



*(Translation from Russian)*

To the shareholders of  
Open Joint Stock Company  
**VolgaTelecom**

## Audit opinion

On accounting (financial) statement of  
Open Joint Stock Company  
**VolgaTelecom**

For year 2008



## **Information about the auditor**

<b>Name:</b>	Closed Joint Stock Company KPMG.
<b>Location (registered office):</b>	Suit 3035, 18/1 Olimpiyskiy prospect, Moscow, 129110.
<b>Mailing address:</b>	31 floor, C Block, 18 Krasnopresnenskaya Naberezhnaya, Moscow, 123317.
<b>State registration:</b>	Registered by Moscow registration chamber. Certificate No 011.585 of May 25, 1992.  Registered in the Uniform State Register of Legal Entities by Moscow Interdistrict Inspectorate No 39 of the Ministry of the Russian Federation for Taxes and Levies, registration number 1027700125628 of August 13, 2002. Certificate series 77 No 005721432.
<b>License:</b>	No E 003330 for audit activity was issued on order No 9 of January 17, 2003 of the Ministry of Finance of the Russian Federation. The license validity term has been extended to January 17, 2013.
<b>Membership in accredited professional audit association:</b>	Audit Chamber of Russia.

## **Information about the audited entity**

<b>Name:</b>	Open Joint Stock Company VolgaTelecom.
<b>Location (registered office):</b>	Dom Svyazi, M.Gorky Square, Nizhny Novgorod city, 603000.
<b>State registration:</b>	Registered by Property and Land Resources Management Committee of the city of Nizhny Novgorod. Certificate No 448 of December 15, 1993.  Registered in the Uniform State Register of Legal Entities by the Inspectorate of the Ministry of the Russian Federation for Taxes and Levies for Nizhegorodskiy district of the city of Nizhny Novgorod, registration number 1025203014781 of August 01, 2002. Certificate series 52 No 001480204.



## **Audit opinion**

To the shareholders of Open Joint Stock Company VolgaTelecom.  
We have audited the accompanying accounting (financial) statement of Open Joint Stock Company VolgaTelecom (hereinafter – the Company) for year 2008.

Accounting (financial) statement on 61 pages comprises:

- accounting balance-sheet at December 31, 2008;
- income statement for year 2008;
- supplements to accounting balance-sheet and income statement, including:
  - statement of changes in equity for year 2008;
  - cash flow statement for year 2008;
  - supplement to accounting balance-sheet;
- notes.

The Company's management body is responsible for preparation and presentation of this accounting (financial) statement. Accounting (financial) statement means the statement provided for by Federal Law "On Accounting". Our responsibility is to express an opinion on the reliability in all material respects of this accounting (financial) statement based on our audit.

We conducted our audit in accordance with Federal Law "On the Audit Activity"; Federal standards of audit activity, KPMG own audit standards, as well as rules and standards accepted by Audit Chamber of Russia.

The audit was planned and performed to obtain reasonable assurance whether the accounting (financial) statement is free from material misstatements. The audit was conducted on a sample basis and included the examination by testing of evidence confirming the figures of accounting (financial) statement and the disclosure of information on financial and economic activity in the accounting (financial) statement, the assessment of compliance with bookkeeping principles and rules applied at preparation of the accounting (financial) statement, the consideration of material estimates obtained by the Company's management, and also the evaluation of presentation of accounting (financial) statement. We believe that the audit evidence we have obtained is sufficient to provide a basis for our opinion on the reliability of the accounting (financial) statement.

We believe that the Company's accounting (financial) statement accompanying this Audit opinion presents fairly in all material respects the Company's financial position at December 31, 2008 and its financial and operating results for the period from January 1 to December 31, 2008 inclusive



*OJSC VolgaTelecom*  
*Audit opinion on*  
*Accounting (financial) statement for year 2008*

in accordance with the Russian Federation legislation requirements as related to accounting (financial) statement preparation.

December 31, 2009

L. V. Klimanova (*signature*)

Director, ZAO KPMG (power of attorney No 17/07 of October 5, 2007)

E. A. Akylbek (*signature*)

Audit executive head,

General audit qualification certificate

No K029616, for an indefinite term

Round seal of ZAO KPMG

## BALANCE SHEET

At **December 31, 2008**

Entity **OJSC VolgaTelecom**

Taxpayer Identification Number **5260901817**

Line of business **Electric communication**

Form of incorporation / ownership form **Open Joint Stock Company / private**

Measure unit: **RUB thousand**

OKUD Form No 01

Date (year, month, day)

OKPO code

TIN

OKVED code

OKOPF/OKFS code

OKEI code

CODES

**0710001**

**2008.12.31**

**01142788**

**5260901817**

**64.20**

**47/16**

**384**

Address: **Dom Svyazi, M.Gorky Square, N.Novgorod city, 603000**

Date of approval

Date of dispatch (receipt)

ASSETS	Notes	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	2a	3	4
<b>I. NON-CURRENT ASSETS</b>					
Intangible assets		110	110	2 927	2 486
Property, plant and equipment	4.1	120	120	29 217 039	30 371 431
CAPEX	4.2	130	130	537 422	1 119 076
Income-bearing lease investments		135	135	81 018	71 676
Long-term financial investments	4.3	140	<b>140</b>	2 948 130	3 783 165
of which:					
investments in subsidiaries			141	2 738 258	3 716 626
investments in associates			142	6 157	6 055
investments in other entities			143	67 027	19 133
other long-term financial investments	4.4		144	136 688	41 351
Deferred tax assets	4.5	145	145	233 511	247 381
Other non-current assets	4.6	150	150	3 725 495	3 462 455
<b>Total for section I</b>		190	<b>190</b>	36 745 542	39 057 670

ASSETS	Notes	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	2a	3	4
<b>II. CURRENT ASSETS</b>					
Inventories		210	<b>210</b>	703 670	545 381
<i>of which:</i>					
raw materials, supplies and other similar values	4.7	211	211	413 937	412 603
work in progress expenses (distribution costs)		213	213	835	
finished goods and goods for resale		214	214	184 768	30 092
goods shipped		215	215	1 203	3
prepaid expenses		216	216	102 927	102 683
other inventories and expenditure		217	217		
VAT on acquired valuables		220	<b>220</b>	248 336	105 740
<i>of which:</i>					
to be refunded in more than 12 months after the reporting date			221	71 295	27 639
to be refunded within 12 months after the reporting date			222	177 041	78 101
Accounts receivable (payments are expected in more than 12 months after the reporting date)		230	<b>230</b>	4 151	2 984
<i>of which:</i>					
trade receivable	4.8	231	231	323	598
advances paid out			232		
other debtors			233	3 828	2 386
Accounts receivable (payments are expected within 12 months after the reporting date)		240	<b>240</b>	2 792 013	2 679 338
<i>of which:</i>					
trade receivable	4.9	241	241	2 037 935	2 044 063
advances paid out			242	162 122	145 736
other debtors	4.10		243	591 956	489 539
Short-term financial investments	4.4	250	250	7 243	203 283
Cash		260	260	357 220	1 562 117
Other current assets		270	270	575	601
<b>Total for section II</b>		290	<b>290</b>	4 113 208	5 099 444
<b>BALANCE (sum of lines 190+290)</b>		300	<b>300</b>	40 858 750	44 157 114

LIABILITIES	Notes	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	2a	3	4
<b>III. EQUITY AND RESERVES</b>					
Authorized capital	4.11	410	410	1 639 765	1 639 765
Capital surplus		420	420	3 664 819	3 533 964
Surplus		430	430	81 988	81 988
Treasury stock		411	440		
Retained earnings (uncovered loss) of past years		470	460	15 443 640	14 709 805
Retained earnings (uncovered loss) of the reporting year		470	470	x	2 952 019
<b>Total for section III</b>		490	<b>490</b>	20 830 212	22 917 541
<b>IV. NON-CURRENT LIABILITIES</b>					
Loans and borrowings	4.13	510	<b>510</b>	7 401 285	7 940 810
<i>of which:</i>					
loans			511	2 300 000	6 880 000
borrowings			512	5 101 285	1 060 810
Deferred tax liabilities	4.14	515	515	1 409 278	1 356 295
Other non-current liabilities	4.15	520	520	618 826	421 172
<b>Total for section IV</b>		590	<b>590</b>	9 429 389	9 718 277
<b>V. CURRENT LIABILITIES</b>					
Loans and borrowings	4.13	610	<b>610</b>	6 014 650	5 153 872
<i>of which:</i>					
loans			611	2 411 887	808 041
borrowings			612	3 602 763	4 345 831
Accounts payable,	4.16	620	<b>620</b>	3 719 017	5 534 904
<i>of which:</i>					
trade payable		621	621	2 530 241	3 413 900
advances from customers		625	622	402 131	463 293
wages payable		622	623	101 167	80 447
debt to government extrabudgetary funds		623	624	42 388	50 943
tax debt		624	625	181 424	499 634
other creditors		625	626	461 666	1 026 687
Debt to members (founders) for income payments		630	630	19 469	18 620
Deferred revenue	4.17	640	640	221 233	156 820
Provision of costs to be incurred	4.18	650	650	611 723	647 419
Other current liabilities	4.19	660	660	13 057	9 661
<b>Total for section V</b>		690	<b>690</b>	10 599 149	11 521 296
<b>BALANCE (sum of lines 490+590+690)</b>		700	<b>700</b>	40 858 750	44 157 114

### Statement of tangible assets shown on off-balance-sheet accounts

Item	Notes	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	2a	3	4
Leased property, plant and equipment		910	901	1 832 293	3 957 546
including leasing		911	911	543 275	2 372 033
Inventory items received in custody		920	902	49 346	51 262
Goods taken on commission		930	903	8 639	12 767
Written-off debts of insolvent debtors		940	904	301 726	350 279
Collaterals received on liabilities and payments		950	905	11 502 828	11 503 081
Collaterals issued on liabilities and payments		960	906	5 335 109	4 308 840
Depreciation of housing stock		970	907	10 251	9 758
Depreciation of land improvement facilities and other similar facilities		980	908	2 176	2 490

### Statement of net assets value

Item	Notes	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	2a	3	4
Net assets			1000	21 051 445	23 074 361

General Director \_\_\_\_\_ Sergey V. Omelchenko Chief accountant \_\_\_\_\_ Nikolai I. Popkov  
 (signature) (signator) (signature) (signator)

March 31, 2009.



## INCOME STATEMENT

For **year ended December 31, 2008**

Entity **OJSC VolgaTelecom**

Taxpayer Identification Number **5260901817**

Line of business **Electric communication**

Form of incorporation /ownership form **Open Joint Stock Company / private**

Measure unit: **RUB thousand**

OKUD Form No 02  
Date (year, month, day)

OKPO code

TIN

OKVED code

OKOPF/OKFS code

OKEI code

CODES	
0710002	
2008.12.31	
01142788	
5260901817	
64.20	
47/16	
384	

Item	Notes	Item code	Line code	For the reporting period	For the similar period of the prior year
1	1a	2	2a	3	4
<b>I. Revenues and expenses from ordinary operations</b>					
Revenues (net) from sales of goods, products, works, and services (minus VAT, excise taxes and similar mandatory payments)	5.1	010	010	26 420 079	25 162 745
Of which from sales: of telecommunications services			011	24 944 280	23 887 329
Prime cost of sold goods, products, works and services	5.2	020	020	(20 898 169)	(19 061 174)
Of which: telecommunications services			021	(20 156 244)	(18 358 314)
<b>Sales profit (loss) (lines 010 - 020)</b>		050	<b>050</b>	5 521 910	6 101 571
<b>II. OTHER REVENUES AND EXPENSES</b>					
Interest receivable		060	060	124 616	15 283
Interest due		070	070	(1 205 908)	(831 375)
Revenues from participation in other entities		080	080	402 017	57 678
Other revenues	5.3	090	090	1 732 347	1 011 091
Of which compensation for losses caused by universal services provision			091	882 971	320 078
Other expenses	5.3	100	100	(2 498 759)	(1 644 600)
<b>Profit (loss) before tax (lines 050+060-070+080+090-100)</b>		140	<b>140</b>	4 076 223	4 709 648
<b>Income tax expenses (lines -151+/-152+/-153) including:</b>	5.4		<b>150</b>	(1 124 204)	(1 386 540)
deferred tax liabilities		142	151	52 969	(391 636)
deferred tax assets		141	152	13 870	(43 144)
current income tax		150	153	(1 190 923)	(994 085)

Additional payments of income tax for prior tax (reporting) periods		151	154	(120)	42 325
<b>Net profit (loss) of the reporting period (lines 140-150)</b>		190	<b>190</b>	2 952 019	3 323 108
<b>FOR REFERENCE</b>					
Profit tax for accounting purposes			201	(978 294)	(1 130 315)
Recurrent tax liabilities		200	202	(282 310)	(378 391)
Recurrent tax assets		200	203	136 400	122 166

Item	Notes	Item code	Line code	For the reporting period	For the similar period of the prior year
1	1a	2	2a	3	4
Basic earnings (loss) per share (RUB)	6.5		301	0.0108	0.01216
Diluted earnings (loss) per share (RUB)			302	-	-

\* It is completed in annual accounting statement

### Breakdown of individual profit and loss

Item	Item code	Line code	For the reporting period		For the similar period of the prior year	
			Profit	Loss	Profit	Loss
1	1a	2	3	4	5	6
Fines, late payment interests and forfeit penalties, which were acknowledged or to be collected according to court (arbitration court) judgment		401	62 516	(1 796)	82 149	(661)
Past years profit (loss)		402	77 651	(293 326)	268 603	(174 786)
Reimbursement of damages caused by default or inadequate performance of obligations		403	6 326	(2 016)	6 186	(1 009)
Foreign exchange differences in foreign currency operations		404	12 706	(33 891)	16 983	(22 804)
Deductions to allowances		405		(200 705)	96 812	
Debt amortization of payables and receivables		406	10 875	(4 862)	6 927	(4 103)

General Director \_\_\_\_\_ Sergey V. Omelchenko Chief accountant \_\_\_\_\_ Nikolai I. Popkov  
(signature) (signator) (signature) (signator)

March 31, 2009.

