Open Joint Stock Company
“VolgaTelecom”

Consolidated Financial Statements

For the year ended December 31, 2007
with Independent Auditor’s Report

OJSC "VolgaTelecom"

Consolidated Financial Statements

For the year ended December 31, 2007

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of OAO VolgaTelecom

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

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

July 28, 2008

OJSC "VolgaTelecom"
Consolidated Balance Sheet
as of December 31, 2007
(in millions of Russian Rubles)

	Notes	December 31, 2007	December 31, 2006 (as restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**41,292**	37,346
Intangible assets	7	**4,936**	4,475
Investments in associates	9	**146**	129
Long-term investments	10	**59**	28
Long-term advances given	11	**548**	518
Long-term accounts receivable and other financial assets		**19**	35
Deferred income tax asset		**–**	17
Total non-current assets		**47,000**	42,548
Current assets			
Inventories	12	**455**	535
Trade and other receivables	13	**2,184**	1,988
Prepaid income tax		**24**	343
Other current assets	14	**1,174**	979
Cash and cash equivalents	15	**495**	462
Total current assets		**4,332**	4,307
Non-current assets classified as held for sale		**150**	–
Total assets		**51,482**	46,855
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	**3,854**	3,854
Revaluation reserve for available-for-sale investments		**6**	6
Retained earnings		**22,041**	20,255
Total equity attributable to equity holders of the parent		**25,901**	24,115
Minority interest		**253**	473
Total equity		**26,154**	24,588
Non-current liabilities			
Long-term borrowings	18	**7,727**	9,437
Long-term finance lease obligations	19	**620**	640
Pension liabilities	22	**1,686**	1,287
Deferred revenue		**593**	638
Deferred income tax liabilities	27	**2,914**	2,838
Total non-current liabilities		**13,540**	14,840
Current liabilities			
Accounts payable and accruals	20	**4,205**	4,026
Income tax payable		**13**	–
Other taxes payable	21	**281**	322
Dividends payable	29	**20**	24
Short-term borrowings	18	**1,335**	1,584
Current portion of long-term borrowings	18	**5,598**	671
Current portion of long-term finance lease obligations	19	**336**	800
Total current liabilities		**11,788**	7,427
TOTAL EQUITY AND LIABILITIES		**51,482**	46,855

General Director S.V.Omel'chenko

Chief Accountant N.I.Popkov

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

OJSC "VolgaTelecom"

Consolidated Income Statement

For the Year Ended December 31, 2007

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

	Notes	2007	2006 (as restated)
Revenue	23	**30,036**	25,226
Wages, salaries, other benefits and payroll taxes		**(8,514)**	(8,418)
Depreciation and amortization	6,7	**(5,538)**	(4,388)
Interconnection charges		**(3,896)**	(2,192)
Materials, repairs and maintenance, utilities		**(2,603)**	(2,656)
Taxes other than income tax		**(711)**	(623)
Bad debt recovery	13	**104**	320
(Loss)/gain on disposal of property, plant and equipment and other assets		**(206)**	57
Other operating expenses	24	**(3,694)**	(3,116)
Other operating income	25	**574**	205
Operating profit		**5,552**	4,415
Share in result of associates, net		**17**	12
Interest expense, net	26	**(1,134)**	(1,018)
Profit/ (loss) from investments, net		**13**	(48)
Foreign exchange gain, net		**43**	23
Profit before income tax		**4,491**	3,384
Income tax expense	27	**(1,439)**	(1,141)
Profit for the year		**3,052**	2,243
Attributable to:			
Equity holders of the parent		**3,006**	2,183
Minority shareholders		**46**	60
Earnings per share (in Russian Roubles), basic and diluted, for profit for the year attributable to equity holders of the parent	28	**9.16**	6.66

General Director S.V.Omel'chenko

Chief Accountant N.I.Popkov

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

OJSC "VolgaTelecom"

Consolidated Cash Flow Statement

For the Year Ended December 31, 2007

(in millions of Russian Roubles)

	Notes	2007	2006 (as restated)
Cash flows from operating activities			
Profit before income tax		**4,491**	3,384
Adjustments to reconcile profit before income tax to net cash flows generated from operating activities			
Depreciation and amortization	6,7	**5,538**	4,388
Loss/(gain) on disposal of property, plant and equipment and other assets		**206**	(57)
Foreign exchange gain, net		**(43)**	(23)
Share in result of associates, net		**(17)**	(12)
(Profit)/loss from investments, net		**(13)**	48
Interest expense, net	26	**1,134**	1,018
Bad debt recovery	13	**(104)**	(320)
Inventory and other assets impairment provision expense		**16**	20
Movement in pension liabilities and other employee benefits		**399**	181
Other (gain)/loss		**12**	(41)
Operating profit before changes in working capital		**11,619**	8,586
(Increase) in trade and other receivables		**(80)**	(258)
(Increase)/decrease in other current assets		**(212)**	442
Decrease in inventories		**77**	13
Increase in accounts payable and accruals		**344**	822
Decrease in taxes payable other than income tax		**(41)**	(487)
Cash generated from operations		**11,707**	9,118
Interest paid		**(1,175)**	(1,084)
Income tax paid		**(1,026)**	(1,495)
Net cash from operating activities		**9,506**	6,539
Cash flows from investing activities			
Purchase of property, plant and equipment and assets under construction		**(9,130)**	(5,024)
Proceeds from sale of property, plant and equipment and assets under construction		**168**	46
Purchase of intangible assets		**(555)**	(188)
Purchase and installation of Oracle EBS		**(198)**	(213)
Purchase and installation of Amdocs Billing Suite		**(22)**	(217)
Acquisition of subsidiaries, net of cash acquired		**(852)**	(652)
Disposal of subsidiaries, net of cash acquired		**6**	–
Purchase of available-for-sale investments		**–**	(47)
Proceeds from sale of available-for-sale investments		**8**	–
Interest received		**15**	22
Dividends received		**8**	1
Net cash used in investing activities		**(10,552)**	(6,272)

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

OJSC "VolgaTelecom"

Consolidated Cash Flow Statement

For the Year Ended December 31, 2007 (continued)

(in millions of Russian Roubles)

	Notes	2007	2006 (as restated)
Cash flows from financing activities			
Proceeds from borrowings		**9,158**	5,625
Repayment of borrowings		**(5,977)**	(6,998)
Proceeds from bonds issue			2,984
Repayment of bonds		**(5)**	(1,008)
Repayment of finance lease obligations		**(1,069)**	(456)
Repayment of liabilities under vendor financing		**(261)**	(469)
Repayment of promissory notes for Amdocs Billing Suite			(256)
Repayment of promissory notes		**(128)**	–
Dividends paid to equity holders of the parent		**(638)**	(565)
Dividends paid to minority shareholders		**(1)**	(1)
Net cash provided by/ (used in) financing activities		**1,079**	(1,144)
Effect of exchange rate changes on cash and cash equivalents		–	–
Net increase in cash and cash equivalents		**33**	(877)
Cash and cash equivalents at the beginning of the year		**462**	1,339
Cash and cash equivalents at the end of the year		**495**	462

General Director S.V.Omel'chenko

Chief Accountant N.I.Popkov

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

OJSC "VolgaTelecom"

Consolidated Statement of Changes in Equity

for the Year Ended December 31, 2007

(in millions of Russian Roubles)

		Attributable to equity holders of the parent								
		Share capital								
	Notes	Preference shares	Ordinary shares	Retained earnings (aspreviously reported)	Correction of error	Retained earnings (as restated)	Reserve for available-for-sale investments	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance at December 31, 2005		963	2,891	14,228	4,336	18,564	3	22,421	416	22,837
Profit for the year				2,074	109	2,183		2,183	60	2,243
Dividends to equity holders of parent	29			(589)		(589)		(589)		(589)
Unrealized gain on available-for-sale investments							3	3		3
Dividends of subsidiaries to minority shareholders									(1)	(1)
Disposal of minority interests due to disposal of subsidiaries									(2)	(2)
Adjustment to fair values of subsidiaries acquired related previously held interest (reclassification of associates to subsidiaries)				97		97		97		97
Balance at December 31, 2006		**963**	**2,891**	**15,810**	**4,445**	**20,255**	**6**	**24,115**	**473**	**24,588**
Profit for the year				**3,006**		**3,006**		**3,006**	**46**	**3,052**
Dividends to equity holders of parent	29			**(633)**		**(633)**		**(633)**		**(633)**
Unrealized gain on available-for-sale investments										
Dividends of subsidiaries to minority shareholders									**(1)**	**(1)**
Disposal of minority interests due to disposal of subsidiaries				**(587)**		**(587)**		**(587)**	**(265)**	**(852)**
Balance at December 31, 2007		**963**	**2,891**	**17,596**	**4,445**	**22,041**	**6**	**25,901**	**253**	**26,154**

General Director S.V. Omel'chenko

Chief Accountant N.I. Popkov

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

1. General

Corporate Information

The consolidated financial statements of the Joint-Stock Company “VolgaTelecom” and its subsidiaries (hereinafter, “the Company”) for the year ended December 31, 2007 were approved by the General Director and the Chief Accountant on July 28, 2008.

OJSC “VolgaTelecom” and its subsidiaries are incorporated under the laws of the Russian Federation. Principal subsidiaries are disclosed in Note 8.

The registered office of the Company is Russia, city of Nizhny Novgorod, Maxim Gorky sq., Dom Svyazi.

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

Open Joint-Stock Company “Svyazinvest”, a federal holding company controlled by the Russian Federation, owns 51% of the Company’s voting shares and as of December 31, 2007 is the parent company for OJSC “VolgaTelecom”.

Liquidity and Financial Resources

The world economy is suffering the consequences of the global financial crisis in the mortgage lending market and the ensuing liquidity crisis. In the current unfavorable context, there are short-term risks related to both increase in interest rates on loans being raised and the availability of borrowings.

In 2007, the Company raised both short and long-term borrowings to finance its operations. Borrowings were primarily raised in the form of bank loans. The Company used leases to finance part of its investment activities. In 2007, the Company repaid its liabilities in full and timely.

As of December 31, 2007, the Company's current liabilities exceed its current assets by 7,456 (2006 – 3,120).

One of the instruments used by the Company to maintain the adequate level of solvency is the availability of financing in the form of a revolving credit lines and overdrafts (as of January 1, 2008, available financing amounted to 1.4 billion Roubles).

Also the Company has an action plan in place to maintain and improve current liquidity level and raise long-term debt to finance its 2008 investment program, including the refinancing of the existing borrowings outstanding (improvement of the current ratio):

- Bank loans obtained from Russian credit institutions in the total amount of 3,650 in 2008;
- Organization of a syndicated loan for the total amount of 4,120 (scheduled for the third and forth quarter of 2008).

In addition, the Company’s management believes that, with the high credit limits and funds invested in short-term liquid investments, the Company will be able to meet its current contractual obligations timely and in full.

1. General (continued)

Liquidity and Financial Resources (continued)

Thus, the Company’s management does not expect the situation in the borrowings market to have a significant impact on the Company's ability to raise external financing in 2008.

At the same time, management believes that, where necessary, some projects may be deferred or scaled down commensurate with the financing requirements for the Company’s current operations.

Telecommunications Legislation

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 number of communication services provided by the Company are established by the Federal Tariff Service (hereinafter, “the Russian FTS”).

The Russian FTS sets tariffs for local telephone services using the economically justifiable costs method based on gross revenue required to cover the cost of services, part of other costs and standard profit. Yet, certain cross-subsidies remain with respect to local telephone services. In line with current legislation, cross-subsidies are partially provided via state-regulated tariffs for intrazone telephone calls and via compensatory markup on tariffs for local and zonal call initiation services for intrazone, long distance domestic and international telephone calls.

The Company provides interconnection services and traffic transmission services to operators. The Company is included in the register of operators that have a prominent position in the public telecommunication network. Tariffs charged by the Company for interconnection and traffic transmission services are subject to state regulation.

Ceiling tariffs have been established for the Company to charge for interconnection services, including ceiling tariffs for establishing and servicing interconnection points and traffic transmission services within the public telephone network. The Company has established tariffs for interconnection services, call initiation and termination services at the maximum level, except for the tariff for local call termination services at the Company's node.

A compensatory markup was established on tariffs for the Company's local and zonal call initiation services for long distance domestic and international telephone calls for the period through January 1, 2008.

Change in Tariff Calculation Rules (Order #140-c/1 of 03.08.2007)

In line with changes introduced by the Russian FTS into the Procedure for Calculation of Tariffs and Tariff Plans for Local Telephone Services in third quarter of 2007, it was decided to substantially reduce tariffs for local telephone services for individual subscribers connected via dual-circuit lines effective January 1, 2008:

- the tariff for provision to a subscriber for permanent use of a subscriber line of any type was reduced by 25%,
- the tariff for provision of local telephone connection services (where the operator lacks technology to maintain time-based accounting for local telephone calls and uses combined and fixed payment schemes) was reduced by 50%.

1. General (continued)

Telecommunications Legislation (continued)

Universal Telecommunication Services

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

The Company has tendered for the right to provide universal telecommunication services, specifically telephone services using payphones, in its licensed areas. In 2007, the Company won 11 tenders (2006 – 11) and entered into 26 agreements with the Federal Telecommunications Agency, which outline the terms and conditions of providing universal telephone services using payphones (2006 – 82). As of December 31, 2007, the Company installed the total of 16 469 payphones pursuant to the above agreements, and actually 16 469 payphones were placed in service.

