OJSC VolgaTelecom

CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE PERIOD OF 9 MONTHS ENEDED SEPTEMBER 30, 2009

OJSC VolgaTelecom

Consolidated interim financial statements prepared under International Financial Reporting Standards (IFRS) for the period of 9 months ended September 30, 2009

Contents

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

	Notes	September 30, 2009	December 31, 2008
ASSETS			
Non-current assets			
Property, plant and equipment		40, 340	43, 911
Intangible assets		4, 574	4 ,764
Long-term receivables		1	1
Other long-term assets		144	310
Investments in associates		168	162
Long-term financial assets		26	27
Total non-current assets		**45, 253**	**49, 175**
Current assets			
Inventories		532	483
Trade and other accounts receivable		2, 531	2 , 628
Prepaid income tax		199	87
Other current assets		391	408
Current financial assets		208	204
Cash and cash equivalents		2, 282	1, 678
		6, 143	**5, 488**
Assets for sale		107	150
Total current assets		**6, 250**	**5, 638**
Total assets		**51, 503**	**54 , 813**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		3 , 854	3, 854
Accumulated provision for revaluation of financial assets available for sale		1	1
Retained earnings		25, 474	23, 367
Total equity attributable to equity holders of the parent		**29, 329**	**27, 222**
Minority interest		11	16
Total equity		**29, 340**	**27, 238**
Non-current liabilities			
Long-term borrowings		7, 987	9, 486
Pension and non-current social liabilities		2, 164	1, 984
Other non-current liabilities		473	499
Deferred income tax liabilities		2, 250	2 ,151
Total non-current liabilities		**12, 874**	**14, 120**
Current liabilities			
Current borrowings		4, 452	7, 541
Accounts payable and accruals		4, 271	5, 246
Income tax payable		11	-
Other current liabilities		553	659
Current provisions		2	9
		9, 289	**13, 455**
Total current liabilities		**9, 289**	**13, 455**
Total liabilities		**22, 163**	**27, 575**
Total equity and liabilities		**51, 503**	**54, 813**

General Director
Vladimir I. Rybakin __________________

Chief Accountant
Nikolai I. Popkov __________________

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

OJSC VolgaTelecom
Consolidated Interim Income Statement
For 9 months ended September 30, 2009
(RUB million, other than earnings per share)

	Notes	9 months of 2009	2008
Continuing operations			
Sales revenue		**24, 265**	**32, 063**
Personnel costs		(6, 401)	(8, 738)
Depreciation and amortization		(5, 592)	(6, 688)
Telecom's operators expenses		(2, 684)	(3, 789)
Materials, repairs and maintenance, utilities		(1, 998)	(2, 752)
Other operating income		1, 056	1, 170
Other operating expenses		(3, 506)	(5, 805)
Operating profit		**5, 140**	**5, 461**
Share in result of associates		6	16
Financial costs		(1, 562)	(1, 780)
Other profit and expenses from financial and investment operations		159	126
Foreign exchange loss		(74)	(165)
Profit before taxation from continuing operations		**3, 669**	**3, 658**
Income tax		(829)	(722)
Profit from continuing operations		**2, 840**	**2, 936**
Discontinued operations			
Profit for the reporting period		**2, 840**	**2, 936**
Profit for the reporting period attributable to:			
equity holders of the parent		2, 845	2, 906
minority shareholders of subsidiary companies		(5)	30
Profit for the reporting period		**2, 840**	**2, 936**
Basic earnings per share and diluted earnings per share from continuing operations attributable to equity holders of the parent (RUB) for the reporting period		**8,67613**	**8,86253**

General Director
Vladimir I. Rybakin __________________

Chief Accountant
Nikolai I. Popkov __________________

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OJSC VolgaTelecom

Consolidated Interim Comprehensive Income Statement
For 9 months ended September 30, 2009

(RUB million, other than earnings per share)

	Notes	9 months of 2009	9 months of 2008
Profit (loss) for the reporting period		**2, 840**	**2, 936**
Total other comprehensive profit, net of income tax		**-**	**-**
Total comprehensive profit for the reporting period		**2, 840**	**2, 936**
Comprehensive income for the reporting period attributable to:			
equity holders of the parent		2, 845	2, 906
minority shareholders of subsidiary companies		(5)	30
Total comprehensive profit for the reporting period		**2, 840**	**2, 936**

General Director
Vladimir I. Rybakin __________________

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OJSC VolgaTelecom
Consolidated Interim Cash Flow Statement
For 9 months ended September 30, 2009
(RUB million)

	Notes	9 months of 2009	2008
Operating activity			
Pretax earnings from continuing operations		3, 669	3, 658
Pretax earnings		3, 669	3, 658
Adjustments for			
Depreciation and amortization		5, 592	6, 688
Profit (loss) on disposal of property, plant and equipment and of other assets		10	1, 022
Re-establishment of provision for impairment of inventories and other assets		(4)	-
Expenses for establishing provision for doubtful debts		130	167
Share of results of associates		(6)	(16)
Financial expenses		1, 562	1, 780
Other operating income (expenses)		(159)	(126)
Foreign exchange gain (loss)		74	165
Operating profit after adjustments for non-monetary transactions		10, 868	13, 338
Increase in inventories		(36)	(29)
Increase in trade and other accounts receivable		(24)	(101)
Reduction in other current assets		19	308
Increase in employee benefits		179	104
Increase in accounts payable and accruals		288	651
Decrease in provisions		(8)	(2)
Decrease in other operating assets and liabilities		(104)	(44)
Cash flows from operations		11, 182	14, 225
Interest paid		(1, 342)	(1, 679)
Income tax paid		(831)	(1, 562)
Net cash flows generated from core operations		9, 009	10, 984
Investing activities			
Acquisition of property, plant and equipment, work in progress and investment property		(2, 651)	(7, 138)
Sales of property, plant and equipment, work in progress and investment property		91	452
Acquisition of intangible assets		(284)	(644)
Acquisition of subsidiaries, net of cash acquired		(326)	(985)
Acquisition of financial assets		(906)	(300)
Sales of financial assets		935	102
Interest received		154	122
Dividend received		7	-
Net cash flows utilized in investing activities		(2, 980)	(8, 391)

OJSC VolgaTelecom
Consolidated Interim Cash Flow Statement
For 9 months ended September 30, 2009 (continued)
(RUB million)

	Notes	9 months of 2009	9 months of 2008
Financing activities			
Proceeds from loans and borrowings		965	9, 637
Repayment of loans and borrowings		(2, 534)	(6, 008)
Repayment of bond issue		(2, 767)	(3, 456)
Proceeds from promissory notes		1, 013	265
Repayment of promissory notes		(692)	(185)
Repayment of vendor financing liabilities		(268)	(255)
Repayment of other long-term liabilities		(3)	-
Repayment of finance lease obligations		(545)	(546)
Dividend paid to shareholders of the parent		(594)	(858)
Dividend paid to minority shareholders of subsidiaries		-	(4)
Net cash flows utilized in financing activities		(5, 425)	(1, 410)
Effect of currency rates changes on cash and cash equivalents		-	-
Net increase in cash and cash equivalents		604	1, 183
Cash and cash equivalents at the reporting period beginning		1, 678	495
Cash and cash equivalents at the reporting period end		2, 282	1, 678

General Director
Vladimir I. Rybakin ___________________

Chief Accountant
Nikolai I. Popkov ___________________

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

OJSC VolgaTelecom

Consolidated Interim Statement of Changes in Equity

For 9 months ended September 30, 2009

(RUB million)

	Equity of the parent							
	Share capital		Treasury stock	Revaluation reserve for available-for-sale investments	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	Preference shares	Ordinary shares						
Balance at December 31, 2007	963	2, 891	-	6	22, 041	25, 901	253	26, 154
Balance at December 31, 2007 (adjusted)	**963**	**2, 891**	**-**	**6**	**22, 041**	**25, 901**	**253**	**26, 154**
Consolidated returns for the reporting period	-	-	-	(5)	2, 906	**2, 901**	30	**2, 931**
Dividend to equity holders of the parent	-	-	-	-	(857)	**(857)**	-	**(857)**
Dividend of subsidiaries to minority shareholders	-	-	-	-	-	-	(5)	**(5)**
Minority interest in acquired subsidiaries	-	-	-	-	(738)	**(738)**	(247)	**(985)**
Balance at December 31, 2008	**963**	**2, 891**	**-**	**1**	**23, 352**	**27, 207**	**31**	**27, 238**

		Equity of the parent							
	Notes	**Share capital**		**Treasury stock**	**Revaluation reserve for available-for-sale investments**	**Retained earnings**	**Total equity attributable to equity holders of the parent**	**Minority interest**	**Total equity**
		Preference shares	**Ordinary shares**						
Balance at December 31, 2008		**963**	**2, 891**	**-**	**1**	**23, 367**	**27, 222**	**16**	**27, 238**
Consolidated returns for the reporting period		-	-	-	-	2, 845	**2, 845**	(5)	**2, 840**
Dividend to equity holders of the parent		-	-	-	-	(738)	**(738)**	-	**(738)**
Balance at September 30, 2009		**963**	**2, 891**	**-**	**1**	**25, 474**	**29, 329**	**11**	**29, 340**

General Director Vladimir I. Rybakin __________ Chief Accountant Nikolai I. Popkov _______________

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

1. General

Authorization of Accounts

The consolidated interim financial statements of OJSC VolgaTelecom (hereinafter - "the Company") and its subsidiaries (hereinafter – the Group) for 9 months ended September 30, 2009 were authorized for issue in accordance with the decision of the General Director and the Chief Accountant dated December 14, 2009.

