

OA0 ROSTELECOM

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARD IAS 34**

AS OF JUNE 30, 2008 AND FOR THE SIX-MONTH PERIOD THEN ENDED

ОАО РОСТЕЛЕКОМ
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 AND FOR THE SIX-MONTH PERIOD THEN ENDED

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management believes that, in preparing the condensed consolidated interim financial statements set out on pages 5 to 17, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.
3. The condensed consolidated interim financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standard IAS 34 "Interim Financial Reporting", are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

K.Yu. Solodukhin
General Director

/SIGNATURE/

OAO Rostelecom
1st Tverskaya-Yamskaya, 14,
Moscow
Russian Federation

October 31, 2008

OAO ROSTELECOM
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
(In millions of Russian Rubles)

	Notes	June 30, 2008 (unaudited)	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	5	37,794	38,480
Goodwill and other intangible assets		2,653	2,745
Investments in associates		2,023	494
Long-term investments		669	11,847
Other non-current assets		24	20
Total non-current assets		43,163	53,586
Current assets			
Inventory		485	447
Accounts receivable		9,799	8,429
Prepaid income tax		2,589	778
Short-term investments		7,332	6,920
Cash and cash equivalents		12,806	3,284
Total current assets		33,011	19,858
Total assets		76,174	73,444
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		100	100
Retained earnings including other reserves		57,216	56,027
Total equity attributable to equity holders of the parent		57,316	56,127
Minority interest		27	26
Total equity		57,343	56,153
Non-current liabilities			
Borrowings, net of current portion	7	71	172
Finance lease payable		570	396
Accounts payable, provisions and accrued expenses		171	269
Deferred tax liability		1,965	4,119
Total non-current liabilities		2,777	4,956
Current liabilities			
Accounts payable, provisions and accrued expenses		10,986	7,445
Finance lease payable		79	108
Taxes payable		1,050	533
Vendor financing payable	8	1,435	1,637
Current portion of long-term borrowings	7	2,504	2,585
Short-term borrowings		-	27
Total current liabilities		16,054	12,335
Total liabilities		18,831	17,291
Total equity and liabilities		76,174	73,444

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

OA0 ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
(In millions of Russian Rubles except for earnings per share)

		Six month periods ended	
		June 30,	
	Notes	2008	2007
		(unaudited)	(unaudited)
Revenue			
Telephone traffic		23,287	24,955
Rent of channels		3,955	3,922
Other revenue		4,157	2,865
Total revenue	9	31,399	31,742
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(4,449)	(3,637)
Depreciation and amortization		(3,670)	(3,931)
Charges by network operators – international		(3,581)	(3,895)
Charges by network operators – national		(11,979)	(13,775)
Administration and other costs		(2,961)	(2,643)
Taxes other than on income		(297)	(334)
Repairs and maintenance		(404)	(384)
Bad debt recovery/ (expense)		118	(191)
Gain/ (loss) on sale of property, plant and equipment		61	(22)
Total operating expenses		(27,162)	(28,812)
Operating profit		4,237	2,930
(Loss)/ income from associates		(22)	121
Interest expense		(115)	(95)
Interest income		876	413
Income from sale of investments	3	8,666	-
Other non-operating income		12	26
Foreign exchange (loss)/ gain, net		(409)	62
Profit before tax		13,245	3,457
Current tax charge		(3,392)	(1,192)
Deferred tax (charge)/ benefit		(26)	280
Income tax expense		(3,418)	(912)
Profit for the period		9,827	2,545
Attributable to :			
Equity holders of the parent		9,826	2,543
Minority interest		1	2
		Rubles	Rubles
Earnings per share attributable to equity holders of the parent – basic and diluted (in Russian Rubles)		10.11	2.62

