

OJSC VolgaTelecom

CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE
PERIOD OF 6 MONTHS ENDED JUNE 30, 2009

OJSC VolgaTelecom

Consolidated interim financial statements prepared under International Financial Reporting Standards (IFRS) for the period of 6 months ended June 30, 2009

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OJSC VolgaTelecom
Consolidated Interim Balance Sheet as of June 30, 2009.
(RUB million)

	Notes	June 30, 2009	December 31, 2008
ASSETS			
Non-current assets			
Property, plant and equipment		41 278	43 911
Intangible assets		4 654	4 764
Other long-term assets		241	311
Investments in associates		168	162
Long-term financial assets		31	27
Total non-current assets		<u>46 372</u>	<u>49 175</u>
Current assets			
Inventories		505	483
Trade and other accounts receivable		2 915	2 628
Prepaid income tax		230	87
Other current assets		481	408
Current financial assets		662	204
Cash and cash equivalents		2 388	1 678
		<u>7 181</u>	<u>5 488</u>
Assets for sale		124	150
Total current assets		<u>7 305</u>	<u>5 638</u>
Total assets		<u><u>53 677</u></u>	<u><u>54 813</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		3 854	3 854
Retained earnings		24 482	23 353
Total equity attributable to equity holders of the parent		<u>28 336</u>	<u>27 207</u>
Minority interest		9	31
Total equity		<u>28 345</u>	<u>27 238</u>
Non-current liabilities			
Long-term borrowings		7 892	9 486
Pension and non-current social liabilities		2 042	1 984
Other non-current liabilities		486	499
Deferred income tax liabilities		2 108	2 151
Total non-current liabilities		<u>12 528</u>	<u>14 120</u>
Current liabilities			
Current borrowings		7 100	7 541
Accounts payable and accruals		4 970	5 246
Income tax payable		131	-
Other current liabilities		601	659
Current provisions		2	9
Total current liabilities		<u>12 804</u>	<u>13 455</u>
Total liabilities		<u>25 332</u>	<u>27 575</u>
TOTAL EQUITY AND LIABILITIES		<u><u>53 677</u></u>	<u><u>54 813</u></u>

General Director _____ Vladimir I. Rybakin Chief Accountant _____ Nikolai I. Popkov

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

OJSC VolgaTelecom

Consolidated Interim Income Statement

For 6 months ended June 30, 2009

(RUB million, other than earnings per share)

Notes	For 6 months ended June 30,	
	2009	2008
Sales revenue	16 112	15 764
Personnel costs	(4 341)	(4 283)
Depreciation and amortization	(3 713)	(3 242)
Telecom's operators expenses	(1 770)	(1 883)
Materials, repairs and maintenance, utilities	(1 269)	(1 341)
Other operating income	692	533
Other operating expenses	(2 284)	(2 529)
Operating profit	3 427	3 019
Share in result of associates	6	6
Financial costs	(1 133)	(766)
Other profit and expenses from financial and investment operations	138	52
Foreign exchange gain (loss)	(91)	27
Profit before taxation from continuing operations	2 347	2 338
Income tax	(502)	(616)
Profit for the reporting period	1 845	1 722
Profit (loss) for the reporting period attributable to:		
equity holders of the parent	1 853	1 689
minority shareholders of subsidiary companies	(8)	33
Profit for the reporting period	1 845	1 722
Basic earnings per share and diluted earnings per share attributable to equity holders of the parent (RUB) for the reporting period	7,53	6,87

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OJSC VolgaTelecom
Consolidated Interim Comprehensive Income Statement
For 6 months ended June 30, 2009
(RUB million)

	Notes	For 6 months ended June 30,	
		2009	2008
Profit for the reporting period		1 845	1 722
Change of fair value of financial assets available for sale		-	-
Total comprehensive income for the reporting period		1 845	1 722
Comprehensive income for the reporting period attributable to:			
equity holders of the parent		1 853	1 689
minority shareholders of subsidiary companies		(8)	33
Total comprehensive income for the reporting period		1 845	1 722

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OJSC VolgaTelecom
Consolidated Interim Cash Flow Statement
For 6 months ended June 30, 2009
(RUB million)

	For 6 months ended June 30,	
Notes	2009	2008
Operating activity		
Pretax earnings from continuing operations	2 347	2 338
Pretax earnings	<u>2 347</u>	<u>2 338</u>
Adjustments for		
Depreciation and amortization	3 713	3 242
Profit (loss) on disposal of property, plant and equipment and of other assets	18	41
(Expenses for establishing) re-establishment of provision for impairment of inventories and other assets	(3)	(3)
(Expenses for establishing) re-establishment of provision for doubtful debts	(444)	137
Share of results of associates	(6)	(6)
Financial expenses	1 018	711
Other operating income (expenses)	(138)	(52)
Foreign exchange gain (loss)	91	(27)
Operating profit (loss) after adjustments for non-monetary transactions	<u>6 596</u>	<u>6 381</u>
Reduction in inventories	(21)	(68)
Reduction in trade and other accounts receivable	(29)	(250)
Increase in other current assets	29	79
Decrease (increase) in employee benefits	57	(49)
Increase (decrease) in accounts payable and accruals	378	(75)
Increase (decrease) in provisions	(7)	-
Decrease (increase) in other operating assets and liabilities	(55)	539
Cash flows from operations	<u>6 948</u>	<u>6 557</u>
Interest paid	(1 033)	(723)
Income tax paid	(557)	(838)
Net cash flows generated from (utilized in) core operations	<u>5 358</u>	<u>4 996</u>
Investing activities		
Acquisition of property, plant and equipment, work in progress and investment property	(2 308)	(2 792)
Sales of property, plant and equipment, work in progress and investment property	55	112
Acquisition of intangible assets	(253)	(480)
Acquisition of subsidiaries, net of cash acquired	(349)	-
Acquisition of financial assets	(648)	-
Sales of financial assets	243	-
Interest received	133	49
Dividend received	2	-
Net cash flows generated from (utilized in) investing activities	<u>(3 125)</u>	<u>(3 111)</u>

OJSC VolgaTelecom
Consolidated Interim Cash Flow Statement
For 6 months ended June 30, 2009 (continued)
(RUB million)

	Notes	For 6 months ended June 30,	
		2009	2008
Financing activities			
Proceeds from loans and borrowings		1 005	2 852
Repayment of loans and borrowings		(1 801)	(2 709)
Repayment of bond issue		(463)	-
Proceeds from promissory notes		600	-
Repayment of promissory notes		(379)	-
Repayment of vendor financing liabilities		(134)	(237)
Repayment of finance lease obligations		(347)	(175)
Dividends paid to VolgaTelecom's shareholders		(4)	(33)
Dividends paid to minority shareholders of subsidiaries		-	(4)
Net cash flows generated from (utilized in) financing activities		(1 523)	(306)
Effect of currency rates changes on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents		710	1 579
Cash and cash equivalents at the reporting period beginning		1 678	495
Cash and cash equivalents at the reporting period end		2 388	2 074

General Director _____ Vladimir I. Rybakin Chief Accountant _____ Nikolai I. Popkov

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

OJSC VolgaTelecom
Consolidated Interim Statement of Changes in Equity
For 6 months ended June 30, 2009
(RUB million)

Notes	Share capital		Revaluation reserve for available-for-sale investments	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	Preference shares	Ordinary shares					
Balance as of December 31, 2007	963	2 891	6	22 041	25 901	253	26 154
Total revenue for the reporting period	-	-	-	1 688	1 688	33	1 721
Dividends to equity holders of the parent	-	-	-	(857)	(857)	-	(857)
Dividends of subsidiaries to minority shareholders	-	-	-	-	-	(4)	(4)
Balance as of June 30, 2008	963	2 891	6	22 872	26 732	282	27 014
Balance as of December 31, 2008	963	2 891	1	23 352	27 207	31	27 238
Effect of changes of accounting policy and/or adjustment of errors	-	-	-	15	15	(15)	-
Balance as of December 31, 2008 (adjusted)	963	2 891	1	23 367	27 222	16	27 238
Total revenue for the reporting period	-	-	-	1 852	1 852	(7)	1 845
Dividends to equity holders of the parent	-	-	-	(738)	(738)	-	(738)
Balance as of June 30, 2009	963	2 891	1	24 481	28 336	9	28 345

General Director _____ Vladimir I. Rybakin Chief Accountant _____ Nikolai I. Popkov

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

1. General

Authorization of Accounts

The consolidated interim financial statements of OJSC VolgaTelecom (hereinafter - “the Company”) and its subsidiaries (hereinafter – “VolgaTelecom Group”) for 6 months ended June 30, 2009 were authorized for issue in accordance with the decision of the General Director and the Chief Accountant dated September 15, 2009.

VolgaTelecom Group

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

The principle place of business of VolgaTelecom Group is Dom Svyazi, Maxim Gorky Square, Nizhny Novgorod city, 603000, Russia.

VolgaTelecom Group provides local, intrazonal telephony services, data transmission network services, telematic services, telegraphy services, wire broadcasting services, communications services for the purposes of cable and on-air broadcasting, mobile radio telephony and radio communications services, rents out communication lines in the territory of the Volga region of the Russian Federation in accordance with the licenses issued by the Ministry of Telecommunications and Mass Communication of the Russian Federation.

OJSC Svyazinvest, a company controlled by the Russian Federation Government, owns 50.67% of VolgaTelecom Group ordinary voting shares as of June 30, 2009, is the parent company for OJSC VolgaTelecom.

Information on main subsidiaries is disclosed in Note 6. All subsidiaries 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 VolgaTelecom Group annual consolidated financial statements for the year ended December 31, 2008.

