**Open Joint Stock Company**

**Southern Telecommunications Company**

Consolidated Financial Statements
for the year ended 31 December 2008

# OJSC Southern Telecommunications Company
# 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 Southern Telecommunications Company

We have audited the accompanying consolidated financial statements of OJSC Southern Telecommunications Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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
5 June 2009

# OJSC Southern Telecommunications Company
## 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 | 7 | 30 656 | 31 087 |
| Intangible assets | 8 | 2 441 | 2 037 |
| Investments in equity accounted investees | 10 | 617 | 615 |
| Non-current investments | 11 | 14 | 22 |
| Other non-current assets | 9 | 111 | 189 |
| Deferred tax assets | | 17 | 4 |
| **Total non-current assets** | | **33 856** | **33 954** |
| **Current assets** | | | |
| Inventories | 12 | 676 | 681 |
| Trade and other receivables | 13 | 1 098 | 986 |
| Income tax receivable | | 411 | 241 |
| Other current assets | 14 | 579 | 894 |
| Cash and cash equivalents | 15 | 1 541 | 562 |
| **Total current assets** | | **4 305** | **3 364** |
| **TOTAL ASSETS** | | **38 161** | **37 318** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 17 | 3 039 | 3 039 |
| Retained earnings | | 5 518 | 6 615 |
| **Total equity** | | **8 557** | **9 654** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 18 | 9 582 | 13 504 |
| Employee benefits | 19 | 1 587 | 1 458 |
| Other non-current liabilities | 20 | 272 | 317 |
| Deferred tax liabilities | 32 | 110 | 528 |
| **Total non-current liabilities** | | **11 551** | **15 807** |
| **Current liabilities** | | | |
| Loans and borrowings | 18 | 13 740 | 7 593 |
| Accounts payable and accrued expenses | 22 | 3 793 | 3 679 |
| Other current liabilities | 23 | 512 | 453 |
| Provisions | 21 | 8 | 132 |
| **Total current liabilities** | | **18 053** | **11 857** |
| **Total liabilities** | | **29 604** | **27 664** |
| **TOTAL EQUITY AND LIABILITIES** | | **38 161** | **37 318** |

*Deputy General Director*
*V.A. Statuev*

*Chief Accountant*
*T.V. Rusinova*



*The accompanying notes on pages 10 – 57 form an integral part of these consolidated financial statements*

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

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **Revenues** | 26 | **21 300** | **20 231** |
| Personnel costs | 27 | (5 990) | (5 657) |
| Depreciation and amortisation | 7,8 | (3 620) | (3 067) |
| Materials, repairs and maintenance, utilities | 28 | (2 689) | (2 610) |
| Interconnection charges | | (1 834) | (1 834) |
| Other operating income | 29 | 649 | 586 |
| Other operating expenses | 30 | (5 501) | (3 672) |
| **Operating profit** | | **2 315** | **3 977** |
| Share of result of equity accounted investees (net of Income tax) | 10 | 135 | 189 |
| Interest expenses | 31 | (2 202) | (2 238) |
| Forex (loss)/ gain, net | | (1 207) | 312 |
| Other financial income, net | | 98 | 7 |
| **(Loss)/Profit before income tax** | | **(861)** | **2 247** |
| Income tax benefit/(expense) | 32 | 190 | (704) |
| **(Loss)/Profit from continuing operations** | | **(671)** | **1 543** |
| **Profit from discontinued operations** | | - | 19 |
| **(Loss)/Profit for the year** | | **(671)** | **1 562** |
| Attributable to Shareholders of the Company | | **(671)** | **1 562** |
| **Basic and diluted (loss)/earnings per share (in Russian Roubles)** | 33 | **(0,1706)** | **0,3972** |



*The accompanying notes on pages 10 – 57 form an integral part of these consolidated financial statements*

# OJSC Southern Telecommunications Company
# 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:** | | | |
| (Loss)/Profit before income tax | | **(861)** | **2 247** |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 7,8 | 3 620 | 3 067 |
| Impairment of property, plant and equipment | | 1 642 | - |
| Loss on disposal of property, plant and equipment | | 82 | 19 |
| Impairment losses on intangible assets (Amdocs, Oracle) | 8 | 235 | 342 |
| Share of result of equity accounted investees | | (135) | (189) |
| Interest expenses | 31 | 2 202 | 2 238 |
| Forex loss/ (gain), net | | 1 207 | (312) |
| Allowance for impairment of receivables | | 116 | (24) |
| **Operating cash flows before changes in working capital and provisions** | | **8 108** | **7 388** |
| Decrease in inventories | | 5 | 62 |
| Increase in trade and other receivables | | (248) | (224) |
| Decrease/ (increase) in other current assets | | 315 | (76) |
| Increase in provision for employee benefits | | 129 | 39 |
| Decrease in accounts payable and accrued expenses | | (191) | (638) |
| (Decrease)/ increase in other operating liabilities | | (85) | 48 |
| **Cash flows generated from operations before income tax and interest paid** | | **8 033** | **6 599** |
| Interest paid | | (2 416) | (2 168) |
| Income tax paid | | (436) | (499) |
| **Cash flows from operating activities** | | **5 181** | **3 932** |
| | | | |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | | (4 658) | (3 477) |
| Proceeds from sales of property, plant and equipment and constructions in progress | | 176 | 89 |
| Acquisition of intangible assets | | (574) | (273) |
| Proceeds from sale of other investments | | 15 | 79 |
| Interest received | | 13 | 13 |
| Dividends received | | 133 | 120 |
| **Cash flows utilized in investing activities** | | **(4 895)** | **(3 449)** |

*(in millions of Russian Roubles)*

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from loans and borrowings | | 9 614 | 3 619 |
| Repayment of loans and borrowings | | (5 225) | (1 831) |
| Proceeds from bond issue | | - | 4 764 |
| Repayment of bond issue | | (764) | (5 610) |
| Proceeds from promissory notes | | 2 793 | 2 410 |
| Repayment of promissory notes | | (4 532) | (2 420) |
| Repayment of finance lease obligations | | (767) | (811) |
| Repayment of vendor financing liability | | - | (119) |
| Dividends paid to shareholders of the Company | | (426) | (254) |
| **Cash flows from/(utilized in) financing activities** | | **693** | **(252)** |
| | | | |
| **Net increase in cash and cash equivalents** | | **979** | **231** |
| Cash and cash equivalents at beginning of year | | **562** | **331** |
| **Cash and cash equivalents at end of year** | 15 | **1 541** | **562** |



*The accompanying notes on pages 10 – 57 form an integral part of these consolidated financial statements*

OJSC Southern Telecommunications Company
Consolidated Statement of Changes in Equity
for the year ended 31 December 2008
*(in millions of Russian Roubles)*

| | Note | Share capital | | | Total equity | | |
|---|---|---|---|---|---|---|---|
| | | Preference shares | Ordinary shares | Retained earnings | attributed to shareholders of the Company | Minority interest | Total equity |
| **Balance at 31 December 2006 (as previously reported)** | | **751** | **2 288** | **7 020** | **10 059** | **9** | **10 068** |
| Effect of errors correction | 2 | - | - | (1 692) | (1 692) | - | (1 692) |
| **Balance at 31 December 2006 (restated)** | | **751** | **2 288** | **5 328** | **8 367** | **9** | **8 376** |
| Profit for the year (restated) | | - | - | 1 562 | 1 562 | - | 1 562 |
| **Total recognised income and expenses for the year** | | | | **1 562** | **1 562** | **-** | **1 562** |
| Dividends to shareholders of the Company | | - | | (275) | (275) | - | (275) |
| Disposal of subsidiaries classified as held for sale | | - | - | - | - | (9) | (9) |
| **Balance at 31 December 2007 (restated)** | 2 | **751** | **2 288** | **6 615** | **9 654** | **-** | **9 654** |
| Loss for the year | | - | - | (671) | (671) | - | (671) |
| **Total recognised income and expenses for the year** | | | | **(671)** | **(671)** | **-** | **(671)** |
| Dividends to shareholders of the Company | 34 | - | - | (426) | (426) | - | (426) |
| **Balance at 31 December 2008** | | **751** | **2 288** | **5 518** | **8 557** | **-** | **8 557** |



*The accompanying notes on pages 10 – 57 form an integral part of these consolidated financial statements*

## 1 General Information

**Authorisation of the Financial Statements**

The consolidated financial statements of OJSC Southern Telecommunications Company (hereinafter "the Company") and its subsidiaries ("the Group") for the year ended 31 December 2008, were authorised for issue by the Deputy General Director and the Chief Accountant on 5 June 2009.

**Company**

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

The Company's official address: Russia, Krasnodar, Karasunskaya st., 66.

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

OJSC Svyazinvest, which is controlled by the Russian Government, owned 50,69% of the Company's ordinary voting shares as at 31 December 2008 and is the Company's Parent Company.

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

**Liquidity and Financial Resources**

As at 31 December 2008, the Company's current liabilities exceeded its current assets by 13 748 (as at 31 December 2007: 8 493). In 2008, the Company has incurred a loss before tax amounted to 861 (2007: profit before tax of 2 247).

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

In 2009 the Company expects to generate funds from the following sources: cash proceeds from operating activities; issue of promissory notes; placement of Rouble bonds on the Russian market; and raising funds from domestic and foreign lending institutions. Moreover, management believes that some of existing contractual payment terms relating to current operations could be extended in case of a shortage of working capital.

The Company has a program in place to ensure meeting an obligation to settle its liabilities when they fall due. The Company management has reached preliminary agreement with a number of lending institutions which are prepared to provide required financing.

Management believes that if necessary, 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 consolidated 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.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

**Presentation of Financial Statements**

Consolidated financial statements comprise the Company, its subsidiaries and associates and are prepared using unified 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 Measurement**

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's; and that available-for-sale investments are stated at fair value.

**Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except that the 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 – Group 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 group. | 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. |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

**IFRSs and IFRIC Interpretations not yet effective**

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

| 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. |
| IAS 23 (as revised in 2006) Borrowing Costs | The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale. | To be applied for annual reporting periods beginning on or after 1 January 2009. |
| Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation | The Amendments require that certain financial instruments and liabilities arising on liquidation be classified as equity if certain conditions are met.<br>They also define what information is to be disclosed with regard to puttable financial instruments classified as equity. | To be applied for annual reporting periods beginning on or after 1 January 2009. |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

| Standard/Interpretation | Content of change | Effective date |
|---|---|---|
| Amendments to IFRS 2 Share-Based Payment – Vesting Conditions and Cancellations | The Amendments define the term vesting conditions as an explicit or implicit requirement of completing the services. Other conditions are non-vesting conditions and should be taken into account when measuring the fair value of equity instruments granted. If the rights to an equity instrument were not transferred due to the failure to meet a non-vesting condition which was to be met by an entity or its counterparty, an equity instrument should be derecognised. | To be applied for annual reporting periods beginning on or after 1 January 2009. |
| IFRS 3 (as revised in 2008) Business Combinations | The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods. | To be applied for annual reporting periods beginning on or after 1 July 2009. |
| IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements | The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary. | To be applied for annual reporting periods beginning on or after 1 July 2009. |
| IFRIC Interpretation 13 Customer Loyalty Programmes | The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed. | To be applied for reporting periods beginning on or after 1 July 2008. |
| IFRIC Interpretation 15 Agreements for the Construction of Real Estate | The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue. | To be applied for reporting periods beginning on or after 1 January 2009. |
| IFRIC Interpretation 16 Hedges of a Net Investment in a Foreign Operation | The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules. | To be applied for reporting periods beginning on or after 1 October 2008. |
| IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners | The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents. | To be applied for reporting periods beginning on or after 1 July 2009. |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

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

As at 31 December 2008, management of the 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.

**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. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

| Exchange rates at 31 December | 2008 | 2007 |
|---|---|---|
| US Dollar | 29,3804 | 24,5462 |
| EURO | 41,4411 | 35,9332 |

**Revision of Historical Financial Information**

In the course of the preparation of the financial statements for 2008, the Company identified some errors which related to the historical financial information. The errors related to 2007 and previous years were corrected through revision of the comparable information for 2007 and adjustments to assets, liabilities and retained earnings as of 31 December 2006, correspondingly. There were also certain adjustments made of reclassification nature.

As a result of the above adjustments, profit for 2007 attributable to shareholders of the Company increased by 347 and retained earnings as at 31 December 2007 decreased by 1 345.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

The effect of errors correction on earnings per share amounted to 0,09 RUR/share.

| *Only corrected lines* | Before adjustments | Error correction | Reclassification | Total adjustments | Total after adjustments |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 32 857 | (1 770) | - | (1 770) | 31 087 |
| Other non-current assets | 142 | - | 47 | 47 | 189 |
| Long-term advances given | 47 | - | (47) | (47) | - |
| **Total non-current assets** | 35 724 | (1 770) | - | (1 770) | 33 954 |
| **Current assets** | | | | | |
| Other current assets | 808 | - | 86 | 86 | 894 |
| Prepayments for current assets | 86 | - | (86) | (86) | - |
| **TOTAL ASSETS** | **39 088** | **(1 770)** | - | **(1 770)** | **37 318** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Shareholders' equity** | | | | | |
| Retained earnings | 7 960 | (1 345) | - | (1 345) | 6 615 |
| **Total equity attributable to shareholders of the Company** | 10 999 | (1 345) | - | (1 345) | 9 654 |
| **Total equity** | 10 999 | (1 345) | - | (1 345) | 9 654 |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | 13 032 | - | 472 | 472 | 13 504 |
| Long-term finance lease liabilities | 472 | - | (472) | (472) | - |
| Deferred revenue | 313 | - | (313) | (313) | - |
| Long-term provision | 4 | - | (4) | (4) | - |
| Other non-current liabilities | - | - | 317 | 317 | 317 |
| Deferred tax liabilities | 953 | (425) | - | (425) | 528 |
| **Total non-current liabilities** | 16 232 | (425) | - | (425) | 15 807 |
| **Current liabilities** | | | | | |
| Loans and borrowings | 2 181 | - | 5 412 | 5 412 | 7 593 |
| Current portion of long-term borrowings | 4 654 | - | (4 654) | (4 654) | - |
| Current portion of long-term finance lease liabilities | 758 | - | (758) | (758) | - |
| Accounts payable and accrued expenses | 3 722 | - | (43) | (43) | 3 679 |
| Other current liabilities | - | - | 453 | 453 | 453 |
| Current income tax payable | 31 | - | (31) | (31) | - |
| Other taxes payable | 348 | - | (348) | (348) | - |
| Dividends payable | 31 | - | (31) | (31) | - |
| **Total current liabilities** | 11 857 | - | - | - | 11 857 |
| **Total liabilities** | 28 089 | (425) | - | (425) | 27 664 |
| **TOTAL EQUITY AND LIABILITIES** | **39 088** | **(1 770)** | - | **(1 770)** | **37 318** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

| *Only corrected lines* | **Before adjustments** | **Error correction** | **Reclassifi-cation** | **Total adjust-ments** | **Total after adjustments** |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Depreciation and amortization | (3 554) | 487 | - | 487 | (3 067) |
| Personnel costs | (5 793) | - | 136 | 136 | (5 657) |
| Taxes other than income tax | (781) | - | 781 | 781 | - |
| Reversal of allowance for impairment of receivables | 24 | - | (24) | (24) | - |
| Loss on disposal of property, plant and equipment | (41) | - | 41 | 41 | - |
| Write-off re. Oracle EBS and Amdocs | (342) | - | 342 | 342 | - |
| Other operating income | - | - | 586 | 586 | 586 |
| Other operating expenses | (1 915) | (31) | (1 726) | (1 757) | (3 672) |
| **Operating profit** | **3 385** | **456** | **136** | **592** | **3 977** |
| Interest expenses | (2 135) | - | (103) | (103) | (2 238) |
| Gain on sale of investments, net | 40 | - | (40) | (40) | - |
| Other financial income | - | - | 7 | 7 | 7 |
| **Profit before income tax** | **1 791** | **456** | **-** | **456** | **2 247** |
| Income tax expense | (595) | (109) | - | (109) | (704) |
| **Profit for the year from continuing operations** | **1 196** | **347** | **-** | **347** | **1 543** |
| **Profit for the year** | **1 215** | **347** | **-** | **347** | **1 562** |

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

Management engaged an independent appraiser “NEO Center” to determine these fair values of the Company’s property, plant and equipment as of 1 January 2003. The appraiser completed his evaluation in 2008.

As a result of the valuation performed, it was identified that management’s previous estimate of the deemed cost of property, plant and equipment as at 1 January 2003 had been incorrect, and the carrying values of property, plant and equipment as at 31 December 2006 and 31 December 2007 as well as depreciation charge and result on disposal of property, plant and equipment for 2007, were restated.

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

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

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

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

- The minimum cash generating unit is each of the Company's branches and subsidiaries;
- Operating revenue and expenses were determined at the level of actual operating revenue and expenses for the last 12 months before the date as of which the revaluation was prepared;
- The growth rate of revenue and expenses over the projection period of 5% per amount was used, which was in line with the average inflation rate that had been expected for the period of remaining useful lives of the assets;
- Discount rate before tax applicable for measuring of the fair value of assets was determined as 19,4% for all branches.

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

## 3 Summary of Significant Accounting Policies

### 3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OJSC Southern Telecommunications Company and its subsidiaries as of 31 December 2008 and 2007 and for the years then ended.

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

Subsidiaries are fully consolidated as of the date of acquisition, being the date when the Group 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

*Acquisition of Minority Interest in Subsidiaries*

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(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 cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Cost of each major inspection is capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria is satisfied. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

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

### 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** |
|---|---|
| Buildings and constructions | 11-50 |
| Transmission devices | 10-15 |
| Switches | 3-15 |
| Other telecommunication equipment | 3-10 |
| Land | Not depreciated |

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

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

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

### 3.3 Intangible Assets and Goodwill

#### 3.3.1 Goodwill

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

Goodwill on an acquisition of an equity accounted investees is included in the investments in equity accounted investees

#### 3.3.2 Other Intangible Assets

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

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

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

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

Useful lives of Other intangible assets are determined on individual basis.

#### 3.3.3 Impairment

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

### 3.4 Borrowing Costs

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

### 3.5 Equity accounted investees

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

### 3.6 Investments and Other Financial Assets

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

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

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 a buyer.

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).

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

All other investments, which were not classified to any of the three preceding categories, are available-for-sale investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### 3.7 Inventories

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

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

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

### 3.8 Cash and Cash Equivalents

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

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

### 3.9 Shareholders’ Equity

#### 3.9.1 Share Capital

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

#### 3.9.2 Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. The gain or loss on purchase, sale or cancellation of treasury



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

shares is not recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

#### 3.9.3 Minority Interest

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

#### 3.9.4 Dividends

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

### 3.10 Financial Liabilities

#### 3.10.1 Borrowings Received

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

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

### 3.11 Leases

At the commencement of the finance lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the 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.

### 3.12 Employee Benefits

#### 3.12.1 Current Employment Benefits

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

### 3.12.2 Pensions and Other Post-Employment Benefit Plans

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

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

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

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

## 3.13 Provisions

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

## 3.14 Income Tax

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

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

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

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.

## 3.15 Revenue Recognition

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

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.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

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

### 3.16 Earnings per Share

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

## 4 Significant Accounting Judgments and Estimates

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

**Useful Life of Property, Plant and Equipment**

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2008 is 30 656 (as at 31 December 2007 – 31 087). Refer to Note 7 for detailed information.

**Impairment of Non-current assets**

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

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

**Fair Values of Unlisted Available-for-Sale Investments**

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

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

**Allowance for impairment of receivables**

Allowance for impairment is based on the historical data related to collectability of accounts receivable and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As of 31 December 2008, an allowance for impairment of receivables amounted to 243 (2007 - 154). Refer to Note 13 for more details.

**Employee benefits**

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies 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. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As of 31 December 2008, net defined benefit obligations amounted to 1 587 (2007 - 1 458). More details are provided in Note 19.

## 5 Segment Information

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

The Group provides telecommunications services on the territory of the Southern Federal District of the Russian Federation. A range of services are provided using the same equipment and communication channels. Therefore, management believes that the Group currently has only one business and geographical segment.

