Open Joint Stock Company

CenterTelecom

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009,
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)

OJSC CenterTelecom

Consolidated Financial Statements
for the year ended 31 December 2009,
prepared in accordance with International Financial Reporting Standards (IFRS)

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Independent Auditors' Report

To the Board of Directors of OJSC CenterTelecom

We have audited the accompanying consolidated financial statements of OJSC CenterTelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

21 May 2010

OJSC CenterTelecom

Consolidated Balance Sheet as at 31 December 2009

(in millions of Russian Roubles)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	**41 774**	43 188
Intangible assets	8	**5 248**	5 143
Investments in associates	10	**-**	1
Non-current investments	11	**39**	117
Other non-current assets	9	**203**	380
Total non-current assets		**47 264**	**48 829**
Current assets			
Inventories	12	**486**	485
Trade and other receivables	13	**3 258**	3 926
Income tax asset		**633**	298
Other current assets	14	**509**	554
Current investments	11	**623**	429
Cash and cash equivalents	15	**900**	570
Total current assets		**6 409**	**6 262**
Total assets		**53 673**	**55 091**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of OJSC "CenterTelecom"			
Share capital	17	**6 900**	6 900
Treasury shares	17	**(1)**	(1)
Other reserves		**1**	2
Retained earnings		**18 878**	13 657
Total equity attributable to shareholders of OJSC "CenterTelecom"		**25 778**	**20 558**
Non-controlling interest		4	3
Total equity		**25 782**	**20 561**
Non-current liabilities			
Non-current loans and borrowings	18	**11 836**	12 758
Employee benefits	19	**2 344**	2 229
Long-term other liabilities	20	**335**	351
Deferred income tax liability	32	**1 414**	1 269
Total non-current liabilities		**15 929**	**16 607**
Current liabilities			
Current loans and borrowings	18	**5 622**	11 577
Trade and other payables	22	**5 415**	5 404
Other current liabilities	23	**785**	776
Provisions	21	**140**	166
Total current liabilities		**11 962**	**17 923**
Total liabilities		**27 891**	**34 530**
Total equity and liabilities		**53 673**	**55 091**

Российская Федерация * Г.Р. № 1025006174710 * Открытое акционерное общество Центральная телекоммуникационная компания ЦЕНТР ТЕЛЕКОМ

General Director
V.A. Martirosyan

Chief Accountant
A.D. Kartashov

The accompanying notes form an integral part of the consolidated financial statements

OJSC CenterTelecom
Consolidated Income Statement for the year ended 31 December 2009
(in millions of Russian Roubles, except for earnings per share)

	Note	2009	2008
Revenue	26	**37 309**	**34 794**
Personnel costs	27	**(10 500)**	(9 110)
Depreciation and amortization	7, 8	**(6 401)**	(5 173)
Interconnection charges		**(2 920)**	(3 132)
Materials, repairs and maintenance, utilities	28	**(3 746)**	(2 887)
Other operating income	29	**3 132**	1 668
Other operating expenses	30	**(6 360)**	(7 063)
Operating profit		**10 514**	**9 097**
Share of loss in associates		**-**	(1)
Interest expense	31	**(3 087)**	(2 680)
Financial income		**379**	137
Forex loss, net		**(287)**	(1 006)
Other financial income and expense		**149**	(35)
Profit before income tax		**7 668**	**5 512**
Income tax expense	32	**(1 800)**	(1 292)
Profit for the period		**5 868**	**4 220**
Profit (loss) for the period attributable to:			
OJSC “CenterTelecom” shareholders		**5 867**	4 222
Non-controlling shareholders of subsidiaries		**1**	(2)
		5 868	**4 220**
Basic and diluted earning per share attributable to OJSC “CenterTelecom” shareholders for the period (in Russian Rubles)	33	**2,789**	2,007

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OJSC CenterTelecom
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

(in millions of Russian Roubles)

	Note	2009	2008
Profit for the period		**5 868**	**4 220**
Changes in fair value of available-for-sale financial assets		**(1)**	(10)
Total comprehensive income for the reporting period		**5 867**	**4 210**
Total comprehensive income for the period attributable to :			
OJSC “CenterTelecom” shareholders		**5 866**	4 212
Non-controlling shareholders of subsidiaries		**1**	(2)
		5 867	**4 210**

The accompanying notes form an integral part of the consolidated financial statements

OJSC CenterTelecom
Consolidated Statement of Cash Flows for the year ended 31 December 2009
(in millions of Russian Roubles)

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**7 668**	**5 512**
Adjustments for			
Depreciation and amortization	7, 8	6 401	5 173
Loss on disposal of property, plant and equipment		99	50
(Reversal of) impairment losses		(164)	966
Change in inventory allowance		14	(1)
Increase of allowance for impairment of receivables		162	215
Share of result of associates		-	1
Interest expenses		2 886	2 497
Other financial income and expenses		(528)	(102)
Foreign exchange losses, net		287	1 006
Other non-monetary items		-	(5)
Operating cash flows before changes in working capital and provisions		**16 825**	**15 312**
(Increase) decrease in inventories		(15)	44
Decrease (increase) in trade and other receivables		506	(1 275)
Decrease in other current assets		45	189
Increase (decrease) in employee benefits		115	(412)
Increase (decrease) in trade and other payables		933	(13)
Decrease in provisions		(26)	(158)
(Increase) decrease in other operating assets and liabilities		(34)	239
Cash flows from operating activities before interest and income tax paid		**18 349**	**13 926**
Interest paid		(3 310)	(2 473)
Income tax paid		(1 980)	(1 068)
Cash flows from operating activities		**13 059**	**10 385**
Investing activities			
Acquisition of property, plant and equipment		(4 704)	(5 743)
Proceeds from disposals of property, plant and equipment		137	280
Acquisition of intangible assets		(662)	(1 414)
Acquisition of investments		(821)	-
Proceeds from disposals of current investments		322	716
Financial income received		379	137
Dividends received		4	-
Cash flows utilized in investing activities		**(5 345)**	**(6 024)**

OJSC CenterTelecom
Consolidated Statement of Cash Flows for the year ended 31 December 2009 (continued)

(in millions of Russian Roubles)

	Note	2009	2008
Financing activities			
Proceeds from bank and corporate loans		8 947	6 670
Repayment of bank and corporate loans		(9 243)	(4 372)
Proceeds from bond issue		2 681	-
Repayment of bonds		(5 623)	(2 874)
Proceeds from promissory notes		1 000	-
Repayment of promissory notes		(2 252)	(702)
Repayment of vendor financing liabilities		(438)	-
Repayment of finance lease liabilities		(1 811)	(2 146)
Dividends paid to shareholders of OJSC «CenterTelecom»		(645)	(936)
Cash flows utilized in financing activities		**(7 384)**	**(4 360)**
Net increase in cash and cash equivalents		**330**	**1**
Cash and cash equivalents as at the beginning of the reporting period	15	**570**	**569**
Cash and cash equivalents as at the end of the reporting period	15	**900**	**570**

The accompanying notes form an integral part of the consolidated financial statements

OJSC CenterTelecom
Consolidated Statement of Changes in Equity for the year ended 31 December 2009
(in millions of Russian Roubles)

	Note	Equity attributable to shareholders of OJSC «CenterTelecom»: Share capital: Preference shares	Share capital: Ordinary shares	Treasury shares	Other reserves	Retained earnings	Total equity attributable to shareholders of OJSC «CenterTelecom»	Non-controlling interest	Total equity
Balance as at 31 December 2007		**1 725**	**5 175**	**(1)**	**12**	**10 358**	**17 269**	**5**	**17 274**
Comprehensive income for the period									
Profit for the period		-	-	-	-	4 222	4 222	(2)	4 220
Changes in fair value of available-for-sale financial assets		-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income		-	-	-	**(10)**	**4 222**	**4 212**	**(2)**	**4 210**
Dividends to shareholders of OJSC «CenterTelecom»		-	-	-	-	(923)	(923)	-	(923)
Balance as at 31 December 2008		**1 725**	**5 175**	**(1)**	**2**	**13 657**	**20 558**	**3**	**20 561**
Comprehensive income for the period									
Profit for the period		-	-	-	-	5 867	5 867	1	5 868
Changes in fair value of available-for-sale financial assets		-	-	-	(1)	-	(1)	-	(1)
Total comprehensive income		-	-	-	**(1)**	**5 867**	**5 866**	**1**	**5 867**
Dividends to shareholders of OJSC «CenterTelecom»	33	-	-	-	-	(646)	(646)	-	(646)
Balance as at 31 December 2009		**1 725**	**5 175**	**(1)**	**1**	**18 878**	**25 778**	**4**	**25 782**

The accompanying notes form an integral part of the consolidated financial statements

1. General information

Authorization of the Financial Statements

The consolidated financial statements of OJSC “CenterTelecom” (hereinafter “the Company”) and its subsidiaries (“the Group”) for the year ended 31 December 2009 were authorized for issue by the General Director and the Chief Accountant on 21 May 2010.

The Company

The parent company – OJSC “CenterTelecom” was incorporated as an open joint stock company in the Russian Federation.

As at 31 December 2009 OJCS “Svyazinvest”, which is controlled by the Government of the Russian Federation, owned 50,69% of the Company’s ordinary voting shares and constitutes OJSC “CenterTelecom” ’s parent company.

The Company’s official address is: Russian Federation, 141400, Moscow reg., city of Khimky, Proletarskaya st., 23.

The Group activities

The Group provides communication services (including local and intra-zone telephone services), telegraph services, data transmission services, rent out communication channels and provides radio communication services in the territory of the 17 Federal Districts of the Russian Federation.

Information about the Company’s significant subsidiaries is disclosed in Note 6. All of the subsidiaries are incorporated under the laws of the Russian Federation.

Information about the Company’s significant associates is disclosed in Note 10. All of the associates are incorporated under the laws of the Russian Federation.

Liquidity and financial resources

As at 31 December 2009, the Group’s current liabilities exceeded its current assets by 5 553 (11 661 as at 31 December 2008).

Historically, the Group has significantly relied on both short-term and long-term borrowings to finance development of its communications networks. This financing has historically been provided through financial leases, bank loans, bonds and vendor financing.

In 2010 the Group expects to generate funds from the following sources: cash proceeds from operating activities; issue of promissory notes; placement of Rouble bonds on the Russian market; and raising funds from domestic and foreign lending institutions. Moreover, management believes that some of existing contractual payment terms relating to current operations could be extended in case of a shortage of working capital.

The Group has a program in place to ensure meeting an obligation to settle its liabilities when they fall due. The Group’s management has reached preliminary agreement with a number of lending institutions which are prepared to provide required financing.

Management believes that if necessary, certain capital investment projects may be deferred or curtailed in order to fund the Group’s current operating needs.

2. Basis of preparation of the Financial Statements

Statement of compliance

These consolidated financial statements have been prepared in accordance to the International Financial Reporting Standards ("IFRSs").

Going concern

These consolidated financial statements have been presented on a going concern basis, which contemplates the recovering of assets and redemption of liabilities in the normal course of business.

Presentation of the Financial Statements

These consolidated financial statements comprise the Company, its subsidiaries and associates and are prepared using unified accounting policies.

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

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.
Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Basis of measurement

The consolidated financial statements have been presented under historical cost convention, except following: property, plant and equipment, which were revaluated to determine deemed cost as a part of adoption of IFRS; financial assets available for sale, which were stated at fair value.

Changes in accounting policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory or early adopted for financial years beginning on or after 1 January 2009. Adoption of new and revised standards did not have significant effect on the financial statements of the Company.

The changes in accounting policies resulted from adoption of the following new or revised standards and interpretations:

Standard / Interpretation	Content of changes	Effects
IFRS 8 "Operating Segments"	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	Revised disclosures are presented in Note 5.
IAS 1 (as revised in 2007) "Presentation of Financial Statements"	The Standard requires presentation of all owner 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 recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised 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).	The Consolidated Financial Statements contain new or adjusted reporting statements.
IAS 23 (as revised in 2006) "Borrowing Costs"	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	The revised Standard did not have a material impact on the financial position or performance of the Company.
IFRS 3 (as revised in 2008) "Business Combinations" (early adoption)	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	The revised Standard did not have a material impact on the financial position or performance of the Company.
IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements" (early adoption)	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised Standard did not have a material impact on the financial position or performance of the Company.

