Open Joint Stock Company

Far East Telecommunications Company

Consolidated Financial Statements
for the year ended 31 December 2008

OJSC Far East Telecommunications Company
Consolidated Financial Statements
For the year ended 31 December 2008

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC "Far East Telecommunications Company"

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
20 May 2009

OJSC Far East Telecommunications Company
Consolidated Balance Sheet as at 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	14,132	12,992
Intangible assets and goodwill	8	2,934	2,882
Investments in associates	10	72	67
Non-current investments	11	11	29
Other non-current assets	9	594	235
Total non-current assets		**17,743**	**16,205**
Current assets			
Inventories	12	511	449
Trade and other receivables	13	1,479	1,392
Income tax receivable		95	35
Current investments	11	154	783
Other current assets	14	313	253
Cash and cash equivalents	15	554	342
Assets held for sale	7	36	-
Total current assets		**3,142**	**3,254**
TOTAL ASSETS		**20,885**	**19,459**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	17	4,366	4,366
Treasury shares		-	(1)
Retained earnings		4,568	2,672
Total equity attributable to shareholders of the Company		**8,934**	**7,037**
Minority interest		1,566	1,399
Total equity		**10,500**	**8,436**
Non-current liabilities			
Loans and borrowings	18	3,206	4,929
Employee benefits	19	1,025	964
Other non-current liabilities	20	95	115
Deferred tax liabilities	31	670	741
Total non-current liabilities		**4,996**	**6,749**
Current liabilities			
Loans and borrowings	18	2,481	1,955
Accounts payable and accrued expenses	22	2,446	1,510
Income tax payable		3	3
Other current liabilities	23	348	348
Provisions	21	111	458
Total current liabilities		**5,389**	**4,274**
Total liabilities		**10,385**	**11,023**
TOTAL EQUITY AND LIABILITIES		**20,885**	**19,459**

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

	Notes	2008	2007
Revenues	24	**16,109**	**15,001**
Personnel costs	25	(4,923)	(4,656)
Depreciation and amortisation	7,8	(2,204)	(2,088)
Materials, repairs and maintenance, utilities	26	(1,649)	(1,410)
Interconnection charges		(1,749)	(1,681)
Other operating income	27	598	290
Other operating expenses	28	(2,652)	(2,877)
Operating profit		**3,530**	**2,579**
Share of results of associates		7	(2)
Financial income	30	114	166
Interest expenses	29	(626)	(718)
Other financial expenses	30	(20)	(11)
Profit before income tax		**3,005**	**2,014**
Income tax expense	31	(738)	(654)
Profit for the year		**2,267**	**1,360**
Attributable to:			
Shareholders of the Company		2,071	1,272
Minority interest		196	88
		2,267	**1,360**
Basic and diluted earnings per share (in Russian Roubles)	32	16,343	10,035

OJSC Far East Telecommunications Company
Consolidated Statement of Cash Flows
for the year ended 31 December 2008
(in millions of Russian Roubles)

		2008	2007
Cash flows from operating activities:			
Profit before income tax		3,005	2,014
Adjustments for:			
Depreciation and amortisation	7,8	2,204	2,088
(Gain)/loss on disposal of property, plant and equipment		(24)	132
Bad debt expense		108	58
Share of results of associates		(7)	2
Interest expense		626	718
Financial income		(114)	(166)
Other financial expenses		20	11
Reversal of provisions		(347)	(427)
Operating cash flows before changes in working capital and provisions		**5,471**	**4,430**
(Increase)/decrease in inventories		(62)	14
(Increase)/decrease in trade and other receivables		(174)	63
(Increase)/decrease in other current assets		(162)	147
Increase/(decrease) in employee benefits		11	(115)
Increase/(decrease) in accounts payable and accrued expenses		482	(275)
(Increase)/decrease in other operating assets and liabilities		(20)	77
Cash flows generated from operations before income taxes and interest paid		**5,546**	**4,341**
Interest paid		(592)	(231)
Income tax paid		(870)	(835)
Cash flows from operating activities		**4,084**	**3,275**
Investing activities			
Acquisition of property, plant and equipment		(3,282)	(2,188)
Proceeds from sales of property, plant and equipment		268	236
Acquisition of intangible assets		(274)	(328)
Acquisition of subsidiaries, net of cash acquired		(13)	61
Acquisition of other investments		(146)	(764)
Proceeds from sale of other investments		772	11
Interest received		132	30
Dividends received		2	1
Cash flows used in investing activities		**(2,541)**	**(2,941)**
Financing activities			
Proceeds from loans and borrowings		1,020	4,019
Repayment of loans and borrowings		(1,087)	(797)
Repayment of bond issue		(750)	(300)
Repayment of promissory notes		-	(2,428)
Repayment of finance lease obligations		(309)	(366)
Repayment of vendor financing liability		(26)	(164)
Dividends paid to shareholders of the Company		(179)	(140)
Cash flows used in financing activities		**(1,331)**	**(176)**
Net increase in cash and cash equivalents		**212**	**158**
Cash and cash equivalents at beginning of year		**342**	**184**
Cash and cash equivalents at end of year (note 15)		**554**	**342**

OJSC Far East Telecommunications Company
Consolidated Statement of Changes in Equity
for the year ended 31 December 2008

(in millions of Russian Roubles)

	Note	Share capital						
		Preference shares	Ordinary shares	Treasury shares	Retained earnings	Total equity attributable to shareholders of the Company	Minority interest	Total equity
Balance at 1 January 2007	17	1,081	3,285	(6)	1,552	5,912	21	5,933
Profit for the year					1,272	1,272	88	1,360
Total recognised income and expenses for the year					**1,272**	**1,272**	**88**	**1,360**
Dividends to shareholders of the Company		-	-	-	(152)	(152)	-	(152)
Treasury shares sold		-	-	5	-	5	-	5
Acquisition of subsidiaries		-	-	-	-	-	1,292	1,292
Minority interest in subsidiaries upon acquisition		-	-	-	-	-	(2)	(2)
Balance at 31 December 2007	17	**1,081**	**3,285**	**(1)**	**2,672**	**7,037**	**1,399**	**8,436**
Balance at 1 January 2008		1,081	3,285	(1)	2,672	7,037	1,399	8,436
Profit for the year					2,071	2,071	196	2,267
Total recognised income and expenses for the year					**2,071**	**2,071**	**196**	**2,267**
Dividends to shareholders		-	-	-	(175)	(175)	(27)	(202)
Treasury shares sold		-	-	1	-	1	-	1
Acquisition of minority interests in subsidiaries		-	-	-	-	-	(2)	(2)
Balance at 31 December 2008	17	**1,081**	**3,285**	**-**	**4,568**	**8,934**	**1,566**	**10,500**

1 General Information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC Far East Telecommunications Company (hereinafter "the Company") and its subsidiaries ("the Group") for the year ended 31 December 2008, were authorised for issue by the General Director and the Chief Accountant on 20 May 2009.

Company

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

The Company's official address: Russia, 690950, Primorskiy Kray, Vladivostok, Svetlanskaya str. 57.

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

OJSC Svyazinvest, which is controlled by the Russian Government owned 50.56% of the Company's ordinary voting shares as at 31 December 2008 and is the Company's Parent Company.

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

Liquidity and Financial Resources

As at 31 December 2008 the current liabilities of the Group exceeded its current assets by 2,247 (as at 31 December 2007: 1,020).

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

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

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

2 Basis of Preparation

Statement of Compliance

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

Presentation of Financial Statements

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

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

Basis of Accounting

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

Changes in Accounting Policies

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

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

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

IFRSs and IFRIC Interpretations not yet effective

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

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

(in millions of Russian Roubles)

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

(in millions of Russian Roubles)

Standard	Content of change	Effective date
IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	To be applied for reporting periods beginning on or after 1 July 2009.
IFRIC Interpretation 18 Transfers of Assets from Customers	The Interpretation clarifies the circumstances in which assets transferred from customers should be recognized in the entity's financial statements, and establishes approaches to the measurement of their cost on initial recognition. The Interpretation also discusses situations when the customer provides cash to the entity to acquire such assets.	To be applied for reporting periods beginning on or after 1 July 2009.
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets	The Amendments set out rules of reclassification of financial assets to different categories and establish disclosure requirements in respect of reclassifications made.	To be applied for reporting periods beginning on or after 1 July 2008.
Various Improvements to Financial Reporting Standards	Improvements to various Standards eliminate a number of inconsistencies in the current versions of International Financial Reporting Standards.	The effective dates vary depending on each particular Improvement adopted.

