Open Joint-Stock Company "Uralsvyazinform"

Consolidated Financial Statements

for the year ended December 31, 2007
with Independent Auditor's Report

Open Joint-Stock Company “Uralsvyazinform”

Consolidated Financial Statements

For the Year Ended December 31, 2007

Contents

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint-Stock Company "Uralsvyazinform"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Uralsvyazinform" and its subsidiaries ("the Company"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young LLC

June 30, 2008

Open Joint-Stock Company "Uralsvyazinform"

Consolidated Balance Sheet as of December 31, 2007

(in thousands of Russian Roubles)

	Notes	2007	2006 as restated (See Note 2)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**49,007,607**	45,835,539
Intangible assets and goodwill	7	**2,953,600**	2,398,764
Investments in associates	10	–	418,808
Investments available for sale	11	**39,190**	38,808
Long-term advances paid	12	**159,866**	253,859
Other long-term assets	13	**129,086**	172,461
Total non-current assets		**52,289,349**	49,118,239
Current assets			
Inventories	14	**383,272**	496,664
Trade and other receivables	15	**2,523,346**	2,186,380
Prepaid income tax		**140,207**	238,788
Other current assets	16	**1,325,876**	1,471,352
Cash and cash equivalents	17	**705,025**	645,574
Total current assets		**5,077,726**	5,038,758
Assets of disposal group classified as held for sale	9	**9,759**	257,331
Total assets		**57,376,834**	54,414,328
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	19	**8,749,303**	8,749,303
Unrealized gain on available-for-sale investments		**4,676**	4,171
Retained earnings		**12,773,540**	11,214,425
Total equity attributable to equity holders of the parent		**21,527,519**	19,967,899
Total equity		**21,527,519**	19,967,899
Non-current liabilities			
Long-term borrowings	20	**12,703,625**	17,074,736
Long-term finance lease obligations	21	**2,762,409**	1,735,348
Pension liabilities	24	**1,861,944**	1,549,837
Deferred revenue		**237,011**	146,776
Deferred income tax liabilities	31	**2,448,254**	2,315,538
Long-term provisions	25	**8,195**	18,010
Total non-current liabilities		**20,021,438**	22,840,245
Current liabilities			
Accounts payable and accruals	22	**4,009,154**	3,989,256
Taxes payable	23	**429,840**	431,174
Dividends payable		**32,753**	30,105
Short-term borrowings	20	**463,761**	1,265,201
Current portion of long-term borrowings	20	**9,090,704**	4,729,982
Current portion of long-term finance lease obligations	21	**1,567,531**	1,002,857
Short-term provisions	25	**230,198**	29,165
Total current liabilities		**15,823,941**	11,477,740
Liabilities of disposal group classified as held for sale	9	**3,936**	128,444
Total liabilities		**35,849,315**	34,446,429
Total equity and liabilities		**57,376,834**	54,414,328

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

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

Open Joint-Stock Company "Uralsvyazinform"

Consolidated Income Statement

For the Year Ended December 31, 2007

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

	Notes	2007	2006 as restated (See Note 2)
Revenue	26	**39,146,621**	33,849,964
Wages, salaries, other benefits and payroll taxes		**(9,539,881)**	(10,378,271)
Depreciation and amortization	6, 7	**(6,514,254)**	(5,581,931)
Materials, repairs and maintenance, utilities		**(3,176,517)**	(3,094,421)
Taxes other than income tax		**(934,617)**	(906,508)
Interconnection charges		**(5,245,171)**	(3,607,738)
Provision for impairment of receivables	15	**(92,165)**	29,863
Loss on disposal of property, plant and equipment and other assets		**(398,160)**	(196,890)
Agent fees		**(2,550,931)**	(1,651,968)
Rent of premises		**(649,806)**	(558,714)
Advertising		**(566,998)**	(500,867)
Reimbursement of losses on provision of universal services	28	**757,607**	–
Other operating expenses	27	**(4,211,657)**	(3,817,636)
Operating profit		**6,024,071**	3,584,883
Share of result of associates	10	**7,322**	1,789
Interest expense, net	29	**(2,415,074)**	(2,398,278)
Gain on sale of subsidiaries, associates and other investments, net	30	**180,190**	25,866
Foreign exchange gain, net		**2,791**	20,544
Profit before income tax		**3,799,300**	1,234,804
Income tax expense	31	**(1,502,228)**	(476,336)
Profit for the year		**2,297,072**	758,468
Attributable to:			
Equity holders of the parent		**2,297,072**	757,420
Minority shareholders		–	1,048
Earnings per share (in Russian Roubles), basic and diluted, for profit for the year attributable to equity holders of the parent	32	**0.0572**	0.0189

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

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

Open Joint-Stock Company "Uralsvyazinform"

Consolidated Cash Flow Statement

For the Year Ended December 31, 2007

(in thousands of Russian Roubles)

	Notes	2007	2006 as restated (See Note 2)
Cash flows from operating activities			
Profit before income tax		**3,799,300**	**1,234,804**
Adjustments to reconcile profit before income tax to net cash flows			
Depreciation and amortization	6,7	**6,514,254**	5,581,931
Loss on disposal of property, plant and equipment and other assets		**398,160**	196,890
Foreign exchange gain, net		**(2,791)**	(20,544)
Share of result of associates	10	**(7,322)**	(1,789)
Gain on sale of subsidiaries, associates and other investments, net	30	**(180,190)**	(25,866)
Interest expense, net	29	**2,415,074**	2,398,278
Movement in deferred revenue		**90,235**	66,396
Provision for impairment of receivables	15	**92,165**	(29,863)
Inventory impairment provision	14	**(3,420)**	11,595
Movement in pension liabilities	24	**312,107**	724,908
Movement in provisions		**201,056**	1,884
Operating cash flows before working capital changes		**13,628,628**	10,138,624
Increase in trade and other receivables		**(472,849)**	(374,123)
Decrease in other current assets		**158,130**	1,049,744
Decrease in inventories		**116,637**	227,147
Increase (decrease) in accounts payable and accruals		**(76,724)**	1,160,520
Decrease in taxes payable other than income tax		**(1,260)**	(554,695)
Cash flows generated from operations		**13,352,562**	11,647,217
Interest paid		**(2,617,001)**	(2,660,463)
Income tax paid		**(1,271,735)**	(796,137)
Net cash flows from operating activities		**9,463,826**	8,190,617
Cash flows from investing activities			
Purchase of property, plant and equipment and assets under construction		**(5,980,132)**	(5,732,999)
Proceeds from sale of property, plant and equipment and assets under construction		**220,934**	128,510
Purchase and installation of Oracle EBS		**(154,067)**	(241,795)
Purchase and installation of Amdocs Billing Suite		**(110,662)**	(465,809)
Purchase of other intangible assets		**(400,215)**	(451,139)
Proceeds from sale of subsidiaries, net of cash acquired		**136,979**	(80,137)
Proceeds from sale of investments		**628,266**	2,072
Interest received		**108,254**	169,857
Dividends received		**1,743**	1,227
Net cash flows used in investing activities		**(5,548,901)**	(6,670,213)

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

Open Joint-Stock Company "Uralsvyazinform"

Consolidated Cash Flow Statement (continued)

For the Year Ended December 31, 2007

(in thousands of Russian Roubles)

	Notes	2007	2006 as restated (See Note 2)
Cash flows from financing activities			
Proceeds from borrowings		**6,800,273**	9,512,012
Repayment of borrowings		**(3,967,434)**	(7,090,722)
Proceeds from issue of bonds		–	3,000,000
Repayment of bonds		**(2,949,903)**	(3,087,908)
Repayment of finance lease obligations		**(1,329,420)**	(848,222)
Repayment of liabilities under vendor financing		**(1,128,246)**	(1,473,691)
Proceeds from issue of promissory notes		–	100,000
Repayment of promissory notes		**(545,652)**	(804,698)
Proceeds (repayment) from (of) other long term liabilities		–	(2,315)
Dividends paid to equity holders of the parent		**(735,309)**	(666,128)
Dividends paid to minority shareholders		–	(346)
Net cash flows used in financing activities		**(3,855,691)**	(1,362,018)
		217	284
Net increase in cash and cash equivalents		**59,451**	158,101
Cash and cash equivalents at the beginning of the year	17	**645,574**	487,473
Cash and cash equivalents at the end of the year	17	**705,025**	645,574

General Director ____________ Ufimkin A.Y.

Chief Accountant ____________ Balueva S.I.

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

Open Joint-Stock Company "Uralsvyazinform"

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2007

(in thousands of Russian Roubles)

	Notes	Share capital: Preference shares	Share capital: Ordinary shares	Retained earnings	Unrealized gain on available–for–sale investments	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance at 31 December 2005 (not restated)		**1,708,222**	**7,041,081**	**11,318,740**	**1,479**	**20,069,522**	**11,317**	**20,080,839**
Effect of correction of errors	2	–	–	**(123,778)**	–	**(123,778)**	–	**(123,778)**
Balance at 31 December 2005 (restated)		**1,708,222,**	**7,041,081**	**11,194,962**	**1,479**	**19,945,744**	**11,317**	**19,957,061**
Unrealized gain on available-for-sale investments		–	–	–	2,692	2,692	–	2,692
Profit for the year (restated)	2	–	–	757,420	–	757,420	1,048	758,468
Dividends to equity holders of the parent		–	–	(737,957)	–	(737,957)	–	(737,957)
Dividends of subsidiaries to minority shareholders		–	–	–	–	–	(346)	(346)
Disposal of minority interest due to disposal of subsidiaries		–	–	–	–	–	(12,019)	(12,019)
Balance at December 31, 2006 (restated)	2	**1,708,222**	**7,041,081**	**11,214,425**	**4,171**	**19,967,899**	–	**19,967,899**
Unrealized gain on available-for-sale investments		–	–	–	505	505	–	505
Profit for the year		–	–	2,297,072		2,297,072	–	2,297,072
Dividends to equity holders of the parent	33	–	–	(737,957)		(737,957)	–	(737,957)
Balance at December 31, 2007		**1,708,222**	**7,041,081**	**12,773,540**	**4,676**	**21,527,519**	–	**21,527,519**

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

1. General

Corporate Information

The consolidated financial statements of Open Joint-Stock Company "Uralsvyazinform" and its subsidiaries (hereinafter, OJSC "Uralsvyazinform", "the Company") for the year ended December 31, 2007 were approved by the General Director and the Chief Accountant on June 27, 2008.

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

The registered office of the Company is Russia, city of Ekaterinburg, Moskovskaya Str., 11.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, data transmission services, rents out communication channels and provides wireless communication services on the territory of the Urals region of the Russian Federation.

As of December 31, 2007 open joint-stock Company "Svyazinvest", a parent Company controlled by the Russian Government, owns 51% of the ordinary voting stock of OJSC "Uralsvyazinform".

Principal subsidiaries are disclosed in Note 8. All subsidiaries are incorporated under the laws of the Russian Federation.

Liquidity and Financial Resources

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

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

As of December 31, 2007, the Company's current liabilities exceed its current assets by 10,746,215 (2006 – 6,438,982).

The key instrument used by the Company to maintain the adequate level of solvency is the availability of financing in the form of a revolving credit lines (as of January 1, 2008, available financing amounted to 4,240,000).

In 2008, the Company expects to finance its operating and investing activities primarily by cash generated from operations. New borrowings may be needed to meet early redemption of bonds due in November 2008. Part of the investment program is planned to be financed via leasing.

1. General (continued)

Liquidity and Financial Resources (continued)

In case of adverse changes in the financial market and increase in interest rates, the Company plans to undertake the following steps to maintain the adequate level of solvency:

- continue with the costs optimization program, including decrease in personnel costs (decrease in headcount and in variable portion of salaries and wages), optimization of repair and maintenance expenses, decrease in administrative and other expenses, minimization of costs related to sales and customer service through bundling of services and outsourcing;
- curtail the capital expenditure program or extend investment projects timeframes. The current contracts with vendors permit the Company to carry out these measures;
- increase the efficiency of working capital, including the decrease in the level and average age of accounts receivable, in particular by changing the existing contractual relations with customers, extend the terms of payables to vendors.

The Company's Position in the Telecommunications Market

Establishment of New Tariffs

In conformity with current Russian laws regulating activities of natural monopolies, the Company is included in the register of natural monopolies in the area of communications. As a result, tariffs for a number of communication services provided by the Company are established by the Federal Tariff Service (hereinafter, “the Russian FTS”).

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

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

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

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

1. General (continued)

The Company's Position in the Telecommunications Market (continued)

Universal Telecommunication Services

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

The Company has tendered for the right to provide universal telecommunication services, specifically telephone services via payphones, in its licensed areas. In 2007, the Company won 7 tenders and entered into 42 agreements with the Federal Telecommunications Agency, which set the terms and conditions of providing universal telephone services via payphones. As of December 31, 2007, the Company had installed in total 8,238 payphones pursuant to the above agreements.

Universal telecommunication services are subject to tariffs set by the Federal Telecommunications Agency and indicated in the agreements for provision of universal telecommunication services. Established tariffs for universal telecommunication services do not cover the costs the Company incurs to provide these services. The excess of economically justified costs incurred to provide universal telecommunication services over revenue received constitutes losses from provision of universal telecommunication services which are reimbursable from the Universal Service Fund (hereinafter, “the Fund”) .

