

Open Joint Stock Company

“Sibirtelecom”

Unaudited Consolidated Interim Financial Statements

For a 6-month's period ended June 30, 2008

Unaudited Consolidated Interim Financial Statements

For a 6-month's period ended June 30, 2008

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“Sibirtelecom” OJSC
Unaudited Consolidated Interim Balance Sheet
As of June 30, 2008
(million Russian rubles)

	Note	June 30, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	5	40,118	40,523
Intangible assets and goodwill	6	4,181	4,003
Investments in associates	8	16	35
Long-term investments	9	14	16
Long-term accounts receivable and other assets	10	37	38
Long-term advances made	11	1,227	492
Total non-current assets		45,593	45,107
Current assets			
Inventories	12	560	533
Accounts receivable	13	2,288	2,153
Prepaid income tax		420	486
Short-term investments	9	328	125
Other current assets	14	1,409	1,307
Cash and cash equivalents	15	2,282	1,383
Total current assets		7,287	5,987
TOTAL ASSETS		52,880	51,094
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	3,541	3,541
Reserve of available-for-sale investments reappraisal		73	97
Unrealized gain and other reserves		16,023	14,709
Total equity attributable to equity holders of the parent		19,637	18,347
Minority interest		2	2
Total equity		19,639	18,349
Non-current liabilities			
Long-term borrowings	18	12,883	12,449
Long-term finance lease liabilities	19	256	343
Pension liabilities		3,633	3,449
Deferred revenue		100	106
Deferred income tax liabilities		856	802
Total non-current liabilities		17,728	17,149
Current liabilities			
Accounts payable and accrued expenses	22	4,333	6,516
Current income tax payable		48	2
Taxes and social security payable	23	1,309	414
Dividends payable		769	14
Short-term borrowings	18	1,726	548
Portion of long-term borrowings to be paid within the year	18	7,018	7,561
Current portion of long-term finance lease liabilities	19	296	454
Current portion of contingency reserve	21	14	87
Total current liabilities		15,513	15,596
Total liabilities		33,241	32,745
TOTAL EQUITY AND LIABILITIES		52,880	51,094

General Director _____ A.I. Isaev

Chief Accountant _____ G.I. Khvoshchinskaya

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

“Sibirtelecom” OJSC
Unaudited Consolidated Interim Profit and Loss Statement
for a 6-month’s period ended on June 30, 2008
(million Russian rubles, less earnings per share)

	Note	6 months of 2008	6 months of 2007
Revenues	24	18,461	17,007
Wages, salaries, other employee benefits and payroll taxes		(5,233)	(5,155)
Depreciation and amortization	5,6	(3,432)	(2,866)
Interconnection charges – international operators		(42)	(32)
Materials, repairs and maintenance, utilities		(1,413)	(1,442)
Taxes other than income tax		(464)	(397)
Interconnection charges – domestic operators		(2,090)	(1,702)
Reversal of allowance for doubtful debts		(29)	(56)
Profit (loss) on disposal and depreciation of property, plant and equipment, and intangible assets		(9)	15
Other operating expenses	25	(2,527)	(2,278)
Reimbursement of losses from providing universal communication services		288	208
Operating profit		3,510	3,302
Share of profit of associates	8	2	10
Interest expense, net	26	(852)	(817)
Gain on sale of investments, net	27	1	4
Foreign exchange gain, net		53	46
Profit before income tax		2,714	2,545
Income tax		(709)	(632)
Profit in the reporting period		2,005	1,913
Attributable to equity holders of the parent		2,005	1,913
Attributable to minority interests		-	-
Profit for the reporting period		2,005	1,913
Basic and diluted per share, for the profit for the year attributable to equity holders of the parent in rubles	31	0.13	0.12

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“Sibirtelecom” OJSC
Unaudited Consolidated Interim Statement of Cash Flows
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

	Note	Six months of 2008	2007
Cash flows from principal activities			
Profit before income tax and shares of the minority		2,714	4,170
<i>Adjustments to compare profit (loss) with funds from principal activity:</i>			
Depreciation and amortization	5, 6	3,432	6,128
Loss on disposal and depreciation of property, plant and equipment and intangible assets		9	226
Foreign exchange gain, net		(53)	(108)
Share of profit of associates	8	(2)	(7)
Gain on sale of investments, net	27	(1)	(2)
Interest expense, net	26	852	1,662
Reversal of allowance for doubtful debts		29	(15)
(Reversal of) write-down of inventory to net realisable value		(8)	(21)
Expenses of pension plans		438	577
Operating income before working capital changes		7,410	12,610
Increase (decrease) in accounts receivable		(153)	8
Increase (decrease) in other current assets		(433)	205
Decrease (increase) in inventories		(22)	15
Increase in accounts payable and accrued expenses		(1,055)	269
Decrease in taxes payable other than income tax		893	67
Settlement of pension obligations		(251)	(363)
Increase (decrease) of reserves for contingent liabilities		(72)	31
Cash flows generated from principal activity		6,317	12,842
Interest paid		(776)	(1,871)
Income tax paid		(536)	(1,737)
Net cash flows from principal activity		5,005	9,234
Cash flows from investment activity			
Purchase of property, plant and equipment, and construction in progress		(4,856)	(9,535)
Proceeds from sales of property, plant and equipment, and construction in progress		33	475
Purchase of intangible assets		(363)	(1,376)
Purchase and introduction of Oracle E-Business Suite software		(105)	(226)
Purchase and introduction of Amdocs Billing software		-	(100)
Purchase of subsidiaries, net of cash acquired		(80)	(1)
Purchase of investments and other assets		(235)	-
Proceeds from disposal of investments and other assets		378	16
Interest received		27	26
Dividends received		-	2
Net cash flows used in investment activity		(5,201)	(10,719)

“Sibirtelecom” OJSC
Unaudited Consolidated Interim Statement of Cash Flows
for a 6-month’s period ended on June 30, 2008
(continued)
(million Russian rubles)

	Note	Six months of 2008	2007
Cash flows from financing activities			
Proceeds from borrowings		4,785	12,209
Repayment of borrowings		(1,569)	(6,567)
Repayment of bonds		(3,000)	(2,200)
Repayment of finance lease liabilities		(326)	(516)
Repayment of equipment supplier liabilities		(145)	(207)
Proceeds from issue of promissory notes		1350	-
Dividends paid		-	(337)
Net cash flows used in financing activities		1,095	2,382
Increase in cash and cash equivalents		899	897
Cash and cash equivalents at the beginning of the reporting period	15	1,383	486
Cash and cash equivalents at the end of the reporting period	15	2,282	1,383

General Director _____ A.I. Isaev

Chief Accountant _____ G.I. Khvoshchinskaya

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

“Sibirtelecom” OJSC
Unaudited Consolidated Interim Statement of Change of Equity
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

