OJSC VolgaTelecom

CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE PERIOD OF 6 MONTHS ENEDED JUNE 30, 2010

OJSC VolgaTelecom

Consolidated interim financial statements prepared under International Financial Reporting Standards (IFRS) for the period of 6 months ended June 30, 2010

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OJSC VolgaTelecom

Consolidated Interim Statement of Financial Position
As at June 30, 2010
(RUB million)

	June 30, 2010	December 31, 2009
ASSETS		
Non-current assets		
Property, plant and equipment	40, 700	40,125
Intangible assets and goodwill	7, 935	4, 664
Non-current receivables	3	3
Other non-current assets	583	193
Investments in associates	150	170
Non-current financial assets	1, 252	28
Total non-current assets	**50, 623**	**45, 183**
Current assets		
Inventories	571	426
Trade and other receivables	2, 864	2, 264
Income tax receivable	7	31
Other current assets	373	368
Current financial assets	28	412
Cash and cash equivalents	2, 950	2, 033
	6, 793	**5, 534**
Assets held for sale	33	33
Total current assets	**6, 826**	**5, 567**
Total assets	**57, 449**	**50, 750**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company		
Share capital	3, 854	3, 854
Unrealized gain on available-for-sale financial assets	4	5
Retained earnings	28, 581	26, 820
Total equity attributable to shareholders of the Company	**32, 439**	**30, 679**
Non-controlling interest	187	5
Total equity	**32, 626**	**30, 684**
Non-current liabilities		
Loans and borrowings	10, 842	7, 129
Employee benefits	2, 310	2, 211
Other long-term liabilities	441	460
Deferred income tax liabilities	2, 235	2, 091
Total non-current liabilities	**15, 828**	**11, 891**
Current liabilities		
Loans and borrowings	2, 517	3, 275
Accounts payable and accrued expenses	5, 731	4, 141
Income tax payable	190	113
Other short-term liabilities	555	634
Provisions	2	12
Total current liabilities	**8, 995**	**8, 175**
Total liabilities	**24, 823**	**20, 066**
Total equity and liabilities	**57, 449**	**50, 750**

Acting General Director _______Taisiya M. Sipatova   Chief Accountant _________ Nikolai I. Popkov

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

OJSC VolgaTelecom

Consolidated Interim Statement of Comprehensive Income
For 6 months ended June 30, 2010
(RUB million, except per share amounts)

	For 6 months Ended June 30, 2010	2009
Sales revenue	**17, 095**	**16, 112**
Personnel costs	(4, 525)	(4, 341)
Depreciation and amortization	(3, 574)	(3, 713)
Telecom's operators expenses	(1, 852)	(1, 770)
Materials, repairs and maintenance, utilities	(1, 433)	(1, 269)
Other operating income	863	692
Other operating expenses	(2, 454)	(2, 284)
Operating profit	**4, 120**	**3, 427**
Share in result of associates	-	6
Financial costs	(612)	(1, 133)
Other profit and expenses from financial and investment operations	87	138
Foreign exchange loss	18	(91)
Profit before taxation from continuing operations	**3, 613**	**2, 347**
Income tax	(797)	(502)
Profit for the reporting period	**2, 816**	**1, 845**
Change of fair value of financial assets available for sale	(1)	-
Total other comprehensive loss net of income tax	**(1)**	**-**
Total comprehensive income for the reporting period	**2, 815**	**1, 845**
Profit for the reporting period attributable to:		
equity holders of the parent	2, 827	1, 853
minority shareholders of subsidiaries	(11)	(8)
Comprehensive income for the reporting period attributable to:		
equity holders of the parent	2, 826	1, 853
minority shareholders of subsidiaries	(11)	(8)

Acting General Director _______Taisiya M. Sipatova Chief Accountant _________ Nikolai I. Popkov

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OJSC VolgaTelecom

Consolidated Interim Cash Flow Statement
For 6 months ended June 30, 2010
(RUB million)

	For 6 months ended June 30,	
	2010	**2009**
Operating activities		
Profit before income tax	3, 613	2, 347
Adjustments for		
Depreciation and amortization	3, 574	3, 713
Loss on disposal of property, plant and equipment and other assets	(15)	18
Reversal of allowance for inventory and other assets	(6)	(3)
Reversal of allowance for doubtful debts	(26)	(444)
Share of results of associates	-	(6)
Finance costs	612	1, 018
Other investing and financing gains and losses	(88)	(138)
Foreign exchange losses	(18)	91
Operating profit (loss) after adjustments	**7, 646**	**6, 596**
Decrease (increase) in inventories	(36)	(21)
Decrease (increase) in trade and other receivables	(483)	(29)
Increase in employee benefits	99	57
Increase in accounts payable and accruals	(19)	378
Increase (decrease) in provisions	(9)	(7)
Increase in other operating assets and liabilities	(5)	(26)
Cash flows from operating activities	**7, 193**	**6, 948**
Interest paid	(501)	(1, 033)
Income tax paid	(646)	(557)
Cash flows from operating activities	**6, 046**	**5, 358**
Investing activities		
Acquisition of property, plant and equipment and investment property	(2, 872)	(2, 308)
Proceeds from disposals of property, plant and equipment and investment property	3	55
Acquisition of intangible assets	(153)	(253)
Acquisition of subsidiaries, net of cash acquired	(3, 686)	(349)
Acquisition of financial assets	(1, 221)	(648)
Proceeds from disposals of financial assets	424	243
Interest received	93	133
Dividend received	-	2
Cash flows utilized in investing activities	**(7, 412)**	**(3, 125)**

OJSC VolgaTelecom

Consolidated Interim Cash Flow Statement
For 6 months ended June 30, 2010 (continued)
(RUB million)

	For 6 months ended June 30,	
	2010	**2009**
Financing activities		
Proceeds from bank and corporate loans	5, 512	1, 005
Repayment of bank and corporate loans	(2, 379)	(1, 801)
Repayment of bonds	(465)	(463)
Proceeds from promissory notes	-	600
Repayment of promissory notes	-	(379)
Repayment of vendor financing liabilities	(109)	(134)
Proceeds from (repayment of) other non-current financial liabilities	(2)	-
Repayment of finance lease liabilities	(270)	(347)
Dividend paid to shareholders of the Company	(4)	(4)
Cash flows utilized in financing activities	**2, 283**	**(1, 523)**
Net increase in cash and cash equivalents	**917**	**710**
Cash and cash equivalents as at the beginning of the reporting year	**2, 033**	**1, 678**
Cash and cash equivalents as at the end of the reporting period	**2, 950**	**2, 388**

Acting General Director _______Taisiya M. Sipatova Chief Accountant _________ Nikolai I. Popkov

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

OJSC VolgaTelecom

Consolidated Interim Statement of Changes in Equity
For 6 months ended June 30, 2010
(RUB million)

	Equity of the parent						
	Share capital		Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	Preference shares	Ordinary shares					
Balance at December 31, 2008	963	2, 891	1	23, 352	27, 207	31	27, 238
Profit for the period	-	-	-	1, 853	**1, 853**	(8)	**1, 845**
Total consolidated returns for the period	-	-	-	**1, 853**	**1, 853**	**(8)**	**1, 845**
Operations with shareholders reflected in equity:							
Dividend to equity holders of the parent	-	-	-	(738)	**(738)**	-	**(738)**
Other changes in equity	-	-	-	14	**14**	(14)	-
Balance at June 30, 2009	**963**	**2, 891**	**1**	**24, 481**	**28, 336**	**9**	**28, 345**

	Equity of the parent							
	Note	Share capital		Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
		Preference shares	Ordinary shares					
Balance at December 31, 2009		**963**	**2, 891**	**5**	**26, 820**	**30, 679**	**5**	**30, 684**
Profit for the period		-	-	-	2, 827	**2, 827**	(11)	**2, 816**
Change of fair value of financial assets available for sale		-	-	(1)	-	**(1)**	-	**(1)**
Total other consolidated returns net of income tax		-	-	(1)	-	**(1)**	-	**(1)**
Total consolidated returns for the period		**-**	**-**	**(1)**	**2, 827**	**2, 827**	**(11)**	**2, 815**
Operations with shareholders reflected in equity:								
Dividend to equity holders of the parent		-	-	-	**(1, 066)**	**(1, 066)**	-	**(1, 066)**
Acquisition of minority interest		-	-	-	-	-	**163**	**163**
Share of minority interest of acquired subsidiaries		-	-	-	-	-	**30**	**30**
Balance at June30, 2010		**963**	**2, 891**	**4**	**28, 581**	**32, 439**	**187**	**32, 626**

Acting General Director _______Taisiya M. Sipatova Chief Accountant _________ Nikolai I. Popkov

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

1. General

Authorization of Accounts

The consolidated interim financial statements of OJSC VolgaTelecom (hereinafter - "the Company") and its subsidiaries (hereinafter – "the Group") for 6 months ended June 30, 2010 were authorized for issue in accordance with the decision of the General Director and the Chief Accountant dated September 14, 2010.

The Company

The parent company OJSC VolgaTelecom is open joint stock company incorporated under the laws of the Russian Federation.

OJSC Svyazinvest, a company controlled by the Russian Federation Government, owns 50.67% of the Company's ordinary voting shares as of June 30, 2010 and is the parent company for OJSC VolgaTelecom.

The principle place of business of the Company is Dom Svyazi, Maxim Gorky Square, Nizhny Novgorod, 603000, Russia.

The Group activities

The Group provides telephony services (including local and intrazonal telephony services), telegraphy services, data transmission services, rents out of communication channels and radio communication lines in the territory of the Volga Federal District of the Russian Federation.

Information about the Company's significant subsidiaries is disclosed in Note 6. All of the subsidiaries are incorporated under the laws of the Russian Federation, unless stated otherwise.

Information about the Company's significant associates is disclosed in Note 11. All of the associates are incorporated under the laws of the Russian Federation, unless otherwise stated.

2. Basis of Presentation of the Financial Statements

Statement of compliance

The consolidated financial statements are prepared and presented in accordance with the requirements of International Financial Reporting Standards (IAS) 34 "Interim Financial Statements", as well as other International Financial Reporting Standards (IFRS) and respective interpretations approved by the Committee for International Financial Reporting Standards (CIFRS).

