the following categories:

- HTM – held to maturity investments;
- AFS – available for sale financial assets;
- FAFV – Financial assets at fair value;
- LAR – loans and receivables;
- FLAC – financial liabilities at amortized cost
- FAFVPL – financial assets at fair value through profit or loss.

As of December 31, 2008 and 2007 fair value and carrying value of the Group's financial instruments did not differ significantly except for the following:

		2008		**2007**	
	Category	**Net book value**	**Fair value**	**Net book value**	**Fair value**
Cash and cash equivalents	LAR	**1,001**	**1,001**	503	503
Accounts receivable	LAR	**2,602**	**2,602**	1,931	1,931
Long-term financial assets available-for-sale	AFS	**21**	**21**	224	224
Short-term investments	HTM	**292**	**292**	6,394	6,394
Loans given	LAR	**41**	**41**	45	45
Other short-term investments	FAFVPL	**14**	**14**	-	-
Other financial assets	AFS	**11**	**11**	47	47
Financial assets, total		**3,982**	**3,982**	9,144	9,144
Loans	FLAC	**7,906**	**7,877**	5,633	5,566
Bonds	FLAC	**7,989**	**7,736**	4,992	5,020
Promissory notes	FLAC	**19**	**19**	23	23
Vendor financing	FLAC	**1**	**1**	16	16
Finance lease obligations	FLAC	**12**	**12**	139	139
Interest payable	FLAC	**154**	**154**	83	83
Other long-term borrowings	FLAC	**11**	**11**	13	13
Accounts payable	FLAC	**3,725**	**3,725**	3,742	3,742
Financial liabilities, total		**19,817**	**19,535**	14,641	14,602

(in millions of Rubles)

38. Contractual commitments

As of December 31, 2008 and 2007 the Group had contractual commitments for capital investment in network modernization and expansion in the amount of approximately 926 and 594, respectively.

As of December 31, 2008 and 2007 the Group had contractual commitments for purchase of property, plant and equipment of 30 and 124, respectively.

39. Balances and transactions with related parties

The nature of significant Group's related party transactions in 2008 and 2007 is disclosed below.

Item	Svyazinvest	Subsidiaries of Svyazinvest	Associates	State-controlled companies	Other
2008					
Provision of telecommunication services, interconnection and traffic transmission services	**-**	**1,603**	**37**	**2,836**	**458**
Rendering of assistance and agency services	**-**	**694**	**-**	**-**	**13**
Property rental income	**-**	**8**	**10**	**155**	**34**
Provision of other services, goods, products	**-**	**2**	**1**	**17**	**22**
Disposal of property, plant and equipment and other assets	**-**	**-**	**-**	**-**	**20**
Purchase of telecommunication services, interconnection and traffic transmission services	**-**	**267**	**23**	**307**	**249**
Purchase of other services	**-**	**383**	**-**	**1,415**	**379**
Purchase of goods and other assets	**-**	**55**	**-**	**135**	**-**
Financial investments	**-**	**-**	**-**	**3,000**	**-**
Interest receivable from financial investments	**-**	**-**	**-**	**229**	**-**
Dividend receivable	**-**	**2**	**-**	**-**	**1**
Dividend payable	**263**	**-**	**-**	**-**	**-**
Loans given	**-**	**-**	**-**	**-**	**3**
2007					
Provision of telecommunication services, interconnection and traffic transmission services	-	2,104	41	2,588	705
Rendering of assistance and agency services	-	753	-	5	20
Propertyl rental income		11	4	32	128
Provision of other services, goods, products	-	2	-	30	43
Disposal of property, plant and equipment and other assets	-	-	-	-	27
Purchase of telecommunication services, interconnection and traffic transmission services	-	91	28	121	491
Purchase of other services	-	370	218	1,219	609
Purchase of goods and other assets	-	174	-	20	50
Financial investments	-	-	-	6,210	-
Interest receivable from financial investments	-	-	-	136	-
Loan interest payable	-	-	-	2	-
Dividend receivable	-	1	-	-	-
Dividend payable	146	-	-	-	-

(in millions of Rubles)

39. Balances and transactions with related parties (continued)

The nature of significant Group's related party balances outstanding as of December 31, 2008 and 2007 is disclosed below.

Item	Svyazinvest	Subsidiaries of Svyazinvest	Associates	State-controlled companies	Other
2008					
Accounts receivable	**-**	**242**	**7**	**206**	**21**
Loans given (including interest)	**-**	**-**	**-**	**-**	**3**
Accounts payable	**-**	**381**	**2**	**307**	**15**
2007					
Accounts receivable	-	318	9	150	189
Financial investments (including interest)	-	-	-	6,313	-
Accounts payable	-	419	113	183	36

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

OJSC Svyazinvest

OJSC Svyazinvest is open joint stock Group incorporated under the laws of the Russian Federation. The Group's parent entity - OJSC Svyazinvest - was wholly owned by the Russian Government until July 1997 when the Government sold 25.00% plus one share of the Charter Capital of OJSC Svyazinvest to the private sector.