Contributions to the Fund are taken to income of the federal budget under the established Russian Federation budget income classification code. The income and expense sections of a federal budget for the year include operators’ contributions to the Fund and amounts to be disbursed from the Fund in line with the budgetary classification of the Russian Federation. Respectively, the Fund constitutes one of the state budget funds.

Losses are reimbursed by the Federal Telecommunications Agency subject to the procedure set by Government of the Russian Federation and stipulated by agreements for provision of universal telecommunication services. In first half of 2007, pursuant to the agreement terms, the Company was reimbursed for losses on a semi-annual basis. Starting third quarter 2007, losses have been reimbursed on a quarterly basis. The Federal Telecommunications Agency takes the final decision on the amount of such reimbursement based on the annual amount of losses after the Company submits the opinion of an independent auditor confirming that:

- losses claimed for reimbursement have been determined correctly;
- costs accounting has been performed correctly in compliance with industry legislation;
- the Company has made contributions to the Fund in full.

Information on the amount of reimbursed losses from universal telecommunication services is provided in Note 28.

National Project “Education”

In 2006-2007, the Company was involved in the implementation of the national project “Education”. As part of this project, the Company's branches connected to the Internet 5,309 educational institutions in the territory of the Urals District of the Russian Federation.

1. General (continued)

The Company's Position in the Telecommunications Market (continued)

Under the agreement with OJSC RTComm.RU, the Company provided services that involved establishment of virtual communication channels from education institutions to access nodes and provision of these communication channels to OJSC RTComm.RU.

The Company's capital investments incurred to connect educational institutions totaled 1,383,389 in 2007 (2006 – 162,674). The Company's income from services provided under the national project “Education” amounted to 48,444 in 2007 (2006 – 9,791).

Plans to Digitalize the Company's Networks

At the end of 2007, 74,2% of local telephone networks were digitalized. Introduction of new electronic telephone exchanges and replacement of quasi-electronic and analog telephone exchanges by the electronic ones help the Company to improve the quality of provided services, broaden their range and meet industry requirements. The Company plans to digitalize its local telephone networks by the year of 2010.

2. Basis of Presentation of the Financial Statements

Statement of Compliance

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

Presentation of Financial Statements

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

The consolidated financial statements of the Company are presented in thousands of Russian Roubles.

Basis of Accounting

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

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

Changes in Accounting Policies

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

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

Changes in Accounting Policies (continued)

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

- IFRS 7 “Financial Instruments: Disclosures”;
- IAS 1 (amended 2007) “Presentation of Financial Statements - Capital Disclosures”;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 9 “Reassessment of Embedded Derivatives”;
- IFRIC 10 “Interim Financial Reporting and Impairment”.

The principal effects of these changes in policies are discussed below.

IFRS 7 “Financial Instruments: Disclosures”

The Standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. If necessary, the comparable information was reconsidered in accordance with new requirements. The changes did not have a material effect on the result of operations or financial position of the Company.

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

The Standard Requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company’s objectives, policies and processes for managing capital. These new disclosures are shown in Note 37.

IFRIC 8 “Scope of IFRS 2”

IFRIC 8 “Scope of IFRS 2” requires applying IFRS 2 in all cases where the entity cannot identify some or all of the goods or services received, specifically, if the equity instruments are issued to cover the liability which appears to be less than the fair value of the equity instruments granted. This Interpretation did not have a material effect on the result of operations or financial position of the Company in 2007 and 2006.

IFRIC 9 “Reassessment of Embedded Derivatives”

IFRIC 9 “Reassessment of Embedded Derivatives” establishes that the date to assess the existence of an embedded derivative is the date when the Company first becomes party to a contract, with reassessment made only if there is a change to the contract that significantly modifies the cash flows. This Interpretation did not have a material effect on the result of operations or financial position of the Company in 2007 and 2006.

IFRIC 10 “Interim Financial Reporting and Impairment”

IFRIC 10 “Interim Financial Reporting and Impairment” requires the Company not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This Interpretation did not have a material effect on the result of operations or financial position of the Company in 2007 and 2006.

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

IFRSs and IFRIC Interpretations Approved but not yet Effective

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

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

IFRS 8 “Operating Segments”

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

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

IAS 1 (amended 2007) “Presentation of Financial Statements” requires disclosure of changes in shareholders' equity separately from other changes in equity. It also requires disclosure, on the face of the statement of changes in equity related to transactions with equity holders only whereas all other changes in equity (i.e. income and expenses for the period recognized directly in equity), will be shown separately. In addition, the standard introduces the new statement of comprehensive income: it presents all items of income and expense recognized in the income statement, together with all other items recognized directly in equity. Changes in income and expenses recognized in equity may be reflected either in the statement of comprehensive income or in two separate statements: income statement and statement of comprehensive income. This Interpretation must be applied for annual reporting periods that commence on or after January 1, 2009. Currently, the Company is determining whether it will present changes in income and expenses recognized directly in equity in one statement or in two separate statements.

IAS 23 (amended 2006) “Borrowing Costs”

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

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

IFRSs and IFRIC Interpretations Approved but not yet Effective (continued)

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions"

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

IFRIC 12 "Service Concessions Arrangements"

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

IFRIC 13 "Customer Loyalty Programs"

IFRIC 13 "Customer Loyalty Programs" requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are executed. This Interpretation must be applied for reporting periods that commence on or after July 1, 2008.

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

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

Amendments to IAS 32, "Financial Instruments: Presentation" and IAS 1 (Revised) "Presentation of Financial Statements regarding puttable financial instruments and obligations arising on liquidation"

These amendments require some financial instruments and liabilities arising from the liquidation under certain conditions be classified as equity. They also set out which information related to puttable financial instruments to be classified as equity is subject to disclosure. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

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

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

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

IFRSs and IFRIC Interpretations Approved but not yet Effective (continued)

IFRS 3 (amended 2008) "Business Combinations"

IFRS 3 (amended 2008) "Business Combinations" introduces some changes in accounting for business combinations which will affect the amounts of goodwill to be recognized and the financial results to be recognized in the period of acquisition and subsequent periods. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

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

IAS 27 (amended 2008) "Consolidated and Separate Financial Statements" requires to account for the movements in the parent's portion of a subsidiary's equity as an equity transaction and changes the requirements to accounting for losses incurred by the subsidiary as well as the requirements to accounting for the cease control over the subsidiary. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

The Company expects that the adoption of the standards and interpretations listed above will have no significant impact on the Company's results of operation and financial positions in the period of initial application.

Corrections of Errors and Reclassifications

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

The major errors identified are the following:

During the period 2003-2006 the Company provided its personnel with the non-interest bearing loans. In 2007 the Company identified an error in calculation of amortized cost of these loans as at December 31, 2006. Financial statements for the year 2006 have been restated to correct this error. Total effect on retained earnings as at December 31, 2005 was 123,778.

In 2006 the Company incorrectly recognized revenue for connection fee received from customers and respective expenses for cellular and telematic services (Internet). Financial statements for the year 2006 have been restated to correct this error. There is no effect of this error on the opening retained earnings as of December 31, 2005.

In addition, during 2007 management has changed presentation of certain items of assets and liabilities. Comparative amounts were reclassified accordingly. In particular, receivables from agents in the amount of 80,447 were reclassified from Accounts receivable to Other current assets. Further, the Company presented guarantees given separately as long-term and short-term provisions.

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

Corrections of Errors and Reclassifications (continued)

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

Consolidated balance sheet as of December 31, 2006	As previously reported	Correction of errors	Reclassifications	As restated	Comments
Other long-term assets	276,860	(104,399)	**-**	**172,461**	Loans granted to employees Deferred connection fees and expenses
Other current assets	1,379,833	11,072	80,447	**1,471,352**	Loans granted to employees Reclass to other current assets Deferred connection fees and expenses
Trade and other receivables	2,266,827	-	(80,447)	**2,186,380**	Reclass to other current assets
Total assets	54,507,655	(93,327)	**-**	**54,414,328**	
Long-term finance lease obligations	1,753,358	-	(18,010)	**1,735,348**	Presentation of guarantees issued
Deferred revenue	80,380	66,396	**-**	**146,776**	Deferred connection fees and expenses
Deferred tax liabilities	2,336,229	(20,691)	**-**	**2,315,538**	Effect of all adjustments
Long-term provisions	-	-	18,010	**18,010**	Presentation of guarantees issued
Accounts Payable and accruals	3,952,535	56,045	(19,324)	**3,989,256**	Deferred connection fees and expenses
Current portion of long-term finance lease obligations	1,012,698	-	(9,841)	**1,002,857**	Presentation of guarantees issued
Short-term provisions	-	-	29,165	**29,165**	Presentation of guarantees issued
Total liabilities	34,344,679	101,750	**-**	**34,446,429**	
Retained earnings as of December,31 2006	11,409,502	(195,077)	**-**	**11,214,425**	
Profit for the year 2006	829,767	(71,299)	**-**	**758,468**	
Retained earnings as of December,31 2005	11,318,740	(123,778)	**-**	**11,194,962**	

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

Corrections of Errors and Reclassifications (continued)

Consolidated income statement for the year 2006	As previously reported	Correction of errors	As restated	Comments
Revenue	33,925,040	(75,076)	**33,849,964**	Deferred connection fees
Wages, salaries, other benefits and payroll taxes	(10,280,176)	(98,095)	**(10,378,271)**	Loans granted to employees
Materials, repairs and maintenance, utilities	(3,083,287)	(11,134)	**(3,094,421)**	Deferred connection fees and expenses
Interest expense, net	(2,490,594)	92,316	**(2,398,278)**	Loans granted to employees
Profit before income tax	1,326,793	(91,989)	**1,234,804**	
Income tax	(497,026)	20,690	**(476,336)**	Effect of all adjustments.
Profit for the year	829,767	(71,299)	**758,468**	

As a result of the adjustments, net profit of the Company in 2006 decreased by 71,299; retained earnings as at December 31, 2006 decreased by 195,077; retained earnings as at December 31, 2005 decreased by 123,778; earnings per share for the year 2006 decreased by 0.0018 Roubles/share.

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

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

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

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

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

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

Increases in Ownership Interests in Subsidiaries

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

3. Summary of Significant Accounting Policies (continued)

3.2 Property, Plant and Equipment

3.2.1 Cost of Property, Plant and Equipment

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

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

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

3.2.2 Depreciation and Useful Life

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

The Company applies the following useful lives:

Property and equipment groups	Number of years
Land	Non-depreciable
Buildings and constructions	20-50 years
Switches and transmission devices	3-15 years
Vehicles and other	3-10 years

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

The Company actively introduces services and technologies related to the broadband access to Internet, engages in the upgrades of its fixed line network infrastructure. The rapid replacement of telecommunication equipment and technologies, including new industry requirements to communication network digitalization caused the Company's management to reassess the remaining useful lives of certain items of property, plant and equipment as on January 1, 2007.

Effects of reassessment of the remaining useful lives of property, plant and equipment are presented in Note 6.

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

3. Summary of Significant Accounting Policies (continued)

3.2 Property, Plant and Equipment (continued)

3.2.3 Assets received Free of Charge

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at fair value at the date of transfer. Transfers of equipment mainly relate to the rendering of future services to the transferee the equipment. In this case, the Company recognizes the deferred revenue in the amount of the fair value of the received property, plant and equipment and recognizes respective income in the income statement on the same basis that the equipment is depreciated.

3.3 Intangible Assets

3.3.1 Goodwill

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

Goodwill on an acquisition of an associate is included in the investments in associates.

Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

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

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

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

3.3.2 Other Intangible Assets

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

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

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

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for

3. Summary of Significant Accounting Policies (continued)

3.3 Intangible Assets (continued)

3.3.2 Other Intangible Assets (continued)

intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Useful lives of the intangible assets are described in Note 7.

3.4 Borrowing Costs

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

3.5 Associates

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

3.6 Joint Ventures

The Company recognizes its interest in a jointly controlled entity using the equity method.

3.7 Investments and Other Financial Assets

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

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

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are carried at amortized cost using the effective interest rate less any allowance for impairment. Amortized cost is determined inclusive of discounts or bonuses, occurred while acquisition, commission expenses as well as transaction costs.

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

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

3. Summary of Significant Accounting Policies (continued)

3.7 Investments and Other Financial Assets (continued)

impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

3.8 Inventories

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

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

3.9 Cash and Cash Equivalents

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

3.10 Equity

Share Capital

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

Treasury Shares

Treasury shares are stated at weighted average cost.

Dividends

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

3.11 Financial Liabilities

3.11.1 Borrowings Received

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

3. Summary of Significant Accounting Policies (continued)

3.11 Financial Liabilities (continued)

3.11.2 Financial Guarantees

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

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

3.12 Leases

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

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

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

3.13 Employee Benefits

3.13.1 Current Employment Benefits

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

3.13.2 Unified Social Tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax (“UST”) calculated by the Company by the application of a regressive rate (from 17% to 26%) to the annual gross remuneration of each employee.

3.13.3 Pensions and Other Post-Employment Benefit Plans

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

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

3. Summary of Significant Accounting Policies (continued)

3.13 Employee Benefits (continued)

3.13.3 Pensions and Other Post-Employment Benefit Plans (continued)

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

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

3.14 Provisions

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

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

3.15 Deferred Income Taxes

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

3.16 Revenue Recognition

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

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

Mobile Services

These revenues include airtime, subscription fees, roaming charges and charges for additional services. Roaming revenues include revenues from Company's customers who roam outside their selected home coverage area and revenues from other wireless carriers for roaming by customers in the Company's network. Additional services include mobile Internet, data transmission and other mobile services. Company recognizes revenue on mobile services in the period when the services are rendered. Installation and connection fees for mobile services are recognized over the average term of the customer relationship.