	Share capital		Changes in the fair cost of available-for-sale investments	Unappropriated profit and other reserves	TOTAL	Minority interests	Total equity
	Preference shares	Ordinary shares					
Balance as of December 31, 2006	869	2,672	87	12,377	16,005	2	16,007
Profit for the reporting period	-	-	-	2,659	2,659	-	2,659
Changes in the fair cost of available-for-sale investments	-	-	10	-	10	-	10
Total recognized gains and losses for the reporting period	-	-	10	2,659	2,659	-	2,669
Dividends paid to equity holders of the parent	-	-	-	(327)	(327)	-	(327)
Balance at December 31,2007	869	2,672	97	14,709	18,347	2	18,349
Profit for the reporting period	-	-	-	2,005	2,005	-	2,005
Changes in the fair cost of available-for-sale investments	-	-	(24)	-	(24)	-	(24)
Total recognized gains and losses for the period	-	-	(24)	2,005	1,981	-	1,981
Dividends to equity holders of the parent 32	-	-	-	(691)	(691)	-	(691)
Balance as of June 30, 2008	869	2,672	73	16,023	19,637	2	19,639

General Director _____ A.I. Isaev

Chief Accountant _____ G.I. Khvoshchinskaya

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“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

1. General Information

Confirmation

The unaudited consolidated interim financial statements of Sibirtelecom OJSC and its subsidiaries - (hereinafter “the Company”) for the first six months of 2008 ended June 30, 2008 were authorized for issue by General Director and Chief Accountant of the Company on September 26, 2008.

Company

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

The registered office of the Company is located at 53 Maxima Gorkogo Street, Novosibirsk, Russian Federation, 630099.

The Company’s principal activity is providing telephone services (including local and intrazone communication), mobile radiotelephone communication (including access to communication services, to networks of other communication operators – external roaming), telegraph, data transmission services, leasing of communication channels and wireless communication services on the territory of 12 constituent entities of the Russian Federation.

Svyazinvest OJSC, controlled by the Government of the Russian Federation, is the Company’s parent company that owns 50.67% of Company’s ordinary voting stock as of June 30, 2008.

Information of the Company’s main subsidiaries is disclosed in Note 7. All subsidiaries are incorporated under the laws of the Russian Federation.

2. Basis for the Presentation of Financial Statements

Statement of Compliance

These unaudited consolidated interim financial statements are prepared and presented with deviations from International Accounting Standards (IAS) 34 “Interim financial Statements” as well as other international accounting standards (IFRS) and respective interpretations approved by the Committee of International Accounting Standards in the part of showing comparable data: in the unaudited consolidated interim statement of cash flows, unaudited consolidated interim statement of changes in equity, in the note on fixed assets.

All the information should be considered with consideration of Annual consolidated financial statements of the Company for the year ended December 31, 2007.

Presentation of Financial Statements

The financial statements on the basis of which the unaudited consolidated interim financial statements were prepared are made based on a unified accounting policy.

The unaudited consolidated interim financial statements of the Company are presented in millions of Russian Rubles, all amounts were rounded off to millionth digits unless otherwise specified.

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

Accounting principles

The unaudited consolidated interim financial statements are prepared based on accounting data and accounting reports that are made in accordance with the system of accounting regulation established by legislation of the Russian Federation, with adjustments and reclassifications required for the purpose of fair presentation of the financial position, results of operations and cash flows in accordance with requirements of IFRS.

The unaudited consolidated interim financial statements were prepared under the historical cost convention except the following items: fixed assets, the fair value of which was established at the moment of transition to IFRS; available-for-sale investments estimated at fair value.

Changes in the Company’s accounting policies

The accounting policy applied is the same one used in the previous fiscal year. Adoption of new or revised standards and interpretations did not have any significant influence on the unaudited consolidated interim financial statements of the Company.

The following new interpretations came into force in 2008:

Introduced/Amended Standard / Interpretation	Changes	Effects
Interpretation No.11 of IFRS Interpretation Committee “IR\FRS 2 – Transactions with shares of the group and own shares bought from shareholders”	Determines in which cases transactions have to be considered transactions with payments using equity instruments or transactions using monetary funds in accordance with the requirements of IFRS 2.	The interpretation did not make any significant effect on the financial state or results of Company’s operation.
Interpretation No.12 of IFRS Interpretation Committee “Concession Agreements”	Explains how undertaken obligations and rights obtained by concessionaires within concession agreements for providing services have to be accounted.	The interpretation did not make any significant effect on the financial state or results of Company’s operation.
Interpretation No.14 of IFRS Interpretation Committee “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.”	This interpretation gives instructions on how to determine the limit of the surplus under a plan with fixed payments that can be recognized as an asset according to IAS 19 “Employee Benefits”.	The interpretation did not make any significant effect on the financial state or results of Company’s operation.

During the reporting period the Company did not apply ahead of time any new or revised standards or interpretations.

**Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month's period ended on June 30, 2008**
(million Russian rubles)

Revision of statements of past periods

Fair value of property, plant and equipment

As of January 01, 2003, the Company transferred to IFRS using provision 1 of IFRS "First-time Adoption of International Financial Reporting Standards". The Company applied the exception allowed in IFRS 1 that allows an organization to estimate its fixed assets on the date of transfer to IFRS according to their fair value and to use this fair value as the actual value of the fixed assets. According to estimations of the management, the depreciated book value of Company's fixed assets was approximately the same as their fair value. To confirm the fair value of the said assets, the management invited an independent appraiser. The independent appraiser finished the work in 2007. As a result, the depreciated book value of property, plant and equipment was corrected in accordance with the date provided by the independent appraiser (Appendix 5).

The effect of the changes in financial statements for six months of 2007 is given in the table below:

Unaudited consolidated interim profit and loss statement for the period of six months ended June 30, 2008	Before correction	Correction effect	As corrected (before reclassification)	Comments
Revenues	17,002	5	17,007	Effect from showing fixed assets at their fair value
Depreciation and amortization	(2,633)	(233)	(2,866)	Effect from showing fixed assets at their fair value
Loss from sale of fixed and other assets	20	(5)	15	Effect from showing fixed assets at their fair value
Payment of damages from providing universal communication services	-	208	208	Effect from showing payment of damages from providing universal communication services
Income tax	(638)	6	(632)	Effect from showing: - fixed assets at their fair value; - payment of damages from providing universal communication services
Profit of shareholders of the parent company for the reporting period	1,932	(19)	1,913	Effect from showing: - fixed assets at their fair value; - payment of damages from providing universal communication services

As a result of corrections, the net profit of the Company for the six months of 2007 reduced by 19.

