OAO ROSTELECOM

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

AS OF JUNE 30, 2009 AND FOR THE SIX-MONTH PERIOD THEN ENDED

INDEX

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:

A.Yu. Kolpakov
General Director

OAO Rostelecom
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October 30, 2009

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Independent Auditors' Report

To Board of Directors and Shareholders
OAO Rostelecom

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Rostelecom (the "Company") and its subsidiaries (the "Group") as at 30 June 2009, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of selected explanatory notes (the consolidated interim condensed financial information). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2009 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG Limited

KPMG Limited

30 October 2009

(In millions of Russian Rubles)

	Notes	June 30, 2009 (unaudited)	December 31, 2008
ASSETS			
Non-current assets			
Property, plant and equipment	3	37,648	39,586
Goodwill and other intangible assets		3,920	3,875
Investments in associates		164	178
Long-term investments		882	294
Other non-current assets		73	49
Total non-current assets		**42,687**	**43,982**
Current assets			
Inventory		446	459
Accounts receivable		10,702	10,133
Prepaid income tax		1,431	1,375
Short-term investments		10,009	8,762
Cash and cash equivalents		12,816	11,992
Total current assets		**35,404**	**32,721**
Total assets		**78,091**	**76,703**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		100	100
Retained earnings and other reserves		58,918	59,285
Total equity attributable to equity holders of the parent		**59,018**	**59,385**
Non-controlling interest		(167)	40
Total equity		**58,851**	**59,425**
Non-current liabilities			
Borrowings, net of current portion	5	63	117
Finance lease payable		433	461
Accounts payable, provisions and accrued expenses		183	243
Deferred tax liability		1,536	1,590
Total non-current liabilities		**2,215**	**2,411**
Current liabilities			
Accounts payable, provisions and accrued expenses		11,020	9,495
Finance lease payable		126	103
Taxes payable		1,488	1,126
Vendor financing payable	6	1,776	1,608
Current portion of long-term borrowings	5	2,561	2,522
Short-term borrowings	5	54	13
Total current liabilities		**17,025**	**14,867**
Total liabilities		**19,240**	**17,278**
Total equity and liabilities		**78,091**	**76,703**

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

(In millions of Russian Rubles except for earnings per share)

	Notes	Six month periods ended June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
Revenue			
Telephone traffic		22,308	23,287
Rent of channels		3,797	3,955
Data transmission services		4,134	1,435
Other revenue		2,535	2,722
Total revenue	7	**32,774**	**31,399**
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(5,405)	(4,449)
Depreciation and amortization		(3,786)	(3,670)
Charges by network operators – international		(4,966)	(3,581)
Charges by network operators – national		(12,496)	(11,979)
Administration and other costs		(3,415)	(2,961)
Taxes other than on income		(318)	(297)
Repairs and maintenance		(384)	(404)
Bad debt (expense)/ recovery		(55)	118
Gain on sale of property, plant and equipment		28	61
Total operating expenses		**(30,797)**	**(27,162)**
Operating profit		**1,977**	**4,237**
Loss from associates		(5)	(22)
Interest expense		(121)	(115)
Interest income		737	876
(Loss)/ gain on sale of investments		(82)	8,666
Other non-operating income		35	12
Foreign exchange loss, net		(619)	(409)
Profit before tax		**1,922**	**13,245**
Current tax charge		(574)	(3,392)
Deferred tax benefit/ (charge)		83	(26)
Income tax expense		**(491)**	**(3,418)**
Profit for the period		**1,431**	**9,827**
Other comprehensive income, net of tax			
Valuation gain on available-for-sale investments		146	205
Income tax relating to valuation gain on available-for-sale investments		(29)	(50)
Valuation gain on available-for-sale investments transferred to profit on sale		-	(8,664)
Income tax relating to valuation gain on available-for-sale investments transferred to profit on sale			2,228
Other comprehensive income for the period, net of tax		**117**	**(6,281)**
Total comprehensive income for the period		**1,548**	**3,546**
Profit attributable to :			
Equity holders of the parent		1,638	9,826
Non-controlling interests		(207)	1
Total comprehensive income attributable to :			
Equity holders of the parent		1,755	3,545
Non-controlling interests		(207)	1
Earnings per share attributable to equity holders of the parent – basic and diluted (in Russian Rubles)		1.69	10.11