All information should be considered with due account for the Group's annual consolidated financial statements for the year ended December 31, 2009.

Going concern

Consolidated financial statements have been prepared on the basis of the assumption that the Group will continue the normal course of business in the foreseeable future, which contemplates the realization of assets and the satisfaction of liabilities subject to applicable regulations.

Presentation of Financial Statements

Consolidated interim financial statements have been prepared on the basis of financial statements of the Company, its subsidiaries and associates using uniform accounting policies.

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

Basis of accounting

The consolidated interim 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 adoption to IFRS; and available-for-sale financial assets are stated at fair value.

Changes in Accounting Policies

The accounting policies adopted for preparing consolidated interim financial statements for 6 months of 2010 are consistent with those applied at preparation of consolidated financial statements for 2009.

Foreign currency transactions

The functional and presentation currency of the Company is the Russian Rouble (RUB). Transactions in foreign currency 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 the date. All resulting differences are recognized in the income statement as foreign exchange gains (losses). Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Nonmonetary 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 June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010	**December 31, 2009**
US Dollar	31.1954	30.2442
EURO	38.1863	43.3883

3. Summary of Significant Accounting Policies

The accounting policies adopted for preparing consolidated interim financial statements for 6 months of 2010 are consistent with those applied at preparation of consolidated financial statements for 2009.

4. Significant Accounting Estimates

4.1 Judgments

In applying accounting policies, apart from accounting estimates the Company's management has made the following judgments and estimates, which most significantly affected the amounts reported in the financial statements:

On June 03, 2010 the Company completed the transaction of acquisition of 98.19% of shares of Teleset Networks PCL in accordance with the offer sent on May 27, 2010.

The date of acquisition for the purpose of IFRS reporting is June 30, 2010.

The reporting of Teleset Networks PCL group included into consolidated financial statements of OJSC VolgaTelecom was prepared on the basis of preliminary assessment of value of identifiable assets and liabilities of Teleset Networks PCL.

The Company plans to complete valid estimate of Teleset Networks PCL on October 30, 2010.

(RUB million)

4.2 Estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are similar to those disclosed in the Group's consolidated financial statements for 2009.

5. Segment reporting

The reporting information analysis and operating decisions making are performed based on accounting data, prepared using statutory accounting principles. The information in tables "Aggregated operating segments and Head office information" and "Operating segments and Head office information" is presented in accordance to the mentioned principles.

The Group operates mainly within the territory of one federal district.

Head office concentrates the major part of financing and investing activities of the Group obtaining, servicing and repayment of borrowings, financial lease, acquisition of financial assets, development and further maintenance of corporate assets, centralized investment projects. Corresponding amounts of income, expenses, assets and liabilities are included in general directory's information, presented in table "Operating segments and Head office information".

Aggregate information on reporting segments and Head Office at June 30, 2010 and for 6 months of 2010	**OJSC VolgaTelecom – fixed-line**	**Subsidiaries – fixed-line**	**Subsidiaries - mobile**	**Total segments**
Sales revenues				
Third party sales revenues	14, 040	36	3, 058	**17, 134**
Sales revenues from other segments	81	42	90	**213**
Sales revenues within the segment	-	-	-	-
Total sales revenues	**14, 121**	**78**	**3, 148**	**17, 347**
Interest income	90	-	2	**92**
Interest expense	(394)	-	(3)	**(397)**
Income tax	(760)	(2)	(144)	**(906)**
Profit for the reporting period	**2, 804**	**1**	**551**	**3, 356**
Assets and liabilities				
Segment assets	47, 152	5, 094	6, 365	**58, 611**
Of which investments into associates	-	-	-	-
Segment liabilities	(18, 791)	(1, 359)	(1, 391)	**(21, 541)**
Other segment information				
Capital expenditure				
Property, plant and equipment	2, 460	1	428	**2, 889**
Intangible assets	5	-	-	**5**
Depreciation and amortization	2, 207	17	481	**2, 705**
Impairment loss from inventory	4	-	-	**4**
Bad debt provision accrual	32	-	(5)	**27**
Pension and long-term social obligations expenses	82	-	-	**82**

OJSC VolgaTelecom
Notes to Consolidated Interim Financial Statements
For 6 months ended June 30, 2010
(RUB million)

Aggregate information on reporting segments and Head Office at June 30, 2009 and for 6 months of 2009	OJSC VolgaTelecom – fixed-line	Subsidiaries – fixed-line	Subsidiaries - mobile	Total segments
Sales revenues				
Third party sales revenues	13, 277	35	2, 800	**16, 112**
Sales revenues from other segments	98	-	94	**192**
Sales revenues within the segment	-	-	19	**19**
Total sales revenues	**13, 375**	**35**	**2, 913**	**16, 323**
Interest income	94	-	47	**141**
Interest expense	(852)	-	(99)	**(951)**
Income tax	(485)	(1)	(105)	**(591)**
Profit for the reporting period	**2, 227**	**1**	**381**	**2, 609**
Assets and liabilities				
Segment assets	44, 097	70	6, 961	**51, 128**
Of which investments into associates	6	-	-	**6**
Segment liabilities	(19, 508)	(15)	(2, 841)	**(22, 364)**
Other segment information				
Capital expenditure				
Property, plant and equipment	391	-	451	**842**
Intangible assets	--	-	-	**-**
Depreciation and amortization	2, 433	-	446	**2, 879**
Impairment loss from inventory	1	-	-	**1**
Bad debt provision accrual	(78)	-	(4)	**(82)**
Pension and long-term social obligations expenses	117	-	-	**117**

The reconciliation of statutory accounting data to the figures, included in IFRS consolidated financial statements as of June 30, 2010 and for 6 months of 2010 is presented below:

	Total reporting segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Sales revenues				
Third party sales revenues	17, 134	(39)	-	17, 095
Sales revenues from other segments	213	-	(213)	-
Sales revenues within the segment	-	-	-	-
Total sales revenues	**17, 347**	**(39)**	**(213)**	**17, 095**
Share of result of associates	-	-	-	-
Interest income	92	1	-	93
Interest expense	(397)	(106)	-	(503)
Income tax	(906)	109	-	(797)
Profit (loss) for the reporting period	**3, 356**	**(310)**	**(231)**	**2, 815**
Assets and liabilities				
Segment assets	58, 611	3, 784	(4, 946)	57, 449
Investments in associates	-	-	150	150
Segment liabilities	(21, 541)	(3, 605)	323	(24, 823)
Other segment information				
Capital investments				
Property, plant and equipment	2, 889	1, 892	44	4, 825
Intangible assets	5	3, 581	-	3, 586
Depreciation and amortization	2, 705	870	(1)	3, 574

(RUB million)

Impairment loss from inventory	4	-	-	4
Reversal of doubtful debt allowance	27	(4)	3	26
Pension and long-term social obligations expenses	82	5	-	87

The reconciliation of statutory accounting data to the figures, included in IFRS consolidated financial statements as of June 30, 2009 and for 6 months of 2009 is presented below:

	Total reporting segments	**Transformation adjustments**	**Consolidation adjustments**	**Total for Group consolidated**
Sales revenues				
Third party sales revenues	16, 112	-	-	16, 112
Sales revenues from other segments	192	-	(192)	-
Sales revenues within the segment	19	-	(19)	-
Total sales revenues	**16, 323**	**-**	**(211)**	**16, 112**
Share of result of associates	-	-	6	6
Interest income	141	1	(4)	138
Interest expense	(951)	(66)	3	(1, 014)
Income tax	(591)	89	-	(502)
Profit (loss) for the reporting period	**2, 609**	**(178)**	**(586)**	**1, 845**
Assets and liabilities				
Segment assets	51, 128	6, 733	(4, 184)	53, 677
Investments in associates	6	-	162	168
Segment liabilities	(22, 364)	(4, 281)	1, 313	(25, 332)
Other segment information				
Capital investments				
Property, plant and equipment	842	82	-	924
Intangible assets	-	193	-	193
Depreciation and amortization	2, 879	835	(1)	3, 713
Impairment loss from inventory	1	-	(1)	-
Doubtful debt allowance accrual	(82)	4	(4)	(82)
Pension and long-term social obligations expenses	117	(57)	-	60

(RUB million)

As at June 30, 2010 and for 6 months ended June 30, 2010 the major items of significant operating segments and Head office were as follows:

Information about operating segments and Head office	Sales revenues	Profit (loss)	Segment assets	Segment liabilities	Segment CAPEX	Depreciation and amortization
OJSC VolgaTelecom – fixed-line						
Nizhny Novgorod branch	2, 945	810	6, 931	(643)	391	421
Samara branch	2, 105	396	5, 371	(757)	653	347
Saratov branch	1, 646	455	3, 247	(368)	260	207
Orenburg branch	1, 562	411	3, 038	(355)	257	206
Kirov branch	1, 053	226	2, 537	(216)	101	168
Udmurtia Republic branch	970	179	2, 196	(190)	97	132
Ulyanovsk branch	866	240	2, 133	(222)	138	118
Penza branch	845	226	1, 885	(162)	88	135
Chuvashia Republic branch	785	143	1, 991	(199)	113	146
Mordovia Republic branch	751	185	2, 038	(247)	194	126
Mariy-El Republic branch	593	103	1, 382	(149)	59	94
Head office of OJSC VolgaTelecom	-	189	14, 403	(15, 283)	114	107
Subsidiaries – fixed-line						
LLC GTS	44	(2)	312	(7)	1	17
LLC Nizhegorodskyi Teleservice	34	5	67	(10)	-	-
Teleset Networks PLC	-	-	4, 714	(1, 339)	-	-
OJSC Omrix	-	-	1	(2)	-	-
Subsidiaries – mobile						
ZAO NCC	3, 031	716	6, 007	(1, 103)	424	455
ZAO Orenburg-GSM	97	(2)	187	(123)	4	17
ZAO Narodnyi Telephone Saratov	20	(18)	171	(166)	-	9
ZAO Ulyanovsk GSM	-	-	-	-	-	-
Total	**17, 347**	**4, 262**	**58, 611**	**(21, 541)**	**2, 894**	**2, 705**

(RUB million)

As at June 30, 2009 and for 6 months ended June 30, 2009 the major items of significant operating segments and Head office were as follows:

Information about operating segments and Head office	Sales revenues	Profit (loss)	Segment assets	Segment liabilities	Segment CAPEX	Depreciation and amortization
OJSC VolgaTelecom – fixed-line						
Nizhny Novgorod branch	2, 768	648	6, 846	(613)	110	414
Samara branch	1, 990	155	5, 152	(518)	55	382
Saratov branch	1, 556	263	3, 376	(342)	49	246
Orenburg branch	1, 488	303	3, 138	(328)	25	227
Kirov branch	976	169	2, 684	(240)	46	162
Udmurtia Republic branch	908	89	2, 594	(230)	35	145
Ulyanovsk branch	816	169	2, 185	(162)	7	123
Penza branch	791	100	2, 159	(198)	16	162
Chuvashia Republic branch	784	124	1, 983	(128)	14	144
Mordovia Republic branch	694	149	1, 953	(167)	15	124
Mariy-El Republic branch	589	79	1, 466	(149)	9	96
Head office of OJSC VolgaTelecom	14	464	10, 561	(16, 432)	10	208
Subsidiaries – fixed-line						
LLC GTS	35	4	69	(13)	-	-
LLC Nizhegorodskyi Teleservice	-	-	1	(2)	-	-
Teleset Networks PLC	-	(2)	-	-	-	-
OJSC Omrix	-	-	-	-	-	-
Subsidiaries – mobile						
ZAO NCC	2, 329	387	5, 711	(2, 170)	361	363
ZAO Orenburg-GSM	451	118	840	(349)	87	55
ZAO Narodnyi Telephone Saratov	111	(2)	223	(162)	3	19
ZAO Ulyanovsk GSM	23	(17)	187	(161)	-	9
Total	**16, 323**	**3, 200**	**51, 128**	**(22, 364)**	**842**	**2, 879**

6. Subsidiaries

Subsidiaries controlled by OJSC VolgaTelecom are

Subsidiary	Activity	Ownership, %		Voting shares, %	
		June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
ZAO Nizhegorodskaya Sotovaya Svyaz	Mobile telecommunication services (GSM-900)	100.00	100.00	100.00	100.00
LLC Nizhegorodskyi Teleservice	Telecommunication services	100.00	100.00		
LLC Gorodskaya Telephonnaya Svyaz	Telecommunication services	100.00	100.00		
ZAO Transsvyaz	Local telephony services	100.00	100.00	100.00	100.00
Teleset Networks Public Company Limited	Telecommunication services	98.19	-	98.19	-
OJSC OMRIX	Local telephony services	73.60	73.60	73.60	73.60
ZAO Orenburg-GSM	Mobile Telecommunication services (GSM-900)	51.00	51.00	51.00	51.00
ZAO Narodnyi Telephone Saratov	Mobile Telecommunication services (CDMA)	50.00%+1 share	50.00%+1 share	50.00%+1 share	50.00%+1 share

(RUB million)

All of the above companies are Russian legal entities established pursuant to the legislation of the Russian Federation and have the same financial year as the Company.

Acquisition of companies

In June 2010 the Company acquired 98.19% of ordinary voting shares in Teleset Networks Public Company for 4, 283 and obtained control over this entity.

The Company's management distributed the cost of acquisition of 98.19% of equity share in share capital of Teleset Networks Public Company as follows:

	Teleset Networks Public Company Limited
Cost of acquisition	
Paid in cash	4, 283
Total cost of acquisition	**4, 283**
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	973
Intangible assets	826
Of which:	10
Software	816
Other	
Long-term financial assets	1
Long-term other assets	10
Accounts receivable	145
Cash and cash equivalents	597
Other assets	133
Non-current liabilities	(598)
Current liabilities	(315)
Deferred income tax liability	(93)
Total net assets	**1, 679**
Share in acquired net assets, %	98.19
Fair value of share in acquired net assets	1, 649
Goodwill	**2, 634**
Goodwill as at June 30, 2010(net)	**2, 634**

In determining the goodwill the Company's management assumed that historical value of assets and liabilities is equal to their fair value.

7. Assets and liabilities held-for-sale

At June 30, 2010 and at December 31, 2009 the Company's major classes of assets and liabilities classified as held-for-sale are presented in the table below:

	June 30, 2010	December 31, 2009
Property, plant and equipment	42	42
Group's non-current assets classified as held-for-sale	**42**	**42**

(RUB million)

Loss from revaluation of assets held-for-sale in amount of 0 (2009 – 9) was recognized in "Other operating expenses" in Consolidated Income Statement.

8. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
Original cost at December 31, 2008	**30, 050**	**28, 128**	**8, 479**	**2, 662**	**69, 319**
Additions	-	-	-	924	**924**
Additions related to their declassification as assets held-for-sale	41	-	-	-	**41**
Put into operation	176	1, 104	161	(1, 441)	-
Disposals	(68)	(222)	(70)	(69)	**(429)**
At June 30, 2009	**30, 199**	**29, 010**	**8, 570**	**2, 076**	**69, 855**
At December 31, 2009	**30, 932**	**30, 729**	**9, 167**	**1, 134**	**71, 962**
Additions	-	-	-	3, 002	**3, 002**
Additions related to acquisition of subsidiaries	151	1, 419	183	70	**1, 823**
Put into operation	640	1, 117	414	(2, 171)	-
Disposals	(89)	(234)	(112)	(35)	**(470)**
At June 30, 2010	**31, 634**	**33, 031**	**9, 652**	**2, 000**	**76, 317**

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
Accumulated depreciation and impairment					
At December 31, 2008	**(9, 465)**	**(10, 767)**	**(5, 176)**	**-**	**(25, 408)**
Depreciation charge for the period	(1, 005)	(1, 569)	(836)	-	**(3, 410)**
Depreciation charge on fixed assets related to their declassification as assets held-for-sale	(15)	-	-	-	**(15)**
Depreciation charge on disposals	59	143	54	-	**256**
At June 30, 2009	**(10, 426)**	**(12, 193)**	**(5, 958)**	**-**	**(28, 577)**
At December 31, 2009	**(11, 427)**	**(13, 691)**	**(6, 719)**	**-**	**(31, 837)**
Depreciation charge for the period	(934)	(1, 612)	(731)	-	**(3, 277)**
Depreciation charge on fixed assets of acquired subsidiaries	(26)	(727)	(97)	-	**(850)**
Depreciation charge on disposals	57	184	106	-	**347**
At June 30, 2010	**(12, 330)**	**(15, 846)**	**(7, 441)**	**-**	**(35, 617)**
Net book value at December 31, 2008	**20, 585**	**17, 361**	**3, 303**	**2, 662**	**43, 911**
Net book value at June 30, 2009	**19, 773**	**16, 817**	**2, 612**	**2, 076**	**41, 278**
Net book value at December 31, 2009	**19, 505**	**17, 038**	**2, 448**	**1, 134**	**40, 125**
Net book value at June 30, 2010	**19, 304**	**17, 185**	**2, 211**	**2, 000**	**40, 700**

As of June 30, 2010 and December 31, 2009 the net book value of property, plant and equipment under finance lease agreements was as follows:

	June 30, 2010	December 31, 2009
Buildings and constructions	578	595
Switches and transmission devices	1, 560	1, 691
Vehicles and others	22	36
Total, property, plant and equipment under finance lease agreements, net book value	**2, 160**	**2, 322**

(RUB million)

The depreciation of property, plant and equipment charged for 6 months of 2010 in the amount of 3, 277 (6 months of 2009 – 3, 410) was recognized within "Depreciation and Amortization" in the consolidated comprehensive income statement.

At June 30, 2010 the cost of fully depreciated property, plant and equipment amounted to 8, 286 (at December 31, 2009 – 6, 659).

Property, plant and equipment pledged under credit agreements, vendor financing agreements, loan and leasing contracts amounted to 1, 217 (at December 31, 2009 – 1, 395).

Impairment testing

For the purpose of impairment testing, the recoverable amount of each cash generating unit has been determined based on value in use calculation. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a discount rate which reflects time value of money and risks associated with each individual cash generating unit.

As a result of the impairment test performed no impairment was identified.

9. Intangible assets

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
Original cost								
At December 31, 2008	**870**	**669**	**4, 514**	**61**	**64**	**1**	**4**	**6, 183**
Additions	-	11	182	-	-	-	-	**193**
At June 30, 2009	**870**	**680**	**4, 696**	**61**	**64**	**1**	**4**	**6, 376**
At December 31, 2009	**1, 080**	**689**	**4, 777**	**62**	**64**	**1**	**10**	**6, 683**
Additions	-	8	97	-	-	-	5	**110**
Additions related to acquisition of subsidiaries	3, 138	-	13	3251	-	-	-	**3, 476**
Disposals	-	-	(2)	-	-	-	-	**(2)**
At June 30, 2010	**4, 218**	**697**	**4, 885**	**387**	**64**	**1**	**15**	**10, 267**

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
Accumulated amortization and impairment								
At December 31, 2008	**-**	**(212)**	**(1, 139)**	**(37)**	**(29)**	**-**	**(2)**	**(1, 419)**
Amortization charged for the period	-	(34)	(263)	(3)	(3)	-	-	**(303)**
At June 30, 2009	**-**	**(246)**	**(1, 402)**	**(40)**	**(32)**	**-**	**(2)**	**(1, 722)**
At December 31, 2009	**-**	**(279)**	**(1, 659)**	**(43)**	**(35)**	**-**	**(3)**	**(2, 019)**
Amortization charged for the period	-	(33)	(257)	(3)	(3)	-	(1)	**(297)**
Amortization charged on intangible assets of acquired subsidiaries	-	-	(4)	(12)	-	-	-	**(16)**
At June 30, 2010	**-**	**(312)**	**(1, 920)**	**(58)**	**(38)**	**-**	**(4)**	**(2, 332)**
Net book value at December 31, 2008	**870**	**457**	**3, 375**	**24**	**35**	**1**	**2**	**4, 764**
Net book value at June 30, 2009	**870**	**434**	**3, 294**	**21**	**32**	**1**	**2**	**4, 654**
Net book value at December 31, 2009	**1, 080**	**410**	**3, 118**	**19**	**29**	**1**	**7**	**4, 664**
Net book value at June 30, 2010	**4, 218**	**385**	**2, 965**	**329**	**26**	**1**	**11**	**7, 935**

(RUB million)

Oracle E-Business Suite

At June 30, 2010 the software included a software product Oracle E-Business Suite with the carrying amount of 949 (December 31, 2009 – 1, 034).