Reclassifications of financial statement indices

The Company reclassified the following items provided in the unaudited consolidated interim financial statements in connection with the change of the format of providing unaudited consolidated interim financial statements for the six months ended June 30, 2008:

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

Unaudited consolidated interim profit and loss statement for the period of six months ended June 30, 2008	Before reclassification	Reclassification effect	As restated	Comments
Expenses of services of communication operators – Russian companies	(1,701)	(1)	(1,702)	Reclass of expenses of services of communication operators – Russian companies from other operating expenses
Other operating expenses	(2,279)	1	(2,278)	Reclass of other operating expenses to expenses of services of communication operators – Russian companies

2.2 Foreign Currency Transactions

The unaudited consolidated interim financial statements are given in million Russian rubles that are functional currency and the currency used for the unaudited consolidated interim financial statements of the Company. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the 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 consolidated profit and loss 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 that are estimated at the fair value in a foreign currency are calculated according to the exchange rates as of the date of the determination of the fair value.

The exchange rates as of June 30, 2008 and December 31, 2007 were as follows:

<u>Currency</u>	<u>2007</u>	<u>2006</u>
Russian Rubles per US dollar	23.46	24.55
Russian Rubles per Euro	36.91	35.93

3. Summary of Significant Accounting Policies

The unaudited consolidated interim financial statements was prepared based on the unified accounting policy of the Company for 2008, which was a version of the accounting policy for the previous year corrected with consideration of the requirements in new/revised standards/interpretations.

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

4. Essential accounting judgments and estimates

4.1. Judgments

When applying the accounting policies, in addition to accounting estimates management of the Company made the following judgments that make the most significant effect on the amounts shown in the unaudited consolidated interim financial statements:

Revenue recognition (principal / agent)

Agency fees is related to provision of services when the Company acts as the agent in the transaction rather than as the principal. In the absence of specific guidance in IFRSs as to distinguishing between an agent and a principal, the management considered the following factors: although the Company gets receipts from the final customers, all credit risks are borne by the supplier of the services.

Lease classification

Lease is classified as finance lease if, under the lease contract, all substantial risks incidental to ownership are transferred to the leaseholder. Otherwise such lease is classified as operational lease. Whether some lease is a finance or operational one depends on the substance of the arrangement, not on its legal form. Unless the opposite can be reasonably argued, where the lease term exceeds 75% of the asset’s useful life, or where the discounted value of minimal lease payments at the commencement of the lease term amounts to at least 90% of the fair value of the leased asset, such lease is classified as finance lease.

4.2. Estimation Uncertainty

The key assumptions concerning future events and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are similar to those explained in the consolidated financial statements of the Company for 2007.

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

5. Property, Plant and Equipment

	Land, buildings and structures	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other fixed assets	Total
Original cost					
As of December 31, 2006	17,642	21,291	3,637	3,203	45,773
Additions	-	-	11,523	-	11,523
Put into operation	3,421	7,048	(11,394)	925	-
Mortality	(168)	(440)	(100)	(59)	(767)
As of December 31, 2007	20,895	27,899	3,666	4,069	56,529
Additions	-	-	2,790	-	2,790
Additions in connection with acquisition of subsidiaries	5	20	-	4	29
Put into operation	807	1,829	(3,137)	501	-
Mortality	(127)	(53)	(10)	(46)	(236)
As of June 30, 2008	21,580	29,695	3,309	4,528	59,112
Accumulated wear and accumulated depreciation					
As of December 31, 2006	(3,319)	(2,729)	(5)	(908)	(6,961)
Accrued depreciation for the year	(1,318)	(1,970)	-	(492)	(3,780)
Accrued depreciation for fixed assets of acquired subsidiaries	(27)	(24)	-	(2)	(53)
Depreciation of retired objects	82	126	-	37	245
Depreciation accrued	-	(79)	(199)	(8)	(286)
Depreciation restored	-	9	-	1	10
As of December 31, 2007	(5,789)	(7,743)	(264)	(2,210)	(16,006)
Accrued for six months	(577)	(2,132)	-	(427)	(3,136)
Accrued depreciation of fixed assets of acquired subsidiaries	(1)	(11)	-	(2)	(14)
Depreciation of retired objects	37	83	-	40	160
Profit/loss from restoration/accrual/depreciation	(2)	(2)	6	-	2
As of June 30, 2008	(6,332)	(9,805)	(258)	(2,599)	(18,994)
Depreciated cost as of December 31, 2006	13,060	16,624	3,433	1,831	34,948
Depreciated cost as of December 31, 2007	15,106	20,156	3,402	1,859	40,523
Depreciated cost as of June 30, 2008	15,248	19,890	3,051	1,929	40,118

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

As of June 30, 2008 and December 31, 2008 the book value of fixed assets obtained under a contract of finance lease was:

	June 30, 2008	December 31, 2007
Switches and transmission devices	1,264	1,448
Construction in progress and equipment for installation	113	81
Vehicles and other fixed assets	32	34
Total from finance lease, book value	1,409	1,563

Depreciation of fixed assets for the six months of 2008 was recognized in full volume in item “Depreciation and amortization” of the unaudited consolidated interim profit and loss statement.

As of June 30, 2008 the original cost of fully depreciated fixed assets was 4,416 (as of December 31, 2007 – 3,668). In the six months of 2008 the Company increased the cost of construction in progress for the amount of capitalized interest of 24 (in the six months of 2007 – 63). The capitalization rate for the six months of 2008 was 8% (as of December 31, 2007 – 9%).

6. Intangible assets

	Goodwill	Licenses	Software	Numbering capacity	Other	Total
Original cost						
As of December 31, 2006	129	74	3,674	86	38	4,001
Receipt	-	17	908	10	10	945
Retirement	-	-	(1)	-	-	(1)
As of June 30, 2007	129	91	4,581	96	48	4,945
As of December 31, 2007	129	111	5,128	100	40	5,508
Receipt	74	23	385	2	-	484
Retirement	-	-	(12)	-	-	(12)
As of June 30, 2008	203	134	5,501	102	40	5,980
Accrued amortization and depreciation						
As of December 31, 2006	(80)	(25)	(557)	(33)	(19)	(714)
Accrued amortization for six months	-	(7)	(223)	(17)	(1)	(248)
As of June 30, 2007	(80)	(32)	(780)	(50)	(20)	(962)
As of December 31, 2007	(80)	(60)	(1,288)	(65)	(12)	(1,505)
Accrued amortization for six months	-	(6)	(279)	(9)	(2)	(296)
Amortization of retired objects	-	-	2	-	-	2
As of June 30, 2008	(80)	(66)	(1,565)	(74)	(14)	(1,799)
Depreciated cost as of December 31, 2006	49	49	3,117	53	19	3,287
Depreciated cost as of June 30, 2007	49	59	3,801	46	28	3,983
Depreciated cost as of December 31, 2007	49	51	3,840	35	28	4,003
Depreciated cost as of June 30, 2008	123	68	3,936	28	26	4,181

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

Oracle E-Business Suite (OEBS)

As of December 31, 2007 software includes OEBS software with a net book value of 763 (2006 – 933), including capitalized interest of 135 (2006 – 175). Capitalization of interest in 2006 was discontinued due to a start of commercial use of part of OEBS related to accounting for non-current assets (release No.1).

