Open Joint Stock Company
Uralsvyazinform

Consolidated Financial Statements
for the year ended 31 December 2008

OJSC Uralsvyazinform
Consolidated Financial Statements
For the year ended 31 December 2008

Contents

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of OJSC Uralsvyazinform

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
31 May 2009

OJSC Uralsvyazinform
Consolidated Balance Sheet as at 31 December 2008
(in millions of Russian roubles)

	Notes	31 December 2008	Restated 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	8	**52,100**	49,008
Investment property	9	**43**	-
Intangible assets and goodwill	10	**2,764**	2,964
Long-term receivables		**46**	43
Other non-current assets	11	**49**	162
Non-current investments and loans given	12	**74**	112
Total non-current assets		**55,076**	52,289
Current assets			
Inventories	13	**340**	383
Trade and other receivables	14	**3,646**	3,250
Income tax receivable		**335**	140
Other current assets	15	**279**	579
Investments and loans given	12	**1,552**	21
Cash and cash equivalents	16	**1,095**	705
Assets held for sale	7	**10**	10
Total current assets		**7,257**	5,088
TOTAL ASSETS		**62,333**	57,377
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	**8,749**	8,749
Unrealized gain on available-for-sale investments		**1**	5
Retained earnings and other reserves		**13,940**	12,511
Total equity attributable to shareholders of the Company		**22,690**	21,265
Total equity		**22,690**	21,265
Non-current liabilities			
Loans and borrowings	19	**17,334**	15,466
Employee benefits	20	**2,094**	1,862
Long-term payables		**5**	8
Other long-term liabilities	21	**182**	237
Deferred tax liabilities	33	**2,532**	2,711
Total non-current liabilities		**22,147**	20,284
Current liabilities			
Loans and borrowings	19	**10,357**	11,122
Accounts payable and accrued expenses	23	**6,038**	3,468
Other current liabilities	24	**1,009**	1,014
Provisions	22	**92**	220
Liabilities relating to assets held for sale	7	**-**	4
Total current liabilities		**17,496**	15,828
Total liabilities		**39,643**	36,112
TOTAL EQUITY AND LIABILITIES		**62,333**	57,377

General Director ____________ Ufimkin A.Y.   Chief Accountant ____________ Balueva S.I.

OJSC Uralsvyazinform

Consolidated Income Statement for the year ended 31 December 2008

(in millions of Russian roubles, except per share amounts)

	Notes	2008	Restated 2007
Revenues	25	**40,691**	39,147
Personnel costs	26	**(9,243)**	(9,307)
Depreciation and amortization	8,10	**(7,675)**	(6,514)
Interconnection charges		**(5,845)**	(5,245)
Materials, repairs and maintenance, utilities	27	**(3,526)**	(3,223)
Other operating income	28	**1,720**	945
Other operating expenses	29	**(9,641)**	(9,546)
Operating profit		**6,481**	6,257
Share of profit of equity accounted investees		**-**	7
Interest expenses	30	**(2,898)**	(2,756)
Finance income	31	**161**	291
Other finance expenses	32	**(410)**	-
Profit before income tax		**3,334**	3,799
Income tax expense	33	**(799)**	(1,502)
Profit for the year		**2,535**	2,297
Attributable to:			
Shareholders of the Company		**2,535**	2,297
Minority interest		**-**	-
Basic and diluted earnings per share (in Russian Roubles)	34	**0.0632**	0.0572

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

	Notes	2008	Restated 2007
Cash flows from operating activities:			
Profit before income tax		**3,334**	3,799
Adjustments for:			
Depreciation and amortisation	8,10	**7,675**	6,514
Loss on disposal of property, plant and equipment		**484**	399
Decrease in allowance for inventory	13	**(4)**	(3)
Bad debt expenses	14	**140**	92
Share profit of equity accounted investees		**-**	(7)
Interest expenses	30	**2,689**	2,526
Finance income	31	**(161)**	(291)
Other finance expenses	32	**410**	-
Operating cash flows before changes in working capital and provisions		**14,567**	13,029
Decrease in inventories		**47**	117
Increase in trade and other receivables		**(493)**	(836)
Decrease in other current assets		**298**	490
Increase in employee benefits		**232**	312
Increase/(decrease) in accounts payable and accrued expenses		**1,300**	(104)
(Decrease)/increase in provisions		**(128)**	201
Decrease in other operating assets and liabilities		**24**	65
Cash flows generated from operations before income taxes and interest paid		**15,847**	13,274
Interest paid		**(2,834)**	(2,617)
Income tax paid		**(1,172)**	(1,272)
Cash flows from operating activities		**11,841**	9,385
Investing activities			
Acquisition of property, plant and equipment		**(8,522)**	(5,980)
Proceeds from sales of property, plant and equipment		**388**	221
Acquisition of intangible assets		**(665)**	(665)
Acquisition of subsidiaries and minority interests, net of cash acquired		**13**	137
Acquisition of investments		**(1,792)**	-
Proceeds from sale of investments		**228**	637
Interest received		**94**	108
Dividends received		**1**	2
Cash flows utilised in investing activities		**(10,255)**	(5,540)

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

	Notes	2008	Restated 2007
Financing activities			
Proceeds from loans and borrowings		**12,298**	6,800
Repayment of loans and borrowings		**(10,356)**	(3,968)
Proceeds from bond issue		**1,991**	-
Repayment of bond issue		**(1,898)**	(2,950)
Repayment of promissory notes		**(27)**	(543)
Repayment of vendor financing		**(404)**	(1,128)
Proceeds from (repayment of) other non-current liabilities		**(2)**	70
Repayment of finance lease obligations		**(1,692)**	(1,329)
Dividends paid to shareholders of the Company		**(1,106)**	(738)
Cash flows utilised in financing activities		**(1,196)**	(3,786)
Net increase in cash and cash equivalents		**390**	59
Cash and cash equivalents at beginning of year	16	**705**	646
Cash and cash equivalents at end of year	16	**1,095**	705

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

	Note	Share capital				
		Preference shares	**Ordinary shares**	**Retained earnings**	**Unrealized gain on available-for-sale investments**	**Total equity, attributable to shareholders of the Company and total equity**
Balance at 31 December 2006 (as previously reported)		**1,708**	**7,041**	**11,215**	**4**	**19,968**
Error correction	2	-	-	(263)	-	(263)
Balance at 31 December 2006 (restated)		**1,708**	**7,041**	**10,952**	**4**	**19,705**
Revaluation of available-for-sale investments		-	-	-	1	1
Profit for the year		-	-	2,297	-	2,297
Total recognized gains and losses for the year				2,997	1	2,998
Dividends to shareholders of the Company		-	-	(738)	-	(738)
Balance at 31 December 2007		1,708	7,041	12,511	5	21,265
Balance at 31 December 2007 (as previously reported)		**1,708**	**7,041**	**12,774**	**5**	**21,528**
Error correction	2	**-**	**-**	**(263)**	**-**	**(263)**
Balance at 31 December 2007 (restated)		**1,708**	**7,041**	**12,511**	**5**	**21,265**
Revaluation of available-for-sale investments		-	-	-	(4)	(4)
Profit for the year		-	-	2,535	-	2,535
Total recognized gains and losses for the year				2,535	(4)	2,531
Dividends to shareholders of the Company	35	-	-	(1,106)	-	(1,106)
Balance at 31 December 2008		**1,708**	**7,041**	**13,940**	**1**	**22,690**

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

1. General Information

Authorisation of the Financial Statements

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

Company

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

The Company's official address: Russia, 620014, Yekaterinburg, Moskovskaya Str., 11.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, data transmission services, rents out communication channels and provides wireless communication services on the territory of the Ural Federal District and Permsky kray of the Russian Federation.

2008 OJSC Svyazinvest, a Company controlled by the Russian Government, owned 51% of the ordinary voting stock of OJSC Uralsvyazinform as at 31 December, and is the Company's parent company.

Principal subsidiaries are disclosed in Note 6. All subsidiaries are incorporated under the laws of the Russian Federation, unless otherwise stated.

Liquidity and Financial Resources

As at 31 December 2008 the current liabilities of the Company exceeded its current assets by 10,249 (as at 31 December 2007: 10,746).

In 2008 and earlier periods, the Company relied on both short-term and long-term borrowings to finance the improvement of its communications networks. This financing has primarily been provided through bank loans and bonds.

In 2009, the Company expects to generate funds from the following sources: cash flow from operating activities, placement of rouble bonds in the Russian market; and raising funds from domestic lending. Moreover, management believes that the existing payment terms relating to operating activities could be renegotiated, and certain capital investment projects may be deferred or curtailed in order to fund the Company's current operating needs.

2. Basis of Preparation

Statement of Compliance

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

Going concern

The financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Presentation of Financial Statements

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

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

Basis of Accounting

The consolidated financial statements have been prepared under the historical cost convention except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS; available-for-sale investments are stated at fair value; and that share capital was revalued to include the effects of inflation accumulated before 1 January 2003.

Changes in Accounting Policies

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

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

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

(in millions of Russian roubles)

IFRSs and IFRIC Interpretations approved but not yet effective

The Company has not applied IFRSs and IFRIC Interpretations that have been issued but are not yet effective as at 31 December 2008. The Company plans to adopt these standards and interpretations when they become mandatory. The following standards and interpretations may potentially have an effect on the Company's results of operation and financial positions in the period of initial application:

Standard/Interpretation	Content of change	Effective date
IFRS 8 Operating Segments	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	To be applied for annual reporting periods beginning on or after 1 January 2009.
IAS 1 (as revised in 2007) Presentation of Financial Statements	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i. e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	To be applied for annual reporting periods beginning on or after 1 January 2009.
IFRS 3 (as revised in 2008) Business Combinations	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	To be applied for annual reporting periods beginning on or after 1 July 2009.
IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	To be applied for annual reporting periods beginning on or after 1 July 2009.

(in millions of Russian roubles)

Standard/Interpretation	Content of change	Effective date
IFRIC Interpretation 13 Customer Loyalty Programmes	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	To be applied for reporting periods beginning on or after 1 July 2008.
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets	The Amendments set out rules of reclassification of financial assets to different categories and establish disclosure requirements in respect of reclassifications made.	To be applied for reporting periods beginning on or after 1 July 2008.

