Open Joint Stock Company
“North-West Telecom”

Consolidated Financial Statements

Year ended December 31, 2007
with Report of Independent Auditors

Open Joint Stock Company "North-West Telecom"

Consolidated Financial Statements

For the year ended December 31, 2007

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of OAO NWT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

June 2, 2008

Open Joint Stock Company "North-West Telecom"
Consolidated Balance Sheet
as of December 31, 2007

(in millions of Rubles)

	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	**7**	**34,846**	28,010
Intangible assets	**8**	**4,619**	2,864
Investments in associates	**10**	**125**	98
Long-term investments	**11**	**224**	10,239
Advances to non-current asset suppliers	**12**	**233**	627
Other non-current assets	**13**	**78**	203
Total non-current assets		**40,125**	42,041
Current assets			
Inventories	**14**	**304**	308
Accounts receivable, net	**15**	**1,611**	1,363
Short-term investments	**11**	**6,394**	-
Other current assets	**16**	**1,063**	1,030
Cash and cash equivalents	**17**	**503**	244
Total current assets		**9,875**	2,945
TOTAL ASSETS		**50,000**	44,986
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**19**	**2,855**	2,855
Treasury shares	**19**	**(67)**	(67)
Unrealized gain on available-for-sale investments		**152**	7,295
Additional paid-in-capital and retained earnings		**25,922**	16,334
Total equity attributable to equity holders of the parent		**28,862**	26,417
Minority interest		**-**	-
Total shareholders' equity		**28,862**	26,417
Non-current liabilities			
Long-term borrowings	**20**	**5,640**	7,578
Long-term finance lease obligations	**21**	**12**	137
Pension liabilities and other employee benefits	**24**	**1,838**	1,637
Deferred revenue		**303**	322
Deferred taxes	**30**	**1,234**	3,765
Other non-current liabilities		**1**	2
Total non-current liabilities		**9,028**	13,441
Current liabilities			
Accounts payable, accrued liabilities and advances received	**22**	**4,254**	2,615
Taxes and social contributions payable	**23**	**2,590**	307
Dividends payable		**20**	17
Short-term borrowings	**20**	**79**	82
Current portion of long-term borrowings	**20**	**5,040**	1,937
Current portion of long-term finance lease obligations	**21**	**127**	170
Total current liabilities		**12,110**	5,128
Total liabilities		**21,138**	18,569
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**50,000**	44,986

General Director ____________ V.A. Akulich   Chief Accountant ___________ M.M. Semchenko

The accompanying notes on pages from 8 to 73 form an integral part of these consolidated financial statements.

Open Joint Stock Company “North-West Telecom”
Consolidated Income Statement
For the year ended December 31, 2007
(in millions of Rubles)

	Notes	2007	2006
Revenues	**25**	**24,226**	20,650
Wages, salaries, other employee benefits and payroll taxes		**(7,797)**	(7,094)
Depreciation and amortization	**7,8**	**(4,562)**	(3,774)
Materials, repairs and maintenance, utilities		**(2,563)**	(2,500)
Taxes other than income tax		**(614)**	(511)
Services of telecommunication operators		**(1,813)**	(1,470)
Reversal of provision for impairment of receivables	**15**	**29**	191
Loss on disposals of property, plant and equipment and intangible assets, net		**(44)**	(90)
Other operating expenses	**26**	**(3,057)**	(2,616)
Other operating income	**27**	**476**	98
Total operating expenses		**(19,945)**	(17,766)
Operating income		**4,281**	2,884
Share in result of associates, net	**10**	**27**	1
Interest expense, net	**28**	**(796)**	(688)
Profit (loss) from investments, net	**29**	**9,603**	(8)
Foreign exchange gain (loss), net		**159**	(16)
Profit before income tax		**13,274**	2,173
Income tax	**30**	**(3,161)**	(902)
Profit for the year		**10,113**	1,271
Profit for the year attributable to:			
Equity holders of the parent		**10,113**	1,271
Minority holders of subsidiaries		**-**	-
Basic and diluted earnings per share (Russian Rubles) for profit for the year attributable to equity holders of the parent	**31**	**8,98**	1,13

General Director ___________ V.A. Akulich Chief Accountant __________ M.M. Semchenko

The accompanying notes on pages from 8 to 73 form an integral part of these consolidated financial statements.

Open Joint Stock Company “North-West Telecom”

Consolidated Cash Flow Statement

For the year ended December 31, 2007

(in millions of rubles)

	Notes	2007	2006
Cash flows from operating activities			
Profit before tax		**13,274**	2,173
Adjustment to reconcile income before tax to net cash flows generated from operating activities			
Foreign exchange gain (loss), net		**(159)**	16
Depreciation and amortization	**7,8**	**4,562**	3,774
Loss on disposals of property, plant and equipment and intangible assets, net		**44**	90
Share in result of associates, net	**10**	**(27)**	(1)
Profit (loss) from investments, net	**29**	**(9,603)**	8
Interest expense, net	**28**	**796**	688
Reversal of provision for impairment of receivables	**15**	**(29)**	(191)
Movement in pension liabilities and other employee benefits	**24**	**201**	335
Other gain (losses), net		**-**	25
Operating profit before working capital change		**9,059**	6,917
Decrease in accounts receivable		**291**	37
Decrease in other current assets		**185**	256
Decrease (increase) in inventories		**4**	(7)
Increase in accounts payable, accrued liabilities and advances received		**535**	246
Decrease (increase) in taxes, other than income tax, and social contributions payable		**87**	(388)
Increase in contingency provision		**-**	10
Cash flows generated from operations		**10,161**	7,071
Interest paid		**(943)**	(818)
Income tax paid		**(1,319)**	(844)
Net cash flows from operating activities		**7,899**	5,409
Cash flows from investing activities			
Purchase of property, plant and equipment and construction in progress		**(9,083)**	(4,720)
Purchase of intangible assets		**(524)**	(936)
Purchase and implementation of Oracle E-Business Suite		**(132)**	(146)
Purchase and implementation of Amdocs Billing Suite		**(2)**	(140)
Purchase of subsidiaries and minority interest, net of cash acquired		**(2,307)**	3
Purchase of investments and other financial assets		**(8,080)**	(14)
Disposal of investments and other financial assets		**12,123**	1,052
Proceeds from sale of property, plant and equipment and construction in progress		**187**	149
Loans given		**(25)**	(28)
Proceeds from repayment of loans given		**14**	3
Interest received		**57**	59
Dividend received		**1**	5
Net cash flows used in investing activities		**(7,771)**	(4,713)

General Director ____________ V.A. Akulich Chief Accountant ___________ M.M. Semchenko

The accompanying notes on pages from 8 to 73 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement (continued)

	Notes	2007	2006
Cash flows from financing activities			
Proceeds from issue of shares		**-**	17
Acquisition of treasury shares		**-**	(32)
Proceeds from borrowings		**10 245**	7 970
Repayment of borrowings		**(7 929)**	(9 202)
Proceeds from bond issue		**-**	1 993
Repayment of bonds		**(1 050)**	(450)
Repayment of finance lease obligations		**(213)**	(218)
Repayment of supplier credits		**(44)**	(90)
Repayment of promissory notes issued to acquire Amdocs Billing Suite		**-**	(178)
Repayment of promissory notes		**(7)**	(17)
Dividend paid to parent shareholders		**(523)**	(392)
Dividend paid to minority shareholders		**-**	-
Dividend paid by ZAO PTT to OAO Telecominvest for 2006		**(348)**	-
Net cash flows used in financing activities		**131**	(599)
Effect of exchange gain (loss) on cash and cash equivalents		**-**	(5)
Decrease in cash and cash equivalents, net		**259**	92
Cash and cash equivalents at the beginning of year		**244**	152
Cash and cash equivalents at the end of year		**503**	244
Non-monetary transactions:			
Non-cash additions to property, plant and equipment	**18**	**3**	32

General Director _____________ V.A. Akulich Chief Accountant _____________ M.M. Semchenko

Open Joint Stock Company “North-West Telecom”

Consolidated Statement of Changes in Equity

For the year ended of December 31, 2007

(in millions of Rubles)

	Notes	Share capital: Preference shares	Share capital: Ordinary shares	Share capital: Treasury shares	Retained earnings	Additional-paid-in capital	Unrealized gain on available-for-sale investments	Total shareholders’ equity, parent	Minority interests	Total equity
Balance at December 31, 2005		**622**	**2,233**	**(57)**	**12,933**	**2,502**	**5,547**	**23,780**	**9**	**23,789**
Profit (loss) for the year		-	-	-	1,271	-	-	1,271	-	1,271
Dividends paid to equity holders of parent		-	-	-	(394)	-	-	(394)	-	(394)
Purchase of treasury shares		-	-	(32)	-	-	-	(32)	-	(32)
Sale of treasury shares		-	-	22	-	23	-	45	-	45
Change in fair value of investments available-for-sale		-	-	-	-	-	1,748	1,748	-	1,748
Acquisition of minority interests		-	-	-	(1)	-	-	(1)	(9)	(10)
Balance at December 31, 2006		**622**	**2,233**	**(67)**	**13,809**	**2,525**	**7,295**	**26,417**	**-**	**26,417**
Profit for the year		**-**	**-**	**-**	**10,113**	**-**	**-**	**10,113**	**-**	**10,113**
Dividends paid to equity holders of parent	**32**	**-**	**-**	**-**	**(525)**	**-**	**-**	**(525)**	**-**	**(525)**
Change in fair value of investments available-for-sale		**-**	**-**	**-**	**-**	**-**	**28**	**28**	**-**	**28**
Sale of investments available-for-sale	**11**	**-**	**-**	**-**	**-**	**-**	**(7,171)**	**(7,171)**	**-**	**(7,171)**
Balance at December 31, 2007		**622**	**2,233**	**(67)**	**23,397**	**2,525**	**152**	**28,862**	**-**	**28,862**

General Director ____________ V.A. Akulich

Chief Accountant ___________ M.M. Semchenko

1. General Information

The Company

The consolidated financial statements of Open joint stock company North-West Telecom and its subsidiaries (hereinafter " the Company" or OAO NWT) for the year ended December 31, 2007 were authorized for issue by the General Director and the Chief Accountant of the Company on June 2, 2008.

OAO NWT is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The registered office of the Company is 14/26, Gorokhovaya Str., St. Petersburg, Russia.

The Company provides telephony services (including local and intrazone telephony), telegraph, data transmission services, rent of communication channels and wireless communication services in the North-West Region of the Russian Federation.

Open joint stock company Svyazinvest, a federal holding company controlled by the Russian Federation, owns 50.8% of the Company's voting shares and as of December 31, 2007 is the parent company for OAO NWT.

The details of the main subsidiaries of the Company are disclosed in Note 9. All subsidiaries are duly incorporated in accordance with the laws of the Russian Federation unless stated otherwise.

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 borrowing.

In 2007, the Company borrowed short and long-term funds to finance its operations, primarily in the form of bank loans. In 2007, the Company timely and in full met its obligations when they fell due.

As of December 31, 2007 current liabilities of the Company exceeded its current assets by 2,235 (2006: 2,182).

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

- Organization of a syndicated loan for the total amount of 200 millions US Dollars (scheduled in the third quarter of 2008);
- Placement of the 5th bond issue for the total amount of 3,000 (Note 38);
- Long-term bank loans obtained from Russian credit institutions.

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

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

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

1. General Information (continued)

Telecommunications Legislation

Establishment of New Tariffs Based on Tariff Plans

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

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

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

Ceiling tariffs have been established for the Company to charge for interconnection services, including ceiling tariffs for establishing and servicing interconnection points and traffic transmission services within the public telephone network. The Company has established tariffs for interconnection services, call initiation and termination services at the maximum level of the ceiling tariffs, 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 intrazone call initiation services for long-distance domestic and international telephone calls for the period through January 1, 2008.

Change in Tariff Calculation Rules

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

- The tariff for provision of a subscriber line of any type for permanent use to a subscriber was reduced for OAO NWT by 33% on average;
- The tariff for provision of local telephone connection services (where the operator lacks technical capability to carry out time-based accounting for local telephone calls and uses combined and fixed payment schemes) was reduced for OAO NWT by 50% on average.

Universal Telecommunication Services

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

1. General Information (continued)

Telecommunications Legislation (continued)

Universal Telecommunication Services (continued)

The Company has tendered for the right to provide universal telecommunication services, specifically telephone services using payphones, in its licensed areas. In 2007, the Company won 14 tenders (2006: 5 tenders) and entered into 88 agreements with the Federal Telecommunications Agency, which outline the terms and conditions of providing universal telephone services using payphones (2006: 16 agreements).

As of December 31, 2007, the Company had to install the total of 12,777 payphones pursuant to the above agreements, and actually 13,266 payphones were placed in service (connected to the own payphone system ZUT-01).

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

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

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

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

Information on the amount of reimbursed losses from universal telecommunication services is provided in Note 27.

National Projects

In 2006-2007, the Company was involved in the implementation of the national priority project “Education”. As part of this project, in 2007 the Company’s branches connected 1,196 of educational institutions in the territory of the North-West Region of the Russian Federation (2006: 1,646) to the Internet.

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

The Company’s costs incurred to connect educational institutions totaled 2,291 in 2007 (2006: 415).

1. General Information (continued)

Telecommunications Legislation (continued)

Plans to Digitalize the Company’s Networks

At the end of 2007 61.5% of local telephone networks have been digitalized. Commissioning of new electronic telephone exchanges and replacement of quasi-electronic and analog telephone exchanges with electronic ones help the Company improve the quality and range of services and meet industry requirements.

Changes in the Numbering Plan

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

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

The second phase (2008) involves:

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

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

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

2. Basis of Presentation of the Financial Statements

Statement of Compliance

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

Presentation of Financial Statements

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

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

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.