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	Notes	Six month periods ended	
		June 30, 2008 (unaudited)	2007 (unaudited)
Cash flows from operating activities			
Profit before income tax		13,245	3,457
<i>Adjustments to reconcile net income before tax to cash generated from operating activities:</i>			
Depreciation and amortization		3,670	3,931
Bad debt (recovery)/ expense		(118)	191
Loss/ (income) from associates		22	(121)
(Gain)/ loss on sale of property, plant and equipment		(61)	22
Gain on sale of investments		(8,666)	-
Net interest		(761)	(318)
Other non-operating income		(12)	(26)
Foreign exchange loss/ (gain), net		409	(62)
<i>Changes in net working capital:</i>			
Increase in accounts receivable		(965)	(200)
(Increase)/ decrease in inventories		(38)	3
Increase/ (decrease) in payables and accruals		2,012	(687)
Cash generated from operations		8,737	6,190
Interest paid		(108)	(130)
Interest received		450	418
Income tax paid		(5,223)	(1,375)
Net cash provided by operating activities		3,856	5,103
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,213)	(2,413)
Proceeds from sale of property, plant and equipment		162	99
Purchase of available-for sale investments		(28)	(48)
Purchase of financial assets, other than available-for-sale investments		(4,265)	(4,225)
Proceeds from sale of available –for-sale investments, net of direct costs		11,413	38
Proceeds from sale of financial assets, other than available-for-sale investments, net of direct costs		3,847	5,012
Purchase of additional share in associates		(1,330)	-
Net cash received from/ (used in) investing activities		6,586	(1,537)
Cash flows from financing activities			
Drawdown of interest bearing loan facilities		172	114
Repayment of interest bearing loans and loan facilities		(278)	(227)
Repayment of lease obligations		(85)	(56)
Repayment of vendor financing payable		(205)	(280)
Dividends paid to equity holders of the parent		(6)	(5)
Net cash used in financing activities		(402)	(454)
Effect of exchange rate changes on cash and cash equivalents		(518)	(2)
Net increase in cash and cash equivalents		9,522	3,110
Cash and cash equivalents at the beginning of period		3,284	2,353
Cash and cash equivalents at the end of period		12,806	5,463
Non-monetary transactions:			
Non-cash additions to property, plant and equipment and intangible assets		216	30

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

OAO ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	<u>Attributable to equity holders of the parent</u>				Minority interest	Total equity
	Note	Share capital	Unrealized gain on available-for-sale investments	Retained earnings		
Balances at December 31, 2006		100	2,694	48,126	50,920	25 50,945
Available-for-sale investments						
Valuation gain on available-for-sale investments, net of tax (unaudited)		-	624	-	624	- 624
Total income and expense for the period recognized directly in equity (unaudited)		-	624	-	624	- 624
Profit for the period (unaudited)		-	-	2,543	2,543	2 2,545
Total income and expense (unaudited)		-	624	2,543	3,167	2 3,169
Dividends (unaudited)		-	-	(1,796)	(1,796)	- (1,796)
Balances at June 30, 2007 (unaudited)		100	3,318	48,873	52,291	27 52,318
Balances at December 31, 2007		100	6,917	49,110	56,127	26 56,153
Available-for-sale investments						
Valuation gain on available-for-sale investments, net of tax (unaudited)		-	155	-	155	- 155
Transferred to profit on sale (unaudited)		-	(6,436)	-	(6,436)	- (6,436)
Total income and expense for the period recognized directly in equity (unaudited)		-	(6,281)	-	(6,281)	- (6,281)
Profit for the period (unaudited)		-	-	9,826	9,826	1 9,827
Total income and expense (unaudited)		-	(6,281)	9,826	3,545	1 3,546
Dividends (unaudited)	6	-	-	(2,356)	(2,356)	- (2,356)
Balances at June 30, 2008 (unaudited)		100	636	56,580	57,316	27 57,343

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

1. REPORTING ENTITY

The accompanying condensed consolidated interim financial statements are of OAO Rostelecom (“Rostelecom” or the “Company”), and its subsidiaries (together the “Group”), which are incorporated in the Russian Federation (“Russia”). The principal activity of the Group is the provision of long-distance domestic and international telecommunications services to the Government, businesses and individuals of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates in other national and international operators’ networks to other national and international operators for termination.

The Company’s headquarters are located in Russian Federation, Moscow at 1st Tverskaya-Yamskaya Street, 14.

The accompanying condensed consolidated interim financial statements incorporate the results of operations of the Company and its subsidiaries.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of June 30, 2008, the Government of the Russian Federation controls OAO Svyazinvest (“Svyazinvest”), the parent company of Rostelecom, by virtue of its 75% less one share direct holding. Svyazinvest holds the 50.67% of the voting shares in Rostelecom.

