# Open Joint Stock Company
# Sibirtelecom

## Consolidated Financial Statements

*For the year ended 31 December 2007*
*with Independent Auditors' Report*

OJSC Sibirtelecom
Consolidated Financial Statements
For the year ended 31 December 2007

**Contents**

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# Independent Auditors' Report

The Board of Directors of OJSC Sibirtelecom

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Sibirtelecom and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, 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 2007, 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

19 June 2008

# OJSC Sibirtelecom
## Consolidated Balance Sheet
## As at 31 December 2007
*(In millions of Russian Roubles)*

| | Note | 31 December 2007 | 31 December 2006 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **6** | 40 523 | 34 948 |
| Intangible assets and goodwill | **7** | 4 003 | 3 287 |
| Investments in associates | **9** | 35 | 32 |
| Long-term investments | **10** | 16 | 18 |
| Long-term accounts receivable and other assets | **11** | 38 | 69 |
| Long-term advances given | **12** | 492 | 931 |
| **Total non-current assets** | | **45 107** | **39 285** |
| **Current assets** | | | |
| Inventories | **13** | 533 | 541 |
| Accounts receivable | **14** | 2 153 | 2 093 |
| Current income tax receivable | | 486 | 241 |
| Short-term investments | **10** | 125 | 119 |
| Other current assets | **15** | 1 307 | 1 488 |
| Cash and cash equivalents | **16** | 1 383 | 486 |
| **Total current assets** | | **5 987** | **4 968** |
| **TOTAL ASSETS** | | **51 094** | **44 253** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | **18** | 3 541 | 3 541 |
| Unrealised gain on available-for-sale investments | | 97 | 87 |
| Retained earnings | | 14 709 | 12 377 |
| **Total equity attributable to equity holders of the parent** | | **18 347** | **16 005** |
| Minority interest | | 2 | 2 |
| **Total equity** | | **18 349** | **16 007** |
| **Non-current liabilities** | | | |
| Long-term borrowings | **19** | 12 449 | 11 353 |
| Long-term finance lease liabilities | **20** | 343 | 381 |
| Pension liabilities | **24** | 3 449 | 3 234 |
| Deferred revenue | | 106 | 108 |
| Deferred income tax liabilities | **31** | 802 | 779 |
| **Total non-current liabilities** | | **17 149** | **15 855** |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | **22** | 6 516 | 6 095 |
| Current income tax payable | | 2 | - |
| Taxes payable | **23** | 414 | 348 |
| Dividends payable | | 14 | 24 |
| Short-term borrowings | **19** | 548 | 891 |
| Current portion of long-term borrowings | **19** | 7 561 | 4 596 |
| Current portion of long-term finance lease liabilities | **20** | 454 | 382 |
| Provisions | | 87 | 55 |
| **Total current liabilities** | | **15 596** | **12 391** |
| **Total liabilities** | | **32 745** | **28 246** |
| **TOTAL EQUITY AND LIABILITIES** | | **51 094** | **44 253** |

*General Director*
A.I. Isaev

ОАО «СИБИРЬТЕЛЕКОМ»

*Chief Accountant*
G.I. Khvoschinskaya



*The accompanying notes form an integral part of these consolidated financial statements*

# OJSC Sibirtelecom
## Consolidated Income Statement
## For the year ended 31 December 2007
*(In millions of Russian Roubles)*

| | Note | 2007 | 2006 (restated) |
|---|---|---|---|
| **Revenues** | **25** | **35 246** | **30 153** |
| Wages, salaries, other employee benefits and payroll taxes | | (11 156) | (11 840) |
| Depreciation and amortisation | **6,7** | (6 128) | (4 142) |
| Materials, repairs and maintenance, utilities | **27** | (2 894) | (3 113) |
| Taxes other than income tax | | (756) | (612) |
| Interconnection charges – foreign operators | | (77) | (39) |
| Interconnection charges – domestic operators | | (3 838) | (2 295) |
| Reversal of allowance for doubtful debts | **28** | 15 | 174 |
| Loss on disposal and impairment of property, plant and equipment, and intangible assets | | (226) | (351) |
| Other operating income and expenses, net | **26** | (4 943) | (4 695) |
| Reimbursement of losses related to Universal service obligation | **21** | 472 | - |
| **Operating profit** | | **5 715** | **3 240** |
| Share of profit of associates | **9** | 7 | 20 |
| Interest expense, net | **29** | (1 662) | (1 320) |
| Gain on sale of investments, net | **30** | 2 | 46 |
| Foreign exchange gain, net | | 108 | 72 |
| **Profit before income tax** | | **4 170** | **2 058** |
| Income tax expense | **31** | (1 511) | (1 104) |
| **Profit for the year** | | **2 659** | **954** |
| | | | |
| Attributable to equity holders of the parent | | 2 659 | 975 |
| Attributable to minority interests | | - | (21) |
| **Profit for the year** | | **2 659** | **954** |
| | | | |
| **Basic and diluted earning per share (roubles) for the year, attributable to equity holders of the parent** | **32** | 0,17 | 0,06 |



*The accompanying notes form an integral part of these consolidated financial statements*

# OJSC Sibirtelecom
## Consolidated Statement of Cash Flows
## For the year ended 31 December 2007
*(In millions of Russian Roubles)*

| | Note | 2007 | 2006 (restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 4 170 | 2 058 |
| *Adjustments for:* | | | |
| Depreciation and amortization | **6,7** | 6 128 | 4 142 |
| Loss on disposal and impairment of property, plant and equipment and intangible assets | | 226 | 351 |
| Foreign exchange gain, net | | (108) | (72) |
| Share of profit of associates | **9** | (7) | (20) |
| Gain on sale of investments, net | **30** | (2) | (46) |
| Interest expense, net | **29** | 1 662 | 1 320 |
| Reversal of allowance for doubtful debts | | (15) | (174) |
| (Reversal of) write-down of inventory to net realisable value | | (21) | 44 |
| Long-term employee benefits expense | | 577 | 1 341 |
| **Operating cash flows before working capital changes** | | **12 610** | **8 944** |
| Decrease /(increase) in accounts receivable | | 8 | (3) |
| Decrease in other current assets | | 205 | 647 |
| (Increase)/decrease in inventories | | 15 | (16) |
| Increase in accounts payable and accrued expenses | | 269 | 1 550 |
| Increase / (decrease) in taxes payable other than income tax | | 67 | (593) |
| Settlement of pension obligations | | (363) | (32) |
| Increase in provisions | | 31 | 55 |
| **Cash flows generated from operations** | | **12 842** | **10 552** |
| Interest paid | | (1 871) | (1 816) |
| Income tax paid | | (1 737) | (1 559) |
| **Net cash flows from operating activities** | | **9 234** | **7 177** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (9 535) | (8 368) |
| Proceeds from sales of property, plant and equipment | | 475 | 326 |
| Purchase of intangible assets | | (1 376) | (995) |
| Purchase of Oracle E-Business Suite software | | (226) | (105) |
| Purchase of Amdocs Billing software | | (100) | (216) |
| Purchase of subsidiaries, net of cash acquired | | (1) | (105) |
| Purchase of investments and other assets | | - | (10) |
| Proceeds from disposal of investments and other assets | | 16 | 119 |
| Interest received | | 26 | 26 |
| Dividends received | | 2 | 3 |
| **Net cash flows used in investing activities** | | **(10 719)** | **(9 325)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 12 209 | 8 566 |
| Repayment of borrowings | | (8 567) | (5 683) |
| Proceeds from debt securities issued | | - | 2 000 |
| Repayment of debt securities | | (200) | (1 586) |
| Repayment of finance lease liabilities | | (516) | (393) |
| Repayment of vendor financing liabilities and letters of credit | | (207) | (21) |
| Repayment of promissory notes | | - | (531) |
| Repayment of other non-current liabilities | | - | (1) |
| Dividends paid | | (337) | (249) |
| Dividends paid to minority shareholders | | - | (1) |
| **Net cash flows from financing activities** | | **2 382** | **2 101** |
| **Net (decrease)/increase in cash and cash equivalents** | | **897** | **(47)** |
| **Cash and cash equivalents at the beginning of the year** | | **486** | **533** |
| **Cash and cash equivalents at the end of the year (note 16)** | | **1 383** | **486** |

OJSC Sibirtelecom
Consolidated Statement of Changes in Equity
For the year ended 31 December 2007
*(In millions of Russian Roubles)*

| | | Attributable to the shareholders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | | | | | | | | | |
| | Note | Preference shares | Ordinary shares | Unrealized gain on available-for-sale investments | *Retained earnings (as previously reported)* | *Corrections of errors (Note 2)* | Retained earnings (restated) | Total | Minority interests | Total equity |
| **Balance at 31 December 2005** | **2** | **869** | **2 672** | **103** | *13 019* | *(1 352)* | **11 667** | **15 311** | **48** | **15 359** |
| Profit for the year | | - | - | - | *1 181* | *(206)* | 975 | 975 | (21) | 954 |
| Unrealised gain on available-for-sale investments | | - | - | 51 | - | - | - | 51 | - | 51 |
| Realized loss on available-for-sale investments sold | | - | - | (67) | - | - | - | (67) | - | (67) |
| **Total recognized gains and losses** | | | | **(16)** | *1 181* | *(206)* | **975** | **959** | **(21)** | **938** |
| Dividends paid to equity holders of the parent | | - | - | - | *(235)* | - | (235) | (235) | - | (235) |
| Dividends of subsidiaries paid to minority shareholders | | - | - | - | - | - | - | - | (1) | (1) |
| Acquisition of minority interests in existing subsidiaries | | - | - | - | *(30)* | - | (30) | (30) | (24) | (54) |
| **Balance at 31 December 2006** | **2** | **869** | **2 672** | **87** | *13 935* | *(1 558)* | **12 377** | **16 005** | **2** | **16 007** |
| Profit for the year | | **-** | **-** | **-** | | | 2 659 | 2 659 | - | 2 659 |
| Unrealised gain on available-for-sale investments | | **-** | **-** | 10 | | | - | 10 | - | 10 |
| Total recognised gains and losses | | | | 10 | | | **2 659** | 2 669 | **-** | **2 669** |
| Dividends to equity holders of the parent | **33** | **-** | **-** | - | | | (327) | (327) | - | (327) |
| **Balance at 31 December 2007** | | **869** | **2 672** | **97** | | | **14 709** | **18 347** | **2** | **18 349** |



*The accompanying notes form an integral part of these consolidated financial statements*

## 1. General Information

### Corporate Information

The consolidated financial statements of OJSC Sibirtelecom and its subsidiaries - (hereinafter “the Company”) for the year ended 31 December 2007 were authorized for issue by the General Director and the Chief Accountant of the Company on 19 June 2008.

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

The registered office of the Company is in the city of Novosibirsk (the Russian Federation), 630099, 53 Maxim Gorky street.

The Company’s principal activity is providing telephone services (including local, long-distance and international calls), telegraph, data transmission services, rent of communication channels and wireless communication services on the territory of 11 regions of the Russian Federation.

OJSC Svyazinvest is the Company’s parent company which owned 50,67% of the Company’s ordinary voting stock as at 31 December 2007. OJSC Svyazinvest is controlled by the Federal Government of the Russian Federation.

Information of the Company’s main subsidiaries is disclosed in note 8. All subsidiaries are incorporated under the laws of the Russian Federation.

### Liquidity and Financial Resources

As of 31 December 2007, the Company’s current liabilities exceeded its current assets by 9 609 (31 December 2006 – 7 423). Consequently, there is a degree of uncertainty about the Company’s ability to maintain its liquidity and to pay its existing debts as they fall due.

To date, the Company has significantly relied upon short-term and long-term financing to fund the improvement of its telecommunication network. This financing has historically been provided through bank loans, bonds, vendor financing, and finance leases.

In 2008, the Company expects to finance its operations via: cash proceeds from the operating activities, issue of promissory notes, new rouble bonds, bank loans and syndicated loans raised in foreign and domestic markets, and vendor financing from foreign and domestic companies. Moreover, management believes that in case of a decrease in the working capital level the existing contractual payment terms relating to current operations could be extended, and certain capital investment projects may be deferred or curtailed in order to fund the Company’s current operating needs.

These financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or any other adjustments that might be required if the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

### The Company's Position in the Communication Services Market

*Establishment of New Tariffs Based on Tariff Plans*

In conformity with current Russian laws regulating activities of natural monopolies, the Company is included in the register of natural monopolies in the area of communications. As a result, tariffs for a



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

number of communication services provided by the Company are established by the Federal Tariff Service.

The Federal Tariff Service ("FTS") by Order No. 140-c/1 of 03 August 2007 approved tariff plans and prices for local telephone connection services.

In line with changes introduced by the Russian FTS into the Procedure for Calculation of Tariffs and Tariff Plans for Local Telephone Services, management decided to substantially reduce tariffs for local telephone services for individual subscribers connected via dual-circuit lines effective from 1 October 2007:

- the tariff for provision of a subscriber line of any type for permanent use was reduced by 26%;
- the tariff for provision of local telephone connection services without technical means to maintain time-based billing for local telephone calls, was reduced by 50% for users with the combined tariff plan, and by 29 % - for users with a fixed fee tariff plan with an unlimited amount of local calls.

## 2. Basis of Presentation of the Financial Statements

### Statement of Compliance

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

### Presentation of Financial Statements

The consolidated financial statements are prepared based on the standalone financial statements of the parent company, OJSC Sibirtelecom, its subsidiaries and associates using unified accounting policies.

The functional and presentation currency of the Company is the Russian Rouble, which is the national currency of the Russian Federation.

Consolidated financial statements of the Company are presented in millions of Russian Roubles.

### Accounting principles

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

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The Company transitioned to IFRS as of 1 January 2003 using the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost.

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards effective for financial years beginning on or after 1 January 2007.

