OJSC VolgaTelecom

Consolidated interim financial statements prepared under International Financial Reporting Standards

For 6 months ended June 30, 2008

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Consolidated interim financial statements
For 6 months ended June 30, 2008

Contents

OJSC VolgaTelecom
Consolidated Interim Balance Sheet
As of June 30, 2008

(in millions of Russian Rubles)

	Notes	June 30, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment		**42,071**	41,292
Intangible assets		**5,**	4,936
Investments in associates		**152**	146
Long-term investments		**59**	59
Long-term accounts receivable and other financial assets		**13**	19
Long-term advances given		**708**	548
Total non-current assets		**48,027**	47,000
Current assets			
Inventories		**525**	455
Accounts receivable		**2,303**	2,184
Prepaid income tax		**108**	24
Other current assets		**1,167**	1,174
Cash and cash equivalents		**2,074**	495
Total current assets		**6,177**	4,332
Assets classified as held for sale and discontinued operations		**119**	150
Total assets		**54,323**	51,482
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		**3, 854**	3,854
Revaluation reserve for available-for-sale investments		**6**	6
Retained earnings		**22, 872**	22,041
Total equity attributable to equity holders of the parent		**26,732**	25,901
Minority interest		**282**	253
Total equity		**27,014**	26,154
Non-current liabilities			
Long-term borrowings		**6,871**	7,727
Long-term finance lease obligations		**1,472**	620
Pension liabilities		**1,637**	1,686
Deferred revenue		**546**	593
Deferred tax liabilities		**2,777**	2,914
Total non-current liabilities		**13,303**	13,540
Current liabilities			
Accounts payable and accruals		**4,007**	4,205
Income tax payable		**25**	13
Other taxes payable		**820**	281
Dividends payable		**911**	20
Short-term borrowings		**745**	1,335
Current portion of long-term borrowings		**6,921**	5,598
Current portion of long-term finance lease obligations		**577**	336
Total current liabilities		**14,006**	11,788
Total liabilities		**27,309**	25,328
TOTAL EQUITY AND LIABILITIES		**54,323**	51,482

General Director ______________Sergey V. Omelchenko 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, 2008
(in millions of Russian Rubles, except earnings per share)

	Notes	6 months of 2008	6 months of 2007
Revenue		**15,764**	14,450
Wages, salaries, other benefits and payroll taxes		**(4,338)**	(4,072)
Depreciation and amortization		**(3,242)**	(2,508)
Interconnection charges		**(1,883)**	(1,813)
Materials, repairs and maintenance, utilities		**(1,304)**	(1,197)
Taxes other than income tax		**(407)**	(340)
Bad debt recovery		**(137)**	47
Gain (loss) on disposal of property, plant and equipment and other assets		**(42)**	48
Other operating income		**532**	206
Other operating expenses		**(1,983)**	(1,860)
Operating profit		**2,960**	2,961
Share in result of associates		**6**	9
Interest income (expenses), net		**(658)**	(526)
Profit (loss) from investments, net		**2**	13
Foreign exchange gain (loss), net		**27**	14
Profit before taxation from continuing operations		**2,337**	2,471
Income tax expense		**(616)**	(769)
Profit for the reporting period		**1,721**	1,702
Profit (loss) for the reporting period attributable to equity holders of the parent		**1,688**	1,678
Profit (loss) for the reporting period attributable to minority shareholders of subsidiary companies		**33**	24
Profit for the reporting period		**1,721**	1,702

General Director

_______________ Sergey V. Omelchenko

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, 2008

(in millions of Russian Rubles)

		Attributable to equity holders of the parent						
		Share capital						
	Notes	Preference shares	Ordinary shares	Retained earnings	Revaluation reserve for available-for-sale investments	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance as of December 31, 2006		**963**	**2,891**	**20,255**	**6**	**24,115**		**24,588**
Profit (loss) for the reporting period				3,006		3,006		3,052
Dividends to equity holders of the parent				(633)		(633)		(633)
Dividends of subsidiaries to minority shareholders								(1)
Acquisition of minority interest in subsidiaries				(587)		(587)		(852
Balance as of December 31, 2007		**963**		**22,041**	**6**	**25,901**		**26,154**
Profit (loss) for the reporting period				1,688		1,688		1,721
Dividends to equity holders of the parent				(857)		(857)		(857
Dividends of subsidiaries to minority shareholders								(4)
Balance as of June 30, 2008		**963**		**22,872**	**6**	**26,732**		**27,014**

General Director ______________ Sergey V. Omelchenko

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 and its subsidiaries (hereinafter - "the Company") were drawn up for 6 months of 2008 ending June 30, 2008.

Company

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

The registered office of the Company is Russia, 603000, city of Nizhny Novgorod, Maxim Gorky sq., Dom Svyazi.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, mobile radiotelephone (cellular) services, data transmission services, rents out communication and radio communication lines in the territory of the Povolzhie Federal District of the Russian Federation.

OJSC Svyazinvest, a company controlled by the Russian Federation, owns 50.67% of the Company's ordinary voting shares as of June 30, 2008, is the parent company for OJSC VolgaTelecom.

Information about main subsidiary companies is provided in Supplement 5. All subsidiary companies are incorporated under the laws of the Russian Federation.

2. Basis of Presentation of the Financial Statements

Declaration of Conformity

The present consolidated financial statements are prepared and presented with departures from IFRS (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, as related to reflecting comparable data in consolidated interim statement of changes in equity, in notes on property, plant and equipment, intangible assets and goodwill and non-disclosure of consolidated interim cash flow statement, information about operating lease, deferred contractual liabilities, information on activity segments.

