Open Joint Stock Company

VolgaTelecom

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

OJSC VolgaTelecom
Consolidated Financial Statements
For the year ended 31 December 2009

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC VolgaTelecom

We have audited the accompanying consolidated financial statements of OJSC VolgaTelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position 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

20 May 2010

OJSC VolgaTelecom
Consolidated Statement of Financial Position
As at 31 December 2009
(in millions of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	8	40,125	43,911
Intangible assets and goodwill	9	4,664	4,764
Other non-current assets	10	196	311
Investments in associates	11	170	162
Non-current financial assets	12	28	27
Total non-current assets		**45,183**	**49,175**
Current assets			
Inventories	13	426	483
Trade and other receivables	14	2,264	2,628
Income tax receivable		31	87
Other current assets	15	368	408
Current financial assets	12	412	204
Cash and cash equivalents	16	2,033	1,678
Assets held for sale	7	33	150
Total current assets		**5,567**	**5,638**
Total assets		**50,750**	**54,813**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	18	3,854	3,854
Unrealized gain on available-for-sale financial assets		5	1
Retained earnings		26,820	23,352
Total equity attributable to shareholders of the Company		**30,679**	**27,207**
Non-controlling interest		5	31
Total equity		**30,684**	**27,238**
Non-current liabilities			
Loans and borrowings	19	7,129	9,486
Employee benefits	20	2,211	1,984
Other long-term liabilities	21	460	499
Deferred income tax liabilities	34	2,091	2,151
Total non-current liabilities		**11,891**	**14,120**
Current liabilities			
Loans and borrowings	19	3,275	7,541
Accounts payable and accrued expenses	23	4,141	5,246
Income tax payable		113	-
Other short-term liabilities	24	634	659
Provisions	22	12	9
Total current liabilities		**8,175**	**13,455**
Total liabilities		**20,066**	**27,575**
Total equity and liabilities		**50,750**	**54,813**

Acting General Director __________ Taisiya M. Sipatova   Chief Accountant __________ Nikolay I. Popkov

The accompanying notes on pages 11 – 59 form an integral part of the consolidated financial statements

OJSC VolgaTelecom

Consolidated Income Statement

For the year ended 31 December 2009

(*in millions of Russian Roubles, except per share amounts*)

	Notes	2009	2008
Revenue	27	**32,759**	**32,063**
Personnel costs	28	(8,624)	(8,738)
Depreciation and amortization	8, 9	(7,502)	(6,688)
Interconnection charges		(3,611)	(3,789)
Materials, repairs and maintenance, utilities	29	(2,810)	(2,752)
Other operating income	30	1,450	1,169
Other operating expenses	31	(4,691)	(5,798)
Operating profit		**6,971**	**5,467**
Share of results of associates		8	16
Finance costs	32	(1,847)	(1,786)
Other financial revenues and expenses	33	204	126
Foreign exchange losses		(71)	(165)
Profit before income tax		**5,265**	**3,658**
Income tax expense	34	(1,084)	(722)
Profit for the year		**4,181**	**2,936**
Profit for the year attributable to:			
Shareholders of the Company		4,192	2,906
Non-controlling shareholders of subsidiaries		(11)	30
Profit for the year		**4,181**	**2,936**
Basic and diluted earnings per share attributable to shareholders of the Company for the period (in Russian Rubles)	35	12.78	8.86

The accompanying notes on pages 11 –59 form an integral part of the consolidated financial statements

OJSC VolgaTelecom

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009
(*in millions of Russian Roubles*)

	2009	2008
Profit for the year	**4,181**	**2,936**
Changes in fair value of available-for-sale financial assets	4	(5)
Comprehensive income for the reporting year	**4,185**	**2,931**
Comprehensive income for the period attributable to :		
Shareholders of the Company	4,196	2,901
Non-controlling shareholders of subsidiaries	(11)	30
Comprehensive income for the reporting year	**4,185**	**2,931**

OJSC VolgaTelecom

Consolidated Statement of Cash Flows
For the year ended 31 December 2009

(*in millions of Russian Roubles*)

