OJSC Sibirtelecom

Consolidated Financial Statements
for the year ended 31 December 2008

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Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Sibirtelecom

We have audited the accompanying consolidated financial statements of OJSC Sibirtelecom and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As at 31 December 2008, certain assets of the Group which were ready for use, were presented within "Construction in progress and equipment for installation" category of Property, Plant and Equipment as disclosed in Note 7 to the consolidated financial statements. The amount of overstatement of the balance of "Construction in progress and equipment for installation" category and respective understatement of the balances of "Land, buildings and constructions", "Switches and transmission devices" and "Transport equipment and other assets" categories as at 31 December 2008 has not been determined.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
11 June 2009

OJSC Sibirtelecom
Consolidated Balance Sheet as at 31 December 2008
(in millions of Russian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	44 282	40 523
Investment property	8	13	–
Intangible assets	9	4 593	4 003
Other non-current assets	10	347	507
Investments in equity accounted investees	11	19	35
Non-current investments and loans granted	12	29	39
Deferred tax assets	32	51	22
Total non-current assets		**49 334**	**45 129**
Current assets			
Inventories	13	673	533
Trade and other receivables	14	2 719	2 553
Income tax receivable	–	401	486
Other current assets	15	579	885
Current investments and loans granted	12	70	147
Cash and cash equivalents	16	1 109	1 383
Total current assets		**5 551**	**5 987**
TOTAL ASSETS		**54 885**	**51 116**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	3 541	3 541
Unrealized gain on available-for-sale investments		21	97
Retained earnings		15 547	14 709
Total equity attributable to shareholders of OJSC Sibirtelecom		**19 109**	**18 347**
Minority interest		2	2
Total equity		**19 111**	**18 349**
Non-current liabilities			
Loans and borrowings	19	12 802	12 792
Employee benefits	20	3 560	3 449
Other non-current liabilities	21	92	106
Deferred tax liabilities	32	628	824
Total non-current liabilities		**17 082**	**17 171**
Current liabilities			
Loans and borrowings	19	11 220	8 787
Accounts payable and accrued expenses	23	6 355	5 750
Other current liabilities	24	1 058	972
Provisions	22	59	87
Total current liabilities		**18 692**	**15 596**
Total liabilities		**35 774**	**32 767**
TOTAL EQUITY AND LIABILITIES		**54 885**	**51 116**

General Director
I.V. Dadykin

Открытое акционерное общество «СИБИРЬТЕЛЕКОМ» Российская Федерация г. Новосибирск
ОАО «СИБИРЬТЕЛЕКОМ»

Chief Accountant
G.I. Khvoschinskaya

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

OJSC Sibirtelecom

Consolidated Income Statement for the year ended 31 December 2008

(in millions of Russian Roubles, except per share amounts)

	Notes	2008	2007
Revenues	25	**37,674**	**35,246**
Personnel costs	26	(10,504)	(10,784)
Depreciation and amortisation	7,9	(7,357)	(6,128)
Interconnection charges		(4,400)	(3,915)
Materials, repairs and maintenance, utilities	27	(3,217)	(3,093)
Other operating income	28	464	610
Reimbursement of losses from provision of universal services	28	680	472
Other operating expenses	29	(7,602)	(6,250)
Operating profit		**5,738**	**6,158**
Share of profit of equity accounted investees	11	4	7
Finance income	31	85	151
Interest expenses	30	(2,161)	(2,078)
Other finance costs	31	(1,232)	–
Profit before income tax		**2,434**	**4,238**
Income tax expense	32	(905)	(1,579)
Profit for the year		**1,529**	**2,659**
Attributable to:			
Shareholders of OJSC Sibirtelecom		1,529	2,659
Minority interest		–	–
Profit for the year		**1,529**	**2,659**
Basic and diluted earnings per share (in Russian Roubles)	33	**0.096**	**0.167**

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

OJSC Sibirtelecom
Consolidated Statement of Cash Flows
for the year ended 31 December 2008
(in millions of Russian Roubles)

	Notes	2008	2007
Cash flows from operating activities:			
Profit before income tax		2,434	4,238
Adjustments for:			
Depreciation and amortisation	7,9	7,357	6,128
Loss on disposal of property, plant and equipment and other assets		98	3
Impairment losses on property, plant and equipment, intangible assets and goodwill	7,9	366	223
Decrease in allowance for inventory		(4)	(21)
(Reversal of) allowance for impairment of receivables		47	(15)
Share of profit of equity accounted investees	11	(4)	(7)
Foreign exchange loss (gain)	31	1,230	(108)
Finance income	31	(85)	(43)
Interest expenses	30	1,867	1,706
Other finance costs	31	2	-
Operating profit after adjustments		**13,308**	**12,104**
(Increase)/decrease in inventories		(136)	15
(Increase)/decrease in trade and other receivables		(197)	8
Decrease in other current assets and liabilities		382	205
Increase in employee benefits		111	214
(Decrease)/increase in accounts payable and accrued expenses		(250)	269
Increase in taxes payable, other than income tax		276	67
(Decrease)/increase in provisions		(28)	31
Cash flows generated from operations before income tax and interest paid		**13,466**	**12,913**
Interest paid		(1,765)	(1,874)
Income tax paid		(1,022)	(1,805)
Cash flows from operating activities		**10,679**	**9,234**
Investing activities			
Acquisition of property, plant and equipment		(9,704)	(9,535)
Proceeds from disposals of property, plant and equipment		177	475
Acquisition of intangible assets		(1,308)	(1,702)
Acquisition of subsidiaries, net of cash acquired		(80)	(1)
Acquisition of investments and loans granted		(409)	-
Proceeds from sale of investments and recovery of loans granted		486	16
Interest received		90	26
Dividends received		1	2
Cash flows utilised in investing activities		**(10,747)**	**(10,719)**

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

OJSC Sibirtelecom
Consolidated Statement of Cash Flows
for the year ended 31 December 2008

(in millions of Russian Roubles)

	Notes	2008	2007
Financing activities			
Proceeds from loans and borrowings		7,573	12,209
Repayment of loans and borrowings		(3,977)	(8,567)
Proceeds from bond issue		1,997	–
Repayment of bond issue		(5,358)	(200)
Repayment of finance lease obligations		(222)	(516)
Repayment of vendor financing liability		(294)	(207)
Proceeds from promissory notes		1,255	–
Repayment of promissory notes		(500)	–
Repayment of other non-current liabilities		(2)	–
Dividends paid to shareholders of OJSC Sibirtelecom		(678)	(337)
Cash flows (utilised in)/from financing activities		**(206)**	**2,382**
Net (decrease)/increase in cash and cash equivalents		**(274)**	**897**
Cash and cash equivalents at beginning of year		1,383	486
Cash and cash equivalents at end of year	17	**1,109**	**1,383**

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

OJSC Sibirtelecom
Consolidated Statement of Changes in Equity
for the year ended 31 December 2008
(in millions of Russian Roubles)

	Note	Equity attributable to the shareholders of OJSC Sibirtelecom: Share capital: Preference shares	Share capital: Ordinary shares	Unrealized gain on available-for-sale investments	Retained earnings	Total equity attributable to shareholders of OJSC Sibirtelecom	Minority interest	Total equity
Balance at 1 January 2007		**869**	**2,672**	**87**	**12,377**	**16,005**	**2**	**16,007**
Profit for the year		-	-	-	2,659	2,659	-	**2,659**
Revaluation of available-for-sale investments		-	-	10	-	10	-	**10**
Total recognised income and expense for the year				**10**	**2,659**	**2,669**	**-**	**2,669**
Dividends to shareholders of OJSC Sibirtelecom		-	-	-	(327)	(327)	-	**(327)**
Balance at 31 December 2007		**869**	**2,672**	**97**	**14,709**	**18,347**	**2**	**18,349**
Profit for the year		**-**	**-**	**-**	1,529	1,529	-	**1,529**
Revaluation of available-for-sale investments		**-**	**-**	(76)	-	(76)	-	**(76)**
Total recognised income and expense for the year				**(76)**	**1,529**	**1,453**	**-**	**1,453**
Dividends to shareholders of OJSC Sibirtelecom	34	**-**	**-**	-	(691)	(691)	-	**(691)**
Balance at 31 December 2008		**869**	**2,672**	**21**	**15,547**	**19,109**	**2**	**19,111**

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

1 General Information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC Sibirtelecom and its subsidiaries (hereinafter "the Company") for the year ended 31 December 2008 were authorised for issue by the General Director and the Chief Accountant on 11 June 2009.

Company

OJSC Sibirtelecom (the "parent company") was incorporated as an open joint stock company in the Russian Federation.

The parent company's official address is: Russia, 630099, city of Novosibirsk, Maksima Gorkogo street, 53.

The Company provides telephone services (including local and intra-zone telephone services), mobile radiotelephony services (including access to external telecommunication networks – roaming services), telegraph services, data transmission services, rents out communication and radio communication channels in the territory of the Siberian Federal District of the Russian Federation.

OJSC Svyazinvest, which is controlled by the Russian Government, owned 50.67% of the Company's ordinary voting shares as at 31 December 2008 and is the Company's parent company.

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

Liquidity and Financial Resources

As at 31 December 2008, the Company's current liabilities exceeded its current assets by 13,141 (as at 31 December 2007: 9,609).

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

In 2009 the Company expects to generate funds from the following sources: cash proceeds from operating activities, placement of Rouble bonds on the Russian market and raising funds from domestic lending institutions. Moreover, management believes that some of existing contractual payment terms relating to current operations could be extended, and certain capital investment projects may be deferred or curtailed in order to fund the Company's current operating needs.

2 Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Going Concern

The financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Presentation of Financial Statements

The consolidated financial statements comprise the Company and its subsidiaries, and are prepared using unified accounting policies. Investments in associates are accounted for using the equity method.

The consolidated financial statements of the Company are presented in millions of Russian Roubles, rounded to the nearest million, unless stated otherwise.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS and that available-for-sale investments are stated at fair value.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2008. Adoption of new and revised standards did not have significant effect on the financial statements of the Company.

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

Introduced/ Amended Standard / Interpretation	Content of changes	Effects
IFRIC 11, IFRS 2 – Group and Own Share Transactions	The Interpretation defines when such transactions should be accounted for as equity-settled or cash-settled transactions under the requirements of IFRS 2. It provides for the accounting of share-based payment arrangements that involve two or more entities within the same Company.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC 12, Service Concession Arrangements	The Interpretation sets out general principles on recognising and measuring obligations and related rights in service concession arrangements.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	The Interpretation provides guidance on how to define the minimum amount of a surplus in a defined benefit plan which may be recognised as a defined benefit asset in accordance with IAS 19 Employee Benefits.	The Interpretation did not have a material impact on the financial position or performance of the Company.

(in millions of Russian Roubles)

IFRSs and IFRIC Interpretations not yet effective

The Company has not applied IFRSs and IFRIC Interpretations that have been issued but are not yet effective as at 31 December 2008.

Standard/Interpretation	Content of change	Effective date
IFRS 8 Operating Segments	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	To be applied for annual reporting periods beginning on or after 1 January 2009.
IAS 1 (as revised in 2007) Presentation of Financial Statements	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	To be applied for annual reporting periods beginning on or after 1 January 2009.
IAS 23 (as revised in 2006) Borrowing Costs	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to prepare for intended use or sale.	To be applied for annual reporting periods beginning on or after 1 January 2009.
Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	The Amendments require that certain financial instruments and liabilities arising on liquidation be classified as equity if certain conditions are met. They also define what information is to be disclosed with regard to puttable financial instruments classified as equity.	To be applied for annual reporting periods beginning on or after 1 January 2009.

(in millions of Russian Roubles)

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

(in millions of Russian Roubles)

Standard/Interpretation	Content of change	Effective date
IFRIC Interpretation 18 Transfers of Assets from Customers	The Interpretation clarifies the circumstances in which assets transferred from customers should be recognized in the entity's financial statements, and establishes approaches to the measurement of their cost on initial recognition. The Interpretation also discusses situations when the customer provides cash to the entity to acquire such assets.	To be applied for reporting periods beginning on or after 1 July 2009.
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets	The Amendments set out rules of reclassification of financial assets to different categories and establish disclosure requirements in respect of reclassifications made.	To be applied for reporting periods beginning on or after 1 July 2008.

As at 31 December 2008, management of the Company did not complete the assessment of the impact of Standards and Interpretations not yet effective at that date on the Company's accounting policies.

Reclassification of Comparative Information

Due to change of presentation of the financial statements in 2008, the Company reclassified certain comparative amounts as at and for the year ended 31 December 2007.

