

OJSC VolgaTelecom

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED UNDER  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE  
PERIOD OF 3 MONTHS ENDED MARCH 31, 2010**

# OJSC VolgaTelecom

Consolidated interim financial statements prepared under International Financial Reporting Standards (IFRS) for the period of 3 months ended March 31, 2010

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**OJSC VolgaTelecom**  
**Consolidated Interim Balance Sheet as of March 31, 2010.**  
(RUB million)

	<u>Notes</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		39,009	40,125
Intangible assets		4,572	4,664
Non-current receivables		3	3
Other long-term assets		605	193
Investments in associates		151	170
Long-term financial assets		30	28
<b>Total non-current assets</b>		<b>44,370</b>	<b>45,183</b>
<b>Current assets</b>			
Inventories		403	426
Trade and other accounts receivable		2,827	2,264
Prepaid income tax		56	31
Other current assets		367	368
Current financial assets		427	412
Cash and cash equivalents		1,809	2,033
		<b>5,889</b>	<b>5,534</b>
Assets for sale		33	33
<b>Total current assets</b>		<b>5,922</b>	<b>5,567</b>
<b>Total assets</b>		<b>50,292</b>	<b>50,750</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		3,854	3,854
Accumulated provision for revaluation of financial assets available for sale		4	5
Retained earnings		28,202	26,820
<b>Total equity attributable to equity holders of the parent</b>		<b>32,060</b>	<b>30,679</b>
<b>Minority interest</b>		(2)	5
<b>Total equity</b>		<b>32,058</b>	<b>30,684</b>
<b>Non-current liabilities</b>			
Long-term borrowings		6,254	7,129
Pension and non-current social liabilities		2,260	2,211
Other non-current liabilities		450	460
Deferred income tax liabilities		2,198	2,091
<b>Total non-current liabilities</b>		<b>11,162</b>	<b>11,891</b>
<b>Current liabilities</b>			
Current borrowings		2,667	3,275
Accounts payable and accruals		3,841	4,141
Income tax payable		6	113
Other current liabilities		554	634
Current provisions		4	12
<b>Total current liabilities</b>		<b>7,072</b>	<b>8,175</b>
<b>Total liabilities</b>		<b>18,234</b>	<b>20,066</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>50,292</b>	<b>50,750</b>

Acting General Director

Taisiya M. Sipatova \_\_\_\_\_

Chief Accountant

Nikolai I. Popkov \_\_\_\_\_

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

**OJSC VolgaTelecom**  
**Consolidated Interim Comprehensive Income Statement**  
**For 3 months ended March 31, 2010**  
(RUB million, other than earnings per share)

Notes	3 months ended March 31, 2010	2009
<b>Sales revenue</b>	<b>8,468</b>	<b>32,759</b>
Personnel costs	(2,284)	(8,624)
Depreciation and amortization	(1,809)	(7,502)
Telecom's operators expenses	(908)	(3,611)
Materials, repairs and maintenance, utilities	(698)	(2,810)
Other operating income	471	1,450
Other operating expenses	(1,218)	(4,691)
<b>Operating profit</b>	<b>2,022</b>	<b>6,971</b>
Share in result of associates	1	8
Financial costs	(322)	(1,847)
Other profit and expenses from financial and investment operations	43	204
Foreign exchange loss	16	(71)
<b>Profit before taxation from continuing operations</b>	<b>1,760</b>	<b>5,265</b>
Income tax	(385)	(1,084)
<b>Profit for the reporting period</b>	<b>1,375</b>	<b>4,181</b>
Change of fair value of financial assets available for sale	(1)	4
<b>profit</b>	<b>(1)</b>	<b>4</b>
<b>Total comprehensive income for the reporting period</b>	<b>1,374</b>	<b>4,185</b>
<b>Profit for the reporting period attributable to:</b>		
equity holders of the parent	1,382	4,192
minority shareholders of subsidiary companies	(7)	(11)
Comprehensive income for the reporting period attributable to:	1,381	4,196
equity holders of the parent	(7)	(11)
minority shareholders of subsidiary companies		

Acting General Director

Chief Accountant

Taisiya M. Sipatova \_\_\_\_\_

Nikolai I. Popkov \_\_\_\_\_

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**OJSC VolgaTelecom**  
**Consolidated Interim Cash Flow Statement**  
**For 3 months ended March 31, 2010**  
(RUB million)

	<b>3 months of</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activity</b>		
Pretax earnings	1,760	5,265
<b>Adjustments for</b>		
Depreciation and amortization	1,809	7,502
Profit (loss) on disposal of property, plant and equipment and of other assets	(23)	8
Re-establishment of provision for impairment of inventories and other assets	(3)	8
Expenses for establishing provision for doubtful debts	(7)	103
Share of results of associates	(1)	(8)
Financial expenses	322	1,848
Other operating income (expenses)	(43)	(204)
Foreign exchange gain (loss)	(16)	71
<b>Operating profit after adjustments for non-monetary transactions</b>	<b>3,798</b>	<b>14,593</b>
Decrease in inventories	25	50
Decrease (increase) in trade and other accounts receivable	(564)	259
Reduction in other current assets	131	806
Increase in employee benefits	49	226
Increase in accounts payable and accruals	382	83
Increase (decrease) in provisions	(7)	3
Increase in other operating assets and liabilities	(89)	(24)
<b>Cash flows from operations</b>	<b>3,725</b>	<b>15,996</b>
Interest paid	(301)	(1,966)
Income tax paid	(412)	(980)
<b>Net cash flows generated from core operations</b>	<b>3,012</b>	<b>13,050</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment, work in progress and investment property	(1,734)	(4,913)
Sales of property, plant and equipment, work in progress and investment property	60	176
Acquisition of intangible assets	(97)	(115)
Acquisition of subsidiaries, net of cash acquired	-	(326)
Acquisition of financial assets	-	(1,296)
Sales of financial assets	14	1,144
Interest received	50	201
Dividend received	-	7
<b>Net cash flows utilized in investing activities</b>	<b>(1,707)</b>	<b>(5,122)</b>

**OJSC VolgaTelecom**  
**Consolidated Interim Cash Flow Statement**  
**For 3 months ended March 31, 2010**  
(RUB million)

	<b>3 months of</b>	
	<b>2010</b>	<b>2009</b>
<b>Financing activities</b>		
Proceeds from loans and borrowings	1, 002	2, 123
Repayment of loans and borrowings	(2, 346)	(4, 598)
Repayment of bond issue	(2)	(2, 973)
Proceeds from promissory notes	-	1, 013
Repayment of promissory notes	-	(1, 369)
Repayment of vendor financing liabilities	(45)	(385)
Repayment of other long-term liabilities	-	(6)
Repayment of finance lease obligations	(138)	(641)
Dividend paid to shareholders of the parent	-	(737)
<b>Net cash flows utilized in financing activities</b>	<b>(1, 529)</b>	<b>(7, 573)</b>
 <b>Net increase in cash and cash equivalents</b>	 <b>(225)</b>	 <b>356</b>
 <b>Cash and cash equivalents at the reporting period beginning</b>	 <b>2, 033</b>	 <b>1, 678</b>
 <b>Cash and cash equivalents at the reporting period end</b>	 <b>1, 809</b>	 <b>2, 033</b>

Acting General Director

Chief Accountant

Taisiya M. Sipatova\_\_\_\_\_

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 3 months ended March 31, 2010**  
(RUB million)

Equity of the parent							
	Share capital		Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	Preference shares	Ordinary shares					
<b>Balance at December 31, 2008</b>	963	2, 891	1	23, 352	27, 207	31	27, 238
Profit for the period	-	-	-	4, 192	4, 192	(11)	4, 181
Change of fair value of financial assets available for sale	-	-	4	-	4	-	4
Total other consolidated returns net of income tax	-	-	4	-	4	-	4
<b>Total consolidated returns for the period</b>	-	-	4	4, 192	4, 196	(11)	4, 185
Operations with shareholders reflected in equity:							
Dividend to equity holders of the parent	-	-	-	(739)	(739)	-	(739)
Other changes in equity	-	-	-	15	15	(15)	-
<b>Balance at December 31, 2009</b>	963	2, 891	5	26, 820	30, 679	5	30, 684

Equity of the parent								
	Note	Share capital		Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
		Preference shares	Ordinary shares					
<b>Balance at December 31, 2009</b>		963	2, 891	5	26, 820	30, 679	5	30, 684
Profit for the period		-	-	-	1, 382	1, 382	(7)	1, 375
Change of fair value of financial assets available for sale		-	-	(1)	-	(1)	-	(1)
Total other consolidated returns net of income tax		-	-	(1)	-	(1)	-	(1)
<b>Total consolidated returns for the period</b>		-	-	(1)	1, 382	1, 381	(7)	1, 374
<b>Balance at March 31, 2010</b>		963	2, 891	4	28, 202	32, 060	(2)	32, 058

Acting General Director \_\_\_\_\_ Taisiya M. Sipatova

Chief Accountant \_\_\_\_\_ Nikolai I. Popkov

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

# **OJSC VolgaTelecom**

## **Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**

(RUB million)

### **1. General**

#### **Authorization of Accounts**

The consolidated interim financial statements of OJSC VolgaTelecom (hereinafter - “the Company”) and its subsidiaries (hereinafter – the Group) for 3 months ended March 31, 2010 were authorized for issue in accordance with the decision of the General Director and the Chief Accountant dated June 23, 2010.