## STATEMENT OF CHANGES IN EQUITY

For **year ended December 31, 2008**

Entity **OJSC VolgaTelecom**

Taxpayer Identification Number **5260901817**

Line of business Electric communication

Form of incorporation /ownership form Open Joint Stock Company / private

Measure unit: **RUB thousand**

OKUD Form No 03  
Date (year, month, day)  
OKPO code  
TIN  
OKVED code  
OKOPF/OKFS code  
OKEI code

CODES
<b>0710003</b>
<b>2008.12.31</b>
<b>01142788</b>
<b>5260901817</b>
<b>64.20</b>
<b>47/16</b>
<b>384</b>

### 1. Change in equity

Item	Item code	Line code	Authorized capital	Capital surplus	Surplus	Retained earnings (uncovered loss)	Total
1	1a	2	3	4	5	6	7
<b>Balance at December 31, 2006</b>		<b>100</b>	1 639 765	3 731 945	81 988	12 687 445	18 141 143
<b>Year 2007</b>							
Changes in accounting policy		101	x	x	x	839	839
Result of property, plant and equipment revaluation		102	x		x		
Miscellaneous		103	x		x		
<b>Balance at January 1, 2007</b>		<b>104</b>	1 639 765	3 731 945	81 988	12 688 284	18 141 982
<b>Change of capital items:</b>		<b>200</b>		(67 129)		2 689 706	2 622 577
Result of foreign currency translation		201	x		x	x	
Net profit (loss) of the reporting year		202	x	x	x	3 323 108	3 323 108
Dividends		203	x	x	x	(633 402)	(633 402)
Allocations to required reserves		204	x	x			
Additional issue of shares at the cost of own resources		205			x		
Increase in shares par value		206			x		
Change in equity at retirement of property, plant and equipment		207	x	(67 129)	x		(67 129)
Miscellaneous		208					
<b>Increase in equity due to:</b>		<b>210</b>		3		66 071	66 074
additional issue of shares at the cost of stockholders resources		211			x	x	
legal entity restructuring		212					
miscellaneous		213		3		66 071	66 074
<b>Decrease in equity due to:</b>		<b>220</b>				(421)	(421)
reduction of the number of shares		221		x	x		

reduction of shares par value		222		x	x	x		
legal entity restructuring		223						
miscellaneous		224				(421)	(421)	
<b>Balance at December 31, 2007</b>		<b>300</b>	1 639 765	3 664 819	81 988	15 443 640	20 830 212	
<b>Year 2008</b>								
Changes in accounting policy		301	x	x	x			
Result of property, plant and equipment revaluation		302	x		x			
Miscellaneous		303	x		x			
<b>Balance at January 1, 2008</b>	<b>100</b>	<b>304</b>	1 639 765	3 664 819	81 988	15 443 640	20 830 212	
<b>Change of capital items:</b>		<b>400</b>		(130 855)		2 094 661	1 963 806	
Result of foreign currency translation		401	x		x	x		
Net profit (loss) of the reporting year		402	x	x	x	2 952 019	2 952 019	
Dividends		403	x	x	x	(857 358)	(857 358)	
Allocations to required reserves	110	404	x	x				
Additional issue of shares at the cost of own resources	121	405			x			
Increase in shares par value	122	406	-	-	-	-	-	
Change in equity at retirement of property, plant and equipment		407	-	(130 855)	-	-	(130 855)	
Miscellaneous		408	-	-	-	-	-	
<b>Increase in equity due to:</b>		<b>410</b>	-	-	-	123 523	123 523	
additional issue of shares at the cost of stockholders resources	121	411	-	-	-	-	-	
legal entity restructuring	123	412	-	-	-	-	-	
miscellaneous		413	-	-	-	123 523	123 523	
<b>Decrease in equity due to:</b>		<b>420</b>	-	-	-	-	-	
reduction of the number of shares	132	421	-	-	-	-	-	
reduction of shares par value	131	422	-	-	-	-	-	
legal entity restructuring	133	423	-	-	-	-	-	
miscellaneous		424	-	-	-	-	-	
<b>Balance at December 31, 2008</b>	<b>140</b>	<b>500</b>	1 639 765	3 533 964	81 988	17 661 824	22 917 541	

## II. Provisions

Item	Item code	Line code	Balance at the year beginning	Receipt	Spent /recovered	Balance at the year end
1	1a	2	3	4	5	6
<b>Provisions formed as per legislation:</b>						
Required reserve data of year 2007		601	81 988	-	-	81 988

data of year 2008	602	81 988	-	-	81 988
<b>Provisions formed as per articles of association:</b>					
Corporalization fund of the Company's employees					
data of year 2007	603	-	-	-	-
data of year 2008	604	-	-	-	-
<b>Allowances:</b>					
Provisions for doubtful debts					
data of year 2007	605	827 326	359 075	(565 115)	621 286
data of year 2008	606	621 369	271 913	(194 131)	699 151
<b>Provisions for depreciation of financial investments</b>					
data of year 2007	607	206	3 259	(88)	3 377
data of year 2008	608	3 377	54 637	(21)	57 993
<b>Provisions for reduction in value of tangible assets</b>					
data of year 2007	609		3 114		3 114
data of year 2008	610	3 114	3 085	(2 997)	3 202
<b>Provisions of costs to be incurred:</b>					
data of year 2007	611	659 609	1 960 036	(2 007 922)	611 723
data of year 2008	612	611 723	2 098 639	(2 062 943)	647 419
<b>Provisions for contingent liabilities:</b>					
data of year 2007	613	118 883	11 520	(117 347)	13 056
data of year 2008	614	13 056	9 115	(12 510)	9 661
<b>Provisions for used services failing original documents:</b>					
data of year 2007	615	-	57 404	(170)	57 234
data of year 2008	616	57 234	88 691	(7 400)	138 525

**General Director** \_\_\_\_\_ **Sergey V. Omelchenko** **Chief accountant** \_\_\_\_\_ **Nikolai I. Popkov**  
 (signature) (signator) (signature) (signator)

March 31, 2009.

## CASH FLOW STATEMENT

		OKUD Form No 04	<b>CODES</b>
<b>year ended</b>			<b>0710004</b>
For	<b>December 31, 2008</b>	Date (year, month, day)	<b>2008.12.31</b>
Entity	<b>OJSC VolgaTelecom</b>	OKPO code	<b>01142788</b>
Taxpayer Identification Number	<b>5260901817</b>	TIN	<b>5260901817</b>
Line of business	<b>Electric communication</b>	OKVED code	<b>64.20</b>
Form of incorporation/ownership form	Open Joint Stock Company/ private	OKOPF/OKFS code	<b>47/16</b>
Measure unit:	<b>RUB thousand</b>	OKEI code	<b>384</b>

Item	Item code	Line code	For the reporting year	For the similar period of the prior year
1	1a	2	3	4
<b>Cash balance at the reporting year beginning</b>		<b>010</b>	357 220	222 716
<b>OPERATING PERFORMANCE</b>				
<b>Cash inflow from operating performance</b>		<b>020</b>	35 182 845	33 752 269
cash received from buyers, customers		021	30 064 875	29 898 404
cash received in the capacity of agent		022	3 271 402	3 577 061
other revenues		023	1 846 568	276 804
<b>Cash allocated for:</b>		<b>030</b>	(24 767 288)	(24 897 437)
payment for acquired goods, works, services, raw materials and other current assets	150	031	(8 420 313)	(9 056 214)
remuneration of labor	160	032	(5 701 306)	(5 643 473)
interest payment	170	033	(1 255 091)	(866 472)
settlements for taxes and dues	180	034	(5 837 339)	(5 071 792)
agency contracts settlements		035	(2 438 922)	(3 347 288)
other expenses		036	(1 114 317)	(912 198)
<b>Net cash from operating performance</b>		<b>040</b>	10 415 557	8 854 832
<b>INVESTMENT ACTIVITY</b>				
<b>Investment activities cash received</b>		<b>050</b>	826 807	216 616
receipts from sale of property, plant and equipment and other non-currents assets	210	051	126 249	113 478
receipts from repayment and sale of securities, sale of equity participations, equity stakes and other financial investments	220	052	100 820	16 278
dividends received, revenues from equity participation	230	053	392 681	62 433
interest received	240	054	9 657	8 127
receipts from repayment of loans granted to other entities	250	055	94 447	1 000
other revenues from investment activity		056	102 953	15 300

<b>Cash allocated for:</b>		<b>060</b>	(8 073 315)	(10 080 784)
acquisition and creation of property, plant and equipment and other non-current assets	290	061	(6 786 406)	(9 231 168)
acquisition of shares, equity participations and equity stakes	280	062	(986 909)	(849 504)
acquisition of debt securities and other financial investments	300	063	(300 000)	
granting loans to other entities	310	064		
other investment activity expenses		065		(112)
<b>Net cash from investment activity</b>	<b>340</b>	<b>070</b>	(7 246 508)	(9 864 168)
<b>FINANCIAL ACTIVITY</b>				
<b>Financial activity cash received</b>		<b>080</b>	8 372 710	8 661 456
loans and borrowings raised		081	8 350 000	8 643 116
other revenues from financial activity		082	22 710	18 340
<b>Cash allocated for:</b>		<b>090</b>	(10 336 862)	(7 517 616)
repayment of loans and borrowings (ex interest)		091	(8 683 756)	(5 645 637)
repayment of financial lease liabilities		092	(870 430)	(1 286 876)
dividends payment	170	093	(782 556)	(584 503)
other financial activity expenses		094	(120)	(600)
<b>Net cash from financial activity</b>		<b>100</b>	(1 964 152)	1 143 840
<b>Net increase (reduction) in cash</b>		<b>110</b>	1 204 897	134 504
<b>Cash balance at the reporting period end</b>		<b>120</b>	1 562 117	357 220
The value of impact of foreign currency rate change with respect to ruble		130		

**General Director** \_\_\_\_\_ **Sergey V. Omelchenko** **Chief accountant** \_\_\_\_\_ **Nikolai I. Popkov**  
 (signature) (signator) (signature) (signator)

March 31, 2009.

## SUPPLEMENTS TO BALANCE SHEET

At **December 31, 2008**

Entity **OJSC VolgaTelecom**

Taxpayer Identification Number **5260901817**

Line of business Electric communication

Form of incorporation / ownership form Open Joint Stock Company / private

Measure unit: **RUB thousand**

OKUD Form No 05  
Date (year, month, day)

OKPO code

TIN

OKVED code

OKOPF/OKFS code

OKEI code

CODES

**0710005**

**2008.12.31**

**01142788**

**526090181**

**7**

**64.20**

**47/16**

**384**

### 1. Intangible assets

Item	Item code	Line code	At the reporting year beginning	Arrivals	Retired	At the reporting year end
1	1a	2	3	4	5	6
Exclusive rights for intellectual property results and means of individualization	010	<b>101</b>	3 123	164		3 287
<i>of which:</i> for invention, design invention, useful model	011	102				
for computer utility programs, data bases	012	103	2 816			2 816
for trademark and service mark, appellation of origin of goods	014	104	77	164		241
other	015	105	230			230
Miscellaneous	040	106				
<b>Total</b>		<b>110</b>	3 123	164		3 287

Item	Item code	Line code	At the reporting period beginning	At the reporting period end
1	1a	2	3	4
<b>Amortization of intangible assets</b> (exclusive rights for intellectual property results and means of individualization) - <b>total</b>	050	<b>120</b>	196	801
<i>of which:</i> <i>for invention, design invention, useful model</i>		121		



<i>for computer utility programs, data bases</i>		122	107	640
<i>for trademark and service mark, appellation of origin of goods</i>		123	22	48
<i>other</i>		124	67	113

## 2. Property, plant and equipment

Item	Item code	Line code	At the reporting year beginning	Arrivals	Retired	At the reporting year end
1	1a	2	3	4	5	6
Buildings		201	3 978 886	149 236	(24 851)	4 103 271
Constructions and transfer mechanisms		202	17 063 483	1 095 002	(139 646)	18 018 839
Machinery and equipment		203	24 373 064	4 206 751	(1 152 178)	27 427 637
Transport vehicles		204	491 617	72 325	(26 323)	537 619
Computing machinery and office appliances		205	3 067 370	473 249	(55 310)	3 485 309
Housing stock		206	25 192	185	(7 542)	17 835
Land plots and nature objects		207	8 973	19		8 992
Other types of property, plant and equipment		208	671 298	234 352	(12 301)	893 349
<b>Total</b>		<b>210</b>	<b>49 679 883</b>	<b>6 231 119</b>	<b>(1 418 151)</b>	<b>54 492 851</b>

Item	Item code	Line code	At the reporting year beginning	At the reporting year end
1	1a	2	3	4
<b>Depredation and amortization of property, plant and equipment - total</b>	140	<b>220</b>	20 462 844	24 121 420
of which: <i>buildings</i>		221	967 345	1 036 595
<i>constructions and transfer mechanisms</i>		222	6 034 486	6 896 245
<i>machinery and equipment</i>		223	11 044 977	12 959 886
<i>transport vehicles</i>		224	368 518	400 393
<i>computing machinery and office appliances</i>		225	1 680 893	2 388 899
<i>housing stock</i>		226	1	6
<i>other types of property, plant and equipment</i>		227	366 624	439 396

Item	Item code	Line code	At the reporting year beginning	At the reporting year end
1	1a	2	3	4
<b>Property, plant and equipment let on lease from line 210 - total</b>		<b>230</b>	505 813	583 660
of which:				
buildings		231	186 199	266 931
constructions and transfer mechanisms		232	205 187	209 703
machinery and equipment		233	111 512	104 994
transport vehicles		234		
other types of property, plant and equipment		235	2 915	2 032
<b>Property, plant and equipment put in dead storage from line 210</b>		<b>240</b>	46 915	63 423

FOR REFERENCE	Item code	Line code	At the reporting year beginning	At the reporting year end
1	1a	2	3	4
<b>Result of revaluation of property, plant and equipment:</b>		<b>250</b>		x
of original (replacement) cost	171	251		x
of amortization	172	252		x
<b>Property, plant and equipment took on lease - total</b>		<b>260</b>	1 832 293	3 957 546
of which:				
buildings		261	594 600	806 677
constructions and transfer mechanisms		262	69 548	1 087 643
machinery and equipment		263	683 368	1 474 911
transport vehicles		264	2 392	9 501
other types of property, plant and equipment		265	482 385	578 814
From line 210: Property objects being in operation and included into property, plant and equipment prior to registration of right of ownership		270	1 226 630	1 322 077

### 3. Income-bearing investments into tangible assets

Item	Item code	Line code	At the reporting year beginning	Arrivals	Retired	At the reporting year end
1	1a	2	3	4	5	6
Property for lease		301				
Property granted by hiring contract		302				
Other		303	94 455	4 397		98 852
<b>Total</b>		<b>310</b>	94 455	4 397		98 852

Item	Item code	Line code	At the reporting year beginning	At the reporting year end
1	1a	2	3	4
Amortization of income-bearing investments into tangible assets		311	13 437	27 176

### 4. Expenses for R&D activities and technological works

Activities	Item code	Line code	At the reporting year beginning	Arrivals	Written off	At the reporting year end
1	1a	2	3	4	5	6
Completed R&D, the results of which are used for production or managerial needs of the Company	310	400				

FOR REFERENCE	Item code	Line code	At the reporting year beginning	At the reporting period end
1	1a	2	3	4
The amount of expenses for R&D and technological works in progress	320	401		
FOR REFERENCE	Item code	Line code	For the reporting period	For the similar period of the prior year
1	1a	2	3	4
Expenses classified as ordinary activities expenses		402		

The amount of expenses for R&D and technological works that did not produce positive results and classified as other expenses		403		
---	--	-----	--	--

## 5. Financial investments

Item	Item code	Line code	Long-term		Short-term	
			At the reporting year beginning	At the reporting period end	At the reporting year beginning	At the reporting period end
1	1a	2	3	4	5	6
Contributions to authorized (reserve) capitals of other organizations - total	510	501	2 811 442	3 741 814	6 243	1 320
of which: subsidiary and associated business companies	511	502	2 744 415	3 722 681		
Government, municipal and outside organizations bonds	515	503				
Promissory notes	520	504	1 889			201 963
Loans granted	525	505			1 000	
Deposits	530	506				
Other	535	507	134 799	41 351		
<b>Total</b>	<b>540</b>	<b>510</b>	<b>2 948 130</b>	<b>3 783 165</b>	<b>7 243</b>	<b>203 283</b>
<b>From the total amount the financial investments having current market value:</b>						
Contributions to authorized (reserve) capitals of other organizations - total	550	511			6 243	1 320
of which: subsidiary and associated business companies	551	512				
Government, municipal and outside organizations bonds	555	513				
Promissory notes	560	514				
Other	565	515				
<b>Total</b>	<b>570</b>	<b>520</b>			<b>6 243</b>	<b>1 320</b>
<b>FOR REFERENCE</b>						
For financial investments having current market value, the change of cost as a result of valuation adjustment	580	521			806	4 923