Upon acquisition of OEBS, the Company received non-exclusive licenses for 12 400 users of Oracle E-business Suite. The remaining useful life of these licenses equals 7years.

The Company commenced the use of OEBS module related to accounting for non-current assets, Release No.1, in all of its branches.

The Company commenced amortization of OEBS software starting November 30, 2005. The period of its use was determined as 10 years.

Amdocs Billing Suite

As of 31 December 2007 software also includes Amdocs Billing Suite software with a net book value of 921 (2006 – 889). This software was purchased for the purpose of the implementation of unified automated billing system. The project of implementation of the unified automated billing system is expected to last 4-5 years.

The Company will commence amortisation of this asset from the date when the software is put into commercial use. Up to that moment the Company intends to perform an annual depreciation test of the asset.

CBOSS Billing Suite

As of 31 December 2007 software also includes CBOSS Billing Suite software with a net book value of 441 (2006 – 466). This software is used as a billing system by subsidiaries of Yeniseytelecom CJSC and Baikalwestcom CJSC.

HP Open view software

As of 31 December 2007 software also includes HP Service desk software with a net book value of 103 (2006 –103). This software is used for automation of informational processes in Company. As of 31 December 2007 this software is not ready for used. Full implementation of the HP Service desk software is expected to be completed by the end of 2012.

As of 31 December 2007 software also includes HP Open View Service Activator software with a net book value of 259 (2006 – 0). This software is used for automatic control of activation of subscribers. Full implementation of the Open View Service Activator software is expected to be completed by the end of 2010.

Depreciation of intangible assets

The Company regularly performs analysis of its goodwill, intangible assets not yet available for use with respect to depreciation. These assets comprise Amdocs Billing Suite, certain modules of OEBS and numbers’ capacity relating to the subsidiaries “Yeniseytelecom” CJSC and “Baikalwestcom” CJSC.

Examination of above mentioned intangible assets done by Company management showed that as of June 30, 2008 the assets were not depreciated.

“Sibirtelecom” OJSC
Notes to the Unaudited Consolidated Interim Financial Statements
for a 6-month’s period ended on June 30, 2008
(million Russian rubles)

7. Subsidiaries

The unaudited consolidated interim financial statements include the assets, liabilities and financial results of OJSC Sibirtelecom, as well as its subsidiaries whose main activity is provision of cellular and other telecommunication services.

The subsidiaries are listed below:

Subsidiary	Type of Activity	Ownership,%		Voting Shares %	
		June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Yeniseytelecom CJSC	Cellular services (GSM-900 and 1800)	100.00	100.00	100.00	100.00
Baikalwestcom CJSC	Cellular services (GSM-900 and 1800)	100.00	100.00	100.00	100.00
ChitaNET CJSC	Data transmission and telematics services	100.00	100.00	100.00	100.00
Altayskaya Telecommunicatsion naya kompaniya CJSC	Local telephone network services	100.00	100.00	100.00	100.00
STeK GSM CJSC ¹	Cellular services (GSM-900 and 1800)	100.00	100.00	100.00	100.00
Rinet OJSC	Internet services	100.00	100.0	100.00	100.00
ATS-32 CJSC	Local calls, internet	100.00	100.0	100.00	100.00
ATS-41 CJSC	Local calls, internet	100.00	100,0	100,00	100,00
Mobiltelecom OJSC	Cellular services, internet	91.75	91.75	91.75	91.75
Novocom CJSC	Local calls, internet	100.00	50.00	100.00	50.00
Altaisvyaz OJSC	Cellular services	99.72	99.72	99.72	99.72

On April 23, 2008 the Company acquired additional 50.00 % of ordinary voting shares of Novocom CJSC at cost of 95 and obtained control over it. The management considers that the book value of the identified assets, liabilities and contingencies of Novocom CJSC corresponds to their fair value as of the date of their

¹ Indirect ownership through Yeniseytelecom CJSC

purchase. The difference between the fair value of the acquired share of the minority share in net assets of the Company and the paid cost was 75 and was recognized as goodwill.

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Management of the Company preliminary distributed the cost of acquirement of 50.00% Novocom CJSC as follows:

Cost value	
Paid in cash	95
Fair value of identified assets and liabilities:	
Fixed assets, net	15
Accounts receivable, net	17
Cash and cash equivalents	15
Short-term liabilities	(6)
Long-term liabilities	(1)
Total net assets	40
Company’s share in acquired net assets	50.00 %
Fair value of the acquired share in identified net assets	20
Goodwill arising from the acquisition	75

8. Investments in associates

As of June 30, 2008 and 2007 investments in associates comprised the following:

		<u>June 30, 2008</u>	
Associate	Activity	Voting shares, %	Fair value
Giprosvyaz-Sibir LLC	Project engineering, development of project documentation	24.00	4
Loktelecom OJSC	Local telephone network services	36.56	12
Total associates		-	16

		<u>December 31, 2007</u>	
Associate	Activity	Voting shares, %	Fair value
Novocom CJSC	Local telephone network services, internet services	50.00	19
Giprosvyaz-Sibir LLC	Project engineering, development of project documentation	24.00	4
OJSC Loktelecom	Local telephone network services	36.56	12
Total	-	-	35

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

Investments movements in associated companies for the period ended June 30, 2008 and December 31, 2007 is provided below:

	June 30, 2008	December 31, 2007
Investments in associated companies as of the beginning of the reporting period	35	32
Profit from participation in associated companies net of income tax	2	5
Reclassification of financial investments	(21)	-
Disposal of investments in associates	-	(2)
Investments in associated companies as of the end of the reporting period	16	35

The Company has investments in the following associates, the net assets of which are negative as of June 30, 2008 and December 31, 2007:

Associate	Activity	Voting share, %	Net assets as of June 30, 2008	December 31, 2007
Irkutskaya Raschetnaya Palata OJSC	Internet services	34.00	-	-

Summarized information on most significant associates is given below:

Associate	Voting shares	Assets	Liabilities	Revenues	Net profit
As of June 30, 2008					
Giprosvyaz-Sibir LLC	24.00%	17	3	2	(1)
Irkutskaya Raschetnaya Palata OJSC	34.00%	2	3	-	-
Svyazinvest-Media-Sibir LLC	25.01%	10	7	14	3
Locktelecom OJSC	36.56%	46	12	18	2
December 31, 2007					
Novocom CJSC	50.00%	45	5	73	11
Giprosvyaz-Sibir LLC	24.00%	19	1	54	5
Irkutskaya Raschetnaya Palata OJSC	34.00%	2	3	-	-
Svyazinvest-Media-Sibir LLC	25.01%	14	15	12	-
Locktelecom OJSC	36.56%	44	12	36	2

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9. Long-term and short-term financial investments