Going concern

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

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

Basis of accounting

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

Changes in Accounting Policies

The accounting policies adopted for preparing consolidated financial statements for 6 months of 2009 are consistent with those of the previous financial year, except the provisions of the accounting policies modified due to the approval of new and/or revision of Standards and Interpretations of IFRS effective on or after January 01, 2009.

The changes in the accounting policies are related to the application of new or revised Standards and Interpretations:

Standard / Interpretation	Content of changes	Effects
IFRS 8 «Operating segments»	It sets out requirements for disclosure of information about operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of assessment of segment financial information, requiring that financial data of operating segments to be presented in the assessment when the information in regard to the segments is furnished to the Company's management for making decisions of allocation of resources to ensure the segments operations, and also the assessment of their operations. It requires disclosure of the factors used in identifying operating segments.	New disclosures are provided in Note 5.
IAS 1 (as revised in 2007) «Presentation of Financial Statements»	It requires presentation of all owners changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognized immediately in equity) are required to be presented separately. It introduces the statement of comprehensive income which shall present all income and expenses recognized in income statement, as well as other income and expenses recognized directly in equity. Changes in income and expenses recognized in equity may be presented either in one statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income.	These financial statements comprise new/revised reporting forms.
IAS 23 (as revised in 2006) «Borrowing Costs»	It removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to prepare for intended use or sale.	The revised Standard did not have effect on financial position or the results of operations of the Group.
Amendments to IAS 32 and IAS 1 «Puttable Financial Instruments and Obligations Arising on Liquidation»	The amendments require that certain financial instruments and liabilities arising in liquidation be classified as equity if certain conditions are met. They also define what information is to be disclosed with regard to puttable financial instruments classified as equity.	The amendments did not have effect on financial position or the results of operations of the Group.

Amendments to IFRS 2 “Share-Based payment – Vesting Conditions and Cancellations”	The amendments define the term vesting conditions as an explicit or implicit requirement of completing the service. Other conditions are non-vesting conditions and should be taken into account when measuring the fair value of equity instruments granted. If the rights to an equity instrument were not transferred due to the failure to meet a non-vesting condition which was to be met by an entity or its counterparty, an equity instrument should be derecognized.	The amendments did not have effect on financial position or the results of operations of the Group.
IFRS 3 (as revised in 2008) “Business Combinations”	It makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial results to be recognized in the period of acquisition and subsequent periods.	The revised standard has made changes in the procedure of consolidation of subsidiaries, but it did not have material effect on financial position or the results of operations of the Group.
IAS 27 (as revised in 2008) “Consolidated and Separate Financial Statements”	It requires that any changes in a parent’s ownership interest in a subsidiary are accounted for within equity. It also amends requirements of for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised standard has made changes in the procedure of consolidation of subsidiaries, but it did not have material effect on financial position or the results of operations of the Group.
IFRIC Interpretation 13 “Customer Loyalty Programmes”	It requires that award credits to support customer loyalty should be accounted for as a separately identifiable component of the sales transactions in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	The interpretation did not have effect on financial position or the results of operations of the Group.
IFRIC Interpretation 15 “Agreements for the Construction of Real Estate”	It defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principles within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue”.	The interpretation did not have effect on financial position or the results of operations of the Group.
IFRIC Interpretation 16 “Hedges of a Net Investment in a Foreign Operation”	It determines which risks related to investments in foreign operations qualify for hedge accounting and addresses hedge accounting rules.	The interpretation did not have effect on financial position or the results of operations of the Group.
IFRIC Interpretation 17 “Distribution of Non-cash Assets to Owners”	It provides guidance on accounting for distribution of assets other than cash (non-cash assets) to owners. The interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	The interpretation did not have effect on financial position or the results of operations of the Group.
IFRIC Interpretation 18 “Transfer of Assets from Customers”	It clarifies the circumstances in which assets transferred from customers should be recognized in the entity’s financial statements, and establishes approaches to the measurement of their cost on initial recognition. The interpretation also discusses situations when the customer provides cash to the entity to acquire such assets.	The interpretation did not have effect on financial position or the results of operations of the Group.
Amendments to IAS 39 and IFRS 7 “Reclassification of Financial Assets”	They set out rules of reclassification of financial assets to different categories and establish disclosure requirements in respect of reclassifications made.	The amendments did not have effect on financial position or the results of operations of the Group.
Various Improvements to Financial Reporting Standards	Improvements to various Standards eliminate a number of inconsistencies in the current versions of International Financial Reporting Standards.	The amendments required by this project were taken into account when preparing Interim Financial Statements of the Group.

Foreign currency transactions

The functional and presentation currency of VolgaTelecom Group 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, 2009 and December 31, 2008 were as follows:

	June 30, 2009	December 31, 2008
US Dollar	31.2904	29.3804
EURO	43.8191	41.4411

3. Summary of Significant Accounting Policies

The consolidated interim financial statements have been prepared under VolgaTelecom Group 2009 unified accounting policy which is the previous year accounting policy adjusted in accordance with requirements of above-stated new/revised Standards/Interpretations.

4. Significant Accounting Estimates

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 VolgaTelecom Group consolidated financial statements for 2008.

5. Segment reporting

VolgaTelecom Group provides fixed-line and mobile services. Reporting segment “VolgaTelecom – fixed line telecommunication” comprises local, intrazonal telephony services, telegraphy services, data transmission and telematic services, other services of core operations provided by Kirov regional subsidiary, Nizhny Novgorod regional subsidiary, Orenburg regional subsidiary, Samara regional subsidiary, Saratov regional subsidiary, Penza regional subsidiary, Ulyanovsk regional subsidiary, Mordovia Republic regional subsidiary, Mariy-El Republic regional subsidiary, Udmurtia Republic regional subsidiary and Chuvashia Republic regional subsidiary. Each of the above listed regional subsidiaries is a separate operating segment. In addition, General Directorate incurs expenditures related to the management of regional subsidiaries operations and on behalf of the Company upon the whole.

Reporting segment “Subsidiaries – fixed-line telecommunication” comprises local telephony services, telegraphy services, data transmission network services provided by ZAO Transsvyaz, OJSC OMRIX, and LLC Nizhegorodskiyi Teleservice. Each of the above listed subsidiaries is a separate operating segment.

Reporting segment “Subsidiaries – mobile telecommunication” comprises mobile telecommunication services (GSM-900, CDMA) provided by ZAO Nizhegorodskaya Sotovaya Svyaz, ZAO Ulyanovsk-GSM, ZAO Orenburg-GSM and ZAO Narodnyi Telephone Saratov. Each of the above listed subsidiaries is a separate operating segment.

Rates and prices on inter-segment operations are established in the same way as prices on operations with third parties. Segment income, expenses and financial results allow transfer inter-segment operations eliminated while being consolidated.

Unallocated expenses, assets and liabilities are expenses, assets and liabilities relating to VolgaTelecom Group as a whole.

Segments assets consist primarily of property, plant and equipment, intangible assets, inventories, accounts receivable, long-term advances paid out, as well as other assets used in meeting the challenges of VolgaTelecom Group.

Segments liabilities include operating liabilities, pension benefits and long-term liabilities on social contributions, current income tax payable, financial liabilities, provisions and deferred income tax liabilities.

Capital expenditure comprises acquisition of property, plant and equipment and of intangible assets.

At June 30, 2009 and for 6 months of 2009.

	2009			
	OJSC VolgaTelecom – fixed-line telecommunication	Subsidiaries – fixed-line telecommunication	Subsidiaries - mobile telecommunication	Total segments
SALES REVENUE				
Sales revenue from third parties	13 277	35	2 800	16 112
Sales revenue between the segments	98	-	94	192
Sales revenue within the segment	-	-	19	19
Total sales revenue	13 375	35	2 913	16 323
Interest receipts	94	-	47	141
Interest expense	(852)	-	(99)	(951)
Pretax earnings	2712	2	486	3 200
Income tax	(485)	(1)	(105)	(591)
Profit (loss) for the reporting period	2 227	1	381	2 609
ASSETS AND LIABILITIES				
Assets as per operations segments	44 097	70	6 961	51 128
Segment liabilities	(19 508)	(15)	(2 841)	(22 364)
OTHER SEGMENT INFORMATION				
Capital expenditure				
Property, plant and equipment	391	-	451	842
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)

Collation of segment data and of consolidated data

	2009			
	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for company
SALES REVENUE				
	16 112	-	-	16 112
Sales revenue from third parties				
Sales revenue between the segments	192	-	(192)	-
Sales revenue within the segment	19	-	(19)	-
Total sales revenue	16 323	-	(211)	16 112
Share of result from associates	-	-	6	6
Interest receipts	141	-	(4)	137
Interest expense	(951)	(185)	3	(1 133)
Pretax earnings	3 200	(267)	(586)	2 347
Income tax	(591)	89	-	(502)
Profit for the reporting period	2 609	(178)	(586)	1 845
ASSETS AND LIABILITIES				
Assets as per operations segments	51 128	6 733	(4 184)	53 677
Segment liabilities	(22 364)	(4 281)	1 313	(25 332)

OTHER SEGMENT INFORMATION

Capital expenditure

Property, plant and equipment	842	81	-	924
Intangible assets	-	193	-	193
Depreciation and amortization	(2 879)	(835)	1	(3 713)
Impairment loss from inventory	1	-	(1)	-
Bad debt provision accrual	(82)	4	(4)	(82)
Pension and long-term social obligations expenses	(117)	57	-	(60)