As at 31 December 2008, management of the Group has not completed its assessment of the impact of Standards and Interpretations not yet effective at that date on the Group's accounting policies.

Foreign currency transactions

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

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

Exchange rates at 31 December	2008	2007
US Dollar	29.3804	24.5462
EURO	41.4411	35.9332

3 Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Group represent the financial statements of OJSC Far East Telecommunications Company and its subsidiaries as of 31 December 2008 and 2007.

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

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

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

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

Acquisition of Subsidiaries

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

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

Acquisition of Minority Interest in Subsidiaries

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

3.2 Property, Plant and Equipment

3.2.1 Cost of Property, Plant and Equipment

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

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

(in millions of Russian Roubles)

3.2.2 Depreciation and Useful Life

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

The Group applies the following useful lives:

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

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

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

3.2.3 Assets Received from Free of Charge

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

3.3 Intangible Assets and Goodwill

3.3.1 Goodwill

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

3.3.2 Other Intangible Assets

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

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

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

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

Useful lives of other intangible assets are as follows:

	Years
Licences	1-5
Trade mark	4
Customer base	30

3.3.3 Impairment

Goodwill, intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the carrying value over the recoverable amount is recognised as impairment loss. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed. The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. The recoverable amount is the higher of value in use and net selling price.

3.4 Borrowing Costs

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

3.5 Associates

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

3.6 Investments and Other Financial Assets

The Group’s financial assets are classified as loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

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

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity. All other investments, which were not classified to any of the two preceding categories, are available-for-sale investments. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

3.7 Inventories

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

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

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

3.8 Cash and Cash Equivalents

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less. All these items are included as a component of cash and cash equivalents for the purpose of the balance sheet and statement of cash flows.

3.9 Shareholders' Equity

3.9.1 Share Capital

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

3.9.2 Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. No gain or loss on purchase, sale or cancellation of treasury shares is recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

3.9.3 Minority Interest

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

3.9.4 Dividends

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

3.10 Financial Liabilities

3.10.1 Borrowings Received

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

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

3.11 Leases

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

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

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

3.12 Employee Benefits

3.12.1 Current Employment Benefits

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

3.12.2 Pensions and Other Post-Employment Benefit Plans

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial “projected credit unit” method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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

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

3.13 Provisions

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

3.14 Income Tax

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

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

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

Deferred tax assets and liabilities are not discounted.

3.15 Revenue Recognition

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

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

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

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

3.16 Earnings per Share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3.17 Segment reporting

The Group comprises the following main business segments:

- fixed line telecommunication services
- mobile telecommunication services

Management believes that the Group operates in one geographical segment.

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

4 Significant Accounting Judgments and Estimates

4.1 Judgments

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

Lease Classification

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

Revenue Recognition(principal/agent)

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

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

4.2 Estimation Uncertainty

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

Useful Life of Property, Plant and Equipment

The Group estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2008 amounted to 14,132 (as at 31 December 2007:12,992). Refer to Note 7 for detailed information.

Impairment of Non-current assets

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

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment. The impairment loss recognized for 2008 is nil. (2007: nil).

Fair Values of Unlisted Available-for-Sale Investments

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

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date. As of 31 December 2008, the fair values of unlisted available-for-sale investments amounted to 6 (2007: 7). More details are provided in Note 11.

Allowance for impairment of accounts receivable

Provision for impairment is based on the historical data related to collectibility of accounts receivable and creditworthiness analysis for the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As of 31 December, 2008, Impairment loss of receivables amounted to 360 (2007: 296). More details are provided in Notes 13 and 14.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuations which rely on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. Should adjustments to the key assumption be required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As of 31 December 2008, net defined benefit obligations amounted to 1,025 (2007: 964). More details are provided in Note 19.

Litigation and Claims

The Group exercises considerable judgment in measuring and recognizing loss and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As of 31 December 2008, the best estimation of the litigation provision amounts to 37 (2007: 412). More details are provided in Note 21.

(in millions of Russian Roubles)

5 Segment Information

	2008				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Group**
REVENUE					
Revenue from external customers	**14,205**	**1,108**	**796**	**-**	**16,109**
Inter–segment sales	84	31	50	(165)	-
Total revenue	**14,289**	**1,139**	**846**	**(165)**	**16,109**
Segment result	**3,655**	**438**	**308**	**-**	**4,401**
Unallocated expenses					**(871)**
Operating profit					**3,530**
Share of results from associates					7
Financial income					114
Interest expense					(626)
Other financial expenses					(20)
Income tax expense					(738)
Profit for the year					**2,267**
ASSETS AND LIABILITIES					
Segment assets	17,211	1,223	510	-	18,944
Investments in associates					72
Unallocated corporate assets					1,833
Assets held for sale					36
Consolidated total assets					**20,885**
Segment liabilities	(9,173)	(334)	(98)	-	(9,605)
Unallocated corporate liabilities					(780)
Consolidated total liabilities					**(10,385)**
OTHER SEGMENT INFORMATION					
Capital expenditure					
Property, plant and equipment	(2,929)	(268)	(85)	-	**(3,282)**
Depreciation and amortization	(1,967)	(180)	(57)	-	**(2,204)**
Bad debt expense	(100)	(3)	(5)	-	**(108)**

(in millions of Russian Roubles)

	2007				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Group**
REVENUE					
Revenue from external customers	12,963	1,186	852		**15,001**
Inter–segment sales	71	22	46	(139)	-
Total revenue	**13,034**	**1,208**	**898**	**(139)**	**15,001**
Segment result	**2,277**	**853**	**433**	**-**	**3,563**
Unallocated expenses					(984)
Operating profit					**2,579**
Share of results from associates					(2)
Financial income					166
Interest expenses					(718)
Other financial expenses					(11)
Income tax expense					(654)
Profit for the year					**1,360**
ASSETS AND LIABILITIES					
Segment assets	16,920	859	324	-	18,103
Investments in associates					67
Unallocated corporate assets					1,289
Consolidated total assets					19,459
Segment liabilities	(9 837)	(96)	(86)	-	(10,019)
Unallocated corporate liabilities					(1,004)
Consolidated total liabilities					**(11,023)**
OTHER SEGMENT INFORMATION					
Capital expenditure property, plant and equipment	(1,498)	(42)	(14)	-	(1,554)
Depreciation and amortization	(1,969)	(93)	(26)	-	(2,088)
Bad debt expenses	(42)	(16)	-	-	(58)

(in millions of Russian Roubles)

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

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

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

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables, and operating cash and exclude financial investments, income tax assets and other assets that relate to the entity as a whole.

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

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

6 Consolidated subsidiaries

The following subsidiaries are controlled by the Group

		Ownership, %		**Voting Shares, %**	
Subsidiary	**Activity**	**2008**	**2007**	**2008**	**2007**
CJSC Akos	Mobile communications	94.35%	94.26 %	94.35%	94.26 %
OJSC Sakhatelecom	Fixed line communications	51.00 %	51.00 %	51.00 %	51.00 %
OOO BIT	Mobile communications	100.00 %	100.00 %	100.00 %	100.00 %
OOO Interdaltelecom	Fixed line communications	100.00 %	97.00 %	100.00 %	97.00 %
OJSC Shakhtersksvyaz	Fixed line communications	100.00 %	60.00 %	100.00 %	60.00 %
OOO Set-Stolitsa	Fixed line communications	100.00 %	-	100.00 %	-
OJSC A-svyaz	Fixed line communications	-	91.80 %	-	91.80 %
CJSC Integrator.ru	Investing activities	-	100.00 %	-	100.00 %
CJSC Sahalinugol Telecom	Fixed line communications	-	100. 00%	-	100.00 %

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

Acquisitions

In January 2008, the Group acquired additional 3% of ordinary voting shares of OOO Interdaltelecom for 0.7 and increased its share to 100%.

In May 2008, OJSC Sakhatelecom acquired 100% of OOO Set Stolitsa for 13. This acquisition was performed in accordance with the decision of the Board of Directors.

As the result of liquidation of the subsidiary CJSC Sahalinugol-Telecom, the Group obtained 60% of OOO Shakhtersksvyaz. In December 2008, the Group acquired additional 40% of ordinary voting shares of OOO Shakhtersktelecom for 0.7 and increased its share to 100%. Management believes that the carrying amount of identifiable assets, liabilities and contingent liabilities of OOO Shakhtersksvyaz at the date of acquisition is equal to their fair value.