Group

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

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

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

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

Information on main subsidiaries is disclosed in Note 6. All subsidiaries are incorporated under the laws of the Russian Federation, unless otherwise stated.

2. Basis of Presentation of the Financial Statements

Statement of compliance

The consolidated financial statements are prepared and presented in accordance with the requirements of International Financial Reporting Standards (IAS) 34 "Interim Financial Statements", as well as other International Financial Reporting Standards (IFRS) and respective interpretations approved by the Committee for International Financial Reporting Standards (CIFRS).

All information should be considered with due account for the Group's annual consolidated financial statements for the year ended December 31, 2008

Going concern

Consolidated financial statements have been prepared on the basis of the assumption that the Group will continue the normal course of business in the foreseeable future, which contemplates the realization of assets and the satisfaction of liabilities subject to applicable regulations.

Presentation of Financial Statements

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

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

Basis of accounting

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

Changes in Accounting Policies

The accounting policies adopted for preparing consolidated financial statements for 9 months of 2009 are consistent with those of the previous financial year, except the provisions of the accounting policies modified due to the approval of new and/or revision of Standards and Interpretations of IFRS effective on or after January 01, 2009.

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

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

(RUB million)

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

(RUB million)

Foreign currency transactions

The functional and presentation currency of the Group is the Russian Rouble (RUB). Transactions in foreign currency are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate ruling at the date. All resulting differences are recognized in the income statement as foreign exchange gains (losses). Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The exchange rates as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009	**December 31, 2008**
US Dollar	**30.0922**	29.3804
EURO	**44.0068**	41.4411

3. Summary of Significant Accounting Policies

The consolidated interim financial statements have been prepared under the Group's 2009 unified accounting policy which is the previous year accounting policy adjusted in accordance with the 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 Group's consolidated financial statements for 2008.

5. Segment reporting

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

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

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

(RUB million)

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

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

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

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

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

Information about reporting segments at September 30, 2009 and for 9 months ended September 30, 2009	**OJSC VolgaTelecom – fixed-line telecommunication**	**Subsidiaries – fixed-line telecommunication**	**Subsidiaries - mobile telecommunication**	**Total segments**
Sales revenue				
Sales revenue from third parties	19, 918	78	4, 269	**24, 265**
Sales revenue between the segments	151	-	143	**294**
Sales revenue within the segment	-	-	29	**29**
Total sales revenue	**20, 069**	**78**	**4, 441**	**24, 588**
Interest receipts	160	-	71	**231**
Interest expense	(1, 190)	-	(132)	**(1, 322)**
Income tax	(749)	(2)	(183)	**(934)**
Profit for the reporting period	3, 177	1	671	**3, 849**
Assets and liabilities				
Assets as per operations segments	41, 388	384	6, 769	**48, 541**
Segment liabilities	(15, 850)	(19)	(2, 359)	**(18, 228)**
Other segment information				
Capital expenditure Property, plant and equipment	583	-	742	**1 325**
Depreciation and amortization	(3, 648)	-	(667)	**(4, 315)**
Impairment loss from inventory	2	-	-	**2**
Bad debt provision accrual	(119)	-	(4)	**(123)**
Pension and long-term social obligations expenses	(166)	-	-	**(166)**

(RUB million)

Information about reporting segments at December 31, 2008 and for 12 months ended December 31, 2008	OJSC VolgaTelecom – fixed-line telecommunication	Subsidiaries – fixed-line telecommunication	Subsidiaries - mobile telecommunication	Total segments
Sales revenue				
Sales revenue from third parties	26, 196	99	5, 857	**32, 152**
Sales revenue between the segments	224	11	183	**418**
Sales revenue within the segment	-	-	50	**50**
Total sales revenue	**26, 420**	**110**	**6, 090**	**32, 620**
Interest receipts	125	-	5	**130**
Interest expense	(1, 206)	-	(58)	**(1, 264)**
Income tax	(1, 124)	(5)	(303)	**(1,432)**
Profit for the reporting period	2, 952	13	990	**3, 955**
Assets and liabilities				
Assets as per operations segments	44, 157	74	7, 118	**51, 349**
Segment liabilities	(21, 239)	(12)	(2, 813)	**(24, 064)**
Other segment information				
Capital expenditure	6, 477	-	1, 631	**8, 108**
Property, plant and equipment				
Depreciation and amortization	(4, 349)	-	(725)	**(5, 074)**
Impairment loss from inventory	0	-	-	**0**
Bad debt provision accrual	(146)	-	(9)	**(155)**
Pension and long-term social obligations expenses	(213)	-	-	**(213)**

(RUB million)

The data of accounting statement as per RAS and indicators included into IFRS consolidated financial statements are collated below:

Collation of segment data and of consolidated data at September 30, 2009 and for 9 months ended September 30, 2009	**Total segments**	**Transformation adjustments**	**Consolidation adjustments**	**Total consolidated for the Group**
Sales revenue				
Sales revenue from third parties	24, 265	-	-	**24, 265**
Sales revenue between the segments	294	-	(294)	-
Sales revenue within the segment	29	-	(29)	-
Total sales revenue	**24, 588**	-	**(323)**	24, 265
Interest receipts	231	-	(73)	**158**
Interest expense	(1, 322)	(134)	73	**(1, 383)**
Income tax	(934)	105	-	**(829)**
Profit for the reporting period	3, 849	(423)	(586)	**2, 840**
Assets and liabilities				
Assets as per operations segments	48, 541	6. 543	(3 581)	**51, 503**
Segment liabilities	(18, 228)	(4. 336)	401	**(22, 163)**
Other segment information				
Capital expenditure				
Property, plant and equipment	1, 325	463	-	**1, 788**
Intangible assets	-	303	-	**303**
Depreciation and amortization	(4, 315)	(1, 278)	1	**(5, 592)**
Impairment loss from inventory	2	-	(2)	-
Bad debt provision accrual	(123)	(3)	(4)	**(130)**
Pension and long-term social obligations expenses	(166)	(11)	-	**(177)**

(RUB million)

Collation of segment data and of consolidated data at December 31, 2008 and for 12 months ended December 31, 2008	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for the Group
Sales revenue				
Sales revenue from third parties	32, 152	(89)	-	**32, 063**
Sales revenue between the segments	418	-	(418)	
Sales revenue within the segment	50	-	(50)	
Total sales revenue	**32, 620**	**(89)**	**(468)**	32, 063
Interest receipts	130	1	(9)	**122**
Interest expense	(1, 264)	(327)	10	**(1, 581)**
Income tax	(1, 432)	710	-	**(722)**
Profit for the reporting period	3, 955	(563)	(456)	**2, 936**
Assets and liabilities				
Assets as per operations segments	51, 349	7, 075	(3, 611)	**54, 813**
Segment liabilities	(24, 064)	(4, 264)	753	**(27, 575)**
Other segment information				
Capital expenditure Property, plant and equipment	8, 108	1, 674	-	**9, 782**
Intangible assets	-	843	-	**843**
Depreciation and amortization	(5, 074)	(1, 612)	(2)	**(6, 688)**
Impairment loss from inventory	-	-	(3)	**(3)**
Bad debt provision accrual	(155)	(7)	(5)	**(167)**
Pension and long-term social obligations expenses	(213)	(104)	-	**(317)**

At September 30, 2009 and for 9 months ended September 30, 2009 the key indicators of essential operating segments were as follows:

Information about operating segments	Sales revenue	Operating segment profit (loss) before tax	Segment assets	Segment liabilities
OJSC VolgaTelecom – fixed-line telecommunication	**20, 069**	**3, 926**	**41, 388**	**15, 850**
Nizhny Novgorod branch	4 ,162	1, 012	6, 724	569
Samara branch	2, 971	234	4, 938	472
Saratov branch	2, 329	386	3, 243	325
Orenburg branch	2, 221	473	3, 028	301
Kirov branch	1, 472	270	2, 607	209
Other branches	6, 914	1 551	20, 848	13, 974
Subsidiaries – fixed-line telecommunication	**78**	**3**	**384**	**19**
LLC Nizhegorodskyi Teleservice	52	6	67	9
LLC Gorodskaya Telephonnaya Svyaz	26	(1)	316	8
ZAO Transsvyaz	-	(2)	-	-
OJSC Omrix	-	-	1	2
Subsidiaries – mobile telecommunication	**4, 441**	**854**	**6, 769**	**2, 359**
ZAO Nizhegorodskaya Sotovaya Svyaz	3, 548	671	5, 574	1, 809
ZAO Ulyanovsk-GSM	693	197	798	244
ZAO Orenburg-GSM	166	4	211	146
ZAO Narodnyi Telephone Saratov	34	(18)	186	160
Total	**24, 588**	**4, 783**	**48, 541**	**18, 228**

At December 31, 2008 and for 12 months ended December 31, 2008 the key indicators of essential operating segments were as follows:

(RUB million)