Information about operating segments

Operating segment	Sales revenue	Operating segment profit (loss)	Segment assets	Segment liabilities
OJSC VolgaTelecom – fixed-line telecommunication	13 375	2 712	44 097	19 508
Kirov regional subsidiary	976	169	2 684	241
Nizhny Novgorod regional subsidiary	2 768	648	6 846	613
Orenburg regional subsidiary	1 489	303	3 138	328
Samara regional subsidiary	1 990	155	5 152	518
Saratov regional subsidiary	1 556	263	3 376	342
Other regional subsidiaries	4 596	1 174	22 901	17 466
Subsidiaries – fixed-line telecommunication	35	2	70	15
ZAO Transsvyaz	-	(2)	-	-
OJSC OMRIX	-	-	1	2
LLC Nizhegorodskiy Teleservice	35	4	69	13
Subsidiaries – mobile telecommunication	2 913	486	6 961	2 841
ZAO Nizhegorodskaya Sotovaya Svyaz	2 329	387	5 711	2 170
ZAO Narodnyi Telephone Saratov	23	(17)	187	161
ZAO Orenburg-GSM	110	(2)	223	162
ZAO Ulyanovsk-GSM	450	118	840	349

At December 31, 2008 and for 6 months of 2008:

	2008			Total segments
	OJSC VolgaTelecom – fixed-line telecommunication	Subsidiaries – fixed-line telecommunication	Subsidiaries - mobile telecommunication	

SALES REVENUE

Sales revenue from third parties	12 843	53	2 835	15 731
Sales revenue between the segments	104	4	98	206
Sales revenue within the segment	-	-	22	22
Total sales revenue	12 947	57	2 955	15 959
Interest receipts	52	-	3	55
Interest expense	(529)	-	(27)	(556)
Pretax earnings	2 349	13	795	3157
Income tax	(586)	(3)	(168)	(757)
Profit for the reporting period	1 763	10	627	2 400

ASSETS AND LIABILITIES

Assets as per operations segments	44 157	74	7 118	51 349
Segment liabilities	(21 239)	(12)	(2 813)	(24 064)

OTHER SEGMENT INFORMATION

Capital expenditure

Property, plant and equipment	1 843	-	671	2 514
Intangible assets	-	-	-	-

Depreciation and amortization	(2 139)	-	(348)	(2 487)
Impairment loss from inventory	2	-	-	2
Bad debt provision accrual	(126)	-	(6)	(132)
Pension and long-term social obligations expenses	(110)	-	-	(110)

Collation of segment data and of consolidated data

	2008			
	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for company
SALES REVENUE				
	15 731	33	-	15 764
Sales revenue from third parties				
Sales revenue between the segments	206	-	(206)	-
Sales revenue within the segment	22	-	(22)	-
Total sales revenue	15 959	33	(228)	15 764
Share of result from associates	-	-	6	6
Interest receipts	55	-	(5)	50
Interest expense	(556)	(210)	-	(766)
Pretax earnings	3 157	(337)	(482)	2 338
Income tax	(757)	141	-	(616)
Profit for the reporting period	2 400	(196)	(482)	1 722

ASSETS AND LIABILITIES

Assets as per operations segments	51 349	7 075	(3 611)	54 813
Segment liabilities	(24 064)	(4 264)	753	(27 575)

OTHER SEGMENT INFORMATION

Capital expenditure

Property, plant and equipment	2 514	1 447	-	3 961
Intangible assets	-	332	-	332
Depreciation and amortization	(2 487)	(754)	(1)	3 242
Impairment loss from inventory	2	-	-	2
Bad debt provision accrual	(132)	3	(8)	(137)
Pension and long-term social obligations expenses	(110)	(105)	-	(5)

Information about operating segments

Operating segment	Sales revenue	Operating segment profit (loss) before tax	Segment assets	Segment liabilities
OJSC VolgaTelecom – fixed-line telecommunication	12 947	2 349	44 157	21 239
Nizhny Novgorod regional subsidiary	2 659	620	7 106	934
Orenburg regional subsidiary	1 448	270	3 294	370
Samara regional subsidiary	1 953	229	5 475	758
Saratov regional subsidiary	1 520	228	3 589	391
Kirov regional subsidiary	962	153	2 815	365
Other regional subsidiaries	4 405	849	21 878	18 421
Subsidiaries – fixed-line telecommunication	57	13	74	12
ZAO Transsvyaz	10	2	3	0
OJSC OMRIX	-	-	1	2
LLC Nizhegorodskiy Teleservice	47	11	70	10
Subsidiaries – mobile telecommunication	2 955	795	7 118	2 813
ZAO Nizhegorodskaya Sotovaya Svyaz	2 372	672	5 851	2 124
ZAO Narodnyi Telephone Saratov	31	(16)	197	155
ZAO Orenburg-GSM	130	11	243	180
ZAO Ulyanovsk-GSM	422	128	827	353

6. Subsidiaries

Subsidiaries controlled by OJSC VolgaTelecom are

Subsidiary	Activity	Ownership, %		Voting shares, %	
		June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
ZAO Nizhegorodskaya Sotovaya Svyaz	Mobile telecommunication services (GSM)	100	100	100	100
ZAO Transsvyaz	Local telephony services	100	100	100	100
OJSC OMRIX LLC Nizhegorodskiyi Teleservice	Local telephony services	74	74	74	74
ZAO Orenburg-GSM	Telecommunication services	100	100	-	-
ZAO Ulyanovsk-GSM	Mobile telecommunication services (GSM-900)	51	51	51	51
ZAO Narodnyi Telephone Saratov	Mobile telecommunication services (GSM-900)	100	100	100	100
	Mobile telecommunication services (CDMA)	50+1 share	50 +1 share	50+1share	50+1share

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.

7. Assets and liabilities held-for-sale, and discontinued operations

At June 30, 2009 and at December 31, 2008 VolgaTelecom Group classified a part of its property, plant and equipment and construction in progress as assets held-for-sale, their balance sheet value amounted to 149 (2008 – 177).

Profit from revaluation of assets held-for-sale in amount of 1 (6 months of 2008 – 0) was recognized in “Other operating expenses” in consolidated income statement.

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Construction in progress and equipment for installation	Total
Original cost at 30.06.09	187	53	-	10	250
Accumulated depreciation at 30.06.09	(50)	(51)	-	-	(101)
Impairment loss	(25)	-	-	-	(25)
Net book value at 30.06.09	112	2	-	10	124

8. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devises	Construction in progress and equipment for installation	Vehicles and other	Total
Original cost					
At December 31, 2007	28 544	23 834	1 932	7 137	61 447
Additions	-	-	3 961	-	3 961
Disposals	(123)	(132)	(58)	(50)	(363)

Put into operation	895	1 304	(2 874)	675	-
At June 30, 2008	29 316	25 006	2 960	7 763	65 045
At December 31, 2008	30 050	28 128	2 662	8 479	69 319
Additions	-	-	924	-	924
Additions related to their declassification as assets held-for-sale	41	-	-	-	41
Put into operation	176	1 104	(1 441)	161	-
Disposals	(68)	(222)	(69)	(70)	(429)
At June 30, 2009	30 199	20 010	2 076	8 570	69 855
Accumulated depreciation and impairment					
At December 31, 2007	(7 945)	(8 747)	-	(3 463)	(20 155)
Depreciation charge for the year	(942)	(1 082)	-	(975)	(2 998)
Depreciation charge on disposals	56	85	-	38	178
At June 30, 2008	(8 832)	(9 744)	-	(4 400)	(22 976)
At December 31, 2008	(9 465)	(10 767)	-	(5 176)	(25 408)
Depreciation charge for the year	(1 005)	(1 569)	-	(836)	(3 410)
Depreciation charge for additions related to their declassification as assets held-for-sale	(15)	-	-	-	(15)
Depreciation charge on disposals	60	142	-	54	256
At June 30, 2009	(10 425)	(12 194)	-	(5 958)	(28 577)
Net book value at December 31, 2007	20 599	15 087	3 674	1 932	41 292
Net book value at June 30, 2008	20 486	15 262	2 960	3 363	42 071
Net book value at December 31, 2008	20 585	17 361	3 303	2 662	43 911
Net book value at June 30, 2009	19 774	16 816	2 076	2 612	41 278

As of June 30, 2009 and December 31, 2008 the net book value of property, plant and equipment under finance lease agreements was as follows:

	June 30, 2009	December 31, 2008
Buildings and constructions	611	627
Switches and transmission devices	2 122	2 299
Vehicles and others	52	68
Total, property, plant and equipment under finance lease agreements, net book value	2 785	2 994

The depreciation of property, plant and equipment charged for 6 months of 2009 in the amount of 3 410 (6 months of 2008 – 2 998) was recognized within “Depreciation and Amortization” in the consolidated income statement. (5.154 in year 2007).

At June 30, 2009 the cost of fully depreciated property, plant and equipment amounted to 4 846 (at December 31, 2008 – 4 503).

For 6 months of 2009 VolgaTelecom Group increased the cost of construction-in-progress by the capitalized interest in the amount of 0 (for 6 months of 2008 - 8). Capitalization rate in the first half of 2009 was 0% (for 6 months of 2008 - 8%).

Property, plant and equipment pledged under credit agreements, vendor financing agreements, loan and leasing contracts amounted to 2 851 (at December 31, 2008 – 3 008). 2007: 4,777)

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
Cost								
At December 31, 2007	870	652	4 212	61	64	1	5	5 865
Additions	-	6	326	-	-	-	-	332
At June 30, 2008	870	658	4 538	61	64	1	5	6 197
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
Accumulated amortization and impairment								
At December 31, 2007	-	(147)	(726)	(31)	(23)	-	(2)	(929)
Amortization charged for the year	-	(32)	(206)	(3)	(3)	-	-	(244)
At June 30, 2008	-	(179)	(932)	(34)	(26)	-	(2)	(1 173)
At December 31, 2008	-	(212)	(1 139)	(37)	(29)	-	(2)	(1 419)
Amortization charged for the year	-	(34)	(263)	(3)	(3)	-	-	(303)
At June 30, 2009	-	(246)	(1 402)	(40)	(32)	-	(2)	(1 722)
Net book value at December 31, 2007	870	505	3 486	30	41	1	3	4 936
Net book value at June 30, 2008	870	479	3 606	27	38	1	3	5 024
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

Oracle E-Business Suite

At June 30, 2009 the software included a software product Oracle E-Business Suite with the carrying amount of 1 121 (December 31, 2008 – 1 211).