The changes in the Company's accounting policies result from adoption of the following new or revised standards, applicable to the Company's operations:

| Introduced/Amended Standard / Interpretation | Content of changes | Effects |
|---|---|---|
| IFRS 7 *Financial Instruments: Disclosures* | States requirements for disclosures, which enable users of financial statements to estimate the significance of financial instruments, held by the Company, and nature and extent of risks, inherent in those financial instruments. | Although there was no impact on financial position and performance of the Company, comparable information was revised where necessary. |
| IAS 1 (amended in 2005) *Presentation of Financial Statements* | Requires disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. | Information is presented in note 18. |
| IFRIC 9 *Reassessment of Embedded Derivatives* | This interpretation clarifies that the Company must assess whether an embedded derivative should be separated from the underlying host contract and accounted for as a derivative when the Company enters the underlying host contract initially. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. | The adoption of the Interpretation effective had no significant impact on the Company's financial statements. |
| IFRIC 10 *Interim Financial Reporting and Impairment* | Prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. | The adoption of the Interpretation effective had no significant impact on the Company's financial statements. |

**IFRSs and IFRIC Interpretations not yet effective**

A number of IFRSs and IFRIC Interpretations have been issued but are not yet effective as at 31 December 2007, and have not been applied by the Company in these financial statements. Of these, the following pronouncements may potentially have an effect on the Company's operations and presentation of its financial statements:

*(In millions of Russian Roubles)*

| Introduced/Amended Standard / Interpretation | Content of changes | Application date and effects |
|---|---|---|
| IFRS 8 *Operating Segments* | The Standard requires disclosure of operating segments' information and abolishes requirements on identification of two sets of segments (one based on related products and services, and the other on geographical areas) and requires identification of operating segments on the basis of the components of the entity that management uses to make decisions about operating matters. The IFRS states that the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.<br><br>In addition, the IFRS requires an entity to disclose factors used to identify the entity's operating segments and types of products and services from which each reportable segment derives its revenues. | The IFRS becomes mandatory for the Company's 2009 financial statements. The effect of this standard on the Company's financial statements in 2009 is not known as the Company's internal organizational structure currently undergoes significant changes |
| IAS 1 (revised in 2007) *Presentation of Financial Statements* | The Standard states new requirements for presentation of statement of Changes in Equity, Income Statement and several disclosures. It requires disclosure of changes in shareholders' equity separately from other changes in equity. It also requires disclosure, on the face of the statement of changes in equity related to transactions with equity holders only, whereas all other changes in equity (i.e. income and expenses for the period recognized directly in equity) will be shown separately. The Standard introduces the new statement of comprehensive income: it presents all items of income and expense recognized in the income statement, together with all other items recognized directly in equity. Changes in income and expenses recognized in equity may be reflected either in the statement of comprehensive income or in two separate statements: income statement and statement of comprehensive income. | Revised IAS 1 becomes mandatory for the Company's 2009 financial statements. The Company's financial statements will be presented in accordance with the new requirements. |
| IAS 23 (revised in 2007) *Borrowing Costs* | The Standard states new requirements in respect of the borrowing costs that shall not be recognised as an expense in the period in which they are incurred if not all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. | Revised IAS 23 becomes mandatory for the Company's 2009 financial statements. |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| Introduced/Amended Standard / Interpretation | Content of changes | Application date and effects |
|---|---|---|
| IFRIC 13 *Customer Loyalty Programmes* | Requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are executed. | Application of the Interpretation is mandatory for annual reporting periods beginning on or after 1 July 2008. |
| IFRIC14 *IAS 19 - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. | This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 "Employee Benefits". | Application of the Interpretation is mandatory for annual reporting periods beginning on or after 1 January 2008. |
| *Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"* | These Amendments require some financial instruments and liabilities arising from the liquidation under certain conditions be classified as equity. It also sets out which information related to puttable financial instruments to be classified as equity is subject to disclosure. | Application of the Amendments is mandatory for annual reporting periods beginning on or after 1 January 2009. |
| *IFRS 3 (amended 2008) "Business Combinations"* | Introduces some changes in accounting for business combinations which will affect the amounts of goodwill to be recognized and the financial results to be recognized in the period of acquisition and subsequent periods. | Revised IAS 23 becomes mandatory for annual reporting periods beginning on or after 1 July 2009. |
| *IAS 27 (amended 2008) "Consolidated and Separate Financial Statements"* | Requires accounting for the movements in the parent's portion of a subsidiary's equity as an equity transaction. Changes the requirements for accounting for losses incurred by the subsidiary as well as the requirements for accounting for the cease of control over the subsidiary. | Revised IAS 23 becomes mandatory for annual reporting periods beginning on or after 1 July 2009. |

The Company believes that adoption of the standards listed above will have no significant impact on the financial statements, operating results and financial position of the Company, except as discussed above.

**Restatement of the prior period Financial Information**

In the process of preparation of the financial statements for the year ended 31 December 2007, the Company identified errors related to the financial statements for prior periods. Appropriate adjustments have been made by the Company in respect of opening balance of retained earnings as at 31 December 2005 and 31 December 2006.

*(In millions of Russian Roubles)*

***Fair value of property, plant and equipment***

During 2007, an independent appraiser completed a valuation of the Company's property, plant and equipment which existed as at 1 January 2003, the date of transition to IFRS. Fair values of property, plant and equipment as at 1 January 2003 have been used as deemed cost as of that date.

As a result, net book values of property, plant and equipment, balances of deferred revenue related to property, plant and equipment received free of charge, and balances of deferred tax liabilities as at 31 December 2005 and 2006, as well as amount of depreciation and loss on disposal of property, plant and equipment, revenue related to amortization of respective deferred revenue, and related amounts of deferred tax charge (credit) for the year ended 31 December 2006 have been restated in these financial statements as shown below.

The effect of the above adjustment on 2006 earnings per share amounted to 0,01 roubles/share. Additional information is disclosed in note 6.

| | As previously reported | Restatement | Restated (before reclassification) | Description of adjustments |
|---|---|---|---|---|
| **Consolidated balance sheet as at 31 December 2006** | | | | |
| Property, plant and equipment | 37 077 | (2 146) | 34 931 | 1 Result of changes in the value of property, plant and equipment as at 31 December 2006 |
| Deferred revenue | (203) | 95 | (108) | 2 Result of change of deferred revenue as at 31 December 2006 |
| Deferred income tax liabilities | (1 272) | 493 | (779) | 3 Result of change of deferred income tax liability as at 31 December 2006 |
| Retained earnings attributable to equity holders of the parent | (13 935) | 1 558 | (12 377) | 4 Result of p.1,2,3 on retained earnings as at 31 December 2006 |
| **Consolidated income statement for the year ended 31 December 2006** | | | | |
| Revenues | 30 175 | (22) | 30 153 | 5 Result of change due to change in deferred revenue as at 31 December 2006 |
| Depreciation and amortisation | (3 859) | (267) | (4 126) | 6 Result of change of depreciation and amortization as at 31 December 2006 and for 2006 |
| Loss on disposal of property, plant and equipment | (368) | 17 | (351) | 7 Result of change of loss on disposal of property, plant and equipment as at 31 December 2006 and for 2006 |
| Income tax expense | (1 170) | 66 | (1 104) | 8 Result of change of income tax as at 31 December 2006 and for 2006 |
| Profit for the year attributable to equity holders of the parent | 1 181 | (206) | 975 | 9 Result of 5-8 above on net profit for 2006 |
| Retained earnings as at 31 December 2005 attributable to equity holders of the parent | (13 019) | 1 352 | (11 667) | 10 Result of restatement on retained earnings as at 31 December 2005 |

*(In millions of Russian Roubles)*

**Reclassifications**

Presentation of certain items in the consolidated financial statements has been changed compared to the previous year. The following adjustments and reclassifications of the comparative information as at and for the year ended 31 December 2006 have been made in order to conform to the current year presentation.

| | As previously reported | Effect of reclassifications | As restated | Description of reclassifications |
|---|---|---|---|---|
| **Consolidated balance sheet as at 31 December 2006** | | | | |
| Property, plant and equipment | 34 931 | 17 | 34 948 | Reclass of fixed assets from inventory |
| Inventories | 558 | (17) | 541 | Reclass of fixed assets from inventory |
| Accounts receivable | 2 180 | (87) | 2 093 | Reclass of other current assets from accounts receivable |
| Other current assets | 1 401 | 87 | 1 488 | Reclass of other current assets from accounts receivable |
| Accounts payable and accruals | 6 026 | 69 | 6 095 | Reclass of accounts payables and accruals from accounts payable to Rostelecom |
| Accounts payable to OJSC “Rostelecom” | 69 | (69) | - | Reclass of accounts payables and accruals from accounts payable to OJSC “Rostelecom” |
| **Consolidated income statement for the year ended 31 December 2006** | | | | |
| Depreciation and amortisation | (4 126) | (16) | (4 142) | Reclass of depreciation and amortization from materials, repair and maintenance |
| Materials, repairs and maintenance, utilities | (3 129) | 16 | (3 113) | Reclass of materials, repair and maintenance to depreciation and amortization from. |

**Foreign Currency Transactions**

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement as foreign exchange gains/(losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Assets and liabilities settled in Roubles but denominated in foreign currencies are recorded in the Company’s consolidated financial statements using the same principles as for assets and liabilities denominated in foreign currencies.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The exchange rates as of 31 December 2007 and 2006 were as follows:

| **Currency** | **2007** | **2006** |
|---|---|---|
| Russian Roubles per US dollar | 24,55 | 26,33 |
| Russian Roubles per Euro | 35,93 | 34,70 |

## 3. Summary of Significant Accounting Policies

### 3.1. Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of the group of companies, i.e. the parent and its subsidiaries, presented as if the Company operated as a single economic entity.

*Subsidiaries*

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

*Acquisition of subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 Company's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the income statement.

*Acquisition of minority interests*

The difference between the cost of the additional interest in a subsidiary and the minority interest's share of the assets and liabilities is reflected in the consolidated statement of shareholders' equity at the date of the purchase of the minority interest as a charge to retained earnings.

*Investments in Associates*

Associates are entities in which the Company generally has between 20 % and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Company's share of net assets of the associate. The Company's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in reserves is recognized in equity. However, when the Company's share of losses in an associate equals



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

or exceeds its interest in the associate, the Company does not recognize further losses, unless the Company is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 3.2. Investments

The Company's investments are classified as either loans and receivables or available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its investments at their initial recognition. All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. During the period the Company did not hold any investments in this category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the Company upon initial recognition designates as available for sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised 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. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis.

### 3.3. Property, Plant and Equipment

#### 3.3.1. Initial recognition

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The carrying amount of an item of property, plant and equipment includes the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. If a regular major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. The cost of construction or development of an item of property, plant and equipment is capitalized and the carrying amount of replaced part is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognized. Other expenditures for the continuing repairs and maintenance of the item of property, plant and equipment are recognised in profit or loss as incurred.

*(In millions of Russian Roubles)*

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

For the property, plant and equipment acquired prior to 1 January 2003, fair values as at 1 January 2003 have been used as deemed cost (refer to note 6) in accordance with the exemption provided in IFRS 1.

Management assesses indications of impairment at each balance sheet date, and when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use. Impairment losses are recognized in the income statement. Impairment losses recognised in previous periods are reversed, if there has been a change in the estimates, used to determine the recoverable amount.

### 3.3.2. Depreciation and Useful Life

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end. The Company has changed its estimate of useful lives in 2007.

Estimated useful lives are as follows (in years):

| | 2007 | 2006 |
|---|---|---|
| Buildings | 20 – 50 | 50 |
| Transmission devices (radio and communication lines) | 7-10 | 20 |
| Other constructions (exclusive communication lines) | 5 – 30 | 20 |
| Analogue switches | 6 – 10 | 20 |
| Digital switches | 2 – 15 | 15 |
| Other telecommunication equipment | 2 – 16 | 10 |
| Computers, office and other equipment | 2 – 7 | 3 |
| Transportation equipment | 3 -20 | 5 |
| Other property, plant and equipment | 3 – 30 | - |
| Land | Not depreciated | Not depreciated |

### 3.3.3. Assets Received Free of Charge

Equipment related to main activity of the Company transferred to the Company free of charge outside the privatization process is capitalized at market value at the date of transfer. A corresponding income is fully recognized in the income statement, except where transfers of equipment relate to rendering of future services to the transferee, in which case the Company recognises deferred revenue in the amount of the fair value of the equipment received, and amortises it to the income statement on the



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

same basis that the equipment is depreciated.

Equipment contributions that will not generate any future economic benefit for the Company are not recognized.

### 3.4. Leases

Leases where all the risks and rewards of ownership of the asset are transferred from the lessor to the lessee are classified as finance leases.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases.

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to achieve a constant rate of interest of the remaining balance of the liability. Finance cost is reflected directly in the income statement.

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

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

### 3.5. Intangible Assets

#### 3.5.1. Goodwill

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

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on



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disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

### 3.5.2. Licences

Cost of licences paid to the Government for permission to provide telecommunication services within an identifiable period of time is recognized as intangible assets.

Following initial recognition, intangible assets are accounted for at cost, less accumulated depreciation and impairment.

### 3.5.3. Software and Other Intangible Assets

Software and other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

### 3.5.4. Useful Life and Amortization of Intangible Assets

The cost of licences and software is depreciated on a straight-line basis over the estimated useful life equal to the term of the licences or the right to use the software.

The useful life of other intangible assets is approximately 10 years.

## 3.6. Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as cash deposits and short-term investments with original maturities of three months or less.

## 3.7 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets comprise cash and cash equivalents; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Company; or a contract that will or may be settled in the Company's own equity instruments and is a non-derivative for which the Company is or may be obliged to receive a variable number of the Company's own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. For this purpose the Company's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Company's own equity instruments.

Financial liabilities include contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; or a contract that will or may be settled in the Company's own equity instruments and is a non-derivative for which the Company is or may be obliged to deliver a variable number of the Company's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. For this purpose the Company's own equity



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Company recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the instrument.

When a financial asset or financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Company classifies its financial assets and financial liabilities as current or non-current based on the term of its maturity taking into account other factors that limit the Company's ability to realize assets within 12 months or the existence of call options in financial liabilities valid within 12 months after the balance sheet date.

Financial asset is derecognised when the rights to receive cash flows from the asset expired or the Company transferred its rights to receive cash flows from the asset.

Financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### 3.8. Accounts Receivable and Allowance for Bad Debt

Trade receivables are recognized at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Company will not be able to collect the debts.

Allowance for impairment is created based on the historical pattern of collections of accounts receivable and a specific analysis of the recoverability of significant accounts.

Allowance for impairment is also created for other accounts receivable based on the assessment of the Company's ability to collect the debts.

Allowance for impairment is recognized in the income statement.

The carrying amount of current trade receivables is a reasonable approximation of their fair value.

The fair value of non-current trade receivables is calculated using the effective interest method.

### 3.9. Inventories

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

Cost of inventory is determined on the weighted average basis.

### 3.10. Loans and Borrowings Received

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised 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 recognised as an adjustment to interest expense over the period of the borrowings.