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

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

Losses are reimbursed by the Federal Telecommunications Agency subject to the procedure set by Government of the Russian Federation in Resolution No. 246 of April 21, 2005 and indicated in agreements that outline the terms and conditions of providing universal telecommunication services. In first half of 2007, pursuant to the agreement terms, the Company was reimbursed for losses on a semi-annual basis. Since 2008, losses will be reimbursed on a quarterly basis. The Federal Telecommunications Agency takes the final decision on the amount of such reimbursement based on the annual results after the Company submits the opinion of an independent audit for confirming that:

- losses claimed for reimbursement have been calculated correctly;
- separate accounting has been performed correctly in compliance with industry legislation;
- the Company has made contributions to the universal service fund in full.

Information on the amount of reimbursed losses from universal telecommunication services is provided in Note 25.

National Project "Education"

In 2006-2007, the Company was involved in the implementation of the national priority project "Education". As part of this project, the Company's branches connected to the Internet 8,323 educational institutions in Povolzh'e Federal District, including 3,437 educational institutions connected to the Internet in 2007 and 4,886 in 2006.

1. General (continued)

Telecommunications Legislation (continued)

Under the agreement with RTComm.RU (OJSC), the Company provided services that involved establishment of virtual communication channels from general education institutions to access hubs and provision of 24-hour use of the established communication channels.

The Company's capital investments incurred to connect educational institutions totaled 497 in 2007 (2006: 195).

The Company's income from services provided under the national project "Education" amounted to 82 in 2007, including 81 from rent of channels (2006: 18 and 16, respectively).

Plans to Digitalize the Company's Networks

At the end of 2007, 73.9% of local telephone networks were digitalized. Commissioning of new electronic telephone exchanges and replacement of quasi-electronic and analog telephone exchanges by the electronic ones help the Company to improve the quality of provided services, broaden their range and meet industry requirements.

Changes in the Numbering Plan

Order of the Russian Federation Ministry of Communications and Information Technologies No. 142 of November 17, 2006 approved the Russian Numbering System and Plan. The Russian Numbering System and Plan are expected to be implemented on a phase-by-phase basis.

The first implementation phase (2007) involves the transition to a closed numbering plan for intrazone telephone calls and exclusion of telephone numbers starting from "1" from the local numbering plans. The Company took all appropriate organizational and technical measures to implement phase 1.

The second phase (2008) involves:

- Transition to "0" prefix in intrazone and long-distance national calls;
- Transition to using numbers from the first million group numbering capacity to access emergency services, telecom operators' information services, and special local telephony services.

The third phase (2009) involves the transition to using a closed numbering plan for local telephone calls. This will require replacement of electronic telephone exchanges with old versions software, as well as replacement of quasi-electronic and analogous exchanges with digital switching equipment. The switching capacity of such exchanges accounts for about 47% of total existing switching capacity.

The Company anticipates that considerable investments will be required to reach the 100% digitalization goal.

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

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

2. Basis of Presentation of the Financial Statements (continued)

Basis of Accounting

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

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007. Adoption of new and revised standards did not have significant effect on the financial statements of the Company; they did however give rise to additional disclosures in the consolidated financial statements for 2006 and 2007.

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

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements - Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment".

The principal effects of these changes in policies are discussed below

IFRS 7 "Financial Instruments: Disclosures"

The Standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. If necessary, the comparable information was reviewed in accordance with new requirements. The changes did not have a material effect on the result of operations or financial position of the Company, however, the disclosures have been significantly amended with respect to capital management policy, credit risk, liquidity risk and market risk (see Note 34).

IAS 1 (amended 2005) "Presentation of Financial Statements - Capital Disclosures"

The Standard Requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 34.

IFRIC 8 "Scope of IFRS 2"

IFRIC 8 "Scope of IFRS 2" requires applying IFRS 2 in all cases where the entity cannot identify some or all of the goods or services received, specifically, if the equity instruments are issued to cover the liability which appears to be less than the fair value of the equity instruments granted. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

2. Basis of Presentation of the Financial Statements (continued)

Changes in Accounting Policies (continued)

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 9 "Reassessment of Embedded Derivatives" establishes that the date to assess the existence of an embedded derivative is the date when the Company first becomes party to a contract, with reassessment made only if there is a change to the contract that significantly modifies the cash flows. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 10 "Interim Financial Reporting and Impairment" requires the Company not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

IFRSs and IFRIC Interpretations Approved but Not Yet Effective

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

- IFRS 8 "Operating Segments";
- IAS 1 (amended 2007) "Presentation of Financial Statements";
- IAS 23 (amended 2006) "Borrowing Costs";
- IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions";
- IFRIC 12 "Service Concessions Arrangements";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";
- Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation";
- Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations";
- IFRS 3 (amended 2008) "Business Combinations";
- IAS 27 (amended 2008) "Consolidated and Separate Financial Statements".

IFRS 8 "Operating Segments"

IFRS 8 "Operating Segments" sets out requirements for disclosure of information about an entity's operating segments and also cancels the requirement to disclose the information about the entity's primary (products and services) and secondary (geographical areas in which it operates) segments. The Standard changes the procedure of assessment of segment financial information, requires an entity to use the financial data of the operating segments that was included in assessment made to provide financial information to the chief operating decision makers to decide how to allocate operational resources and in assessing performance. Requires to disclose the factors which were used to determine the operating segments. This Interpretation must be applied for annual reporting periods that commence on or after January 1, 2009.

2. Basis of Presentation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations Approved but Not Yet Effective (continued)

IAS 1 (amended 2007) “Presentation of Financial Statements”

IAS 1 (amended 2007) “Presentation of Financial Statements” 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. 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 in two separate statements: income statement or statement of comprehensive income. This Interpretation must be applied for annual reporting periods that commence on or after January 1, 2009.

IAS 23 (amended 2006) “Borrowing Costs”

IAS 23 (amended 2006) “Borrowing Costs” eliminates the possibility to immediately recognize as borrowing costs interest expenses which relate to assets that necessarily take a substantial period of time to get ready for their intended use or sale. The standard must be applied for annual reporting periods that commence on or after January 1, 2009.

IFRIC 11, “IFRS 2 – Group and Treasury Share Transactions”

IFRIC 11, “IFRS 2 – Group and Treasury Share Transactions” determines whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and relates to the accounting treatment of share-based payment arrangements that involve two or more entities within the same group. This interpretation must be applied for reporting periods that commence on or after March 1, 2007.

IFRIC 12 “Service Concessions Arrangements”

IFRIC 12 “Service Concessions Arrangements” sets out general recognition principles for the obligations and related rights in service concession arrangements. This Interpretation must be applied for reporting periods that commence on or after January 1, 2008.

IFRIC 13 “Customer Loyalty Programs”

IFRIC 13 “Customer Loyalty Programs” 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. This Interpretation must be applied for reporting periods that commence on or after July 1, 2008.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 “Employee Benefits”. This Interpretation must be applied for reporting periods that commence on or after January 1, 2008.

2. Basis of Presentation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations Approved but Not Yet Effective (continued)

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" 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. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations"

Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations" define the term "vesting condition" as either an explicit or implicit service requirement. Other conditions comprise "non-vesting conditions" which must be considered in assessing fair value of the equity instruments granted. If the rights related to the equity instrument were not vested due to the failure to meet the requirement which was a vesting condition to be fulfilled and its fulfillment was controlled by the entity or its counterparty, the equity instrument is recognized as cancelled. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

IFRS 3 (amended 2008) "Business Combinations"

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. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

IAS 27 (amended 2008) "Consolidated and Separate Financial Statements"

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. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

The Company expects that the adoption of the standards and interpretations listed above will have no significant impact on the Company's results of operations and financial position in the period of initial application. Adoption of IAS 1 (amended 2007) "Presentation of Financial Statements" will significantly influence the presentation of changes in shareholders' equity. Currently the Company is considering whether it will present changes in income and expenses recognized in equity in the statement of comprehensive income or in two separate statements: income statement or statement of comprehensive income.

Correction of Errors and Reclassifications

In the course of preparation of the financial statements for 2007, the Company identified certain prior period errors. These errors were corrected by restating the comparative information for the year ended December 31, 2006, or, when the error occurred before the year ended December 31, 2006, by restating the balances of assets, liabilities and equity affected by the errors as of December 31, 2005.

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications (continued)

The major errors identified are as following:

a. The Company transitioned to IFRS as of January 1, 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 estimated that the carrying values of all of the Company's property, plant and equipment at the date of transition to IFRS were broadly comparable to their fair values. Later in 2007 management engaged an independent appraiser to support fair values as of January 1, 2003. The appraiser completed the valuation in 2007. As a result, the reported carrying amounts of property, plant and equipment, depreciation expense and deferred revenue related to assets contributed by customers free of charge were adjusted based on the independent appraiser's report (see Note 6). Deferred tax amounts were adjusted, respectively. Total effect on retained earnings as of December 31, 2005 was RUR 4,299 million (net of taxes).

b. In 2007 the Company revised the accounting treatment for its investments in CJSC "Nizhegorodskiy Radiotelefon" where the Company owns 50% of voting shares and that was incorrectly treated as investment in subsidiary and consolidated in the Company's financial statements for all periods prior to 2007. As this investment meets the definition of joint venture in accordance with IAS 31 "Interests in joint ventures" the Company changed it's accounting for this investment to equity method for all periods presented. Comparative amounts of the assets, liabilities and the results of operations as of December 31, 2006 and for the year then ended were adjusted respectively.

c. In 2006 the Company paid out the debt of some of its subsidiaries due to third parties with discount and incorrectly recognized the amount of this discount as deferred revenue in the Group's consolidated financial statements for the year ended December 31, 2006. In 2007 the Company has restated it's prior year financial statements to recognize the gain in the income statement.

d. In 2007 the Company identified an error in calculation of amortization of intangible assets in prior periods. This error was corrected by adjusting the amount of amortization of intangible assets accrued in these periods.

e. The amounts attributable to the leaseback transaction of RUR 41 million and RUR 3 million was incorrectly presented as borrowings in prior year financial statements. To correct this error the Company reclassified these amounts in prior period financial statements from "Long-term borrowings" to "Long–term finance lease obligations" and from "Current portion of long–term borrowings" to "Current portion of long–term finance lease obligations", respectively.

f. During 2007 the Company identified that transaction costs related to bond issue VT-4 in amount of RUR 22 million were incorrectly accounted as accounts payable. In 2007 the Company corrected the error by including these transaction costs to calculation of amortized cost of long-term borrowings.

g. The incorrect elimination of settlements with subsidiary was corrected by increasing "Revenue" and "Other operating expenses" for RUR 440 million.

In addition, during 2007 the Company changed presentation of certain items of assets, income and expenses. Comparative amounts were reclassified accordingly.

Effects of correction of errors and reclassifications on financial statement for the year 2006 are summarized in the table below.

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications (continued)

	As previously reported	Correction of errors	Reclassi–fications	Total adjustments	As restated	Comment
Consolidated balance sheet as of December 31, 2006						
Property, plant and equipment	31,332	6,014		6,014	37,346	a, b
Intangible assets and goodwill	4,454	21		21	4,475	d
Investments in associates	129				129	
Long–term investments	28				28	
Long–term advances given	518				518	
Long–term accounts receivable and other financial assets	35				35	
Deferred income tax asset	17				17	
Inventories, net	536	(1)		(1)	535	b
Trade and other receivables	1,872	2	114	116	1,988	b
Prepaid income tax	343				343	
Other current assets	1,099	(6)	(114)	(120)	979	b
Cash and cash equivalents	462				462	
Total assets	**40,825**	**6,030**	**–**	**6,030**	**46,855**	
Long–term borrowings	9,498	(61)		(61)	9,437	b, f, e
Long–term finance lease obligations	597	43		43	640	b, e
Pension liabilities	1,287				1,287	
Deferred revenue	316	322		322	638	a
Deferred income tax liability	1,444	1,394		1,394	2,838	a, c, d
Accounts payable and accruals	4,066	(40)		(40)	4,026	b, c, f
Income tax payable	–				–	
Other taxes payable	322				322	
Dividends payable	65	(41)		(41)	24	b
Short–term borrowings	1,583	1		1	1,584	b
Current portion of long–term borrowings	707	(36)		(36)	671	b, e
Current portion of long–term finance lease obligations	797	3		3	800	b, e
Total liabilities	**20,682**	**1,585**	**–**	**1,585**	**22,267**	
Minority interest	473	–	–	–	473	
Share capital	3,854	–	–	–	3,854	
Unrealized gain on available–for–sale investments	6	–	–	–	6	
Retained earnings as of December 31, 2006	**15,810**	**4,445**		**4,445**	**20,255**	

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications (continued)

	As previously reported	Correction of errors	Reclassi–fications	Total adjustments	As restated	Comment
Consolidated Income Statement for the year ended December 31, 2006						
Revenue	24,849	417	(40)	377	25,226	b, g
Wages, salaries, other benefits and payroll taxes	(8,425)	7		7	(8,418)	b
Depreciation and amortization	(4,454)	54	12	66	(4,388)	a, b, d
Interconnection charges	(2,220)		28	28	(2,192)	
Materials, repairs and maintenance, utilities	(2,659)	3		3	(2,656)	b
Taxes other than income tax	(624)	1		1	(623)	b
Bad debt recovery	320				320	
Gain on disposal of property, plant and equipment	2	55		55	57	a, b
Other operating expenses	(2,514)	(438)	(164)	(602)	(3,116)	g
Other operating income	0	41	164	205	205	c
Share of result of associates	12				12	
Interest expense	(1,021)	3		3	(1,018)	b
Loss from investments	(48)				(48)	
Foreign exchange gain, net	23				23	
Income tax expense	(1,107)	(34)		(34)	(1,141)	a, b, c, d
Profit for the year ended December 31, 2006	**2,134**	**109**	**–**	**109**	**2,243**	
Basic and diluted earnings per share for profit for the year attributable to equity holders of the parent, Russian Roubles	**6.32**				**6.66**	

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of MRK and its subsidiaries as of December 31 of each year. The financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent Company based on unified accounting policies.