	2009	2008
Operating activities		
Profit before income tax	5,265	3,658
Adjustments for		
Depreciation and amortization	7,502	6,688
Loss on disposal of property, plant and equipment and other assets	8	1,022
Increase of allowance for inventory and other assets	8	-
Increase of allowance for doubtful debts	103	167
Share of profit in equity accounted investees	(8)	(16)
Finance costs	1,848	1,786
Other investing and financing gains and losses	(204)	(126)
Foreign exchange losses	71	165
Operating profit (loss) after adjustments	**14,593**	**13,344**
Decrease (increase) in inventories	50	(29)
Decrease (increase) in trade and other receivables	259	(101)
Decrease in current other assets	806	308
Increase in employee benefits	226	104
Increase in trade and other payables	83	651
Increase (decrease) in provisions	3	(2)
Increase in other operating assets and liabilities	(24)	(44)
Cash flows from operating activities before interest and income tax paid	**15,996**	**14,231**
Interest paid	(1,966)	(1,679)
Income tax paid	(980)	(1,562)
Cash flows from operating activities	**13,050**	**10,990**
Investing activities		
Acquisition of property, plant and equipment and investment property	(4,913)	(7,138)
Proceeds from disposals of property, plant and equipment and investment property	176	452
Acquisition of intangible assets	(115)	(644)
Acquisition of subsidiaries, net of cash acquired	(326)	(985)
Acquisition of financial assets	(1,296)	(300)
Proceeds from disposals of financial assets	1,144	102
Interest received	201	122
Dividends received	7	-
Cash flows utilized in investing activities	**(5,122)**	**(8,391)**

The accompanying notes on pages 11 – 59 form an integral part of the consolidated financial statements

OJSC VolgaTelecom

Consolidated Statement of Cash Flows
For the year ended 31 December 2009
(*in millions of Russian Roubles*)

	2009	2008
Financing activities		
Proceeds from bank and corporate loans	2,123	9,631
Repayment of bank and corporate loans	(4,598)	(6,008)
Repayment of bonds	(2,973)	(3,456)
Proceeds from promissory notes	1,013	265
Repayment of promissory notes	(1,369)	(185)
Repayment of vendor financing liabilities	(385)	(255)
Proceeds from (repayment of) other non-current financial liabilities	(6)	(546)
Repayment of finance lease liabilities	(641)	(858)
Dividends paid to shareholders of the Company	(737)	(4)
Cash flows utilized in financing activities	**(7,573)**	**(1,416)**
Net increase in cash and cash equivalents	**355**	**1,183**
Cash and cash equivalents as at the beginning of the reporting year	**1,678**	**495**
Cash and cash equivalents as at the end of the year	**2,033**	**1,678**

The accompanying notes on pages 11 – 59 form an integral part of the consolidated financial statements

OJSC VolgaTelecom

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(*in millions of Russian Roubles*)

	Share capital		Unrealized gain on available-for-sale financial assets	Retained earnings	Total equity attributable to shareholders of the Company	Non-controlling interest	Total equity
	Preference shares	Ordinary shares					
Balance as at 31 December 2007	**963**	**2,891**	**6**	**22,041**	**25,901**	**253**	**26,154**
Profit for the year	-	-	-	2,906	2,906	30	2,936
Changes in fair value of available-for-sale financial assets			(5)		(5)		(5)
Total comprehensive income	**-**	**-**	**(5)**	**2,906**	**2,901**	**30**	**2,931**
Transactions with shareholders, recognized in statement of changes in equity:							
Dividends to shareholders of the Company	-	-	-	(857)	(857)	-	(857)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	(5)	(5)
Acquisition of non-controlling interest	-	-	-	(738)	(738)	(247)	(985)
Balance as at 31 December 2008	**963**	**2,891**	**1**	**23,352**	**27,207**	**31**	**27,238**
Balance as at 31 December 2008	**963**	**2,891**	**1**	**23,352**	**27,207**	**31**	**27,238**
Profit for the period	-	-	-	4,192	4,192	(11)	4,181
Changes in fair value of available-for-sale financial assets	-	-	4	-	4	-	4
Total comprehensive income	**-**	**-**	**4**	**4,192**	**4,196**	**(11)**	**4,185**
Transactions with shareholders, recognized in statement of changes in equity:							
Dividends to shareholders of the Company	-	-	-	(739)	(739)	-	(739)
Other changes in equity	-	-	-	15	15	(15)	-
Balance as at 31 December 2009	**963**	**2,891**	**5**	**26,820**	**30,679**	**5**	**30,684**

The accompanying notes on pages 11 – 59 form an integral part of the consolidated financial statements

1 General information

Authorization of the consolidated financial statements

The consolidated financial statements of OJSC VolgaTelecom (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") for the year ended 31 December 2009 were authorized for issue by the General Director on 20 May 2009.