Standard / Interpretation	Content of changes	Effects
IFRIC Interpretation 13 “Customer Loyalty Programmes”	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction 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 a material impact on the financial position or performance of the Company.
IFRIC Interpretation 15 “Agreements for the Construction of Real Estate”	The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 16 “Hedges of a Net Investment in a Foreign Operation”	The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 17 “Distributions of Non-cash Assets to Owners”	The Interpretation provides guidance on the 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 a material impact on the financial position or performance of the Company.
IFRIC Interpretation 18 “Transfers of Assets from Customers”	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company’s assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IAS 24 (as revised in 2009) “Related party disclosures” (early adoption)	The Standard specifies and simplifies approaches for related party definitions. The Standard also simplifies requirement for state-controlled entities to disclose detailed transactions with other state-controlled entities.	New and revised disclosures were included in the Consolidated Financial Statements.

(in millions of Russian Roubles unless stated otherwise)

IFRSs and IFRIC Interpretations not yet effective

The Company has not adopted the following IFRSs that have been issued but are not yet effective:

Standard / Interpretation	Content of changes	Effects
IFRS 9 “Financial Instruments”	The Standard sets new approaches for financial instruments classification. The Standard cancels requirement to exclude imbedded derivatives from financial assets. The Standard enforces requirements for reclassification of financial assets after initial classification. The Standard also clarifies approaches for financial assets valuation and measurements.	To be applied for annual reporting periods beginning on or after 1 January 2013.

As at 31 December 2009, management of the Group did not complete the assessment of the impact of the new Standards and various improvements to IFRSs not yet effective at that date on the Company’s financial position or performance.

Foreign currency transactions

The functional and presentation currency of the Group is the Russian Rouble (RUR). Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate ruling at that date. All resulting differences are recognised in the income statement as foreign exchange gains (losses) except for differences arising on the translation of available-for-sale equity instruments. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Exchange rates of the primary currencies as of December 31, 2009 and 2008 are as follows:

Exchange rates as of 31 December	**2009**	**2008**
RUR / USD	30,2442	29,3804
RUR / EUR	43,3883	41,4411

3. Summary of Significant Accounting Policies

3.1. Principles of Consolidation

The Consolidated Financial Statements represents the financial statements of OJSC "CenterTelecom" and its subsidiaries as at and for the year ended 31 December 2009 including comparative information for 2008.

All intra-group balances, transactions, income and expenses resulting from operations within the Group and recognized in the assets or liabilities are entirely eliminated.

Subsidiaries are fully consolidated as of the date of acquisition, being the date when the Group acquired control over the subsidiary, and continue to be consolidated until the date when such control ceases.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the fair value of the Group share of identifiable net assets as at the date of acquisition is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Acquisition of non-controlling interest in subsidiaries

Any difference between carrying value of net assets attributable to non-controlling interest acquired and respective consideration is recognized in equity as at the date of acquisition.

3.2. Property, plant and equipment

Cost of Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's realisable value less costs to sell and its value in use. The excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The increased carrying amount of an asset attributable to reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

Depreciation and Useful Life

Depreciation of property, plant and equipment is calculated on a straight-line basis during the useful life period.

The Company applies the following useful lives:

	Years
Buildings and constructions	11-50
Transmission devices	10-15
Switches	3-15
Other telecommunication equipment	3-10
Land	Not depreciated

The property, plant and equipment's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each reporting date and are accounted for as a change in accounting estimates.

Assets received free of charge

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

3.3. Intangible assets

Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets.

Goodwill on an acquisition of associates is included in the investments in associates.

Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortised using linear method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of other intangible assets are determined at individual basis.

Impairment

Goodwill, intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the carrying value over the recoverable amount is recognised as impairment loss. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed.

3.4. Borrowing costs

The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction or modernization of a qualifying asset including construction in progress. Other borrowing costs are expensed when incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

3.5. Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method.

3.6. Investments and other financial assets

The Group’s financial assets are classified as either financial assets at fair value revalued through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

At the initial recognition, financial assets are measured at fair value, plus, for instruments other than recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The Company determines the classification of its financial assets at initial recognition and reviews the classification of financial assets when appropriate and is allowed by standards.
Purchases and sales of financial assets are recognized on the settlement date, which is the date that the investment is delivered to a buyer.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

All other investments, which were not classified to any of the two preceding categories, are available-for-sale investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized in other comprehensive income and presented as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3.7. Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location. The cost of inventories is determined on the weighted average basis.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8. Cash and cash equivalents

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less.

All these items are included as a component of cash and cash equivalents for the purpose of the balance sheet and statement of cash flows.

3.9. Equity

Share capital

Ordinary shares and non-cumulative non-redeemable preference shares are both classified as equity.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. The gain or loss on purchase, sale or cancellation of treasury shares is not recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

Non-controlling interest

Non-controlling interest at the balance sheet date represents the non-controlling shareholders' share of the fair value of the identifiable assets and liabilities of the subsidiaries at the date of the acquisition or the date when the subsidiary was established and non-controlling shareholders' share of movements in equity since the date of the acquisition or establishment.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.10. Non-derivative financial liabilities

For presentation purposes, loans and borrowings in these consolidated financial statements include banking and corporate loans, bonds and promissory notes, vendor financing and financial lease obligations.

Borrowings are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

3.11. Leases

At the commencement of the finance lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the Group recognizes finance lease as the assets and liabilities in their balance sheet at amount equal to their fair value or, if lower, at the discounted present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to produce a constant rate of interest of the remaining balance of the liability. Finance costs are recognised in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

3.12. Employee benefits

Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for future vacation and bonus payments.

Defined benefits pension plans and other long-term employee benefits

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial "projected credit unit" method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Upon introduction of a new plan or improvement of an existing plan past service cost is recognized as an expense on a straight line basis over the average period until the amended benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognises profit or loss arising on curtailment or final settlement under a defined benefit plan at the moment of such curtailment or settlement.

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

3.13. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3.14. Income tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business acquisition and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3.15. Revenue recognition

Revenue from service contracts is accounted for when the services are provided. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

Interest income is calculated using the effective interest rate which presents the expected future cash flows during the estimated useful life of a financial instrument to the net carrying amount of the financial asset.

Reimbursement of losses from universal telecommunication services is recognized in the period in which the loss occurred.

Dividend income is recognized in the income statement on the date that the Group right to receive payment is established.

3.16. Segment reporting

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Management Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 Operating Segments. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented in Note 5.
Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

The Group consists of 15 branches and 11 subsidiaries, which are considered as operating segments. Financial information of each operating segment is regularly analyzed by the Company's Chief Operating Decision Maker and is used for operating decisions making.

3.17. Earnings per share

For the purpose of calculating earnings per share, the Company classifies preferred shares as participating equity instruments. Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares. The Company prepares a reconciliation of the profit attributable to ordinary shareholders.

4. Significant accounting judgments and estimates

4.1 Judgments

In applying accounting policies, management has made the following judgments and estimates, which most significantly affected the amounts reported in the financial statements:

Revenue recognition (agent / principal)

Agency fees related to provision of services where the Group acts as an agent in the transaction rather than a principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal, management considers the following factors:

- Although the Group collects the consideration from the final customers, all credit risks is borne by the supplier of services;
- The Group is not in a position to change selling prices set by the supplier.

Lease classification

A lease is classified as financial lease if it transfers substantially all risks and rewards incidental to ownership, otherwise it is classified as operating lease. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement, but not its legal form.

4.2 Estimates

The key assumptions concerning the future events and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2009 is 41 774 (as at 2008 – 43 188). Refer to Note 7 for detailed information.

Impairment of non-current assets

Identification of indicators of impairment of non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount at a cash-generating unit level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on a cash-generating unit level, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows.

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

Fair value of assets and liabilities in business acquisition

At the acquisition date the Company recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of goodwill

Impairment testing requires value in use estimation of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As at 31 December 2009, the carrying amount of the goodwill amounted to 11 (2008 - 11). Refer to Note 8 for detailed information.

Fair values of unquoted available-for-sale investments

Fair value of investments which are not actively traded is determined using valuation techniques, including those based on reference to recent arm's length market transactions between knowledgeable, willing parties; based on reference the current fair value of another instruments that are substantially the same; or based on discounted cash-flow analysis and option pricing model.

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in comprehensive income are reasonable and the most appropriate at the balance sheet date. As at 31 December 2009, the fair values of unquoted available-for-sale investments amounted to 26 (2008 – 26). Refer to Note 11 for detailed information.

Allowance for impairment of receivables

Doubtful debt allowance is based on the historical data related to collectability of receivables and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As at 31 December 2009, a doubtful debt allowance amounted to 745 (2008 – 740). Refer to Notes 13 for detailed information.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As at 31 December 2009, net defined benefit obligations amounted to 2 344 (2008 – 2 229).

Litigation and claims

The Group exercises considerable judgment in measuring and recognizing loss and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As at 31 December 2009, provision for litigation amounts to 76 (2008 - 34). Refer to Note 21 for detailed information.

Deferred income tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

5. Segment reporting

The Group identifies operating segments as components, which financial information is regularly analyzed by the Group’s Chief Operating Decision Maker and is used for operating decisions making.

The Company’s Chief Operating Decision Maker is Management Board.

The components of the Group, which financial information is regularly analyzed by the Company’s Chief Operating Decision Maker and is used for operating decisions making are branches and subsidiaries. The Group consists of 15 branches and 11 subsidiaries (Note 6), which are considered as operating segments.

The Group provides telecommunication services within the territory of Central federal district of Russian Federation. The whole range of services is provided using similar equipment and channels.

The reporting information analysis and operating decisions making are performed based on accounting data, prepared using statutory accounting principles. The information in table “Operating segments information” is presented in accordance with the mentioned principles. Subsidiaries are aggregated due to their insignificance.

Head office concentrates the major part of financing and investing activities of the Company: obtaining, servicing and repayment of borrowings, financial lease and acquisition of financial assets, development and further maintenance of corporate assets, centralized investment projects. Corresponding amounts of income, expenses, assets and liabilities are included in Head office indicators, presented in table “Operating segments”.