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

(In millions of Russian Rubles)

	Notes	Six month periods ended June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
Cash flows from operating activities			
Profit before income tax		1,922	13,245
Adjustments to reconcile net income before tax to cash generated from operating activities:			
Depreciation and amortization		3,786	3,670
Bad debt expense/ (recovery)		55	(118)
Loss from associates		5	22
Gain on sale of property, plant and equipment		(28)	(61)
Loss/ (gain) from sale of investments		82	(8,666)
Net interest		(616)	(761)
Other non-operating income		(35)	(12)
Foreign exchange loss, net		619	409
Changes in net working capital:			
Increase in accounts receivable		(393)	(965)
Decrease/ (increase) in inventories		13	(38)
(Decrease)/ increase in payables and accruals		(197)	2,012
Cash generated from operations		**5,213**	**8,737**
Interest paid		(70)	(108)
Interest received		632	450
Income tax paid		(641)	(5,223)
Net cash provided by operating activities		**5,134**	**3,856**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,086)	(3,213)
Proceeds from sale of property, plant and equipment		74	162
Purchase of available-for sale investments		-	(28)
Purchase of financial assets, other than available-for-sale investments		(8,745)	(4,265)
Proceeds from sale of available-for-sale investments, net of direct costs		-	11,413
Proceeds from sale of financial assets, other than available-for-sale investments, net of direct costs		6,863	3,847
Purchase of additional share in associates		-	(1,330)
Dividends received from associates		4	-
Net cash received (used in)/ from investing activities		**(3,890)**	**6,586**
Cash flows from financing activities			
Drawdown of interest bearing loan facilities		49	172
Repayment of interest bearing loans and loan facilities		(187)	(278)
Repayment of lease obligations		(33)	(85)
Repayment of vendor financing payable		-	(205)
Dividends paid to equity holders of the parent		(212)	(6)
Net cash used in financing activities		**(383)**	**(402)**
Effect of exchange rate changes on cash and cash equivalents		**(37)**	**(518)**
Net increase in cash and cash equivalents		**824**	**9,522**
Cash and cash equivalents at the beginning of period		**11,992**	**3,284**
Cash and cash equivalents at the end of period		**12,816**	**12,806**
Non-monetary transactions:			
Non-cash additions to property, plant and equipment and intangible assets		**-**	**216**

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

(In millions of Russian Rubles)

		Attributable to equity holders of the parent					Non-controlling interest	Total equity
	Note	**Share capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Total**		
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 other comprehensive income, net of tax (unaudited)		**-**	**(6,281)**	**-**	**-**	**(6,281)**	**-**	**(6,281)**
Profit for the period (unaudited)		-	-	-	9,826	9,826	1	9,827
Total comprehensive income (unaudited)		**-**	**(6,281)**	**-**	**9,826**	**3.545**	**1**	**3,546**
Dividends (unaudited)	4	-	-	-	(2,356)	(2,356)	-	(2,356)
Balances at June 30, 2008 (unaudited)		**100**	**636**	**-**	**56,580**	**57,316**	**27**	**57,343**
Balances at December 31, 2008		**100**	**95**	**258**	**58,932**	**59,385**	**40**	**59,425**
Available-for-sale investments								
Valuation gain on available-for-sale investments, net of tax (unaudited)		-	117	-	-	117	-	117
Total other comprehensive income, net of tax (unaudited)		**-**	**117**	**-**	**-**	**117**	**-**	**117**
Profit for the period (unaudited)		-	-	-	1,638	1,638	(207)	1,431
Total comprehensive income (unaudited)		**-**	**117**	**-**	**1,638**	**1,755**	**(207)**	**1,548**
Dividends (unaudited)	4	-	-	-	(2,122)	(2,122)	-	(2,122)
Balances at June 30, 2009 (unaudited)		**100**	**212**	**258**	**58,448**	**59,018**	**(167)**	**58,851**

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, 2009, 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 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 and for the year ended December 31, 2008, except for the new IFRSs and IFRIC Interpretations as disclosed below.