As at 31 December 2008, management of the Company did not complete the assessment of the impact of Standards and Interpretations not yet effective at that date on the Company's accounting policies.

Correction of prior period errors

In the course of the preparation of the financial statements for 2008, the Company identified certain prior period errors. The errors related to year ended 31 December 2007 and earlier periods were corrected by restatement of the comparative information for the year ended 31 December 2007 and by restatement of the balances of assets, liabilities and equity as at 31 December 2007 and 1 January 2007, respectively.

Deferred tax

In the course of the preparation of the financial statements for 2008 the Company identified unrecognized deferred tax liabilities and assets. The identified errors relate to 2006 and earlier periods.

The Company corrected the errors by adjusting the opening balance of retained earnings as at 1 January 2007.

Consolidated Balance Sheet as at 31 December 2007	Before adjustments	Effect of adjustments	After adjustments
Deferred tax liabilities	2,448	263	2,711
Retained earnings as of 31 December 2007	12,774	(263)	12,511
Retained earnings as of 1 January 2007	11,215	(263)	10,952

Change in presentation of comparatives

Management has changed presentation of certain items of assets and liabilities to improve the quality of financial statements in respect of aggregation of certain items. As required by IAS 8 "Accounting policies, changes in accounting estimates and errors", prior year comparatives have been restated.

(in millions of Russian roubles)

The effects of reclassifications on the consolidated financial statements for the year 2007 are summarized in the table below:

Consolidated Balance Sheet as at 31 December 2007	**Before adjustments**	**Effect of adjustments**	**After adjustments**
Intangible assets	2,954	10	2,964
Financial investments available-for-sale	39	(39)	-
Long-term advances given	160	(160)	-
Other non-current assets	129	33	162
Long-term receivables	-	43	43
Long-term investments	-	112	112
Long–term loans and borrowings	13	(13)	-
Long-term lease liability	2	(2)	-
Long–term borrowings	-	15	15
Long-term provisions	8	(8)	-
Long-term accounts payable	-	8	8
Accounts payable and accrued liabilities	4,009	(541)	3,468
Taxes payable	430	(430)	-
Dividends payable	33	(33)	-
Other current liabilities	-	1,014	1,014
Current provisions	229	(9)	220

Long-term loans and financial investments available-for-sale were reclassified to Long-term investments.

Advances received, reclassified from Accounts payable and accrued liabilities, Taxes payable, Dividends payable and Short-term guarantees issued, reclassified from Short-term provisions, were included in “Other current liabilities”.

Long-term deferred expenses on connection services were reclassified from “Other non-current assets” to “Intangible assets”.

Consolidated Income Statement for the year ended 31 December 2007	**Before adjustments**	**Effect of adjustments**	**After adjustments**
Personnel costs	(9,540)	233	(9,307)
Materials, repairs and maintenance, utilities	(3,177)	(46)	(3,223)
Taxes, other than income tax	(935)	935	-
Bad debt expense	(92)	92	-
Loss from disposal of PPE and other assets	(398)	398	-
Agency fee	(2,551)	2,551	-
Rent	(650)	650	-
Advertising expenses	(567)	567	-
Other operating expenses	(4,212)	(5,334)	(9,546)
Universal services fund payments	758	(758)	-
Other operating income	-	945	945
Operating profit	**6,024**	**233**	**6,257**
Interest expenses	(2,415)	(341)	(2,756)
Financial income	-	291	291
Gain from the sale of subsidiaries, associated companies and other investments	180	(180)	-
Foreign exchange gain and losses	3	(3)	-
Profit before tax	**3,799**	**-**	**3,799**

Taxes, other than income tax, bad debt expense, loss from disposal of Property, Plant and Equipment and other assets, agency fee, rent, advertising expenses were reclassified to “Other operating expenses”.

Interest expense on pension benefits was reclassified from “Personnel costs” to “Interest expense”.

Interest expense, income from disposal of subsidiaries and associates, forex gain were reclassified to “Financial income”.

(in millions of Russian roubles)

Foreign currency transactions

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

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

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

3. Summary of Significant Accounting Policies

3.1 Principles of consolidation

The consolidated financial statements of the Company represent the financial statements of OJSC Uralsvyazinform and its subsidiaries. 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 intra-Company balances, transactions, income and expenses resulting from operations within the Company and recognized in the assets are entirely eliminated.

Subsidiaries are fully consolidated as at 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.

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 Interest in Subsidiaries

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

(in millions of Russian roubles)

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 costs less accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing part of the property, plant and equipment when these costs are incurred, if the recognition criteria are met. When each major inspection is performed, its costs are 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. All repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

3.2.2. Depreciation and Useful life

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

The Company applies the following useful lives:

	Years
Land	Not depreciated
Buildings and constructions	20 – 50
Transmission devices (radio and communication lines)	5 - 15
Vehicles and other property, plant and equipment	3 – 10

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

Company’s management reviewed the remaining useful lives of certain items of property, plant and equipment as at 31 December, 2008. As a result, useful lives of certain items were reassessed.

The effects of reassessment of the remaining useful lives of property, plant and equipment are presented in Note 8.

3.2.3. Assets received free of charge

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

3.2.4. Impairment of Property, Plant and Equipment

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.

3.3 Investment property

Investment property is recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Major renewals and improvements are capitalized, and the assets replaced are retired. All repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

Depreciation and Useful life

Depreciation of investment property is calculated on a straight-line basis.

For investment property the Company applies the same useful lives as for Property, Plant and equipment (Note 3.2).

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

3.4 Intangible assets

3.4.1 Initial recognition and subsequent measurement

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 reporting date. Changes in the expected useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of intangible assets are determined on individual basis (Note 10).

3.4.2 Impairment

Intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the caring value over the recoverable amount is recognized as impairment loss. Impairment of an asset recognized in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed.

3.5 Borrowing costs

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

3.6 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.

3.7 Investments and other financial assets

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

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. 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. Any loss is recognized in income statement.

Available-for-sale investments are non-derivative financial assets either deliberately classified as available-for-sale or not classified to any other category of financial assets. 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.

3.8 Inventories

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

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

3.9 Cash and cash equivalent

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

All these items are included as a component of cash and cash equivalents for the purpose of the balance sheet and statement of cash flows.

3.10 Shareholders' equity

Share capital

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

Dividends

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

3.11 Borrowings received

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

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

3.12 Leases

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

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

3.13 Employee benefits

3.13.1. Current employment benefits

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

3.13.2. Defined Post-Employment Benefit Plans

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial "projected credit unit" method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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

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

3.14 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.

3.15 Income tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period. Income tax expense is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using the tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

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

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

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.

3.16 Revenue recognition

Revenue from regular subscription fees is accounted for when the services are provided. Revenue from separable installation and connection activities is recognised upon activation. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

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

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

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

3.17 Earnings per share

For the purpose of calculating earnings per share, the Company classifies preferred shares as participating equity instruments.

3.18 Segment reporting

The Company comprises the following main business segments:

1. fixed line telecommunication services;
2. mobile telecommunication services;
3. other.

Management believes that the Company operates in one geographical segment.

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

4. Significant Accounting Judgments and 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 lives of property, plant and equipment no less than once a year 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 the income statement. As at 31 December, 2008, the carrying amount of property, plant and equipment amounted to 52,100 (2007 – 49,008). More details are provided in Note 8.

Impairment of Property, Plant and Equipment

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 the existence of impairment. 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 Unquoted Available-for-Sale Investments

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates.

Management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date.

As at 31 December 2008, the fair values of unquoted available-for-sale investments amounted to 24 (2007 – 39). More details are provided in Note 12.

Bad debt allowance

Allowance for bad debt 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. As at 31 December, 2008, allowances for impairment of accounts receivable have been created in the amount of 678 (2007 – 664) for trade receivables and in the amount of 15 (2007 – 30) for long-term advances given and other current assets. More details are provided in Notes 11, 14 and 15.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuations which rely on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. Should adjustments to the key assumption be required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As at 31 December 2008, net defined benefit obligations amounted to 2,094 (2007: 1,862). More details are provided in Note 20.

(in millions of Russian roubles)

5. Segment information

2008

	Fixed line	Mobile	Other	Total
Revenue				
Revenue from external customers	26,208	13,157	1,326	**40,691**
Total	**26,208**	**13,157**	**1,326**	**40,691**
Gross profit				
Segment result	5,965	3,497	946	10,399
Unallocated expenses	-	-	-	(3,918)
Operating profit	**-**	**-**	**-**	**6,481**
Interest expenses	-	-	-	(2,898)
Financial income	-	-	-	161
Other financial expenses				(410)
Income tax	-	-	-	(799)
Profit for the year				**2,535**
Assets and liabilities				
Segment assets	32,023	22,157	2,178	56,358
Unallocated assets	-	-	-	5,965
Assets held for sale	10	-	-	10
Consolidated total assets				**62,333**
Segment liabilities	(6,206)	(1,759)	(1,027)	(8,992)
Unallocated liabilities	-	-	-	(30,651)
Consolidated total liabilities				**(39,643)**
Other segment information				
Capital expenditure	8,229	2,769	-	10,998
Intangible assets	677	17	-	694
Depreciation and amortisation	4,058	3,464	153	7,675
Bad debt provision	106	39	-	145

(in millions of Russian roubles)

2007

	Fixed line	Mobile	Other	Total
Revenue				
Revenue from external customers	24,885	12,471	1,791	39,147
Total	**24,885**	**12,471**	**1,791**	**39,147**
Gross profit				
Segment result	5,530	3,962	1,316	10,808
Unallocated expenses	-	-	-	(4,551)
Operating profit	**-**	**-**	**-**	**6,257**
Income from associates	7	-	-	7
Interest expenses				(2,756)
Financial income	-	-	-	291
Other financial expenses	-	-	-	-
Income tax				(1,502)
Profit for the year				**2,297**
Assets and liabilities				
Segment assets	32,354	19,083	1,375	52,812
Unallocated assets	-	-	-	4,565
Consolidated total assets				**57,377**
Segment liabilities	(4,444)	(1,633)	(408)	(6,485)
Unallocated liabilities	-	-	-	(29,627)
Consolidated total liabilities				**(36,112)**
Other segment information				
Capital expenditure	8,398	1,692	-	10,090
Intangible assets	804	7	-	811
Depreciation and amortisation	3,780	2,590	144	6,514
Bad debt provision	68	41	-	109

The Company provides fixed line and mobile telecommunication services, as well as other services outside communication segment. The fixed line segment includes services of local telephony, intrazone telephony, interconnection and traffic transition, and data transmission (provision of access to the Internet). The mobile segments include services of mobile radiotelephone connection. Management believes that the Company operates in one geographical segment.