The reconciliation of statutory accounting data to the figures, included in IFRS consolidated financial statements is presented below:

(in millions of Russian Roubles unless stated otherwise)

Reconciliation of statutory and IFRS data as at 31 December 2009 and for 2009	Total reporting segment: OJSC CenterTelecom	Total reporting segment: Subsidaries	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue					
Third party revenue	36 323	1 074	(84)	(4)	**37 309**
Revenue within the segment	111	8	-	(119)	**-**
Total revenue	36 434	1 082	(84)	(123)	**37 309**
Interest income	489	3	(77)	(36)	**379**
Interest expense	(1 530)	(38)	(1 354)	36	**(2 886)**
Profit before income tax	**6 656**	**64**	**797**	**151**	**7 668**
Income tax	(1 597)	(21)	(96)	(86)	**(1 800)**
Profit for reporting period	**5 059**	**43**	**701**	**65**	**5 868**
Assets and liabilities					
Segment assets	45 192	810	9 358	(1 687)	**53 673**
Segment liabilities	(18 548)	(440)	(9 202)	299	**(27 891)**
Other segment information					
Capital investments in:					
Property, plant and equipment	(4 273)	(45)	(232)	-	**(4 550)**
Intangible assets	(2)	-	(613)	-	**(615)**
Depreciation and amortization	(4 290)	(102)	(2 041)	32	**(6 401)**
Reversal of loss from impairment of property, plant and equipment	-	-	-	128	**128**
Reversal of loss from impairment of intangible assets	-	-	-	36	**36**
(Loss) reversal of loss from doubtful debt allowance	(148)	(15)	1	-	**(162)**
Pension plan cost	(251)		26	-	**(225)**

(in millions of Russian Roubles unless stated otherwise)

Reconciliation of statutory and IFRS data as at 31 December 2008 and for 2008	Total reporting segment: OJSC CenterTelecom	Total reporting segment: Subsidiaries	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue					
Third party revenue	33 636	1 120	40	(2)	**34 794**
Revenue within the segment	79	41	-	(120)	**-**
Total revenue	**33 715**	**1 161**	**40**	**(122)**	34 794
Share of loss in associates	-		-	(1)	**(1)**
Interest income	187	2	(31)	(21)	**137**
Interest expense	(1 759)	(39)	(720)	21	**(2 497)**
Profit before income tax	**4 046**	**102**	**1 349**	**15**	**5 512**
Income tax	(1 461)	(40)	209	-	**(1 292)**
Profit for reporting period	**2 585**	**62**	**1 558**	**15**	**4 220**
Assets and liabilities					
Segment assets	49 588	870	6 469	(1 836)	**55 091**
Segment liabilities	(27 566)	(471)	(6 816)	323	**(34 530)**
Other segment information					
Capital investments in:					
Property, plant and equipment	(6 750)	(41)	(5 117)	-	**(11 908)**
Intangible assets	(3)	-	(1 550)	-	**(1 553)**
Depreciation and amortization	(4 278)	(102)	(835)	42	**(5 173)**
Loss from impairment of intangible assets	-	-	(1 111)	-	**(1 111)**
Loss from doubtful debt allowance	(180)	(13)	(22)	-	**(215)**
Pension plan cost	(419)	-	534	-	**115**

The transformation adjustments are represented mainly by the finance lease accounting-related items and effective interest method applied to loans and borrowings.

As at 31 December 2009 and for 2009 the major items of significant operating segments were as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditure	Depreciation and amortization
Total	**37 516**	**6 720**	**46 002**	**(18 988)**	**(4 318)**	**(4 392)**
Belgorod	2 036	577	1 551	(214)	(112)	(168)
Bryansk	1 595	319	1 199	(121)	(98)	(133)
Vladimir	1 819	236	1 382	(165)	(197)	(167)
Voronej	3 473	1 047	3 103	(332)	(361)	(264)
Kaluga	1 828	435	1 460	(138)	(203)	(189)
Kursk	1 144	49	1 526	(156)	(283)	(157)
Lipetsk	1 900	500	1 809	(175)	(242)	(180)
Moscow	8 627	822	9 498	(1 566)	(1 101)	(1 114)
Orel	1 059	89	1 222	(115)	(145)	(146)
Ryazan	1 413	123	1 190	(123)	(78)	(164)
Smolensk	1 570	59	1 846	(142)	(181)	(230)
Tambov	1 521	191	1 317	(124)	(113)	(180)
Tver	1 785	(70)	2 176	(234)	(433)	(177)
Tula	2 413	672	1 991	(228)	(273)	(246)
Verhnevoljskij	4 251	312	4 250	(385)	(334)	(493)

(in millions of Russian Roubles unless stated otherwise)

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditure	Depreciation and amortization
Head office	-	1 295	9 672	(14 330)	(119)	(282)
Subsidiaries	1 082	64	810	(440)	(45)	(102)
inc. OJSC "RTS"	793	50	499	(305)	(33)	(91)

As at 31 December 2008 and for 2008 the major items of significant operating segments were as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditure	Depreciation and amortization
Total	**34 876**	**4 148**	**50 458**	**(28 037)**	**(6 791)**	**(4 380)**
Belgorod	1 937	566	1 816	(324)	(318)	(188)
Bryansk	1 487	448	1 363	(167)	(200)	(132)
Vladimir	1 660	270	1 488	(219)	(224)	(164)
Voronej	3 294	971	3 146	(374)	(380)	(302)
Kaluga	1 623	414	1 741	(255)	(450)	(213)
Kursk	1 071	171	1 540	(153)	(209)	(175)
Lipetsk	1 765	536	1 996	(217)	(224)	(176)
Moscow	7 701	1 075	11 996	(1 235)	(2 092)	(1 082)
Orel	957	118	1 402	(215)	(399)	(140)
Ryazan	1 323	142	1 414	(146)	(173)	(189)
Smolensk	1 511	172	2 077	(198)	(224)	(252)
Tambov	1 469	274	1 652	(192)	(250)	(195)
Tver	1 636	122	2 143	(291)	(304)	(158)
Tula	2 214	596	2 028	(297)	(332)	(232)
Verhnevoljskij	4 067	682	4 795	(489)	(401)	(524)
Head office	-	(2 511)	8 991	(22 794)	(570)	(156)
Subsidiaries	1 161	102	870	(471)	(41)	(102)
inc. OJSC "RTS"	812	61	523	(349)	(15)	(93)

6. Subsidiaries

The following subsidiaries are controlled by the Company:

Name	Activities	Interest in Share capital, %		Share of voting rights, %	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
CJSC "Vladimir Teleservice"	Communication services	**100**	100	**100**	100
LLC "Vladimirsky Taxophone"	Communication services	**51**	51	**51**	51
LLC "Mobilcom"	Communication services	**100**	100	**100**	100
CJSC "Operatorsky Center"	Communication services	**100**	100	**100**	100
OJSC "RTS"	Communication services	**100**	100	**100**	100
CJSC "Telecom-R"	Communication services	**100**	100	**100**	100
CJSC "Telecom Ryazanskoy Oblasty"	Communication services	**50,9**	50,9	**50,9**	50,9
CJSC "Teleport Ivanovo"	Communication services	**100**	100	**100**	100
LLC "Telecom Terminal"	Repair and maintenance	**100**	100	**100**	100
LLC "Telecom Stroy"	Communication services	**-**	100	**-**	100
LLC "Tver' Telecom"	Communication services	**85**	85	**85**	85
CJSC "CenterTelecomService"	Communication services	**100**	**100**	**100**	**100**

(in millions of Russian Roubles unless stated otherwise)

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

In September 2009 a subsidiary LLC "Telecom Stroy" was put into liquidation. Loss on write-off the book value of the subsidiary amounted to 1 and is reflected in line "Other financial income and expenses" of Consolidated Income Statement.

7. Property, plant and equipment

	Land and buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Capital investments in property, plant and equipment	Total
Cost					
At 31 December 2007	**23 201**	**23 239**	**4 621**	**1 605**	**52 666**
Additions	-	-	-	11 908	11 908
Transfers from CIP	1 685	6 810	3 719	(12 214)	-
Disposals	(178)	(49)	(357)	(243)	(827)
At 31 December 2008	**24 708**	**30 000**	**7 983**	**1 056**	**63 747**
Additions	-	-	-	4 550	4 550
Transfers from CIP	1 714	2 532	782	(5 028)	-
Disposals	(278)	(653)	(493)	(65)	(1 489)
At 31 December 2009	**26 144**	**31 879**	**8 272**	**513**	**66 808**
Accumulated depreciation and impairment losses					
At 31 December 2007	**(6 915)**	**(6 554)**	**(2 749)**	**-**	**(16 218)**
Depreciation charged for the year	(1 251)	(2 424)	(1 111)	-	(4 786)
Depreciation on disposals	81	9	355	-	445
At 31 December 2008	**(8 085)**	**(8 969)**	**(3 505)**	**-**	**(20 559)**
Depreciation charged for the year	(1 434)	(2 970)	(1 452)	-	(5 856)
Depreciation on disposals	248	505	500	-	1 253
Impairment loss reversed	24	106	(2)	-	128
At 31 December 2009	**(9 247)**	**(11 328)**	**(4 459)**	**-**	**(25 034)**
Net book value as at 31 December 2007	**16 286**	**16 685**	**1 872**	**1 605**	**36 448**
Net book value as at 31 December 2008	**16 623**	**21 031**	**4 478**	**1 056**	**43 188**
Net book value as at 31 December 2009	**16 897**	**20 551**	**3 813**	**513**	**41 774**

As at 31 December 2009 and 2008 net book value of leased property, plant and equipment comprised:

	31 December 2009	31 December 2008
Switches and transmission devices	3 775	6 288
Other property, plant and equipment	2 514	3 105
Total net book value of leased property plant and equipment	**6 289**	**9 393**

Assets acquired under finance lease contracts secure finance lease liabilities.

(in millions of Russian Roubles unless stated otherwise)

Depreciation charge for 2009 in the amount of 5 856 (2008 – 4 786) was recognized in “Depreciation and amortization” of the consolidated income statement.

As at 31 December 2009 the historical cost of fully depreciated property plant and equipment comprised 5 779 (31 December 2008 – 5 064).

Addition to property, plant and equipment acquired through financial leases in 2009 comprised 34 (2008 – 4 938).

In 2009 the Group increased the cost of property, plant and equipment and construction in progress by the amount of capitalized interest totaled to 89 (2008 - 181). Capitalization rate in 2009 was 12,14% (2008 – 10,78%).

As at 31 December 2009 property, plant and equipment in the amount of 4 791 (31 December 2008 – 683) were pledged to secure borrowing liabilities.

As at 31 December 2009 the Company analyzed the residual useful life of property, plant and equipment. As a result the useful life periods in respect of series of assets were revised. The effect from revised periods of useful life comprised (17) (31 December 2008 – (28)).

8. Intangible assets

	Goodwill	Licenses	Software	Customer base	Trade mark	Total
Cost						
At 31 December 2007	**1 006**	**157**	**5 272**	**94**	**39**	**6 568**
Purchases of assets	-	7	1 546	-	-	1 553
At 31 December 2008	**1 006**	**164**	**6 818**	**94**	**39**	**8 121**
Purchases of assets	-	16	599	-	-	615
Disposals	-	(1)	-	-	-	(1)
At 31 December 2009	**1 006**	**179**	**7 417**	**94**	**39**	**8 735**
Accumulated amortization and impairment losses						
At 31 December 2007	**(995)**	**(81)**	**(279)**	**(94)**	**(31)**	**(1 480)**
Amortization charge for the year	-	(25)	(362)	-	-	(387)
Impairment loss accrued	-	-	(1 111)	-	-	(1 111)
At 31 December 2008	**(995)**	**(106)**	**(1 752)**	**(94)**	**(31)**	**(2 978)**
Amortization charge for the year	-	(29)	(516)	-	-	(545)
Impairment loss reversed		11		25		36
At 31 December 2009	**(995)**	**(124)**	**(2 268)**	**(69)**	**(31)**	**(3 487)**
Net book value as at 31 December 2007	**11**	**76**	**4 993**	**-**	**8**	**5 088**
Net book value as at 31 December 2008	**11**	**58**	**5 066**	**-**	**8**	**5 143**
Net book value as at 31 December 2009	**11**	**55**	**5 149**	**25**	**8**	**5 248**

(in millions of Russian Roubles unless stated otherwise)

Oracle E-Business Suite

As at 31 December 2009 software included Oracle E-Business Suite with the carrying amount of 2 468 (31 December 2008 –2 498).

No interest expense was capitalised during 2009. In 2008, 73 was capitalised with respect to the implementation of Oracle E-Business Suite with a capitalization rate of 10.78%.

The Group started to use Oracle E-Business Suite from the date of its implementation (April 2008). Amortization of the software is performed over its useful life of 10 years.

Changes in carrying amount of Oracle E-Business Suite for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**2 498**	**2 714**
Implementation costs	**208**	754
Amortization charge	**(238)**	(210)
Impairment losses	**-**	(760)
At 31 December	**2 468**	**2 498**

Amdocs Billing Suite

As at 31 December 2009 software included Amdocs Billing Suite with carrying amount of 380 (31 December 2008 – 945).

The volume of Amdocs licenses required in the CRM Amdocs as well as utilisation of the other components of Amdocs software will be reconsidered based on the results of implementation of CRM Amdocs project.

Amortization of the software will start after completion of its implementation proportionally to the value of implemented modules. Management plans to test the asset for impairment on regular basis until it will be completely implemented.