(in millions of Russian Roubles)

Disposal of the subsidiaries

In April 2008, CJSC Sahalinugol-Telecom and OJSC A-svyaz were liquidated in accordance with the decision of the Board of Directors was performed.

According to the decision of the Board of Directors CJSC Intergrator.ru was merged with CJSC Akos on 4 March 2008.

7 Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other	Construc-tion in progress and equipment for installation	Total
Cost					
At 31 December 2006	**7,447**	**6,155**	**1,552**	**649**	**15,803**
Additions	-	-	11	2,177	2,188
Acquisition of subsidiaries	1,994	666	115	132	2,907
Disposals	(483)	(178)	(57)	(162)	(880)
Transfer from construction in progress	477	1 225	192	(1,894)	-
At 31 December 2007	**9,435**	**7,868**	**1,813**	**902**	**20,018**
Additions	14	2	1	3,320	3,337
Acquisition of subsidiaries	7	6	4	-	17
Disposals	(297)	(179)	(61)	(30)	(567)
Transfer from construction in progress	1,071	1,620	292	(2,983)	-
At 31 December 2008	**10,230**	**9,317**	**2,049**	**1,209**	**22,805**
Accumulated Depreciation					
At 31 December 2006	**(3,495)**	**(1,461)**	**(644)**	**-**	**(5,600)**
Charge for the year	(640)	(937)	(361)	-	(1,938)
Disposals	350	119	43	-	512
At 31 December 2007	**(3,785)**	**(2,279)**	**(962)**	**-**	**(7,026)**
Charge for the year	(618)	(981)	(371)	-	(1,970)
Disposals	176	104	43	-	323
At 31 December 2008	**(4,227)**	**(3,156)**	**(1,290)**	**-**	**(8,673)**
Net book value					
At 31 December 2006	**3,952**	**4,694**	**908**	**649**	**10,203**
At 31 December 2007	**5,650**	**5,589**	**851**	**902**	**12,992**
At 31 December 2008	**6,003**	**6,161**	**759**	**1,209**	**14,132**

Finance Lease

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

	2008	2007
Switches and transmission devices	647	1,206
Construction in progress and equipment for installation	-	4
Vehicles and other fixed assets	40	53
Total net book value of plant and equipment	**687**	**1,263**

Depreciation of property, plant and equipment for 2008 in the amount of 1,970 (2007: 1,938) was

(in millions of Russian Roubles)

recognised in Depreciation and amortisation in the consolidated income statement.
As at 31 December 2008, the historical cost of fully amortised property, plant and equipment amounted to 1,338 (2007: 812).

In 2008, the Group increased the cost of construction-in-progress by the capitalised interest in the amount of 76 (2007: 52). Capitalisation rate in 2008 was 8.8% (2007: 8.6%).

As at 31 December 2008, the Group classified some assets as assets held-for-sale included in the disposal group. The net balance value of these assets was 36 as at 31 December 2008.

	Buildings	**Vehicles and other**	**Total**
Historical cost as at 31 December 2008	47	4	51
Accumulated depreciation as at 31 December 2008	(14)	(1)	(15)
Net book value as at 31 December 2008	**33**	**3**	**36**

Impairment testing

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

As a result of the impairment test performed no impairment was identified.

Key assumptions management used in the calculation of value in use are as follows:
- for all cash generating units cash flow projections cover a period of five years, cash flows beyond five-year period have been extrapolated;
- cash flow projections were prepared in nominal terms;
- discount rate was estimated in nominal terms on the weighted average cost of capital basis. After tax discount rate is 17.4%
- projected growth in revenue and expenses is as follows: 2009 – 2%; 2010 – 3%, 2011 – 3.5%, 2012 – 3.5% and in 2013 and later – 4%.

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

(in millions of Russian Roubles)

8 Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Customer base	Trademark	Total
Cost						
At 31 December 2006	**91**	**180**	**966**	**15**	**-**	**1,252**
Additions	-	6	346	-	-	352
Acquisition of subsidiaries	966	9	1	640	57	1,673
Disposals	-	(2)	(43)	-	-	(45)
At 31 December 2007	**1,057**	**193**	**1,270**	**655**	**57**	**3,232**
Additions	-	1	273	-	-	274
Acquisition of subsidiaries	13	-	-	-	-	13
Disposals	-	(1)	(36)	-	-	(37)
At 31 December 2008	**1,070**	**193**	**1,507**	**655**	**57**	**3,482**
Accumulated amortisation and impairment						
At 31 December 2006	(91)	(42)	(73)	(15)	-	(221)
Charge for the year	-	(29)	(86)	(21)	(14)	(150)
Disposals	-	2	19	-	-	21
At 31 December 2007	**(91)**	**(69)**	**(140)**	**(36)**	**(14)**	**(350)**
Charge for the year	-	(27)	(172)	(21)	(14)	(234)
Disposals	-	-	36	-	-	36
At 31 December 2008	(91)	(96)	(276)	(57)	(28)	(548)
Net book value						
At 31 December 2006	**-**	**138**	**893**	**-**	**-**	**1,031**
At 31 December 2007	**966**	**124**	**1,130**	**619**	**43**	**2,882**
At 31 December 2008	**979**	**97**	**1,231**	**598**	**29**	**2,934**

Oracle E-Business Suite (OEBS)

As at 31 December 2008, the software included a software product Oracle E-Business Suite with the carrying amount of 578 (2007: 360).

Interest expenses capitalised in 2008 and related to the implementation of Oracle E-Business Suite amounted to nil (2007: 13). Applicable capitalisation rate in 2007 was 8.33%.

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

	2008	2007
As at 1 January	**360**	**326**
Additions	407	77
Amortisation charge	(188)	(43)
Disposals	(1)	-
As at 31 December	**578**	**360**

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

(in millions of Russian Roubles)

Amdocs Billing System Software

As at 31 December 2008, the software included a software product Amdocs Billing Suite with the carrying amount of 277 (2007: 293).

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

The results of the initial stage of Amdocs implementation have been used by the Group for unification of the existing billing systems and installation of the Start billing system. Therefore, expenses related to Amdocs project in the amount of 16 have been transferred into the cost of the Start billing system and are to be amortised appropriately during the period of useful life of the Start system.

Until putting into operation management intends to periodically test the asset for impairment.

Amortisation of intangible assets

Amortisation charge for 2008 in the amount of 234 (2007: 150) was recorded in line "Depreciation and amortization" of Consolidated Income Statement.

Impairment Testing of Intangible Assets not ready for use and other intangible assets

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

9 Other long-term assets

	2008	**2007**
Long-term advances given for the investing activities	592	234
Long-term accounts receivable	2	1
Total	594	235

Advances for construction of property to OOO Amsolit and CJSC M.O.R.E-Plaza for the amount of 42 and 35 respectively were included in long-term advances given for the investing activities.

(in millions of Russian Roubles)

10 Investments in associates

The following table illustrates summarized financial information for the Group's associates

		2008		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
OOO Kamalyascom	Telecommunication services	50%	50%	1
OOO Magalyascom	Telecommunication services	50%	50%	16
OOO Vostoktelecom	Telecommunication services	25%	25%	55
Total				72

		2007		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares,%**	**Carrying value**
OOO Kamalyascom	Telecommunication services	50%	50%	1
OOO Magalyascom	Telecommunication services	50%	50%	16
OOO Vostoktelecom	Telecommunication services	25%	25%	50
Total				67

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

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

	2008	2007
Investments in associates at 1 January	**67**	**24**
Acquisition of associates	-	50
Share of results of associates	7	(2)
Dividends received	(2)	-
Disposal of associates	-	(5)
Investments in associates at 31 December	**72**	**67**

(in millions of Russian Roubles)

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

Equity accounted investees	Ownership Interest, %	Assets	Liabilities	Revenues	Net profit/Loss
2008					
OOO Kamalyascom	50 %	3	(2)	8	-
OOO Magalyascom	50 %	30	-	2	(2)
OOO Vostoktelecom	25 %	256	(30)	284	29
2007					
OOO Kamalyascom	50 %	3	(2)	3	-
OOO Magalyascom	50 %	33	-	6	(2)
OOO Vostoktelecom	25 %	227	(25)	246	21

11 Investments

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

	2008	2007
Long term financial investments available-for-sale	9	18
Long-term loans given	2	11
Total long-term financial investments	**11**	**29**
Financial investments available-for-sale	146	770
Short-term loans given	8	12
Other short-term investments	-	1
Total short-term financial investments	**154**	**783**
Total financial investments	**165**	**812**

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

	2008		2007	
Company	**Ownership interest ,%**	**Carrying value**	**Ownership interest,%**	**Carrying value**
Long–term investments				
OJSC Sberbank	-	3	-	11
OJSC Svyazintek	4.00%	5	4.00%	5
OJSC Telecommuications SEZ Nakhodka	-	-	8.47%	1
OJSC Svyaz-Bank	0.03%	1	0.03%	1
Short–term investments				
OJSC Russian Industrial Bank	-	-	Promissory notes	470
OJSC Svyaz-Bank	-	-	Promissory notes	300
OJSC Sberbank	Promissory notes	146	-	-
Other	-	-	-	1
Total investments		**155**		**789**

The Group invests its temporarily available funds in promissory notes issued by various Russian financial institutions and companies which mature within 12 months of the balance sheet date or which have no fixed maturity date. The Group intends to dispose of these promissory notes within the following year. The promissory notes carry yield at a rate of 7.75% and are denominated in roubles.