Information about operating segments	Sales revenue	Operating segment profit (loss) before tax	Segment assets	Segment liabilities
OJSC VolgaTelecom – fixed-line telecommunication	**26, 420**	**4, 076**	**44, 157**	**21, 239**
Nizhny Novgorod branch	5, 443	1, 282	7, 106	934
Orenburg branch	2, 964	544	3, 294	370
Samara branch	3, 919	473	5, 475	758
Saratov branch	3, 059	497	3, 589	391
Kirov branch	1, 924	327	2, 815	365
Other branches	9, 111	953	21, 878	18, 421
Subsidiaries – fixed-line telecommunication	**110**	**18**	**74**	**12**
LLC Nizhegorodskyi Teleservice	93	19	71	10
ZAO Transsvyaz	17	-	3	-
OJSC Omrix	-	(1)	-	2
Subsidiaries – mobile telecommunication	**6, 090**	**1, 293**	**7, 118**	**2, 813**
ZAO Nizhegorodskaya Sotovaya Svyaz	4, 892	1, 129	5, 851	2, 125
ZAO Ulyanovsk-GSM	876	198	827	353
ZAO Orenburg-GSM	263	7	243	180
ZAO Narodnyi Telephone Saratov	59	(51)	197	155
Total	**32, 620**	**5, 387**	**51, 349**	**24, 064**

6. Subsidiaries

Subsidiaries controlled by OJSC VolgaTelecom are

Subsidiary	Activity	Ownership, %		Voting shares, %	
		September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
LLC Gorodskaya Telephonnaya Svyaz	Telecommunication services	100.00			
ZAO Narodnyi Telephone Saratov	Mobile telecommunication services (CDMA)	50.00%+1 share	50.00%+1 share	50.00%+1 share	50.00%+1 share
LLC Nizhegorodskyi Teleservice	Telecommunication services	100.00	100.00		
ZAO Nizhegorodskaya Sotovaya Svyaz	Mobile telecommunication services (GSM-900)	100.00	100.00	100.00	100.00
OJSC OMRIX	Local telephony services	73.60	73.60	73.60	73.60
ZAO Orenburg-GSM	Mobile telecommunication services (GSM-900)	51.00	51.00	51.00	51.00
ZAO Transsvyaz	Local telephony services	100.00	100.00	100.00	100.00
ZAO Ulyanovsk-GSM	Mobile telecommunication services (GSM-900)	100.00	100.00	100.00	100.00

All of the above companies are Russian legal entities established pursuant to the legislation of the Russian Federation and have the same financial year as the Company.

(RUB million)

Acquisition of companies

In July 2009 the Company acquired 100% equity share in authorized capital of LLC Gorodskaya Telephonnaya Svyaz for 349 and took control over it.

The Company's management distributed the cost of acquisition of 100% equity share in authorized capital of LLC Gorodskaya Telephonnaya Svyaz in the following way:

Cost of acquisition	
Paid by cash	349
Total, cost of acquisition	**349**
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	283
Accounts receivable	14
Cash and cash equivalents	23
Other assets	10
Current liabilities	(21)
Total net assets	**309**
Share in acquired net assets	100%
Cost of share in net identifiable assets	309
Value of goodwill at September 30, 2009 (net)	**40**

In determining the value of goodwill the management used the assumption that the historical value of assets and liabilities were equal to their fair value.

Net loss of LLC Gorodskaya Telephonnaya Svyaz from the date of its acquisition by OJSC VolgaTelecom to the balance sheet date amounted to (1) and is included into calculation of the Company's consolidated profit for the reporting period.

7. Assets and liabilities held-for-sale

At September 30, 2009 the Group classified OJSC VolgaTelecom's assets as assets held-for-sale, their balance sheet value amounted to 115 (2008 – 177).

Profit from revaluation of assets held-for-sale in amount of 19 (2008 – loss of 27) was recognized in "Other operating expenses" in consolidated income statement.

At September 30, 2009 and December 31, 2008 OJSC VolgaTelecom's major assets and liabilities classified as assets held-for-sale were as follows:

	Land, buildings and constructions	**Switches and transmission devises**	**Vehicles and other**	**Capital investments in fixed assets**	**Total**
Original cost at 30.09.09	**153**	**53**	**-**	**5**	**211**
Accumulated depreciation at 30.09.09	**(45)**	**(51)**	**-**	**-**	**(96)**
Impairment loss	**(8)**	**-**	**-**	**-**	**(8)**
Net book value at 30.09.09	**100**	**2**	**-**	**5**	**107**

(RUB million)

8. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
Original cost at December 31, 2007	**28, 544**	**23, 834**	**7, 137**	**1, 932**	**61, 447**
Additions	-	-	-	**9, 782**	**9, 782**
Put into operation	2, 242	4, 960	1, 496	(8, 698)	-
Disposals	(508)	(611)	(153)	(342)	(1, 614)
Disposals related to their classification as assets held-for-sale	(228)	(55)	(1)	(12)	(296)
At December 31, 2008	30, 050	28, 128	8, 479	2, 662	69, 319
Additions	-	-	-	1, 474	1, 474
Additions related to acquisition of subsidiaries	146	164	4	-	314
Additions related to their declassification as assets held-for-sale	51	-	-	-	51
Put into operation	330	1, 589	292	(2, 211)	-
Disposals	(64)	(373)	(106)	(90)	(633)
Reclassification	(3)	10	(7)	-	-
At September 30, 2009	30, 510	29, 518	8, 662	1, 835	70, 525

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
Accumulated depreciation and impairment					
At December 31, 2007	(7, 945)	(8, 747)	(3, 463)	-	(20, 155)
Depreciation charge for the year	(1, 845)	(2, 509)	(1, 844)	-	(6, 198)
Depreciation charge on disposals	259	436	131	-	826
Depreciation charge on disposals related to their classification as assets held-for-sale	66	53	-	-	119
At December 31, 2008	(9, 465)	(10, 767)	(5, 176)	-	(25, 408)
Depreciation charge for the year	(1, 511)	(2, 374)	(1, 248)	-	(5, 133)
Depreciation charge on fixed assets of acquired subsidiaries	(14)	(16)	-	-	(30)
Depreciation charge on additions related to their declassification as assets held-for-sale	(19)	-	-	-	(19)
Depreciation charge on disposals	70	249	86	-	405
Reclassification	-	(11)	11	-	-
At September 30, 2009	(10, 939)	(12, 919)	(6, 327)	-	(30, 185)
Net book value at December 31, 2007	**20, 599**	**15, 087**	**3, 674**	**1, 932**	**41, 292**
Net book value at December 31, 2008	**20, 585**	**17, 361**	**3, 303**	**2, 662**	**43, 911**
Net book value at September 30, 2009	**19, 571**	**16, 599**	**2, 335**	**1, 835**	**40, 340**

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

	September 30, 2009	December 31, 2008
Buildings and constructions	603	627
Switches and transmission devices	1, 899	2, 299
Vehicles and others	44	68
Total, property, plant and equipment under finance lease agreements, net book value	**2, 546**	**2, 994**

The depreciation of property, plant and equipment charged for 9 months of 2009 in the amount of 5, 133 (2008 –

(RUB million)

6, 198) was recognized within "Depreciation and Amortization" in the consolidated income statement.

At September 30, 2009 the cost of fully depreciated property, plant and equipment amounted to 5, 041 (at December 31, 2008 – 4, 503).

For 9 months of 2009 the additions of property, plant and equipment acquired under vendor financing agreements and financial lease agreements amounted to 28 (2008 – 1, 282).

For 9 months of 2009 the Group increased the cost of construction-in-progress by the capitalized interest in the amount of 0 (2008 - 93). Capitalization rate for 9 months of 2009 was 0% (for 9 months of 2008 - 9%).

Property, plant and equipment pledged under credit agreements, vendor financing agreements, loan and leasing contracts amounted to 2, 660 (at December 31, 2008 – 3, 008).

Impairment testing

For the purpose of impairment testing, the recoverable amount of each cash generating unit has been determined based on value in use calculation. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a discount rate which reflects time value of money and risks associated with each individual cash generating unit.

As a result of the impairment test performed no impairment was identified.

9. Intangible assets

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
Cost								
At December 31, 2007	**870**	**652**	**4, 212**	**61**	**64**	**1**	**5**	**5, 865**
Additions	**-**	**17**	**826**	**-**	**-**	**-**	**-**	**843**
Disposals	**-**	**-**	**(524)**	**-**	**-**	**-**	**(1)**	**(525)**
	-	-	-	-	-	-	-	-
At December 31, 2008	870	669	4, 514	61	64	1	4	6, 183
Additions	**-**	**17**	**245**	**-**	**-**	**-**	**-**	**262**
Additions related to acquisition of subsidiaries	**41**	**-**	**-**	**-**	**-**	**-**	**-**	**41**
Disposals	**-**	**-**	**(34)**	**-**	**-**	**-**	**-**	**(34)**
At September 30, 2009	911	686	4, 725	61	64	1	4	6, 452

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
Accumulated amortization and impairment								
At December 31, 2007	**-**	**(147)**	**(726)**	**(31)**	**(23)**	**-**	**(2)**	**(929)**
Amortization charged for the year	**-**	**(65)**	**(413)**	**(6)**	**(6)**	**-**	**-**	**(490)**
At December 31, 2008	-	(212)	(1, 139)	(37)	(29)	-	(2)	(1, 419)
Amortization charged for the year	**-**	**(51)**	**(398)**	**(5)**	**(5)**	**-**	**-**	**(459)**
At September 30, 2009	-	(263)	(1, 537)	(42)	(34)	-	(2)	(1, 878)
Net book value at December 31, 2007	**870**	**505**	**3, 486**	**30**	**41**	**1**	**3**	**4, 936**
Net book value at December 31, 2008	**870**	**457**	**3, 375**	**24**	**35**	**1**	**2**	**4, 764**
Net book value at September 30, 2009	**911**	**423**	**3, 188**	**19**	**30**	**1**	**2**	**4, 574**

(RUB million)

Oracle E-Business Suite

At September 30, 2009 the software included a software product Oracle E-Business Suite with the carrying amount of 1, 063 (December 31, 2008 – 1, 211).