Changes in carrying amount of Amdocs Billing Suite for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**945**	**1 446**
Impairment loss	**-**	(351)
Transfer to other software (HP OV IUM)	**-**	(22)
Transfer to other software (ASR START)	**-**	(128)
Transfer to other software (CRM Amdocs)	**(565)**	-
At 31 December	**380**	**945**

ASR Start Billing Software

As at 31 December 2009 software included ASR Start Billing Software with carrying amount of 593 (31 December 2008 – 657).

The Company embarked on the operation of ASR Start software product functionality and proceeded with its depreciation commencing from the date of its implementation (January 2008) over its useful life of 7 years.

(in millions of Russian Roubles unless stated otherwise)

Changes in carrying amount of ASR Start Billing Software for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**657**	**277**
Implementation costs	**35**	286
Transfer from other software (Amdocs Billing Suite)	**-**	128
Amortization charge	**(99)**	(34)
At 31 December	**593**	**657**

Hewlett-Packard Open View Internet Usage Manager (HP OV IUM**)**

As at 31 December 2009, the software included HP OV IUM with the carrying amount of 477 (2008 – 455).

Changes in carrying amount of HP OV IUM for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**455**	**330**
Implementation costs	**22**	103
Transfer from other software (Amdocs Billing Suite)	**-**	22
At 31 December	**477**	**455**

In December 2009 the Company implemented software HP OV IUM completely for data collection and preprocessing and data storage.

The Company shall start depreciating this asset from the 1 of January 2010 over its useful life of 7 years.

CRM Amdocs

As at 31 December 2009 software included CRM Amdocs with carrying amount of 739 (31 December 2008 – 42).

Interest capitalized in 2009 in respect of implementation of CRM Amdocs comprised 8 (2008 – 0). Capitalization rate was 12,14% (2008 – 0%).

Changes in carrying amount of CRM Amdocs for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**42**	**-**
Implementation costs	**132**	42
Transfer from other software (Amdocs Billing Suite)	**565**	-
At 31 December	**739**	**42**

During 2010-2011, the Company intends to implement a CRM Amdocs using its existing Amdocs licenses

Licenses

As at 31 December 2009 the Group owned licenses for the following activities:
- Local and Intrazone communication services;
- Local services using coin services and collective access facilities;
- Mobile services (GSM-900, GSM-1800, NMT-450,AMPS/D-AMPS standards);
- Rent of real circuit, channels, transmissions, and broadcast channels;
- Telematic communications services;

(in millions of Russian Roubles unless stated otherwise)

- Data transfer services;
- Communication services for the purposes of cable television.

Useful life of licenses is defined based on terms of individual license agreements. The useful life was defined as 2 - 4 years. At the same time the nominal useful life period of the Group core licenses may differ from defined useful life due to the decision of licensing authority to revoke a license or due to the abatement of a license by a court decision .

Amortization of intangible assets

Amortization charge for intangible assets in 2009 in the amount of 545 (2008 – 387) was recognized in "Depreciation and amortization" of the consolidated income statement.

Impairment testing of intangible assets not yet available for use

As at 31 December 2009 the Group performed impairment test of intangible assets not yet available for use. As a result no impairment of intangible assets was revealed.

Impairment testing of other intangible assets

As at 31 December 2009 the Group performed impairment test of other intangible assets, goodwill and intangible assets with indefinite useful life. As a result no impairment of intangible assets was revealed.

9. Other non-current assets

	31 December 2009	31 December 2008
Long-term advances given for CIP additions	**142**	189
Long-term receivables	**27**	-
Long-term advances given for software products	**34**	191
Total	**203**	**380**

10. Investments in associates

Name	Activities	31 December 2009		
		Share in equity, %	Voting share, %	Net book value
OJSC "Telecommunication Company Rinfotels"	Communication services	26	26	-
Total				**-**

Name	Activities	31 December 2008		
		Share in equity, %	Voting share, %	Net book value
OJSC "Telecommunication Company Rinfotels"	Communication services	26	26	1
Total				**1**

Net book value of investments in associated companies amounted to 366 thousand roubles as at 31 December 2009. (as at December 31, 2008 - 752 thousand roubles). Change in net book value of investments in associated companies linked to a share of loss related to the Group in amount of 386 thousand roubles received in 2009.

(in millions of Russian Roubles unless stated otherwise)

11. Investments

	31 December 2009	31 December 2008
Promissory notes	9	84
Non-current investments available-for-sale	26	26
Non-current loans issued	4	7
Total non-current investments	**39**	**117**
Current promissory notes	614	384
Current investments available-for-sale	9	44
Current loans issued	-	1
Total current investments	**623**	**429**
Total investments	**662**	**546**

In 2009 the Group invests in temporary available financial resources in promissory notes, issued by CJSC "IC Region" with maturity less than 12 months from the reporting date. Promissory notes yields have profitability from 11% to 12% and are nominated in roubles. The Group uses promissory notes as financial instruments mainly for deriving financial income. As at 31 December 2009 promissory notes for redemption comprised 512 (31 December 2008 - 0) and are included in current promissory notes.

As at 31 December 2009, promissory notes receivable were issued by OJSC "RTK-Leasing" comprised 95 (31 December 2008 - 468). Promissory notes are stated at amortised cost using effective interest of 14.38%-16.78%.

As at 31 December 2009 and 2008, current investments available-for-sale comprised deposits with an original maturity of over three months to 1 year:

Company	Date of agreement	Expiration date	Interest rate %	2009	2008
OJSC "Sberbank RF"	December 2009	September 2010	7,65%	6	-
OJSC "Sberbank RF"	August 2009	May 2010	9,3%	3	-
OJSC "Sberbank RF"	June 2008	August 2009	8,3%		20
OJSC AKB "Svyaz Bank"	October 2006	July 2009	5,5%		15
CJSC KB "LOCO-Bank"	June 2008	April 2009	11%		9
Total current investments				**9**	**44**

As at 31 December 2009 and 2008, non-current available for sale financial assets included:

	31 December 2009		31 December 2008	
Name	**Share in equity, %**	**Fair value**	**Share in equity, %**	**Fair value**
Non-current financial assets				
OJSC "SvyasIntek"	18	21	18	21
CJSC "SK Kostars"	9,3	3	9,3	3
Others	0,0026 – 11	2	0,09 – 11	2
Total non-current investments		**26**		**26**

As at 31 December 2009 and 2008 non-current loans were accounted at amortized cost using effective interest rate 21%.

(in millions of Russian Roubles unless stated otherwise)

12. Inventory

	31 December 2009	31 December 2008
Cable	**115**	117
Spare parts	**105**	110
Finished goods and goods for resale	**53**	32
Construction materials	**45**	44
Tools and accessories	**34**	58
Payment cards	**20**	26
Fuel	**6**	7
Other inventory	**108**	91
Total	**486**	**485**

13. Trade and other receivables

	Total, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Settlements with customers for operating activities	2 989	(577)	**2 412**
Settlements with universal service fund	404	-	**404**
Settlements with customers for non-operating activities	254	(95)	**159**
Settlements with commissioners and agents	187	-	**187**
Settlements with personnel	6	-	**6**
Settlements with other debtors	163	(73)	**90**
Total	**4 003**	**(745)**	**3 258**

	Total, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Settlements with customers for operating activities	3 298	(571)	**2 727**
Settlements with universal service fund	638	-	**638**
Settlements with customers for non-operating activities	252	(67)	**185**
Settlements with commissioners and agents	163	-	**163**
Settlements with personnel	5	-	**5**
Settlements with other debtors	310	(102)	**208**
Total	**4 666**	**(740)**	**3 926**

As at 31 December 2009 and 2008 settlements with customers for operating activities included settlements with the following counterparties:

	Total, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Residential customers	1 581	(199)	**1 382**
Corporate customers	589	(145)	**444**
Governmental customers	242	(39)	**203**
Interconnected operators	570	(187)	**383**
Social security bodies – recovering of expenses for privileges for individual categories of customers	7	(7)	-
Total settlements with customers for core activities	**2 989**	**(577)**	**2 412**

(in millions of Russian Roubles unless stated otherwise)

	Total, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Residential customers	1 471	(180)	**1 291**
Corporate customers	621	(115)	**506**
Governmental customers	269	(48)	**221**
Interconnected operators	907	(198)	**709**
Social security bodies – recovering of expenses for privileges for individual categories of customers	30	(30)	-
Total settlements with customers for core activities	**3 298**	**(571)**	**2 727**

Changes in balance of doubtful debts allowance are presented in the table below:

	2009	2008
Balance as at 1 January	**(740)**	**(613)**
Accrual	**(570)**	(434)
Reversal	**408**	219
Write-off	**157**	88
Balance as at 31 December	**(745)**	**(740)**

14. Other current assets

	Total, 31 December 2009	Provision	Net, 31 December 2009
Prepayments and advances	256	(10)	246
VAT recoverable	126	-	126
Prepayments for other taxes	41	-	41
Deferred expenses	29	-	29
Other current assets	70	(3)	67
Total	**522**	**(13)**	**509**

	Total, 31 December 2008	Provision	Net, 31 December 2008
Prepayments and advances	235	(7)	228
VAT recoverable	125	-	125
Prepayments for other taxes	138	-	138
Deferred expenses	34	-	34
Other current assets	29	-	29
Total	**561**	**(7)**	**554**

(in millions of Russian Roubles unless stated otherwise)

Changes in the current other assets provision balances in the table below:

	2009	2008
Balance as at 1 January	**(7)**	**(4)**
Accrual	**(6)**	(7)
Impairment loss	**-**	4
Balance as at 31 December	**(13)**	**(7)**

15. Cash and cash equivalents

	31 December 2009	31 December 2008
Cash-in-bank and cash-in-hand	**852**	**563**
Short-term deposits up to 3 months	**48**	**7**
Total	**900**	**570**

As at 31 December 2009 and 2008 cash in banks, controlled by the State comprised 124 and 163 appropriately.

The effective interest rates of deposits for periods up to 3 months varied from 5,95% to 15%.

16. Significant non-cash transactions

Revenue contains non-cash transactions amounting to 3 389 (2008 - 2 857), out of which 3 236 relates to Rostelecom. These transactions represent mainly mutual offset of the balances with the same customer or supplier incurred in the course of normal operating activity.

Non-cash transactions above have been excluded from the consolidated statement of cash flows.

17. Share capital

As at 31 December 2009 the par value and carrying value of the issued and fully paid ordinary and preference shares were as follows:

	Number of shares authorised (thousands)	Treasury shares	Number of shares on issue (thousands)	Total par value	Carrying value	Treasury shares	Carrying value
As at 31 December 2007	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**
Preference, class A	525 993	-	525 993	1 578	1 725	-	1 725
Ordinary	1 578 007	(240)	1 577 767	4 733	5 175	(1)	5 174
As at 31 December 2008	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**
Preference, class A	525 993	-	525 993	1 578	1 725	-	1 725
Ordinary	1 578 007	(240)	1 577 767	4 733	5 175	(1)	5 174
As at 31 December 2009	**2 104 000**	**(240)**	**2 103 760**	**6 311**	**6 900**	**(1)**	**6 899**

Nominal value of ordinary and preference share is 3 RUR/share. All authorised shares have been issued and fully paid.

(in millions of Russian Roubles unless stated otherwise)

The difference between the par and carrying value of shares represents the effect of inflation in the periods prior to 1 January 2003.