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

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

Segment liabilities include operating liabilities and exclude current income tax payable, loans and borrowings, finance lease liabilities and deferred income tax liabilities.

Capital expenses include purchases of property, plant and equipment and intangibles. Impairment losses and provisions are allocated to the segment only if they are attributable to the segment assets.

(in millions of Russian roubles)

6. Consolidated subsidiaries

OJSC Uralsvyazinform has control over its only subsidiary CJSC FK-Svyaz. As at 31 December 2008 the Company's share in CJSC FK-Svyaz amounted to 75% (2007: 75%).

CJSC FK-Svyaz is a Russian legal entity established pursuant to the legislation of the Russian Federation and has the same reporting date as the Company.

7. Assets and liabilities, classified as held for sale

In April 2008 the Company closed a sale of 100% of LLC Ural Inform TV. The transaction was approved by the decision of Board of the Directors on 20 December 2007. The selling price was determined by an independent appraiser and amounted to 14.

The Consolidated Financial Statements of the Company contain information about operations of LLC Ural Inform TV for the reporting period from 1 January 2008 to the date of sale.

Information on the acquisition price and carrying value of identifiable assets, liabilities of LLC Ural Inform TV at the date of disposal is presented below:

	2008
Selling price	14
Transaction costs	(1)
Total cash inflow from disposal of the subsidiary	**13**
Carrying value of identifiable assets and liabilities	
Property, plant and equipment	3
Trade and other receivables	7
Short-term liabilities	(4)
Total net assets	**6**
Company's share	100%

A gain in the amount of 7, resulting from the sale of share in LLC Ural Inform TV is included in Financial income (Note 31).

In 2008 the Company approved the Program of improvement of corporate property management. The scope of the program included increase of income from disposal of unused production premises. Based on the Program the Company reclassified certain items of property, plant and equipment to assets held-for-sale.

	2008	
	Net book value	**Fair value**
Assets held-for-sale	10	46

Fair value of assets held-for-sale was determined based on market prices of comparable premises located in respective regions.

(in millions of Russian roubles)

8. Property, plant and equipment

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
Cost					
At 31 December 2006	**23,116**	**27,960**	**598**	**10,421**	**62,095**
Additions	-	-	10,090	-	10,090
Disposals	(152)	(745)	(101)	(346)	(1,344)
Disposal of subsidiaries	(1)	-	-	-	(1)
Transfer from construction in progress	2,411	6,431	(10,155)	1,313	-
Reclassification to assets held for sale	-	(4)	-	(1)	(5)
At 31 December 2007	**25,374**	**33,642**	**432**	**11,387**	**70,835**
Additions	-	-	10,998	-	10,998
Disposals	(533)	(351)	(27)	(343)	(1,254)
Transfer from construction in progress	2,582	6,444	(10,797)	1,771	-
Reclassification to assets held for sale	(13)	-	-	-	(13)
Reclassification to investment property	(126)	-	-	-	(126)
At 31 December 2008	**27,284**	**39,735**	**606**	**12,815**	**80,440**
Accumulated depreciation and impairment losses					
At 31 December 2006	**(4,635)**	**(7,390)**	**-**	**(4,234)**	**(16,259)**
Charge for the year	(1,402)	(3,363)	-	(1,510)	(6,275)
Disposals	76	398	-	230	704
Disposal of subsidiaries	1	-	-	-	1
Reclassification to assets held for sale	-	1	-	1	2
At 31 December 2007	**(5,960)**	**(10,354)**	**-**	**(5,513)**	**(21,827)**
Charge for the year	(1,479)	(3,994)	-	(1,821)	(7,294)
Disposals	141	255	-	299	695
Reclassification to assets held for sale	3	-	-	-	3
Reclassification to investment property	83	-	-	-	83
At 31 December 2008	**(7 212)**	**(14 093)**	**-**	**(7 035)**	**(28 340)**
Net book value					
At 31 December 2006	**18,481**	**20,570**	**598**	**6,187**	**45,836**
At 31 December 2007	**19,414**	**23,288**	**432**	**5,874**	**49,008**
At 31 December 2008	**20,072**	**25,642**	**606**	**5,780**	**52,100**

(in millions of Russian roubles)

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

	2008	2007
Buildings and constructions	467	435
Switches and transmission devices	3,787	4,418
Vehicles and other fixed assets	863	1,140
Total net book value of plant and equipment	**5,117**	5,993

Depreciation of property, plant and equipment for 2008 in the amount of 7,294 (2007: 6,275) was recognised in line "Depreciation and amortisation" of the Consolidated income statement.

As at 31 December 2008 the historical cost of fully amortised property, plant and equipment amounted to 7,081 (2007: 5,215).

Additions to property, plant and equipment acquired under vendor financing and finance lease contracts in 2008 amounted to 914 (2007: 3,845)

In 2008, the Company capitalised increased the cost of construction-in-progress by capitalising interest in the amount of 99 (2007: 4). The capitalisation rate in 2008 was 9.075 % (2007: 8.591%).

As at 31 December 2008 the carrying value of assets pledged under loan, vendor financing and finance lease contracts amounted to 5,912 (2007: 11,579).

Reassessment of Useful Lives

The Company reassessed remaining useful lives of property, plant and equipment and recorded the changes with effect from 31 December 2008. The effect of this reassessment will result in an increased depreciation charge of property, plant and equipment of approximately 102, which will be recorded in 2009.

Impairment testing

For the purpose of impairment testing, the recoverable amount of each cash generating unit has been determined based on value in use calculation. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a discount rate which reflects time value of money and risks associated with each individual cash generating unit. The Company determined separate cash generating units for each regional branch of the fixed line segment, and a single cash generating unit for the mobile segment.

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

The key assumptions used by management in the calculation of value in use are as follows:

- for all cash generating units cash flow projections cover a period of five years. Cash flows beyond five-year period have been extrapolated;
- cash flow projections were prepared in nominal terms;
- the discount rate was estimated in nominal terms on the basis of the weighted average cost of capital. The pre-tax discount rate of 21.1% was used;
- the projected annual growth in revenue is as follows: 2009 – 1%; 2010 – 6%, 2011 – 7%, 2012 – 6%, 2013 – 6% and in 2014 and later – 2.5%.

Management believes that any reasonably possible change in the key assumptions above would not cause the carrying amount of the cash generating units to exceed their recoverable amount.

All estimates and assumptions correspond to external sources of information and historical data. Values determined based on the key assumptions represent management's assessment of future trends.

(in millions of Russian roubles)

9. Investment property

	2008	
	Net book value	**Fair value**
Investment property held to earn rentals	42	376
Investment property held to earn rentals and for consecutive sale	1	6
Total investment property	**43**	382

In 2008 the Company approved the Program of improvement of corporate property management. The scope of the program included increase of revenue from rentals and/or disposal of unused production premises. Under the Program the Company reclassified certain fixed assets to investment property, provided that the definition of investment property was met.

The Company's specialists performed fair value analysis of investment property in accordance with International valuation standards.

Assumptions were made in respect of:

- Information about rentals in the regions of investment property location;

- Information about operating expenses relating to investment property.

The assumptions above are based on market prices for items, identical to the Company's items of investment property.

10. Intangible assets

	Licenses	**Software**	**Number capacity**	**Customer base**	**Other**	**Total**
Cost						
At 31 December 2006	**88**	**2 694**	**23**	**45**	**13**	**2,863**
Additions	2	787	-	-	22	811
Disposals	(20)	(151)	-	-	-	(171)
At 31 December 2007	**70**	**3 330**	**23**	**45**	**35**	**3,503**
Additions	-	694	-	-		694
Disposals	(1)	(524)	-	-	(11)	(536)
At 31 December 2008	**69**	**3 500**	**23**	**45**	**24**	**3,661**
Accumulated amortisation and impairment losses						
At 31 December 2006	**(57)**	**(375)**	**(11)**	**(21)**	**-**	**(464)**
Charge for the year	(9)	(213)	(2)	(5)	(10)	(239)
Disposals	20	144	-	-	-	164
At 31 December 2007	**(46)**	**(444)**	**(13)**	**(26)**	**(10)**	**(539)**
Charge for the year	(8)	(353)	(2)	(4)	(14)	(381)
Disposals	1	22	-	-	-	23
At 31 December 2008	**(53)**	**(775)**	**(15)**	**(30)**	**(24)**	**(897)**
Net book value						
At 31 December 2006	**31**	**2,319**	**12**	**24**	**13**	**2,399**
At 31 December 2007	**24**	**2,886**	**10**	**19**	**25**	**2,964**
At 31 December 2008	**16**	**2,725**	**8**	**15**	**-**	**2,764**

(in millions of Russian roubles)

Oracle E-Business Suite (OEBS)

As at 31 December 2008, the software included a software product Oracle E-Business Suite ("OeBS") with the carrying amount of 1,172 (2007: 1,172), including capitalised interest costs related to the implementation of Oracle E-Business Suite in the amount of 129 (2007: 129).

In accordance with management decision, as at 31 December 2008 the carrying amount of OeBS licences that are no longer in use were written-off in the amount of 88. Expenses are included in "Other operating expenses" of the Consolidated Income Statement.

Capitalised interest expenses, related to the implementation of Oracle E-Business Suite, amounted to 16 in 2008 (2007: 0). Interest capitalisation rate amounted to 9.3% (2007 : 0%).

The Company started to partially use OeBS and amortise it from the date of its implementation (November, 2005) over its useful life of 10 years. Since 2008 the Company has been using the full functionality of OeBS.

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

	2008	**2007**
As at 1 January	**1,172**	982
Additions	**224**	296
Amortisation charge	**(136)**	(106)
Write-off	**(88)**	-
As at 31 December	**1,172**	1,172

Amdocs Billing System Software

As at 31 December 2008 the software included a software product Amdocs Billing Suite with the carrying amount of 579 (2007: 994).