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

Changes in the carrying amount of the software product Oracle E-Business Suite for 9 months ended September 30, 2009 and September 30, 2008 are disclosed below:

	2009	2008
At January 01	**1, 211**	**1, 376**
Implementation expenses	**-**	**295**
Amortization charge	**(148)**	**(132)**
Charge off	**-**	**(328)**
At September 30	**1,063**	**1, 211**

Amdocs Billing Suite Software

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

Changes in the carrying amount of the software product Amdocs Billing Suite for 9 months ended September 30, 2009 and September 30, 2008 are disclosed below:

	2009	2008
At January 01	**1, 044**	**1, 234**
Implementation expenses	**-**	**-**
Charge off	**-**	**(190)**
At September 30	**1, 044**	**1, 044**

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

In 2007 the Group decided to suspend implementation of the project of unified ERP system on Amdocs platform and reconsidered terms and functionality.

HP Open View IUM

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

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

In 2008 the Group completed its implementation.

Changes in the carrying amount of the software product HP Open View IUM for 9 months ended September 30, 2009 and September 30, 2008 are disclosed below:

(RUB million)

	2009	2008
At January 01	**495**	**352**
Implementation expenses	**-**	**143**
At September 30	**495**	**495**

Licenses

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

Amortization of intangible assets

Amortization charge for 9 months of 2009 in the amount of 459 (9 months of 2008 - 490) was recorded in line "Depreciation and amortization" of Consolidated Income Statement.

Impairment Testing of Intangible Assets

The Group performed impairment testing of intangibles. No impairment was revealed as the result of the test at September 30, 2009.

10. Other long-term assets

	September 30, 2009	December 31, 2008
Long-term advances given for the investing activities	77	300
Long-term advances given for core operations	60	1
Long-term VAT	7	9
Total	**144**	**310**

11. Investments in Associates

		September 30, 2009		
Associate	**Activity**	**Ownership interest, %**	**Voting share, %**	**Carrying value**
ZAO Samara-Telecom	Local telephony services	27.80	27.80	148
ZAO C-Bank	Banking services	41.73	41.73	20
Total				**168**

		December 31, 2008		
Associate	**Activity**	**Ownership interest, %**	**Voting share, %**	**Carrying value**
ZAO Samara-Telecom	Local telephony services	27.80	27.80	141
ZAO C-Bank	Banking services	41.73	41.73	21
Total				**162**

All the companies listed above are Russian legal entities established pursuant to the legislation of the Russian Federation and have the same reporting date as the Group.

(RUB million)

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

	Net assets	
Associate	**September 30, 2009**	**December 31, 2008**
ZAO Nizhegorodskyi Radiotelephone	(41)	(41)

Carrying value of investments in the above listed associates was reduced to zero due to the fact that their accumulated loss exceeded the amount of the investments.

Changes in the carrying amount of investments in associates for 9 months ended September 30, 2009 and September 30, 2008 are disclosed below:

	2009	**2008**
Investments in associates at January 01	**162**	**146**
Share of results from associates	6	16
Investments in associates at September 30	**168**	**162**

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

Associate	**Ownership interest, %**	**Assets**	**Liabilities**	**Revenues**	**Profit (loss) for the reporting period**
At September 30, 2009 and for 9 months ended September 30, 2009					
ZAO Samara-Telecom	27.80	585	(52)	231	27
ZAO C-Bank	41.73	205	(156)	7	(4)
At December 31, 2008 and for 12 months ended December 31, 2008					
ZAO Samara-Telecom	27.80	572	(66)	361	54
ZAO C-Bank	41.73	223	(171)	13	2

12. Investments

	September 30, 2009	**December 31, 2008**
Long-term financial investments available-for-sale	20	20
Long-term loans given	6	7
Total long-term financial investments	**26**	**27**
Short-term investments held to maturity	207	202
Short-term loans given	1	2
Total short-term financial investments	**208**	**204**
Total financial investments	**234**	**231**

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

(RUB million)

	September 30, 2009		December 31, 2008	
	Ownership interest, %	Carrying value	Ownership interest, %	Carrying value
Long-term financial investments				
OJSC NTK Zvezda	1.67%	48	1.67%	48
OJSC Svyazintek	13.00%	15	13.00%	15
ZAO Leasing Point	7.30%	12	7.30%	12
Other	-	7	-	7
Provision for impairment	-	(62)	-	(62)
Total		20		20

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

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

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

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

On July 31, 2009 the Group purchased two promissory notes of ZAO Pochtobank for 60 with maturity date at September 03, 2009. Face value of promissory notes amounted to 61, discount on promissory notes amounted to 1. Promissory notes were paid off on September 03, 2009.

On September 17, 2009 the Group purchased promissory note of ZAO Region for 198 with maturity date at August 17, 2010. Face value of promissory note amounted to 199, discount on promissory note amounted to 1. Promissory note will be paid off on August 17, 2010.

13. Inventories

	September 30, 2009	December 31, 2008
Spare parts	149	142
Cable	111	64
Finished goods and goods for sale	33	30
Housewares	24	18
Fuel	5	7
Construction materials	2	23
Other inventory	208	199
Total	**532**	**483**

(RUB million)

The changes in the allowance for obsolete inventories are presented below:

	2009	2008
Balance at January 01	3	3
Charged	-	3
Re-established	(1)	(3)
Balance at September 30	**2**	**3**

14. Trade and Other Receivables

	Gross at September 30, 2009	Bad debt provision	Net at September 30, 2009
Receivables from customers for operating activity	2, 684	(691)	1, 993
Receivables from customers for non-operating activity	184	(70)	114
Receivables from agents and commissioners	111	-	111
Settlements with personnel	10	-	10
Other receivables	331	(28)	303
Total	**3, 320**	**(789)**	**2, 531**

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

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

	Gross at September 30, 2009	Bad debt provision	Net at September 30, 2009
Receivables from individuals	1, 353	(296)	1, 057
Receivables from commercial organizations	530	(117)	413
Receivables from budget organizations	246	(13)	233
Receivables from telecommunication operators	529	(239)	290
Tariff compensation from the state budget	26	(26)	-
Total receivables from customers for operating activity	**2, 684**	**(691)**	**1, 993**

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

(RUB million)

The receivable for tariff compensation from the state budget related to granting discounts to certain categories of privileged subscribers amounted to 0.97% of total accounts receivable from customers (December 31, 2008 – 1.25%).

For 9 months of 2009 the Group enforced by action 0 from federal budget to pay off the debt (12 months of 2008 – 12).

The table below summarizes the changes in bad debt provision:

	2009	2008
Balance at January 01	(707)	(623)
Accrual of the allowance	(130)	(167)
Write-off	48	83
Balance at September 30	**(789)**	**(707)**

15. Other current assets

	Gross at September 30, 2009	Allowance for Impairment	Net at September 30, 2009
Prepayments and advances	187	(3)	184
Deferred expenses	91	-	91
VAT receivable	41	-	41
Other prepaid taxes	32	-	32
Other current assets	57	(14)	43
Total	**408**	**(17)**	**391**

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

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

	2009	2008
Balance at January 01	(20)	(20)
Charge of the allowance	-	(9)
Recovery of the allowance	2	7
Write-off of other current assets	1	2
Balance at September 30	**(17)**	**(20)**

16. Cash and Cash Equivalents

	September 30, 2009	December 31, 2008
Cash in bank and in hand	2, 282	1, 648
Short-term deposits and promissory notes	-	30
Total	**2, 282**	**1, 678**

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

17. Share capital

At September 30, 2009 the par value and carrying value of ordinary and preference shares were as follows:

Shares	Number of shares on issue (thousand)	Par value (RUB)	Total par value	Total carrying value
Ordinary	245, 970	5	1, 230	2, 890
Preference	81, 983	5	410	963
Total	**327, 953**		**1, 640**	**3, 854**

The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated until January 01, 2003.

All shares have been issued and fully paid.