All information should be considered with due account for the Company's annual consolidated financial statements for the year ending December 31, 2007.

Financial Reporting Presentation

OJSC VogaTelecom and its subsidiary and associated companies' financial statements that form the basis of these consolidated interim financial statements, are prepared under unified accounting policy.

The Company's consolidated interim financial statements are presented in millions of Russian Rubles, with all values being rounded off to the nearest million, except when otherwise indicated.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Accounting

These financial statements are prepared based on data of accounts and accounting statements that are kept and prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

The consolidated interim financial statements have been prepared under the historical cost convention except property, plant and equipment recognized at fair value, which was used as an actual cost of the property, plant and equipment as of the date of transition to IRFS; available-for-sale investments were measured at fair value.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. Adoption of new or revised standards did not have significant effect on the financial statements of the Company.

In 2008 the following new interpretations became operative:

New/Modified Standard / Interpretation	Content of changes	Effects
Interpretation No 11 IFRS of Interpretations Committee "IFRS 2 – Operations with stocks of the group and treasury stock"	Determines whether certain transactions should be accounted for as share-based payment arrangements or equity-settled under the requirements of IFRS 2, and relates to the accounting treatment of share-based payment arrangements that involve two or more entities within the same group.	The interpretation did produce any significant effect on the financial situation or results of operations of the Company
Interpretation No 12 IFRS of Interpretations Committee "Concession arrangements"	Explains how to record the assumed liabilities and rights obtained by concessionaries within the framework of service concession arrangements.	The interpretation did produce any significant effect on the financial situation or results of operations of the Company
Interpretation No 14 IFRS of Interpretations Committee "IAS 19 – Minimum amount of assets, minimum requirements and their correlation"	Provides guidance on how to determine the limit of the amount of surplus in a defined benefit scheme that can be recognized as an asset under IFRS (IAS) 19 "Employee Benefits".	The interpretation did produce any significant effect on the financial situation or results of operations of the Company

In the reporting period the Company did not apply new or revised standards and interpretations ahead of time.

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications

Fair value of property, plant and equipment

The Company transitioned to IFRS 1 as of January 1, 2003 using the provisions of IFRS 1, "First time Adoption of International Financial Reporting Standards". The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. Management estimated that the carrying values of all of the Company's property, plant and equipment at the date of transition to IFRS were broadly comparable to their fair values. Management engaged an independent appraiser to support fair values. The appraiser completed the valuation in 2007.
As a result, the reported carrying amounts of property, plant and equipment were adjusted based on the independent appraiser's report (see Note 6).

The effect of adjustments of financial statements for 6 months of 2007 is as follows:

Consolidated Income Statement for 6 months of 2007	**As previously reported**	**Correction of errors**	**As restated**	**Comments**
Other operating income	193	13	206	Result of recording property, plant and equipment at fair value
Depreciation and amortization	(2,630)	122	(2,508)	Result of recording property, plant and equipment at fair value
Loss from disposal of property, plant and equipment and other assets	64	(16)	48	Result of recording property, plant and equipment at fair value
Operating profit	2,842	119	2,961	Result of recording property, plant and equipment at fair value
Profit before taxation	2,352	119	2,471	Result of recording property, plant and equipment at fair value
Income tax expense	(740)	(29)	(769)	Result of recording property, plant and equipment at fair value
Profit for the reporting period	1,612	90	1,702	Result of recording property, plant and equipment at fair value

Corrections resulted in the Company's H107 net profit increase by 90.

2. Basis of Presentation of the Financial Statements (continued)

Foreign Currency Transactions

The consolidated financial statements are presented in millions of Russian Rubles (RUR millions), which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to 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, 2008 and December 31, 2007 were as follows:

Exchange rates as of	June 30, 2008	December 31, 2007
Russian Rubles to US dollar	23.4573	24.5462
Russian Rubles to Euro	36.9077	35.9332

3. Summary of Significant Accounting Policies

The consolidated interim financial statements are prepared under the Company's 2008 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 the Company's consolidated financial statements for 2007.

5. Subsidiaries

The accompanying consolidated financial statements include assets, liabilities and results of operations of OJSC VolgaTelecom and its subsidiaries. Subsidiaries controlled by OJSC VolgaTelecom are presented in the table below:

Subsidiary	Main activity	Ownership, %		Voting shares, %	
		30.06.2008	**31.12.2007**	**30.06.2008**	**31.12.2007**
CJSC Nizhegorodskaya Sotovaya Svyaz	Mobile services (GSM-900)	**100**	100	**100**	100
CJSC Transsvyaz	Local communication services	**100**	100	**100**	100
OJSC Omrix	Local communication services	**74**	74	**74**	74
CJSC Ulyanovsk –GSM	Mobile services (GSM-900)	**60**	60	**60**	60
CJSC Orenburg-GSM	Mobile services (GSM-900)	**51**	51	**51**	51
CJSC Narodnyi Telephone Saratov	Mobile services (CDMA)	**50+1 share**	50+1 share	**50+1 share**	50+1 share
LLC Nizhegorodskyi Teleservice	Communication services	**100**	100	**100**	100
LLC Nizhegorodteleservice	Integrated system services	**-**	100	**-**	100

All of the above companies are Russian legal entities registered in accordance with the legislation of the Russian Federation and have the same financial year as the Company.

6. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devises	Assets under construction and equipment for installation	Vehicles and other	Total
Cost					
At December 31, 2006	**25,682**	**19,491**	**1,806**	**5,413**	**52,392**
Additions			9,688		9,688
Put into operation	3,043	4,413	(9,188)	1,732	-
Disposals	(181	(55	(255)	(8)	(499
Disposals due to the sale of subsidiaries	-	(15	-	-	(15
Disposal of assets under construction for sale	-	-	(119)	-	(119
At December 31, 2007	**28,544**	**23,834**	**1,932**	**7,137**	**61,447**
Additions			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**
Accumulated depreciation and impairment					
At December 31, 2006	**(6,329)**	**(6,392)**	**-**	**(2,325)**	**(15,046)**
Depreciation charge for the year	(1,644)	(2,372)	-	(1,138)	(5,154)
Depreciation charge on disposals	28	17	-	-	45
At December 31, 2007	(7,945)	(8,747)	-	(3,463)	(20,155)
Depreciation charge for the year	(942	(1,082)	-	(975)	(2
Depreciation charge on disposals	56	85	-	38	178
At June 30, 2008	(8,832)	(9,744)	-	(4,400)	(22,976)
Net book value as of December 31, 2006	19,353	13,099	1,806	3,088	37,346
Net book value as of December 31, 2007	20,599	15,087	1,932	3,674	41,292
Net book value as of June 30, 2008	20,485	15,262	2,960	3,363	42,071

As of June 30, 2008 and December 31, 2007 the net book value of property, plant and equipment under finance lease agreements was as follows:

	30.06.2008	31.12.2007
Buildings and constructions	**503**	0
Switches and transmission devices	**2,483**	2,234
Assets under construction and equipment for installation	**217**	2
Vehicles and others	**82**	56
Total, plant and machinery under finance lease agreements, NBV	**3,285**	2,292

The depreciation of property, plant and equipment charged for six months of 2008 in the amount of 2,999 was recognized within “Depreciation and Amortization” in the consolidated income statement (5,154 in year 2007)

As of June 30, 2008 the cost of fully depreciated property, plant and equipment was 3,363 (3,113 as of December 31, 2007).

Additions of property, plant and equipment under finance lease agreements for 6 months of 2008 were 1,282 (for 6 months of 2007 - 1).

In 6 months of 2008 the Company increased the amount of assets under construction by the capitalized interest in the amount of 8 (for 6 months of 2007 - 4). Capitalization rate in the first half of 2008 was 8% (for 6 months of 2007 - 8%).

The Company did not identify any indicators of impairment of fixed assets as of June 30, 2008

7. Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Numbering capacity	Customer list	Trade mark	Others	Total
Cost								
At December 31, 2006	870	633	3,349	61	64	1	2	4,980
Additions		19	863					885
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**
Accumulated amortization and impairment								
At December 31, 2006		(82)	(381	(25)	(16)		(1)	(505)
Amortization charged for the year		(65)	(345	(6)	(7)		(1)	(424)
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)**
Net book value as of December 31, 2006	870	551	2,968	36	48	1	1	4,475
Net book value as of December 31, 2007	870	505	3,486	30	41	1	3	4,936
Net book value as of June 30, 2008	**870**	**479**	**3,606**	**27**	**38**	**1**	**3**	**5,024**

Oracle E-Business Suite software

As of June 30, 2008 software includes Oracle E-Business Suite software with a carrying value of 1,416 (1,376 as of December 31, 2007). For six months of 2008 accumulated capitalized interest related to Oracle E-Business Suite implementation amounted to 0 (0 in 2007).

The Company commenced using Oracle E-Business Suite software and started to amortize the value of the mentioned software from the date of its implementation in December 2005, over the useful life established within 10 years.

The information on Oracle E-Business Suite for the period ended June 30, 2008 is presented in the table below:

	6 months of 2008	2007
As of January 01	**1,376**	
Implementation expenses	**109**	3
Amortization accrued	**(69)**	(1
As of the reporting period end	**1,416**	

Full implementation of Oracle E-Business Suite software is expected to be completed by 2009.

Amdocs Billing Suite Software

As of June 30, 2008 software also includes Amdocs Billing Suite software with a carrying value of 1,234 (as of December 31, 2007 - 1,234). Total capitalized interests related to implementing Amdocs Billing Suite for 6 months of 2008 amount to 0 (in 2007 – 0).

This software was acquired for the purpose of implementing a unified billing system throughout the Company. The Company plans to complete this system implementation in 4-5 years since the implementation started.

7. Intangible Assets and Goodwill (continued)

Information on Amdocs Billing Suite for the period ended June 30, 2008 is presented in the table below:

	6 months of 2008	2007
As of January 01	**1,234**	
Implementation expenses	-	
As of the reporting period end	**1,234**	

HP Open View IUM Hewlett-Packard software

As of June 30, 2008 software also includes HP Open View IUM Hewlett-Packard software purchased in 2006, with a carrying value of 492 (370 in 2007), including capitalized interest for 6 months of 2008 in the amount of 12 (in 2007 – 45). The capitalization rate is 8.59% (2007 – 8.59%). The HP Open View IUM implementation project is expected to be completed in 2008.

Intangible assets amortization

Intangible assets amortization accrued for 6 months of 2008 in the amount of 244 (for 12 month of 2007 – 424) was recognized within "Depreciation and Amortization" in the consolidated income statement.

The Company regularly performs impairment tests of goodwill, intangible assets with unlimited useful life and intangible assets not yet available for use.
As a result of impairment tests no impairment of these intangible assets was identified.

8. Investments in Associates

As of June 30, 2008 the Company's investments in associates comprised the following:

		30.06.2008		
Associate	**Activity**	**Ownership, %**	**Voting shares, %**	**Carrying value**
CJSC Samara Telecom	Local communication services	**28%**	**28%**	**132**
CJSC AKB C- Bank	Banking services	**42%**	**42%**	**20**
Total				**152**

All the above companies are Russian legal entities registered in accordance with legislation of the Russian Federation and have the same financial year as the Company.