As of December 31, 2008 the Russian Federation represented by Federal Agency for State Property Management held 75.00% ordinary shares minus 1 share in OJSC Svyazinvest.

The Svyazinvest Group comprises 7 interregional telecommunication companies (ICC), OJSC Rostelecom, OJSC Central Telegraph, OJSC Dagsvyazinform and other subsidiary telecom operators.

Telecom operators within the Svyazinvest Group are public network operators offering local, intrazone, long-distance national and international telephone services, wired radio broadcasting, communication services to support cable and on-air broadcasting, mobile radio and radiotelephony services, communication channel rental services under licenses granted by the Russian Federation Ministry of Communications.

Effectively operating telecommunication and data transmission networks are essential for Russia due to various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of OJSC Svyazinvest and its subsidiaries.

The Russian Federation Ministry of Communications and Information Technologies has control over the licensing of providers of telecommunications services.

OJSC Rostelecom

OJSC Rostelecom, a majority-owned subsidiary of Svyazinvest, is the primary provider of domestic long-distance and international telecommunications services in the Russian Federation.

The revenue from OJSC Rostelecom relates to intrazone call initiation/termination services from/to the Group's network and from/to the interconnected operators' networks, and to the fees received under the assistance agreement.

(in millions of Rubles)

39. Balances and transactions with related parties (continued)

OJSC Rostelecom (continued)

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

The respective amounts included in the consolidated financial statements as of December 31, 2008 and 2007 were as follows:

	2008	2007
Provision of communication, interconnection and traffic transmission services	**1,534**	2,112
Provision of assistance and agency services	**694**	753
Property rental revenue	**8**	-
Sale of other services, goods, products	**2**	-
Purchase of communication, interconnection and traffic transmission services	**126**	101
Purchase of other services	**8**	-
Accounts receivable	**224**	300
Accounts payable	**339**	349

Transactions with state-controlled companies

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

Certain entities financed by the Government are users of the Group's network. These entities typically lease communication channels at lower rates than those fixed by the Federal Tariff Service for other customers. In addition, the Government may by law require the Group to provide certain services to the Government in the interest of national security and the detection of crime.

Entities under direct or indirect control of the state do not affect the Group's transactions with other entities.

By virtue of the Russian Federation Government decrees, the Group is not allowed to disconnect certain entities that have a strategic importance for the state. Rates applied to such customers are also set by the state regulator. However their level is identical to that applied to commercial customers.

OJSC AKB Svyaz-Bank

In 2008 the Group purchased promissory notes issued by OJSC AKB Svyaz-Bank in the amount of 3,000 (2007: 6,312) (Note 13).

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

Non-Commercial Partnership Center for Research of the Problems in Development of Telecommunications (hereinafter - "the Partnership") is an entity wholly owned by OJSC Svyazinvest subsidiaries and incorporated with a view to implement mutually beneficial projects. In October 2008 the Company withdrew from the Partnership and as of December 31, 2008 the Partnership were no longer related party to the Group. Transactions with the Partnership until October 2008 are reported in the table showing the transactions with the related parties in the reporting period in line Purchase of Other Services.

39. Balances and transactions with related parties (continued)

Non-Commercial Partnership Center for Research of Problems in Development of Telecommunications (continued)

The Group had an agreement with the Partnership, under which it provides financing for the latter to implement mutually beneficial project on behalf of the Group and other subsidiaries and associates of OJSC Svyazinvest. Contributions to the Partnership included in the line Other Operating Expenses in the consolidated income statement for 2008 amounted to 109 (2007: 148).

In addition, the Partnership acted as agent for the Group with respect to Oracle E-Business Suite development and implementation services. In 2008 the Group incurred no expenses related to the reimbursement of the Partnership for the costs it incurred under agreements with contractors (2007: 91). In the table showing transactions with related parties in the prior period the expenses are reported in the line Purchase of Other Services.

The Group had no outstanding liability to the Partnership as of December 31, 2008 and December 31, 2007.

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries which own among them 100.00% 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 146 (2007: 173). In table showing transactions with related parties in the reporting period these expenses are reported in line Purchase of Goods and Other Assets. Expenses in the amount of 119 (2007: 127) are included in non-current assets; expenses in the amount of 27 (2007: 46) are recorded as current period expenses. Advances given to OJSC Svyazintek as of December 31, 2008 amounted to 8 (2007: 9), accounts payable to OJSC Svyazintek amounted to 29 (2007: 37).