The Company's shareholding structure at September 30, 2009 was as follows:

Shareholders	Share capital, %	Ordinary shares		Preference shares	
		Quantity (thousand)	%	Quantity (thousand)	%
Legal entities, total:	92.04	236, 918	96.32	64, 946	79.22
- OJSC Svyazinvest	38.00	124, 634	50.67	-	
- shareholders holding more than 5% of charter capital	50.14	101, 776	41.38	62, 668	76.43
Of which:		-		-	
ZAO Depozitarno-Cliringovaya Kompaniya – nominee holder	22.02	32, 848	13.35	39, 362	48.01
ZAO National Depositary Center – nominee holder	19.61	45, 113	18.34	19, 211	23.43
ING Bank (Eurasia) ZAO-nominee holder	8.51	23, 815	9.68	4, 095	4.99
Other legal entities	3.90	10, 508	4.27	2, 278	2.79
Individuals, total	**7.96**	**9, 052**	**3.68**	**17, 037**	**20.78**
Total	**100.00**	**245, 970**	**100.00**	**81, 983**	**100.00**

(RUB million)

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's Articles of association which restrict the rights of preference shareholders.

Guaranteed dividend is paid out for each preference share, this dividend amounts to the largest of the two sums: 10% of the Company's Russian accounting net profit divided by the number of preference shares or dividend per one ordinary share. If preference shareholders receive dividend less than 10% of the Company's Russian accounting net profit, ordinary shareholders do not receive the dividend. Owners of preference shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken.

Distributable earnings of all the entities comprising the Group are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. VolgaTelecom's statutory retained earnings at September 30, 2009 and December 31, 2008 amounted to 20, 351 and 17, 662, respectively.

In October 1997 VolgaTelecom registered Level 1 American Depositary Receipts (ADR). Each ADR represents 2 shares of common stock of the Company. At September 30, 2009 the Company registered the issue of 7, 185, 597 ADR and deposited 14, 371, 194 ordinary shares which amounted to 5.54% of all issued ordinary shares.

The following table represents ADR registration for 9 months of 2009 and 2008:

	ADR (quantity)	Ordinary shares equivalent	Ordinary shares, %	Share capital, %
December 31, 2007	**14, 481, 589**	**28, 963, 118**	**11.80**	**8.80**
Disposals in 2008	(5, 333, 467)	(10, 666, 934)	-4.40	-3.20
December 31, 2008	**9, 148, 092**	**18, 296, 184**	**7.40**	**5.60**
Disposals in 2009	(1, 962, 495)	(3, 924, 990)	-1.60	-1.20
September 30, 2009	**7, 185, 597**	**14, 371, 194**	**5.80**	**4.40**

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

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

18. Loans and Borrowings

	September 30, 2009	December 31, 2008
Long-term loans and borrowings		
Bank loans	7, 091	8, 141
Bonds	2, 338	4, 822
Promissory notes	38	146
Vendor financing	460	583
Lease liability	1, 339	1, 772

(RUB million)

Less: Current portion of long-term borrowings	(3, 279)	(5, 978)
Total long-term loans and borrowings	**7, 987**	**9, 486**
Short-term loans and borrowings		
Bank loans	695	1, 232
Promissory notes	413	250
Accrued interest	65	81
Total short-term loans and borrowings	**1, 173**	**1, 563**
Current portion of long-term loans and borrowings	3, 279	5, 978
Total current loans and borrowings	**4, 452**	**7, 541**
Total loans and borrowings	**12, 439**	**17, 027**

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

September 30, 2009					
	Security				
	Property, plant and equipment	**Inventories**	**Financial assets**	**Other assets**	**Total**
Bank loans and borrowings	2, 660	-	-	-	2, 660
Total	**2, 660**	**-**	**-**	**-**	**2, 660**

December 31, 2008					
	Security				
	Property, plant and equipment	**Inventories**	**Financial assets**	**Other assets**	**Total**
Bank loans and borrowings	3, 008	-	-	-	3, 008
Total	**3, 008**	**-**	**-**	**-**	**3, 008**

Long-term loans and borrowings

Bank loans and borrowings

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

Counteragent	Interest rate per loan agreement	September 30, 2009	December 31, 2008	Currency per loan agreement	Date of maturity	Security
UniCredit Bank ZAO	From 2.75 to 3.6 + MosPrime	3, 100	3, 149	RUB	2010-2013	
OJSC VTB	14.3	1, 500	1, 500	RUB	2012	
OJSC RF Sberbank	10-15,5	1, 329	2, 129	RUB	2010-2011	Pledge
BSGV ZAO	From 2.75 to 2.8 + MosPrime, 3+MIBOR	872	927	RUB	2009-2011	Pledge
Ministry of Finance of the Russian Federation	2	119	112	Euro	2012	Pledge
BSGV ZAO	From 0 to 3.5 + Libor	104	105	US Dollar	2010-2011	Pledge

(RUB million)

Sozidanie Fund	-	39	86	RUB	2010-2011	-
OJSC Svyazbank	18	16	45	RUB	2010	Pledge
UniCredit Bank ZAO	3.25+Libor	12	46	US Dollar	2009	
UniCredit Bank ZAO	3.25+Euribor	-	42	Euro		Pledge
TOTAL		**7, 091**	**8, 141**			

UniCredit Bank

The long-term loans from UniCredit Bank were received in 2006-2008, denominated in Roubles and USD. The loans mature in 2010-2013. Effective interest rate of RUB loans amounts to 15.02%-15.07%. At September 30, 2009 the debt was 3, 112.

Vneshtorgbank (VTB)

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

Sberbank

The Group’s long-term debt to Sberbank is mainly represented by the loans received in 2007-2008, denominated in Roubles. The loans mature in 2010-2011. Effective interest rate was 16.17%. At September 30, 2009 the debt was 1, 329. The loans are secured by the property, plant and equipment with a carrying value of 488.

Bank Societe Generale Vostok (BSGV)

The Group’s long-term loans from BSGV were received in 2008, denominated in Roubles and USD. The loans mature in 2010-2011. Effective interest rate on loans denominated in RUB varied from 15.11 to 15.88% per annum. At September 30, 2009 the debt was 976. The loans are secured by the property, plant and equipment with a carrying value of 130.

Ministry of Finance of the Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to VolgaTelecom Group to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of the Russian Federation. The loans are denominated in Euro. Initial currency of loan was Deutschemark (DM). Later liability was converted to Euro.

In July 2005 the Group received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount overdue to the bank equal to 227 (Euro 6.6 million) as at the date of receiving the claim. In December 2006 at the stage of legal proceedings the Group signed an amicable agreement with the Ministry of Finance. The amicable agreement stipulated a restructuring of the Group’s liability on the following terms: liability on penalty interest accrued for non-timely payments was forgiven and remaining amount of restructured liability would be paid in equal annual payments by January 01, 2012.

At September 30, 2009 the total outstanding restructured liability to the Ministry of Finance amounted to 119 (Euro 2.7 million), including short-term part of 33 (Euro 1 million). Interest on restructured liability is accrued at an effective rate of 6.5% per annum and payable annually on or before December 31.

The loan is secured by the property, plant and equipment with a carrying value of 223.

(RUB million)

Bonds

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

Narrative of the issue	Effective interest rate	September 30, 2009	December 31, 2008	Date of maturity	Plan of redemption	Date of early redemption on offer	Coupon interest
OJSC Svyazbank Decision of issue of BT-3 series bonds	8.91%	1, 377	1, 835	2010	In succession, by installments for account of and on the instructions of the issuer	-	8.5
OJSC Svyazbank Decision of issue of BT-4 series bonds	12.60%	953	2, 977	2013	In succession, by installments for account of and on the instructions of the issuer	11.03.11.	12
OJSC Svyazbank Decision of issue of BT-2 series bonds	22.83 %	8	10	2010	In succession, by installments for account of and on the instructions of the issuer	03.12.09.	13
TOTAL		**2, 338**	**4, 822**				

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

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

In September 2006 the Group registered bond issue consisting of 3, 000, 000 bonds, BT-4 series with a par value of RUB 1, 000 each. Bond issue has 28 coupons payments. The effective interest rate is set at 12.60% per annum. The bonds mature in 7 years from the date of issue to December 2013. The bond issue (BT-4 series) has an option of early redemption at par value on March 11, 2011.

(RUB million)

Promissory notes

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

Narrative of the issue	Effective interest rate	September 30, 2009	December 31, 2008	Currency	Date of maturity	Security
ISG	8.59	38	144	RUB	2009	-

In July 2006 the Group purchased HP Open View IUM Hewlett-Packard software from ZAO "ISG" for the implementation of data collection and processing system. In relation to purchasing the software the Group issued Rouble denominated promissory notes in the amount of 464. According to the redemption schedule the promissory notes will be settled 2007-2009. The outstanding amount at September 30, 2009 is 38. The effective interest rate is 8.59%.

Vendor financing

The table below summarizes the information about the vendor financing of the Group at September 30, 2009 and December 31, 2008:

Counteragent	Effective interest rate	September 30, 2009	December 31, 2008	Currency	Date of maturity	Security
CISCO Capital CIS	12.49%	257	320	RUB	2011-2012	-
Metrosvyaz Limited	11%	98	95	US Dollar	2009	-
Huawei Technologies Co. Ltd.	5-9.23	54	99	US Dollar	2009-2011	-
ZTE Corporation	LIBOR (91 day) + 0	27	38	US Dollar	2009-2011	-
Alcatel-Lucent	12.49%	23	30	Euro	2010	-
Huawei BETO ZAO		1	1	US Dollar	2010	-
TOTAL		**460**	**583**			

CISCO Capital CIS

Long-term vendor financing from CISCO Capital CIS represents amount payable for the telecommunication equipment received under contracts signed in 2008. Outstanding liability at the year end is 257.