The condensed consolidated interim financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2008. 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, 2009, the Group applied the following IFRSs and IFRIC Interpretations:

- IAS No. 1 “Presentation of Financial Statements (Revised)”;
- IAS No. 23 “Borrowing Costs (Revised)”;
- IAS No. 27 “Consolidated and Separate Financial Statements (Revised)”;
- IAS No. 32 “Financial Instruments: Presentation (Revised)”;

- IFRS No. 2 "Share-based Payment (Revised)";
- IFRS No. 3 "Business Combinations (Revised)";
- IFRS No. 8 "Operating Segments";
- IFRIC No. 13 "Customer Loyalty Programmes";
- IFRIC No. 15 "Agreements for the Construction of Real Estate";
- IFRIC No. 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRIC No. 17 "Distributions of Non-cash Assets to Owners";
- Improvements to International Financial Reporting Standards 2008.

The adoption of new/ revised Standards and Interpretations did not have material impact on the Group's results of operations, financial position and cash flows, except for non-controlling interests.

The Group has adopted early IAS 27 Consolidated and Separate Financial Statements (2008). This revised standard requires that losses applicable to non-controlling interests, including negative other comprehensive income, should be allocated to non-controlling interests even if doing so causes non-controlling interests to have a deficit balance. Previously, losses that exceeded the minority interests in the equity of the subsidiary might have created a deficit balance only if the minority had a binding obligation to fund the losses and is able to make an additional investment to cover the losses. If a deficit on a subsidiary attributable to minority interest was previously absorbed by the Company, the Group has not adjusted this balance in the opening statement of financial position on the adoption of IAS 27 (2008). Instead, total comprehensive loss arising subsequent to adoption of IAS 27 (2008) was allocated to the parent and to non-controlling interests based on their respective interests. Due to the adoption of IAS 27 (2008), the total comprehensive income of the Group attributable to equity holders of the parent increased by 210 and non-controlling interest decreased by 210 as of and for the six–month period ended June 30, 2009. The change in accounting policy was applied prospectively.

In accordance with revised IAS 1 "Presentation of Financial Statements" the Group elected single statement presentation of comprehensive income.

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, 2009 are presented in the condensed consolidated interim statement of comprehensive income and the condensed consolidated interim statement of financial position, 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.

(In millions of Russian Rubles unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of June 30, 2009 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At December 31, 2008	23,779	89,792	26,031	10,247	149,849
Additions (unaudited)	-	-	103	1,672	1,775
Disposals (unaudited)	(122)	(2,739)	(498)	(20)	(3,379)
Reclassification to intangible assets (unaudited)	-	-	-	(153)	(153)
Transfers (unaudited)	66	1,092	571	(1,729)	-
At June 30, 2009 (unaudited)	23,723	88,145	26,207	10,017	148,092
Accumulated Depreciation and Impairment					
At December 31, 2008	(19,109)	(72,284)	(18,770)	(100)	(110,263)
Depreciation expense (unaudited)	(475)	(1,921)	(1,077)	-	(3,473)
Disposals (unaudited)	116	2,696	480	-	3,292
At June 30, 2009 (unaudited)	(19,468)	(71,509)	(19,367)	(100)	(110,444)
Net book value at December 31, 2008	**4,670**	**17,508**	**7,261**	**10,147**	**39,586**
Net book value at June 30, 2009 (unaudited)	**4,255**	**16,636**	**6,840**	**9,917**	**37,648**

Interest amounting to 123 and 85 was capitalized in property, plant and equipment for the six months ended June 30, 2009 and 2008, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 11.7% and 7.9%, respectively.

Property, plant and equipment with a carrying value of 1,377 and 1,610 were pledged in relation to loan agreements entered into by the Group as of June 30, 2009 and December 31, 2008, respectively. Included in pledged property, plant and equipment as of June 30, 2009 and December 31, 2008 is also Satellite Gateway equipment with no carrying value pledged in connection with vendor financing received from Globalstar L.P. (non-controlling shareholder of ZAO GlobalTel). Currently, ZAO GlobalTel is in default on this vendor financing (Note 6).