As of June 30, 2008 and 2007 the Company’s investments comprised the following:

	June 30, 2008	December 31, 2007
Long-term investments available-for-sale	14	16
Total long-term investments	14	16
Short-term investments available-for-sale	93	125
Short-term investments held-to-maturity	235	-
Total short-term investments	328	125
Total long-term and short-term investments	342	141

As of June 30, 2008 and 2007 investments available-for-sale comprised the following:

Company	June 30, 2008		December 31, 2007	
	Ownership interest	Fair value	Ownership interest	Fair value
Long-term investments				
NTK Zvezda OJSC	1.665 %	-	1.665 %	-
Svyazintek CJSC	11.00 %	13	11.00 %	13
ACB Svyazbank OJSC	0.01 %	-	0.01 %	-
Other	-	1	-	3
Total long-term investments		14		16
Short-term investments				
Sberbank OJSC	0.01 %	93	0.01 %	125
Bank deposit	-	235	-	
Total short-term investments	-	328	-	125
Total investments available-for-sale and maturity	-	342	-	141

As of June 30, 2008 short-term financial investments held-to-maturity include bank deposits of the affiliate Yeniseytelecom CJSC with the maturity period from 3 months to 1 year in the amount of 235 with the interest rate from 7% to 8.15% (as of December 31, 2007 - 0).

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10. Long-term accounts receivable and issued loans

As of June 30, 2008 and December 31, 2007 long-term accounts receivable and other financial assets comprised the following:

	<u>June 30, 2008</u>	<u>December 31,</u>
Long-term accounts receivable	12	15
Long-term loans issued	25	23
Total	37	38

As of June 30, 2008 and December 31, 2007 the long-term loans are accounted at amortized original cost using the effective interest rate of 19 % (as of December 31, 2007 - 19 %).

11. Long-term advances made

As of June 30, 2008 and December 31, 2007 advances made to suppliers comprised the following:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Long-term advances made for investments, including:	1,226	492
Acquisition of fixed assets objects	1,162	444
Acquisition and integration of Oracle E-Business Suite	38	29
Other long-term advances made for investments	32	26
Provision for advance impairment	(6)	(7)
Long –term advances made for operation activity	1	-
Total	1,227	492

12. Inventories

As of 31 June 30, 2008 and December 31, 2007 Inventories comprised the following:

	June 30, 2008	December 31, 2007
Cable and materials	191	180
Finished goods and goods for resale	96	85
Construction materials, fuels and instruments	45	46
Other inventories	228	222
Total	560	533

13. Accounts receivable

Accounts receivable as of June 30, 2008 and December 31, 2007 comprised the following:

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	Total, as of June 30, 2008	Provision for doubtful debts	Nett, as of June 30, 2008
Profit-making customers	394	(43)	351
Individuals	1,352	(270)	1,082
State-financed customers	231	(5)	226
Communication operators	629	(75)	554
Social protection organizations – reimbursement of expenses related to discounts granted to specific categories of subscribers	5	(5)	0
Other accounts receivable	102	(27)	75
Total	2,713	(425)	2,288

	Total as of December 31, 2007	Provision for doubtful debts	Nett, as of December 31, 2007
Profit-making customers	308	(42)	266
Individuals	1,276	(249)	1,027
State-financed customers	132	(5)	127
Communication operators	773	(103)	670
Social protection organizations – reimbursement of expenses related to discounts granted to specific categories of subscribers	13	(13)	-
Other accounts receivable	74	(11)	63
Total	2,576	(423)	2,153

As of June 30, 2008 and December 31, 2007 accounts receivable were expressed in the following currencies:

	June 30, 2008	December 31, 2007
Russian rubles	2,286	2,148
US dollars	2	5
Total accounts receivable	2,288	2,153

The debt of social protection authorities connected with reimbursement of expenses of providing benefits for specific categories of subscribers as of June 30, 2008 is 0.20% of the total amount of accounts receivable of the customers (as of December 31, 2007 – 0.50%).

14. Other current assets

As of June 30, 2008 and December 31, 2007 other current assets comprised the following:

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	June 30, 2008	December 31, 2007
Prepayments and advance payments	371	203
Settlements with personnel	29	32
VAT receivable	220	501
Other prepaid taxes	34	41
Deferred expenses	208	122
Other receivables and current assets	547	408
Total other current assets	1,409	1,307

As of June 30, 2008 the amount or the reserve for the reduction of cost of other current assets was 77 (December 31, 2007 – 82).

15. Cash and cash equivalents

As of June 30, 2008 and December 31, 2007 cash and cash equivalents comprised the following:

	June 30, 2008	December 31, 2007
Cash	2,205	1,376
Short-term deposits and bills receivable with date to maturity no longer than 3 months	77	7
Total	2,282	1,383

Amounts in the Cash item as of June 30, 2008 and December 31, 2007 were expressed in the following currencies:

	June 30, 2008	December 31, 2007
Russian Rubles	2,279	1,364
US dollars	2	19
Euros	1	-
Total	2,282	1,383

16. Significant non-cash transactions

The Company made no new leasing agreements for purchasing equipment in the six months of 2008 (in the six months of 2007 the Company got equipment in the amount of 112).

17. Authorized capital

As of June 30, 2008 the par and the book value of ordinary and preference shares was as follows:

Type of share	Number of shares outstanding, million shares	Par value, rubles	Total par value	Book value
Ordinary	12,011	0.15	1,802	2,672
Preference	3,909	0.15	586	869
As of June 30, 2008	15,920	-	2,388	3,541

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The difference between the par value and the book value of the shares represents the effect of inflation during the periods before January 1, 2003. All issued shares have been entirely paid for.

The structure of the Group’s shareholding as of June 30, 2008 was as follows:

Shareholders	Equity share, %	Ordinary shares		Preference shares	
		Quantity	%	Quantity	%
Legal entities, total:	92.4	11,474,667,924	95.5	3,210,692,881	82.1
- Svyazinvest OJSC	38.2	6,086,601,672	50.7	-	-
- those with more than 5% shares including:	48.9	4,940,291,677	41.1	2,821,526,685	72.2
- Ing Bank Eurasia (NH) CJSC	12.8	1,744,896,065	14.5	286,098,474	7.3
- NP National depository center (NH)	17.7	1,776,493,646	14.8	1,036,729,232	26.5
- Depository-clearing Company CJSC(NH)	12.5	1,155,119,009	9.6	826,881,109	21.1
- UBS Nominees (NH) CJSC	5.9	263,782,957	2.2	671,817,870	17.2
- other	5.3	447,774,575	3.7	389,166,196	9.9
Individuals, total	7.6	536,733,905	4.5	697,727,133	17.9
Grand total	100	12,011,401,829	100	3,908,420,014	100

The ordinary shareholders are entitled to one vote per share.