The Group commenced using Oracle E-Business Suite and started to amortize the value of the software from January 2009 over the useful life established within 10 years.

Changes in the carrying amount of the software product Oracle E-Business Suite for 6 months ended June 30, 2010 and June 30, 2009 are disclosed below:

	2010	2009
At January 01	**1, 034**	**1, 211**
Amortization charge	(85)	(90)
At June 30	**949**	**1, 121**

Amdocs Billing Suite Software

At June 30, 2010 the software included a software product Amdocs Billing Suite with the carrying amount of 1, 044 (December 31, 2009 – 1, 044).

The software was acquired with the view of implementing unified integrated automated billing system. The implementation of unified integrated automated billing system based on the Amdocs Billing Suite platform is planned for 4-5 years.

The Group will start to accumulate depreciation on this asset after the commencement of operation of this software proportionally to the value of implemented modules. Before this time the management is planning to evaluate the value of the asset for its impairment testing.

In 2007 the Group decided to suspend implementation of the project of unified ERP system on Amdocs platform and reconsidered terms and functionality.

HP Open View IUM

Prepaid expenses for acquisition and implementation of software products and databases recognize the Company’s expenses for acquisition of the software of HP OpenView IUM with the view of implementing data collection and processing system:

Changes in the carrying amount of the software product HP OpenView IUM for 6 months ended June 30, 2010 and June 30, 2009 are disclosed below:

	2010	2009
At January 01	**455**	**495**
Implementation costs	**1**	**-**
Amortization charge	**(27)**	**-**
At June 30	**429**	**495**

In 2008 the Company completed the implementation of this software product.

Amortization of intangible assets

Amortization charge for 6 months of 2010 in the amount of 297 (6 months of 2009 - 303) was recorded in line “Depreciation and amortization” of Consolidated Comprehensive Income Statement.

(RUB million)

Impairment Testing of Intangible Assets

The Group performed impairment testing of intangibles. No impairment was revealed as the result of the test at June 30, 2010.

10. Other long-term assets

	June 30, 2010	December 31, 2009
Long-term advances given for the investing activities	578	133
Long-term advances given for core operations	-	53
Long-term VAT	5	7
Total	**583**	**193**

11. Investments in Associates

Associate	Activity	June 30, 2010 Ownership interest, %	Voting share, %	Carrying value
ZAO Samara-Telecom	Connected operator	27.80	27.80	150
Total				**150**

Associate	Activity	December 31, 2009 Ownership interest, %	Voting share, %	Carrying value
ZAO Samara-Telecom	Connected operator	27.80	27.80	150
ZAO C-Bank	Banking services	41.73	41.73	20
Total				**170**

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

The Group has the following investments in associates net assets of which are negative at June 30, 2010 and December 31, 2009:

Associate	Net assets June 30, 2010	December 31, 2009
ZAO Nizhegorodskyi Radiotelephone	(43)	(37)

Carrying value of investments in the above listed associates was reduced to zero due to the fact that their accumulated loss exceeded the amount of the investments.

The information about disposal of shares in authorized capital of associates in 2010 is disclosed below:

(RUB million)

Associate	Activity	Carrying value	Disposal cost	Sales/Disposal of share in authorized capital at the date of transaction,%
ZAO C-Bank	Banking services	20	(14)	41.73
Total		**20**	**(14)**	

Changes in the carrying amount of investments in associates for 6 months ended June 30, 2010 and June 30, 2009 are disclosed below:

	2010	2009
Investments in associates at January 01	**170**	**162**
Share of results from associates	-	6
Disposal of associates	(20)	-
Investments in associates at June 30	**150**	**168**

The following is summarized financial information, in aggregate, in respect of significant associates:

Associate	Ownership interest, %	Assets	Liabilities	Sales revenues	Profit (loss) for the reporting period
At June 30, 2010 and for 6 months ended June 30, 2010					
ZAO Samara-Telecom	27.80	593	(51)	138	1
At December 31, 2009 and for 6 months ended June 30, 2009					
ZAO Samara-Telecom	27.80	601	(60)	157	23
ZAO C-Bank	41.73	203	(156)	4	(2)

12. Financial assets

	June 30, 2010	December 31, 2009
Long-term financial assets available-for-sale	1, 241	19
Long-term loans given	11	9
Total long-term financial assets	**1, 252**	**28**
Short-term financial assets available-for-sale	25	411
Short-term loans given	3	1
Total short-term financial assets	**28**	**412**
Total financial assets	**1, 280**	**440**

At June 30, 2010 and December 31, 2009 financial assets available-for-sale comprised the following:

(RUB million)

	June 30, 2010		December 31, 2009	
	Ownership interest, %	**Fair value**	**Ownership interest, %**	**Fair value**
Long-term financial assets		**1, 241**		**19**
OJSC NTK REGION 2009 (OJSC NTK Zvezda)	1.668%	48	1.668%	48
OJSC Svyazintek	13.00%	15	13.00%	15
ZAO Leasing Point	7.30%	12	7.30%	12
OJSC Svyaz-bank	0.01%	4	0.01%	4
Unit Trust Gazprombank		1, 221		-
Reserve		(61)		(61)
Other		2		1
Short-term financial assets		**25**		**411**
OJSC RF Sberbank	0.0003%	5	0.0003%	5
Promissory note of ZAO IC REGION		-		391
Promissory note of OJSC RF Sberbank		20		15
Total		**1, 266**		**430**

In 2010 the Company made contributions in the amount of 1, 221 to Unit Trust Gazprombank in accordance with the approved program of long-term incentive of the Company's employees.

13. Inventories

	June 30, 2010	December 31, 2009
Cable	173	83
Spare parts	123	115
Finished goods and goods for sale	21	24
Housewares	16	17
Construction materials	11	9
Fuel	5	6
Other inventory	222	172
Total	**571**	**426**

The changes in the allowance for obsolete inventories are presented below:

	2010	2009
Balance at January 01	**(12)**	**(3)**
Reversal	4	1
Balance at June 30	**(8)**	**(2)**

(RUB million)

14. Trade and other receivables

	Gross at June 30, 2010	Bad debt provision	Net at June 30, 2010
Receivables from customers for operating activity	2, 855	(606)	2, 249
Receivables from customers for non-operating activity	252	(67)	185
Receivables from agents and commissioners	118	-	118
Settlements with personnel	9	-	9
Other receivables	326	(23)	303
Total	**3, 560**	**(696)**	**2, 864**

	Gross at December 31, 2009	Bad debt provision	Net at December 31, 2009
Receivables from customers for operating activity	2, 573	(650)	1, 923
Receivables from customers for non-operating activity	150	(57)	93
Receivables from agents and commissioners	106	-	106
Settlements with personnel	7	-	7
Other receivables	158	(23)	135
Total	**2, 994**	**(730)**	**2, 264**

Receivables from customers for operating activity at June 30, 2010 and December 31, 2009 comprise the following:

	Gross at June 30, 2010	Bad debt provision	Net at June 30, 2010
Receivables from individuals	1, 457	(308)	1, 149
Receivables from commercial organizations	680	(174)	506
Receivables from budget organizations	266	(9)	257
Receivables from telecommunication operators	451	(114)	337
Tariff compensation from the state budget	1	(1)	-
Total receivables from customers for operating activity	**2, 855**	**(606)**	**2, 249**

	Gross at December 31, 2009	Bad debt provision	Net at December 31, 2009
Receivables from individuals	1, 331	(286)	1, 045
Receivables from commercial organizations	518	(113)	405
Receivables from budget organizations	176	(10)	166
Receivables from telecommunication operators	522	(215)	307
Tariff compensation from the state budget	26	(26)	-
Total receivables from customers for operating activity	**2, 573**	**(650)**	**1, 923**

The table below summarizes the changes in bad debt provision:

	2010	2009
Balance at January 01	(729)	(707)
Accrual of the allowance	-	(83)
Reversal	26	-
Write-off	53	32
Additions to allowance due to acquisition of subsidiaries	(46)	
Balance at June 30	**(696)**	**(758)**

(RUB million)

15. Other current assets

	Gross at June 30, 2010	Allowance for Impairment	Net at June 30, 2010
Prepayments and advances	217	(4)	213
VAT receivable	30	-	30
Other prepaid taxes	25	-	25
Deferred expenses	60	-	60
Other current assets	58	(13)	45
Total	**390**	**(17)**	**373**

	Gross at December 31, 2009	Allowance for Impairment	Net at December 31, 2009
Prepayments and advances	197	(5)	192
VAT receivable	26	-	26
Other prepaid taxes	24	-	24
Deferred expenses	84	-	84
Other current assets	57	(15)	42
Total	**388**	**(20)**	**368**

The table below summarizes the changes in allowance for impairment of other current assets:

	2010	2009
Balance at January 01	(20)	(20)
Reversal	2	2
Write-off of other current assets	1	-
Balance at June 30	**(17)**	**(18)**

16. Cash and Cash Equivalents

	June 30, 2010	December 31, 2009
Cash in bank and in hand	2,296	2, 033
Short-term deposits and promissory notes	654	-
Total	**2, 950**	**2, 033**

17. Essential non-monetary transactions

In H I-2010 a part of the Company's sales revenues for rendering services, execution of works, and sales of goods was paid by non-monetary assets on the terms of contracts providing for performance of obligations (payment) by non-monetary assets:

	H I-2010	H I-2009
Total number of entities which paid by non-monetary assets	181	180
OJSC Rostelecom	895	947
OJSC Mobile TeleSystems	228	176

OJSC Vympelcom	250	174
OJSC Megaphone	226	
LLC Personal communications systems in the region	105	67
Other	121	187
Total	**1, 825**	**1, 551**
Sales revenues under contracts providing for payment by non-monetary assets (in % to the total sales revenues for the half-year)	10.67	9.63
Sales revenues under contracts providing for payment by non-monetary assets with affiliates – (in % to the total sales revenues for the half-year)	5.31	5.88

The cost of rendered services, executed works and sold goods was determined by the Company on regular business terms.