The Company's shareholders structure as at 31 December 2009 was as follows:

	Share capital	Ordinary shares		Preference shares	
	%	Number	%	Number	%
Total legal entities	**92,80**	**1 495 986 197**	**94,80**	**456 628 728**	**86,81**
OJSC "Svyazinvest"	38,02	799 867 813	50,69	-	-
-subsidiaries and associated companies, incl.:	0,01	239 766	0,02	-	-
- CJSC "Operatorsky Center"	0,01	239 766	0,02	-	-
-shareholders holding more than 5% of charter capital, inc	51,00	642 558 349	40,72	430 335 794	81,82
- CJSC "Deposit-Kliring company" (nominee shareholder)	33,89	435 264 815	27,58	277 698 866	52,80
- CJSC "National Depositary center" (nominee shareholder)	9,46	145 342 676	9,21	53 633 683	10,20
- CJSC "UBS Nominees" (nominee shareholder)	7,65	61 950 858	3,93	99 003 245	18,82
Other legal entities	3,77	53 320 269	3,37	26 292 934	4,99
Individuals	**7,20**	**82 020 636**	**5,20**	**69 364 094**	**13,19**
Total	**100**	**1 578 006 833**	**100**	**525 992 822**	**100**

The ordinary shareholders are entitled to one vote per share.

"A" type preference shares give the holders the right to participate in general shareholders' meetings without voting rights except for 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 charter which would restrict the rights of preference shareholders.

The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated from 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. 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. If annual dividend paid by the Company on each ordinary share in any year exceed the amount of dividend on each preference share of class A, then preference dividend is to be increased to the level of ordinary share dividend. Thus, the owners of preference shares participate in earnings along with ordinary shareholders.

(in millions of Russian Roubles unless stated otherwise)

In case of liquidation, the Company's assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares, are distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Distributable earnings of the Company are limited to respective retained earnings of entities constituting the Group, as determined in accordance with Russian accounting standards. Retained earnings of the Company determined under Russian legislation as at 31 December 2009 and 2008 amounted to 19 913 and 15 516, respectively.

In accordance with the Company's Dividend policy, dividends may only be declared to the shareholders of the Company from net income as reported in the Company's statutory financial statements. The Company reported net income of 5 059 and 2 585 in its statutory financial statements in 2009 and 2008, respectively.

In August 2001, the Company placed Level I American Depositary Receipts (ADRs). In August 2008 each depository receipt equals to 25 ordinary shares of the Company (before that date: 100).

As at 31 December 2009, the Company registered an issue of 160 836 ADRs (31 December 2008 – 843 848) and deposited 4 020 900 of ordinary shares (31 December 2008 – 21 096 200), which is 0,25% (2008 – 1,34%) of total issued ordinary shares.

The following table represents ADR registration for 2008-2009:

	ADR (quantity)	**Ordinary shares equivalent (quantity)**	**Ordinary shares %**	**Share capital %**
31 December 2007	**454 600**	**45 460 000**	**2,88**	**2,16**
Change in 2008	389 248	(24 363 800)	-	-
31 December 2008	**843 848**	**21 096 200**	**1,34**	**1,00**
Change in 2009	(683 012)	(17 075 300)	-	-
31 December 2009	**160 836**	**4 020 900**	**0,25**	**0,19**

The Company's ADRs are listed on the following stock exchanges and over-the-counter markets:

Stock market	**CUSIP(WKN)**	**ADR ticker**	**ISIN**
Frankfurt Stock Exchange	798404	CRMUy.F	US15548M1080
Berlin Stock Exchange	798404	CRMUy.BE	US15548M1080
Over-the-counter market (OTC) USA	15548M108	CRMUY	US15548M1080

(in millions of Russian Roubles unless stated otherwise)

18. Loans and borrowings

	31 December 2009	31 December 2008
Non-current loans and borrowings		
Bank and corporate loans	7 182	7 765
Bonds	2 720	5 645
Promissory notes	1 832	3 076
Vendor financing	374	32
Finance lease liabilities	4 321	6 454
Interest payable	259	498
Loans from individuals	71	78
Less: Current portion of long-term borrowings	(4 923)	(10 790)
Total non-current loans and borrowings	**11 836**	**12 758**
Current loans and borrowings		
Interest payable	699	787
Current portion of long-term borrowings	4 923	10 790
Total current loans and borrowings	**5 622**	**11 577**
Total loans and borrowings	**17 458**	**24 335**

Non-current loans and borrowings

Bank and corporate loans

The table below summarizes the information about the most significant long-term bank and corporate loans outstanding as at 31 December 2009 and 2008.

Lender	Interest rate per agreement	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
RG Leasing	15,50%	3 480	-	Rouble	20/05/2014	Pledge of assets
Bank Societe Generale Vostok (BSGV)	2,75%+Libor, 2,95%+ Libor	1 265	1 229	US Dollars	08/08/2011	Unsecured
Nordea Bank	3,2% +LIBOR	1 257	1 221	US Dollars	08/08/2011	Unsecured
Sberbank RF	12,35%	1 000	1 757	Rouble	11/10/2012	Unsecured
Vnesheconombank	2%	180	264	Euro	01/01/2012	Pledge of assets
Deutsche Bank AG	8,34%	-	3 294	US Dollars	11/10/2010	Unsecured

RG Leasing

In May 2009 the Company entered into the telecom equipment sale and leaseback agreement with RG Leasing for the purpose of attracting financing collateralized by respective equipment.

As of 31 December 2009, the outstanding amount was 3 480 using the effective interest rate of 20.24%. The value of equipment pledged as a collateral is 4 412.

(in millions of Russian Roubles unless stated otherwise)

Bank Societe Generale Vostok (BSGV)

In August 2008, the Company entered into two loan agreements with the Bank Societe Generale Vostok (BSGV) for USD 21 000 000 each and the repayment date of 8 August 2011. As of 31 December, 2009, the outstanding amount on these loan agreements was 1 265, interest payable was 5.

Nordea Bank

In August 2008, the Company entered into two loan agreements with Nordea Bank for USD 42 000 000. The repayment date is 8 August 2011. As of 31 December, 2009, the outstanding amount of these loan agreements was 1 257 , interest payable was 8.

Sberbank RF OJSC

In October 2009 the Company entered into a loan agreement with Sberbank RF OJSC for a revolving credit line with a debt limit of 3 000. The loan matures on 11 October 2012. The Company pays the bank interest at 15,5% p.a., that was decreased to 12,35 % p.a. from 16 December 2009. As of 31 December 2009, the outstanding amount was 1000, interest payable was 2.

Deutsche Bank AG

In June 2009 the Company repaid in advance a long-term US Dollar-denominated loan of USD 113 654 500 originated by Deutsche Bank AG (initial lender). The loan was taken in October 2006 in the amount of USD 115 000 000 and matured in 2010. The discount arose from the early redemption of the loan and amounted to 42.

Vnesheconombank

As at 31 December 2009, the outstanding liability was accounted for at amortised cost using the effective interest rate of 7,9%, and amounted to 180, including short-term part of 93. The loan secured by the plant and equipment in the amount of 379.

Bonds

The table below summarizes the information about the bonds outstanding as at 31 December 2009 and 2008:

Code	Effective interest rate	31 December 2009.	31 December 2008	Date of maturity	Coupon interest
Bond issue 04	14,80%	-	5 519	21/08/2009	13,8%
Bond issue 05	9,52%	2 720	126	02/03/2010 – 10% of nominal value, 31/08/2010 – 20% of nominal value, 01/03/2011 – 30% of nominal value, 30/08/2011 – 40% of nominal value	9,3%

In February 2009, the Company met in full its obligation to pay coupon yield on the 9th coupon of the bonds issue 04. The total coupon yield was 389. The coupon yield per bond was 69,19 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

On 21 August 2009 the Company met in full its obligation to pay coupon yield on the 10th coupon and paid off the bonds issue 04. The total coupon yield was 389. The coupon yield per bond was 69,19 Roubles. 04 series bonds were repaid at nominal value. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

In September 2008, it was another put option exercisable on the bonds issue 05 in the amount of 3 000. As a result, the Company has got a claim for redemption of bonds in the amount of 2 874 and 126 in relation to non-redeemed bonds was reclassified into non-current liabilities.

In March 2009, the Company met in full its obligation to pay coupon yield on the 5th coupon of the bonds issue 05. The total coupon yield was 6. The coupon yield per bond was 46,37 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

On 30 June 2009 the Company sold bonds issue 05 on the secondary market, previously purchased from the owners of bonds on terms of put option of 4 September 2008. The number was 2 873 875, total value was 2 681 095 465 roubles, including accumulated coupon income 30,32 roubles per bond. Price per bond was 90,26% of the nominal value

In September 2009, the Company met in full its obligation to pay coupon yield on the 6th coupon of the bonds issue 05. The total coupon yield was 139. The coupon yield per bond was 46.37 Roubles. The obligation was met within the timeframes set by the Offering Decision and the Offering Circular.

Decision on securities placement

In October 2009 the Board of Directors of the Company approved the placement of seven issues of series BO-01 – BO-07 interest-bearing documentary non-convertible bearer bonds for a total amount 10 000 000. Each security's offering price is 1000 Roubles. Total nominal value is 10 billion Roubles. The bonds were not placed as of the year end and up to the date of signing these consolidated financial statements.

On 11 November 2009 seven issues of series BO-01-BO-07 interest-bearing documentary non-convertible bearer commercial paper for a total amount of 10 billion Roubles were admitted for trading on MICEX in the course of placement without listing assignment, in accordance with the Rules of admission of exchange bonds for trading in MICEX (minutes №184 of 11 November 2009). At the same time MICEX decided to assign the issues of the Company following identification numbers:

4B02–01-00194-A on November 11, 2009;
4B02–02-00194-A on November 11, 2009;
4B02–03-00194-A on November 11, 2009;
4B02–04-00194-A on November 11, 2009;
4B02–05-00194-A on November 11, 2009;
4B02–06-00194-A on November 11, 2009;
4B02–07-00194-A on November 11, 2009.

Issues have six coupons. Coupon payments will be made every 182 days from the date of the placement. Date of placement of issues and interest rate coupons will be determined by the authorized person of the Company in accordance with the Offering Decision and the Offering Circular (issues of series BO-01 – BO-07) approved by the Board of Directors on 26 October 2009.

(in millions of Russian Roubles unless stated otherwise)

Promissory notes

The table below summarizes the information about the promissory notes outstanding as at 31 December 2009 and 2008:

Code	Effective interest rate	31 December 2009	31 December 2008	Note currency	Date of maturity	Security
Promsvyazbank OJSC	10,80%-11,26%	1 757	2 679	Rouble	2010-2011	Unsecured
SV Capital Finance LLC	10,32%-10,56%	67	390	Rouble	2010-2011	Unsecured

Promsvyazbank OJSC

In September 2006, the Company entered into a promissory notes issue agreement with Promsvyazbank OJSC to finance its working capital. The promissory notes mature in 2010-2011 and bear effective interest of 10,80-11,26%. The outstanding amount of the promissory notes as of 31 December 2009 was 1 757, including short-term portion of 1 161. The accrued interest as of 31 December 2009 amounted to 724, out of which 253 was reported in non-current borrowings and 471 - in current.

SV Capital Finance LLC

On 18 December 2006 the Company entered into a promissory notes agreement with SV Capital Finance LLC. The outstanding amount of the promissory notes as of 31 December 2009 is comprised of current liability of 65 and non-current liability of 2. The accrued interest as of 31 December 2009 in the amount of 23 is included in current loans and borrowings and in the amount of 1 – in non-current. Promissory notes mature in 2010-2011 and bear effective interest of 10,32-10,56%.

Vendor financing

The table below summarizes the information about the vendor financing outstanding as at 31 December 2009 and 2008:

Vendor	Effective interest rate	31 December 2009	31 December 2008	Currency	Date of maturity
Business Computer Center CJSC	13%	84	-	Rouble	30/06/2010
USP Compulink LLC	13%	257	-	Rouble	31/12/2010
LG Electronics Inc.	9%	33	32	US Dollars	01/01/2010

In March 2009 the Company entered into an agreement with Business Computer Center CJSC on the order of repayment of debts incurred in 2008. The Company pays interest at 13% p.a. As of 31 December 2009, the outstanding amount on these vendor financing agreements was 84. These payables are classified as the current portion of long-term payables.

In April 2009 the Company entered into an agreement with USP Compulink LLC on the order of repayment of debts incurred in 2007-2008. The Company pays interest at 13% p.a. As of 31 December 2009, the outstanding amount on these vendor financing agreements was 257. These payables are classified as the current portion of long-term payables.