This software product was purchased for the purpose of implementation of an integrated automated billing system. Implementation of an integrated automated billing system based on the Amdocs Billing Suite platform is expected to last 5 years. The process of implementation, started in June 2005, is expected to be completed before 2011.

In accordance with management decision in 2008 the expenses on implementation of the software product Amdocs Billing Suite in the amount of 415 were written off, as the outcome of the implementation work has been considered unsuitable for further use and not being able to bring future economic benefits. Expenses are included in "Other operating expenses" of the Consolidated Income Statement.

Management plans to reassess the value of the asset for impairment on a regular basis until the implementation is complete.

Changes in the carrying amount of the software product Amdocs Billing Suite for year ended 31 December 2008 are disclosed below:

	2008	**2007**
As at 1 January	**994**	883
Additions	**-**	111
Write-off	**(415)**	-
As at 31 December	**579**	994

(in millions of Russian roubles)

Other software products

As at 31 December 2008, other software products included the following items:

		Carrying amount	
	Useful lives (years)	**2008**	**2007**
HP IUM	10	**271**	306
Implementation of the integrated billing of fixed telephony	not ready-to-use	**117**	3
Licenses of Oracle software products	5	**129**	118
Microsoft software (non-exclusive rights)	1	**47**	-
System of distance learning	not ready-to-use	**43**	-
System of electronic workflow	not ready-to-use	**38**	15
ASR Bill-Master	5	**33**	43
Other	2.5-10	**296**	235
Total		**974**	**720**

In 2008 capitalised interest expenses related to implementation of other software products, amounted to 16 (2007 – 0). Capitalization rate in 2008 was 9% (2007 – 0%).

Amortisation of intangible assets

Amortisation charge for 2008 in the amount of 381 (2007: 239) was included in “Depreciation and amortization” line of the Consolidated Income Statement.

Impairment Testing of Intangible Assets not ready-to- use

As at 31 December 2008, the Company performed on impairment test of intangibles not-ready-to-use and other intangible assets. No impairment loss was identified as the result of the test.

11. Other non-current assets

	2008	**2007**
Long-term advances given for the investing activities	**53**	172
Long-term VAT	**-**	2
Allowance for impairment	**(4)**	(12)
Total	**49**	162

The following table illustrates movements in allowance for impairment of other non-current assets:

	2008	**2007**
Balance at 1 January	**(12)**	(20)
Reversal of allowance	**3**	5
Utilization of allowance	**5**	3
Balance at 31 December	**(4)**	(12)

(in millions of Russian roubles)

12. Investments and loans issued

	2008	2007
Non-current investments available-for-sale	**24**	39
Non-current loans to personnel	**50**	73
Total non-current investments	**74**	112
Investments held to maturity	**1,533**	-
Non-current loans to personnel – current portion	**19**	21
Total current investments	**1,552**	21
Total investments	**1,626**	133

As at 31 December 2008 available-for-sale investments comprised the following:

	2008		2007	
	Ownership interest ,%	**Carrying value**	**Ownership interest ,%**	**Carrying value**
Non-current financial assets				
OJSC Svyazintek	**11**	**13**	11	13
OJSC AKB Svyazbank	**0.2190**	**-**	0.2250	11
OJSC Sberbank	**0.00019**	**1**	0.00019	5
Other	-	**10**	-	10
Total investments available-for-sale		**24**		39

As at 31 December 2008 the Company created a provision for impairment of investment in OJSC AKB Svyazbank in the amount of 11.

At 31 December 2008 long-term loans issued to personnel are recorded at amortized historical cost using effective rate of 19% (2007: 19%).

The Company invests temporarily available financial resources into short-term promissory notes issued by Russian companies and credit institutions.

As at 31 December 2008 short-term investments held-to-maturity comprised the following promissory notes denominated in RUR:

	2008		2007	
Name of the company	**Amortised cost**	**Effective interest rate, %**	**Amortised cost**	**Effective interest rate, %**
OJSC RTK-Leasing	**322**	11.48 %	**-**	**-**
OJSC AKB Svyazbank	**1,009**	9.00 %	**-**	**-**
CJSC AKB BSGV	**202**	13.5 %	**-**	**-**
Total	**1,533**		**-**	

Promissory notes are held by the Company to generate financial income.

(in millions of Russian roubles)

13. Inventories

	2008	**2007**
Cable	**53**	64
Spare parts	**33**	65
Construction materials	**25**	23
Finished goods and goods for resale	**23**	45
Household equipment	**12**	14
Fuel	**7**	9
Other inventory	**187**	163
Total	**340**	383

Changes in the carrying amount of the allowance for obsolete inventories for the year ended 31 December 2008 are disclosed below:

	2008	**2007**
Balance at 1 January	**17**	20
Accrual of the allowance	**3**	12
Reversal and utilization of the allowance	**(7)**	(15)
Balance at 31 December	**13**	17

Expense from accrual and income from reversal of allowance for obsolete inventories are included in "Other operating expense" and "Other operating income" of the consolidated income statement.

14. Trade and other receivables

Receivables as at 31 December 2008 comprised the following:

	Gross as at 31 December 2008	**Allowance for bad debt**	**Net as at 31 December 2008**
Receivables from customers for operating activities	3,153	(618)	2,535
Receivables from customers for non-operating activities	177	(35)	142
Receivables from agents and commissioners	25	-	25
Settlements with personnel	27	-	27
Receivables under agent contracts for connection services	377	-	377
Compensation from the state budget for universal services	457	-	457
Other receivables	108	(25)	83
Total	**4,324**	**(678)**	**3,646**

	Gross as at 31 December 2007	**Allowance for bad debt**	**Net as at 31 December 2007**
Receivables from customers for operating activities	3,004	(598)	2,406
Receivables from customers for non-operating activity	149	(31)	118
Receivables from agents and commissioners	57	-	57
Settlements with personnel	17	-	17
Receivables under agent contracts for connection services	122	-	122
Compensation from the state budget for universal services	391	-	391
Other receivables	174	(35)	139
Total	**3,914**	**(664)**	**3,250**

(in millions of Russian roubles)

Receivables for customers from operating activities as at 31 December 2008 comprise the following:

	Gross as at 31 December 2008	Allowance for bad debt	Net as at 31 December 2008
Receivables from individuals	1,479	(421)	1,058
Receivables from commercial organizations	822	(146)	676
Receivables from budget organizations	180	(9)	171
Receivables from interconnect operators	669	(39)	630
Tariff compensation from the state budget	3	(3)	-
Total	**3,153**	**(618)**	**2,535**

	Gross as at 31 December 2007	Allowance for bad debt	Net as at 31 December 2007
Receivables from individuals	1,401	(412)	989
Receivables from commercial organizations	634	(95)	539
Receivables from budget organizations	133	(10)	123
Receivables from interconnect operators	817	(62)	755
Tariff compensation from the state budget	19	(19)	-
Total	**3,004**	**(598)**	**2,406**

As at 31 December 2008 and 2007 all trade and other receivables were denominated in roubles.

The Company issues rouble invoices for connection services to budget and commercial organizations on a monthly basis. The Company issues invoices to individuals for communication services and significantly relies on timely payments in voices. All payments are made in accordance rouble tariffs, effective at the time when services were provided.

The following table summarizes the changes in the allowance for bad debt:

	2008	2007
Balance at 1 January	**(664)**	(757)
Accrual and reversal of allowance for bad debt	**(145)**	(109)
Write-off off of receivables	**131**	202
Balance at 31 December	**(678)**	**(664)**

(in millions of Russian roubles)

15. Other current assets

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

	Gross as at 31 December 2008	Allowance for impairment at 31 December 2008	Net as at 31 December 2008
Advances given	113	(9)	104
Other prepaid taxes	30	-	30
VAT receivable	27	-	27
Deferred expenses	92	-	92
Other current assets	28	(2)	26
Total	**290**	**(11)**	**279**

	Gross as at 31 December 2007	Allowance for impairment at 31 December 2008	Net as at 31 December 2007
Advances given	228	(16)	212
Other prepaid taxes	37	-	37
VAT receivable	77	-	77
Deferred expenses	207	-	207
Other current assets	48	(2)	46
Total	**597**	**(18)**	**579**

The following table summarizes the changes in the allowance for impairment of other current assets:

	2008	2007
Balance at 1 January	**(18)**	(30)
Accrual and reversal of the provision	**2**	12
Write off	**5**	-
Balance at 31 December	**(11)**	(18)

16. Cash and cash equivalents

As at 31 December 2008 and 2007 cash and cash equivalents comprised cash in bank and in hand.

17. Significant non-cash transactions

In 2008 the carrying amount of property, plant and equipment acquired through leasing and vendor financing amounted to 707 and 207 respectively (2007: 2,939 and 906).The total amount of donated assets received amounted to 1 (2007: 3).

In 2008 barter sales transactions amounted to 585 (2007: 328).

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

(in millions of Russian roubles)

18. Share capital

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

	Number of shares authorised (thousands)	Par value (RUR)	Total par value	Total carrying value
Ordinary	32,298,782	0.12	3,876	7,041
Preference	7,835,941	0.12	940	1,708
Total	**40,134,723**	0.12	**4,816**	**8,749**

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

All shares have been issued and fully paid.

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

		Ordinary shares		Preference shares	
Shareholders	Share capital %	Number thousands)	%	Number (thousands)	%
Legal entities, total	91.7	30,499,081	94.4	6,310,847	80.5
OJSC Svyazinvest	41.4	16,608,946	51.4	-	0.0
-shareholders holding more than 5% of charter capital, *including*	48.9	13,487,793	41.8	6,154,060	78.5
- Non-commercial partnership National depositary centre*	30.4	9,902,933	30.7	2,290,317	29.2
CJSC ING Bank*	10.4	2,334,878	7.2	1,843,949	23.5
- CJSC Depozitarno-Cliringovaya Kompania*	8.1	1,249,982	3.9	2,019,794	25.8
- other legal entities	1.4	402,342	1.2	156,787	2.0
Individuals	8.3	1,799,701	5.6	1,525,094	19.5
Total	**100**	**32,298,782**	**100**	**7,835,941**	**100**

* - nominee shareholder

The ordinary shareholders are entitled to one vote per share.