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

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

In September 2001, the Company placed some American Depositary Receipts (ADRs), Level 1. In accordance with the depository agreement, each ADR represents 800 ordinary shares of the Company. As of June 30, 2008 1,107,999 ADRs were issued. They made up 7.4% of all ordinary shares issued.

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The following table shows movement of registered ADRs in 2006-2008:

Date	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Authorized Capital %
December 31, 2006	1,799,767	1,439,813,600	12.00	9.0
Reduction 2007	(521,546)	(417,236,800)		
December 31, 2007	1,278,221	1,022,576,800	8.5	6.4
Reduction 2008	(170,222)	(136,177,600)		
December 31, 2008	1,107,999	886,399,200	7.4	5.6

Currently, the ADRs are traded on the following stock markets:

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter (OTC) market (USA)	825 735 103	SBTLY	US8257351036
Frankfurt Stock Exchange (FSE)	260 452	S3T1.DE	US8257351036

18. Debts under credits and loans

As of June 30, 2008 and December 31, 2007 debts under credits and loans comprised the following:

	Interest rate	Maturity	June 30, 2008	December 31, 2007
Short-term liabilities				
Bank loans (Rubles)	9.5 – 11%	2008	130	290
Bank loans (US Dollars)	5.05 – 6.8%	2008	1	10
	Libor + 1.1%; +1.3%; +2.2;			
Bank loans (US Dollars)	+3.75	2008	243	246
Bank loans (Euro)		2008	2	2
Total bank loans			376	548
Promisory notes (rubles)			1,350	-
Total short-term liabilities			1,726	548

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	Effective interest rate	Maturity	June 30, 2008	December 31, 2007
Long-term liabilities				
Bank loans (Rubles)	7 – 13 %	2008 -2012	10,224	9,547
Bank loans (US Dollars)			2,275	888
Bank loans (US Dollars)	5.05 – 9.15 %	2008 -2012		
	Libor + 1.1; +1.3; +2.2; +3.75		1,833	607
Bank loans (Euro)	Euribor + 2 %	2008 -2010	1,502	1,860
Total bank loans			15,834	12,902

	Interest rate	Maturity	June 30, 2008	December 31, 2007
Bonds (Rubles)		2008-2010	4,056	7,094
Vendor financing (US Dollars)	7.15 – 8.14 %	2008	3	6
Promissory notes (Rubles)			8	8
Less: Current portion of long-term liabilities to mature within a year			(7,018)	(7,561)
Total long-term borrowings			12,883	12,449

As of June 30, 2008 and December 31, 2007 the credits and loans were expressed in the following currencies:

Currency	June 30, 2008	December 31, 2007
Russian Rubles	15,768	16,939
US dollars	4,355	1,757
Euro	1,504	1,862
Total	21,627	20,558

The debt under credits and loans includes interest payable. As of June 30, 2008 it was 159 (as of December 31, 2007 – 244).

As of June 30, 2008 bank credits were secured by property, plant and equipment for the total value of approximately 5 485 (as of December 31, 2007 – 5 532).

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As of June 30, 2008 debt under credits and loans had the following maturity schedule:

Maturity date	Credits and loans	Bonded debt	Vendor financing	Bill debt	Total
2008	2,104	2,052	3	500	4,659
2009	3,422	2,004	-	850	6,276
2010	4,147	-	-	-	4,147
2011	2,246	-	-	-	2,246
2012 and after	4,291	-	-	8	4,299
Total	16,210	4,056	3	1,358	21,627

Long-Term liabilities

Below is a summary of most significant individual long-term credits and loans.

Credits and loans

UniCreditBank CJSC

In April 2008 the Company made a credit agreement with UniCredit Bank CJSC for the amount of 350 to replenish its circulating assets. The date of contract expiry is April 2011. The interest rate for this agreement is MOSPRIME+3%. No security is required for the credit.

SB RF Siberian Bank OJSC

In March 2008 the Company made 2 contracts to get a credit from Siberian Bank of RF Sberbank for the amount of 500 each. The maturity date of the credits is March 2011. The Company pays interests at the rate of 10% annually for each credit. No security is required for the credits.

Credit linked notes (CLN)

In April 2008 the Company got a credit in the amount of USD90 million under a credit agreement made in December 2007 with Moscow River B.V. (a private joint-stock company with limited liability) registered in Netherlands. Financing under the agreement was made by placing credit linked notes on terms of incomplete underwriting. The credit was used for general corporate purposes. The credit was provided for 5 years and shall be paid in two equal installments due 54 and 60 months after the credit resources are obtained. The interest rate for the credit is 7.7% annually and shall be revised 3 years after the credit is obtained. The agreement provides for an offer 1.5 years after the credit linked notes are placed. No security is required for the credit.

Promisory notes

In April 2008 the Company issued its non interest bearing notes for the amount of 1,350, including the discount amount of 95, with the following parameters:

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- The first noteholder – AKB Svyaz-Bank OJSC, the total amount – 250, maturity date – on presentation, but not earlier than July 22, 2008;
- The first noteholder – AKB Svyaz-Bank OJSC, the total amount – 250, maturity date – on presentation, but not earlier than October 22, 2008;
- The first noteholder – AKB Svyaz-Bank OJSC, the total amount – 250, maturity date – on presentation, but not earlier than January 22, 2009;
- The first noteholder – AKB Svyaz-Bank OJSC, the total amount – 250, maturity date – on presentation, but not earlier than April 22, 2009;
- The first noteholder – Broker Company “REGION” LLC, the total amount – 350, maturity date – on presentation, but not earlier than April 22, 2009;

19. 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 June 2008 and December 31 2007 are as follows:

	June 30, 2008		December 31, 2007	
	Minimum lease payments	Discounted value of minimum lease payments	Minimum lease payments	Discounted value of minimum lease payments
Current portion	358	296	561	454
1 to 5 years	290	256	398	343
Total minimum lease payments	648	552	959	797
Less amounts representing finance charges	(96)	-	(162)	-
Discounted value of minimum lease payments	552	552	797	797

The Company made no new lease contracts for the purchase of equipment.

During 2007 the main lessors under finance lease contracts were RTK-Leasing OJSC and Raiffeisen-Leasing OJSC. The average effective rate under the contract with RTK-Leasing OJSC was 26 %, under the contract with OJSC Raiffeisen-Leasing - 18 %.

The discounted present value of minimal lease payments to RTK-Leasing OJSC as of June 30, 2008 amounted to 493 (as of December 31, 2007), including the minimum lease payments of 579 (as of December 31, 2007 - 868) less finance costs of 86 (as of December 31, 2007 - 147).

In accordance with contracts made with RTK-Leasing OJSC, the leaseholder has the right to change the schedule of future lease payments in the case some certain macroeconomic conditions change, in particular, the refinancing interest of the Central Bank of the Russian Federation.

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As of June 30, 2008 finance lease obligations denominated in US dollars amounted to 10 (2007 – 14).