## 6. Ordinary activities expenses (element wise costs)

Item	Item code	Line code	For the reporting year	For the prior year
1	1a	2	3	4
Material costs	710	601	(5 387 023)	(5 408 861)
Labor costs	720	602	(6 305 306)	(5 986 699)
Benefits-related deductions	730	603	(1 423 244)	(1 384 775)
Amortization	740	604	(4 348 101)	(3 490 255)
Other costs	750	605	(3 434 495)	(2 790 584)
<b>Element wise costs total</b>	<b>760</b>	<b>610</b>	<b>(20 898 169)</b>	<b>(19 061 174)</b>
Change of balances (increment [+], reduction [-]): of work in progress	765	621	(835)	242
of prepaid expenses	766	622	(244)	(8 852)

## 7. Guarantee

Item	Item code	Line code	At the reporting year beginning	At the reporting period end
1	1a	2	3	4
<b>Guarantees received - total</b>		<b>710</b>	11 502 828	11 503 081
of which:				
banks' guarantees		711	-	-
guaranties of third parties		712	11 495 339	11 495 339
promissory notes		713	-	-
pledged property		<b>714</b>	7 489	7 742
of which:				
property, plant and equipment		715	7 489	7 742
securities and other financial investments		716	-	-
other property		717	-	-
miscellaneous		718	-	-
<b>Guarantees granted - total</b>		<b>720</b>	5 335 109	4 308 840
of which:				
guaranties of third parties		721	1 909 990	1 793 915
promissory notes		722	-	-
pledged property		<b>723</b>	3 425 119	2 514 925
of which:				
property, plant and equipment		724	3 425 119	2 514 925
securities and other financial investments		725	-	-
other property		726	-	-
miscellaneous		727	-	-

### 8. Government assistance

Item	Item code	Line code	For the reporting year	For the similar period of the prior year
1	1a	2	3	4
<b>Budgeting funds received in the reporting year - total</b>	910	<b>810</b>	-	50 812
of which: Funds for capital expense		811	-	50 812
Funds for current expenses		812	-	-

Item	Item code	Line code	At the reporting year beginning	Received for the reporting period	Returned for the reporting period	At the reporting period end
1	1a	2	3	4	5	6
<b>Budgetary credits - total</b>	920	<b>820</b>	-	-	-	-
of which: Funds for capital expense		821	-	-	-	-
Funds for current expenses		822	-	-	-	-

**General Director** \_\_\_\_\_ Sergey V. Omelchenko    **Chief accountant** \_\_\_\_\_ Nikolai I. Popkov  
 (signature) (signator) (signature) (signator)

March 31, 2009.

**NOTES**  
**to accounting statement of**  
**OJSC VolgaTelecom**  
**for the year ended December 31, 2008**

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## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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#### **2. The Company and its operations (the information presented in this item was not audited).**

Open Joint Stock Company VolgaTelecom, abbreviated name - OJSC VolgaTelecom, TIN 5260901817, (hereinafter - the Company) was registered on December 15, 1993 by Property and Land Resources Management Committee of the Administration of the city of Nizhny Novgorod, registration No 448. At December 31, 2008 the Company's headcount was 31,614 men (at December 31, 2007 – 35,065 persons). The Company is registered at the address: Dom Svyazi, Maxim Gorky Square, Nizhny Novgorod city, 603000.

#### **Data on the registrar:**

Name: Open Joint Stock Company Obiedinennaya registratsionnaya kompaniya

Location: 15A Kalanchevskaya Street, Moscow, 107078, Russia

Mailing address: POB 162, 15A Kalanchevskaya Street, Moscow, 107078, Russia

License number: 10-000-1-00314

Date of the license issue: March 30, 2004

Validity term: unlimited

Licensing authority: Russia's Federal Commission for the Securities Market.

#### **Data on the auditor:**

Name: Closed Joint-Stock Company KPMG

Location: Naberezhnaya Tower Complex, Block C, 18 Krasnopresnenskaya Nab., Moscow, 123317, Russia

Mailing address: Naberezhnaya Tower Complex, Block C, 18 Krasnopresnenskaya Nab., Moscow, 123317, Russia

E-mail: [moscow@kpmg.ru](mailto:moscow@kpmg.ru)

Data on the auditor's license:

License number: E 003330

Date of issue: 17.01.2003

Validity term: 5 years

Licensing authority: the Ministry of Finance of the Russian Federation.

The license is extended by order of RF Ministry of Finance No 573 of 17.09.2007 for the period till 17.01.2013

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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#### **Data on the Board of directors:**

Composition of the Company's Board of directors:

The Chairman of the Board of directors:

- Sergey I. Kuznetsov.

Members of the Board of directors:

- Vladimir A. Andreev – Rector of State educational institution of higher professional education “Povolzhskiy State University of Telecommunications and IT”;
- Valeryi N. Bugaenko – the Head of Federal Communications Agency;
- Evgeniya S. Vinokurova – Deputy Senior Executive at OJSC Svyazinvest Economy and Finance Department;
- Alla B. Grigorieva – Deputy Senior Executive at OJSC Svyazinvest Corporate Governance and Legal Department;
- Sergey V. Omelchenko – OJSC VolgaTelecom General Director;
- Victor D. Savchenko – Deputy General Director of OJSC Svyazinvest;
- Dmitry Yu. Tushunov – Head of analytical department – chief economist of CJSC Lider;
- Oleg R. Fedorov – Chief Corporate Finance Management Officer of LLC Deutsche Bank;
- Anton A. Shchegolikhin – Deputy General Director of FSUE Russian Post;
- Pavel O. Yunkin

Composition of the Company's Management board:

The Chairman of the Management Board:

- Sergey V. Omelchenko – the Company's General Director.

Members of the Management board:

- Svetlana L. Astakhova – Deputy General Director of the Company – personnel director;
- Mikhail V. Dyakonov – Deputy General Director of the Company for capital construction;
- Oleg V. Ershov – First Deputy General Director of the Company – commercial director;
- Andrey S. Zakharov – Deputy General Director of the Company – technical director;
- Denis B. Kostin – Deputy General Director of the Company for economics and finance;
- Nikolai I. Popkov – chief accountant of the Company;
- Vladimir V. Ulyanov – Deputy General Director of the Company for security – director for security and secrecy order.

Composition of the Company's Auditing committee:

The Chairman of the Auditing committee:

- Olga G. Koroleva – chief accountant of OJSC Svyazinvest.

The Auditing committee's members:

- Svetlana N. Bocharova – Tax division manager, Accounting, tax and statistics Department of OJSC Svyazinvest;
- Polina V. Burmistrova – Legal sector deputy manager, Corporate governance and legal support Department, OJSC Svyazinvest;
- Alexey V. Maltsev – Division manager of Strategic planning and efficiency analysis of Group strategy realization, strategic development Department, OJSC Svyazinvest;

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

---

- Mikhail V. Tret'yakov – Division manager, Economics and finance Department, OJSC Svyazinvest.

The Company renders the following services:

- intrazonal telephony;
- local telephony:
  - including universal services;
- connection and traffic transit services;
- services supporting DLD and ILD communications services provision by DLD and ILD communications operators;
- mobile radio communications, wire broadcasting, radio broadcasting, TV services;
- mobile radiotelephony (cellular communications) services;
- telegraphy services, data transmission and telematic services;
- other services of core business;
- granting lease of property;
- other services of non-core business.

#### *Intrazonal telephony services*

Intrazonal telephony services comprise provision to users of:

- phone calls between users connected to local telephony network within the territory of constituent entity of the Russian Federation;
- phone calls between user equipment connected to local telephony network and user equipment connected to mobile communications network when subscriber numbers of calling and called parties and (or) user are within the numbering resources of numbering area which is accordingly defined geographically and not defined geographically, the specified numbering being reserved to the same constituent entity of the Russian Federation;
- intrazonal phone calls by using payphones;
- granting intrazonal communication links for use.

#### *Local telephony services*

Local telephony services comprise providing local phone calls (urban and rural telephony) to users as well as universal services.

Universal services are provided as per tariffs calculated by Federal Communications Agency and included in the contract of universal services provision. The established tariffs for universal services do not cover expenses incurred by the Company at their provision. The excess of economically justified expenditure for universal services provision over revenue received as per established tariffs forms universal services provision losses to be compensated from universal servicing reserve.

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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#### *Connection and traffic transit services*

Connection services include connection point arrangement services and connection point servicing provided to connected operators before March 1, 2008.

Traffic transit services comprise:

- telephone communications operators' traffic transit services (call initiation, termination and transit);
- data transmission network operators' traffic transit services;
- telegraphy network operators' traffic transit services.

#### *Services supporting DLD and ILD communications services provision by DLD and ILD communications operators (assistance and agency services)*

The Company is one of agents of ILD and DLD telephone communications services providers at such services rendering to subscribers. In this connection the Company concluded contracts with OJSC Rostelecom and OJSC Mezhregionalnyi Transit Telecom; according to these contracts the Company renders services supporting DLD and ILD communications services provision to the specified companies, and namely:

- services of processing subscriber's order while providing access to DLD and ILD communications services to the subscriber according to immediate servicing system and system of servicing by order;
- services of ILD and DLD communications services billing processing;
- services of preparation, formation and storage of necessary documents and report forms;
- agency services of subscriber payments collection and reference and information servicing on behalf and at the expense of DLD and ILD communications operators;
- claim administration, document delivery.

#### **Liquidity and financial resources**

In 2008 in order to finance its networks development the Company borrowed funds, both on a short-term basis and on a long-term basis. Borrowed funds were raised predominantly in the form of bank credits, bond issues, and supplier credits of equipment manufacturers.

The Company's management believes that, if necessary, some projects implementation may be postponed or scaled down according to day-to-day operations funding needs.

In 2009 the Company expects funds to be received from the following sources: cash receipts from operating activities, own promissory notes issue, ruble bonds floatation at the Russian market, raising funds of domestic and foreign credit institutions. Besides, the Company's management considers that it will have the opportunity to put off payment on some day-to-day operations in case of lack of the working capital.

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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#### **3. Accounting policy**

This accounting statement of the Company is drawn up on the basis of the following accounting policy.

##### **Basic approaches to drawing up annual accounting statement**

Bookkeeping is maintained in the Company in accordance with Federal Law No 129-FZ of November 21, 1996 "On Bookkeeping" (as amended on July 23, 1998, March 28, December 31, 2002, January 10, May 28, June 30, 2003, November 03, 2006) and "Regulations for bookkeeping and accounting statement recording in the Russian Federation" approved by RF Ministry of Finance Order No 34n of July 29, 1998 (as amended on December 30, 1999, March 24, 2000, September 18, 2006), as well as with effective regulations for bookkeeping and Accounting policy of the Company.

The Company's accounting statement for 2008 was drawn up in accordance with the same law and regulations on the basis of the assumption that the Company will continue its operation in foreseeable future and has no intention and necessity of liquidation or substantial activity cutting-down, and therefore, the obligations will be repaid according to the established procedure.

##### **Assets and liabilities in foreign currencies**

While accounting business transactions made in foreign currencies, the Company applied official foreign currency rate valid on the date of making the transaction. Monetary assets and liabilities which value is denominated in foreign currency are reflected in accounting statement in the amounts calculated on the basis of currency rates established by the Russian Federation Central Bank at reporting dates (rubles per a unit of currency):

<b>Foreign currency</b>	<b>At December 31, 2008</b>	<b>At December 31, 2007</b>
US\$	29.3804	24.5462
Euro	41.4411	35.9332

Foreign exchange differences which occurred during the year under transactions with assets and liabilities and also at their translation at the balance sheet date are charged to other revenues and expenses.

In the cash flow statement the ruble equivalents of currency balances at the year beginning and of foreign currency flows during the year are calculated according to official exchange rate effective at December 31, 2008 and respectively comparable data are calculated as per the official exchange rate effective at December 31, 2007.

##### **Current and non-current assets and liabilities**

In the statement the assets (liabilities) are referred to current ones if the term of their circulation (repayment) does not exceed 12 months after the balance sheet date. All other assets and liabilities are represented in the statements as non-current ones.

##### **Intangible assets**

In the statement the intangible assets are represented at initial value less depreciation amount accrued for the entire utilization time.

Intangible assets are depreciated on a straight-line basis during the established time of useful service. The useful service is defined by a specially established committee and approved as per the established procedure

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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on the basis of the object expected performance life, during which the Company plans to receive economic benefit (revenue) from its use.

#### **Property, plant and equipment**

Property, plant and equipment are accepted for accounting at initial value.

The initial value of property, plant and equipment acquired for a fee is treated as the sum of actual costs for acquisition, construction and production, except for VAT and other refundable taxes (except for the cases provided for by the Russian Federation legislation).

The initial value of property, plant and equipment acquired in exchange for goods (values) differing from cash is treated as the value of transferred assets or the assets subject to the transfer. This value was fixed on the basis of the price at which the Company under comparable circumstances usually defined the value of similar goods (values).

In balance sheet property, plant and equipment are represented at initial (replacement) value less depreciation amount accrued for the entire time of operation.

Property, plant and equipment include real property objects which are commissioned and actually used before state registration of property rights for such objects.

Property, plant and equipment are depreciated on a straight-line basis relying on adopted terms of useful service:

<b>Group of property, plant and equipment</b>	<b>Useful service</b>
Buildings	From 5 years
Constructions and transfer mechanisms	From 7 to 30 years
Communication equipment	From 2 to 15 years
Transport vehicles	From 3 to 20 years
Computing machinery and office appliances	From 2 to 10 years
Other objects	From 2 to 25 years

Land plots are not depreciated.

The objects of housing facilities and land improvement objects commissioned prior to 2006 are not depreciated. The same objects commissioned in 2006 and later are depreciated according to general procedure.

The outlays for all types of repairs are included in operating expenses of the reporting period. The provision for the costs to be incurred for the repair of property, plant and equipment, was not established.

Property, plant and equipment obtained under financial rent (leasing) contracts and booked in the structure of the Company's property, plant and equipment are depreciated on a straight-line basis relying on the established useful service.

#### **Financial investments**

Financial investments for which fair market value is not defined are reflected in balance sheet at their initial value.

Initial value of financial investments:

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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- acquired for value is defined as the amount of actual expenses of the Company for their acquisition;
- acquired under contracts providing for performance of obligations (payment) by non-monetary assets, is defined as the value of assets transferred by the Company;
- in the form of investments in the capitals of subsidiary, associated and other companies, constitutes monetary valuation approved by founders (participants) of these companies.

Financial investments, for which steady substantial reduction in value is recognized, are presented in the balance sheet minus provision established for depreciation of financial investments.

Financial investments, for which trade organizer at the securities market defines fair market value as per the established procedure, are reflected in the accounting statement at fair market value at December 31, 2008 by adjusting their valuation. The amount of the adjustment is classified as the increase in other expenses (revenues).

Revenue in the amount of interest receivable under loans and debt securities, is recognized strait-line during the contract validity term (securities maturity).

For debt securities which fair market value is not defined, the difference between actual expenses for securities acquisition and their par value (discount) is charged evenly to financial results.

The retiring issuing securities which fair market value is not defined were valued by FCFS method; the retiring non-issuing securities were valued by the actual value of each security.

#### **Inventories**

Inventories are reflected in the statement at actual prime cost, which is:

- at acquisition of inventories for value – the sum of actual costs of acquisition, including expenses for bringing them to the state in which they are usable, except for VAT and other refundable taxes;
- at production of inventories by the company itself – the sum of actual costs connected with their production;
- at receipt of inventories in consideration for contribution to the Company’s authorized capital – money value coordinated with founders with due account for the requirements of Law “On Joint-Stock Companies”;
- at receipt of inventories under the gift contract (on a gratis basis), and also remaining after the retirement of property, plant and equipment and other property - fair market value at the date of reflecting in the accounting records.