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

Basis of Accounting (continued)

The consolidated financial statements have been prepared under the historical cost convention except for the following items: property, plant and equipment recognized at fair value, which was used as an actual cost of the property, plant and equipment as of the date of transition to IFRS; available-for-sale investments 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 result of operations or financial position of the Company. They did however give rise to additional disclosures in the consolidated financial statements for 2006 and 2007.

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

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

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

IFRS 7 "Financial Instruments: Disclosures"

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

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.

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.

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

Changes in Accounting Policies (continued)

IFRIC 10 "Interim Financial Reporting and Impairment"

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

IFRSs and IFRIC Interpretations Approved but not yet Effective

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

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

IFRS 8 "Operating Segments"

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

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

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

IAS 23 (amended 2006) "Borrowing Costs"

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

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

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

IFRIC 12 "Service Concessions Arrangements"

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

IFRIC 13 "Customer Loyalty Programs"

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

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

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

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

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" require some financial instruments and liabilities arising from the liquidation under certain conditions be classified as equity. It also sets out which information related to puttable financial instruments to be classified as equity is subject to disclosure. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

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

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

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

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

IFRS 3 (amended 2008) “Business Combinations”

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

IAS 27 (amended 2008) “Consolidated and Separate Financial Statements”

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

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

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OAO NWT 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 owned by the Company and 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.

Acquisition of Minority Interest in Subsidiaries

The difference between the cost and carrying value of additional interest acquired in the net assets of a subsidiary is reported in shareholders' equity as of the date of transaction as acquisition of minority interest and is charged to retained earnings and reserves.

3.2. Property, Plant and Equipment

3.2.1 Cost of Property, Plant and Equipment

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

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.

(in millions of Rubles, unless otherwise indicated)

3. Summary of Significant Accounting Policies (continued)

3.2. Property, Plant and Equipment (continued)

3.2.2 Depreciation and Useful Life

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Property, plant and equipment groups	Number of years
Land, buildings and constructions	
Land plots	Non-depreciable
Buildings	7-70 years
Transfer mechanisms (communication lines)	15 years
Other constructions (except communication lines)	7 - 30 years
Switches and transmission devices	
Switches	10 years
Other network equipment	3 - 10 years
Vehicles and other property, plant and equipment	
Vehicles	3 -10 years
Computers and office equipment	2 - 6 years
Other property, plant and equipment	1 - 7 years

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

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

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

Following the adoption by the Russian Federation Ministry of Communications and Information Technologies of order No. 142 of November 17, 2006 (Note 1), the Company reassessed the remaining useful lives for equipment to be replaced due to the conversion to a closed numbering plan.

Effect of reassessment of remaining useful lives is disclosed in Note 7.

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 Property, Plant and Equipment Received Free of Charge

Production equipment and other assets attributable to the Company's core business transferred to the Company free of charge outside the privatization process are capitalized at market value at the date of transfer. Transfers of equipment mainly relate to the rendering by the Company of future services to the transferor using the assets transferred. In this case, the Company recognizes the deferred revenue in the amount of the fair value of the received property, plant and equipment and reflects them in the income statement on the same basis that the equipment is depreciated.

3.3 Intangible Assets

3.3.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on the acquisition of an associate is included in investments in associates. Following initial recognition, goodwill is measured at cost less any 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 so 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. Summary of Significant Accounting Policies (continued)

3.3 Intangible Assets (continued)

3.3.2 Other Intangible Assets

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

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

The Company assesses whether the useful life of an intangible asset is finite or indefinite.

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

Useful lives of intangible assets are disclosed in Note 8.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite life assessment is no longer supportable, the Company changes the assessment from indefinite to finite and changes the accounting treatment of such assets in the future periods.

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.

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

3.5 Associates

Associates are entities in which the Company generally owns 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 using the equity method of accounting.

3.6 Investments and Other Financial Assets

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not classified as "financial assets valued at fair value through profit or loss", directly attributable transaction costs.

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.

3. Summary of Significant Accounting Policies (continued)

3.6 Investments and Other Financial Assets (continued)

Purchases and sales of financial assets are recognized on the trade date, which is the date when the asset is delivered to the purchaser.

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less allowance for impairment. The amortized cost is calculated taking into account any discount or premium on acquisition and includes commission fees that are an integral part of the effective interest rate, as well as transaction costs. Gains and losses are recognized in income statement when the assets are derecognized or impaired, as well as through the amortization process.

If there is objective evidence of impairment loss on loans and receivables carried at amortized cost, 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 on initial recognition). The carrying amount is reduced by using the provision account. The loss is recognized in the income statement.

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

Short-term receivables are reported in the amount of the invoice issued net of any doubtful debt provision. The provision is based on historical collectibility and specific collectibility analysis of significant accounts. Bad debts are written off in the period when they are classified as irrecoverable.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale investments are measured at fair value with gains or losses recognized separately in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

3.7 Inventories

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

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

3. Summary of Significant Accounting Policies (continued)

3.8 Cash and Cash Equivalents

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

3.9 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.

Minority Interest

Minority interest represents the interest in subsidiaries not held by the Company. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination or incorporation.

Dividend

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.

3.10 Financial Liabilities

Loans and Borrowings Received

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

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. Summary of Significant Accounting Policies (continued)

3.11 Lease

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

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

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

3.12 Employee Benefits

3.12.1 Current Employment Benefits

Wages and salaries paid to employees are recognized as expense in current period. In addition, the Company creates a provision for future vacations.

3.12.2 Unified Social Tax

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

3.12.3 Pension Plans and Post-Employment Benefits

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

Defined Benefit Plans

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

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

3. Summary of Significant Accounting Policies (continued)

3.12 Employee Benefits (continued)

3.12.3 Pension Plans and Post-Employment Benefits (continued)

Defined Benefit Plans (continued)

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

Defined Contribution Plans

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

3.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation 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 time value of money is material, provisions are determined by discounting the expected 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 in interest expense.

3.14 Hedging

Derivative financial instruments are initially recognized at fair value as of the date of the derivative contract and subsequently revalued to fair value. The method of recognition of the resulting gains or losses depends on whether or not the derivative is designated as hedging instrument, and if it is, then on the nature of the item being hedged. Certain derivatives are designated by the Company as cash flow hedges. At the inception of a transaction, the Company documents the relationship between the hedging instruments and hedged items, as well as its risk management objectives and hedging strategies. Also, the Company documents its estimate, both at the inception and in the course of hedging, as to whether the derivates used in the hedging transactions can efficiently compensate for changes in the cash flows generated by the items being hedged.

3. Summary of Significant Accounting Policies (continued)

3.14 Hedging (continued)

With respect to cash flow hedging, the effective portion of changes in fair value of derivative instruments designated and qualifying as cash flow hedges is reported in the income statement in the periods when the hedged item affects profit or loss. If the hedge is treated as a cash flow hedge then the gain or loss on remeasuring the forward contract is recognized in equity. This amount is included in net profit or loss in the same period or periods during which the hedged item (the liability) affects net profit or loss, that is, when the liability is remeasured for changes in foreign exchange rates.

When a hedging instrument expires or is sold, or when hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in equity on the hedging instrument should remain there until the forecast transaction is ultimately recognized in profit and loss. If the forecast transaction is no longer expected to occur, then the cumulative gain or loss recognized in equity, if any, should be immediately recognized in profit or loss.

3.15 Government Grants

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

3.16 Deferred Income Tax

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 bases 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 nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period when the asset is realized or liability settled, based on legislation that has 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 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)

3.17 Revenue Recognition

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

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

Local Telephone Calls, Including Universal Telecommunication Services

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

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

Intrazone Telephone Services

Intrazone telephone services include the following client services:

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

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

Data transfer and Telematics Services (Internet)

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

Installation and Connection Fees

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

(in millions of Rubles, unless otherwise indicated)

3. Summary of Significant Accounting Policies (continued)

3.17 Revenue Recognition (continued)

Interconnection and Traffic Transmission Services

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

Fees on Assistance and Agency Services

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

Other Telecommunication Services

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

Other Revenues (Non-Core Activities)

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

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

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

3.18. Foreign Currency Transactions

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

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

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

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

4. Significant Accounting Estimates

The key assumptions concerning the future and other 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 the remaining useful lives of property, plant and equipment at each reporting date. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss. As of December 31, 2007 the carrying value of property, plant and equipment amounted to 34,846 (2006: 28,010). More details are provided in Note 7.

Impairment of Property, Plant and Equipment and Intangible Assets

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company is required to recognize 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. More details are provided in Note 6.

Impairment of Goodwill

In order to determine whether the goodwill is impaired, it is necessary to estimate the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As of December 31, 2007, the carrying amount of the goodwill amounted to 958 (2006 - 47). In 2006 and 2007, impairment test showed no signs of goodwill impairment. More details are provided in Note 8.

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 224 (2006 – 10,239). More details are provided in Note 11.

4. Significant Accounting Estimates (continued)

Allowance for Doubtful Accounts

Provision for impairment is based on the historical data related to collectibility 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 290 (2006 – 328). More details are provided in Note 15.

Pension Obligations

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. As of December 31, 2007, net defined benefit obligations amounted to 1,838 (2006 – 1,637). More details are provided in Note 24.

Litigations

Management 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. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results. As of December 31, 2006 and 2007, the Company created no provision against potential litigation. More details are provided in Note 34.

Deferred Tax Assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Company may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. As of December 31, 2007, the carrying amount of deferred tax assets amounted to 524 (2006: 414). More details are provided in Note 30.

5. Segment Information

The Company operates in one industry, i.e. wireline telecommunication services in the territory of the North-West region of Russia. The Company's structure is based on territorial units, which service the corresponding parts of the Company's network. Management considers that the Company operates in one geographical and operating segment. Management assesses operating results and makes investment and strategic decisions based on an entity-wide performance analysis.

(in millions of Rubles, unless otherwise indicated)

6. Business Combinations

On January 22, 2007 the Company completed acquisition of 100% ordinary voting shares in ZAO Petersburg Transit Telecom. The purchase price amounted to 2,571 (97 million of US Dollars). The sales agreement for the share in ZAO Petersburg Transit Telecom provided for installment payments over 2007. Accordingly, the acquisition cost was determined as the fair value of the liability to OAO Telecominvest assumed as of the date of acquisition and amounted to 2,521. After initial recognition at fair value liability to OAO Telecominvest was carried at amortized cost using the effective interest rate of 6.7% and the Company recorded interest expense of 50 which was included in the line "Interest expense, net" of the consolidated income statement.

The main activity of ZAO Petersburg Transit Telecom is provision of traffic transition and other interconnection services to operators. The purchase of ZAO Petersburg Transit Telecom was aimed to expand the Company's operations, and improve the quality and competitiveness of the services it provides in the telecommunications market.

The acquisition of ZAO Petersburg Transit Telecom was accounted using the purchase method in accordance with provisions of IFRS 3 "Business Combinations". Accordingly, the results of operations and financial positions of ZAO Petersburg Transit Telecom were consolidated by the Company beginning from January 22, 2007. The information on the acquisition cost, fair value of identifiable assets, liabilities and contingencies of ZAO Petersburg Transit Telecom and goodwill as of the date of acquisition is disclosed below:

	January 22, 2007
Property, plant and equipment	1,117
Intangible assets, including	432
- Customer base	236
- Software	157
- Other intangible assets	39
Other non-current assets	9
Accounts receivable	382
Short-term investments	80
Cash and cash equivalents	196
Other current assets	57
Short-term liabilities	(459)
Deferred tax liability	(204)
Total fair value of net assets	**1,610**
Acquisition cost	**2,521**
Goodwill	**911**

The disclosure of carrying value of assets, liabilities and contingencies of ZAO Petersburg Transit Telecom in accordance with IFRS, immediately before the business combination, is impracticable as ZAO Petersburg Transit Telecom had not been an IFRS reporter.

Based on the fair value of identifiable assets, liabilities and contingencies determined in accordance with IFRS 3, the acquisition cost exceeded the fair value of the share acquired in the net assets of ZAO Petersburg Transit Telecom by 911. In accordance with IFRS 3, the amount was reported on the balance sheet in the line "Intangible Assets". Management believes that the goodwill relates to the expected synergies and other benefits from expected synergies and other benefits from combining the assets and activities of ZAO Petersburg Transit Telecom with those of the Company.

The transaction price was fully paid in cash. Due to US Dollar weakening during 2007, the Company reported foreign exchange gain of 68 which was included in the consolidated income statements. The table below summarizes net cash costs incurred in the acquisition:

Cash paid	2,503
Less: cash received in the acquisition of the subsidiary	(196)
Net cash expense	**2,307**

Profits of ZAO Petersburg Transit Telecom from January 22, 2007 through the reporting date and included in the calculation of consolidated profit for the reporting period totaled 123. Had the combination taken place in the beginning of the year, the Company's profit would be 10,125 and revenue - 24,307.

(in millions of Rubles, unless otherwise indicated)

7. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other property, plant and equipment	Total
Cost					
As of December 31, 2005	17,870	11,557	785	4,592	34,804
Additions	-	-	5,295	-	5,295
Additions due to acquisition of subsidiaries	-	1	-	4	5
Disposals	(191)	(235)	(55)	(274)	(755)
Put in operation	1,790	1,863	(4,320)	667	-
As of December 31, 2006	**19,469**	**13,186**	**1,705**	**4,989**	**39,349**
Reclassifications	50	2,217		(2,267)	-
As of December 31, 2006 as reclassified	**19,519**	**15,403**	**1,705**	**2,722**	**39,349**
Additions	-	-	9,995	-	9,995
Additions due to acquisition of subsidiaries	163	868	21	65	1,117
Disposals	(129)	(169)	(24)	(98)	(420)
Put in operation	2,826	5,643	(9,537)	1,068	-
As of December 31, 2007	**22,379**	**21,745**	**2,160**	**3,757**	**50,041**
Accumulated depreciation					
As of December 31, 2005	(3,530)	(3,157)	-	(1,474)	(8,161)
Charge for the year	(1,101)	(1,143)	-	(1,275)	(3,519)
Charge on retired assets	28	76	-	237	341
As of December 31, 2006	**(4,603)**	**(4,224)**	**-**	**(2,512)**	**(11,339)**
Reclassifications	(13)	(1,034)		1,047	
As of December 31, 2006 as reclassified	**(4,616)**	**(5,258)**		**(1,465)**	**(11,339)**
Charge for the year	(1,206)	(1,971)		(945)	(4,122)
Charge on retired assets	66	129	-	71	266
As of December 31, 2007	**(5,756)**	**(7,100)**	**-**	**(2,339)**	**(15,195)**
Net book value as of December 31, 2005	**14,340**	**8,400**	**785**	**3,118**	**26,643**
Net book value as of December 31, 2006	**14,866**	**8,962**	**1,705**	**2,477**	**28,010**
Net book value as of December 31, 2006 as reclassified	**14,903**	**10,145**	**1,705**	**1,257**	**28,010**
Net book value as of December 31, 2007	**16,623**	**14,645**	**2,160**	**1,418**	**34,846**

In 2007, the Company changed its accounting estimates with respect of the useful lives of certain property, plant and equipment (Note 3), which resulted in an increase in depreciation of 527 in 2007.