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

Distributable earnings of the parent company are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2008 and 2007 amounted to 12,175 and 13,875 respectively.

(in millions of Russian roubles)

In June 1997 the Company signed a Deposit agreement with The Bank of New York as a Depositary and Owners and Holders of American Depositary Receipts (hereinafter – ADRs). At the same time, the Securities and Exchange Commission (SEC) registered a Level 1 ADR program for ordinary shares. In August 2002 the Company changed the Depositary by signing new Deposit agreement with JP Morgan Chase Bank as the successor Depositary.

As at 31 December 2008, the Company registered the issue of 2,855,670 ADR (2007: 8,467,317) and deposited 571,134,000 ordinary shares (2007: 1,693,463,400), which amounted to 1.77% (2007: 5.24%) of all issued ordinary shares.

The following table represents movement in registered ADR for 2007-2008:

	ADR (quantity)	**Ordinary Shares Equivalent (quantity)**	**Ordinary Shares %**	**Charter Capital %**
31 December 2006	**11,164,451**	**2,232,890,200**	**6.91**	**5.56**
Reduction 2007	(2,697,134)	(539,426,800)	(1.67)	(1.34)
31 December 2007	**8,467,317**	**1,693,463,400**	**5.24**	**4.22**
Reduction 2008	(5,611,647)	(1,122,329,400)	(3.47)	(2.80)
31 December 2008	**2,855,670**	**571,134,000**	**1.77**	**1.42**

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

	CUSIP (WKN)		**ADR ticker**		**ISIN**	
Stock market	**ADR**	**ADR pfd.**	**ADR**	**ADR pfd.**	**ADR**	**ADR pfd.**
Frankfurt Stock Exchange (FSE)	908291	164647	URL	URL 1	US9168871021	US9168872011
Berlin Stock Exchange (BerSE)	908291	164647	URL	URL 1	US9168871021	US9168872011
Xetra	908291	164647	URL	URL 1	US9168871021	US9168872011
Stuttgart Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-
Dusseldorf Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-
Munich Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-

(in millions of Russian roubles)

19. Loans and borrowings

	2008	2007
Long-term loans and borrowings		
Bank loans	**16,133**	14,518
Bonds	**7,133**	7,073
Vendor financing	**412**	149
Finance lease	**3,351**	4,330
Restructured customer payments for connection	**49**	54
Less: Current portion of long–term borrowings	**(9,744)**	(10,658)
Total long-term loans and borrowings	**17,334**	15,466
Short-term loans and borrowings		
Bank loans	**599**	-
Promissory notes	-	29
Vendor financing	**12**	433
Accrued interest	**2**	2
Total short-term loans and borrowings	**613**	464
Current portion of long–term loans and borrowings	**9,744**	10,658
Total current loans and borrowings	**10,357**	11,122
Total loans and borrowings	**27,691**	26,588

As at 31 December 2008 the Company had agreements with OJSC AKB SberBank, CJSC Gazprombank, CJSC Unicredit Bank, CJSC BSGV and other credit institutions for open credit lines amounting to 17,506 (2007 – 17,136). As at 31 December 2008 the Company used 16,556 (2007: 12,896) of the above mentioned amount. The Company has an ability to draw an additional amount of 950 to finance its working capital and investment projects.

As at 31 December 2008 loans and borrowings are secured by pledged property plant and equipment with the carrying amount of 5,912 (2007: 11,579).

Long-term loans and borrowings

Bank loans

The table below summarizes information about the most significant bank and other loans as at 31 December 2008:

Counteragent	Interest rate per loan agreement	2008	2007	Currency, per the loan agreement	Date of maturity	Carrying value of pledged assets
OJSC Sberbank	8 - 12 %	5,747	5,108	RUR	2009-2013	5,612
CJSC Gazprombank	8.5 - 14.3 %	5,500	5,002	RUR	2009-2012	-
BHF-BANK AG	Euribor (181 days) + 0.7-1.9 %	1,744	1,419	EURO	2009-2015	-
CJSC BSGV	Mosprime (31 days) + 3%	1,507	-	RUR	2011	-
CJSC Unicredit Bank	8.3 - 11 %	1,505	2,003	RUR	2009-2012	300
LLC Iskratel, telecommunication systems	Euribor (91 days) +3.16 %	130	180	EURO	2010-2011	-
Raiffeisen bank Austria	Mosprime (31 days) +2.75 %	-	806	RUR	2008	-
		16,133	**14,518**			**5,912**

(in millions of Russian roubles)

On 2 December 2008 the Board of directors approved a deal to engage Moscow River B.V. to provide the Company with a loan in the form of 5-year credit notes (CLNs). The amount of the loan will be USD 150 million, and it will bear a fixed interest rate of 9% per annum for the first 18 months. As at 31 December 2008 the loan was not drawn.

Bonds

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

Issue code	Carrying value 2008	2007	Coupon interest	Date of issue	Effective interest rate	Date of maturity	Terms of maturity	Date of early redemption offer
06	2,028	1,999	13%	2005	13%	2011	20% of nominal value every 6 months starting from November 2009	19.11.2009
07	3,067	3,043	8.4%	2006	8.4%	2012	20% of nominal value every 6 months starting from March 2010	19.03.2009
08	2,038	-	9.6%	2008	9.6%	2013	October 2012 - 50% of nominal value; April 2013 – 50% of nominal value	03.04.2010
05	-	2,031	9.2%	2005	9.2%	2008	Redeemed	-
	7,133	**7,073**						

In April 2008 the Company redeemed series 05 issue bonds at par value of 2,000.

Series 06 bond issue has an early redemption option for up to 2 million bonds in November 2009, therefore the liability of 2, 000 was classified as short-term.

Series 07 bonds has an option of early redemption for up to 3 millions bonds in March 2009. The final redemption of 3,000 was classified as current liabilities will take place in April 2013. In March 2009 the option was not exercised. The next early redemption offer is set for March 2010.

In April 2008, the Company registered series 08 issue of 2 million interest bearing bonds, with par value of 1,000 Roubles each. The bonds have 10 coupons. The bonds will be redeemed in portions based on a share of the nominal value starting from October 2012. The bonds mature in April 2013.

Information on long term portion of finance lease liability is provided below.

Short-term borrowings

Bank and other loans

Sberbank

The short-term debt to Sberbank is represented by the loan received in 2008 in the amount of 600. The loan matures in 2009, and carries an interest rate of 9.5% per annum. As at 31 December 2008 the outstanding balance amounted to 599.

(in millions of Russian roubles)

Finance lease obligations

	2008		2007	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	1,854	1,418	2,154	1,568
2 to 5 years	2,248	1,933	3,329	2,762
Total	**4,102**	**3,351**	**5,483**	**4,330**

In 2008 and 2007, the Company's primary lessor was OJSC RTK-Leasing. In 2008, the effective interest rate on lease liabilities varied from 14% to 20% per annum (2007: 14% to 20% per annum).

Assets leased under finance lease agreements with OJSC RTK-Leasing mainly comprise telecommunication equipment. The Company's obligations to OJSC RTK-Leasing as at 31 December 2008 amounted to 3,065 (2007: 3,726).Under finance lease agreement signed with OJSC RTK-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. Employee Benefits

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

The Company's defined benefit pension plan provides a retirement pension. The plan provides for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men, provided that a condition for a minimum service period of two years for key management personnel, four years for management personnel and 15 years for other employees is met. According to the plan the amount of pension depends on the position of employee as of the date of retirement and is not directly related to the employee's salary level.

Non-state pension fund Telecom-Soyuz, which is the Company's related party (Note 40), maintains the defined benefit pension plan. The Company makes contribution to the fund upon retirement of employees in amounts agreed with the fund at the time of retirement.

In addition to the existing defined benefit plan the Company also maintains a defined contribution plan which involves payments made by the Company during the employees' service period starting from the date when an individual enters in to a contract with the Non-state pension fund "Telecom Soyuz". These contributions are accounted for on the participants' individual accounts in the fund. Payments made by the Company in 2008 under the defined contribution plan equal 61 (2006: 58) and are included into Personnel costs.

The Company further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon death, retirement and jubilees for employees and pensioners. Additionally, the Company provides material support of a defined benefit nature to its pensioners.

As at 31 December 2008, 14,166 employees participated in the defined benefit pension plan of the Company and 10,823 pensioners were eligible to other post-employment benefit plans provided by the Company (2007 – 14,725 and 10,355, respectively).

As at 31 December 2008 the net liabilities of the defined benefit pension plan comprised the following:

	2008	**2007**
Present value of defined benefit obligation	**(3,143)**	(3,118)
Present value of unfunded obligations	**(3,143)**	(3,118)
Unrecognized past service cost	**1,476**	1,659
Unrecognized actuarial losses	**(427)**	(403)
Net pension benefits	**(2,094)**	(1,862)

As at 31 December 2008 management estimated that employees' average remaining working life was 9 years (2007: 9 years).

(in millions of Russian roubles)

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

	2008	2007
Current service cost	**(189)**	(190)
Interest cost	**(209)**	(233)
Net actuarial gains recognised in year	**55**	31
Amortization of past service cost – non–guaranteed portion	**(183)**	(186)
Curtailment or final settlement effect	**27**	23
Net expense for the defined benefit pension plans	**(499)**	(555)

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

The amounts of interest expenses are recognised in “Interest expense” in the consolidated income statement.

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

	2008	2007
Net liability as at 1 January	**(3,118)**	(3,172)
Current service cost	**(189)**	(190)
Interest cost	**(209)**	(233)
Past service cost	**-**	31
Benefits paid	**78**	72
Assets distributed on settlement	**189**	177
Actuarial (gain)/losses	**106**	197
Net liability as at 31 December	**(3,143)**	(3,118)

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

	2008	2007
Present value of plan assets as at 1 January	**-**	5
Contributions	**267**	244
Benefits paid	**(78)**	(72)
Settlement	**(189)**	(177)
Present value of plan assets as at 31 December	**-**	-

Contributions to the defined benefit plan for 2009 are expecting to amount to 212.