VolgaTelecom Group commenced using Oracle E-Business Suite and started to amortize the value of the software from the date of its implementation 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, 2009 and June 30, 2008 are disclosed below:

	2009	2008
At January 01	1 211	1 376
Implementation expenses	-	109
Amortization charge	(90)	(69)
At June 30	1 121	1 416

Amdocs Billing Suite Software

At June 30, 2009 the software included a software product Amdocs Billing Suite with the carrying amount of 1 044 (December 31, 2008 – 1 044).

The acquisition of Amdocs Billing Suite was approved by the Company's Board of directors in 2004. The implementation of unified integrated automated billing system based on the Amdocs Billing Suite platform is planned for the year 2010.

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

At June 30, 2009 the software included a software product HP Open View IUM with the carrying amount of 495 (December 31, 2008 – 495).

The software product was purchased for implementation of data collection and processing system.

In 2008 VolgaTelecom Group completed its implementation.

Changes in the carrying amount of the software product HP Open View IUM for 6 months ended June 30, 2009 and June 30, 2008 are disclosed below:

	2009	2008
At January 01	495	370
Implementation expenses	-	122
At June 30	495	492

Licenses

At June 30, 2009 VolgaTelecom Group has the licenses for operations in telecommunications. Useful life of licenses is established on the basis of license provisions individually for each license.

Amortization of intangible assets

Amortization charge for 6 months of 2009 in the amount of 303 (6 months of 2008 - 244) was recorded in line “Depreciation and amortization” of Consolidated Income Statement.

Impairment Testing of Intangible Assets not ready for use

VolgaTelecom Group performed impairment testing of intangibles not ready for use, as well as other intangible assets, goodwill and intangible assets with indefinite useful lives. No impairment was revealed as the result of the test at June 30, 2009.

10. Other long-term assets

	June 30, 2009	December 31, 2008
Long-term advances given for the investing activities	233	301
Long-term advances given for core operations	-	1
Long-term VAT	7	9
Total	240	311

11. Investments in Associates

Associate	Activity	June 30, 2009		
		Ownership interest, %	Voting share, %	Carrying value
ZAO Samara-Telecom	Local telephony services	28	28	147
ZAO JSCB C-Bank	Banking services	42	42	21
Total				168

Associate	Activity	December 31, 2008		
		Ownership interest, %	Voting share, %	Carrying value

ZAO Samara-Telecom	Local telephony services	28	28	141
ZAO JSCB C-Bank	Banking services	42	42	21
Total				162

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 VolgaTelecom Group.

VolgaTelecom Group has the following investments in associates net assets of which are negative at June 30, 2009 and December 31, 2008:

Associate	Ownership interest, %	Net assets	
		June 30, 2009	December 31, 2008
ZAO Nizhegorodskiy Radiotelephone	50%	(42)	(41)

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.

Changes in the carrying amount of investments in associates for 6 months ended June 30, 2009 and June 30, 2008 are disclosed below:

	2009	2008
Investments in associates at January 01	162	146
Share of results from associates	6	6
Investments in associates at June 30	168	152

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

Associate	Ownership interest, %	Assets	Liabilities	Revenues	Profit (loss) for the reporting period
At June 30, 2009 and for 6 months ended June 30, 2009					
ZAO Samara-Telecom	28	581	(52)	157	23
ZAO JSCB C-Bank	42	196	(146)	4	(2)
At December 31, 2008 and for 6 months ended June 30, 2008					
ZAO Samara-Telecom	28	572	(66)	177	23
ZAO JSCB C-Bank	42	223	(171)	5	(1)

12. Investments

	June 30, 2009	December 31, 2008
Long-term financial investments available-for-sale	19	20
Long-term investments held to maturity	5	-
Long-term loans given	7	7

Total long-term financial investments	31	27
Short-term financial investments available-for-sale	1	
Short-term investments held to maturity	660	202
Short-term loans given	1	2
Total short-term financial investments	662	204
Total financial investments	693	231

At June 30, 2009 and December 31, 2008 financial investments available-for-sale comprised the following:

Company	June 30, 2009		December 31, 2008	
	Ownership interest, %	Carrying value	Ownership interest, %	Carrying value
Long-term financial investments				
OJSC NTK Zvezda	1.668	48	1.668	48
OJSC Svyazintek				
	13	15	13	15
ZAO Leasing Point	7.3	12	7.3	12
Other	-	11	-	7
Provision for impairment				
	-	(62)	-	(62)
TOTAL	-	24	-	20
Short-term financial investments				
OJSC JSCB RF Sberbank	0.0003	1	-	-
ИТОГО	-	1	-	-

On December 30, 2008 VolgaTelecom Group purchased promissory note of BSGV for 200 with maturity date at February 13, 2009. Face value of promissory note amounted to 203, discount on promissory note amounted to 3. Promissory note was paid off on February 13, 2009.

On May 19, 2009 VolgaTelecom Group purchased promissory note of BSGV for 216 with maturity date at August 26, 2009. Face value of promissory note amounted to 224, discount on promissory note amounted to 8. Promissory note was paid off on August 26, 2009.

On May 19, 2009 VolgaTelecom Group purchased promissory note of Vneshtorgbank for 216 with maturity date at August 31, 2009. Face value of promissory note amounted to 223, discount on promissory note amounted to 7. Promissory note was paid off on August 31, 2009.

On May 20, 2009 VolgaTelecom Group purchased promissory note of RF Sberbank for 216 with maturity date at September 01, 2009. Face value of promissory note amounted to 224, discount on promissory note amounted to 8. Promissory note was paid off on September 01, 2009.

13. Inventories

	June 30, 2009	December 31, 2008
Spare parts	125	142
Cable	111	64
Finished goods and goods for sale	33	30
Housewares	20	18
Fuel	5	7

Construction materials	2	23
Other inventory	209	199
Total	505	483

At June 30, 2009 VolgaTelecom Group established the allowance for obsolete inventories in the amount of 2 (at December 31, 2008 - 3).

14. Trade and Other Receivables

	Gross at June 30, 2009	Bad debt provision	Net at June 30, 2009
Receivables from customers for operating activity	2 703	(661)	2 042
Receivables from customers for non-operating activity	181	(68)	113
Receivables from agents and commissioners	95	-	95
Settlements with personnel	12	-	12
Other receivables	682	(29)	653
Total	3 673	(758)	2 915

	Gross at December 31, 2008	Bad debt provision	Net at December 31, 2008
Receivables from customers for operating activity	2 735	(632)	2 103
Receivables from customers for non-operating activity	162	(55)	107
Receivables from agents and commissioners	106	-	106
Settlements with personnel	9	-	9
Other receivables	323	(20)	303
Total	3 335	(707)	2 628

Receivables from customers for operating activity at June 30, 2009 and December 31, 2008 comprise the following:

	Gross at June 30, 2009	Bad debt provision	Net at June 30, 2009
Receivables from individuals	1 356	(276)	1 080
Receivables from telecommunication operators	543	(240)	303
Receivables from commercial organizations	528	(107)	421
Receivables from budget organizations	250	(12)	238
Tariff compensation from the state budget	26	(26)	-
Total receivables from customers for operating activity	2 703	(661)	2 042

	Gross at December 31, 2008	Bad debt provision	Net at December 31, 2008
Receivables from individuals	1 263	(254)	1 009
Receivables from telecommunication operators	784	(241)	543
Receivables from commercial organizations	497	(95)	402
Receivables from budget organizations	157	(8)	149
Tariff compensation from the state budget	34	(34)	-
Total receivables from customers for operating activity	2 735	(632)	2 103

The receivable for tariff compensation from the state budget related to granting discounts to certain categories of privileged subscribers amounted to 0.95% of total accounts receivable from customers (December 31, 2008 – 1.25%).

The table below summarizes the changes in bad debt provision:

	<u>2009</u>	<u>2008</u>
Balance at January 01	707	603
Accrual of the allowance	83	137
Write-off	(32)	(32)
Balance at June 30	758	<u>708</u>

15. Other current assets

	Gross at June 30, 2009	Allowance for Impairment	Net at June 30, 2009
Prepayments and advances	186	(4)	182
Deferred expenses	138	-	138
Other prepaid taxes	79	-	79
VAT receivable	39	-	39
Other current assets	57	(14)	43
Total	499	(18)	481

	Gross at December 31, 2008	Allowance for Impairment	Net at December 31, 2008
Prepayments and advances	178	(4)	174
Deferred expenses	96	-	96
VAT receivable	72	-	72
Other prepaid taxes	30	-	30
Other current assets	52	(16)	36
Total	428	(20)	408

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

	<u>2009</u>	<u>2008</u>
Balance at January 01	20	40
Recovery of the allowance	(2)	(1)
Balance at June 30	18	<u>39</u>

16. Cash and Cash Equivalents

	June 30, 2009	December 31, 2008
Cash in bank and in hand	2 378	1 648
Short-term deposits and promissory notes	10	30
Total	2 388	<u>1 678</u>

At June 30, 2009 VolgaTelecom Group did not have any restricted cash balances. Short-term deposit is represented by the deposit of 61 day and generates interest yield at ruling rates. The effective interest rate of short-term deposit amounts to 10.9%.