As of December 31, 2007 and 2006 the net book value of property, plant and equipment received under finance lease contracts amounted to:

	Buildings and constructions	Switches and transmission devices	Vehicles and and other property, plant and equipment	Total
Cost	190	882	23	1,095
Accumulated depreciation	(76)	(146)	(15)	(237)
Net book value at December 31, 2006	**114**	**736**	**8**	**858**
Cost	17	690	11	718
Accumulated depreciation	(2)	(171)	(11)	(184)
Net book value at December 31, 2007	**15**	**519**	**-**	**534**

(in millions of Rubles, unless otherwise indicated)

7. Property, Plant and Equipment (continued)

Additions of property, plant and equipment acquired under finance lease agreements amounted in 2006 to 7; in 2007 no such assets were acquired. In 2006 and 2007 the Company did not acquire any property, plant and equipment on a vendor financing basis.

In 2007 the Company increased construction in progress by capitalizing interests of 30 (2006: 12). The capitalization rate in 2007 was 7% (2006: 8%).

As of December 31, 2007, the cost of fully depreciated property, plant and equipment was 4,788 (2006: 3,607).

As of December 31, 2007, property, plant and equipment amounting to 956 (2006: 1,011) was pledged as security for loans and borrowings (Note 20).

8. Intangible Assets

	Goodwill	Licenses	Software	Customer base	Other	Total
Cost						
As of December 31, 2005	**47**	**16**	**1,970**	**12**	**5**	**2,050**
Additions	-	10	1,102	-	191	1,303
Disposals	-	-	(66)	-	(1)	(67)
As of December 31, 2006	**47**	**26**	**3,006**	**12**	**195**	**3,286**
Additions	-	2	838	-	17	857
Additions due to acquisition of subsidiaries	911	-	157	236	39	1,343
Disposals	-	(4)	(67)	-	(30)	(101)
As of December 31, 2007	**958**	**24**	**3,934**	**248**	**221**	**5,385**
Impairment in value						
As of December 31, 2005	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Provision for the year	-	-	-	-	-	-
As of December 31, 2006	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Provision for the year	-	-	-	-	-	-
As of December 31, 2007	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Accumulated amortization						
As of December 31, 2005	-	(5)	(190)	(4)	(2)	(201)
Charge for the year	-	(5)	(246)	(4)	-	(255)
Charge on disposed intangibles	-	-	50	-	-	50
As of December 31, 2006	**-**	**(10)**	**(386)**	**(8)**	**(2)**	**(406)**
Charge for the year	-	(7)	(339)	(3)	(91)	(440)
Charge on disposed intangibles	-	3	63	-	30	96
As of December 31, 2007	**-**	**(14)**	**(662)**	**(11)**	**(63)**	**(750)**
Net book value as of December 31, 2005	**31**	**11**	**1,780**	**8**	**3**	**1,833**
Net book value as of December 31, 2006	**31**	**16**	**2,620**	**4**	**193**	**2,864**
Net book value as of December 31, 2007	**942**	**10**	**3,272**	**237**	**158**	**4,619**

Oracle E-Business Suite

As of December 31, 2007 software included Oracle E-Business Suite application with net book value of 914 (2006: 792). As of December 31, 2007 accumulated capitalized interest related to the Oracle E-Business Suite totaled 132 (2006: 131). In 2007, capitalization rate was 7% (2006: 8%).

Under the delivery contract, the Company acquired 7,638 licenses for non-exclusive use of Oracle E-Business Suite 2004 Professional.

(in millions of Rubles, unless otherwise indicated)

8. Intangible Assets (continued)

Oracle E-Business Suite (continued)

The Company is in the process of phased implementation of Oracle E-Business Suite. In 2006 the Company completed the first phase of Oracle E-Business Suite implementation and started to use the modules of time keeping and non-current asset accounting. The Company amortizes the asset starting from the in-service date over the useful life of 10 years.

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

The table below shows movements on the Oracle E-Business Suite account in years ended December 31, 2007 and 2006:

	2007	2006
As of January 1	**792**	739
Implementation costs incurred	**229**	134
Accrued depreciation	**(107)**	(81)
As of December 31	**914**	792

Amdocs Billing Suite

As of December 31, 2007, software also included Amdocs Billing Suite with net book value of 927 (2006: 869) including accrued capitalized interest of 72 (2006: 67) related to the implementation of Amdocs Billing Suite. In 2007, capitalization rate was 7% (2006: 8%).

The software was acquired with a view to implement a unified billing system. The Company started implementing the project in May 2006. The project on implementing the unified billing system based on Amdocs Billing Suite is expected to take 4 to 5 years to complete.

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

Unified Pre-Billing System HP Open View IUM

As of December 31, 2007, software also included unified pre-billing system HP Open View IUM of 214 (2006: 208). The software was purchased in December 2006 from OOO Paladin Invent with a view to implement unified computerized settlement system Amdocs Billing Suite. A unified pre-billing function is necessary to ensure centralized settlements with interconnected operators and to transfer data to Amdocs Billing Suite.

The HP Open View IUM implementation project is expected to take 3-4 years to complete. ZAO ISG is engaged to develop technical specifications and implement the product. The software implementation costs in 2007 totaled 6 (2006: nil).

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

Communication Network Operating Support Systems

As of December 31, 2007 included in software was a communication network operating support system product (SEPSS) with net book value of 673 (2006: 442), including capitalized interest of 26 (2006: 20). In 2007 capitalization rate was 7% (2006: 8%).

8. Intangible Assets (continued)

Communication Network Operating Support Systems (continued)

The SEPSS software project is being implemented with a view to computerize network accounting, network and service management processes and is expected to take 3-4 years to complete. Software implementation has started in May 2006. The main SEPSS supplier is OOO Step Logic.

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

HP OpenView Service Activator

In 2007 the Company purchased HP OpenView Service Activator software for 95 with a view to create an integrated system of activation of services. The HP OpenView Service Activator implementation project is scheduled to take 2 years to complete. The project was started in March 2008. The main implementation service provider is ZAO Business Computer Center.

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

Amortization of Intangible Assets

Amortization of 440 charged on intangibles in 2007 (2006: 255) was included in line "Depreciation and amortization" of the consolidated income statement.

Goodwill and Intangible Assets Recognized in Business Combinations

The intangible assets recognized separately as a result of acquisition of ZAO Petersburg Transit Telecom (Note 6) represent resources from which future economic benefits are expected to flow to the Company and include the following classes:

- Customer base;
- Software;
- Other intangible assets.

The customer base is an intangible asset that represents contractual relations with telecom operators and has indefinite useful life. This asset is not amortized and tested for impairment annually or more frequently if there is an indication that the intangible asset may be impaired.

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

The goodwill recognized as a result of acquisition of ZAO Petersburg Transit Telecom is attributed to the expected synergies and other benefits from combining the assets and activities of ZAO Petersburg Transit Telecom with those of the Company.

Impairment of Intangible Assets and Goodwill

The Company performed impairment tests of intangible assets with indefinite useful life and intangible assets not yet available for use as of December 31, 2007 and 2006. As a result of analysis made as of December 31, 2007 and 2006, no impairment was identified.

(in millions of Rubles, unless otherwise indicated)

8. Intangible Assets (continued)

Impairment of Intangible Assets and Goodwill (continued)

In 2006 the Company recognized goodwill resulted from acquisition of OOO Novgorod Datacom that was subsequently restructured through the merger with another Company's subsidiary OOO Novgorod Deitacom. As of December 31, 2007, the carrying value of goodwill attributable to OOO Novgorod Deitacom net of impairment recognized in prior periods was 31. The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five years period. The discount rate applied to the cash flow projections is 15% (2006: 14%) and cash flows beyond this period were extrapolated based on average industry-wide profitability indices and using 5% growth rate.

In 2007 the Company recognized goodwill of 911 resulted from acquisition of ZAO Petersburg Transit Telecom. The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five years period. The discount rate applied to the cash flow projections is 15% and cash flows beyond this period were extrapolated based on average industry-wide profitability indices and using 5% growth rate.

As a result of the tests performed no impairment of goodwill was identified.

9. Subsidiaries

The accompanying consolidated financial statements include the assets, liabilities and financial results of OAO NWT and its subsidiaries as listed below:

Subsidiary	Core activity	Equity interest/voting stock 2007	2006
ZAO AMT	Consulting services	**100%**	100%
OOO Artelecom Service	Lease of the Company's assets	**-**	100%
OAO Kolatelecom	Communication services	**50%**	50%
OOO Parma Inform	Communication services	**100%**	100%
ZAO IK Svyaz	Consulting services	**-**	100%
OOO Novgorod Deitacom	Communication services	**100%**	100%
ZAO SPiC	Information services	**100%**	100%
ZAO Petersburg Transit Telecom	Communication services	**100%**	-

All of the above companies are Russian legal entities duly incorporated under Russian laws, and have the same financial year as the Company.

In April 2007, following the decision of the Board of Directors, corporate procedures were completed with respect to restructuring of the following OAO NWT wholly-owned subsidiaries: ZAO AMT and ZAO IK Svyaz - through the merger of ZAO IK Svyaz with ZAO AMT.

In December 2007 voluntary liquidation procedures were completed with respect to OOO Artelecom Service. Assets received by the Company as a result of the liquidation in the amount of 39 (including property, pant and equipment of 32 and cash of 7) were transferred to the Arkhangelsk branch of the Company.

On January 22, 2007 the Company completed acquisition of 100% ordinary voting shares in ZAO Petersburg Transit Telecom. The shares were purchased with a view to expand the Company's operations, and improve the quality and competitiveness of the services it provides in the telecommunications market (Note 6).

(in millions of Rubles, unless otherwise indicated)

10. Investments in Associates

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

		2007		2006	
Associate	**Core activity**	**Voting stock, %**	**Carrying value**	**Voting stock, %**	**Carrying value**
ZAO WestBaltTelecom	Communication services	**28**	**71**	28	57
SZAO Medexpress	Insurance	**25**	**54**	25	41
Total			**125**		98

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

All of the above companies are Russian legal entities duly incorporated in accordance with Russian law, and have the same financial year as the Company.

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

	2007	2006
Investments in associates as of January 1	**98**	95
Reclassification of investments	-	6
Share in the loss incurred by ZAO SPiC for 11 months of 2006	-	(7)
Profit from investments in associates less dividend received	**27**	7
Additional issue of Medexpress shares	-	13
Sale of investments in associates	-	(16)
Investments in associates as of December 31	**125**	98

The table below shows aggregated information on the major associates:

Associate	Voting interest, %	Assets	Liabilities	Sales revenue	Net profit (loss)
2007					
ZAO WestBaltTelecom	**28**	**297**	**(43)**	**291**	**50**
SZAO Medexpress	**25**	**807**	**(588)**	**874**	**55**
2006					
ZAO WestBaltTelecom	28	243	(39)	219	32
SZAO Medexpress	25	723	(559)	699	(16)

(in millions of Rubles, unless otherwise indicated)

11. Investments

As of December 31, 2007 and 2006 investments included:

	2007	2006
Long-term investments available-for-sale	**224**	10,239
Total long-term investments	**224**	10,239
Short-term investments	**6,394**	-
Total short-term investments	**6,394**	-
Total investments	**6,618**	10,239

As of December 31, 2007 short-term investments consist of Ruble-denominated promissory notes receivable in the amount of 6,312 including interest in the amount of 112 and bank deposits maturing from 3 months to 1 year in the amount of 82.

Bank deposits reported as of December 31, 2007 mainly consisted of a Ruble-denominated short-term bank deposit placed with OAO Bank St.Petersburg till June 21, 2008 at 10.7% p.a.

In October 2007 the Company purchased 40 interest-bearing promissory notes of OAO AKB Svyaz Bank at par value for a total amount of 8,000. In December 2007, 9 notes with a total par value of 1,800 were redeemed; interest received totaled 23.

As of December 31, 2007 promissory notes receivable included:

Issuer	Maturity date	Interest rate	2007
OAO AKB Svyaz Bank	On demand, but not earlier then December 12, 2007	7,5%	**1,800**
OAO AKB Svyaz Bank	On demand, but not earlier then March 12, 2008	8,5%	**2,600**
OAO AKB Svyaz Bank	On demand, but not earlier then April 12, 2008	8,5%	**1,800**
Interest accrued			**112**
Total			**6,312**

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

	2007		2006	
Company	**Equity interest**	**Fair value**	**Equity interest**	**Fair value**
OAO Telecominvest		-	15%	10,052
ZAO Russian Industrial Bank	**9%**	**208**	9%	171
Other long-term investments		**31**		35
Impairment in value of other investments		**(15)**		(19)
Total investments available-for-sale		**224**		10,239

In July 2007 the Company's Board of Directors took a decision to withdraw from OAO Telecominvest by selling the 15% interest held by the Company. The selling price was 410 million US Dollars. The buyer was OOO AF Telecom Holding. The gain from the sale of 9,603 was reported in the line "Profit (loss) from investments, net" of the consolidated income statement.