Consolidated Balance Sheet as at 31 December 2007	Before reclassification	Effect of reclassification	After reclassification	Reclassification Description
Non-current investments and loans granted	16	23	39	
Non-current accounts receivables	38	(23)	15	Comment 1
Non-current advances issued	492	(492)	–	
Other non-current assets	–	492	492	Comment 2
Trade and other receivables	2,153	400	2,553	
Current investments and loans granted	125	22	147	
Other current assets	1,307	(422)	885	Comment 3
Non-current loans and borrowings	12,449	343	12,792	
Non-current finance lease liabilities	343	(343)	–	Comment 4
Deferred revenue	106	(106)	–	
Other non-current liabilities	–	106	106	Comment 5
Dividends payable	14	(14)	–	
Income tax payable	2	(2)	–	
Taxes payable	414	(414)	–	
Other current liabilities	–	972	972	
Accounts payable and accrued expenses	6,516	(766)	5,750	Comment 6
Short-term portion of non-current loans and borrowings	7,561	(7,561)	–	
Short-term portion of non-current finance lease liabilities	454	(454)	–	
Current loans and borrowings	548	8,239	8,787	Comment 7
Deferred tax assets	–	22	22	
Deferred tax liabilities	(802)	(22)	(824)	Comment 8

(in millions of Russian Roubles)

Comment 1	Reclassification of non-current trade accounts receivables to non-current investments and loans granted
Comment 2	Reclassification of non-current advances issued to other non-current assets
Comment 3	Reclassification of other current assets to trade and other receivables and current investments and loans granted
Comment 4	Reclassification of non-current finance lease liabilities to non-current loans and borrowings
Comment 5	Reclassification of deferred revenue to other non-current liabilities
Comment 6	Reclassification of dividends payable and tax payables to accounts payable and accrued expenses. Reclassification of advances received from accounts payable and accrued expenses to other current liabilities, and interest payable to current loans and borrowings.
Comment 7	Reclassification of current part of non-current loans and borrowings to current loans and borrowings. Reclassification of current part of non-current finance lease liabilities and borrowings to current loans and borrowings.
Comment 8	Reclassification of deferred tax assets from deferred tax liabilities.

Consolidated Income Statement for the year ended 31 December 2007	**Before reclassification**	**Effect of reclassification**	**After reclassification**	**Reclassification Description**
Interconnection charges-foreign companies	(77)	77	–	
Interconnection charges-Russian Federation companies	(3,838)	3,838	–	
Interconnection charges	–	(3,915)	(3,915)	Comment 1
Materials, repairs and maintenance, utilities	(2,894)	(199)	(3,093)	Comment 2
Taxes, other than income tax	(756)	756	–	Comment 3
Reversal of allowance for bad debts	15	(15)	–	Comment 4
Loss on disposal of property, plant and equipment	(226)	226	–	Comment 5
Other operating income	–	1,082	1,082	Comment 6
Other operating expenses	(4,471)	(1,779)	(6,250)	Comment 7
Interest expenses	(1,662)	(416)	(2,078)	Comment 8
Finance income	–	151	151	Comment 9
Gain from financial investments	2	(2)	–	
Foreign exchange gain	108	(108)	–	
Personnel costs	(11,156)	372	10,784	Comment 10
Income tax expense	(1,511)	(68)	(1,579)	Comment 11

(in millions of Russian Roubles)

Comment 1	Reclassification of Interconnection charges- Russian Federation companies and Interconnection charges- foreign companies to Interconnection charges
Comment 2	Reclassification of costs of goods sold from Other operating expenses
Comment 3	Reclassification of taxes, other than income tax to Other operating expenses
Comment 4	Reversal of allowance for bad debts to Other operating income
Comment 5	Reclassification of loss on disposal of property, plant and equipment to Other operating expenses
Comment 6	Reclassification of Other Operating income from Other Operating Income and Expenses. Also Comment 4.
Comment 7	Comments 2-6, 11. Also reclassification of other finance costs into interest expenses.
Comment 8	Reclassification of interest income from finance costs. Also Comments 7, 10
Comment 9	Reclassification of foreign exchange gain and income from investments to finance income. Also Comment 8.
Comment 10	Reclassification of interest on employee benefits from personnel costs to interest expenses.
Comment 11	Reclassification of tax on dividends from subsidiaries from other operating expenses to income tax expense.

Foreign Currency Transactions

The functional and presentation currency of the Company is the Russian rouble (RUR). Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate ruling at that date. All resulting differences are recognised in the income statement as foreign exchange gains (losses). Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Exchange rates at 31 December	2008	2007
US Dollar	29.3804	24.5462
EURO	41.4411	35.9332

3 Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OJSC Sibirtelecom and its subsidiaries as of 31 December 2008.

All intra-group balances, transactions, income and expenses, and profits or losses, resulting from operations within the Company and recognized in the assets, have been eliminated.

Subsidiaries are fully consolidated from the date when the Company acquires control over the subsidiary, and continue to be consolidated until the date when such control ceases.

Acquisition of Subsidiaries

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

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

(in millions of Russian Roubles)

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

Any difference between the carrying value of net assets attributable to minority interests acquired and respective consideration is recognized in equity.

3.2 Property, Plant and Equipment

Cost of Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction costs less accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing parts of the property, plant and equipment when these costs are incurred, if the recognition criteria are met. When each major inspection is performed, its costs are 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. All repairs and maintenance costs 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 excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation and Useful Life

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

The Company applies the following useful lives:

	2008	2007
Buildings	5-50 years	20-50 years
Transmission devices (communication lines)	5-15 years	7-10 years
Other constructions (except for communication lines)	5-30 years	5-30 years
Analogue switches	5-10 years	6-10 years
Digital switches	2-15 years	2-15 years
Other telecommunication equipment	2-16 years	2-16 years
Office equipment	2-7 years	2-7 years
Transport	3-20 years	3-20 years
Other fixed assets	3-25 years	3-30 years
Land	Not depreciated	Not depreciated

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

As of 31 December 2008, the Company's management reviewed the remaining useful lives of items of property, plant and equipment and identified items of property, plant and equipment that required changes of useful lives. Effect of changes in useful lives is disclosed in Note 7.

Assets Received Free of Charge

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

3.3 Investment Property

Investment property is recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

Depreciation and Useful Life

Depreciation of investment property is calculated on a straight-line basis.

Useful lives of investment property items are in line with useful lives used for property, plant and equipment items of similar groups (Note 3.2).

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

3.4 Intangible Assets and Goodwill

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisitions of equity accounted investees is included in investments in equity accounted investees.

Intangible Assets other than Goodwill

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

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

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

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

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

Impairment

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

3.5 Borrowing Costs

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

3.6 Equity Accounted Investees

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

3.7 Investments and Other Financial Assets

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

Upon the initial recognition financial assets (other than investments remeasured through profit and loss) are recorded at fair value plus directly attributable transaction costs.

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount is reduced by using the allowance. Any loss is recognized in income statement.

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as investments held-to-maturity if the Company intends, and is able to hold such investments until maturity.

Available-for-sale investments are non-derivative financial assets either deliberately classified as available-for-sale or not classified to any other category of financial assets. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

3.8 Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location. The cost of inventories is determined on the weighted average basis.

Inventories are measured at the lower of cost and net realisable value.

3.9 Cash and Cash Equivalents

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

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

3.10 Shareholders' Equity

Share Capital

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

Minority Interest

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

Dividends

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

3.11 Borrowings Received

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

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

3.12 Leases

At the commencement of the finance lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the Company recognizes finance lease as assets and liabilities in the balance sheet at the amount equal to the fair value of leased assets or, if lower, at the discounted present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to produce a constant rate of interest of the remaining balance of the liability. Finance costs are recognised in the income statement.

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

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

3.13 Employee Benefits

Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for employee benefits as the related services are provided.

Pensions and Other Post-Employment Benefit Plans

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

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

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

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

3.14 Provisions

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

3.15 Income Tax

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

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

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

Deferred tax asset is recognised only in amount to which taxable profit highly probable to be reduced by temporary deductible differences. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised on all temporary differences related to investments in subsidiaries, associates and joint ventures, except for cases when the Company controls the period of decrease of temporary differences and there is highly probability that temporary differences will not be reduced in foreseeable future.

The carrying amount of any deferred tax asset is reviewed at each balance sheet date and is written off to the extent that it is no longer probable that sufficient taxable profits will be available to realize all or part of such deferred tax asset. Any such write off is reversed when it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and liabilities are not discounted to present value for the purpose of presentation in financial statements.

3.16 Revenue Recognition

Revenue from regular subscription fees is accounted for when the services are provided. Revenue from separable installation and connection activities is recognised upon activation. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

Interest income is calculated using the effective interest rate which presents the expected future cash flows during the estimated useful life of a financial instrument to the net carrying amount of the financial asset.

Reimbursement of losses from universal telecommunication services is recognized in the period in which the loss has occurred.

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

3.17 Earnings per Share

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

3.18 Segments Disclosure

The Company operates in the following business segments:

- fixed line telecommunication services;
- mobile telecommunication services.

Management believes that the Company operates in one geographical segment.

Management evaluates the results of operations and makes investment and strategic decisions on the basis of the analysis of the Company as a whole.

4 Significant Accounting Judgments and Estimates

4.1 Significant Accounting Judgments

In applying the accounting policies, management has made the following judgements, estimates and assumptions besides the accounting estimates, which most significantly affect the amounts reported in the financial statements:

Revenue recognition (principal/agent)

Agency fees related to provision of services where the Company acts as an agent in the transaction rather than a principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal, management considered the following factors:

- Although the Company collects the revenue from the final customer, all credit risks is borne by the supplier of services;
- The Company cannot vary the selling prices set by the supplier by more than 1%.

Lease classification

A lease is classified as finance lease if it transfers substantially all risks and rewards incidental to ownership, otherwise it is classified as operational lease. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement, but not its legal form.

4.2 Sources of estimation uncertainty

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

Useful Life of Property, Plant and Equipment

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2008 is 44,282 (as at 31 December 2007 – 40,523). Refer to Note 7 for detailed information.

Impairment of Non-current assets

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

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

In 2008 year the Company recognised an impairment loss in amount of 366 (2007- 223). Refer to Notes 7, 9 for detailed information.

Impairment of Goodwill

The Company tests goodwill for impairment at least ones per year. Impairment testing requires value in use estimation of 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. As of 31 December 2008, the carrying amount of goodwill amounted to 33 (2007 - 49). The loss from goodwill impairment for the year ended 31 December 2008 amounted to 91 (2007 – nil). Refer to Note 9 for detailed information.

Fair Values of Unlisted Available-for-Sale Investments

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

Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date.

Allowance for impairment of receivables

Allowance for impairment is based on the historical data related to collectability of accounts receivable and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As of 31 December 2008, allowance for impairment of receivables amounted to 483 (2007 - 498). Refer to Notes 14 for more details.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As of 31 December 2008, net defined benefit obligations amounted to 3,560 (2007 – 3,449).

Litigation and Claims

The Company exercises considerable judgment in measuring and recognizing loss and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These 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. Revisions to the estimates may significantly affect future operating results.

