

OA O ROSTELECOM

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARD No. 34**

AS OF JUNE 30, 2007 AND FOR THE SIX-MONTH PERIOD THEN ENDED

INDEX

	Pages
Statement of Directors' Responsibilities	3
Report on Review of Condensed Consolidated Interim Financial Statements	4
Condensed Consolidated Interim Balance Sheet	5
Condensed Consolidated Interim Statement of Income	6
Condensed Consolidated Interim Statement of Cash Flows	7
Condensed Consolidated Interim Statement of Changes in Equity	8
Notes to Condensed Consolidated Interim Financial Statements	9-19

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management considers that, in preparing the condensed consolidated interim financial statements set out on pages 4 to 19, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.
3. The condensed consolidated interim financial statements, which are based on the statutory accounting reports adjusted to comply with International Accounting Standard No. 34 "Interim Financial Reporting", are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

V.V. Terekhov
Acting General Director

/SIGNATURE/

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

November 21, 2007



Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of OAO Rostelecom

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of OAO Rostelecom and its subsidiaries (hereinafter referred to as the "Group") as at 30 June 2007 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Moscow, Russia

November 21, 2007

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

	Notes	June 30, 2007 (unaudited)	December 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	4	37,750	39,186
Goodwill and other intangible assets		2,812	2,795
Investments in associates		460	330
Long-term financial investments		6,584	5,728
Other non-current assets		131	71
Total non-current assets		47,737	48,110
Current assets			
Inventory		561	564
Accounts receivable		8,672	8,821
Prepaid income tax		229	154
Short-term investments		7,620	8,496
Cash and cash equivalents		5,463	2,353
Total current assets		22,545	20,388
Total assets		70,282	68,498
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		100	100
Retained earnings including other reserves		52,191	50,820
Total equity attributable to equity holders of the parent		52,291	50,920
Minority interest		27	25
Total equity		52,318	50,945
Non-current liabilities			
Borrowings, net of current portion	6	2,353	298
Finance lease payable		421	427
Accounts payable		311	326
Vendor financing payable	8	199	362
Deferred tax liability		3,363	3,444
Total non-current liabilities		6,647	4,857
Current liabilities			
Accounts payable, provisions and accrued expenses		8,477	7,372
Finance lease payable		82	78
Taxes payable		257	426
Vendor financing payable	8	1,539	1,640
Current portion of long-term borrowings	6	817	3,005
Short-term borrowings	7	145	175
Total current liabilities		11,317	12,696
Total liabilities		17,964	17,553
Total equity and liabilities		70,282	68,498

The notes on pages 9 through 19 are an integral part of this condensed consolidated interim financial statements.

OA O ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
(In millions of Russian Rubles)

	Notes	Six month periods ended	
		2007	2006
		(unaudited)	(unaudited)
Revenue			
Telephone traffic		24,955	23,765
Rent of channels		3,922	3,472
Other revenue		2,865	2,110
Total revenue	9	31,742	29,347
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(3,637)	(3,283)
Depreciation and amortization		(3,931)	(4,341)
Charges by network operators – international		(3,895)	(3,403)
Charges by network operators – national		(13,775)	(14,373)
Administration and other costs		(2,643)	(2,460)
Taxes other than on income		(334)	(281)
Repairs and maintenance		(384)	(383)
Bad debt expense		(191)	(343)
Loss on sale of property, plant and equipment		(22)	(458)
Total operating expenses		(28,812)	(29,325)
Operating profit		2,930	22
Income/ (loss) from associates		121	(2)
Interest expense		(95)	(69)
Interest income		413	488
Income from sale of investments		-	29
Other non-operating income		26	30
Foreign exchange gain, net		62	212
Profit before tax		3,457	710
Current tax charge		(1,192)	(1,089)
Deferred tax benefit		280	840
Income tax expense		(912)	(249)
Profit for the period		2,545	461
Attributable to :			
Equity holders of the parent		2,543	462
Minority interest		2	(1)
		Rubles	Rubles
Earnings per share attributable to equity holders of the parent – basic and diluted (not in million of Russian Rubles)		2.62	0.48

The notes on pages 9 through 19 are an integral part of this condensed consolidated interim financial statements.