17. Share capital

At June 30, 2009 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, 2009 was as follows:

Shareholders	Share capital, %	Ordinary shares		Preference shares	
		Quantity (thousand)	%	Quantity (thousand)	%
Legal entities, total:	92.04	236 918	96.32	64 976	79.22
- OJSC Svyazinvest	38.0	124 634	50.67	-	-
- shareholders holding more than 5% of charter capital	50.22	102 008	41.47	62 687	76.46
<i>Of which:</i>					
ING Bank (Eurasia) ZAO	9.63	24 174	9.83	7 398	9.02
ZAO Depozitarno-Cliringovaya Kompaniya	21.76	37 414	15.21	33 945	41.40
Non-commercial partnership National Depository Center	18.83	40 420	16.43	21 344	26.03
- other legal entities	3.82	10 276	4.18	2 259	2.76
Individuals, total	7.96	9 052	3.68	17 037	20.78
Total	100	245 970	100	81 983	100

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to 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.

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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) dividends on preferred shares has been taken.

Distributable earnings of all the entities comprising VolgaTelecom Group are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. VolgaTelecom's statutory retained earnings at June 30, 2009 and December 31, 2008 amounted to 19 376 and 17 662, respectively.

In October 1997 VolgaTelecom registered Level 1 American Depositary Receipts (ADR). Each ADR represents 2 shares of common stock of the Company. At June 30, 2009 the Company registered the issue of 8 209 387 ADR and deposited 16 418 774 ordinary shares which amounted to 6.68% of all issued ordinary shares.

The following table represents ADR registration for 6 months of 2009 and 2008:

	ADR (quantity)	Ordinary shares equivalent	Ordinary shares, %	Authorized capital, %
December 31, 2007	14 481 559	28 963 118	11.78	8.83
Disposals for 6 months of 2008	(3 457 761)	(6 915 522)		
June 30, 2008	11 023 798	22 047 596	8.96	6.72
December 31, 2008	9 148 092	18 296 184	7.44	5.58
Disposals for 6 months of 20089	(938 705)	(1 877 410)		
June 30, 2009	8 209 387	16 418 774	6.68	5.01

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

Stock exchange	CUSIP (WKN)	ADR ticker	ISIN
OTC USA	928660109	VLGAY	-

18. Loans and Borrowings

	June 30, 2009	December 31, 2008
Long-term loans and borrowings		
Bank loans	7 171	8 141
Bonds	4 362	4 822
Lease liability	1 473	1 772
Vendor financing	510	583
Promissory notes	75	146
Less: Current portion of long-term borrowings	(5 699)	(5 978)
Total long-term loans and borrowings	7 892	9 486
Short-term loans and borrowings		
Bank loans	1 339	1 232
Promissory notes		250
Accrued interest	62	81
Total short-term loans and borrowings	1 401	1 563

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Current portion of long-term loans and borrowings	5 699	5 978
Total current loans and borrowings	7 100	7 541
 Total loans and borrowings	 14 992	 17 027

At June 30, 2009 and December 31, 2008 VolgaTelecom Group pledged the following assets to guarantee loans and borrowings:

June 30, 2009			
	Property, plant and equipment	Security	Total
Bank loans and borrowings	2 851		2 851
Total	2 851		2 851
 December 31, 2008			
	Property, plant and equipment	Security	Total
Bank loans and borrowings	3 008		3 008
Total	3 008		3 008

Long-term loans and borrowings

Bank loans and borrowings

The table below summarizes the information about the most significant bank loans and borrowings at June 30, 2009 and December 31, 2008:

Counteragent	Interest rate per loan agreement	June 30, 2009	December 31, 2008	Currency per loan agreement	Date of maturity	Security
UniCredit Bank ZAO	From 2.75 to 3.6 + MosPrime	3 106	3 149	RUB	2010-2013	
OJSC VTB	14.3	1 500	1 500	RUB	2012	
OJSC RF Sberbank	10-15	1 329	2 129	RUB	2010-2011	Pledge
BSGV ZAO	From 2.75 to 2.8 + MosPrime, 3+MIBOR	884	927	RUB	2009-2011	Pledge
Ministry of Finance of the Russian Federation	2	117	112	Euro	2012	Pledge
BSGV ZAO	From 0 to 3.5 + Libor	111	105	US Dollar	2010-2011	Pledge
Sozidanie Fund	-	67	86	RUB	2009-2011	-
OJSC Svyazbank	18	31	45	RUB	2009-2010	Pledge
UniCredit Bank ZAO	3.25+Libor	25	46	US Dollar	2009	
UniCredit Bank ZAO	3.25+Euribor	-	42	Euro		Pledge
TOTAL		7 171	8 141			

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UniCredit Bank

The long-term loans from UniCredit Bank were received in 2006-2008, denominated in Roubles and USD. The loans mature in 2010-2013. Effective interest rate of RUB loans amounted to 15.93%. At June 30, 2009 the debt was 3 131.

Vneshtorgbank (VTB)

The long-term debt to Vneshtorgbank is represented by the loans received in 2007 denominated in Roubles. The loans mature in 2012; interest rate is 14.3% per annum. At June 30, 2009 the debt was 1 500.

Sberbank

The long-term debt to Sberbank is mainly represented by the loans received in 2007-2008, denominated in Roubles. The loans mature in 2010-2011. Effective interest rate was 16.17%. At June 30, 2009 the debt was 1 329. The loans are secured by the property, plant and equipment with a carrying value of 1 052.

Bank Societe Generate Vostok (BSGV)

The long-term loans from BSGV were received in 2008, denominated in Roubles and USD. The loans mature in 2010-2011. Effective interest rate on loans denominated in RUB varied from 15.84 to 16.50% per annum. At June 30, 2009 the debt was 995. The loans are secured by the property, plant and equipment with a carrying value of 142.

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 VolgaTelecom 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 VolgaTelecom Group signed an amicable agreement with the Ministry of Finance. The amicable agreement stipulated a restructuring of VolgaTelecom 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, 2009 the total outstanding restructured liability to the Ministry of Finance amounted to 117 (Euro 2.9 million), including short-term part of 33 (Euro 1 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 232.

Bonds

The table below summarizes the information about the bonds issued at June 30, 2009 and December 31, 2008:

Narrative of the issue	Effective interest rate	June 30, 2009	December 31, 2008	Date of maturity	Plan of redemption	Date of early redemption on offer	Coupon interest
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OJSC Svyazbank Decision of issue of BT-2 series bonds					In succession, by installments for account of and on the instructions of the issuer	03.12.09.	
	22.83 %	8	10	2009			13
OJSC Svyazbank Decision of issue of BT-3 series bonds					In succession, by installments for account of and on the instructions of the issuer	-	
	8.91%	1 377	1 835	2010			8.5
OJSC Svyazbank Decision of issue of BT-4 series bonds					In succession, by installments for account of and on the instructions of the issuer	10.09.09.	
	8.54%	2 977	2 977	2009			7.99
TOTAL		4 362	4 822				

In December 2005, VolgaTelecom Group registered the issue of 3 000 000 interest-bearing bonds, series BT-2, with a par value of RUB 1 000 each. The bonds have 10 coupon payments. The bonds mature in 5 years from the date of issue to December 2010. On December 5, 2008 VolgaTelecom Group acquired 2 986 711 bonds on terms and conditions of the offer submitted by the bonds' owners on the 3-rd business day of the 7-th coupon period. The total par value of the acquired bonds amounted to 2 389. Accrued coupon yield (ACY) at the acquisition date amounted to 2. Total issuer's liabilities ACY including amounted to 2 391. December 03, 2009 is the new date of offer for BT-2 series bonds. The effective interest rate is set at 22.83% per annum.

In December 2005, VolgaTelecom Group registered the issue of 2 300 000 interest-bearing bonds, series BT-3, with a par value of RUB 1 000 each. The bonds have 10 coupon payments. The effective interest rate is set at 8.91% per annum. The bonds mature in 5 years from the date of issue to December 2010. The bonds do not provide any early redemption options.

In September 2006 VolgaTelecom Group registered bond issue consisting of 3 000 000 bonds, BT-4 series with a par value of RUB 1 000 each. Bond issue has 28 coupons payments. The effective interest rate is set at 8.54% per annum. The bonds mature in 7 years from the date of issue to December 2013. The bond issue (BT-4 series) has an option of early redemption at par value on 10 September 2009.

Promissory notes

The table below summarizes the information about the promissory notes issued at June 30, 2009 and December 31, 2008:

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Narrative of the issue	Effective interest rate	June 30, 2009	December 31, 2008	Currency	Date of maturity	Security
ISG	8.59	75	144	RUB	2009	-

In July 2006 VolgaTelecom Group purchased HP Open View IUM Hewlett-Packard software from ZAO "ISG" for the implementation of data collection and processing system. In relation to purchasing the software VolgaTelecom Group issued Rouble denominated promissory notes in the amount of 464. According to the redemption schedule the promissory notes will be settled 2007-2009. The outstanding amount at June 30, 2009 is 75. The effective interest rate is 8.59%.

Vendor financing

The table below summarizes the information about the vendor financing of VolgaTelecom Group t June 30, 2009 and December 31, 2008:

Counteragent	Effective interest rate	June 30, 2009	December 31, 2008	Currency	Date of maturity	Security
CISCO Capital CIS	12.49%	284	320	RUB	2011-2012	-
Metrosvyaz Limited	11%	102	95	US Dollar	2009	-
Huawei Technologies Co. Ltd.	5-9.23	63	99	US Dollar	2009-2011	-
ZTE Corporation	LIBOR (91 day) + 0	32	38	US Dollar	2009-2011	-
Alcatel-Lucent	12.49%	28	31	Euro	2010	-
TOTAL		510	583			

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 the year end is 284.

Metrosvyaz Limited

VolgaTelecom Group's 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 the year end is 102. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Huawei Technologies Co. Ltd.