20. Operational lease

As of June 30, 2008 and December 31, 2007 the minimum lease payments under operational lease agreements, where the Company is the leaseholder were distributed in years of the payment as follows:

	June 30, 2008	December 31, 2007
	Minimum lease payments	Minimum lease payments
Current portion	346	292
From 2009 to 2014	211	65
From 2014 and after	34	64
Total minimum lease payments	591	421

As for objects leased by the Company under operation lease agreements, the Company made sublease agreements. The total amount of future proceeds as of June 30, 2008 was 0 (as of December 31, 2007 – 1).

The operation lease expenses of the Company are shown in Appendix 25. In the six months of 2008 they were 246 (six months of 2007 – 237).

As of June 30, 2008 and December 31, 2007 the minimum lease payments under operational lease agreements, where the Company is the leaseholder were distributed in years of the payment as follows:

	June 30, 2008	December 31, 2007
	Minimum lease payments	Minimum lease payments
Current portion	560	469
From 2009 to 2014	251	127
From 2014 and after	1	15
Total minimum lease payments	812	611

The operation lease revenue of the Company is shown in Appendix 24. In the six months of 2008 it was 220 (six months of 2007 – 0).

The main operation lease agreements are for the lease of property and premises. Operation lease agreement provide for the right of agreement elongation.

21. Reserves

	Staff reduction program	Other reserves	Total
Remainder as of December 31, 2006	52	-	52
Accrued reserves	81	6	87
Used during the year	(41)	-	(41)
Restored during the year	(11)	-	(11)
Remainder as of December 31, 2007	81	6	87
Used during the reporting period	(67)	(6)	(73)

Remainder as of June 30, 2008

14	-	14
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Optimization of headcount

To increase its efficiency, the Company adopted a Program for staff optimization approved by the Board of Directors. Along with other measures, the Program provides for gradual reduction in the number of employees in the period from 2007 till 2009.

As of December 31, 2007 the Company made a reserve for the payment of compensations to the employees to be discharged in 2008 under the program for staff optimization.

As of June 30, 2008 the Company has no additional liabilities connected with staff reduction.

Guarantees issued

As of June 30, 2008 the Company mainly guaranteed credit line facilities provided by OJSC Sberbank of Russia to OJSC RTC-Leasing, a lessor of telecommunication equipment. The fair guarantee value as of June 30, 2008 and December 31, 2007 was 42 and 170 respectively. Management believes that the likelihood of significant payments being required under these agreements is remote. As of June 30, 2008 the Company had no contractual commitments.

22. Bills payable, accrued liability and advances received

As of June 2008 and December 31 2007 bills payable and other operating liabilities of the Company included:

	June 30, 2008	December 31, 2007
Settlements with suppliers and contractors for obtaining and construction of fixed assets	920	1,974
Settlements with suppliers and contractors for obtaining software products	6	3
Settlements with communication operators	461	465
Settlements with suppliers and contractors for day-to-day operation	736	713
Advances received from day-to-day operation	809	950
Advances received for non-core activity and realized assets	7	7
Bill payable for wages and compensations	944	1,919
Other bills payable and current liabilities	450	485
Total	4,333	6,516

Bills payable to suppliers and contractors in the amount of 208 and 434 as of June 2008 and December 31 2007 respectively was denominated in US dollars.

Other bills payable includes debts of payments with suppliers and contractors for other services connected with operating activities, bills payable to agents, etc.

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23. Taxes and social security payable

As of 31 December 2007 and 2006 the Company had the following short-term tax liabilities:

	June 30, 2008	December 31, 2007
Value-added tax	909	101
Property tax	183	167
Personal income tax	65	38
Unified social tax	141	98
Other taxes	11	10
Total	1,309	414

24. Revenues

	Six months of 2008	Six months of 2007
Local telecommunication services	5,709	5,720
Cellular communication services	4,815	4,377
Intrazone telecommunication services	2,662	2,549
Telegraph, data transfer and telematic services (Internet)	2,230	1,483
Inter-connection and traffic	2,058	2,035
Other revenues (non-core activity)	458	293
Agent services	311	316
Mobile radio, wire broadcasting, radio and TV broadcasting	213	201
Other telecommunications services	5	33
Total	18,461	17,007

Intrazone and local telecommunication services include revenue from rent of communication channels amounted to 306 (six months of 2007 – 321).

Telegraph, data transfer and telematic services (Internet) include revenue from data-transmission network and telematic services amounting to 2,122 (six months of 2007 – 1,392).

Other revenues (non-core activities) include revenue from rent of other assets amounting to 220 (six months of 2007 – 0).

The Company classifies revenue from realization according to the following major customer groups:

Customer groups	Six months of 2008	Six months of 2007
Residential customers	11,154	10,175
Corporate customers	3,198	3,261
Governmental customers	1,416	1,266
Operators	2,693	2,305
Total	18,461	17,007

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25. Other Operating Expenses

Other operating expenses comprise the following:

	Six months of 2008	Six months of 2007
Agency fees	(475)	(452)
Third party services and administrative expenses	(391)	(362)
Lease of premises	(246)	(273)
Advertising expenses	(239)	(238)
Universal service fund payments	(182)	(169)
Fire and other security services	(178)	(145)
Cost of goods sold	(123)	(65)
Transportation	(103)	(29)
Business travel expenses and representation costs	(89)	(77)
	Six months of 2008	Six months of 2007
Software and databases	(75)	(58)
Postal services	(69)	(26)
Services of financial institutions	(61)	(49)
Audit and consulting fees	(53)	(50)
Fees to Non-commercial partnership	(53)	(38)
Insurance of property	(41)	(1)
Education	(40)	(61)
Tax fines and penalties	(18)	(23)
Loss from write-off of fixed assets and inventories	-	(18)
Allowance/(reversal of allowance) for input VAT	(2)	(3)
Other income and expense, net	(89)	(177)
Total	(2,527)	(2,278)

Other expenses include fines and penalties, social expenses, expenses connected with payments of subscribers and their collection, expenses that refer to providing services of telephone communication, communication services provided by means of paystations and other communication services, legal services as well as other operating expenses.

26. Interest Expense, net

Interest expenses, net as of June 2008 and December 31 2007 were as follows:

	Six months of 2008	Six months of 2007
Interest income	30	19
Interest expense on bank and other borrowings	(846)	(741)
Interest expense accrued on finance leases	(36)	(95)
Total	(852)	(817)

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27. Gain on Sale of Investments, net

	Six months of 2008	Six months of 2007
Loss on the sale of Svyaz OJSC	(2)	-
Other gain on investments	3	4
Total	1	4

28. Investment liabilities

As of June 30, 2008 and December 31, 2007 contractual liabilities of the Company concerning capital investments for upgrading and extension of the network were about 562 and 454 respectively.

As of June 30, 2008 and December 31, 2007 contractual liabilities concerning obtaining fixed assets were 840 and 199 respectively.