#### **Company**

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

OJSC Svyazinvest, a company controlled by the Russian Federation Government, owns 50.67% of the Company’s ordinary voting shares as of March 31, 2010, is the parent company for OJSC VolgaTelecom.

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

#### **OJSC VolgaTelecom’s Group activities**

The Group provides telephony services (including local and intrazonal telephony services), telegraphy services, data transmission services, and rents out communication lines in the territory of the Volga region of the Russian Federation.

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

Information on main associates is disclosed in Note 11. All associates are incorporated under the laws of the Russian Federation.

### **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, 2009.

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

**OJSC VolgaTelecom**  
**Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**  
(RUB million)

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

**Basis of accounting**

The consolidated interim 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 are stated at fair value.

**Changes in Accounting Policies**

The accounting policies adopted for preparing consolidated interim financial statements for 3 months of 2010 are consistent with those applied at preparation of consolidated financial statements for 2009.

**Foreign currency transactions**

The functional and presentation currency of the Company 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 March 31, 2010 and December 31, 2009 were as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
US Dollar	29.3638	30.2442
EURO	39.7028	43.3883

**3. Summary of Significant Accounting Policies**

The accounting policies adopted for preparing consolidated interim financial statements for 3 months of 2010 are consistent with those applied at preparation of consolidated financial statements for 2009.

**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 2009.

**5. Segment reporting**

The analysis of accounting information and managerial decisions are made on the basis of the data of accounting in accordance with the Russian Accounting Standards. The information presented in tables "Aggregate information on operating segments and General Directorate" and "Information on operating segments and General Directorate" have been prepared in accordance with the above standards.

The Group is operating mainly in the territory of one federal district.

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

General Directorate concentrates major part of financial and investment activities of the whole Company in the area of raising, servicing and repayment of loan obligations, financial lease, and acquisition of financial assets, creation and further operation of corporate assets, centralized investment projects. The appropriate amounts of revenue, expenses, assets and liabilities are included into the composition of General Directorate indicators presented in table “Information on operating segments and General Directorate”.

<b>Aggregate information on reporting segments and General Directorate at March 31, 2010 and for 3 months of 2010</b>	<b>OJSC VolgaTelecom – fixed-line telecommunication</b>	<b>Subsidiaries – fixed-line telecommunication</b>	<b>Subsidiaries - mobile telecommunication</b>	<b>Total segments</b>
<b>Sales revenues</b>				
Sales revenues from third parties	6, 990	17	1, 460	<b>8, 467</b>
Sales revenues between the segments	40	21	43	<b>104</b>
<b>Total sales revenues</b>	<b>7, 030</b>	<b>38</b>	<b>1, 503</b>	<b>8, 571</b>
Interest receipts	47	-	1	<b>48</b>
Interest expense	(194)	-	(3)	<b>(197)</b>
Income tax	(384)	(1)	(65)	<b>(450)</b>
<b>Profit for the reporting period</b>	<b>1, 280</b>	<b>1</b>	<b>241</b>	<b>1, 522</b>
<b>Assets and liabilities</b>				
Assets as per operations segments	40, 905	384	6, 036	<b>47, 325</b>
Segment liabilities	(13, 002)	(19)	(1, 160)	<b>(14, 181)</b>
<b>Other segment information</b>				
Capital expenditure	454	-	70	<b>524</b>
Property, plant and equipment				
Intangible assets	5	-	-	<b>5</b>
Depreciation and amortization	1, 130	9	242	<b>1, 381</b>
Impairment loss from inventory	2	-	-	<b>2</b>
Bad debt provision accrual	7	-	(4)	<b>3</b>
Pension and long-term social obligations expenses	42	-	-	<b>42</b>

**OJSC VolgaTelecom**  
**Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**  
(RUB million)

<b>Aggregate information on reporting segments and General Directorate at December 31, 2009 and for 12 months of 2009</b>	<b>OJSC VolgaTelecom – fixed-line telecommunication</b>	<b>Subsidiaries – fixed-line telecommunication</b>	<b>Subsidiaries - mobile telecommunication</b>	<b>Total segments</b>
<b>Sales revenues</b>				
Sales revenues from third parties	26,880	115	5,764	<b>32,759</b>
Sales revenues between the segments	197	4	190	<b>391</b>
Sales revenues within the segment	-	-	33	<b>33</b>
<b>Total sales revenues</b>	<b>27,077</b>	<b>119</b>	<b>5,987</b>	<b>33,183</b>
<b>Interest receipts</b>				
Interest receipts	202	-	72	<b>274</b>
<b>Interest expense</b>				
Interest expense	(1,447)	-	(137)	<b>(1,584)</b>
<b>Income tax</b>				
Income tax	(1,046)	(3)	(230)	<b>(1,279)</b>
<b>Profit for the reporting period</b>	<b>4,263</b>	<b>1</b>	<b>900</b>	<b>5,164</b>
<b>Assets and liabilities</b>				
Assets as per operations segments	41,062	385	6,163	<b>47,610</b>
Segment liabilities	(14,438)	(21)	(1,529)	<b>(15,988)</b>
<b>Other segment information</b>				
Capital expenditure	1,969	-	875	<b>2,844</b>
Property, plant and equipment				
Intangible assets	2	-	1	<b>3</b>
Depreciation and amortization	4,847	17	874	<b>5,738</b>
Impairment loss from inventory	(5)	-	(4)	<b>(9)</b>
Bad debt provision accrual	(142)	-	(8)	<b>(150)</b>
Pension and long-term social obligations expenses	222	-	-	<b>222</b>

Below is collocation of RAS accounting data and indicators included into IFRS consolidated financial statements:

**OJSC VolgaTelecom**  
**Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**  
(RUB million)

<b>Collation of segment data and of consolidated data at March 31, 2010 and for 3 months of 2010</b>	<b>Total segments</b>	<b>Transformation adjustments</b>	<b>Consolidation adjustments</b>	<b>Total consolidated for the Group</b>
<b>Sales revenues</b>				
	<b>8,467</b>	1	-	<b>8,468</b>
Sales revenues from third parties				
Sales revenues between the segments	<b>104</b>	-	(104)	-
Sales revenues within the segment	-	-	-	-
<b>Total sales revenues</b>	<b>8,571</b>	<b>1</b>	<b>(104)</b>	<b>8,468</b>
Share of result from associates	-	-	1	<b>1</b>
Interest receipts	<b>48</b>	2	-	<b>50</b>
Interest expense	(197)	(67)	-	(264)
Income tax	(450)	65	-	(385)
<b>Profit for the reporting period</b>	<b>1,522</b>	<b>(140)</b>	<b>(7)</b>	<b>1,375</b>
<b>Assets and liabilities</b>				
Assets as per operations segments	<b>47,325</b>	6,037	(3,070)	<b>50,292</b>
Including investments in associates	-	-	151	<b>151</b>
Segment liabilities	<b>(14,181)</b>	(4,151)	98	<b>(18,234)</b>
<b>Other segment information</b>				
Capital expenditure	<b>524</b>	22	44	<b>590</b>
Property, plant and equipment				
Intangible assets	<b>5</b>	51	-	<b>56</b>
Depreciation and amortization	<b>1,381</b>	428	-	<b>1,809</b>
Bad debt provision accrual	<b>3</b>	(1)	5	<b>7</b>

**OJSC VolgaTelecom**  
**Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**  
(RUB million)

Collation of segment data and of consolidated data at December 31, 2009 and for 12 months of 2009	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for the Group
<b>Sales revenues</b>				
	32,759	-	-	32,759
Sales revenues from third parties				
Sales revenues between the segments	391	-	(391)	-
Sales revenues within the segment	33	-	(33)	-
<b>Total sales revenues</b>	<b>33,183</b>	<b>-</b>	<b>(424)</b>	<b>32,759</b>
Share of result from associates	-	-	8	8
Interest receipts	274	3	(73)	205
Interest expense	(1,584)	(336)	73	(1,847)
Income tax	(1,279)	195	-	(1,084)
<b>Profit for the reporting period</b>	<b>5,164</b>	<b>(443)</b>	<b>(540)</b>	<b>4,181</b>

**Assets and liabilities**

Assets as per operations segments	47,610	6,206	(3,066)	50,750
Including investments in associates	-	170	-	170
Segment liabilities	15,988	4,178	(100)	20,066

**Other segment information**

Capital expenditure	2,844	441	44	3,329
Property, plant and equipment				
Intangible assets	3	539	-	542
Depreciation and amortization	5,738	1,769	(5)	7,502
Bad debt provision accrual	(150)	11	36	(103)

At March 31, 2010 and for 3 months ended March 31, 2010 the key indicators of essential operating segments and General Directorate were as follows:

Information about operating segments and General Directorate	Sales revenues	Profit (loss)	Segment assets	Segment liabilities	Segment CAPEX	Depreciation and amortization
<b>OJSC VolgaTelecom</b>						
Nizhny Novgorod branch	1,456	389	6,933	(565)	98	214
Samara branch	1,046	190	4,973	(461)	85	177
Saratov branch	825	228	3,217	(314)	75	104
Orenburg branch	781	203	2,965	(249)	31	105
Kirov branch	523	109	2,536	(172)	22	85
Udmurtia Republic branch	483	86	2,168	(198)	43	66
Ulyanovsk branch	431	110	2,080	(157)	20	60
Penza branch	420	117	1,878	(132)	21	68
Chuvashia Republic branch	396	73	2,005	(160)	21	74
Mordovia Republic branch	374	98	1,933	(150)	26	63
Mariy-El Republic branch	294	50	1,392	(124)	8	47
General Directorate of OJSC VolgaTelecom	-	10	8,825	(10,320)	10	67
<b>Subsidiaries – fixed-line communications</b>						
LLC GTS	22	(1)	314	(8)	-	9
LLC Nizhegorodskiyi Teleservice	17	2	69	(9)	-	-
OJSC Omrix	-	-	1	(2)	-	-
ZAO Transsvyaz	-	-	-	-	-	-
<b>Subsidiaries – mobile communications</b>						
ZAO NCC	1,447	313	5,669	(875)	68	227
ZAO Orenburg-GSM	46	(3)	190	(126)	1	10
ZAO Narodnyi Telephone Saratov	10	(3)	177	(159)	-	5
<b>Total</b>	<b>8,571</b>	<b>1,971</b>	<b>47,325</b>	<b>(14,181)</b>	<b>529</b>	<b>1,381</b>

**OJSC VolgaTelecom**  
**Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**  
(RUB million)

At December 31, 2009 and for 12 months ended December 31, 2009 the key indicators of essential operating segments and General Directorate were as follows:

<b>Information about operating segments and General Directorate</b>	<b>Sales revenues</b>	<b>Profit (loss)</b>	<b>Segment assets</b>	<b>Segment liabilities</b>	<b>Segment CAPEX</b>	<b>Depreciation and amortization</b>
<b>OJSC VolgaTelecom</b>						
Nizhny Novgorod branch	5, 634	1, 327	6, 853	(846)	621	833
Samara branch	4, 030	442	4, 943	(506)	311	758
Saratov branch	3, 136	557	3, 107	(325)	101	489
Orenburg branch	2, 993	637	2, 924	(247)	106	447
Kirov branch	1, 987	351	2, 522	(200)	102	332
Udmurtia Republic branch	1, 841	211	2, 167	(214)	101	288
Ulyanovsk branch	1, 651	379	2, 081	(137)	74	244
Penza branch	1, 606	296	1, 898	(114)	85	289
Chuvashia Republic branch	1, 570	210	1, 998	(155)	71	320
Mordovia Republic branch	1, 418	315	1, 919	(192)	121	247
Mariy-El Republic branch	1, 189	176	1, 400	(123)	48	190
General Directorate of OJSC VolgaTelecom	22	408	9, 250	(11, 380)	231	410
<b>Subsidiaries – fixed-line communications</b>						
ZAO Transsvyaz	-	(2)	-	-	-	-
OJSC Omrix	-	-	1	(2)	-	-
LLC Nizhegorodskiy Teleservice	70	7	68	(10)	-	-
LLC GTS	49	(2)	316	(9)	-	17
<b>Subsidiaries – mobile communications</b>						
ZAO Narodnyi Telephone Saratov	45	(24)	180	(159)	-	19
ZAO NCC	5, 725	1, 150	5, 781	(1, 233)	870	818
ZAO Orenburg-GSM	217	4	202	(136)	6	37
<b>Total</b>	<b>33, 183</b>	<b>6, 442</b>	<b>47, 610</b>	<b>(15, 988)</b>	<b>2, 848</b>	<b>5, 738</b>

**OJSC VolgaTelecom**  
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(RUB million)

**6. Subsidiaries**

Subsidiaries controlled by OJSC VolgaTelecom are

Subsidiary	Activity	Ownership, %		Voting shares, %	
		March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
LLC Gorodskaya Telephonnaya Svyaz	Telecommunication services Mobile	100.00	100.00		
ZAO Narodnyi Telephone Saratov	Telecommunication services (CDMA)	50.00%+1 share	50.00%+1 share	50.00%+1 share	50.00%+1 share
LLC Nizhegorodskiy Teleservice	Telecommunication services Mobile	100.00	100.00		
ZAO Nizhegorodskaya Sotovaya Svyaz	telecommunication services (GSM-900) Local telephony services	100.00	100.00	100.00	100.00
OJSC OMRIX	Mobile	73.60	73.60	73.60	73.60
ZAO Orenburg-GSM	Telecommunication services (GSM-900) Local telephony services	51.00	51.00	51.00	51.00
ZAO Transsvyaz	Local telephony services	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.

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

At March 31, 2010 and at December 31, 2009 the Group's major classes of assets and liabilities classified as held-for-sale are presented in the table below:

	March 31, 2010	December 31, 2009
Property, plant and equipment	42	42
<b>Group's non-current assets classified as held-for-sale</b>	<b>42</b>	<b>42</b>

Loss from revaluation of assets held-for-sale in amount of 0 (2009 – 9) was recognized in “Other operating expenses” in Consolidated Income Statement.

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

#### 8. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
<b>Original cost at December 31, 2008</b>	<b>30,050</b>	<b>28,128</b>	<b>8,479</b>	<b>2,662</b>	<b>69,319</b>
Additions	-	-	-	3,209	3,209
Additions related to acquisition of subsidiaries	94	24	2	-	120
Additions related to their declassification as assets held-for-sale	192	28	-	-	220
Put into operation	739	3,016	856	(4,611)	-
Disposals	(100)	(462)	(155)	(126)	(843)
Disposals related to their classification as assets held-for-sale	(43)	(4)	(15)	-	(62)
<b>At December 31, 2009</b>	<b>30,932</b>	<b>30,730</b>	<b>9,167</b>	<b>1,134</b>	<b>71,963</b>
Additions	-	-	-	590	590
Put into operation	53	179	116	(348)	-
Disposals	(25)	(59)	(56)	(12)	(152)
<b>At March 31, 2010</b>	<b>30,960</b>	<b>30,849</b>	<b>9,227</b>	<b>1,364</b>	<b>72,400</b>

	Land, buildings and constructions	Switches and transmission devises	Vehicles and other	Capital investments in fixed assets	Total
<b>Accumulated depreciation and impairment</b>					
<b>At December 31, 2008</b>	<b>(9,465)</b>	<b>(10,767)</b>	<b>(5,176)</b>	-	<b>(25,408)</b>
Depreciation charge for the period	(2,018)	(3,208)	(1,676)	-	(6,902)
Depreciation charge on fixed assets related to their declassification as assets held-for-sale	(62)	(26)	-	-	(88)
Depreciation charge on disposals	105	306	124	-	535
Depreciation charge on disposals related to their classification as assets held-for-sale	12	4	9	-	25
<b>At December 31, 2009</b>	<b>(11,428)</b>	<b>(13,691)</b>	<b>(6,719)</b>	-	<b>(31,838)</b>
Depreciation charge for the period	(464)	(820)	(377)	-	(1,661)
Depreciation charge on disposals	9	45	53	-	107
<b>At March 31, 2010</b>	<b>(11,882)</b>	<b>(14,466)</b>	<b>(7,043)</b>	-	<b>(33,391)</b>
<b>Net book value at December 31, 2008</b>	<b>20,585</b>	<b>17,361</b>	<b>3,303</b>	<b>2,662</b>	<b>43,911</b>
<b>Net book value at March 31, 2009</b>	<b>19,504</b>	<b>17,039</b>	<b>2,448</b>	<b>1,134</b>	<b>40,125</b>
<b>Net book value at March 31, 2010</b>	<b>19,078</b>	<b>16,383</b>	<b>2,184</b>	<b>1,364</b>	<b>39,009</b>

As of March 31, 2010 and December 31, 2009 the net book value of property, plant and equipment under finance lease agreements was as follows:

	March 31, 2010	December 31, 2009
Buildings and constructions	586	595
Switches and transmission devices	1,614	1,691
Vehicles and others	29	36
<b>Total, property, plant and equipment under finance lease agreements, net book value</b>	<b>2,229</b>	<b>2,322</b>

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

The depreciation of property, plant and equipment charged for 3 months of 2010 in the amount of 1, 661 (2009 – 6, 902) was recognized within “Depreciation and Amortization” in the consolidated comprehensive income statement.

At March 31, 2010 the cost of fully depreciated property, plant and equipment amounted to 7, 722 (at December 31, 2009 – 6, 659).

Property, plant and equipment pledged under credit agreements, vendor financing agreements, loan and leasing contracts amounted to 1, 564 (at December 31, 2009 – 1, 395).

#### 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
<b>Original cost</b>								
<b>At December 31, 2008</b>	<b>870</b>	<b>669</b>	<b>4, 514</b>	<b>61</b>	<b>64</b>	<b>1</b>	<b>4</b>	<b>6, 183</b>
Additions	-	20	305	-	-	-	1	326
Additions related to acquisition of subsidiaries	210	-	-	1	-	-	5	216
Disposals	-	-	(42)	-	-	-	-	(42)
<b>At December 31, 2009</b>	<b>1, 080</b>	<b>689</b>	<b>4, 777</b>	<b>62</b>	<b>64</b>	<b>1</b>	<b>10</b>	<b>6, 683</b>
Additions	-	4	47	-	-	-	5	56
<b>At March 31, 2010</b>	<b>1, 080</b>	<b>693</b>	<b>4, 824</b>	<b>62</b>	<b>64</b>	<b>1</b>	<b>15</b>	<b>6, 739</b>

	Goodwill	Licenses	Software	Number capacity	Customer base	Trademark	Other	Total
<b>Accumulated amortization and impairment</b>								
<b>At December 31, 2008</b>	-	(212)	(1, 139)	(37)	(29)	-	(2)	(1, 419)
Amortization charged for the year	-	(67)	(520)	(6)	(6)	-	(1)	(600)
<b>At December 31, 2009</b>	-	(279)	(1, 659)	(43)	(35)	-	(3)	(2, 019)
Amortization charged for the period	-	(16)	(128)	(2)	(2)	-	-	(148)
<b>At March 31, 2010</b>	-	(259)	(1, 787)	(45)	(37)	-	(3)	(2, 167)
<b>Net book value at December 31, 2008</b>	<b>870</b>	<b>457</b>	<b>3, 375</b>	<b>24</b>	<b>35</b>	<b>1</b>	<b>2</b>	<b>4, 764</b>
<b>Net book value at December 31, 2009</b>	<b>1, 080</b>	<b>410</b>	<b>3, 118</b>	<b>19</b>	<b>29</b>	<b>1</b>	<b>7</b>	<b>4, 664</b>
<b>Net book value at March 31, 2010</b>	<b>1, 080</b>	<b>398</b>	<b>3, 037</b>	<b>17</b>	<b>27</b>	<b>1</b>	<b>12</b>	<b>4, 572</b>

#### Oracle E-Business Suite

At March 31, 2010 the software included a software product Oracle E-Business Suite with the carrying amount of 991 (December 31, 2009 – 1, 034).