(in millions of Russian Roubles unless stated otherwise)

Borrowings provided by state-controlled entities

As at 31 December 2009 and 2008 the Group liabilities against state-controlled entities amounted to 1 182 and 2 032, respectively.

In 2009 the Group obtained borrowed funds from state-controlled entities in the amount of 1 000 (2008 - 4 090).

In 2009 the Group repaid funds previously borrowed from state-controlled entities funds in the amount of 1 873 (2008 - 3 757).

Interest accrued in respect to borrowings obtained from state-controlled entities in 2009 amounted to 28 (2008 - 133).

Finance lease liabilities

	31 December 2009		**31 December 2008**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion (less than 1 year)	2 507	1 877	3 143	2 168
More than 1 to 5 years	2 977	2 444	5 441	4 286
Total	**5 484**	**4 321**	**8 584**	**6 454**

OJSC “RTK Leasing” was the key lessor to the Group in 2009. Effective interest rate under the liabilities to these lessor varied in 2009 from 14,38 % to 31,12 % (2008 from 13,61% to 30,41%).

The finance lease assets under finance lease agreements with OJSC “RTC-Leasing” mainly comprise commutators, paystations and other telecommunication services.

19. Employee benefits

According to staff agreement, the Company contributes to pension plans and also provides additional benefits for its active and retired employees.

Defined benefit plans

The majority of the employees are eligible for defined benefit plan. The defined benefit pension plan provides retirement and disability pensions. To become eligible for receiving benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men subject to a condition that minimum period of 15 years for non-executive employees and 4 years for executives is served. The amount of pension benefit depends only on employee’s position upon retirement.

The non-state pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 37).

The Company also provides other long-term employee benefits such as a lump-sum payment upon retirement, jubilee payment, death-in-service payments and other support payments of a defined benefit nature to former employees.

As at 31 December 2009 the number of employees was 29 005 (inc. 5 917 of participants of defined benefit pension plans) and 14 388 of former employees eligible to the post-employment and post-retirement benefits, (as at 31 December 2008 – 31 517, 8 067 and 14 982 respectively).

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 and 2008 net defined benefit plan liability comprised the following:

	2009	2008
Present value of fully unfunded obligations on defined benefit plans	**(2 042)**	(2 290)
Fair value of plan assets	**-**	-
Present value of unfunded obligations	**(2 042)**	**(2 290)**
Unrecognized past service cost	**(24)**	89
Unrecognized actuarial gains	**(278)**	(28)
Net defined benefit plan liability	**(2 344)**	**(2 229)**

As at 31 December 2009 management estimated that employees' average remaining working period was 7 years (2008 - 7 years).

Net expenses for the defined benefit plan recognized in 2009 and 2008 were as follows:

	2009	2008
Current service cost	**(94)**	(126)
Interest cost	**(201)**	(183)
Actuarial gains and losses	**(50)**	13
Past service cost – guaranteed part	**-**	(1)
Amortization of past service cost - non-guaranteed part	**(113)**	(128)
Curtailment effect	**-**	363
Final settlement effect	**40**	5
Net expense for the defined benefit plans	**(418)**	**(57)**

Net expense for the defined benefit plan, excluding interest cost, is included in the consolidated income statement in the line "Personnel costs". Interest cost is recognized in "Interest expense" line item of the consolidated income statement.

Changes in liability for defined benefit plan in 2009 and 2008 were as follows:

	2009	2008
Present value of defined benefit obligation as at 1 January	**(2 290)**	(2 884)
Current service cost	**(94)**	(126)
Interest cost	**(201)**	(183)
Past service cost	**-**	(1)
Benefits paid	**56**	61
Curtailment of liabilities	**-**	370
Liabilities extinguished on settlements	**247**	409
Actuarial (gains)/losses	**240**	64
Present value of defined benefit obligation as at 31 December	**(2 042)**	**(2 290)**

Changes in fair value of defined benefit plan assets in 2009 and 2008 were as follows:

	2009	2008
Fair value of plan assets as at 1 January	**-**	-
Contributions by the employer	**303**	470
Benefits paid	**(56)**	(61)
Assets distributed on settlement	**(247)**	(409)
Fair value of plan assets as at 31 December	**-**	**-**

The Company expects to contribute 318 to its non-state pension fund in 2010 in respect of defined benefit plans.

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 and 2008 the principal actuarial assumptions used in determining the amount of defined benefit plan were as follows:

	2009	2008
Discount rate	9%	9%
Future salary increases	9,72%	10,24%
Rate used for calculation of annuity value	4%	4%
Increase in financial support benefits	5,5%	6%
Staff turnover	Reducing from 20% (till 25 years) to 2%(at the retirement age) according to the age group and sex	9% till 50 years 0% after 50 years
Mortality tables (source of information)	USSR 1985/86	USSR 1985/86

Historical information on defined benefit plan is as follows:

	2009	2008 (adj.)	2007 (adj.)	2006 (adj.)	2005 (adj.)
Defined benefit obligation	(2 042)	(2 290)	(2 884)	(2 677)	(3 022)
Defined benefit assets	-	-	-	51	229
Plan deficit	(2 042)	(2 290)	(2 884)	(2 626)	(2 793)
Experience adjustments on defined benefit plan liabilities	(210)	(149)	(207)	398	(113)
Experience adjustments on defined benefit plan assets	-	-	(2)	7	(18)

Experience adjustments are included into actuarial gains and losses and represents effects of differences between prior actuarial assumptions and actual results. Experience adjustment on defined benefit plan obligations in 2009 and previous periods primarily relates to single significant excess in the number of dismissed staff and excess of the amount of payments over projected changes in respective figures in long-term perspective.

20. Long-term other liabilities

	31 December 2009	31 December 2008
Deferred revenue	**334**	346
Long-term payables and other liabilities	**1**	5
Total	**335**	**351**

(in millions of Russian Roubles unless stated otherwise)

21. Provisions

	Staff optimisation provision	Provision for legal claims	Total
Balance at 31 December 2007	**324**	**-**	**324**
Accrued	132	34	166
Utilised	(324)	-	(324)
Balance at 31 December 2008	**132**	**34**	**166**
Accrued	38	42	80
Utilised	(106)	-	(106)
Balance at 31 December 2009	**64**	**76**	**140**

Staff optimization

The Company provided for termination payments to the employees planned to be redundant in 2010. Costs of providing for termination payments are charged in “Personnel costs” of the consolidated income statement.

Legal claims

Recognized provision represents the amount of provision in respect of certain legal claims against the Group. It is expected that the balance of provision would be used in 2010. the Group management concludes relying on legal opinion that the amount of settlement that might be due from the Group as the result of legal trials would not exceed the amount stated at balance sheet date of these financial statements.

22. Trade and other payables

	31 December 2009	31 December 2008
Payables for purchases and construction of property, plant and equipment	**1 408**	2 118
Payables for purchases of software	**51**	263
Payables to interconnected operators	**305**	229
Payables for operating activities	**688**	572
Other taxes payable	**1 023**	761
Payable to personnel	**1 387**	587
Payables to OJSC “Rostelecom”	**281**	543
Universal service fund liability	**97**	88
Dividends payable	**19**	17
Agent fees	**77**	80
Other accounts payable	**79**	146
Total	**5 415**	**5 404**

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 and 2008 taxes payable comprised the following:

	31 December 2009	31 December 2008
Value-added tax	**684**	521
Property tax	**145**	185
Personal income tax	**8**	1
Unified social tax	**162**	33
Other taxes	**24**	21
Total	**1 023**	**761**

Other payables

Other payables mainly include provision for payments to the Board of Directors and the Management Committee.

23. Other current liabilities

	31 December 2009	31 December 2008
Advances received from operating activities	**761**	756
Advances received from non-operating activities	**24**	20
Total	**785**	**776**

24. Contingencies and operating risks

Operating environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that as of 31 December 2009, it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Insurance

Insurance services are still developing in Russia and many services, available in other countries, are not yet widespread in the Russian Federation. During 2009 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Legal Proceedings

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

Staff optimization program

The Group has established staff optimization program to enhance efficiency of its business operations, approved by Board of Directors and aimed at change of organization structure, remodeling and outsourcing certain functions.

The program provides for a gradual staff headcount decrease in 2008-2012. During 2009, the Group has made discharged 1 888 of its employees. During 2010, the Group plans to make discharged 1 526 employees. A provision was created for respective termination payments (refer Note 21).

25. Financial instruments and risk management

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Group's operations. Short term deposits are also used to place available funds. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations.

Capital Management Policy

The Group's capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings.

Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings.

The Group monitors and manages its debt using financial independence ratio and debt/equity, debt/EBITDA ratios.

The financial independence ratio is calculated as ratio of equity to the total assets as at the end of the period. Debt / equity is calculated as ratio of debt to equity as at the end of the period. Debt / EBITDA is calculated as ratio of debt as at the end of the period to EBITDA for the corresponding period. The ratios used in capital management are determined using accounting information determined under Russian accounting standards.

The Group policy is to maintain financial independence ratio within a range of 0.3-0.6; debt/equity not more than 1.5; debt/ EBITDA - not more than 2.5.

(in millions of Russian Roubles unless stated otherwise)

The ratios determined based on statutory financial statements for 2009 and 2008 were as follows:

	31 December 2009	31 December 2008
Financial independence ratio	0,59	0,44
Debt / equity	0,37	0,85
Debt / EBITDA	0,59	1,43

During 2009, international rating agency Standard&Poor's raised long-term credit rating of the Company up to "BB-"/projection "Stable" (2008 – "B+"/projection "Stable") and also raised corporate credit rating based on national scale up to "ruAA-" (2008 – "ruA+").
During 2009, international rating agency Fitch Ratings raised long-term issuer default rating (IDR) on foreign currency of the Company up to "B+"/projection "Stable" (2008 – "B"/projection "Positive") and also raised corporate credit rating based on national scale up to "A(rus)/projection "Stable" (2008 – "BBB(rus)"/ projection "Positive").

Income and expenses on financial instruments

2009	**Income statement**								**Total**
	Other operating expenses	**Finance costs**	**Other financial income and expense**					**Forex loss, net**	
	Doubtful debt allowance	**Interest expense**	**Interest income**	**Dividend income**	**Gains / losses on asset disposal**	**Impairment loss (reversal of impairment)**	**Other**		
Cash and cash equivalents	-	-	225	-	-	-	-	-	225
Trade and other receivables	(162)	-	-	-	-	-	-	-	(162)
Available for sale financial assets	-	-	-	-	-	-	-	-	-
Promissory notes	-	-	67	-	-	43	70	-	180
Loans issued	-	-	-	-	-	-	-	-	-
Total financial assets	(162)	-	292	-	-	43	70	-	243
Bank and corporate loans	-	(756)	-	-	-	-	36	(277)	(997)
Bonds	-	(722)	87	-	-	-	-	-	(635)
Promissory notes issued	-	(433)	-	-	-	-	-	-	(433)
Vendor financing	-	(48)	-	-	-	-	-	(1)	(49)
Finance lease liabilities	-	(925)	-	-	-	-	-	-	(925)
Interest payable	-	-	-	-	-	-	-	(9)	(9)
Other financial liabilities	-	(2)	-	-	-	-	-	-	(2)
Trade and other payables	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	(2 886)	87	-	-	-	36	(287)	(3 050)

(in millions of Russian Roubles unless stated otherwise)

2008	Income statement								Total
	Other operating expenses	Finance costs	Other financial income and expense					Forex loss, net	
	Doubtful debt allowance	Interest expense	Interest income	Dividend income	Gains / losses on asset disposal	Impairment loss (reversal of impairment)	Other		
Cash and cash equivalents	-	-	29	-	-	-	-	-	29
Trade and other receivables	(215)	-	-	-	-	-	-	-	(215)
Available for sale financial assets	-	-	-	3	14	(1)	(3)	-	13
Promissory notes	-	-	106	-	-	(51)	-	-	55
Loans issued	-	-	2	-	-	-	-	-	2
Total financial assets	(215)	-	137	3	14	(52)	(3)	-	(116)
Bank and corporate loans	-	(406)	-	-	-	-	3	(960)	(1 363)
Bonds	-	(897)	-	-	-	-	-	-	(897)
Promissory notes issued	-	(281)	-	-	-	-	-	-	(281)
Vendor financing	-	-	-	-	-	-	-	(13)	(13)
Finance lease liabilities	-	(912)	-	-	-	-	-	-	(912)
Interest payable	-	-	-	-	-	-	-	(38)	(38)
Other financial liabilities	-	(1)	-	-	-	-	-	-	(1)
Trade and other payables	-	-	-	-	-	-	-	5	5
Total financial liabilities	-	(2 497)	-	-	-	-	3	(1 006)	(3 500)

Currency risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group income statement, balance sheet and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies.