8. Investments in Associates (continued)

Movement in investments in associates for 6 months ended June 30, 2008 and 2007 is presented below:

	6 months of 2008	2007
Investments in associates as of January 1	**146**	129
Profit (loss) from investments in associates less income tax	6	17
Investments in associates as of the end of the reporting period	**152**	146

Carrying value of investments in associates equals to the Company's share in the net assets of associates. The table below demonstrates the aggregated information on the major associates:

Company	Voting shares, %	Assets	Liabilities	Revenue	Net profit / loss
As of June 30 and for 6 months of 2008					
CJSC Samara Telecom	**28%**	**541**	**(66)**	**177**	**23**
CJSC AKB C-Bank	**42%**	**339**	**(290)**	**5**	**(1)**
As of December 31 and for 6 months of 2007					
CJSC Samara Telecom	28%	517	(66)	157	30
CJSC AKB C-Bank	42%	316	(267)	9	2

9. Long-term Investments

As of June 30, 2008 and December 31, 2007 investments comprised the following:

	30.06.2008	31.12.2007
Long-term investments available for sale	**29**	29
Long-term investments held-to-maturity	**30**	30
Total long-term investments	**59**	59

As of June 30, 2008 long-term investments held-to-maturity include bank deposits with repayment period of up to 2 years to the amount of 30 (as of December 31 - 30) with interest rate of 8 %.

9. Long-term Investments (continued)

As of June 30, 2008 and December 31, 2007 available-for-sale investments comprised the following:

	30.06.2008		31.12.2007	
Company	**Ownership interest**	**Fair value**	**Ownership interest**	**Fair value**
OJSC Informatsionnye technologii svyazi (OJSC Svyazintek)	**13 %**	**15**	13 %	15
CJSC Leasing Point	**7,3 %**	**3**	7,3 %	3
Other		**11**		11
Total available-for-sale investments		**29**		29

As of June 30, 2008 the provision for impairment of available-for-sale investments was 62 (as of December 31, 2007 - 62).

10. Long-term Accounts Receivable and other financial assets

As of June 30, 2008 and December 31, 2007 long-term accounts receivable and other financial assets included:

	30.06.2008	**31.12.2007**
Long-term accounts receivable	**2**	2
Long-term VAT receivable	**3**	8
Long-term loans granted	**8**	9
Total long-term accounts receivable and other financial assets	**13**	19

11. Long-term Advances Given

As of June 30, 2008 and December 31, 2007 advances to suppliers comprised:

	30.06.2008	**31.12.2007**
Long-term investment activity advances		
Long-term advances for fixed assets and construction	**578**	322
Oracle E-Business Suite software acquisition and implementation	**35**	41
Advances to suppliers of other software	**95**	185
Total long-term advances given	**708**	548

12. Inventories

As of June 30, 2008 and December 31, 2007 inventories comprised:

	30.06.2008	31.12.2007
Cable and spare parts	**220**	178
Expendable material	**64**	65
Finished products and goods for sale	**36**	46
Expendable and completion materials (communication)	**71**	53
Expendable materials on LCS (ЛКС)	**68**	45
Stationary and office supplies	**10**	12
SIM-cards, dispatches	**9**	10
Precious metals	**14**	9
Household supplies	**7**	8
Expendable and completion materials on office automation	**9**	7
Others	**17**	22
Total inventories	**525**	455

As of June 30, 2008 the provision for impairment of inventories was 1 (as of December 31, 2007 - 3).

13. Trade and Other Receivables

As of June 30, 2008 and December 31, 2007 trade and other accounts receivables comprised:

	Total at June 30, 2008	Provision for impairment of receivables	Net at June 30, 2008
Corporate customers	**542**	**(95)**	**447**
Individual customers	**1,252**	**(251)**	**1,001**
Government customers	**207**	**(12)**	**195**
Interconnected operators	**825**	**(266)**	**559**
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	**37**	**(37)**	**-**
Other receivables	**148**	**(47)**	**101**
Total trade and other receivables	**3,011**	**(708)**	**2,303**

	Total at December 31,2007	Provision for impairment of receivables	Net at December 31, 2007
Corporate customers	532	(128)	404
Individual customers	1,179	(222)	957
Government customers	128	(8)	120
Interconnected operators	797	(157)	640
Social security bodies – tariff compensation related to providing benefits to certain categories of subscribers	55	(55)	-
Other receivables	96	(33)	63
Total trade and other receivables	2,787	(603)	2,184

13. Trade and Other Receivables (continued)

At June 30, 2008 receivables due from social security bodies as tariff compensation related to providing benefits for certain categories of subscribers amount to 1% of total trade receivables (at December 31, 2007 - 2 %).

In 6 months of 2008 the Company legally enforced settlement from the federal budget of such outstanding receivables in the amount of 11.

Movement in the provision for impairment of receivables is presented in the table below:

	6 months of 2008	6 months of 2007
Balance at January 1	**603**	836
Recovery of impairment of receivables	**137**	(47)
Trade and other receivables written off	**(32)**	(14)
Balance at the reporting period end	**708**	775

14. Cash and Cash Equivalents

As of June 30, 2008 and December 31, 2007 cash and cash equivalents comprised the following:

	30.06.2008	31.12.2007
Cash at banks and in hand	**2,039**	495
Short-term deposits	**35**	-
Total cash and cash equivalents	**2,074**	495

Short-term deposits vary in deposit period from 14 to 31 days depending on current demand for cash and produce interest income at effective interest rates. Effective interest rate of short-term deposits varies from 4.6 % to 5.5 %.