Local Telephone Calls, Including Universal Telecommunication Services

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

Interconnection and Traffic Transmission Services

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

Intrazone Telephone Services

Revenue from intrazone telephone services depends on duration of telephone connections. The Company recognizes revenue from intrazone telephone services in the period when the services are rendered.

Data Transfer and Telematics Services (Internet)

If the unlimited traffic scheme with the defined subscription fee is applied, the internet revenue is represented by the subscription fee only. If the combined tariff scheme is applied, revenue is determined by subscription fee as well as by traffic volume. The Company recognizes revenues from data transfer and telematics services in the period when the services are rendered.

Fees on Assistance and Agency Services

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

3. Summary of Significant Accounting Policies (continued)

3.16 Revenue Recognition (continued)

Mobile and wireline radio and television

Services of mobile and wireline radio and television comprise revenue from transmission and allocation of television and radio programs of the air and cable-based network, provision of access to the network of wireline broadcast, maintenance of subscribers' wireline-radio outlets, rendering of services of mobile radio (except mobile) and satellite communication services. The Company recognizes revenue related to mobile and wireline radio and television services in the period of services were rendered.

Rent of Communication Channels

Channel rent revenues are derived from rent of intercity and international, digital, analogue, and telegraph channels. The Company recognizes revenues from the rent of communication channels in the period when the services are rendered.

Installation and Connection Fees

Installation and connection fees for local telephone services are paid in cash and by the contribution of fixed assets consisting of cable and duct, commonly referred to as the "last mile". Connection fees for fixed-line services received in cash are recognized when the installation and connection are complete. Installation and connection fees for data transfer services, telematic services and mobile services are recognized over the average term of the customer relationship. For installation and connection fees contributed in the form of fixed assets, revenue is deferred and recognized as income on the same basis that respective fixed assets are depreciated.

Other revenues (non-core)

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

Dividend income is recognized when the dividends become due to the Company.

3.17 Foreign Currency Transactions

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

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

Exchange rates as of December 31	2007	2006
Russian Roubles to US dollar	**24.55**	26.33
Russian Roubles to Euro	**35.93**	34.70

3. Summary of Significant Accounting Policies (continued)

3.18 Segment information

The Company defines the following operating segments:

1. fixed line;
2. mobile telecommunication.

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

4. Significant Accounting Estimates

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

Useful Life of Property, Plant and Equipment

The Company assesses remaining useful lives of property, plant and equipment no less than once a year at each reporting date. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in the income statement. As of December 31, 2007, the carrying amount of property, plant and equipment amounted to 49,007,607 (2006 – 45,835,539). More details are provided in Note 6.

Impairment of Property, Plant and Equipment

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

Analyses of goodwill impairment requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows showing an uncertainty of such estimates.

4. Significant Accounting Estimates (continued)

Fair Values of Unlisted Available-for-Sale Investments

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

As of December 31, 2007, the fair values of unlisted available-for-sale investments amounted to 39,190 (2006 – 38,808). More details are provided in Note 11.

Provision for Impairment of Accounts Receivable

Provision for impairment is based on the historical data related to collectability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December, 2007, allowances for impairment of accounts receivable have been created in the amount of 628,891 (2006 – 704,078) for trade receivables and in the amount of 65,072 (2006 – 103,013) for long-term advances given and other current assets.

Pension Obligations

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a lesser extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. As of December 31, 2007, net defined benefit obligations amounted to 1,861,944 (2006 – 1,549,837). More details are provided in Note 24.

Litigations

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

5. Segment Information

	2007				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Company**
REVENUE					
Sales to third parties	24,884,974	12,470,594	1,791,053	–	39,146,621
Inter–segment sales	–	–	324	(324)	–
Total revenue	**24,884,974**	**12,470,594**	**1,791,377**	**(324)**	**39,146,621**
RESULT OF OPERATIONS					
Segment result	5,297,259	3,961,727	1,315,606	–	10,574,592
Unallocated corporate expenses	–	–	–	–	(4,550,521)
Operating profit	**–**	**–**	**–**	**–**	**6,024,071**
Share of result of associates, net	7,322	–	–	–	7,322
Interest expense, net	–	–	–	–	(2,415,074)
Gain from investments	–	–	–	–	180,190
Foreign exchange gain, net	–	–	–	–	2,791
Income tax	–	–	–	–	(1,502,228)
Net profit	**–**	**–**	**–**	**–**	**2,297,072**
ASSETS AND LIABILITIES					
Segment assets	32,353,575	19,083,370	1,375,436	–	52,812,381
Investments in associates	–	–	–	–	–
Unallocated corporate assets	–	–	–	–	4,564,453
Consolidated total assets	**–**	**–**	**–**	**–**	**57,376,834**
Segment liabilities	(4,443,781)	(1,633,473)	(407,995)	–	(6,485,249)
Unallocated corporate liabilities	–	–	–	–	(29,364,066)
Consolidated total liabilities	**–**	**–**	**–**	**–**	**(35,849,315)**
Other segmental information					
Property, plant and equipment and construction in progress	8,397,807	1,692,162	–	–	10,089,969
Intangible assets	791,991	7,492	–	–	799,483
Depreciation and amortization	3,779,762	2,590,284	144,208	–	6,514,254
Accrual (recovery) of impairment of receivables	51,432	40,733	–	–	92,165

5. Segment Information (continued)

	2006				
	Fixed line	Mobile	Other	Intercompany eliminations	Total for the Company
REVENUE					
Sales to third parties	22,868,969	10,069,582	911,413	–	33,849,964
Inter–segment sales	30,646	106,226	46,603	(183,475)	–
Total revenue	**22,899,615**	**10,175,808**	**958,016**	**(183,475)**	**33,849,964**
RESULT OF OPERATIONS					
Segment result	4,397,372	3,625,516	519,780	–	8,542,668
Unallocated corporate expenses					(4,957,785)
Operating profit	–	–	–	–	**3,584,883**
Share of result of associates, net	–	–	–	–	1,789
Interest expense, net	–	–	–	–	(2,398,278)
Gain from investments	–	–	–	–	25,866
Foreign exchange gain, net	–	–	–	–	20,544
Income tax	–	–	–	–	(476,336)
Minority interest	–	–	–	–	(1,048)
Net profit	–	–	–	–	**757,420**
ASSETS AND LIABILITIES					
Segment assets	30,781,792	17,213,562	1,012,300	–	49,007,654
Investments in associates	–	–	–	–	418,808
Unallocated corporate assets	–	–	–	–	4,987,866
Consolidated total assets	–	–	–	–	**54,414,328**
Segment liabilities	(4,054,370)	(1,841,949)	(451,190)	–	(6,347,509)
Unallocated corporate liabilities	–	–	–	–	(28,098,920)
Consolidated total liabilities	–	–	–	–	**(34,446,429)**
Other segmental information					
Property, plant and equipment and construction in progress	5,311,990	2,661,146	314,873	–	8,288,009
Intangible assets	908,950	–	–	–	908,950
Depreciation and amortization	4,244,223	1,225,223	112,485	–	5,581,931
Accrual (recovery) of impairment of receivables	(67,361)	37,498	–	–	(29,863)

The Company provides fixed line and mobile telecommunication services as well as undertakes other activities beyond the industry sector. Management believes that the Company operates in one geographical segment.

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

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

Segment liabilities primarily comprise operating liabilities and exclude such items such as current profit tax liabilities, loans and borrowings, finance lease obligations, deferred tax liabilities.

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

6. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Assets under construction	Vehicles and other	Total
Cost					
At December 31, 2005	**22,032,778**	**23,718,915**	**910,356**	**8,118,528**	**54,780,577**
Additions	–	–	8,288,009	–	8,288,009
Disposals	(156,468)	(271,394)	(109,469)	(132,359)	(669,690)
Disposals due to sale of subsidiaries	(34,297)	–	(8,427)	(35,568)	(78,292)
Put into operation	1,360,739	4,643,383	(8,482,345)	2,478,223	–
Disposals of assets classified as held for sale	(87,418)	(130,820)	(122)	(7,876)	(226,236)
At December 31, 2006	**23,115,334**	**27,960,084**	**598,002**	**10,420,950**	**62,094,368**
Additions	–	–	10,089,969	–	10,089,969
Disposals	(151,987)	(745,048)	(100,516)	(346,377)	(1,343,928)
Disposals due to sale of subsidiaries	(665)	(518)	(10)	(126)	(1,319)
Put into operation	2,411,152	6,430,745	(10,154,779)	1,312,882	–
Disposals of assets classified as held for sale	(187)	(3,853)	–	(614)	(4,654)
At December 31, 2007	**25,373,647**	**33,641,410**	**432,666**	**11,386,713**	**70,834,436**
Accumulated Depreciation					
At December 31, 2005	**(3,522,027)**	**(5,091,816)**	**–**	**(2,675,365)**	**(11,289,208)**
Depreciation charge for the year	(1,202,406)	(2,511,578)	–	(1,688,298)	(5,402,282)
Depreciation on disposals	74,184	174,641	–	104,517	353,342
Depreciation charge on assets of subsidiaries sold	2,814	–	–	19,861	22,675
Depreciation charge on assets classified as held for sale	11,896	39,089	–	5,659	56,644
At December 31, 2006	**(4,635,539)**	**(7,389,664)**	**–**	**(4,233,626)**	**(16,258,829)**
Depreciation charge for the year	(1,401,502)	(3,363,696)	–	(1,509,865)	(6,275,063)
Depreciation on disposals	75,843	398,061	–	230,441	704,345
Depreciation charge on assets of subsidiaries sold	484	470	–	108	1,062
Depreciation charge on assets classified as held for sale	59	1,228	–	369	1,656
At December 31, 2007	**(5,960,655)**	**(10,353,601)**	**–**	**(5,512,573)**	**(21,826,829)**
Net book value as of December 31, 2005	**18,510,751**	**18,627,099**	**910,356**	**5,443,163**	**43,491,369**
Net book value as of December 31, 2006	**18,479,795**	**20,570,420**	**598,002**	**6,187,322**	**45,835,539**
Net book value as of December 31, 2007	**19,412,992**	**23,287,809**	**432,666**	**5,874,140**	**49,007,607**

The above tables include net book value of plant and machinery leased under finance lease agreements as of December 31, 2007 and 2006, as follows:

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other	Assets under construction	Total
Cost	201,286	3,185,515	1,381,330	45,651	4,813,782
Accumulated depreciation	(23,899)	(429,527)	(234,545)	–	(687,971)
Net book value at December 31, 2006	**177,387**	**2,755,988**	**1,146,785**	**45,651**	**4,125,811**
Cost	465,245	4,983,093	1,555,551	–	7,003,889
Accumulated depreciation	(30,669)	(565,183)	(415,501)	–	(1,011,353)
Net book value at December 31, 2007	**434,576**	**4,417,910**	**1,140,050**	**–**	**5,992,536**

As of December 31, 2007, the cost of fully depreciated property, plant and equipment was 5,215,184 (2006 – 3,812,568).

6. Property, Plant and Equipment (continued)

Additions of PPE acquired under vendor financing in 2007 FY amounted to 905,562 (2007 – 1,132,408).

The Company capitalized interest to construction in progress in the amount of 4,126 in 2007 (2006 – 6,768). The capitalization rate was 7.1% in 2007 (2006 – 4.9%).

As of December 31, 2007, the Company's property, plant and equipment in the amount of 11,578,750 (2006 – 10,960,606) was pledged as collateral under loan and borrowings agreements and finance lease agreements.

New industry legislation which came into force in 2006 required significant capital investments in order to bring Company’s networks into compliance with this legislation.

In view of planned 100% digitization (see Note 2) remaining useful life of analogue equipment was revised to 3 years (this equipment is planned to be depreciated in full till 2010) .

As described in the Note 3, the Company reassessed remaining useful lives for a number of items of the fixed assets as of January 1, 2007. Under the remaining useful lives as of January 1, 2007 prior to reassessment, the depreciation charge for 2007 would have been 5,748,261 as compared to 6,275,063 presented in the income statement for the year 2007; loss on fixed assets disposal would have been 443,394 as compared to 398,160 presented in the income statement for the year 2007. The Company expects that this reassessment of remaining useful lives would have a consistent impact on the depreciation charge of property, plant and equipment in the future periods over the remaining useful lives of respective assets.