OA0 ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	Notes	Six month periods ended	
		June 30,	
		2007	2006
		(unaudited)	(unaudited)
Cash flows from operating activities			
Profit before tax		3,457	710
<i>Adjustments to reconcile net income before tax to cash generated from operating activities:</i>			
Depreciation and amortization		3,931	4,341
Bad debt expense		191	343
(Income)/ loss from associates		(121)	2
Loss on sale of property, plant and equipment		22	458
Income from sale of investments		-	(29)
Net interest and other non-operating income		(344)	(449)
Foreign exchange gain, net		(62)	(212)
<i>Changes in net working capital:</i>			
Increase in accounts receivable		(200)	(3,972)
Decrease in inventories		3	79
(Decrease)/ increase in payables and accruals		(687)	3,029
Cash generated from operations		6,190	4,300
Interest paid		(130)	(271)
Interest received		418	354
Income tax paid		(1,375)	(1,376)
Net cash provided by operating activities		5,103	3,007
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,413)	(3,224)
Proceeds from sale of property, plant and equipment		99	109
Purchase of available-for sale investments		(48)	-
Purchase of financial assets, other than available-for-sale investments		(4,225)	(2,036)
Proceeds from sale of available –for-sale investments, net of direct costs		38	29
Proceeds from sale of financial assets, other than available-for-sale investments, net of direct costs		5,012	8,007
Dividends received from associates		-	45
Purchase of subsidiaries, net of cash acquired		-	(1,420)
Net cash (used in)/ received from investing activities		(1,537)	1,510
Cash flows from financing activities			
Drawdown of interest bearing loan facilities		114	208
Repayment of interest bearing loans and loan facilities		(227)	(689)
Repayment of lease obligations		(56)	(24)
Repayment of vendor financing payable		(280)	(544)
Dividends paid to equity holders of the parent		(5)	(5)
Net cash used in financing activities		(454)	(1,054)
Effect of exchange rate changes on cash and cash equivalents		(2)	(4)
Net increase in cash and cash equivalents		3,110	3,459
Cash and cash equivalents at the beginning of period		2,353	2,398
Cash and cash equivalents at the end of period		5,463	5,857
Non-monetary transactions:			
Non-cash additions to property, plant and equipment and intangible assets		30	955

The notes on pages 9 through 19 are an integral part of this condensed consolidated interim financial statements.

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

	Note	Attributable to equity holders of the parent			Minority interest	Total equity	
		Share capital	Unrealized gain on available-for-sale investments	Retained earnings			Total
Balance at December 31, 2005		100	888	48,709	49,697	-	49,697
Available-for-sale investments							
Valuation gain on available-for-sale investments, net of tax (unaudited)		-	(142)	-	(142)	-	(142)
Total income and expense for the period recognized directly in equity (unaudited)		-	(142)	-	(142)	-	(142)
Profit for the period (unaudited)		-	-	462	462	(1)	461
Total income and expense (unaudited)		-	(142)	462	320	(1)	319
Minority interest in purchased subsidiaries (unaudited)		-	-	-	-	28	28
Dividends (unaudited)		-	-	(2,041)	(2,041)	-	(2,041)
Balance at June 30, 2006 (unaudited)		100	746	47,130	47,976	27	48,003
Balance at December 31, 2006		100	2,694	48,126	50,920	25	50,945
Available-for-sale investments							
Valuation gain on available-for-sale investments, net of tax (unaudited)		-	624	-	624	-	624
Total income and expense for the period recognized directly in equity (unaudited)		-	624	-	624	-	624
Profit for the period (unaudited)		-	-	2,543	2,543	2	2,545
Total income and expense (unaudited)		-	624	2,543	3,167	2	3,169
Dividends (unaudited)	5	-	-	(1,796)	(1,796)	-	(1,796)
Balance at June 30, 2007 (unaudited)		100	3,318	48,873	52,291	27	52,318

The notes on pages 9 through 19 are an integral part of this condensed consolidated interim financial statements.

ОАО РОСТЕЛЕКОМ

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

1. REPORTING ENTITY

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

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

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

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of June 30, 2007, the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest (“Svyazinvest”), the parent company of Rostelecom.

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared in accordance with and comply with International Accounting Standard (“IAS”), No. 34, “Interim Financial Reporting”, as published by the International Accounting Standards Board (“IASB”). The accounting policies and methods of computation used to prepare these condensed consolidated interim financial statements are the same that were used to prepare consolidated financial statements as of December 31, 2006.