The Company

The Company, OJSC VolgaTelecom was incorporated as an open joint stock company in the Russian Federation.

OJSC "Svyazinvest", which is controlled by the Government of the Russian Federation, owned 50.67% of the Company's ordinary voting shares as at 31 December 2009 and is the Company's Parent Company.

The Company's official address: Russian Federation, 603000, Nizhny Novgorod, Maxim Gorky Square, Dom Svyazi.

The Group activities

The Group provides communication services (including local and intra-zone telephone services), telegraph services, data transmission services, rents out of communication channels and radio communication lines in the territory of the Volga Federal District of 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, unless stated otherwise.

Information about the Company's significant associates is disclosed in Note 11. All of the associates are incorporated under the laws of the Russian Federation, unless otherwise stated.

Liquidity and financial resources

In prior period the Company raised short- and long-term borrowings to finance the development of its communications networks. This financing has primarily been provided through bank loans and vendor financing.

Management of the Company believes that the existing payment terms relating to operating activities could be renegotiated to fund the Group's current operating needs.

In 2010, the Group expects to generate funds from the following sources: cash flow from operating activities, issue of promissory notes, borrowing funds from different financial institutions on a competitive basis.

As at 31 December 2009 the current liabilities of the Group exceeded its current assets by 2,608 (as at 31 December 2008: 7,817).

2 Basis of preparation of the consolidated financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Going concern

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

Presentation of the consolidated financial statements

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

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

The Company 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 accounting

The consolidated financial statements have been presented under historical cost convention, except that property, plant and equipment 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 for preparation of the Consolidated Financial Statements for 2009 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 Group.

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.

(in millions of Russian Roubles unless stated otherwise)

Standard / Interpretation	Content of changes	Effects
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 Group.
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 adjusted the process of subsidiaries consolidation, however it did not have a material impact on the financial position or performance of the Group.
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 adjusted the process of subsidiaries consolidation, however it did not have a material impact on the financial position or performance of the Group.
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 Group.
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 Group.
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 Group.
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 Group.
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 Group.
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.	Required disclosures were included in the Consolidated Financial Statements.

(in millions of Russian Roubles unless stated otherwise)

IFRSs 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 Group’s financial position or performance.

Foreign currency transactions

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

The exchange rates as of December 31, 2009 and 2008 were 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 represent the financial statements of OJSC VolgaTelecom 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.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets and liabilities acquired 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's 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's 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. The cost of property, plant and equipment at 1 January 2003, the date of transition to IFRSs, was determined by reference to its fair value at that date. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Cost of each major inspection is capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria is satisfied. Major reconstructions 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.

(in millions of Russian Roubles unless stated otherwise)

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
Land	Not depreciated
Buildings	10 –50
Constructions and transmission lines	10 – 15
Transmission devices (except for transmission lines)	7 – 50
Analogous switches	2 – 10
Digital switches	2 – 10
Other network equipment	2 – 15
Computer and office equipment	2 – 7
Vehicles	4 – 10
Other fixed assets	1 – 10

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 are 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 on an 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 caring 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

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

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.

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 loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial assets at fair value revalued through profit or loss.

The Group 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 or by the Group.

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).

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity. 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 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 previously reported in equity is included in the income statement.

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 statement of financial position 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 shares are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue.

No gain or loss on purchase, sale or cancellation of treasury shares is 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 reporting 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 the 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 reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting 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 statement of financial position 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 Group 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 Group recognises profit or loss arising on curtailment or final settlement under a defined benefit plan at the moment of such curtailment or settlement.

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 Group 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 and 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 reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted.

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’s 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.

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 11 branches and 7 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 preference shares as participating equity instruments. Basic earnings per share is calculated by dividing the profit attributable to ordinary and to preference shareholders by the weighted average number of ordinary and preference 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 and preference 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 relate 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 considered the following factors:

- Although the Group collects the revenue from the final customers, all credit risks is borne by the supplier of services;
- The Group cannot vary the 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 reporting 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 reporting 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 40,125 (as at 2008: 43,911). Refer to Note 8 for detailed information.

Impairment of non-current assets and of goodwill

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 Group 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.

In 2009 impairment loss recognized is nil. (2008: nil).

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 comprehensive income are reasonable and the most appropriate at the reporting date.