(in millions of Rubles, unless otherwise indicated)

11. Investments (continued)

As in prior year, the Company engaged independent appraiser to determine the fair value of an unquoted equity investment in ZAO Russian Industrial Bank. The investment was reported as of December 31, 2007 at fair value of 208 (2006: 171).

Unrealized gain on available-for-sale investments recognized in 2007 totaled 28 (2006: 1,748) net of deferred profits tax of 9 (2006: 552).

The table below summarizes changes in the provision for impairment of investments:

	2007	**2006**
Balance as of January 1	**19**	35
Accrual (reversal) of provision	**-**	(5)
Write off of investments	**(4)**	(11)
Balance as of December 31	**15**	19

12. Advances Given to Non-Current Asset Suppliers

As of December 31, 2007 and 2006 advances given to non-current asset suppliers included the following:

	2007	**2006**
Advances to capital contractors	**93**	98
Advances to equipment suppliers	**74**	271
Advances to intangible assets suppliers	**58**	242
Other advances given	**11**	19
Impairment of advances	**(3)**	(3)
Total	**233**	627

13. Other Non-Current Assets

As of December 31, 2007 and 2006, other non-current assets included:

	2007	**2006**
Long-term accounts receivable	**39**	12
Long-term loans given	**23**	23
Other non-current assets	**16**	3
Long-term VAT receivable	**-**	165
Total	**78**	203

As of December 31, 2007 and 2006 long-term loans given are reported at amortized cost using the effective interest rate of 17-20%.

As of December 31, 2007 long-term accounts receivable included mainly receivables due to subsidiary ZAO Petersburg Transit Telecom in the amount of 32 reported at amortized cost using the effective interest rate of 9.6%.

In 2007 the Company recognized interest income from long-term accounts receivable and long-term loans given in the total amount of 23.

(in millions of Rubles, unless otherwise indicated)

14. Inventories

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

	2007	**2006**
Cable, materials, and spare parts for telecommunications equipment	**157**	161
Construction materials	**30**	10
Tools, work clothes, fittings etc.	**22**	26
Fuel	**17**	16
Other inventories	**78**	95
Total	**304**	308

The cost of inventories expensed in 2007 was 785 (2006: 730).

As of December 31, 2007 and 2006 the Company reported no inventories which were obsolete, fully or partially lost their original qualities, or whose current market value was impaired. Thus, no inventory impairment provision was created.

As of December 31, 2007 and 2006 no inventories have been pledged as security for borrowings.

15. Accounts Receivable

As of December 31, 2007 and 2006 accounts receivable were as follows:

December 31, 2007	**Total**	**Doubtful debt provision**	**Net**
Individual customers	**649**	**(91)**	**558**
Government customers	**79**	**(11)**	**68**
Corporate customers, including telecom operators	**1,039**	**(159)**	**880**
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	**9**	**(9)**	**-**
Other accounts receivable	**125**	**(20)**	**105**
Total	**1,901**	**(290)**	**1,611**

December 31, 2006	**Total**	**Doubtful debt provision**	**Net**
Individual customers	572	(67)	505
Government customers	90	(9)	81
Corporate customers, including telecom operators	702	(49)	653
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	190	(190)	-
Other accounts receivable	137	(13)	124
Total	1,691	(328)	1,363

(in millions of Rubles, unless otherwise indicated)

15. Accounts Receivable (continued)

Trade and other accounts receivable overdue but not impaired are presented below:

		Not	Period overdue (days)				
December 31, 2007	**Total**	**overdue**	**<30**	**30-60**	**60-90**	**90-180**	**>180**
Individual customers	**558**	**501**	**43**	**9**	**3**	**2**	**-**
Government customers	**68**	**54**	**7**	**1**	**5**	**1**	**-**
Corporate customers, including telecom operators	**880**	**822**	**37**	**16**	**4**	**1**	**-**
Other accounts receivable	**105**	**79**	**16**	**9**	**1**	**-**	**-**
Total	**1,611**	**1,456**	**103**	**35**	**13**	**4**	**-**

		Not	Period overdue (days)				
December 31, 2006	**Total**	**overdue**	**<30**	**30-60**	**60-90**	**90-180**	**>180**
Individual customers	505	453	41	7	3	1	-
Government customers	81	64	13	3	-	1	-
Corporate customers, including telecom operators	653	601	32	11	7	2	-
Other accounts receivable	124	117	4	3	-	-	-
Total	1,363	1,235	90	24	10	4	-

The Company invoices its government and corporate customers 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 Rubles, in effect at the time when services were provided.

Receivables due from social security bodies as tariff compensation related to providing benefits for certain categories of subscribers amount to 0.5% of total trade receivables (2006: 12%). In 2007, the Company recovered from the federal government 181 (2006: 213) through legal action in settlement of the above accounts receivable.

Movement in the doubtful debt provision is presented in the table below:

	2007	**2006**
Balance as of January 1	**328**	604
Accrual (reversal) of provision	**(29)**	(191)
Accounts receivable written-off	**(9)**	(85)
Balance as of December 31	**290**	328

(in millions of Rubles, unless otherwise indicated)

16. Other Current Assets

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

	2007	2006
VAT receivable	**451**	501
Deferred expenses	**140**	61
Prepayments and advances	**74**	76
Prepaid income tax	**42**	220
Settlements with personnel	**23**	20
Other prepaid taxes	**21**	26
Other settlements and current assets	**312**	126
Total	**1,063**	1,030

Other settlements and current assets are reported net of provision of 26 (2006: 25).

As of December 31, 2007 receivables due from Federal Telecommunications Agency for reimbursement of losses from universal telecommunication services provided in the forth quarter of 2007 in the amount of 222 (2006: nil) were reported in the line "Other settlements and current assets".

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

	2007	2006
Balance as of January 1	**25**	24
Accrual of provision	**1**	1
Balance as of December 31	**26**	25

17. Cash and Cash Equivalents

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

	2007	2006
Cash at bank and on hand	**405**	244
Short-term deposits with original maturities of three months or less	**98**	-
Total	**503**	244

As of December 31, 2007 the Company had no restricted cash.

As of December 31, 2007 cash in bank and on hand was denominated in Russian Rubles. In December 2007 ZAO Petersburg Transit Telecom, a Company's subsidiary, placed with OAO AKB Svyaz Bank a Ruble-denominated deposit of 98 at 3% p.a. maturing on January 9, 2008.

18. Significant Non-Cash Transactions

In 2007 the Company acquired no property, plant and equipment on finance lease terms (2006: 7). Equipment received in 2007 on a free of charge basis totaled 3 (2006: 25).

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

(in millions of Rubles, unless otherwise indicated)

19. Share Capital

The par and carrying values of the issued and fully paid ordinary and preference shares were as follows as of December 31, 2007 and 2006:

Share type	Outstanding shares (thousands)	Par value of a share (Rubles)	Total par value	Total carrying value	Treasury shares
Ordinary	881,045	1	881	2,233	28
Preference	250,369	1	250	622	39
Total	**1,131,414**		**1,131**	**2,855**	**67**

The difference between the nominal and carrying value of shares reflects the effect of inflation in periods preceding January 1, 2003. All issued shares were fully paid up.

Treasury shares represent ordinary or preference shares of the Company held by subsidiaries.

Ordinary shareholders are entitled to one vote per share.

The Company's shareholding structure as of December 31, 2007 was as follows:

Shareholders	Equity interest, %	Ordinary shares (thousands shares)	Ordinary shares %	Preference shares (thousands shares)	Preference shares %
Legal entities, total:	88.9	838,450	95.2	167,147	66.7
including:					
OAO Svyazinvest	39.5	447,231	50.8	-	-
ZAO DKK	14.4	96,123	10.9	66,456	26.5
ZAO UBS Nominees	11.7	109,815	12.5	22,776	9.1
ZAO ING Bank (Eurasia)	10.7	81,757	9.3	39,377	15.7
Non-commercial Partnership National Depository Center	10.9	90,663	10.3	32,276	12.9
Others	1.7	12,861	1.4	6,262	2.5
Individuals, total:	10.5	39,590	4.5	79,997	32.0
Treasury shares	0.6	3,005	0.3	3,225	1.3
Total	**100.0**	**881,045**	**100.0**	**250,369**	**100.0**

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 into ordinary shares 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 divided by the number of shares accounting for 25% of share capital of the Company. 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 until the first full payment of dividend on such shares. The annual amount of dividends on preference shares may not be less than dividends on ordinary shares. Thus, the owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 31).

(in millions of Rubles, unless otherwise indicated)

19. Share Capital (continued)

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

In September 2001 the Company signed a depositary agreement with JP Morgan Chase Bank regarding placement of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement, each ADR represents 50 ordinary shares of the Company. As of December 31, 2007 1,084,818 (2006: 1,082,726) ADRs represented 54,240,900 (2006: 54,136,300) deposited ordinary shares, which constituted 6.16% (2006: 6.14%) of all ordinary shares issued.

The table below shows movements of registered ADRs in 2006-2007:

	ADRs (thousands)	Ordinary share equivalent (thousands)	Ordinary shares, %	Share capital, %
December 31, 2005	943	47,131	5.4%	4.2%
Increase in 2006	140	7,005		
December 31, 2006	1,083	54,136	6.1%	4.8%
Increase in 2007	2	105		
December 31, 2007	**1,085**	**54,241**	**6.2%**	**4.8%**

The ADRs are currently traded in the following exchanges:

Exchange	CUSIP (WKN)	ADR ticker	ISIN
US over the counter market	663316107	NWTEY	US6633161079
Frankfurt Stock Exchange	A0BLXU	SQ4	US6633161079
Berlin Stock Exchange	A0BLXU	SQ4	US6633161079

(in millions of Rubles, unless otherwise indicated)

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 (Rubles)	13-15.5%	2008	**3**	3
Interest accrued on bank loans, bonds, promissory notes and vendor financing			**76**	79
Total short-term borrowings			**79**	82
Long-term borrowings				
Bank loans (Rubles)	7.08-10.5%	2008-2009	**2,058**	1,500
Bank loans (US Dollars)	6.08-6.37%	2009-2012	**2,430**	-
Bank loans (Euro)	5.7-7%	2008-2011	**1,147**	1,877
Total bank loans			**5,635**	3,377
Bonds (Rubles)	7.5-9.25%		**4,992**	6,032
Vendor financing (US Dollars)	7-8.2%	2008-2011	**1**	8
Vendor financing (Euro)	7.5-10.8%	2008	**15**	51
Total vendor financing			**16**	59
Promissory notes (Rubles)	23%	2015-2016	**3**	2
Promissory notes (US Dollars)	-	-	**-**	4
Promissory notes (Euro)	8-11.9%	2008	**22**	22
Total promissory notes			**25**	28
Other loans (Rubles)	15.4-16%	2008	**4**	10
Other loans (US Dollars)	9.1%	2008-2020	**8**	9
Total other loans			**12**	19
Total long-term borrowings			**10,680**	9,515
Less: current portion of long-term borrowings			**(5,040)**	(1,937)
Total long-term borrowings			**5,640**	7,578

Long-term borrowings include interest of 7 as of December 31, 2007 (2006: 6). As repayment of the interest is expected not earlier than in 2009, it was classified as long-term borrowings.

As of December 31, 2007 the Company had open credit line agreements with OAO Savings Bank of Russian Federation (refer to as OAO Sberbank hereinafter), ZAO Raiffeisenbank Austria, ZAO ING Bank (Eurasia) and OAO AKB Svyaz Bank for a total of 3,289 (2006: 5,789). As of December 31, 2007 the Company had utilized 2,100 (2006: 1,500) of the above amount, accordingly, upon request, the Company is entitled to receive 1,189 under the credit lines to finance working capital and investments financing purposes.

As of December 31, 2007 bank loans were secured by pledged property, plant and equipment with a total carrying value of 956 (2006: 1,011).

20. Borrowings (continued)

Short-Term Borrowings

Credits and Loans

Short-term borrowings as of December 31, 2007 primarily represent credits and loans obtained to finance working capital. In 2007, the Company received short-term loans from OAO Sberbank, OAO AKB Svyaz Bank, OAO Bank Uralsib and ZAO ABGP Gazprombank.

Long-Term Borrowings

Credits and Loans

As of December 31, 2007, outstanding long-term bank loans included loans issued by ZAO Raiffeisenbank Austria, OAO Sberbank, the Russian Ministry of Finance, ZAO ING Bank (Eurasia), Citibank N.A. and Citibank International PLC under agreements signed prior to 2007 and a long-term loan from ZAO UniCredit Bank (former ZAO International Moscow Bank) received in 2007.

Citibank N.A
In December 2005, a 50,000 thousand Euro syndicated loan agreement was signed between the Company, Citibank N.A., Citibank International PLC and the original lenders. The Company has fully drawn down the credit facility. Transaction costs totaled 553 thousand Euro. Interest rate is fixed at Euribor+2% p.a. plus mandatory cost rate. The agreement expires on January 24, 2009. Interest is accrued and payable on a quarterly basis. As of December 31, 2007 the outstanding syndicated loan was 999 (2006: 1,733), including interest accrued. The loan is not collaterized with property, plant and equipment.

The Russian Ministry of Finance
A long-term credit facility was granted to the Company in 1995-1996 by the Russian Federation Ministry of Finance (hereinafter the Ministry) to finance telecom equipment purchases from various foreign vendors. Vnesheconombank acted as credit agent on behalf of the RF Government. The contractual currency is Euro. As of December 31, 2007 the total amount due to the Ministry (Vnesheconombank acts as an agent) was 148 (2006: 161), including short-term portion of 25 (2006: 18) and interest of 4 (2006: 4). The debt matures by 2012 and is recognized at amortized cost using effective interest rate of 7%. The loan is secured by property, plant and equipment with net book value of 69 (2006: 75).