## 6 Subsidiaries

The following subsidiaries are controlled by the OJSC Southern Telecommunications Company:

| | | **Ownership, %** | | **Voting Shares, %** | |
|---|---|---|---|---|---|
| **Subsidiary** | **Activity** | **31.12.08** | **31.12.07** | **31.12.08** | **31.12.07** |
| OJSC "Stavtelecom" | Communication services | 100 | 100 | 100 | 100 |
| OJSC "Orbita Recreational House" | Recreation services | 100 | 100 | 100 | 100 |
| LLC "Intmashservice" | Repair of communication facilities | 100 | 100 | 100 | 100 |
| CJSC "Armavirskiy Zavod Svyazi" | Cable production | - | 100 | - | 100 |
| CJSC "Yugavyazstroy" | Construction services | 100 | 100 | 100 | 100 |
| LLC Factorial -99 | Information agency | 100 | 100 | 100 | 100 |
| LLC YuTC-Finance | Financial services | 100 | 100 | 100 | 100 |

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 7 Property, Plant and Equipment

| | Land, buildings and constructions | Switches and transmission devices | Other assets | Construction in progress and equipment for installation | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 31 December 2006** | **21 388** | **15 656** | **1 980** | **2 131** | **41 155** |
| Additions | - | - | - | 4 259 | 4 259 |
| Transfer from construction in progress | 1 071 | 2 521 | 858 | (4 450) | - |
| Disposals | (59) | (31) | (86) | (44) | (220) |
| **At 31 December 2007** | **22 400** | **18 146** | **2 752** | **1 896** | **45 194** |
| Additions | - | - | - | 4 939 | 4 939 |
| Transfer from construction in progress | 1 349 | 2 003 | 1 020 | (4 372) | - |
| Disposals | (241) | (84) | (128) | (35) | (488) |
| **At 31 December 2008** | **23 508** | **20 065** | **3 644** | **2 428** | **49 645** |
| **Accumulated depreciation and impairment** | | | | | |
| **At 31 December 2006** | **(5 899)** | **(3 874)** | **(1 517)** | **-** | **(11 290)** |
| Charge for the year | (1 149) | (1 156) | (625) | | (2 930) |
| Disposals | 53 | 23 | 37 | | 113 |
| **At 31 December 2007** | **(6 995)** | **(5 007)** | **(2 105)** | **-** | **(14 107)** |
| Charge for the year | (1 230) | (1 576) | (664) | - | (3 470) |
| Disposals | 74 | 34 | 122 | - | 230 |
| Impairment loss | (1 003) | (618) | (21) | - | (1 642) |
| **At 31 December 2008** | **(9 154)** | **(7 167)** | **(2 668)** | **-** | **(18 989)** |
| **Net book value** | | | | | |
| **At 31 December 2006** | **15 489** | **11 782** | **463** | **2 131** | **29 865** |
| **At 31 December 2007** | **15 405** | **13 139** | **647** | **1 896** | **31 087** |
| **At 31 December 2008** | **14 354** | **12 898** | **976** | **2 428** | **30 656** |

Depreciation charge for 2008 in the amount of 3 470 (2007: 2 965 was recorded in line “Depreciation and amortization” of the consolidated income statement.

As at 31 December 2008, the historical cost of fully amortised property, plant and equipment amounted to 4 614 (2007 - 4 393).

In 2008, the Company increased the cost of construction-in-progress by the capitalised interest in the amount of 113 (2007: - 89). Capitalisation rate in 2008 was 10,37% (2007 – 10,07%).

Property, plant and equipment with the total value of 4 804 (2007: 3 505) were pledged as a collateral under loan agreements. Assets acquired under finance lease contracts secure finance lease liabilities.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

**Finance Lease**

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

| | 2008 | 2007 |
|---|---|---|
| Switches and transmission devices | 2 260 | 3 319 |
| Other fixed assets | 164 | 199 |
| **Total net book value of plant and equipment held under finance leases** | **2 424** | **3 518** |

**Impairment of property, plant and equipment**

As a result of the impairment testing performed as at 31 December 2008, the Company has recognised an impairment loss in relation to cable infrastructure and other specialised telecommunication assets in the amount of 1 642. The impairment loss was incurred at the level of the following cash generating units, which are the Company's subsidized branches: Karachaevo-Cherkessiya – 611, Kalmykiya – 538, Adygeya – 173; and Astrakhan – 320.

The carrying amount of cash generating unit was adjusted for non-specialised assets, assets held under finance lease and construction in progress and compared with the recoverable amount, which has been determined based on value in use calculation adjusted accordingly. The value in use calculations for Kalmykiya and Karachaevo-Cherkessiya branches were negative, therefore the recoverable amount of respective specialised assets was determined based on its estimated liquidation value.

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 following key assumptions were made by the Company's management in determining the recoverable amount of the cash generating units:

- The minimum cash generating unit is each of the Company's branches and subsidiaries;
- Cash flow projections cover a period of five years, cash flows beyond the five-year period have been extrapolated;
- Cash flow projections were prepared in nominal terms;
- A post-tax discount rate of 17,4% was applied in determining the value in use. The Rouble-denominated discount rate was estimated in nominal terms based on weighted average cost of capital;
- The implied pre-tax WACC is 20,2%;
- Projected growth rates in revenue and expenses are as follows: 3% in 2009, 2% in 2010, 3% in 2011, 2% in 2012 – 2013 and after 2013 – 4%;
- A terminal value was derived at the end of a five-year period assuming 4% future growth rate.

The estimated cash flows are not particularly sensitive to a change in the above assumptions. The values assigned to the key assumptions represent management's assessment of future trends in the telecommunications industry and are based on both external sources and internal sources (historical data).



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 8 Intangible Assets

| | Licenses | Software | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2006** | **34** | **1 930** | **2** | **1 966** |
| Additions | - | 660 | - | 660 |
| **At 31 December 2007** | **34** | **2 590** | **2** | **2 626** |
| Additions | - | 789 | - | 789 |
| **At 31 December 2008** | **34** | **3 379** | **2** | **3 415** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| **At 31 December 2006** | **(6)** | **(103)** | **(1)** | **(110)** |
| Charge for the year | (1) | (136) | - | (137) |
| Impairment loss | - | (342) | - | (342) |
| **At 31 December 2007** | **(7)** | **(581)** | **(1)** | **(589)** |
| Charge for the year | - | (150) | - | (150) |
| Impairment loss | - | (235) | - | (235) |
| **At 31 December 2008** | **(7)** | **(966)** | **(1)** | **(974)** |
| | | | | |
| **Net book value** | | | | |
| **At 31 December 2006** | **28** | **1 827** | **1** | **1 856** |
| **At 31 December 2007** | **27** | **2 009** | **1** | **2 037** |
| **At 31 December 2008** | **27** | **2 413** | **1** | **2 441** |

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

As at 31 December 2008, the software included a software product Oracle E-Business Suite with the carrying amount of 1 193 (2007 – 965).

Interest expenses capitalised in 2008 and related to the implementation of Oracle E-Business Suite amounted to 11 (2007 – 8). Applicable capitalisation rate was 10,37% (2007 – 10,07%).

The Company started to use Oracle E-Business Suite software, with depreciation charge commencing from the date of its implementation (September 2006) over its useful life of 10 years.

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

| | 2008 | 2007 |
|---|---|---|
| **As at 1 January** | **965** | **1 045** |
| Implementation expenses | 374 | 265 |
| Amortisation charge | (146) | (110) |
| Impairment losses | - | (235) |
| **As at 31 December** | **1 193** | **965** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

**Amdocs Billing System**

As at 31 December 2008, the software included a software product Amdocs Billing Suite with the carrying amount of 527 (2007 – 762).

As a result of the Company's decision on revision of implementation terms of Amdocs, the impairment loss of 235 was recognised in Other operating expenses.

During 2009-2010 years, the Company intends to implement a CRM Amdocs using its existing Amdocs licenses. The volume of licenses required in the CRM Amdocs as well as utilisation of the other components of Amdocs software will be reconsidered based on the results of implementation of CRM Amdocs project.

The Company shall start depreciating this asset after it is put into operation in proportion to the cost of implemented modules. Until that moment management intends to periodically test the asset for impairment.

Changes in the carrying amount of the software product Amdocs Billing Suite for years ended 31 December 2008 and 2007 are disclosed below:

| | 2008 | 2007 |
|---|---|---|
| **As at 1 January** | **762** | **797** |
| Implementation expenses | - | 72 |
| Impairment loss | (235) | (107) |
| **As at 31 December** | **527** | **762** |

**Peter-Service ITC**

As at 31 December 2008, the software included a software product Peter-Service with the carrying amount of 17 (2007 – 16).

Changes in the carrying amount of the ASR Start software product for the years ended 31 December 2008 and 2007 are disclosed below:

| | 2008 | 2007 |
|---|---|---|
| **As at 1 January** | **16** | **-** |
| Implementation expenses | 5 | 17 |
| Amortisation charge | (4) | (1) |
| **As at 31 December** | **17** | **16** |

**Hewlett-Packard Open View Internet Usage Manager (HP Open View)**

As at 31 December 2008, the software included a software product HP Open View with the carrying amount of 356 (2007 – 176).

Changes in the carrying amount of the HP Open View software product for the years ended 31 December 2008 and 2007 are disclosed below:

| | 2008 | 2007 |
|---|---|---|
| **As at 1 January** | **176** | **-** |
| Licenses | - | 152 |
| Implementation expenses | 180 | 24 |
| **As at 31 December** | **356** | **176** |

The implementation of HP IUM is planned to be completed by the year of 2010.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

**Licences**

As at 31 December 2008 Company held licenses for the following activities:

- local and intrazone telecommunication services;
- data transmission services with the exception of data transmission services for voice information transmission;
- telematic services;
- telegraph services;
- radio communication;
- local telecommunication services using payphones and collective access facilities.

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**Amortisation of intangible assets**

Amortisation charge for 2008 in the amount of 150 (2007 – 137) was recorded in line "Depreciation and amortization" of the consolidated income statement.