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

	2008	2007
Discount rate	**9 %**	6.6 %
Expected return on plan assets	**n/a**	n/a
Future salary increases	**10.24%**	9.2%
Relative salary increase (“promotion”)	**1 %**	1 %
Rate used for calculation of annuity value	**4 %**	6 %
Increase in financial support benefits	**6 %**	5 %
Staff turnover	**7 %**	7 %
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

(in millions of Russian roubles)

Historical information on the defined benefit plans is as follows:

	2008	2007	2006	2005	2004
Defined benefit obligation	(3,143)	(3,118)	(3,172)	(3,445)	(1,094)
Plan assets	-	-	5	188	116
Deficit	**(3,143)**	**(3,118)**	**(3,167)**	**(3,257)**	**(978)**
Experience adjustments on plan liabilities	110	280	640	40	-
Experience adjustments on plan assets	-	-	(4)	9	3

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

21. Other non-current liabilities

	2008	2007
Deferred income	**175**	228
Special purpose financing	**7**	9
Total	**182**	237

22. Provisions

	Personnel dismissal provision
Balance at 31 December 2006	**19**
Accrued	217
Utilised	(11)
Recovered	(5)
Balance at 31 December 2007	**220**
Utilised	(83)
Reversal of unused reserve	(137)
Accrued	92
Balance at 31 December 2008	**92**

	Personnel dismissal provision
Long-term provision	-
Short-term provision	220
Balance at 31 December 2007	**220**
Long-term provision	-
Short-term provision	92
Balance at 31 December 2007	**92**

Staff optimization program

To increase the efficiency of business processes the Company adopted a Program of staff optimisation approved by the Board of Directors in 2007 and aimed at modification of organisation structure, redistribution of functions and transfer of some functions to outsourcing.

In December 2007 the Company made a provision in the amount of 220 for termination payments to the employees who had been notified of their forthcoming termination as at 31 December 2007. During 2008 the Company paid compensations of 83.

In December 2008 the Company made a provision for termination payments to the employees who had been notified of their forthcoming termination as of 31 December 2008. Provision as at 31 December 2008 amounted to 92. Unutilized part of the provision in the amount of 137 was included within "Other operating income".

(in millions of Russian roubles)

23. Accounts payable and accrued expenses

	2008	2007
Payables for purchases and construction of property, plant and equipment	**1,820**	459
Payables for operating activities	**1,207**	916
Payable to personnel	**1,086**	845
Other taxes payable	**1,086**	430
Payables to interconnected operators	**463**	539
Payables to agents	**117**	96
Universal service fund liability	**104**	101
Dividends payable	**32**	33
Payables to the non-commercial partnership	**71**	-
Other accounts payable	**52**	49
Total	**6,038**	3,468

As at 31 December 2008 taxes payable comprised the following:

	2008	2007
Value-added tax	**727**	104
Property tax	**206**	193
Unified social tax	**82**	64
Personal income tax	**58**	58
Other taxes	**13**	11
Total	**1,086**	430

Other accounts payable

Other accounts payable include guarantees issued.

The Company guaranteed credit lines provided by banks to OJSC RTK-Leasing, a lessor of telecommunication equipment. The total amount of loans guaranteed as at 31 December 2008 is 1,358 (2007: 2,199). As at 31 December 2008 the carrying amount of guarantees issued amounted to 12 (2007: 18). Management estimates that the likelihood of payments being required is remote.

31 December 2006	**28**
Accrued	10
Depreciation	(20)
31 December 2007	**18**
Accrued	6
Depreciation	(12)
31 December 2008	**12**

Long-term guarantees	8
Short-term guarantees	10
Total reserves as at 31 December 2007	**18**
Long-term guarantees	5
Short-term guarantees	7
Total reserves as at 31 December 2008	**12**

The balance of other accounts payable includes primarily settlements with OJSC Rostelecom (Note 40).

(in millions of Russian roubles)

24. Other current liabilities

	2008	2007
Advances received from operating activities	**948**	919
Deferred income	**56**	91
Advances received from non-operating activities	**5**	4
Total	**1,009**	1,014

25. Revenues

	2008	2007
Mobile services	**13,156**	12,471
Local telephone calls	**10,218**	10,413
Telegraph services, data transmission and Internet	**5,229**	3,502
Revenues from interconnected operators	**5,239**	5,317
Intra-zone telephone services	**5,026**	5,165
Other telecommunication services	**1,223**	1,147
Radio and TV broadcasting	**495**	488
Agent fees and revenue from assistance services	**86**	562
Other revenues	**19**	82
Total	**40,691**	39,147

Income from intra-zone services and local telephone calls include income from channel rent in the amount of 545 and 315 respectively (2007: 480 and 265).

Telegraph services, data transmission and Internet includes income from data transmission and Internet services in the amount of 4,949 (2007 : 3,331).

Other telecommunication services include rental income of 733 (2007: 581).

The Company generates revenue by the following major customer groups:

Customer Groups	2008	2007
Individual customers	**23,745**	22,450
Corporate customers	**9,130**	8,163
Interconnected operators	**5,382**	6,411
Governmental customers	**2,434**	2,123
Total	**40,691**	39,147

26. Personnel costs

	2008	2007
Salary expenses	**6,933**	6,842
Social taxes	**1,477**	1,418
Employee benefits	**270**	307
Other	**563**	740
Total	**9,243**	9,307

Other personnel costs include other payments under collective agreements and labour contracts.

(in millions of Russian roubles)

27. Materials, repairs and maintenance, utilities

	2008	2007
Materials	**1,424**	1,414
Repairs and maintenance services	**1,451**	1,256
Utilities	**651**	553
Total	**3,526**	3,223

28. Other operating income

	2008	2007
Reimbursement of losses from universal telecommunication services	**1,525**	757
Gain from disposal of property, plant and equipment and other assets	**-**	1
Fines and penalties	**35**	25
Payables write off	**66**	38
Reversal of bad debt provision	**47**	54
Other income	**47**	70
Total	**1,720**	945

In 2008 in accordance with the terms of agreements with the Federal Telecommunications Agency on provision of universal services, losses incurred by provision of universal services were reimbursed to the Company from the Universal Service Fund in the following amounts:

1,068 – for the services provided during the current year (2007: 364);

391 – for the services provided during the previous year (2007: 3);

The loss for the year 2008 from provision of universal services in 2008 amounted to 1,588 (2007: 759) and was verified by an independent audit firm, LLC RSM Top-Audit.

29. Other operating expenses

	2008	2007
Third party services and expenses related to administration	**2,229**	1,870
Agency fee	**2,190**	2,550
Taxes, other than income tax	**1,034**	935
Rent	**753**	650
Advertising expenses	**511**	567
Fire and other security services	**505**	491
Losses on disposal of property plant and equipment, intangibles and other assets	**504**	398
Member fees, charity contribution, payments to labour unions	**464**	685
Universal service fund costs	**404**	385
Audit and consulting fees	**364**	133
Insurance	**177**	262
Allowance for bad debt	**145**	109
Transportation and postal services	**128**	105
Fines and penalties	**5**	4
Allowance for obsolete inventory	**3**	12
Cost of goods sold	**2**	1
Other expenses	**22**	389
Total	**9,641**	9,546

(in millions of Russian roubles)

30. Interest expenses

	2008	2007
Interest expense on bank and other loans, bonds and vendor financing	**1,971**	1,843
Interest expense on finance lease	**700**	680
Interest expense on employee benefits	**209**	233
Other finance cost	**18**	-
Total	**2,898**	2,756

The amount of the interest capitalized in 2008 was as follows:

	2008	2007
Property, plant and equipment	**99**	4
Intangible assets	**32**	-
Total	**131**	4

31. Finance income

	2008	2007
Gain from the sale of subsidiaries, associates and other investments	**44**	**179**
Foreign exchange gain	**1**	**2**
Interest income from finance assets	**115**	**108**
Dividend income	**1**	**2**
Total	**161**	**291**

32. Other finance expenses

	2008	2007
Foreign exchange loss	**399**	**-**
Impairment of financial assets	**11**	**-**
Total	**410**	**-**

33. Income tax

Federal law No. 224-FZ dated 26 November 2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from 1 January 2009.

Income tax charge for the year ended 31 December 2008 comprised the following:

	2008	2007
Current income tax	**1,042**	1,367
Adjustments of the current income tax for the previous year	**(64)**	2
Total current income tax expense for the year	**978**	1,369
Deferred tax (benefit)/expense related to the temporary differences	**326**	133
Change in tax rate	**(505)**	-
Total deferred tax (income)/expense	**(179)**	133
Total income tax expense for the year	**799**	1,502

(in millions of Russian roubles)

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

	2008	2007
Profit before income tax	**3,334**	3,799
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**800**	912
Increase/(decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	**(64)**	2
Non-taxable income	**(3)**	-
Non-deductible expenses	**571**	588
Change in tax rate	**(505)**	-
Total actual income tax	**799**	1,502
Effective tax rate	***24%***	*40%*

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

	1 January 2007	Recognised in income	31 December 2007	Recognised in income	Change in tax rate	31 December 2008
Deferred tax assets:						
Accounts payable and accrued liabilities	164	91	255	8	(44)	219
Accounts receivables	107	(81)	26	(18)	(1)	7
Finance lease liabilities	545	421	966	(224)	(124)	618
Employee benefits	108	-	108	97	(34)	171
Other	5	(1)	4	7	(2)	9
Total deferred tax assets	**929**	**430**	**1 359**	**(130)**	**(205)**	**1 024**
Deferred tax liabilities:						
Property, Plant and equipment	(3,397)	(609)	(4,006)	(211)	703	(3,514)
Intangible assets	(52)	7	(45)	1	7	(37)
Investments	(24)	22	(2)	2	-	-
Other	(34)	17	(17)	12	-	(5)
Total deferred tax liabilities	**(3,507)**	**(563)**	**(4,070)**	**(196)**	**710**	**(3,556)**
Total net deferred tax assets / (liabilities)	**(2,578)**	**(133)**	**(2,711)**	**(326)**	**505**	**(2,532)**

(in millions of Russian roubles)

34. Earnings per share

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

Earnings per share amount is calculated by dividing the profit attributable to ordinary and to preference shareholders (see note 18) by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

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

	2008	**2007**
Net profit for the year attributable to the shareholders of the Company	2,535	2,297
Less: attributable to preference shareholders	(495)	(448)
Attributable to ordinary shareholders	2,040	1,849
Weighted average number of ordinary shares outstanding during the year, thousand	32,295,782	32,295,782
Basic and diluted earnings per share attributable to equity holders of the parent, Russian roubles	**0.0632**	0.0572

35. Dividends declared and proposed for distribution

In June 2008, shareholders resolved on the general shareholder meeting to approve dividends for year ended 31 December 2007.