4. SHAREHOLDERS' EQUITY

On May 30, 2009 shareholders approved dividends of 2,122 for the year ended December 31, 2008. Ordinary shares dividends amounted to 1.9410 Ruble per share (1,414.4) and dividends on the preferred shares amounted to 2.9124 Ruble per share (707.2). At June 30, 2009 235 of this amount is paid for ordinary shares. The remaining 1,887 is included in accounts payable, provisions and accrued expenses in the condensed consolidated interim statement of financial position.

(In millions of Russian Rubles unless otherwise stated)

5. BORROWINGS

The interest bearing borrowings as of June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009 (unaudited)	December 31, 2008
Maturity		
Current portion	**2,615**	**2,535**
Between one to two years	63	117
Between two to three years	-	-
Non-current portion	**63**	**117**
Total interest bearing borrowings	**2,678**	**2,652**

As of June 30, 2009 and December 31, 2008, interest bearing loans are denominated in the following foreign currencies:

	June 30, 2009 (unaudited)	December 31, 2008
US Dollars (US$)	2,478	2,342
EURO	-	30
Foreign currency denominated loans	**2,478**	**2,372**
Russian Ruble denominated loans	200	280
Total long-term borrowings	**2,678**	**2,652**

Included in current portion of long-term borrowings is an amount of 2,086 on a credit agreement between Rostelecom and Vnesheconombank entered into in December 2005. Under the existing credit 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, 2008 and March 31, 2009 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 the respective reporting dates. The Group received waivers from the bank only after the reporting dates (in May 2009 and June 2009, respectively). The Group was not in compliance with the financial covenants as of June 30, 2009 and no waiver had been received from the bank before the reporting date. Therefore, the amounts of 2,086 and 1,959 were reclassified to current portion of long-term borrowings in the consolidated statement of financial position as of June 30, 2009 and December 31, 2008 respectively.

During the six months ended June 30, 2009, the Group made the following payments in accordance with the loan agreements:

- 26 (US$ 0.8 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, 2009 is 69 (US$ 2.2 million). 46 are included in current portion of long-term borrowings.

- 53 (US$ 1.7 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, 2009 is 2,086 (US$ 66.7 million). 2,086 are included in current portion of long-term borrowings.

- 33 (EURO 0.7 million) on a credit agreement between Rostelecom and ING BHF-BANK entered into in April 2004. The loan was fully repaid in 2009.

- 43 within credit line agreements between Globus-Telecom and OJSC Svyazbank. The total outstanding amount as of June 30, 2009 is 21. 21 are included in current portion of long-term borrowings.

- 64 within promissory notes between Globus-Telecom and CJSC Association of leasing companies. The total outstanding amount as of June 30, 2009 is 109. 85 are included in current portion of long-term borrowings and 24 are included short-term borrowings.

- 6 within credit line agreement between ZebraTelecom and OJSC Svyazbank. The credit line was fully repaid in 2009.

- 32 within credit line agreements between ZebraTelecom and OJSC Promsvyazbank. Within the above mentioned credit line agreement ZebraTelecom received 49 during the six months ended June 30, 2009. The total outstanding amount as of June 30, 2009 is 70. 30 are included in short-term borrowings.

Interest bearing loans as of June 30, 2009 include loans of GlobalTel from Loral Space and Communications Corporations (“Loral”) of 323 (US$ 10.3 million) in total. GlobalTel is in default in respect of these loans. A penalty which amounted to 106 (US$ 3.4 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 statement of financial position as of June 30, 2009. The loans do not provide for any collateral. In 2006 Loral brought an action against ZAO GlobalTel claiming immediate repayment of the loan. In 2009, the Supreme Court of Arbitration ordered CJSC GlobalTel to repay the loan and penalty to Loral.