Long-term loans given were recorded at the amortised cost, calculated using the interest rate of 17%.

(in millions of Russian Roubles)

12 Inventories

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

	2008	2007
Cable	236	194
Finished goods and goods for resale	4	5
Other inventories	271	250
Total	**511**	**449**

As of 31 December 2008 the Group established the allowance for obsolete inventories in the amount of 2 (2007: 1).

13 Trade and Other Receivables

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

	Gross as at 31 December 2008	Allowance for Impairment	Net as at 31 December 2008
Receivables from customers for operating activity	1,580	(317)	1,263
Receivables from customers for non-operating activity	86	(24)	62
Receivables from agents and commissioners	33	-	33
Settlements with personnel	5	-	5
Other receivables	127	(11)	116
Total	**1,831**	**(352)**	**1,479**
	Gross as at 1 31 December 2007	**Allowance for Impairment**	**Net as at 31 December 2007**
Receivables from customers for operating activity	1,403	(260)	1,143
Receivables from customers for non-operating activity	66	(12)	54
Receivables from agents and commissioners	38	-	38
Settlements with personnel	6	-	6
Other receivables	151	-	151
Total	**1,664**	**(272)**	**1,392**

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

	Gross as at 31 December 2008	Allowance for Impairment	Net as at 31 December 2008
Receivables from individuals	951	(222)	729
Receivables from commercial organizations	265	(54)	211
Receivables from budget organizations	88	(7)	81
Receivables from interconnect operators	252	(22)	230
Tariff compensation from the state budget	24	(12)	12
Total	**1,580**	**(317)**	**1,263**

(in millions of Russian Roubles)

	Gross as at 31 December 2007	Allowance for Impairment	Net as at 31 December 2007
Receivables from individuals	778	(154)	624
Receivables from commercial organizations	243	(47)	196
Receivables from budget organizations	68	(5)	63
Receivables from interconnect operators	280	(20)	260
Tariff compensation from the state budget	34	(34)	-
Total	**1,403**	**(260)**	**1,143**

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

	2008	2007
Balance at 1 January	272	222
Accruing (reversal) of the allowance	108	58
Decrease due to write-off of assets	(28)	(8)
Balance at 31 December	**352**	**272**

As at 31 December 2008 the receivable for tariff compensation from the state budget related to granting discounts to certain categories of privileged subscribers amounted to 1.5% of total accounts receivable from customers (2007: 2.3%). These receivables originated prior to January 2005, when Article 47 of the Federal Law No. 126-FZ On Communications dated 7 July 2003 came into force changing the procedure of providing telecommunication service benefits to individual customers. Prior to January 2005, those end-users (eligible for such a privilege) paid only 50% of the service fees and the remaining 50% were subject to compensation from the state budget.

In 2008, the Group legally enforced settlement from the federal budget of such outstanding receivables in the amount of 10 (2007: 54).

As of 31 December 2008, the Group assessed the recoverability of accounts receivable for settlements with privileged customers and accrued an allowance of 12 (2007: 34).

14 Other Current Assets

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

	Gross as at 31 December 2008	Allowance for Impairment at 31 December 2008	Net as at 31 December 2008
Advances given	126	(3)	123
VAT receivable	95	-	95
Other prepaid taxes	48	-	48
Deferred expenses	33	-	33
Other current assets	19	(5)	14
Total	**321**	**(8)**	**313**

(in millions of Russian Roubles)

	Gross as at 31 December 2007	Allowance for Impairment at 31 December 2007	Net as at 31 December 2007
Advances given	121	(3)	118
VAT receivable	39	-	39
Other prepaid taxes	58	-	58
Deferred expenses	35	-	35
Other current assets	24	(21)	3
Total	**277**	**(24)**	**253**

15 Cash and Cash Equivalents

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

16 Non-cash transactions

Sales revenues arising as a result of mutual offset, offsetting receivables from the provision of goods and services against payables owed for supply of goods and services from the same counterparty to the Group, were 597 and 47 in 2008 and 2007 respectively:

	2008	2007
Total number of counterparties with non-cash payments	38	97
OJSC Rostelecom	493	-
OJSC MTT	42	24
OJSC MTS	32	-
FGUP Pochta Rossii	11	17
LLC Dalsvyaz-Kurier	8	-
CJSC DV StroysvyazComplex	4	-
OJSC Sberbank	-	2
OJSC Kamchatnefteproduct	2	-
CJSC Redcom-Internet	1	-
CJSC Edelveis Trans Telecom	1	1
Other	3	3
Total	**597**	**47**

(in millions of Russian Roubles)

17 Share Capital

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

	Number of shares outstanding (thousands)	Treasury shares (thousands)	Number of shares on issue (thousands)	Total par value	Carrying value
As at 31 December 2007	**126,744**	**6**	**126,750**	**2,535**	**4,366**
Preference	31,166	3	31,169	623	1,081
Ordinary	95,578	3	95,581	1,912	3,285
As at 31 December 2008	**126,750**	**-**	**126,750**	**2,535**	**4,366**
Preference	31,169	-	31,169	623	1,081
Ordinary	95,581	-	95,581	1,912	3,285

All shares have a par value of RUR 20. The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated until 1 January 2003. All authorised shares have been issued and fully paid.

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

	Share capital	Ordinary shares		Preference shares	
	%	Number (thousands)	%	Number (thousands)	%
OJSC Svyazinvest	38.13	48,330,683	50.56	-	-
-shareholders holding more than 5% of charter capital, incl:	50.28	41,139,619	43.04	22,599,797	72.51
- CJSC Depozitarno-Cliringovaya Kompania	16.86	16,585,244	17.35	4,787,745	15.36
- CJSC UBS Nominies	9.87	5,831,343	6.10	6,674,108	21.41
- Non-commercial partnershi National depositary centre	21.03	15,863,982	16.60	10,795,614	34.64
- other legal entities	2.52	2,859,050	2.99	342,330	1.1
Individuals	11.59	6,111,119	6.40	8,569,104	27.49
Total	**100.00**	**95,581,421**	**100.00**	**31,168,901**	**100.00**

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated from 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. The annual amount of dividends on a preference share may not be less than dividends on an ordinary share. Thus, the owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations.

(in millions of Russian Roubles)

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

Distributable earnings of the parent company are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2008 and 2007 amounted to RUR 4,856 million and RUR 3,266 million, respectively.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from net income as recognised in the Company's Russian statutory financial statements. The Company reported net income of RUR 1 736 million and RUR 874 million in its statutory financial statements in 2008 and 2007, respectively.

According to the Order of the Federal Service on the Financial Markets of the Russian Federation No. 03 - 17/PS dated 01 April 2003 the Company was authorized to circulate 40% of its ordinary shares (38,232,568 shares) in the form of ADR outside the Russian Federation. According to the depositary agreement one ADR is equal to 30 ordinary shares.

On 24 July 2008, the Company changed its conversion rates on ADRs from 1:30 to 1:5.

As at the end of 2008, 69,120 ADRs were issued representing 345,600 deposited ordinary shares, which constituted 0.36% of total ordinary shares issued.

In 2008 no additional shares were issued.