The total dividends payable amounted to:

Category of shares	**Number of shares**	**Dividends per share, roubles**	**Total sum of dividends, roubles**
Declared and approved for 2007			
Preference shares	7,835,941,286	0,047031	368,532,155
Ordinary shares	32,298,782,020	0,022821	737,090,504
Total	**40,134,723,306**	**0,069852**	**1,105,622,659**

Dividends paid in 2008 for the year ended 31 December 2007 amounted to 992.

The amount of dividends to be paid is recommended by the Board of Directors and is subject to the approval by shareholders at the shareholders meeting. In accordance with Russian legislation, dividends declared to the shareholders of the Company are limited to the net profit for the year as reported in the Company's Russian statutory financial statements.

(in millions of Russian roubles)

36. Operating lease

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

	2008 Minimum lease payments	2007 Minimum lease payments
Current portion (less than 1 year)	**584**	495
From 2 to 5 years	**160**	152
More than 5 years	**171**	119
Total	**915**	766

In 2008 operating lease expenses included in the line “Other operating expenses” of the Consolidated Income Statement amounted to 753 (2007: 650).

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

	2008 Minimum lease payments	2007 Minimum lease payments
Less than 1 year	**485**	439
From 2 to 5 years	**41**	23
More than 5 years	**4**	6
Total	**530**	468

In 2008 revenue from operating lease included in line “Revenue” of the Consolidated Income Statement amounted to 733 (2007: 581).

37. Contingencies and operating risks

Operating environment

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

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.

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.

Management believes that as at 31 December 2008 its interpretation of the relevant legislation is appropriate and, therefore, it is highly likely that the Company’s position with regard to compliance with tax, currency and customs legislation will be sustained.

Legal Proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings 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.

On 1 December 2006 the Company received a decision of Inter-regional Inspectorate of Federal Tax Authority #7 with regard to prosecution of the Company for violation of tax legislation based on results of tax inspection for the years 2003-2004. In accordance with this decision, the Company was assessed with taxes in the amount of 561, penalties in the amount of 107 and fines in the amount of 8.

The Company successfully appealed this tax assessment in the Moscow City Arbitration Court. According to the decision of the court of first instance dated 17 October 2007, the tax authorities' claim was not upheld in the amount of 372 (before fines and penalties). At the same time, the Court rejected the Company's claim regarding taxation of settlements for termination of intercity traffic in the amount of 189. The Company appealed against the decision. On 21 May 2008, the Ninth Arbitration Appeal court of the city of Moscow ruled against the tax claims presented to the Company for the years 2003-2004 for amount of 557.

On 27 December 2008 The Arbitration Court of Sverdlovskaya oblast rejected the claim of Inspectorate of Federal Tax Authority #7 to the Company, in respect of fines of 88 for non-compliance with tax legislation.

On 21 November 2008 the Company received a decision of Inter-regional Inspectorate of Federal Tax Authority #7 with regard to prosecution of the Company for violation of tax legislation based on results of field tax inspection for the years 2005-2007. In accordance with this decision, the Company was assessed with additional taxes of 355, penalties of 14 and fines of 5.

The Company filed an appeal to Federal Tax Authority of the Russian Federation. As of the date when financial statements were authorized for issue, the appeal has not been reviewed, therefore the decision of Inter-regional Inspectorate of Federal Tax Authority dated 21 November 2008 has not been enacted. The Company has filed a claim to the court. The court session is scheduled for 19 June 2009.

No provision has been recognized in the consolidated financial statements in respect of the claims mentioned above.

Insurance

The Company undertakes risk management measures, including acquisition of insurance policies. During 2008 the Company maintained insurance coverage on a significant part of its property, plant and equipment, professional indemnity of directors, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations.

Licences

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

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

(in millions of Russian roubles)

38. Financial instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes issued, and finance leases. The main purpose of these instruments is to raise finance for the Company's operations. The Company also uses cash and cash equivalents, and short-term promissory notes issued by Russian companies and financial institutions, to place available funds. The Company has other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations.

Capital Management Policy

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

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

The Company monitors and manages its debt using the ratios of financial independence, net debt to shareholders equity and net debt to EBITDA. The financial independence ratio is calculated as shareholders' equity to the balance sheet total at the end of the period. Net debt/shareholders' equity ratio is calculated as net debt to shareholders' equity at the end of the period. Net debt/EBITDA ratio is calculated as net debt at the year end to EBITDA for the previous period. The ratios of financial independence, net debt/shareholders' equity and net debt/EBITDA are calculated using the statutory accounting data. The Company's policy is to maintain the financial independence ratio within a range of 0.4-0.5, the net debt/shareholder's equity ratio within a range of 0.43-1.03, and the net debt/EBITDA ratio within a range of 0.8-1.76.

Ratios used for capital management for the year 2008 were as following:

	2008	**2007**
Financial independence ratio	0.40	0.41
Net debt*/shareholders' equity	1.02	1.03
Net debt*/EBITDA	1.76	1.67

*Net debt – loans and borrowings, promissory notes, bonds, vendor financing, finance lease.

As at the balance sheet date Standard and Poor's confirmed the Company's short term credit risk at "BB-", (2007: BB-). Company's policy of capital management is to increase the credit rating up to BB+.

(in millions of Russian roubles)

Income and expenses on financial instruments

2008	Consolidated income statement							Consolidated statement of changes in equity	Total
	Other operating expense	Other financial income and expenses							
	Allowance for bad debt	Interest expense	Interest income	Dividends income	(Gain)/ Loss from asset disposal	Impair-ment loss	Forex gain/loss	Change in fair value	
Cash and cash equivalents	-	-	(61)	-	-	-	-	-	(61)
Accounts receivable	145	-	-	-	-	-	(1)	-	144
Financial assets	-	-	-	(2)	(44)	11	-	4	(31)
Investments held to maturity	-	-	(33)	-	-	-	-	-	(33)
Loans issued	-	-	(21)	-	-	-	-	-	(21)
Total financial assets	**145**	**-**	**(115)**	**(2)**	**(44)**	**11**	**(1)**	**4**	**(2)**
Loans and borrowings	-	1,271	-	-	-	-	249	-	1,520
Bonds	-	717	-	-	-	-	-	-	717
Promissory notes	-	1	-	-	-	-		-	1
Vendor financing	-	-	-	-	-	-	69	-	69
Finance lease	-	700	-	-	-	-		-	700
Accounts payable	-	-	-	-	-	-	82	-	82
Total financial liabilities	-	2,689	-	-	-	-	400	-	3,089

2007	Consolidated income statement						Consolidated statement of changes in equity	Total
	Other operating expense	Other financial income and expenses						
	Allowance for bad debt	Interest expense	Interest income	Dividends income	(Gain)/Loss from asset disposal	Forex gain/loss	Change in fair value	
Cash and cash equivalents	-	-	(42)	-	-	-	-	(42)
Accounts receivable	109	-	(18)	-	-	(2)	-	89
Investments held to maturity	-	-	-	(2)	(179)	-	(1)	(182)
Loans issued	-	-	(48)	-	-	-	-	(48)
Total financial assets	109	-	(108)	(2)	(179)	(2)	(1)	(183)
Loans and borrowings	-	848	-	-	-	52	-	900
Bonds	-	879	-	-	-	-	-	879
Promissory notes	-	109	-	-	-	-	-	109
Vendor financing	-	7	-	-	-	(15)	-	(8)
Finance lease	-	680	-	-	-	-	-	680
Accounts payable	-	-	-	-	-	(37)	-	(37)
Total financial liabilities	-	2,523	-	-	-	-	-	2 523

(in millions of Russian roubles)

Foreign Exchange Risk

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

The following table presents the Company's financial instruments that are exposed to foreign exchange risk as at 31 December 2008.

2008	**RUR**	**USD**	**EURO**	**Total**
Cash and cash equivalents	1,093	1	1	1,095
Receivables	3,682	-	10	3,692
Financial assets held-for-sale	24	-	-	24
Financial assets held-to-maturity	1,533	-	-	1533
Loans issued	69	-	-	69
Total financial assets	**6,401**	**1**	**11**	**6,413**
Loans and borrowings	14,858	-	1,874	16,732
Bonds	7,133	-	-	7,133
Vendor financing	-	416	8	424
Finance lease	3,351	-	-	3,351
Interest payables	2	-	-	2
Restructured payments for connection	49	-	-	49
Accounts payable*	5,470	399	174	6,043
Total financial liabilities	**30,863**	**815**	**2,056**	**33,734**

2007	**RUR**	**USD**	**EURO**	**Total**
Cash and cash equivalents	703	1	1	705
Receivables	3,260	6	27	3,293
Financial assets held-for-sale	39	-	-	39
Loans issued	94	-	-	94
Total financial assets	**4,096**	**7**	**28**	**4,131**
Loans and borrowings	12,919	-	1,599	14,518
Bonds	7,073	-	-	7,073
Promissory notes	29	-	-	29
Vendor financing	236	312	34	582
Finance lease	4,305	7	18	4,330
Interest payables	2	-	-	2
Restructured payments for connection	54	-	-	54
Accounts payable*	3,136	317	23	3,476
Total financial liabilities	**27,754**	**636**	**1,674**	**30,064**

* Accounts payable include settlements with personnel and tax authorities.

For the period from 1 January 2008 through 31 December 2008 the exchange rate of the rouble to the US Dollar and of the rouble to EURO decreased by approximately 20% and 15%, respectively.

(in millions of Russian roubles)

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

	USD			Euro		
	Forex change, %	Effect on profit before income tax Mln RUR	Effect on profit before income tax %	Forex change, %	Effect on profit before income tax Mln RUR	Effect on profit before income tax %
2008	+20	(163)	(4.88)	+20	(409)	(12.27)
	-20	163	4.88	-20	409	12.27
2007	+10	(63)	(1.66)	+5	(82)	(2.16)
	-10	63	1.66	-5	82	2.16

Due to significant fluctuations in foreign exchange rates at the end of 2008, the sensitivity analysis was based on a simplified scenario of a 20% symmetrical fall or rise.