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

7. Intangible Assets

	Goodwill	Licenses	Software	Numbering capacity	Customer list	Others	Total
Cost							
At December 31, 2005	**14,453**	**153,244**	**1,785,789**	**23,013**	**45,144**	**12,495**	**2,034,138**
Additions	–	–	908,950	–	–	–	908,950
Disposal of assets classified as held for sale	(14,453)	(65,785)	(288)	–	–	–	(80,526)
At December 31, 2006	**–**	**87,459**	**2,694,451**	**23,013**	**45,144**	**12,495**	**2,862,562**
Additions	–	2,060	786,650	–	–	10,773	799,483
Disposals	–	(19,540)	(151,317)	–	–	–	(170,857)
At December, 31 2007	**–**	**69,979**	**3,329,784**	**23,013**	**45,144**	**23,268**	**3,491,188**
Accumulated depreciation							
At December 31, 2005	**–**	**(49,215)**	**(214,260)**	**(8,558)**	**(16,788)**	**–**	**(288,821)**
Charge for the year	–	(11,702)	(160,871)	(2,301)	(4,514)	(261)	(179,649)
Charge for the year for assets classified as held for sale	–	4,434	238	–	–	–	4,672
At December 31, 2006	**–**	**(56,483)**	**(374,893)**	**(10,859)**	**(21,302)**	**(261)**	**(463,798)**
Charge for the year	–	(8,539)	(214,943)	(2,301)	(4,514)	(8,894)	(239,191)
Charge on disposed assets	–	19,519	145,882	–	–	–	165,401
At December 31, 2007	**–**	**(45,503)**	**(443,954)**	**(13,160)**	**(25,816)**	**(9,155)**	**(537,588)**
Net book value At December 31, 2005	**14,453**	**104,029**	**1,571,529**	**14,455**	**28,356**	**12,495**	**1,745,317**
Net book value At December 31, 2006	**–**	**30,976**	**2,319,558**	**12,154**	**23,842**	**12,234**	**2,398,764**
Net book value At December 31, 2007	**–**	**24,476**	**2,885,830**	**9,853**	**19,328**	**14,113**	**2,953,600**

7. Intangible Assets (continued)

Oracle E-Business Suite Software

As of December 31, 2007 software includes the costs of Oracle E-Business Suite acquisition and implementation with a carrying value of 1,171,759 (2006 – 981,840), including capitalized interest related to implementing Oracle E-Business Suite in the amount of 128,995 (2006 – 145,119). Interest capitalization rate is 5.66% (2006 – 4.73%).

The Company acquired a non-exclusive license for 83,506 users of Oracle E-Business Suite 2004 Professional.

The Company commenced the commercial operation of OEBS and started amortizing the value of the mentioned software from the date of its implementation (November 2005), proportionally to the quantity of licenses used, over the useful life of the licenses of 10 years.

The above table includes software movement for the years ended December 31, 2007 and 2006, as follows:

	2007	2006
As of January 01	**981,840**	848,299
Implementation expenses incurred	**295,852**	221,399
Amortization accrued	**(105,933)**	(87,858)
As of December 31	**1,171,759**	981,840

Amdocs Billing Suite Software

As of December 31, 2007 software also includes the costs of Amdocs Billing Suite acquisition and implementation with a carrying value of 993,720 (2006 – 883,058), including capitalized interest related to implementing Amdocs Billing Suite in the amount of 30,693 (2006 – 30,693).

This software was acquired with the purpose of implementing a unified billing system throughout the Company. The Company plans to complete implementation of the unified billing system till 2011. Implementation works started in 2005.

The Company will start amortizing this asset from the date of software implementation proportionally to the value of implemented modules. Until then the Company annually tests this software for impairment.

The above table includes software movement for the years ended December 31, 2007 and 2006, as follows:

	2007	2006
As of January, 01	**883,058**	643,744
Implementation expenses incurred	**110,662**	239,314
As of December, 31	**993,720**	883,058

Amortization of Intangible Assets

The amortization of other intangible assets charged in 2007 in the amount of 133,259 (2006 – 91,791) was fully recognized within Depreciation and amortization in the consolidated income statement.

Impairment Test of Intangible Assets

The Company performed impairment tests of assets not ready for use as of December 31, 2007. Intangible assets not yet available for use included primarily Amdocs Billing Suite software. As a result of the impairment tests no impairment of these intangible assets as of December 31, 2007 was identified.

8. Consolidated Subsidiaries

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

		Ownership, %		Voting shares, %	
Subsidiary	**Main activity**	**December 31, 2007**	**December31 2006**	**December 31, 2007**	**December31, 2006**
LLC «Ural Inform TV»	Tele and radio broadcasting	**100**	100	**100**	100
LLC «Firma Permtelecom»	Cable television	–	100	–	100
CJSC «FK-Svyaz»	Communication services	**75**	75	**75**	75

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

Disposal of shares in subsidiaries for 2007 is presented below:

Name	**Main activity**	**Carrying amount of net assets disposed**	**Sale/disposal of share in equity on the date of transaction, %**
LLC «Firma Permtelecom»	Cable television	346	100
Total		**346**	

In August 2007 in accordance with the decision of Board of Directors the Company disposed of 100% of LLC “Firma Permtelecom”. Loss in the amount of 162 resulting from the sale of LLC “Firma Permtelecom” is further disclosed in Note 30.

As of December, 31 2007 assets and liabilities of LLC “Ural Inform TV” classified as assets and related liabilities held for sale (Note 9).

Information on the selling price, fair value of identifiable assets, liabilities and contingent liabilities of the disposed subsidiary at the date of disposal is presented below:

	2007
Selling price	**346**
Assigned value of identifiable assets and liabilities:	
Property, plant and equipment, net	257
Inventory	180
Accounts receivable	180
Cash and cash equivalents	7
Other current assets	285
Short-term liabilities	(401)
Total net assets	**508**
Minority interests in net assets of disposed subsidiaries	100%
Total cash inflow from disposed subsidiaries	**339**

9. Assets and liabilities of disposal group classified as held for sale

On December, 27 2006 the Company signed an agreement with OJSC "KomLine" for sale of 100% shares of CJSC "Telefonnaya Compania Ural". Selling price was determined by independent appraiser and amounted to 137,500. Decision to sale CJSC "Telefonnaya Compania Ural" was approved by the decision of the Board of Directors on December 20, 2006. CJSC "Telefonnaya Compania Ural" renders connection services in the territory of Ural Region and doesn't represent separate or key business under operating or geographical segment.

In accordance with IFRS 5 "Assets Held for sale and Discontinued Operations" in December, 2006 the Company started to consider CJSC "Telefonnaya Compania Ural" as "Disposal group classified as held for sale" as its carrying value will be recovered through a sale and not through continuing operations. CJSC "Telefonnaya Compania Ural" as of December 31, 2006 represents group of assets held for sale in the total amount of 257,331 and liabilities in the total amount of 128,444 related to these assets. Disposal group includes also goodwill acquired as a result of business combination in the amount of 14,453. Starting December 27, 2006, the Company suspended amortization of assets held for sale. The Company finalized this sale transaction in June 2007.

Consolidated Financial Statements of the Company contain information about operations of CJSC "Telefonnaya Compania Ural" for the reporting period starting January 1, 2007 and till the date of sale.

Information on the acquisition price, fair value of identifiable assets, liabilities of this disposal group at the date of disposal is presented below:

	2007
Selling price	**137,500**
Transaction costs	96
Total paid	**137,404**
Fair value of identifiable assets	
Property, plant and equipment, net	177,736
Intangible assets	75,855
Long-term investments	238
Long-term advances paid	761
Inventory	3,252
Accounts receivable	11,178
Cash and cash equivalents	764
Other current assets	3,348
Long-term loans and borrowings	(24,982)
Deferred tax liabilities	(33,243)
Short-term liabilities	(77,294)
Total net assets	**137,613**
Company's share	100%
Total cash inflow from disposed subsidiary	**136,640**

Loss in the amount 209 resulting from the sale of share in CJSC "Telefonnaya Compania Ural" is further disclosed in the Note 30.

On December 20, 2007 Board of the Directors of OJSC "Uralsvyazinform" made a decision to sell 100% of the share in LLC "Ural Inform TV" at a price not less than 13,957. LLC "Ural Inform TV" provides tele and broadcasting services. The Company plans to close the sale in 2008.

9. Assets and liabilities of disposal group classified as held for sale (continued)

Consolidated financial statements of the Company contain information about operations of LLC “Ural Inform TV” for the reporting period. As of December 31, 2007 assets and liabilities of LLC “Ural Inform TV” are presented as assets and liabilities of the disposal group, classified as held for sale.

	December 31, 2007
Property, plat and equipment	3,227
Current assets	6,532
Current liabilities	(3,936)
Net assets of the disposal group classified as held for sale	**5,823**

10. Investments in associates

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

		2007		2006	
The Company	**Type of activity**	**Ownership interest**	**Carrying value**	**Ownership Interest**	**Carrying value**
OJSC “Tatinkom-T”	Mobile services	–	–	33.43%	384,688
CJSC “Ural Telephone Company”	Communication services	–	–	23.00%	22,717
Others		–	–		11,403
Total			–		418,808

In April 2007 in accordance with the decision of the Board of Directors as of March 30, 2007 the Company sold 33.43% of the shares of OJSC “Tatinkom-T”. Gain on this sale in the amount of 128,775 is further disclosed in the Note 30.

In August 2007 in accordance with the decision of the Board of Directors as of June 06, 2007 the Company sold 23% of the shares of CJSC “Ural Telephone Company”. Gain on this sale in the amount of 45,187 is further disclosed in the Note 30.

The table below presents information on disposal of associates:

The Company	Type of activity	Carrying value	Sales price	Sale of the share in charter capital as of the date of transaction, %
OJSC “Tatinkom-T”	Mobile services	387,313	516,088	33.43
CJSC “Ural Telephone Company”	Communication services	21,171	66,359	23.00
Others		17,646	16,018	
Total		**426,130**	**598,465**	

Information on gain/loss from sale and other disposal of investments is further disclosed in the Note 30.

The table below represents movement in investments in associates for the years ended December 31, 2007 and 2006:

	2007	2006
Investments in associates as of January 01	**418,808**	**417,019**
Income from investments in associates	7,322	3,238
Disposal of associates	(426,130)	–
Impairment of investments	–	(1,449)
Investments in associates as of December 31	**–**	**418,808**

11. Investments Available for Sale

As of December 31 investments available for sale comprised the following:

The Company	2007		2006	
	Ownership interest	**Fair value**	**Ownership Interest**	**Fair value**
Long-term investments				
OJSC "Svyazintek"	**11%**	**12,591**	11%	12,591
OJSC AKB "Svyazbank"	**0.225%**	**11,231**	0.50%	11,231
OJSC Sberbank Zapadno-Uralsky bank	**0.000225%**	**4,679**	0.000225%	4,174
Others		**10,689**		10,812
Total investments available for sale		**39,190**		38,808

In 2007 change in fair value of financial investments available for sale comprised 505 (2006 – 2,692) and is included into consolidated statement of changes in equity.

12. Long-Term Advances Paid

As of December 31 advances paid to suppliers comprised the following:

	2007	2006
Long term advances paid on investing activity		
Property, plant and equipment acquisition	**155,350**	107,558
Acquisition and implementation of Oracle E-Business Suite software	**4,516**	146,301
Total	**159,866**	253,859

13. Other Long-Term Assets

As of December 31, other long term assets comprised the following:

	2007	2006, as restated
Long-term loans issued to employees	**116,181**	159,897
Long-term VAT receivable	**2,347**	5,051
Other financial assets	**10,558**	7,513
Total	**129,086**	172,461

At December 31, 2007 and 2006 long-term loans issued and long-term accounts receivable are recorded at amortized historic cost using effective rate of 19% (2006 – 18%).

14. Inventories

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

	2007	2006
Cable and spare parts	**132,103**	186,385
Construction materials, fuel, tools	**23,786**	44,319
Finished products and goods for resale	**48,269**	81,017
Other	**195,735**	204,984
Inventory impairment provision	**(16,621)**	(20,041)
Total	**383,272**	496,664

14. Inventory (continued)

The amount of inventories recognized as an expense is 1,367,665 (2006 – 1,507,333). This expense is included into the line "Materials, repairs and maintenance, utilities" of the consolidated income statement.

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

	2007	2006
Provision as of January 01	**20,041**	8,446
Accrual (recovery) of provision	**(3,420)**	11,595
Provision as of December 31	**16,621**	20,041

Provision for inventory charge(recovery) is included into the line "Other operating expenses" of consolidated income statement.

15. Trade and Other Receivables

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

	Total at December 31, 2007	Provision for impairment of receivables	Net at December 31, 2007
Corporate customers	**633,403**	**(94,444)**	**538,959**
Individual customers	**1,401,065**	**(412,147)**	**988,918**
Government customers	**133,376**	**(10,040)**	**123,336**
Interconnected operators	**816,530**	**(61,933)**	**754,597**
Social security authorities – tariff compensation related to providing benefits to certain categories of subscribers	**19,318**	**(19,190)**	**128**
Other receivables	**148,545**	**(31,137)**	**117,408**
Total trade and other receivables	**3,152,237**	**(628,891)**	**2,523,346**

	Total at December 31, 2006 as restated	Provision for impairment of receivables	Net at December 31, 2006 as restated
Corporate customers	582,566	(99,422)	483,144
Individual customers	1,117,620	(393,810)	723,810
Government customers	120,998	(8,033)	112,965
Interconnected operators	808,085	(29,100)	778,985
Social security authorities – tariff compensation related to providing benefits to certain categories of subscribers	158,740	(158,740)	–
Other receivables	102,449	(14,973)	87,476
Total trade and other receivables	2,890,458	(704,078)	2,186,380

15. Trade and Other Receivables (continued)

Trade and other receivables overdue but not impaired are presented below

			Overdue but unimpaired, period overdue (days)				
At December 31, 2007	**Total**	**<30**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Corporate customers	**76,196**	**36,485**	**18,640**	**21,071**	**–**	**–**	**–**
Individual customers	**133,901**	**81,509**	**28,840**	**23,552**	**–**	**–**	**–**
Government customers	**20,524**	**13,837**	**4,463**	**2,224**	**–**	**–**	**–**
Interconnected operators	**65,724**	**54,526**	**9,319**	**846**	**1,033**	**–**	**–**
Social security authorities – tariff compensation related to providing benefits to certain categories of subscribers	**25**	**7**	**18**	**–**	**–**	**–**	**–**
Other receivables	**8,709**	**5,647**	**1,444**	**1,082**	**196**	**76**	**264**
Total trade and other receivables	**305,079**	**192,011**	**62,724**	**48,775**	**1,229**	**76**	**264**

			Overdue but unimpaired, period overdue (days)				
At December 31, 2006	**Total**	**<30**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Corporate customers	77,450	43,151	21,278	13,021	–	–	–
Individual customers	106,506	56,783	29,450	20,273	–	–	–
Government customers	22,047	15,762	5,016	1,269	–	–	–
Interconnected operators	229,205	102,245	89,423	33,114	4,423	–	–
Other receivables	9,522	4,627	1,464	1,887	258	1,164	122
Total trade and other receivables	444,730	222,568	146,631	69,564	4,681	1,164	122

As of December 31, 2007 accounts receivable are nominated in Russian Rubles.