The following table represents ADR registration for 2007-2008:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
31 December 2006	**25,137**	**754,110**	**0.79**	**0.59**
Additions 2007	3,987	119,610	0.12	0.09
31 December 2007	**29,124**	**873,720**	**0.91**	**0.68**
Change in conversion rate	145,620	-	-	-
Disposals 2008	(105,624)	(528,120)	(0.55)	(0.43)
31 December 2008	**69,120**	**345,600**	**0.36**	**0.25**

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

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Frankfurt Stock Exchange	-	D7A	-
Berlin Stock Exchange	-	D7A	-
Over-the-counter market (OTC)	30732Q104	Feeoy	RU0009101158

(in millions of Russian Roubles)

18 Loans and Borrowings

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

	2008	2007
Long–term loans and borrowings		
Bank loans	3,001	2,347
Bonds	2,431	3,176
Lease liability	223	531
Vendor financing	-	27
Less: Current portion of long–term borrowings	(2,449)	(1,152)
Total long–term loans and borrowings	**3,206**	**4,929**
Short–term loans and borrowings		
Bank loans	-	772
Accrued interest	31	31
Vendor financing	1	-
Current portion of long–term loans and borrowings	2,449	1,152
Total short–term loans and borrowings	**2,481**	**1,955**
Total loans and borrowings	**5,687**	**6,884**

During 2008 the Group entered into five facility agreements in order to cover working capital requirements and financing of the investing activities. The outstanding balance on these agreements as of 31 December 2008 is 2,905 (2007: 2,725). Also, in order to finance operating and investing activities the Group had four facility agreements. The outstanding balance as of 31 December 2008 on these facility agreements is 94. The terms of these facility agreements constitute that the interest should be accrued on unused facility. The amount of the such interest accrued as of 31 December 2008 is 2 (2007: 4).

As at 31 December 2008, the Group's borrowings are secured by the pledge of property, plant and equipment with the carrying value of 370 (31 December 2007: 1,116).

As of 31 December 2008 and 2007 the Group has pledged 51% of shares of OJSC Sakhatelecom under loan facility (see below) of 1,836.

Long-term loans and borrowings

Bank loans

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

Counteragent	Interest rate per loan agreement	2008	2007	Currency, per the loan agreement	Date of maturity	Security
Sberbank	8.75%	1,955	1,955	RUR	29.01.2012	Pledge
Svyazbank	12.75%	8	55	RUR	17.02.2009	Pledge
Dalnevostochny Bank	11.25%	88	72	RUR	09.10.2009	Pledge
PromSvyazBank	28.00%	-	27	RUR	14.11.2008	Unsecured
Svyazbank	9.40%	450	128	RUR	05.06.2009	Unsecured
BSGV	Mosprime + 2.3%	500	110	RUR	17.06.2009	Unsecured
Total		**3,001**	**2,347**			

(in millions of Russian Roubles)

Sberbank

In January 2007, the Group obtained a credit line for RUR 1,955 million from Sberbank to finance the acquisition of 51% of shares of OJSC Sakhatelecom. The loan should be repaid by 29 January 2012 and bear interest rate of 8.75% p.a.

The loan is secured by the property, plant and equipment with a carrying value of RUR 162 million and 51% of shares of OJSC Sakhatelecom with a pledge value of RUR 1,836 million. Also the Group pledged the property, plant equipment with the carring value of 110. At 31 December 2007 the outstanding balance was RUR 1,955 million.

Svyazbank

In December 2007, the Group signed the revolving loan agreement with Svyazbank with limit of RUR 450 million to finance operating, investing and financing activities. The interest rate is 9.4% p.a. The outstanding balance as at 31 December 2008 was 450. This loan is unsecured.

In February 2007, ZAO AKOS entered into the loan agreement with SvyazBank for the total amount of RUR 95 million. The loan is repayable until 13 February 2009. The interest rate is 12.75% per annum. The outstanding balance as at 31 December 2008 was 8. The loan is secured by the property, plant and equipment with the pledge value of 136.

Bank Societe Generale Vostok (BSGV)

In December 2007, the Group signed a loan agreement with BSGV for non-revolving credit line of RUR 500 million to finance operating and financing activities. The credit line was provided for 18 months, the interest rate is Mosprime plus 2.3% variable rate. The outstanding balance as at 31 December 2008 was 500. This loan is unsecured

Dalnevostochny Bank

In October 2006 and in July 2007 ZAO AKOS entered into the loan agreement with Dalnevostochnyi bank. The interest rate is 11.25%. The outstanding balance as at 31 December 2008 was 88. The loan is secured by the property, plant and equipment with the pledge value of RUR 107 million.

Bonds

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

Narrative of the issue (loan)	2008	2007	Date of maturity	Early redemption date	Interest on coupon
Bond issue D2	1,982	2,000	03.05.2012	03.06.2009	8.85%
Bond issue D3	449	1,176	03.06.2009	-	8.60%
Total	**2,431**	**3,176**			

In June 2006, the Group registered two bond issues consisting of 2,000,000 bonds and 1,500,000 bonds with a nominal value of RUR 1,000 each. Bond issues have 12 and 6 coupon payments, respectively. Payments on the 1st coupon was made on 182nd day after placement (in December 2006), payment on other coupons will be made every 182 days. Interest rate on coupons was determined as 8.85% and 8.6%, respectively. Bonds are payable in the proportion determined in percentage of nominal value starting from December 2007 (for RUR 1,500,000 thousand bond issue) and starting from December 2009 (for RUR 2,000,000 thousand bond issue). The bonds should be fully repaid in July 2009 and May 2012, respectively.

Issued bonds provide the right for the advance repayment for bonds holders on appropriate dates. The nearest date of such offer is 3 June 2009.

(in millions of Russian Roubles)

The outstanding balance of RUR 750 million was classified as a short-term loans and borrowings as at 31 December 2008.

During 2008, the Group paid the fourth coupon in the amount of RUR 267 million. The amount of coupon expense per one bond was RUR 64.32 (for the RUR 1,500 million bond issue) and RUR 88.26 (for the RUR 2,000 bond issue).

At 31 December 2007 the outstanding balance was RUR 2,431 million.

Vendor financing

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

Counteragent	Effective interest rate	2008	2007	Currency of the promissory note	Date of maturity	Security
CBoss technology	-	-	7	RUR	30.06.2008	Unsecured
Huawei technology	-	1	20	USD	31.12.2008	Unsecured
Total		**1**	**27**			

C- Boss

In May 2006 the Group entered into agreement with C-Boss for software delivery, the contract is denominated in Russian Roubles. The outstanding amount as at 31 December 2008 was nil.

Huawei Technology

In 2003-2005, ZAO AKOS entered into several agreements with Huawei Technology denominated in US Dollars, under which it delivered telecommunication equipment to the Group. The amount outstanding as at 31 December 2008 was 1.

Short-term borrowings

Bank loans

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

Counteragent	Interest rate per loan agreement	2008	2007	Currency, per the loan agreement	Date of maturity	Security
Sberbank	7.40%	-	630	RUR	11.06.2008	Pledge
Sberbank	7.40%	-	140	RUR	27.06.2008	Pledge
Total		**-**	**770**			

(in millions of Russian Roubles)

Finance Lease Obligations

	2008		2007	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	223	196	386	306
2 to 5 years	31	27	257	225
Total minimum lease payments	**254**	**223**	**643**	**531**
Less amount representing finance charges	(31)	-	(112)	-
Present value of minimum lease payments	**223**	**223**	**531**	**531**
Less current portion of long term financial lease obligation	-	(196)	-	(306)
Long-term financial lease obligations	-	27	-	225

In 2008 and 2007, the Group's primary lessors were OJSC RTC-Leasing and LLC Independent Leasing. In 2008, the effective interest rate on lease liabilities is 21% per annum (2007: 21% to 34% per annum).

Finance lease assets under finance lease agreements with OJSC RTC-Leasing mainly comprise telecommunication equipment. The Group's obligations to OJSC RTC-Leasing as at 31 December 2008 amounted to 223 (2007: 531).

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

19 Employee Benefits

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

Defined Benefit Pension Plans

The majority of the employees are eligible for defined benefit schemes. The defined benefit pension plans cover most of employees and provide old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men, and provided that a condition for a minimum service period of 15 years is met. The amount of the retirement benefit depends on a number of parameters, including an employee's position with the Group at the retirement date.

Non-government pension fund Telecom-Soyuz, which is a related party of the Group (see note 37), maintains the defined benefit pension plan. Non-government pension fund Erel also maintains the defined benefit pension plan for OJSC Sakhatelecom.

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

During 2008, certain changes into the pension plans were introduced. For those who were employed as at 1 February 2008 a deadline was set as of 31 December 2008 for a decision whether to participate in the plan or to lose the defined benefit pension entitlement. For those employed after 1 February 2008 the deadline is set within one year after the date of employment.

(in millions of Russian Roubles)

There were 14,137 active employees participating to the defined benefit pension plan of the Group, 699 pensioners and 7,343 ex-employees eligible to the post-employment and post-retirement benefits (as at 31 December 2007– 15,348, 672 and 7,099 respectively).