Commodities at retail are reflected at selling prices.

The assets acquired since 2006 in respect of which the conditions provided for in item 4 of PBU 6/2001 “Accounting for Property, Plant and Equipment” are met and which cost is not more than RUB 20,000 per unit are reflected in the structure of inventories.

Inventories are reflected in the accounting net of provision for reduction in value of tangible assets. The provision is formed for the amount of difference between fair market value and actual prime cost of inventories which are morally obsolete, have lost their initial quality partly or in full or which fair market value has significantly decreased. Expenses for the provision establishment are classified as other expenses.

Retiring inventories (excluding precious metals) are evaluated at moving average prime cost.

Precious materials are written off at the prime cost of each unit.

### **Prepaid expenses**

Expenses incurred by the Company in the reporting year but relating to the next reporting periods are reflected as prepaid expenses. These expenses are subject to amortization according to their allocation on a straight-line basis during the periods to which they are related.

Expenses related to acquisition and roll-out of software products and data bases, are subject to amortization as current expenditures since the first day of the month following the month of their usage start. Oracle software product usage start date is the date of start of using it by the first regional subsidiary of the Company.

Prepaid expenses related to acquisition and roll-out of software products and data bases subject to amortization later than 12 months after the balance sheet date, are reflected in the balance sheet in the structure of other non-current assets.

### **Trade receivable**

Trade receivable is reflected in the statement with VAT taken into account, the latter being paid to the budget after the receipt of accounts receivable payment, and is defined on the basis of prices set by the contracts between the Company and the buyers (customers), all discounts (extra charges) granted by the Company being taken into account. Bad debt was written off from the balance as it was recognized to be such.

Debt of customers for sold services, works, goods, products, property, plant and equipment, inventories and other property, not repaid in the terms stipulated by contracts, and for which appropriate guarantees are not provided, is shown less the doubtful debts provision.

The amount of the provision is defined separately for each debt on the basis of made inventory depending upon the debtor's solvency and the probability of the debt repayment.

Due to the fact that at communication enterprises the individual analysis of each doubtful debt under communications services is impossible because of large number of subscribers, the provision is established in the amount of 100% of the debt amount for all outstanding debts for communication services, the payment for which at the date of the provision establishment is overdue for 90 and more days. As for the debts which payment is delayed for less than 90 days the provision is not established.

Expenses for establishment of the provision for doubtful debts are classified as the increase in other expenses.

### **Advances paid out and other accounts receivable**

Debt on advances paid out is reflected in the statement less doubtful debts provision established by the results of inventory of paid out advances under which the receipt of assets (services) is unlikely.

Other accounts receivable is reflected in the statement less doubtful debts provision established by the results of inventory of debt under which the receipt of the total outstanding amount is unlikely.

Expenses for the provision establishment are classified as other expenses.



### **Raised credits and loans**

The Company transfers long-term debt under raised credits and loans into the structure of short-term debt once 365 days are left to repay the principal amount of debt as per the terms and conditions of loan and (or) credit contract.

At each balance sheet date the Company recalculates the value of credits and loans denominated in foreign currency and/or conventional monetary units. The differences appearing at recalculation are classified as other expenses.

Interest under received loans and credits used directly for acquisition, construction of investments assets, are charged to the increase in the value of such investment assets prior to their commissioning.

Additional outlays incurred owing to raising credits or loans include the expenses related to:

- rendering legal and consulting services to the Company;
- provision of agency services to the Company on paper and bonded loans floatation;
- carrying out expert examinations;
- consumption of communication services;
- other expenses directly connected to raising loans in money terms.

Additional outlays related to raising loans and credits, borrowings are recognized by the Company as the expenses of the period in which they were incurred.

Interest on raised credits (loans) is charged on a monthly basis in accordance with the procedure established in the contract.

As for the loans raised in money form and by the issue of the Company's own promissory notes, the amount of discount due to the noteholder, is charged to prepaid expenses with further charging off to the structure of other expenses on a monthly basis by equal shares during the circulation period of the promissory notes.

As for the loans raised in money form and by the Company's bonds issue, in cases when the issued bonds are sold at the price different from their par value (with discount), the amount of the discount is charged to prepaid expenses with further charging off into the structure of other expenses on a monthly basis by equal shares during the bonds maturity.

### **Revenues recognition**

Proceeds from products sales and services rendering are recognized by the accrual method, i.e. as the services are rendered, and are reflected in the accounting less VAT and discounts granted to customers.

Proceeds from products sale subject to conditions of the exchange of goods (barter) are defined by the cost of values received or subject to receipt by the Company, the specified cost being calculated on the basis of prices at which the Company usually defines the cost of similar values under comparable circumstances.

Revenues obtained from the Company's property granting for rent are charged to operating revenues.

Dividends are recognized in the structure of other revenues as they are declared.

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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Revenues in the amount of compensation for losses caused by universal services provision from universal servicing reserve are recognized in the period of services provision in the amount subject to reimbursement on the basis of losses compensation calculation for the period.

#### **Expenditures recognition**

The Company calculates total production value of rendered services, work done, sold products without separating administrative and commercial expenses. Expenditure records with respect to conducted activity types is organized in accordance with Order No 54 of May 02, 2006 of the Russian Federation Ministry of IT and Communications "On Approval of the Procedure of Separate Record Keeping by Operators of Revenues and Expenses under Conducted Activity Types, Rendered Communications Services and for Electric Communications Network Parts Used for these Services Provision".

The Company establishes the provision on rendered services, carried out works, for which primary accounting documents are not received, but expenses recognition conditions established by PBU 10/1999 "Expenses of an Organization" are met. Expenses for the provision establishment are charged to operating expenses or other expenses depending on liabilities.

#### **Provisions of costs to be incurred**

The Company establishes provision for payment of coming rest leaves of employees, the provision of costs to be incurred on remuneration by the results of work for a year, for a quarter as well as for compensation payment to Executive directorate.

Expenses for establishing provisions are charged to operating expenses, to the increase in the initial value of property, plant and equipment objects under construction, and also to the structure of other expenses depending on the type of activity of the involved employees taken into account at calculation of provisions of costs to be incurred.

#### **Changes in the accounting policy in 2008**

In 2008 the accounting policy corresponds to the one followed in the prior fiscal year.

#### **Changes in the accounting policy in 2009**

There are no changes capable of influencing significantly the financial statements, introduced in accounting policy for 2009.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

**4. Notes to essential balance sheet items****4.1. Property, plant and equipment (line 120 of balance sheet)**

Change in property, plant and equipment value:

	<b>2008</b>	<b>2007</b>
<b>Initial value at the year beginning</b>	<b>49,679,883</b>	<b>42,759,281</b>
Increase in value, total	5,620,703	7,520,300
<i>including due to:</i>		
acquisition of new objects	433,979	456,615
construction, upgrading and reconstruction of operating capacities	5,168,103	7,016,378
off-balance sheet leasing objects transfer to own resources	2,391	40,807
other receipts	16,230	6,500
Reduction (retirement) of value, total	(807,735)	(599,698)
<i>including due to:</i>		
sales	(54,467)	(42,462)
write off, partial liquidation	(743,661)	(544,788)
other retirement	(9,607)	(12,448)
<b>Year end initial value</b>	<b>54,492,851</b>	<b>49,679,883</b>
<b>Accumulated depreciation at the year beginning</b>	<b>(20,462,844)</b>	<b>(17,417,002)</b>
Depreciation of off-balance sheet leasing objects transferred to own resources	(2,391)	(40,807)
Charged depreciation for the period	(4,341,084)	(3,486,046)
Retired objects depreciation:	684,899	481,011
for realized objects	32,635	34,575
for written off objects	647,622	444,126
for other retirements of objects	4,642	2,310
<b>Year end accumulated depreciation</b>	<b>(24,121,420)</b>	<b>(20,462,844)</b>
<b>Price-to-book value at the year beginning</b>	<b>29,217,039</b>	<b>25,342,279</b>
<b>Price-to-book value at the year end</b>	<b>30,371,431</b>	<b>29,217,039</b>

The major portion – 69 % of the acquired property, plant and equipment is communications networks equipment, switches, other machinery and equipment, computing machinery; the major portion of constructed property, plant and equipment - 79% is communications lines, switches and other communications network equipment.

The initial value of property, plant and equipment for which 100% depreciation is charged at December 31, 2008 amounts to 7,420,522 (at January 1, 2008 – 6,727,928).

The initial value of property, plant and equipment in operation and classified as property, plant and equipment before ownership registration amounts to 1,322,077 (at December 31, 2007 – 1,226,630).

**Property, plant and equipment obtained under leasing contracts**

At December 31, 2008 the Company concluded 70 contracts of financial rent (leasing) (rent of switches and other telecommunications equipment). The leasing periods vary from 42 to 132 months.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

The value of property, plant and equipment obtained under leasing contracts:

	At 01.01.2008	At 31.12.2008
<b>Property, plant and equipment in the Company's balance:</b>		
- initial value	2,953,690	2,351,340
- accumulated depreciation	(1,317,538)	(1,087,755)
- price-to-book (carrying) value	1,636,152	1,263,585
<b>Property, plant and equipment in lessor's balance:</b>		
- contract value	543,275	2,372,033

Lease payments to be made:

Due dates	Amounts of payments, total	Of which:	
		For property, plant and equipment in the Company's balance (reflected as liabilities in lines 520 and 620 of balance sheet)	For property, plant and equipment in lessor's balance (are not reflected in liabilities structure)
Year 2009	941,441	290,797	650,644
Years 2010 - 2013	1,855,063	180,937	1,674,126
<b>Total</b>	<b>2,796,504</b>	<b>471,734</b>	<b>2,324,770</b>

Price-to-book value of property, plant and equipment that the Company has put in pledge as a security for liabilities and payments amounts to 1,329,284 (at December 31, 2007 – 2,205,945).

**4.2. Capital expenditures (line 130 of balance sheet)**

	At 01.01.2008	At 31.12.2008
Investments in non-current assets, total:	470,145	889,093
<i>Of which:</i>		
construction, modernization and reconstruction of property, plant and equipment	452,290	880,841
acquisition of property, plant and equipment	17,765	7,623
others	90	629
Equipment for installation	67,277	229,983
<b>Line 130 of balance sheet, total</b>	<b>537,422</b>	<b>1,119,076</b>

**Change in value of investments in non-current assets**

	2008	2007
<b>Investments in non-current assets at the year beginning</b>	<b>470,145</b>	<b>703,427</b>
<b>Increase in investments in non-current assets in the reporting period, total</b>	<b>6,151,172</b>	<b>7,458,640</b>
<i>Of which:</i>		
new objects acquisition	428,309	452,354
construction, modernization and reconstruction of objects in operation	5,722,863	7,002,173
received on a gratis basis	-	4,113
<b>Retirement of investments in non-current assets in the reporting period, total</b>	<b>(5,732,224)</b>	<b>(7,690,903)</b>
<i>Of which due to:</i>		
commissioning	(5,602,245)	(7,475,703)
writing-off	-	(29,420)
other retirement	(129,979)	(185,780)
<b>Year end investments in non-current assets</b>	<b>889,093</b>	<b>471,164</b>

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

The Company is constructing and re-constructing the objects of traditional telephony, telecommunications infrastructure objects in order to render services, it is constructing and reconstructing buildings, constructions and other real property objects, transmission lines; it is constructing, extending and upgrading communications networks for value-added services, informational technologies provision.

In 2008 the Company capitalized as construction-in-progress the interest on borrowings in the amount of 34,098 (in 2007 – 33,516) at the rates established in terms and conditions of raising credits and loans which resources were allocated for construction projects financing.

**4.3. Investments in companies (lines 141, 142 and 143 of balance sheet)**

Contributions to authorized capitals of subsidiary, associated and other companies:

<b>Company's name</b>	<b>Core business</b>	<b>Value of investment</b>	<b>Share in authorized capital and other interest, %</b>	<b>Block of voting stocks, %</b>
<b>At 01.01.2008</b>				
<b>Subsidiary companies</b>				
ZAO Nizhegorodskaya Sotovaya Svyaz	Cellular communications services	2,621,869	100	100
ZAO Ulyanovsk-GSM	Cellular communications services	62,166	60	60
LLC Nizhegorodskiy Teleservice	Communications services	43,728	100	-
others		10,495		
Provision for depreciation		-		
<b>Subsidiary companies, total (line 141):</b>		<b>2,738,258</b>	-	-
<b>Associated companies</b>				
ZAO Commercial Bank "C-Bank"	Banking services	5,980	42	42
ZAO Narodnyi telephone Saratov	Communications services	50	50+1 share	50+1 share
ZAO Samara-Telecom	Local telephony services	75	28	28
others		52		
Provision for depreciation		-		
<b>Associated companies, total (line 142):</b>		<b>6,157</b>		
<b>Financial investments in other companies</b>				
OJSC NTK "Zvezda"		<b>47,682</b>	1.7	1.7
OJSC Svyazintek		<b>14,880</b>	13	13
Others		<b>4,638</b>		
Provision for depreciation		<b>(119)</b>		
<b>Financial investments in other entities, total (line 143):</b>		<b>67,027</b>		
<b>Total at 01.01.2008:</b>		<b>2,811,442</b>		
<b>At 31.12.2008</b>				

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

Company's name	Core business	Value of investment	Share in authorized capital and other interest, %	Block of voting stocks, %
<b>Subsidiary companies</b>				
ZAO Nizhegorodskaya Sotovaya Svyaz	Cellular communications services	2,621,869	100	100
ZAO Ulyanovsk-GSM	Cellular communications services	1,047,176	100	100
LLC Nizhegorodskiy Teleservice	Communications services	47,430	100	-
others		6,843		
Provision for depreciation		(6,692)		
<b>Subsidiary companies, total (line 141):</b>		<b>3,716,626</b>	<b>-</b>	<b>-</b>
<b>Associated companies</b>				
ZAO Commercial Bank "C-Bank"	Banking services	5,980	42	42
ZAO Samara-Telecom	Local telephony services	75	28	28
others		52		
Provision for depreciation	-	(52)		
<b>Associated companies, total (line 142):</b>	<b>-</b>	<b>6,055</b>	<b>-</b>	<b>-</b>
<b>Financial investments in other entities</b>				
OJSC NTK "Zvezda"		47,682	1.7	1.7
OJSC Svyazintek		14,880	13	13
Others		4,638		
Provision for depreciation		(48,013)		
<b>Financial investments in other entities, total (line 143):</b>		<b>19,133</b>		
<b>Total at 31.12.2008:</b>		<b>3,741,814</b>		

Provision for depreciation of financial investments in authorized capitals of subsidiary, associated and other companies:

	Provision at 01.01.2008	Provision established in 2008	Provision spent in 2008	Provision recovered in 2008	Provision at 31.12.2008
<b>Provision for other entities:</b>					
OJSC NTK "Zvezda	-	47,682	-	-	47,682
- others	119	212	-	-	331
<b>Provision, total:</b>	<b>119</b>	<b>47,894</b>	<b>-</b>	<b>-</b>	<b>48,013</b>

Revenue received in the form of dividend from financial investments in authorized capitals of subsidiary, associated and other companies is reflected in item "Revenues from membership in other companies" in Income statement, in the amount of 402,017 (in 2007- 57,678).