ZAO UniCredit Bank
In 2007 the Company obtained a 100 million US Dollars syndicated loan. ZAO International Moscow Bank acted as the Authorized Managing Bank and original Lender (since December 25, 2007 the bank changed name to ZAO UniCredit Bank); Bank Austria Creditanstalt AG currently acts as Authorized Managing Bank and Agent.

The loan facility is issued in two equal tranches.

Tranche A was received on July 30 and August 13, 2007 in the amount of 40 million US Dollars and 10 million US Dollars, respectively. The debt is repayable in equal quarterly installments since January 19, 2009 to July 19, 2010.

Tranche B was provided on August 13 and September 10, 2007 in the amount of 20 million US Dollars and 30 million US Dollars, respectively. The debt is repayable in equal quarterly installments since July 19, 2010 to July 19, 2012.

The interest rate under the loan is a combination of interest margin, Libor established for US Dollar for the respective interest period and mandatory cost rate. Interest margin for Tranche A is 0.95% p. a. and for Tranche B is 1.25% p.a.

20. Borrowings (continued)

Long-Term Borrowings (continued)

Credits and Loans (continued)

ZAO UniCredit Bank (continued)

Transaction costs totaled 1,020 thousands US Dollars.

The loan was obtained to refinance the current payables and to fund investment projects. During fiscal year 2007 the Company did not make early debt repayment.

As of December 31, 2007 the amount outstanding under the syndicated loan was 2,453, including accrued interest of 23. The loan is not secured by property, plant and equipment.

Restrictions and Covenants

Under the existing borrowing arrangements the Company has to comply with certain conditions, including maintenance of certain financial performance standards.

Under the loan agreements the Company agrees to maintain the following financial performance standards (computed based on IFRS financial statements for each half year period):

Loan agreements with ZAO ING Bank (Eurasia), Citibank N.A. and Bank Austria Creditanstalt AG and ZAO UniCredit Bank:

- Net debt to EBIDTA ratio – maximum 3:1;
- EBITDA to net interest ratio – minimum 4:1;
- Net debt to net capitalization – maximum 1.

In addition to obligations related to financial performance standard compliance, the Company is liable under agreements whereby banks may demand early repayment in the following instances:

Loan agreement with ZAO Raiffeisenbank Austria:

- Threat of court proceedings, rulings or decisions of a court of other government authority against the Company for an amount exceeding 150;
- Overdue taxes, duties and other tax and social security liabilities exceeding 150;
- Evidence of bankruptcy;
- Disposal/transfer of assets exceeding 10% of total Company's assets, during a fiscal year;
- Receipt by the Bank of a debt collection order for an amount exceeding 150; a court or other relevant order to seize or block the Company's bank account or other property valued over 150, if such debt collection order or court order is not cancelled prior to execution, or such seizure or block is not lifted within 3 working days.

Loan agreement with ZAO ING Bank (Eurasia):

- All or a material proportion of (over 15% of total) property, liabilities or assets of the Company are foreclosed, attached or taken into possession by the person in whose favor the encumbrance was created;
- The Company takes a decision (or other measures are taken, or court action initiated) on dissolution or liquidation of the Company, external management, amicable settlement with creditors, or a liquidator, external manager, interim receiver or a similar official is appointed with respect of the Company.

20. Borrowings (continued)

Long-Term Borrowings (continued)

Credits and Loans (continued)

Restrictions and Covenants (continued)

Loan agreements with OAO Sberbank:
- Monthly receipts to the settlement account of the Company – minimum 900;
- The Company goes into insolvency (bankruptcy), a third party bankruptcy proceedings against the Company;
- Decision on restructuring or liquidation;
- Loss of collateral;
- Prosecution brought against the Company or claim on the Company's assets in the amount exceeding 5,170 thousand US Dollars.

Obligations to the Russian Ministry of Finance:
- Restructuring of the Company, one month default on the contract (restructuring agreement).

The loan agreement with Citibank N.A. imposes the following restrictions:
- Asset sales in a year < 10% of total assets;
- Equity acquisitions in a year < 50 million Euro;
- Investment programs in a year < 200 million Euro;
- Loans and guarantees given < 10 million Euro;
- Dividends for a year < 100% of net profit for the year.

Any departure by the Company from the above restrictions is subject to prior approval of the Principal Lenders.

Under the loan agreement with Bank Austria Creditanstalt AG and ZAO UniCredit Bank, the following restrictions are imposed:
- Asset sales in a year < 10% of total assets;
- Loans and guarantees given < 10 million Euro;
- Dividends for a year < 100% of net profit for the year;
- New pledges or other security for liabilities incurred < 150 million US Dollars.

Any departure by the Company from the above restrictions is subject to prior approval of the Principal Lenders. Such prior approval of the Principal lenders is also required for any restructuring (merger, acquisition, spin-off, divestiture).

Under the loan agreement with ZAO ING Bank (Eurasia), the following restrictions are imposed:
- Dividends for a year < 100% of net profit for the year;
- Loans and guarantees given < 10 million Euro;
- Merger, combination with or acquisition of other entity < 100 million Euro;
- Asset sales in a year < 10% of total assets.

In 2007, the Company complied with all of the above restrictions and covenants. Prior to the sale of the interest in OAO Telecominvest (Note 11) the Company has obtained written consent to this deal from Bank Austria Creditanstalt AG, ZAO Raiffeisenbank Austria, ZAO ING Bank (Eurasia), Citibank N.A. in accordance with the established procedure.

(in millions of Rubles, unless otherwise indicated)

20. Borrowings (continued)

Long-Term Borrowings (continued)

Bonds

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

Bonds payable as of December 31, 2005	**4,479**
Repayment of the 2nd bond issue	(450)
4th bond issue	2,000
Issue costs	(6)
Amortization of issue costs	9
Bonds payable as of December 31, 2006	**6,032**
Repayment of the 2nd bond issue	(1,050)
Amortization of issue costs	10
Bonds payable as of December 31, 2007	**4,992**

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

The 2nd issue bonds carried 16 coupons of which 12 were repaid as of December 31, 2006. In 2007, the Company fully met its coupon obligations under coupons 13-16 at 7.5% p.a. in the total amount of 62. Coupon payment per bond for coupons 13-14 was 13.09 Rubles. Coupon payment per bond for coupons 15-16 was 7.48 Rubles. In 2007, the nominal bond value was repayable in installments as follows: 30% - on April 4, 2007; 40% - on October 3, 2007. As of December 31, 2007 the 2nd bond issue was fully repaid.

In March 2005, the Company registered the issue of 3 million of certified coupon bonds with par value of 1,000 Rubles each carrying 24 interest bearing coupons. Payments under the first coupon are due on the 91st day from the date of bond placement, and other coupon payments are effected every 91 day. The interest rate under coupons 1 through 12 is set at 9.25% p.a. The interest rate for coupons 13-24 was established by the Board of Directors on February 11, 2008 at 8.6% p.a. The bonds mature in February 2011, in 2184 days from the date of placement. The nominal bond value is repayable in installments as follows: 30% - February 25, 2010, 30% – August 26, 2010, and 40% – February 24, 2011. Under the terms of the issue, bondholders are entitled to early redemption in February 2008. In 2007 the Company fully met its coupon obligations under coupons 8-11 at 9.25% p.a. in the total amount of 277. Coupon payment per bond was 23.06 Rubles. As of December 31, 2007 the outstanding loan totaled 2,998 and was classified as short-term debt to reflect the possibility of early repayment in February 2008.

In October 2006, the Company registered the issue of 2 million of certified coupon bonds with part value of 1,000 Rubles each carrying 20 interest bearing coupons. Payments under the first coupon are due on the 91st day from the date of bond placement, and other coupon payments are effected every 91 day. The interest rate under coupons is set at 8.1% p.a. The nominal bond value is repayable in installments as follows: 25% – December 10, 2009; 25% – December 9, 2010; 50% – December 8, 2011. Under the terms of the issue, bondholders are not entitled to early redemption. The Bond Resolution and Prospectus provide an option for early redemption at the Company's initiative on the 728th day from the date of placement. Bond premium payable on early redemption is 20 Rubles per bond. In 2007 the Company fully met its coupon obligations under coupons 1-4 at 8.1% p.a. in the total amount of 162. Coupon payment per bond was 20.19. As of December 31, 2007 the outstanding loan totaled 1,993.

(in millions of Rubles, unless otherwise indicated)

20. Borrowings (continued)

Long-Term Borrowings (continued)

Vendor Financing

Vendor	Currency	Maturity	Interest rate	2007	2006
OAO AKB Svyaz Bank	Euro	2008	7.5%	**13**	45
Verisel-Telecom	US Dollars	2007	0%	**-**	8
Siemens	Euro	2008	0%, Euribor+2.5%, 7.5%	**2**	5
Kvant-Intercom	US Dollars, Rubles	2011	0%, 9%	**1**	1
Total				**16**	59

Liability under interest-free vendor financing agreements as of December 31, 2007 was initially recognized at fair value based on discount rate of 7% to 8.2%. Subsequently the liability has been carried at amortized cost.

Promissory Notes

In 2000-2003 the Company issued promissory notes to finance its current operations and restructure liabilities. Notes issued are accounted for at amortized cost.

21. Finance Lease Obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of December 31, 2007 and 2006 are shown below. The agreements do not contain renewal, purchase option or sliding price clauses. Title to the equipment shall transfer to the Company after the lessee fulfils all its obligations under the finance lease agreement.

	2007		2006	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion	**150**	**127**	222	170
Over 1 year to 5 years	**13**	**12**	158	137
Total minimum lease payments	**163**	**139**	380	307
Less: amounts representing finance charges	**(24)**	**-**	(73)	-
Present value of minimum lease payments	**139**	**139**	307	307

In 2007 and 2006, the Company's primary lessors were OAO RTC-Leasing and OAO Leasing-Telecom. In 2007, effective interest rate on lease liabilities ranged from 11% to 41.97% p.a. (2006: from 11% to 45%).

OAO RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. Future minimum lease payments due to OAO RTC-Leasing under the leases as of December 31, 2007 comprised 151 (2006: 339), including principal amount of 128 (2006: 271) and interest of 23 (2006: 68).

Pursuant to agreements concluded with OAO RTC-Leasing, the lessor is entitled to adjust the lease payment schedule in the event of change of certain macroeconomic conditions, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

(in millions of Rubles, unless otherwise indicated)

21. Finance Lease Obligations (continued)

OAO Leasing-Telecom purchases vehicles from domestic and foreign suppliers and leases the vehicles. Future minimum lease payments due to OAO Leasing-Telecom under the leases as of December 31, 2007 were 11 (2006: 40), including principal amount of 10 (2006: 34) and interest of 1 (2006: 6).

As of December 31, 2007 finance lease obligations were denominated in Russian Rubles.

22. Accounts Payable, Accrued Liabilities and Advances received

Accounts payable, accrued liabilities and advances received of the Company as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Payables to suppliers and contractors for purchase and construction of property, plant and equipment	**1,592**	548
Salaries and wages payable	**923**	516
Payables to suppliers and contractors under current operations	**539**	362
Advances received, principal activity	**427**	367
Payables to consignors and principals	**344**	396
Payables to telecommunications operators	**204**	200
Payables to suppliers and contractors for software purchases	**152**	153
Other accounts payable and current liabilities	**73**	73
Total	**4,254**	2,615

Other accounts payable include outstanding payables to property insurance providers, trade union contributions and agent fees payable.

As of December 31, 2007 included in "Salaries and wages payable" were provision for the unused vacation and bonuses to employees for 2007 totaling 767 (2006: 483).

Following the organizational changes implemented since January 1, 2008 as approved by the Board of the Company, staff reductions were made in 2007. In December 2007 the Company made a provision for termination payments to the employees who as of December 31, 2007 had been notified of their forthcoming termination (in accordance with the procedure set forth in article 180 of the Russian Labor Code). The provision amounted to 30 as of December 31, 2007 (2006: nil) and was included in the line "Salaries and wages payable". The Company's provisioning costs are reported in line "Wages, salaries, other employee benefits and payroll taxes" of the consolidated income statement.

23. Taxes and Social Contributions Payable

As of December 31, 2007 and 2006 the Company had the following current taxes payable:

	2007	2006
Current income tax payable	**2,164**	1
Unified social tax	**229**	135
Assets tax	**141**	101
Personal income tax	**33**	34
Value added tax	**21**	32
Other taxes	**2**	4
Total	**2,590**	307

As of December 31, 2007 included in "Unified social tax" is the unified social tax of 170 relating to the 2007 unused vacation provision and employee bonus provision (2006: 88).

(in millions of Rubles, unless otherwise indicated)

23. Taxes and Social Contributions Payable (continued)

The increase in current income tax payable is due to an increase in taxable profit compared to 2006 due to the recognition of income received from the sale of the Company's share in OAO Telecominvest in the forth quarter of 2007 (Note 11).

24. Pensions and Other Employee Benefits

In additions to mandatory payments to the Russian Federation state pension fund, the Company provides non-government pensions to its employees through post-employment benefits plans.

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

Non-government pension fund Telecom-Soyuz, which is related to the Company (Note 36), maintains the defined benefit pension plan.

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

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

As of December 31, 2007 there were 14,708 working employees participating to the defined benefit pension plan of the Company and 13,385 pensioners eligible to the other post-employment benefits provided by the Company (December 31, 2006: 24,147 and 13,308, respectively).

As of December 31, 2007 and 2006 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2007	**2006**
Present value of defined benefit obligation	**2,404**	2,742
Fair value of plan assets	**(31)**	(41)
Present value of unfunded obligation	**2,373**	2,701
Unrecognized past service cost	**(495)**	(594)
Unrecognized actuarial losses	**(40)**	(470)
Net pension liability in the balance sheet	**1,838**	1,637
Actual return on plan assets	**7.29%**	7.05%

As of December 31, 2007 average remaining employee working life assessed by management was 10 years (2006: 10 years).