Metrosvyaz Limited

The Group's long-term vendor financing from Metrosvyaz Limited represents amounts payable for the equipment and CDMA services under contracts signed in 2005. The amounts payable under these agreements are denominated in US Dollars. The amount outstanding at September 30 is 98. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Huawei Technologies Co. Ltd.

The Group's long-term vendor financing from Huawei Technologies Co. Ltd. represents amounts payable for telecommunication equipment under contracts signed in 2005-2007. The amount outstanding at the year end is 54. The amounts payable under these agreements are denominated in US Dollars. Equipment received under these contracts is pledged to the supplier until the final payment is made.

(RUB million)

Short-term borrowings

Bank loans

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

Counteragent	Interest rate per loan agreement	September 30, 2009	December 31, 2008	Currency per the loan agreement	Date of maturity	Security
OJSC RF Sberbank	16	600	700	RUB	2009-2010	Pledge
BSGV ZAO	13.49	95	305	RUB	2009	Pledge
Promsvyazbank ZAO		-	2			
BSGV ZAO		-	215	US Dollar		
OJSC VTB			10	RUB		
TOTAL		**695**	**1, 232**			

OJSC RF Sberbank

The short-term debt to Sberbank is represented by the loans received in 2008-2009, denominated in Roubles. The loans mature in 2009. The interest rates are 16%. At September 30, 2009 the outstanding loans amounted to 600. The loans are secured by the property, plant and equipment with a carrying value of 836.

Bank Societe Generale Vostok (BSGV)

The Group's short-term debt to BSGV is represented by Roubles denominated loans received in 2008-2009 for acquisition and construction of investment assets. The loans mature in 2009. Interest rate is 13.49% per annum for loans denominated in RUB. At September 30, 2009 the outstanding loans amounted to 95. The loans are secured by the property, plant and equipment with a carrying value of 423.

Promissory notes

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

Narrative	Effective interest rate	September 30, 2009	December 31, 2008	Currency	Date of maturity	Security
Nizhegorodpromstroibank ZAO		207	-	RUB	2009	-
OJSC Sarovbusinessbank		206	-	RUB	2009	-
OJSC Svyazbank		-	250	RUB	2009	-
TOTAL		**413**	**250**			

Finance Lease Obligations

	September 30, 2009		December 31, 2008	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion (< 1 year)	635	450	791	544

(RUB million)

Over 1 to 5 years	1,082	889	1,553	1,228
Total	1,717	1,339	2,344	1,772

In 2009 the Group's primary lessor was OJSC RTK-Leasing. For 9 months of 2009 the effective interest rate on lease liabilities varied from 16.59% to 21.20% per annum (in 2008: 16.59% to 21.61%).

Under finance lease agreement signed with OJSC RTK-Leasing the lessor is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

19. Employee Benefits

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

Defined Benefit Pension Plans

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

At September 30, 2009 in the Group there were 13,143 employees participating in the defined contribution pension plan (December 31, 2008 – 15,224).
For 9 months of 2009 the Group's expenses related to contributions to pension fund in regard to defined contribution pension plan amounted to 62 (2008 – 101).

Defined benefit pension plans and long-term social commitments

At September 30, 2009 in the Group there were 13, 143 active employees participating in the defined benefit pension plan and 18, 218 pensioners eligible to the post-employment and post-retirement benefits (at December 31, 2008 – 15, 224 and 17, 465 respectively).

For 9 months of 2009 the Group's expenses related to the defined benefit pension plans amounted to 104 (2008 – 112).

For 9 months of 2009 the Group's contributions to pension fund in regard to the defined benefit pension plans amounted to 110 (2008 – 127).

The expenses for the defined benefit pension plans, excluding interest yield and expense, are included in the consolidated income statement line "Personnel costs". The amounts of interest yield and expenses are recognized respectively in "Other income and expenses of financial and investing activities" and in "Financial expenses" in the consolidated income statement.

20. Other non-current liabilities

	September 30, 2009	**December 31, 2008**
Deferred revenue	430	453
Target financing	43	46
Total	**473**	**499**

(RUB million)

21. Provisions

	Personnel dismissal provision	Total
Balance at December 31, 2007	11	11
Charged	8	8
Utilized	(10)	(10)
Balance at December 31, 2008	9	9
Utilized	(7)	(7)
Balance at September 30, 2009	2	2

	Personnel dismissal provision	Total
Short-term	2	2
Total, Provisions at September 30, 2009	2	2
Short-term	9	9
Balance at December 31, 2008	9	9

22. Accounts Payable and Accrued Expenses

	September 30, 2009	December 31, 2008
Other taxes payable	1, 316	650
Accounts payable to personnel	858	813
Accounts payable to suppliers of fixed assets	805	2, 178
Accounts payable to interconnect operators	304	370
Trade accounts payable	251	310
Dividends payable	163	19
Accounts payable to principals	110	296
Accounts payable to suppliers of software products	36	92
Other accounts payable	428	518
Total	**4, 271**	**5, 246**

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

	September 30, 2009	December 31, 2008
VAT	970	388
Property tax	178	169
Unified social tax	99	57
Individual income tax	61	27
Other taxes	8	9
Total	**1, 316**	**650**

Other accounts payable

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

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

(RUB million)

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

23. Other current liabilities

	September 30, 2009	December 31, 2008
Advances received from operating activity	534	635
Advances received from non-operating activity	17	22
Deferred revenue	2	2
Total	**553**	**659**

24. Contingencies and Operating Risks

Operating environment

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

Taxation

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

Claims of Tax Authorities

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

By its judgment of February 03, 2009 the Arbitration Court of the city of Moscow met in full the Company's claims. The Ninth Arbitration Appelate Court of the Russian Federation by its Ruling No 09АП-5310/2009-АК of April 27, 2009 adjudged to leave unaltered the judgment of Arbitration Court of the city of Moscow.

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

Federal Arbitration Court of the city of Moscow and of Moscow oblast (operative provisions of the judgment were announced on August 08, 2009) adjudged to leave unaltered the judgment of Arbitration Court of the city of Moscow of February 03, 2009 and the Ruling No 09АП-5310/2009-АК of April 27, 2009 of the Ninth Arbitration Appelate Court of the Russian Federation left the appeal petition of Inter-Regional Tax Inspectorate

No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers unmet.

Insurance

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

Litigations, Claims and Assessments

During 9 months of 2009 the Group was party to a number of court proceedings (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or other claims outstanding, which could have material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Optimization of headcount

Within the frame work of improvement of business-processes the Group has planned to reduce the number of employees. Step-down of employees is made due to the change of corporate structure and transfer of auxiliary functions to outsourcing.
For 9 months of 2009 the Group reduced 665 persons. At September 30, 2009 637 employees got notice of the coming dismissal.

25. Financial instruments and risk management

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

Capital Management Policy

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

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

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

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

(RUB million)

The Group's policy of capital management in 2009 remained the same as in 2008.

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

	September 30, 2009	December 31, 2008
Financial independence ratio	0.69	0.52
Net debt/ shareholder's equity	0.31	0.55
Net debt/EBITDA	1.03	1.32

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

Financial instruments income and expense

For 9 months ended September 30, 2009	Income statement						Comprehensive income statement	Total
	Other operating expenses	Financial costs	Other revenue and expenses of financial and investing activities			Profit / loss from exchange rate differences		
	Establishment of doubtful debt provision	Interest expense	Interest receipts	Dividend	Loss / recovery of loss from impairment		Change of fair value	
Cash and cash equivalents	-	-	130	-	-	-	-	130
Accounts receivable	(130)	-	-	-	-	(3)	-	(133)
Investments held to maturity	-	-	28	-	-	-	-	28
Total financial assets	(130)	-	158	-	-	(3)	-	25
				-	-		-	
Bank loans	-	(917)	-	-	-	(52)	-	(969)
Bonds	-	(187)	-	-	-	-	-	(187)
Promissory notes	-	(14)	-	-	-	-	-	(14)
Vendor financing	-	(5)	-	-	-	(15)	-	(20)
Finance lease obligations	-	(195)	-	-	-	-	-	(195)
Interest payable	-	(65)	-	-	-	-	-	(65)
Accounts payable	-	-	-	-	-	(4)	-	(4)
Total financial liabilities	-	(1, 383)	-	-	-	(71)	-	(1, 454)

For 12 months ended December 31, 2008	Income statement						Comprehensive income statement	Total
	Other operating expenses	Other revenue and expenses of financial and investing activities				Profit / loss from exchange rate differences		
	Establishment of doubtful debt provision	Change of fair value	Interest receipts	Dividend	Loss / recovery of loss from impairment		Change of fair value	
Cash and cash equivalents	-	-	120	-	-	-	-	120
Accounts receivable	(166)	-	-	-	-	-	-	(166)
Financial assets available-for-sale	-	-	-	7	(3)	-	(5)	(1)
Investments held to maturity	-	-	1	-	-	-	-	1
Loans granted	-	-	1	-	-	-	-	1
Total financial assets	(166)	-	122	7	(3)	-	(5)	(45)
Bank loans	-	(549)	-	-	-	(71)	-	(620)

(RUB million)

Bonds	-	(613)	-	-	-	-	-	(613)
Promissory notes	-	(25)	-	-	-	-	-	(25)
Vendor financing	-	(27)	-	-	-	(46)	-	(73)
Finance lease obligations	-	(289)	-	-	-	-	-	(289)
Interest payable	-	(78)	-	-	-	-	-	(78)
Accounts payable	-		-	-	-	(48)	-	(48)
Total financial liabilities	-	(1,581)	-	-	-	(165)	-	(1, 746)

Foreign exchange risk

Foreign exchange risk is the risk that the change of rate of foreign exchange will affect financial result and cash flows of the Group. As consequence, these changes will be presented in the relevant items of income statement, balance sheet and/or cash flow statement. Assets and liabilities denominated in foreign currency give evidence of potential foreign exchange risk.