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

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

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

3. Summary of Significant Accounting Policies (continued)

3.1 Principles of Consolidation (continued)

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 in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are recognized in equity as of the transaction date as the purchase of the minority interests and are charged or credited to retained earnings and reserves.

3.2 Property, Plant and Equipment

3.2.1 Cost of Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. All other repairs and maintenance are charged to the statement of income when the expenditure is incurred.

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

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

3.2.2 Depreciation and Useful Life

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

3. Summary of Significant Accounting Policies (continued)

3.2 Property, Plant and Equipment (continued)

The Company applies the following useful lives:

Property and equipment groups	2006	2007
	Number of years	
Buildings	50 years	**20-50 years**
Constructions	20 years	**7-15 years**
Switches	15 years	**2-10 years**
Other transmission devices	10 years	**2-10 years**
Computing facilities	3 years	**2 years**
Vehicles	5 years	**3 years**
Others	3 years	**2 years**
Land	Non-depreciable	**Non-depreciable**

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

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

Reassessment of the remaining useful lives was caused by the rapid replacement of telecommunication equipment and technologies, including new industry requirements to communication network digitalization. The Company actively introduces services and technologies related to the broadband access to Internet, engages in the upgrades of its fixed line network infrastructure and implements packet switching;

Effects of reassessment of the remaining useful lives is presented in Notes 6

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

3.2.3 Assets Received Free of Charge

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at fair value at the date of transfer. Transfers of equipment mainly relate to the rendering of future services to the transferee of the equipment. In this case, the Company recognizes the deferred revenue in the amount of the fair value of the received property, plant and equipment. Deferred income is recognized in the income statement over the useful life of respective equipment and is included into "Depreciation and amortization". The amount of such income for the year ended December 31, 2007 is 40 (2006 - 40).

3.3 Intangible Assets

3.3.1 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.

3. Summary of Significant Accounting Policies (continued)

3.3 Intangible Assets (continued)

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

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

3.3.2 Other Intangible Assets

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

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

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

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

3.4 Borrowing Costs

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

3. Summary of Significant Accounting Policies (continued)

3.5 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 of accounting.

3.6 Investments and Other Financial Assets

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

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

3.6 Investments and Other Financial Assets

Provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

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

3.7 Inventories

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

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

3.8 Cash and Cash Equivalents

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

3.9 Equity

3.9.1 Share Capital

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

3.9.2 Treasury Shares

Treasury shares are stated at weighted average cost.

3.9.3 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.

3.9.4 Dividends

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

3. Summary of Significant Accounting Policies (continued)

3.10 Financial Liabilities

3.10.1 Loans and Borrowings Received

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

3.10.2 Financial Guarantees

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

Financial guarantee contracts are recognized initially at fair value adjusted for costs which directly relate to the issuance of the guarantees. Subsequently, financial guarantee obligations are estimated as the higher of best estimate of the expenditure required to settle the present obligation at the balance sheet date or the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 “Revenue”.

3.11 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.

3.12. Employee Benefits

3.12.1 Current Employment Benefits

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

3.12.2 Unified Social Tax

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 (from 17% to 26%) to the annual gross remuneration of each employee.

3. Summary of Significant Accounting Policies (continued)

3.12. Employee Benefits (continued)

3.12.3 Pensions and Other Post-Employment Benefits

The Company provides defined benefit pension plan to its employees which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment benefits and other long-service employees benefits of a defined nature such as lump-sum payments upon retirement and death and financial support to the Company's old age and disabled pensioners.

Defined Benefit Plans

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

The past service cost arises when the Company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined Contribution Plans

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

3.13 Provisions

Provisions are recognized when the 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 discounting is material, provisions are determined by discounting the expected value of 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 an interest expense.

3. Summary of Significant Accounting Policies (continued)

3.14 Government Grants

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

3.15 Deferred Income Taxes

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

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

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

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

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

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

3.16 Revenue Recognition

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

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

Local Telephone Calls, Including Universal Telecommunication Services

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

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

3. Summary of Significant Accounting Policies (continued)

3.16 Revenue Recognition (continued)

Intrazone Telephone Services

Intrazone telephone services include the following client services:

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

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

Mobile Services

Revenues from mobile services arise primarily from airtime, subscription fees, value added services, outbound and inbound roaming. The Company recognizes revenues related to mobile telecommunications services in the period when the services are rendered. Installation and connection fees for mobile services are recognized over the average term of the customer relationship.

Data Transfer and Telematics Services (Internet)

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

Installation and Connection Fees

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

Interconnection and Traffic Transmission Services

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

Fees on Assistance and Agency Services

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

3. Summary of Significant Accounting Policies (continued)

3.16 Revenue Recognition (continued)

Other Telecommunication Services

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

Other Revenues (Non-Core Activities)

Other revenues primarily consist of revenues received from transportation and construction services, recreation services and sale of products and services provided by auxiliary units.

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

Dividend income is reflected when dividends are due to the Company.

3.17 Foreign Currency Transactions

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

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

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

Exchange rates as of December 31	**2007**	**2006**
Russian Roubles to US dollar	**24.5462**	26.3311
Russian Roubles to Euro	**35.9332**	34.6965

3.18 Earnings per Share

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

The Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (see Note 28).

3. Summary of Significant Accounting Policies (continued)

3.19 Segment Information

The Company defines the following operating segments:

1. fixed line;
2. mobile telecommunication.

Management believes that the Company operates in one geographical segment on the territory of the Povolzhie region of the Russian Federation and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

4. Significant Accounting Estimates

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 assesses remaining useful lived of property, plant and equipment at each reporting date. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss. More details are provided in Note 6.

Impairment of Property, Plant and Equipment and Intangible Assets

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. There were no business combinations in 2007.

Impairment of Goodwill

In order to determine whether the goodwill is impaired, it is necessary to estimate the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As of December 31, 2007, the carrying amount of the goodwill amounted to 870 (2006 – 870). In 2007 and 2006, impairment test showed no signs of goodwill impairment. More details are provided in Note 7.

4. Significant Accounting Estimates (continued)

Fair Values of Unlisted Available-for-Sale Investments

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date. More details are provided in Note 10

Allowance for Doubtful Accounts

Provision for impairment is based on the historical data related to collectability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. More details are provided in Note 13.

Pension Obligations

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 22.

Litigations

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

Deferred Tax Assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Company may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. The carrying amount of deferred tax liabilities amounted to 2,914 (2006 – 2,838). More details are provided in Note 27.

5. Segment Information

	2007			
	Fixed line services	**Mobile services**	**Intercompany elimination**	**Total**
Continuing operations				
REVENUE				
Sales to third parties	24,913	5,123	–	30,036
Inter-segment sales	197	196	(393)	–
Total revenue	**25,110**	**5,319**	**(393)**	**30,036**
Results				
Segment result	4,346	1,198	8	5,552
Operating profit (loss)	**4,346**	**1,198**	**8**	**5,552**
Share in result of associates	17	–	–	17
Interest expense, net	(1,024)	(110)	–	(1,134)
Gain on sale of subsidiaries, associates and other investments	66	–	(53)	13
Foreign exchange gain, net	(5)	48	–	43
Income tax	(1084)	(355)	–	(1,439)
Net profit	**2,316**	**781**	**(45)**	**3,052**
Assets and liabilities				
Segment assets	44,268	7,146	(228)	51,186
Investments in associates	146	–	–	146
Assets classified as held for sale	150			150
Consolidated total assets	**44,564**	**7,146**	**(228)**	**51,482**
Segment liabilities	(23,275)	(2,290)	237	(25,328)
Consolidated total liabilities	**(23,275)**	**(2,290)**	**237**	**(25,328)**
OTHER INFORMATION				
Capital expenditure	8,907	1,666	–	10,573
Fixed assets	36,551	4,741	–	41,292
Intangibles	3,425	1,511	–	4,936
Depreciation and amortization	4,716	822	–	5,538
Provision for impairment of receivables	114	(19)	9	104

5. Segment Information (continued)

	2006 as restated			
	Fixed line services	**Mobile services**	**Intercompany elimination**	**Total for the Company**
Continuing operations				
REVENUE				
Sales to third parties	21,508	3,718	–	**25,226**
Inter-segment sales	184	123	(307)	–
Total revenue	**21,692**	**3,841**	**(307)**	25,226
Results				
Segment result	3,503	912	–	4,415
Operating profit (loss)	**3,503**	**912**	**–**	**4,415**
Share in result of associates	12	–	–	12
Interest expense, net	(941)	(77)	–	(1,018)
Gain on sale of subsidiaries, associates and other investments	(8)	–	(40)	(48)
Foreign exchange gain, net	9	14	–	23
Income tax	(870)	(271)	–	(1,141)
Net profit	**1,705**	**578**	**(40)**	**2,243**
Assets and liabilities				
Segment assets	40,480	6,515	(269)	46,726
Investments in associates	129	–	–	129
Consolidated total assets	**40,609**	**6,515**	**(269)**	**46,855**
Segment liabilities	(20,157)	(2,379)	269	(22,267)
Consolidated total liabilities	**(20,157)**	**(2,379)**	**269**	**(22,267)**
OTHER INFORMATION				
Capital expenditure	6,935	1,143	–	8,078
Fixed assets	33,255	4,091		37,346
Intangibles	2,837	1,638		4,475
Depreciation and amortization	3,810	578	–	4,388
Provision for impairment of receivables	314	6		320

The prices for transactions between the segments are established on terms equivalent to those that prevail in arm’s length transactions with third parties. These transactions included in revenues, expenses and the financial results of the segments and eliminated on consolidation.

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 long-term advances given and exclude assets that relate to the Company as a whole (such as investments, deferred income tax and others). Segment liabilities primarily comprise operating liabilities, and exclude income tax, deferred income tax, loans and leasing liabilities.

Capital expenditure comprises additions to property, plant and equipment and intangible assets. Provisions relate only to those charges made against allocated assets.

Segments are comprised of separate legal entities who file separate tax returns. Accordingly, income tax expense was allocated to the segments in full

6. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Assets under construction	Vehicles and other	Total
Cost					
At December 31, 2005, restated	**23,968**	**15,751**	**1,399**	**4,549**	**45,667**
Additions	–	–	6956	–	6,956
Additions due to the acquisition of subsidiaries	7	144	18	7	176
Disposals, restated	(177)	(128)	(17)	(70)	(392)
Disposals due to the sale of subsidiaries		(15)			(15)
Put into operation	1,884	3,739	(6,550)	927	–
At December 31, 2006, restated	**25,682**	**19,491**	**1,806**	**5,413**	**52,392**
Additions	–	–	9,688	–	9,688
Disposals	(181)	(55)	(374)	(8)	(618)
Disposals due to the sale of subsidiaries		(15)			(15)
Put into operation	3,043	4,413	(9,188)	1,732	–
At December 31, 2007	**28,544**	**23,834**	**1,932**	**7,137**	**61,447**

	Land, buildings and constructions	Switches and transmission devices	Assets under construction	Vehicles and other	Total
Accumulated depreciation and Impairment					
At December 31, 2005, restated	**(5,027)**	**(4,449)**	**–**	**(1,710)**	**(11,186)**
Depreciation charge for the year, restated	(1,466)	(1,980)	–	(672)	(4,118)
Depreciation charge on disposals, restated	164	37	–	57	258
At December 31, 2006, restated	**(6,329)**	**(6,392)**	**–**	**(2,325)**	**(15,046)**
Depreciation charge for the year	(1,644)	(2,372)	–	(1,138)	(5,154)
Depreciation charge on disposals	28	17	–	–	45
At December 31, 2007	**(7,945)**	**(8,747)**	**–**	**(3,463)**	**(20,155)**
Net book value as of December 31, 2005, restated	**18,941**	**11,302**	**1,399**	**2,839**	**34,481**
Net book value as of December 31, 2006, restated	**19,353**	**13,099**	**1,806**	**3,088**	**37,346**
Net book value as of December 31, 2007	**20,599**	**15,087**	**1,932**	**3,674**	**41,292**

The depreciation of property, plant and equipment charged in 2007 in the amount of 5,154 was recognized within "Depreciation and Amortization" in the consolidated income statement (2006 – 4,118).

6. Property, Plant and Equipment (continued)

As of December 31, 2007, the Company's property, plant and equipment with the carrying value of 4,473 (2006 – 4,448) were pledged as collateral under loan agreements and finance lease agreements (see Note 18).

As described in the Note 2, the Company reassessed remaining useful lives of the property, plant and equipment as of January 1, 2007. Under the remaining useful lives as of January 1, 2007 prior to reassessment, the depreciation charge for 2007 would have been 4,835 as compared with the 5,154 included in depreciation and amortization in the income statement for 2007 and loss from property, plant and equipment disposal would have been 207, as compared to 206 presented in the income statement for 2007. The Company expects that this reassessment of remaining useful lives would have consistent impact on the depreciation charge of property, plant and equipment in the future periods over the remaining useful lives of respective categories of assets.