(in millions of Russian Roubles)

5 Segment Information

	2008				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total**
Revenue from third parties	26,000	9,951	1,723	–	**37,674**
Inter-segmental sales	589	30	282	(901)	**–**
Total Revenues	**26,589**	**9,981**	**2,005**	**(901)**	**37,674**
Segment results	3,683	2,515	104	–	**6,302**
Unallocated expenses					(564)
Operating Profit					**5,738**
Share of profit of associates	4	–	–	–	**4**
Finance income					**85**
Interest expense					**(2,161)**
Other finance costs					**(1,232)**
Income tax expense					**(905)**
Profit for the year					**1,529**
Assets and Liabilities					
Segment Assets	41,595	10,373	3,054	(207)	**54,815**
Investments in Associates	15	–	4	–	**19**
Unallocated assets	–	–	–	–	**51**
Consolidated total assets					**54,885**
Segment liabilities	(9,047)	(1,652)	(632)	207	**(11,124)**
Unallocated liabilities					**(24,650)**
Consolidated total liabilities					**(35,774)**
Other Information					
Capital expenditures	9,689	2,502	355	–	**12,546**
On property, plant and equipment	8,409	2,248	342	–	10,999
On intangible assets	1,280	254	13	–	1,547
Depreciation and amortization	(5,253)	(1,700)	(404)	–	**(7,357)**
Loss from impairment of property, plant and equipment	(161)	(94)	–	–	**(255)**
Allowance for impairment of accounts receivables	1	(48)	–	–	**(47)**
Employee benefits expenses	(497)	(28)	(33)	–	**(558)**

(in millions of Russian Roubles)

	2007				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total**
Revenue from third parties	24,712	9,109	1,425	–	**35,246**
Inter-segmental sales	674	28	164	(866)	–
Total revenues	**25,386**	**9,137**	**1,589**	**(866)**	**35,246**
Segment results	4,367	1,996	185	–	**6,548**
Unallocated expenses					(390)
Operating profit					**6,158**
Share of profit of associates	6	–	1	–	**7**
Finance income					**151**
Interest expense					**(2,078)**
Income tax expense					**(1,579)**
Profit for the year					**2,659**
Assets and liabilities					
Segment assets	37,374	12,050	2,423	(788)	**51,059**
Investments in associates	31	–	4	–	**35**
Unallocated assets	–	–	–	–	**22**
Consolidated total assets					**51,116**
Segment liabilities	(8,292)	(2,560)	(522)	788	**(10,586)**
Unallocated liabilities					**(22,181)**
Consolidated total liabilities					**(32,767)**
Other information					
Capital expenditures	8,498	4,773	17	–	**13,288**
On property, plant and equipment	7,099	4,407	17	–	11,523
On intangible assets	1,399	366	–	–	1,765
Depreciation and amortization	(4,330)	(1,510)	(288)	–	**(6,128)**
Loss from impairment of property, plant and equipment	–	(184)	–	–	**(184)**
Allowance for impairment of accounts receivables	68	(53)	–	–	**15**
Employee benefits expenses	(527)	(20)	(30)	–	**(577)**

The Company provides fixed line and mobile telecommunication services, as well as other services outside communication segment. The fixed line segment includes telecommunication services (including local and intra-zone telephony). The mobile segment includes services of mobile radiotelephone connection (including roaming services). Management believes that the Company operates in one geographical segment.

Prices and tariffs for operations between the segments are set at market terms similar to operations with third parties. Revenue, expenses and segment results include inter-segment operations which are eliminated on consolidation.

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

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

(in millions of Russian Roubles)

Segment liabilities include operating liabilities and employee benefits, and exclude current income tax payable, loans and borrowings, provisions, and deferred income tax liabilities.

Capital expenses include purchases of property, plant and equipment and intangibles including those arising on business combinations. Impairment losses and provisions are allocated to the segment only if they are attributable to the segment assets.

6 Subsidiaries

The following subsidiaries are controlled by the OJSC Sibirtelecom:

		Ownership, %		**Voting shares, %**	
Name	**Activities**	**31 December 2008**	**31 December 2007**	**31 December 2008**	**31 December 2007**
CJSC Yeniseytelecom	Cellular services (GSM 900 and 1800)	100.00	100.00	100.00	100.00
CJSC Baikalwestcom	Cellular services (GSM 900 and 1800)	100.00	100.00	100.00	100.00
CJSC ChitaNet	Data transmission and telematic services	100.00	100.00	100.00	100.00
CJSC Altaiskaya telecommunicatsionnaya companiya	Local telephone network services	100.00	100.00	100.00	100.00
CJSC STek GSM *	Cellular services (GSM 900 and 1800)	100.00	100.00	100.00	100.00
OJSC Rinet	Internet services	100.00	100.00	100.00	100.00
CJSC ATS-32	Local calls, internet	100.00	100.00	100.00	100.00
CJSC ATS-41	Local calls, internet	100.00	100.00	100.00	100.00
OJSC Mobiltelecom	Cellular services, internet	91.75	91.75	91.75	91.75
CJSC Novocom	Local calls, internet	100.00	50.00	100.00	50.00
OJSC Altaysvyaz *	Cellular services	99.72	99.72	99.72	99.72

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

Acquisition of subsidiaries

On 23 April 2008 the Company acquired additional 50% of the share capital of CJSC Novocom for 95 and obtained control over it. Management believes that the carrying amount of identifiable assets, liabilities and contingent liabilities of CSJC Novocom at the acquisition date represents their fair value. The difference between the fair value of the acquired share and the payment made amounted to 75 and was recognized as goodwill.

* Indirect ownership via CJSC Yeniseytelecom

* NH- Nominal holder

(in millions of Russian Roubles)

Management has allocated the cost of acquisition of 50% share capital of CJSC Novocom as follows:

Cost of acquisition	
Cash payment	95
The fair value of identifiable assets and liabilities:	
Property, plant and equipment	15
Accounts receivable	17
Cash and cash equivalents	15
Current liabilities	(6)
Non-current liabilities	(1)
Net assets	**40**
Share of net assets acquired by the Company	50.00 %
Fair value of acquired share of identifiable net assets	20
Goodwill arising on acquisition	**75**

CJSC Novocom's net profit for the period from the date of acquisition to the reporting date amounted to 6 and is included into the Company's consolidated profits.

Had the results of CJSC Novocom been included in the consolidated financial statements from 1 January 2008, the Company's revenue and net profit would not have been significantly different from the consolidated amounts presented in these financial statements.

7 Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Transport equipment and Other assets	Construction in progress and equipment for installation	Total
Cost					
At 1 January 2007	**17,642**	**21,291**	**3,203**	**3,637**	**45,773**
Additions	**-**	**-**	**-**	11,523	**11,523**
Disposals	(168)	(440)	(59)	(100)	(767)
Transfer from construction in progress	3,421	7,048	925	(11,394)	-
At 31 December 2007	**20,895**	**27,899**	**4,069**	**3,666**	**56,529**
Reclassification	1,043	(1,345)	294	8	–
Additions	**–**	**–**	**–**	10,999	**10,999**
Acquisition of subsidiaries	3	1	11	–	**15**
Disposals	(226)	(303)	(73)	(57)	**(659)**
Reclassification to investment property	(20)	–	–	–	**(20)**
Transfer from construction in progress	2,318	4,714	866	(7,898)	**–**
At 31 December 2008	**24,013**	**30,966**	**5,167**	**6,718**	**66,864**

(in millions of Russian Roubles)

	Land, buildings and constructions	Switches and transmission devices	Transport equipment and Other assets	Construction in progress and equipment for installation	Total
Accumulated depreciation and impairment losses					
At 1 January 2007	**(4,582)**	**(4,667)**	**(1,372)**	**(204)**	**(10,825)**
Charge for the year	(1,302)	(3,167)	(879)	–	(5,348)
Disposals	124	181	46	–	351
Impairment loss accrued	(29)	(93)	(5)	(67)	(194)
Impairment loss recovered	–	3	–	7	10
At 31 December 2007	**(5,789)**	**(7,743)**	**(2,210)**	**(264)**	**(16,006)**
Reclassification	(205)	297	(92)	–	–
Charge for the year	(1,684)	(3,895)	(1,073)	–	**(6,652)**
Disposals	150	113	62	–	**325**
Reclassification to investment property	6	–	–	–	**6**
Impairment loss accrued	(101)	(94)	(8)	(71)	**(274)**
Impairment loss recovered	–	4	–	15	**19**
At 31 December 2008	**(7,623)**	**(11,318)**	**(3,321)**	**(320)**	**(22,582)**
Net book value					
At 1 January 2007	**13,060**	**16,624**	**1,831**	**3,433**	**34,948**
At 31 December 2007	**15,106**	**20,156**	**1,859**	**3,402**	**40,523**
At 31 December 2008	**16,390**	**19,648**	**1,846**	**6,398**	**44,282**

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

	2008	2007
Switches and transmission devices	567	1,448
Construction in progress	–	81
Transport equipment and Other assets	1	34
Total net book value of plant and equipment held under finance leases	**568**	**1,563**

Depreciation charge for 2008 in the amount of 6,652 (2007 – 5,348) was recorded in line "Depreciation and amortization" of the consolidated income statement.

As at 31 December 2008, the historical cost of fully amortised property, plant and equipment amounted to 5,232 (2007 – 3,668).

In 2008, the Company increased the cost of construction-in-progress by capitalised interest in the amount of 152 (2007 - 157). Capitalisation rate in 2008 was 10% (2007 – 9%).

(in millions of Russian Roubles)

Impairment testing

The Company analysed property, plant and equipment for impairment as at 31 December 2008.

The recoverable amount of cash-generating units have been determined based on value in use calculated as discounted future cash flows arising from continuous use of those cash-generating units.

The Company determined separate cash generating units for each of its regional branches and subsidiaries.

To determine the value in use the Company discounted expected future cash-flows using a pre-tax discount rate which reflects current market expectations of time value of money and risks attributable to the asset.

As a result of the analysis, an impairment loss on property, plant and equipment in amount of 274 was recognized in other operating expenses (Note 29). The impairment loss was allocated to the following cash-generating units:

Cash-generating unit	Impairment loss, 2008
Gorny-Altai branch of OJSC Sibirtelecom	161
CJSC Yeniseytelecom	85
CJSC Baikalwestcom	5
CJSC ATS-32	18
OJSC Rinet	4
CJSC ChitaNet	1
Total	**274**

The following key assumptions were applied by management to determine value in use:

- Cash flow projections cover a five-year period for all cash-generating units. Cash flows for the periods beyond the five-year period have been extrapolated;
- All cash flows are prepared in nominal values;
- Weighted average cost of capital is used to determine a nominal discount rate. The pre-tax discount rate used is 22%;
- Revenue growth rates are: (0.2%) for 2009, 0.2% for 2010, 4.7% for 2011, 2.1% for 2012, 1.1% for 2013, 4% for 2014 and later.

All estimates and assumptions correspond to external sources of information and historical data. Values determined based on the key assumptions represent management's assessment of future trends.

Change of useful lives of property, plant and equipment

The Company reviewed the remaining useful lives of items of property, plant and equipment as at 31 December 2008.

As a result of reassessment performed as at 31 December 2008 depreciation charge in 2009 is expected to increase by 36.

Reassessment performed in 2007 resulted in an increase in depreciation charge of 1,409 during 2008.

(in millions of Russian Roubles)

8 Investment Property

	31 December 2008	
	Carrying value	**Fair value**
Investment property held for rentals	9	37
Investment property held for sale	2	5
Investment property held for rentals and subsequent sale	2	7
Total	**13**	**49**

In 2006 the Company approved the Program of improvement of corporate property management. The scope of the program included increase of revenue from rentals and/or disposal of unused production premises.

Under the Program the Company reclassified certain fixed assets to investment property, provided that the definition of investment property was met.

As at 31 December 2008 items of investment property were not pledged under loan or borrowing agreements.

During the 2008 year the Company did not have any restrictions on rent income or income from sale of investment properties.

Fair value of investment property was performed based on information on the property market.

The following sources were used:

- Information from regional and local mass media;
- Specialized internet sites.

Fair value is based on market prices for items, identical to the Company's items of investment property.

9 Intangible Assets and Goodwill

	Goodwill	Licences	Software	Number capacity	Customer base	Other	Total
Cost							
At 1 January 2007	**129**	**74**	**3,674**	**86**	**14**	**24**	**4,001**
Additions	-	37	1,697	14	-	17	1,765
Disposals	-	-	(243)	-	(14)	(1)	(258)
At 31 December 2007	**129**	**111**	**5,128**	**100**	**-**	**40**	**5,508**
Additions	75	42	1,374	5	-	51	1,547
Disposals	-	(4)	(176)	-	-	(1)	(181)
At 31 December 2008	**204**	**149**	**6,326**	**105**	**-**	**90**	**6,874**
Amortisation and impairment losses							
At 1 January 2007	**(80)**	**(25)**	**(557)**	**(33)**	**(12)**	**(7)**	**(714)**
Charge for the year	-	(15)	(734)	(23)	(2)	(6)	(780)
Disposals	-	-	3	-	14	1	18
Impairment loss accrued	-	(20)	-	(9)	-	-	(29)
At 31 December 2007	**(80)**	**(60)**	**(1,288)**	**(65)**	**-**	**(12)**	**(1,505)**
Charge for the year	-	(16)	(667)	(14)	-	(8)	(705)
Disposals			21				21
Reclassification	-	18	(18)	-	-	-	-
Impairment loss accrued	(91)	-	-	(1)	-	-	(92)
At 31 December 2008	**(171)**	**(58)**	**(1,952)**	**(80)**	**-**	**(20)**	**(2,281)**

(in millions of Russian Roubles)

	Goodwill	Licences	Software	Number capacity	Customer base	Other	Total
Net book value							
At 1 January 2007	**49**	**49**	**3,117**	**53**	**2**	**17**	**3,287**
At 31 December 2007	**49**	**51**	**3,840**	**35**	**-**	**28**	**4,003**
At 31 December 2008	**33**	**91**	**4,374**	**25**	**-**	**70**	**4,593**

Oracle E-Business Suite (OEBS)

As at 31 December 2008, software included a software product Oracle E-Business Suite with the carrying amount of 1,108 (2007 – 893).