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared in accordance with and comply with International Financial Reporting Standard IAS 34, “Interim Financial Reporting”, as published by the International Accounting Standards Board (“IASB”). The accounting policies and methods of computation used to prepare these condensed consolidated interim financial statements are the same that were used to prepare consolidated financial statements as of December 31, 2007.

The condensed consolidated interim financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2007. The management of the Group believes that the notes to the condensed consolidated interim financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the changes in financial position and performance of the Group since year end. In the opinion of the Group’s management, the business is not subject to material seasonal fluctuations.

The condensed consolidated interim financial statements for the interim period presented may not be necessarily indicative of the financial results for any later interim periods or for the whole year.

Starting January 1, 2008, the Group applied the following new interpretations:

- IFRIC No. 11 “IFRS 2 - Group and Treasury Shares Transactions”
- IFRIC No. 12 “Service Concession Arrangements”
- IFRIC No. 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”.

The adoption of Interpretations issued by the International Financial Reporting Interpretations Committee did not have material impact on the Group’s results of operations, financial position and cash flows.

OAO ROSTELECOM

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

The Group operates in one industry segment, being the provision of long-distance domestic and international telecommunication services in the Russian Federation. The results of this segment and assets and liabilities as of June 30, 2008 are presented in the condensed consolidated interim statement of income and the condensed consolidated interim balances sheet, respectively.

The condensed consolidated interim financial statements have been prepared using the historical cost convention, restated for the effects of inflation up to December 31, 2002 and modified by the initial valuation of property, plant and equipment. The functional currency of the Group and the reporting currency for the accompanying condensed consolidated interim financial statements is the Russian Ruble.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, fair values of assets and liabilities acquired in business combinations, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

3. CHANGES IN THE COMPOSITION OF THE GROUP

Investments in OAO RTComm.RU

In March 2008 the Group's Board of Directors authorized the purchase of an additional 68.4% equity interest in OAO RTComm.ru from ZAO Sinterra. Control was passed to the Group in July 2008, therefore RTComm's assets, liabilities, and results of operations were not included in these condensed consolidated interim financial statements. The acquisition does not significantly influence the Group's financial position. The cost of the additional investment amounted to 1,564 of which 234 was not settled as of June 30, 2008. Investment in RTComm.RU was recognized in the Group's balance sheet as of June 30, 2008 as investment in associates.

Investments in Golden Telecom

In February 2008 the Group accepted an offer by Lilian Acquisition, Inc., a subsidiary of Vimpelcom, to purchase the Group's shares of Golden Telecom, Inc. The consideration from the Group's sale of 4,417,055 shares of Golden Telecom, Inc. amounted to USD 464 million (11,385). As of the date of issuance of these consolidated interim financial statements the deal was closed and cash was received at full. Profit from this transaction before tax and related deferred tax effect amounted to 8,666 and 2,230, respectively, are recognized as gain on sale of investments and tax charge in the condensed consolidated interim statement of income for the six-month period ended June 30, 2008. The net effect of 6,436, which was previously recorded in unrealized gain on available-for-sale investments as a result of fair value revaluations, was deducted from the equity in the condensed consolidated balance sheet as of June 30, 2008.

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Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

4. SUBSIDIARIES

The accompanying condensed consolidated interim financial statements include the assets, liabilities and results of operations of Rostelecom and the following of its subsidiaries, all registered in the Russian Federation:

Subsidiary	Main activity	Effective share of the equity holders of the parent as of June 30, 2008	Effective share of the equity holders of the parent as of December 31, 2007
ZAO MTs NTT	Fixed line telecommunication services	100%	100%
ZAO Westelcom	Leasing of telecommunication equipment	100%	100%
ZAO Zebra Telecom	Local telecommunication services and Internet services	100%	100%
ZAO Globus-Telecom	Local telecommunication services	94.9%	94.9%
ZAO GlobalTel	Satellite telecommunications	51%	51%
ZAO SK Kostars	Insurance services	86.7%	86.7%
ZAO Incom	Local telecommunication services	84.8%	84.8%
DP Pansionat Malakhit	Recreational services	100%	100%

5. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of June 30, 2008 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At December 31, 2007	24,108	96,908	24,889	9,486	155,391
Additions (unaudited)	-	-	-	2,900	2,900
Disposals (unaudited)	(310)	(1,789)	(437)	(6)	(2,542)
Transfers (unaudited)	73	857	802	(1,732)	-
At June 30, 2008 (unaudited)	23,871	95,976	25,254	10,648	155,749
Accumulated Depreciation and Impairment					
At December 31, 2007	(19,002)	(79,607)	(18,189)	(113)	(116,911)
Depreciation expense (unaudited)	(532)	(1,848)	(1,124)	-	(3,504)
Disposals (unaudited)	292	1,736	432	-	2,460
At June 30, 2008 (unaudited)	(19,242)	(79,719)	(18,881)	(113)	(117,955)
Net book value at					
December 31, 2007	5,106	17,301	6,700	9,373	38,480
Net book value at June 30, 2008 (unaudited)	4,629	16,257	6,373	10,535	37,794

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

Interest amounting to 85 and 148 was capitalized in property, plant and equipment for the six months ended June 30, 2008 and 2007, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 7.9% and 8.4%, respectively.

Property, plant and equipment with a carrying value of 1,842 and 2,097 were pledged in relation to loan agreements entered into by the Group as of June 30, 2008 and December 31, 2007, respectively. Included in pledged property, plant and equipment as of June 30, 2008 and December 31, 2007 is also the Satellite Gateway equipment with a carrying value of 77 and 102, respectively, pledged in connection with vendor financing received from Globalstar L.P. (minority shareholder of ZAO GlobalTel). Currently, ZAO GlobalTel is in default on this vendor financing (Note 8).

6. SHAREHOLDERS' EQUITY

On June 9, 2008, the Annual General Shareholders' Meeting declared dividends of 2,356 for the year ended December 31, 2007. Ordinary shares dividends amounted to 1.94 Ruble per share (1,414) and dividends on the preferred shares amounted to 3.88 Ruble per share (942).

7. LONG-TERM BORROWINGS

The long-term borrowings as of June 30, 2008 and December 31, 2007 were as follows:

	June 30, 2008 (unaudited)	December 31, 2007
Maturity		
Current portion of long-term borrowings	2,504	2,585
Between one to two years	54	136
Between two to three years	17	36
Non-current portion of long-term borrowings	71	172
Total interest bearing borrowings	2,575	2,757

As of June 30, 2008 and December 31, 2007, interest bearing loans, which are mostly denominated in foreign currencies, were as follows:

	June 30, 2008 (unaudited)	December 31, 2007
US Dollars (US\$)	2,269	2,397
EURO	53	77
Foreign currency denominated loans	2,322	2,474
Russian Ruble denominated loans	253	283
Total long-term borrowings	2,575	2,757

Included in current portion of long-term borrowings is the amount of 1,955 on a credit agreement between Rostelecom and Vnesheconombank entered into in December 2005. Under the existing credit

OAD ROSTELECOM

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

agreement with Vnesheconombank and CSFB the Group is required to meet at the end of each quarter various financial covenants applied to the statutory financial statements of the Company. As of December 31, 2007 and March 31, 2008 the Group was not in compliance with some of the covenants, stipulated in the loan agreement and no waiver had been obtained from the banks before respective reporting dates. The Group received waivers from the bank only after the reporting dates (in June 2008 and November 2008, respectively). Therefore, the amount of 1,563 and 1,636 were reclassified to current portion of long-term borrowings in the consolidated balance sheet as of June 30, 2008 and December 31, 2007 respectively. The Group was in compliance with the financial covenants as of June 30, 2008.