VolgaTelecom Group's long-term vendor financing from Huawei Technologies Co. Ltd. represents amounts payable for telecommunication equipment under contracts signed in 2005-2007. The amount outstanding at the year end is 63.

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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 loans

The table below summarizes the information about the most significant short-term bank loans at June 30, 2009 and December 31, 2008:

Counteragent	Interest rate per loan agreement	June 30, 2009	December 31, 2008	Currency per the loan agreement	Date of maturity	Security
OJSC RF Sberbank	15.5-16	1 099	700	RUB	2009-2010	Pledge
BSGV ZAO		-	215	US Dollar		
BSGV ZAO	13.24 - 14.24	230	305	RUB	2009	Pledge
Promsvyazbank ZAO		-	2			
OJSC VTB	13.9	10	10	RUB	2009	
TOTAL		1 339		1 232		

OJSC RF Sberbank

The short-term debt to Sberbank is represented by the loans received in 2008-2009, denominated in Roubles. The loans mature in 2009. The interest rates are 15.5% - 16%. At June 30, 2009 the outstanding loans amounted to 1 099. The loans are secured by the property, plant and equipment with a carrying value of 1 370.

Bank Societe Generale Vostok (BSGV)

The short-term debt to BSGV is represented by Roubles denominated loans received in 2008-2009 for acquisition and construction of investment assets. The loans mature in 2009. Interest rate is 13.24% - 14.24% for loans denominated in RUB. At June 30, 2009 the outstanding loans amounted to 230. The loans are secured by the property, plant and equipment with a carrying value of 454.

Promissory notes

The table below summarizes the information about the most significant short-term promissory notes issued at June 30, 2009 and December 31, 2008:

Narrative	Effective interest rate	June 30, 2009	December 31, 2008	Currency	Date of maturity	Security
OJSC Svyazbank		-	250	RUB	2009	-

Finance Lease Obligations

June 30, 2009	December 31, 2008
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	<u>Minimum lease payments</u>	<u>Present value of payments</u>	<u>Minimum lease payments</u>	<u>Present value of payments</u>
Current portion (< 1 year)	678	473	791	544
Over 1 to 5 years	1231	1000	1553	1228
Over 5 years	-	-	-	-
Total	<u>1909</u>	<u>1473</u>	<u>2344</u>	<u>1772</u>

In 2009 VolgaTelecom Group's primary lessor was OJSC RTK-Leasing. For 6 months of 2009 the effective interest rate on lease liabilities varied from 16.59% to 21.2% per annum (6 months of 2008: 16.72% to 21.65% per annum).

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.

19. Employee Benefits

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

Defined Benefit Pension Plans

Non-government pension fund Telecom-Soyuz maintains the defined benefit pension plan.

At June 30, 2009 in VolgaTelecom Group there were 13 492 employees participating in the defined contribution pension plan (December 31, 2008 – 14 569).

For 6 months of 2009 VolgaTelecom Group's expenses related to contributions to pension fund in regard to defined contribution pension plan amounted to 42 (6 months of 2008 – 55).

Defined benefit pension plans and long-term social commitments

At June 30, 2009 in VolgaTelecom Group there were 13 492 active employees participating in the defined benefit pension plan and 6 149 pensioners eligible to the post-employment and post-retirement benefits (at December 31, 2008 - 14 569 and 5 772 respectively).

For 6 months of 2009 VolgaTelecom Group's expenses related to the defined benefit pension plans amounted to 75 (6 months of 2008 – 63).

For 6 months of 2009 VolgaTelecom Group's contributions to pension fund in regard to the defined benefit pension plans amounted to 81 (6 months of 2008 – 63).

The expenses for the defined benefit pension plans, excluding interest yield and expense, are included in the consolidated 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 income statement.

20. Other non-current liabilities

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	June 30, 2009	December 31, 2008
Deferred revenue	440	453
Target financing	46	46
Total	486	499

21. Provisions

	Personnel dismissal provision	Total
Balance at December 31, 2007	-	-
Balance at June 30, 2008	-	-
Balance at December 31, 2008	9	9
Utilized	(7)	(7)
Balance at June 30, 2009	2	2

22. Accounts Payable and Accrued Expenses

	June 30, 2009	December 31, 2008
Other taxes payable	1 332	650
Accounts payable to personnel	942	813
Accounts payable to suppliers of fixed assets	807	2 178
Dividends payable	761	19
Accounts payable to interconnect operators	308	370
Trade accounts payable	247	310
Accounts payable to principals	103	296
Accounts payable to suppliers of software products	67	92
Other accounts payable	403	518
Total	4 970	5 246

At June 30, 2009 and December 31, 2008 taxes payable comprised the following:

	June 30, 2009	December 31, 2008
VAT	965	388
Property tax	181	169
Unified social tax	111	57
Individual income tax	67	27
Other taxes	8	9
Total	1 332	650

Other accounts payable

VolgaTelecom Group accounts guarantees and securities issued in “Other accounts payable”.

At June 30, 2009 VolgaTelecom Group issued guarantees for a number of credit lines mainly granted by Sberbank to OJSC RTK-Leasing lessor of telecommunications equipment. Guaranteed liabilities amounted to 650 (December 31, 2008 – 1 026). VolgaTelecom Group’s management estimates the probability of the need to execute these obligations as insignificant.

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At June 30, 2009 VolgaTelecom Group issued security for liabilities of ZAO Nizhegorodskaya Sotovaya Svyaz. The secured liabilities amounted to 812 (December 31, 2008 - 812). VolgaTelecom Group's management estimates the probability of the need to execute these obligations as insignificant.

23. Other current liabilities

	June 30, 2009	December 31, 2008
Advances received from operating activity	526	635
Deferred revenue	49	2
Advances received from non-operating activity	26	22
Total	601	659

24. Financial instruments and risk management

VolgaTelecom 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. VolgaTelecom Group is also actively using short-term deposits for the purpose of placing disposable capital. VolgaTelecom Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Capital Management Policy

The main objectives of capital management policy of VolgaTelecom Group are improvement of credit rating, improvement of financial independence ratio and liquidity, improvement of accounts payable structure and reduction of cost of borrowings.

The main methods of capital structure management are maximization of profit, investment program management, disposal of assets to reduce debt load, borrowed capital amount management, debt portfolio restructuring, application of various borrowed capital.

VolgaTelecom Group monitors and manages borrowed capital by using financial independence ratio, "Net debt/shareholder's equity", "Net debt/EBITDA" ratios.

Financial independence ratio is calculated as the ratio of shareholder's equity to the balance-sheet total at the end of the period. Net debt/shareholder's equity is calculated as the ratio of net debt to shareholder's equity at the end of the period. Net debt/EBITDA is calculated as the ratio of net debt indicator at the end of the period to EBITDA indicator for the prior period. The ratios used in capital management are determined as per the data of RAS accounting statement.

At June 30, 2009 and December 31, 2008 the values of ratios used in capital management were as follows:

	June 30, 2009	December 31, 2008
Financial independence ratio	0.56	0.52
Net debt/ shareholder's equity	0.45	0.55
Net debt/EBITDA	1.88	1.32

At the reporting date Standard&Poor's affirmed VolgaTelecom Group's local currency credit rating at AA- (2008 - AA-).

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Financial instruments and risk management

For 6 months ended June 30,
2009

	Income statement										Total		
	Other operating revenue	Other operating expenses	Financial costs	Other revenue and expenses of financial and investing activities						Comprehensive income statement			
	Recovery of doubtful debt provision	Establishment of doubtful debt provision	Interest expense	Interest receipts	Dividend disposal	Financial result from asset disposal	Change of fair value	Loss / recovery of loss from impairment	Other	Profit / loss from exchange rate difference		Reclassification of fair value	Change of fair value
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 loans			(681)							(56)			(737)
Bonds			(116)										(116)
Promissory notes			(25)										(25)
Vendor financing			2							(22)			(20)
Finance lease obligations			(136)										(136)
Interest payable			(57)										(57)
Accounts payable										(10)			(10)
Total financial liabilities			(1 013)							(88)			(1 101)

For 6 months ended June 30,
2008

	Income statement										Total		
	Other operating revenue	Other operating expenses	Financial costs	Other revenue and expenses of financial and investing activities						Comprehensive income statement			
	Recovery of doubtful debt provision	Establishment of doubtful debt provision	Interest expense	Interest receipts	Dividend disposal	Financial result from asset disposal	Change of fair value	Loss / recovery of loss from impairment	Other	Profit / loss from exchange rate difference		Reclassification of fair value	Change of fair value
Cash and cash equivalents				49						(1)			48
Accounts receivable		(137)											(137)
Financial assets available-for-sale					5			(3)					2
Loans granted				1									1
Total financial assets		(137)		50	5			(3)		(1)			(86)
Bank loans			(186)							12			(174)
Bonds			(252)										(252)
Promissory notes			2										2
Vendor financing			(1)							11			10
Finance lease obligations			(173)										(173)
Interest payable			(98)							1			(97)
Accounts payable										4			4
Total financial liabilities			(708)							28			(680)

Foreign exchange risk

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Foreign exchange risk is the risk that the change of rate of foreign exchange will affect financial result and cash flows of VolgaTelecom 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.