Interest expenses capitalised in 2008 and related to the implementation of Oracle E-Business Suite amounted to 83 (2007 - 135). Applicable capitalisation rate was 10% (2007 - 9%).

The Company started to partially use Oracle E-Business Suite software and depreciates the software from the date of its implementation (30 November 2005) over its useful life of 10 years. Since 1 January 2009 the Company has been using the full functionality of OeBS.

Changes in the carrying amount of Oracle E-Business Suite for 2008 are disclosed below:

	2008	2007
As at 1 January	**893**	**933**
Implementation expenses	301	281
Amortisation charge	(86)	(102)
Write-off	-	(219)
As at 31 December	**1,108**	**893**

Amdocs Billing System

As at 31 December 2008 software included a software product Amdocs Billing Suite with the carrying amount of 779 (2007 – 875).

This software was purchased for the purpose of the implementation of unified automated billing system. The project of implementation of unified automated billing system is expected to last 4-5 years.

Management plans to reassess the value of the asset for impairment on a regular basis until the implementation is complete.

Changes in the carrying amount of Amdocs Billing Suite for 2008 are disclosed below:

	2008	2007
As at 1 January	**875**	**889**
Implementation expenses	-	97
Write-off	(96)	(65)
Included in carrying value of other intangible assets	-	(46)
As at 31 December	**779**	**875**

During 2008 costs of 92 (2007 -62) were written off to other operating expenses (Note 29), as part of previously capitalized implementation costs has been determined unsuitable for future use and unable to bring future economic benefits. In addition, in 2008 capitalised interests of 4 (2007 -3) was written off.

(in millions of Russian Roubles)

CBOSS Billing Suite Software

As at 31 December 2008, software included licences and implementation costs of software product CBOSS Billing Suite with the carrying amount of 352 (2007 – 441).

Changes in the carrying amount of the CBOSS Billing Suite for 2008 are disclosed below:

	2008	2007
As at 1 January	**441**	**466**
Implementation expenses	101	111
Amortisation	(129)	(136)
Write-off	(61)	-
As at 31 December	**352**	**441**

The software is used as a billing system by CJSC Yeniseytelecom and CJSC Baikalwestcom.

HP Open View Service Desk Software

As at 31 December 2008, the software included a software product HP Open View Service Desk with the carrying amount of 103 (2007 – 103).

This product is designed for automation of the Company's information processes.

As of 31 December 2008 this software is not ready for use.

HP Open View Service Activator Software

As at 31 December 2008, the software included a software product HP Open View Service Activator with the carrying amount of 259 (2007 – 259).

This product is designed to provide automated management of end-user activation.

As of 31 December 2008 this software is not ready for use.

Intangible assets amortisation

Amortisation of intangible assets in amount of 705 (2007-780) is recognised within line Depreciation and Amortization of the consolidated income statement.

Impairment testing of intangible assets not yet available for use

The Company analysed intangible assets not yet available for use for impairment. Intangible assets not yet available for use comprise Amdocs Billing Suite, HP Open view Service Desk, HP Open View Service Activator and number capacity relating to CJSC Yeniseytelecom and CJSC Baikalwestcom. As a result of analysis no impairment was identified as of 31 December 2008.

As of 31 December 2008 the Company has no intangible asset with indefinite useful life.

Impairment testing of goodwill

As at 31 December 2008, the Company performed an impairment testing of goodwill.

The recoverable amount of cash-generating units to which goodwill was allocated has been determined based on value in use calculated using cash flow projections derived from five-year financial budgets approved by management. Cash flows for period beyond the five-year period have been extrapolated using a growth rate equal to the long-term average growth rate for the relevant cash-generating units.

Principal assumptions which were used to determine the value in use of the cash-generating units, to which goodwill has been allocated, are disclosed in Note 7.

(in millions of Russian Roubles)

As a result of goodwill analysis at 31 December 2008, an impairment loss of 91 (2007-0) was recognised in other operating expenses as (Note 29).

The carrying amount of goodwill as at 31 December 2008 has been allocated as disclosed below:

Cash generating unit	**Carrying value of goodwill before impairment**	**Impairment of goodwill for 2008**	**Carrying value of goodwill as at 31 December 2008**	**Carrying value of goodwill as at 31 December 2007**
CJSC ATS-41	22	(22)	**-**	**22**
CJSC ATS-32	13	(13)	**-**	**13**
CJSC ChitaNet	9	(9)	**-**	**9**
CJSC Yeniseytelecom	5		**5**	**5**
OJSC Novocom	75	(47)	**28**	**-**
Total	**124**	**(91)**	**33**	**49**

Impairment testing of other intangible assets

The Company analysed other intangible assets, number capacity and licences for impairment.

As a result of this analysis an impairment loss in CJSC Yeniseytelecom in amount of 1 (2007-29) was recognized, including impairment of number capacity of 1 (2007-9), and licences of nil (2007-20).

10 Other Non-current Assets

	31 December 2008	**31 December 2007**
Advances given for investment activity	335	491
Long-term accounts receivables	12	15
Long-term advances given on ordinary activity	–	1
Total	**347**	**507**

11 Investments in Equity Accounted Investees

As of 31 December 2008 investments in associates comprise following:

		31 December 2008		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
LLC Giprosvyaz-Sibir	Engineering, development of project documentation	24.00	0.00	4
OJSC Loktelecom	Local telephone network services	36.56	36.56	15
Total	–			**19**

(in millions of Russian Roubles)

		31 December 2007		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
CJSC Novocom	Local telephone network services, internet	50.00	50.00	19
LLC Giprosvyaz-Sibir	Engineering, development of project documentation	24.00	0.00	4
OJSC Loktelecom	Local telephone network services	36.56	36.56	12
Total	**–**			**35**

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

As a result of acquisition of an additional share in CJSC Novocom the Company acquired control and started to account for CJSC Novocom as its subsidiary (note 6). Changes in the carrying amount of investments in associates for the year ended 31 December 2008 are disclosed below:

	2008	2007
As at 1 January	**35**	**32**
Income from associates	4	7
Dividends received	(1)	(2)
Reclassification	(19)	–
Disposal	–	(2)
As at 31 December	**19**	**35**

The following table illustrates summarised financial information of the most significant associates:

Equity accounted investees	**Voting shares, %**	**Assets**	**Liabilities**	**Revenues**	**Net Profit**
2008					
LLC Giprosvyaz-Sibir	24.00%	15	–	5	–
OJSC Irkutskaya raschetnaya palata	34.00%	2	3	–	–
OJSC Loktelecom	36.56%	46	6	45	9
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	30.00 %	–	–	–	–
2007					
CJSC Novocom	50.00%	45	5	73	11
LLC Giprosvyaz-Sibir	24.00%	19	1	54	5
OJSC Irkutskaya raschetnaya palata	34.00%	2	3	–	–
LLC Svyazinvest-Media-Sibir	25.01%	14	15	12	–
OJSC Loktelecom	36.56%	44	12	36	2
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	30.00 %	–	–	–	–

(in millions of Russian Roubles)

12 Investments and Loans Granted

	31 December 2008	31 December 2007
Non-current investments available-for-sale	13	16
Non-current loans granted	12	23
Non-current investments held to maturity	4	–
Total non-current investments and loans granted	**29**	**39**
Current Investments available-for-sale	28	125
Current loans granted	28	22
Current Investments held to maturity	14	-
Total current investments and loans granted	**70**	**147**
Total investments and loans granted	99	186

Financial investments available-for-sale as at 31 December 2008 and 2007 are listed below:

	31 December 2008		31 December 2007	
Company Name	**Voting shares, %**	**Carrying value**	**Voting shares, %**	**Carrying value**
Non-current investments				
OJSC NTK Zvezda	1.665%	–	1.665%	–
OJSC Svyazintek	11.00%	13	11.00%	13
OJSC AKB Svyaz-Bank	0.01%	–	0.01%	–
Other	–	–	–	3
		13		16
Current investments				
OJSC Sberbank	0.01%	28	0.01%	125
		28		125
Total	–	**41**	–	**141**

As of 31 December 2008 non-current investments held to maturity comprise bonds of state owned entities of 4 (2007-0)

As of 31 December 2008 current investments held to maturity comprise bank deposits with maturity period from 3 month to 1 year and with interest rate from 8% to 14% in amount of 14 (2007-0)

As of 31 December 2008 and 2007 non-current loans given to employees are carried at amortized cost with effective interest rate of 19%.

(in millions of Russian Roubles)

13 Inventories

Inventories as at 31 December 2008 comprised the following:

	31 December 2008	31 December 2007
Finished goods and goods for resale	199	85
Cable	107	112
Spare parts	66	67
Consumables	26	27
Fuel	15	16
Building materials	3	3
Other inventories	257	223
Total	**673**	**533**

Changes in allowance for obsolete inventories for the year ended 31 December 2008 are disclosed below:

	2008	2007
As at 1 January	**8**	13
Accrual	3	6
Write-off	(7)	(11)
As at 31 December	**4**	**8**

Expense from accrual of allowance for obsolete inventories is included in “Other operating expense” of the consolidated income statement.

14 Trade and Other Receivables

	Gross as at 31 December 2008	Allowance for impairment of receivables	Net as at 31 December 2008
Receivables from customers for core activities	2,526	(393)	2,133
Receivables from customers for non-core activities	104	(23)	81
Receivables from agents and commissioners	126	(47)	79
Settlements with personnel	10	–	10
Other receivables	436	(20)	416
Total	**3,202**	**(483)**	**2,719**

	Gross as at 31 December 2007	Allowance for impairment of receivables	Net as at 31 December 2007
Receivables from customers for core activities	2,502	(412)	2,090
Receivables from customers for non-core activities	75	(12)	63
Receivables from agents and commissioners	178	(46)	132
Settlements with personnel	10	–	10
Other receivables	286	(28)	258
Total	**3,051**	**(498)**	**2,553**

(in millions of Russian Roubles)

Receivables for customers for core activities as at 31 December 2008 comprised the following:

	Gross as at 31 December 2008	**Allowance for impairment of receivables**	**Net as at 31 December 2008**
Receivables from individuals	1,302	(290)	1,012
Receivables from commercial organizations	407	(49)	358
Receivables from budget organizations	169	(3)	166
Receivables from interconnected operators	643	(46)	597
Tariff compensation from the state budget	5	(5)	–
Total	**2,526**	**(393)**	**2,133**

	Gross as at 31 December 2007	**Allowance for impairment of receivables**	**Net as at 31 December 2007**
Receivables from individuals	1,276	(249)	1,027
Receivables from commercial organizations	308	(42)	266
Receivables from budget organizations	132	(5)	127
Receivables from interconnected operators	773	(103)	670
Tariff compensation from the state budget	13	(13)	–
Total	**2,502**	**(412)**	**2,090**

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

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

	2008	**2007**
Balance at 1 January	**498**	**557**
Accrual of allowance	111	182
Reversal of allowance	(79)	–
Write-off of receivables	(47)	(241)
Balance at 31 December	**483**	**498**

15 Other Current Assets

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

	Gross as at 31 December 2008	**Allowance for impairment**	**Net as at 31 December 2008**
VAT receivable	208	–	208
Advances given	173	(4)	169
Deferred expenses	121	–	121
Prepayment of other taxes	55	–	55
Other current assets	26	–	26
Total	**583**	**(4)**	**579**

(in millions of Russian Roubles)

	Gross as at 31 December 2007	Allowance for impairment	Net as at 31 December 2007
VAT receivable	323	–	323
Advances given	219	–	219
Deferred expenses	211	(8)	203
Prepayment of other taxes	122	–	122
Other current assets	18	–	18
Total	**893**	**(8)**	**885**

The information on changes of allowance for impairment of other current assets is presented in the table below.

	2008	2007
As at 1 January	**8**	**10**
Accrual of allowance	–	2
Reversal of allowance	(4)	(3)
Write-off of other current assets	-	(1)
As at 31 December	4	8

16 Cash and Cash Equivalents

	31 December 2008	31 December 2007
Cash on hand and at bank	1,014	1,376
Short-term deposits up to 3 months	95	7
Total	**1,109**	**1,383**

The maturity period of short-term deposits varies from 12 days to 3 month. The interest rate on short-term deposits with a maturity of up to three months varies from 0.8% to 14%.

17 Significant Non-cash Transactions

Property, Plant and Equipment receivable	2008	2007
Finance lease	–	466
Letter of credit agreement	–	324
Other (dismantling)	76	313
Total	**76**	**1,103**

18 Share Capital

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

Type of shares	Number of shares authorised (millions)	Par value, roubles	Total par value	Carrying value
Ordinary	12,011	0,15	1,802	2,672
Preference	3,909	0,15	586	869
As at 31 December 2008	**15,920**	**–**	**2,388**	**3,541**

The difference between the par value and the carrying amount of shares represents the effect of inflation in the periods prior to 1 January 2003. All issued share capital has been entirely paid.