Non-government Pension Fund Telecom-Soyuz

The Group signed a pension insurance agreement with Non-government Pension Fund Telecom-Soyuz (Note 21). Svyazinvest Group has a majority vote in the fund's Board. In 2008, contributions to the fund totaled 151 (2007: 258). In the table showing transactions with related parties in the reporting period the contributions are reported in the line Purchase of Other Services.

Compensation to key management personnel

Key management personnel comprise members of Management Board and Board of Directors of the Company, totaling to 21 as of December 31, 2008 and 2007.

Compensation to members of Management Board and Board of Directors of the Company for 2008 totals 145 (2007: 93), including contractual salary, performance bonus and management fees to the Company's managerial personnel of 94 (2007: 68). Compensation amounts are reported net of unified social tax.

In 2008, the Company contributed 42 to the Non-government Pension Fund for its managerial personnel (2007: 38). The Company's employees become eligible for pension benefits upon occurrence of the qualifying event to the extent they meet the criteria of the Company's non-government pension plan (e.g. years with the Company).

40. Subsequent events

Tariff regulations

Pursuant to Order No. 299-c/4 of the Russian Federal Tariff Service dated November 28, 2008, effective March 1, 2009 the Group's tariffs for local telephony services were increased.

Dividends

Annual dividend per share will be approved at the Group's General Shareholders' Meeting in June 2009. The management proposed that the Board of Directors recommend to the General Shareholders' Meeting to approve dividend for 2008 of 0.617 Rubles per ordinary share and 1.281 Rubles per preference share, which amounts to 864. The number of shares used as a basis for dividend per share calculation was determined as the number of shares in circulation at the dividend declaration date. Following the approval, annual dividend payable to shareholders will be recognized in the financial statements for 2009 (see also Note 34).

Loans and borrowings

In January 2009 the Group entered into a revolving loan facility agreement with OJSC Sberbank with a debt ceiling of up to 380. The loan matures on July 13, 2010. The interest rate is 13.75% p.a. The loan is secured with telecommunication equipment of 410.

In January 2009 the Group entered into a revolving loan facility agreement with OJSC Sberbank with a debt ceiling of up to 385. The loan matures on July 26, 2010. The interest rate is 13.75% p.a. The loan is secured with telecommunication equipment of 420.

In February 2009 the Group entered into a revolving loan facility agreement with OJSC Sberbank with a debt ceiling of up to 390. The loan matures on August 6, 2010. The interest rate is 13.75% p.a. The loan is secured with telecommunication equipment of 429.

Termination of arrangements to hedge currency translation transactions

In January 2009 upon expiration of syndicated loan agreement (final value date) with Citibank N.A. of December 23, 2005 for a total of 50,000,000 Euro, the Group ceased to hedge currency translation transactions according to the currency sale schedules under agreements with CJSC KB Citibank and OJSC Gazprombank.

Verification of the amount of losses from the provision of universal communication services in 2008

In 2009, the Federal Communications Agency took a decision to reimburse the losses claimed by the Group in relation to 2008 in the amount of 2,381 (Note 28).

Significant assets purchase contracts

In the 1st quarter of 2009 the Group entered into a number of contracts with CJSC Vinko-T on the construction of aggregation level of broad access DWDM network and extension of IP/MPLS network core for the total of 520.

40. Subsequent events (continued)

Bond issue

In March 2009 the Board of Directors approved public placement of 4,000,000 stock exchange centrally-stored, interest-bearing certified inconvertible bearer bond series 01, 02, 03, 04 with par value of 1,000 Rubles each and total nominal value of 4,000,000,000 Rubles. The offering price is equivalent to the par value of 1,000 Rubles. The bonds carry 12 coupons. Coupon payments are due every 91st day from the date of bond placement. The bonds mature on the 1092nd day from the date of placement with the option of early redemption, partial or full, at the Group's initiative. Early redemption at the bondholders' initiative is possible on the condition that shares and bonds of all types are excluded from the list of securities listed on all stock exchanges that have admitted the bonds to official listing (except where bonds are delisted on maturity or redemption).

On May 4, 2009 CJSC FB MMVB took a decision to allow the bonds for placement and to assign ID numbers to bond issues.

Miscellaneous

In March 2009 the Group's Board of Directors took decision to relieve Alexander Kiselev from his responsibilities of the Chairman of the Board of Directors and to elect Olga Koroleva as Chairman of the Board of Directors.

Liquidation of CJSC Petesrburg Transit Telecom

In May 2009 the Group's Board of Directors took decision to liquidate 100% subsidiary CJSC Petersburg Transit Telecom. Planning liquidation are not affect classification and book value of the Company's assets and liabilities as of December 31, 2008 as all operations of CJSC Petersburg Transit Telecom will be transferred to St.Petersburg branch of OJSC NWT.