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

June 30, 2009	RUB	US Dollar	Euro	Other	Total
Accounts receivable	2 911	3	1	-	2 915
Cash and cash equivalents			2 388	-	2 388
Investments held to maturity	660	-	-	-	660
Financial assets available-for-sale	25	-	-	-	25
Loans granted	8	-	-	-	8
Total financial assets	5 993	3	1	-	5 997
Bank loans	(8 257)	(136)	(117)	-	(8 510)
Bonds	(4 362)	-	-	-	(4 362)
Accounts payable	(3 531)	(93)	(14)	-	(3 638)
Finance lease obligations	(1 473)	-	-	-	(1 473)
Vendor financing	(284)	(198)	(28)	-	(510)
Promissory notes	(75)	-	-	-	(75)
Interest payable	(59)	(1)	(2)	-	(62)
Total financial liabilities	(18 040)	(428)	(161)	-	(18 629)
December 31, 2008	RUB	US Dollar	Euro	Other	Total
Accounts receivable	2 625	2	1	-	2 628
Cash and cash equivalents	1 676	1	1	-	1 678
Investments held to maturity	202	-	-	-	202
Financial assets available-for-sale	20	-	-	-	20
Loans granted	9	-	-	-	9
Total financial assets	4 532	3	2	-	4 537
Bank loans	(8 853)	(366)	(154)	-	(9 373)
Bonds	(4 822)	-	-	-	(4 822)
Accounts payable	(4 479)	(79)	(35)	(3)	(4 596)
Finance lease obligations	(1 772)	-	-	-	(1 772)
Promissory notes	(394)	-	-	-	(394)
Vendor financing	(320)	(233)	(30)	-	(583)
Interest payable	(79)	(2)	-	-	(81)
Total financial liabilities	(20 719)	(680)	(219)	(3)	(21 621)

For the period from January 1, 2009 to June 30, 2009 RUB exchange rate to US Dollar decreased by approximately 6.5% and RUB exchange rate to Euro decreased by 5.74%.

The table below represents sensitivity analysis of pretax earnings amount to foreign exchange risk:

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	US Dollar				Euro			
	Change of exchange rate, %	Effect on pretax earnings		Change of exchange rate, %	Effect on pretax earnings			
		RUB million	%		RUB million	%		
June 30, 2009	+10	(43)	-2	+5	(8)	0		
	-10	43	2	-5	8	0		
December 31, 2008	+10	(68)	-2	+5	(11)	0		
	-10	68	2	-5	11	0		

Interest Rate Risk

Interest rate risk is the risk that the change of interest rates of financial instruments used by VolgaTelecom Group will affect VolgaTelecom Group's financial result and cash flows.

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

June 30, 2009	Flat rate	Floating rate	Zero rate	Total
Cash and cash equivalents	2 345	-	43	2 388
Accounts receivable	-	-	2 916	2 916
Financial assets available-for-sale	-	-	25	25
Investments held to maturity	660	-	-	660
Loans granted	8	-	-	8
Total financial assets	3 013	-	2 984	5 997
Bank loans	(4 383)	(4 127)	-	(8 510)
Finance lease obligations	(1 473)	-	-	(1 473)
Bonds	(4 362)	-	-	(4 362)
Vendor financing	(478)	(32)	-	(510)
Promissory notes	(75)	-	-	(75)
Interest payable	(23)	(38)	-	(61)
Accounts payable	-	-	(3 638)	(3 638)
Total financial liabilities	(7 809)	(7 182)	(3 638)	(18 629)
December 31, 2008	Flat rate	Floating rate	Zero rate	Total
Cash and cash equivalents	1 644	-	34	1 678
Accounts receivable	-	-	2 628	2 628
Financial assets available-for-sale	-	-	20	20
Investments held to maturity	202	-	-	202
Loans granted	9	-	-	9
Total financial assets	1 855	-	2 682	4 537
Bank loans	(5 104)	(4 269)	-	(9 373)
Finance lease obligations	(1 772)	-	-	(1 772)
Bonds	(4 822)	-	-	(4 822)

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Promissory notes	(394)	-	-	(394)
Vendor financing	(545)	(38)	-	(583)
Interest payable	(27)	(54)	-	(81)
Accounts payable	-	-	(4 596)	(4 596)
Total financial liabilities	(9 677)	(7 348)	(4 596)	(21 621)

The table below represents sensitivity analysis of pretax earnings amount to interest rate risk:

	Change of interest rate, % point	LIBOR		Change of interest rate, % point	MosPrime	
		Effect on pretax earnings			Effect on pretax earnings	
		RUB million	%		RUB million	%
June 30, 2009	+1	(1)	0	+1	(20)	-11
	-1	1	0	-1	20	11
December 31, 2008	+1	(1)	0	+1	(20)	-1
	-1	1	0	-1	20	11

Change of EURIBOR rate will not have essential effect on profits and capital.

Liquidity risk

VolgaTelecom Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. VolgaTelecom Group seeks after maintaining a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases.

The table below represents the dates of maturity of VolgaTelecom Group's financial assets and liabilities:

	2009	2010	2011	2012	2013 and after	Total
Accounts receivable	2 915	1	-	-	-	2 916
Cash and cash equivalents	2 388	-	-	-	-	2 388
Investments held to maturity	660	-	-	-	-	660
Financial assets available-for-sale	-	1	-	-	24	25
Loans granted	1	1	-	-	1	3
Total financial assets	5 964	3	-	-	25	5 992
Bank loans	(987)	(3 208)	(1706)	(2 300)	(400)	(8 601)
Bonds	(3 468)	(920)	-	-	-	(4 388)
Accounts payable	(3 638)	-	-	-	-	(3 638)
Interest payable	(697)	(927)	(516)	(286)	(39)	(2 465)
Finance lease obligations	(356)	(604)	(459)	(379)	(111)	(1 909)
Vendor financing	(219)	(147)	(182)	(2)	-	(550)
Promissory notes	(77)	-	-	-	-	(77)
Total financial liabilities	(9 442)	(5 806)	(2 863)	(2 967)	(550)	(21 628)

The data presented in the table comprise interest payment which is already charged or will be charged in future.

Credit risk

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Credit risk is the risk that a counterparty will fail to discharge an obligation on time and cause VolgaTelecom Group to incur a financial loss.

Financial assets potentially subject VolgaTelecom Group's credit risk consist primarily of trade receivables, cash in bank, bank deposits and other financial assets of debt nature.

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

The table below represents overdue, but not depreciated accounts receivable:

June 30, 2009

	Overdue time period (days)						
	TOTAL	<30	30-60	60-90	90-180	180-360	>360
Profit-making organizations	62	28	20	14	-	-	-
Individuals	150	83	41	26	-	-	-
State-financed organizations	37	23	10	4	-	-	-
Telecom operators	31	22	3	3	3	-	-
Total	280	156	74	47	3	-	-

December 31, 2008

	Overdue time period (days)						
	BCEIO	<30	30-60	60-90	90-180	180-360	>360
Profit-making organizations	51	28	12	11	-	-	-
Individuals	111	61	30	20	-	-	-
State-financed organizations	19	13	4	2	-	-	-
Telecom operators	62	59	2	1	-	-	-
Total	243	161	48	34	-	-	-

Hedging

In 2009 VolgaTelecom Group has not entered into any hedging arrangements in respect of its foreign exchange or interest rate risk exposures.

Fair value of financial instruments

At June 30, 2009 and December 31, 2008 the fair value and the carrying value of VolgaTelecom Group's financial instruments did not differ significantly, except for the following:

Category	June 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Liabilities recorded at depreciation base	4 362	4 293	4 822	4 503
Liabilities recorded at depreciation base	2 934	2 775	3 473	2 763
Long-term bank loans and borrowings				
Total financial liabilities	7 296	7 068	8 295	7 266

25. Sales revenue

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	For 6 months ended June 30,	
	2009	2008
Local telephony services	5 673	5 468
Telegraphy, data transmission network and telematic services (Internet)	2 928	2 360
Intrazonal telephony services	2 271	2 404
Mobile radiotelephony (cellular) services	2 201	2 272
Interconnect and traffic transit services	2 029	2 232
Mobile radio, wire and radio broadcasting, TV services	370	338
Fees on assistance and agency services	255	277
Other services	35	57
Revenue from non-telecommunication services	350	356
Total	16 112	15 764

Intrazonal and local telephony services revenue includes revenues from rent of telecommunication channels of 265 and 76 respectively (6 months of 2008 - 250 and 75, respectively).

VolgaTelecom Group identified revenues by the following major customer groups:

	For 6 months ended June 30,	
Customer groups	2009	2008
Individuals	9 227	8 133
Corporate customers	3 259	3 580
Telecom operators	2 391	2 950
Government customers	1 235	1 101
Total	16 112	15 764

26. Personnel costs

	For 6 months ended June 30,	
	2009	2008
Salary expenses	3 291	3 268
Unified social tax	825	817
Pension and other long-term social benefit expenses	60	5
Other staff expenses	165	193
Total	4 341	4 283

27. Materials, repairs and maintenance, utilities

	For 6 months ended June 30,	
	2009	2008
Utilities	463	363
Materials	443	587
Repairs and maintenance	363	391
Total	1 269	1 341

28. Other Operating Income

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	For 6 months ended June 30,	
	2009	2008
Reimbursement of losses from universal telecommunication services	526	359
Fines and penalties	29	28
Recovery of loss from depreciation of property, plant and equipment, of construction in progress, of intangible assets and of other assets	2	2
Other income	135	144
Total	692	533

In 6 months of 2009 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:

- a. for the current year services (for Q 1-2009) - 266 (Q 1-2008 – 149),
- b. for the prior year services (for Q 4-2008 – 259 (for H 2-2007 – 272).

The loss for 2008 from provision of universal telecommunication services amounted to 964 (2007 – 330) and was confirmed by independent auditor.