As for December 31 2006 and December 31 2007 the net book value of property, plant and equipment under finance lease agreements was as follows:

	31.12.2007	31.12.2006
Switches and transmission devices	**2,234**	2,317
Assets under construction and equipment for installation	**2**	9
Vehicles and others	**56**	60
Total, plant and machinery under finance lease agreements, NBV	**2,292**	2,386

As of December 31, 2007, the cost of fully depreciated property, plant and equipment was 3,113 (2006 – 2,216).

As of December 31, 2007, the net book value of property, plant and equipment under vendor financing agreements was 1,611 (2006 – 1,627).

During the year 2007 the Company increased the amount of assets under construction by the capitalized interest in amounts of 34 (2006 - 24). Capitalization rate for 2007 was 8% (2006 – 9.5%).

The Company did not identify any indicators of fixed assets impairment as of December 31, 2007.

7. Intangible Assets

	Goodwill	Licenses	Software	Numbering capacity	Customer list	Trade mark	Others	Total
Cost								
At December 31, 2005	**367**	**186**	**2,294**	**61**	**37**	**1**	**1**	**2,947**
Additions		53	1,068				1	1,122
Additions due to acquisition of subsidiaries	503	399	1		27			930
Disposals		(5)	(14)					(19)
At December 31, 2006	**870**	**633**	**3,349**	**61**	**64**	**1**	**2**	**4,980**
Additions		19	863				3	885
At December 31, 2007	**870**	**652**	**4,212**	**61**	**64**	**1**	**5**	**5,865**
Accumulated amortization								
At December 31, 2005		**(49)**	**(122)**	**(18)**	**(13)**			**(202)**
Charge for the year, restated		(33)	(266)	(7)	(3)		(1)	(310)
Amortization on disposals			7					7
At December 31, 2006, restated		**(82)**	**(381)**	**(25)**	**(16)**		**(1)**	**(505)**
Charge for the year		(65)	(345)	(6)	(7)		(1)	(424)
At December 31, 2007		**(147)**	**(726)**	**(31)**	**(23)**		**(2)**	**(929)**
Net book value as of December 31, 2005	**367**	**137**	**2,172**	**43**	**24**	**1**	**1**	**2,745**
Net book value as of December 31, 2006, restated	**870**	**551**	**2,968**	**36**	**48**	**1**	**1**	**4,475**
Net book value as of December 31, 2007	**870**	**505**	**3,486**	**30**	**41**	**1**	**3**	**4,936**

Oracle E-Business Suite (OEBS)

As of December 31, 2007 software includes the costs of Oracle E-Business Suite acquisition and implementation with a carrying value of 1,376 (2006 – 1,166). As of December 31, 2007 accumulated capitalized interest related to the Oracle E-Business Suite amounted to 212 (2006: 212). No interest was capitalized as the part of the cost of this software in 2007 (2006: 0 %).

The Company acquired non-exclusive license for 13,029 users of E-business Suite 2004 Professional.

The Company commenced amortizing the value of the mentioned software from the date of its implementation in December 2005, proportionally to the quantity of licenses used, over the useful life of 10 years.

Full implementation of Oracle E-Business Suite software is expected to be completed by 2009.

The information on Oracle E-Business Suite for the years ended December 31, 2007 and December 31, 2006 is presented in the table below:

	2007	2006
As on January 1	**1,166**	1,121
Implementation expenses	**339**	159
Amortization accrued	**(129)**	(114)
As on December 31	**1,376**	1,166

7. Intangible Assets (continued)

Amdocs Billing Suite Software

As of December 31, 2007 software also includes the cost of Amdocs Billing Suite acquisition and implementation with a carrying value of 1,234 (2006 – 1,187), including total capitalized interests related to implementing Amdocs Billing Suite amounting to 34 (2006 – 34). No interests were capitalized in 2007. The capitalization rate was 6% for 2006.

This software was acquired with the purpose of implementing a unified billing system throughout the Company. The Company started implementing this software in December 2004 and plans to complete this implementation in 5 years since the implementation started.

The Company will commence amortizing this asset from the date of software put into operation proportionally to the value of implemented modules over their estimated useful life that is to be determined before the in-service date. Until then the Company annually tests this software for impairment.

Information on Amdocs Billing Suite for the years ended December 31, 2007 and December 31, 2006 is presented in the table below:

	2007	**2006**
As on January 1	**1,187**	715
Implementation expenses	**47**	472
Amortization accrued	**–**	–
As on December 31	**1,234**	1,187

Unified Pre-Billing System HP Open View IUM

As of December 31, 2007 software also includes the cost of HP Open View IUM Hewlett-Packard software acquisition and implementation with a carrying value of 370 (2006 – 324), including capitalized interest amounts to 45 (2006 – 14). The capitalization rate is 8.59% (2006 – 8.59%). The software was purchased in 2006 from ZAO ISG with a view to implement unified computerized settlement system Amdocs Billing Suite. A unified pre-billing function is necessary to ensure centralized settlements with interconnected operators and to transfer data to Amdocs Billing Suite.

The HP Open View IUM implementation project is expected to be completed in the third quarter of 2008.

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

Goodwill and Intangible Assets Recognized in Business Combinations

The intangible assets recognized separately as a result of the Company's acquisitions in prior years represent resources from which future economic benefits are expected to flow to the Company and include the following classes:

- Licenses;
- Software;
- Numbering capacity;
- Customer list.

7. Intangible Assets (continued)

Goodwill and Intangible Assets Recognized in Business Combinations

The licenses mainly comprise of GSM-900 licenses with useful lives determined individually for each license based on the terms and conditions of the license agreement.

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

The numbering capacity represents the right of use prescribed telephone numbers in rendering telecommunication services in accordance with permission granted by the Russian Federation Ministry of Communications and Information Technologies.

The customer lists are intangible assets that represent contractual relations with telecom operators. The Company determined useful life of the customer list to be 4-8 years.

The goodwill acquired through business combinations incurred in prior years is attributed to the expected synergies and other benefits from combining the assets and activities of acquirees with those of the Company.

Impairment Test of Intangible Assets and Goodwill

The Company performed impairment tests of goodwill and intangible assets not yet available for use as of December 31, 2007. Intangible assets not yet available for use included Amdocs Billing Suite, Oracle E-Business Suite and HP Open View IUM software. As a result of the impairment tests no impairment of these intangible assets as of December 31, 2007 was identified.

Goodwill acquired through business combinations has been allocated to respective mobile subsidiaries of the Company that were merged into CJSC “Nizhegorodskaya Sotovaya Svyaz” in 2007. Therefore, upon this reorganization of entities under common control, the entire amount of goodwill was allocated CJSC “Nizhegorodskaya Sotovaya Svyaz”. The Company treats all its mobile subsidiaries as one cash-generating unit (see Note 8).

Carrying amount of goodwill allocated to the mobile cash-generating unit comprised the following:

	Carrying amount of goodwill	
Subsidiary	**2007**	**2006**
CJSC “Nizhegorodskaya Sotovaya Svyaz”	**860**	–
OJSC “Tatincom”	–	324
CJSC “RTCOM”	–	33
CJSC “Chuvashia Mobile”	–	223
CJSC “Saratov Mobile”	–	161
CJSC “Penza Mobile”	–	119
Other subsidiaries	**10**	10
Total	**870**	870

7. Intangible Assets (continued)

Impairment Test of Intangible Assets and Goodwill (continued)

The recoverable amount of the mobile cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a 2% growth rate (2006 - 2%) which the same as the long-term average growth rate for the above mentioned cash-generating unit. The discount rate applied to cash flow projections is 16% (2006 - 17%).

The following describes each key assumption applied by management for cash flow projections to undertake 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 several years preceding the start of budgeted period. There was some increase assumed over the budgeted period for anticipated efficiency improvements and optimization of the cost structure;
- Growth rate estimates are based on the management’s assumption on long-term average growth rate for the market in the regions where the entity operates and are generally in line with the published industry research.
- Discount rate reflects management’s estimates of the risks associated with the investments into the entity. In determining appropriate discount rate regard has been given to the yields on the national financial markets.

With regard to the assessment of the value in use, management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount.

There was no impairment of intangible assets and goodwill as of December 31, 2007 identified.

8. Consolidated Subsidiaries

The accompanying consolidated financial statements include assets, liabilities and results of operations of OJSC “VolgaTelecom” and its subsidiaries. Significant subsidiaries controlled by OJSC “VolgaTelecom” are presented in the table below:

		Ownership, %		Voting shares, %	
Subsidiary	**Main activity**	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
CJSC “NSS”	Mobile services (GSM-900)	**100**	100	**100**	100
OJSC “Tatinkom”	Mobile services (GSM-900)	–	50+1 share	–	50+1 share
CJSC “RTCOM”	Communication services	–	100	–	100
CJSC “Penza Mobile”	Mobile services	–	100	–	100
CJSC “Chuvashia Mobile”	Mobile services	–	100	–	100
CJSC “Saratov Mobile”	Mobile services	–	100	–	100
CJSC “Ulianovsk –GSM”	Mobile services (GSM-900)	**60**	60	**60**	60
CJSC “Orenburg-GSM”	Mobile services (GSM-900)	**51**	51	**51**	51
CJSC “Narodniy Telephon Saratov”	Mobile services (CDMA)	**50+1 share**	50+1 share	**50+1 share**	50+1 share
LLC “Nizhegorodskiy teleservice”	Local communication services	**100**	100	–	–
CJSC “Transsvyaz”	Local communication services	**100**	100	**100**	100

8. Consolidated Subsidiaries (continued)

Subsidiary	Main activity	Ownership, % 31.12.2007	Ownership, % 31.12.2006	Voting shares, % 31.12.2007	Voting shares, % 31.12.2006
CJSC "Tsifrovye Telecommunicatsii"	Local communication services	–	100	–	100
OJSC "Omriks"	Local communication	**74**	74	**74**	74
LLC "Nizhegorodteleservice"	Integrated system services	**100**	100	–	100
LLC "VyatkaSvyazService"	Pager services	–	100	–	–
CJSC "Chery- Page"	Pager services	–	50	–	50

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

In April 2007 in accordance with the decision of the Board of Directors the Company acquired 3,418,035 ordinary voting shares of OJSC "Tatincom-T" from the minority shareholders and thus increased its equity interest up to 100%. The purchase was made for the purpose of subsequent reorganization of the Company's subsidiaries engaged in rendering mobile telecommunication services. The differences between the carrying value of the acquired minority interest and the consideration paid of 587 was recognized in equity and attributed to the owners of the parent.

On December 1, 2007 the Company's subsidiaries engaged in rendering mobile telecommunication services: OJSC "Tatinkom", CJSC "RTCOM", CJSC "Saratov-mobile", CJSC "Chuvashia-mobile" and CJSC "Penza-mobile" were merged into to CJSC "Nizhgorodskaya Sotovaya Svyaz" as regional branches. This merger represents a reorganization of entities under common control and, thus, had no impact on the consolidated financial statements of the Company for 2007.

The reorganization was undertaken in accordance with the Company's mobile business development program for the purpose of improving the co-ordination of the subsidiaries' businesses and to obtain the synergy by means of creating the single roaming space and expanding the coverage of mobile services.

In April 2007 in accordance with agreement made with "OAO Aktsionerno-kommercheskiy bank "Vyatka-bank" the Company sold its share in LLC "VyatkaSvyazService" for 1.

Due to liquidation of CJSC "Chery Peidg" in January 2007 and CJSC "Tsifrovye Telecommunicatsii" in September 2007 the Company wrote off to losses the investments in these subsidiaries in the amount of 3.

9. Investments in Associates

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

Associate	Activity	2007 Voting shares	2007 Carrying value	2006 Voting shares	2006 Carrying value
CJSC "Samaratelecom"	Local communication services	**28%**	**125**	28%	109
CJSC "AKB C-bank"	Banking services	**42%**	**21**	42%	20
Total investments in associates and joint venture			**146**		129

In 2007 and 2006, the Company did not identify any impairment in value of investments in associates.

9. Investments in Associates (continued)

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

Movement in investments in associates for the years ended December 31, 2007 and 2006 is presented below:

	2007	2006
Investments in associates and joint venture as of January 1 of the period	**129**	120
Profit from investments in associates less dividend received	**17**	12
Reclassification of investments	**–**	(3)
Investments in associates and joint venture as of December 31 of the period	**146**	129

Carrying value of investments in associates equals to the Company's share in the net assets of associates.

The table below demonstrates the aggregated information on the major associates:

Company	Voting shares, %	Assets	Liabilities	Revenue	Net profit/ loss
2007					
CJSC "Samara-telecom"	**28%**	**517**	**(66)**	**325**	**59**
CJSC "AKB C-bank"	**42%**	**316**	**(267)**	**17**	**2**
2006					
CJSC "Samara-telecom"	28%	463	(71)	259	44
CJSC "AKB C-bank"	42%	250	(202)	11	2

10. Long-term Investments

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

	31.12.2007	31.12.2006
Long-term investments available for sale	**29**	28
Long-term deposits	**30**	–
Total investments	**59**	28

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

	31.12.2007		31.12.2006	
The Company	**Ownership interest**	**Fair value**	**Ownership interest**	**Fair value**
OJSC "NKT Zvezda"	**1.668%**	**48**	1.668%	48
OJSC "Informatsionnye technologii svyazi" (OJSC "Svyazintek")	**13%**	**15**	13%	15
CJSC "Lizing point"	**7.3%**	**12**	7.3%	12
Other		**16**		16
Reserve on investments impairment		**(62)**		(63)
Total available-for-sale investments		**29**		28

Management believes the carrying value of investments available-for-sale approximates their fair value.