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

In some cases the Company invoiced and collected fines for delay of payments and was able to achieve payment of some fines through arbitrage court.

Receivables due from social security authorities on tariff compensation related to providing benefits to certain categories of subscribers amount to 1% of total trade receivables (2006 – 6%). These receivables originated prior to January 2005 when Article 47 of the Federal Law No. 126-FZ "On Communications" dated July 7, 2003 came into force changing the procedure of providing telecommunication service benefits to individual customers. Prior to January 2005, those users of communication services that were eligible for benefits paid 50% of the service fees themselves and the remaining 50% were subject to compensation from the state budget.

In 2007 the Company legally enforced settlement from the federal budget of such outstanding receivables in the amount of 75,067 (2006 – 267,219). In December 2007 the Company assessed the probability of collecting receivables related to the provision of benefits to certain categories of subscribers taking into account possible legal enforcement. As of December 31, 2007 the provision for impairment of receivables amounted to 19,190.

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

	2007	**2006**
Balance at January 1	**(704,078)**	(1,043,595)
Recovery (accrual) of impairment of receivables	**(115,170)**	132,878
Trade and other receivables written off	**190,357**	206,639
Balance at December 31	**(628,891)**	(704,078)

16. Other Current Assets

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

	Total at December 31, 2007	Provision	Net at December 31, 2007
Prepayments and advance payments	**228,345**	**(16,005)**	**212,340**
Settlements with personnel	**37,649**	**(2,143)**	**35,506**
VAT receivable	**76,795**	**–**	**76,795**
Other prepaid taxes	**37,318**	**–**	**37,318**
Deferred expenses	**207,083**	**–**	**207,083**
Other settlements and current assets	**791,676**	**(34,842)**	**756,834**
Total	**1,378,866**	**(52,990)**	**1,325,876**

	Total at December 31, 2006 as restated	Provision	Net at December 31, 2006 as restated
Prepayments and advance payments	198,782	(30,251)	168,531
Settlements with personnel	30,937	–	30,937
VAT receivable	350,905	–	350,905
Other prepaid taxes	44,646	–	44,646
Deferred expenses	435,336	–	435,336
Other settlements and current assets	493,655	(52,658)	440,997
Total	1,554,261	(82,909)	1,471,352

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

	2007	2006
Provision as of January 1	**(82,909)**	–
Recovery (accrual) of provision	**17,596**	(89,784)
Other current assets written off	**12,323**	6,875
Provision as of December 31	**(52,990)**	(82,909)

17. Cash and Cash Equivalents

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

	2007	2006
Cash at banks and in hand	**704,719**	644,945
Other	**306**	629
Total	**705,025**	645,574

As of December 31, 2007 Cash and Cash Equivalents comprise amounts nominated in the currencies presented in the table below:

	2007	2006
Russian Rubles	**703,654**	643,765
US Dollars	**521**	988
EURO	**850**	821
Total Cash and cash equivalents	**705,025**	645,574

18. Significant Non-Cash Transactions

In 2007 the Company received equipment under lease agreements for the amount of 2,920,878 (2006 – 1,415,331).

Equipment received under vendor financing agreements in 2007 amounted to 905,562 (2006 – 1,132,408).

The total amount of donated assets received in 2007 amounted to 2,906 (2006 – 2,246).

In 2007 barter sales transactions amounted to 328,079 (2006 – 5,371,350).

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

19. Share Capital

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

	Number of shares authorized (thousands)	Par value of the share, (Roubles)	Total Par value, (thousand Roubles)	Carrying value, (thousand Roubles)
Preference shares	32,298,782	0,12	3,875,854	7,041,081
Ordinary shares	7,835,941	0,12	940,313	1,708,222
As of December 31, 2007	**40,134,723**	0,12	**4,816,167**	**8,749,303**

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

Quantity of declared ordinary and preference shares amounted to 32,298,782 (2006 -32,298,782) and 7,835,941 (2006-7,835,941) respectively.

As of December 31, 2007, the structure of share capital is as follows:

	Ordinary shares		**Preference shares**	
Shareholder	**Quantity (thousands)**	**%**	**Quantity (thousands)**	**%**
OJSC “Svyazinvest”	16,608,946	51	-	-
Other legal entities	13,814,157	43	6,293,456	80
Individuals	1,875,679	6	1,542,485	20
Total	**32,298,782**	**100**	**7,835,941**	**100**

The ordinary shareholders are entitled to one vote per share.

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

19. Share Capital (continued)

In case of liquidation, assets of the Company remaining after settlements with creditors, payment of dividends and residual value of preference shares are allocated between owners of preference and ordinary shares in proportion to number of shares. Accordingly, the Company’s preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 32).

Distributable profit of all the entities included into the Company is restricted in accordance with retained earnings of the entities and is regulated by national accounting legislation. Retained earnings of the parent Company determined in accordance with Russian legislation as of December 31, 2007 and 2006 amounted to 12,175,274 and 8,676,011, respectively.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from net profit for the year as reported in the Company's Russian statutory financial statements. The Company reported net profit of 3,685,321 and 2,084,690 for 2007 and 2006, respectively.

In 2007 the Company paid out dividends to the shareholders on ordinary and preference shares following the results of 2006 in the amount of 0.016393 Russian Rubles for one ordinary share (2006 – 0.01605) and 0.026606 Russian Rubles for one preference share (2006 - 0.02802).

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

In September 2002, the SEC registered the Level 1 ADR program for preference shares on the basis of a Depositary agreement signed by ”Uralsvyazinform”, JP Morgan Chase Bank as a Depository and Holders of American Depositary Receipts. Each depositary receipt is equal to 200 shares of the Company of the respect type.

The following table represents movement of registered ADRs for 2005-2007:

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares, %	Share capital, %
December 31, 2005	**18,464,219**	**3,692,843,800**	**11.43%**	**9.20%**
Decrease in 2006	(7,299,768)	(1,459,953,600)	(4.52%)	(3.64%)
December 31, 2006	**11,164,451**	**2,232,890,200**	**6.91%**	**5.56%**
Decrease in 2007	(2,697,134)	(539,426,800)	(1.67%)	(1.34%)
December 31, 2007	**8,467,317**	**1,693,463,400**	**5.24%**	**4.22%**

19. Share Capital (continued)

Currently ADR are traded on the following stock markets:

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

20. Borrowings

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

	Effective interest rate	Maturity date	2007	2006
Short–term borrowings				
Bank loans (Roubles)	10.08%	2008	–	740,000
Total bank loans			–	740,000
Bonds (Roubles)			–	–
Vendor financing:				
Vendor financing (Roubles)		2008	**236,741**	460,212
Vendor financing (US Dollars)		2008	**162,994**	2,020
Vendor financing (Euro)		2008	**33,688**	7,373
Total vendor financing			**433,423**	469,605
Promissory notes (Roubles)	8.5%	2008	**28,645**	55,288
Interest payable			**1,693**	308
Total short–term borrowings			**463,761**	1,265,201
Long–term borrowings				
Bank loans (Roubles)	8.72%	2008-2015	**12,919,002**	9,201,736
Bank loans (US Dollars)	7.6%	2007	–	36,935
Bank loans (Euro)	Euribor+0.82	2008-2014	**1,599,246**	1,690,552
Total bank loans			**14,518,248**	10,929,223
Bonds (Roubles)	9%	2008-2012	**7,072,562**	10,042,908
Vendor financing (US Dollars)	6%	2008	**149,390**	160,254
Vendor financing (Euro)	3.59%	2007	–	21,487
Total vendor financing			**149,390**	181,741
Promissory notes (Roubles)	12.1%	2007	–	593,713
Restructured customers payments for connection			**54,129**	57,132
Less: Current portion of long–term borrowings			**(9,090,704)**	(4,729,982)
Total long–term borrowings			**12,703,625**	17,074,736

20. Borrowings (continued)

As of December 31, 2007 the Company has agreements with AKB Sber-Bank, AB Gazprombank, OJSC Alfa-Bank, CJSC Raiffeisen Bank, CJSC International Moscow Bank for open credit lines amounting to 17,136,000 (2006 – 13,432,000). As of December 31, 2007 the Company used 12,896,000 (2006 – 9,723,000) out of the amount above.

As of December 31, 2007 the borrowings are repayable as follows:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Restructured customers payments for connection	Total
within 2008	4,788,802	4,136,163	149,390	16,349	9,090,704
within 2009	2,921,598	2,936,399	–	4,900	5,862,897
within 2010	222,350	–	–	5,750	228,100
within 2011	2,577,538	–	–	9,420	2,586,958
within 2012	3,684,493	–	–	714	3,685,207
after 2012	323,467	–	–	16,996	340,463
Total	**14,518,248**	**7,072,562**	**149,390**	**54,129**	**21,794,329**

The carrying amount of the Company's borrowing are denominated in the followings currencies as of December 31, 2007 and 2006:

	2007	2006
Russian Roubles	**20,312,772**	21,151,285
Euros	**1,632,934**	1,719,424
US dollars	**312,384**	199,210
Total	**22,258,090**	23,069,919

Short -Term Debt

Promissory Notes

In February 2007 the Company issued promissory notes in Russian roubles in the total amount of 28,645 that were used to finance purchase of ADSL-modems and to pay for installation services. The promissory notes mature in February 2008. The effective interest rate is 8.5% per annum and the promissory notes mature on demand not earlier 360 days from date of issue.

Long-Term Debt

Bank Loans

Sberbank

Long-term borrowings from Sberbank mostly represent loans in the amount of 5,107,925 obtained in 2006-2007. The loans bear interest of 8.5-9.5% p.a.. The loans mature in 2008-2012 and are secured with property, plant and equipment in the amount of 6,038,972.

20. Borrowings (continued)

Gazprombank

Long-term borrowings from Gazprombank mostly represent loans in the amount of 5,001,931, obtained in 2005-2007. The loans mature in 2009-2012. The loans bear 9.25% - 9.5% interest. As of December 31, 2006 the outstanding amount was 3,853,040. The loans are secured with property, plant and equipment in the amount of 3,972,500.

ING BHF-BANK

Long-term borrowings from ING BHF-BANK Aktiengesellshaft mostly represent EURO denominated loan in amount of 39,492 Th. EURO or 1,419,087. The loan matures in December 2014. The loan bears interest at the floating rate of Euribor (181 day) plus 0.875% per annum, being approximately 4.781% per annum in 2007. The loan is unsecured. In accordance with credit agreement the bank has the right to demand early payment of the loan in case of overdue payments to third parties. In 2007 and during the period when contract was in force the above mentioned condition was not breached.

Raiffeisen Bank Austria

Long-term borrowings from Raiffeisen Bank Austria represent loan in amount of 806,230. The loan matures in June 2008. The loan bears interest of the floating rate of Mosprime (31 day) plus 2.75% per annum, being approximately 9.22% per annum in 2007. The loan is unsecured. In accordance with credit agreement with Raiffeisen Bank Austria the bank may demand early repayment in the following instances: overdue liabilities exceeding 800,000; disposal, pledge of property in excess of 35% of total assets. The stated covenants have not been violated during 2007 and over the duration of the loan.

Iskratel, Telecommunication Systems (Slovenia)

In November, 2007 the Company obtained a loan from Iskratel, Telecommunication Systems (Slovenia) amounted to 3,333 Th. EURO or 119,801 for equipment acquisition. As of December 31, 2007 outstanding amount was equal to 5,014 Th. EURO or 180,159. The loan matures in March 2011. The loan bears interest at the floating rate of Euribor (91 day) plus 3.16% per annum, being approximately 4.774% per annum in 2007. The loan is unsecured.

Bonds

In September 2004, the Company registered the issue of 3,000,000 interest-bearing bearer's bonds, series 04, with a par value of 1,000 Roubles each. Interest is payable twice a year. The coupon rate is set at 9.99% per annum. In October 2007 coupon yield and bonds were repaid.