As of June 30, 2008 and December 31, 2007 contractual liabilities concerning obtaining intangible assets were 22 and 83 respectively.

29. Contingent liabilities and operating risks

Operating Environment of the Company

Along with the improvement of the economic situation, in particular, with the growth of GDP and reduction of the rate of inflation, economic reforms and the development of legal, tax and administrative systems continue to develop in Russia to comply with the requirements of market economy. Stability of Russian economy will in many instances depend on the pace of reforms in the said areas as well as on the efficiency of the measures taken by the Government in the sphere of economy, financial, monetary and credit policy.

Taxation

As of June 30, 2008 management of the Company believes that its interpretation of the relevant legislation is appropriate and that the probability that the Company’s tax, currency and customs positions will be sustained is high.

Claims of tax authorities

According to the results of tax inspection of Company’s activity in 2004-2006 made on November 16, 2007, tax authorities laid claims for the amount of 587 including fines and penalties – 121 connected, in particular, with settlements with other communication operators under agreements of intranetwork cooperation when providing communication services and under agreements of connection and traffic transmission.

The Company did not agree with conclusions of the tax authority in respect of the accrued amounts of taxes, fines and penalties and put in a claim. In May 2008 a decision of the Moscow Court of Arbitration annulled the resolution of tax authorities and the Company was released from the obligation of paying the tax liabilities, fines and penalties claimed.

The tax authorities disagreed with the conclusions of the Court of Arbitration and lodged an appeal. The 9th Arbitration court of appeals left the decision of the Moscow Court of Arbitration without any changes and dismissed the appeal on July 22, 2008 by an order No.09AP-7887/2008-AK.

As of June 30, 2008 the unaudited consolidated interim financial reports do not have any corrections that may be caused by some uncertainties in respect of the positions of the Company.

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Insurance

During the six months of 2008 the Company performed to a sufficient degree some activity connected with minimization of the risks of loss and damage to its property. In this case the property that has high residual value, a low wear-out percent and that is actively used in the production activity is subject to being insured.

In addition, the Company insured to a sufficient degree its liability to third persons stipulated by the legislation in force (compulsory civil liability motor-vehicle insurance (OSAGO), insurance of the civil liability of organizations which operate hazardous facilities.

The risk of property damage or ecological damage as a result of accidents or other incidents connected with Company’s activity to third persons is insignificant in view of the specifics of the production activity.

Judicial contests, trials and determination of consequences

During the six months of 2008 the Company participated (both as claimant and defendant) in several trials that arose during day-to-day financial and economic activity. Management of the Company believes that there are no current trials or claims that may have a significant effect on the results of Company’s activity or its financial situation and that are not acknowledged or disclosed in these unaudited consolidated interim financial reports.

30. Financial Instruments

The Company’s principal financial instruments comprise bank loans, finance leases and cash and short-term deposits. The main purpose of these instruments is to raise finance for the Company’s operations. 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 the 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 management, debt portfolio restructuring, use of different classes of borrowed funds.

The Company’s policy is to maintain certain ratios within acceptable limits, including the financial independence ratio, the net debt/shareholder’s equity ratio, and the net debt/EBITDA ratio.

The Company’s credit rating in the national currency was confirmed by the “Fitch Ratings” agency as follows: default rating at B+ with stable forecast, and the short-term rating at B.

Capital management is conducted at the level of certain significant legal entities of the Company that are part of it. The ratios of financial independence, net debt/shareholder's equity and net debt/EBITDA are calculated using the data from financial reports made in accordance with Russian accounting standards.

During the six months of 2008 the Company's capital management policy was not changed as compared to the policy stated in financial reports for 2007.

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Foreign Exchange Risk

Foreign exchange risk appears for the Company as a rule in respect of the liabilities denominated in foreign currencies. As of June 30, 2008 Company’s liabilities in the amount of 6,077 (December 31, 2007 – 4,067) were denominated in foreign currency including the liabilities denominated in US dollars in the amount of 4,573 (December 31, 2007 – 2,205); in Euros in the amount of 1,504 (December 31, 2007 – 1,862).

In the period from January 1, 2008 till June 30, 2008 the rate of the Russian ruble to the US dollar increased by about 4.44% and decreased by 2.71% to Euro.

The policy in the area of foreign exchange risk management did not undergo any changes as compared with the policy stated in financial reports for 2007.

Interest Rate Risk

This risk is connected with changes in market interest rates that may negatively impact Company’s financial results.

The following table presents the Company’s financial instruments with a floating interest rate that are exposed to the interest rate risk, according to the maturity dates as of June 30, 2008 and December 31, 2007:

	< 1 year	1-5 years	Total
As of June 30, 2008:			
<i>Fixed rate</i>			
Short-term obligations	1,483	-	1,483
Long-term obligations	4,895	11,671	16,566
Finance lease obligations	296	256	552
<i>Floating rate</i>			
Short-term obligations	243	-	243
Long-term obligations	2,094	1,241	3,335
	< 1 year	1-5 years	Total
As of 31 December 2007:			
<i>Fixed rate</i>			
Short-term obligations	302	-	302
Long-term obligations	7,007	10,536	17,543
Finance lease obligations	454	343	797
<i>Floating rate</i>			
Short-term obligations	246	-	246
Long-term obligations	554	1,913	2,467

During the reporting period the policy in the area of interest rate risk did not undergo any changes as compared with the policy stated in financial statements for 2007.

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 receivable, 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.

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The following table summarises contractual maturities of financial liabilities including future interest payments.

Maturity date	Credits and loans	Bonds	Vendor financing	Promissory notes	Total
within 2008	1,855	185	3	551	2,594
within 2009	5,312	2,066	-	869	8,247
within 2010	4,693	2,000	-	-	6,693
within 2011	2,499	-	-	-	2,499
within and after 2012	4,371	-	-	8	4,379
Total	18,730	4,251	3	1,428	24,412

Credit Risk

Credit risk arises when the counterparty fails to discharge its obligations to the Company on the due date which leads to some financial loss.

Financial assets, which are potentially subject to credit risk for the Company, consist mostly of accounts receivables of customers. The book value of accounts receivable, net of the provision for impairment of receivables, is the maximum amount exposed to the credit risk.

The Company has no significant concentrations of credit risk due to the significance of the client base and regular monitoring procedures over customers’ and other debtors’ ability to pay debts. Part of the accounts receivable is represented by debts of governmental and other non-commercial organizations. Recovery of these debts is influenced by some political and economic factors. Management believes that as of June 30, 2008 there is no significant risk of loss for the Company under this and other types of accounts receivable that have not respective provisions made.

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

During the reporting period the policy in the area of credit risk management did not undergo any changes as compared with the policy stated in financial statements for 2007.

Hedging

During the six months of 2008 the Company did not hedge its currency risks or the interest rate risks.