(in millions of Rubles, unless otherwise indicated)

24. Pensions and Other Employee Benefits (continued)

Net expense under the defined benefit plans in 2007 and 2006 was as follows:

	2007	2006
Current service cost	**164**	121
Interest cost	**194**	138
Expected return on plan assets	**(3)**	(6)
Actuarial loss (gain) recognized in the year	**(8)**	67
Amortization of past service cost	**100**	100
Loss on curtailment or final settlement under the plan	**4**	29
Net expense for the defined benefit plan	**451**	449

Expenses on the defined benefit plans were included in the line "Wages, salaries, other benefits and payroll taxes" of the consolidated income statement.

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

	2007	2006
Net defined benefit obligation at January 1	**2,742**	1,960
Current service cost	**164**	121
Interest cost on benefit obligation	**194**	138
Benefits paid	**(31)**	(42)
Liabilities extinguished on settlements	**(236)**	(168)
Actuarial (gains) losses on the obligation	**(429)**	733
Net defined benefit obligation at December 31	**2,404**	2,742

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

	2007	2006
Fair value of plan assets at January 1	**41**	137
Expected return on plan assets	**3**	6
Actuarial gains (losses)	**-**	(6)
Benefits paid	**(31)**	(43)
Liabilities extinguished on settlements	**(236)**	(168)
Contributions by employer	**254**	115
Fair value of plan assets at December 31	**31**	41

The Company's expected contribution to its non-government benefit pension fund in 2008 is 176.

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

(in millions of Rubles, unless otherwise indicated)

24. Pensions and Other Employee Benefits (continued)

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

	2007	2006
Shares of Russian companies	**14.6%**	9.2%
Russian corporate bonds	**48.2%**	34.2%
Russian federal bonds	**28.0%**	30.8%
Russian corporate promissory notes	**3.5%**	24.9%
Other assets	**5.7%**	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%**	7.0%
Expected return on plan assets	**7.5%**	8.5%
Future salary increase	**9.2%**	9.2%
Relative salary increase due to career progression	**1.0%**	1.0%
Rate used for calculation of annuity value	**6.0%**	6.0%
Increase in financial support benefits	**5.0%**	5.0%
Staff turnover	**5.0%**	5.0%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

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

	2007	2006	2005	2004	2003
Present value of defined benefit obligation	**2,404**	2,742	1,960	1,470	1,648
Plan assets	**(31)**	(41)	(137)	(67)	(275)
(Deficit)/surplus	**2,373**	2,701	1,823	1,403	1,373
Experience adjustments on plan liabilities, gain/(loss)	**501**	(220)	(53)	301	(72)
Experience adjustments on plan assets, gain/(loss)	**5**	(6)	(2)	(24)	11

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

(in millions of Rubles, unless otherwise indicated)

25. Revenues

By revenue type	2007	2006
Local telephone calls	**12,598**	10,899
Interconnection and traffic transmission services	**3,802**	3,586
Telegraph, data transfer and telematics services	**3,313**	2,121
Intrazone telephone services	**2,195**	1,791
Services under assistance agreements	**774**	901
Mobile radio services, wire and radio broadcasting, television	**384**	389
Other telecommunication services	**248**	140
Other revenues (non-core activities)	**912**	823
Total	**24,226**	20,650

In 2007, the Company changed to a new revenue reporting format. To ensure comparability, the Company reclassified the 2006 revenues as follows:

2006, unadjusted		**2006, adjusted**	
Item	**Amount**	**Amount**	**Item**
Local telephone calls	9,316	9,316	Local telephone calls
Intra-regional telephony services	1,413	1,413	Intrazone telephone calls
Services to national operators	4,702	204	Local telephone calls
		2	Intrazone telephone calls
		872	Services under assistance agreements
		3,586	Interconnection and traffic transmission services
		38	Telegraph, data transfer and telematics services
New services (Internet, ISDN, ADSL, IP-telephony)	1,537	1,537	Telegraph, data transfer and telematics services
Other communication services	1,046	969	Local telephone calls
		75	Intrazone telephone calls
		2	Mobile radio services, wire and radio broadcasting, television
Installation and connection fees	410	410	Local telephone calls
Radio and TV broadcasting	352	352	Mobile radio services, wire and radio broadcasting, television
Data transfer and telematic services	541	541	Telegraph, data transfer and telematics services
Rent of telephone channels	301	301	Intrazone telephone calls
Documentary services	34	5	Telegraph, data transfer and telematics services
		29	Mobile radio services, wire and radio broadcasting, television
Other revenues	998	29	Services under assistance agreements
		6	Mobile radio services, wire and radio broadcasting, television
		140	Other telecommunication services
		823	Other revenues (non-core activities)
Total	**20,650**	**20,650**	**Total**

(in millions of Rubles, unless otherwise indicated)

25. Revenues (continued)

The Company identifies revenue by the following major customer groups:

By customer group	**2007**	**2006**
Individual customers	**12,134**	10,036
Corporate customers	**10,114**	8,958
Government customers	**1,978**	1,656
Total	**24,226**	20,650

26. Other Operating Expenses

	2007	**2006**
Agency fees	**432**	328
Security and fire protection services	**376**	353
Audit and consultancy fees	**287**	125
Advertising expenses	**272**	153
Rental expenses	**253**	205
Universal service fund contributions	**216**	183
Contributions to Non-Commercial Partnership (Note 36)	**148**	130
Membership fees, charity and labor union contributions	**129**	154
Transportation services	**107**	108
Business travel and representation expenses	**85**	83
Lending charges	**63**	59
Post services	**59**	125
Property insurance	**48**	106
Loss from sale of goods	**40**	25
Training	**27**	31
Other contracted services and management costs	**198**	230
Other expenses	**317**	218
Total	**3,057**	2,616

Other expenses include primarily expenses related to social expenditures, state duty and other operating expenses.

27. Other Operating Income

	2007	**2006**
Reimbursement of losses from universal telecommunication services	**369**	-
Reimbursement of losses	**37**	28
Fines, late payment interest, penalty for breach of contract	**25**	20
Other income	**45**	50
Total	**476**	98

(in millions of Rubles, unless otherwise indicated)

27. Other Operating Income (continued)

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

- 55 - for services provided in the first half of 2007;
- 91 - for services provided in the third quarter of 2007.

In 2007 the loss from the provision of universal telecommunication services amounted to 369 and was confirmed by the independent auditing firm. The difference between the loss claimed for 2007 and loss reimbursed for 9 months of 2007 will be reimbursed in accordance with the established procedures (Note 1).

28. Interest Expense, Net

	2007	**2006**
Interest income	**(162)**	(63)
Interest expense on loans, promissory notes, bonds	**941**	734
Interest expense on finance leases	**58**	98
Less: capitalized interest	**(41)**	(81)
Total	**796**	688

Expenses capitalized for 2007 and 2006 totaled:

	2007	**2006**
Interest capitalized into the cost of property, plant and equipment	**30**	12
Interest capitalized into the cost of intangible assets	**11**	69
Total	**41**	81

29. Profit (Loss) from Investments, Net

	2007	**2006**
Loss on sale of interest in ZAO Severnaya Kliringovaya Palata	**-**	(14)
Gain on sale of interest in OAO Telecominvest (Note 11)	**9,603**	-
Gain on sale of other investments	**-**	2
Dividend income	**-**	4
Total	**9,603**	(8)

30. Income Tax

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

	2007	**2006**
Current income tax expense	**3,712**	799
Adjustments to current income tax for previous years	**(72)**	(4)
Deferred income tax expense (gain)	**(479)**	107
Total income tax expense	**3,161**	902

In 2007 the Company exercised its right under article 11.4 of the St.Petersburg government order "On Tax Concessions" No. 81-11 of June 14, 1995 and applied a reduced corporate income tax rate (13.5% instead of 17.5%) on income tax payable to the St. Petersburg government.

(in millions of Rubles, unless otherwise indicated)

30. Income Tax (continued)

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

	2007	2006
Profit before tax	**13,274**	2,173
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**3,186**	521
Increase (decrease) resulting from the effect of:		
Adjustments to current income tax for previous years	**(72)**	-
Expenses not deductible for income tax purposes	**336**	407
Anticipated dividend from subsidiaries	**11**	-
Effect from tax relief	**(284)**	-
Other	**(16)**	(26)
Total income tax charge for the year at the effective rate of 24% (2006: 42%)	**3,161**	902

The composition of deferred income tax assets and liabilities as of December 31, 2007 and 2006 and their movement in 2007 was as follows:

	December 31, 2005	Movement during 2006 recognized in: Equity	Movement during 2006 recognized in: Profit for the period	Additions with acquired subsidiaries	December 31, 2006
Tax effect of deferred tax assets:					
Accounts payable and accrued liabilities	206	-	(109)	2	99
Accounts receivable	14	-	(3)		11
Pension liabilities	207	-	56		263
Finance lease	25	-	16		41
Deferred tax assets, total	**452**	**-**	**(40)**	**2**	**414**
Tax effect of deferred tax liabilities:					
Property, plant and equipment	(1,620)	-	105	-	(1,515)
Investments in associates and other investments	(1,901)	(552)	(2)	-	(2,455)
Intangible assets	(39)	-	(170)	-	(209)
Deferred tax liabilities, total	**(3,560)**	**(552)**	**(67)**	**-**	**(4,179)**
Total net deferred tax assets (liabilities)	**(3,108)**	**(552)**	**(107)**	**2**	**(3,765)**

(in millions of Rubles, unless otherwise indicated)

30. Income Tax (continued)

	December 31, 2006	Movement during 2007 recognized in: Equity	Movement during 2007 recognized in: Profit for the period	Additions with acquired subsidiaries	December 31, 2007
Tax effect of deferred tax assets:					
Accounts payable and accrued liabilities	99	-	108	1	208
Accounts receivable	11	-	21	9	41
Pension liabilities	263	-	(20)	-	243
Finance lease	41	-	(9)	-	32
Deferred tax assets, total	**414**	**-**	**100**	**10**	**524**
Tax effect of deferred tax liabilities:					
Property, plant and equipment	(1 515)	-	209	(111)	(1,417)
Investments in associates and other investments	(2 455)	2,256	143	-	(56)
Intangible assets	(209)	-	38	(103)	(274)
Anticipated dividends from subsidiaries	-	-	(11)	-	(11)
Deferred tax liabilities, total	**(4 179)**	**2,256**	**379**	**(214)**	**(1,758)**
Total net deferred tax assets (liabilities)	**(3 765)**	**2,256**	**479**	**(204)**	**(1,234)**

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

The Company did not report deferred tax liability of 70 with respect to temporary differences arising on investment in subsidiaries, as the Company is able to control the timing of the reversal of these temporary differences, and has no intention to decrease the temporary differences in the foreseeable future.

31. Earnings Per Share

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

	2007	2006
Profit for the year attributable to equity holders of the parent	**10,113**	1,271
Weighted average number of ordinary shares and other instruments outstanding (millions)	**1,132**	1,132
Adjusted for weighted average number of treasury shares (millions)	**(6)**	(6)
Basic and diluted profit per share (Russian Rubles) attributable to equity holders of the parent	**8,98**	1,13

(in millions of Rubles, unless otherwise indicated)

32. Dividends Declared and Proposed for Distribution

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

Dividends on ordinary share, 0.357 Rubles per share	314
Dividends on preference share 0.858 Rubles per share	215
Total	**529**

The number of shares used to compute dividend per share was determined as the number of shares outstanding as of the balance sheet date.

In 2008, the Board of Directors proposed that the general shareholders' meeting approve a dividend for 2007:

Dividends on ordinary share, 0.642 Rubles per share	565
Dividends on preference share 3.997 Rubles per share	1,001
Total	**1,566**

The number of shares used to compute dividend per share was determined as the number of shares outstanding as of the date of declaration of dividend.

Dividends paid to shareholders are determined by the Board of Directors and officially approved at the annual shareholders' meeting. In accordance with Russian legislation, earnings available for dividends are limited to the Company's profits based on financial statements prepared in accordance with Russian accounting and reporting regulations. In 2007 and 2006, the Company's net profit in accordance with Russian accounting totaled 11,304 and 2,426, respectively.

33. Operating Lease

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

	2007	2006
Current portion	**488**	275
1 to 5 years	**400**	587
Over 5	**1,098**	935
Total minimum lease payments	**1,986**	1,797

The Company's expenses on operating lease recognized in lines "Other operating expenses" and "Services of telecommunication operators" of the consolidated income statement in 2007 totaled 536 (2006: 461).

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

	2007	2006
Current portion	**236**	228
1 to 5 years	**104**	315
Over 5	**137**	162
Total minimum lease payments	**477**	705

The Company's income on operating lease recognized in line "Revenue" of the consolidated income statement in 2007 totaled 621 (2006: 470) .

Operating leases primarily include lease agreements for land, premises and communication channels.

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. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

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

Insurance

During 2007, the Company did not maintain insurance coverage on a significant part of their property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company’s property or relating to the Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

Litigations, Claims and Assessments

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

In 2008, the case heard in 2007 in Moscow Arbitration Court which was brought by the Company against the Decision of December 8, 2006 to hold the taxpayer (charge payer, tax agent) liable for a tax offense, was closed.

The contested decision was made by the Interregional Inspectorate for Major Taxpayers of the Federal Tax Service of Russia based on the findings of a field tax audit of OAO NWT for years 2003-2004. Taxes, late payment interest and penalties charged following the tax audit totaled 585, including taxes of 437, late payment interest of 77, and penalty of 70.

34. Contingencies and Operating Risks (continued)

Litigations, Claims and Assessments (continued)

On March 11, 2008, Federal Arbitration Court for Moscow fully dismissed the appeal filed by the Interregional Inspectorate for Major Taxpayers of the Federal Tax Service of Russia with respect of the tax claim against OAO NWT for years 2003-2004.