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

September 30, 2009	RUB	US Dollar	Euro	Other	Total
Cash and cash equivalents	2, 282	-	-	-	2, 282
Accounts receivable	2, 527	2	2	-	2, 532
Financial assets available-for-sale	21	-	-	-	21
Investments held to maturity	206	-	-	-	206
Loans granted	7	-	-	-	7
Total financial assets	**5, 043**	**2**	**2**	**-**	**5, 048**
Bank loans	(7, 551)	(115)	(120)	-	(7, 786)
Bonds	(2, 338)	-	-	-	(2, 338)
Promissory notes	(451)	-	-	-	(451)
Vendor financing	(257)	(180)	(23)	-	(460)
Finance lease obligations	(1, 340)	-	-	-	(1, 340)
Interest payable	(62)	(1)	(2)	-	(65)
Other financial liabilities	-	-	-	-	-
Accounts payable	(2, 825)	(109)	(21)	-	(2, 955)
Total financial liabilities	**(14, 824)**	**(405)**	**(166)**	**-**	**(15, 395)**

December 31, 2008	RUB	US Dollar	Euro	Other	Total
Cash and cash equivalents	1, 676	1	1	-	1, 678
Accounts receivable	2, 625	2	1	-	2, 628
Financial assets available-for-sale	20	-	-	-	20
Investments held to maturity	202	-	-	-	202
Loans granted	9	-	-	-	9
Total financial assets	**4, 532**	**3**	**2**	**-**	**4, 537**
Bank loans	(8, 853)	(366)	(154)	-	(9, 373)
Bonds	(4, 822)	-	-	-	(4, 822)
Promissory notes	(394)	-	-	-	(394)

Vendor financing	(320)	(233)	(30)	-	(583)
Finance lease obligations	(1, 772)	-	-	-	(1, 772)
Interest payable	(79)	(2)	-	-	(81)
Accounts payable	(4, 479)	(79)	(35)	(3)	(4, 596)
Total financial liabilities	**(20, 719)**	**(680)**	**(219)**	**(3)**	**(21, 621)**

For the period from January 01, 2009 to September 30, 2009 RUB exchange rate to US Dollar decreased by approximately 2.42% and RUB exchange rate to Euro decreased by 6.19%.

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

	US Dollar			**Euro**		
	Change of exchange rate, %	**Effect on pretax earnings**		**Change of exchange rate, %**	**Effect on pretax earnings**	
		RUB million	**%**		**RUB million**	**%**
September 30, 2009	+10%	(40)	-1%	+5%	(8)	0%
	-10%	40	1%	-5%	8	0%
December 31, 2008	+10%	(68)	-2%	+5%	(11)	0%
	-10%	68	2%	-5%	11	0%

Interest Rate Risk

Interest rate risk is the risk that the change of interest rates of financial instruments used by the Group will affect its financial result and cash flows.
The Group's financial assets and liabilities are distributed by the nature of relevant interest rates:

September 30, 2009	**Flat rate**	**Floating rate**	**Zero rate**	**Total**
Cash and cash equivalents	2, 245	-	37	2, 282
Accounts receivable	-	-	2, 531	2, 531
Financial assets available-for-sale	-	-	21	21
Investments held to maturity	206	-	-	206
Loans granted	7	-	-	7
Total financial assets	**2, 458**		**2, 589**	**5, 047**
Bank loans	(3, 698)	(4, 088)	-	(7, 786)
Bonds	(2, 338)	-	-	(2, 338)
Promissory notes	(451)	-	-	(451)
Vendor financing	(434)	(26)	-	(460)
Finance lease obligations	(1, 340)	-	-	(1, 340)
Interest payable	(58)	(7)	-	(65)
Accounts payable	-	-	(2 955)	(2 955)
Total financial liabilities	(8, 319)	(4, 121)	(2, 955)	**(15, 395)**

December 31, 2008	Flat rate	Floating rate	Zero rate	Total
Cash and cash equivalents	1, 644	-	34	1, 678
Accounts receivable	-	-	2, 628	2, 628
Financial assets available-for-sale	-	-	20	20
Investments held to maturity	202	-	-	202
Loans granted	9	-	-	9
Total financial assets	**1, 855**	**-**	**2, 682**	**4, 537**
Bank loans	(5, 104)	(4, 269)	-	(9, 373)
Bonds	(4, 822)	-	-	(4, 822)
Promissory notes	(394)	-	-	(394)
Vendor financing	(545)	(38)	-	(583)
Finance lease obligations	(1, 772)	-	-	(1, 772)
Interest payable	(27)	(54)	-	(81)
Accounts payable	-	-	(4 596)	(4 596)
Total financial liabilities	**(12, 664)**	**(4, 361)**	**(4, 596)**	**(21, 621)**

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

	LIBOR			MosPrime		
	Change of interest rate, % point	**Effect on pretax earnings**		**Change of interest rate, % point**	**Effect on pretax earnings**	
		RUB million	**%**		**RUB million**	**%**
September 30, 2009	+1	(1)	0	+1	(30)	-0.81
	-1	1	0	-1	30	0.81
December 31, 2008	+1	(1)	0	+1	(30)	0
	-1	1	0	-1	30	0

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

Liquidity risk

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

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

	2009	2010	2011	2012	2013 and after	Total
Cash and cash equivalents	2, 282	-	-	-	-	2, 282
Accounts receivable	2, 531	-			1	2, 532
Financial assets available-for-sale	-	-	-	-	20	20
Investments held to maturity	206					206
Loans granted	1	-			1	2
Total financial assets	**5, 021**	**-**	**-**	**-**	**22**	**5, 043**

(RUB million)

Bank loans	(753)	(2, 721)	(1,705)	(2, 300)	(400)	(7, 879)
Bonds	(468)	(920)	(954)	-	-	(2, 342)
Promissory notes	(451)					(451)
Vendor financing	(168)	(147)	(176)	(2)	-	(493)
Finance lease obligations	(165)	(603)	(459)	(379)	(111)	(1, 717)
Interest payable	(343)	(866)	(489)	(260)	(31)	(1, 989)
Accounts payable	(4, 271)	-	-	-	-	(4, 271)
Total financial liabilities	**(6, 619)**	**(5, 257)**	**(3, 783)**	**(2, 941)**	**(542)**	**(19, 142)**

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

Credit risk

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

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

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

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

September 30, 2009	Overdue time period (days)						
	TOTAL	<30	30-60	60-90	90-180	180-360	>360
Profit-making organizations	131	72	36	23	-	-	-
Individuals	50	28	15	7	-	-	-
State-financed organizations	9	6	1	1	1	-	-
Telecom operators	25	16	6	3	-	-	-
Total	215	122	58	34	1	-	-

December 31, 2008	Overdue time period (days)						
	TOTAL	<30	30-60	60-90	90-180	180-360	>360
Profit-making organizations	51	28	12	11	-	-	-
Individuals	111	61	30	20	-	-	-
State-financed organizations	19	13	4	2	-	-	-
Telecom operators	62	59	2	1	-	-	-
Total	243	161	48	34	-	-	-

Hedging

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

(RUB million)

Fair value of financial instruments

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

		September 30, 2009		December 31, 2008	
	Category	Carrying value	Fair value	Carrying value	Fair value
Long-term bank loans and borrowings	Liabilities recorded at depreciation base	3, 772	2, 582	3, 473	2, 763
Bonds	Liabilities recorded at depreciation base	2, 338	2, 327	4, 822	4, 503
Total financial liabilities		**6, 110**	**4, 909**	**8, 295**	**7, 266**

26. Sales revenue

	9 months of 2009	2008
Local telephony services	8, 496	10, 934
Telegraphy, data transmission network and telematic services (Internet)	4, 387	5, 095
Intrazonal telephony services	3, 403	4, 829
Mobile radiotelephony (cellular) services	3, 358	4, 658
Interconnect and traffic transit services	3, 031	4, 427
Fees on assistance and agency services	379	548
Mobile radio, wire and radio broadcasting, TV services	555	703
Other services	79	111
Revenue from non-telecommunication services	577	758
Total	**24, 265**	**32, 063**

Intrazonal and local telephony services revenue includes revenues from rent of telecommunication channels of 382 and 113 respectively (9 months of 2008 – 501 and 162, respectively).

Revenue from non-telecommunication services includes revenue from assets rent of 207 (9 months of 2008 – 205).