15. Other Current Assets

As of June 30, 2008 and December 31, 2007 other current assets comprised:

	30.06.2008	31.12.2007
VAT receivable	**136**	383
Reimbursement of losses from universal services provision	**362**	269
Prepayments and advance payments	**302**	195
Agent accounts receivable	**91**	100
Deferred expenses	**95**	94
Accounts receivable on agent agreements on telecommunication services	**49**	34
Other prepaid taxes	**30**	28
Losses on damaged property, plant and equipment	**22**	20
Other	**80**	51
Total other current assets	**1,167**	1,174

As of June 30, 2008 the provision for impairment of other current assets was 39 (as of December 31, 2007 - 40).

16. Significant Non-Cash Transactions

In 6 months of 2008 the Company received equipment under lease agreements for the amount of 1,282 (for 6 months of 2007 - 1).

17. Share Capital

As of June 30, 2008 the par and carrying values of ordinary and preference shares were as follows:

Shares	Number of shares (mln)	Par value (RUR)	Total par value	Total carrying value
Ordinary	246	5	1,230	2,891
Preference	82	5	410	963
Total			**1,640**	**3,854**

The difference between the total par value and the total carrying value of the share capital represents the effects of inflation accumulated through January 1, 2003. All issued shares have been fully paid.

The structure of the Company's share capital as of June 30, 2008 is as follows:

Shareholder	Share %	Ordinary stock Number (000)	Ordinary stock %	Preference stock Number (000)	Preference stock %
Legal entities	92.25	237,493	96.55	65,056	79.35
- OJSC Svyazinvest	38.0	124,634	50.67	-	-
- registered entities with the share over 5% of the authorized capital, total	47.56	95,607	38.87	60,359	73.62
including:					
CJSC ING Bank (Eurasia)	18.98	35,313	14.36	26,942	32.86
CJSC Depositary-Clearing company	16.21	33,233	13.51	19,927	24.31
Non-commercial partnership "National Depositary Center"	12.37	27,061	11.0	13,490	16.45
- Others	6.69	17,252	7.01	4,697	5.73
Individuals	7.75	8,477	3.45	16,927	20.65
Total	**100**	**245,970**	**100**	**81,983**	**100**

17. Share Capital (continued)

In 1997 the Company registered the issue of Level 1 American Depositary Receipts (ADR). Each depositary receipt represents two shares of common stock of the Company. As of June 30, 2008, 11,023,798 ADRs were issued representing 22,047,596 deposited shares making up 8.96 % of all issued ordinary shares.

The following table represents ADR registration for 2007-2008:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary shares, %	Share capital, %
December 31, 2006	**18,893,631**	**37,787,262**	**15.36**	**11.52**
Decrease in 2007	(3,520,778)	(7,041,556)		
June 30, 2007.	**15,372,853**	**30,745,706**	12.50	9.38
December 31, 2007	**14,481,559**	**28,963,118**	**11.78**	**8.83**
Decrease in 2008	(3,457,761)	(6,915,522)		
June 30, 2008	**11,023,798**	**22,047,596**	**8.96**	**6.72**

18. Borrowings

As of June 30, 2008 and December 31, 2007 outstanding borrowings comprised the following:

	Effective interest rate	Maturity date	30.06.2008	31.12.2007
Short-term debt				
Bank loans (Rubles)	7-13.5%	2008-2009	**553**	1,008
Bank loans (USD)	LIBOR + 3.25	2008-2009	**100**	237
Bank loans(EURO)	Euribor + 3.25, 6.5%	2008-2009	**2**	-
Total bank loans			**655**	1,245
Bonds (Rubles)	8.54-8.91%	2008-2009	**85**	76
Vendor financing (Rubles)			**-**	
Vendor financing (US dollars)	LIBOR , 5-9.23%	2008-2009	**3**	9
Vendor financing (EURO)			**-**	
Total vendor financing			**3**	9
Promissory notes (Rubles)	8.59%	2008-2009	**2**	5
Total short-term debt			**745**	1,335

18. Borrowings (continued)

Long-term debt

Bank loans (Rubles)	MIBOR, 7 -13%	2009-2012	**4,655**	3,960
Bank loans (USD)	LIBOR + 3.25	2008-2009	**165**	206
Bank loans(EURO)	Euribor + 3.25, 6.5%	2009-2011	**222**	232
Total bank loans			**5,042**	4,398
Bonds (Rubles)	8.54-8.91%	2009-2010	**8,240**	8,240
Vendor financing (Rubles)			-	-
Vendor financing (US dollars)	5-9.23%	2009-2011	**260**	308
Vendor financing (Euros)	7.76%	2008-2009	**21**	73
Total vendor financing			**281**	381
Promissory notes (Rubles)	8.59%	2009	**229**	306
Less: Current portion of long-term borrowings			**(6,921)**	(5,598)
Total long-term borrowings			**6,871**	**7,727**

As for June 30, 2008 bank loans are secured by property, plant and equipment with the carrying value of 2,572 (2007 – 2,181).

The Company's borrowings as of June 30, 2008 and December 31, 2007 are denominated in the following currencies:

	30.06.2008	31.12.2007
Russian Rubles	**13,763**	13,595
US dollars	**529**	760
Euros	**245**	305
Total	**14,537**	14,660

Short-Term Debt

Bank Loans

The short-term bank loans as of June 30, 2008 are mainly represented by loans received for current assets financing.