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

The Group commenced using Oracle E-Business Suite and started to amortize the value of the software from January 2009 over the useful life established within 10 years.

Changes in the carrying amount of the software product Oracle E-Business Suite for 3 months ended March 31, 2010 and March 31, 2009 are disclosed below:

	<u>2010</u>	<u>2009</u>
<b>At January 01</b>	<b>1,034</b>	<b>1,211</b>
Amortization charge	(43)	(177)
<b>At the period end</b>	<b>991</b>	<b>1,034</b>

#### Amdocs Billing Suite Software

At March 31, 2010 the software included a software product Amdocs Billing Suite with the carrying amount of 1,044 (December 31, 2009 – 1,044).

The software was acquired with the view of implementing unified integrated automated billing system. The implementation of unified integrated automated billing system based on the Amdocs Billing Suite platform is planned for 4-5 years.

The Group will start to accumulate depreciation on this asset after the commencement of operation of this software proportionally to the value of implemented modules. Before this time the management is planning to evaluate the value of the asset for its impairment testing.

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

Prepaid expenses for acquisition and implementation of software products and databases recognize the Company's expenses for acquisition of the software of HP OpenView IUM with the view of implementing data collection and processing system:

	<u>March 31, 2010</u>	<u>2009</u>
Cost of HP OpenView IUM licenses	455	495
Accumulated depreciation	(14)	(40)
<b>Total:</b>	<b>442</b>	<b>455</b>

In 2008 the Company completed the implementation of this software product.

#### Amortization of intangible assets

Amortization charge for 3 months of 2010 in the amount of -148 (2009 - 600) was recorded in line "Depreciation and amortization" of Consolidated Comprehensive 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 March 31, 2010.

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

#### 10. Other long-term assets

	March 31, 2010	December 31, 2009
Long-term advances given for the investing activities	599	133
Long-term advances given for core operations	-	53
Long-term VAT	6	7
<b>Total</b>	<b>605</b>	<b>193</b>

#### 11. Investments in Associates

Associate	Activity	March 31, 2010		
		Ownership interest, %	Voting share, %	Carrying value
ZAO Samara-Telecom	Connected operator	27.80	27.80	151
<b>Total</b>				<b>151</b>

Associate	Activity	December 31, 2009		
		Ownership interest, %	Voting share, %	Carrying value
ZAO Samara-Telecom	Connected operator	27.80	27.80	150
ZAO C-Bank	Banking services	41.73	41.73	20
<b>Total</b>				<b>170</b>

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.

The Group has the following investments in associates net assets of which are negative at March 31, 2010 and December 31, 2009:

	Net assets	
	March 31, 2010	December 31, 2009
ZAO Nizhegorodskiy Radiotelephone	(37)	(37)

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.

The information about disposal of shares in authorized capital of associates in 2010 is disclosed below:

Associate	Activity	Carrying value	Disposal cost	Sales/Disposal of share in authorized capital at the date of transaction, %
ZAO C-Bank	Banking services	20	(14)	41.73
<b>Total</b>		<b>20</b>	<b>(14)</b>	

**OJSC VolgaTelecom**  
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(RUB million)

The information about the loss from the sales of shares in authorized capital is provided in Note 35.

Changes in the carrying amount of investments in associates for 3 months ended March 31, 2010 and March 31, 2009 are disclosed below:

	<b>2010</b>	<b>2009</b>
<b>Investments in associates at January 01</b>	<b>170</b>	<b>162</b>
Share of results from associates	1	8
Disposal of associates	(20)	-
<b>Investments in associates at March 31</b>	<b>151</b>	<b>170</b>

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

Associate	Ownership interest, %	Assets	Liabilities	Sales revenues	Profit (loss) for the reporting period
<b>At March 31, 2010 and for 3 months ended March 31, 2010</b>					
ZAO Samara-Telecom	27.80	607	(62)	69	4
<b>At December 31, 2009 and for 12 months ended December 31, 2009</b>					
ZAO Samara-Telecom	27.80	601	(60)	305	35
ZAO C-Bank	41.73	203	(156)	7	(4)

## 12. Financial assets

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Long-term financial assets available-for-sale	19	19
Long-term loans given	11	9
<b>Total long-term financial assets</b>	<b>30</b>	<b>28</b>
Short-term financial assets available-for-sale	426	411
Short-term loans given	1	1
<b>Total short-term financial assets</b>	<b>427</b>	<b>412</b>
<b>Total financial assets</b>	<b>457</b>	<b>440</b>

At March 31, 2010 and December 31, 2009 financial assets available-for-sale comprised the following:

	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Ownership interest, %</b>	<b>Fair value</b>	<b>Ownership interest, %</b>	<b>Fair value</b>
<b>Long-term financial assets</b>		<b>19</b>		<b>19</b>
OJSC NTK REGION 2009 (OJSC NTK Zvezda)	1.668%	48	1.668%	48
OJSC Svyazintek	13.00%	15	13.00%	15

## OJSC VolgaTelecom

### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

ZAO Leasing Point	7.30%	12	7.30%	12
OJSC Svyaz-bank	0.01%	4	0.01%	4
Reserve		(61)		(61)
Other		1		1
<b>Short-term financial assets</b>		<b>427</b>		<b>411</b>
OJSC RF Sberbank	0.0003%	5	0.0003%	5
Promissory note of ZAO IC REGION		402		391
Promissory note of OJSC RF Sberbank		20		15
<b>Total</b>		<b>446</b>		<b>430</b>

### 13. Inventories

	March 31, 2010	December 31, 2009
Spare parts	95	115
Cable	88	83
Finished goods and goods for sale	22	24
Housewares	14	17
Construction materials	9	9
Fuel	5	6
Other inventory	170	172
<b>Total</b>	<b>403</b>	<b>426</b>

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

	2010	2009
<b>Balance at January 01</b>	<b>(12)</b>	<b>(3)</b>
Charged	-	(12)
Re-established	2	3
<b>Balance at March 31</b>	<b>(10)</b>	<b>(12)</b>

### 14. Торговая и прочая дебиторская задолженность

	Gross at March 31, 2010	Bad debt provision	Net at March 31, 2010
Receivables from customers for operating activity	2,788	(616)	2,172
Receivables from customers for non-operating activity	189	(58)	131
Receivables from agents and commissioners	95	-	95
Settlements with personnel	8	-	8
Other receivables	444	(23)	421
<b>Total</b>	<b>3,524</b>	<b>(697)</b>	<b>2,827</b>

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### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

	Gross at December 31, 2009	Bad debt provision	Net at December 31, 2009
Receivables from customers for operating activity	2,573	(650)	1,923
Receivables from customers for non-operating activity	150	(58)	92
Receivables from agents and commissioners	106	-	106
Settlements with personnel	7	-	7
Other receivables	158	(22)	136
<b>Total</b>	<b>2,994</b>	<b>(730)</b>	<b>2,264</b>

Receivables from customers for operating activity at March 31, 2010 and December 31, 2009 comprise the following:

	Gross at March 31, 2010	Bad debt provision	Net at March 31, 2010
Receivables from individuals	1,401	(294)	1,107
Receivables from commercial organizations	609	(147)	462
Receivables from budget organizations	295	(10)	285
Receivables from telecommunication operators	464	(146)	318
Tariff compensation from the state budget	19	(19)	-
<b>Total receivables from customers for operating activity</b>	<b>2,788</b>	<b>(616)</b>	<b>2,172</b>

	Gross at December 31, 2009	Bad debt provision	Net at December 31, 2009
Receivables from individuals	1,331	(286)	1,045
Receivables from commercial organizations	518	(113)	405
Receivables from budget organizations	176	(10)	166
Receivables from telecommunication operators	522	(215)	307
Tariff compensation from the state budget	26	(26)	-
<b>Total receivables from customers for operating activity</b>	<b>2,573</b>	<b>(650)</b>	<b>1,923</b>

The table below summarizes the changes in bad debt provision:

	2010	2009
<b>Balance at January 01</b>	(730)	(707)
Accrual of the allowance	-	(103)
Recovery of the allowance	7	-
Write-off	25	80
<b>Balance at March 31</b>	<b>(698)</b>	<b>(730)</b>

#### 15. Other current assets

	Gross at March 31, 2010	Allowance for Impairment	Net at March 31, 2010
Prepayments and advances	214	(5)	209
VAT receivable	28	-	28
Other prepaid taxes	23	-	23
Deferred expenses	64	-	64
Other current assets	57	(14)	43
<b>Total</b>	<b>386</b>	<b>(19)</b>	<b>367</b>