The condensed consolidated interim financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2006. The management of the Group believes that the notes to the condensed consolidated interim financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the changes in financial position and performance of the Group since year end. In the opinion of the Group’s management, the business is not subject to material seasonal fluctuations.

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

Starting January 1, 2007, the Group applied provisions of the following revised or new standards:

- IAS No. 1 “Presentation of Financial Statements” (Revised);
- IAS No. 23 “Borrowing costs” (Revised);
- IFRS No. 7 “Financial Instruments: Disclosures”;
- IFRIC No. 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”;
- IFRIC No. 8 “Scope of IFRS 2”;
- IFRIC No. 9 “Reassessment of Embedded Derivatives”;

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

ОАО РОСТЕЛЕКОМ

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

- IFRIC No. 10 “Interim Financial Reporting and Impairment” ;
- IFRIC No. 11 “IFRS 2 - Group and Treasury Shares Transactions”
- IFRIC No. 12 “Service Concession Arrangements”
- IFRIC No. 13 “Customer Loyalty Programmes”;
- IFRIC No. 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”.

The adoption of IFRS No. 7 will significantly affect the disclosures relating to financial instruments for the Group’s complete set of financial statements prepared in accordance with International Financial Reporting Standards starting from the year ended December 31, 2007. The adoption of other standards and interpretations did not have material impact on the Group’s results of operations, financial position and cash flows.

The Group operates in one industry segment, being the provision of long-distance domestic and international telecommunication services in the Russian Federation. The results of this segment and assets and liabilities as of June 30, 2007 are presented in the condensed consolidated interim statement of income and the condensed consolidated interim balances sheet, respectively.

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

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

3. SUBSIDIARIES

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

Subsidiary	Main activity	Effective share of the Group as of June 30, 2007	Effective share of the Group as of December 31, 2006
ZAO MTs NTT (“MTs NTT”)	Fixed line telecommunication services	100%	100%
ZAO Westelcom (“Westelcom”)	Leasing of telecommunication equipment	100%	100%
ZAO Zebra Telecom (“Zebra Telecom”)	Local telecommunication services and Internet services	100%	100%

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

OA O ROSTELECOM

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

Subsidiary	Main activity	Effective share of the Group as of June 30, 2007	Effective share of the Group as of December 31, 2006
ZAO Globus-Telecom ("Globus-Telecom")	Local telecommunication services	94.9%	94.9%
ZAO GlobalTel ("GlobalTel")	Satellite telecommunications	51%	51%
ZAO SK Kostars ("Kostars")	Insurance services	86.7%	86.7%
ZAO Incom ("Incom")	Local telecommunication services	54.4%	54.4%
DP Pansionat Malakhit	Recreation services	100%	100%

4. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of June 30, 2007 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At December 31, 2006	23,849	101,916	25,026	8,293	159,084
Additions	-	-	-	2,518	2,518
Disposals	(370)	(1,502)	(530)	(4)	(2,406)
Transfers	409	1,464	246	(2,119)	-
At June 30, 2007 (unaudited)	23,888	101,878	24,742	8,688	159,196
Accumulated Depreciation and Impairment					
At December 31, 2006	(18,287)	(84,142)	(17,333)	(136)	(119,898)
Depreciation expense	(657)	(2,170)	(994)	-	(3,821)
Disposals	323	1,464	486	-	2,273
At June 30, 2007 (unaudited)	(18,621)	(84,848)	(17,841)	(136)	(121,446)
Net book value at December 31, 2006	5,562	17,774	7,693	8,157	39,186
Net book value at June 30, 2007 (unaudited)	5,267	17,030	6,901	8,552	37,750

Interest amounting to 148 and 273 was capitalized in property, plant and equipment for the six months ended June 30, 2007 and for the year ended December 31, 2006, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 8.4% and 7.8%, respectively.

Property, plant and equipment with a carrying value of 2,429 and 3,240 were pledged in relation to loan agreements entered into by the Group as of June 30, 2007 and December 31, 2006, respectively.

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

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

Included in pledged property, plant and equipment as of June 30, 2007 and December 31, 2006 is also the Satellite Gateway equipment with a carrying value of 128 and 154, respectively, pledged in connection with vendor financing received from Globalstar L.P. (minority shareholder of GlobalTel). Currently, GlobalTel is in default on this vendor financing (see also Note 8).