## 9 Other non-current assets

As at 31 December 2008 and 2007 other non–current assets are as follows

| | **2008** | **2007** |
|---|---|---|
| Long-term advances given for CIP additions | 73 | 47 |
| Long-term VAT receivable | 23 | 120 |
| Other | 15 | 22 |
| **Total** | **111** | **189** |

## 10 Investments in equity accounted investees

| | | **2008** | | |
|---|---|---|---|---|
| **Equity accounted investees** | **Activity** | **Ownership Interest, %** | **Voting shares, %** | **Carrying value** |
| CJSC "Volgograd-GSM" | Mobile services | 50 | 50 | 617 |
| **Total** | | | | **617** |

| | | **2007** | | |
|---|---|---|---|---|
| **Equity accounted investees** | **Activity** | **Ownership Interest, %** | **Voting shares,%** | **Carrying value** |
| CJSC "Volgograd-GSM" | Mobile services | 50 | 50 | 615 |
| **Total** | | | | **615** |

The above entity is Russian legal entity established pursuant to the legislation of Russian Federation and have the same reporting date as the Company.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

Movement in investments in equity accounted investees for the years ended 31 December 2008 and 2007 is presented below:

| | 2008 | 2007 |
|---|---|---|
| **Investments in equity accounted investees as of 1 January, net** | **615** | **530** |
| Share of income net of income tax | 135 | 189 |
| Dividends received | (133) | (87) |
| Disposal of investments in equity accounted investees | - | (17) |
| **Investments in equity accounted investees as of 31 December, net** | **617** | **615** |

The following table illustrates summarised financial information:

| Associate | Voting shares, % | Assets | Liabilities | Revenues | Net profit |
|---|---|---|---|---|---|
| **2008** | | | | | |
| CJSC Volgograd GSM | 50 | 1 968 | (734) | 1 823 | 269 |
| **2007** | | | | | |
| CJSC Volgograd GSM | 50 | 2 029 | (799) | 1 796 | 376 |

## 11 Non-current Investments

Non-current investments amounted to 14 (2007: 22) and presented mainly by available-for-sale investments as at 31 December 2008 and 2007 as listed below:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **Company** | **Ownership interest ,%** | **Carrying value** | **Ownership interest,%** | **Carrying value** |
| ***Long-term investments*** | | | | |
| OJSC “SvyasIntek” | 11 | 13 | 11 | 13 |
| OJSC “BETO” | 0,15 | 1 | 0,15 | 1 |
| CJSC “Leasing-Point” | - | - | 3.65 | 1 |
| **Total short-term investments** | | **14** | | **15** |

## 12 Inventories

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

| | 2008 | 2007 |
|---|---|---|
| Cable | 223 | 279 |
| Spare parts | 112 | 66 |
| Implements | 60 | 65 |
| Building materials | 22 | 69 |
| Other inventories | 259 | 202 |
| **Total** | **676** | **681** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 13 Trade and Other Receivables

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

| | Gross as at 31 December 2008 | Allowance for impairment of receivables | Net as at 31 December 2008 |
|---|---|---|---|
| Receivables from customers for core activity | 1 210 | (243) | 967 |
| Receivables from customers for non-core activity | 72 | (10) | 62 |
| Receivables from agents and commissioners | 69 | - | 69 |
| **Total** | **1 351** | **(253)** | **1 098** |

| | Gross as at 31 December 2007 | Allowance for impairment of receivables | Net as at 31 December 2007 |
|---|---|---|---|
| Receivables from customers for core activity | 1 063 | (154) | 909 |
| Receivables from customers for non-core activity | 61 | (24) | 37 |
| Receivables from agents and commissioners | 40 | - | 40 |
| **Total** | **1 164** | **(178)** | **986** |

Receivables for customers for core activity as at 31 December 2008 and 2007 comprised the following:

| | Gross as at 31 December 2008 | Allowance for impairment of receivables | Net as at 31 December 2008 |
|---|---|---|---|
| Receivables from individuals | 485 | (96) | 389 |
| Receivables from commercial organizations | 346 | (55) | 291 |
| Receivables from budget organizations | 130 | (6) | 124 |
| Receivables from interconnect operators | 241 | (78) | 163 |
| Tariff compensation from the state budget | 8 | (8) | - |
| **Total** | **1 210** | **(243)** | **967** |

| | Gross as at 31 December 2007 | Allowance for impairment of receivables | Net as at 31 December 2007 |
|---|---|---|---|
| Receivables from individuals | 432 | (70) | 362 |
| Receivables from commercial organizations | 149 | (22) | 127 |
| Receivables from budget organizations | 82 | (4) | 78 |
| Receivables from interconnect operators | 363 | (35) | 328 |
| Tariff compensation from the state budget | 37 | (23) | 14 |
| **Total** | **1 063** | **(154)** | **909** |

The Company issues Rouble denominated invoices to government and commercial organizations for communications services on a monthly basis. The Company sends invoices for services to individuals on a monthly basis and substantially relies on the individuals' timely payment of services as per invoices. All customer payments are based upon tariffs, denominated in Roubles and effective upon service provision.

The following table summarizes the changes in the allowance for impairment of receivables:

| | 2008 | 2007 |
|---|---|---|
| **Balance at 1 January** | 154 | 240 |
| Accrual of allowance | 116 | - |
| Reversal of allowance | - | (24) |
| Write-off of receivables | (27) | (62) |
| **Balance at 31 December** | **243** | **154** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 14 Other Current Assets

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

| | **Gross 2008** | **Allowance for impairment 2008** | **Net 2008** |
|---|---|---|---|
| Advances given | 107 | (4) | 103 |
| VAT receivable | 116 | - | 116 |
| Prepayment of other taxes | 14 | - | 14 |
| Deferred expenses | 107 | - | 107 |
| Other current assets | 242 | (3) | 239 |
| **Total** | **586** | **(7)** | **579** |

| | **Gross 2007** | **Allowance for impairment 2007** | **Net 2007** |
|---|---|---|---|
| Advances given | 98 | (11) | 87 |
| VAT receivable | 272 | - | 272 |
| Prepayment of other taxes | 248 | - | 248 |
| Deferred expenses | 114 | - | 114 |
| Other current assets | 176 | (3) | 173 |
| **Total** | **908** | **(14)** | **894** |

## 15 Cash and Cash Equivalents

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

| | **2008** | **2007** |
|---|---|---|
| Cash on hand and at bank | 1 515 | 562 |
| Short-term deposits up to 3 months | 26 | - |
| **Total** | **1 541** | **562** |

The interest rate on short-term Rouble deposits with a maturity of up to three months varies from 9,50% to 11%.

## 16 Significant non-cash transactions

Included in revenues are non-cash transactions amounting to 1 643 (2007: 485) of which 1 321 relates to Rostelecom. These transactions represent mainly mutual offset of the balances with the same customer or supplier incurred in the course of normal operating activity.

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 17 Share Capital

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

| | Number of shares authorised (millions) | Par value | Carrying value |
|---|---|---|---|
| **As of 31 December 2006** | **3,933** | **1,298** | **3,039** |
| Ordinary | 2,961 | 977 | 2,288 |
| Preference | 972 | 321 | 751 |
| **As of 31 December 2007** | **3,933** | **1,298** | **3,039** |
| Ordinary | 2,961 | 977 | 2,288 |
| Preference | 972 | 321 | 751 |
| **As of 31 December 2008** | **3,933** | **1,298** | **3,039** |

Nominal value of ordinary and preference share is 0.33 RUR/share. All authorised shares have been issued and fully paid.

The difference between the par value and the carrying amount of shares represents the effect of inflation in the periods prior to 1 January 2003.

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

| | Share capital | Ordinary shares | | Preference shares | |
|---|---|---|---|---|---|
| | % | Number (thousands) | % | Number (thousands) | % |
| **Total legal entities** | **89,0** | **2,722,367** | **92,0** | **776,876** | **79,9** |
| OJSC Svyazinvest | 38,2 | 1 500 671 | 50,7 | - | - |
| Legal entities holding more than 5% of charter capital, incl: | 44,5 | 1 041 961 | 35,2 | 707 830 | 72,8 |
| - CJSC ING bank (Evrasia) | 14,1 | 369 318 | 12,5 | 186 647 | 19,2 |
| - CJSC Deposit-Liring company (nominee shareholder) | 14,1 | 325 706 | 11,0 | 229 465 | 23,6 |
| - Non-commercial Partnership National Depositary center | 8,2 | 265 493 | 9,0 | 55 728 | 5,7 |
| - CJSC commercial bank company Citybank (nominee shareholder) | 8,1 | 81 444 | 2,7 | 235 990 | 24,3 |
| Other legal entities | 6,3 | 179 735 | 6,1 | 69 046 | 7,1 |
| **Individuals** | **11,0** | **238 146** | **8,0** | **195 276** | **20,1** |
| **Total** | **100,0** | **2 960 513** | **100,0** | **972 152** | **100,0** |

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.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

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 preference 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 (refer Note 33).

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

Distributable earnings of the 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 8 570 and 8 375, respectively.

In accordance with the Company's Dividend policy, dividends may only be declared to the shareholders of the Company from net income as shown in the Company's Russian statutory financial statements. The Company reported net income of 557 and 1 827 in its statutory financial statements in 2008 and 2007, respectively.

In February 1998, the Company placed Level I American Depositary Receipts (ADRs). Each depository receipt equals 50 ordinary shares of the Company.