### 3.11. Shareholders' Equity

*Share Capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

*Dividends Declared*

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

*Minority Interest*

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

### 3.12. Employee Benefits

#### 3.12.1. Current Employment Benefits

Wages and salaries paid to employees are recognized as expense in the current period. The Company also recognizes provision for unused vacations.

#### 3.12.2. Other Pension Plans and Post-Employment Benefits

Under collective bargaining agreements and internal regulations on additional pension benefits, the Company also provides additional benefits for its active and retired employees by using post-employment defined benefit plans. The majority of the Company's employees are eligible to participate under such post-employment benefit plans based upon a number of factors, including years of service, age, and compensation.

The Company determines the present value of the defined benefit obligation and the fair value of any plan assets on each reporting date separately for each plan. The obligations are valued by professionally qualified independent actuaries hired by the Company using the projected unit credit method. The assets of the defined benefit plans are valued by professionally qualified actuaries or independent appraisers.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised 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 on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits vest immediately past service costs are immediately expensed.

Gains or losses on the curtailment or settlement of pension benefit obligations are recognized when the curtailment or settlement occurs.

### 3.13. Unified Social Tax



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

Under provisions of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Company by the application of a regressive rate to the annual gross remuneration of each employee. The basic UST rate is equal to 26 %.

### 3.14. Income Taxes

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting 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 liabilities.

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

Revenue is recognized in the amount of cash or cash equivalents received in the form of cash or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an effective interest rate.

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

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

Interest income is recognized on accrual basis.

Dividend income is recognized on the date that the Company's right to receive payment is established.

Net gain/loss on disposal of property, plant and equipment is recognized when all risks and rewards are transferred to the buyer or its agent.

Revenues from lease and other services are recognized in period when such services were rendered.

### 3.16. Earnings per Share

The Company calculates basic earnings per share amounts for profit or loss attributable to ordinary 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.

### 3.17. Provisions

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

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

## 4. Estimation and uncertainties

### 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:

*Revenue recognition (principal / agent)*

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

- Although the Company collects the revenue from the final customer, all credit risk is borne by the supplier of services;
- The Company cannot vary the selling prices set by the supplier by more than 1%.

*Lease classification*



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

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. Unless the opposite can be reasonably argued, where the lease term exceeds 75% of the asset's useful life, or where the discounted value of minimal lease payments at the commencement of the lease term amounts to at least 90% of the fair value of the leased asset, such lease is classified as a finance lease.

### 4.2. Estimation Uncertainty

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

*Useful life of property, plant and equipment*

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the financial year end. 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.

*Goodwill impairment*

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated.

Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2007 the carrying value of goodwill equals 49 (2005 – 49). Refer to note 7 for further details.

*Fair value of unquoted investments available-for-sale*

Fair value of investments actively traded in regulated financial markets is determined on the basis of market ask prices at the end of trade on the reporting date. 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 to the current fair value of another instrument that is substantially the same, or based on discounted cash flow analysis and option pricing models.

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

*Allowance for impairment of receivables (bad and doubtful debt reserve)*

Management records a provision for bad and doubtful debts to account for estimated losses resulting from the customers' inability to settle the liabilities. To estimate if the provision is sufficient, management evaluates ageing of the debts, the experience of bad debt write-off, customers' creditworthiness and changes in payment terms. If the customers' financial position continues to deteriorate, the actual amount of bad debt write-off may exceed the estimation. As at 31 December 2007 the bad debt provision in respect of accounts receivable equalled 423 (2006 – 467).

*Pension liabilities*

Pension liabilities are usually provided for by plans which are classified and accounted for as defined benefit pension plans. The discounted value of the pension plan liabilities and the related current service costs are determined on the basis of actuary valuations which use demographic and financial assumptions, including mortality rates for the service period and thereafter, staff turnover rates, discount rates, future salary and pension levels, and to a lesser extent the expected income on the pension plan's assets. If adjustments to the key assumptions are required, it will have a significant impact on the future expenses in respect of pension obligations. Refer to note 24 for further details.

*(In millions of Russian Roubles)*

## 5. Segment Information

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Fixed line | Mobile | Other | Intercompany eliminations | Total |
| **REVENUES** | | | | | |
| Sales to third parties | 24 712 | 9 109 | 1 425 | - | **35 246** |
| Inter-segment sales | 674 | 28 | 164 | (866) | - |
| **Total revenues** | **25 386** | **9 137** | **1 589** | **(866)** | **35 246** |
| Segment result | 3 945 | 1 996 | 164 | - | **6 105** |
| Unallocated expenses | | | | | **(390)** |
| **Operating profit** | | | | | **5 715** |
| Share of profit of associates | | | | | 7 |
| Interest expense, net | | | | | (1 662) |
| Gain from sale of investments, net | | | | | 2 |
| Foreign exchange gains, net | | | | | 108 |
| Income tax expense | | | | | (1 511) |
| **Profit for the year** | | | | | **2 659** |
| **Assets and Liabilities** | | | | | |
| Segment assets | 37 047 | 11 608 | 2 404 | - | 51 059 |
| Investments in associates | | | | | 35 |
| **Consolidated total assets** | | | | | **51 094** |
| Segment liabilities | (8 031) | (2 056) | (499) | - | (10 586) |
| Unallocated liabilities | | | | | (22 159) |
| **Consolidated total liabilities** | | | | | **(32 745)** |
| **OTHER INFORMATION** | | | | | |
| Capital expenditure | 8 498 | 4 773 | 17 | - | 13 288 |
| Depreciation and amortization | (4 330) | (1 510) | (288) | - | (6 128) |
| Reversal of allowance/(allowance for impairment) of receivables | 68 | (53) | - | - | 15 |
| Losses from impairment of property, plant and equipment | - | (184) | - | - | (184) |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| | 2006 | | | | |
|---|---|---|---|---|---|
| | **Fixed line** | **Mobile** | **Other** | **Intercompany eliminations** | **Total** |
| Sales to third parties | 20 591 | 8 263 | 1 299 | - | **30 153** |
| Inter-segment sales | 614 | 13 | 194 | (821) | - |
| **Total revenues** | **21 205** | **8 276** | **1 493** | **(821)** | **30 153** |
| Segment result | 1 065 | 2 503 | 18 | - | **3 586** |
| Unallocated expenses | | | | | **(346)** |
| **Operating profit** | | | | | **3 240** |
| Share of profit of associates | | | | | 20 |
| Interest expense, net | | | | | (1 320) |
| Gain from sale of investments, net | | | | | 46 |
| Foreign exchange gains, net | | | | | 72 |
| Income tax expense | | | | | (1 104) |
| **Profit for the year** | | | | | **954** |
| **Assets and Liabilities** | | | | | |
| Segment assets | 31 832 | 10 068 | 2 321 | - | 44 221 |
| Investments in associates | | | | | 32 |
| **Consolidated total assets** | | | | | **44 253** |
| Segment liabilities | (5 254) | (4 366) | (220) | - | (9 840) |
| Unallocated liabilities | | | | | **(18 406)** |
| **Consolidated total liabilities** | | | | | **(28 246)** |
| **OTHER INFORMATION** | | | | | |
| Capital expenditure | 6 676 | 4 824 | 9 | - | 11 509 |
| Depreciation and amortization | (3 247) | (859) | (36) | - | (4 142) |
| Reversal of allowance/(allowance for impairment) of receivables | 249 | (75) | - | - | 174 |
| Losses from impairment of property, plant and equipment | - | (276) | - | - | (276) |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The Company provides fixed line and mobile telecommunication services. Management believes that the Company operates in one geographical segment.

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 assets that relate to the Company as a whole. Segment liabilities primarily comprise operating liabilities, loans and leasing liabilities and exclude items pertaining to the Company as a whole. Capital expenditure comprises additions to property, plant and equipment. Impairment losses and provisions relate only to those charges made against allocated assets.

Classification of items between segments has been changed during 2007, without the change the determination of the segments. Consequently, prior period comparative information has been changed to conform to the current year presentation.

## 6. Property, Plant and Equipment

| | Land, buildings and structures | Switches and transmission devices | Construction in progress and equipment for installation | Vehicles and other assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **As of 31 December 2005** | **15 980** | **14 817** | **2 538** | **2 778** | **36 113** |
| Additions | - | - | 10 170 | - | 10 170 |
| Additions due to acquisition of subsidiaries | 85 | 45 | 2 | 5 | 137 |
| Disposals | (138) | (328) | (127) | (54) | (647) |
| Transfers | 1 715 | 6 757 | (8 946) | 474 | - |
| **As of 31 December 2006** | **17 642** | **21 291** | **3 637** | **3 203** | **45 773** |
| Additions | - | - | 11 523 | - | 11 523 |
| Disposals | (168) | (440) | (100) | (59) | (767) |
| Transfers | 3 421 | 7 048 | (11 394) | 925 | - |
| **As of 31 December 2007** | **20 895** | **27 899** | **3 666** | **4 069** | **56 529** |
| **Accumulated depreciation and impairment losses** | | | | | |
| **As of 31 December 2005** | **(3 319)** | **(2 729)** | **(5)** | **(908)** | **(6 961)** |
| Charge for the year | (1 318) | (1 970) | - | (492) | (3 780) |
| Charge due to acquisition of subsidiaries | (27) | (24) | - | (2) | (53) |
| Disposals | 82 | 126 | - | 37 | 245 |
| Impairment | - | (79) | (199) | (8) | (286) |
| Reversal of impairment | - | 9 | - | 1 | 10 |
| **As of 31 December 2006** | **(4 582)** | **(4 667)** | **(204)** | **(1 372)** | **(10 825)** |
| Charge for the year | (1 302) | (3 167) | - | (879) | (5 348) |
| Disposals | 124 | 181 | - | 46 | 351 |
| Impairment losses | (29) | (93) | (67) | (5) | (194) |
| Reversal of impairment | - | 3 | 7 | - | 10 |
| **As of 31 December 2007** | **(5 789)** | **(7 743)** | **(264)** | **(2 210)** | **(16 006)** |
| **Net book value as of 31 December 2005** | **12 661** | **12 088** | **2 533** | **1 870** | **29 152** |
| **Net book value as of 31 December 2006** | **13 060** | **16 624** | **3 433** | **1 831** | **34 948** |
| **Net book value as of 31 December 2007** | **15 106** | **20 156** | **3 402** | **1 859** | **40 523** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

During 2007, impairment losses of 65 and 129 were recognized in respect of property, plan and equipment of CJSC SteK GSM and Altaysvyaz, respectively (2006-286).

The recoverable amount was defined as fair value less costs to sell based on the best available information and management's estimate of the initial cost less accumulated depreciation adjusted further to reflect the "second-hand" nature of the equipment and management's estimate of dismantling costs. No active market information was available due to specialized nature of the Company's property, plant and equipment.

Impairment loss/recovery of loss are recorded by the Group within line "Impairment of property, plant and equipment, goodwill and other intangible assets" of the Consolidated Income Statement.

The Company transitioned to IFRS as of 1 January 2003 using the provisions of IFRS 1, "First time Adoption of International Financial Reporting Standards". The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost.

Management engaged an independent appraiser "NEO Center" to determine these fair values of the Company's property, plant and equipment as of 1 January 2003. The appraiser completed his evaluation in 2007.

As a result of the valuation performed, it was identified that management's previous estimate of the deemed cost of property, plant and equipment as at 1 January 2003 had been incorrect, and the carrying values of property, plant and equipment as at 31 December 2005 and 31 December 2006 as well as depreciation charge and loss from disposal of property, plant and equipment for 2006, were restated.

The majority of the Group's property, plant and equipment is specialised in nature and rarely sold on the open market other than as part of a continuing business. While land and buildings were appraised on the basis of recent market transactions, the market for similar telecommunication and other equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable items for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. The method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing and review of alternative use were conducted in order to assess the reasonableness of those values. The following key assumption were used to developed cash flow projections:

- The minimum cash generating unit is each of the Company's branches and subsidiaries;
- Operating revenue and expenses were determined at the level of actual operating revenue and expenses for the last 12 months before the date as of which the revaluation was prepared;
- The growth rate of revenue and expenses over the projection period of 5% per amount was used, which was in line with the average inflation rate that had been expected for the period of remaining useful lives of the assets;
- Discount rate before tax applicable for measuring of the fair value of assets was determined as 19% for all branches except Buryatskiy branch for which a rate of 19,5% was used.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

Due to the lack of detailed and reliable future cash flows prepared as of 1 January 2003, historical operating revenues and expenses were extrapolated for a perpetual period using the growth and discount rates stated above;

A decrease in the discount rate by one percentage point from 2003 would have resulted in an increase of the carrying values of the respective assets for which fair values were determined as at 1 January 2003, by 487 as at 31 December 2005. An increase in the discount rate by one percentage point would have resulted in a decrease of the carrying values of related assets by 446 as at 31 December 2005.

***Finance leases***

The net book value of property, plant and equipment held under finance leases as of 31 December 2007 and 2006 amounted to:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Buildings and structures | - | 42 |
| Switches and transmission devices | 1 448 | 1 425 |
| Construction in progress and equipment for installation | 81 | 12 |
| Vehicles and other assets | 34 | 73 |
| **Total** | **1 563** | **1 552** |

***Change of useful lives of Property, Plant and Equipment***

The Company assesses the carrying amount, depreciation method and remaining useful lives of property, plant and equipment at each reporting date. The assessment of remaining useful lives of property, plant and equipment was changed in 2007.

Due to change in estimated useful lives of certain types of property, plant and equipment with effect from 1 January 2007, depreciation charge for 2007 increased by 1 409.