29. Other Operating Expenses

	For 6 months ended June 30,	
	2009	2008
Third party services on general administration	446	486
Taxes, other than income tax	392	407
Agency fee	305	262
Rent	181	155
Fire and other security services	165	166
Universal service fund payments	159	152
Advertising expenses	112	184
Audit and consulting fees	91	91
Bad debt provision expense	82	137
Transportation and postal services	24	25
Member fees, charity contribution, payments to labor unions	23	157
Loss from disposal of PPE and other assets	18	43
Insurance	15	12
Fines and penalties	1	1
Other expenses	270	251
Total	2 284	2 529

30. Interest expenses

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	For 6 months ended June 30,	
	2009	2008
Interest expense on loans and borrowings, bonds and promissory notes, vendor financing	878	535
Interest expense on finance lease	136	173
Interest expense on pension and long-term social benefits	114	55
Bank services	5	3
Total	1 133	766

31. Other income and expenses of financial and investing activity

	For 6 months ended June 30,	
	2009	2008
Interest income from financial assets	138	50
Dividend income	-	5
Loss (recovery of loss) from impairment of financial assets	-	(3)
Total	138	52

32. Earnings per Share

VolgaTelecom 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,	
	2009	2008
Profit for the reporting period attributable to equity holders of the parent	1 853	1 689
Weighted average number of ordinary shares outstanding and other instruments	246	246
Basic and diluted earnings per share (RUB) for the reporting period	7.53	6.87

33. Dividends Declared and Proposed for Distribution

In June 2009 according to the shareholders' general meeting resolution, the payment of dividends for the year ended December 31, 2008 was declared in the amount of RUB 1.800235 per ordinary share and RUB 3.600753 per preference share.

Dividends payable were as follows:

Shares	Number of shares (million)	Dividends per share (RUB)	Total dividends (RUB million)
For 2008			
Preference	81 983 404	3.600753	295 201 989
Ordinary	245 969 590	1.800235	442 803 065
Total	327 952 994		738 005 054

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The amount of dividends to be paid to shareholders is recommended by the Board of directors and is subject to the approval by annual shareholders' general meeting. The profit allocated for dividend payment is limited by VolgaTelecom's profit determined pursuant to Federal Law "On Joint Stock Companies" on the basis of the data of accounting statement drawn up in accordance with Federal Law "On Accounting" and the Russian Accounting Standards.

34. Operating lease

The table below summarizes minimum lease payments at June 30, 2009 and December 31, 2008 under operating lease contracts where VolgaTelecom Group acts as a lessee:

	June 30, 2009	December 31, 2008
	Minimum lease payments	Minimum lease payments
Current portion (< 1 year)	49	61
From 1 to 5 years	110	65
More than 5 years	664	393
Total	823	519

VolgaTelecom Group mainly rents premises, telecommunication equipment and land.

For 6 months of 2009 VolgaTelecom Group's operating lease expenses included in line "Other operating expenses" of Consolidated Income Statement amounted to 181 (6 months of 2008 – 155).

The table below summarizes minimum lease payments at June 30, 2009 and December 31, 2008 under operating lease contracts where VolgaTelecom Group acts as a lessor:

	June 30, 2009	December 31, 2008
	Minimum lease payments	Minimum lease payments
Current portion (< 1 year)	11	8
From 1 to 5 years	8	6
More than 5 years	1	1
Total	20	15

Main subjects of operating lease contracts where VolgaTelecom Group acts as a lessor is telecommunication equipment.

For 6 months of 2009 VolgaTelecom Group's revenue from operating lease reflected in line "Sales Revenue" of Consolidated Income Statement amounted to 97 (6 months of 2008 – 96).

35. Commitments

At June 30, 2009 and December 31, 2008 VolgaTelecom Group's contractual obligations with regard to acquire property, plant and equipment were 199 and 320 respectively.

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36. Balances and Transactions with Related Parties

In 6 months of 2009 the structure of VolgaTelecom Group's related parties was not significantly changed compared to the structure at December 31, 2008.

OJSC Svyazinvest

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

At June 30, 2009 the Russian Government held 75% minus one ordinary share of OJSC Svyazinvest.

Svyazinvest Group comprises 7 interregional 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, intra-zone, intercity and international telephone communication, communication services in data transmission networks, telematics services, telegraph communication services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services on providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communication.

Subsidiaries

VolgaTelecom 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 VolgaTelecom Group's consolidated financial statements according to IFRS requirements.

VolgaTelecom 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 VolgaTelecom Group's transactions with other counteragents. More detailed nature of relations between VolgaTelecom Group and its subsidiaries is disclosed in Note 6.

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 VolgaTelecom Group's networks and from/to connected operators' networks provided by VolgaTelecom 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 VolgaTelecom Group.

Transactions with State-controlled Companies

State-controlled organizations are a significant element in VolgaTelecom Group's customer base. State-controlled organizations have no effect on VolgaTelecom Group's interactions with other organizations.

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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 VolgaTelecom 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 2009 VolgaTelecom Group incurred expenses on services provided by OJSC Svyazintek in the amount of 0.3 (6 months of 2008 – 83). Out of that amount 0 (6 months of 2008 – 23) is included in Consolidated Income Statement, and 0.3 (6 months of 2008 – 60) is capitalized in intangible assets (Note 9).

Non-government Pension Fund Telecom-Soyuz

VolgaTelecom Group has an agreement for the administration of a non-state pension plan with the non-state pension fund Telecom-Soyuz (Note 19) 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 total amount of contributions for non-state pension coverage paid by VolgaTelecom Group for 6 months of 2009 was 117 (6 months of 2008 – 110) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of VolgaTelecom 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 totaling 21 persons at June 30, 2009 and 19 persons at December 31, 2008.

Remuneration for members of the Company's Board of Directors and the Management board for 6 months of 2009 includes salaries, bonuses and remuneration for participation in the operation of the Company's management bodies and amounts to 131 (6 months of 2008 – 118), including salaries, bonuses and remuneration of the Company's employees participating in the Company's management bodies – 93 (6 months of 2008 – 101). The remuneration amounts are stated exclusive of the unified social tax.

For 6 months of 2009 VolgaTelecom Group paid contributions to non-state pension fund Telecom-Soyuz amounting to 21 for employees participating in management bodies (6 months of 2008 – 3). The right to receive pension payments arises with VolgaTelecom 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 (e.g. record of work).

37. Contingencies and Operating Risks

Operating environment

The Russian Federation has been experiencing political, legal, economic, financial, social, information and other changes for successful operation of companies.

Taxation

VolgaTelecom Group management believes that at June 30, 2009 its interpretation of the relevant legislation is appropriate and that VolgaTelecom Group's positions in terms of compliance with tax, currency and customs laws will be sustained.

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Claims of Tax Authorities

In September 2008 – January 2009 the Arbitration Court of the city of Moscow examined VolgaTelecom Group's claim of invalidating Decision No 3 of April 30, 2008 of Inter-Regional Tax Inspectorate No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers rendered on the basis of Certificate of March 27, 2008 against OJSC VolgaTelecom based on the results of integrated field tax inspection of OJSC VolgaTelecom's operations for 2004-2006. Tax authorities' claim totaled RUB 173 million.

By its judgement of February 03, 2009 the Arbitration Court of the city of Moscow met in full VolgaTelecom Group's claims. The Ninth Arbitration Appellate Court of the city of Moscow by its Ruling No 09AII-5310/2009-AK of April 27, 2009 adjudged to leave unaltered the judgement of Arbitration Court of the city of Moscow.

On March 12, 2009 Inter-Regional Tax Inspectorate No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers filed the appeal petition to the judgement of the Arbitration Court of the city of Moscow of February 03, 2009 and the Ruling of the Ninth Arbitration Appellate Court of the city of Moscow of April 27, 2009.

Federal Arbitration Court of the city of Moscow and of Moscow oblast (operative provisions of the judgment were announced on August 08, 2009) adjudged to leave unaltered the judgement of Arbitration Court of the city of Moscow of February 03, 2009 and the Ruling No 09AII-5310/2009-AK of April 27, 2009 of the Ninth Arbitration Appellate Court of the city of Moscow left the appeal petition of Inter-Regional Tax Inspectorate No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers unmet. .

Insurance

VolgaTelecom Group undertakes risk management measures, including acquisition of insurance policies. In 2009 VolgaTelecom Group maintained insurance coverage on equipment, transportation vehicles, real property and other assets, personnel, professional indemnity of directors and management bodies (D&O), and hazardous facilities. As a natural monopoly, VolgaTelecom Group has to select a provider of insurance services on an open tender, to meet the requirements of the Federal Law No, 135-FZ "On Protection of Competition".

Litigations, Claims and Assessments

During 6 months of 2009 VolgaTelecom Group was party to a number of court proceedings (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have material effect on the result of operations or financial position of VolgaTelecom Group and which have not been accrued or disclosed in these consolidated financial statements.

Optimization of headcount

Within the frame work of improvement of business-processes VolgaTelecom Group has planned to reduce the number of employees. Step-down of employees is made due to the change of corporate structure and transfer of auxiliary functions to outsourcing.

For 6 months of 2009 VolgaTelecom Group reduced 457 persons. At June 30, 2009 207 employees got notice of the coming dismissal.

38. Events after the Balance Sheet Date

Universal service provision

The actual compensation received by VolgaTelecom Group from Universal Service Fund in 2009 for the services

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rendered in 2008 and for 6 months of 2009 amounted to 525.

Tax inspections

Pursuant to Decision No 8 of April 29, 2009 of the head of Inter-Regional Tax Inspectorate No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers the field audit will be conducted in regard to VolgaTelecom's operations for 2007-2008. At June 30, 2009 the audit has not been completed yet.

Company acquisition

On July 01, 2009 VolgaTelecom Group acquired 100% equity interest in authorized capital of LLC Gorodskaya Telephonnaya Svyaz for 349.

Bank loans

In August 2009 VolgaTelecom Group concluded a number of contracts of raising of loans from OJSC Svyazbank to the amount of 1 300. The bank's lending rates vary from 16.25 to 16.7% per annum. The loans are not secured.

In August 2009 VolgaTelecom Group concluded the loan contract with ZAO GLOBEXBANK to the amount of 500. The bank's lending rate is 17.5% per annum. The loan is not secured.