The following table represents ADR registration for 2007-2008:

| | **ADR (quantity)** | **Ordinary Shares Equivalent (quantity)** | **Ordinary Shares %** | **Charter Capital %** |
|---|---|---|---|---|
| **31 December 2006** | **3 657 617** | **182 880 850** | **6,18** | **4,65** |
| Disposals | (218 349) | (10 917 450) | (0,37) | (0,28) |
| **31 December 2007** | **3 439 268** | **171 963 400** | **5,81** | **4,37** |
| Disposals | (133 648) | (6 682 400) | (0,23) | (0,17) |
| **31 December 2008** | **3 305 620** | **165 281 000** | **5,58** | **4,20** |

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

| **Stock market** | **CUSIP(WKN)** | **ADR ticker** | **ISIN** |
|---|---|---|---|
| Over-the-counter market (OTC) USA | 843899105 | STJSY | S1843899105 |
| Frankfurt Stock Exchange | 912640 | KUE.FRA | US8438991056 |
| Berlin Stock Exchange | 912640 | KUE | US8438991056 |
| NEWEX (Vienna, Austria) | 912640 | KUE | US8438991056 |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 18 Loans and Borrowings

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| ***Long–term loans and borrowings*** | | |
| Bank loans | 14 609 | 7 411 |
| Bonds | 7 925 | 8 689 |
| Promissory notes | - | 1 539 |
| Lease liability | 472 | 1 230 |
| Loans from individuals | 23 | 23 |
| Other long-term debt | 25 | 24 |
| Less: Current portion of long–term borrowings | (13 472) | (5 412) |
| **Total long–term loans and borrowings** | **9 582** | **13 504** |
| ***Short–term loans and borrowings*** | | |
| Bank loans | - | 1 612 |
| Promissory notes | - | 200 |
| Accrued interest | 268 | 369 |
| Current portion of long–term loans and borrowings | 13 472 | 5 412 |
| **Total short–term loans and borrowings** | **13 740** | **7 593** |
| **Total loans and borrowings** | **23 322** | **21 097** |

### Long-term loans and borrowings

### Bank loans

| Counteragent | Interest rate per loan agreement | 2008 | 2007 | Currency, per the loan agreement | Date of maturity | Security |
|---|---|---|---|---|---|---|
| OJSC Mejregionalny Kommerchesky Bank Razvitiya Svyazi` I Informatiki | 9% | 1 000 | 1 000 | Rouble | 2010 | Unsecured |
| Bank Societe Generale Vostok (BSGV) | 2,75+MOSPRIME | 998 | - | Rouble | 2011 | Unsecured |
| Reachcom Public Limited | 9% | 3 465 | - | Rouble | 2013 | Unsecured |
| OJSC VTB | 5% + MOSPRIME | 2 000 | - | Rouble | 2011 | Unsecured |
| OJSC ORGRES-Bank AB | 4% + Euribor | 2 300 | - | Euro | 2010 | Pledge of assets |
| Ministry of Finance of RF | 2% | 418 | 475 | Euro | 2011 | Pledge of assets |
| Credit Suisse International | 4,4 % and 5,6% + Libor | 4 407 | 4 296 | US Dollars | 2009 till 2011 | Pledge of assets |
| OJSC Sberbank RF | 7-10% | - | 1 598 | Rouble | till 2009 | Pledge of assets |
| Other bank loans | 11-13% | 21 | 42 | Rouble | till 2009-2014 | Pledge of assets |
| **Total bank loans** | | **14 609** | **7 411** | | | |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*OJSC Mejregionalny Kommerchesky Bank Razvitiya Svyazi I Informatiki*

Long-term borrowing from OJSC Megregionalny Kommerchesky Bank Razvitiya Svyazi I Informatiki represents a Rouble denominated loan of 1 000 received in 2007. The loan matures in 2010. The loan accrues annual interest of 9%. As of 31 December 2008, the principal amount outstanding was 1 000.

*Bank Societe Generale Vostok (BSGV)*

Long-term borrowing to CJSC Bank Societe Generale Vostok represents non-renewable credit line for 1 000 received in 2008. The loan matures in 2011. The loan bears interest at a rate which is an aggregate of Margin (2,75%) and MOSPRIME. As of 31 December 2008, the outstanding amount of the loan was 998.

*REACHCOM Public Limited*

In February 2008, the Company entered into a loan agreement with Reachcom Public limited for 3 500 that was arranged through an issue by the Company of the credit linked notes (CLNs) worth 3 500. The coupon rate was set at 9% per annum and paid twice a year. The CLNs maturity period is 5 years, however the creditor has the right to claim partial or full repayment of the loan in June 2009 (the first date of premature settlement). The first 50% of the principal amount of the loan is payable in November 2012 and the remaining 50% - in June 2013. As at 31 December 2008, the principal amount outstanding of 3 465 was classified as current portion of long-term loans and borrowings.

*OJSC VTB*

In 2008 the Company entered into loan agreements with OJSC VTB for 2 000. The loans are payable in 2011. The loans bear an interest rate equal to MOSPRIME 3M + 5% p.a., in addition 0,5% is charged as a commission on unused amount of the debt limit. As of 31 December 2008, the principal amount outstanding was 2 000.

*OJSC ORGRES-Bank AB*

In November 2008, the Company entered into a loan agreement with OJSC ORGRES-Bank AB for 2 300. The currency of the loan is Euro and Euro amount is 55,5 million. The loan matures in 2010. The loan bears interest at a rate which is an aggregate of Margin (4%) and EURIBOR. The loan is secured with plant and equipment with a carrying value of 1 808. As at the balance sheet date the Group was in breach of a covenant to the loan agreement, which imposes the ratio of total equity to total equity and liabilities as per the consolidated balance sheet of not less than 27%. As the breach of the covenant had not been remedied before the balance sheet date the principal amount outstanding of 2 300 was reclassified to current portion of long-term loans and borrowings.

*Ministry of Finance of the Russian Federation*

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of Russian Federation. The respective loans were denominated in Euro.

In December 2006 at the stage of legal proceedings the Company signed an amicable agreement with Ministry of Finance on 5 March 2007. The amicable agreement came into force on 27 December 2006 and stipulates a restructuring of the Company's liability: penalty interest accrued for untimely payments in the amount of Euro 10 million is forgiven and the principal amount will be paid in equal annual instalments till 1 January 2012. Interest on the restructured loan is payable at 2% per annum.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

As at 31 December 2008, the outstanding liability was accounted for at amortised cost using the effective interest rate of 11,08%, and amounted to 418, including short-term part of 140. The loan is secured with plant and equipment at a carrying value of 228.

*Credit Suisse International*

In 2006 the Company entered into the two loan agreements with Credit Suisse International. Financing agreement in the amount of 50 million US dollars was signed in August 2006 and Guaranteed financing agreement in amount of 125 million US dollars was signed in September 2006. Credit period for the first loan is 37 months, including grace period of 24 months. The loan bears interest at a rate which is an aggregate of Margin (5,60%) and LIBOR. The loan was obtained in order to refinance the Company's debt. The loan is secured by the equipment with a carrying value of 953. Credit period for the second loan is 7 years, including grace period of 4 years. The loan bears interest at a rate which is an aggregate of Margin (4,40%) and LIBOR. The loan was obtained in order to refinance the Company's debt. The loan is secured by bank guarantee under the agreement concluded between the Company and OJSC Vneshtorgbank. In accordance with this agreement Company pays commission in the amount of 0,3% of the guaranteed amount on a quarterly basis. Bank guarantee is secured by the equipment with carrying value of 1 790. Amount outstanding under these loans as of 31 December 2008 was 4 407.

**Bonds**

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

| Narrative of the issue | 2008 | 2007 | Effective rate | Date of maturity | Date of offer | Interest on coupon |
|---|---|---|---|---|---|---|
| Bond issue 03 | (3 420) | (3 420) | from 9,54% till 10,45% | 2009 | - | from 8,0% till 12,3% |
| Bond issue 04 | (2 509) | (2 509) | 9,82% | 2009 | - | from 10,0% till 10,5% |
| Bond issue 05 | (1 996) | (1 996) | 7,77% | 2012 | 2010 | 7,55% |

*Bond issue 03*
On 6 October 2004 the Company issued 3 500 thousands non-convertible interest-bearing bonds, Series 03, par value 1 000 Roubles each. Bonds mature in five years from the date of issue and have 10 semi-annual coupons. The interest rate under first three coupons is 12,3% per annum, interest rate for fourth, fifth and sixth coupons set at 10,09% per annum, for seventh – 9%, for eighth and ninth – 8,5%, for tenth – 8% per annum. The bond issue had two options of early redemption at par value in April 2006 and October 2007. In April 2006 bondholders did not exercise their right to early redemption. In October 2007 bondholders exercised their right of early redemption in the amount of 2 860, and these bonds were placed at the secondary market at par for the same amount. As bonds mature in 2009, the outstanding liability was classified as current portion of long-term loans and borrowings as at 31 December 2008.

*Bond issue 04*
In December 2005 the Company issued 5 000 thousands non-convertible interest-bearing bonds, Series 04, par value 1 000 Roubles each. Bonds mature in four years from the date of issue and have 16 quarterly coupons. The interest rate under first four coupons is 10,5% and 10% per annum for the rest of the coupons. In accordance with the terms of the offering, in December 2006 the Company redeemed 500 of the bonds. In June and December 2007 the Company redeemed second and third portions of the issue in amount of 1 250, in June 2008 – the fourth portions of the issue in amount of 750. The rest of the obligation is to be settled in equal instalments in June and December



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

2009. Therefore the outstanding liability of 2 509 was included into current portion of long-term loans and borrowings as at 31 December 2008.

*Bond issue 05*
In May 2007 the Company issued 2 000 thousands non-convertible interest-bearing bonds, Series 05, par value 1 000 Roubles each. Bonds mature in five years from the date of issue and have semi-annual coupons. The interest rate under first six coupons is 7,55%. The interest rate for seventh-to tenth coupons will be set 10 days prior to payment of the coupon. As of 31 December 2008, the outstanding liability is classified as long-term loans and borrowings.

**Finance Lease Obligations**

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | **Minimum lease payments** | **Present value of payments** | **Minimum lease payments** | **Present value of payments** |
| Current portion (less than 1 year) | 464 | 391 | 970 | 758 |
| More than 1 to 5 years | 89 | 81 | 553 | 472 |
| **Total minimum lease payments** | **553** | **472** | **1 523** | **1 230** |
| **Less financial expenses** | **(81)** | **-** | **(293)** | **-** |
| **Discounted value of minimum lease payments** | **472** | **472** | **1 230** | **1 230** |

In 2008 and 2007, the Company's primary lessor was OJSC "RTC-Leasing". In 2008, the effective interest rate on lease liabilities ranged from 20% to 25% per annum (2007: 20% to 25% per annum). The finance lease assets under finance lease agreements with OJSC "RTC-Leasing" mainly comprise commutators, paystations and other telecommunication equipment.

## 19 Employee Benefits

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

**Defined Benefit Pension Plans**

The majority of the employees are eligible for defined benefit schemes. The defined benefit pension plans cover most of employees and provide old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men subject to a condition for minimum service period of 15 years for average employees and 4 years for executives is met. The amount of retirement benefit depends only on an employee's position upon retirement.

The non-government pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 37).

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

As at 31 December 2008 the number of employees was 25 551 (inc. 13 105 of participants of defined benefit pension plans) and 8 467 of former employees eligible to the post-employment and post-retirement benefits, (as at 31 December 2007 – 28 572, 17 434 and 8 830 respectively).