Sberbank

In the period from January 1, 2008 to June 30, 2008 the short-term debt to Sberbank was repaid in the amount of 1,600. In the same period the Company received loans denominated in Rubles to the amount of 1,156. These loans mature in 2009. Interest rates are 8 % and 13 % per annum. As of June 30, 2008 the outstanding liability was 256.

18. Borrowings (continued)

UniCredit Bank

The short-term debt to UniCredit Bank decreased by 73 compared to the amount as of December 31, 2007, and as of June 30, 2008 it was 320.

Societe Generale Vostok Bank

The short-term debt to Societe Generale Vostok Bank reduced by 64 compared to the amount as of December 31, 2007 due to the debt repayment, and as of June 30, 2008 it was 59.

Long-Term Debt

Bank Loans

Sberbank

In the period from January 1, 2008 to June 30, 2008 the long-term debt to Sberbank was repaid in the amount of 800. In the same period the Company received loans denominated in Rubles to the amount of 1,500. Expiry dates of these contracts are 2009-2011. Interest rates are 7% and 7.9% per annum. As of June 30, 2008 the outstanding liability was 2,130.The loans are secured by property, plant and equipment with carrying value of 1,239.

UniCredit Bank

In the period from January 1, 2008 to June 30, 2008 the long-term debt to UniCredit Bank was repaid in the amount of 170. In the same period the Company received a loan denominated in Euros to the amount of 113. Expiry date of this contract is 2009. Interest rate is Euribor+3.25 per annum. As of June 30, 2008 the outstanding liability was 1,092.The loans are secured by property, plant and equipment with carrying value of 644.

Bonds

In December 2005, the Company registered the issue of 3,000,000 interest-bearing bonds, series VT-2, with a par value of 1,000 Rubles each. The effective interest rate is set at 8.64%. The bonds mature in 5 years from the date of issue in December 2010. The bond issue has an option of early redemption on December 4, 2008.

In December 2005, the Company registered the issue of 2,300,000 interest-bearing bonds, series VT-3, with a par value of 1,000 Rubles each. The effective interest rate is set at 8.91%. The bonds mature in 5 years from the date of issue in December 2010. The bonds do not provide any early redemption options.

In September 2006, the Company registered the issue of 3,000,000 interest-bearing bonds, series VT-4, with a par value of 1,000 Rubles each. The effective interest rate is set at 8.54%. The bonds mature in 7 years from the date of issue in December 2013. The bond issue has an option of early redemption on September 10, 2009.

18. Borrowings (continued)

Vendor Financing

Huawei Technologies Co. Ltd.
Long-term debt to Huawei Technologies Co. Ltd decreased by 61 compared to the amount at December 31, 2007 due to repayment, and as of June 30, 2008 it was 137.

Metrosvyaz Limited
Long-term debt to Metrosvyaz Limited decreased by 4 compared to the amount at December 31,2007 due to repayment, and as of June 30, 2008 it was 76.

Alcatel

Long-term debt to Alcatel decreased by 7 compared to the amount at December 31,2007 due to repayment, and as of June 30, 2008 it was 21.

Promissory Notes

ISG
Long-term debt to ISG decreased by 106 compared to the amount at December 31,2007 due to repayment, and as of June 30, 2008 it was 230.

19. Finance Lease Obligations

The Company entered into various finance lease agreements for telecommunication equipment. As of June 30, 2008 and December 31, 2007 future minimum lease payments and their present value were as follows:

	30.06.2008		**31.12.2007**	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	874	577	475	336
Over 1 to 5 years	1,910	1,472	784	620
Total minimum lease payments	**2,784**	**2,049**	**1,259**	**956**
Less amounts representing financial charges	(735	-	(303	-
Present value of minimum lease payments	**2,049**	**2,049**	**956**	**956**

In 2008 the Company's primary lessor was OJSC RTC-Leasing. In 2008 the effective interest rate on lease liabilities ranged from 16.72% to 21.65% (2007 - from 16.82% to 22.85%).

OJSC RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company's future minimum lease payments under finance leases to OJSC RTC-Leasing as of June 30, 2008 amounted to 2,711 (at December 31, 2007 – 1,177) including principal amount of 2,009 (at December 31, 2007 – 914) and interest charges – 702 (at December 31, 2007 – 263).

20. Accounts Payable and Accruals

As of June 30, 2008 and December 31, 2007 the Company's accounts payable and other current liabilities comprised the following:

	30.06.2008	31.12.2007
Payables to suppliers and contractors for purchases and construction of property, plant and equipment	**1,188**	1,271
Payables to suppliers and contractors for purchases of software	**14**	99
Payables to operators	**370**	411
Payables to suppliers and contractors under current operations	**642**	659
Advances received under current operations	**504**	584
Advances received under non-current operations and for assets sold	**14**	4
Salaries and wages	**935**	835
Other accounts payable and current liabilities	**340**	342
Total	**4,007**	4,205

Accounts payable to suppliers and contractors to the amount of 115 and 165 as of June 30, 2008 and December 31, 2007 respectively, were denominated in foreign currency, mainly in US dollars and Euros.

Other accounts payable include payables to OJSC Rostelecom under assistance agreements in the amount of 249.

21. Taxes Payable

Current Taxes Payable

As of June 30, 2008 and December 31, 2007 the Company's current taxes payable comprised the following:

	30.06.2008	31.12.2007
Value added tax	**477**	34
Property tax	**170**	165
Income tax payable	**56**	26
Unified social tax	**109**	48
Other taxes	**8**	8
Total	**820**	281

22. Contingencies and Operating Risks

Taxation

Svyazinvest group management believes that as of June 30, 2008 its interpretation of the relevant legislation is appropriate and that the Company's positions in terms of compliance with tax, currency and customs laws, will be sustained.