## 7. Intangible Assets and Goodwill

| | Goodwill | Licences | Software | Number's capacity | Subscribers' base | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **As of 31 December 2005** | **95** | **72** | **2 424** | **72** | **14** | **6** | **2 683** |
| Additions | 34 | 2 | 1 271 | 14 | - | 18 | 1 339 |
| Disposals | - | - | (21) | - | - | - | (21) |
| **As of 31 December 2006** | **129** | **74** | **3 674** | **86** | **14** | **24** | **4 001** |
| Additions | - | 37 | 1 697 | 14 | - | 17 | 1 765 |
| Disposals | - | - | (243) | - | (14) | (1) | (258) |
| **As of 31 December 2007** | **129** | **111** | **5 128** | **100** | **-** | **40** | **5 508** |
| **Impairment and Accumulated amortization** | | | | | | | |
| **As of 31 December 2005** | **(80)** | **(14)** | **(239)** | **(20)** | **(5)** | **(2)** | **(360)** |
| Charge for the year | - | (11) | (326) | (13) | (7) | (5) | (362) |
| Disposals | - | - | 8 | - | - | - | 8 |
| **As of 31 December 2006** | **(80)** | **(25)** | **(557)** | **(33)** | **(12)** | **(7)** | **(714)** |
| Charge for the year | - | (15) | (734) | (23) | (2) | (6) | (780) |
| Disposals | - | - | 3 | - | 14 | 1 | 18 |
| Impairment | - | (20) | - | (9) | - | - | (29) |
| **As of 31 December 2007** | **(80)** | **(60)** | **(1 288)** | **(65)** | **-** | **(12)** | **(1 505)** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| | Goodwill | Licences | Software | Number's capacity | Subscribers' base | Other | Total |
|---|---|---|---|---|---|---|---|
| **Net book value as of 31 December 2005** | **15** | **58** | **2 185** | **52** | **9** | **4** | **2 323** |
| **Net book value as of 31 December 2006** | **49** | **49** | **3 117** | **53** | **2** | **17** | **3 287** |
| **Net book value as of 31 December 2007** | **49** | **51** | **3 840** | **35** | **-** | **28** | **4 003** |

**Oracle E-Business Suite (OEBS)**

As of 31 December 2007 software includes OEBS software with a net book value of 763 (2006 – 933), including capitalised interest of 135 (2006 – 175). Capitalisation of interest in 2006 was discontinued due to a start of commercial use of part of OEBS related to accounting for non-current assets (release #1).

Upon acquisition of OEBS, the Company received non-exclusive licences for 12 400 users of Oracle E-business Suite. The remaining useful life of these licences equals 8 years.

In 2007 the carrying amount of licences for Oracle E-Business Suite totalling to 4 600 items and licences for Enterprise Asset Management totalling to 293 items were written-off in the amount of 175 as these are not expected to be used after staff reduction, which already took place, and are expected to take place. Additionally, capitalized interest of 44 was written off in 2007.

During 2007 the Company commenced the use of OEBS module related to accounting for non-current assets, Release #1, in all of its branches.

Full implementation of the Oracle E-Business Suite software is expected to be completed by the end of 2008.

The Company commenced amortisation of OEBS software starting 30 November 2005 proportionally to the quantity of activated licences.

**Amdocs Billing Suite**

As of 31 December 2007 software also includes Amdocs Billing Suite software with a net book value of 921 (2006 – 889). This software was purchased for the purpose of the implementation of unified automated billing system. The project of implementation of the unified automated billing system is expected to last 4-5 years.

In 2007 the cost of this intangible asset was partly written-off in the amount of 62 (and the interest capitalized in the amount of 3) on the basis of a decision made by the executive committee which recognised the fact that certain cost of the implementation project will not bring any future economic benefits. Additionally, part of the carrying value of Amdocs Billing Suite amounting to 46 was allocated to the project of the billing processes' alignment.

The Company's Board of Directors approved the purchase of the Amdocs Billing Suite software on 20 November 2004.

The Company will commence amortisation of this asset from the date when the software is put into commercial use. Up to that moment the Company intends to perform an annual impairment test of the asset.

**HP Open view software**

As of 31 December 2007 software also includes HP Service desk software with a net book value of 103 (2006 –103). This software is used for automation of informational processes in Company. As of



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

31 December 2007 this software is not ready for used. Full implementation of the HP Service desk software is expected to be completed by the end of 2012.

As of 31 December 2007 software also includes HP Open View Service Activator software with a net book value of 259 (2006 – 0). This software is used for automatic control of activation of subscribers. Full implementation of the Open View Service Activator software is expected to be completed by the end of 2010.

**CBOSS Billing Suite**

As of 31 December 2007 software also includes CBOSS Billing Suite software with a net book value of 441 (2006 – 466). This software is used as a billing system by subsidiaries of the Company CJSC Yeniseytelecom and CJSC Baikalvestcom.

**Impairment test of intangible assets not yet available for use**

The Company performed impairment testing of intangible assets not yet available for use. These assets comprise Amdocs Billing Suite, certain modules of OEBS and numbers' capacity relating to the subsidiaries CJSC "Yeniseytelecom" and CJSC "Baikalwestcom". As a result of testing, no impairment was identified as of 31 December 2007 .

As of 31 December 2007 the Company does not have intangible assets with indefinite useful life.

*Impairment testing of goodwill*

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- Sayansky branch of CJSC Yeniseytelecom
- OJSC Mobiltelecom
- CJSC ChitaNET
- CJSC ATS-41
- CJSC ATS-32

The recoverable amounts of Sayansky branch of CJSC Yeniseytelecom, OJSC Mobiltelecom, CJSC Chita NET and other cash-generating units have been determined based on a value in use calculated using cash flow projections derived from five-year financial budgets approved by senior management. Cash flows for the periods beyond the five-year period have been extrapolated using a growth rate equal to the long-term average growth rate for the above mentioned cash-generating units.

The following describes key assumptions applied by management for cash flow projections used to perform impairment testing of goodwill:

- Budgeted gross margins - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements;
- Weighted average cost of capital - the basis used to determine a discount factor.

As a result of testing of goodwill allocated to CJSC ATS-41, CJSC ATS-32, CJSC ChitaNET and CJSC Yeniseytelecom, no impairment has been identified as at 31 December 2007.

## 8. Consolidated Subsidiaries

These consolidated financial statements include the assets, liabilities and financial results of OJSC Sibirtelecom, as well as its subsidiaries whose main activity is provision of cellular and other telecommunication services. The principal subsidiaries are listed below:

*(In millions of Russian Roubles)*

| Subsidiary | Main Activity | Ownership,% 31 December 2007 | Ownership,% 31 December 2006 | Voting Shares 31 December 2007 | Voting Shares 31 December 2006 |
|---|---|---|---|---|---|
| CJSC Yeniseytelecom | Cellular services (GSM-900 and 1800) | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC Baikalwestcom | Cellular services (GSM-900 and 1800) | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC ChitaNET | Data transmission and telematics services | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC Altaiskaya telecommunicatsionnaya companiya | Local telephone network services | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC STeK GSM[1] | Cellular services (GSM-900 and 1800) | 100,00 | 100,00 | 100,00 | 100,00 |
| OJSC Rinet | Internet services | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC ATS-32 | Local calls, internet | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC ATS-41 | Local calls, internet | 100,00 | 100,00 | 100,00 | 100,00 |
| CJSC Region Set | Cellular services (CDMA) | 0,00 | 66,00 | 0,00 | 66,00 |
| CJSC Altayskaya investitsionnaya companiya | Trading activities | 0,00 | 62,50 | 0,00 | 62,50 |
| OJSC Mobiltelecom | Cellular services, internet | 91,75 | 90,09 | 91,75 | 90,09 |
| OJSC Altaysvyaz[1] | Cellular services | 99,72 | 99,72 | 99,72 | 99,72 |

All of the above companies are Russian legal entities registered in accordance with the Russian legislation, and have the same financial year as the Company.

In May 2007 the Company acquired additional 1,66 % of ordinary voting shares OJSC Mobiltelecom at cost of 1.

## 9. Investments in associates

Investments in associates as of 31 December 2007 and 2006 comprised the following:

| Associate | Activity | 31 December 2006 Voting shares, % | 31 December 2006 Carrying value |
|---|---|---|---|
| CJSC Novocom | Local telephone network services, internet services | 50,00 | 15 |
| CJSC TeleRoss Novosibirsk | Local telephone network services, internet services | 50,00 | 2 |
| LLC Giprosvyaz-Sibir | Engineering, development of project documentation | 24,00 | 4 |
| OJSC Loktelecom | Local telephone network services | 36,56 | 11 |
| Other | - | - | 3 |
| Impairment provision | - | - | (3) |
| **Total** | - | - | **32** |

[1] Indirect ownership via CJSC Yeniseytelecom



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| Associate | Activity | 31 December 2006 Voting shares, % | Carrying value |
|---|---|---|---|
| | | **31 December 2007** | |
| CJSC Novocom | Local telephone network services, internet services | 50,00 | 19 |
| LLC Giprosvyaz-Sibir | Engineering, development of projec documentation | 24,00 | 4 |
| OJSC Loktelecom | Local telephone network services | 36,56 | 12 |
| Other | - | - | 3 |
| Impairment provision | - | - | (3) |
| **Total** | **-** | - | **35** |

All the above companies are Russian legal entities registered in accordance with the Russian legislation, and have the same financial year as the Company.

The Company has investments in the following associates whose net assets were negative as of 31 December 2007 and 2006:

| Associate | Activity | Voting share, % | Net assets as of 31 December 2007 | Net assets as of 31 December 2006 |
|---|---|---|---|---|
| OJSC Irkutskaya Raschetnaya Palata | internet services | 34,00 | - | - |
| LLC Svyazinvest-Media-Sibir | publishing activities | 25,01 | (1) | (1) |

The carrying value of investments in associates shown in these consolidated financial statements equals to the Company's share in net assets of the associated companies, except for investments in OJSC Irkutskaya Raschetnaya Palata, and LLC Svyazinvest-Media-Sibir. The carrying amount of investments in the latter associates was reduced to nil as these associates have accumulated losses exceeding the cost of the respective investments.

Information on disposal of investments in associates in 2007 financial year is given below:

| Associate | Activity | Carrying value | Gain from disposal | Share of equity disposed on the date of transaction, % |
|---|---|---|---|---|
| CJSC TeleRoss Novosibirsk | Local telephone network services, internet services | 2 | 2 | 50,00 |
| **Total** | | **2** | **2** | |

For information on gains/losses from disposal of investments in associates refer to Note 30.

Movement in investments in associates for the years ended 31 December 2006 and 2005 is presented below:

| | 2007 | 2006 |
|---|---|---|
| **Investments in associates as of 1 January, net** | **32** | **51** |
| Share of income net of income tax and net of dividends received | 5 | 20 |
| Reclassification of investments | - | (39) |
| Disposal of investments in associates | (2) | - |
| **Investments in associates as of 31 December, net** | **35** | **32** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The following table illustrates summarised financial information of the most significant associates:

| Associate | Voting shares | Assets | Liabilities | Revenues | Net profit |
|---|---|---|---|---|---|
| **2007** | | | | | |
| CJSC Novocom | 50,00% | 45 | 5 | (73) | (11) |
| LLC Giprosvyaz-Sibir | 24,00% | 19 | 1 | (54) | (5) |
| OJSC Irkutskaya Raschetnaya Palata | 34,00% | 2 | 3 | - | - |
| LLC Svyazinvest-Media-Sibir | 25,01% | 14 | 15 | (12) | - |
| OJSC Locktelecom | 36,56% | 44 | 12 | (36) | (2) |
| **2006** | | | | | |
| CJSC Novocom | 50,00% | 36 | 5 | (61) | (11) |
| LLC Giprosvyaz-Sibir | 24,00% | 33 | 16 | (84) | - |
| CJSC TeleRoss Novosibirsk | 50,00% | 9 | 5 | (2) | - |
| OJSC Irkutskaya Raschetnaya Palata | 34,00% | 2 | 3 | - | - |
| CJSC ZS&TKC N | 30,00% | 38 | 141 | (14) | (1) |
| LLC Svyazinvest-Media-Sibir | 25,01% | 16 | 16 | (1) | - |
| OJSC Locktelecom | 36,56% | 49 | 20 | (43) | (4) |

## 10. Investments

As of 31 December 2007 and 2006 the Company's investments comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Long-term investments available-for-sale | 16 | 18 |
| **Total long-term investments** | **16** | **18** |
| Short-term investments held-to-maturity | - | 4 |
| Short-term investments available-for-sale | 125 | 115 |
| **Total short-term investments** | **125** | **119** |
| **Total long-term and short-term investments** | **141** | **137** |

As of 31 December 2007 and 2006 investments available-for-sale comprised the following:

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| Company | Ownership interest | Carrying value | Ownership interest | Carrying value |
| **Long-term investments** | | | | |
| OJSC NTK Zvezda | 1,665% | 47 | 1,665% | 47 |
| CJSC NPK Svyazintek | 11,00% | 13 | 11,00% | 13 |
| OJSC ACB Svyazbank | 0,01% | 10 | 0,01% | 10 |
| Other | - | 5 | - | 6 |
| Impairment provision | - | (59) | - | (58) |
| **Total long-term investments** | - | **16** | - | **18** |
| **Short-term investments** | | | | |
| OJSC Sberbank | 0,01% | 125 | 0,01% | 115 |
| **Total short-term investments** | - | **125** | - | **115** |
| **Total investments available-for-sale** | - | **141** | - | **133** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

Management believes that the carrying amount of these investments approximates their fair values.

## 11. Long-term accounts receivable and other assets

As of 31 December 2007 and 2006 long-term accounts receivable and other assets comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Long-term accounts receivable | 15 | 22 |
| Long-term VAT receivable | - | 17 |
| Long-term loans given to employees | 23 | 30 |
| **Total** | **38** | **69** |

As of 31 December 2007 long-term loans given to employees are accounted at amortized cost using the effective interest rate of 19 % (2006 - 18 %).

## 12. Long-term advances given

As of 31 December 2007 and 2006 long-term advances given to suppliers of equipment comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Advances given for capital construction | 444 | 645 |
| Acquisition and implementation of Oracle E-Business Suite | 29 | 128 |
| Implementation of other software | 26 | 162 |
| Allowance for impairment of advances | (7) | (4) |
| **Total** | **492** | **931** |

## 13. Inventories

Inventories as of 31 December 2007 and 2006 comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Cable and materials | 180 | 197 |
| Finished goods and goods for resale | 85 | 46 |
| Construction materials, fuels and instruments | 46 | 49 |
| Other inventories | 222 | 249 |
| **Total** | **533** | **541** |

In the table given below the changes of the provision on slow-moving inventories are presented:

| | 2007 | 2006 |
|---|---|---|
| **Balance as of 1 January** | 13 | - |
| Impairment for the year | 6 | 13 |
| Write-off of provision | (11) | - |
| **Balance as of 31 December** | **8** | **13** |

In 2007 the expenses for the provision on slow-moving inventories amounted to 6 (2006 – 13).



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

In 2007 the expenses for the provision on slow-moving inventories and gain on recovery of provision were recorded by the Company within line "Other operating income and expenses, net" of the Consolidated Income Statement.