In April 2005 the Company registered the issue of 2,000,000 inconvertible certified interest-bearing bearer’s bonds, series 05, with a par value of 1,000 Roubles each. The bonds have 6 coupon periods. Repayments for the first period is due on the 182nd day from the date of the issue, and the other coupon repayments are due every 182nd day further on. The coupon rate is set at 9.19% per annum. The bonds mature in 1,092 days from the date of issue, on April 17, 2008.

In November 2005 the Company registered the issue of 2,000,000 inconvertible certified interest-bearing bearer’s bonds, series 06, with par value of 1,000 Roubles each. The bonds have a put option due on November 24th, 2008. The bonds have 12 coupon periods. The bonds mature as follows: 20% of the issue every six months starting from the 1465th day from the date of issue, i.e. November 2009. The coupon rate for first 6 coupons is 8.2% per annum, the rate for other coupons is determined 10 days prior to each payment date.

20. Borrowings (continued)

Bonds (continued)

In March 2006 the Company registered the issue of 3,000,000 inconvertible certified interest-bearing bearer's bonds, series 07, with par value of 1,000 Roubles each. The bonds have 12 coupon periods (each 182d day starting the date of issue). The bonds have a put option due on March 19, 2009. The coupon rate for first 6 coupons is 8.4% per annum, the rate for other coupons is determined 10 days prior to each payment date. The bonds are repayable as follows: 20% of the issue matures on 1,465th day from the date of issue, i.e. March 2010; 20% of the issue –on 1,638th day from the date of issue, i.e. September 2010; 20% of the issue – on 1,820th day from the date of issue, i.e. March 2011; 20% of the issue - on 2,002d day from the date of issue, i.e. September 2011; 20% of the issue - on 2,184th day from the date of issue, i.e. March 2012.

21. Finance Lease Obligations

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

	2007		**2006 as restated**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion	**2,154,326**	**1,567,531**	1,408,414	1,002,857
Over 1 year to 5 years	**3,329,255**	**2,762,409**	2,156,659	1,735,348
Over 5 years	**–**	**–**	–	–
Total minimum lease payments	**5,483,581**	**–**	3,565,073	–
Less amounts representing finance charges	**(1,153,641)**	**–**	(826,868)	–
Present value of minimum lease payments	**4,329,940**	**4,329,940**	2,738,205	2,738,205

The net book value of plant and equipment held under finance lease as of December 31, 2007 is 5,992,536 (2006 – 4,125,811) (see Note 6).

In 2007 and 2006, the Company's primary lessor was OJSC "RTC-Leasing". In 2007, effective interest rate ranged from 14% to 20% per annum (2006 – 14% to 20% per annum).

OJSC "RTC-Leasing" purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company's obligations under finance leases to OJSC "RTC-Leasing" as of December 31, 2007 comprised 4,713,763 (2006 – 2,733,230) including the principal amount of 3,726,459 (2006 – 2,077,649) and interest payable in the amount of 987,304 (2006 – 655,581).

OJSC "RTC-Leasing" is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing interest rate of the Central Bank of the Russian Federation.

As of December 31, 2007 finance lease obligations denominated in US Dollars and Euro comprised 7,477 and 17,923, respectively (2006: 29,700 and 56,507, respectively).

22. Accounts Payable and Accruals

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

	2007	2006 as restated
Salaries and wages payable	**845,137**	897,762
Trade accounts payable	**920,529**	1,132,907
Advances received from subscribers	**918,400**	857,717
Settlements with operators	**539,326**	392,380
Payables for purchases and construction of property, plant and equipment	**451,293**	328,784
Payables to Universal Service Fund	**101,390**	89,017
Payables to agents	**95,927**	122,817
Deferred revenue	**70,105**	56,045
Payables to OJSC "Rostelecom"	**35,101**	48,494
Payables to Center for Research of Problems in Development of Telecommunications, a non-commercial partnership	**–**	20,000
Other accounts payable and current liabilities	**31,946**	43,333
Total	**4,009,154**	3,989,256

As of December 31, 2007 accounts payable to suppliers denominated in US dollars and EURO amounted to 316,190 and 22,696 (2006 – 36,885 and 30,821, respectively) and are included in the trade payables.

Other accounts payable include payables to suppliers of goods, related to communication services, purchased for further sale and advances received in the course of non-core activities.

23. Taxes Payable

Current Taxes Payable

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

	2007	2006
Property tax	**193,441**	196,650
Value added tax	**103,867**	70,836
Unified social tax	**63,668**	96,928
Income tax payable	**58,150**	54,280
Other taxes	**10,714**	12,480
Total	**429,840**	431,174

Included in value added tax payable are 24,063 (2006 – 70,835) of value added tax that is payable to the tax authorities only when the underlying receivable is recovered or written off.

24. Pensions and Other Employee Benefits

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

The defined benefit pension plan provides old age retirement pension. The plan provides for payment of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men upon condition of continuity of employment period for 15 years for ordinary employees, 4 years for lower grade managers and 2 years for top managers. According to the plan the amount of pension depends only on the position of employee as of the date of retirement and is not related to the employee's salary level.

24. Pensions and Other Employee Benefits (continued)

In addition to the existing defined benefit plan the Company also maintains the defined contribution plan which involves payments made by the Company during the participant's working period since conclusion of individual contract with Non-state pension fund "Telecom Soyuz". These contributions are accounted for on the participants' individual accounts in the fund. Payments made by the Company in 2007 under defined contribution plan equal 58,037 (2006: 32,458) and are included into Wages, Salaries, Other Employee Benefits and Payroll Taxes.

Non-state pension fund Telecom-Soyuz, which is the Company's related party (Note 36), maintains the defined benefit pension plan. The Company makes contribution to the fund at the moment when employee retires in the amount agreed with the fund.

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

As of December 31, 2007 14,725 employees participated in the defined benefit pension plan of the Company and 10,355 pensioners were eligible to other post-employment benefit plans provided by the Company (as of December 31, 2006 – 16,183 and 10,399, respectively).

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

	2007	**2006**
Present value of defined benefit obligation	**(3,117,849)**	(3,171,983)
Fair value of plan assets	**–**	5,228
Present value of unfunded obligation	**(3,117,849)**	(3,166,755)
Unrecognized past service cost	**1,658,674**	1,875,314
Unrecognized actuarial gains /losses	**(402,769)**	(258,396)
Net pension liability in the balance sheet	**(1,861,944)**	(1,549,837)

As of December 31, 2007 the Company's management estimates average residual duration of employment till retirement as 9 years (2006 – 10 years).

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

	2007	**2006**
Current service cost	**(189,996)**	(209,800)
Interest cost	**(232,831)**	(252,677)
Expected return on plan assets	**191**	6,892
Actuarial losses and gains recognized during the year	**31,139**	(2,061)
Past service cost – guaranteed part	**–**	(179,487)
Amortized past service cost – non-guaranteed part	**(185,811)**	(184,479)
Effect of curtailment or final settlement under the plan	**22,808**	14,901
Net expense for the defined benefit plan	**(554,500)**	(806,711)
Actual return on plan assets	–	2,833

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

24. Pensions and Other Employee Benefits (continued)

Defined Benefit Schemes (continued)

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

	2007	2006
Net defined benefit obligation at January 1	**(3,171,983)**	(3,444,676)
Interest cost on benefit obligation	**(232,831)**	(252,677)
Current service cost	**(189,996)**	(209,800)
Past service cost	**30,829**	(182,471)
Benefits paid	**71,638**	84,387
Liabilities extinguished on settlements	**177,005**	182,919
Actuarial (gains)/losses on obligation	**197,489**	650,335
Net defined benefit obligation at December 31	**(3,117,849)**	(3,171,983)

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

	2007	2006
Fair value of plan assets at January 1	**5,228**	187,897
Actuarial gains / (losses)	–	(4,059)
Expected return on plan assets	–	6,892
Benefits paid	**(71,638)**	(84,387)
Assets distributed on settlement	**(177,005)**	(182,923)
Contributions by employer	**243,415**	81,808
Fair value of plan assets at December 31	**–**	5,228

Contributions made by the Company to non-state pension fund in 2008 is estimated as 244,000.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Equities of Svyazinvest Group companies	**–**	1.6%
Other Russian equities	**14.4%**	7.6%
Russian municipal bonds	**27.7%**	30.8%
Other Russian corporate bonds	**47.6%**	34.2%
Russian corporate promissory notes	**3.4%**	24.9%
Other assets	**6.9%**	0.9%

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

	2007	2006
Discount rate	**6.6%**	7%
Expected return on plan assets	**7.5%**	8.5%
Future salary increase	**9.2%**	9.2%
Relative salary increase (“promotion”)	**1%**	1%
Rate used for calculation of annuity value	**6%**	6%
Increase in financial support benefits	**5%**	5%
Staff turnover	**7%**	7%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

24. Pensions and Other Employee Benefits (continued)

Defined Benefit Schemes (continued)

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

	2007	2006	2005	2004	2003
Defined benefit obligations	**3,117,849**	3,171,983	3,444,677	1,094,121	987,787
Plan assets	**–**	5,228	187,898	115,823	111,550
Deficit	**3,117,849**	3,166,755	3,256,779	978,298	876,237
Experience adjustments on plan liabilities	**280,079**	639,749	39,989	–	–
Experience adjustments on plan assets	**(191)**	(4,059)	8,704	2,789	4,601

25. Provisions

	Personnel dismissal	Guarantees	Total
Balance at December 31, 2005 (as restated)	**17,440**	**33,081**	**50,521**
Accrued	19,324	–	19,324
Provision amortized	–	(5,230)	(5,230)
Used during the year	(17,440)		(17,440)
Balance at December 31, 2006 (as restated)	**19,324**	**27,851**	**47,175**
Accrued	216,826	–	216,826
Provision amortized	–	(9,841)	(9,841)
Used during the year	(10,707)	–	(10,707)
Unused amounts reversed	(5,060)	–	(5,060)
Balance at December 31, 2007	**220,383**	**18,010**	**238,393**

	Personnel dismissal	Guarantees	Total
Analysis of total provisions			
Long-term	–	18,010	18,010
Short-term	19,324	9,841	29,165
Total provisions at December 31, 2006 (as restated)	**19,324**	**27,851**	**47,175**
Long-term	–	8,195	8,195
Short-term	220,383	9,815	230,198
Total provisions at December 31, 2007	**220,383**	**18,010**	**238,393**

Guarantees

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

The total amount of loans guaranteed was 2,198,763 (2006 -2,761,800). Management of the Company estimates the probability of the need to execute these obligations as minimal.

Personnel Dismissal Plans

The Company accrued provision for termination payments to employees planned for dismissal according to the Plan of Personnel Headcount Optimization. Respective charge amounted to 216,826 (2006 – 19,324) and is included in Wages, Salaries, Other Benefits and Payroll Taxes of Consolidated Income Statement.

26. Revenue

	2007	**2006 as restated**
Mobile services	**12,470,594**	10,130,329
Local telephone calls	**10,046,892**	9,263,779
Interconnection and traffic transmission services	**5,316,789**	4,874,843
Intrazone telephone services	**4,764,916**	3,638,631
Data transfer and telematic services (Internet)	**3,501,731**	2,558,241
Assistance and agents services	**562,381**	890,614
Mobile and wireline radio and television	**488,201**	546,268
Rent of channels	**400,075**	325,466
Installation and connection fees	**366,370**	682,618
Other telecommunication services	**81,939**	27,761
Other revenues (non-core activities)	**1,146,733**	911,414
Total	**39,146,621**	33,849,964

In order to show ensure comparability of data, the Company made the following reclassifications of revenues for the year 2006:

	Before reclassi-fication	**Reclassi-fication effect**	**After reclassi-fication**	**Description**
Mobile services	10,132,688	(2,359)	10,130,329	To transfer to mobile and wireline radio and television services
Local telephone calls	8,221,982	1,041,797	9,263,779	Transfer from other revenue on city telecommunications and rural telecommunications and services for national operators
Services for national operators	5,166,100	(5,166,100)	–	Transfer to interconnection and traffic transmission, local telephone calls
Inter-regional telephone calls	3,520,194	118,437	3,638,631	Transfer from rent of channels, services for national operators
Interconnection and traffic transmission services	–	4,874,843	4,874,843	Transfer from services for national operators
New services (Internet, ISDN, ADSL, IP-telephony)	1,960,411	(1,960,411)	–	Transfer to data transfer and telematic services (Internet)
Data transfer and telemetric services (Internet)	–	2,558,241	2,558,241	Transfer from new services, documentary telecommunications, services for national operators
Other telecommunications services	980,214	(952,453)	27,761	Transfer to local telephone services, Intrazone telephone services
Installation and connection fees	682,618	–	682,618	
Data transmission and telematic services	565,236	(565,236)	–	Transfer to data transfer and telematic services (Internet)
Radio and TV broadcasting	484,526	(484,526)	–	Transfer to mobile and wireline radio and television
Rent of telephone channels	325,456	10	325,466	
Documentary services	46,129	(46,129)	–	Transfer to data transfer and telematic services (Internet)
Mobile and wireline radio and television	–	546,268	546,268	Transfer from radio and TV broadcasting
Assistance services	852,996	37,618	890,614	Transfer from other telecommunications service
Other revenue	911,414	–	911,414	

26. Revenue (continued)

Revenue from local telephone services included revenue from universal services in the amount of 113 (2006 – 1). In 2006 the Company won the tenders for the right to render universal services with use of payphones on the territory of the Urals Region and provides these services starting January 01, 2007.