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### Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010

(RUB million)

	Gross at December 31, 2009	Allowance for Impairment	Net at December 31, 2009
Prepayments and advances	197	(5)	192
VAT receivable	26	-	26
Other prepaid taxes	24	-	24
Deferred expenses	84	-	84
Other current assets	57	(15)	42
<b>Total</b>	<b>388</b>	<b>(20)</b>	<b>368</b>

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

	2010	2009
<b>Balance at January 01</b>	(20)	(20)
Charge of the allowance	-	(5)
Recovery of the allowance	-	4
Write-off of other current assets	1	1
<b>Balance at March 31</b>	<b>(19)</b>	<b>(20)</b>

#### 16. Cash and Cash Equivalents

	March 31, 2010	December 31, 2009
Cash in bank and in hand	1,809	2,033
<b>Total</b>	<b>1,809</b>	<b>2,033</b>

#### 17. Essential non-monetary transactions

In Q I-2010 a part of the Company's sales revenues for rendering services, execution of works, and sales of goods was paid by non-monetary assets on the terms of contracts providing for performance of obligations (payment) by non-monetary assets:

	For 3 months ended March 31, 2010	2009
Total number of entities which paid by non-monetary assets	180	105
OJSC Rostelecom	458	2,052
OJSC Mobile TeleSystems	116	161
OJSC Vimpelcom	119	101
Other	207	217
<b>Total</b>	<b>900</b>	<b>2,531</b>
Sales revenues under contracts providing for payment by non-monetary assets (in % to the total sales revenues for the quarter)	10.63	9.35
Sales revenues under contracts providing for payment by non-monetary assets with affiliates – (in % to the total sales revenues for the quarter)	5.41	7.59

The cost of rendered services executed works and sold goods was determined by the Company on regular business terms.

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(RUB million)

**18. Share capital**

At March 31, 2010 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, 891
Preference	81, 983	5	410	963
<b>Total</b>	<b>327, 953</b>		<b>1, 640</b>	<b>3, 854</b>

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 March 31, 2010 was as follows:

Shareholders	Share capital, %	Ordinary shares		Preference shares	
		Quantity (thousand)	%	Quantity (thousand)	%
<b>Legal entities, total:</b>	92.13	236, 911	96.32	65, 219	79.55
- 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
<i>Of which:</i>		-		-	
ZAO Depozitarno-Cliringovaya Kompaniya – nominee holder	20.12	32, 951	13.40	33, 035	40.29
ZAO National Depository Center – nominee holder	23.69	53, 542	21.77	24, 139	29.44
ING Bank (Eurasia) ZAO - nominee holder	5.64	14, 409	5.86	4, 095	4.99
Other legal entities	4.68	11, 375	4.62	3, 950	4.83
<b>Individuals, total</b>	<b>7.87</b>	<b>9, 059</b>	<b>3.68</b>	<b>16, 764</b>	<b>20.45</b>
<b>Total</b>	<b>100.00</b>	<b>245, 970</b>	<b>100.00</b>	<b>81, 983</b>	<b>100.00</b>

The ordinary shareholders are entitled to one vote per share.

Preference A class 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) dividend on preferred shares has been taken.

## OJSC VolgaTelecom

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(RUB million)

The Company's statutory retained earnings at March 31, 2010 and December 31, 2009 amounted to 22,765 and 21,457 respectively.

In October 1997 the Company registered Level 1 American Depositary Receipts (ADR). Each ADR represents 2 shares of common stock of the Company. At March 31, 2010 the Company registered the issue of 4,732,310 ADR (at December 31, 2009 – 5,165,918 ADR) and deposited 9,484,620 ordinary shares (at December 31, 2009 – 10,331,836) which amounted to 3.86% of all issued ordinary shares (at December 31, 2009 – 4.2%).

The following table represents ADR registration for 3 months of 2010 and 2009:

	ADR (quantity)	Ordinary shares equivalent	Ordinary shares, %	Share capital, %
<b>December 31, 2008</b>	<b>9,148,092</b>	<b>18,296,184</b>	<b>7.44</b>	<b>5.58</b>
Disposals in 2009	(3,982,174)	(7,964,348)	-3.24	-2.43
<b>December 31, 2009</b>	<b>5,165,918</b>	<b>10,331,836</b>	<b>4.20</b>	<b>3.15</b>
Disposals in 3 months of 2010	(423,608)	(847,216)	-0.34	-0.26
<b>March 31, 2010</b>	<b>4,742,310</b>	<b>9,484,620</b>	<b>3.86</b>	<b>2.89</b>

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

Stock exchange	CUSIP (WKN)	ADR ticker	ISIN
OTC USA	928 660 109	VLGAY	-

### 19. Loans and Borrowings

	March 31, 2010	December 31, 2009
<b>Long-term loans and borrowings</b>		
Bank loans	5,501	6,551
Bonds	1,871	1,876
Vendor financing	371	416
Lease liability	1,112	1,229
Less: Current portion of long-term borrowings	(2,601)	(2,943)
<b>Total long-term loans and borrowings</b>	<b>6,254</b>	<b>7,129</b>
<b>Short-term loans and borrowings</b>		
Bank loans	22	297
Accrued interest	44	35
<b>Total short-term loans and borrowings</b>	<b>66</b>	<b>332</b>
Current portion of long-term loans and borrowings	2,601	2,943
<b>Total current loans and borrowings</b>	<b>2,667</b>	<b>3,275</b>
<b>Total loans and borrowings</b>	<b>8,921</b>	<b>10,404</b>

At March 31, 2010 and December 31, 2009 the Group pledged the following assets to guarantee loans and borrowings:

March 31, 2010					
	Security				Total
	Property, plant and equipment				
Bank loans and borrowings	1,564	-	-	-	1,564
<b>Total</b>	<b>1,564</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,564</b>

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December 31, 2009					
	Security				Total
	Property, plant and equipment				
Bank loans and borrowings	1,395	-	-	-	1,395
<b>Total</b>	<b>1,395</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,395</b>

**Long-term loans and borrowings**

**Bank loans and borrowings**

The table below summarizes the information about the most significant bank loans and borrowings at March 31, 2010 and December 31, 2009:

Counteragent	Interest rate per loan agreement	March 31, 2010		December 31, 2009		Currency per loan agreement	Date of maturity	Security
		Non-current portion	Current portion	Non-current portion	Current portion			
OJSC VTB Bank	10%	1,500	0	1,500	0	RUB	2012	unsecured
UniCredit Bank ZAO	From 3.2% to 3.6% + MosPrime	1,408	0	1,802	675	RUB	2011-2013	unsecured
OJSC Svyazbank	From 10% to 18%	1,300	3	300	10	RUB	2010 - 2012	Pledge
OJSC RF Sberbank	From 9.75% to 13%	700	0	700	0	RUB	2010 - 2011	Pledge
ZAO Globex	10%	500	0	500	0	RUB	2012	unsecured
Ministry of Finance of the Russian Federation	2%	47	25	50	27	Euro	2010-2011	Pledge
Sozidanie Fund	0%	8	10	8	31	RUB	2011	unsecured
BSGV ZAO	From 2.75% to 2.8% + MosPrime	0	0	369	491	RUB		
BSGV ZAO	3.5%+ Libor	0	0	28	60	US\$		
<b>TOTAL</b>		<b>5,463</b>	<b>38</b>	<b>5,257</b>	<b>1,294</b>			

*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 10.0% per annum. At March 31, 2010 the debt was 1,500.

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(RUB million)

#### *UniCredit Bank*

The Group's long-term loans from UniCredit Bank were received in 2008 denominated in Roubles. The loans mature in 2011-2013. Effective interest rate of RUB loans amounts to 11.03%-11.4%. At March 31, 2010 the debt was 1, 408.

#### *OJSC Svyazbank*

The Group's long-term debt to Svyazbank is represented by the loans received in 2007 - 2009 denominated in Roubles. The loans mature in 2010 – 2012. At March 31, 2010 the debt was 1, 303. The loans are secured by the property, plant and equipment with a carrying value of 5.

#### *Sberbank*

The Group's long-term debt to Sberbank is represented by the loan received in 2007 denominated in Roubles. The loan matures in 2011. At March 31, 2010 the debt was 700. The loan is secured by the property, plant and equipment with a carrying value of 205.

#### *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 March 31, 2010 the total outstanding restructured liability to the Ministry of Finance amounted to 72 (Euro 1.8 million), including current portion of 25 (Euro 0.6 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 201.

#### **Bonds**

The table below summarizes the information about the bonds issued at March 31, 2010 and December 31, 2009:

Narrative of the issue	Effective interest rate	March 31, 2010		December 31, 2009		Date of maturity	Plan of redemption	Date of early redemption offer	Coupon interest
		Non-current portion	Current portion	Non-current portion	Current portion				
BT-2	10.43%	0	4	0	4	2010	In succession, by installments for account of and on the instructions of the issuer	-	9.5

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BT-3	8.912%	0	918	0	918	2010	In succession, by installments for account of and on the instructions of the issuer	-	8.5%
BT-4	11.543%	0	949	954	0	2011	In succession, by installments for account of and on the instructions of the issuer	11.03.2011	12%
<b>TOTAL</b>		<b>0</b>	<b>1,871</b>	<b>954</b>	<b>922</b>				

In December 2005, the Company registered two issues (BT-2 and BT-3) of 5,300,000 interest-bearing bonds (3,000,000 and 2,300,000 respectively) with a par value of RUB 1,000 each. The bonds have 10 coupon payments. Payments on the first coupon are made on the 182-nd day since the commencement date of the bonds floatation (in June 2006); the payments on the other coupons are made each 182 days. The interest rate of BT-2 bonds coupons is determined at 9.5% per annum till the maturity date, and of BT-3 series bonds – 8.5% per annum till the maturity date. The bonds are subject to repayment by installments determined in percent of the par value starting from December 2009. Final repayment of the bonds should be made in November 2010. The funds raised by the bonds issues were allocated for the replenishment of current assets.