11. Long-Term Advances Given

As of December 31, 2007 and 2006, advances given comprised the following:

	31.12.2007	31.12.2006
Long-term advances for fixed assets and construction	**322**	148
Advances to suppliers of Oracle E-Business Suite	**41**	185
Long-term advances for other Software	**185**	185
Total advances given	**548**	518

12. Inventories

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

	31.12.2007	31.12.2006
Cable and spare parts	**179**	205
Expendable material	**65**	66
Finished products and goods for sale	**46**	60
Expendable and completion materials (communication)	**53**	67
Expendable materials on LCS (ЛКС)	**45**	61
Stationary and office supplies	**12**	12
SIM-cards, dispatches	**10**	5
Precious metals	**9**	6
Household supplies	**8**	10
Expendable and completion materials on office automation	**7**	8
Others	**24**	35
Impairment provision	**(3)**	–
Total inventories	**455**	535

In the table below you can see changes in provision for impairment of inventories in 2007:

	2007	2006
Balance on January 1	**–**	3
Provision accrued	**3**	(3)
Balance on December 31	**3**	–

The amount of inventories used in 2007 for rendering services of 1,270 (2006 – 1,391) is recognized as an expense and included into the line "Materials, repairs and maintenance, utilities" of the consolidated income statement.

13. Trade and Other Receivables

As of December 31, 2007 and 2006, trade and other receivables comprised the following:

	Total at December 31, 2007	Provision for impairment of receivables	Net at December 31, 2007
Individual customers	1,179	(222)	957
Government customers	128	(8)	120
Corporate customers	532	(128)	404
Interconnected Operators	797	(157)	640
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	55	(55)	–
Other receivables	96	(33)	63
Total trade and other receivables	**2,787**	**(603)**	**2,184**

13. Trade and Other Receivables (continued)

	Total at December 31, 2006	Provision for impairment of receivables	Net at December 31, 2006
Individual customers	921	(127)	794
Government customers	116	(13)	103
Corporate customers	372	(87)	285
Interconnected Operators	825	(111)	714
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	476	(476)	–
Other receivables	114	(22)	92
Total trade and other receivables	**2,824**	**(836)**	**1,988**

Trade and other receivables overdue but not impaired are presented below

		Not	Overdue, but unimpaired, period overdue (days)					
As for 31.12.2007	**Total**	**overdue**	**<30**	**30-90**	**60-90**	**90-180**	**180-360**	**>360**
Individual customers	**957**	**820**	74	38	25	–	–	–
Government customers	**120**	**100**	11	6	3	–	–	–
Corporate customers Corporate customers	**404**	**336**	30	22	16	–	–	–
Interconnected Operators	**640**	**598**	20	11	7	3	1	–
Other receivables	**63**	**56**	3	2	1	1	–	–
Total trade and other receivables	**2,184**	**1,910**	**138**	**79**	**52**	**4**	**1**	

		Not	Overdue, but unimpaired, period overdue (days)					
As for 31.12.2006	**Total**	**overdue**	**<30**	**30–90**	**60–90**	**90–180**	**180–360**	**>360**
Individual customers	**794**	**705**	45	27	17	–	–	–
Government customers	**103**	**85**	7	7	4	–	–	–
Corporate customers Corporate customers	**285**	**221**	28	27	9	–	–	–
Interconnected Operators	**714**	**522**	124	39	29	–	–	–
Other receivables	**92**	**79**	6	3	2	2	–	–
Total trade and other receivables	**1,988**	**1,612**	**210**	**103**	**61**	**2**		

The Company invoices its Government customers and corporate customers in Roubles on a monthly basis. The Company sends individual customers monthly payment requests and substantially relies upon these customers to duly remit payments against these requests. All customer payments are based upon tariffs, denominated in Roubles, in effect at the time the calls are made

Receivables due from social security bodies as tariff compensation related to providing benefits for certain categories of subscribers amount to 2% of total trade receivables (2006 – 17%). These receivables originated prior to January 2005, when Article 47 of the Federal Law No. 126-FZ “Concerning Communications” dated July 7, 2003, came into force changing the procedure of providing telecommunication service benefits to individual customers. Prior to January 2005, those users of communication services that were eligible for benefits paid 50% of the service fees themselves and the remaining 50% were subject to compensation from the state budget.

13. Trade and Other Receivables (continued)

In 2007 the Company legally enforced settlement from the federal budget of such outstanding receivables in the amount of 322 (2006 – 474). In December 2007 the Company assessed the probability of collecting receivables related to the provision of benefits to certain categories of subscribers taking into account possible legal enforcement. As of December 31, 2007 the provision for impairment of receivables amounted to 55.

Movement in the provision for impairment of receivables is presented in the table below:

	2007	2006
Balance at January 1	**836**	1,225
Recovery of impairment of receivables	**(114)**	(320)
Trade and other receivables written off	**(119)**	(72)
Provision on acquired subsidiaries	**–**	3
Balance at December 31	**603**	836

14. Other Current Assets

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

	Total at December 31, 2007	Provision	Net at December 31, 2007
VAT receivable	383	–	383
Reimbursement of universal service expenses	269		269
Prepayments and advance payments	199	(4)	195
Agent accounts receivable	100		100
Deferred expenses	94	–	94
Accounts receivable on agent agreements on telecommunication services	34		34
Other prepaid taxes	28	–	28
Losses on damaged property, plant and equipment	20	(16)	4
Other	87	(20)	67
Total other current assets	**1,214**	**(40)**	**1,174**

	Total at December 31, 2006	Provision	Net at December 31, 2006
VAT receivable	433	–	433
Prepayments and advance payments	161	(5)	156
Agent accounts receivable	71		71
Deferred expenses	139	–	139
Accounts receivable on agent agreements on telecommunication services	23		23
Other prepaid taxes	21	–	21
Losses on damaged property, plant and equipment	13		13
Other	146	(23)	123
Total other current assets	**1,007**	**(28)**	**979**

As of December 31, 2007 receivables due from Federal Telecommunications Agency for reimbursement of losses from universal telecommunication services provided in the forth quarter of 2007 in the amount of 269 (2006: nil) were reported in the line "Other settlements and current assets".

14. Other Current Assets (continued)

Other current assets overdue but not impaired are presented below :

As for 31.12.2007		**Not**	**Overdue, but unimpaired, period overdue (days)**					
	Total	**overdue**	**<30**	**31–90**	**61–90**	**91–180**	**181–360**	**>361**
Prepayments and advance payments	**195**	**195**	–	–	–	–	–	
Settlements with personnel	**9**	**7**	1	–	–	–	–	1
Short-term loans given	**5**	**5**	–	–	–	–	–	–
Other settlements and current assets	**965**	**935**	9	2	1	2	6	10
Total other current assets overdue, but unimpaired	**1,174**	**1,142**	**10**	**2**	**1**	**2**	**6**	**11**

As for 31.12.2006		**Not**	**Overdue, but unimpaired, period overdue (days)**					
	Total	**overdue**	**<30**	**31-90**	**61-90**	**91-180**	**181-360**	**>361**
Prepayments and advance payments	**156**	**156**	–	–	–	–	–	–
Settlements with personnel	**12**	**11**						1
Short-term loans given	**5**	**5**	–	–	–	–	–	–
Other settlements and current assets	**806**	**760**	12	2	6	2	24	–
Total other current assets overdue, but unimpaired	**979**	**932**	**12**	**2**	**6**	**2**	**24**	**1**

Movement in the provision for impairment of other current assets is presented in the table below:

	2007	**2006**
Balance at January 1	**28**	–
Accrued provision	**20**	28
Other current assets write-off	**(8)**	–
Balance at December 31	**40**	28

15. Cash and Cash Equivalents

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

	31.12.2007	**31.12.2006**
Cash at banks and in hand(all in Russian Rubles):	**495**	462
Total cash and cash equivalents	**495**	462

Cash at banks earns floating interest ranging from 0.1% to 3.5% based on the level of cash balances on the Company's bank accounts.

16. Significant Non-Cash Transactions

In 2007 the Company received equipment under lease agreements for the amount of 425 (2006 - 943), under commercial credit – 180 (2006 – 317).

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

17. Share Capital

The par and carrying values of the issued and fully paid ordinary and preference shares were as follows as of December 31, 2007:

Shares	Number of shares (mln)	Par value (RUR)	Total par value	Total carrying value
Ordinary	246	5	1,230	2,891
Preference	82	5	410	963
Total shares	**328**		**1,640**	**3,854**

The difference between the total par value and the total carrying value of the share capital represents the effects of inflation accumulated through January 1, 2003. All authorized shares have been issued and fully paid.

The structure of share capital is as follows:

Shareholder	share %	Ordinary stock Number	Ordinary stock %	Preference stock Number	Preference stock %
Legal entities	92.1	237,258	96.5	64,724	79%
- OJSC “Svyazinvest	38.0	124,634	50.7	–	–
- registered entities with the share over 5% of the charter capital, total	46.5	92,653	37.7	59,821	73.0
including					
- CJSC “ING Bank (Eurasia)	22.1	43,709	17.8	28,583	34.9
- CJSC “Depositarno-Clearing company”	15.5	28,763	11.7	22,107	27.0
- Non-commercial partnership “National Depositary Center”	8.9	20,181	8.2	9,131	11.1
others	7.6	19,971	8.1	4,903	6.0
Individuals	7.9	8,712	3.5	17,259	21.0
Total shares	**100**	**245,970**	**100**	**81,983**	**100**

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders’ meetings without voting rights except in instances where decisions are made in relation to 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 (Note 28).

17. Share Capital (continued)

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

In accordance with Russian legislation and the Company’s Charter, dividends may only be declared to the shareholders of the Company from the net profit for the year as reported in the Company's Russian statutory financial statements. The Company reported net profit of 3,323 and 2,454 for 2007 and 2006, respectively.

Retained earnings of the Company in accordance with statutory legislation as for December, 31, 2007 and December, 31, 2006 were 15,444 and 12,688, respectively.

In October 1997 the Company entered in to Depository Agreement with the Bank of New-York and registered Level1 American Depositary Receipts (ADR). In April 2002 this agreement was reconcluded with JPMorgan Chase Bank. Each ADR represents 2 shares of common stock of the Company

According to Order of the Federal Financial Markets Service of the Russian Federation No. 05-1232/pz-n dated December 15, 2004, the Company was authorized to circulate 65,673,880 shares outside the Russian Federation in the form of ADR.

As of December 31, 2007, the Company registered the issue of 14,481,559 ADR (as of December 31, 2006 – 18,893,631) and deposited 28,963,118 ordinary shares (as of December 31, 2006 – 37,787,262), which amounted to 11.8% (as of December 31, 2006 – 15.4%) of all issued ordinary shares. The following table represents ADR registration for 2005-2007:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary shares, %	Share capital, %
December 31, 2005	**22,194,858**	**44,389,716**	**18.1%**	**13.5%**
Decrease in 2006	(3,301,227)	(6,602,454)		
December 31, 2006	**18,893,631**	**37,787,262**	**15.4%**	**11.5%**
Decrease in 2007	(4,412,072)	(8,824,144)		
December 31, 2007	**14,481,559**	**28,963,118**	**11.8%**	**8.8%**

Currently ADR are traded on the following stock markets:

Stock market	**CUSIP (WKN)**	**ADR ticker**	**ISIN**
Over-the-counter(OTC) Market (USA)	928660109	VLGAY	–
Frankfurt Stock Exchange (FSE)	910415	NZH	US9286601094
Berlin Stock Exchange (BerSE)	910415	NZH	US9286601094

18. Borrowings

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

	Effective interest rate	Maturity date	2007	2006
Short-term debt				
Bank loans (Roubles)	MIBOR+6.3-25%	2008	**1,008**	1,495
Bank loans (USD)	LIBOR+3.5%	2008	**237**	–
Bank loans(EURO)			**–**	19
Total bank loans			**1,245**	1,514
Bonds (Roubles)	8.54-8.91%	2008	**76**	56
Vendor financing (US dollars)	LIBOR, 5-9.23%	2008	**9**	
Total vendor financing			**9**	–
Promissory notes (Roubles)	8.59%	2008	**5**	14
Total short-term debt			**1,335**	1,584
Long-term debt				
Bank loans (Roubles)	MIBOR +7.4 -13%	2008-2012	**3,960**	624
Bank loans (USD)	LIBOR + 3.25	2008-2011	**206**	123
Bank loans(EURO)	Euribor + 3.25, 6.5%	2008-2011	**232**	200
Total bank loans			**4,398**	947
Bonds (Roubles)	8.54-8.91%	2008-2010	**8,240**	8,240
Vendor financing (roubles)	9.23-12.24%	2009-2012	**–**	53
Vendor financing (US dollars)	LIBOR, 5-9.23%	2008-2009	**308**	308
Vendor financing (Euros)	7.76%	2008	**73**	166
Total vendor financing			**381**	527
Promissory notes (Roubles)	8.59%	2009	**306**	394
Total long-term borrowings			**13,325**	10,108
Less: Current portion of long-term borrowings			**(5,598)**	(671)
Total long-term part of borrowings			**7,727**	9,437

Bank loans include interest accrued in the amount of 107 as for December 31, 2007 (2006 - 109).

As for December 31, 2007 bank loans are secured by pledged property, plant and equipment with the carrying value of 2,181 (2006 – 2,062).