5. SHAREHOLDERS' EQUITY

On June 24, 2007, the Annual General Shareholders' Meeting declared dividends of 1,796 in respect of 2006. Ordinary shares dividends amounted to 1.48 Ruble per share (1,078) and dividends on the preferred shares amounted to 2.96 Ruble per share (718).

6. LONG-TERM BORROWINGS

The long-term borrowings as of June 30, 2007 and December 31, 2006 were as follows:

	June 30, 2007 (unaudited)	December 31, 2006
Maturity		
Current portion of long-term borrowings	817	3,005
Between one to two years	575	198
Between two to three years	468	63
Between three to four years	449	37
Between four to five years	430	-
Over five years	431	-
Non-current portion of long-term borrowings	2,353	298
Total long-term borrowings	3,170	3,303

As of June 30, 2007 and December 31, 2006, long-term borrowings are denominated in the following currencies:

	June 30, 2007 (unaudited)	December 31, 2006
US Dollars (US\$)	2,974	3,055
Japanese Yen (JPY)	-	32
EURO	99	123
Foreign currency denominated loans	3,073	3,210
Russian Ruble denominated loans	97	93
Total long-term borrowings	3,170	3,303

During the six months ended June 30, 2007, the Group made the following payments in accordance with the loan agreements:

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

OAO ROSTELECOM

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

- 24 (US\$ 0.9 million) on a credit agreement between Rostelecom and Japanese Bank for International Cooperation (JBIC) entered into in July 2005. The loan was provided by two tranches. Total outstanding amount as of June 30, 2007 is 133 (US\$ 5.1 million). 40 are included in current portion of long-term debt.
- 9 (US\$ 0.4 million) on a credit agreement between Rostelecom and Japanese Bank for International Cooperation (JBIC) entered into in March 2004. The loan was provided by two tranches. Total outstanding amount as of June 30, 2007 is 26 (US\$ 1.0 million). 18 are included in current portion of long-term debt.
- 112 (US\$ 4.3 million) on a credit agreement between Rostelecom and Vnesheconombank (VEB) entered into in December 2005 to finance running expenses. Total outstanding amount as of June 30, 2007 is 2,583 (US\$ 100.0 million). 432 are included in current portion of long-term debt.

Under the existing credit agreement with Vnesheconombank and CSFB the Group is required to meet various financial covenants applied to the Russian statutory financial statements of the Company, including maintaining certain level of debt to equity and debt to income ratios. As of December 31, 2006 the Group was not in compliance with one of the covenants, stipulated in the loan agreement and no waiver had been obtained from the banks before that date. Therefore, the entire amount of the loan was included in current portion of long-term loans in the consolidated balance sheet as of December 31, 2006. However, the Group obtained the waiver in June 2007. As of June 30, 2007, the Group was in compliance with all covenants. Therefore, the outstanding amount was classified as long-term as of June 30, 2007.

- 27 (EURO 0.8 million) on a credit agreement between Rostelecom and ING BHF-BANK entered into in April 2004. Total outstanding amount as of June 30, 2007 is 99 (EURO 2.8 million). 48 are included in current portion of long-term debt.
- 28 (JPY 129 million) within a credit line provided by Vneshtorgbank with maximum amount of JPY 880 million open through February 25, 2006. Total outstanding amount as of June 30, 2007 is nil.
- 3 (JPY 15 million) within a credit line provided by Vneshtorgbank with maximum amount of JPY 105 million open through February 25, 2006. Total outstanding amount as of June 30, 2007 is nil.

Interest bearing loans as of June 30, 2007 include loans of GlobalTel from Loral Space and Communications Corporations (“Loral”) with the total amount of 232 (US\$ 8.98 million). GlobalTel is in default in respect of these loans. A penalty which amounted to 53 (US\$ 2.06 million) is included in the outstanding balance. As no waiver has been obtained from Loral, these loans are classified as current in the accompanying condensed consolidated interim balance sheet as of June 30, 2007. The loans do not provide for any collateral.

Interest bearing loans as of June 30, 2007 also include promissory notes of 97 issued to ZAO IK Parsek Capital Management on December 31, 2006. The promissory notes are repayable in monthly instalments beginning from January 2008 monthly up to December, 2008. 47 are included in current portion of long-term debt.