At March 31, 2010 the unpaid balance of BT-2 bonded loan was 4 and of BT-3 bonded loan - 918 in the structure of current portion of long-term debt.

In September 2006 the Company floated 3,000,000 interest-bearing certified bonds (BT-4) with a par value of RUB 1,000 each. The bond issue has 28 coupons payments. Payments on the first coupon are made on the 91-st day since the commencement date of the bonds floatation; the payments on the other coupons are made each 91 day. The coupon interest rate is set at 12% per annum till March 2011. The bonds are subject to repayment by installments determined in percent of the par value starting from September 2011.

Issued bonds (BT-4) provide for the offer which would allow the bonds holders to present them to the Company on the fixed date. The offer's date is March 11, 2011.

In March 2010 the Company paid coupon yield on inconvertible interest bearing certified bearer bonds of BT-4 series subject to obligatory centralized custody.

The coupon yield was paid on the 14-th coupon at the rate of 12% per annum (RUB 29.92 per a bond).

At March 31, 2010 the unpaid balance of BT-4 bonded loan was 949 in the structure of current portion of long-term debt.

### Vendor financing

The table below summarizes the information about the vendor financing at March 31, 2010 and December 31, 2009:

**OJSC VolgaTelecom**  
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Counteragent	Effective interest rate	March 31, 2010		December 31, 2009		Currency	Date of maturity	Security
		Non-current portion	Current portion	Non-current portion	Current portion			
CISCO Capital CIS	12.49%	87	116	118	112	RUB	2011 - 2012	-
Metrosvyaz Limited	11%	0	95	0	98	US\$	2010	-
Huawei Technologies Co. Ltd.	9.23	0	41	0	42	US\$	2010	-
ZTE Corporation	LIBOR (91day) + 0	6	13	10	13	US\$	2011	-
Alcatel-Lucent	12.49%	0	12	0	13	Euro	2010	-
Huawei BETO ZAO	9.23%	0	1	0	1	US\$	2011	-
Huawei-Ufa LLC	7%	0	0	0	9	US\$	2010	-
<b>TOTAL</b>		<b>93</b>	<b>278</b>	<b>128</b>	<b>288</b>			

*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 March 31, 2010 is 203.

*Metrosvyaz Limited*

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 March 31, 2010 is 95. Equipment received under these agreements is pledged to the supplier until the final payment is made.

*Huawei Technologies Co. Ltd.*

Long-term vendor financing from Huawei Technologies Co. Ltd. represents amounts payable for telecommunication equipment received under contracts signed in 2005-2007. The amount outstanding at March 31, 2010 is 41. The amounts payable under these agreements are denominated in US Dollars. Equipment received under these contracts is pledged to the supplier until the final payment is made.

**Short-term borrowings**

**Bank loans and borrowings**

The table below summarizes the information about the most significant short-term bank loans and borrowings at March 31, 2010 and December 31, 2009:

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Counteragent	Interest rate per loan agreement	March 31, 2010	December 31, 2009	Currency per the loan agreement	Date of maturity	Security
BSGV ZAO	7.74%	20	296	RUB	2010	Pledge
OJSC Svyazbank	14%	2	1	RUB	2010	Unsecured
<b>TOTAL</b>		<b>22</b>	<b>297</b>			

*Bank Societe Generale Vostok (BSGV ZAO)*

The Group's short-term debt to BSGV is represented by Roubles denominated loan received in 2009 for acquisition and construction of investment assets. The loan matures in 2010. Interest rate is 7.74% per annum. At March 31, 2010 the outstanding loan amounted to 20. The loan is secured by the property, plant and equipment with a carrying value of 381.

**Loan obligations in regard to companies controlled by the Government**

At March 31, 2010 and December 31, 2009 the Group's debt under loan obligations in regard to companies controlled by the Government was 2, 202 and 2, 203 accordingly.

Over 3 months of 2010 the Group borrowed from companies controlled by the Government 0 (2009 – 500).

Over 3 months of 2010 the Group repaid the debt under loan obligations to companies controlled by the Government to the amount of 59 (2009 – 2, 630).

For 3 months of 2010 the amount of interest accrued for the use of loans and borrowings provided by companies controlled by the Government was 59 (2009 – 470).

**Finance Lease Obligations**

	March 31, 2010		December 31, 2009	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion (< 1 year)	564	414	604	437
Over 1 to 5 years	824	698	949	792
Over 5 years	-	-	-	-
<b>Total</b>	<b>1,388</b>	<b>1,112</b>	<b>1,553</b>	<b>1,229</b>

In Q I-2010 the Group's primary lessor was OJSC RTK-Leasing. For 3 months of 2010 the effective interest rate on lease liabilities varied from 15.06% to 20.75% per annum (2009: 15.06% to 25.12%).

Mainly the subject of finance lease under agreements with OJSC RTK-Leasing is telecommunications equipment. At March 31, 2010 the Company's obligations to OJSC RTK-Leasing amounted to 1, 082 (2009 – 1, 197).

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.

**20. 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.

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**Defined Benefit Pension Plans**

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

At March 31, 2010 in the Company there were 12, 304 employees participating in the defined contribution pension plan (December 31, 2009 – 12, 962).

For 3 months of 2010 the Company's expenses related to contributions to pension fund in regard to defined contribution pension plan amounted to 23 (2009 – 82).

**Defined benefit pension plans and long-term social commitments**

At March 31, 2010 in the Group there were 12, 304 active employees participating in the defined benefit pension plan and 18, 304 pensioners eligible to the post-employment and post-retirement benefits (at December 31, 2009 – 12, 962 and 17, 917 respectively).

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

**21. Other non-current liabilities**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Deferred revenue	409	420
Target financing	41	40
<b>Total</b>	<b>450</b>	<b>460</b>

**22. Provisions**

	<b>Personnel dismissal provision</b>	<b>Total</b>
<b>Balance at December 31, 2008</b>	<b>9</b>	<b>9</b>
Charged	12	12
Utilized	(8)	(8)
Recovered	(1)	(1)
<b>Balance at December 31, 2009</b>	<b>12</b>	<b>12</b>
Utilized	(8)	(8)
<b>Balance at March 31, 2010</b>	<b>4</b>	<b>4</b>

	<b>Personnel dismissal provision</b>	<b>Total</b>
<b>Of the total amount of provisions</b>		
Short-term	4	4
<b>Total, Provisions at March 31, 2010</b>	<b>4</b>	<b>4</b>
Short-term	12	12
<b>Total, Provisions at December 31, 2009</b>	<b>12</b>	<b>12</b>

**OJSC VolgaTelecom**  
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**23. Accounts Payable and Accrued Expenses**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Other taxes payable	1,365	1,108
Accounts payable to personnel	1,109	969
Accounts payable to suppliers of fixed assets	373	1,023
Accounts payable to interconnect operators	328	324
Trade accounts payable	222	229
Accounts payable to principals	102	112
Dividend payable	18	19
Accounts payable to suppliers of software products	6	37
Other accounts payable	318	320
<b>Total</b>	<b>3,841</b>	<b>4,141</b>

At March 31, 2010 and December 31, 2009 taxes payable comprised the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
VAT	979	826
Property tax	176	169
Individual income tax	68	38
Unified social tax	134	66
Other taxes	8	9
<b>Total</b>	<b>1,365</b>	<b>1,108</b>

**24. Other current liabilities**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Deferred revenue	1	6
Advances received from operating activity	522	602
Advances received from non-operating activity	31	26
<b>Total</b>	<b>554</b>	<b>634</b>

**25. Contingencies and Operating Risks**

**Operating environment**

The Russian Federation has been experiencing political and economic changes which have already had their effect and are likely to have the effect on enterprises operating in Russia. As consequence the operations in Russia are subject to risks not typical for other markets. Furthermore, contraction of capital and credit markets taking place recently resulted in the increase of economic uncertainty of operating environment. These financial statements represent the management opinion about what effect the operating environment in the Russian Federation has on the Company's operations and its financial position. The actual effect of future operating environment may differ from the management's estimates.

## **OJSC VolgaTelecom**

### **Notes to Consolidated Interim Financial Statements for 3 months ended March 31, 2010**

(RUB million)

#### ***Taxation***

The Company's management interpretation of industry, tax, currency and customs laws as related to the Company's operations and activities may be disputed by the appropriate federal authorities. Taxation authorities may change their attitude when interpreting tax legislation in regard to some business transactions and audit of income tax returns. As consequence, the taxation authorities may lay claims for those transactions and accounting methods for which earlier they did not lay any claims. As a result additional taxes, late payment interest and fines may be charged. It is not possible to determine the amount of potential claims as well as to estimate the probability of unfavorable outcome of these claims. Tax inspections may cover three calendar years immediately preceding the year of the inspection.

The Group's management believes that at March 31, 2010 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.