Maturity date	**Loans and borrowings**	**Bonds**	**Vendor financing**	**Promissory notes**	**Total**
within 2008	2,922	3,503	341	167	6,933
within 2009	1070	3,893	49	144	5,156
within 2010	87	920	–	–	1,007
within 2011	64	–	–	–	64
within 2012 and after	1,500	–	–	–	1,500
Total debt	**5,643**	**8,316**	**390**	**311**	**14,660**

18. Borrowings (continued)

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

	31.12.2007	31.12.2006
Russian Roubles	**13,595**	10,876
US dollars	**760**	431
Euros	**305**	385
Total debt	**14,660**	11,692

Short-term debt

Bank Loans

The short-term bank loans are mainly represented by loans received for financing of property, plant and equipment construction.

Sberbank

The short-term debt to Sberbank is mainly represented by a loan received in 2007, denominated in Roubles. The loan matures in 2008. Interest rate is 6.3%. As of December 31, 2007 the outstanding liability was 700.

UniCredit Bank

The short-term debt to UniCredit Bank is mainly represented by the loans received in 2006-2007, denominated in Roubles and USD. The loans mature in 2008 with interest rates ranging from LIBOR+3.25% - 8.87%. As of December 31, 2007 the outstanding liability was 393.

Societe Generale Vostok Bank

The short-term debt to Societe Generale Vostok Bank is mainly represented by a loan for financing of the Company's investment projects in 2007, denominated in USD. The loan matures in 2008, interest rate is LIBOR+ 3.5%. As of December 31, 2007 the outstanding liability was 123.

Long-Term Debt

Bank Loans

Vneshtorgbank

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

Sberbank

The long-term debt to Sberbank is mainly represented by the loans received in 2007, denominated in Roubles. The loans mature in 2008-2009, interest rates vary from 7.4% to 7.9%. As of December 31, 2007 the outstanding loans amounted to 1,430.

18. Borrowings (continued)

Bank Loans (continued)

UniCredit Bank

The long-term loans from UniCredit Bank were received in 2006-2007, denominated in Roubles, EURO and USD. The loans mature in 2008-2009, interest rates are LIBOR+3.25% - 10%, Euribor+3.25%. As of December 31, 2007 the outstanding liability was 1,149. The loans are secured by property, plant and equipment with carrying value of 710.

Ministry of Finance of Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of Russian Federation. The loans are denominated in EURO. In July 2005 the Company received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount overdue to the bank equal 227 (6.6 EURO) as at the date of receiving the claim.

In December 2006 at the stage of legal proceedings the Company signed an amicable agreement with Ministry of Finance. On March 21, 2006 terms of the amicable agreement was approved by Arbitrary Court of Nizhny Novgorod region. The amicable agreement came into force on December 27, 2006 and stipulated a restructuring of the Company’s liability on the following terms: liability on penalty interest accrued for non-timely payments was forgiven and remaining amount of restructured liability would be paid in equal annual payments by January 1, 2012.

As at December 31, 2007 the outstanding restructured liability to the Ministry of Finance amounted to 122 (3.4 million Euro), including short term part of 29 (0.8 million Euro). Interest on restructured liability is accrued at an effective rate of 6.5% and payable annually not later than on December 31. The liability is secured by property, plant and equipment with the a carrying value of 300.

Bonds

The table below shows movements in bonds payable for the period from December 31, 2005 through December 31, 2007:

Bonds payable as of December 31, 2005	**5,293**
4th bond issue	3,000
Issue costs	(23)
Amortization of issue costs	12
Net accrual of interests payable	14
Bonds payable as of December 31, 2006	**8,296**
Amortization of issue costs	18
Net accrual of interests payable	**2**
Bonds payable as of December 31, 2007	**8,316**

18. Borrowings (continued)

Bonds (continued)

In 2007 the Company had outstanding 2nd, 3rd and 4th issue bonds.

In December 2005, the Company registered the issue of 3,000,000 interest-bearing bonds, series VT-2, with a par value of 1,000 Roubles each. The effective interest rate is set at 8.64%. The bonds mature in 5 years from the date of issue in December 2010. The bond issue has an option of early redemption at par value on December 4, 2008.

In December 2005, the Company registered the issue of 2,300,000 interest-bearing bonds, series VT-3, with a par value of 1,000 Roubles each. The effective interest rate is set at 8.91%. The bonds mature in 5 years from the date of issue in December 2010. The bonds do not provide any early redemption options.

In September 2006, the Company registered the issue of 3,000,000 interest-bearing bonds, series VT-4, with a par value of 1,000 Roubles each. The effective interest rate is set at 8.54%. The bonds mature in 7 years from the date of issue in December 2013. The bond issue has an option of early redemption at par value on September 10, 2009.

Vendor Financing

Huawei Technologies Co. Ltd.

The Company's long-term vendor financing from Huawei Technologies Co. Ltd represent amounts payable for the telecommunication equipment under contracts signed in 2005-2007. The amount outstanding as of December 31, 2007 is 198. The amounts payable under these agreements are denominated in US Dollars. These agreements bear an effective interest rates ranging from 5% to 9.23%. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Metrosvyaz Limited

The Company's long-term vendor financing from Metrosvyaz Limited represents amounts payable for the equipment and CDMA services under contracts signed in 2005. The amount outstanding as of December 31, 2007 is 80. The amounts payable under these agreements are denominated in US Dollars. These agreements bear an effective interest rate of 11%. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Alcatel

The vendor financing from Alkatel is represented by accounts payable for equipment received according to contracts signed in 2006 and 2007, denominated in euro. As of December 31, 2007 the outstanding liability was 74.

ISG

In July 2006 the Company purchased HP Open View IUM Hewlett-Packard software from CJSC “ISG” for the implementation of data collection and processing system.

In relation to purchasing the software the Company issued Rouble denominated promissory notes in the amount of 464. According to the redemption schedule the promissory notes will be settled 2007-2009. The outstanding amount as at December 31, 2006 is 311. The effective interest rate is 8.59%.

19. Finance Lease Obligations

The Company entered into various finance lease agreements for telecommunication equipment. As of December 31, 2007 and 2006, future minimum lease payments and their present value were as follows:

	31.12.2007		31.12.2006	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	**475**	**336**	1,008	800
over 1 to 5 years	**784**	**620**	824	640
Total minimum lease payments	**1,259**		1,832	
Less amounts representing finance charges	**(303)**		(392)	
Present value of minimum lease payments	**956**	**956**	1,440	1,440
Less: Current portion of finance lease obligations	**(475)**		(1,008)	
Total long-term finance lease obligations	**784**		824	

These leases do not contain renewal, purchase option and sliding price clauses. The title for equipment shall transfer to the Company after the lessee fulfils all its obligations under the finance lease agreement.

In 2006 and 2007, the Company’s primary lessor was OJSC “RTC-Leasing”. In 2007, the effective interest rate on lease liabilities ranged from 16.82% to 22.85% (2006 - 16.82% to 30.66%).

OJSC “RTC-Leasing” purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company’s future minimum lease payments under finance leases to OJSC “RTC-Leasing” as of December 31, 2007 amounted to 1,177 (2006 – 1,725) including principal amount of 914 (2006 – 1,386) and finance charge– 263 (2006 – 339).

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

20. Accounts Payable and Accruals

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

	31.12.2007	31.12.2006
Payables to suppliers and contractors for purchases and construction of property, plant and equipment	**1,271**	1,394
Payables to suppliers and contractors for purchases of software	**99**	57
Payables to operators	**411**	490
Payables to suppliers and contractors under current operations	**659**	558
Advances received under current operations	**584**	469
Advances received under non-current operations and for assets sold	**4**	4
Salaries and wages	**835**	819
Other accounts payable	**342**	235
Total	**4,205**	4,026

Other accounts payable include amount payable to OJSC Rostelecom on assistance agreement of 292.

21. Taxes Payable

Current Taxes Payable

As of December 31, 2007 and 2006, the Company's current taxes payable comprised the following:

	31.12.2007	31.12.2006
Value added tax	**34**	120
Property tax	**165**	132
Income tax payable	**26**	14
Unified social tax	**48**	48
Other taxes	**8**	8
Total	**281**	322

22. Pensions and Other Employee Benefits

In additions to mandatory payments to the Russian Federation state pension scheme, the Company provides to its employees non-state pension using the post-employment benefits plans.

Defined Benefit Schemes

The majority of the employees are eligible for defined benefit schemes. The defined benefit pension plan provides old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men. The amount of payments is calculated using the formulae determined for each regional branch of the Company. According to such formulae the amount of benefit depends on a number of parameters, including an employee's salary at the retirement date and number of years with the Company.

Non-government pension fund Telecom-Soyuz, which is related to the Company (Note 33), maintains the defined benefit pension plan.

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

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

As of December 31, 2007 there were 35,040 working employees participating in the defined benefit pension plan of the Company and 16,986 pensioners eligible to other post-employment benefit plans provided by the Company (as of December 31, 2006 – 39,156 and 14,117, respectively).

As of December 31, 2007 and 2006 the net liabilities of the defined benefit pension comprised the following:

	31.12.2007	31.12.2006
Present value of defined benefit obligation	**2,861**	2,377
Fair value of plan assets	**–**	–
Present value of unfunded obligation	**2,861**	2,377
Unrecognized past service cost	**(557)**	(586)
Unrecognized actuarial gains /losses	**(618)**	(504)
Net pension liability in the balance sheet	**1,686**	1,287

22. Pensions and Other Employee Benefits (continued)

Defined Benefit Schemes (continued)

As of December 31, 2007 the average remaining working lives of the employees assessed by the management is 10 years (2006 – 10 years).

The amount of net expense for the defined benefit pension plan in 2007 and 2006 was as follows:

	2007	2006
Current service cost	**162**	118
Interest cost	**171**	134
Expected return on plan assets	**–**	(4)
Actuarial losses and gains recognized during the year	**56**	52
Past service cost – guaranteed part	**87**	(75)
Amortized past service cost – non-guaranteed part	**109**	101
Net expense for the defined benefit plan	**585**	326

The expenses on the defined benefit plan were included in Wages, salaries, other benefits and payroll taxes of the consolidated income statement.

Changes in the present value of the defined benefit obligation in 2007 and 2006 were as follows:

	2007	2006
Net defined benefit obligation at January 1	**2,377**	1,919
Interest cost on benefit obligation	**171**	134
Current service cost	**162**	118
Past service cost	**167**	203
Benefits paid	**(58)**	(57)
Liabilities extinguished on settlements	**(128)**	(198)
Actuarial (gains)/losses on obligation	**170**	258
Net defined benefit obligation at December 31	**2,861**	2,377

Changes in the fair value of defined plan assets in 2007 and 2006 were as follows:

	2007	2006
Fair value of plan assets at January 1	**–**	110
Actuarial gains / (losses)		(4)
Expected return on plan assets		4
Benefits paid	**(58)**	(57)
Assets distributed on settlement	**(128)**	(198)
Contributions by employer	**186**	145
Fair value of plan assets at December 31	**–**	–

The Company expects to contribute 225 to its non-government benefit pension fund in 2008.

The overall expected rate of return on assets as at December 31, 2007 and 2006 is determined based on the market prices prevailing on these dates and the structure of the plan assets portfolio.

22. Pensions and Other Employee Benefits (continued)

Defined Benefit Schemes (continued)

As of December 31, 2007 and 2006 the principal actuarial assumptions of defined benefit pension plans were as follows:

	2007	2006
Discount rate	**6.6%**	7%
Expected return on plan assets	**not applicable**	7.29%
Future salary increase	**9.2%**	9.2%
Relative salary increase (career progression)	**1%**	1%
Rate used for calculation of annuity value	**6%**	6%
Increase in financial support benefits	**5%**	5%
Staff turnover	**5%**	5%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

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

	2007	2006	2005	2004	2003
Defined benefit obligation	**2,861**	2,377	1,919	1,555	1,445
Plan assets	**–**	–	(110)	(202)	(135)
(Deficit)/surplus	**2,861**	2,377	1,809	1,353	1,310
Experience adjustments on plan liabilities	**(51)**	(134)	(121)	20	(29)
Experience adjustments on plan assets	**–**	(4)	3	2	(5)

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and what has actually occurred. Experience adjustments on plan liabilities in 2007 and prior periods were caused primarily by non-recurring considerable excess of actual number of dismissed employees, as well as of the change in the amount of benefits set out in the terms of the plan, over initially projected changes in respective parameters in the long-term perspective.

23. Revenue

	2007	2006
Local telephone services	**11,119**	10,348
Intrazone telephone services	**4,814**	3,509
Interconnection and traffic transmission services	**4,741**	3,303
Mobile radiotelephone (cellular) services	**4,167**	3,687
Data transfer, telegraph and telematic services (Internet)	**3,253**	2,176
Mobile radio services, wire and radio broadcasting, television	**622**	572
Fees on assistance and agency services	**590**	671
Revenues from non-telecommunication services	**598**	849
Revenues from other services	**132**	111
Total revenue	**30,036**	25,226

Revenues from intrazone and local telephone services include revenues from rent of telecommunication channels of 440 and 138 respectively (2006 – 367 and 104, respectively).