The Group has not received any long-term borrowings during the six months ended June 30, 2007.

OAO ROSTELECOM

Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended

(In millions of Russian Rubles unless otherwise stated)

7. SHORT-TERM BORROWINGS

During the six months ended June 30, 2007, the Group made the following payments in accordance with the loan agreements:

- 31 on promissory notes issued to ZAO IK Parsek Capital Management on December 31, 2006. Total outstanding amount as of June 30, 2007 is 31.
- 115 within a credit line agreement between Zebra Telecom and OAO Svyazbank, which is a related party. The final payment date on this overdraft is to be not later than December 11, 2007. Within the above mentioned credit line agreement Zebra Telecom received 114 during the six months ended June 30, 2007. Total outstanding amount as of June 30, 2007 is 11.

Short-term borrowings as of June 30, 2007 include 73 (US\$ 2.78 million) within a credit line facility provided by Russian Industrial Bank to Globus-Telecom with maximum amount of US\$ 3.5 million. The final payment date on this credit line facility is to be not later than December 31, 2007.

Short-term borrowings as of June 30, 2007 also include 15 on a credit agreement between Zebra Telecom and OAO Svyazbank, which is a related party, entered into in December 2005 and 15 on a credit agreement between Zebra Telecom and OAO Svyazbank entered into in February 2006.

8. VENDOR FINANCING PAYABLE

Vendor financing payable includes as of June 30, 2007 the following:

- 1,265 (US\$ 49 million) payable by GlobalTel to Globalstar L.P., which is the minority shareholder of GlobalTel, for the purchase of three gateways and associated equipment, installations and services. Globalstar L.P. has a lien over this equipment until the liability is fully paid. GlobalTel is in default in respect of payments in 2006 and 2007 and has not obtained a waiver from Globalstar L.P. As a result, the whole balance of 1,060 (US\$ 41 million) is classified as current in that accompanying consolidated balance sheet as of December 31, 2006 and in condensed consolidated interim financial statement as of June 30, 2007. Penalty interest in amount of 205 is accrued for each day of delay at the rate of 10% p.a. As of June 30, 2007, Globalstar L.P. has not demanded immediate repayment of the defaulted vendor financing and loans. Management believes that if such immediate repayment is demanded, it would not have a material adverse effect on the Group's results of operations, financial position and operating plans.
- 473 payable by the Company to ZAO Peter-Service for the purchase of the billing system. 199 included in non-current portion of vendor financing payable.

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)****9. REVENUE**

Revenue comprised the following for six months ended June 30, 2007 and 2006:

	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 (unaudited)
Telephone traffic		
Domestic long-distance traffic	16,096	15,323
Outgoing international long-distance traffic	6,289	6,377
Incoming and transit international long-distance traffic	2,570	2,065
	24,955	23,765
Rent of channels	3,922	3,472
Other revenue		
Television and radio transmission	237	271
Satellite services	201	225
Internet access	325	65
Freephone services	515	353
Miscellaneous revenue	1,587	1,196
	2,865	2,110
Total revenue	31,742	29,347

10. RELATED PARTY TRANSACTIONS**(a) The Government and OAO Svyazinvest as a shareholder**

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

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

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

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

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

(c) Transactions with the Svyazinvest Group

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

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

Total revenue from the Svyazinvest Group for the six months ended June 30, 2007 and 2006 were 979 and 677, respectively. Total charges for telecommunication services from the Svyazinvest Group for the six months ended June 30, 2007 and 2006 were 11,753 and 12,658, respectively.

The Group also consumes design services from certain companies of the Svyazinvest Group which are included in additions of property, plant and equipment in amount of nil and 14 in the six month periods ended June 30, 2007 and 2006, respectively.

The Group makes contributions to the non-state pension fund which provides the Group's employees with a number of post-employment benefits. OAO Svyazinvest executes significant influence over the operations of the fund. Such contributions amounted to 33 and 42 during six months ended June 30, 2007 and 2006, respectively.