#### **Optimization of headcount**

For 3 months of 2010 the Company reduced 209 persons. At March 31, 2010 363 employees got notice of the coming dismissal.

#### **26. 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, borrowed capital amount management, debt portfolio restructuring, application of various instruments to raise 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.

As of the balance-sheet date the Group's credit rating is affirmed by "Standard&Poor's" and FitchRatings: national at AA-(2009 – AA-), international at BB-(2009– BB-).

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(RUB million)

**Financial instruments income and expense**

Income statement								Comprehensive income statement	
	Other operating income	Other operating expenses	Financial costs	Other revenue and expenses of financial and investing activities					
For 3 months of 2010	Recovery of doubtful debt provision	Establishment of doubtful debt provision	Interest expense	Interest receipts	Result of assets disposal	Loss / recovery of loss from impairment	Profit / loss from exchange rate differences	Change of fair value	Total
Cash and cash equivalents	-	-	-	37	-	-	-	-	37
Accounts receivable	7	-	-	-	-	-	-	-	7
Financial assets available-for-sale	-	-	-	11	(6)	-	-	(1)	4
Loans granted	-	-	-	2	-	-	-	-	2
<b>Total financial assets</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>(6)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>50</b>
Bank loans and borrowings	-	-	(157)	-	-	-	6	-	(151)
Bonds	-	-	(10)	-	-	-	-	-	(10)
Vendor financing	-	-	(4)	-	-	-	6	-	2
Finance lease obligations	-	-	(49)	-	-	-	-	-	(49)
Interest payable	-	-	(44)	-	-	-	-	-	(44)
Accounts payable	-	-	-	-	-	-	5	-	5
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(264)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>(247)</b>

**OJSC VolgaTelecom**  
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(RUB million)

Income statement								Comprehensive income statement	
	Other operating income	Other operating expenses	Financial costs	Other revenue and expenses of financial and investing activities					
For 2009	Recovery of doubtful debt provision	Establishment of doubtful debt provision	Interest expense	Interest receipts	Result of assets disposal	Loss / recovery of loss from impairment	Profit / loss from exchange rate differences	Change of fair value	Total
Cash and cash equivalents	-	-	-	165	-	-	-	-	165
Accounts receivable	-	(103)	-	-	-	-	(4)	-	(107)
Financial assets available- for-sale	-	-	-	36	-	1	-	4	41
Loans granted	-	-	-	4	-	-	-	-	4
<b>Total financial assets</b>	-	<b>(130)</b>	-	<b>205</b>	-	<b>1</b>	<b>(4)</b>	<b>4</b>	<b>103</b>
Bank loans and borrowings	-	-	(967)	-	-	-	(51)	-	(1, 018)
Bonds	-	-	(302)	-	-	-	-	-	(302)
Promissory notes	-	-	(32)	-	-	-	-	-	(32)
Vendor financing	-	-	(17)	-	-	-	(14)	-	(31)
Finance lease obligations	-	-	(248)	-	-	-	-	-	(248)
Interest payable	-	-	(35)	-	-	-	-	-	(35)
Accounts payable	-	-	-	-	-	-	(2)	-	(2)
<b>Total financial liabilities</b>	-	-	<b>(1, 601)</b>	-	-	-	<b>(67)</b>	-	<b>(1, 668)</b>

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**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:

<b>March 31, 2010</b>	<b>RUB</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Total</b>
Cash and cash equivalents	1, 809	-	-	<b>1, 809</b>
Accounts receivable	2, 819	2	2	<b>2, 823</b>
Financial assets available-for-sale	445	-	-	<b>445</b>
Loans granted	12	-	-	<b>12</b>
<b>Total financial assets</b>	<b>5, 085</b>	<b>2</b>	<b>2</b>	<b>5, 089</b>
Bank loans and borrowings	(5, 451)	-	(72)	<b>(5, 523)</b>
Bonds	(1, 871)	-	-	<b>(1, 871)</b>
Vendor financing	(203)	(156)	(12)	<b>(371)</b>
Finance lease obligations	(1, 112)	-	-	<b>(1, 112)</b>
Interest payable	(43)	-	(1)	<b>(44)</b>
Other financial liabilities	-	-	-	-
Accounts payable	(1, 194)	(64)	(2)	<b>(1, 260)</b>
<b>Total financial liabilities</b>	<b>(9, 874)</b>	<b>(220)</b>	<b>(87)</b>	<b>(10, 181)</b>
<b>December 31, 2009</b>	<b>RUB</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Total</b>
Cash and cash equivalents	2, 033	-	-	<b>2, 033</b>
Accounts receivable	2, 253	2	2	<b>2, 257</b>
Financial assets available-for-sale	430	-	-	<b>430</b>
Loans granted	11	-	-	<b>11</b>
<b>Total financial assets</b>	<b>4, 727</b>	<b>2</b>	<b>2</b>	<b>4, 731</b>
Bank loans and borrowings	(6, 683)	(88)	(77)	<b>(6, 848)</b>
Bonds	(1, 876)	-	-	<b>(1, 876)</b>
Vendor financing	(203)	(173)	(13)	<b>(416)</b>
Finance lease obligations	(1, 229)	-	-	<b>(1, 229)</b>
Interest payable	(34)	(1)	-	<b>(35)</b>
Other financial liabilities	-	-	-	-
Accounts payable	(1, 851)	(100)	(6)	<b>(1, 957)</b>
<b>Total financial liabilities</b>	<b>(11, 903)</b>	<b>(362)</b>	<b>(96)</b>	<b>(12, 361)</b>

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

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	US Dollar			Euro		
	Change of exchange rate, %	Effect on pretax earnings		Change of exchange rate, %	Effect on pretax earnings	
		RUB million	%		RUB million	%
<b>March 31, 2010</b>	10	(22)	-1.14	5	(4)	-0.22
<b>December 31, 2009</b>	(10)	22	1.14	(5)	4	0.22
	10	(36)	0.00	5	(5)	0.00
	(10)	36	0.00	(5)	5	0.00

**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:

March 31, 2010	Flat rate	Floating rate	Zero rate	Total
Cash and cash equivalents	1, 777	-	32	1, 809
Accounts receivable	-	-	2, 823	2, 823
Financial assets available-for-sale	421	-	24	445
Loans granted	12	-	-	12
<b>Total financial assets</b>	<b>2, 210</b>	<b>-</b>	<b>2, 879</b>	<b>5, 089</b>
Bank loans and borrowings	(4, 115)	(1, 408)	-	(5, 523)
Bonds	(1, 871)	-	-	(1, 871)
Vendor financing	(352)	(19)	-	(371)
Finance lease obligations	(1, 112)	-	-	(1, 112)
Interest payable	(39)	(5)	-	(44)
Accounts payable	-	-	(1, 260)	(1, 260)
<b>Total financial liabilities</b>	<b>(7, 489)</b>	<b>(1, 432)</b>	<b>(1, 260)</b>	<b>(10, 181)</b>
December 31, 2009	Flat rate	Floating rate	Zero rate	Total
Cash and cash equivalents	2, 004	-	29	2, 033
Accounts receivable	-	-	2, 257	2, 257
Financial assets available-for-sale	406	-	24	430
Loans granted	11	-	-	11
<b>Total financial assets</b>	<b>2, 421</b>	<b>-</b>	<b>2, 310</b>	<b>4, 731</b>
Bank loans and borrowings	(3, 423)	(3, 425)	-	(6, 848)
Bonds	(1, 876)	-	-	(1, 876)
Vendor financing	(393)	(23)	-	(416)
Finance lease obligations	(1, 229)	-	-	(1, 229)
Interest payable	(22)	(13)	-	(35)
Accounts payable	-	-	(1, 957)	(1, 957)
<b>Total financial liabilities</b>	<b>(6, 943)</b>	<b>(3, 461)</b>	<b>(1, 957)</b>	<b>(12, 361)</b>

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

<b>MosprimeRZBM</b>			
	<b>Interest rate change, percentage point</b>	<b>Effect on pretax earnings</b>	
		<b>RUB, million</b>	<b>%</b>
<b>March 31, 2010</b>	1	(8)	0.00
	(1)	8	0.00
<b>December 31, 2009</b>	1	(3)	-0.18
	(1)	3	0.18

**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:

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014 and after</b>	<b>Total</b>
Cash and cash equivalents	1, 809	-	-	-	-	<b>1, 809</b>
Accounts receivable	2, 820	-	1	1	1	<b>2, 823</b>
Financial assets available-for-sale	426	-	-	-	19	<b>445</b>
Loans granted	1	1	-	-	-	<b>2</b>
<b>Total financial assets</b>	<b>5, 056</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>20</b>	<b>5, 079</b>
Bank loans and borrowings	(465)	(2, 312)	(3,543)	(422)	-	<b>(6, 742)</b>
Bonds	(1, 076)	(975)	-	-	-	<b>(2, 051)</b>
Vendor financing	(248)	(141)	(2)	-	-	<b>(391)</b>
Accounts payable	(1, 260)	-	-	-	-	<b>(1, 260)</b>
<b>Total financial liabilities</b>	<b>(3, 049)</b>	<b>(3, 428)</b>	<b>(3, 545)</b>	<b>(422)</b>	<b>-</b>	<b>(10, 444)</b>

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:

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**March 31, 2010**

	Overdue time period (days)						
	TOTAL	<31	31-60	61-90	91-180	181-360	>360
Profit-making organizations	42	21	14	7	-	-	-
Individuals	104	57	25	22	-	-	-
State-financed organizations	29	16	10	3	-	-	-
Telecom operators	16	8	2	6	-	-	-
<b>Total</b>	<b>191</b>	<b>102</b>	<b>51</b>	<b>38</b>	-	-	-

**December 31, 2009**

	Overdue time period (days)						
	TOTAL	<31	31-60	61-90	91-180	181-360	>360
Profit-making organizations	103	56	29	18	-	-	-
Individuals	37	19	12	6	-	-	-
State-financed organizations	14	9	4	1	-	-	-
Telecom operators	19	6	4	6	-	-	3
<b>Total</b>	<b>173</b>	<b>90</b>	<b>49</b>	<b>31</b>	-	-	<b>3</b>

**Hedging**

In Q I-2010 the Group has not entered into any hedging arrangements in respect of its foreign exchange or interest rate risk exposures.