## 14. Accounts receivable

Accounts receivable as of 31 December 2007 and 2006 comprised the following:

| | Total as of 31 December 2007 | Allowance for doubtful debts | Net, as of 31 December 2007 |
|---|---|---|---|
| Corporate customers | 308 | (42) | 266 |
| Residential customers | 1 276 | (249) | 1 027 |
| Governmental customers | 132 | (5) | 127 |
| Operators | 773 | (103) | 670 |
| Social services organizations – reimbursement of expenses related to discounts granted to specific categories of subscribers | 13 | (13) | - |
| Other accounts receivable | 74 | (11) | 63 |
| **Total** | **2 576** | **(423)** | **2 153** |

| | Total as of 31 December 2006 | Allowance for doubtful debts | Net, as of 31 December 2006 |
|---|---|---|---|
| Corporate customers | 276 | (40) | 236 |
| Residential customers | 1 132 | (165) | 967 |
| Governmental customers | 130 | (8) | 122 |
| Operators | 747 | (44) | 703 |
| Social services organizations – reimbursement of expenses related to discounts granted to specific categories of subscribers | 187 | (187) | - |
| Other accounts receivable | 88 | (23) | 65 |
| **Total** | **2 560** | **(467)** | **2 093** |

The following accounts receivables were overdue but not impaired as at the year end:

| **As of 31 December 2007** | | **Overdue period (days)** | | |
|---|---|---|---|---|
| | **Total** | **<30** | **30-60** | **60-90** |
| Corporate customers | 40 | 33 | 2 | 5 |
| Residential customers | 99 | 83 | 1 | 15 |
| Governmental customers | 13 | 12 | - | 1 |
| Operators | 29 | 24 | - | 5 |
| Other accounts receivable | 2 | 1 | - | 1 |
| **Total** | **183** | **153** | **3** | **27** |

| **As of 31 December 2006** | | **Overdue period (days)** | | |
|---|---|---|---|---|
| | **Total** | **<30** | **30-60** | **60-90** |
| Corporate customers | 37 | 28 | 3 | 6 |
| Residential customers | 82 | 68 | 2 | 12 |
| Governmental customers | 16 | 14 | - | 2 |
| Operators | 78 | 71 | - | 7 |
| Other accounts receivable | 3 | 2 | - | 1 |
| **Total** | **216** | **183** | **5** | **28** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

As of 31 December 2007 and 2006 accounts receivable were denominated in the following currencies:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Russian Roubles | 2 148 | 2 093 |
| US dollars | 5 | - |
| **Total** | **2 153** | **2 093** |

The Company invoices its governmental and corporate customers on a monthly basis. The Company sends monthly payment requests to its residential customers and substantially relies upon these customers' timely payments based on the payment requests.

In view of a large number of individual subscribers a doubtful debt provision in respect of receivables for telecommunication services is recorded for all debts which at the reporting date are overdue by 90 days or longer.

As of 31 December 2007 the debt for tariff compensation from the state social security bodies related to granting privileges to certain categories of subscribers amounted to 0,50% of total accounts receivable from customers (2006 – 7,29%). Those accounts receivable had arisen before January 2005 when the new legislation (art.47 Federal Law of 07 July 2003 #126-FL "On communication") in respect of discounts granted to individuals for communication services had become effective. Before January 2005 customers of communication services had the right for a discount, paying 50 % of price of the service with the rest compensated by the budget organizations. In 2005 budget legislation did not allow to reimburse accounts receivable from budget organizations in respect of discounts granted to specific categories of subscribers if accounts receivable had arisen in previous periods, and as a result of it the impairment of accounts receivable was previously recognized. However subsequent to 1 January 2005 the majority the balance which was initially provided for has been successfully recovered from the budget.

The following table summarises the changes in the allowance for impairment of account receivable, other current assets and long-term advances given:

| | 2007 | 2006 |
|---|---|---|
| **Balance as of 1 January** | 467 | 775 |
| Impairment for the year | 181 | 116 |
| Trade receivables write-off and reversal of allowance | (225) | (424) |
| **Balance as of 31 December** | **423** | **467** |

## 15. Other current assets

As at 31 December 2007 and 2006 other current assets comprised the following:

| | Total as of 31 December 2007 | Allowance for impairment of other current assets | Net, as of 31 December 2007 |
|---|---|---|---|
| Prepayments and advance payments | 211 | (8) | 203 |
| Settlements with personnel | 32 | - | 32 |
| VAT receivable | 501 | - | 501 |
| Other prepaid taxes | 41 | - | 41 |
| Deferred expenses | 122 | - | 122 |
| Other receivables and current assets | 482 | (74) | 408 |
| **Total** | **1 389** | **(82)** | **1 307** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| | Total as of 31 December 2006 | Allowance for impairment of other current assets | Net, as of 31 December 2006 |
|---|---|---|---|
| Prepayments and advance payments | 389 | (10) | 379 |
| Settlements with personnel | 30 | - | 30 |
| VAT receivable | 715 | - | 715 |
| Other prepaid taxes | 26 | - | 26 |
| Deferred expenses | 148 | - | 148 |
| Other receivables and current assets | 280 | (90) | 190 |
| **Total** | **1 588** | **(100)** | **1 488** |

Changes in the provision for impairment of other current assets are presented in the following table:

| | 2007 | 2006 |
|---|---|---|
| **Balance as of 1 January** | 100 | 65 |
| Impairment for the year | 3 | 35 |
| Write-off of other current assets and reversal of allowance | (21) | - |
| **Balance as of 31 December** | 82 | 100 |

## 16. Cash and cash equivalents

As at 31 December 2007 and 2006 cash and cash equivalents comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Cash on hand and in bank | 1 376 | 486 |
| Short-term deposits and bills receivable with date to maturity no longer than 3 month | 7 | - |
| **Total** | **1 383** | **486** |

Cash and cash equivalents as of 31 December 2007 and 2006 were denominated in the following currencies:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Russian Roubles | 1 364 | 485 |
| US dollars | 19 | 1 |
| **Total** | **1 383** | **486** |

The Company uses an identical policy to define the composition and valuation of cash and cash equivalents for the balance sheet and for the cash flow statement.

## 17. Significant non-cash transactions

In the year 2007 the Company received telecommunication equipment in the amount of 466 (2006-216) under leasing agreements.

In 2007 the subsidiary of the Company CJSC Yeniseytelecom acquired equipment under Vneshtorgbank letter of credit for the amount of 324 (2006 – 343).

Other significant non-cash transactions included transfers of property, plant and equipment, which occurred upon dismantling of items of equipment and their inclusion into newly constructed items 313 (2006 - 149).

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



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

## 18. Share Capital

The number of outstanding shares is as follows:

| Type of share | Number of shares outstanding, millions of shares | Par value, roubles | Total par value | Carrying value |
|---|---|---|---|---|
| Ordinary | 12 011 | 0,15 | 1 802 | 2 672 |
| Preference | 3 909 | 0,15 | 586 | 869 |
| **As of 31 December 2007** | **15 920** | **-** | **2 388** | **3 541** |

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 issued share capital has been entirely paid.

The Group's shareholding structure as of 31 December 2007 was as follows:

| Shareholders | Equity share, % | Ordinary shares Quantity | Ordinary shares % | Preference shares Quantity | Preference shares % |
|---|---|---|---|---|---|
| Legal entities, total: | 92,1 | 11 464 195 717 | 95,5 | 3 201 592 732 | 81,9 |
| - OJSC Svyazinvest | 38,2 | 6 086 601 672 | 50,7 | - | - |
| - those with more than 5% share including: | 47,0 | 4 670 587 644 | 38,9 | 2 815 650 439 | 72,1 |
| - CJSC Ing Bank Eurasia (NH) | 15,5 | 2 187 622 190 | 18,2 | 291 692 659 | 7,5 |
| - NP National depositary center (NH) | 13,7 | 1 286 108 748 | 10,7 | 893 222 882 | 22,9 |
| - CJSC Depositary-clearing company (NH) | 11,9 | 933 073 749 | 7,8 | 958 917 028 | 24,5 |
| - CJSC UBS Nomineez (NH) | 5,9 | 263 782 957 | 2,2 | 671 817 870 | 17,2 |
| - other | 6,9 | 707 006 401 | 5,9 | 385 942 293 | 9,9 |
| Individuals, total | 7,9 | 547 206 112 | 4,5 | 706 827 282 | 18,1 |
| **Grand total** | **100** | **12 011 401 829** | **100** | **3 908 420 014** | **100** |

The ordinary shareholders are entitled to one vote per share.

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

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.

*(In millions of Russian Roubles)*

Distributable earnings of the parent company are limited to its retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of 31 December 2007 and 2006 amounted to 10 195 and 7 789 respectively.

In September 2001, the Company executed a depositary agreement with JP Morgan Chase Bank regarding a placement of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement, each ADR represents 800 ordinary shares of the Company. As at 31 December 2007 1 278 221 deposited shares were issued which comprised 8,5% of all ordinary shares issued.

The following table represents ADR registration for 2005-2007:

| Date | ADR (quantity) | Ordinary Shares Equivalent (quantity) | Ordinary Shares % | Charter Capital % |
|---|---|---|---|---|
| **31 December 2005** | **2 147 216** | **1 717 772 800** | **14,3** | **10,8** |
| Reduction 2006 | (347 449) | (277 959 200) | | |
| **31 December 2006** | **1 799 767** | **1 439 813 600** | **12,00** | **9,0** |
| Reduction 2007 | (521 546) | (417 236 800) | | |
| **31 December 2007** | **1 278 221** | **1 022 576 800** | **8,5** | **6,4** |

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

| Stock market | CUSIP(WKN) | ADR ticker | ISIN |
|---|---|---|---|
| Over-the-counter (OTC) market (USA) | 825 735 103 | SBTLY | US8257351036 |
| Frankfurt Stock Exchange (FSE) | 260 452 | S3T1.BE | US8257351036 |

## 19. Loans and borrowings

As of 31 December 2007 and 2006 borrowings comprised the following:

| | Interest rate | Maturity | 2007 | 2006 |
|---|---|---|---|---|
| **Short-term borrowings** | | | | |
| Bank loans (Roubles) | 9,5 – 11% | 2008 | 290 | 613 |
| Bank loans (US Dollars) | 5,05 – 6,8% | 2008 | 10 | - |
| Bank loans (US Dollars) | Libor + 1,1; +1,3; +2,2; +3,75 | 2008 | 246 | 276 |
| Bank loans (Euro) | Libor + 5 | 2008 | 2 | 2 |
| **Total bank loans** | | | **548** | **891** |
| **Total short-term borrowings** | | | **548** | **891** |

| | Interest rate | Maturity | 2007 | 2006 |
|---|---|---|---|---|
| **Long-term borrowings** | | | | |
| Bank loans (Roubles) | 7 – 13 % | 2008 -2012 | 9 547 | 4 832 |
| Bank loans (US Dollars) | | | | |
| | 5,05 – 9,15 % | 2008 -2012 | 888 | 54 |
| Bank loans (US Dollars) | Libor + 1,1; +1,3; +2,2; +3,75 | 2008 -2010 | 607 | 1 550 |
| Bank loans (Euro) | Euribor + 2 % | 2008-2010 | 1 860 | 76 |
| **Total bank loans** | | | **12 902** | **6 512** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| | Interest rate | Maturity | 2007 | 2006 |
|---|---|---|---|---|
| **Bonds (Roubles)** | | 2008-2010 | **7 094** | **9 388** |
| Vendor financing (US Dollars) | 7,15 – 8,14 % | 2008 | 6 | 41 |
| **Promissory notes (Roubles)** | | | **8** | **8** |
| **Less: Current portion of long-term borrowings** | | | **(7 561)** | **(4 596)** |
| **Total long-term borrowings** | | | **12 449** | **11 353** |

As of 31 December 2007 short-term and long-term borrowings included interest payable in the total amount of 244 (2006 – 312).

As of 31 December 2007 borrowings are secured by property, plant and equipment with the carrying value of approximately 5 532 (2006 – 7 194).

As of 31 December 2007 borrowings had the following maturity schedule:

| Maturity date | Bank loans | Bonds | Vendor financing | Promissory notes | Total |
|---|---|---|---|---|---|
| 2008 | 2 994 | 5 109 | 6 | - | 8 109 |
| 2009 | 3 413 | 1 985 | - | - | 5 398 |
| 2010 | 3 589 | - | - | - | 3 589 |
| 2011 | 1 248 | - | - | - | 1 248 |
| 2012 and after | 2 206 | - | - | 8 | 2 214 |
| **Total** | **13 450** | **7 094** | **6** | **8** | **20 558** |

The Company's borrowings are denominated in the following currencies:

| Currency | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Russian Roubles | 16 939 | 14 841 |
| US dollars | 1 757 | 1 921 |
| Euro | 1 862 | 78 |
| **Total** | **20 558** | **16 840** |

The Company has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

### Short-Term Borrowings

### Bank loans and credit lines agreements

Short-term borrowings denominated in Roubles are mostly represented by bank loans received to finance working capital. These loans are secured by telecommunication equipment. The terms of the most significant loans agreement are presented below:

***OJSC Bank VTB***

In May 2005 the Company's subsidiary CJSC Baikalwestcom entered into a loan agreement. In April 2008, the loan was prolonged until 2009. The loan accrues interest at LIBOR + 2,2 % per annum. As of 31 December 2007 the carrying amount of loan was equal to 10 million US dollars. The loan is secured by bank guarantee issued by Irkutsk branch of CJSC VTB 24.

***OJSC Gazprombank***

In June 2007 the Company's subsidiary CJSC Yeniseytelecom entered into an agreement for a revolving credit line totalling 250 with CJSC FAB Gazprombank. The loan is repayable on 29 April



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

2009. The loan accrues interest at 9,6% per annum. The credit line under this agreement is secured by property, plant and equipment with the carrying value of 133.

Under this agreement four cash tranches were received during 2007 for the total of 250. These tranches are expected to be repaid during 2008. The balance of this credit line as at 31 December 2007 amounted to 207.

**Long-Term Borrowings**

Below is a summary of individually significant long-term loans and borrowings.

**Bank loans and credit lines agreements**

***Commerzbank International S.A.***

In January 2007 the Company entered into a long-term syndicated credit agreement amounted to 50 million Euro which was fully received before 31 December 2007. The loan has been received by the Company for general corporate purposes and is repayable during the period from 10 January 2008 till 10 January 2010. In 2007 the loan had not been repaid in advance. The loan accrues interest at floating rate of Euribor + 2% per annum which remained unchanged in 2007. The loan is not secured.