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

	2008	2007
Present value of fully unfunded obligations on defined benefit plans	923	1,317
Fair value of plan assets	(210)	(221)
Present value of unfunded obligations	**713**	**1,096**
Unrecognized past service cost	(256)	(291)
Unrecognized actuarial gains	568	159
Net pension benefits	**1,025**	**964**

As at 31 December 2008 management estimated employees' average remaining working lives at 8 years (2007: 8 years).

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

	2008	2007
Service cost	61	75
Interest cost	88	92
Expected return on plan assets	(17)	(14)
Net actuarial gains recognised in year	(18)	(6)
Past service cost recognized in current year	-	(84)
Amortization of past service cost – non–guaranteed portion	39	41
Curtailment or final settlement effect	(23)	(9)
Net expense for the defined benefit pension plans	**130**	**95**

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

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

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

	2008	2007
Net liability as at 1 January	**964**	**436**
Acquisition of the subsidiaries	-	583
Net expense for the year	130	95
Contributions	(69)	(150)
Net liability at 31 December	**1,025**	**964**

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

(in millions of Russian Roubles)

	2008	2007
Present value of defined benefit obligation at 1 January	1,317	699
Acquisitions	-	739
Service cost	61	75
Interest cost	88	92
Actuarial (gain)/losses	(486)	(517)
Past service cost/(asset)	15	439
Benefits paid	(49)	(87)
Settlement and curtailment (gain)/loss	(23)	(123)
Present value of defined benefit obligations at 31 December	**923**	**1,317**

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2008 and 2007 are described by the following factors:

	2008	2007
Present value of plan assets as at 1 January	221	27
Acquisition	-	156
Actual return on plan assets	1	14
Contributions	69	150
Benefits paid	(49)	(87)
Curtailment or final settlement effect	(32)	(39)
Present value of plan assets as at 31 December	**210**	**221**

The expected actual returns on plan assets as of 31 December 2008 and 2007 were determined based on the ratio between the current market price at the appropriate date and the structure of the plan assets.

The actual return on plan assets for 2008 was 0.3%.

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

	2008	2007
Other Russian equities	5.99%	14.42%
Russian municipal bonds	19.75%	27.66%
Russian corporate bonds	49.03%	53.44%
Russian corporate promissory notes	0.84%	3.44%
Other assets	24.39%	1.04%

(in millions of Russian Roubles)

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

	2008	2007
Discount rate	9.00%	6.50%
Expected return on plan assets	10.28%	7.47%
Future salary increases	10.24%	9.20%
Rate used for calculation of annuity value	4.00%	6.00%
Increase in financial support benefits	6.00%	5.00%
Staff turnover	7.00% up to 50 years 0% after 50 years	7.00% up to 50 years 0% after 50 years
Mortality tables (source of information)	USSR 1985/86	USSR 1985/86

Historical information on the defined benefit plans is as follows:

	2008	2007	2006	2005	2004
Defined benefit obligation	923	1,317	699	999	696
Plan assets	(210)	(221)	(26)	(173)	(160)
Deficit	713	1,096	673	826	536
Experience adjustments on plan liabilities	369	60	255	57	(9)
Experience adjustments on plan assets	25	(7)	1	6	2

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

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

20 Other non-current liabilities

	2008	2007
Deferred income	91	110
Special purpose financing	4	5
Total	**95**	**115**

21 Provisions

	Employee dismissal provision	Provision for legal claims	Tax provision	Total
Balance at 31 December 2006	**72**	**1**	**812**	**885**
Accrued	46	412	-	**458**
Utilised	(72)	(1)	(633)	**(706)**
Reversed	-	-	(179)	**(179)**
Balance at 31 December 2007	**46**	**412**	**-**	**458**
Accrued	74	18	-	**92**
Utilised	(46)	(43)	-	**(89)**
Reversed	-	(350)	-	**(350)**
Balance at 31 December 2008	**74**	**37**	**-**	**111**

Personnel Dismissal Plans

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

The Group made a provision in amount of 74 for termination payments to the employees who as of 31 December 2008 had been notified of their forthcoming termination (*in accordance with the procedure set forth in article 180 of the Russian Labour Code)*.

Provision for Legal Claims

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

The Group recognised provisions for the following major legal cases:

- Claims from OJSC Sakhatelecom's employees for overtime compensations of 19. The management assesses the risk as probable.
- Claim from OJSC Novaya Telephony Company for the data transmission services of 9. As of 31 December 2008 the Group entered into a settlement agreement, which requires the Group to compensate the full amount of the claim.

During 2008 a provision related to claims from OJSC MTS and OJSC Novaya Telephony Company to declare void certain interconnection agreements for increase of network capacity, amounting to 350 was reversed.

The claim from OJSC MTS was not satisfied by decision of the Arbitrary Court of Primorsky Krai dated 24 June 2008. This decision was upheld by the court of appeal dated 9 September 2008, and by decision of the cassation court dated 22 December 2008. The Supreme Arbitrary Court of Russia in its decision dated 15 April 2009 also did not uphold OJSC MTS's claim and declined to refer it to the Presidium of the court.

The Arbitrary Court of Primorsky Krai in its decision dated 21 October 2008 did not satisfy the claim from OJSC Novaya Telephony Company. The court of appeal supported the Arbitrary Court's decision in its decision dated 16 February 2009. As of the present date, OJSC Novaya Telephony Company appealed to the court of cassation, however the date of the hearings has not been appointed at the date of authorisation of these financial statements. Taking into account the position of the Supreme Arbitrary Court stated in its decision dated 15 April 2009 the risk of the economic outflow is low.

(in millions of Russian Roubles)

22 Accounts Payable and Accrued Expenses

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

	2008	2007
Accounts payable to suppliers of fixed assets	602	202
Salaries and wages	598	478
Other taxes payable	450	183
Accounts payable to interconnect operators	335	335
Trade accounts payable	244	194
Dividends payable	51	34
Accounts payable to suppliers of intangible assets	32	19
Other accounts payable	134	65
Total	**2,446**	**1,510**

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

	2008	2007
Value-added tax	329	89
Property tax	55	52
Individual income tax	17	8
Unified social tax	47	31
Other taxes	2	3
Total	**450**	**183**

Other accounts payable

Other current payables were mainly represented by the settlements with the Universal Telecommunication service Fund – 108 (2007: 37).

23 Other current liabilities

	2008	2007
Advances received from operating activity	344	334
Advances received from non-operating activity	4	14
Total Other current liabilities	**348**	**348**

24 Revenues

By revenue types	2008	2007
Local telephone calls	5,950	5,712
New services (Internet, ISDN, ADSL, IP-telephony)	3,825	2,395
Long distance and intra-zone telephone services	2,515	2,544
Revenues from interconnected operators	1,712	2,066
Cellular services	1,151	1,186
Agent fees and revenue from assistance services	320	385
Radio and TV broadcasting	159	245
Other telecommunication services	39	92
Other revenues	438	376
Total	**16,109**	**15,001**

"Other revenues" line includes rent income in the amount of 347 (2007: 293).

The Group generates revenue by the following major customer groups:

(in millions of Russian Roubles)

Customer groups	2008	2007
Individuals	9,009	8,056
Corporate customers	3,683	3,082
Interconnect operators	1,715	2,451
Governmental customers	1,702	1,412
Total	**16,109**	**15,001**

25 Personnel costs

	2008	2007
Salary expenses	3,961	3,760
Social taxes	881	785
Pension expenses	59	17
Other staff expenses	22	94
Total	**4,923**	**4,656**

Other staff expenses are mainly represented by payments according to the labour contracts – 22 (2007 – 78).

26 Materials, repairs and maintenance, utilities

	2008	2007
Materials	824	686
Repairs and maintenance	428	343
Utilities	397	381
Total	**1,649**	**1,410**

27 Other operating income

	2008	2007
Reversal of provisions	350	-
Reimbursement of losses from universal telecommunication services	150	129
Gain on disposal of property, plant and equipment	24	-
Derecognition of the accounts payables	4	8
Reimbursement of other losses	5	29
Fines, late payment interest, penalty for breach of contract	1	2
Other income	64	122
Total	**598**	**290**

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

- for current year services - 150 (2007 – 121),
- for previous year services - nil (2007 – 8).

Losses from provision of universal telecommunication services during 2008 amounted to 150 (2007 - 121) and were confirmed by an independent auditor.