(in millions of Russian Roubles)

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

	Share capital	**Ordinary shares**		**Preference shares**	
	%	**Number (thousands)**	**%**	**Number (thousands)**	**%**
Total legal entities	**92.2**	**11,478,205,135**	**95.6**	**3,205,019,585**	**82.0**
OJSC Svyazinvest	38.2	6,086,601,672	50.7	-	-
-those with more than 5% of shares, including:	*51.2*	*5,040,071,588*	*42.0*	*3,117,170,383*	*79.8*
CJSC ING Bank Eurasia (NH*)	12.9	1,576,125,854	13.1	472,978,634	12.1
NP National Depositary Centre (NH*)	21.9	2,193,983,485	18.3	1,297,219,712	33.2
CJSC Depositary-clearing company (NH*)	10.5	1,006,179,292	8.4	675,154,167	17.3
CJSC UBS Nominees (NH*)	5.9	263,782,957	2.2	671,817,870	17.2
other	2.8	351,531,875	2.9	87,849,202	2.2
Individuals, total	**7.8**	**533,196,694**	**4.4**	**703,400,429**	**18.0**
Total	**100.0**	**12,011,401,829**	**100**	**3,908,420,014**	**100.0**

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders.

The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated as 10% of the Russian accounting net income for the year divided by the number of shares which comprise 25% of the Company's share capital. The annual amount of dividends on a preference share may not be less than dividends on an ordinary share.

Distributable earnings of each entity within the Company are limited to their respective retained earnings, as determined in accordance with Russian statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2008 and 2007 amounted to 11,688 and 10,195, respectively.

In September 2001, the Company placed Level I American Depositary Receipts (ADRs). As at 31 December 2008, the Company registered an issue of 4,070,800 ADRs (31 December 2007 – 1,278,221) and deposited 814,160,000 of ordinary shares (31 December 2007 – 1,022,576,800), which is 6.78% (2007 – 8.5%) of total issued ordinary shares.

(in millions of Russian Roubles)

The following table represents ADR registration for 2007-2008:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
1 January 2007	**1,799,767**	**1,439,813,600**	**12.0**	**9.0**
Change in 2007	(521,546)	(417,236,800)	(3.5)	(2.6)
31 December 2007	**1,278,221**	**1,022,576,800**	**8.5**	**6.4**
Change in 2008	(1,042,084)	(208,416,800)	(1.7)	(1.3)
Change in conversion rate	3,834,663	-	-	-
31 December 2008	**4,070,800**	**814,160,000**	**6.8**	**5.1**

On 31 July 2008 the Company changed conversion rate of its ADRs. ADR holders received 3 additional ADRs for each ADR (1 ADR equals to 200 ordinary shares, before: 1 ADR equalled to 800 ordinary shares).

The Company's ADRs are listed on the following stock exchanges:

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter market (OTC) USA	825735103	SBTLY	US8257351036
Berlin Stock Exchange	260452	S3T1.BER	US8257351036
Frankfurt Stock Exchange	260452	S3T1.FRA	US8257351036

19 Loans and Borrowings

	31 December 2008	31 December 2007
Long–term loans and borrowings		
Bank loans, including:	17,337	12,844
Bank loans in Roubles	11,610	9,527
Bank loans in USD	4,539	1,492
Bank loans in EUR	1,188	1,825
Bonds in Roubles	4,093	6,942
Promissory notes in Roubles	8	8
Vendor financing (in USD)	2	230
Finance lease liabilities	345	797
Less: Current portion of long–term borrowings	(8,983)	(8,029)
Total long–term loans and borrowings	**12,802**	**12,792**
Short–term loans and borrowings		
Bank loans, including:	714	534
Bank loans in Roubles	421	289
Bank loans in USD	293	245
Promissory notes in Roubles	850	–
Vendor financing (in USD)	416	–
Accrued interest	257	224
Total short–term loans and borrowings	**2,237**	**758**
Current portion of long term loans and borrowings	**8,983**	**8,029**
Total current loans and borrowings	**11,220**	**8,787**
Total loans and borrowings	**24,022**	**21,579**

(in millions of Russian Roubles)

As of 31 December 2008 carrying value of pledged objects of property, plant and equipment amounted to 5,217 (2007 – 5,532).

As of 31 December 2008 loans and borrowings have the following maturities:

Maturity date	Bank loans	Bonds	Vendor financing	Promissory notes	Lease liability	Total
2009	7,685	2,096	418	850	171	11,220
2010	4,869	2,108	–	–	145	7,122
2011	3,222	–	–	–	25	3,247
2012	2,329	–	–	–	4	2,333
2013 and after	92	–	–	8	–	100
Total	**18,197**	**4,204**	**418**	**858**	**345**	**24,022**

Long-term loans and borrowings

Bank loans

The table below summarizes the information about the most significant long-term bank loans as at 31 December 2008 and 2007.

Counteragent	Interest rate per loan agreement	Carrying value 2008	Carrying value 2007	Loan currency	Date of maturity	Security
CJSC Commerzbank	8.75%	–	300	Rouble	09.06.2008	Unsecured
CJSC ING Bank (Eurasiya)	3.5%+LIBOR	–	32	USD	30.06.2008	Pledge of assets
OJSC UralSib	5%+Euribor	45	51	EUR	2009 to 2010	Unsecured
OJSC Svyazbank	12%	265	–	Rouble	2010	Unsecured
OJSC Svyazbank	14%	371	–	USD	2011	Pledge of assets
CJSC Gazprombank	9.4% – 11%	185	185	Rouble	2009	Pledge of assets
CJSC Gazprombank	2.1 %+LIBOR	842	233	USD	2010	Unsecured
CJSC Bank Societe Generale Vostok (BSGV)	2.8%+Mosprime; 7.95% – 24.14%	1,377	1,119	Rouble	2009 to 2011	Unsecured
CJSC Raiffeisenbank	from 2.8% to 3% +Mosprime	1,350	1,350	Rouble	2009 to 2012	Unsecured
Moscow River B.V.	7.7%	2,620	–	USD	2013	Unsecured
CJSC UnicreditBank	3 %+Mosprime	850	0	Rouble	2011	Unsecured
CJSC AKB Promsvyazbank	6.9%	287	488	USD	2010	Pledge of assets
CJSC AKB Promsvyazbank	10%	–	150	Rouble	30.04.2008	Unsecured
OJSC KB Petrokommertzbank	8%	72	164	USD	2009	Pledge of assets
OJSC Bank VTB	7% – 8.3%	1,600	1,614	Rouble	2012	Unsecured
OJSC Bank VTB	From 0.7% to 1.1% +LIBOR	347	575	USD	2009 – 2010	Pledge of assets
Commerzbank International S.A.	2%+Euribor	1,143	1,774	EUR	2010	Unsecured
OJSC AKB Sberbank	7% – 13.75%	5,983	4,809	Rouble	2009 – 2013	Unsecured
Total		**17,337**	**12,844**			

(in millions of Russian Roubles)

CJSC UnicreditBank

In April 2008 the Company raised a loan agreement with CJSC UnicreditBank in amount of 350 to finance its working capital. The maturity date is April 2011. The interest rate under the agreement is 3 %+Mosprime. There is no pledge under the agreement.

In August 2008 the Company received the financing in amount of 500 under agreement concluded with CJSC UnicreditBank. The loan is received for general purposes. The maturity date is May 2011. The interest rate under the agreement is 3%+Mosprime. There is no pledge under the agreement.

OJSC AKB Sberbank

In May 2008 the Company signed two agreements with OJSC AKB Sberbank in amount of 500 each. The maturity date is March 2011. The interest rate under the agreement is 10 %. There is no pledge under these agreements.

CJSC Bank Societe Generale Vostok (BSGV)

In August 2008 the Company signed an agreement with CJSC Bank Societe Generale Vostok (BSGV) in amount of 500 for general purposes. The maturity date is August 2011. The interest rate under the agreement is 2.8%%+Mosprime. There is no pledge under the agreement.

Credit Linked Notes (CLNs)

In April 2008 the Company received financing in amount of USD 90 million under the loan agreement concluded in December 2007 with Moscow River B.V. (registered in the Netherlands). The financing under the agreement was provided by issuance of credit linked notes on terms of partial underwriting. Loan is received for general purposes. The loan matures in 5 years and is due for payment in two instalments: 54 and 60 month after receipt of financing. The interest rate under the agreement is 7.7 % per annum and is subject to review three years after receipt of financing. Agreement terms provide for an earlier redemption offer 1.5 years after the issuance of credit linked notes. There is no pledge under the agreement.

Bonds

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

Code	**Carrying value**		**Effective rate**	**Date of maturity**	**Date of early redemption**	**Interest on coupon**
	2008	**2007**				
Bond issue 05	–	2,963	9.95%	25.04.2008	–	9.2 %
Bond issue 06	111	1,994	8.49%	16.09.2010	23.09.2008	from 7.85% to 9.75%
Bond issue 07	1,985	1,985	9.14%	20.05.2009	–	8.65%
Bond issue 08	1,997	–	10.12%	08.08.2013	18.02.2010	9.75%
Total	**4,093**	**6,942**	**–**	**–**	**–**	**–**

In April 2005 the Company registered an issue of 3,000,000 interest-bearing bonds, bond issue 05 with a par value of 1,000 roubles each. The Bonds have six semi-annual coupons. The coupon interest rate is set at 9.2% per annum. The bonds matured and were repaid in 1,092 days from the date of issue, in April 2008. Upon redemption, the repayment of the sixth coupon was made.

(in millions of Russian Roubles)

In September 2005 the Company registered an issue of 2,000,000 interest-bearing bonds, bond issue 06 with par value of 1,000 roubles each. The Bonds have ten semi-annual coupons. The interest rate on coupons 1 to 6 is set at 7.85% per annum, the interest rate on coupons 7 to 10 is set at 9.75% per annum. In March and September 2008 the Company made coupon interest payments for the third and forth coupon of bond issue 06. These bonds provide an early redemption option. In September 2008 the Company redeemed bond issue 06 in the amount of 1,883. The remaining bonds mature in September 2010.

In May 2006 the Company registered an issue of 2,000,000 interest-bearing bonds, bond issue 07 with par value of 1,000 roubles each. The Bonds have six semi-annual coupons. The coupon interest rate is set at 8.65% per annum. In May and November 2008 the Company made coupon interest payment for the fourth and fifth coupon of bond issue 07. The bonds mature in three years from the date of issue, in May 2009. These bonds do not provide an early redemption option.

In August 2008 the Company registered an issue of 2,000,000 interest-bearing bonds, bond issue 08 with par value of 1,000 roubles each. The bonds have ten semi-annual coupons. The interest rate for coupon 1 to 3 is set at 9.75% per annum. The bonds mature in two parts: in 1,638 days and in 1,820 days from the date of issue, each bond is repaid in amount of 50% from the nominal value. Received financing is used for investment and operational activity of the Company and for repayment of other current loans and borrowings. These bonds provide for an early redemption option in February 2010.

Information on finance lease obligations is disclosed below.

Short-term loans and borrowings

Bank loans

The table below summarizes the information about the most significant short-term bank loans as at 31 December 2008.

		Carrying value				
Contractor	**Effective interest rate**	**2008**	**2007**	**Loan currency**	**Date of maturity**	**Security**
OJSC UralSib	11%-12.5%	–	12	Rouble	March-April 2008	Unsecured
CJSC Gasprombank	15%-16.5%	224	208	Rouble	February-April 2009	Unsecured
CJSC Bank Societe Generale Vostok (BSGV)	23.55 %	88	–	Rouble	21.04.2009	Unsecured
Deutsche Bank AG	9.05 %	293	245	USD	17.04.2009	Unsecured
CJSC KB Kedr	13.90 %	52	–	Rouble	28.01.2009	Unsecured
OJSC Bank VTB	9.50 %	–	6	Rouble	30.01.2008	Unsecured
OJSC AKB Sberbank	8-17.5 %	57	63	Rouble	2008, 2009	Pledge
Total	**–**	**714**	**534**	**–**	**–**	**–**

(in millions of Russian Roubles)

Promissory notes

The table below summarizes the information about the short-term promissory notes issued by the Company as at 31 December 2008:

Contractor	Effective interest rate	2008	2007	Currency	Date of maturity	Security
OJSC Svyazbank	9.7%	500	–	Rouble	2009	Unsecured
LLC Brokerskaya Companiya Region	9.7%	350	–	Rouble	2009	Unsecured
Total	**–**	**850**	**–**	**–**	**–**	**–**

Vendor financing

The table below summarizes the information about the short-term Vendor financing as at 31 December 2008:

Contractor	Effective interest rate	2008	2007	Currency	Date of maturity	Security
LLC Huawey-Ufa	5.76%	416	–	USD	2009	Unsecured
Total	**–**	**416**	**–**	**–**	**–**	**–**

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 31 December 2008 are as follows:

	31 December 2008		31 December 2007	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion (less than 1 year)	208	171	561	454
More than 1 to 5 years	193	174	398	343
Total	**401**	**345**	**959**	**797**

During 2008 year the Company did not enter into new finance lease arrangements.