The Group identified revenues by the following major customer groups:

Customer groups	**9 months of 2009**	**2008**
Individuals	13, 859	17, 597
Corporate customers	4, 972	8, 662
Government customers	1, 860	2, 345
Telecom operators	3, 574	3, 459
Total	**24, 265**	**32, 063**

(RUB million)

27. Personnel costs

	9 months of 2009	2008
Salary expenses	4, 798	6, 524
Unified social tax	1, 176	1, 527
Pension and other long-term social benefit expenses	177	317
Staff optimization expenses	-	9
Other staff expenses	250	361
Total	**6, 401**	**8, 738**

28. Materials, repairs and maintenance, utilities

	9 months of 2009	2008
Materials	742	1, 181
Utilities	641	712
Repairs and maintenance	615	859
Total	**1, 998**	**2, 752**

29. Other Operating Income

	9 months of 2009	2008
Reimbursement of losses from universal telecommunication services	792	883
Fines and penalties	51	63
Recovery of loss from depreciation of property, plant and equipment, of construction in progress, of intangible assets and of other assets	19	-
Receipts as reimbursement of damages	1	1
Other income	193	223
Total	**1, 056**	**1, 170**

In 9 months of 2009 in accordance with the agreements outlining the terms and conditions of providing universal telecommunication services that have been entered into with the Federal Telecommunications Agency, the Company received reimbursement of losses from the provision of universal telecommunication services from Universal service fund in the following amount:

a. for the current year services - 526 (2008 – 627),
b. for the prior year services – 258 (2008 – 275).

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

(RUB million)

30. Other Operating Expenses

	9 months of 2009	2008
Third party services on general administration	678	1, 048
Taxes, other than income tax	582	747
Agency fee	456	578
Rent	276	345
Fire and other security services	247	333
Universal service fund payments	239	313
Advertising expenses	174	376
Audit and consulting fees	149	287
Bad debt provision expense	130	167
Member fees, charity contribution, payments to labor unions	57	294
Transportation and postal services	38	56
Insurance	24	26
Loss from disposal of PPE and other assets	10	1, 022
Fines and penalties	1	3
Other expenses	445	210
Total	**3, 506**	**5, 805**

31. Interest expenses

	9 months of 2009	2008
Interest expense on loans and borrowings, bonds and promissory notes, vendor financing	1, 188	1, 292
Interest expense on finance lease	195	289
Interest expense on pension and long-term social benefits	168	194
Bank services	11	5
Total	**1, 562**	**1, 780**

32. Other income and expenses of financial and investing activity

	9 months of 2009	2008
Interest income from financial assets	159	122
Dividend income	-	7
Loss (recovery of loss) from impairment of financial assets	-	(3)
Total	**159**	**126**

33. Earnings per Share

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

Earnings per share was calculated by dividing earnings due to owners of ordinary and preference stock by weighted average quantity of ordinary and preference stock at the end of the year accordingly:

	9 months of 2009	2008
Profit for the reporting period attributable to equity holders of the parent	**2, 845**	**2, 906**
Net of profit due to preference stock owners	711	727
Profit due to ordinary stock owners	**2, 134**	**2, 179**
Weighted average quantity of ordinary shares outstanding and other instruments	246	246

34. Dividends Declared and Proposed for Distribution

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

Dividends payable were as follows:

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

Dividends paid out in 2009 for the year ended December 31, 2008 amounted to 591.

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

35. Operating lease

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

	September 30, 2009	December 31, 2008
	Minimum lease payments	Minimum lease payments
Current portion (< 1 year)	28	61
From 1 to 5 years	127	65
More than 5 years	672	393
Total	**827**	**519**

The Group mainly rents premises, telecommunication equipment and land.

For 9 months of 2009 the Group's operating lease expenses included in line "Other operating expenses" of Consolidated Income Statement amounted to 346 (12 months of 2008 – 444).

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

(RUB million)

	September 30, 2009 Minimum lease payments	December 31, 2008 Minimum lease payments
Current portion (< 1 year)	6	8
From 1 to 5 years	10	6
More than 5 years	1	1
Total	**17**	**15**

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

For 9 months of 2009 the Group's revenue from operating lease reflected in line "Sales Revenue" of Consolidated Income Statement amounted to 143 (12 months of 2008 – 205).

36. Commitments

At September 30, 2009 and December 31, 2008 the Group's contractual obligations with regard to capital investments for the network upgrading and expansion were 832 and 654 respectively.

At September 30, 2009 and December 31, 2008 the Group's contractual obligations with regard to acquire property, plant and equipment were 388 and 320 respectively.

37. Balances and Transactions with Related Parties

In 9 months of 2009 the structure of the Group's related parties was not significantly changed compared to the structure at December 31, 2008.

OJSC Svyazinvest

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

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

Svyazinvest Group comprises 7 interregional telecommunications companies (MRK), OJSC Rostelecom, OJSC Tsentralnyi Telegraph, OJSC Dagsvyazinform and other subsidiary operating telecommunications companies.

Carriers that are a part of Svyazinvest Group are operators of general use telecommunications network providing services of local, intra-zone, intercity and international telephone communication, communication services in data transmission networks, telematics services, telegraph communication services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services on providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communication.

Subsidiaries

The Group performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances after transactions with subsidiaries are excluded from the Group's consolidated financial statements according to IFRS requirements.

Group enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are fixed by a regulatory body and are at the same level as similar tariffs for other counteragents. Subsidiaries do not influence the Group's transactions with other counteragents. More detailed nature of relations between VolgaTelecom Group and its subsidiaries is disclosed in Note 6.

OJSC Rostelecom

OJSC Rostelecom, a majority-owned subsidiary of Svyazinvest, is the primary provider of DLD&ILD services in the Russian Federation.

The revenue from OJSC Rostelecom relates to services of zonal initiation/call termination from/to the Group's networks and from/to connected operators' networks provided by VolgaTelecom Group to OJSC Rostelecom under the interconnection agreement and to the fees received under the assistance agreement which is a combination of agent agreement and service agreement.

The expenses associated with OJSC Rostelecom include payments for services of call termination to the networks of other telecommunication operators and, if the call is initiated from mobile radiotelephone network, expenses for interconnect, as well as expenses for DLD&ILD services provided to the Group.

Transactions with State-controlled Companies

State-controlled organizations are a significant element in the Group's customer base.

State-controlled organizations have no effect on the Group's interactions with other organizations.

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries, which own collectively 100% of its share capital, for implementation and further support of information systems functioning and also for coordination, management and realization of centralized IT programs in the companies of Svyazinvest Group. OJSC Svyazintek provides to the Group services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

For 9 months of 2009 the Group incurred expenses on services provided by OJSC Svyazintek in the amount of 2 (9 months of 2008 – 267). Out of that amount 0 (9 months of 2008 – 83) is included in Consolidated Income Statement, and 2 (9 months of 2008 – 184) is capitalized in intangible assets.

Non-government Pension Fund Telecom-Soyuz

The Group has an agreement for the administration of a non-state pension plan with the non-state pension fund Telecom-Soyuz and in addition to the state pension it provides the majority of employees with non-state pension benefits using defined contribution and defined benefit remuneration schemes upon completion of employment.

The total amount of contributions for non-state pension coverage paid by the Group for 9 months of 2009 was 172 (2008 – 221) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of VolgaTelecom Group to cover own expenses for activities under the charter and administrative costs.

Compensation to Key Management Personnel

Key management personnel comprise members of the Company's Management board and the Board of directors totaling 25 persons at September 30, 2009 and 26 persons at December 31, 2008.

Remuneration for members of the Company's Board of Directors and the Management board for 9 months of 2009 includes salaries, bonuses and remuneration for participation in the operation of the Company's management bodies and amounts to 171 (2008 – 159), including salaries, bonuses and remuneration of the Company's employees participating in the Company's management bodies – 110 (2008 – 109). The remuneration amounts are stated exclusive of the unified social tax.

For 9 months of 2009 OJSC VolgaTelecom paid contributions to non-state pension fund Telecom-Soyuz amounting to 21 for employees participating in management bodies (2008 – 4). The right to receive pension payments arises with the Group's employees after the occurrence of pension grounds with due account of employee's compliance with the program of non-government pension plan effective in the Company.

38. Events after the Balance Sheet Date

Universal service provision

The actual compensation received by the Group from Universal Service Fund in 2009 for the services rendered in 2008 and for 9 months of 2009 amounted to 784.

Tax inspections

Pursuant to Decision No 8 of April 29, 2009 of the head of Inter-Regional Tax Inspectorate No 7 of Russia's Federal Internal Revenue Service in charge of large taxpayers the field audit was conducted in regard to VolgaTelecom's operations for 2007-2008. The audit was completed on November 24, 2009. The Company was served the certificate of conducted audit.

Acquisition of promissory note

On November 16, 2009 the Group purchased promissory note of FR Sberbank for 205 with maturity date at December 29, 2009. Face value of promissory note amounted to 207, discount on promissory note amounted to 2.

Reorganization of a subsidiary

On December 01, 2009 ZAO Nizhegorodskaya Sotovaya Svyaz was reorganized; it took over ZAO Ulyanovsk-GSM. By virtue of item 4 of article 15 and item 5 of article 17 of Federal Law "On Joint Stock Companies" all rights and liabilities of ZAO Ulyanovsk-GSM since December 01, 2009 were transferred to ZAO NCC in accordance with the transfer act.