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

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

	June 30, 2007 (unaudited)	December 31, 2006
Accounts receivable	864	781
Allowance for doubtful receivables	(45)	(46)
Accounts payable	(962)	(1,677)
Pension Plan	(24)	(24)

(d) Transactions with the Government and government owned companies

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

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

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

	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 (unaudited)
Revenue	2,718	2,563
Charges by network operators – national	(225)	(168)
Administration and other costs	(469)	(338)

The amounts of receivables and payables due from and to the Budget Organizations were as follows:

	June 30, 2007 (unaudited)	December 31, 2006
Accounts receivable	875	530
Allowance for doubtful receivables	(48)	(63)
Accounts payable	(85)	(219)

The Group is also involved in providing telecommunication services to a significant number of commercial entities which are directly or indirectly controlled by the Government or subsidiaries of governmentally controlled entities. Since the Group's tariffs are regulated by the Government and the Group is obliged to provide services to all customers on the basis of public offer, telecommunication services to governmentally controlled or related commercial entities are provided on the same basis (tariffs and access to the Group's network) as to any other unrelated commercial entity. The following table summarized the effect of transactions with the above entities on the condensed consolidated interim financial statements of the Group:

	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 (unaudited)
Share of total revenue	1,2%	1,5%
Share of charges by network operators - national	4,1%	5,4%

	June 30, 2007 (unaudited)	December 31, 2006
Share of accounts receivable	1,7%	2,8%
Share of allowance for doubtful receivables	1,1%	0,8%
Share of trade accounts payable	3,0%	3,8%

The Group deposits available cash with OAO Sberbank of Russia in which the Government of the Russian Federation controls 57,6%. As of June 30, 2007 and December 31, 2006 cash held in OAO Sberbank of Russia amounted to 614 and 641, respectively.

Transactions with other Government controlled organizations were not significant and occurred in the normal course of business.

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

ОАО РОСТЕЛЕКОМ**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

(e) Transactions with associates and other related parties

The Group is also involved in various telecommunication services with entities in which it has investments, including associates over which it exerts significant influence. Total revenue from these entities for the six months ended June 30, 2007 and 2006 were 333 and 246, respectively. Total charges for services from investees for the six months ended June 30, 2007 and 2006 were 64 and 37, respectively.

The Group also consumes design services from OAO Svyazintek which are included in additions of property, plant and equipment in amount of 8 and 328 in the six months periods ending June 30, 2007 and 2006, respectively.

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

	June 30, 2007 (unaudited)	December 31, 2006
Accounts receivable	111	67
Allowance for doubtful receivables	(46)	(28)
Accounts payable and accrued expenses	(21)	(18)

(f) Directors' remuneration

For the six months ended June 30, 2007 and June 30, 2006, the total remuneration of the directors and management board members, represented by short-term benefits, amounted to 42 and 36, respectively.

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

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Group.

b) Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Group has adequately provided for tax liabilities in the condensed consolidated interim balance sheet as of June 30, 2007. However, the risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

As a result of the comprehensive tax inspection covering the period of 2003, the Federal Tax Service of the Russian Federation assessed 3,474 of additional taxes, including fines and penalties payable by

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

OAO ROSTELECOM**Notes to Condensed Consolidated Interim Financial Statements as of June 30, 2007 and for the six-month period then ended****(In millions of Russian Rubles unless otherwise stated)**

the Company. The above assessment is based on the vague interpretation of tax legislation, relating in particular to accounting for revenue from traffic rendered and certain VAT deductions. Similar claims have been laid to the most of the companies of Svyazinvest Group.

The Company disputed the claim of the Federal Tax Service of the Russian Federation in the Arbitrary Court of Moscow. In April 2007 the Arbitrary Court announced its decision according to which the claim of the tax authorities in amount of 3,473 was declared invalid. The court remained valid the claim in amount of 1. The Federal Tax Service of the Russian Federation lodged an appeal to the Court of Appeal (The Ninth Arbitration Court of Appeal). The Court of Appeal confirmed the decision of Arbitration Court of the first instance in the part of the satisfaction of the Company's claims. Also the Court of Appeal reduced the amount of the claims of the tax authorities declared valid to 0.15. Management of the Group expects that the Federal Tax Services of the Russian Federation will appeal to the Court of Cassation before the end of 2007. Currently the Company can not predict the issue of this case in the Court of Cassation. No amounts related to this issue were accrued by the Group as of June 30, 2007.

c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2007 to 2013.

The Group has renewed all licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

d) Capital Commitments

As of June 30, 2007 and December 31, 2006, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 3,972 and 2,915, respectively.