As at 31 December 2008 the main lessors under finance lease contracts were OJSC RTC-Leasing and OJSC Raiffeisen-leasing. The average effective rate under the contract with OJSC RTC-Leasing was 26%, and 18% under the contract with OJSC Raiffeisen-leasing.

The discounted present value of minimal lease payments to OJSC RTC-Leasing as of 31 December 2008 amounted to 299 (2007-721), including the minimal lease payment of 349 (2007-868) less finance cost of 50 (2007-147).

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

As of 31 December 2008 finance lease obligations denominated in USD amounted to 8 (2007-14).

(in millions of Russian Roubles)

20 Employee Benefits

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

Defined Benefit Pension Plans

The non-government pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 39).

As at 31 December 2008 the number of active participants of defined benefit pension plans was 19,774, and 18,957 of former employees were eligible to the post-employment and post-retirement benefits (as at 31 December 2007 – 22,997 and 17,554 respectively).

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

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

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

	31 December 2008	31 December 2007
Present value of fully unfunded obligations on defined benefit plans	4,045	4,474
Fair value of plan assets	(45)	(48)
Present value of unfunded obligations	**4,000**	**4,426**
Unrecognized past service cost	(459)	(556)
Unrecognized actuarial losses	19	(421)
Net pension benefits	**3,560**	**3,449**

As at 31 December 2008 management estimated employees' average remaining working lives at 10 years (2007 - 10 years).

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

	2008	2007
Current service cost	275	382
Interest cost	294	372
Amortization of past service cost	128	145
Net actuarial gains recognised in year	(135)	(41)
Expected return on plan assets	(4)	(4)
Curtailment effect	–	25
Past service cost	–	(302)
Net expense for the defined benefit plans	**558**	**577**

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

(in millions of Russian Roubles)

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

	2008	2007
Employee benefit obligation as at 1 January	**4,474**	**5,574**
Current service cost	275	382
Interest cost	294	372
Past service cost	31	(475)
Actuarial gains	(581)	(1,033)
Benefits paid	(49)	(69)
Liabilities extinguished on settlements	(399)	(277)
Employee benefit obligation as at 31 December	**4,045**	**4,474**

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

	2008	2007
Present value of plan assets as at 1 January	**48**	**55**
Expected return on plan assets	4	4
Employer contribution	447	362
Assets distributed on settlement	(399)	(302)
Benefits paid	(49)	(69)
Actuarial loss	(6)	(2)
Present value of plan assets as at 31 December	**45**	**48**

The Company expects to contribute 394 to its non-government pension fund in 2009.

The expected return on plan assets as at 31 December 2008 and 2007 is determined by combination of market prices and structure of plan assets. The actual return on plan assets for the 2008 year was 0%.

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

	2008	2007
Discount rate	9.00 %	6.50 %
Expected return on plan assets	10.28 %	7.47 %
Future salary increase	10.24 %	9.20 %
Rate used for calculation of annuity value	4.00 %	6.00 %
Increase in financial support benefits	6.00 %	5.00 %
Staff turnover	7.00 %	5.00 %
Mortality tables (source of information)	USSR 1985/1986	USSR 1985/1986

(in millions of Russian Roubles)

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

	2008	2007	2006	2005	2004
Defined benefit obligation	(4,045)	(4,474)	(5,574)	(5,141)	(4,820)
Plan assets	45	48	55	182	253
Deficit	(4,000)	(4,426)	(5,519)	(4,959)	(4,567)
Experience adjustments on plan liabilities	(492)	(1,033)	(1,178)	(1,434)	2,929
Experience adjustments on plan assets	(5)	(2)	2	(21)	(2)

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

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

21 Other non-current liabilities

	31 December 2008	31 December 2007
Deferred income	76	87
Target financing	16	19
Total	**92**	**106**

22 Provisions

	Personnel dismissal	Tax provision	Total
Balance at 1 January 2007	**52**	**–**	**52**
Accrued	81	6	87
Utilised	(41)	–	(41)
Reversed	(11)	–	(11)
Balance at 31 December 2007	**81**	**6**	**87**
Accrued	52	7	59
Utilised	(57)	(6)	(63)
Reversed	(24)	–	(24)
Balance at 31 December 2008	**52**	**7**	**59**

Personnel dismissal

To increase the efficiency of business processes the Company adopted a Program of staff optimisation approved by the Board of Directors. The program is aimed at modification of organisation structure, redistribution of functions and transfer of some functions to outsourcing.

The Company has made a provision for termination payments to the employees who are committed to be made redundant in 2009.

(in millions of Russian Roubles)

23 Accounts Payable and Accrued Expenses

	31 December 2008	31 December 2007
Accounts payable to suppliers of fixed assets	2,294	1,756
Salaries and wages payable	1,188	1,919
Accounts payable for operating activities	1,091	626
Other taxes payable and social insurance	690	414
Accounts payable to interconnected operators	501	465
Principal and agent settlements	77	100
Dividend payables	27	14
Accounts payable to suppliers of intangible assets	14	3
Income tax payable	1	2
Other accounts payable, including:	*472*	*451*
Payables to OJSC "Rostelecom"	309	302
Payables to universal service fund	109	96
Payables to operators under assistance agreement	2	2
other	52	51
Total	**6,355**	**5,750**

As at 31 December 2008 taxes payable comprised the following:

	31 December 2008	31 December 2007
Value-added tax	358	101
Property tax	191	167
Unified social tax	93	98
Personal income tax	37	38
Other taxes	11	10
Total	**690**	**414**

24 Other Current Liabilities

	31 December 2008	31 December 2007
Advances received from core activities	1,030	950
Advances received from non-core activities	19	10
Deferred incomes	9	12
Total	**1,058**	**972**

25 Revenues

By revenue type	**2008**	**2007**
Local telephone services	11,432	11,547
Mobile communication services	9,951	9,109
Intra-zone telephone services	5,383	5,222
Telegraph, data transmission, telematic services (Internet)	4,654	3,282
Interconnection services	4,106	4,255
Fees on assistance services and agency fees	609	649
Rental income	568	297
Radio and TV broadcasting	426	406
Other telecommunication services	10	67
Other revenues	535	412
Total	**37,674**	**35,246**

Income from intra-zone services and local telephone calls includes income from channel rent in the amount of 519 (2007-755).

Income from local telephone services includes income from provision of universal services in amount of 1 (2007-0).

(in millions of Russian Roubles)

Telegraph services, data transmission and Internet includes income from data transmission and Internet services in the amount of 4,401 (2007 -3 064).

The Company generates revenue from the following major customer groups:

Customer groups	**2008**	**2007**
Individuals	22,500	20,091
Corporate customers	6,965	8,214
Operators	5,324	4,334
Governmental customers	2,885	2,607
Total	**37,674**	**35,246**

26 Personnel Costs

	2008	**2007**
Salary expenses	(8,203)	(8,278)
Unified social tax	(1,787)	(1,885)
Employee benefits	(265)	(210)
Other personnel costs	(249)	(411)
Total	**(10,504)**	**(10,784)**

Other personnel costs are mainly represented by voluntary medical and other insurance of employees and payments under collective agreement and labour contracts.

27 Materials, Repairs and Maintenance, Utilities

	2008	**2007**
Materials, including:	**(1,301)**	**(1,450)**
Fuel	(179)	(276)
Cable	(104)	(104)
Spare parts	(86)	(137)
Construction materials	(29)	(40)
Other materials	(903)	(893)
Repairs and maintenance expenses	**(1,304)**	**(1,115)**
Utilities, including:	**(612)**	**(528)**
Energy	(377)	(308)
Heat power	(190)	(175)
Other expenses	(45)	(45)
Total	**(3,217)**	**(3,093)**

(in millions of Russian Roubles)

28 Other Operating Income

	2008	2007
Reimbursement of losses from provision of universal services	680	472
Fines, late payment interest, penalty for breach of contract	54	20
Reimbursement of losses	40	26
Stock-take surpluses	26	13
Gain from sale and other disposal of assets	15	13
Reversal of accounts payable with expired statute of limitation	11	24
Reversal of allowance for input VAT	–	145
Reversal of allowance for impairment of receivables	–	15
Miscellaneous income	318	354
Total	**1,144**	**1,082**

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

- for current year services - 452 (2007 – 307),
- for previous year services - 165 (2007 – 60).

Losses from provision of universal telecommunication services during 2008 amounted to 680 (2007 - 472) and were confirmed by an independent audit firm CJSC Marketing, Consulting, Design.

29 Other Operating Expenses

	2008	2007
Third party services and management charges	(1,317)	(1,089)
Agency fee	(1,059)	(906)
Taxes, other than income tax	(825)	(688)
Transportation services	(714)	(155)
Advertising expenses	(574)	(561)
Lease fee	(568)	(524)
Impairment, including impairment of:	*(391)*	*(223)*
Property, Plant and equipment, intangible assets	(275)	(223)
Goodwill	(91)	-
Other assets	(25)	(5)
Universal service fund payments	(377)	(348)
Fire and other security services	(359)	(297)
Membership and charity contributions	(263)	(379)
Audit and consulting fees	(167)	(54)
Losses on disposal of property, plant and equipment and other assets	(132)	(10)
Insurance of assets	(78)	(108)
Allowance for impairment of receivables	(47)	–
Cost of sold goods	(7)	(19)
Fines, late payment interest, penalty for breach of contract	(8)	(14)
Other expenses	(716)	(875)
Total	**(7,602)**	**(6,250)**

Other expenses includes mainly written off licences of Amdocs Billing Suite in amount of 92 (2007 -62) and Oracle e-Business Suite in amount of nil (2007 -175), expenses on social needs other than payments to personnel, property, plant and equipment registration expenses, ownership rights registration, contributions to trade union.

(in millions of Russian Roubles)

30 Interest Expenses

	2008	2007
Interest expense on loans and borrowings	1,798	1,527
Interest expense on pension liabilities	294	372
Interest expense on finance lease	38	176
Interest expense on vendor financing	31	3
Total	**2,161**	**2,078**

With capitalization rate of 10% (2007-9%) the amount of the interest capitalized was as follows:

	2008	2007
Capitalized to property, plant and equipment	152	157
Capitalized to intangible assets	28	42
Total	**180**	**199**

31 Finance Income and Other Finance Costs

	2008	2007
Interest income from financial assets	82	41
Dividend received	3	2
Foreign exchange gain	–	108
Total finance income	**85**	**151**
Loss from disposal of other financial assets	(2)	–
Foreign exchange loss	(1,230)	–
Total other finance costs	**(1,232)**	**–**

32 Income Tax

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

	2008	2007
Current income tax expense	(1,106)	(1,559)
Deferred tax benefit/ (expense)	201	(20)
Total income tax expense for the year	**(905)**	**(1,579)**
Current income tax expense	(1,110)	(1,544)
Adjustments of the current income tax for previous years	4	(15)
Total current income tax expense for the year	**(1,106)**	**(1,559)**
Deferred tax benefit/ (expense) related to origination and reversal of temporary differences	99	(20)
Effect of change in tax rate	102	–
Total deferred income tax benefit/ (expense) for the year	**201**	**(20)**
Total income tax expense for the year	**(905)**	**(1 579)**

(in millions of Russian Roubles)

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

	2008	2007
Profit before income tax	**2,434**	**4,238**
Statutory income tax rate	24%	24%
Theoretical tax charge	(584)	(1,017)
(Increase)/decrease resulting from the effect of:		
Adjustment of the current tax for the previous periods	4	(15)
Non-taxable income	–	55
Non-deductible expenses	(294)	(481)
Unrecognized deferred tax assets related to current year tax losses and origination of unrecognized deductible temporary differences	(88)	(56)
Deferred tax on dividends expected for distribution from subsidiaries	(45)	(65)
Change of tax rate	102	–
Total actual income tax	**(905)**	**(1,579)**
Effective tax rate	**37%**	**37%**

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

	1 January 2007	Origination and reversal of temporary differences	31 December 2007	Origination and reversal of temporary differences	Change of tax rate	31 December 2008
Accounts payable and accrued expenses	423	(108)	315	(121)	(40)	154
Trade and other receivables	34	(118)	(84)	(68)	25	(127)
Finance lease liabilities	152	1	153	(72)	(13)	68
Employee benefits	543	73	616	73	(115)	574
Other assets and liabilities	14	(6)	8	(10)	–	(2)
Property, plant and equipment	(1,632)	111	(1,521)	260	206	(1,055)
Intangible assets	(298)	34	(264)	21	41	(202)
Investments	(15)	(10)	(25)	40	(2)	13
Total deferred tax assets	1,166	–	1,092	–	–	809
Total deferred tax liabilities	(1,945)	–	(1,894)	–	–	(1,386)
Deferred tax assets (liabilities), net	**(779)**	**(23)**	**(802)**	**123**	**102**	**(577)**
Deferred tax assets after set-off	**–**	**–**	**22**	**–**	**–**	**51**
Deferred tax liabilities after set-off	**(779)**	**–**	**(824)**	**–**	**–**	**(628)**
Deferred tax assets (liabilities), net	**(779)**	**(23)**	**(802)**	**123**	**102**	**(557)**

	2008	2007
Deferred tax liabilities as of 1 January, net	**(802)**	**(779)**
Deferred tax benefit/ (expense), recognized in income statement	201	(20)
Deferred tax benefit/ (expense) arising from change in fair value of available-for-sale investments, recognized in equity	24	(3)
Deferred tax liabilities as of 31 December, net	**(577)**	**(802)**

(in millions of Russian Roubles)

Due to the Company's current structure, tax losses and current tax assets arising in one entity cannot be set off against current tax liabilities and taxable profits of other entities and, accordingly, taxes may accrue even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one entity is not offset against a deferred tax liability of another entity within the Company.