Currently the Arbitration Court for St. Petersburg and Leningrad Oblast is hearing a case filed by ZAO Petersburg Transit Telecom, a Company's subsidiary, seeking to invalidate the decision to hold it liable for a tax offense and to charge additional profit tax in amount 54, late payment interest and penalty 11. The Company believes that the tax authorities had no legal grounds to charge additional taxes, late payment interest and penalties. Accordingly, as of December 31, 2007 the Company did not create a contingency provision related to the above tax litigation. Having considered the ZAO Petersburg Transit Telecom request, the Arbitration Court for St. Petersburg and Leningrad Oblast made a ruling on May 20, 2008 (Note 38).

Licenses

The Company's major revenues are derived from financial and economic activity carried out in accordance with licenses issued by the Russian Federation Ministry of Communications and Information Technologies. Main operational licenses and supplementary licenses expire during the period from 2008 to 2029. Suspension or termination of the Company's main licenses or 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 licenses on a regular basis in the past and believes that it will be able to renew licenses without additional costs in the normal course of business.

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

Guarantees and Sureties

As of December 31, 2007 the Company stood as guarantor on a number of loan facilities provided mainly by OAO Sberbank to ZAO RTC-Leasing, a lessor of telecommunication equipment. The guaranteed obligation totaled 568 (2006: 702). The fair value of guarantees and sureties issued as of December 31, 2007 and 2006 totaled, respectively, 8 and 12. The Company's management believes that the probability of occurrence of the guaranteed event is remote.

35. Contractual Commitments

As of December 31, 2007 and 2006 the Company had contractual commitments for capital investment in network modernization and expansion in the amount of approximately 594 and 622, respectively.

As of December 31, 2007 and 2006 the Company had contractual commitments for purchase of property, plant and equipment of 124 and 86, respectively.

In 2008, the Company plans to incur capital expenditures in the amount of 2,283 to meet industry legislation requirements for telecommunication networks and to traffic transmission, and of 4,148 to meet its commitments for rendering universal telecommunication service and other national projects.

(in millions of Rubles, unless otherwise indicated)

36. Balances and Transactions with Related Parties

Related party transactions

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

Item	Svyazinvest	Subsidiaries of Svyazinvest	Associates	State-controlled companies	Other
2006					
Provision of telecommunication services, interconnection and traffic transmission services	-	2,445	2	2,056	289
Rendering of assistance and agency services	-	858	-	3	31
Channel rental income	-	12	3	45	74
Provision of other services, goods, products	-	2	-	59	10
Purchase of telecommunication services, interconnection and traffic transmission services	-	133	27	39	152
Purchase of other services	-	146	80	1,034	340
Loan interest payable	-	-	-	-	3
Dividend receivable	-	1	1	-	-
Purchase of goods and other assets	-	292	1	11	2
Equity investment	-	-	13	-	-
Loans given	-	-	-	-	6
Dividend payable	108	-	-	-	-
2007					
Provision of telecommunication services, interconnection and traffic transmission services	**-**	**2,104**	**41**	**2,587**	**706**
Rendering of assistance and agency services	**-**	**753**	**-**	**5**	**20**
Channel rental income	**-**	**11**	**4**	**32**	**128**
Provision of other services, goods, products	**-**	**2**	**-**	**30**	**43**
Purchase of telecommunication services, interconnection and traffic transmission services	**-**	**91**	**28**	**121**	**491**
Purchase of other services	**-**	**370**	**218**	**1,217**	**611**
Interest receivable from financial investments	**-**	**-**	**-**	**-**	**136**
Loan interest payable	**-**	**-**	**-**	**-**	**2**
Dividend receivable	**-**	**1**	**-**	**-**	**-**
Sale of property, plant and equipment and other assets	**-**	**-**	**-**	**-**	**27**
Purchase of goods and other assets	**-**	**174**	**-**	**20**	**50**
Financial investments	**-**	**-**	**-**	**-**	**6,210**
Dividend payable	**146**	**-**	**-**	**-**	**-**

(in millions of Rubles, unless otherwise indicated)

36. Balances and Transactions with Related Parties (continued)

Correction of Error in the Presentation of Related Party Transactions for 2006

When preparing the consolidated financial statements for 2007, the Company detected a misstatement in the amount of revenue received from the state-controlled companies disclosed in the Note 35 “Balances and transactions with related parties” to the previous year financial statements. The comparative information in the above table about related parties’ transactions was corrected as follows:

	As previously reported	As corrected
Provision of telecommunication services, interconnection and traffic transmittion services	8,421	2,056
Provision of other services, goods, products	1,239	59

This error had no impact on the Company’s result of operations for 2006 and its financial position as of December 31, 2006.

Related party balances

The nature of significant Company’s related party balances outstanding as of December 31, 2006 and 2007 is disclosed below.

Item	Svyazinvest	Subsidiaries of Svyazinvest	Associates	State-controlled companies	Other
As of December 31, 2006					
Accounts receivable	-	399	10	152	52
Accounts payable	-	532	3	223	76
As of December 31, 2007					
Accounts receivable	**-**	**318**	**9**	**150**	**189**
Financial investments (including interest)	**-**	**-**	**-**	**-**	**6,313**
Accounts payable	**-**	**419**	**113**	**183**	**36**

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

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

OAO Svyazinvest

The Company’s parent entity - OAO Svyazinvest - was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of OAO Svyazinvest to the private sector.

Effectively operating telecommunication and data transmission networks are essential for Russia due to various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of OAO Svyazinvest and its subsidiaries.

The Russian Federation Ministry of Communications and Information Technologies has control over the licensing of providers of telecommunications services.

(in millions of Rubles, unless otherwise indicated)

36. Balances and Transactions with Related Parties (continued)

OAO Rostelecom

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

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

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

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

	2007	2006
Revenue from OAO Rostelecom, ordinary activities	**2,112**	2,454
Revenue from OAO Rostelecom, assistance agreement	**753**	858
Expenses on OAO Rostelecom services	**101**	142
Accounts receivable from OAO Rostelecom as of December 31	**300**	292
Accounts payable to OAO Rostelecom as of December 31, ordinary activities	**349**	421
Accounts payable to OAO Rostelecom as of December 31, assistance agreement	**337**	384

Transactions with State-Controlled Companies

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

Certain entities financed by the Government are users of the Company's network. These entities typically lease communication channels at lower rates than those fixed by the Federal Tariff Service for other customers. In addition, the Government may by law require the Company to provide certain services to the Government in the interest of national security and the detection of crime.

Entities under direct or indirect control of the state do not affect the Company's transactions with other entities.

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

Non-Commercial Partnership Center for Research of Problems in Development of Telecommunications

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

The Company has an agreement with the Partnership, under which it provides financing for the latter to implement mutually beneficial project on behalf of the Company and other subsidiaries and associates of OAO Svyazinvest. Contributions to the Partnership included in the line "Other operating expenses" in the accompanying consolidated income statement for 2007 amounted to 148 (2006: 130).

36. Balances and Transactions with Related Parties (continued)

Non-Commercial Partnership Center for Research of Problems in Development of Telecommunications (continued)

In addition, the Partnership acted as agent for the Company with respect to Oracle E-Business Suite development and implementation services. In 2007 the Company's expenses related to the reimbursement of the Partnership for the costs it incurred under the agreements with contractors totaled 91 (2006: 27).

The Company had no outstanding liability to the Partnership as of December 31, 2007 (December 31, 2006: 106).

OAO Svyazintek

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

In 2007 the Company incurred expenses on services provided by OAO Svyazintek in the amount of 173 (2006: 248). In table showing transactions with related parties in the reporting period these expenses are reported in line "Purchase of goods and other assets". Expenses in the amount of 127 (2006: 248) are included in non-current assets; expenses in the amount of 46 (2006: nil) are recorded as current period expenses. Advances given to OAO Svyazintek as of December 31, 2007 amounted to 9 (2006: nil), accounts payable to OAO Svyazintek amounted to 37 (2006: 102).

Non-government Pension Fund Telecom-Soyuz

The Company signed a pension insurance agreement with Non-government pension fund Telecom-Soyuz (Note 24). OAO Svyazinvest has a majority vote in the fund's Board of Directors. Total contributions into the fund in 2007 amounted to 258 (2006: 85). In the table showing transactions with related parties in the reporting period the contributions are reported in the line "Purchase of other services".

SZAO Medexpress

In 2007 SZAO Medexpress, a related party of the Company (Note 10), provided to the Company various insurance services. The Company's expenses related to the insurance services in 2007 totaled 217 (2006: 80) (in the table showing transactions with related parties in the reporting period the expenses are reported in line "Purchase of other services"). Accounts payable to SZAO Medexpress as of December 31, 2007 totaled 110 (2006: 10).

Telecominvest Group

In 2006, the Company owned a 15% interest in OAO Telecominvest. Telecominvest Group companies were considered as related parties of the Company. In October 2007 the Company completed the sale of its interest in OAO Telecominvest (Note 11) and as of December 31, 2007 the Telecominvest Group companies were no longer affiliated with the Company. Transactions with Telecominvest Group companies until October 2007 are reported in the table showing transactions with related parties in the reporting period in lines "Provision of telecommunication services, interconnection and traffic transmission services", "Channel rental income", "Purchase of telecommunication services, interconnection and traffic transmission services" and "Purchase of other services".

The Telecominvest Group includes OAO Leasing-Telecom (lease service provider), OAO St.Petersburg Payphones (payphone service provider), ZAO PETER-SERVICE (software development, implementation and maintenance service provider), ZAO Web Plus (Internet provider for St. Petersburg), and OAO MegaFon (mobile operator).

36. Balances and Transactions with Related Parties (continued)

Telecominvest Group (continued)

The Company's expenses related to the purchase of services of Telecominvest Group companies in 2007 totaled 382 (2006: 256) (in the table showing transactions with related parties in the reporting period they are included in lines "Purchase of telecommunication services, interconnection and traffic transmission services" and "Purchase of other services"). The Company's revenue from the provision of services to Telecominvest Group companies in 2007 totaled 607 (2006: 743) (in the table showing transactions with related parties in the reporting period they are included in lines "Provision of telecommunication services, interconnection and traffic transmission services" and "Channel rental income"). Accounts receivable from Telecominvest Group companies as of December 31, 2006 totaled 76. Accounts payable to Telecominvest Group companies as of December 31, 2006 totaled 69.

Compensation to Key Management Personnel

Key management personnel comprise members of Management Board and Board of Directors of the Company, totaling 22 as of December 31, 2007 and 20 as of December 31, 2006.

Compensation to members of Management Board and Board of Directors for 2007 consists of contractual salary, performance bonus depending on operating results and other compensations and totals 96 (2006: 88).

37. Financial Instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Company's operations. Short-term deposits are also actively used as a financial instrument to place available funds. The Company has other financial assets and liabilities such as trade 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.

Capital Management Policy

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

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

The Company manages its capital using financial independence ratios, net debt/equity, and net debt/EBITDA. Capital management function is maintained at the level of major entities within the Company. Financial independence ratios, net debt/equity ratio, net debt/EBITDA ratio are calculated based on the Russian statutory accounts. The Company's capital management policy has not changed in 2007 compared with 2006. As part of its capital management policy, the Company is also working to increase its credit ratings.

The financial independence ratio is calculated as shareholders' equity to the balance sheet total as of the end of the period. Net debt/equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/EBITDA is calculated as net debt as of the year-end to EBITDA for the previous period.

(in millions of Rubles, unless otherwise indicated)

37. Financial Instruments (continued)

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the Company's cash flows. Liabilities denominated in foreign currencies (Notes 20 and 22) give rise to foreign exchange exposure.

The Company is generally exposed to foreign exchange risk with respect to liabilities denominated in foreign currencies. As of December 31, 2007 the Company had currency-denominated liabilities of 3,779 (2006: 2,235), including liabilities denominated in US Dollars of 2,567 (2006: 214) and Euro-denominated liabilities of 1,212 (2006: 2,021). As of December 31, 2007 Company's US Dollar-denominated accounts receivable totaled 127 (2006: 0).

Over the period from January 1, 2007 through December 31, 2007 the Ruble increased by approximately 6.8% in relation to the US Dollar and decreased by less than 3.6% in relation to the Euro, which resulted in an increase in the Ruble equivalent of the borrowings of approximately 34.

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

	US Dollars		**Euro**	
	Changes in exchange rate, %	**Effect on income before income tax**	**Changes in exchange rate, %**	**Effect on income before income tax**
2007	**+10**	**(244)**	**+5**	**(61)**
	-10	**244**	**-5**	**61**
2006	+10	(2)	+5	(102)
	-10	2	-5	102

The Company uses forward contracts as a tool to manage foreign exchange risks.

Hedging

As a result of the existence of a syndicated loan denominated in a foreign currency (Euro), the Company assumes a risk that the Ruble expenses related to the liability may increase in case of an increase in the exchange rate of Euro to Ruble (holds a short position in the currency). To mitigate or minimize the potential adverse effect of a decrease in the exchange rate of Ruble to the currency in which the syndicated loan is denominated, the Company has chosen to hedge its foreign exchange risks.

The Company used a forward currency contract as a hedging instrument – a derivative financial instrument under which the Bank is to transfer within an agreed period the basic asset (Euro) to the Company or to perform an alternative financial liability, while the Company is to accept and pay for the basic asset at the price (forward price) and on the terms agreed between the parties as of the date of the contract.

The first phase of the foreign exchange risk hedging exercise was completed in 2006 as follows:

	2007	**2008**	**2009**
Hedged amount	**183**	168	39

The forward currency contract was classified as an instrument to hedge spot exchange rate risk related to the expected future cash flows from the Company's outstanding Euro-denominated loans. The instrument was used to hedge 20% (or 10 million Euro) of foreign exchange risk attributable to the principal amount of the loan and certain interest amounts calculated at the fixed portion of interest rate (bank margin of 2%).