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



* *Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

| | 2008 | 2007 |
|---|---|---|
| Present value of fully unfunded obligations on defined benefit plans | 1 869 | 2 052 |
| Fair value of plan assets | - | - |
| **Present value of unfunded obligations** | **1 869** | **2 052** |
| Unrecognized past service cost | (153) | (208) |
| Unrecognized actuarial losses | (129) | (386) |
| **Net pension benefits** | **1 587** | **1 458** |

As at 31 December 2008 management estimated employees' average remaining working lives at 8 years (2007 - 9 years).

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

| | 2008 | 2007 |
|---|---|---|
| Current service cost | 105 | 93 |
| Interest cost | 137 | 136 |
| Net actuarial (losses)/ gains recognised in year | (10) | 15 |
| Past service cost - guaranteed part | - | 11 |
| Amortization of past service cost - non-guaranteed part | 55 | 33 |
| Curtailment and final settlement effects | 9 | 16 |
| **Net expense for the defined benefit plans** | **296** | **304** |

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

The amount of interest cost is recognised in "Interest expenses" line of the consolidated income statement.

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

| | 2008 | 2007 |
|---|---|---|
| **Employee benefit obligation as at 1 January 2008** | **2 052** | **1 908** |
| Current service cost | 105 | 93 |
| Interest cost | 137 | 136 |
| Past service cost | - | 209 |
| Benefits paid | (46) | (45) |
| Liabilities extinguished on settlements | (121) | (84) |
| Actuarial gains | (258) | (165) |
| **Employee benefit obligation as at 31 December 2008** | **1 869** | **2 052** |

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2008 and 2007 were as follows:

| | 2008 | 2007 |
|---|---|---|
| **Present value of plan assets as at 1 January** | **-** | **-** |
| Employer contribution | 167 | 129 |
| Benefits paid | (46) | (45) |
| Assets distributed on settlement | (121) | (84) |
| **Present value of plan assets as at 31 December** | **-** | **-** |

The Company plans to contribute 151 to its non-government pension fund in 2009.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

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

| | **2008** | **2007** |
|---|---|---|
| Discount rate | 9,00% | 6,60% |
| Future salary increase | 10,24% | 9,20% |
| Rate used for calculation of annuity value | 4,00% | 6,00% |
| Increase in financial support benefits | 6,00% | 5,00% |
| Staff turnover | 7,00% | 7,00% |
| Mortality tables (source of information) | USSR 1985/1986 | USSR 1985/1986 |

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

| | **2008** | **2007** | **2006** | **2005** | **2004** |
|---|---|---|---|---|---|
| Defined benefit obligation | 1 869 | 2 052 | 1 908 | 1 982 | 1 597 |
| Plan assets | - | - | - | (47) | (205) |
| (Deficit)/surplus | 1 869 | 2 052 | 1 908 | 1 935 | 1 392 |
| Experience adjustments on plan liabilities | 261 | 229 | 67 | 113 | (419) |
| Experience adjustments on plan assets | - | - | - | (18) | (1) |

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

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

## 20 Other non-current liabilities

| | **2008** | **2007** |
|---|---|---|
| Deferred income | 269 | 308 |
| Long-term accounts payable and other liabilities | 3 | 9 |
| Total | **272** | **317** |

## 21 Provisions

| | **Provision for legal claim** | **Tax provision** | **Guarantees** | **Total** |
|---|---|---|---|---|
| **Balance at 31 December 2006** | **44** | **118** | **19** | **181** |
| Accrued | - | - | (19) | **(19)** |
| Utilized | (44) | - | - | **(44)** |
| Reversed | - | - | 14 | **14** |
| **Balance at 31 December 2007** | **-** | **118** | **14** | **132** |
| Accrued | - | 4 | 4 | **8** |
| Reversed | - | (118) | (14) | **(132)** |
| **Balance at 31 December 2008** | **-** | **4** | **4** | **8** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 22 Accounts Payable and Accrued Expenses

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

| | 2008 | 2007 |
|---|---|---|
| Accounts payable to suppliers of fixed assets | 1 451 | 1 361 |
| Accounts payable to suppliers of intangible assets | 215 | - |
| Accounts payable to interconnected operators | 161 | 200 |
| Trade accounts payable | 552 | 814 |
| Other taxes payable and social insurance | 541 | 348 |
| Salaries and wages payable | 634 | 636 |
| Payables to OJSC "Rostelecom" | 176 | 154 |
| Other accounts payable | 63 | 166 |
| **Total** | **3 793** | **3 679** |

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

| | 2008 | 2007 |
|---|---|---|
| Value-added tax | 222 | 16 |
| Property tax | 189 | 183 |
| Profit income tax | 46 | 46 |
| Unified social tax | 68 | 93 |
| Other taxes | 16 | 10 |
| **Total** | **541** | **348** |

## 23 Other current liabilities

| | 2008 | 2007 |
|---|---|---|
| Advances received from core activity | 498 | 390 |
| Advances received from non-core activity | 14 | 63 |
| **Total** | **512** | **453** |

## 24 Contingencies and Operating Risks

### Operating environment

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



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

**Taxation**

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

Management believes that as of 31 December 2008, it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**Insurance**

Insurance services are still developing in Russia and many services, available in other countries, are not yet widespread in the Russian Federation. During 2008 and 2007 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses or third party liability in respect of property or environmental damage arising from accidents relating to the Company’s property or the Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

**Legal Proceedings**

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

**Licenses**

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 to extend some or all licenses may have a major negative impact on the financial position and business performance.

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

**Reduction of staff headcount**

The program of staff optimisation provides for a gradual staff headcount decrease in 2009-2013. During 2008, the Company has made redundant 1 106 of its employees. During 2009, the Company plans to further decrease its headcount and as at 31 December 2008, 254 employees received respective notifications.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

## 25 Financial Instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Company's operations. Short term deposits are also actively used as a financial instrument 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, improving the structure of payables, 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 portfolio management and restructuring, usage of different classes of borrowed funds.

The Company performs capital management using financial independence ratio and net debt/equity, net debt/EBITDA ratios.

The financial independence ratio is calculated as shareholders' equity to the balance sheet total at the end of the period. Net debt/shareholders' equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/ EBITDA, is calculated as net debt at the year-end to EBITDA for the previous period. The rations used in capital management are determined using statutory accounting information.

The Company's policy is to maintain financial independence ratio within a range of 0,33-0,36; net debt/shareholders' equity - within a range of 1,4-1,29; net debt/ EBITDA - within a range of 3,01-2,64.

During 2008, international rating agency Standard&Poor's confirmed long-term credit rating of the Company as "B", the rating's projections is "Stable"; and also confirmed corporate credit rating based on national scale at "ruA-" (2007: "ruA").



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

***Income and expenses on financial instruments***

| 2008 | Consolidated Income Statement | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Other operating expenses | Interest expenses | Other financial income, net | | | | | | |
| | Bad Debt expenses | Interest expenses | Interest income | Dividends income | Gain on disposal of the asset | Recovery of Impairment | Forex loss | Other | |
| Cash and cash equivalents | - | - | 31 | - | - | - | - | - | 31 |
| Accounts receivable | (116) | - | - | - | - | - | - | - | (116) |
| Financial assets available-for-sale | - | - | - | 2 | 48 | - | - | - | 50 |
| Loans issued | - | - | - | - | - | 17 | - | - | 17 |
| **Total financial assets** | **(116)** | **-** | **31** | **2** | **48** | **17** | **-** | **-** | **(18)** |
| | | - | | | | | | | |
| Bank loans | - | (1 125) | - | - | - | - | (1 191) | - | (2 316) |
| Bonds | - | (739) | - | - | - | - | - | - | (739) |
| Finance lease | - | (201) | - | - | - | - | - | - | (201) |
| Interest payable | - | - | - | - | - | - | (15) | - | (15) |
| Accounts payable | - | - | - | - | - | - | (1) | - | (1) |
| **Total financial liabilities** | **-** | **(2 065)** | **-** | **-** | **-** | **-** | **(1 207)** | **-** | **(3 272)** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

| **2007** | **Consolidated Income Statement** | | | | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | **Other operating expenses** | **Interest expenses** | **Other financial income, net** | | | | | | |
| | **Recovery of Bad Debt expenses** | **Interest expenses** | **Interest income** | **Dividends income** | **Gain on disposal of the asset** | **Impairment loss / reversal** | **Forex loss** | **Other** | |
| Cash and cash equivalents | - | - | 17 | - | - | - | - | - | 17 |
| Accounts receivable | 24 | - | - | - | - | - | - | - | 24 |
| Financial assets available-for-sale | - | - | - | 2 | - | - | - | (12) | (10) |
| **Total financial assets** | **24** | **-** | **17** | **2** | **-** | **-** | **-** | **(12)** | **31** |
| | | - | | | | | | | |
| Bank loans | - | (734) | - | - | - | - | 294 | - | (440) |
| Bonds | - | (953) | - | - | - | - | - | - | (953) |
| Promissory notes issued | - | (47) | - | - | - | - | - | - | (47) |
| Finance lease | - | (368) | - | - | - | - | - | - | (368) |
| Interest payable | - | - | - | - | - | - | 18 | - | 18 |
| **Total financial liabilities** | - | **(2 102)** | - | - | - | - | **312** | **-** | **(1 790)** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(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 foreign exchange risk in relation to its liabilities denominated in foreign currencies.