Revenue from other services (non-core activities) includes revenue on rent of assets in the amount of 581,360 (2006 – 320,536).

The Company identified revenues by the following major customer groups:

Customer groups	2007	2006 as restated
Individuals	**22,448,954**	19,044,271
Corporate customers	**8,163,138**	6,269,615
Interconnected operators	**6,411,122**	6,606,248
Government customers	**2,122,968**	1,925,559
Social security authorities	**439**	4,271
Total	**39,146,621**	33,849,964

27. Other Operating Expenses

	2007	2006 as restated
Fire insurance and other security services	**491,289**	486,052
Universal service fund contributions	**385,376**	323,540
Charitable contributions, Contributions to labor union	**349,283**	333,085
Expenses for cleaning of premises	**345,606**	302,945
Payments to “Radiochastotniy centr”	**338,299**	190,689
Payments to non-commercial partnership Centre for Research of Problems in Development of Telecommunications (Note 36)	**336,105**	229,911
Property insurance	**261,542**	336,838
Audit and consulting fees	**249,722**	195,964
Business travel expenses and representation costs	**180,771**	172,887
Education expenses	**178,438**	123,506
Delivery of invoices, letters and telegrams	**154,421**	152,377
Transportation services	**80,296**	35,376
Bank services fees	**55,830**	97,843
Cost of goods sold	**46,592**	96,727
Civil Defense	**40,783**	40,242
Post services	**24,476**	16,064
Registration of immovable property	**16,586**	37,303
Other expenses	**676,242**	646,287
Total	**4,211,657**	3,817,636

28. Reimbursement on provision of Universal Services

Reimbursement of losses on provision of universal services in the amount of 757,607 (2006 – 0) is presented separately in consolidated income statement.

In 2007 in accordance with the terms of the agreements with the Federal Connection Agency on provision of universal services, losses incurred from universal services were refunded to the Company form the Universal Service Fund as following:

- 3,195 – with regard to services provided during 2006;
- 120,016 – with regard to services provided during the first half of 2007;
- 243,862 - with regard to services provided during the third quarter of 2007.

Loss for the year 2007 from provision of universal services amounted to 754,412 and was confirmed by an independent audit organization. Difference between the loss for the year 2007 and respective amount for 9 months 2007 was refunded to the Company in May 2008 in the amount of 390,534.

29. Interest Expense, Net

	2007	2006 as restated
Interest income	**108,254**	158,639
Interest expense on loans	**(1,836,530)**	(2,084,218)
Interest expense on finance leases	**(680,199)**	(464,860)
Interest expense on vendor financing	**(6,599)**	(7,839)
Total	**(2,415,074)**	(2,398,278)

30. Gain on Sale of Subsidiaries, Associates and Other Investments, Net

	2007	2006
Gain (loss) from sale of investments in subsidiaries	**(371)**	20,327
Gain from sale of investments in associates	**172,335**	–
Gain on sale of other investments	**6,365**	4,306
Dividends income	**1,861**	1,233
Total	**180,190**	25,866

31. Income Tax

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

	2007	2006 as restated
Income tax expense – current	**1,367,279**	764,751
Adjustments for current income tax of previous periods	**2,233**	(171,895)
Total current income tax expense	**1,369,512**	592,856
Deferred income tax expenses related to the origination of temporary differences	**132,716**	(116,520)
Income tax expense for the year	**1,502,228**	476,336

31. Income Tax (continued)

Profit before taxation for financial reporting purposes is reconciled to income tax expense as follows:

	2007	2006 as restated
Profit before income tax	**3,799,300**	1,234,804
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**911,832**	296,353
Increase resulting from the effect of:		
Non-deductible expenses	**590,396**	179,983
Total actual income tax expense	**1,502,228**	476,336
Effective tax rate	***40%***	*39%*

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

	December 31, 2005	Origination and reversal of differences	Disposal of subsidiaries	Reclassification into liabilities of disposal group held for sale	December 31, 2006 as restated	Origination and reversal of differences	December 31, 2007
Deferred tax assets:							
Accounts payable and accruals	16,133	85,407	–	–	101,540	68,899	170,439
Trade and other receivables	117,993	(80,684)	(8,359)	–	28,950	566	29,516
Finance lease obligations	375,335	234,940	–	–	610,275	355,719	965,994
Pension liabilities	50,109	57,643	–	–	107,752	234	107,986
Total deferred tax assets	**559,570**	**297,306**	**(8,359)**	–	**848,517**	**425,418**	**1,273,935**
Deferred tax liabilities:							
Property, plant and equipment	(2,896,143)	(166,979)	–	1,970	(3,061,152)	(597,154)	(3,658,306)
Intangible assets	(74,799)	3,946	–	14,736	(56,117)	11,113	(45,004)
Effect from investments valuation	(23,988)	(342)	–	–	(24,330)	21,997	(2,333)
Other	(22,368)	(17,411)	–	17,323	(22,456)	5,910	(16,546)
Total deferred tax liabilities	**(3,017,298)**	**(180,786)**	–	**34,029**	**(3,164,055)**	**(558,134)**	**(3,722,189)**
Total net deferred tax liabilities	**(2,457,728)**	**116,520**	**(8,359)**	**34,029**	**(2,315,538)**	**(132,716)**	**(2,448,254)**

Movement in the net deferred tax liabilities for 2007 and 2006 is as follows:

	2007	2006 as restated
Deferred tax liabilities at January 1, net	**(2,315,538)**	(2,457,728)
Deferred tax charge	**(132,716)**	116,520
Decrease of deferred tax assets as a result of subsidiaries disposal	–	(8,359)
Reclassification into liabilities of disposal group held for sale	–	34,029
Deferred tax liabilities at December 31, net	**(2,448,254)**	(2,315,538)

32. Earnings per Share

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

	2007	2006, restated
Profit for the year attributable to equity holders of the parent	**2,297,072**	757,420
Weighted average number of ordinary shares outstanding and other instruments, thousand	**40,134,723**	40,134,723
Basic and diluted profit per share attributable to equity holders of the parent, Russian Roubles	**0.0572**	0.0189

33. Dividends Declared

In 2007 in accordance with the decision of the general meeting of shareholders dividends were declared in the amount of 0.016393 Roubles per ordinary share and 0.026606 Roubles per preference share for the year ended December 31, 2006.

34. Contingencies and Operating Risks

Operating Environment of the Company

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

Taxation

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

Management believes that as of December 31, 2007 its interpretation of the relevant legislation is appropriate and, hence, the probability of the Company's retention of its position with regard to tax, currency and customs legislation is high.

Legal Proceedings

Management has no capacity to evaluate the development of Russian legal system and it influence on the financial position of the Company and its future operations.

In the foreseeable future the Company’s performance can be influenced by legal system reforms. Current consolidated finance statements contain no adjustments with regard to these uncertainties.

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

34. Contingencies and Operating Risks (continued)

Legal Proceedings (continued)

On December 1, 2006 the Company received The Decision of Tax Inspection #7 with regard to prosecution of the Company for violation of tax legislation based on results of tax inspection for the years 2003-2004. In accordance with this decision, the Company was assessed with taxes in the amount of 561,3 mln Roubles, penalties in the amount of 107,4 mln Roubles and fines in the amount of 87,9 mln Roubles.

The Company has successfully appealed this tax assessment in Moscow City Arbitration Court. According to the decision of first instance court as of October 17, 2007 tax authorities' claims were deemed unsubstantiated in the amount of 372,1 mln Roubles (66,3% of outstanding amount without considering fines and penalties). At the same time, the Court left without satisfaction the Company's claim regarding settlements for termination of intercity traffic in the amount of 187,2 mln Roubles. The Company has appealed. On May 21, 2008, the Ninth Arbitration Appeal court of the city of Moscow deemed invalid the tax claims to the Company in the amount of 556,7 mln Roubles for the years 2003-2004.

Licenses

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

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

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

35. Commitments

Operating Lease Obligations

As of December 31, 2007 and 2006 minimum lease payments under non-cancellable operating leases were as follows:

	2007	2006
	Minimum lease payments	**Minimum lease payments**
Current portion (less than 1 year)	**494,609**	459,150
From 1 to 5 years	**152,201**	73,323
Over 5 years	**118,524**	22,731
Total minimum lease payments	**765,334**	555,204

In 2007 operating lease expenses of the Company amounted to 649,806 (2006 – 558,714) and are presented separately in the consolidated income statement.

35. Commitments (continued)

Capital Investments

As of December 31, 2007 the Company had commitments for capital expenditures for modernization and expansion of its network in the amount of approximately 91,222 (2006 – 5,144,154).

In 2008 the Company plans to make capital investments in the amount of 8,100,000, including 2,189,415 for the purposes of bringing its networks in compliance with industry requirements; 960,092 with regard to obligations on provision of universal services under current agreements. The Company plans to finance purchase of the equipment for provision of universal services primarily via finance lease.

36. Balances and Transactions with Related Parties

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

Item	OJSC "Svyazinvest"	Companies of OJSC Svyazinvest Group	Associates	State-controlled companies	Other
2006					
Provision of telecommunication services, interconnection and traffic transmission services	–	3,314,337	75,973	687,852	4,625
Rendering assistance and agency services	–	840,829	–	–	–
Other services, sale of goods	–	75,822	101,837	40,362	5,751
Purchase of telecommunication services, interconnection and traffic transmission services	–	201,203	11,665	167,431	1,585
Purchase of other services	–	592,680	19,932	570,271	18,739
Purchase of goods and other assets	–	152,782	–	90	7,016
Dividends receivable	–	1,066	37	–	671
2007					
Provision of telecommunication services, interconnection and traffic transmission services	–	**2,496,111**	**101,121**	**745,559**	**8,220**
Rendering assistance and agency services	–	**529,782**	–	–	–
Other services, sale of goods	–	**2,435**	**40,479**	**65,619**	**2,268**
Sale of Property, Plant and equipment and other assets	–	–	**6,828**	–	–
Purchase of telecommunication services, interconnection and traffic transmission services	–	**166,969**	**25,630**	**213,243**	**1,255**
Purchase of other services	–	**770,479**	**3,373**	**701,787**	**2,001**
Purchase of goods and other assets	–	**1,610**	–	–	–
Dividends receivable	–	**1,530**	**222**	–	–
Dividends payable	**247,957**	–	–	–	–

Purchase of other services from the companies of OJSC Svayzinvest Group primarily includes the services received according to the agreements with OJSC "Svyazintek", Non-state pension fund "Telecom-Soyuz", non-commercial partnership "Centre for Research of Problems in Development of Telecommunications".

Significant Company's related party transactions balances outstanding as at December 31, 2006 and 2007 are detailed below.

	OJSC "Svyazinvest"	Companies of OJSC Svyazinvest Group	Associates	State-controlled companies	Other
At December 31, 2006					
Trade and other receivables	–	563,029	17,919	64,266	15,042
Accounts payable	–	52,937	110	31,341	244
At December 31, 2007					
Trade and other receivables	–	**265,729**	–	**95,328**	**2,739**
Accounts payable	–	**52,660**	–	**51,250**	**1,699**

36. Balances and Transactions with Related Parties (continued)

OJSC "Svyazinvest"

The parent entity of OJSC "Uralsvyazinform" – OJSC "Svyazinvest" - was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of "Svyazinvest" to the private sector.

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

The Federal Service on Inspection in Mass Media, Telecommunication and Security of Social Heritage has control over the licensing of providers of telecommunications services.

OJSC "Rostelecom"

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

The revenues associated with OJSC "Rostelecom" are represented by the proceeds from traffic transmission services rendering by the Company to OJSC "Rostelecom" under the interconnection agreement as well as by the fees received under the assistance agreement which includes both the agency and service provision clauses.

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

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

	2007	2006
Revenues from services provided to OJSC "Rostelecom"	**(2,998,642)**	(4,196,672)
Expenses on OJSC "Rostelecom" services	**141,080**	180,070
Accounts receivable from OJSC "Rostelecom" as of December 31	**256,854**	414,292
Accounts payable to OJSC "Rostelecom" as of December 31	**(35,101)**	(48,494)

Transactions with Government Organizations

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

Certain entities financed by the state budget are users of the Company's network. These entities generally lease lines of communications and are charged lower tariffs as approved by the Federal Tariff Service than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

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

The Company is not able to disconnect a number of such companies which are considered to be state strategic entities under decisions of the Russian government. Tariffs for such companies are established by the regulator at the same level as similar tariffs for commercial entities.

36. Balances and Transactions with Related Parties (continued)

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

The non-commercial partnership "Centre for Research of Problems in Development of Telecommunications" (hereinafter "the Partnership") is an entity controlled by OJSC "Svyazinvest" through its subsidiaries. The Company has an agreement with the Partnership under which it provides funding for industry research and administrative activities on behalf of the Company and of other subsidiaries and associates of OJSC "Svyazinvest".

Payments to the Partnership are included in other operating expenses in the consolidated income statement for the year ended December 31, 2007 and amounted to 336,105 (2006 - 229,911).

OJSC "Svyazintek"

OJSC "Svyazintek" was founded by OJSC "Svyazinvest" subsidiaries which own among them 100% of its share capital, for implementation and further support of information systems, and coordination and management of Svyazinvest Group projects related to information technologies. In 2007 OJSC Svyazintek provided the Company with the services related to implementation and support of information systems, in particular, of the software Oracle E-Business Suite and Amdocs Billing Suite. In 2007 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 270,108 (2006 – 193,144), of which 29,159 (2006 – 0) were recognized in the income statement and the rest was included in intangible assets (Note 7).