18. Share capital

At June 30, 2010 the par value and carrying value of ordinary and preference shares were as follows:

Shares	Number of shares on issue (million)	Par value (RUB)	Total par value	Total carrying value
Ordinary	246	5	1, 230	2, 891
Preference	82	5	410	963
Total	**328**		**1, 640**	**3, 854**

The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated until January 01, 2003.

All shares have been issued and fully paid.

The Company's shareholding structure at June 30, 2010 was as follows:

Shareholders	Share capital, %	Ordinary shares		Preference shares	
		Quantity (thousand)	%	Quantity (thousand)	%
Legal entities, total:	**92.23**	**237, 094**	**96.39**	**65, 386**	**79.76**
- OJSC Svyazinvest	38.00	124, 634	50.67	-	
- shareholders holding more than 5% of charter capital	50.14	102, 940	41.85	61, 503	75.02
Of which:		-		-	
ZAO Depozitarno-Cliringovaya Kompaniya – nominee holder	17.67	29, 948	12.18	28, 009	34.16
ZAO National Depositary Center – nominee holder	26.75	58, 353	23.72	29, 373	35.83
ING Bank (Eurasia) ZAO - nominee holder	5.72	14, 639	5.95	4, 121	5.03
Other legal entities	4.09	9, 520	3.87	3, 883	4.74
Individuals, total	**7.77**	**8, 876**	**3.61**	**16, 597**	**20.24**
Total	**100.00**	**245, 970**	**100.00**	**81, 983**	**100.00**

(RUB million)

The ordinary shareholders are entitled to one vote per share.

Preference A class 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 Articles of association which restrict the rights of preference shareholders.

Guaranteed dividend is paid out for each preference share, this dividend amounts to the largest of the two sums: 10% of the Company's Russian accounting net profit divided by the number of preference shares or dividend per one ordinary share. If preference shareholders receive dividend less than 10% of the Company's Russian accounting net profit, ordinary shareholders do not receive the dividend. Owners of preference shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividend on preferred shares has been taken.

The Company's statutory retained earnings at June 30, 2010 and December 31, 2009 amounted to 23, 260 and 21, 457 respectively.

In October 1997 the Company registered Level 1 American Depositary Receipts (ADR). Each ADR represents 2 shares of common stock of the Company. At June 30, 2010 the Company registered the issue of 4, 041, 285 ADR (at December 31, 2009 – 5, 165, 918 ADR) and deposited 8, 082, 570 ordinary shares (at December 31, 2009 – 10, 331, 836) which amounted to 3.29% of all issued ordinary shares (at December 31, 2009 – 4.2%).

The following table represents ADR registration for 6 months of 2010 and 2009:

	ADR (quantity)	**Ordinary shares equivalent**	**Ordinary shares, %**	**Share capital, %**
December 31, 2008	**9, 148, 092**	**18, 296, 184**	**7.44**	**5.58**
Disposals in 6 months of 2009	(938, 705)	(1, 877, 410)	(0.76)	(0.57)
June 30, 2009	**8, 209, 387**	**16, 418, 774**	**6.68**	**5.01**
December 31, 2009	**5, 165, 918**	**10, 331, 836**	**4.20**	**3.15**
Disposals in 6 months of 2010	(1, 124, 633)	(2, 249, 266)	(0.91)	(0.69)
June 30, 2010	**4, 041, 285**	**8, 082, 570**	**3.29**	**2.46**

At present the ADRs are traded on the following stock exchanges:

Stock exchange	**CUSIP (WKN)**	**ADR ticker**	**ISIN**
OTC USA	928 660 109	VLGAY	-

(RUB million)

19. Loans and Borrowings

	June 30, 2010	December 31, 2009
Long-term loans and borrowings		
Bank loans	10, 601	6, 551
Bonds	1, 410	1, 876
Vendor financing	321	416
Lease liability	999	1, 229
Less: Current portion of long-term borrowings	(2, 489)	(2, 943)
Total long-term loans and borrowings	**10, 842**	**7, 129**
Short-term loans and borrowings		
Bank loans	2	297
Accrued interest	26	35
Total short-term loans and borrowings	**28**	**332**
Current portion of long-term loans and borrowings	2, 489	2, 943
Total current loans and borrowings	**2, 517**	**3, 275**
Total loans and borrowings	**13, 359**	**10, 404**

At June 30, 2010 and December 31, 2009 the Group pledged the following assets to guarantee loans and borrowings:

June 30, 2010					
	Security				
	Property, plant and equipment				**Total**
Bank loans and borrowings	1, 217	-	-	-	**1, 217**
Total	**1, 217**	**-**	**-**	**-**	**1, 217**

December 31, 2009					
	Security				
	Property, plant and equipment				**Total**
Bank loans and borrowings	1, 395	-	-	-	**1, 395**
Total	**1, 395**	**-**	**-**	**-**	**1, 395**

Long-term loans and borrowings

Bank and corporate loans

The table bellow summarizes the information about the most significant bank and corporate loans at June 30, 2010 and December 31, 2009:

(RUB million)

Counteragent	Interest rate per loan agreement	June 30, 2010 Non-current portion	June 30, 2010 Current portion	December 31, 2009 Non-current portion	December 31, 2009 Current portion	Currency per loan agreement	Date of maturity	Security
OJSC RF Sberbank	From 8.2% to 13%	5, 193	0	700	0	RUB	2010 - 2014	Pledge
OJSC VTB Bank	10%	1, 500	0	1, 500	0	RUB	2012	Unsecured
UniCredit Bank ZAO	From 3.2% to 3.6% +MosPrime	1, 401	0	1, 802	675	RUB	2011 - 2013	Unsecured
OJSC Svyazbank	From 8.8% to 9%	1, 100	200	300	10	RUB	2011 - 2012	Unsecured
ZAO Globex	9%	500	0	500	0	RUB	2012	Unsecured
Black Sea Trade and Development Bank	2.5%+Libor	432	187	0	0	US$	2011 - 2014	Pledge
Ministry of Finance of the Russian Federation	2%	46	24	50	27	EURO	2011	Pledge
Sozidanie Fund	0%	8	10	8	31	RUB	2011	Unsecured
BSGV ZAO	From 2.75% to 2.8% +MosPrime	0	0	369	491	RUB	2010	Unsecured
BSGV ZAO	3.5%+Libor	0	0	28	60	US$	2010	Pledge
TOTAL		**10, 180**	**421**	**5, 257**	**1, 294**			

Sberbank

The Group’s long-term debt to Sberbank is represented by the loan received in 2007 - 2010 denominated in Roubles. The loans mature in 2011 - 2014. Effective interest rate of RUB loans amounts to 8.91% - 9.45%. At June 30, 2010 the debt was 5, 193.

Vneshtorgbank (VTB)

The Group’s long-term debt to Vneshtorgbank is represented by the loans received in 2007 denominated in Roubles. The loans mature in 2012; interest rate is 10.0% per annum. At June 30, 2010 the debt was 1, 500.

UniCredit Bank

The Group’s long-term loans from UniCredit Bank were received in 2008 denominated in Roubles. The loans mature in 2011-2013. Effective interest rate of RUB loans amounted to 10.46%-10.90%. At June 30, 2010 the debt was 1, 401.

OJSC Svyazbank

(RUB million)

The Group's long-term debt to Svyazbank is represented by the loans received in 2007 - 2009 denominated in Roubles. The loans mature in 2010 – 2012. At June 30, 2010 the debt was 1, 300.

Ministry of Finance of the Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to VolgaTelecom Group to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of the Russian Federation. The loans are denominated in Euro. Initial currency of loan was Deutschemark (DM). Later liability was converted to EURO.

In July 2005 the Group received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount overdue to the bank equal to 227 (Euro 6.6 million) as at the date of receiving the claim. In December 2006 at the stage of legal proceedings the Group signed an amicable agreement with the Ministry of Finance. The amicable agreement stipulated a restructuring of the Group's liability on the following terms: liability on penalty interest accrued for non-timely payments was forgiven and remaining amount of restructured liability would be paid in equal annual payments by January 01, 2012.

At June 30, 2010 the total outstanding restructured liability to the Ministry of Finance amounted to 70 (EURO 1.83 million), including current portion of 24 (EURO 0.6 million). Interest on restructured liability is accrued at an effective rate of 6.5% per annum and payable annually on or before December 31.

The loan is secured by the property, plant and equipment with a carrying value of 191.

Bonds

The table below summarizes the information about the bonds issued at June 30, 2010 and December 31, 2009:

		June 30, 2010		December 31, 2009					
Narrative of the issue	**Effective interest rate**	**Non-current portion**	**Current portion**	**Non-current portion**	**Current portion**	**Date of maturity**	**Plan of redemption**	**Date of early redemption offer**	**Coupon interest**
BT-4	11.543%	0	949	954	0	2011	In succession, by installments for account of and on the instructions of the issuer	11.03. 2011	12%
BT-3	8.912%	0	459	0	918	2010	In succession, by installments for account of and on the instructions of the issuer	-	8.5%

(RUB million)

BT-2	10.43%	0	2	0	4	2010	In succession, by installments for account of and on the instructions of the issuer	-	9.5%
TOTAL		**0**	**1, 410**	**954**	**922**				

In December 2005, the Company registered two issues (BT-2 and BT-3) of 5, 300, 000 interest-bearing bonds (3, 000, 000 and 2, 300, 000 respectively) with a par value of RUB 1, 000 each. The bonds have 10 coupon payments. Payments on the first coupon are made on the 182-nd day since the commencement date of the bonds floatation (in June 2006); the payments on the other coupons are made each 182 days. The interest rate of BT-2 bonds coupons is determined at 9.5% per annum till the maturity date, and of BT-3 series bonds – 8.5% per annum till the maturity date. The bonds are subject to repayment by installments determined in percent of the par value starting from December 2009. Final repayment of the bonds should be made in November 2010. The funds raised by the bonds issues were allocated for the replenishment of current assets.

In June 2010 the Company paid coupon yield on inconvertible interest bearing certified bearer bonds of BT-2 and BT-3 series subject to obligatory centralized custody, and also paid off the fourth 20% of the bonds par value.

The coupon yield was paid on the 9-th coupon at the rate of 9.5% per annum of RUB 18.95 per a bond of BT-2 series, and 8.5% per annum on BT-3 series bonds or RUB 16.95 per a bond.