(in millions of Russian Roubles)

28 Other operating expenses

	2008	2007
Other services and services related to the administration	664	334
Taxes, other than income tax	289	257
Lease of premises	259	194
Agency fee	253	205
Fire and other security services	204	194
Advertising expenses	179	144
Audit and consulting fees	169	173
Universal service fund payments	154	145
Bad debt expense	108	58
Member fees, charity contribution, payments to labour unions	44	42
Member fees to non-for-profit partnership	54	112
Transportation and postal services	43	58
Software implementation cost	36	28
Bank services	30	45
Insurance	15	38
Losses on disposal of property, plant and equipment	-	132
Fines and penalties	5	155
Accrual of provisions	-	371
Other expenses	146	192
Total	**2,652**	**2,877**

29 Interest expenses

	2008	2007
Interest expense on loans and borrowings	459	465
Interest expense on finance lease	79	161
Interest expense on pension benefits	88	92
Total	**626**	**718**

30 Financial income and other financial expenses

	2008	2007
Interest income from the financial assets	90	76
Interest income from the pension plan assets	17	14
Dividend income	2	1
Gain from the sale of other investments	5	34
Forex gain, net	-	2
The excess of the net assets purchased over the cost of investment	-	20
Other income, net	-	19
Financial income	**114**	**166**
Other expenses, net	(18)	-
Forex losses, net	(2)	-
Loss from the impairment of investments	-	(11)
Other financial expenses	**(20)**	**(11)**

(in millions of Russian Roubles)

31 Income Tax

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

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

	2008	2007
Current income tax expense	809	773
Deferred tax expense	(71)	(119)
Total income tax for the year	**738**	**654**
Current income tax	812	777
Adjustments of the current income tax for the previous year	(3)	(4)
Total current income tax expense for the year	**809**	**773**
Deferred tax income (expenses) related to the temporary differences	**(71)**	**(119)**
Total deferred income tax expense for the year	**(71)**	**(119)**
Total income tax for the year	**738**	**654**

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

	2008	2007
Profit before income tax	3,005	2,014
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	721	483
Increase (decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	(3)	(4)
Non-taxable income	(130)	(67)
Non-deductible expenses	283	242
Change of tax rate	(133)	-
Total actual income tax	**738**	**654**
Effective tax rate	**24.56%**	**32.47%**

(in millions of Russian Roubles)

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

	1 January 2007	Origination and reversal of temporary differences	Subsidiaries acquisition	31 December 2007	Origination and reversal of temporary differences	Change of the tax rate	31 December 2008
Property, plant and equipment	(413)	(64)	(276)	(753)	25	121	(607)
Intangible assets	(72)	(10)	(170)	(252)	27	37	(188)
Financial investments	(3)	(2)	(7)	(12)	12	-	-
Inventories	2	1	-	3	2	(1)	4
Trade and other accounts receivable	5	(5)	-	-	2	-	2
Loans and borrowings	5	(5)	-	-	-	-	-
Finance lease liabilities	(98)	94	-	(4)	4	-	-
Pension liabilities	76	14	-	90	(24)	(11)	55
Deferred income	19	(3)	-	16	(4)	(2)	10
Accounts payable and accrued expenses	57	(29)	-	28	(10)	(3)	15
Provisions	37	128	(22)	143	(96)	(8)	39
Total deferred income tax liability, net	**(385)**	**119**	**(475)**	**(741)**	**(62)**	**133**	**(670)**

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

The Group has not recognized a deferred tax liability in respect of the temporary difference which related to investments in subsidiaries in the amount of 1,070 (2007: 732), as management believes that the Group is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

32 Earnings per Share

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

Earnings per share amount is calculated by dividing the profit attributable to ordinary and to preference shareholders (see note 17) by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

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

	2008	2007
Net profit for the year attributable to the shareholders of the Company	2,071	1,272
Less: attributable to preference shareholders	(509)	(313)
Attributable to ordinary shareholders	1,562	959

The following is a reconciliation of the weighted average number of ordinary shares:

In thousands of shares	**2008**	**2007**
Issued shares at 1 January	95,581	95,581
Effect of own shares held	(2)	(13)
Weighted average number of shares for the year ended 31 December	95,579	95,568

33 Dividends Declared and Proposed for Distribution

The Board of Directors recommended to the general shareholder meeting to approve dividends for year ended 31 December 2008 in the amount of 2.7238 roubles per ordinary share and 5.4772 roubles per preference share.

The total sum of dividends to be paid amounted:

Category of shares	**Number of shares**	**Dividends per share, roubles**	**Total sum of dividends, roubles**
Declared and approved for 2007			
Preference shares	31,168,901	2.7571	85,935,777
Ordinary shares	95,581,421	0.9232	88,240,768
Total	**126,750,322**		**174,176,545**
Recommended for 2008			
Preference shares	31,168,901	5.4772	170,718,305
Ordinary shares	95,581,421	2.7238	260,344,675
Total	**126,750,322**		**431,062,980**

34 Commitments

As of 31 December 2008 and 2007 the Group's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 520 and 590 respectively.

As of 31 December 2008 and 2007 contractual obligations with regard to acquire fixed assets were 15 and 49 respectively.

As of 31 December 2008 and 2007 contractual obligations with regard to acquire intangible assets were nil and 33 respectively.

35 Contingencies and Operating Risks

Operating environment

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

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group has a dispute with the tax authorities regarding the results of the recent tax audit for 2004 – 2006 related to OJSC Sakhatelecom. The Moscow Arbitrary Court in its decision dated 18 September 2008 did not satisfy the claim from the Tax Inspectorate No. 7 for the amount of 139. The Ninth Arbitrary Court in its decision dated 24 November 2008 also did not satisfy the claim from the tax authorities. The Federal Arbitrary Court in its decision dated 2 April 2009 did not satisfy the claim from the tax authorities. Management assessed the probability of the economic outflow as low.

Insurance

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

Legal Proceedings

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

Licenses

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

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

36 Financial Instruments

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Group's operations. Short term deposits are also actively used as a financial instrument to place available funds. The Group has other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations.

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

Capital Management Policy

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

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

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

As of the balance sheet date Fitch international rating agency confirmed the Company's short term credit risk at "B", with "Stable" outlook. Standard and Poor's assigned Corporate Governance Score of CGS 5.4 based on national scale.

Capital management is conducted at the level of separate significant legal entities of the Group. The ratios of financial independence, net debt/shareholders' equity and net debt/EBITDA are calculated using the statutory accounting data. The financial independence ratio is calculated as shareholders' equity to the balance sheet total at the end of the period. Net debt/shareholders' equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/EBITDA is calculated as net debt at the year end to EBITDA for the previous period.

The Group's capital management policy was not changed in 2008 compared to 2007.

(in millions of Russian Roubles)

Income and expenses on financial instruments

2008	**Consolidated Income Statement**						
	Other operating expenses	**Financial expenses**	**Other income and expenses**				**Total**
	Bad debt expenses	**Interest expense**	**Interest income**	**Dividend income**	**Share of results of associates**	**Forex gain / loss**	
Cash and cash equivalents	-	-	(51)	-	-	-	(51)
Accounts receivable	108	-	-	-	-	-	108
Investment in associates	-	-	-	-	(7)	-	(7)
Financial investments	-	-	(38)	(2)	-	-	(40)
Loans issued	-	-	(1)	-	-	-	(1)
Total financial assets	108	-	(90)	(2)	(7)	-	9
Vendor financing	-	-	-	-	-	3	3
Finance lease	-	79	-	-	-	-	79
Loans and borrowings	-	459	-	-	-	-	459
Total financial liabilities	**-**	538	-	-	-	3	541

2007	**Consolidated Income Statement**							
	Other operating expenses	**Financial expenses**	**Other income and expenses**					**Total**
	Bad debt expenses	**Interest expense**	**Interest income**	**Share of results of associates**	**Dividend income**	**Loss from the impairment of investments**	**Forex gain / loss**	
Cash and cash equivalents	-	-	(22)	-	-	-	-	(22)
Accounts receivable	58	-	-	-	-	-	-	58
Investments in associates	-	-	-	2	-	-	-	2
Financial investments	-	-	(53)	-	(1)	11	-	(43)
Loans issued	-	-	(1)	-	-	-	-	(1)
Total financial assets	58	-	(76)	2	(1)	11	-	(6)
Vendor financing	-	-	-	-	-	-	(3)	(3)
Finance lease	-	161	-	-	-	-	-	161
Loans and borrowings	-	465	-	-	-	-	-	465
Total financial liabilities	**-**	626	-	-	-	-	(3)	623

(in millions of Russian Roubles)

Foreign Exchange Risk

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

The liabilities of the Group denominated in USD were 1 as at 31 December 2008 (2007: 20)

For the period from 1 January 2008 through 31 December 2008 the Rouble to the US Dollar decreased by approximately 19.69%, that caused the increase of the US nominated debt for 0.1.