Insurance

During 6 months of 2008 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of its assets could have a material adverse effect on the Company's operations and financial position.

Litigations, Claims and Assessments

During 6 months of 2008 the Company 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 a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees Issued

As of June 30, 2008 the Company guaranteed several credit line facilities provided mainly by Sberbank to OJSC RTK-Leasing, the lessor of telecommunication equipment. The fair value of the guarantees issued as of June 30, 2008 and December 31, 2007 was 361 and 507, respectively. The Company's management estimates the probability of the need to execute these obligations as minimal.

23. Financial Instruments

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

Capital Management Policy

The Company manages its capital using the following ratios: financial independence ratio, net debt/shareholder's equity ratio and net debt/EBITDA ratio. Capital management is conducted at the level of separate significant legal entities of the Company. The financial independence ratios, net debt/shareholder's equity, net debt/EBITDA ratios are calculated using RAS accounting data.

23. Financial instruments (continued)

The Group's capital management policy was not changed compared to 2007.

The Company's policy is to maintain net debt/EBITDA ratio at the level of 2.23.

As of the reporting date OJSC VolgaTelecom is assigned A+ local currency credit rating by international rating agency Standard&Poor's (2007 – A+).

Foreign exchange risk

As a rule, the Company's foreign exchange risks arise with regard to liabilities denominated in foreign currency. As of June 30, 2008 the Company's liabilities in foreign currencies were 889 (as of December 31, 2007 - 1,256), including liabilities denominated in US dollars of 623 (as of December 31, 2007 – 918) and in Euro and other currencies of 266 (as of December 31, 2007 – 338).

For the period from January 1, 2008 to June 30, 2008 exchange rate of the Russian Ruble to US Dollar increased by approximately 4.44% and exchange rate of the Russian Ruble to Euro decreased by less than 3%.

In the reporting period the Company's foreign exchange risk management policy was not changed compared to the policy stated in 2007 financial statements.

Interest Rate Risk

The table below demonstrates the Company's financial liabilities with fixed and floating rates, exposed to interest rate risk as of June 30, 2008 and December 31, 2007:

	Fixed rate	Floating rate	Total
As of June 30, 2008			
Short-term obligations	582	163	745
Long-term obligations	7,571	6,221	13,792
Total	**8,153**	**6,384**	**14,537**

	Fixed rate	Floating rate	Total
As of December 31, 2007			
Short-term obligations	1,092	243	1,335
Long-term obligations	6,999	6,326	13,325
Total	**8,091**	**6,569**	**14,660**

In the reporting period the Company's interest rate risk management policy was not changed compared to the policy stated in 2007 financial statements.

23. Financial instruments (continued)

Liquidity Risk

The Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool helps to analyze dates of payments related to financial investments and financial assets (for example, accounts receivable, other financial assets), as well as estimated cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases.

As of December 31, 2007 and June 30, 2008 the Company's debt matures as follows:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Total
within 2008	3,2	4,166	293	185	**7,913**
within 2009	1,2	4,217	112	151	**5,744**
within 2010	204	972			**1,176**
within 2011	179	-			**179**
within 2012	1,5	-			**1,581**
after 2012	-	-			-
Total	**6,4**	**9,355**	**405**	**336**	**16,593**

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Total
within 2008	2,0	3,827	137	95	**6,080**
within 2009	1,5	4,217	148	151	**6,077**
within 2010	451	972	3		**1,426**
within 2011	904		3		**907**
within 2012	1,5				**1,581**
after 2012					-
Total	**6,5**	**9,016**	**291**	**246**	**16,071**

In the reporting period the Company's liquidity risk management policy was not changed compared to the policy stated in 2007 financial statements.

Credit Risk

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

Financial assets potentially subject the Company's credit risk consist primarily of trade receivables. Carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

The Company 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 is represented by debts of state and other non-profit organizations.

23. Financial instruments (continued)

Recovery of these debts is influenced by political and economic factors; however, management believes that as of June 30, 2008 the Company has no significant impairment losses beyond the respective provision already recorded.

For the purposes of credit risk management the Company keeps free capital in different banks, and the Company's management regularly analyzes creditworthiness of banks where the funds are kept.

In the reporting period the Company's credit risk management policy was not changed compared to the policy stated in 2007 financial statements.

Hedging

In 6 months 2008 OJSC VolgaTelecom has not entered into any hedging arrangements in respect of its foreign exchange or interest rate risk exposures.

24. Revenue

	6 months of 2008	**6 months of 2007**
Intrazone telephone services		
Local telephone services		
Mobile radio services, wire and radio broadcasting, television	**33[illegible]**	29[illegible]
Mobile radiotelephone (cellular) services		
Data transfer, telegraph and telematic services (Internet)		
Interconnection and traffic transmission services		
Revenues from other services	**5[illegible]**	13[illegible]
Fees on assistance and agency services	**27[illegible]**	30[illegible]
Revenues from non-telecommunication services	**35[illegible]**	18[illegible]
Total	[illegible]	[illegible]

Revenues from intrazone and local telephone services include revenues from rent of telecommunication channels of 250 and 75 respectively (6 months of 2007 - 213 and 68, respectively).

Data transfer, telegraph and telematic services (Internet) revenues include data transfer and telematic services (Internet) revenues of 2,288 (6 months of 2007 – 1,420).

Revenues from non-telecommunication services include assets lease revenues of 96 (6 months of 2007 - 92).