23. Revenue (continued)

The Company identified revenues by the following major customer groups:

Customer groups	2007	2006
Individuals	**16,240**	13,799
Corporate customers	**11,740**	9,662
Government customers	**2,056**	1,765
Total revenue	**30,036**	25,226

24. Other Operating Expenses

	2007	2006
Third party services on general administration	**649**	576
Agency fees	**503**	348
Rent expenses	**398**	280
Advertising expenses	**337**	246
Fire and other security services	**318**	280
Audit and consulting fees	**302**	228
Universal service fund contributions	**281**	176
Non-commercial partnership expenses	**221**	140
Member fees, charity contribution, payments to labor unions	**137**	143
Business travel expenses and representation costs	**95**	88
Cost of goods sold	**82**	156
Expenses on services of banks	**73**	64
Education expenses	**63**	61
Insurance	**58**	67
Other expenses	**177**	263
Total other operating expenses	**3,694**	3,116

Other expenses include primarily expenses on services of credit organizations, other expenses on non-telecommunication activities.

25. Other Operating Income

	2007	2006
Reimbursement of losses from universal telecommunication services	**320**	–
Reimbursement of losses	**91**	99
Write-off of AP on VAT on tariff compensation	**47**	–
Other	**116**	106
Total other operating income	**574**	205

Reimbursement of Losses from Universal Telecommunication Services

In 2007 in accordance with the agreements outlining the terms and conditions of providing universal telecommunication services that have been entered into with the Federal Telecommunications Agency, the Company received reimbursement of losses from the provision of universal telecommunication services in the following amount:

- 51 - for services provided in H1 2007;
- 269 - for services provided in H2 2007.

In 2007 the loss from provision of universal telecommunication services amounted to 320 and was confirmed by the independent auditing firm. The difference between the loss for 2007 and loss reimbursed for the 1-st half of 2007 was reimbursed in accordance with the established procedure (see Note 1). According to the decision made by FTA subsequently on May 8, 2008 the loss was reimbursed in the amount of 272.

26. Interest Expense, Net

	2007	2006
Interest income	**15**	23
Interest expense on loans, promissory notes, bonds	**(921)**	(809)
Interest expense on finance leases	**(207)**	(213)
Interest expense on vendor financing	**(21)**	(19)
Total interest expense	**(1,134)**	(1,018)

The amount of capitalized interest in 2007 and 2006 amounted to:

	2007	2006
Capitalized as part of property, plant and equipment	**34**	24
Capitalized as part of intangible assets	**30**	17
Total capitalized interest	**64**	41

27. Income Tax

For the years ended December 31, 2007 and 2006, the income tax expense included:

	2007	2006
Current income tax expense	**(1,346)**	(1,073)
Deferred tax expenses	**(93)**	(68)
Income tax expense for the year	**(1,439)**	(1,141)

Theoretical and actual income tax is reconciled as follows:

	2007	2006
Profit (loss) form before taxation from continuing operations	**4,491**	3,384
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**(1,078)**	(812)
Increase (decrease) resulting from the effect of:		
Adjustments to current income tax for previous years	**(34)**	(9)
Non-taxable income	**128**	103
Non-deductible expenses	**(378)**	(374)
Reclassification of differences from permanent to temporary	**(77)**	(49)
Total actual income tax	**(1,439)**	(1,141)
Effective tax rate	**32%**	34%

27. Income Tax (continued)

Deferred income tax assets and liabilities as of December 31, 2007 and 2006, and their movements in 2007 were as follows:

	December 31, 2005 (as restated)	Movement in 2006 (as restated)	Additions with acquired subsidiaries	December 31, 2006 (as restated)	Profit for the period	December 31, 2007
Tax effect of deferred tax requirements:						
Accounts payable and accruals	205	62		267	29	**296**
Pension liabilities	–	157		157	(8)	**149**
Trade and other receivables	69	(36)		33	(11)	**22**
Loans	29	(46)		(17)	24	**7**
Finance lease	27	(88)		(61)	(32)	**(93)**
Total deferred tax requirements	**330**	**49**		**379**	**2**	**381**
Tax effect of deferred tax liabilities:						
Property, plant and equipment	(2,892)	55	15	(2,822)	(36)	**(2,858)**
Intangible assets	(95)	(170)	(101)	(366)	(67)	**(433)**
Inventories		1		1	–	**1**
Effect of investments evaluation	(10)	(3)		(13)	8	**(5)**
Total deferred tax liabilities	**(2,997)**	**(117)**	**(86)**	**(3,200)**	**(95)**	**(3,295)**
Total net deferred tax assets (liabilities)	**(2,667)**	**(68)**	**(86)**	**(2,821)**	**(93)**	**(2,914)**

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

The Company did not report deferred tax liability of 270 with respect to temporary differences arising on investment in subsidiaries, as the Company is able to control the timing of the reversal of these temporary differences, and does not intend to cause such differences to reverse in the foreseeable future.

28. Earnings per Share

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

	2007	2006
Profit for the year attributable to equity holders of the parent	**3,006**	2,183
Weighted average number of ordinary shares outstanding (thousand) and other instruments	**328**	328
Basic and diluted profit per share attributable to equity holders of the parent (Russian Roubles)	**9.16**	6.66

29. Dividends Declared and Proposed for Distribution

In 2007 (2006) in accordance with the decision of the general shareholders meeting, dividends were declared for the year ended December, 31 2006 (December 31 2005) as follows:

Shares	Number of shares	Dividends per share (RUR)	Total dividends paid (RUR)
In 2006 for 2005			
Ordinary	81,983,404	2.7583	226,134,823
Preference	245,969,590	1.4744	362,657,563
Total	**327,952,994**		**588,792,386**
In 2007 for 2006			
Ordinary	81,983,404	2.9928	245,359,931
Preference	245,969,590	1.5776	388,041,625
Total	**327,952,994**		**633,401,556**

The amount of annual dividend per share for the year ended December 31, 2007 was approved by general shareholders’ meeting on June 24, 2008. The general shareholders` meeting approved dividends for 2007 in the amount of 2.1346 Roubles per ordinary share and 4.0534 Roubles per preference shares (for 2006 – 1.5776 Roubles and 2.9928 Roubles, respectively).

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders’ meeting. Earnings available for dividends are limited to profits determined in accordance with the Russian statutory accounting regulations. Dividends are accrued in the year they are declared and approved.

30. Operating Lease

As of December 31, 2007 and 2006 minimum lease payments under operating leases where the Company is a lessee were allocated by years as follows:

	2007	2006
	Minimum lease payments	Minimum lease payments
Current portion (less than 1 year)	**59**	43
From 1 to 5 years	**65**	67
Over 5 years	**227**	239
Total minimum lease payments	**351**	349

In 2007 operating lease expenses of the Company recorded in “Other operating expenses” line of the consolidated income statement amounted to 398 (2006 - 280).

31. Contingencies and Operating Risks

Operating Environment of the Company

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

31. Contingencies and Operating Risks (continued)

Taxation

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

At December 31, 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

Insurance

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.

Litigations, Claims and Assessments

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

Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Ministry of Information Technologies and Communications of the Russian Federation. These licenses expire in various years ranging from 2008 to 2012. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Company.

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

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

31. Contingencies and Operating Risks (continued)

Guarantees Issues

As of December 31, 2007 the Company guaranteed the credit line facilities provided mainly by banks to the Company’s lessors, mainly to CJSC “RTC-Leasing”. These guarantees were issued with regard to repayment of loans obtained by the lessors to purchase equipment and vehicles for the Company.

The total amount of loans guaranteed was 507 (2006 - 799). Management believes that fair value of the guarantees is immaterial as of all reporting dates presented in the financial statement. The Company estimates the probability of the need to execute these obligations as minimal.

32. Future Contractual Commitments

Capital Expenditure Commitments

As of December 31, 2007 and 2006 the Company had contractual commitments for capital investment in network modernization and expansion in the amount of approximately 7,164 and 5,409, respectively.

As of December 31, 2007 and 2006 the Company had contractual commitments for purchase of property, plant and equipment of 258 and 301, respectively.

In 2008, the Company plans to incur capital expenditures in the amount of 356 to meet industry legislation requirements for telecommunication networks and to traffic transmission, as well as to meet its commitments for rendering universal services and for national projects.

In 2008 the Company plans to make investments in Universal service project in the amount of 1,286, including 212 – for modernization of automatic telephone stations.

The Company plans to invest 390 in the national project “Education”.

33. Balances and Transactions with Related Parties

The nature of the significant Company’s related party transactions in 2007 and 2006 is presented below.

Item	OJSC “Svyazinvest”	Subsidiaries of OJSC “Svyazinvest”	Associates	State-controlled companies	Other
2006					
Rendering of telecommunication services, interconnection and traffic transmission services		2,164	80	319	
Rendering of assistance and agency services		670			
Revenues from rent of assets			4		
Revenurs from other services, goods		1	5	57	
Purchase of telecommunication services, interconnection and traffic transmission services		486	32		
Purchase of other services		5	2	787	440
Purchase of other assets and goods		7			
Interest payable borrowings				168	
Dividends receivable					1
Dividends payable	184				

33. Balances and Transactions with Related Parties (continued)

Item	OJSC "Svyazinvest"	Subsidiaries of OJSC "Svyazinvest"	Associates	State-controlled companies	Other
2007					
Rendering of telecommunication services, interconnection and traffic transmission services		**2,013**	**79**	**644**	**2**
Rendering of assistance and agency services		**642**	**8**	**818**	
Revenues from rent of assets		**2**	**1**	**14**	
Revenues from other services, goods		**10**		**14**	**1**
Fixed assets and other assets sale					**15**
Purchase of telecommunication services, interconnection and traffic transmission services		**541**	**44**	**33**	
Purchase of other services		**39**	**3**	**606**	**485**
Purchase of other assets and goods		**1**		**61**	**313**
Interest receivable borrowings				**1**	**1**
Interest payable borrowings				**71**	**680**
Dividends receivable					**3**
Dividends payable	**197**				
Loans received				**1,500**	
Guarantees given				**815**	

The nature of the significant Company's related party transactions balances outstanding as of December 31, 2006 and 2007 is detailed below.

Item	OJSC "Svyazinvest"	Subsidiaries of OJSC "Svyazinvest"	Associates	State-controlled companies	Other
At December 31, 2006					
Trade and other receivables		372	20	93	151
Accounts payable		58	26	85	5
Borrowings received (including interest)				744	8
At December 31, 2007					
Trade and other receivables		**277**	**19**	**96**	**42**
Accounts payable		**310**	**5**	**39**	**69**
Borrowings received (including interest)				**3,633**	**8,346**
Pledges given				**3,706**	

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

Outstanding balances as of the year-end are unsecured, interest-free and the settlements occur in cash (or mutual offset of the balances with the same customer or supplier). There have been no guaranties provided or received with regard to any related party receivables or payables. For the year ended December 31, 2007, the Company has not recorded impairment of related parties' receivables. This assessment is undertaken each reporting year through examining the financial position of the related party and the market in which the related party operates.

33. Balances and Transactions with Related Parties (continued)

OJSC “Svyazinvest”

The parent entity of OJSC “VolgaTelecom” – 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 “Svyazinvest” to the private sector.

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

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 revenues associated with OJSC “Rostelecom” are formed in the proceeds from zonal initiation/ termination of call from/ to the Company's networks and from/ to the networks of connected operators and revenues under the assistance agreement.

Expenses associated with OJSC “Rostelecom” include payments for services of call termination to the networks of the other telecommunication operators and, if the call is initiated from mobile radiotelephone network, expenses for interconnection, as well as expenses for long-distance domestic and international telecommunication services provided by the Company.

As of December 31, 2007 and 2006 and the years then ended respective amounts included in the consolidated financial statements were as follows:

	2007	2006
Revenues from services provided for OJSC “Rostelecom”	**1,929**	2,145
Revenues under assistance agreements with OJSC “Rostelecom”	**584**	670
Expenses on OJSC “Rostelecom” services	**84**	130
Accounts receivable from OJSC “Rostelecom” as of December 31	**256**	356
Accounts payable to OJSC “Rostelecom” as of December 31	**299**	48

Transactions with Government and State-controlled Organizations

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

Certain entities financed by the state budget are users of the Company’s network. These entities generally lease lines of communications and are 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 the detection of crime.

Entities with direct or indirect state control have no effect on the Company's transactions with other companies.

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

33. Balances and Transactions with Related Parties (continued)

Non-Commercial Partnership “Centre for Research of Telecommunications Development Problems”

The non-commercial partnership “Centre for Research of Telecommunications Development Problems” (hereinafter “the Partnership”) is an entity controlled by OJSC ”Svyazinvest” through its subsidiaries.

The Company has an agreement with the Partnership under which it provides funding for industry research and administrative activities on behalf of the Company and of other subsidiaries and associates of OJSC ”Svyazinvest”. Payments to the Partnership are included in other operating expenses in the consolidated income statement for the year ended December 31, 2007 and amounted to 221 (2006 - 148).

OJSC “Svyazintek”

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

In 2007 the Company incurred expenses on services provided by OAO Svyazintek in the amount of 291 (2006: 309). In table showing transactions with related parties in the reporting period these expenses are reported in line “Purchase of goods and other assets”. Expenses in the amount of 222 (2006: 309) are included in non-current assets; expenses in the amount of 69 (2006: nil) are recorded as current period expenses.

NPF “Telecom-Soyuz”

The Company signed several agreements with Non-state pension fund “Telecom-Soyuz” on the pension plans (Note 22). The majority of votes in the Board of Directors of NPF “Telecom-Soyuz” belongs to OAO “Svyazinvest” Total payments from the Company to the Fund amounted to 130 (2006 - 190).

Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board, the Audit Committee and Board of Directors of the Company, totaling 20 persons as of December 31, 2007 (2006 - 21).

In 2007 compensation to members of the Board of Directors, Management Board and the Audit Commission of the Company included salary, bonuses and compensation for involvement in management bodies and totals amounts to 73 (2006 - 68).