At June 30, 2010 the unpaid balance of BT-2 bonded loan was 2 and of BT-3 bonded loan - 459 in the structure of current portion of long-term debt.

In September 2006 the Company floated 3, 000, 000 interest-bearing certified bonds (BT-4) with a par value of RUB 1, 000 each. The bond issue has 28 coupons payments. Payments on the first coupon are made on the 91-st day since the commencement date of the bonds floatation; the payments on the other coupons are made each 91 day. The coupon interest rate is set at 12% per annum till March 2011. The bonds are subject to repayment by installments determined in percent of the par value starting from September 2011.

Issued bonds (BT-4) provide for the offer which would allow the bonds holders to present them to the Company on the fixed date. The offer's date is March 11, 2011.

In March and June 2010 the Company paid coupon yield on inconvertible interest bearing certified bearer bonds of BT-4 series subject to obligatory centralized custody.

The coupon yield was paid on the 14-th and the 15-th coupons at the rate of 12% per annum (RUB 29.92 per a bond).

At June 30, 2010 the unpaid balance of BT-4 bonded loan was 949 in the structure of current portion of long-term debt.

Vendor financing

The table below summarizes the information about the vendor financing at June 30, 2010 and December 31, 2009:

(RUB million)

Counteragent	Effective interest rate	June 30, 2010 Non-current portion	June 30, 2010 Current portion	December 31, 2009 Non-current portion	December 31, 2009 Current portion	Currency	Date of maturity	Security
CISCO Capital CIS	12.49%	56	119	118	112	RUB	2011 - 2012	-
Metrosvyaz Limited	11%	0	101	0	98	US$	2010	-
Huawei Technologies Co. Ltd.	9.23	0	44	0	42	US$	2010	-
ZTE Corporation	LIBOR (91 day) + 0	0	0	10	13	US$	2010	-
Alcatel-Lucent	12.49%	0	0	0	13	EURO	2010	-
Huawei BETO ZAO	9.23%	0	1	0	1	US$	2011	-
Huawei-Ufa LLC	7%	0	0	0	9	US$	2010	-
TOTAL		**56**	**265**	**128**	**288**			

CISCO Capital CIS

Long-term vendor financing from CISCO Capital CIS represents amount payable for the telecommunication equipment received under contracts signed in 2008. Outstanding liability at June 30, 2010 is 175.

Metrosvyaz Limited

Long-term vendor financing from Metrosvyaz Limited represents amounts payable for the equipment and CDMA services under contracts signed in 2005. The amounts payable under these agreements are denominated in US Dollars. The amount outstanding at June 30, 2010 is 101. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Huawei Technologies Co. Ltd.

Long-term vendor financing from Huawei Technologies Co. Ltd. represents amounts payable for telecommunication equipment received under contracts signed in 2005-2007. The amount outstanding at June 30, 2010 is 44. The amounts payable under these agreements are denominated in US Dollars. Equipment received under these contracts is pledged to the supplier until the final payment is made.

Short-term borrowings

Bank and corporate loans

The table bellow summarizes the information about the most significant short-term bank loans and borrowings at June 30, 2010 and December 31, 2009:

(RUB million)

Counteragent	Interest rate per loan agreement	June 30, 2010	December 31, 2009	Currency per the loan agreement	Date of maturity	Security
OJSC Svyazbank	14%	2	1	RUB	2010	Unsecured
BSGV ZAO	7.74%	0	296	RUB	2010	Pledge
TOTAL		**2**	**297**			

OJSC Svyazbank

The Group's short-term debt to Svyazbank is represented by Roubles denominated loan received in 2009 for acquisition and construction of investment assets. The loan matures in 2010. Interest rate is 14% per annum. At June 30, 2010 the outstanding loan amounted to 2.

Borrowings provided by state-controlled entities

As at June 30, 2010 and December 31, 2009 the Group's liabilities to state-controlled entities amounted to 6, 702 and 2, 203 respectively.

In 6 months of 2010 the Group obtained borrowed funds from state-controlled entities in the amount of 4, 500 (6 months of 2009 - 500).

In 6 months of 2010 the Group repaid funds previously borrowed from state-controlled entities funds in the amount of 147 (6 months of 2009 - 1, 156).

Interest accrued in respect to borrowings obtained from state-controlled entities in 6 months of 2010 amounted to 146 (6 months of 2009 -257).

Finance lease liabilities

	June 30, 2010		December 31, 2009	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion (< 1 year)	526	393	604	437
Over 1 to 5 years	705	606	949	792
Over 5 years	-	-	-	-
Total	**1, 231**	**999**	**1, 553**	**1,229**

OJSC "RTK Leasing" was the key lessor to the Group in 6 months of 2010. Effective interest rate under the liabilities to this lessor varied in 6 months of 2010 from 15.06 % to 20.75 % per annum (6 months of 2009: from 16.59 % to 21.61% per annum).

Finance lease assets under finance lease agreements with OJSC RTK-Leasing mainly comprise telecommunications equipment. The Company's obligations to OJSC RTK-Leasing as at June 30, 2010 amounted to 971 (2009: 1,197).

Under finance lease agreement signed with OJSC RTK-Leasing the lessor is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

(RUB million)

20. Employee Benefits

According to staff agreement, the Group contributes to post-employment benefit plans and also provides additional benefits for its active and retired employees.

Defined Contribution Plans

Non-government pension fund Telecom-Soyuz maintains the defined contribution plan of the Group.

As at June 30, 2010 the Group employed or provided for 11, 942 participants of defined contribution plan (December 31, 2009: 12, 962).

In 6 months of 2010 the Group expenses in relation to defined contribution plans amounted to 41 (6 months of 2009: 42).

Defined benefit plans and long-term social commitments

As at June 30, 2010 the Group employed 11, 942 participants of defined benefit plan and supported 18, 304 pensioners eligible for post-employment benefits (31 December 2009: 12, 962 and 17, 917 respectively).

The expenses for the defined benefit plans, excluding interest yield and expense, are included in the consolidated comprehensive income statement line "Personnel costs". The amounts of interest yield and expenses are recognized respectively in "Other income and expenses of financial and investing activities" and in "Financial expenses" in the consolidated comprehensive income statement.

21. Other non-current liabilities

	June 30, 2010	December 31, 2009
Deferred revenue	401	420
Target financing	40	40
Total	**441**	**460**

22. Provisions

	Staff optimization provision	Total
Balance at December 31, 2008	9	**9**
Utilized	(7)	**(7)**
Balance at June 30, 2009	**2**	**2**
Balance at December 31, 2009	12	**12**
Utilized	(10)	**(10)**
Balance at June 30, 2010	**2**	**2**

Of the total amount of provisions	Staff optimization provision	Total
Short-term	12	**12**
Total, Provisions at December 31, 2009	**12**	**12**
Short-term	2	**2**
Total, Provisions at June 30, 2010	**2**	**2**

(RUB million)

23. Trade and other payables

	June 30, 2010	December 31, 2009
Payables for purchases and construction of property, plant and equipment	1, 497	1, 023
Other taxes payable	1, 149	1, 108
Dividend payable	1, 083	19
Payables to personnel	945	969
Payables to interconnected operators	337	324
Payables for operating activities	250	229
Settlements with principals	107	112
Payables for purchases of software	12	37
Other accounts payable	351	320
Total	**5, 731**	**4, 141**

As at June 30, 2010 and December 31, 2009 taxes payable comprised the following:

	June 30, 2010	December 31, 2009
VAT	766	827
Property tax	178	169
Unified social tax	123	66
Individual income tax	74	38
Other taxes	8	9
Total	**1, 149**	**1, 109**

24. Other current liabilities

	June 30, 2010	December 31, 2009
Advances received from operating activity	533	602
Advances received from non-operating activity	20	26
Deferred revenue	2	6
Total	**555**	**634**

25. Contingencies and Operating Risks

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. These 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

Management interpretation of industry, tax, foreign currency and customs legislation related to Company's operations may be argued by corresponding legal bodies. Tax authorities may change their view of interpretation of legislation related to separate operations and review of tax operations. As a consequence, tax authorities may have claims on those operations and accounting methods, which were not previously argued. As a result additional taxes, fines and penalties may be accrued. No reliable estimate can be made on amount of probable claims not yet brought to action as well as on the probability of their negative outcome. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

Management believes that as at June 30, 2010 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.

Staff optimization program

For 6 months of 2010 the Group reduced 589 employees. At June 30, 2010 274 employees got notice of the forthcoming reductions.

26. Financial instruments and risk management

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Company's operations. The Group is also actively using short-term deposits for the purpose of placing disposable capital. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Capital Management Policy

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

Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings.

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 ratio of equity to the total assets as at the end of the period. Net debt / equity is calculated as ratio of net debt to equity as at the end of the period. Net debt / EBITDA is calculated as ratio of net debt as at the end of the period to EBITDA for the corresponding period. The ratios used in capital management are determined using accounting information determined under the Russian Accounting Standards.

As of the balance-sheet date the Group's credit rating is affirmed by "Standard&Poor's" and FitchRatings: national at AA-(2009 – AA-), international at BB (2009 – BB-).