In July 2008 the Company acquired additional 40% of ordinary voting shares of CJSC "Ulyanovsk-GSM" for 985,000, thus having increased its equity stake to 100%.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

In January 2008 LLC Nizhegorodteleservice is reorganized in the form of merger with LLC Nizhegorodskiy Teleservice.

At 31.12.2008 there are no pledged investments in companies.

In 2008 the Company made a decision to establish 100% provision for depreciation of OJSC NTK "Zvezda" in the amount of 47,682, due to indicators of depreciation of this financial investment at the balance sheet date. This amount is classified as other expenses.

**4.4. Other long-term and short-term financial investments (lines 144 and 250 of balance sheet)**

Other long-term financial investments of the Company comprise (line 144):

Company	Type of financial investments	Value at the balance sheet date	Annual interest rate	Date of repayment
<b>At 01.01.2008</b>				
OJSC Alpha-bank	Promissory notes	1,889	-	November 2009
ZAO Nizhegorodskaya Sotovaya Svyaz	Accounts receivable acquired through assignment of right of demand	134,799	5-9	20.12.2011
Provision for depreciation		-		
<b>Line 144 of balance sheet, total</b>		<b>136,688</b>	<b>-</b>	<b>-</b>
<b>At 31.12.2008</b>				
ZAO Nizhegorodskaya Sotovaya Svyaz	Accounts receivable acquired through assignment of right of demand	41,351	5-9	20.12.2011
Provision for depreciation		-		
<b>Line 144 of balance sheet, total</b>		<b>41,351</b>	<b>-</b>	<b>-</b>

Other short-term financial investments of the Company comprise (line 250):

Company	Type of financial investments	Value at the balance sheet date	Annual interest rate	Date of repayment
<b>At 01.01.2008</b>				
OJSC RF Savings Bank	Stocks	6,243	-	-
ZAO Nizhegorodskiy radiotelephone	loan	2,925	13%	29.06.2004
ZAO Ataka vysokikh tekhnologyi	loan	334	-	20.12.2006
others	loan	1,000	-	November 2008
Provision for depreciation		(3,259)		
<b>Line 250 of balance sheet, total</b>		<b>7,243</b>		
<b>At 31.12.2008</b>				
OJSC RF Savings Bank	Stocks	1,320	-	-
ZAO Nizhegorodskiy radiotelephone	loan	2,925	13%	29.06.2004
ZAO Ataka vysokikh tekhnologyi	loan	313	-	20.12.2006
ZAO Bank Societe Generale Vostok	Promissory note	200,074		13.02.2009
OJSC Alpha-bank	Promissory note	1,889	-	18.11.2009

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

Provision for depreciation		(3,238)	
<b>Line 250 of balance sheet, total</b>		<b>203,283</b>	

Provision for depreciation of short-term financial investments:

	Provision at 01.01.2008	Established provision	Provisior recovered	Provision at 31.12.2008
Short-term financial investments				
ZAO Ataka vysokikh tekhnologyi	333	-	(21)	<b>312</b>
Loan provided by ZAO Nizhegorodskiy radiotelephone	2,925	-	-	<b>2,925</b>
<b>Total:</b>	3,258	-	(21)	3,237

Change in provision for depreciation of long-term and short-term financial investments is reflected in Income statement as net valuation. The excess of revenues from the provision recovery over expenses for its establishment is reflected in item 90 "Other revenues".

Change in valuation of other financial investments which value was adjusted to the fair market value in 2008:

Company	Type of financial investments	Value at 01.01.2008	Change in valuation	Value at 31.12.2008
OJSC RF Savings Bank	stocks	6,243	(4,923)	1,320

**Debt securities**

On December 30, 2008 the Company acquired one non interest bearing note of Commercial joint-stock bank "Bank Societe General Vostok" (ZAO) at the price of 200,000. The promissory note due date is the date of its presentation, but not earlier than February 13, 2009. The par value of the promissory note is 203,328; the discount on the note is 3,328. The promissory note was presented for payment and repaid by the promisor on February 13, 2009.

**Loans granted**

In December 2006 the Company acquired debt of subsidiary companies: ZAO Saratov-Mobile, ZAO Penza Mobile, ZAO Chuvashia Mobile from "Vostok Mobile Volga" company for 139,774. Due to ZAO Nizhegorodskaya Sotovaya Svyaz reorganization in the form merger with ZAO Saratov-Mobile, ZAO Penza Mobile, ZAO Chuvashia Mobile, the accounts receivable are reflected in item 144 "Other long-term financial investments" for ZAO Nizhegorodskaya Sotovaya Svyaz and at 31.12.2008 amount to 41,351.

**4.5. Deferred tax assets (line 145 of balance sheet)**

Flow of deferred tax assets in 2008:

	2008	2007
<b>Balance at the year beginning</b>	<b>233, 511</b>	<b>276,655</b>
Created in the reporting period for deducted temporary differences	510,839	462,949
Repaid to reduce tax payments	(496,969)	(506,093)
<b>Balance at the year end</b>	<b>247,381</b>	<b>233, 511</b>

In 2008 the amount of deferred tax assets was defined on the basis of tax rate of 24%.



## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

Since January 01, 2009 tax legislation provides for decrease in income tax rate from 24% to 20% which will result in recalculation of the amount of deferred tax assets. The reductions of deferred tax assets by 41,230 will be reflected in statement for 2009 at the cost of retained earnings reduction.

#### 4.6. Other non-current assets (line 150 of balance sheet)

	At 01.01.2008	At 31.12.2008
Prepaid expenses for software products acquisition	3,230,738	3,233,785
Advances paid on account of non-current assets acquisition and creation settlements	494,757	228,670
<b>Line 150 of balance sheet, total</b>	<b>3,725,495</b>	<b>3,462,455</b>

#### Oracle E-Business Suite software

The Company's expenses for purchase and roll-out of Oracle E-Business Suite software (hereinafter OeBS) which acquisition was approved by the Company's Board of directors in 2003, are reflected as prepaid expenses for software products acquisition:

	2008	2007
Oracle E-Business licenses and expenses for roll-out:		
- at the year beginning	1,206,055	974,974
- roll-out expenses incurred	294,532	339,248
- written off as operating expenses	(109,866)	(87,271)
- written off as other expenses	(282,910)	(20,896)
- at the year end	1,107,811	1,206,055

Since 2008 the Company exploits OeBS in full (before 2008 - as related to arrangement of organizational and personnel records, and of non-current assets accounting).

OeBS software acquisition and roll-out expenses are charged off to the structure of operating expenses on the basis of useful service established to be equal to 10 years.

In 2008 the Company charged off to other expenses the value of 7,529 E-Business Suite 2003 Professional User licenses and 308 Enterprise Asset Management licenses, as related to the value not charged to operating expenses, in the amount of 247,546.

#### Amdocs Billing Suite software

The Company's expenses for acquisition and roll-out of Amdocs Billing Suite software are reflected as prepaid expenses for software products acquisition.

	2008	2007
<b>Balance at the year beginning</b>	<b>1,122,683</b>	<b>1,122,683</b>
Roll-out costs incurred	-	-
Written off as other expenses	(183,867)	-
<b>Balance at the year end</b>	<b>938,816</b>	<b>1,122,683</b>

Amdocs Billing Suite software purchase was approved by the Company's Board of directors in 2004. Unified computerized settlements system roll-out on the basis of Amdocs Billing Suite platform is scheduled for year 2010.

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

In 2007 the Company made a decision to suspend implementation of the project of Unified computerized settlements system roll-out on the basis of Amdocs Billing Suite platform and to reschedule the roll-out and review the capacities supposed to be used. In this connection in 2008 the Company wrote down asset values of modules which would not be used, in the amount of 183,867 to the structure of other expenses.

The expenses for Amdocs Billing Suite software acquisition and roll-out will be charged off to operating expenses after software operation start, proportionally to the implemented modules value throughout the modules' useful service established within the limits of 10 years.

#### HP OpenView IUM Hewlett-Packard software

The Company's expenses for HP OpenView IUM Hewlett-Packard software purchase for the purpose of data collection and processing system roll-out are reflected as prepaid expenses for software products and data bases acquisition and roll-out:

	2008	2007
Value of HP OpenView IUM Hewlett-Packard licenses	352,478	352,478
Roll-out expenses	154,503	43,504
<b>Total:</b>	<b>506,981</b>	<b>395,982</b>

In 2008 Company implemented this software product.

The expenses are charged off to operating expenses on the basis of useful service established to be equal to 10 years.

#### 4.7. Inventories (line 211 of balance sheet)

The value of raw materials, supplies and other similar values net of provision for reduction in value of tangible assets (line 211 of balance sheet):

	At 01.01.2008	At 31.12.2008
Cable	117,782	98,164
Spare parts	45,702	49,244
Construction materials	53,084	25,604
Inventory and economic accessories	20,711	17,225
Fuel	4,996	6,780
Supplies transferred for processing to a third party	4,863	14,365
Others	166,799	201,221
Of which:		
- expendable materials for cable-line facilities	55,425	55,861
- communications expendable and completion materials	50,400	54,374
- household items	9,467	4,563
- stationery	16,063	3,121
- expendable and completion materials for office appliances	8,280	5,543
- precious metals	9,054	22,054
- recyclable waste	1,430	7,242
- communications services payment cards	3,536	5,049
- others	13,144	43,414
<b>Line 211 of balance sheet, total</b>	<b>413,937</b>	<b>412,603</b>

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

The change in provision for reduction in value of inventories is reflected in Income statement as net valuation. The excess of expenses for the provision establishment over revenues from its recovery is reflected in item 100 "Other expenses" in the amount of 88 (in 2007 – 3114).

Changes in provision for reduction in value of inventories in 2008:

	<b>Provision at 01.01.2008</b>	<b>Provision established</b>	<b>Provision recovered</b>	<b>Provision at 31.12.2008</b>
Provision, total	3,114	3,085	(2,997)	3,202

**4.8. Long-term trade receivable (line 231 of balance sheet)**

	<b>At 01.01.2008</b>	<b>At 31.12.2008</b>
Settlements with buyers on non-core operations	296	26
Settlements with buyers on realized assets	27	572
<b>Line 231 of balance sheet, total</b>	<b>323</b>	<b>598</b>

**4.9. Short-term trade receivable (line 241 of balance sheet)**

	<b>Receivables, total</b>	<b>Provision for doubtful debts</b>	<b>Receivables, less the provision for doubtful debts</b>
<b>At 01.01.2008</b>			
Settlements with buyers on core operations:			
with natural persons	1,133,170	(200,680)	932,490
with state-financed organizations	125,389	(7,936)	117,453
with profit-making organizations	500,749	(118,618)	382,131
with telecom operators	706,635	(164,944)	541,691
with social protection bodies - settlements related to granting privileges to some categories of subscribers	55,146	(55,143)	3
Settlements with buyers on non-core operations	89,503	(31,458)	58,045
Settlements with buyers on realized assets	6,827	(705)	6,122
<b>Total of line 241 of balance sheet at 01.01.2008</b>	<b>2,617,419</b>	<b>(579,484)</b>	<b>2,037,935</b>
<b>At 31.12.2008</b>			
Settlements with buyers on core operations:			
with natural persons	1,232,043	(230,711)	1,001,332
with state-financed organizations	153,879	(6,964)	146,915
with profit-making organizations	463,562	(86,872)	376,690
with telecom operators	648,139	(245,507)	402,632
with social protection bodies - settlements related to granting privileges to some categories of subscribers	33,880	(33,880)	-
Settlements with buyers on non-core operations	158,474	(49,715)	108,759
Settlements with buyers on realized assets	12,507	(4,772)	7,735
<b>Total of line 241 of balance sheet at 31.12.2008</b>	<b>2,702,484</b>	<b>(658,421)</b>	<b>2,044,063</b>

Social protection bodies' debt on settlements related to granting privileges to some categories of subscribers amounts to 1.25% of the total sum of accounts receivable of buyers (2.11% at January 01, 2008). The specified accounts receivable occurred in the period before January 2005; in January 2005 article 47 of Federal Law No 126-FZ of 07.07.2003 "On Communications" came into effect thus changing the procedure of granting privileges to natural persons at services provision to them by communications companies. Prior to January 2005 communications services users having right to privileges paid 50% of these services price themselves, and the remaining 50% were to be reimbursed from the federal budget.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

In 2008 Company recovered 12,425 from the federal budget as repayment of the specified debt and expects to recover 19,169 in 2009.

Changes in doubtful debts provision for trade receivable in 2008:

	Provisio n at 01.01.2008	Provisi on established	Provision spent	Provis on recovered	Provi sion at 31.12.2008
<b>Provision, total</b>	579,484	259,885	(62,236)	(118,712)	658,421

The change in doubtful debts provision for trade receivable is reflected in Income statement as net valuation. The excess of expenses for the provision establishment over revenues from its recovery is reflected in item 100 "Other expenses" in the amount of 146,003.

**4.10. Other accounts receivable the payments on which are expected within 12 months after the balance sheet date (line 243 of balance sheet)**

	At 01.01.2008	At 31.12.2008
Settlements on compensation for losses from universal services provision	269,266	256,880
Taxes and dues settlements	191,930	52,708
Settlements for social insurance and security	11,837	13,813
Settlements with personnel for remuneration of labor and other operations	3,435	3,329
Settlements with accountable persons	2,466	3,105
Settlements with different debtors:	148,372	195,933
- Settlements with commission agents, agents	59,626	85,733
- Claims settlements	10,927	33,419
- Due revenues settlements	2,042	7,542
- Property and personal insurance settlements	1,005	1,093
- Other settlements	74,772	68,146
Including:		
- settlements on reimbursement of expenses for public utility and power supply services	15,483	18,779
- settlements on inadequacies and losses from values deterioration	21,133	19,062
- settlements on litigation expenses compensated by other party according to court judgment	2,778	24,601
- settlements with trustors	2,937	3,233
- others	32,441	2,471
<b>Total other debtors, ignoring the provision</b>	<b>627,306</b>	<b>525,768</b>
<b>Provision, total</b>	<b>(35,350)</b>	<b>(36,229)</b>
<b>Line 243 of balance sheet, total</b>	<b>591,956</b>	<b>489,539</b>

The change in doubtful debts provision for other accounts receivable is reflected in Income statement as net valuation. The excess of expenses for the provision establishment over revenues from its recovery is reflected in item 100 "Other expenses".

Changes in doubtful debts provision for other accounts receivable:

Provision	Provision	Provision	Provisior	Provision
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**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

	<b>at 01.01.2008</b>	<b>established</b>	<b>spent</b>	<b>recovered</b>	<b>at 31.12.2008</b>
<b>Provision, total</b>	35,350	9,140	(7,883)	(378)	36,229

**4.11. Authorized capital (line 410 of balance sheet)**

Authorized capital amounts to 1,639,765 and consists of ordinary and preferred A type shares with par value of RUB 5 each:

<b>Type of shares</b>	<b>Number of shares outstanding (thousand of shares)</b>	<b>Total par value</b>
Ordinary	245,970	1,229,848
Preferred	81,983	409,917
<b>Line 410 of balance sheet, total</b>	<b>327,953</b>	<b>1,639,765</b>

<b>Stockholders</b>	<b>Equity stake in authorized capital, %</b>	<b>Ordinary shares</b>		<b>Preferred shares</b>	
		<b>Quantity (thousand shares)</b>	<b>%</b>	<b>Quantity (thousand shares)</b>	<b>%</b>
<b>Legal entities, total:</b>	92.27	237,573	96.59	65,031	79.32
- OJSC Svyazinvest	38.0	124,634	50.67	-	-
- entities holding more than 5% of authorized capital	49.2	99,027	40.26	62,301	75.99
<i>Of which:</i>					
ING Bank (Eurasia)ZAO	17.88	31,483	12.8	27,152	33.12
ZAO Depository-clearing company	14.66	31,630	12.86	16,442	20.05
Non-profit partnership National depository center	16.66	35,914	14.6	18,707	22.82
- other entities	5.07	13,912	5.66	2,730	3.33
<b>Natural persons, total</b>	7.73	8,397	3.41	16,952	20.68
<b>Total</b>	<b>100</b>	<b>245,970</b>	<b>100</b>	<b>81,983</b>	<b>100</b>

At December 31, 2008 the Company's authorized capital is completely paid.