NPF "Telecom-Soyuz"

The Company signed the agreement with non-state pension fund "Telecom-Soyuz" on the pension plans (Note 24). The majority in the Board of Directors of NPF "Telecom-Soyuz" belongs to OJSC "Svyazinvest". Total payments from the Company to the Fund in 2007 amounted to 228,503 (2006 - 314,153) and were included in wages and salary expenses in the consolidated income statement.

Compensation to Key Management Personnel

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

In 2007 compensation to members of the Board of Directors and Management Board of OJSC "Uralsvyazinform" included salary, bonuses and other compensations in the amount of 111,537 (2006 – 101,172) including salary, bonuses and other compensation to employees of OJSC "Uralsvyazinform" in the key management positions in the amount of 85,893 (2006 – 70,295). Amounts of compensation are stated inclusive of the uniform social tax.

In 2007 the Company made a contribution of 3,140 to the non-state pension fund (2006 – 2,560) for its key management personnel.

37. Financial Instruments

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

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

37. Financial Instruments (continued)

Capital Management Policy

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

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

The Company manages its capital through the financial independence ratio, net debt/shareholder's equity and net debt/EBITDA ratios. The Company's policy is to maintain financial independence ratio within a range of 0.5-0.4, net debt/shareholder's equity within a range of 1.87-0.57, and net debt/EBITDA within a range of 1.88-1.09.

As of December 31, 2007 international rating agency Standard&Poor's estimated credit rating of the Company as BB- (2006 – BB-). Under the policy of capital management the Company's approach is to increase the credit rating up to BB+.

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

Since OJSC "Uralsvyazinform" is a holding company, ratios, used in management of capital are calculated for it using the statutory accounting data. The financial independence ratio is calculated as shareholder's equity to the balance sheet total at the end of the period. Net debt/shareholder's equity is calculated as net debt to shareholder's equity at the end of the period. Net debt/EBITDA is calculated as net debt at the year-end to EBITDA for the period. Ratios used for capital management for the years 2006 and 2007 were as following:

	2007	**2006**
Financial independence ratio	**0.41**	0.37
Net debt */shareholder's equity	**1.03**	1.28
Net debt * /EBITDA	**1.67**	2.41

* Net debt – loans, borrowings (including promissory notes and bonds), vendor financing, lease obligations

Foreign Exchange Risk

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

As of December 31, 2007 the Company's liabilities in foreign currencies were 2,309,604 (2006, as restated – 2,072,535), including liabilities denominated in US dollars 636,051 (2006, as restated – 265,794) and Euro 1,673,553 (2006, as restated – 1,806,741).

For the period from January 1, 2007 to December 31, 2007 exchange rate of the Russian Rouble to US Dollar increased by approximately 6.78% and exchange rate of the Russian Rouble to Euro decreased by 4% which resulted in the increase of Rouble amount of the borrowings approximately by 16,496.

37. Financial Instruments (continued)

Foreign Exchange Risk (continued)

The following table demonstrates the sensitivity of the profit with regard to the foreign exchange risk:

	USD		EUR	
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2007	+10	(62,926)	+5	(79,963)
	-10	62,926	-5	79,963
2006	+10	(20,445)	+5	(85,603)
	-10	20,445	-5	85,603

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

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

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

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

The Company performs the foreign exchange risk evaluation on regular basis. In case of evaluation of risk as significant, the Company would undertake the following measures to decrease the risk:

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results. Interest rate risk is mainly applicable to borrowings with floating interest rate which is primarily determined for the Company's borrowings based on EURIBOR and MosPrime.

The table below presents the Company's financial instruments by maturity dates as of December 31, 2007 and December 31, 2006:

37. Financial Instruments (continued)

Interest Rate Risk (continued)

	< 1 year	1–5 years	> 5 years	Total
As of December 31, 2007:				
Fixed rate:				
Short-term obligations	463,760	–	–	463,760
Long-term obligations	5,322,360	8,515,943	7,838	13,846,141
Finance lease obligations	1,567,531	2,762,409	–	4,329,940
Loans given	20,272	115,173	–	135,445
Floating rate:				
Long-term obligations	3,768,344	4,040,870	138,975	7,948,189

	< 1 year	1–5 years	> 5 years	Total
As of December 31, 2006:				
Fixed rate:				
Short-term obligations	1,265,201	–	–	1,265,201
Long-term obligations	4,270,734	8,776,632	755,915	13,803,281
Finance lease obligations	1,002,858	1,735,348	–	2,738,206
Loans given	18,969	119,948	–	138,917
Floating rate:				
Long-term obligations	459,248	7,231,803	310,386	8,001,437

Sensitivity of profit with regard to the interest rate risk is presented in the table below:

	EURIBOR		**Mosprime RZBM**	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2007	+10	(1,521)	+20	(1,000)
	-10	1,521	-20	1,000
2006	+10	(1,646)	+20	(2,600)
	-10	1,646	-20	2,600

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

- Use of swaps floating rates;
- Refinancing of borrowings with the floating interest rates.

Credit Risk

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

Financial assets potentially subjecting the Company to credit risk consist primarily of trade receivables. Carrying amount of accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk.

The Company has no significant concentrations of credit risk due to significance of the client base and regular monitoring procedures over customers' and other debtors' ability to repay debts. A part of accounts receivable is represented by debts of state and other non-profit organizations. Recovery of these debts is influenced by political and economic factors; however, management believes that as of December 31, 2007 the Company has no significant impairment losses beyond the respective provision already recorded.

37. Financial Instruments (continued)

Credit Risk (continued)

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

Liquidity Risk

The Company monitors its risk of a shortage of funds using a liquidity planning tool. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bonds and finance leases.

The Company's debt matures as following.

As of December 31, 2007:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Restructured payments for connection	Total
within 2008	5,837,665	4,752,217	584,506	28,645	16,349	11,219,382
within 2009	3,642,250	3,124,274	–	–	4,900	6,771,424
within 2010	783,225	–	–	–	5,750	788,975
within 2011	3,090,712	–	–	–	9,420	3,100,132
within 2012	3,860,146	–	–	–	714	3,860,860
after 2012	344,488	–	–	–	16,996	361,484
Total	**17,558,486**	**7,876,491**	**584,506**	**28,645**	**54,129**	**26,102,257**

As of December 31, 2006:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Restructured payments for connection	Total
within 2007	2,401,210	3,992,913	651,653	758,534	4,048	7,808,358
within 2008	7,452,438	4,617,007	–	–	10,562	12,080,007
within 2009	1,657,303	3,187,876	–	–	9,650	4,854,829
within 2010	321,321	–	–	–	5,750	327,071
within 2011	1,416,460	–	–	–	9,810	1,426,270
after 2011	492,980	–	–	–	17,312	510,292
Total	**13,741,712**	**11,797,796**	**651,653**	**758,534**	**57,132**	**27,006,827**

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

In case when the liabilities were nominated in foreign currency, the exchange rate for the projected periods was taken equal to the rates as of the reporting date.

In case when the interest rate included floating part, the rate was set as equal to the interest rate as of the reporting date.

Calculations are made with the use of nominal interest rate. Effective interest rates used in determination of carrying values of liabilities are not used when calculating the projected interest. Total undiscounted cash flows differ from the amount included in the balance sheet due to the difference in presentation requirements.

37. Financial Instruments (continued)

Hedging

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

Fair Value of Financial Instruments

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

		2007		2006	
Type of financial instrument	**Category***	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets					
Long-term investments, available for sale	ASFA	**39,190**	39,190	38,808	38,808
Long term receivables	LR	**12,904**	12,904	12,565	12,565
Long-term loans issued	LR	**116,181**	116,181	159,987	159,987
Short-term accounts receivable	LR	**2,523,346**	2,523,346	2,186,382	2,186,382
Cash and cash equivalents	LR	**705,025**	705,025	645,574	645,574
Total financial assets		**3,396,646**	3,396,646	3,043,224	3,043,224
Financial liabilities					
Long-term borrowings	FLAC	**9,729,446**	9,729,446	10,192,574	10,192,574
Long-term bonds	FLAC	**2,936,399**	3,015,000	6,829,078	7,086,500
Restructured payments of subscribers	FLAC	**37,781**	37,780	53,084	53,084
Long-term finance lease obligations	FLAC	**2,762,409**	2,762,409	1,735,348	1,735,348
Long-term financial guarantees issued	FG	**8,195**	8,195	18,010	18,010
Short term Accounts payables	FLAC	**4,009,154**	4,009,154	3,989,256	3,989,256
Short term borrowings	FLAC	**–**	–	740,000	740,000
Short-term promissory notes	FLAC	**28,645**	28,645	55,288	55,288
Short-term vendor financing	FLAC	**435,116**	435,116	469,913	469,913
Current portion of borrowings	FLAC	**4,788,802**	4,788,802	736,649	736,649
Current portion of bonds	FLAC	**4,136,163**	4,014,000	3,213,830	3,012,300
Current portion of promissory notes	FLAC	**–**	–	593,713	593,713
Current portion of vendor financing	FLAC	**149,390**	149,390	181,741	181,741
Current portion of Restructured payments of subscribers	FLAC	**16,349**	16,349	4,048	4,048
Current portion of finance lease obligations	FLAC	**1,567,531**	1,567,531	1,002,857	1,002,857
Short-term financial guarantees issued	FG	**9,815**	9,815	9,841	9,841
Total financial liabilities		**30,615,194**	**30,571,632**	**29,825,230**	**29,881,122**

37. Financial Instruments (continued)

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

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

Data on Company's fair value financial instruments as of December 31, 2007 and 2006 broken down by category of financial instruments are presented in the table below:

	2007		2006	
Category of financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Available-for-sale financial assets	39,190	39,190	38,808	38,808
Loan and receivables	3,357,456	3,357,456	3,004,416	3,004,416
Total financial assets	**3,396,646**	**3,396,646**	**3,043,224**	**3,043,224**
Financial liabilities				
Liabilities, carried at amortized cost	30,597,184	30,553,622	29,797,379	29,853,271
Financial guarantees	18,010	18,010	27,851	27,851
Total financial liabilities	**30,615,194**	**30,571,632**	**29,825,230**	**29,881,122**

38. Events after the Balance Sheet Date

38.1 Dividends

In June 2008 the general shareholders` meeting of the Company approved dividends for the year 2007 in the amount of 0.047031 Russian Rubles for one preference share and 0.022821 Russian Rubles for one ordinary share. Total amount of dividends declared equals 368,523 and 737,091 for preference shares and ordinary shares, respectively. Dividends for the year ended December 31, 2007, will be paid out during the year 2008 and will be recognized in the financial statements for the year ended December 31, 2008.

38.2 Tariffs for Telecommunication Services

According to industry regulations, the compensation markup on local and zone calls initiation was canceled starting January 1, 2008. The Company expects significant decrease in respective revenues.

In accordance with the decision of Russian Federal Tariff Service, tariffs for local telephone services for individual subscribers with dual circuit are reduced as follows effective January 1, 2008:

- the tariff for permanent use of a subscriber line was reduced by 25% for all types of lines;
- the tariff for provision of local telephone connections, for certain tariff plans with fixed and combined payment scheme, was reduced by 50%.

38.3 Investment in CJSC "Systems of Hybrid Printing"

In accordance with the Board of Directors decision, in the year 2008 the Company plans to acquire 3,529 thousands of ordinary nominal uncertificated shares of CJSC "Systems of Hybrid Printing" for 352,950 which equals 5,43% of its charter capital.

38. Events after the Balance Sheet Date (continued)

38.3 Investments in CJSC "Systems of Hybrid Printing" (continued)

The shares will be acquired in order to participate in the project of hybrid printing development on the territory of Russian Federation.

38.4 Bonds

In April 2008 the Company placed an issue of 2,000,000 inconvertible interest-bearing documentary bearer's bonds series 08 with a par value of 1,000 rubles each. The bonds have 10 coupons. First coupon payment is due on the 182nd day from the date of issue and the other coupons repayment will be held each 182 days. The bonds are to be redeemed as following: 50% of the issue together with the coupon starting from the 9th coupon period. Rate for first four coupons is 9.6%. Other coupons rates are determined by the Company 10 days before the next coupon payment is due.

38.5 Credit line from Sberbank

In April 2008 the Company obtained from Sberbank a non-renewable credit line in amount 1,000,000. Interest rate is 11% p.a.. The credit line agreement expires in the year 2013. The line is secured by the pledged fixed assets with total pledge amount of 1,029,000.

38.6 Credit Lines from Gazprombank

In April 2008 the Company obtained from Gazprombank several renewable credit lines in the total amount of 1,650,000. Interest rate is 11.2% p.a. The credit line agreements expire in the year 2011. Credit lines are not secured.

38.7 Tax Claims

On May 21, 2008 the Ninth Arbitration Appeal Court of the city of Moscow deemed unsubstantiated the tax claim of the Federal Tax Service of the Russian Federation for the amount of 556,7 mln Roubles for the years 2003 – 2004.

38.8 Tax Inspection

In April 2008 the tax authorities have started an inspection of the Company's taxes for the years 2005-2007. As of the date when these financial statements have been authorized for issue, the tax inspection has not been completed.