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

Interest Rate Risk

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

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

2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	554	554
Accounts receivable	-	-	1,479	1,479
Financial assets available-for-sale	-	-	155	155
Loans issued	10	-	-	10
Total financial assets	**10**	**-**	**2,188**	**2,198**
Bank loans	2,501	500	-	3,001
Bonds	2,431	-	-	2,431
Vendor financing	1	-	-	1
Finance lease	223	-	-	223
Interest payable	-	-	31	31
Accounts payable	-	-	2,044	2,044
Total financial liabilities	**5,156**	**500**	**2,075**	**7,731**

2007	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	342	342
Accounts receivable	-	-	1,392	1,392
Financial assets available-for-sale	-	-	789	789
Loans issued	64	-	-	64
Total financial assets	**64**	**-**	**2,523**	**2,587**
Bank loans	3,027	92	-	3,119
Bonds	3,176	-	-	3,176
Vendor financing	27	-	-	27
Finance lease	531	-	-	531
Interest payable	-	-	31	31
Accounts payable	-	-	1,327	1,327
Total financial liabilities	**6,761**	**92**	**1,358**	**8,211**

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

(in millions of Russian Roubles)

	MosPrime	
	Changes in exchange rate, %	**Effect on income before income tax**
2008	+1	5
	-1	(5)
2007	+1	1
	-1	(1)

The Group does not use any tools to manage interest rate risks.

Liquidity risk

The Group monitors its risk of a shortfall of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

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

	2009	**2010**	**2011**	**2012**	**Total**
Cash and cash equivalents	554	-	-	-	554
Accounts receivable	1,479	2	-	-	1,481
Financial assets available-for-sale	146	9	-	-	155
Loans issued	8	2	-	-	10
Total financial assets	**2,187**	**13**	**-**	**-**	**2,200**
Bank loans	1,503	683	652	163	3,001
Bonds	750	600	700	381	2,431
Vendor financing	1	-	-	-	1
Finance lease	196	27	-	-	223
Interest payable	31	-	-		31
Accounts payable	2,044	-	-	-	2,044
Total financial liabilities	**4,525**	**1,310**	**1,352**	**544**	**7,731**

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

Credit Risk

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

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

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.

(in millions of Russian Roubles)

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

As of 31 December 2008		**Post due (days)**					
	Total	**<30**	**31-60**	**61-90**	**91-180**	**181-360**	**>361**
Corporate customers	26	-	17	6	3	-	-
Individuals	13	-	8	3	2	-	-
Governmental customers	70	-	41	18	11	-	-
Interconnected operators	20	-	10	6	4	-	-
Tariff compensation from the State budget	12	-	-	-	-	-	12
Total	**141**	**-**	**76**	**33**	**20**	**-**	**12**

As of 31 December 2007		**Post due (days)**					
	Total	**<30**	**31-60**	**61-90**	**91-180**	**181-360**	**>361**
Corporate customers	70	-	53	17	-	-	-
Individuals	35	4	25	6	-	-	-
Governmental customers	12	-	10	2	-	-	-
Interconnected operators	14	-	12	2	-	-	-
Total	**131**	**4**	**100**	**27**	**-**	**-**	**-**

Hedging

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

Fair-value of the financial instruments

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

	2008		**2007**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Long term bank loans	1,498	1,277	1,955	1,771
Long term bonds	1,681	1,593	2,426	2,466
Short-term bonds	750	731	750	755
Total	3,929	3,601	5,131	4,992

(in millions of Russian Roubles)

37 Balances and Transactions with Related Parties

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

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
2007					
Provision of telecommunication services, interconnection and traffic transmission services	-	1,289	-	883	4
Agent services	-	-	-	88	-
Rent income	-	-	-	3	-
Revenue from disposals of property, plant and equipment	-	2	1	8	-
Other income	-	-	-	24	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	240	3	89	8
Purchase of other services	-	2	-	445	327
Interest income	-	-	-	7	-
Dividends payable	39	-	1	-	-
2008					
Provision of telecommunication services, interconnection and traffic transmission services	-	832	6	2,305	2
Agent services	-	272	1	-	-
Rent income	-	1	-	138	1
Purchase of telecommunication services, interconnection and traffic transmission services	-	444	3	364	-
Purchase of other services	-	92	18	752	96
Purchase of goods and other assets	-	-	-	13	-
Interest income	-	-	-	1	-
Interest expenses	-	-	-	136	-
Dividends payable	45	-	-	27	-
Loans received	-	-	-	1,955	-
Guarantees issued	-	-	-	288	-

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

	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
At December 31, 2007				
Trade and other receivables	125	2	65	10
Accounts payable	157	6	71	43
Guarantees issued	-	-	5	-
At December 31, 2008				
Trade and other receivables	94	1	170	
Accounts payable	187	7	257	20
Guarantees issued	-	-	6	-

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

OJSC SvyazInvest

OJSC SvyazInvest is open joint stock company, incorporated under the laws of the Russian Federation.

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

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

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

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

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

Subsidiaries

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

The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are fixed by a regulatory body and are at the same level as similar tariffs for other counteragents. Subsidiaries do not influence the Company's transactions with other counteragents.

OJSC Rostelecom

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

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

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

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

(in millions of Russian Roubles)

	2008	2007
Provision of telecommunication services, interconnection and traffic transmission services	831	1,051
Agent services	272	-
Other income	1	2
Purchase of telecommunication services, interconnection and traffic transmission services	419	160
Purchase of other services	6	2
Trade and other receivables	93	198
Accounts payable	164	8

Transactions with State-controlled Companies

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

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

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

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

As at 31 December 2008 Partnership is not a related party of the Group due to the fact that the Company has withdrawn from Partnership.

As at 31 December 2008 accounts receivable from Partnership equalled to 20 (2007 – 20).

In 2008 the Partnership received membership fees amounting to 54 (2007 - 112).

OJSC Svyazintek

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

In 2008 the Group incurred expenses on services provided by OJSC Svyazintek in the amount of 87 (2007: 104). This amount is included in the deferred expenses related to the software in amout of 64 (2007: 104).

Non-government Pension Fund Telecom Soyuz

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

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

Defined benefit pension schemes provide for pension coverage based on the age and disability. The condition of retirement pension coverage is an employee's reaching the age that entitles him/her to state retirement pension coverage: at present 55 years old for women and 60 years old for men. According to the pension scheme the size of pensions is a certain amount of money that depends on employees' positions. In order to receive the right for non-state pension coverage an employee's term of service in the Group at the time of retirement should be no less than 15 years.

(in millions of Russian Roubles)

The total amount of contributions for non-state pension coverage paid by the Group in 2008 was 59 (2007 - 83) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of the Group to cover own expenses for activities under the charter and administrative costs.

Remuneration of Key Management Personnel

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

Remuneration for members of the Board of Directors and the Management Committee of the Group for 2008 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 80 (2007 - 73). The remuneration amounts are stated exclusive of the unified social tax.

	2008	**2007**
Current remuneration, total	80	73
including		
Salaries	73	66
Vacation	2	3
Social taxed	5	4
Long term remuneration, total	12	10
Including		
Payments under pension plans	12	10

38 Subsequent Events

Dividends

The Board of Directors recommended dividends for 2008 of 2.7238 Roubles per ordinary share and 5.4772 Roubles per preference share, which amounted to 431 (2007 - 175). It is subject to the approval at the annual shareholders' meeting to be held in June 2009. Following the approval annual dividend payable to shareholders will be recognized in the 2009 financial statements (see also note 33).

Reduction of staff headcount

In accordance to staff optimization schedule, approved by the Board of Directors of the Company and included in "The programmes of activities aimed at increase of the Company's performance in 2007-2009", 108 employees were dismissed after the balance sheet date, were paid by the compensation of 5.

Bank loans

In the year 2009, Group signed a loan agreement for the amount of 700. The date of maturity is 13 August 2010, the interest rate is 17%. The security for the loan agreement is cash receipts on the bank accounts im amount of 600.

Acquisition of shares of CJSC AKOS

In February 2009 the Group acquired additional 13 shares of CJSC AKOS for 0.9 And increased its shareholding to 13,212 shares or 94.45% of the share capital. Appropriate entries were made in the registrar in February 2009.