As at 31 December 2008, the Company has not recognised a deferred tax liability in respect of temporary differences of 4,161 (2007 - 3,805) arising in relation to investments in subsidiaries as managements believes that the Company is able to control the timing of reversal of these temporary differences, and the reversal is not expected in the foreseeable future.

33 Earnings per Share

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

	2008	2007
Profit for the year attributable to equity holders of the Parent, in thousand Roubles	**1,529**	**2,659**
Less: profit attributable to preference shares	(375)	(653)
Profit attributable to ordinary shares	**1,154**	**2,006**
Weighted average number of ordinary shares outstanding (thousands)	12,011,402	12,011,402
Basic and diluted earnings per ordinary share, in Roubles	**0.096**	**0.167**

34 Dividends Declared and Proposed for Distribution

In 2009 the Board of Directors proposed dividends for 2008 in the amount of 0,026313 Roubles per ordinary share and 0,052939 Roubles per preference share.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
Declared and approved for 2007			
Preference shares	3,908,420,014	0.066446	260
Ordinary shares	12,011,401,829	0.035889	431
Total	**15,919,821,843**	–	**691**
Declared for 2008			
Preference shares	3,908,420,014	0.052939	207
Ordinary shares	12,011,401,829	0.026313	316
Total	**15,919,821,843**	–	**523**

The amount of dividends paid in 2009 year for the year ended 31 December 2007 is 62.

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting.

(in millions of Russian Roubles)

35 Operating Lease

As of 31 December 2008 minimum lease payments under operating lease agreements where the Company is a lessee were as follows:

	2008 Minimum lease payments	2007 Minimum lease payments
Current portion (less than 1 year)	794	292
From 1 to 5 years	632	65
Over 5 years	15	64
Total minimum lease payments	**1,441**	**421**

For certain leased items the Company concluded sublease agreements with aggregated future payments as at 31 December 2008 of 18 (2007 - 1).

The Company's operating lease expenses for 2008 amounted to 568 (2007 - 524) and are disclosed in Note 29.

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

	2008 Minimum lease payments	2007 Minimum lease payments
Current portion (less than 1 year)	906	469
From 1 to 5 years	207	127
Over 5 years	22	15
Total minimum lease payments	**1,135**	**611**

The Company's operating lease income for the 2008 year amounted to 568 (2007- 297) and is disclosed in Note 25.

The main items leased under operating lease agreements are equipment and premises. Operating lease agreements provide a right to prolong the agreement in relation to leased items.

36 Capital Commitments

As of 31 December 2008 and 2007 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 685 and 454 respectively.

As of 31 December 2008 and 2007 the Company's contractual obligations on acquiring fixed assets were 14 and 199 respectively.

As of 31 December 2008 and 2007 the Company's contractual obligations on acquiring intangible assets were 33 and 83 respectively.

37 Contingencies and Operating Risks

Operating environment

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

Taxation

The interpretation by the Company's management of the existing Russian industry, currency and customs legislation when applicable to the Company's transactions and activities may be challenged by the appropriate regional or federal authorities. The tax authorities may change their interpretation of legislation when applicable to certain transactions and audits.

Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, additional taxes, penalties and fines may be accrued. It is not possible to determine the amounts of such potential claims or evaluate the likelihood of their adverse outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one.

Management believes that as at 31 December 2008 its interpretation of the relevant legislation is appropriate and, therefore, it is highly likely that the Company's position with regard to compliance with tax, currency and customs legislation will be sustained.

Claims of Tax Authorities

On 16 November 2007 the tax authorities raised a tax claim resulting from the tax audit of the Company covering years 2004-2006 in amount of 587 including fines and penalties of 121 which to a significant extent related to settlements with other telecommunication operators on interconnection and transit of traffic.

The Company objected against the ruling of the tax authorities and filed a law suit.

On 30 October 2008, the Federal Arbitrage Court of Moscow region rejected the cassation appeal of the Inter-regional tax Inspection #7 against the Company in full amount.

Insurance

During 2008 year the Company undertook measures to minimise risks of loss and damage to its property. The insured property comprises items with relatively high net book value and relatively low depreciation, which are actively used in production activities.

Moreover, the Company maintained sufficient insurance coverage against third party liabilities (mandatory vehicle insurance, insurance of risks arising from use of hazardous production equipment).

Third party property damage and ecological risks arising from the Company's activities are insignificant.

Legal Proceedings

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

Licences

The majority of the Company's revenues are received from business transactions conducted on the basis of licences issued by the Russian Federation Ministry for Telecommunications and Information Technologies. Key operational licences and additional licences expire during the period from 2009 to 2012. Suspension of the Company's key licences for the provision of telecommunications services or inability to extend some or all of the licences may have a major negative impact on the financial position and business performance.

(in millions of Russian Roubles)

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

Reduction of staff headcount

The program of staff optimisation provides for a gradual staff headcount decrease in 2008-2011. During 2008, the Company has made redundant 1,434 of its employees. During 2009, the Company plans to further decrease its headcount by 1,102. A provision was created for respective termination payments (refer Note 22).

38 Financial Instruments

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

Capital Management Policy

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

The main methods of capital management are profit maximisation, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, usage of different classes of borrowed funds.

The Company monitors and manages its debt using financial independence ratio and net debt/equity, net debt/EBITDA ratios.

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

The Company's policy is to maintain financial independence ratio near to 0.4; net debt/shareholders' equity – near to 1.07; net debt/ EBITDA - within a range of 1.84-2.01.

The ratios determined based on statutory financial statements for 2008 and 2007 were as follows:

	2008	**2007**
Financial independence ratio	0.39	0.39
Net debt / shareholders' equity	1.07	1.07
Net debt / EBITDA	1.84	2.01

As at 31 December 2008, international rating agency Fitch Ratings confirmed the default rating of the Company in the national currency at "B+", projection "Stable", short term rating at "B".

(in millions of Russian Roubles)

Income and expenses on financial instruments

2008	**Consolidated Income Statement**						**Statement of changes in Equity**	**Total**
	Other operating expenses	**Finance income and costs**						
	Bad Debt expenses	**Interest expense**	**Interest income**	**Dividends income**	**Gain on disposal of the asset**	**Forex loss/ gain**	**Fair value change**	
Cash and cash equivalents	–	–	75	–	–	25	–	**100**
Accounts receivable	(47)	–	–	–	–	8	–	**(39)**
Financial assets available-for-sale	–	–	–	3	(2)	–	(76)	**(75)**
Loans issued	–	–	7	–	–	–	–	**7**
Total financial assets	**(47)**	**–**	**82**	**3**	**(2)**	**33**	**(76)**	**(7)**
Bank loans	–	(1,219)	–	–	–	(1,150)	–	**(2,369)**
Bonds	–	(505)	–	–	–	–	–	**(505)**
Promissory notes issued	–	(74)	–	–	–	–	–	**(74)**
Vendor financing	–	(31)	–	–	–	(14)	–	**(45)**
Finance lease	–	(38)	–	–	–	–	–	**(38)**
Interest payable	–	–	–	–	–	2	–	**2**
Other finance liabilities	–	(294)	–	–	–	–	–	**(294)**
Accounts payable	–	–	–	–	–	(101)	–	**(101)**
Total financial liabilities	**–**	**(2,161)**	**–**	**–**	**–**	**(1,263)**	**–**	**(3,424)**

2007	**Consolidated Income Statement**						**Statement of changes in Equity**	**Total**
	Other operating expenses	**Finance income and costs**						**Other opera-ting expenses**
	Bad Debt expenses	**Interest expense**	**Interest income**	**Dividends income**	**Gain on disposal of the asset**	**Interest expense**	**Fair value change**	
Cash and cash equivalents	–	–	27	–	(1)	–	–	**26**
Accounts receivable	15	–	–	–	–	–	–	**15**
Financial assets available-for-sale	–	–	–	2	–	(1)	10	**11**
Loans issued	–	–	14	–	(10)	–	–	**4**
Total financial assets	**15**		**41**	**2**	**(11)**	**(1)**	**10**	**56**
Bank loans	–	(712)	–	–	57	–	–	**(655)**
Bonds	–	(815)	–	–	–	–	–	**(815)**
Finance lease liabilities	–	(176)	–	–	–	–	–	**(176)**
Other financial liabilities	–	(375)	–	–	–	–	–	**(375)**
Accounts payable	–	–	–	–	62	–	–	**62**
Total financial liabilities	–	**(2,078)**	–	–	**119**	–	–	**(1,959)**

(in millions of Russian Roubles)

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the Company's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Company's income statement, balance sheet and/or statement of cash flows. The Company is exposed to foreign exchange risk in relation to its assets and liabilities denominated in foreign currencies.

Financial assets and liabilities of the Company presented by currency are as follows:

As at 31 December 2008	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	855	2	252	**1,109**
Accounts receivable	2,728	3	–	**2,731**
Financial assets available-for-sale	41	–	–	**41**
Investments held for maturity	18	–	–	**18**
Loans issued	40	–	–	**40**
Total financial assets	**3,682**	**5**	**252**	**3,939**
Bank loans	(12,031)	(4,832)	(1,188)	**(18,051)**
Bonds	(4,093)	–	–	**(4,093)**
Promissory notes issued	(858)	–	–	**(858)**
Vendor financing	–	(418)	–	**(418)**
Finance lease	(337)	(8)	–	**(345)**
Interest payable	(167)	(67)	(23)	**(257)**
Accounts payable	(6,169)	(183)	(3)	**(6,355)**
Total financial liabilities	**(23,655)**	**(5,508)**	**(1,214)**	**(30,377)**

As at 31 December 2007	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	1,364	19	–	**1,383**
Accounts receivable	2,561	2	5	**2,568**
Financial assets available-for-sale	141	–	–	**141**
Loans issued	45	–	–	**45**
Total financial assets	**4,111**	**21**	**5**	**4,137**
Bank loans	(9,816)	(1,737)	(1,825)	**(13,378)**
Bonds	(6,942)	–	–	**(6,942)**
Promissory notes issued	(8)	–	–	**(8)**
Vendor financing	–	(230)	–	**(230)**
Finance lease	(783)	(14)	–	**(797)**
Interest payable	(173)	(14)	(37)	**(224)**
Accounts payable	(5,295)	(442)	(13)	**(5,750)**
Total financial liabilities	**(23,017)**	**(2,437)**	**(1,875)**	**(27,329)**

Accounts payable include payables to employees and tax payables.

For the period from 1 January 2008 to 31 December 2008 the Rouble weakened to the US Dollar and Euro by approximately 20% and 15%, respectively.

The Company's currency risk management policy during 2008 remained unchanged compared to 2007.

(in millions of Russian Roubles)

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

	USD			**EUR**		
	Changes in exchange rate, %	**Effect on profit before income tax**		**Changes in exchange rate, %**	**Effect on profit before income tax**	
		Million Roubles	**%**		**Million Roubles**	**%**
2008	+20	(1,017)	-42.93	+10	(96)	-4.06
	-20	1,017	42.93	-10	96	4.06
2007	+20	(438)	10.51	+10	(187)	-4.48
	-20	438	-10.51	-10	187	4.48

The Company does not have formal procedures to reduce its foreign exchange risks.