Allowance for impairment of receivables

Allowance for impairment 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 730 (2008: 707). Refer to Note 14 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 2,211 (2008: 1,984). Refer to Notes 20 for detailed information.

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.

5 Segment reporting

The reporting information analysis and operating decisions making are performed based on accounting data, prepared using statutory accounting principles. The information in tables "Aggregated operating segments and Head office information" and "Operating segments and Head office information" is presented in accordance to the mentioned principles.

The Group operates mainly within the territory of one federal district.

Head office concentrates the major part of financing and investing activities of the Group obtaining, servicing and repayment of borrowings, financial lease, 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 general directory's information, presented in table "Operating segments and Head office information".

Information about operating segments as at 31 December 2009 and for 2009 is presented below:

(in millions of Russian Roubles unless stated otherwise)

	OJSC VolgaTelecom - fixed line	Subsidiaries – fixed line	Subsidiaries – mobile	Total reporting segments
Revenue				
Third party revenue	26,880	115	5,764	32,759
Revenue from other segments	197	4	190	391
Revenue within the segment	-	-	33	33
Total revenue	**27,077**	**119**	**5,987**	**33,183**
Interest income	202	-	72	274
Interest expense	(1,447)	-	(137)	(1,584)
Income tax	(1,046)	(3)	(230)	(1,279)
Net profit for the year	**4,263**	**1**	**900**	**5,164**
Assets and liabilities				
Segment assets	34,262	385	6,163	40,810
Unallocated assets	6,800	-	-	6,800
Segment liabilities	(4, 155)	(21)	(1,529)	(5,705)
Unallocated liabilities	(10,283)	-	-	(10,283)
Other segment information				
Capital investments				
Property, plant and equipment	1,969	-	875	2 844
Intangible assets	2	-	1	3
Depreciation and amortization	4,847	17	874	5 738
Loss from doubtful debt allowance	(142)	-	(8)	(150)

The reconciliation of statutory accounting data to the figures, included in IFRS consolidated financial statements as at 31 December 2009 and for 2009 is presented below:

	Total reporting segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue				
Third party revenue	32,759	-	-	32,759
Revenue from other segments	391	-	(391)	-
Revenue within the segment	33		(33)	-
Total revenue	**33,183**	**-**	**(424)**	**32,759**
Share of profit in equity accounted investees	-	-	8	8
Interest income	274	2	(73)	204
Interest expense	(1,584)	(336)	73	(1,847)
Income tax	(1,279)	195	-	(1,084)
Net profit for the year	**5,164**	**(443)**	**(540)**	**4,181**
Assets and liabilities				
Segment assets	40,810	8,375	969	50,154
Unallocated assets	6,800	(2,169)	(4,035)	596
Segment liabilities	(5,705)	(433)	88	(6,050)
Unallocated liabilities	(10,283)	(3,745)	12	(14,016)
Other segment information				
Capital investments				
Property, plant and equipment	2,844	441	44	3,329
Intangible assets	3	539	-	542
Depreciation and amortization	5,738	1,769	(5)	7,502
(Loss) reversal of loss from doubtful debt allowance	(150)	11	36	(103)

The entities of the Group maintain their accounting records in accordance with the accounting and reporting principles of the Russian Federation. Those principles substantially differ from those generally accepted under IFRS. Financial statements of these entities have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS (transformation adjustments). Such adjustments include revaluation of property, plant and equipment as part of adoption of IFRS, accrual of employee benefit obligations and accrual of related deferred income tax balances and other, as well as a number of reclassification adjustments.

(in millions of Russian Roubles unless stated otherwise)