***OJSC Gazprombank***

In December 2007 the Company's subsidiary CJSC Yeniseytelecom entered into an agreement for a credit line totalling 40 million US dollars with CJSC FAB Gazprombank, JSC "Banque Societe Generale Vostok", VTB Bank (France) SA, CJSC "International Moscow Bank", CJSC "Banca Intesa", who are the initial creditors. In accordance with the agreement the Yeniseytelecom received a tranche amounting to 10 million US dollars in December 2007. The loan is repayable on 14 December 2010. The interest under this agreement is accrued at a 3-month LIBOR rate, plus a margin of Gazprombank (the leading organizer) which can vary from 2,1% to 2,35%. A 3-month LIBOR rate approximated 4,98% in 2007. The credit line is not secured. In accordance with the agreement for a credit line with CJSC FAB Gazprombank the leading organizer has the right to increase the margin rate in accordance with pre-determined rules, which depend on CJSC Yeniseytelecom satisfying certain conditions in respect of several coefficients.

***OJSC Sberbank***

Long-term loans received by the Company's subsidiary CJSC Baikalwestcom from OJSC Sberbank are mainly presented by non-renewable credit line amounting to 1 000 based on an agreement signed in July 2007. The loan is repayable in April 2008. The loan accrues interest at 10,5% per annum which is due to be paid monthly. As of 31 December 2007 the carrying amount of the loan was 677 with a portion amount 16 transferred to short-term loans. The loan is secured by bank guarantee issued by property, plant and equipment with the carrying value of 697.

In June 2007 the Company entered into a long-term credit agreement amounted to 860. The loan is repayable in June 2010. The loan accrues interest at 7% per annum which is due to be paid monthly. The loan is not secured.

In June 2007 the Company also entered into a long-term credit agreement amounting to 800. The loan is repayable in June 2010. The loan accrues interest at 7% per annum which is due to be paid monthly. The loan is not secured.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

***OJSC Bank VTB***

In June 2007 the Company entered into a long-term credit agreement amounting to 800. The loan is repayable in June 2012. The loan accrues interest at 8,3% per annum. The loan is not secured.

In June 2007 the Company entered into a long-term credit agreement amounting to 800. The loan is repayable on September 2012. The loan accrues interest at 7,2 % per annum. The loan is not secured.

***CJSC Raiffeisen bank Austria***

In June 2007 the Company entered into a long-term credit line agreement amounting to 400. The loan is repayable in June 2012. The loan accrues interest at MOSPRIME plus 2,8 % per annum. The loan is not secured.

In June 2007 the Company entered into a long-term credit line agreement amounting to 450. The loan is repayable on June 2012. The loan accrues interest at MOSPRIME plus 2.8 % per annum. The loan is not secured.

### Bonds

In July 2004 the Company registered the issue of 2 000 interest-bearing bonds, series 04, with a par value of 1 000 Roubles each. The bonds have six semi-annual coupons. The coupon interest rate is set at 12,5 % per annum. The bonds matured in 1 092 days from the date of issue, in July 2007. In January and July 2007 the Company made coupon interest payments for the fifth and sixth coupon of the bonds of series 04. In July 2007 the Company redeemed the bonds of series 04 in the amount of 2 000.

In April 2005 the Company registered the issue of 3 000 interest-bearing bonds, series of 05, with a par value of 1000 Roubles each. The bonds have six semi-annual coupons. The coupon interest rate is set at 9,2 % per annum. In April and October 2007 the Company made coupon interest payments for the forth and fifth coupon of the bonds of series 05. The bonds matured and were repaid in 1 092 days from the date of issue, in April 2008.

In September 2005 the Company registered the issued of 2 000 interest-bearing bonds, series 06 with a par value of 1 000 Roubles each. The bonds have ten semi-annual coupons. The interest rate is set at 7,85 % per annum. In May and September 2007 the Company made coupon interest payment for the third and forth coupon of the bonds of series 06. The bonds mature in 5 years from the date of issue in September 2010. These bonds do not provide an early redemption option.

In May 2006 the Company registered the issue of 2 000 interest-bearing bonds, series 07 with a par value of 1 000 Roubles each. The bonds have six semi-annual coupons. The interest rate is set at 8,65% per annum. In May and November 2007 the Company made coupon interest payments for the second and third coupons of the bonds of series 07. The bonds mature in 3 years from the date of issue, in May 2009. These bonds do not provide an early redemption option.

## 20. Finance Lease Obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of 31 December 2007 and 2006 are as follows:

| | **31 December 2007** | | **31 December 2006** | |
|---|---|---|---|---|
| | **Minimum lease payments** | **Present value of payments** | **Minimum lease payments** | **Present value of payments** |
| Current portion | 561 | 454 | 539 | 382 |
| 1 to 5 years | 398 | 343 | 459 | 381 |
| **Total minimum lease payments** | **959** | **797** | **998** | **763** |
| Less amounts representing finance charges | (162) | - | (235) | - |
| **Present value of minimum lease payments** | **797** | **797** | **763** | **763** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

During 2007 the main lessors under finance lease contracts were OJSC RTK-Leasing and OJSC Raiffeisen-Leasing. The average effective rate under the contract with OJSC RTK-Leasing was 26 %, under the contract with OJSC Raiffeisen-Leasing - 18 %.

The discounted present value of minimal lease payments to OJSC RTK-Leasing as of 31 December 2007 amounted to 721, including the minimal lease payments of 868 less finance costs of 147.

During 2006 the main lessors under finance lease contracts were OJSC RTK-Leasing and OJSC Promsvyazleasing. The average effective rate under the contract with OJSC "RTK-Leasing" was 28%, under the contract with OJSC Promsvyazleasing - 23 %.

The discounted present value of minimal lease payments to OJSC RTK-Leasing as of 31 December 2006 amounted to 683, including the minimal lease payments of 896 less finance costs of 213.

OJSC RTC-Leasing 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.

As of 31 December 2007 finance lease obligations denominated in US dollars amounted to 14 (2006 – 28 respectively).

## 21. Reimbursement of Losses from Universal Telecommunication Services

In 2007 the Company received the reimbursement of losses from rendering of universal telecommunication services in the amount of 472 and recognized it in income statement line "Reimbursement of Losses from Universal Telecommunication Services".

The loss from rendering of universal telecommunication services in 2007 will be confirmed by an independent auditing firm. The difference between the loss for the full year 2007 and the loss reimbursed for the first three quarters of 2007 will be reimbursed subject to the established procedure. The Company recognized the income from the reimbursement of losses which is due from the universal telecommunication services fund on the basis of management's estimate of the amount of expected reimbursement.

## 22. Accounts Payable and Accrued Expenses

As of 31 December 2007 and 2006 accounts payable and other current liabilities comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Payables for acquisition of property, plant and equipment | 1 974 | 1 803 |
| Payables for acquisition of software | 3 | 19 |
| Payables to operators. | 465 | 500 |
| Payables for operating activities | 713 | 720 |
| Advances received from operating activities | 950 | 905 |
| Advances received from non-operating activities | 7 | 12 |
| Payables to personnel | 1 919 | 1 954 |
| Accruals and other payables | 485 | 182 |
| **Total** | **6 516** | **6 095** |

Accounts payable for capital investments amounting to 434 as at 31 December 2007 (2006-162) are denominated in foreign currency, US dollars and Euro. Other accounts payable include outstanding settlements with suppliers and contractors in relation to services for operating activities, payables to agents and other.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

## 23. Taxes Payable

As of 31 December 2007 and 2006, taxes payable comprised the following:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Value-added tax | 101 | 60 |
| Property tax | 167 | 131 |
| Income tax | 38 | 40 |
| Unified social tax | 98 | 106 |
| Other taxes | 10 | 11 |
| **Total** | **414** | **348** |

Included in value added tax payable is the amount of 13 (2006 – 56), which represents deferred value added tax, which is only payable to the tax authorities when the underlying receivables are recovered or written off.

## 24. Pensions and Other Post-Employment Benefit Plans

In addition to statutory pension benefits, the Company also contributes to post-employment benefit plans, which cover most of its employees.

The defined benefit pension plan provides an old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from the statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula specific to each branch of the Company. According to the formula the benefits depend on a number of parameters, including the relative pay of participants and their length of service in the Company at retirement. The benefits do not vest until and are subject to the employee retiring from the Company on or after the above-mentioned ages.

The non-government pension funds Telecom-Soyuz, which is related to the Company (Note 35), maintains the defined benefit pension plan. The Company makes contributions to the pension funds in the amount set forth in the agreement with the pension fund.

The Company further provides other long-term employee benefits such as a death-in-service payments and lump-sum payment upon retirement of a defined benefit nature.

Additionally the Company provides financial support of a defined benefit nature to its old age and disabled pensioners.

As of 31 December 2007 there were 35 thousands active participants to the defined benefit pension plans of the Company (as of 31 December 2006 – 39 thousands).

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

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Present value of defined benefit obligation | 4 474 | 5 574 |
| Fair value of plan assets | (48) | (55) |
| **Present value of unfunded obligations** | **4 426** | **5 519** |
| Unrecognized past service cost | (556) | (874) |
| Unrecognized actuarial losses | (421) | (1 411) |
| **Net pension liability** | **3 449** | **3 234** |

As of 31 December 2007 management estimated the employees' average remaining working life at 10 years (2006 - 10 years).



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The amount of net expense for the defined benefit pension plans recognized during the year is as follows:

| | 2007 | 2006 |
|---|---|---|
| Current service cost | 382 | 338 |
| Interest cost | 372 | 378 |
| Expected return on plan assets | (4) | (8) |
| Actuarial (gains)/losses | (41) | 164 |
| Previous periods service cost recognized in current year | (302) | 300 |
| Amortization of previous periods service cost | 145 | 134 |
| Curtailment or final settlement effect | 25 | 35 |
| **Net expense for the defined benefit pension plans** | **577** | **1 341** |

Expenses in respect of the defined benefit pension plans were included in the line "Wages, salaries, other benefits and payroll taxes" of the consolidated income statement. The movements in the liability for defined benefit pension and other post-employment benefit plans during the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| **Present value of defined benefit obligation as of 1 January** | **5 574** | **5 141** |
| Current service cost | 382 | 338 |
| Interest cost | 372 | 379 |
| Change in actuarial losses | (1 033) | (570) |
| Change in previous periods service cost | (475) | 419 |
| Curtailment and final settlement effect | 25 | 35 |
| Settlement of liabilities and benefits paid | (371) | (168) |
| **Present value of defined benefit obligation as of 31 December** | **4 474** | **5 574** |

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

| | 2007 | 2006 |
|---|---|---|
| **Net pension liability as of 1 January** | **3 234** | **1 924** |
| Net expense recognised in the income statement | 577 | 1 341 |
| Contributions | (362) | (31) |
| **Net defined benefit liability as of 31 December** | **3 449** | **3 234** |

Changes of fair value of defined benefit plan assets in 2007 and 2006 are presented below:

| | 2007 | 2006 |
|---|---|---|
| **Fair value of plan assets as of 1 January** | **55** | **182** |
| Actuarial loss | (2) | - |
| Expected return on plan assets | 4 | 10 |
| Contributions | 362 | 31 |
| Settlement of liabilities | (302) | (137) |
| Benefits paid | (69) | (31) |
| **Fair value of plan assets as of 31 December 2007** | **48** | **55** |

The Company's planned contributions to non-budget pension plan in 2008 amount to 368. The main categories of benefit plan assets as per cent to total fair value of defined benefit plan assets:

| | 2007 | 2006 |
|---|---|---|
| Shares of other domestic companies | 2 | 1 |
| Domestic municipal bonds | 2 | 2 |
| Domestic corporate bonds | 4 | 2 |
| Bills receivable issued by domestic companies | - | 2 |
| **Total** | **8** | **7** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

As at 31 December 2007 (and at the end of prior reporting periods) the principle actuarial assumptions for the defined benefit pension and other post-employment benefit plans were as follows:

| | **2007** | **2006** |
|---|---|---|
| Discounts rate | 6,5% | 6,5% |
| Expected return on plan assets | 7,47% | 7,29% |
| Future salary increases | 9,20% | 9,20% |
| Rate used for calculation of annuity value | 6,00% | 6,00% |
| Increase in financial support benefits | 5,00% | 5,00% |
| Staff turnover | 5,00% | 5,00% |
| Mortality tables (source of information) | USSR 1985/86 | USSR1985/86 |

Amounts related to current and four prior financial statements' periods:

| | **2007** | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|---|
| Defined benefit plan liability | (4 474) | (5 574) | (5 141) | (4 820) | (1 486) |
| Plan assets | 48 | 55 | 182 | 253 | 168 |
| Deficit | (4 426) | (5 519) | (4 959) | (4 567) | (1 318) |
| Experience adjustments on plan liabilities | 1 033 | 1 178 | (1 434) | (2 929) | 140 |
| Experience adjustments on plan assets | (2) | 2 | (21) | (2) | - |

## 25. Revenues

| | **2007** | **2006** |
|---|---|---|
| Local telecommunication services | 11 547 | 9 913 |
| Cellular communication services | 9 109 | 8 258 |
| Intrazone telecommunication services | 5 222 | 4 271 |
| Inter-connection and traffic | 4 255 | 3 748 |
| Telegraph, data transfer and telemetric services (Internet) | 3 282 | 2 242 |
| Other revenues (non-principal services) | 709 | 480 |
| Agent services | 649 | 788 |
| Radio and TV broadcasting | 406 | 417 |
| Other telecommunications services | 67 | 36 |
| Total | **35 246** | **30 153** |

Intrazone and local telecommunication services include revenue from rent of communication channels amounted to 755 (in 2006 – 763).

The Company has participated in a tender on the right to provide universal service using pay-phones at its licensed territory. In 2007 the Company won one tender (in 2005-2006 years – four tender) and entered into nine agreements with the Federal Communication Agency to provide the mentioned service (in 2005-2006 years – 53 agreements). As of 31 December 2007 the total number of pay-phones which had to be installed by the Company under the terms of the agreements was 10 852 items, including 10 345 items that had already been put in use.

Telegraph, data transfer and telemetric services (Internet) include revenue from data transfer in communication network and telemetric services amounting to 3 064 (2006 – 2 040).

Other revenues (non-principal services) include revenue from rent of other assets amounting to 297 (2006 – 203).