Preferred shares do not grant the right to vote, except for the cases provided for in the Company's Articles of association and by the Russian Federation current legislation. Total dividend on each preferred A type share is established in the amount of 10% of the Company's net profit based on the results of the last fiscal year divided by the number of shares accounting for 25% of the Company's authorized capital. However, if the dividend paid by the Company on each ordinary share in a certain year exceeds the dividend to be paid on each preferred A type share, the preferred dividend should be increased up to the size of dividend paid on ordinary shares.

In October 1997 the Company registered the issue of American Depositary Receipts (ADR) of Level I. The Bank of New-York was selected as Depository Bank for the Program of American Depositary Receipts of Level I. In 2002 the program was transferred to JPMorgan Chase Bank. Custodian bank is ZAO ING Bank (Eurasia). 2 ordinary shares are of the Company are underlying one ADR.

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

According to order No 04-1232/ПЗ-Н of 15.12.2004 of Russia's Federal Financial Markets Service the permission was obtained for the Company's ordinary shares circulation outside the Russian Federation in the form of ADR to the number of 65,673,880 pieces.

At December 31, 2008 9,148,092 ADRs are issued (at January 01, 2008, 14,481,559 ADRs) and 18,296,184 ordinary shares are deposited (at January 01, 2008, 28,963,118) which represent 7.4% (at January 01, 2008, 11.8%) of the total number of issued ordinary shares.

Changes in registered ADRs in 2007-2008:

	<b>ADRs (quantity)</b>	<b>Equivalent quantity of ordinary shares</b>	<b>Ordinary shares, %</b>	<b>Authorized capital, %</b>
<b>01.01.2007</b>	<b>18,893,631</b>	<b>37,787,262</b>	<b>15.4</b>	<b>11.5</b>
Year 2007 decrease	(4,412,072)	(8,824,144)		
<b>01.01.2008</b>	<b>14,481,559</b>	<b>28,963,118</b>	<b>11.8</b>	<b>8.8</b>
Year 2008 decrease	(5,333,467)	(10,666,934)		
<b>31.12.2008</b>	<b>9,148,092</b>	<b>18,296,184</b>	<b>7.4</b>	<b>5.6</b>

At present ADRs are traded at the following stock exchanges:

<b>Stock exchange</b>	<b>CUSIP (WKN)</b>	<b>ADR ticker</b>	<b>ISIN</b>
OTC USA	928660109	VLGAY	-

#### 4.12. Dividend

In 2008 it was declared in accordance with General shareholders meeting resolution to pay dividend for the year ended December 31, 2007 in the amount of RUB 2.1346 per ordinary share and RUB 4.0534 per preferred share.

Dividend due was:

<b>Shares</b>	<b>Quantity of shares (pieces)</b>	<b>Dividend per share (RUB)</b>	<b>Total dividend (RUB)</b>
<b>For 2006</b>			
Preferred shares	81,983,404	2.9928	245,359,931
Ordinary shares	245,969,590	1.5776	388,041,625
<b>Total</b>	<b>327,952,994</b>		<b>633,401,556</b>
<b>For 2007</b>			
Preferred shares	81,983,404	4.0534	332,311,530
Ordinary shares	245,969,590	2.1346	525,046,687
<b>Total</b>	<b>327,952,994</b>		<b>857,358,217</b>

The accompanying financial statements reflect the reduction of retained earning by dividend amount for 2007. Dividend for 2008 is not reflected in financial statements. It will be classified as the use of retained earnings during the year ending December 31, 2009 after its approval at the annual general meeting of the Company's shareholders.

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

#### 4.13. Credits and loans (lines 510 и 610 of balance sheet)

	01.01.2008	31.12.2008	Rate, %	Currency of contract	Repayment date	Security, kind of security
<b>Long-term debt</b>						
<b>Bank credits</b>						
OJSC RF Savings Bank	800,000	1,330,000	10-15	RUB	2010-2011	Pledge of property
OJSC Vneshtorgbank	1,500,000	1,500,000	7.5	RUB	2012	none
ZAO Commercial Bank Societe Generale Vostok	-	900,000	MosPrime + 2.8	RUB	2010-2011	none
ZAO UniCreditBank	-	3,150,000	MosPrime + 2.75-3.6	RUB	2010-2013	none
<b>Credits, total (line 511)</b>	<b>2,300,000</b>	<b>6,880,000</b>				
<b>Loans</b>						
Bonded loans	4,898,735	938,252	5-8.5	RUB	2010-2013	Guarantee
Other loans						
Vnesheconombank	103,278	79,406	2	EURO	2012	Pledge of property
Fund Sozidanie	99,272	43,152	-	RUB	2010-2011	none
<b>Loans, total (line 512)</b>	<b>5,101,285</b>	<b>1,060,810</b>				
<b>Long-term debt, total (line 510)</b>	<b>7,401,285</b>	<b>7,940,810</b>				
<b>Short-term debt</b>						
<b>Bank credits</b>						
OJSC RF Savings Bank	1,332,594	803,928	8-15	RUB	2009	Pledge of property
ZAO UniCreditBank	1,078,985	3,215	MosPrime + 2.75-3.6	RUB	2009	none
OJSC Vneshtorgbank	308	307	7.5	RUB	2009	none
ZAO Commercial Bank Societe Generale Vostok	-	591	MosPrime + 2.8	RUB	2009	none
<b>Credits, total (line 611)</b>	<b>2,411,887</b>	<b>808,041</b>				
<b>Loans</b>						
Bonded loans	3,513,322	3,985,033	0.1-13	RUB	2009	Guarantee
Paper loans	-	264,975	-	RUB	2009	none
Other loans						
OJSC Vneshtorgbank	34,441	39,703	2	EURO	2009	Pledge of property
Fund Sozidanie	55,000	56,120	-	RUB	2009	none
<b>Loans, total (line 612)</b>	<b>3,602,763</b>	<b>4,345,831</b>				
<b>Short-term debt, total (line 610)</b>	<b>6,014,650</b>	<b>5,153,872</b>				
Including short-term part of long-term credits and loans	<b>4,986,598</b>	<b>4,852,276</b>				

The Company's expenses related to raising and using loans and credits are charged to:

	2008	2007
Other expenses (line 100 of Income statement)	1,205,908	831,375
Investment assets value (line 130 "Capital expenditures" of balance sheet)	34,098	33,516
<b>Total:</b>	<b>1,240,006</b>	<b>864,891</b>

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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#### **Short-term debt (lines 611 and 612 of balance sheet)**

##### **Borrowings from the Russian Federation Ministry of Finance**

In 1995-1996 the Russian Federation Ministry of Finance granted long-term financing to the Company for the purpose of buying telecommunications equipment from various foreign suppliers.

In December 2006 the Company concluded amicable agreement with the Russian Federation Ministry of Finance, the terms and conditions of the agreement provided for debt settlement by means of its restructuring with concurrent writing-off of the debt in the amount of penalty interest charged due to untimely fulfillment of monetary obligations. The restructured debt settlement (payment) will be made annually by equal shares till January 01, 2012.

At December 31, 2008 the total amount of restructured debt to the Russian Federation Ministry of Finance is 119,109 (Euro 2,874,176), including short-term part of the loan 39,703 (Euro 958 059). Interest on restructured debt is charged in the amount of 2% per annum and is subject to payment annually, not later than December 31 of the relevant year.

In order to secure liabilities under amicable agreement the Company concluded the contract of pledge of property with the Russian Federation Ministry of Finance for the total collateral value of 388,559.

#### **Long-term debt (lines 511 and 512 of balance sheet)**

##### ***Loans (line 512 of balance sheet)***

###### **Bonded loans**

On December 2005 the Company floated two issues (BT-2 and BT-3) of 5,300,00 interest bearing certified bonds (respectively 3,000,000 and 2,300,000 bonds) with par value of each bond RUB 1,000. Bonds have 10 coupons. The first coupon payment is made on the 182-nd day since the bond offering start date (in June 2006); other coupon payments are made each 182 days. The coupon rate for BT-2 bonds is 8.2% till 2009, for BT-3 bonds it is 8.5% per annum till their maturity. Bonds are to be repaid in parts defined as percentage of par value, starting from December 2008. The final repayment of bonds is to be made in November 2010. The funds from the bonds issue are allocated for increasing current assets.

In December 2008 the Company met the obligation of acquisition subject to the terms and conditions of offer, of BT-2 bonds with par value of 2,389,369. In December 2008 the Company also met the obligation on repaying the first 20% of par value of BT-2 and BT-3 bonds in the amount of 600,000 and 460,000 respectively.

During 2008 the Company met the obligation on the fifth and the sixth coupon payment in the amount of 440,288. The amount of coupon payment charged per a bond – RUB 40.89 (for BT-2 bonds) and RUB 42.38 (for BT-3 bonds). As of December 31, 2008 the amount outstanding under BT-2 bond issue was 10,741 (including coupon payment in the amount of 110) within the short-term debt structure; the amount outstanding under BT-3 bond issue was 932,420 (including coupon payment in the amount of 12,420) and 920,000 within the short-term and long-term debt structure, respectively.



## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

In September 2006 the Company placed 3,000,000 interest bearing certified bonds (BT-4 series) with the par value of each bond RUB 1,000. The bonds have 28 coupons. The first coupon payment is made on the 91-st (ninety first) day since the date of the bond offering beginning, other coupon payments are made in every 91 day. The coupon is defined in the amount of 7.99% per annum till September 2009. Bonds are to be repaid in parts defined as percentage of par value, starting from September 2011.

This bond issue (BT-4) provides for the offer which will allow the bonds holders to present them to the Company on the set date. The date of the offer is September 10, 2009. In this connection the debt in the amount of 3,000,000 is classified as short-term debt.

During 2008 the Company met the obligation on the sixth, seventh, eighth and ninth coupon payment in the amount of 239,040. The amount of coupon payment charged per a bond – RUB 19.92.

#### Paper loans

On December 08, 2008 the Company issued two promissory notes for the amount of 158,984.96 and 105,989.97 respectively, maturing on June 08, 2009. The raised funds under the promissory notes issue were respectively 150,000 and 100,000. The discount on notes amounts to 8,984.96 and 5,989.97 respectively.

#### The schedule of long-term credits and loans repayment at December 31, 2008:

	Credits, total line 511 of balance sheet	Bonded loans	Other loans	Line 510 of balance sheet, total
In 2010	2,555,000	920,000	72,823	3,547,823
In 2011	1,625,000	18,252	49,735	1,692,987
In 2012	2,300,000	-	-	2,300,000
In 2013 and later	400,000	-	-	400,000
<b>Total</b>	<b>6,880,000</b>	<b>938,252</b>	<b>122,558</b>	<b>7,940,810</b>

#### 4.14. Deferred tax liabilities (line 515 of balance sheet)

Flow of deferred tax liabilities in 2008:

	2008	2007
<b>Balance at the year beginning, line 515 of balance sheet, total</b>	<b>1,409,278</b>	<b>1,019,123</b>
Generated in the reporting period for deductible temporary differences	283,307	442,164
Repaid to decrease tax payments	(336,276)	(50,528)
Written off at the retirement of objects for which they have been generated	(14)	(1,481)
<b>Balance at the year end, line 515 of balance sheet, total</b>	<b>1,356,295</b>	<b>1,409,278</b>

In 2008 the amount of deferred tax liabilities was defined on the basis of tax rate of 24%.

Since January 01, 2009 tax legislation provides for decrease in income tax rate from 24% to 20% which will result in recalculation of the amount of deferred tax liabilities. The reduction of deferred tax liabilities by 226,049 will be reflected in statement for 2009 at the cost of increase in retained earnings.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

**4.15. Other non-current liabilities (line 520 of balance sheet)**

	<b>At 01.01.2008</b>	<b>At 31.12. 2008</b>
Accounts payable on lease payments	467,377	180,937
Settlements with vendors and contractors	151,449	240,235
<b>Line 520 of balance sheet, total</b>	<b>618,826</b>	<b>421,172</b>

**4.16. Accounts payable (lines 621, 622, 625 and 626 balance-sheet)****Settlements with vendors and contractors (line 621 of balance sheet):**

	<b>At 01.01.2008</b>	<b>At 31.12.2008</b>
Settlements on current lease payments	416,751	290,797
Settlements with vendors and contractors on property, plant and equipment acquisition and construction	1,327,305	2,233,564
Settlements with vendors and contractors on software products acquisition	99,380	92,190
Settlements with communication services providers:	285,661	266,237
Settlements with vendors and contractors on day-to-day operations	401,144	531,112
<b>Total line 621 of balance sheet</b>	<b>2,530,241</b>	<b>3,413,900</b>

**Settlements of received advances (line 622 of balance sheet):**

	<b>At 01.01.2008</b>	<b>At 31.12.2008</b>
Settlements of advances received on core business:	381,129	441,552
- advances of natural persons	135,421	201,149
- advances of state-financed organizations	62,960	68,573
- advances of profit-making organizations	106,433	112,722
- advances of communication services providers	28,687	4,296
- advances of communications services payment cards sale	47,628	54,812
Settlements of advances received on non-core operations and realized assets	21,002	21,741
<b>Total line 622 of balance sheet</b>	<b>402,131</b>	<b>463,293</b>

**Budget settlements on taxes and dues (line 625 of balance sheet):**

	<b>At 01.01.2008</b>	<b>At 31.12.2008</b>
Property tax settlements	144,287	149,481
Natural persons income tax settlements	21,756	22,343
Settlements on other taxes	6,831	5,712
Income tax settlements	8,548	48
VAT settlements	2	322,050
<b>Total line 625 of balance sheet</b>	<b>181,424</b>	<b>499,634</b>

In 2008 there were no Company's liabilities as regards taxes and dues repaid by non-monetary means. There is no overdue debt on taxes and dues at the date of the statement signing.