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

Operating segments	**Revenue**	**Profit (loss) before income tax**	**Segment assets**	**Segment liabilities**	**Capital expenditures**	**Depreciation and amortization**	**Loss from doubtful debt allowance**
OJSC VolgaTelecom - fixed line							
N. Novgorod branch	5,634	1,327	6,853	(846)	621	833	(18)
Samara branch	4,030	442	4,943	(506)	311	758	(21)
Saratov branch	3,136	557	3,107	(325)	101	489	(32)
Orenburg branch	2,993	637	2,924	(247)	106	447	(7)
Kirov branch	1,987	351	2,522	(200)	102	332	(10)
Penza branch	1,606	296	1,898	(114)	85	289	(2)
Ulyanovsk branch	1,651	379	2,081	(137)	74	244	(10)
Mari-El branch	1,189	176	1,400	(123)	48	190	-
Mordovia branch	1,418	315	1,919	(192)	120	247	(2)
Udmurtia branch	1,841	211	2,167	(214)	101	288	(7)
Chuvashia branch	1,570	210	1,998	(154)	71	320	(24)
Head office	22	408	2,450	(1,098)	231	410	(8)
Unallocated items	-	-	6,800	(10,283)	-	-	-
Subsidiaries – fixed line							
CJSC Transsvyaz	-	(2)	-	-	-	-	-
OJSC Omriks	-	-	1	(2)	-	-	-
LLC Nizhegorodsky Telesevis	70	7	68	(10)	-	-	-
LLC GTS	49	(2)	316	(9)	-	17	-
Subsidiaries – mobile							
CJSC Narodny Telefon Saratov	45	1,150	180	(159)	-	19	-
CJSC NSS	5,725	(24)	5,781	(1,233)	870	818	(7)
CJSC Orenburg GSM	217	4	202	(136)	6	37	(2)
CJSC Ulyanovsk GSM	-	-	-	-	-	-	-
Total	**33,183**	**6,442**	**47,610**	**(15,988)**	**2,847**	**5,738**	**(150)**

(in millions of Russian Roubles unless stated otherwise)

Information about operating segments as at as at 31 December 2008 and for 2008 is presented below:

	OJSC VolgaTelecom - fixed line	Subsidiaries – fixed line	Subsidiaries – mobile	Total reporting segments
Revenue				
Third party revenue	26,196	99	5,857	32,152
Revenue from other segments	224	11	183	418
Revenue within the segment	-	-	50	50
Total revenue	**26,420**	**110**	**6,090**	**32,620**
Interest income	125	-	5	130
Interest expense	(1,206)	-	(58)	(1,264)
Income tax	(1,124)	(5)	(303)	(1,432)
Net profit for the year	**2,952**	**13**	**990**	**3,955**
Assets and liabilities				
Segment assets	37,633	75	7,117	44,825
Unallocated assets	6,524	-	-	6,524
Segment liabilities	(5,808)	(11)	(2,813)	(8,632)
Unallocated liabilities	(15,431)	-	-	(15,431)
Other segment information				
Capital investments				
Property, plant and equipment	6,477	-	1,631	8,108
Intangible assets	1	-	-	1
Depreciation and amortization	4,349	-	725	5,074
(Loss) reversal of loss from doubtful debt allowance	(146)	-	(9)	(155)

The reconciliation of statutory accounting data to the figures, included in IFRS consolidated financial statements as at 31 December 2008 and for 2008 is presented below:

	Total reporting segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue				
Third party revenue	32,152	(89)	-	32,063
Revenue from other segments	418	-	(418)	-
Revenue within the segment	50	-	(50)	-
Total revenue	**32,620**	**(89)**	**(468)**	**32,063**
Share of profit in equity accounted investees	-	-	16	16
Interest income	130	-	(8)	122
Interest expense	(1,264)	(327)	10	(1,581)
Income tax	(1,432)	710	-	(722)
Net profit (loss) for the year	**3,955**	**(563)**	**(456)**	**2,936**
Assets and liabilities				
Segment assets	44,825	7,100	123	52,048
Unallocated assets	6,524	(25)	(3,734)	2,765
Segment liabilities	(8,632)	(461)	646	(8,447)
Unallocated liabilities	(15,431)	(3,803)	106	(19,128)
Other segment information				
Capital investments				
Property, plant and equipment	8,108	1,674	-	9,782
Intangible assets	1	842	-	843
Depreciation and amortization	5,074	1,612	2	6,688
Loss from doubtful debt allowance	(155)	(7)	(5)	(167)

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

(in millions of Russian Roubles unless stated otherwise)