During the six months ended June 30, 2008, the Group made the following payments in accordance with the loan agreements:

- 20 (US\$ 0.9 million) on a credit agreement between Rostelecom and the Japanese Bank for International Cooperation (JBIC) entered into in July 2005. The loan was provided in two tranches. The total outstanding amount as of June 30, 2008 is 86 (US\$ 3.6 million). 34 are included in current portion of long-term borrowings.
- 8 (US\$ 0.3 million) on a credit agreement between Rostelecom and the Japanese Bank for International Cooperation (JBIC) entered into in March 2004. The loan was provided in two tranches. The total outstanding amount as of June 30, 2008 is 8 (US\$ 0.3 million). 8 are included in current portion of long-term borrowings.
- 81 (US\$ 3.4 million) on a credit agreement between Rostelecom and Vnesheconombank (VEB) entered into in December 2005 to finance running expenses. The total outstanding amount as of June 30, 2008 is 1,955 (US\$ 83.3 million). 1,955 are included in current portion of long-term borrowings.
- 28 (EURO 0.8 million) on a credit agreement between Rostelecom and ING BHF-BANK entered into in April 2004. The total outstanding amount as of June 30, 2008 is 53 (EURO 1.4 million). 53 are included in current portion of long-term borrowings.
- 97 within credit line agreements between Globus-Telecom and OAO Svyazbank. Within the above mentioned credit line agreements Globus-Telecom received 76 during the six months ended June 30, 2008. The total outstanding amount as of June 30, 2008 is 155. 135 are included in current portion of long-term borrowings.
- 98 within credit line agreement between ZebraTelecom and OAO Svyazbank. Within the above mentioned credit line agreement Globus-Telecom received 96 during the six months ended June 30, 2008. The total outstanding amount as of June 30, 2008 is 44. 44 are included in current portion of long-term borrowings.
- 51 on promissory notes issued by MTs NTT to ZAO IK Parsek Capital Management. The total outstanding amount as of June 30, 2008 is 55. The promissory notes are repayable in monthly instalments up to December 2008.

Interest bearing loans as of June 30, 2008 include loans of GlobalTel from Loral Space and Communications Corporations ("Loral") of 220 (US\$ 9.4 million) in total. GlobalTel is in default in respect of these loans. A penalty which amounted to 57 (US\$ 2.4 million) is included in the outstanding balance. As no waiver has been obtained from Loral, these loans are classified as current in the accompanying condensed consolidated interim balance sheet as of June 30, 2008. The loans do not provide for any collateral. In 2006 Loral brought an action against ZAO GlobalTel claiming immediate repayment of the loan.

ОАО РОСТЕЛЕКОМ**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)****8. VENDOR FINANCING PAYABLE**

As of June 30, 2008 vendor financing payable includes the following:

- 1,236 (US\$ 53 million) payable by GlobalTel to Globalstar L.P., which is the minority shareholder of GlobalTel, for the purchase of three gateways and associated equipment and services. Globalstar L.P. has a lien over this equipment until the liability is fully paid. GlobalTel is in default in respect of payments in 2004, 2005, 2006, 2007 and 2008 and has not obtained a waiver from Globalstar L.P. As a result, the whole balance of 964 (2007: 1,008) (US\$ 41 million) is classified as current in the accompanying consolidated balance sheet as of December 31, 2007 and in condensed consolidated interim financial statement as of June 30, 2008. Penalty interest of 272 and 238, accrued for each day of delay at the rate of 10% p.a, is included in vendor financing payable in these balance sheets as of June 30, 2008 and December 31, 2007, respectively. In 2006 Loral, which is the legal successor of Globalstar L.P., brought an action against GlobalTel claiming immediate repayment of the liabilities. Management believes that if GlobalTel is required to pay the defaulted vendor financing and loans, it would not have a material adverse effect on the Group's results of operations, financial position and operating plans.
- 199 payable by the Company to ZAO Peter-Service for the purchase of a billing system. The liability is repayable in equal quarterly instalments up to December 31, 2008.