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

#### Other accounts payable (line 626 of balance sheet):

	At 01.01.2008	At 31.12.2008
Universal servicing reserve settlements	61,572	67,023
Settlements with trustors (consigners, principals)	318,698	295,821
Settlements with accountable persons	427	639
Settlements with personnel under other operations	1,020	948
Settlements with different creditors:	79,949	662,256
- Settlements on deposit money	8,064	7,640
- Deferred VAT settlements	25,205	-
- Property and personal insurance settlements	227	4,770
- Claims settlements	54	9
- Other settlements	46,399	649,837
Settlements with subsidiary companies	-	600,000
Settlements with non-government pension fund	-	11,330
Settlements on deposited amounts	8,424	7,640
Insurance settlements	227	4,770
Other settlements	37,748	26,097
<b>Total line 626 of balance sheet</b>	<b>461,666</b>	<b>1,026,687</b>

#### 4.17. Deferred revenues (line 640 of balance sheet)

	At 01.01.2008	At 31.12.2008
Budgetary funds of target financing, total	283	152
Of which:		
- preparedness activity and maintenance of mobilization designation reserve	-	-
- budgetary funds in the form of money for other purposes	283	152
Target financing funds (except for budgetary funds)		
Deferred revenues, total	220,950	156,668
Of which:		
- uncompensated receipts	121,238	108,798
- other deferred revenues	99,712	47,870
<b>Total line 640 of balance sheet</b>	<b>221,233</b>	<b>156,820</b>

#### 4.18. Costs to be incurred provision (line 650 of balance sheet)

	At 31.12.2007	Charged	Spent	Charged off to other revenues	At 31.12.2008
Provision for coming vacation pay	242,189	629,627	(597,749)	(260)	273,807
Provision for remuneration payment based on year results	203,112	114,479	(173,164)	(606)	143,821
Provision for remuneration payment to Board of directors' members and Committee's members	-	79,513	(38,637)	-	40,876
Provision for remuneration payment to members of the Auditing committee	-	3,494	(3,494)	-	-
Provision for remuneration payment to Management board members	-	6,587	(5,156)	-	1,431
Other provisions	166,422	1,264,939	(1,238,864)	(5,013)	187,484
<b>Total line 650 of balance sheet</b>	<b>611,723</b>	<b>2,098,639</b>	<b>(2,057,064)</b>	<b>(5,879)</b>	<b>647,419</b>

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

The Company's expenses to the amount of established provisions of costs to be incurred are charged to:

	<b>2008</b>	<b>2007</b>
- operating expenses	2,032,153	1,892,336
- other expenses	42,700	25,959
- investments assets value	23,786	41,741
<b>Total:</b>	<b>2,098,639</b>	<b>1,960,036</b>

**4.19. Other current liabilities (line 660 of balance sheet)**

	<b>At 01.01.2008</b>	<b>Charged</b>	<b>Spent</b>	<b>Charged off to other revenues</b>	<b>At 31.12.2008</b>
Provision for contingent liabilities relative to staff reduction	11,021	8,626	(9,691)	(813)	9,143
Other provisions	2,035	489	(1,757)	(249)	518
- provisions for settlements with operators	527	-	(527)	-	-
- other provisions	1,508	489	(1,230)	(249)	518
<b>Total line 660 of balance sheet</b>	<b>13,056</b>	<b>9,115</b>	<b>(11,448)</b>	<b>(1,062)</b>	<b>9,661</b>

The Company's expenses to the amount of established provisions for contingent liabilities are charged to:

	<b>2008</b>	<b>2007</b>
- operating expenses	8,465	10,005
- other expenses	649	1,515
<b>Total:</b>	<b>9,114</b>	<b>11,520</b>

**Provision for contingent liabilities relative to staff reduction**

In December 2007 the Company established provision for contingent liabilities on compensation payment to the employees notified of forthcoming redundancy at December 31, 2007. At December 31, 2007 the amount of provision was 11,021.

In 2008 the Company recognized liabilities earlier recognized as contingent, with respect to employees dismissed, to the amount of 9,691. In December 2008 the Company established provision on compensation payment to employees who were notified on forthcoming staff reduction at December 31, 2008.

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

#### 5. Notes to essential items of Income statement

##### 5.1. Operating revenues (line 010 of Income statement)

Proceeds from sales of goods, products, services provision, and works carrying-out (less VAT, excise taxes and similar mandatory payments):

	2008	2007
Intrazonal telephony services	4,827,985	4,830,179
Local telephony services	11,005,224	11,204,436
Mobile radio telephony, wire broadcasting, radio broadcasting, and TV services	703,482	622,307
Mobile radio telephony (cellular) services	380,871	376,728
Telegraphy, data transmission and telematic services	5,097,133	3,253,060
Connection and traffic transit services	2,928,438	3,599,538
Assistance and agency services	546,958	589,502
Other services on core operations	1,147	1,012
Revenues from assets renting	256,342	256,115
Other non-operating revenues	672,499	429,868
<b>Total line 010 of Income statement</b>	<b>26,420,079</b>	<b>25,162,745</b>

##### Local telephony services

In 2008 revenues from local telephony services provision to subscribers - natural persons amounted to 8,089,290 (in 2007 – 8,533,518) including:

- 4,177,142 - by tariff schedule with subscriber's fee system of payment (4,786,505 in 2007);
- 2,952,651 - by tariff schedule with time-based billing (2,464,337 in 2007);
- 959,497 by tariff schedule with hybrid payment system (906,724 in 2007).

Revenues from local phone call provision to subscribers - legal entities amounted to 1,738,962 (2,663,582 in 2007), including:

- 1,217,392 - by tariff schedule with time-based billing (2007 – 1,162,369);
- 509,006 - by tariff schedule with subscriber's fee system of payment (2007 – 563,680);
- 12,564 - by tariff schedule with hybrid payment system.

Local telephony services revenues include universal services revenues in the amount of 223 (in 2007- 100).

##### Connection and traffic transit services

The Company's revenues from connection services provision in 2008 were 70,629 (279,373 in 2007), including:

- as related to payments for connection point arrangement – 23,951 (2007 – 13,200);
- as related to payments for connection point servicing – 46,678 (2007 – 266,173).

The decrease in revenues from connection point servicing is explained by excluding this kind of service from connection services since March 01, 2008.

## **OJSC VolgaTelecom**

### **Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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The Company's traffic transit revenues in 2008 were 2,839,008, including amounts received as compensation bonus (in 2007 – 3,320,165 and 417,872 accordingly).

The decrease in traffic transit services revenues is explained by abolishment since January 01, 2008 of compensation markup for local and zonal call initiation services, this markup being effective since 2005.

#### **Services supporting DLD and ILD communications service provision by DLD and ILD communications services providers (assistance and agency services)**

The Company's revenues from assistance and agency services rendered under contract with OJSC Rostelecom amounted to 538,181 (2007 – 586,576), under contracts with other operators – 8,777 (2007 – 2,926).

#### **Telegraphy, data transmission and telematic services**

The Company's revenues from telegraphy, data transmission and telematic services in 2008 were 5,097,133 (in 2007 – 3,253,061), including:

- 4,953,113 - from data transmission and Internet access services (in 2007 – 3,123,941);
- 96,198 - from telegraphy services (in 2007 – 99,624).

#### **Settlements by non-monetary assets**

In 2008 a part of the Company's operating revenues from services provision, works carrying-out, sale of goods and products, was received under the terms and conditions of contracts providing for performance of obligations (payment) by non-monetary assets.

	<b>2008</b>	<b>2007</b>
Total number of entities with which settlements were made by non-monetary assets	80	48
Operating revenues under such operations	1,023,972	18,252
OJSC Rostelecom	882,185	-
FSUE Russian Post	35,829	7,185
CJSC NVisionGroup	35,710	-
OJSC Mobilniye telesistemi	25,274	-
Operating revenues under contracts providing for payment by non-monetary assets (% to the total operating revenues for the year)	3.87	0.07
Operating revenues under contracts with affiliated persons providing for payment by non-monetary assets (% to the total operating revenues for the year)	3.37	-

The Company defined the value of provided services, carried-out works and sold goods subject to standard business terms.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

**5.2. Operating expenses (line 020 of Income statement)**

Expenses for the sale of products, goods, services provision, carrying-out of works:

	<b>2008</b>	<b>2007</b>
Salaries expense	6,305,306	5,986,699
Deductions to social insurance	1,423,244	1,384,775
Property, plant and equipment depreciation	4,348,101	3,490,255
Material costs, including electric power	1,920,953	1,843,425
Expenses for carriers' services (except for OJSC Rostelecom )	2,373,482	2,739,541
Expenses for OJSC Rostelecom services	186,511	75,229
The services of outside entities	1,657,102	1,500,297
Allocations to universal servicing reserve	258,396	240,538
Taxes and dues included in operating expenses	28,158	29,181
Other operating expenses	1,551,541	1,400,542
Of which:		
Expenses for agency services	372,906	274,710
Expenses for software and data bases	295,352	208,206
Expenses for non-government retirement insurance for the benefit of employees	222,763	200,909
Business trip expenses	79,536	82,583
Property insurance expenses	20,634	53,125
Expenses for payments to the Board of directors, members of the Management board, the Auditing committee	65,172	40,064
other	495,178	540,945
Rent payment	676,119	255,176
Acquisition value of goods	169,256	115,516
<b>Total line 020 of Income statement</b>	<b>20,898,169</b>	<b>19,061,174</b>

**Expenses for carriers' services**

The Company bears expenses on payment of connection and traffic transit services rendered by telecommunication operators which networks are connected to the Company's network.

The Company's expenses for traffic transit services in 2008 were 1,981,996 (in 2007 – 1,961,767), expenses for connection services amounted to 14,487 (2007 – 82,664).

**Expenses for universal services provision**

In 2008 the Company's expenses for universal services provision were 957,713 (330,061 in 2007).

Loss from universal services provision using payphones in 2008 was 957,489 (in 2007 – 329,961).

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

**5.3. Other revenues and expenses (lines 090 and 100 of Income statement)****Other revenues (line 090 of Income statement):**

	<b>2008</b>	<b>2007</b>
Compensation for losses incurred at universal services provision	882,971	320,078
Revenues from sale and other retirement of other assets	427,614	51,160
Revenues from sale and other retirement of property, plant and equipment	201,797	88,069
Revenues from reestablishment of provision for doubtful debts	-	103,098
Revenues from reestablishment of provision for securities depreciation	-	-
Revenue from quoted securities price appreciation	-	806
Fines, late payment interests, forfeit penalties for infringement of contracts terms and conditions, receipts in reimbursement of caused damages	68,842	88,335
Past years profit detected in the reporting year	77,651	268,603
Foreign exchange differences under assets and liabilities to be paid in foreign currency	203	483
Foreign exchange differences under assets and liabilities to be paid in rubles	12,503	16,500
Revenues from debt amortization of accounts payable	10,875	6,927
Deferred revenues write off	19,570	24,747
The value of property detected by inventory results	7,042	7,048
Revenues as consequence of contingencies	-	13
Other revenues	23,279	35,224
Of which:		
reestablishment of provisions	8,173	16,370
received commission for guarantee, compensation for losses	4,040	9,200
revenues from bonded loan	815	1,712
compensation of training expenses	553	-
state tax refund	540	-
revenues from materials recognition	493	3,408
revenues from deferred tax liabilities write-off	14	1,481
others	8,651	3,053
<b>Total line 090 of Income statement</b>	<b>1,732,347</b>	<b>1,011,091</b>

**Compensation for losses suffered at universal services provision**

In 2008 based on made calculations the compensation for losses caused by universal services provision was reflected as other revenues. The accuracy of calculation of size of losses subject to compensation is to be confirmed by independent auditor ZAO Marketing, Consulting, Design (license No E 002484 of 06.11.2002).

In 2008 the amount of compensation for losses actually received from universal servicing reserve was as follows:

- for the current year services – 626,691,
- for the previous year services – 274,836 (in 2007 – 50,812).



**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

**Other expenses (line 100 of Income statement):**

	<b>2008</b>	<b>2007</b>
Expenses related to sale and other retirement of assets	694,726	72,550
Expenses related to sale and other retirement of property, plant and equipment	121,565	135,938
Expenses for provision for financial investments depreciation	54,615	3,172
Expenses for provision for doubtful debts	146,003	-
Additional expenses on credits and loans	7,112	1,689
Expenses for provision for reduction in value of inventory items	88	3,114
Expenses for taxes and dues	633,718	591,945
Expenses for payment of lending institutions' services	63,438	66,089
Preparedness activity expenses	27,623	33,720
Fines, late payment interests, forfeit penalties for infringement of contracts terms and conditions, reimbursement of caused damages	3,812	1,670
Past years losses detected in the reporting year	293,326	174,786
Foreign exchange differences under assets and liabilities to be paid in foreign currency	592	551
Foreign exchange differences under assets and liabilities to be paid in rubles	33,299	22,253
Debt amortization of accounts receivable	4,862	4,103
Losses from reduction in value of quoted securities	4,923	-
The value of property which inadequacy is detected by inventory results	319	915
Expenses related to charity, arranging cultural events and other events of similar nature	130,014	112,751
Membership dues to associations, non-profit partnerships	116,889	221,887
Payments to staff, this payments not being included in operating expenses	9,517	16,344
Fines and late payment interests on taxes and dues	197	196
Expenses as consequence of contingencies	750	30
Other expenses	151,371	180,897
Of which:		
expenses in non-productive sphere	27,469	33,034
deductions to trade union	21,805	19,978
payments to non-working pensioners	20,591	13,600
expenses not referred to payments to staff	17,854	12,358
Inadequacy write off, guilty parties are not established	8,766	-
Inadequacy provision accrual	6,437	-
expenses for maintenance of objects put in dead storage	4,788	-
legal and consulting services expenses	4,545	7,080
contributions to non-government pension fund Telecom Soyuz	4,307	4,054
others	34,809	90,793
<b>Total line 100 of Income statement</b>	<b>2,498,759</b>	<b>1,644,600</b>

**5.4. Income tax expenses**

In 2008 the Company defined the following components of income tax:

<b>Item</b>	<b>Amount</b>	<b>Tax rate</b>	<b>Amount</b>	<b>Component of income tax</b>
Book profit	4,076,223	24%	978,294	Contingent expense (revenue) on income tax
Taxable temporary differences:	(220,761)	24%	(52,983)	Deferred tax liabilities
- differences occurred	1,180,447	24%	283,307	- deferred tax liabilities generated
- differences repaid	1,401,151	24%	336,276	- deferred tax liabilities repaid
- written off differences for retired assets	57	24%	14	- written off deferred tax liabilities for retired assets
Deductible temporary differences:	57,792	24%	13,870	Deferred tax asset
- differences occurred	2,128,494	24%	510,839	- deferred tax assets generated

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

- differences repaid	2,070,702	24%	496,969	- deferred tax assets repaid
Recurrent taxable differences	1,176,292	24%	282,310	Recurrent tax liability
Recurrent deductible differences	469,427	24%	112,663	Recurrent tax asset
Recurrent tax asset as related to reduction of rate of income tax to Nizhny Novgorod oblast budget			23,736	Recurrent tax asset
Tax base by tax return for 2008	5,061,084	24%	1,214,659	Current income tax
Income tax benefit as related to Nizhny Novgorod oblast budget		24%	(23,736)	Current income tax
Total current income tax with due account for reduction of tax rate to the budget of Nizhny Novgorod oblast			1,190,923	Current income tax
Recognized income tax sums as per field tax check report	500	24%	120	Additional payments of income tax for prior fiscal (reporting) periods

The Company's expenses for income tax for 2008 amounted to:

<b>Total</b>	<b>(1,124,204)</b>
Of which	
- Income tax contingent expenses	(978,294)
- Recurrent tax liabilities	(282,310)
- Recurrent tax assets	136,400

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

In Income statement the Company's income tax expenses for 2008 are shown as the total of amounts:

<b>Recurrent taxable differences resulted in adjustment of contingent income tax, total</b>	<b>1,176,292</b>
Of which:	
recurrent differences related to expenses for which standards are introduced for taxation purposes	22,437
recurrent differences related to non-recognition for expenses taxation purposes	745,905
standing expenses as related to losses on activity connected with using objects of service sector	20,896
recurrent differences as related to past years losses	284,517
other recurrent taxable differences	102,037
recognized additional charges as per field tax check report	500
<b>Recurrent deductible differences resulted in adjustment of contingent income tax, total</b>	<b>469,427</b>
Of which:	
revenues for which income tax amount is withheld by tax agent (dividend)	402,017
past years profit	53,067
other recurrent deductible differences	14,329
contingent expenditures adjustment at deferred tax liabilities write off at compensation -free transfer of property, plant and equipment	14
<b>Temporary taxable differences resulted in the adjustment of contingent income tax, total</b>	<b>(220,704)</b>
Of which:	
non-current assets	154,423
value of expenses classified in accounting as prepaid expenses, and in fiscal accounting – lump-sum	(374,256)
other temporary taxable differences	(871)

<b>Temporary deductible differences resulted in the adjustment of contingent income tax, total:</b>	<b>57,792</b>
Of which:	
expenses for establishment and recovery of provision of costs to be incurred related to salaries expenses	18,613
difference as related to doubtful debts provision	18,292
difference occurring at formation of loss at property, plant and equipment realization	465
repaid difference as related to revenues from property received on a gratis basis	(13,117)
other differences including expenses for establishment and recovery of provision for contingent liabilities	36,157
other differences	(2,618)

**5.5. Earnings per share**

Basic earnings per share reflect a part of the reporting year profit due to shareholders - owners of ordinary shares. It is calculated as the ratio of basic profit for the reporting year to average weighted number of ordinary shares in circulation during the reporting year.