Interest Rate Risk

The interest rate risk is a risk that changes in interest rates on financial instruments used by the Company will influence the financial performance and cash flows of the Company.

The following table presents the Company's financial instruments that are exposed to interest rate risk:

As at 31 December 2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	95	–	1,014	**1,109**
Accounts receivable	–	–	2,731	**2,731**
Financial assets available-for-sale	–	–	41	**41**
Investments held for maturity	18	–	–	**18**
Loans issued	40	–	–	**40**
Total financial assets	**153**	**–**	**3,786**	**3,939**
Bank loans	(12,975)	(5,076)	–	**(18,051)**
Bonds	(4,093)	–	–	**(4,093)**
Promissory notes issued	(858)	–	–	**(858)**
Vendor financing	–	–	(418)	**(418)**
Finance lease liabilities	(345)	–	–	**(345)**
Interest payable	(216)	(34)	(7)	**(257)**
Accounts payable	–	–	(6,355)	**(6,355)**
Total financial liabilities	**(18,487)**	**(5,110)**	**(6,780)**	**(30,377)**

(in millions of Russian Roubles)

As at 31 December 2007	Fixed rate	Variable rate	No rate	Total
Cash and cash equivalents	–	–	1,383	**1,383**
Accounts receivable	–	–	2,568	**2,568**
Financial assets available-for-sale	–	–	141	**141**
Loans issued	45	–	–	**45**
Total financial assets	**45**	**–**	**4,092**	**4,137**
Bank loans	(9,363)	(4,015)	–	**(13,378)**
Bonds	(6,942)	–	–	**(6,942)**
Promissory notes issued	(8)	–	–	**(8)**
Vendor financing	–	–	(230)	**(230)**
Finance lease	(797)	–	–	**(797)**
Interest payable	(173)	(51)	–	**(224)**
Accounts payable	–	–	(5,750)	**(5,750)**
Total financial liabilities	**(17,283)**	**(4,066)**	**(5,980)**	**(27,329)**

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

	LIBOR			EURIBOR		
	Changes in interest rate, percentage points	Effect on profit before income tax		Changes in interest rate, percentage points	Effect on profit before income tax	
		Million roubles	%		Million roubles	%
2008	+1	(12)	-0.52	+1	(11)	-0.48
	-1	12	0.52	-1	11	0.48
2007	+1	(15)	-0.36	+1	(18)	-0.43
	-1	15	0.36	-1	18	0.43

Liquidity risk

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

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

	2009	2010	2011	2012	2013 and later	Total
Cash and cash equivalents	1,109	–	–	–	–	**1,109**
Accounts receivable	2,719	12	–	–	–	**2,731**
Financial assets available-for-sale	28	–	–	–	13	**41**
Investments held for maturity	15	4	–	–	–	**19**
Loans issued	36	4	4	3	8	**55**
Total financial assets	**3,907**	**20**	**4**	**3**	**21**	**3,955**
Bank loans	(9,496)	(6,042)	(3,730)	(2,443)	(97)	**(21,808)**
Bonds	(2,272)	(2,145)	–	–	–	**(4,417)**
Promissory notes issued	(869)	–	–	–	(8)	**(877)**
Vendor financing	(419)	–	–	–	–	**(419)**
Finance lease	(208)	(160)	(28)	(5)	–	**(401)**
Accounts payable	(6,355)	–	–	–	–	**(6,355)**
Total financial liabilities	**(19,619)**	**(8,347)**	**(3,758)**	**(2,448)**	**(105)**	**(34,277)**

(in millions of Russian Roubles)

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

Credit Risk

Credit risk is the risk that counter-party will fail to settle its obligation and cause the Company to incur a financial loss.

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 14).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by state and other non-commercial organizations.

The analysis of overdue trade receivables which are not impaired is provided below:

As of 31 December 2008		**Post due (days)**		
	Total	**<30**	**31-90**	**61-90**
Corporate customers	41	30	2	9
Individuals	109	84	4	21
Governmental customers	30	29	–	1
Interconnected operators	18	15	–	3
Total	**198**	**158**	**6**	**34**

As of 31 December 2007		**Post due (days)**		
	Total	**<30**	**31-90**	**61-90**
Corporate customers	42	36	1	5
Individuals	101	82	3	16
Governmental customers	13	12	–	1
Interconnected operators	30	25	–	5
Total	**186**	**155**	**4**	**27**

Hedging

In 2008 the Company did not hedge its foreign exchange risks or interest rate risks.

(in millions of Russian Roubles)

Fair value of financial instruments

Management believes that fair values of financial assets and liabilities of the Company do not significantly differ from their carrying values except for the following:

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Bonds	4,204	3,908	7,094	7,109
Loans and borrowings	18,051	15,877	13,378	13,378

Fair value of bonds for disclosure purposes has been calculated based on quoted market prices as at 31 December 2008. For loans and borrowings measured at amortised cost, fair value has been calculated based on the present value of future principal and interest cash flows, discounted at the incremental borrowing interest rate, which was 20% per annum for rouble-denominated loans, and between 7% and 8% per annum for loans denominated in foreign currencies (2007- fair value of loans and borrowings approximated their amortised cost).

39 Balances and Transactions with Related Parties

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

	OJSC Svyazinvest	**Subsidiaries of OJSC Svyazinvest**	**Equity accounted investees**	**State-controlled companies**	**Other**
2008					
Provision of telecommunication services, interconnection and traffic transmission services	-	2,260	-	758	-
Other services	-	2	-	373	-
Rent income	-	1	-	21	-
Other income	-	2	-	-	-
Dividends receivables	-	3	-	-	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	396	-	325	-
Purchase of other services	-	123	-	790	492
Purchase of goods and other assets	-	124	-	-	-
Dividends payable	218	-	-	-	-
Interest expenses	-	-	-	658	-
Utilities	-	-	-	296	-

(in millions of Russian Roubles)

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Equity accounted investees	State-controlled companies	Other
2007					
Provision of telecommunication services, interconnection and traffic transmission services	-	2,793	14	1,133	-
Other services	-	1	1	376	-
Rent income	-	1	-	27	
Other income	-	-	-	1	1
Dividends receivables	-	2	1	-	-
Interest income	-	-	-	2	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	240	3	75	-
Purchase of other services	-	261	-	505	657
Purchase of goods and other assets	-	455	-	38	-
Dividends payable	104	-	-	-	-
Interest expenses	-	-	-	459	-
Utilities	-	-	-	238	-

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

	Subsidiaries of OJSC Svyazinvest	Equity accounted investees	State-controlled companies	Other
At 31 December 2008				
Trade and other receivables	205	2	84	1
Allowance for Bad debt	(15)	–	–	–
Loans received (inc. interest)	–	–	(7 734)	–
Accounts payable	(332)	–	(89)	–
At 31 December 2007				
Trade and other receivables	272	1	59	–
Loans received (inc. interest)	–	–	(7 715)	–
Accounts payable	(362)	1	(41)	–

Accounts payable and accounts receivable due to and from related parties are disclosed net of Value Added Tax.

Other related parties comprise non-state pension funds, key management personnel, parties with significant influence over the Company, other related parties.

OJSC Svyazinvest

OJSC Svyazinvest is an open joint stock company, incorporated under the laws of the Russian Federation.

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

OJSC Svyazinvest is the parent company for OJSC Sibirtelecom. Ultimately the Company is controlled by the Russian Government.

The parent company of OJSC Sibirtelecom does not present publicly available consolidated financial statements.

(in millions of Russian Roubles)

The Svyazinvest group comprises 7 interregional telecommunications companies (MRKs) including the Company, OJSC Rostelecom, OJSC Tsentralny Telegraph, OJSC Dagsvyazinform and other telecom subsidiaries.

Operations that are part of Svyazinvest group are operators of general use telecommunications networks providing services of local, intra-zone, intercity and international telephone communication, communication services in data transmission networks, telematic services, telegraph communication services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, and provision of telecommunication channels, on the basis of licences issued by the Russian Ministry of Telecommunications and Mass Communications.

OJSC Rostelecom

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

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

The annual expense associated with OJSC Rostelecom relates to payments for call termination to networks of other telecommunication operators, if the call is initiated from a mobile 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 at 31 December 2008 and disclosed in the table above were as follows:

	2008	**2007**
Provision of telecommunication services, interconnection and traffic transmission services	1,540	2,064
Agent services	638	716
Rental income	3	2
Other income	19	10
Purchase of telecommunication services, interconnection and traffic transmission services	297	210
Purchase of other services	-	15
Trade and other receivables	248	246
Accounts payable	(309)	(302)

Transactions with State-controlled Companies

State-controlled organisations are a significant element in the Company’s customer base, however, they do not exert significant influence on the Company’s operations or pricing policies.

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

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications (hereinafter “the Partnership”) was the Company’s related party until the third quarter of 2008.

As at 31 December 2008, the Company was no longer a member of the Partnership. In 2008 the Company paid membership fees amounting to 123 (2007 - 256), which are included in other operating expenses.

OJSC Svyazintek

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

In 2008 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 202 (2007-396) from which 32 (2007-124) was recognised in consolidated income and the remainder was capitalised within the cost of respective intangible assets.

Non-government Pension Fund Telecom Soyuz

The Company signed centralised pension agreement with a non-state pension fund Telecom-Soyuz (Note 20). In addition to the state pension, the Company provides the employees with a non-state pension and other post-employment benefits through defined benefit plans.

The total amount of contributions to non-state pension fund paid by the Company in 2008 amounted to 400 (2007- 305). The fund retains 3% of every pension contribution of the Company to cover its administrative costs.

Remuneration of Key Management Personnel

The key management personnel comprise members of the Management Committee and the Board of Directors of the Company, totalling 46 persons as at 31 December 2008 (2007-43).

Remuneration to members of the Board of Directors and the Management Committee of the Company for 2008 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 198 (2007 - 140), including salary, bonuses and other compensation to employees of OJSC Sibirtelecom in the key management positions in the amount of 146 (2007: 97). The remuneration amounts are stated exclusive of the unified social tax.

In 2008 the Company made a contribution of 5 to the non-state pension fund (2007 - 7) for its key management personnel.

The plans provide for payment of retirement benefits starting from statutory retirement age and provided that a condition for a minimum service period is met.

40 Subsequent Events

Reduction of staff head count

In accordance with a staff optimization schedule, approved by Board of Directors of the Company and included in “The programs of activities aimed to increase the Company’s performance in 2007-2009”, 924 employees were dismissed after the reporting date. Compensation benefits paid amounted to 27.

Dividends

Annual dividend per share shall be approved by the Company’s General Shareholders’ Meeting on 20 June 2009. The Board of Directors recommended to the General Shareholders’ Meeting to approve dividend for 2008 of 0,026313 Roubles per ordinary share and 0,052939 Roubles per preference share (2007 – 0,035889 and 0,066446 respectively). Total amount of dividends payable by the Company will amount to 316 for ordinary shares and 207 for preference shares (2007-431 and 260 respectively). Following the approval by the General Shareholders’ Meeting, annual dividend payable to shareholders will be recognized in the financial statements for 2009.

Loans and Borrowings

In February 2009 the Company made coupon interest payment for the first coupon of bond issue 08 in amount of 97. The coupon interest rate is set at 9.75% per annum. The coupon interest per one bond is 48.62 roubles.

In March 2009 the Company made coupon interest payment for the seventh coupon of bond issue 06 in amount of 5. The coupon interest rate is set at 9.75% per annum. The coupon interest per one bond is 48.62 roubles.

In May 2009 the Company signed an agreement for three credit lines with OJSC AKB Sberbank in amount of 1 000 each. The maturity is five years after receipt of financing. The interest rate under the agreement is 20 %. The funds are received to finance the 2009 investment program and to refinance current loans and borrowings. As at the date when these financial statements were authorized, an amount of 1 400 has been drawn.

In May 2009 the Company repaid bonds of bond issue 07 in amount of 2 000 and made coupon interest payment for the sixth coupon in amount of 86. The coupon interest rate is set at 8.65% per annum. The coupon interest per one bond is 43.13 roubles.

In May 2009 the Company resolved to place three bond issues with total nominal value of 4,000 maturing in 2009-2010 with circulation terms of 400 to 1092 days and with early redemption options. OJSC “BALTINVESTBANK” has been appointed as lead manager for these issues. This financing will be used to fund the investment program and to refinance the existing debt.

In June 2008 the Company repaid a loan of 500 due to Raiffeisenbank.