(RUB million)

Income and expenses on financial instruments

Comprehensive income statement							
	Other operating income	Other operating expenses	Financial expenses	Other investing and financing gains and losses			
For 6 months ended June 30, 2010	**Reversal of doubtful debt provision**	**Establishment of doubtful debt provision**	**Interest expense**	**Interest income**	**Result of assets disposal**	**Foreign exchange gains / losses**	**Total**
Cash and cash equivalents	-	-	-	71	-	16	**87**
Accounts receivable	26	-	-	-	-	-	**26**
Financial assets available-for-sale	-	-	-	20	(6)	-	**14**
Loans granted	-	-	-	2	-	-	**2**
Total financial assets	**26**	**-**	**-**	**93**	**(6)**	**16**	**129**
Bank and corporate loans	-	-	(302)	-	-	9	**(293)**
Bonds	-	-	(73)	-	-	-	**(73)**
Vendor financing	-	-	(9)	-	-	(2)	**(11)**
Finance lease liabilities	-	-	(93)	-	-	-	**(93)**
Interest payable	-	-	(26)	-	-	-	**(26)**
Accounts payable	-	-	-	-	-	(5)	**(5)**
Total financial liabilities	**-**	**-**	**(503)**	**-**	**-**	**2**	**(501)**

(RUB million)

Comprehensive income statement							
	Other operating income	**Other operating expenses**	**Financial expenses**	**Other investing and financing gains and losses**			
For 6 months ended June 30, 2009	**Reversal of doubtful debt provision**	**Establishment of doubtful debt provision**	**Interest expense**	**Interest income**	**Result of assets disposal**	**Foreign exchange gains / losses**	**Total**
Cash and cash equivalents	-	-	-	81	-	-	**81**
Accounts receivable	-	(82)	-	44	-	(3)	**(41)**
Investments held to maturity	-	-	-	13	-	-	**13**
Total financial assets	**-**	**(82)**	**-**	**138**	**-**	**(3)**	**53**
Bank and corporate loans	-	-	(681)	-	-	(56)	**(737)**
Bonds	-	-	(116)	-	-	-	**(116)**
Promissory notes	-	-	(25)	-	-	-	**(25)**
Vendor financing	-	-	2	-	-	(22)	**(20)**
Finance lease liabilities	-	-	(136)	-	-	-	**(136)**
Interest payable	-	-	(57)	-	-	-	**(57)**
Accounts payable	-	-	-	-	-	(10)	**(10)**
Total financial liabilities	**-**	**-**	**(1, 013)**	**-**	**-**	**(88)**	**(1, 101)**

(RUB million)

Foreign exchange risk

Foreign exchange risk is the risk that the change of rate of foreign exchange will affect financial result and cash flows of the Group. As consequence, these changes will be presented in the relevant items of income statement, balance sheet and/or cash flow statement. Assets and liabilities denominated in foreign currency give evidence of potential foreign exchange risk.

The Group's financial assets and liabilities are represented by the following currencies:

June 30, 2010	**RUB**	**US$**	**EURO**	**Total**
Cash and cash equivalents	2, 537	411	2	**2, 950**
Accounts receivable	2, 848	8	2	**2, 858**
Financial assets available-for-sale	1, 266	-	-	**1, 266**
Loans granted	14	-	-	**14**
Total financial assets	**6, 665**	**419**	**4**	**7, 088**
Bank and corporate loans	(9, 914)	(619)	(70)	**(10, 603)**
Bonds	(1, 410)	-	-	**(1, 410)**
Vendor financing	(175)	(146)	-	**(321)**
Finance lease liabilities	(999)	-	-	**(999)**
Interest payable	(21)	(4)	(1)	**(26)**
Accounts payable	(2, 335)	(110)	(16)	**(2, 461)**
Total financial liabilities	**(14, 854)**	**(879)**	**(87)**	**(15, 820)**

December 31, 2009	**RUB**	**US $**	**EURO**	**Total**
Cash and cash equivalents	2, 033	-	-	**2, 033**
Accounts receivable	2, 256	2	2	**2, 260**
Financial assets available-for-sale	430	-	-	**430**
Loans granted	10	-	-	**10**
Total financial assets	**4, 729**	**2**	**2**	**4, 733**
Bank and corporate loans	(6, 683)	(88)	(77)	**(6, 848)**
Bonds	(1, 876)	-	-	**(1, 876)**
Vendor financing	(230)	(173)	(13)	**(416)**
Finance lease liabilities	(1, 229)	-	-	**(1, 229)**
Interest payable	(34)	(1)	-	**(35)**
Accounts payable	(1, 851)	(100)	(6)	**(1, 957)**
Total financial liabilities	**(11, 903)**	**(362)**	**(96)**	**(12, 361)**

For the period from January 01, 2010 through June 30, 2010 the Rouble to the US$ decreased by approximately 3.15% and increased by 11.99% to EURO.

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

	USD			EUR		
	Changes in exchange rate, %	Effect on profit before income tax RUB MLN	%	Changes in exchange rate, %	Effect on profit before income tax RUB MLN	%
June 30, 2010	10	(46)	(1.28)	5	(4)	(0.11)
	(10)	46	1.28	(5)	4	0.11
31 December 2009	10	(36)	(0.68)	5	(5)	(0.09)
	(10)	36	0.68	(5)	5	0.09

Interest Rate Risk

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

The Group's financial assets and liabilities are distributed by the nature of relevant interest rates:

June 30, 2010	Flat rate	Floating rate	No rate	Total
Cash and cash equivalents	2, 877	-	73	**2, 950**
Accounts receivable	-	-	2, 858	**2, 858**
Financial assets available-for-sale	1, 241	-	25	**1, 266**
Loans granted	14	-	-	**14**
Total financial assets	**4, 132**	**-**	**2, 956**	**7, 088**
Bank and corporate loans	(8, 583)	(2, 020)	-	**(10, 603)**
Bonds	(1, 410)	-	-	**(1, 410)**
Vendor financing	(321)	-	-	**(321)**
Finance lease liabilities	(999)	-	-	**(999)**
Interest payable	(12)	(14)	-	**(26)**
Accounts payable	-	-	(2, 461)	**(2, 461)**
Total financial liabilities	**(11, 325)**	**(2, 034)**	**(2, 461)**	**(15, 820)**

December 31, 2009	Flat rate	Floating rate	No rate	Total
Cash and cash equivalents	2, 004	-	29	**2, 033**
Accounts receivable	-	-	2, 260	**2, 260**
Financial assets available-for-sale	406	-	24	**430**
Loans granted	10	-	-	**10**
Total financial assets	**2, 420**	**-**	**2, 313**	**4, 733**
Bank and corporate loans	(3, 423)	(3, 425)	-	**(6, 848)**
Bonds	(1, 876)	-	-	**(1, 876)**
Vendor financing	(393)	(23)	-	**(416)**
Finance lease liabilities	(1, 229)	-	-	**(1, 229)**
Interest payable	(22)	(13)	-	**(35)**
Accounts payable	-	-	(1, 957)	**(1, 957)**
Total financial liabilities	**(6, 943)**	**(3, 461)**	**(1, 957)**	**(12, 361)**

The sensitivity analysis of profit before income tax to interest rate risk is shown in the table below:

	LIBOR			MosPrimeRZBM		
	Changes in rate, %	Effect on profit before income tax RUB MLN	Effect on profit before income tax %	Changes in rate, %	Effect on profit before income tax RUB MLN	Effect on profit before income tax %
June 30, 2010	1	(3)	(0.08)	1	(7)	(0.19)
	(1)	3	0.08	(1)	7	0.19
31 December 2009	1	(1)	0.01	1	(17)	(0.31)
	(1)	1	0.01	(1)	17	0.31

Liquidity risk

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

The Group's financial assets and liabilities had the following maturities:

	2010	2011	2012	2013	2014 and after	Total
Cash and cash equivalents	2,950	-	-	-	-	**2, 950**
Accounts receivable	2, 855	-	1	1	1	**2, 858**
Financial assets available-for-sale	25	733	488	-	20	**1, 266**
Loans granted	3	-	-	-	-	**3**
Total financial assets	**5, 833**	**733**	**489**	**1**	**21**	**7, 077**
Bank and corporate loans	(591)	(2, 863)	(7, 020)	(1, 409)	(886)	**(12, 769)**
Bonds	(546)	(976)	-	-	-	**(1, 522)**
Vendor financing	(211)	(123)	(2)	-	-	**(336)**
Finance lease liabilities	(281)	(459)	(379)	(111)	-	**(1, 230)**
Accounts payable	(2, 461)	-	-	-	-	**(2, 461)**
Total financial liabilities	**(4, 090)**	**(4, 421)**	**(7, 401)**	**(1, 520)**	**(886)**	**(18, 318)**

The cash flows in the above table include payments both for interest accrued as at end of the reporting period and interest to be accrued in future on current debt portfolio.

Credit risk

Credit risk is the risk that counterparty will fail to settle its obligation and cause the Group to incur a financial loss.

Financial assets, which potentially expose the Group to credit risk, consist primarily of trade and other receivables, cash in bank, bank deposits and other debt-type financial assets.

The Group has no significant concentrations of credit risk due to the significance and diversity of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Certain trade receivables are due from state and other non-commercial organizations.

(RUB million)

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

June 30, 2010	Overdue time period (days)						
	TOTAL	**<31**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Profit-making organizations	**42**	22	13	7	-	-	-
Individuals	**117**	66	31	20	-	-	-
State-financed organizations	**26**	19	5	2	-	-	-
Telecom operators	**19**	7	3	3	6	-	-
Total	**204**	**114**	**52**	**32**	**6**	**-**	**-**

December 31, 2009	Overdue time period (days)						
	TOTAL	**<31**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Profit-making organizations	**37**	19	12	6	-	-	-
Individuals	**103**	56	29	18	-	-	-
State-financed organizations	**14**	9	4	1	-	-	-
Telecom operators	**19**	6	4	6	-	-	3
Total	**173**	**90**	**49**	**31**	**-**	**-**	**3**

Hedging

In 6 months of 2010 the Group has not entered into any hedging arrangements in respect of its foreign exchange or interest rate risk exposures.

Fair value of financial instruments

Financial instruments employed by the Group fall into one of the following categories:

- Investments held to maturity;
- Financial assets available-for-sale;
- Financial assets assessed at fair value;
- Loans and accounts receivable;
- Liabilities accounted at amortized cost.

At June 30, 2010 and December 31, 2009 the fair value and the carrying value of the Group's financial instruments did not differ significantly, except for the follwing:

	June 30, 2010		**December 31, 2009**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Bank and corporate loans	(10, 603)	(8, 039)	(6, 848)	(6, 419)
Bonds	(1, 410)	(1, 436)	(1, 876)	(1, 882)
Total financial liabilities	**(12, 013)**	**(9, 475)**	**(8, 724)**	**(8, 301)**

(RUB million)

27. Sales revenue

	For 6 months ended June30, 2010	2009
Local telephony services	6, 210	5, 673
Telegraphy, data transmission network and telematic services (Internet)	3, 202	2, 928
Mobile radiotelephony (cellular) services	2, 341	2, 201
Intrazonal telephony services	2, 170	2, 271
Interconnect and traffic transit services	2, 031	2, 029
Mobile radio, wire and radio broadcasting, TV services	377	370
Fees on assistance and agency services	248	255
Other services	34	35
Sales revenue from non-telecommunication services	482	350
Total	**17, 095**	**16, 112**

Intrazonal and local telephony services sales revenue includes sales revenue from rent of telecommunication channels of 237 and 77 respectively (6 months of 2009 – 265 and 76, respectively).