Basic profit for the reporting year is equal to net profit (line 190 of Income statement) less preferred dividend for 2008.

	<b>2008</b>	<b>2007</b>
Basic profit for the reporting year, RUB thousand	2,656,817	2,990,797
Weighted average number of ordinary outstanding shares during the reporting year, thousand shares	245,970	245,970
Basic earnings per share, RUB	10.8014	12.1592

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

The Company does not make calculations of diluted earnings per share as in 2008 the Company did not issue additional ordinary shares, securities which issue terms and conditions provided for their conversion into additional number of ordinary shares, and there were no events related to the increase in the number of ordinary shares. That is why the Company does not make calculations of diluted earnings per share.

#### 6. Related parties

In the notes the Company unveils essential information on operations with related parties to which the Company's affiliated persons, joint venture members and non-government pension fund "Telecom-Soyuz" are referred.

##### Affiliated persons

##### Parent company

The Company is controlled by OJSC Svyazinvest which holds 38 % of the Company's ordinary shares and 51% of the Company's voting shares.

##### Transactions with affiliated persons for the reporting period

Item	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	The Company's subsidiaries	The Company's associated companies	Others
<b>2007</b>					
Realization of communications services, connection and traffic transit services	-	2,013,218	154,216	78,906	2,013
Realization of assistance and agency services	-	641,829	13,006	7,741	-
Revenues from assets renting	-	1,673	105,362	1,343	95
Realization of other services, goods, products	-	9,884	4,594	15	810
Acquisition of communications services, connection and traffic transit services	-	540,640	171,686	44,076	-
Acquisition of other services	-	39,338	39,370	2,513	501,312
Interest receivable on loans	-	-	10,461	-	580
Due interest on loans	-	-	-	-	680,367
Dividend receivable	-	55	54,973	82	2,559
Realization of property, plant and equipment and of other assets	-	-	61,604	-	15,050
Acquisition of goods and other assets	-	637	-	-	312,830
Contributions to authorized capitals	-	-	-	-	-
Loans granted	-	-	-	-	-
Loans raised	-	-	-	-	-
Dividend due	196,622	-	-	-	-
Guarantees issued	-	-	-	-	-
Guarantees obtained	-	-	-	-	-
Written of accounts receivable unreal for recovery and/or which limitation period has expired	-	-	-	-	-

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

<b>Item</b>	<b>OJSC Svyazinvest</b>	<b>Subsidiaries of OJSC Svyazinvest</b>	<b>The Company's subsidiaries</b>	<b>The Company's associated companies</b>	<b>Others</b>
- including at the cost of doubtful debts provision	-	-	-	-	-
<b>2008</b>					
Realization of communications services, connection and traffic transit services	-	1,479,702	135,275	48,153	-
Realization of assistance and agency services	-	475,943	19,518	-	-
Revenues from assets renting	-	893	66,813	2,024	-
Realization of other services, goods, products	-	13,334	4,891	3,402	-
Acquisition of communications services, connection and traffic transit services	-	228,272	169,246	26,182	-
Acquisition of other services	-	41,520	22,649	1,408	471,324
Interest receivable on loans	-	-	8,322	-	-
Due interest on loans	-	-	-	-	-
Dividend receivable	-	-	395,098	-	2,410
Realization of property, plant and equipment and of other assets	-	-	-	-	-
Acquisition of goods and other assets	-	56,435	6,528	-	184,001
Contributions to authorized capitals	-	-	-	-	-
Loans granted	-	-	-	-	-
Loans raised	-	-	-	-	-
Dividend due	243,846	-	-	-	-
Guarantees issued	-	-	2,083	-	-
Guarantees obtained	-	-	-	-	-
Written of accounts receivable unreal for recovery and/or which limitation period has expired	-	-	-	-	-
- including at the cost of doubtful debts provision	-	-	-	-	-

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

In 2008 prices on transactions with related parties were set on standard business terms.

**Settlements with affiliated persons at the balance sheet date**

Item	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	The Company's subsidiaries	The Company's associated companies	Others
<b>At 01.01.2008</b>					
Accounts receivable	-	277,369	54,880	18,619	41,923
- doubtful debt provision accrued	-	(137)	(25,876)	-	-
- accounts receivable less the doubtful debt provision	-	277,232	29,004	18,619	41,923
Loans granted (inclusive of interest)	-	-	183,627	-	-
Accounts payable	-	309,503	19,765	4,547	68,820
Loans raised (inclusive of interest)	-	-	-	-	8,345,817
Guarantees issued	-	-	-	-	-
Guarantees obtained	-	-	2,913	-	-
<b>At 31.12.2008</b>					
Accounts receivable	-	205,801	46,764	26,047	8,887
- doubtful debt provision accrued	-	(111)	(9,252)	(20,713)	-
- accounts receivable less the doubtful debt provision	-	205,690	37,512	5,334	8,887
Loans granted (inclusive of interest)	-	-	56,200	3,632	-
Accounts payable	-	318,721	620,263	577	78,362
Loans raised (inclusive of interest)	-	-	-	-	-
Guarantees issued	-	-	2,083	-	-
Guarantees obtained	-	-	-	-	-

**Major deals with affiliated persons***OJSC Rostelecom*

OJSC Rostelecom, in which OJSC Svyazinvest holds controlling stock interest, is the main DLD and ILD telephony operator in the Russian Federation. The amounts disclosed in table "Transactions with affiliated persons for the reporting period" include the following indicators:

	2008	2007
Realization of communications services, connection and traffic transit services	1,368,227	1,867,051
Realization of assistance and agency services	475,223	639,104
Revenues from assets renting	389	1,340
Realization of other services, goods, products	11,783	6,181
Acquisition of communications services, connection and traffic transit services	157,408	72,020
Acquisition of other services	29,103	12,053
Written off accounts receivable unreal for recovery and/or which limitation	-	-

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

period has expired		
- including at the cost of doubtful debts provision	-	-

The amounts disclosed in table "Settlements with affiliated persons at the reporting date" include the following indicators:

	At 01.01.2008	At 31.12.2008
Accounts receivable	256,085	185,931
- doubtful debt provision accrued	-	-
- accounts receivable less the doubtful debt provision	256,085	185,931
Accounts payable	298,856	289,217

Revenues from OJSC Rostelecom include revenues from zonal initiation/ termination of call from/to the Company's networks and from/to networks of connected operators, as well as revenues under assistance contract.

Expenses for services acquired in 2008 from OJSC Rostelecom were:

- for services of call termination at other carriers' networks, in case if the call is initiated from mobile radiotelephony network - 2,556 (2007 - 2,345),
- for connection services - 8,820 (2007 - 45,458),
- DLD and ILD services - 8,926 (2007 - 7,240).

Accounts payable to OJSC Rostelecom comprise debt on services rendered to the Company, and debt under assistance contract in the amount of subscribers' payments collected by the Company for ILD and DLD telephony services rendered to them by OJSC Rostelecom.

#### *OJSC Svyazintek*

OJSC Svyazintek was established by OJSC Svyazinvest subsidiary companies holding 100% of its authorized capital, for the purpose of information systems installation and further support, as well as for coordination, management and realization of centralized field programs on information technologies in the companies of "Svyazinvest" group. In 2008 OJSC Svyazintek renders services on installation and further support of information systems to the Company, and in particular, of Oracle E-Business Suite and Amdocs Billing Suite software. Indicators of line "Acquisition of other services" in table "Transactions with affiliated persons for the reporting period" include the Company's expenses for OJSC Svyazintek services in 2008 in the amount of 266,998 (in 2007 - 291,109), including 82,996 (2007 - 68,719) charged to operating expenses and 184,001 (2007 - 222,390) - to non-current assets (see item 5.6).

#### **Key executive staff of the company**

The Company's expenses for payment of key executive staff services (General Director and its deputies, Management board members, Board of directors' members) include:

	2008	2007
<b>Short-term compensations, total</b>	<b>158,842</b>	<b>93,512</b>
<i>including</i>		
Salaries	146,752	86,017

## OJSC VolgaTelecom

### Notes to accounting statement for the year ended December 31, 2008

(RUB thousand, unless otherwise stated)

Annual leave	5,033	2,356
Taxes and other mandatory payments charged to budgets and extra-budgetary funds	5,162	3,465
Medical care, medical services	1,895	1,674
<b>Long-term compensations, total</b>	<b>10,820</b>	<b>9,684</b>
<i>including</i>		
Payments (contributions) under non-government pension insurance contracts	4,891	4,865
Other payments ensuring pensions and other social benefits payment to them after labor activity termination	5,929	4,819

The list of members of the Company's Board of directors and Management board is provided in section 2 of the present notes.

#### Settlements with non-government pension fund "Telecom-Soyuz"

The Company has concluded pension insurance contracts with non-government pension fund "Telecom-Soyuz" and in addition to government pension also provides the majority of its employees with non-government pension, using plans of benefits at the end of labor activity with established contributions and payments.

Defined contribution plans provide for making contributions by both the Company and the Company's employee during the period of his/her labor activity. The Company's and the employees' contributions are transferred to the employees' nominal pension accounts at non-government pension fund "Telecom-Soyuz". The size of retirement benefit established for the employee under retirement benefit plans is defined as the amount accumulated at the date of employee's retirement.

Defined benefit plan provides for old-age and disability pension. The prerequisite for old-age insurance is the employee's attaining the age giving the right to receive government old-age pension. This age is now 55 for women and 60 for men. According to the retirement plan conditions the size of pension is the cash amount which depends on employee's capacity.

The total amounts of non-government retirement insurance contributions paid by the Company in 2008 were 221,414 (2007 – 208,274) and were charged to operating expenses as other expenses. The fund withholds 3% of the amount of each pension contribution of the Company in order to ensure its own activities provided for by its Articles of association and to cover its administrative expenses.

#### Non-profit partnership "Center of investigations of telecommunications development problems"

Non-profit partnership "Center of investigations of telecommunications development problems" (hereinafter – "Partnership") was the Company's related party till October 20, 2008.

At December 31, 2008 the Partnership is not a related party due to the Company's termination of membership in the Partnership.

In 2008 the amount of membership fees transferred to the Partnership was 116,755 (2007 – 220,715).



**7. Contingent assets and liabilities****The Company's operational environment**

The Russian Federation is undergoing political and economic changes that have already influenced and, possibly, will influence enterprises operating in Russia. As a consequence, business in the Russian Federation is associated with risks that are not typical for other markets. Besides, the recent capital and credit markets contraction resulted in increased uncertainty of economic conditions. These financial statements reflect the managements' opinion about the Russian Federation economic conditions impact on the Company's operation and financial standing. Real influence of future economic conditions may differ from management estimates.

**Taxation**

The interpretation by the Company's management of communications, tax, currency and customs legislation as applied to the Company's operations and activity may be litigated by the appropriate federal bodies. Taxation bodies can change their position at legislation interpretation as applied to individual economic operations and tax computation verification. As consequence, taxation bodies may make claims on the transactions and accounting methods, on which they have not made claims earlier. As a result, additional taxes, penalties and fines may be charged. It is not practical to define the amounts of claims under possible but not filed law suites, as well as to evaluate the probability of unfavorable outcome. Taxation inspections may cover three calendar years of activity, immediately preceding the year of the check.

In the management opinion at December 31 2008 the appropriate legislation regulations are upon the whole correctly interpreted by it, and the probability of maintaining the Company's situation in terms of meeting the requirements of tax, currency and customs legislation is high.

The Company filed a suite to the state arbitration court of Moscow city against the decision of a tax body (Interregional Inspection of Federal Internal Revenue Service for the largest taxpayers No 7), this decision being based on filed tax inspection of the Company's operations in 2004-2006, as related to the amount of claims made to the Company – RUB 173,011 thousand. The state arbitration court of Moscow city by its judgment of February 03, 2009 held the tax authority act invalid as related to the appealed part of it. On March 12, 2009 Interregional Inspection of Federal Internal Revenue Service for the largest taxpayers No 7 entered an appeal against the decision of state arbitration court of Moscow city of February 03, 2009. The Company's management evaluates the probability of sustaining the claim as "low".

### **Guarantees issued**

The Company acted as a guarantor for third parties to the total amount of 1,793,915 (in 2007 – 1,909,990). The Company's management does not expect any essential liabilities to appear in connection with such guarantees.

### **Litigations**

The Company is the defendant in a number of litigations in state arbitration courts. However, as per the opinion of the Company's managers, the results of these proceedings will not materially affect the Company's financial position.

## **8. Events after the balance sheet date**

### **Dividend (the information presented in this item was not audited)**

The size of annual dividend per share will be approved by General meeting of the Company's stockholders in June 2009. General meeting of the Company's stockholders will be proposed to approve dividends for 2008 in the amount of RUB 1.7829 per one ordinary share and RUB 3.6008 per one preferred share (in 2007 – RUB 2.1346 and RUB 4.0534 accordingly). The total dividend will be 438,539 for ordinary shares and 295,206 for preferred shares (in 2007 – 525,051 and 332,310.8 accordingly). After the approval the annual dividend due to payment to stockholders will be reflected in 2009 statements.

### **Redundancy**

In the period from December 31, 2008 till these statements signing date 69 employees were dismissed; they were paid severance benefit to the amount of 2,221.

### **Universal services provision**

The amount of actual compensation received by the Company in 2009 from universal servicing reserve for the services rendered in 2008 amounted to 626,691.

In February 2009 the Company won a tender for the right to provide universal services in the territory of the Republic of Mariy-El (tender No 259) and Penza oblast (tender No 258). At present the preparations are being made for the conclusion of contracts for telecommunications services provision by using payphones.

According to the contract drafts the maximum payment under tender No 259 will be 736 and under tender No 258 – 8,025.

The amount of capital investments in this project realization:

- in the territory of the Republic of Mariy-El – 554;
- in the territory of Penza oblast – 13,205.

### **Tariff regulation**

By order No 398-c/1 of December 24, 2008 of Russia's Federal service for tariffs, since January 01, 2009 new tariffs were established for telecommunications services of broadcasting All-Russian TV and radio programs of Russian TV and radio broadcasting institutions, these services being provided by using technical facilities of natural monopolies subjects in the sphere of telecommunications.

**OJSC VolgaTelecom****Notes to accounting statement for the year ended December 31, 2008**

(RUB thousand, unless otherwise stated)

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**Credits and loans**

On January 20, 2009 the Company issued twelve promissory notes for the amount of 691,696 to be repaid every month within the period of February-December 2009. The raised funds under the promissory notes issue were 600,000. The discount on notes amounts to 91,696.

General Director

Sergey V. Omelchenko

Chief accountant

Nikolai I. Popkov