Financial assets and liabilities of the Company by currency:

| **As at 31 December 2008** | **RUR** | **USD** | **EUR** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | 1 541 | - | - | 1 541 |
| Trade and other receivables | 1 098 | - | - | 1 098 |
| Financial assets available-for-sale | 14 | - | - | 14 |
| **Total financial assets** | **2 653** | **-** | **-** | **2 653** |
| | | | | |
| Bank loans | (7 484) | (4 407) | (2 718) | (14 609) |
| Bonds | (7 925) | - | - | (7 925) |
| Finance lease | (472) | - | - | (472) |
| Interest payable | (151) | (101) | (16) | (268) |
| Other financial liabilities | (48) | - | - | (48) |
| Accounts payable | (3 243) | (2) | (7) | (3 252) |
| **Total financial liabilities** | **(19 323)** | **(4 510)** | **(2 741)** | **(26 574)** |

| **As at 31 December 2007** | **RUR** | **USD** | **EUR** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | 562 | - | - | 562 |
| Trade and other receivables | 986 | - | - | 986 |
| Financial assets available-for-sale | 15 | - | - | 15 |
| **Total financial assets** | **1 563** | **-** | **-** | **1 563** |
| | | | | |
| Bank loans | (4 252) | (4 296) | (475) | (9 023) |
| Bonds | (8 689) | - | - | (8 689) |
| Promissory notes issued | (1 739) | - | - | (1 739) |
| Finance lease | (1 230) | - | - | (1 230) |
| Interest payable | (246) | (123) | - | (369) |
| Other financial liabilities | (47) | - | - | (47) |
| Accounts payable | (3 331) | - | - | (3 331) |
| **Total financial liabilities** | **(19 534)** | **(4 419)** | **(475)** | **(24 428)** |

For the period from 1 January 2008 through 31 December 2008 the Rouble to the US Dollar decreased by approximately 19,69% and also decreased by approximately 15,33% in relation to the Euro.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

The sensitivity analysis of loss/profit before tax to foreign exchange risk is shown in the table below:

| | USD | | | EUR | | |
|---|---|---|---|---|---|---|
| | Changes in exchange rate, % | Effect on loss before income tax | % | Changes in exchange rate, % | Effect on profit before income tax | % |
| **2008** | +10 | (451) | -52,38% | +5 | (137) | -15,91% |
| | -10 | 451 | 52,38% | -5 | 137 | 15,91% |
| **2007** | +10 | (442) | -19,67% | +5 | (24) | -1,06% |
| | -10 | 442 | 19,67% | -5 | 24 | 1,06% |

**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 Group.

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

| **As at 31 December 2008** | **Fixed rate** | **Variable rate** | **No rate** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | 1 541 | - | - | 1 541 |
| Trade and other receivables | - | - | 1 098 | 1 098 |
| Financial assets available-for-sale | - | - | 14 | 14 |
| **Total financial assets** | **1 541** | **-** | **1 112** | **2 653** |
| | | | | |
| Bank loans | (4 883) | (9 726) | - | (14 609) |
| Bonds | (7 925) | - | - | (7 925) |
| Finance lease | (472) | - | - | (472) |
| Interest payable | (145) | (123) | - | (268) |
| Other financial liabilities | (48) | - | - | (48) |
| Accounts payable | - | - | (3 252) | (3 252) |
| **Total financial liabilities** | **(13 473)** | **(9 849)** | **(3 252)** | **(26 574)** |

| **As at 31 December 2007** | **Fixed rate** | **Variable rate** | **No rate** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | 562 | - | - | 562 |
| Trade and other receivables | - | - | 986 | 986 |
| Financial assets available-for-sale | - | - | 15 | 15 |
| **Total financial assets** | **562** | **-** | **1 001** | **1 563** |
| | | | | |
| Bank loans | (4 696) | (4 327) | - | (9 023) |
| Bonds | - | (8 689) | - | (8 689) |
| Promissory notes issued | (1 739) | - | - | (1 739) |
| Finance lease | (1 230) | - | - | (1 230) |
| Interest payable | (156) | (213) | - | (369) |
| Other financial liabilities | (47) | - | - | (47) |
| Accounts payable | - | - | (3 331) | (3 331) |
| **Total financial liabilities** | **(7 868)** | **(13 229)** | **(3 331)** | **(24 428)** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

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

| | **Changes in exchange rate, basis points** | **Effect on loss/profit before income tax** | **%** |
|---|---|---|---|
| **2008** | +100 | (98) | -11,38% |
| | -100 | 98 | 11,38% |
| **2007** | + 100 | (132) | -5,87% |
| | - 100 | 132 | 5,87% |

**Liquidity risk**

The Company monitors its risk of a shortfall of funds using a recurring liquidity planning tool. This tool considers the maturity of financial liabilities and financial assets as well as projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

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

| | **2009** | **2010** | **2011** | **2012** | **2013+** | **Total** |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1 541 | - | - | - | - | 1 541 |
| Trade and other receivables | 1 098 | - | - | - | - | 1 098 |
| Financial assets available-for-sale | 14 | - | - | - | - | 14 |
| **Total financial assets** | **2 653** | **-** | **-** | **-** | **-** | **2 653** |
| Bank loans | (7 081) | (1 597) | (4 107) | (923) | (901) | (14 609) |
| Bonds | (6 000) | (2 000) | - | - | - | (8 000) |
| Finance lease | (391) | (81) | - | - | - | (472) |
| Interest payable | (2 389) | (1 502) | (703) | (231) | (240) | (5 065) |
| Other financial liabilities | (10) | (5) | (32) | - | - | (47) |
| Accounts payable | (3 252) | - | - | - | - | (3 252) |
| **Total financial liabilities** | **(19 123)** | **(5 185)** | **(4 842)** | **(1 154)** | **(1 141)** | **(31 445)** |

The cash flows in the above table include interest expenses accrued at the year end as well as interest expenses to be accrued in future on existing debt portfolio.

**Credit Risk**

Credit risk is the risk that counter-party will fail to settle its 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 allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 13).

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. A part of accounts receivable is represented by state and other non-commercial organizations. The analysis of trade receivables aged but not impaired is provided below:

| **As of 31 December 2008** | | **Past due (days)** | | | |
|---|---|---|---|---|---|
| | **Total** | **<30** | **31-60** | **61-90** | **91-180** |
| Corporate customers | 72 | 48 | 8 | 3 | 13 |
| Individuals | 79 | 50 | 11 | 5 | 13 |
| Governmental customers | 27 | 19 | 4 | 1 | 3 |
| Interconnected operators | 48 | 29 | 6 | 8 | 5 |
| **Total** | **226** | **146** | **29** | **17** | **34** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

| **As of 31 December 2007** | **Post due (days)** | | | | |
|---|---|---|---|---|---|
| | **Total** | **<30** | **31-60** | **61-90** | **91-180** |
| Corporate customers | 21 | 9 | 5 | 2 | 5 |
| Individuals | 71 | 42 | 12 | 5 | 12 |
| Governmental customers | 21 | - | 17 | 3 | 1 |
| Interconnected operators | 17 | - | 8 | 2 | 7 |
| **Total** | **130** | **51** | **42** | **12** | **25** |

### Hedging

In the years 2008 and 2007 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** |
| Long-term bonds | 1 996 | 1 597 | 7 925 | 7 922 |
| Current portion of long-term bonds | 5 929 | 5 463 | 764 | 777 |

## 26 Revenues

| **By revenue type** | **2008** | **2007** |
|---|---|---|
| Local telephone services | 9 388 | 9 008 |
| Intra-zone telephone services | 3 721 | 3 769 |
| Data transmission, telematic services (Internet), telegraph services | 4 440 | 2 878 |
| Interconnection services | 2 211 | 2 901 |
| Fees on assistance services and agency fees | 520 | 557 |
| Radio and TV broadcasting | 339 | 315 |
| Other telecommunication services | 99 | 136 |
| Other revenues | 582 | 667 |
| **Total** | **21 300** | **20 231** |

The Company generates revenue by the following major customer groups:

| **Customer groups** | **2008** | **2007** |
|---|---|---|
| Individuals | 10 929 | 10 337 |
| Corporate customers | 5 462 | 4 695 |
| Governmental customers | 2 184 | 1 777 |
| Operators | 2 725 | 3 422 |
| **Total** | **21 300** | **20 231** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 27 Personnel costs

| | 2008 | 2007 |
|---|---|---|
| Salary expenses | 4 553 | 4 302 |
| Unified social tax | 1 128 | 1 069 |
| Employee benefits | 159 | 168 |
| Other personnel costs | 150 | 118 |
| **Total** | **5 990** | **5 657** |

## 28 Materials, repairs and maintenance, utilities

| | 2008 | 2007 |
|---|---|---|
| Materials | 1 354 | 1 305 |
| Repairs and maintenance | 838 | 848 |
| Utilities | 497 | 457 |
| **Total** | **2 689** | **2 610** |

## 29 Other Operating Income

| | 2008 | 2007 |
|---|---|---|
| Reimbursement of losses from universal services fund | 302 | 98 |
| Reversal of allowance for impairment of receivables | - | 24 |
| Write-off of payables | 27 | 8 |
| Reversal of allowance for tax claims | 114 | - |
| Reversal of allowance for interconnect | 5 | 111 |
| Reversal of allowance for personnel redundancy | - | 25 |
| Inventory stock take | 27 | 39 |
| Other income | 174 | 281 |
| **Total** | **649** | **586** |

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

- for current year services - 217 (2007 – 32),
- for previous year services - 66 (2007 – 1).

Losses from provision of universal telecommunication services during 2008 amounted to 302 (2007 - 98) and were confirmed by an independent audit firm.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 30 Other Operating Expenses

| | 2008 | 2007 |
|---|---|---|
| Impairment loss on property, plant and equipment | 1 642 | - |
| Taxes, other than income tax | 817 | 781 |
| Agency fee | 241 | 223 |
| Rent of premises | 243 | 218 |
| Fire and other security services | 292 | 253 |
| Third party services and management charges | 557 | 437 |
| Universal service fund payments | 213 | 193 |
| Advertising expenses | 72 | 52 |
| Allowance for impairment of receivables | 116 | - |
| Non-commercial partnership “NP CPRT” contributions | 93 | 184 |
| Audit and consulting fees | 51 | 53 |
| Credit organizations services | 50 | 47 |
| Member fees, charity contribution, payments to labour unions | 53 | 46 |
| Travel allowance and representative expenses | 67 | 51 |
| Insurance of assets | 23 | 21 |
| Losses on disposal of property, plant and equipment | 82 | 19 |
| Impairment of Oracle | - | 235 |
| Impairment of Amdocs | 235 | 107 |
| Other expenses | 654 | 752 |
| **Total** | **5 501** | **3 672** |

## 31 Interest Expenses

| | 2008 | 2007 |
|---|---|---|
| Interest expense on loans and borrowings | 1 864 | 1 734 |
| Interest expense on long-term employee benefits | 137 | 136 |
| Interest expense on finance lease | 201 | 368 |
| **Total** | **2 202** | **2 238** |

The amount of the interest capitalized was as follows:

| | 2008 | 2007 |
|---|---|---|
| Capitalized to property, plant and equipment | 113 | 89 |
| Capitalized to intangible assets | 33 | 9 |
| **Total** | **146** | **98** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