9. REVENUE

Revenue comprised the following for six months ended June 30, 2008 and 2007:

	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Telephone traffic		
Domestic long-distance traffic	14,693	16,096
Outgoing international long-distance traffic	5,829	6,289
Incoming and transit international long-distance traffic	2,765	2,570
	23,287	24,955
Rent of channels	3,955	3,922
Other revenue		
Television and radio transmission	183	237
Satellite services	139	201
Internet access	1,278	325
Intelligent network services (INS)	653	515
Interconnection services	155	285
Technical support services	213	159
Equipment maintenance services	414	250
Miscellaneous revenue	1,122	893
	4,157	2,865
Total revenue	31,399	31,742

10. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as a shareholder

As indicated in Note 1, the main shareholder of the Company is OAO Svyazinvest, which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. The Government of the Russian Federation in turn holds 75% less one share of the voting capital of OAO Svyazinvest and, therefore, ultimately controls the Company. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs, and does regulate such tariffs. Except for regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Information Technologies and Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Transactions with the Svyazinvest Group

The Group uses the regional networks of the Svyazinvest Group to terminate telephone traffic. Tariffs for services between the Group and other Svyazinvest Group companies for traffic initiation and termination are materially affected by governmental regulation as disclosed in paragraph (b) of this note.

In addition, the Group contracted the Svyazinvest Group companies as the Group's regional agents for customer service, billing and collection services related to long-distance services provided by the Group. Moreover, while calculating the costs of services rendered, the Group uses appropriate resources of Svyazinvest Group companies, including billing and other information systems data.

The Group also consumes design services from certain companies of the Svyazinvest Group which are included in additions of property, plant and equipment in amount of 16 and 1 in the six month periods ended June 30, 2008 and 2007, respectively.

The Group makes contributions to the non-state pension fund which provides the Company's employees with a number of post-employment benefits. OAO Svyazinvest executes significant influence over the operations of the fund.

In addition, OAO Svyazinvest participates in the dividends declared by the Company, commensurate with its shareholding.

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

The amounts of revenue and expenses relating to the transactions with the Svyazinvest Group were as follows:

	6m ended June 30, 2008 (unaudited)	6m ended June 30, 2007 (unaudited)
Revenue	1,092	957
Charges by network operators - national	(7,798)	(11,461)
Administration and other costs	(50)	(48)
Contributions in pension fund included in wages, salaries, other benefit and payroll taxes	(32)	(33)
Bad debt (expense)/ recovery	89	1

The amounts of receivables and payables due from and to the Svyazinvest Group were as follows:

	June 30, 2008 (unaudited)	December 31, 2007
Accounts receivable	662	670
Allowance for doubtful receivables	(37)	(129)
Accounts payable	(1,094)	(731)

(d) Transactions with associates

The Group is also involved in various telecommunication services with entities in which it has investments, including associates over which it exerts significant influence. A summary of these transactions is as follows:

	6m ended June 30, 2008 (unaudited)	6m ended June 30, 2007 (unaudited)
Revenue	149	333
Charges by network operators - national	(56)	(64)
Bad debt (expense)/ recovery	33	(18)

The Group also consumes design services from OAO Svyazintek which are included in additions of property, plant and equipment in amount of nil and 8 in the six months periods ending June 30, 2008 and 2007, respectively.

The amounts of receivables and payables due from these entities were as follows:

	June 30, 2007 (unaudited)	December 31, 2007
Accounts receivable	30	103
Allowance for doubtful receivables	(18)	(38)
Accounts payable and accrued expenses	(22)	(23)

ОАО РОСТЕЛЕКОМ**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2008 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

(e) Other related parties transactions

The amounts of revenue and expenses relating to the transactions with other related parties were as follows:

	6m ended June 30, 2008 (unaudited)	6m ended June 30, 2007 (unaudited)
Revenue	259	563
Administration and other costs	(258)	(28)
Bad debt (expense)/ recovery	(8)	66

The amounts of receivables and payables due from and to these entities were as follows:

	June 30, 2008 (unaudited)	December 31, 2007
Accounts receivable	73	4
Allowance for doubtful receivables	(8)	-
Accounts payable and accrued expenses	(31)	-

(f) Directors' remuneration

For the six months ended June 30, 2008 and June 30, 2007, the total remuneration of the directors and management board members, represented by short-term benefits, amounted to 50 and 42, respectively.

11. COMMITMENTS AND CONTINGENCIES**a) Legal proceedings**

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. There were no any changes in contingencies since the date of issuance of the consolidated financial statements of the Group as of and for the period ended December 31, 2007.

Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Company or the Group.

b) Capital Commitments

As of June 30, 2008 and December 31, 2007, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 4,284 and 3,298, respectively.