34. Financial Instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Company’s operations. The Company has various 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.

34. Financial Instruments (continued)

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 manage the following ratios: financial independence ratio, net debt/shareholder's equity ratio and to maintain net debt/EBITDA ratio at the level of 2.23.

In 2007 international rating agency “Standard&Poors” assigned 5.2 long-term credit risk rating to the Company (2006 – 5.1).

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

As the OJSC “VolgaTelecom” is a key legal entity of the Company, the indicators used to manage capital are based on its 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 key financial instrument as for December, 31, 2007 and 2006 were as following:

	December 31, 2007	**December 31, 2006**
Financial independence ratio	**0.51**	0.50
Net debt/shareholder’s equity	**0.69**	0.72
Net debt / EBITDA	**1.58**	1.83

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.

As of December 31, 2007 the Company’s liabilities in foreign currencies were 1,256 (2005 – 1,383), including liabilities denominated in US dollars of 918 (2006 – 801) and in Euro and other currencies of 338 (2006 – 582).

For the period from January 1, 2006 to December 31, 2007 exchange rate of the Russian Rouble to US Dollar increased by approximately 14.7% and exchange rate of the Russian Rouble to Euro decreased by approximately 5.1%, which resulted in an increase in the Ruble equivalent of the borrowings of approximately 66.

34. Financial Instruments (continued)

Foreign Exchange Risk (continued)

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

	USD		EUR	
	Changes in exchange rate, %	**Effect on income before income tax**	**Changes in exchange rate, %**	**Effect on income before income tax**
2007	**+10%**	**(90)**	**+5%**	**(16)**
	–10%	**90**	**–5%**	**16**
2006	+10%	(69)	+5%	(29)
	–10%	69	–5%	29

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

According to current risk management policy the Company performs an integral evaluation of risks, taking into account the following:

- The level of risks impact on the financial ratios;
- The probability of risk.

Moreover, the Company used qualitative criteria – the level of risk controllability - to make decisions over the risk response strategy.

Taking into account the structure of currency portfolio of the Company and the exchange rates of USD and Euro during 2007, the Company evaluated foreign exchange risk as not significant.

In case of evaluation of the risk as significant, the Company would take measures to decrease the risk as follows:

- Hedging, including the use of futures, forwards, options;
- Refinancing of borrowings nominated in the foreign currency.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results. The Company is exposed to the risk of changes in market rates primarily through long-term borrowings with floating interest rate.

The table below demonstrates financial instruments of the Company exposed to interest rate risk as for December 31, 2007 and 2006

	< 1 year	**1 - 5 years**	**> 5 years**	**Total**
December 31, 2007				
Floating rate				
Short-term obligations	**243**			**243**
Long-term obligations	**3,109**	**3,217**		**6,326**

	< 1 year	**1 - 5 years**	**> 5 years**	**Total**
December 31, 2006				
Floating rate				
Short-term obligations	20	–	–	20
Long-term obligations	–	6,151	–	6,151

34. Financial Instruments (continued)

Interest Rate Risk (continued)

Analysis for the Company's financial instruments other than bonds shows limited sensitivity of profit to interest rate risk as the aggregate effect on profit before income tax of movements in the interest rate under Libor (±10 basis points on profit before income tax), under Euribor (±5 basis points on profit before income tax) and under Mibor (±10 basis points on profit before income tax) will be less than ±1.

The table below presents sensitivity of profit with regard to movements in the interest rates under bond issues VT-2 and VT-4 repurchase offer (the interest rates for bonds will be revised on execution of offer).

	Bond repurchase offer	
	Changes in interest rate, base points	**Effect on income before income tax**
2007	**+10**	**(6)**
	–10	**6**
2006	+10	(6)
	–10	6

Liquidity Risk

The Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases. As of December 31, 2007 and 2006 the Company's debt matures as following:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Total
within 2008	3,269	4,166	293	185	**7,913**
within 2009	1,264	4,217	112	151	**5,744**
within 2010	204	972	–	–	**1,176**
within 2011	179	–	–	–	**179**
after 2001	1,581	–	–	–	**1,581**
Total	**6,497**	**9,355**	**405**	**336**	**16,593**

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Total
within 2007	1,674	725	397	128	**2,924**
within 2008	857	4,120	119	185	**5,281**
within 2009	150	4,217	0	151	**4,518**
within 2010	68	972	30	–	**1,070**
after 2010	44	–	–	–	**44**
Total	**2,793**	**10,034**	**546**	**464**	**13,837**

Distribution of borrowings by maturity is based on contractual undiscounted cash flows. These flows include the repayment of principal amount as well as interest payments and other additional payments to be made during respective periods.

In case when the liabilities were nominated in foreign currency, the exchange rate for the projected periods was taken equal to the rates as at December 31, 2007.

34. Financial Instruments (continued)

Liquidity Risk (continued)

In case when the interest rate included floating part, the rate was set as equal to the interest rate as at December 31, 2007.

Calculations are made with the use of nominal interest rate. Effective interest rates used in determination of carrying values of liabilities are not used when calculating the projected interest.

Total undiscounted cash flows differ from the amount included in the balance sheet since the balance sheet amounts are based on discounted cash flows.

Credit Risk

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

Financial assets potentially subject the Company to credit risk consist primarily of trade receivables. 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 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-profit organizations. Recovery of these debts is influenced by political and economic factors; however, management believes that as of December 31, 2007 the Company has no significant impairment losses beyond the respective provision already recorded.

Hedging

In 2007, the Company has not entered into any hedging arrangements in respect of its foreign exchange or interest rate exposures.

34. Financial Instruments (continued)

Fair Value of Financial Instruments

The fair value of the Company's financial instruments as of December 31, 2007 and 2006 is presented by types of the financial instruments in the table below:

		2007		2006	
Type of financial instrument	**Category***	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets					
Long-term investments, available for sale	ASFA	29	29	28	28
Long-term deposit	LR	30	30		
Long-term accounts receivable	LR	10	10	22	22
Long-term loans issued	LR	9	9	13	13
Short-term accounts receivable	LR	2,184	2,184	1,988	1,988
Other current assets	LR	1,174	1,174	979	979
Cash and cash equivalents	LR	495	495	462	462
Total financial assets		**3,931**	**3,931**	**3,492**	**3,492**
		–	–		
Financial liabilities					
Long-term loans and borrowings	FLAC	2,722	2,722	789	789
Long-term bond loans	FLAC	4,812	4,836	8,240	8,320
Long-term promissory notes debt	FLAC	144	144	266	266
Long-term vendor financing	FLAC	49	49	142	142
Long-term finance lease obligations	FLAC	620	620	640	640
Short-term accounts payable	FLAC	4,218	4,218	4,026	4,026
Short term loans and borrowings	FLAC	1,245	1,245	1,514	1,514
Short-term bond loans	FLAC	76	76	56	56
Short-term promissory notes debt	FLAC	5	5	14	14
Short term vendor financing	FLAC	9	9	–	–
Current portion of loans and borrowings	FLAC	1,676	1,676	158	158
Current portion of bond loans	FLAC	3,428	3,442	–	–
Current portion of promissory notes debt	FLAC	162	162	128	128
Current portion of vendor financing	FLAC	332	332	385	385
Current portion of finance lease obligations	FLAC	336	336	800	800
Total financial liabilities		**19,834**	**19,872**	**17,158**	**17,238**

34. Financial Instruments (continued)

Fair Value of Financial Instruments (continued)

The fair value of the Company's financial instruments as of December 31, 2007 and 2006 is presented by categories of the financial instruments in the table below:

	2007		2006	
Category of financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Available-for-sale financial assets	**29**	**29**	28	28
Loans and receivables	**3,902**	**3,902**	3,464	3,464
Total financial assets	**3,931**	**3,931**	3,492	3,492
Financial liabilities				
Liabilities carried at amortized cost	**19,834**	**19,872**	17,158	17,238
Total financial liabilities	**19,834**	**19,872**	17,158	17,238

* Financial instruments used by the Company are included in one of the following categories:

- HMI – held-to-maturity investments;
- ASFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLAC – financial liabilities at amortized cost;
- FG – financial guarantees

35. Events after the Balance Sheet Date

Dividends

The amount of annual dividend per share was approved by general shareholders' meeting on June 24, 2008 based on recommendation of the Board of Directors.

The general shareholders` meeting approved dividends for 2007 in the amount of 2.1346 Roubles per ordinary share and 4.0534 Roubles per preference shares (2006 – 1,5776 Roubles and 2.9928 Roubles, respectively). The total amount of dividends proposed comprises 525 per ordinary shares and 332 per preferred stock (2006 – 388 and 245, respectively). These annual dividends will be recognized in the financial statements of the Company for the year ended December 31, 2008.

Purchase of shares of CJSC "Systems of Gybrid Printing"

On February 15, 2008 the Board of Directors approved the purchase of 4,452,500 ordinary shares of CJSC "Systems of Gybrid Printing" (6.85% of total share capital) for 445.

35. Events after the Balance Sheet Date (continued)

Tariffs for Telecommunication Services

Following Order # 356-s/1 of the Federal Tariff Service of Russia, dated November 23, 2007, OJSC “VolgaTelecom” changed tariffs for local telecommunication services effective February 1, 2008.

Tariffs for Local Telephone Communication Services

For subscribers – individuals:

- basic volume of local telephone connections using combined payment scheme did not change;
- ultimate levels of tariffs for local telecommunication services per minute above basic volume of local telephone connections using combined payment scheme and for local telecommunication services using time-based payment scheme are rounded off (in Nizhniy Novgorod Filiation there was an increase from 0.23 to 0.24 rur/min using time-based payment scheme);
- the ultimate levels of tariffs for local telephone connections using fixed payment scheme is reduced by 38% and from February 1, 2008 is 186 Roubles for unlimited number of local telephone connections for individuals (2007 – 300 Roubles).

For subscribers – legal entities:

- the ultimate level of tariff for basic volume of local telephone connections using the combined payment scheme is fixed at 95 Roubles. (in 2007 was not rendered);
- the ultimate tariffs per minute of local calls over basic volume using the combined payment scheme is fixed at the level of the respective tariffs in the amount of 0.20 Roubles (in 2007 was not rendered);
- the ultimate tariffs for local telephone connections using the fixed payment scheme is fixed at 300.0 Roubles for unlimited number of telephone connections in all offices (in 2007 was not rendered);
- ultimate levels of tariffs for local telecommunication services per minute using time-based payment scheme are rounded off (in Nizhniy Novgorod Filiation there was an increase from 0.23 to 0.24 rur/min using time-based payment scheme).

Tariffs for Interconnection and Traffic Transmission Services

Pursuant to the Russian Government Decree No. 627, dated October 19, 2005, the compensation markup on local and intrazone initiation services was canceled starting January 1, 2008.

The Decree No. 666 of the Russian Government, dated October 12, 2007, “Concerning amendments to certain acts of the Russian Government related to telecommunication issues” services related to maintenance of communication facilities representing interconnection points were excluded from the scope of interconnection services. Thus the Company expects decrease on revenues of the services as well as decrease on the expenses for services from operators.

35. Events after the Balance Sheet Date (continued)

Tax Inspections

In 2007 a comprehensive tax inspection of the Company’s operations for the years 2004-2006 was executed by the tax authorities represented by the Intraregional Inspection of Russia’s Federal Internal Revenue Service of the largest taxpayers № 7. As a result on March 28, 2008 the Company received the act for this tax examination disputed by April 18, 2008. The initial amount of the claim to the Company was 269. On April 30, 2008 the Inspection issued a final Decision claiming from the Company 173 of additional taxes fines and penalties.

The Company disagreed with the conclusions of the tax authorities with respect to 99% of the claim and will take the legal recourse to support its position in case needed. Management believes that the Company has relevant arguments to sustain its position in the court. However as of now court perspective of such tax claims seems to be unclear in view of court practice absence.

Verification of the Amount of Losses from the Provision of Universal Communication Services in 2007

In 2008, the Federal Communications Agency issued Order No. 83 of May 8, 2008 confirming the amount of losses claimed by the Company in relation to 2007 and containing the decision to compensate them in full (Note 25).

Purchase of shares of CJSC “Ulianovsk-GSM”

On July 15, 2008 the Company acquired additional 40% of voting shares of its subsidiary CJSC “Ulianovsk-GSM” from the entity’s minority shareholder CJSC “SMARTS” for 985, and thus increased its equity interest up to 100%. This transaction will be reported in the financial statements for 2008 as an acquisition of minority interest in subsidiary.

Obligations Under Finance Leasing Agreement

In April 2008 as a result of open tender the Company concluded finance lease agreement with OJSC “RTK- Leasing” for equipment. Under this agreement the cost of equipment amounts to 1,281, the lease payments amount to 1,844, the lease term is 60 months. Effective interest rate is approximately 13.04%.

Bank Loan Agreements with Sberbank and UniCreditBank

In February 2008 the Company entered into a renewable loan agreement with OJSC “AKB Sberbank RF” for 500. The loan matures in 2009, interest rate is 8%. Loan given under the agreement is unsecured.

On May 29, 2008 the Board of Directors of the Company approved three agreements with UniCreditBank, according to which the Company will provided with long-term non-renewable credit lines. The terms of the agreements, determined as a result of open tender held in March-April 2008, were as follows:

Loan amount	**Period of loan**	**Interest rate**
600	1.5 years	MOSPRIME + 2.75%
550	2 years	MOSPRIME + 2.80%
500	3 years	MOSPRIME + 2.95%