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

-The level of impact of risks on the financial ratios;

-The probability of risks.

The Company uses qualitative criteria – the level of risk controllability - to define its risk response strategy.

The Company performs risk evaluation of the foreign exchange on a regular basis. If the risk is assessed as significant, the Company will undertake the following measures to decrease the risk:

-Hedging, including the use of futures, forwards, options;

-Refinancing of borrowings nominated in a foreign currency.

Interest Rate Risk

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

The following table presents the Company's financial instruments that are exposed to interest rate risk:

2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	1,095	1,095
Trade and other receivables	-	-	3,692	3,692
Financial assets available-for-sale	-	-	24	24
Investments held-to-maturity	1,533	-	-	1533
Loans issued	-	-	69	69
Total financial assets	**1,533**	**-**	**4,880**	**6,413**
Loans and borrowings	13,351	3,381	-	16,732
Bonds	7,133	-	-	7,133
Promissory notes	237	-	187	424
Vendor financing	3,351	-	-	3,351
Interest payable	-	-	2	2
Restructured payments for connection	-	-	49	49
Trade and other payables *	-	-	6,043	6,043
Total financial liabilities	**24,072**	**3,381**	**6,281**	**33,734**

(in millions of Russian roubles)

2007	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	705	705
Trade and other receivables	-	-	3,293	3,293
Financial assets available-for-sale	-	-	39	39
Loans issued	94	-	-	94
Total financial assets	**94**	**-**	**4,037**	**4,131**
Loans and borrowings	12,113	2,405	-	14,518
Bonds	7,073	-	-	7,073
Promissory notes	29	-	-	29
Vendor financing	-	-	582	582
Finance lease	4,330	-	-	4,330
Interest payable	-	-	2	2
Restructured payments for connection	-	-	54	54
Trade and other payables *	-	-	3,476	3,476
Total financial liabilities	**23,545**	**2,405**	**4,114**	**30,064**

* Including settlements with personnel and tax authorities

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

	EURIBOR			**Mosprime**		
	Changes in interest rate, basis points	**Effect on profit before tax**		**Changes in interest rate, basis points**	**Effect on profit before tax**	
		Mln RUR	**%**		**Mln RUR**	**%**
2008	+100	(19)	(0.57)	+200	(30)	(0.90)
	-100	19	0.57	-200	30	0.90
2007	+100	(16)	(0.42)	+200	(16)	(0.42)
	-100	16	0.42	-200	16	0.42

The Company's approach to evaluation of risk significance is the same as for foreign exchange risk evaluation. If the risk is evaluated as significant, the Company will undertake the following measures to decrease the risk:

-Use of swaps floating rates;

-Refinancing of borrowings with the floating interest rates.

Liquidity risk

The Company monitors its risk of a shortfall 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, finance leases.

(in millions of Russian roubles)

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

	2009	2010	2011	2012	2013 and later	Total
Cash and cash equivalents	1,095	-	-	-	-	1,095
Trade and other receivables	3,646	10	9	7	20	3,692
Financial assets available-for-sale	-	-	-	-	24	24
Investments held-to-maturity	1,652	-	-	-	-	1,652
Loans issued	28	21	16	9	26	100
Total financial assets	**6,421**	**31**	**25**	**16**	**70**	**6,563**
Loans and borrowings	5,279	2,717	7,027	5,449	1,413	21,885
Bonds	5,575	2,096	-	-	-	7,671
Vendor financing	378	57	-	-	-	435
Finance lease	1,850	1,364	752	136	-	4,102
Trade and other payables*	6,038	4	1	-	-	6,043
Total financial liabilities	**19,131**	**6,249**	**7,789**	**5,586**	**1,430**	**40,185**

* Including settlements with personnel and tax authorities

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

Credit Risk

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

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk (Note 14).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Part of accounts receivable is represented by state and other non-commercial organizations.

The analysis of trade and other receivables overdue but not impaired is provided below.

2008		Post due (days)					
	Total	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	129	74	30	25	-	-	-
Individuals	183	121	33	29	-	-	-
Governmental customers	39	24	10	5	-	-	-
Interconnected operators	97	74	14	8	-	1	-
Total	**448**	**293**	**87**	**67**	**-**	**1**	**-**

2007		Post due (days)					
	Total	**<30**	**30-60**	**60-90**	**90-180**	**180-360**	**>360**
Corporate customers	76	36	19	21	-	-	-
Individuals	135	82	29	24	-	-	-
Governmental customers	20	14	4	2	-	-	-
Interconnected operators	65	55	9	-	1	-	-
Total	**296**	**187**	**61**	**47**	**1**	**-**	**-**

Management believes that receivables overdue less than 90 days do not generally lead to impairment loss. The estimate is based on historical data analysis of trade receivables collectibility.

(in millions of Russian roubles)

Hedge

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

Fair value of financial instruments

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

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and borrowings	16,732	15,150	14,518	14,518
Bonds	7,133	7,089	7,073	7,102

Fair value of bonds for disclosure purposes has been calculated based on quoted market prices as at 31 December 2008 and 2007. For loans and borrowings, measured at amortised cost, fair value has been calculated based on the present value of future principal and interest cash flows, discounted at the incremental borrowing interest rate, which varied at the reporting date between 19% and 23% per annum for rouble-denominated loans, and between 4% and 7% per annum for Euro-denominated loans (2007: fair value of loans and borrowings approximated their amortised cost).

39. Commitments

As at 31 December 2008 and 2007 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 135 and 91 respectively.

40. Balances and Transactions with Related Parties

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

	OJSC Svyazinvest	**Subsidiaries of OJSC Svyazinvest**	**Associates**	**State-controlled companies**	**Other**
2008					
Provision of telecommunication services, interconnection and traffic transmission services	-	1,763	-	561	-
Agent services	-	60	-	-	-
Rent income	-	8	-	-	-
Other income	-	92	-	123	-
Revenue from fixed assets and other assets disposal	-	3	-	-	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	163	-	327	-
Purchase of other services	-	50	-	919	248
Purchase of goods and assets	-	9	-	-	-
Borrowings	-	-	-	2,950	-
Interest expense	-	-	-	512	-
Dividends payable	345	-	-	-	-
2007					
Provision of telecommunication services, interconnection and traffic transmission services	-	2,504	101	746	-
Agent services	-	530	-	-	-
Rent income	-	1	6	-	-
Other income	-	3	42	66	-

(in millions of Russian roubles)

Purchase of telecommunication services, interconnection and traffic transmission services	-	180	26	213	-
Purchase of other services	-	761	3	702	229
Purchase of goods and assets	-	2	-	-	-
Borrowings	-	-	-	4 375	-
Interest expense	-	-	-	303	-
Dividend income	-	2	-	-	-
Dividends payable	248	-	-	-	-

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

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
2008					
Trade and other receivables, net	-	222	-	103	-
Bad debt provision	-	(4)	-	-	-
Loans and borrowings				5,747	
Trade and other payables	-	68	-	86	6
2007					
Trade and other receivables	-	268	-	95	-
Loans and borrowings	-	-	-	5,108	-
Trade and other payables	-	54	-	51	7

Other related parties comprise the non-state pension funds.

OJSC Svyazinvest

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

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

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

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

OJSC Rostelecom

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

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

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

(in millions of Russian roubles)

The respective amounts included in the consolidated financial statements as at 31 December 2008 and disclosed in the table above were as follows:

	2008	2007
Provision of telecommunication services, interconnection and traffic transmission services	**1,752**	2,466
Agent services	**60**	530
Rent income	**5**	1
Other income	**12**	2
Purchase of telecommunication services, interconnection and traffic transmission services	**155**	156
Purchase of other services	**10**	13
Trade and other receivables	**200**	257
from that: bad debt provision	**4**	-
Accounts payable	**45**	35

Transactions with State-controlled Companies

State-controlled organisations are a significant element in the Company's customer base, however they do not exert significant influence on the Company's operations or pricing policies.

Non-government Pension Fund Telecom Soyuz

The Company has an agreement for the administration of a non-state pension plan with the non-state pension fund Telecom-Soyuz (Note 20).

The total amount of contributions for non-state pension coverage paid by the Company in 2008 was 248 (2007: 229) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of the Company to cover own expenses for activities under the charter and administrative costs.

Remuneration of Key Management Personnel

The key management personnel comprise members of the Management Committee and the Board of Directors of the Company, totalling 21 persons as at 31 December 2008 (2007: 20).

Remuneration for members of the Board of Directors and the Management Committee of the Company for 2008 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 127 (2007: 112), including salary, bonuses and other compensation to employees of OJSC Uralsvyazinform in the key management positions in the amount of 104 (2007: 86). The remuneration amounts are stated exclusive of the unified social tax.

In 2008 the Company made a contribution of 5 to the non-state pension fund (2007: 3) for its key management personnel.

The plans provide for payment of retirement benefits starting from statutory retirement age and provided that a condition for a minimum service period is met.

41. Subsequent events

Universal Telecommunication Services

Reimbursement of losses incurred from universal services in 2008 which was accrued as receivables as of 31 December 2008, has been refunded to the Company from the Universal Service Fund in 2009 in the amount of 445.

Dividends

(in millions of Russian roubles)

In April 2009 the Board of Directors proposed dividends for 2008. Dividends for the year ended 31 December 2008, will be paid out during the year 2009 and will be recognized in the financial statements for the year ended 31 December 2009.

Amount of dividends proposed is summarized in the table below:

Category of shares	Number of shares, thousands	Dividends per share, roubles	Total sum of dividends, roubles
For 2008			
Preferences shares	7,835,941	0.0341741	267,786,241
Ordinary shares	32,298,782	0.0124364	401,680,573
Total amount	**40,134,723**	**0. 0466105**	**669,466,814**

Bank loans

In February 2009, the Company signed a loan agreement with Bank VTB in the amount of 1,000. The loan matures in February, 2010, interest rate is 18.75%. The loan is secured by telecommunication equipment with a carrying value of 1,250.

Staff optimisation

Under the Program of staff optimisation the Company dismissed 533 employees from 31 December 2008 to the date of signing of consolidated financial statements. The compensation paid to the dismissed employees amounted to 21.