## 32 Income Tax

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

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

| | 2008 | 2007 |
|---|---|---|
| Current income tax expense | (241) | (567) |
| Deferred tax benefit/(expense) | 431 | (137) |
| **Total income tax benefit/(expense) for the year** | **190** | **(704)** |
| Total current income tax expense for the year | (241) | (567) |
| Deferred tax related to the temporary differences | 413 | (137) |
| Effect of change in tax rate from 24% to 20% | 18 | - |
| Total deferred income tax expense for the year | 431 | (137) |
| **Total income tax for the year** | **190** | **(704)** |

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

| | 2008 | 2007 |
|---|---|---|
| **(Loss)/Profit before income tax** | **(861)** | **2 247** |
| Statutory income tax rate | 24% | 24% |
| Theoretical tax amount at statutory income tax rate | 207 | (539) |
| **Increase/(decrease) resulting from the effect of:** | | |
| Non-deductible expenses | (35) | (165) |
| Change of tax rate | 18 | - |
| **Total actual income tax** | **190** | **(704)** |
| **Effective tax rate** | **22%** | **31%** |

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

| | 31 December 2006 | Origination and reversal of temporary differences | 31 December 2007 | Origination and reversal of temporary differences | Change of tax rate | 31 December 2008 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Accounts payable and accrued expenses | 95 | (83) | 12 | (11) | - | 1 |
| Trade and other receivables | 43 | (35) | 8 | 2 | (2) | 8 |
| Deferred income | 86 | (11) | 75 | (10) | (11) | 54 |
| Employee benefits | 165 | - | 165 | 39 | (34) | 170 |
| **Total deferred tax assets** | **389** | **(129)** | **260** | **20** | **(47)** | **233** |
| **Deferred tax liability** | | | | | | |
| Property, plant and equipment | (208) | (135) | (343) | 318 | 4 | (21) |
| Intangible assets | (183) | 19 | (164) | (66) | 40 | (190) |
| Investments | (52) | (3) | (55) | (8) | 9 | (54) |
| Loans and borrowings | (298) | 101 | (197) | 121 | 13 | (63) |
| Other | (35) | 10 | (25) | 28 | (1) | 2 |
| **Total deferred tax liabilities** | **(776)** | **(8)** | **(784)** | **393** | **65** | **(326)** |
| **Deferred tax liabilities, net** | **(387)** | **(137)** | **(524)** | **413** | **18** | **(93)** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

The Company has not recognised a deferred tax liability in respect of investments in subsidiaries in the amount of 24 (2007 – 88), as managements believes that the Company is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

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

## 33 Earnings per Share

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

| | 2008 | 2007 |
|---|---|---|
| (Loss)/Profit for the year from continuing operations | (671) | 1 543 |
| Profit for the year from discontinued operations | - | 19 |
| **(Loss)/Profit for the year attributable to equity holders of the Parent** | **(671)** | **1 562** |
| Weighted average number of shares outstanding (thousands) | 3 932 665 | 3 932 665 |
| **Basic and diluted (loss)/earnings per share at the balance sheet date, in Roubles** | (0,1706) | 0,3972 |

## 34 Dividends Declared and Proposed for Distribution

In June 2008 in accordance with the decision of general meeting of shareholders, the dividends were declared in the amount of 0,082069 Roubles per ordinary share and 0,187915 Roubles per preference share for year ended 31 December 2007.

The total dividends payable amounted to the following:

| Category of shares | Number of shares | Dividends per share, Roubles | Total dividends payable, Roubles |
|---|---|---|---|
| **Declared and approved for 2007** | | | |
| Preference shares | 972 151 838 | 0,187915 | 182 681 913 |
| Ordinary shares | 2 960 512 964 | 0,082069 | 242 966 338 |
| **Total** | **3 932 664 802** | | **425 648 251** |

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting. Profit available for dividends is limited to profit of the Company, determined in accordance with the Russian statutory accounting principles.

## 35 Operating Lease

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

| | 2008 Minimum lease payments | 2007 Minimum lease payments |
|---|---|---|
| Current portion (less than 1 year) | 219 | 55 |
| From 1 to 5 years | 79 | 84 |
| Over 5 years | 189 | 524 |
| **Total minimum lease payments** | **487** | **663** |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

The main objects of operating lease where the Company is a lessee are premises.

## 36 Capital Commitments

As of 31 December 2008 and 2007 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 462 and 312 respectively.

## 37 Balances and Transactions with Related Parties

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

| | OJSC "Svyazinvest" | Subsidiaries of OJSC "Svyazinvest" | Equity accounted investees | State-controlled companies | Other |
|---|---|---|---|---|---|
| **2008** | | | | | |
| Provision of telecommunication services, interconnection and traffic transmission services | - | 1 695 | 27 | 418 | - |
| Agent services | - | 503 | - | 13 | - |
| Rent income | - | - | 8 | 11 | - |
| Other income | - | 6 | 1 | 18 | - |
| Purchase of telecommunication services, interconnection and traffic transmission services | - | 288 | 41 | 82 | - |
| Purchase of other services | - | 428 | 1 | 577 | 121 |
| Purchase of goods and other assets | - | 147 | - | 26 | - |
| Interest expenses | - | - | - | 207 | - |
| Dividends receivable | - | 2 | 132 | - | - |
| Dividends payable | 123 | - | - | - | - |
| Loans received | - | - | - | 2 210 | - |
| **2007** | | | | | |
| Provision of telecommunication services, interconnection and traffic transmission services | - | 1 742 | 56 | 425 | - |
| Agent services | - | 537 | - | - | - |
| Rent income | - | - | 5 | 6 | - |
| Other income | - | - | 14 | 15 | - |
| Purchase of telecommunication services, interconnection and traffic transmission services | - | 395 | 31 | 454 | - |
| Purchase of other services | - | 476 | 4 | 798 | 84 |
| Purchase of goods and other assets | - | - | - | - | - |
| Interest expenses | - | - | - | 231 | - |
| Dividends receivable | - | - | 87 | - | - |
| Dividends payable | 80 | - | - | - | - |
| Loans received | - | - | - | 1 730 | - |



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

As of 31 December 2008 and 2007 significant outstanding balances with related parties were as follows:

| | OJSC "Svyazinvest" | Subsidiaries of OJSC "Svyazinvest" | Equity accounted investees | State-controlled companies | Other |
|---|---|---|---|---|---|
| **At December 31, 2008** | | | | | |
| Trade and other receivables, net of allowance | - | 67 | 3 | 52 | - |
| Accounts payable | - | 233 | 4 | 27 | 4 |
| Loans received (incl. Interest) | | | | 2 000 | |
| **At December 31, 2007** | | | | | |
| Trade and other receivables, net of allowance | - | 57 | 5 | 68 | - |
| Accounts payable | - | 357 | 3 | 31 | 13 |
| Loans received (inc. interest) | - | - | - | 4 158 | - |

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

**OJSC SvyazInvest**

OJSC SvyazInvest is Open Joint Stock Company, incorporated under the laws of the Russian Federation.

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

Svyazinvest Group comprises 7 interregional telecommunications companies (MRKs), OJSC Rostelecom, OJSC Tsentralny Telegraph, OJSC Dagsvyazinform and other telecom subsidiaries.

**Subsidiaries**

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

The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are fixed by a regulatory body and are at the same level as similar tariffs for other counteragents. Subsidiaries do not influence the Company's transactions with other counteragents. More details of the nature of interrelations between the Company and its subsidiaries are presented in Note 6.

**OJSC Rostelecom**

OJSC Rostelecom, controlled by 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 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 radiotelephony network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Company.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

*(in millions of Russian Roubles)*

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

| | **2008** | **2007** |
|---|---|---|
| Provision of telecommunication services, interconnection and traffic transmission services | 1 620 | 1 613 |
| Agent services | 503 | 537 |
| Purchase of telecommunication services, interconnection and traffic transmission services | 187 | 123 |
| Trade and other receivables | 30 | 32 |
| Inc. Allowance for impairment | (1) | (1) |
| Accounts payable | 176 | 154 |

**Transactions with State-controlled Companies**

State-controlled organisations represent a significant component in the Company's customer base.

State-controlled organisations do not exert significant influence on the Company's operations with other companies.

**Non-Commercial Partnership Centre for Research of Problems in Development of Russian Telecommunications (NP CIPRT)**

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

During 2008, the Company ceased to be a member of the Partnership. In 2008 the Partnership received membership fees amounting to 93 (2007 - 185).

**OJSC Svyazintek**

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

In 2008 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 313 (2007: 346) that were capitalised in cost of respective intangible assets. (2007 – 345).

**Non-government Pension Fund Telecom Soyuz**

The Company signed centralised pension agreement with a non-state pension fund Telecom-Soyuz (Note 19). In addition to the state pension, the Company provides the employees with a non-state pension and other post-employment benefits through defined benefit plans.

The total amount of contributions to non-state pension fund paid by the Company in 2008 amounted to 121 (2007: 84). The fund retains 3% of every pension contribution of the Company to cover its administrative costs.

**Remuneration of Key Management Personnel**

The key management personnel represent members of the Management Committee, Supervisory Board and the Board of Directors of the Company, with number of members of 25 as of 31 December 2008 and 25 as of 31 December 2007.

Remuneration to key management personnel for 2008 includes salaries, bonuses and other remuneration in the amount of 93 (2007 – 68).



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*

## 38 Subsequent Events

### Dividends

Annual dividend per share is subject for approval by the Company's General Shareholders' Meeting in June 2009. The Board of Directors recommended to the General Shareholders' Meeting to approve dividend for 2008 of 0,02822 Roubles per ordinary share and 0,0573 Roubles per preference share (2007 – 0,0821 and 0,1879 respectively). Total amount of dividends payable by the Company will amount to 84 per ordinary shares and 56 per preference shares (2007: 243 and 183 respectively). Following the approval by the General Shareholders' Meeting, annual dividend payable to shareholders will be recognized in the financial statements for 2009.

### Bank loans

In May 2009, the Company signed a loan agreement with OJSC AKB Svyaz-Bank in the amount of 3,000. The loan facility matures in three years and bears an interest rate of 18% for the first 1,5 year term and 19% for the second 1,5 year term. The proceeds from this loan will be used primarily for refinancing of the Company's short-term debt.



** Amounts as at 31 December 2006 and 2007 and for the year ended 31 December 2007 are restated (Refer note 2)*