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The Company classifies revenue by the following major customer groups:

| Customer groups | 2007 | 2006 |
|---|---|---|
| Residential customers | 20 091 | 15 718 |
| Corporate customers | 8 214 | 8 584 |
| Governmental customers | 2 607 | 2 170 |
| Operators | 4 334 | 3 681 |
| **Total** | **35 246** | **30 153** |

## 26. Other Operating Income and Expenses, net

Other operating expenses, net for the years ended 31 December 2007 and 2006 comprised the following:

| | 2007 | 2006 |
|---|---|---|
| Agency fees | 908 | 907 |
| Third party services and general and administrative expenses | 766 | 875 |
| Advertising expenses | 561 | 411 |
| Lease of premises | 524 | 374 |
| Universal service fund payments | 348 | 299 |
| Fire and other security services | 297 | 258 |
| Software expenses | 272 | - |
| Non-commercial partnership expenses (Note 35) | 256 | 145 |
| Cost of goods sold | 205 | 106 |
| Business travel expenses and representation costs | 141 | 174 |
| Member fees, charitable contributions and payments to trade unions | 123 | 140 |
| Post services | 111 | 84 |
| Insurance | 108 | 115 |
| Expenses on services from financial institutions | 106 | 97 |
| Audit and consulting fees | 76 | 85 |
| Transportation services | 44 | 55 |
| Education expenses | 40 | 62 |
| Taxes, fines and penalties | 10 | 5 |
| Loss from write-off of fixed assets and inventories | 3 | 6 |
| Allowance/(reversal of allowance) for input VAT | (145) | 157 |
| Other income and expense, net | 189 | 340 |
| **Total** | **4 943** | **4 695** |

## 27. Materials, Repairs and Maintenance, Utilities

| | 2007 | 2006 |
|---|---|---|
| **Materials:** | **1 251** | **1 474** |
| - cable | 104 | 116 |
| - construction materials | 40 | 55 |
| - spare parts | 137 | 165 |
| - fuel | 276 | 297 |
| - other materials | 694 | 841 |
| **Third party services:** | **1 643** | **1 639** |
| - repair and maintenance | 1 115 | 1 142 |
| - energy | 308 | 279 |
| - heat power | 175 | 172 |
| - other expenses | 45 | 46 |
| **Total** | **2 894** | **3 113** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

Material expenses in respect of other materials comprise working clothes, special inventory, tokens, payment scratch-cards, stationery and special literature.

## 28. Reversal of Allowance for Doubtful Debts

| | 2007 | 2006 |
|---|---|---|
| Reversal of allowance for doubtful debts and reversal of debts previously written off | 198 | 357 |
| Accrual of allowance for doubtful debts expense | (183) | (183) |
| **Total** | **15** | **174** |

## 29. Interest Expense, net

| | 2007 | 2006 |
|---|---|---|
| Interest income | 41 | 28 |
| Interest expense on bank and other borrowings | (1 527) | (1 132) |
| Interest expense accrued on finance leases | (176) | (214) |
| Interest expense on vendor financing | - | (2) |
| **Total** | **(1 662)** | **(1 320)** |

The total amount of capitalized interest for 2007 and 2006 amounted to the following, with capitalisation rate of 9% (2006 – 10%):

| | 2007 | 2006 |
|---|---|---|
| Capitalized interest included in the cost of fixed assets | 125 | 203 |
| Capitalized interest included in the cost of intangibles | 42 | 38 |
| **Total** | **167** | **241** |

## 30. Gain on Sale of Investments, net

| | 2007 | 2006 |
|---|---|---|
| Gain on disposal of shares of CJSC Sibirskaya Sotovaya Svyaz | - | 81 |
| Gain on disposal of shares of CJSC «TeleRoss Novosibirsk» | 2 | - |
| Gain on disposal of shares of OJSC Sibacadembank | - | 20 |
| Loss on disposal of shares of CJSC Ruslizingsvyaz | - | (2) |
| Loss on disposal of shares of LLC Garantservis | - | (3) |
| Loss on disposal of promissory notes | - | (6) |
| Other gain on investments | - | 3 |
| Impairment of investments in OJSC NTK Zvezda | - | (47) |
| **Total** | **2** | **46** |

## 31. Income Tax

The income tax charge for the years ended 31 December 2007 and 2006 comprised the following:

| | 2007 | 2006 |
|---|---|---|
| Current income tax expense | (1 476) | (1 325) |
| Prior year income tax adjustments | (15) | 12 |
| Deferred income tax benefit | (20) | 209 |
| Total income tax for the year | **(1 511)** | **(1 104)** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

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

| | 2007 | 2006 |
|---|---|---|
| **Profit before tax from continuing operations** | **4 170** | **2 058** |
| **Statutory income tax rate** | 24% | 24% |
| Theoretical tax charge at statutory income tax rate | (1 001) | (494) |
| **Increase resulting from the effect of:** | (510) | (610) |
| Prior-year income tax adjustments | (15) | 12 |
| Non-taxable income | 55 | 45 |
| Non-deductible expenses | (429) | (667) |
| Unrecognised deferred tax assets related to current year tax losses and origination of unrecognised temporary differences | (56) | - |
| Deferred tax on dividends expected for distribution from subsidiaries | (65) | - |
| **Total income tax charge for the year** | **(1 511)** | **(1 104)** |
| **Effective income tax rate** | **36%** | **54 %** |

The composition of deferred income tax assets and liabilities as of 31 December 2007 and 2006 was as follows:

| | 2007 | 2006 |
|---|---|---|
| **Deferred tax assets** | | |
| Accounts payable and accrued expenses | 315 | 423 |
| Accounts receivable | (84) | 34 |
| Finance lease obligations | 153 | 152 |
| Pension liabilities | 616 | 543 |
| Other | 8 | 17 |
| **Total deferred tax assets** | **1 008** | **1 169** |
| **Deferred tax liabilities** | | |
| Property, Plant and Equipment | (1 521) | (1 632) |
| Intangible assets | (264) | (298) |
| Effect from investments valuation | (25) | (15) |
| Other | - | (3) |
| **Total deferred tax liabilities** | **(1 810)** | **(1 948)** |
| **Deferred tax liabilities, net** | **(802)** | **(779)** |

| | 2007 | 2006 |
|---|---|---|
| **Deferred tax assets/(liabilities) as of 1 January, net** | **(779)** | **(972)** |
| The amount of deferred tax income/(expense) | (20) | 209 |
| The Company's interest in the amount of deferred tax of the acquirees | - | (21) |
| The amount of deferred tax income/(expense) relating to change of fair value of investments available-for-sale | (3) | 5 |
| **Deferred tax assets (liabilities) as of 31 December, net** | **(802)** | **(779)** |

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



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

As of 31 December 2007 the Company did not recognize deferred tax liability in respect of retained earnings of subsidiaries totalling 342 (2006 – 406) as management believes that the period of the respective temporary differences' recoverability of is under control of the Company.

## 32. Earnings per Share

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

| | 2007 | 2006 |
|---|---|---|
| **Profit for the year attributable to equity holders of the parent** | **2 659** | **975** |
| Less: attributable to preference shareholders | (653) | (234) |
| Attributable to ordinary shareholders | 2 006 | 741 |
| Weighted average number of ordinary shares outstanding (thousands of shares) | 12 011 402 | 12 011 402 |
| Basic and diluted earnings per share, attributable to ordinary equity holders of the parent (Roubles) | **0,16702** | **0,06124** |

## 33. Dividends Declared for Distribution

Dividends paid to shareholders for the year ended 31 December 2006 were determined by the Board of Directors, declared and officially approved at the annual shareholders' meeting in 2007 and amounted 0,031515 roubles per preference share and 0,017019 roubles per ordinary share. Earnings available for dividends are limited to profits of OJSC Sibirtelecom determined in accordance with the Russian statutory accounting regulations. Dividends are accrued in the year they are declared and approved.

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 2006** | | | |
| Preference shares | 3 908 420 014 | 0,031515 | 123 173 857 |
| Ordinary shares | 12 011 401 829 | 0,017019 | 204 422 048 |
| **Total** | **15 919 821 843** | **-** | **327 595 905** |
| **Proposed for 2007** | | | |
| Preference shares | 3 908 420 014 | 0,066446 | 259 698 876 |
| Ordinary shares | 12 011 401 829 | 0,035889 | 431 077 200 |
| **Total** | **15 919 821 843** | **-** | **690 776 076** |

## 34. Contingencies and Operating Risks

### *Operating Environment of the Company*

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. 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.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

***Taxation***

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities even if they are not previously disputed. As such, significant additional taxes, penalties and interest may be assessed. Tax review conducting by the tax authorities could cover three subsequent calendar years prior to the year of audit but under certain circumstances the earlier periods could be also subject to the tax authorities' review.

As of 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax, currency and customs positions will be sustained. At the same time there is a high degree of likelihood that management may have taken a position in respect of certain interpretation of tax legislation and accrual of respective tax liabilities, which may be considered by the tax authorities as lacking sufficient grounds.

On 16 November 2007 the tax authorities presented a tax claim resulting from a tax audit of the Company cover years 2004 to 2006 in amount of 587 including fines and penalties of 121, which to a significant extent related to settlement with other telecommunication operators on interconnection and transit of traffic. The Company objected against the ruling of the tax authorities and filed a lawsuit. On 6 May 2008 the Moscow arbitration court ruled to annul the tax authorities' decision to hold the Company responsible for violation of the tax legislation to the full amount of the tax lawsuit. As of the date when these financial statements are authorised for issue, the tax authorities have filed an appeal against the court's decision.

The financial statements as of 31 December 2007 do not include any adjustments which might be required due to uncertainties existing in respect of tax position taken by the Company.

***Insurance***

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

***Legal claims and litigation***

Management is unable to estimate what developments may occur in respect of the Russian legal system or the resulting effect of any such developments on the Company's financial position or future results of operations. In the nearest future the Company's activity could be subject to judicial reform factors. No adjustments related to these uncertainties were recognized in the consolidated statements.

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

*(In millions of Russian Roubles)*

***Licences***

Substantially main part of the Company's revenues is derived from operations conducted pursuant to licences granted by the Russian Government. These licences expire in various years ranging from 2008 to 2012.

Suspension or termination of the Company's main licences or failure to renew any or all of these main licences could have a material adverse effect on the financial position and operations of the Company.

The Company has in the past successfully prolonged those licences which expired and management believes that main licences could be granted to the Company under regular course of business with no extra charges.

The Government of the Russian Federation is in the process of liberalization of the telecommunications market additional telecommunication licences and has granted to a number of alternative operators. It is possible that the Company's future results of operations and cash flows could be materially affected by the increased competition, however, the effect of this can not be currently determined.

***Guarantees Issued***

The Company mainly guaranteed credit line facilities provided by OJSC Sberbank of Russia to OJSC RTC-Leasing, a lessor of telecommunication equipment, as of 31 December 2007 . The total guarantees amounted to 170 (2006 – 520). Management believes that the likelihood of significant payments being required under these agreements is remote. As at 31 December 2007, the Company did not have any contractual commitments to extend financial guarantees, credit or other assistance.

***Contractual Commitments***

As of 31 December 2007 the Company has commitments for capital investments into modernization and expansion of its network in the amount of 1 423 (2006-812).

## 35. Balances and Transactions with Related Parties

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances at 31 December 2007 are detailed below.

| Name | OJSC Svyazin vest | Subsidiaries of OJSC Svyazinvest | Affiliates | Government controlled companies | Other |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Revenue from telecommunication services, connection and traffic transmission services | - | 2 770 | 2 | 669 | - |
| Revenue from other services | - | - | - | 216 | - |
| Dividends receivable | - | 2 | - | | |
| Interest income from loans | - | - | - | 12 | - |
| Purchase of telecommunication services, connection and traffic transmission services | - | 103 | - | - | - |
| Purchase of other services | - | 147 | 7 | 345 | 266 |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| Name | OJSC Svyazin vest | Subsidiaries of OJSC Svyazinvest | Affiliates | Government controlled companies | Other |
|---|---|---|---|---|---|
| Purchase of goods, production and other assets | - | 173 | - | - | - |
| Dividends payable | 84 | - | - | - | - |
| Interest expense on loans | - | - | - | 25 | - |
| Expenditures on electro- and heat- supply | - | - | - | 218 | - |
| **2007** | | | | | |
| Revenue from telecommunication services, connection and traffic transmission services | - | 2 793 | 14 | 1 133 | - |
| Revenue from other services | - | 2 | 1 | 403 | - |
| Revenue from sales of other services, goods and assets | - | - | - | 1 | 1 |
| Dividends receivable | - | 2 | 1 | | - |
| Interest income from loans | - | - | - | 2 | - |
| Purchase of telecommunication services, connection and traffic transmission services | - | 240 | 3 | 75 | - |
| Purchase of other services | - | 261 | - | 505 | 657 |
| Purchase of goods, production and other assets | - | 455 | - | 38 | - |
| Dividends payable | 104 | - | - | | - |
| Interest expense on loans | - | - | - | 459 | - |
| Expenditures on electro- and heat- supply | - | - | - | 238 | - |

Tariffs and prices for transactions with related parties are determined at normal commercial terms, except as stated below in respect of entities controlled by the government.

*(In millions of Russian Roubles)*

| Name | Subsidiaries of OJSC Svyazinvest | Affiliates | Government controlled companies |
|---|---|---|---|
| **As of 31 December 2006** | | | |
| Accounts receivable | 294 | 1 | 38 |
| Loans received (including interest) | - | - | (2 873) |
| Accounts payable | (60) | - | (42) |
| **As of 31 December 2007** | | | |
| Accounts receivable | 272 | 1 | 59 |
| Loans received (including interest) | - | - | (7 715) |
| Accounts payable | (362) | 1 | (41) |

Accounts receivable and accounts payable for transactions with related parties above are presented excluding VAT.

***OJSC Svyazinvest***

The Company's parent entity OJSC Svyazinvest was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of OJSC Svyazinvest to a private investor.

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of OJSC Svyazinvest and its subsidiary companies.

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

***OJSC Rostelecom***

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

The Company's expenses paid to OJSC Rostelecom are comprised of payments for intrazone calls if made from mobile communication network, for long distance intercity and international calls and connection services rendered to the Company.

The amounts included in the consolidated financial statements as of 31 December 2007 and 2006 and for the years then ended and disclosed in the related party amounts above, were as follows:

| Description \ year | 2007 | 2006 |
|---|---|---|
| Revenue from Rostelecom | 2 792 | 2 770 |
| Expenses to Rostelecom | 225 | 103 |
| **Description / date** | **As of 31 December 2007** | **As of 31 December 2006** |
| Accounts receivable from Rostelecom | 244 | 246 |
| Accounts payable to Rostelecom | (57) | (302) |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

***Transactions with Government Organizations***

Government organizations are a significant element in the Company's customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. The Company also renders services to other state-owned entities. Certain entities financed by the Government budget are users of the Company's network. These entities are generally charged lower tariffs as approved by the Federal Antimonopoly Agency than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and fight against of crime.