Sales revenue from non-telecommunication services includes revenue from assets rent of 101 (6 months of 2009 – 97).

The Group identified sales revenue by the following major customer groups:

Customer groups	For 6 months ended June 30, 2010	2009
Individuals	9, 948	9, 227
Corporate customers	3, 364	3, 259
Telecom operators	2, 401	2, 391
Government customers	1, 382	1, 235
Total	**17, 095**	**16, 112**

28. Personnel costs

	2010	2009
Salary expenses	3, 427	3, 291
Unified social tax	846	825
Other staff expenses	166	165
Pension and other long-term social benefit expenses	87	60
Total	**4, 526**	**4, 341**

(RUB million)

29. Materials, repairs and maintenance, utilities

	For 6 months ended June 30, 2010	2009
Utilities	516	463
Materials	493	443
Repairs and maintenance	424	363
Total	**1, 433**	**1, 269**

30. Other Operating Income

	For 6 months ended June 30, 2010	2009
Reimbursement of losses from universal telecommunication services	539	526
Fines and penalties	43	29
Reversal of doubtful debt provision	26	-
Disposal of fixed assets and of other assets	15	-
Reversal of property, plant and equipment, construction-in-progress, intangible assets and other assets impairment	4	2
Other income	236	135
Total	**863**	**692**

In 6 months of 2010 in accordance with the agreements outlining the terms and conditions of providing universal telecommunication services that have been entered into with the Federal Telecommunications Agency, the Company received reimbursement of losses from the provision of universal telecommunication services from Universal service fund in the following amount:

- for the current year services – 271 (6 months of 2009 – 266),
- for the prior year services – 102 (6 months of 2009 – 259).

The loss for 6 months of 2010 from provision of universal telecommunication services amounted to 587 (6 months of 2009 – 601) and was confirmed by independent auditor.

(RUB million)

31. Other Operating Expenses

	For 6 months ended June 30, 2010	2009
Third party services on general administration	497	446
Taxes, other than income tax	370	392
Agency fee	319	305
Rent	213	181
Universal service fund payments	169	159
Fire and other security services	154	165
Advertising expenses	107	112
Audit and consulting fees	105	91
Member fees, charity contribution, payments to labor unions	70	23
Transportation and postal services	27	24
Insurance	13	15
Expenses related to reorganization	1	-
Fines and penalties	-	2
Loss from disposal of PPE and other assets	-	18
Bad debt provision expense	-	82
Other expenses	408	270
Total	**2, 454**	**2, 284**

32. Interest expenses

	For 6 months ended June 30, 2010	2009
Interest expense on bank and corporate loans, bonds and promissory notes, vendor financing	410	878
Interest expense on pension and long-term social benefits	95	114
Interest expense on finance lease	93	136
Bank services	14	5
Total	**612**	**1, 133**

33. Other investing and financing gains and losses

	For 6 months ended June 30, 2010	2009
Interest income from financial assets	93	138
Loss from disposal of stockholding in associates:	(6)	-
ZAO C-Bank	(6)	-
Total	**87**	**138**

34. Earnings per Share

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

	For 6 months ended June 30, 2010	2009
Profit for the reporting period attributable to equity holders of the parent	2, 827	1, 853
Less: attributable to preference shareholders	(707)	(463)
Profit for the reporting period attributable to ordinary shareholders	**2, 120**	**1, 390**
Quantity of ordinary shares outstanding (million)	246	246
Basic and diluted earnings per share (RUB) for the reporting period attributable to ordinary shareholders	**8, 61891**	**5, 64955**

35. Operating lease

The table below summarizes minimum lease payments at June 30, 2010 and December 31, 2009 under operating lease contracts where the Group acts as a lessee:

	June 30, 2020	December 31, 2009
Current portion (< 1 year)	136	74
From 1 to 5 years	461	99
More than 5 years	922	689
Total	**1, 519**	**862**

The Group mainly rents premises, telecommunications equipment and land.

For 6 months of 2010 the Group's operating lease expenses included in line "Other operating expenses" of Consolidated Income Statement amounted to 258 (6 months of 2009 – 478).

The table below summarizes minimum lease payments at June 30, 2010 and December 31, 2009 under operating lease contracts where the Group acts as a lessor:

	June 30, 2020	December 31, 2009
Current portion (< 1 year)	54	10
From 1 to 5 years	291	5
More than 5 years	447	-
Total	**792**	**15**

The primary subjects of operating leases where the Group acts as a lessor are premises, telecommunications equipment and land.

For 6 months of 2010 the Group's revenue from operating lease reflected in line "Sales Revenue" of Consolidated Income Statement amounted to 101 (6 months of 2009 – 200).

36. Commitments

At June 30, 2010 and December 31, 2009 the Group's contractual obligations with regard to capital investments for the network upgrading and expansion were 2, 746 and 1, 420 respectively.

At June 30, 2010 and December 31, 2009 the Group's contractual obligations with regard to acquisition of property, plant and equipment were 3, 452 and 577 respectively.

37. Balances and Transactions with Related Parties

In 6 months of 2010 the structure of the Group's related parties was not significantly changed compared to the structure at December 31, 2009.

OJSC Svyazinvest

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

At June 30, 2010 the Russian Government held 75% minus one ordinary share of OJSC Svyazinvest.

Svyazinvest Group comprises 7 mega-regional telecommunications companies (MRK), OJSC Rostelecom, OJSC Tsentralnyi Telegraph, OJSC Dagsvyazinform and other subsidiary operating telecommunications companies.

Carriers that are a part of Svyazinvest Group are operators of general use telecommunications network providing services of local, intrazonal, intercity and international telephone communication, communication services in data transmission networks, telematics services, telegraphy services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services of providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communication.

Subsidiaries

The Group performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances after transactions with subsidiaries are excluded from the Group's consolidated financial statements according to IFRS requirements.

The Group enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are fixed by a regulatory body and are at the same level as similar tariffs for other counteragents. Subsidiaries do not influence the Group's transactions with other counteragents.

OJSC Rostelecom

OJSC Rostelecom, a majority-owned subsidiary of Svyazinvest, is the primary provider of DLD&ILD services in the Russian Federation.

The revenue from OJSC Rostelecom relates to services of zonal initiation/call termination from/to the Group's networks and from/to connected operators' networks provided by the Group 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 expenses associated with OJSC Rostelecom include payments for services of call termination to the networks of other telecommunication operators and, if the call is initiated from mobile radiotelephone network, expenses for interconnect, as well as expenses for DLD&ILD services provided to the Group.

Operations with entities controlled by the Government

In the course of its activities the Group makes a wide range of operations with companies controlled by the Government.

The entities controlled by the Government do not affect the Group's operations with other companies.

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries, which own collectively 100% of its share capital, for implementation and further support of information systems functioning and also for coordination, management and realization of centralized IT programs in the companies of Svyazinvest Group. OJSC Svyazintek provides to the Group services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

For 6 months of 2010 the Group incurred expenses on services provided by OJSC Svyazintek in the amount of 19 (6 months of 2009 – 0.3), out of that amount 11 (6 months of 2009 – 0) is included in Consolidated Comprehensive Income Statement, and 8 (6 months of 2009 – 0.3) is capitalized in intangible assets.

Non-government Pension Fund Telecom-Soyuz

The Group has an agreement for the administration of a non-state pension plan with the non-state pension fund Telecom-Soyuz and in addition to the state pension it provides the majority of employees with non-state pension benefits using defined contribution and defined benefit remuneration schemes upon completion of employment.

The fund retains 3% of every pension contribution of the Group to cover own expenses for activities under the charter and administrative costs.

Compensation to Key Management Personnel

Key management personnel comprise members of the Company's Management board and the Board of directors, General Director and Deputy General Directors totaling 23 persons at June 30, 2010 and 23 persons at December 31, 2009.

Remuneration to key management personnel for 6 months of 2010 includes salaries, bonuses and remuneration for participation in the operation of the Company's management bodies and amounts to 177 (6 months of 2009 – 131), including salaries, bonuses and remuneration of the Company's employees participating in the Company's management bodies – 175 (6 months of 2009 – 93). The remuneration amounts are stated exclusive of the unified social tax.

For 6 months of 2010 the Group paid contributions to non-state pension fund Telecom-Soyuz amounting to 4 for employees participating in management bodies (6 months of 2009 – 21). The right to receive pension payments arises with the Group's employees after the occurrence of pension grounds with due account of employee's compliance with the program of non-government pension plan effective in the Company.

38. Events after the Balance Sheet Date

Change of OJSC VolgaTelecom's structure

Pursuant to the decisions of OJSC VolgaTelecom's Board of directors dated 12.05.2010 (minutes No 29), 23.08.2010 and 25.08.2010 the Company additionally concluded 11 SPAs of TELESET NETWORKS PUBLIC COMPANY LIMITED) (hereinafter – Teleset). The quantity of Teleset's shares acquired by OJSC VolgaTelecom in accordance with the concluded agreements accounted for 2, 042, 908 which is 1.29% of Teleset's share capital. The certificate of VolgaTelecom's acquisition of Teleset's shares to the number of 2, 036, 464 pieces was issued on 01.09.2010, and to the number of 6, 444 pieces on 02.09.2010. With due account for additional acquisition of Teleset's shares OJSC VolgaTelecom owns 99.48% of Teleset's share capital.

Bank loans

On July 2, 2010 the Company and OJSC Svyaz-Bank entered into the contract of opening a non-revolving credit line No 009/2010 of loan ceiling of RUB 1, 000, 000, 000 maturing in 36 months. The interest rate is 7.866% per annum.

On July 2, 2010 the Company and OJSC Svyaz-Bank entered into the contract of opening a non-revolving credit line No 010/2010 of loan ceiling of RUB 1, 000, 000, 000 maturing in 36 months. The interest rate is 8.096% per annum.

On August 30, 2010 the Company and RF Sberbank entered into the contract of opening a non-revolving credit line No 101 of loan ceiling of RUB 900, 000, 000 maturing in 60 months. The interest rate is 8.325% per annum.