(in millions of Rubles, unless otherwise indicated)

37. Financial Instruments (continued)

Hedging (continued)

The second phase of the foreign exchange risk hedging exercise was completed on March 5, 2007 when the Company entered into a contract to hedge 40% of the amount outstanding under the syndicated loan, or 20 million Euro, which involves a currency sale (Euro) at a single forward rate in accordance with the following schedule:

	2007	2008	2009
Hedged amount	**311**	311	78

In March, June, September and December 2007 the Company fully discharged its liability to purchase currency (Euro) under the hedging contracts.

As of December 31, 2006 and 2007, net amount outstanding under the syndicated loan was:

	2007 (thousands Euro)	2006 (thousands Euro)
Amount outstanding under the syndicated loan	**27,799**	50,000
Principal amount hedged	**(16,667)**	(10,000)
Net debt (open currency position)	**11,132**	40,000

Accordingly, in the event of a 2.5% change in the exchange rate, the net effect on the income statement in money terms will be 10 (2006: 34).

The cash flows relate to outstanding loans and the hedged risks and, as such, affect the profit or loss for the period in which the movement in the exchange rate took place. Accordingly, the amounts were not deferred or excluded from the hedging reserve in equity.

As of December 31, 2007, the fair value of the forward contract classified as hedge was 16 (2006: 3), including 5 (2006: 4) classified as ineffective portion of the hedge and included in the line "Other operating expenses" of the consolidated income statement, and 21 (2006: 1) classified as effective portion of the hedge included in the line "Foreign exchange gain (loss), net" as compensation for the respective exchange loss on the outstanding loan.

Liquidity Risk

The Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

As of December 31, 2007 long-term borrowings and other liabilities had the following maturities:

Maturity date	Bank loans	Bond loans	Vendor financing	Promissory notes	Financial lease	Accounts payable and other short-term liabilities	Total
2008	2,328	3,424	15	22	150	6,842	12,781
2009	2,189	919	1	-	13	-	3,122
2010	1,023	801	-	-	-	-	1,824
2011	465	1,107	-	-	-	-	1,572
2012	293	-	-	-	-	-	293
after 2012	-	-	-	15	-	-	15
Total	**6,298**	**6,251**	**16**	**37**	**163**	**6,842**	**19,607**

(in millions of Rubles, unless otherwise indicated)

37. Financial Instruments (continued)

Liquidity Risk (continued)

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 interest rate included floating part the rate, this part for projection was set as equal to the interest rate as at December 31, 2007.

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 mainly relates to debt instruments with floating interest rate denominated mainly in US Dollars and Euro.

The following table presents the Company's financial instruments that are exposed to interest rate risk as of December 31, 2007 and 2006:

	< 1 year	1 - 5 years	> 5 years	Total
As of December 31, 2007				
Fixed rate				
Short-term obligations	**79**	**-**	**-**	**79**
Long-term obligations	**3,622**	**2,172**	**9**	**5,803**
Finance lease obligations	**127**	**12**	**-**	**139**
Floating rate				
Long-term obligations	**1,419**	**3,458**	**-**	**4,877**

	< 1 year	1 - 5 years	> 5 years	Total
As of December 31, 2006				
Fixed rate				
Short-term obligations	81	-	-	81
Long-term obligations	1,186	6,605	9	7,800
Finance lease obligations	170	137	-	307
Floating rate				
Long-term obligations	752	964	-	1,716

Interest on financial instruments classified as fixed rate is fixed until maturity date of the instrument. Other financial instruments of the Company that are not included into the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Our analysis shows limited sensitivity of profit to interest rate risk: under Libor, the effect of movements in the interest rate of ±10 basis points on profit before income tax will be ±2 (in 2006 there were no Libor-based loans or borrowings); under Euribor, the effect of movements in the interest rate of ±5 basis points on profit before income tax will be less than 1 (2006: ±1); under Mosprime RZBM, the effect of movements in the interest rate of ±10 basis points on profit before income tax will be ±1 (2006: less than 1).

Credit Risk

Credit risk is the risk that counter-party will fail to discharge an obligation and cause the Company to incur a financial loss. Financial assets, which potentially expose the Company to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

(in millions of Rubles, unless otherwise indicated)

37. Financial Instruments (continued)

Credit Risk (continued)

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers’ and other debtors’ ability to pay debts. Part of accounts receivable is represented by state and other non-commercial organizations. Recovery of this debt is influenced by political and economic factors. Management believes that as of December 31, 2007 there is no significant risk of loss to the Company beyond the provision already recorded.

The Company places spare cash on deposits with a number of Russian commercial financial institutions and in short-term promissory notes issued by Russian commercial banks. To manage credit risk the Company places spare cash in different financial institutions, and the Company’s management analyzes the risk of default of these financial institutions on a regular basis.

Fair Value of Financial Instruments

Financial instruments used by the Company are classified in either of the following categories:
- HTM – held-to-maturity investments;
- AFS – available-for-sale financial assets;
- LAR – loans and receivables;
- FLAC – financial liabilities at amortized cost.

Type of instrument	Category	2007 Net book value	2007 Fair value	2006 Net book value	2006 Fair value
Financial assets					
Long-term investments available-for-sale	AFS	**224**	**224**	10,239	10,239
Long-term accounts receivable	LAR	**39**	**39**	12	12
Long-term loans given	LAR	**23**	**23**	23	23
Short-term accounts receivable	LAR	**1,611**	**1,611**	1,363	1,363
Short-term investments	HTM	**6,394**	**6,394**	-	-
Cash and cash equivalents	LAR	**503**	**503**	244	244
Total		**8,794**	**8,794**	11,881	11,881
Financial liabilities					
Long-term loans and borrowings	FLAC	**3,644**	**3,644**	2,572	2,572
Long-term bonds	FLAC	**1,994**	**2,013**	4,983	5,073
Long-term promissory notes and vendor financing	FLAC	**3**	**3**	23	23
Long-term finance lease obligations	FLAC	**12**	**12**	137	137
Short-term accounts payable	FLAC	**6,844**	**6,844**	2 922	2 922
Short-term loans and borrowings	FLAC	**79**	**79**	81	81
Short-term portion of loans and borrowings	FLAC	**2,003**	**2,003**	824	824
Short-term portion of bonds	FLAC	**2,998**	**3,007**	1,049	1,049
Short-term portion of promissory notes and vendor financing	FLAC	**38**	**38**	65	65
Short-term portion of finance lease obligations	FLAC	**127**	**127**	170	170
Total		**17,742**	**17,770**	12,826	12,916

(in millions of Rubles, unless otherwise indicated)

37. Financial Instruments (continued)

Fair Value of Financial Instruments (continued)

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

Financial instrument category	2007 Net book value	2007 Fair value	2006 Net book value	2006 Fair value
Financial assets				
Investments held-to-maturity	**6,394**	**6,394**	-	-
Financial assets available-for-sale	**224**	**224**	10 239	10 239
Loans and accounts receivable	**2,176**	**2,176**	1,642	1,642
Total financial assets	**8,794**	**8,794**	11,881	11,881
Financial liabilities				
Liabilities carried at amortized cost	**17,742**	**17,770**	12,826	12,916
Total financial liabilities	**17,742**	**17,770**	12,826	12,916

38. Subsequent Events

Dividends

Annual dividend per share will be approved at the Company's General Shareholders' Meeting in June 2008. The Company's Board proposed that the Board of Directors recommend that the General Shareholders' Meeting approve dividend for 2007 of 0.642 Rubles per ordinary share and 3.997 Rubles per preference share, which amounted to 1,566. Following the approval, annual dividend payable to shareholders will be recognized in the 2008 financial statements (see also Note 32).

Tariff Regulations

Pursuant to Order No. 357-s/2 of the Federal Tariff Service of Russia dated November 23, 2007, the changes in tariffs for local telephony services effective February 1, 2008 were introduced in the North-West region of the Russian Federation.

Local Telephone Calls

Individual subscribers:
- The basic volume of local calls under the combined payments scheme has been increased in St. Petersburg from 400 to 450 minutes;
- The maximum tariffs for local telephony services per minute are rounded off to even numbers under time-based billing scheme;
- Since February 1, 2008 the maximum tariffs for local telephone connections under fixed payment scheme are reduced by 22% for the Northern branches and Karelia branch from 270 Rubles to 210 Rubles, by 20% for the Central branches from 225 to 180, and by 16.7% for St. Petersburg from 240 to 200 Rubles.

Corporate subscribers:
- The basic volume of local calls under the combined payments scheme has been established at the same level as the basic volume of local calls for individual subscribers under the combined payments scheme;
- The maximum tariffs for local telephony services per minute are rounded off to even numbers under time-based billing scheme.

38. Subsequent Events (continued)

Tariff Regulations (continued)

Interconnection and Traffic Transmission Services

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

Decree No. 666 of the Russian Government, dated October 12, 2007, "Concerning amendments to certain acts of the Russian Government related to telecommunication issues", since March 1, 2008 services related to maintenance of communication facilities representing interconnection points have been excluded from the scope of interconnection services. Given that, in 2008 the Company anticipates a decrease in revenue from interconnection services provided to telecom operators to the extent related to interconnection point maintenance and a decrease in expenses related to the same services provided to the Company by other operators.

Russian Government Decree No. 776 of November 14, 2007 "Concerning amendments to the Russian Government Decree No. 627 of October 19, 2005 establishes that since March 1, 2008 an operator is entitled to determine a threshold for traffic transmission services (not to exceed 1000 minutes/month per interconnection point supporting one connection at a time) subject to guaranteed payment by the buyer of traffic transmission services, if the amount of services provided in the billing period is below the established threshold.

Purchase of interest in ZAO Systemy Gibridnoy Pechati

In February 2008 the Company's Board of Directors agreed to purchase 4,153,500 ordinary registered shares in ZAO Systemy Gibridnoy Pechati, which amounts to 6.39% of share capital, for 415.

The shares will be purchased to establish efficient printing and delivery of bills, receipts, and subscriber notification forms.

Loans and Borrowings

In February 2008 the Company entered into a framework loan agreement with ZAO Natexis Bank with a debt ceiling of up to 350. All loans mature on June 30, 2009. The interest rate is a combination of a margin (2% for loans issued for four to six months; 1.75% p.a. for loans issued for less than four months) and Mosprime rate. Loans given under the framework agreement are unsecured.

In May 2008 the Board of Directors decided to enter in 2008 into four revolving loan facility agreements with OAO Sberbank for 1,155 with maturities ranging from 90 to 120 days and interest rates varying from 8% to 8.25% p.a. The loans are unsecured.

Bonds Called for Redemption

Pursuant to the Bond Resolution and Prospectus, bondholders were given an option to call series 3 bonds for early redemption in the period from February 22 through February 28, 2008. The purchase agent was OAO AKB Svyaz Bank appointed in January 2008 as a result of a public auction held by OAO NWT.

2,177,779 bonds accounting for 73% of the issue were called for redemption. The cost of bonds called for redemption, including coupon income, was 2,181. On March 6, 2008 OAO NWT fully discharged its obligation to repurchase its series 3 bonds. OAO AKB Svyaz Bank, as purchase agent for the Company, accommodated all requests at its own expense.

38. Subsequent Events (continued)

Investments

In 2008 the Company redeemed 24 promissory notes issued by OAO AKB Svyaz Bank with a total nominal value 4,800 (Note 11). Interest received totaled 162.

Restructuring

In January 2008, ZAO Russian Industrial Bank and OAO AKB Svyaz Bank completed restructuring through merger of ZAO Russian Industrial Bank into OAO AKB Svyaz Bank. Following the restructuring, the Company's interest in the OAO AKB Svyaz Bank equity totaled 0.23%.

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

In 2008, the Federal Communications Agency issued Order No. 80 of May 8, 2008 confirming the amount of losses claimed by the Company in relation to 2007 and containing the decision to compensate it in full (Note 27).

Sale of the Company's Interest in SZAO Medexpress

In March 2008 the Company's Board of Directors approved the sale of 25% interest in SZAO Medexpress for 273 to OAO Rosno. SZAO Medexpress provides insurance services in the North-West Region of Russia.

Bond Issue Decision

On May 27, 2008 the Company issued on MICEX the series 5 bond issue totaling 3 million bonds with par value of 1,000 Rubles each. The bonds mature in 1820 days with the option of early redemption at the Company's initiative on any coupon maturity date during the period from the 728th through 1729th day of the issue. The number of coupons is 20. The issue contains a two year offer to buy at par value. All bonds were issued through public placement. The first coupon rate was determined as the sum of 3 month Mosprime rate as of the last working day before the date of placement and the 3 month Mosprime rate premium of 2.12%, and amounted to 8.4%. 2-20 coupon rates will be measured as the 3 month Mosprime rate plus a premium within the maximum rate of 15%.

The redemption schedule is as follows:
- On the 1456th day from the date of placement: 25% of the par value of each bond is redeemed;
- On the 1638th day from the date of placement: 25% of the par value of each bond is redeemed;
- On the 1820th day from the date of placement: 50% of the par value of each bond is redeemed.

Litigation

In May 2008 the Arbitration Court for St. Petersburg and Leningrad Oblast made a ruling on the case filed by ZAO Petersburg Transit Telecom against the tax authorities invalidating the decision to hold the company liable for a tax offense (Note 34). The paperwork is still underway however the decision has already been announced and is in favor of ZAO Petersburg Transit Telecom.

Large Asset Purchase Contracts

In March 2008 the Company entered into a number of contracts with ZAO Telecom MTK, OAO Giprosvyaz and OOO General Deitacom on the construction of a PON-based subscriber access network for the St. Petersburg branch. The total contract price was 1,104.

38. Subsequent Events (continued)

Large Asset Purchase Contracts (continued)

As part of regional development, in January 2008 the Company entered into a number of agreements with ZAO Sitronics Telecom Solutions, OOO USP Compulink, and OOO S-Komplekt on supply of the equipment and performance of the contruction works on universal service access provision for 2,381 in total.

Miscellaneous

Pursuant to the Board of Directors decision, the Company on January 31, 2008 made an additional in-kind contribution to OOO RPK Svyazist in the form of property with a market value of 873 (including a land plot of 74, buildings of 745, movable property and inventories of 53).