The Company identified revenues by the following major customer groups:

Customer groups	**6 months of 2008**	**6months of 2007**
Individuals	**8,133**	7,882
Corporate customers	**6,530**	5,585
Government customers	**1,101**	983
Total revenue	**15,764**	14,450

25. Other Operating Expenses

	6 months of 2008	**6 months of 2007**
Universal service fund contributions	**152**	133
Fire and other security services	**166**	161
Third party services on general administration	**370**	158
Rent expenses	**211**	231
Agency fees	**271**	227
Advertising expenses	**184**	124
Audit and consulting fees	**106**	86
Non-commercial partnership expenses	**78**	111
Member fees, charity contribution, payments to labor unions	**79**	58
Business travel expenses and representation costs	**50**	49
Cost of goods sold	**38**	133
Expenses on services of banks	**34**	35
Education expenses	**26**	32
Other expenses	**218**	322
Total	**1,9**	1,8

Other expenses include primarily other expenses on non-telecommunication activities.

26. Other Operating Income

	6months of 2008	**6 months of 2007**
Reimbursement of losses from universal telecommunication services	**359**	-
Revenues from the sale of inventory items	**1**	1
Fines, penalties and forfeits for economic contracts violation	**28**	38
Revenues from assets received on a gratis basis	**48**	13
Other	**96**	154
Total	**532**	206

In 6 months of 2008 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:

- 273 – for the second half of 2007;
- 145 – for the 1-st quarter of 2008.

The loss for 6 months of 2008 from provision of universal telecommunication services amounted to 379. The difference between H108 loss and the amount of reimbursement received for 3 months of 2008 will be compensated in accordance with established procedure.

Other income comprises mainly recognized revenues from target financing and others.

27. Interest Expense, Net

	6months of 2008	6 months of 2007
Interest income	**(50)**	(8)
Interest expense on loans, promissory notes, bonds	**531**	419
Interest expense on finance leases	**173**	114
Interest expense on vendor financing	**4**	1
Total	**658**	526

28. Profit from investments, net

	6 months of 2008	6 months of 2007
Profit from sale of equity stake in subsidiary companies:		
- LLC Vyatkasvyazservice	-	12
Loss from impairment of investments	**(3)**	(3)
Dividend income	**5**	4
Total	**2**	13

29. Earnings per Share

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

	6 months of 2008	6 months of 2007
Profit for the reporting period attributable to equity holders of the parent	**1688**	1678
Weighted average number of ordinary shares outstanding and other instruments	**328**	328
Basic and diluted profit per share attributable to equity holders of the parent (Russian Rubles)	**5.15**	5.12

30. Dividends Declared and Proposed for Distribution

In June 2008 according the shareholders' general meeting resolution, the payment of dividends for the year ended December 31, 2007 was declared in the amount of RUR 2.1346 per ordinary share and RUR 4.0534 per preference share.

Dividends payable were as follows:

Shares	Number of shares (million)	Dividends per share (RUR)	Total dividends (RUR million)
For 2007			
Preference	82	4.0534	332
Ordinary	246	2.1346	525
Total dividends	**328**		**857**

31. Balances and Transactions with Related Parties

During 6 months of 2008 the structure of the Company's related parties was not significantly changed compared to the structure as of December 31, 2007.

OJSC Svyazinvest

Svyazinvest group comprises 7 interregional telecommunication companies including OJSC VolgaTelecom, OJSC Rostelecom, OJSC Central Telegraph, OJSC Dagsvyazinform and other subsidiary companies of public telecommunication.
As of June 30, 2008 the Russian Federation represented by Federal agency for federal property administration (since July 28, 2008 – Federal agency for state property administration) holds OJSC Svyazinvest's ordinary stock in the amount of 75%-1 share.

OJSC Rostelecom

OJSC Rostelecom, a majority owned subsidiary of OJSC Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation.

The revenues associated with OJSC Rostelecom are related to traffic transmission services rendered by the Company to OJSC Rostelecom under interconnection agreement and revenues under the assistance agreement containing elements of agency contract and contact of services provision.

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 interconnection, as well as expenses for long-distance domestic and international telecommunication services provided to the Company.

Non-Commercial Partnership "Centre for Research of Telecommunications Development Problems"

The non-commercial partnership "Centre for Research of Telecommunications Development Problems" (hereinafter "the Partnership") is an entity controlled by OJSC Svyazinvest through its subsidiaries.

The Company has agreements with the Partnership under which it provides funding for researching telecommunication market development problems, fostering increase in telecom companies' competitiveness, creating and maintaining positive image and reputation of these companies for Russian and foreign investors, consumers and others.

OJSC Svyazintek

OJSC Svyazintek provides to the Company services related to implementation and post-implementation of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

NPF Telecom-Soyuz

The Company signed several pension insurance agreements with Non-state pension fund Telecom-Soyuz which is OJSC Svyazinvest's related party. Total payments from the Company to the Fund in the 1-st half of 2008 amounted to 63 (in 2007 – 130).

31. Balances and Transactions with Related Parties (continued)

Compensation to Key Management Personnel

Key management personnel comprise members of the Company's Management board and Board of directors totaling 21 persons as of June 30, 2008 and 20 persons as of December 31, 2007.

Compensation to the members of the Board of directors, Management board and the Auditing Committee for 6 months of 2008 includes salary, bonuses and compensation for involvement in management bodies and totals 87 (for 6 months of 2007 - 35).

32. Events after the Balance Sheet Date

Purchase of shares of CJSC Ulyanovsk-GSM

On July 15, 2008 the Company acquired additional 40% of voting shares of its subsidiary CJSC Ulyanovsk-GSM from the entity's minority shareholder CJSC SMARTS for 985, and thus increased its equity interest to 100%. This transaction will be reported in the Company's financial statements for 2008 as increase in equity stake in the Company's subsidiary.

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