Financial assets and liabilities of the Company presented by currency as at 31 December 2009 and 2008 were as follows:

31 December 2009	RUR	USD	EUR	Total
Cash and cash equivalents	900	-	-	900
Trade and other receivables	3 258	-	-	3 258
Available for sale financial assets	35	-	-	35
Promissory notes	623	-	-	623
Loans issued	4	-	-	4
Total financial assets	**4 820**	**-**	**-**	**4 820**
Bank and corporate loans	4 480	2 522	180	7 182
Bonds	2 720	-	-	2 720
Promissory notes issued	1 832	-	-	1 832
Vendor financing	341	33	-	374
Finance lease liabilities	4 321	-	-	4 321
Interest payable	945	13	-	958
Other borrowings	71	-	-	71
Trade and other payables	4 385	7	-	4 392
Total financial liabilities	**19 095**	**2 575**	**180**	**21 850**

(in millions of Russian Roubles unless stated otherwise)

31 December 2008	RUR	USD	EUR	Total
Cash and cash equivalents	570	-	-	570
Trade and other receivables	3 853	73	-	3 926
Available for sale financial assets	70	-	-	70
Promissory notes	468	-	-	468
Loans issued	8	-	-	8
Total financial assets	**4 969**	**73**	**-**	**5 042**
Bank and corporate loans	1 757	5 744	264	7 765
Bonds	5 645	-	-	5 645
Promissory notes issued	3 076	-	-	3 076
Vendor financing	-	32	-	32
Finance lease liabilities	6 454	-	-	6 454
Interest payable	1 183	102	-	1 285
Other borrowings	78	-	-	78
Trade and other payables	4 626	1	16	4 643
Total financial liabilities	**22 819**	**5 879**	**280**	**28 978**

For the period from 1 January to 31 December 2009 the Rouble exchange rate changed to the US Dollar and Euro by decreasing approximately 2,94 % and 4,7 %, respectively.

The sensitivity analysis of profit before income tax to currency risk is shown in the table below:

	USD			**EUR**		
	Changes in exchange rate, %	**Effect on profit before income tax**		**Changes in exchange rate, %**	**Effect on profit before income tax**	
		Million Roubles	**%**		**Million Roubles**	**%**
31 December 2009	+10	(258)	-3,41	+5	(9)	-0,12
	-10	258	3,41	-5	9	0,12
31 December 2008	+10	(581)	-10,54	+5	(14)	-0,22
	-10	581	10,54	-5	14	0,22

Interest Rate Risk

The interest rate risk is a risk that changes in interest rates on financial instruments used by the Group will influence the financial performance and cash flows of CenterTelecom Group.

The following table presents the Company’s financial instruments that are exposed to interest rate risk as at 31 December 2009 and 2008:

(in millions of Russian Roubles unless stated otherwise)

31 December 2009	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	891	-	9	900
Trade and other receivables	-	-	3 258	3 258
Available for sale financial assets	9	-	26	35
Promissory notes	623	-	-	623
Loans issued	4	-	-	4
Total financial assets	**1 527**	**-**	**3 293**	**4 820**
Bank and corporate loans	4 660	2 522	-	7 182
Bonds	2 720	-	-	2 720
Promissory notes issued	1 832	-	-	1 832
Vendor financing	374	-	-	374
Finance lease liabilities	4 321	-	-	4 321
Interest payable	-	-	958	958
Other borrowings	71	-	-	71
Trade and other payables	-	-	4 392	4 392
Total financial liabilities	**13 978**	**2 522**	**5 350**	**21 850**

31 December 2008	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	563	-	7	570
Trade and other receivables	-	-	3 926	3 926
Available for sale financial assets	44	-	26	70
Promissory notes	468	-	-	468
Loans issued	8	-	-	8
Total financial assets	**1 083**	**-**	**3 959**	**5 042**
Bank and corporate loans	5 315	2 450	-	7 765
Bonds	5 645	-	-	5 645
Promissory notes	3 076	-	-	3 076
Vendor financing	32	-	-	32
Finance lease liabilities	6 454	-	-	6 454
Interest payable	-	-	1 285	1 285
Other borrowings	78	-	-	78
Trade and other payables	-	-	4 643	4 643
Total financial liabilities	**20 600**	**2 450**	**5 928**	**28 978**

The sensitivity analysis of profit before income tax to interest rate risk is shown in the table below:

	LIBOR		
	Change of rate, percentage points	**Effect on profit before income tax**	
		Million Roubles	**%**
31 December 2009	+100	(25)	-0,33
	-100	25	0,33
31 December 2008	+100	(25)	-0,45
	-100	25	0,45

(in millions of Russian Roubles unless stated otherwise)

Liquidity risk

The Group monitors its risk of a shortfall of funds by way of current liquidity planning. The Group objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

As at 31 December 2009 financial assets and liabilities had the following maturities:

	2010	2011	2012	2013	2014 and later	Total
Cash and cash equivalents	900	-	-	-	-	900
Trade and other receivables	3 258	-	-	-	-	3 258
Available for sale financial assets	9	-	-	-	26	35
Promissory notes	665	3	-	-	-	668
Loans issued	1	1	1	1	-	4
Total financial assets	**4 833**	**4**	**1**	**1**	**26**	**4 865**
Bank and corporate loans	708	3 352	1 828	970	367	7 225
Bonds	900	2 100	-	-	-	3 000
Promissory notes issued	1 227	597	-	-	8	1 832
Vendor financing	374	-	-	-	-	374
Finance lease liabilities	2 507	1 533	1 191	249	4	5 484
Interest payable	1 722	1 242	450	188	24	3 626
Other borrowings	21	23	16	12	15	87
Trade and other payables	4 392	-	-	-	-	4 392
Total financial liabilities	**11 851**	**8 847**	**3 485**	**1 419**	**418**	**26 020**

The cash flows in the above table include interest expenses accrued as at the end of the year as well as interest expenses to be accrued in future on existing debt portfolio.

Credit Risk

Credit risk is the risk that counter-party will fail to settle its obligation and cause the Company to incur a financial loss.

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade and other receivables, cash in bank, bank deposits and other debt-type financial assets. The carrying amount of trade receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 13).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Certain trade receivables are due from state and other non-commercial organizations.

The analysis of trade receivables aged but not impaired is provided below:

31 December 2009		**Post due (days)**			
	Total	< 31	31-60	61-90	91-180
Corporate customers	**48**	29	10	5	4
Residential customers	**108**	71	21	10	6
Governmental customers	**38**	23	8	4	3
Interconnected operators	**105**	56	27	22	-
Total	**299**	**179**	**66**	**41**	**13**

(in millions of Russian Roubles unless stated otherwise)

31 December 2008	**Post due (days)**				
	Total	< 31	31-60	61-90	91-180
Corporate customers	**87**	53	21	9	4
Residential customers	**143**	96	28	12	7
Governmental customers	**62**	33	15	7	7
Interconnected operators	**137**	69	35	33	-
Total	**429**	**251**	**99**	**61**	**18**

Hedging

In the years 2009 and 2008 the Company did not hedge its currency risks or interest rate risks.

Fair value of financial instruments

Financial instruments employed by the Group fall into one of the following categories:
- Held to maturity investments (HTM);
- Available for sale financial assets (AFS);
- Financial assets through profit and loss (FTPL);
- Loans and receivables (LR);
- Liabilities accounted at amortized cost (LAC).

The table below summarises the information on fair values of the Company's financial assets and liabilities as at 31 December:

		31 December 2009		**31 December 2008**	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	LR	900	900	570	570
Trade and other receivables	LR	3 258	3 258	3 926	3 926
Available for sale financial assets	AFS	35	35	70	70
Promissory notes	LR	623	623	468	468
Loans issued	LR	4	4	8	8
Total financial assets		**4 820**	**4 820**	**5 042**	**5 042**
Bank and corporate loans	LAC	7 182	7 182	7 765	7 765
Bonds	LAC	2 720	2 999	5 645	5 698
Promissory notes issued	LAC	1 832	1 832	3 076	3 076
Vendor financing	LAC	374	374	32	32
Finance lease liabilities	LAC	4 321	4 321	6 454	6 454
Interest payable	LAC	958	958	1 285	1 285
Other borrowings	LAC	71	71	78	78
Trade and other payables	LAC	4 392	4 392	4 643	4 643
Total financial liabilities		**21 850**	**22 129**	**28 978**	**29 031**

The only valuation method applied by the Company to its financial instruments as at the year end is quoted prices of bonds.

(in millions of Russian Roubles unless stated otherwise)

26. Revenue

	2009	2008
Local telephone services	**16 822**	15 676
Data transmission, telematic services (Internet),	**6 302**	4 885
Intrazone telephone services	**5 799**	5 953
Interconnection services	**3 802**	3 969
Fees on assistance services and agency fees	**1 097**	1 123
Radio and TV broadcasting	**765**	710
Installation and access services	**476**	569
Channel rent services	**386**	379
Mobile services	**316**	291
Telegraph services	**174**	230
Other telecommunication services	**233**	120
Other revenues	**1 137**	889
Incl. rent of property, plant and equipment	***778***	*567*
Total	**37 309**	**34 794**

In 2009 and 2008 the Group generated revenue by the following major customer groups:

Customer groups	2009	2008
Residential customers	**20 774**	18 536
Corporate customers	**8 475**	8 313
Governmental customers	**3 178**	2 907
Interconnected operators	**4 882**	5 038
Total	**37 309**	**34 794**

27. Personnel costs

	2009	2008
Salary expenses	**8 001**	6 984
Social taxes	**1 843**	1 725
Pension plan costs	**225**	(115)
Staff optimization expenses	**38**	177
Other personnel costs	**393**	339
Total	**10 500**	**9 110**

Other personnel costs are mainly represented by voluntary medical and other insurance of employees and payments under collective agreement and labour contracts.

(in millions of Russian Roubles unless stated otherwise)

28. Materials, repairs and maintenance, utilities

	2009	2008
Materials	**915**	808
Repairs and maintenance	**1 754**	1 202
Utilities	**1 077**	877
Total	**3 746**	**2 887**

29. Other operating income

	2009	2008
Reimbursement of losses incurred from universal services fund	**2 786**	1 559
Reversal of impairment	**164**	-
Fines, penalties and reimbursement of other losses incurred	**106**	42
Write-off of payables	**29**	4
Other income	**47**	63
Total	**3 132**	**1 668**

Other income includes mainly reversal of allowance for contingent liabilities.

During 2009, according to the terms of agreements concluded with the Federal Telecommunications Agency for provision of universal telecommunication services the Company received from the universal services fund reimbursement of losses incurred due to rendering of universal telecommunications services in the following amounts:

for current year services - 2 338 (2008 – 885),

for previous year services - 683 (2008 – 36).

Losses from rendering of universal telecommunications services during 2009 amounted to 2 786 (2008 - 1 559) and were confirmed by an independent audit firm.