Except as indicated above, the Company provides services to entities directly or indirectly controlled by the Government on market terms.

The Company is not allowed to disconnect certain companies which are strategic entities for the Government. The tariffs for such companies are also regulated by the Government, and are set at the same level as for commercial organisations.

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

Non-commercial partnership Centre for Research of the Problems in Development of Telecommunications stet is an entity OJSC Svyazinvest controls through its subsidiaries. During the year the Company made contribution to the partnership in amount of 256 (2006 - 145).

***OJSC Svyazintek***

OJSC Svyazintek provides the Company with information systems implementation and maintenance services including service related the Oracle E-Business Suite and Amdocs Billing Suite software.

The total Company's expenses on Svyazintek services for 2007 amounted to 369 (2006 – 173), including 124 (2006 - 0) recognized in the income statement,  with the remainder included in the cost of non-current assets.

***NPF Telecom-Soyuz***

In 2005 the Company signed centralised pension agreements with NPF Telecom-Soyuz. OJSC Svyazinvest holds the majority in the Board of Directors of NPF Telecom-Soyuz (hereafter "the Fund"). Payments from the Company to the Fund in 2007 amounted to 305 (2006 – 267).

***Compensation to Key Management Personnel***

Key Management Personnel comprise members of the Management Board and the Board of Directors, totalling to 52 as of 31 December 2007 and 50 as of 31 December 2006.

Remuneration paid to the members of the Board of directors and management Board comprises salary, bonuses and remuneration for the participation in the Company's management bodies in amount of 140 (2006 – 106).

## 36. Financial Instruments

The Company's principal financial instruments comprise bank loans, finance leases and cash and short-term deposits. The main purpose of these instruments is to raise finance for the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

***Capital management policy***

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

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

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

The Company's credit rating in the national currency during 2007 and 2006 was set by Fitch credit rating agency as follows: default rating at B+ with stable forecast, short-term rating at B.

Capital management is conducted at the level of separate significant legal entities of the Company. The ratios of financial independence, net debt/shareholder's equity and net debt/EBITDA are calculated using the statutory accounting data. The financial independence ratio is calculated as shareholder's equity to the balance sheet total at the end of the period. Net debt/shareholder's equity is calculated as net debt to shareholder's 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 Company's capital management policy was not changed in 2007 compared to 2006.

***Foreign Exchange Risk***

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Company's income statement, balance sheet and/or cash flows. Foreign currency denominated liabilities give rise to foreign exchange exposure.

For the period from 1 January 2007 to 31 December 2007 the exchange rate of the Russian Rouble to the US Dollar increased by approximately 6,78 % and the exchange rate of the Russian Rouble to the Euro decreased by approximately 3,56%. A potential decrease in the exchange rate of the Russian Rouble may lead to an increase in the amount of the Company's borrowings, as well as cause difficulties in raising finance, including funds required to refinance of the existing debt.

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

| | **USD** | | **EUR** | |
|---|---|---|---|---|
| | **Changes in exchange rate, (weakening)/ strengthening, %** | **Effect on income before income tax, (loss)/profit** | **Changes in exchange rate, (weakening)/ strengthening, %** | **Effect on income before income tax, (loss)/profit** |
| 2007 | +10 | (176) | +5 | (94) |
| | -10 | 176 | -5 | 94 |
| 2006 | +10 | (189) | +5 | (4) |
| | -10 | 189 | -5 | 4 |

The Company does not have formal mechanisms to reduce its exposure to the foreign currency risk.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results.

The following table presents as of 31 December 2007 and 2006 the carrying amount by maturity of the Company's financial instruments that are exposed to interest rate risk:



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

| | < 1 year | 1-5 years | Total |
|---|---|---|---|
| **As of 31 December 2007:** | | | |
| *Fixed rate* | | | |
| Short-term obligations | 302 | - | **302** |
| Long-term obligations | 7 007 | 10 536 | **17 543** |
| Finance lease obligations | 454 | 343 | **797** |
| *Floating rate* | | | |
| Short-term obligations | 246 | - | **246** |
| Long-term obligations | 554 | 1 913 | **2 467** |

| | < 1 year | 1-5 years | Total |
|---|---|---|---|
| **As of 31 December 2006:** | | | |
| *Fixed rate* | | | |
| Short-term obligations | 615 | - | **615** |
| Long-term obligations | 3 670 | 10 653 | **14 323** |
| Finance lease obligations | 382 | 381 | **763** |
| *Floating rate* | | | |
| Short-term obligations | 276 | **-** | **276** |
| Long-term obligations | 925 | 701 | **1 626** |

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

| | **LIBOR** | | **EURIBOR** | |
|---|---|---|---|---|
| | **Changes in interest rate, % points** | **Effect on income before income tax** | **Changes in interest rate, % points** | **Effect on income before income tax** |
| 2007 | +0.1 | (2) | +0.05 | (1) |
| | -0.1 | 2 | -0.05 | 1 |
| 2006 | +0.1 | (2) | +0.1 | - |
| | -0.1 | 2 | -0.1 | - |

The Company does not have formal mechanisms to reduce its exposure to the interest rate risk.

***Liquidity Risk***

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

The following table summarises contractual maturities of financial liabilities including future interest payments.

| Maturity date | Loans and borrowings | Bonds | Vendor financing | Promissory notes | Accounts payable | Total |
|---|---|---|---|---|---|---|
| within 2008 | 3 277 | 5 674 | 6 | - | 6 516 | 15 473 |
| within 2009 | 4 013 | 2 066 | - | - | - | 6 079 |
| within 2010 | 3 964 | - | - | - | - | 3 964 |
| within 2011 | 1 485 | - | - | - | - | 1 485 |
| within and after 2012 | 2 265 | - | - | 8 | - | 2 273 |
| **Total** | **15 004** | **7 740** | **6** | **8** | **6 516** | **29 274** |



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

***Credit Risk***

Credit risk is the risk that counterparty will fail to discharge an obligation and cause the Company to incur a financial loss.

Financial assets, which are potentially subject to credit risk, consist principally 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 Company has no significant concentrations of credit risk due to the significance of the client base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by debts of state and other non-commercial organizations. Recovery of these debts is influenced by political and economic factors. Management believes that as of 31 December 2007 there is no significant risk of loss to the Company beyond the impairment already recorded.

The Company places cash on bank accounts in a number of Russian commercial financial institutions. To manage the credit risk the Company places cash in different financial institutions and Company's management analyses the risk of default of these financial institutions on a regular basis.

***Fair Value***

The Company estimates the fair value of its financial assets and liabilities not to be material by different from there carrying amounts except for the following:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **Financial instruments** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Bonds | 7 094 | 7 109 | 9 388 | 9 531 |

The fair values above were determined on the basis of quoted market prices of respective bonds at each balance sheet date.

## 37. Subsequent Events

***Tariffs***

The Federal Tariff Service by Order No. 359-c/4 of 23 November 2007 approved maximum tariffs for local and intrazone calls.

*The following tariffs for local calls were set for the Company*:

- For residential customers – the amount of fixed monthly subscribers' fee for tariff with unlimited number of local calls was decreased by 26% and equals to 211 roubles starting from 1 February 2008 (in 2007 it was equal to 286 roubles).
- *Tariffs for corporate customers:*
- the basic tariffs for local telephone services .under combined method of payment were set with the range of 95 to 150 roubles depending on the region (in 2007 for corporate customers two types of tariffs were set – with rate per minute or with fixed fee for unlimited amount of local calls);
- the upper price per minute of local telephone calls in excess of the basic amount of minutes included in the a tariff was set at the residential customers' level of 0,18 roubles;
- the upper limit of fixed monthly subscribers' fee for unlimited number of local calls was set at the 2007 level and amounted to 375 roubles.

The following tariffs for the connection to local telephone services network were set for the Company:

The upper-level of tariffs for residential customers was decreased by 8,1 % starting from 1 February 2008.



*Note: Amounts as at 31 December 2005 and 31 December 2006 and for the year ended 31 December 2006 have been restated. Refer to note 2.*

*(In millions of Russian Roubles)*

The upper-level of tariffs for the corporate customers was decreased by 8,0 % starting from 1 February 2008.

*Tariffs for inter connections and traffic transmission*

In accordance with the Regulation No. 666 of Government of Russian Federation of 12 October 2007 “On amendments to specific government regulations related to communication issues”, the telecommunication service of interconnection does not include maintenance of points of interconnection starting from 1 March 2008. As a result in 2008 the Company is expecting a decrease in the revenue from interconnection services provided to operators, and also decrease in expenses for similar services provided by interconnected operators to the Company.

***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”, 1 211 employees were dismissed after the balance sheet date. Compensation benefits paid amounted to 52.

***Acquisition of share in CJSC Novokom***

The Company acquired additional 50 % of the share capital of CJSC “Novocom” on 23 April 2008 and obtained control over it. Management believes that the carrying amount of identifiable assets, liabilities and contingent liabilities of CJSC “Novocom” at the acquisition date represented there fair value. The difference between the fair value of the acquired share, and the minority interest, and the payment made amounted to 75 and was recognized as goodwill.

Management determined the following initial accounting of the cost of acquisition of 50 % share capital of CJSC “Novocom”:

| | |
|---|---|
| **Cost of acquisition** | |
| Cash payment | 95 |
| **Fair value of identifiable assets and liabilities:** | |
| Property, plant and equipment, net | 15 |
| Account receivable, net | 17 |
| Cash and cash equivalents | 15 |
| Short-term liabilities | (6) |
| Long-term liabilities | (1) |
| **Net assets** | **40** |
| Share of the Company in net assets | 50,00% |
| Fair value of acquired share of identifiable net assets | 20 |
| **Goodwill, arising on an acquisition** | **75** |

As a result of acquisition the Company owns 2 080 ordinary shares of CJSC “Novocom” which comprise 100 % of its share capital.

***Acquisition of share in CJSC Systemy Gibridnoy Pechati***

In accordance with Minutes #14 dated 7 February 2008, the Company’s Board of Directors plans to acquire 3 952 000 ordinary voting shares of CJSC Systemy Gibridnoy Pechati with a par value of 100 roubles each. The purpose of investment is development of a hybrid printing system.

The share is to be acquired for 395 and represents 6,08% of share capital of CJSC Systemy Gibridnoy Pechati.

***Disposal of share in LLC Svyazinvest-Media-Sibir***

In accordance with Minutes #13 dated 27 December 2007, the Company's Board of Directors made a decision to dispose of 25,01% of voting shares.

***Dividends***

Dividends for the year 2007, recommended by the Board of Directors to at the Annual Shareholders Meeting, amount to 0,035889 roubles per ordinary share and 0,066446 roubles per preference share. The total amount of proposed dividends is 431 for ordinary shares and 260 for preference shares.

Dividends for the year ended 31 December 2007 are subject to payment in 2008 and are to be recognized in financial statements for the year ending 31 December 2008.

***Loan agreements***

In March 2008 the Company entered into two loan agreements of 500 each. The loans are repayable on 11 March 2011. The loans accrue interest at 10% per annum. These loans are granted without security.

In January and February 2008 subsidiary CJSC Yeniseytelecom received further tranches under agreement for a line of credit with OJSC Gazprombank in the amount of 20 million US Dollars. The tranches are repayable on 14 December 2010. The loan accrues interest at 3-month LIBOR rate, plus a margin of Gazprombank (the leading organizer) which can vary from 2.1% to 2.35% depending on CJSC Yeniseytelecom satisfying certain conditions in respect of several coefficients. The line of credit is granted without security.

18 April 2008 the Company entered into a loan agreement amounting to 350 for general corporate purposes. The loan has been entirely received by the Company. The loan accrues interest at rate of MOSPRIME + 3 % per annum. The loan is not secured.

18 April 2008 the Company entered into a credit line agreement amounting to 350 for the purpose of financing its working capital. The loan accrues interest at rate of MOSPRIME + 3 % per annum. An initial commission for the commencement of the credit line was 0,05 % of the credit limit. The loan is not secured.

### *Credit-linked notes (CLN)*

In April 2008 the Company received a loan of 90 million US dollars on the basis of a loan agreement concluded in December 2007 with Moscow River B.V., incorporated in the Netherland. According to the agreement financing was done by way of issue of credit-linked notes under the terms of underwriting. The loan is received for the general corporate purposes. The loan is repayable in 5 years by two equal instalments: in 54 month and in 60 month after the loan was received. The loan accrues interest at 7,7 % per annum and the rate will be revised in 3 years after the loan was received. The loan is not secured.

***Promissory notes***

In April 2008 the Company issued promissory notes to the total amount of 1 350 with the following parameters:

- The first noteholder – OJSC AKB "Svyaz-bank", total par value equal to 250, maturing on demand but not earlier than 22 July 2008;
- The first noteholder – OJSC AKB "Svyaz-bank", total par value equal to 250, maturing on demand but not earlier than 22 October 2008;
- The first noteholder – OJSC AKB "Svyaz-bank", total par value equal to 250, maturing on demand but not earlier than 22 January 2009;
- The first noteholder – OJSC AKB "Svyaz-bank", total par value equal to 250, maturing on demand

but not earlier than 22 April 2009;

- The first noteholder – "Broker company "Region", total par value equal to 350, maturing on demand but not earlier than 22 April 2009.

***Bonds***

In March 2008 the Company made a coupon interest payment for the fifth coupon of bonds series 06. The coupon interest payment amounted to 78. The amount of coupon interest per bond was equal to 39,14 roubles.

In April 2008 the Company made a coupon interest payment for the sixth coupon of bonds series 05. The coupon interest payment amounted to 138. The amount of coupon interest per bond was equal to 45,87 roubles.

In April 2008 the Company redeemed its retirement of bonds series 05 in amount of 3 000.

In May 2008 the Company made a coupon interest payment for the forth coupon of bonds series 07. The coupon interest payment amounted to 86. The amount of coupon interest per bond was equal to 43,13 roubles.

***Bonds issue***

On 28 May 2008 the Board of Directors made a decision to issue bonds in amount of 2 000 (Minute 8 May 2008 # 24.

The issue of 2 000 non-convertible interest-bearing bonds, series 08, with a par value of 1 000 roubles is planned in the third quarter of 2008. The issue is planned with a maturity of 5 years and is to be placed by open subscription in the Russian Federation.

The purpose of issue is to finance investing activities of the Company and to refinance its existing debt. The bond issue is expected to increase the current liquidity ratio and to rise the weighted average maturity period of the Company's debt.