6. VENDOR FINANCING PAYABLE

As of June 30, 2009 vendor financing payable includes the following:

- 1,776 (US$ 57 million) payable by GlobalTel to Globalstar L.P., which is the non-controlling 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 2004-2008 and 2009 and has not obtained a waiver from Globalstar L.P. As a result, the whole balance of 1,285 (2008: 1,207) (US$ 41 million) is classified as current in the accompanying consolidated statement of financial position as of December 31, 2008 and in the condensed consolidated interim financial statement as of June 30, 2009. Penalty interest of 491 and 401, accrued for each day of delay at the rate of 10% p.a, is included in vendor financing payable in that statement of financial position as of June 30, 2009 and December 31, 2008, 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.

(In millions of Russian Rubles unless otherwise stated)

7. REVENUE

Revenue comprised the following for the six months ended June 30, 2009 and 2008:

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Telephone traffic		
Domestic long-distance traffic	13,253	14,693
Outgoing international long-distance traffic	5,691	5,829
Incoming and transit international long-distance traffic	3,364	2,765
	22,308	**23,287**
Rent of channels	**3,797**	**3,955**
Data transmission services	**4,134**	**1,435**
Other revenue		
Television and radio transmission	131	183
Satellite services	86	139
Intelligent network services (INS)	522	653
Interconnection services	7	155
Technical support services	212	213
Equipment maintenance services	515	414
Miscellaneous revenue	1,062	965
	2,535	**2,722**
Total revenue	**32,774**	**31,399**

8. 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 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 Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(In millions of Russian Rubles unless otherwise stated)

(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 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 the amount of 13 and 16 in the six month periods ended June 30, 2009 and 2008, 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.

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

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenue	1,562	1,092
Charges by network operators – national	(7,185)	(7,798)
Administration and other costs	(68)	(50)
Contributions in pension fund included in wages, salaries, other benefit and payroll taxes	(36)	(32)
Bad debt (expense)/ recovery	2	89

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

	June 30, 2009 (unaudited)	December 31, 2008
Accounts receivable	694	690
Allowance for doubtful receivables	(151)	(153)
Accounts payable	(395)	(848)

(In millions of Russian Rubles unless otherwise stated)

(d) Transactions with the Government

Other state bodies ("Budget Organizations"), such as the Ministry of Defence and entities funded by the Government, mainly use the Group's network to carry communications traffic and to broadcast across the country. The Group also consumes some services having both production and miscellaneous nature.

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

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenue	2,588	2,947
Charges by network operators – national	(265)	(191)
Administration and other costs	(443)	(422)
Contributions to Fund of Telecommunication History (included in administration and other costs)	-	(13)
Bad debt (expense)/ recovery	(25)	39

The amounts of receivables and payables due from and to such organizations were as follows:

	June 30, 2009 (unaudited)	December 31, 2008
Accounts receivable	1,065	636
Allowance for doubtful receivables	(47)	(26)
Accounts payable	(121)	(372)

The Group is also involved in providing telecommunication services to a significant number of commercial entities, which are directly or indirectly controlled by the Government or subsidiaries of governmentally controlled entities. The following table summarizes the effect of transactions with the above entities on the consolidated financial statements of the Group:

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Share of total revenue	1.4%	1.1%
Share of charges by network operators – national	3.7%	3.8%
Share of administration and other costs	7.0%	6.3%

	June 30, 2009 (unaudited)	December 31, 2008
Share of accounts receivable	3.1%	2.4%
Share of allowance for doubtful receivables	3.6%	2.4%
Share in intangible assets	6.4%	6.7%
Share of trade accounts payable	1.2%	1.0%

(e) 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:

(In millions of Russian Rubles unless otherwise stated)

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenue	-	149
Administration and other costs	(54)	(56)
Bad debt (expense)/ recovery	3	33

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

	June 30, 2009 (unaudited)	December 31, 2008
Accounts receivable	8	8
Allowance for doubtful receivables	(2)	(5)
Accounts payable and accrued expenses	(12)	(17)

(f) Directors' remuneration

For the six months ended June 30, 2009 and June 30, 2008, the total remuneration of the directors and management board members, represented by short-term benefits, amounted to 58 and 50, respectively.

9. 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 changes in contingencies since the date of issuance of the consolidated financial statements of the Group as of and for the year ended December 31, 2008.

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, 2009 and December 31, 2008, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 2,316 and 3,134, respectively.