30. Other operating expense

	2009	2008
Transportation and postal services	**1 189**	1 180
Agency fees	**932**	709
Taxes, other than income tax	**806**	861
Rent	**766**	685
Third party services and expenses related to administration	**449**	372
Fire and other security services	**418**	406
Universal service fund payments	**363**	334
Advertising expenses	**238**	263
Audit and consulting fees	**201**	124
Doubtful debt allowance	**162**	215
Maintenance of buildings and constructions	**91**	102
Credit organizations services	**83**	119
Maintenance of network equipment	**86**	64
Member fees, charity contribution, payments to labour unions	**70**	244
Staff training expenses	**68**	51
Mobilization training costs	**58**	56
Travel allowance and representative expenses	**38**	34
Asset insurance	**28**	22
Losses on disposal of property, plant and equipment and other assets	**99**	50
Impairment of Oracle	**-**	760
Impairment of Amdocs	**-**	206
Other expenses	**215**	206
Total	**6 360**	**7 063**

(in millions of Russian Roubles unless stated otherwise)

31. Interest expenses

	2009	2008
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	**1 961**	1 585
Interest expense on finance lease liabilities	**925**	912
Interest expense of defined benefit plans	**201**	183
Total	**3 087**	**2 680**

The amounts of the interest capitalized in 2009 and 2008 were as follows:

	2009	2008
Capitalized to property, plant and equipment	**89**	181
Capitalized to intangible assets	**8**	73
Total	**97**	**254**

32. Income tax

Federal law No. 224-FZ dated 26.11.2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from 1 January 2009.

Income tax charge for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Current income tax expense	(1 655)	(1 102)
Deferred income tax expense	(145)	(190)
Total income tax for the year	**(1 800)**	**(1 292)**
Current income tax expense	(1 655)	(1 102)
Deferred income tax expense related to the temporary differences	(145)	(442)
Change in income tax rate	-	252
Total deferred income tax expense for the year	**(145)**	**(190)**
Total income tax expense for the year	**(1 800)**	**(1 292)**

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2009	2008
Profit before tax	7 668	5 512
Statutory income tax rate	20%	24%
Theoretical tax charge at statutory income tax rate	(1 533)	(1 323)
Increase resulting from the effect of:		
Non-deductible expenses	(267)	(221)
Change in tax rate	-	252
Total actual income tax	**(1 800)**	**(1 292)**
Effective tax rate	***23%***	***23%***

(in millions of Russian Roubles unless stated otherwise)

Deferred income tax assets and liabilities as at 31 December 2009 and 2008, and their changes in 2009 and 2008 were as follows:

	31 December 2007	Origination and reversal of temporary differences	Change of tax rate	31 December 2008	Origination and reversal of temporary differences	31 December 2009
Deferred tax assets						
Trade and other payables	278	(45)	(39)	194	110	304
Trade and other receivables	8	(1)	(1)	6	5	11
Non-current borrowings	200	555	(126)	629	331	960
Employee benefits	408	(52)	(60)	296	(2)	294
Other non-current liabilities	39	(4)	(6)	29	6	35
Current borrowings	172	210	(64)	318	151	469
Total deferred tax assets	**1 105**	**663**	**(296)**	**1 472**	**601**	**2 073**
Deferred tax liability						
Property, plant and equipment	(1 702)	(1 267)	495	(2 474)	(778)	(3 252)
Intangible assets	(489)	193	49	(247)	21	(226)
Other	7	(31)	4	(20)	11	(9)
Total deferred tax liabilities	**(2 184)**	**(1 105)**	**548**	**(2 741)**	**(746)**	**(3 487)**
Deferred tax liabilities, net	**(1 079)**	**(442)**	**252**	**(1 269)**	**(145)**	**(1 414)**

In the context of the Company’s current corporate structure, tax losses and current tax assets of the different companies cannot be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one company can not be offset against a deferred tax liability of another company.

The Company has not recognized a deferred tax liability in respect of investments in subsidiaries in the amount of 20 (2008 – 21), as managements believes that the Company is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

(in millions of Russian Roubles unless stated otherwise)

33. Earnings per Share

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

	2009	2008
Profit (loss) for the period attributable to shareholders of OJSC “CenterTelecom”, in thousand Roubles	5 866 837	4 222 208
Less: attributable to preference shareholders	(1 466 857)	(1 055 658)
Attributable to ordinary shareholders	**4 399 980**	**3 166 550**
Weighted average number of shares outstanding (thousands)	1 577 767	1 577 767
Basic and diluted earnings per share attributable to shareholders of OJSC “CenterTelecom”, in Roubles	2,789	2,007

34. Dividends Declared and Proposed for Distribution

In 2009 in accordance with the decision of general meeting of shareholders, the dividends were declared in the amount of 0,2457683 Roubles per ordinary share and 0,4915455 Roubles per preference share for year ended 31 December 2008.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
Declared and approved for 2008			
Preference shares	525 992 822	0,4915455	258 549 405
Ordinary shares	1 578 006 833	0,2457683	387 824 095
Total	**2 103 999 655**		**646 373 500**

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders’ meeting. Profit available for dividends is limited to profit of the Company, reported in accordance with the Russian accounting principles.

35. Operating Leases

As of 31 December 2009 and 2008 minimum lease payments under non-cancellable operating leases where the Company is a lessee were allocated by years as follows:

	2009	2008
	Minimum lease payments	**Minimum lease payments**
Current portion (less than 1 year)	527	473
More than 1 to 5 years	251	423
Over 5 years	547	482
Total	**1 325**	**1 378**

(in millions of Russian Roubles unless stated otherwise)

The primary subject of operating leases where the Group acts as a lessee are premises, land, telecommunications equipment, transport.

The Group operating lease expenses presented with "Other operating expense" line item of consolidated income statement amounted in 2009 to 766 (2008 - 685).

36. Capital commitments

As at 31 December 2009 and 2008 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 303 and 449 respectively.

As at 31 December 2009 and 2008 the Company's contractual obligations with regard to purchase property, plant and equipment amounted to 70 and 163 respectively.

37. Balances and Transactions with Related Parties

The nature of the significant Company's related party transactions in 2009 and 2008 is presented below:

Transactions	OJSC "Svyazinvest"	OJSC "Svyazinvest" subsidiaries	Associates	Other
2009				
Revenue from telecommunication services, interconnection and traffic transmission services	-	2 170	4	90
Agency services	-	967	-	63
Rental income	-	37	3	3
Other revenue	-	13	-	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	158	-	50
Purchase of other services	-	325	-	263
Dividends payable	180		-	-
2008				
Revenue from telecommunication services, interconnection and traffic transmission services	-	2 405	5	90
Agency services	-	1 046	-	-
Rental income	-	6	4	1
Other revenue	-	36	-	1
Purchase of telecommunication services, interconnection and traffic transmission services	-	158	-	55
Purchase of other services	-	370	-	433
Purchase of goods and other assets	-	52	-	-
Dividends payable	259	-	-	-

As of 31 December 2009 and 2008 significant outstanding balances with related parties were as follows:

(in millions of Russian Roubles unless stated otherwise)

Type of balances	OJSC "Svyazinvest"	OJSC "Svyazinvest" subsidiaries	Associates	Other
2009				
Trade and other receivables, net	-	100	-	4
Trade and other payables	-	318	-	32
2008				
Trade and other receivables, net	-	506	-	4
Trade and other payables	-	646	-	16

Other related parties comprise the following categories: key management personnel; parties exercising significant influence over the Company; non-state pension funds; other parties recognized as related parties but not included in separate categories.

OJSC "Svyazinvest"

OJSC "Svyazinvest" is Open Joint Stock Company, incorporated under the laws of the Russian Federation. As at 31 December 2009 Russian Government owned 75% less one ordinary share of OJSC "Svyazinvest".

Svyazinvest Group comprises 7 interregional telecommunications companies (MRK), OJSC "Rostelecom", OJSC "Tsentralny Telegraph", OJSC "Dagsvyazinform" and other telecom subsidiaries.

Subsidiaries

The Company performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from the Company's consolidated financial statements according to IFRS requirements.
The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are at the same level with tariffs for other counteragents and are fixed by a regulatory body. Subsidiaries do not influence the Company's transactions with other counteragents.

OJSC "Rostelecom"

OJSC "Rostelecom", controlled by Svyazinvest, is the primary provider of domestic and international long-distance telecommunication services in the Russian Federation.

The revenue from OJSC "Rostelecom" relates to traffic transmission services provided by the Company 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" relate to payments for call termination to networks of other telecommunication operators, if the call is initiated from a mobile network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Company.

(in millions of Russian Roubles unless stated otherwise)

The respective amounts included in the consolidated financial statements as at 31 December 2009 and 2008 were as follows:

	2009	**2008**
Revenue from telecommunication services, interconnection and traffic transmission services	**2 137**	2 363
Agency services	**967**	1 046
Rental income	**35**	4
Other revenue	**11**	36
Purchase of telecommunication services, interconnection and traffic transmission services	**136**	134
Purchase of other services	**63**	58
Trade and other receivables, net:	**54**	352
Trade and other payables	**281**	543

Operations with state-controlled entities

The Group performs a wide range of operations with state-controlled entities comprising a significant part of the Group client base. State-controlled entities do not affect the Group operations with other parties.

Revenue and receivables from government organizations which form the majority of entities controlled by the state are disclosed respectively in Notes “Revenue” and “Trade and other receivables”.

Borrowing transactions with state-controlled entities and related information on interest accrued and security provided are disclosed in Note “Loans and Borrowings”.

OJSC “Svyazintek”

OJSC “Svyazintek” was established by OJSC “Svyazinvest” subsidiaries, which own collectively 100% of its share capital. OJSC “Svyazintek” provides to the Group services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite.

In 2009 the Group incurred costs on services provided by OJSC “Svyazintek” amounted to 183 (2008 - 310).

Non-state Pension Fund “Telecom-Soyuz”

The Company signed centralized pension agreement with a non-state pension fund “Telecom-Soyuz” (Note 19). In addition to the state pension, the Group provides the employees with a non-state pension and other post-employment benefits through defined benefit.

The total amount of contributions to non-state pension fund paid by the Group in 2009 amounted to 255 (2008 - 420). The fund retains 3% of every pension contribution of the Group to cover its administrative costs.

Remuneration of Key Management Personnel

The key management personnel comprise members of the Management Committee and the Board of Directors of the Company, totaling 21 persons as at 31 December 2009 (2008 - 22).

Remuneration to members of the Board of Directors and the Management Committee of the Company for 2009 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 145 (2008 - 113), including salary, bonuses and other compensation to employees of Company in the key management positions in the amount of 79 (2008 - 73). The remuneration amounts are stated exclusive of the unified social tax.

In 2009 the Company made a contribution of 3 to the non-state pension fund (2008 - 2) for its key management personnel.

38. Subsequent events

Dividends

Annual dividend per share shall be approved by the Company's General Shareholders' Meeting in June 2010. The Board of Directors recommended to the General Shareholders' Meeting to approve dividend for 2009 of 0,9617069 Roubles per ordinary share and 0,4808448 Roubles per preference share (2008 – 0,2457683 and 0,4915455 respectively).

Reorganization

On 13 May, 2010 the Board of Directors of the Company approved the inclusion in the agenda of forthcoming Annual General Meeting of Shareholders the issue of reorganization of CenterTelecom by merging into Rostelecom. In the context of this issue, the merger agreement between CenterTelecom and Rostelecom was submitted by the Board for approval at the Annual General Meeting. The share swap ratios for the Company's ordinary and preference shares were set at 3.867 and 4.920, respectively, for one Rostelecom ordinary share. The Board has also determined the buyback price of the Company's shares to be bought from shareholders who do not participate in the swap. The buyback price for ordinary and preference shares of the Company is set at RUB 22.3. The swap ratios and buyback price were based on the market value of the Company's shares determined by an independent appraiser.

Staff optimization

Under the staff optimization program the Company discharged 750 employees and notified 1 084 employees of forthcoming reductions since 01 January 2010 to the date of signing of the consolidated financial statements. The compensation paid from 01 January 2010 to the date of signing these consolidated financial statements to the discharged employees amounted to 27.

Bank loans

In February 2010, the Company exercised early redemption of the Nordea Bank loan in the total amount of USD 42 million.