**Fair value of financial instruments**

Financial instruments used by the Group are referred to one of the following categories:

- Investments held to maturity;
- Financial assets available-for-sale;
- Financial assets assessed at fair value;
- Loans and accounts receivable;
- Liabilities recorded at depreciation base.

At March 31, 2010 and December 31, 2009 the fair value and the carrying value of the Group's financial instruments did not differ significantly, except for the following:

	March 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Long-term bank loans and borrowings	4,571	4,199	3,536	2,627
Bonds	1,871	1,903	1,876	1,882
<b>Total financial liabilities</b>	<b>6,442</b>	<b>6,102</b>	<b>5,412</b>	<b>4,509</b>

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**27. Sales revenue**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Local telephony services	3, 111	11, 512
Telegraphy, data transmission network and telematic services (Internet)	1,578	5, 915
Mobile radiotelephony (cellular) services	1, 147	4, 532
Intrazonal telephony services	1, 074	4, 557
Interconnect and traffic transit services	1, 003	4, 069
Mobile radio, wire and radio broadcasting, TV services	189	739
Fees on assistance and agency services	127	510
Other services	17	70
Revenue from non-telecommunication services	222	855
<b>Total</b>	<b>8, 468</b>	<b>32, 759</b>

Intrazonal and local telephony services revenue includes sales revenue from rent of telecommunication channels of 119 and 38 respectively (2009 – 501 and 151, respectively).

Revenue from non-telecommunication services includes revenue from assets rent of 63 (2009 – 273).

The Group identified sales revenue by the following major customer groups:

<b>Customer groups</b>	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Individuals	4, 951	18, 714
Corporate customers	1, 656	6, 721
Government customers	672	2, 540
Telecom operators	1, 189	4, 784
<b>Total</b>	<b>8, 468</b>	<b>32, 759</b>

**28. Personnel costs**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Salary expenses	1, 746	6, 560
Unified social tax	442	1, 546
Other staff expenses	52	291
Pension and other long-term social benefit expenses	44	215
Staff optimization expenses	-	12
<b>Total</b>	<b>2, 284</b>	<b>8, 624</b>

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**29. Materials, repairs and maintenance, utilities**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Utilities	315	906
Materials	215	1,029
Repairs and maintenance	168	875
<b>Total</b>	<b>698</b>	<b>2,810</b>

**30. Other Operating Income**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Reimbursement of losses from universal telecommunication services	271	1,058
Disposal of fixed assets and of other assets	23	-
Fines and penalties	22	73
Recovery of doubtful debt provision	7	-
Recovery of loss from depreciation of property, plant and equipment, of construction in progress, of intangible assets and of other assets	2	7
Other income	146	312
<b>Total</b>	<b>471</b>	<b>1,450</b>

In 3 months of 2010 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 – 271 (2009 – 957),
- b. for the prior year services – 102 (2009 – 258).

The loss for 3 months of 2010 from provision of universal telecommunication services amounted to 302 (2009 – 1,191) and was confirmed by independent auditor ZAO Marketing, Consulting, Design (license No E 002484 of 06.11.2002).

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**31. Other Operating Expenses**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Third party services on general administration	251	921
Taxes, other than income tax	185	763
Agency fee	160	650
Rent	105	377
Universal service fund payments	84	322
Fire and other security services	78	327
Audit and consulting fees	51	195
Advertising expenses	49	256
Member fees, charity contribution, payments to labor unions	24	81
Transportation and postal services	13	54
Insurance	6	31
Expenses related to reorganization	1	-
Fines and penalties	-	2
Loss from disposal of PPE and other assets	-	7
Bad debt provision expense	-	103
Other expenses	211	602
<b>Total</b>	<b>1, 218</b>	<b>4, 691</b>

**32. Interest expenses**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Interest expense on loans and borrowings, bonds and promissory notes, vendor financing	215	1, 353
Interest expense on finance lease	49	248
Interest expense on pension and long-term social benefits	47	233
Bank services	11	13
<b>Total</b>	<b>322</b>	<b>1, 847</b>

**33. Other income and expenses of financial and investing activity**

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Interest income from financial assets	49	205
Loss from disposal of stockholding in associates	(6)	-
Loss from disposal of other financial assets	-	(1)
<b>Total</b>	<b>43</b>	<b>204</b>

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**34. Earnings per Share**

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

	<b>For 3 months ended March 31, 2010</b>	<b>2009</b>
Profit for the reporting period attributable to equity holders of the parent	1,382	4,192
Profit for the reporting period attributable to preference stock owners	(346)	(1,048)
<b>Profit for the reporting period attributable to ordinary stock owners</b>	<b>1,036</b>	<b>3,144</b>
Quantity of ordinary shares outstanding (thousand)	246	246
<b>Basic and diluted earnings per share (RUB) for the reporting period attributable to ordinary stock owners</b>	<b>4,21</b>	<b>12,78</b>

**35. Operating lease**

The table below summarizes minimum lease payments at March 31, 2010 and December 31, 2009 under operating lease contracts where the Group acts as a lessee:

	<b>March 31, 2020</b>	<b>December 31, 2009</b>
Current portion (< 1 year)	108	74
From 1 to 5 years	118	99
More than 5 years	778	689
<b>Total</b>	<b>1,004</b>	<b>862</b>

The Group mainly rents premises, telecommunications equipment and land.

For 3 months of 2010 the Group's operating lease expenses included in line "Other operating expenses" of Consolidated Income Statement amounted to 126 (2009 – 478).

The table below summarizes minimum lease payments at March 31, 2010 and December 31, 2009 under operating lease contracts where the Group acts as a lessor:

	<b>March 31, 2020</b>	<b>December 31, 2009</b>
Current portion (< 1 year)	15	10
From 1 to 5 years	7	5
More than 5 years	-	-
<b>Total</b>	<b>22</b>	<b>15</b>

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

For 3 months of 2010 the Group's revenue from operating lease reflected in line "Sales Revenue" of Consolidated Income Statement amounted to 52 (2009 – 200).

**36. Commitments**

At March 31, 2010 and December 31, 2009 the Group's contractual obligations with regard to capital investments for the network upgrading and expansion were 1,987 and 1,420 respectively.

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At March 31, 2010 and December 31, 2009 the Group's contractual obligations with regard to acquisition of property, plant and equipment were 2, 105 and 577 respectively.

**37. Balances and Transactions with Related Parties**

In 3 months of 2010 the structure of the Group's related parties was not significantly changed compared to the structure at December 31, 2009.

**OJSC Svyazinvest**

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

At March 31, 2010 the Russian Government held 75% minus one ordinary share of OJSC Svyazinvest.

Svyazinvest Group comprises 7 mega-regional 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, intrazonal, intercity and international telephone communication, communication services in data transmission networks, telematics services, telegraphy services, line radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services of 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.

**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.

**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

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implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

For 3 months of 2010 the Group incurred expenses on services provided by OJSC Svyazintek in the amount of 10 (2009 – 19), out of that amount 5 (2009 – 15) is included in Consolidated Comprehensive Income Statement, and 5 (2009 –) 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 3 months of 2010 was 44 (2009 – 228) and is included in the item Personnel Costs of the income statement in full. The fund retains 3% of every pension contribution of the 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, General Director and Deputy General Directors totaling 23 persons at March 31, 2010 and 23 persons at December 31, 2009.

Remuneration to key management personnel for 3 months of 2010 includes salaries, bonuses and remuneration for participation in the operation of the Company's management bodies and amounts to 32 (2009 – 165), including salaries, bonuses and remuneration of the Company's employees participating in the Company's management bodies – 30 (2009 – 159). The remuneration amounts are stated exclusive of the unified social tax.

For 3 months of 2010 the Group paid contributions to non-state pension fund Telecom-Soyuz amounting to 2 for employees participating in management bodies (2009 – 21). 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**

##### **Acquisition of Teleset Networks Public Company Limited**

On June 03, 2010 OJSC VolgaTelecom completed the transaction of acquisition of 98.19% shares of Teleset Networks PCL in accordance with the Offer forwarded to shareholders on May 27, 2010.

Under the Offer Teleset Networks PCL shareholders were offered to sell the shares held by them at the price of US\$0.8473 per share, valuing 100% share capital of the Company at US\$133.5 million.

Holders of remaining 1.81% shares of Teleset Networks PCL have the right to accept the Offer on the same terms till September 27, 2010. If upon the expiry of this period the Offer is accepted by less than 100% of the Company's shareholders OJSC VolgaTelecom would compulsorily acquire the remaining shares under the Cyprus Companies Law.

OJSC VolgaTelecom intends to delist Teleset Networks PCL shares from AIM of London Stock Exchange.