Operating segments and Head Office information	Revenue	Profit (loss) before income tax	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization	Loss from doubtful debt allowance
OJSC VolgaTelecom - fixed line							
N. Novgorod branch	5,443	1,282	7,106	(934)	1,230	758	(41)
Samara branch	3,919	473	5,475	(758)	1017	650	(45)
Saratov branch	3,059	497	3,589	(391)	596	455	(5)
Orenburg branch	2,964	544	3,294	(370)	684	397	(18)
Kirov branch	1,923	327	2,815	(365)	468	286	(3)
Penza branch	1,496	236	2,100	(195)	361	253	(10)
Ulyanovsk branch	1,614	294	2,280	(212)	313	225	(5)
Mari-El branch	1,200	174	1,550	(179)	282	166	(6)
Mordovia branch	1,320	195	2,058	(222)	267	243	(1)
Udmurtia branch	1,795	182	2,393	(353)	550	271	(7)
Chuvashia branch	1,532	261	2,283	(272)	478	278	(4)
Head office	155	(389)	2,690	(1,557)	232	366	-
Unallocated items	-	-	6,524	(15,431)	-	-	-
Subsidiaries – fixed line							
CJSC Transsvyaz	17	-	3	-	-	-	-
OJSC Omrix	-	(1)	1	(2)	-	-	-
LLC Nizhegorodsky Teleservis	93	19	71	(9)	-	-	-
LLC GTS	-	-	-	-	-	-	-
Subsidiaries – mobile							
CJSC Narodny Telefon Saratov	59	(51)	197	(155)	1	20	(1)
CJSC NSS	4,893	1,139	5,851	(2,124)	1,312	573	-
CJSC Orenburg GSM	263	7	243	(180)	20	37	(2)
CJSC Ulyanovsk GSM	876	198	827	(354)	297	96	(7)
Total	**32,620**	**5,387**	**51,349**	**(24,064)**	**8,108**	**5,074**	**(155)**

6 Subsidiaries

The following subsidiaries are controlled by the Group:

Name	Activities	Ownership, % 31 December 2009	Ownership, % 31 December 2008	Voting shares, % 31 December 2009	Voting shares, % 31 December 2008
LLC GTS	Fixed line communications	100.00%	-	-	-
CJSC Narodny Telefon Saratov	Mobile communications	50.00% + 1 share	50.00% + 1 share	50.00% + 1 share	50.00% + 1 share
LLC Nizhegorodsky Teleservis	Fixed line communications	100.00%	100.00%	-	-
CJSC NSS	Mobile communications	100.00%	100.00%	100,00%	100.00%
OJSC Omrix	Fixed line communications	73.60%	73.60%	73.60%	73.60%
CJSC Orenburg GSM	Mobile communications	51.00%	51.00%	51.00%	51.00%
CJSC Transsvyaz	Fixed line communications	100.00%	100.00%	100.00%	100.00%
CJSC Ulyanovsk GSM	Mobile communications	-	100.00%	-	100.00%

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

Acquisition of subsidiaries

In December 2009 CJSC “Ulyanovsk-GSM” was reorganised and merged with CJSC “NSS”.

In July 2009 the Group acquired 100% of ordinary shares in LLC GTS for 350 and obtained control over this entity.

(in millions of Russian Roubles unless stated otherwise)

Final information about the cost of acquisition, fair value of assets, liabilities and contingent liabilities of LLC GTS, estimated in accordance to IFRS, as well as goodwill as at the date of acquisition is presented below:

	LLC GTS
Cost of acquisition	350
Paid in cash	350
Total cost of contribution	**350**
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	120
Intangible assets	6
Trade and other receivables	14
Cash and cash equivalents	23
Other assets	3
Current liabilities	(21)
Deferred income tax liability	(5)
Total net assets	**140**
Share in acquired net assets, %	100%
Fair value of share in acquired net assets	140
Goodwill	**210**
Goodwill as at 31 December 2009	**210**

It has not been practicable to determine the carrying amounts of the subsidiary’s assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiary’s financial statement were prepared in accordance with Russian Accounting Principles, which significantly differ from IFRSs.

Management believes that goodwill represents the return on investment which is expected from the possibility of development of new telecommunication services in the region of presence of LLC GTS based on the Company’s existing infrastructure.

From the date of acquisition to 31 December 2009 LLC GTS contributed revenue of 49 and profit of 12.

If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been 32,855, and consolidated profit for the year would have been 4,199. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2009.

7 Assets held for sale

As at 31 December 2009 and 2008 major groups of assets and liabilities of the Group, classified as held for sale, are presented in the table below:

	31 December 2009	31 December 2008
Property, plant and equipment	42	177
Non-current assets, classified as held for sale	**42**	**177**

Loss from revaluation of assets held for sale in the amount of 9 (2008 : 27) was included in “Other operating expenses” of the consolidated income statement.

(in millions of Russian Roubles unless stated otherwise)

8 Property, plant and equipment

	Land and buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Construction in progress and equipment for installation	Total
Cost					
At 31 December 2007	**28,544**	**23,834**	**7,137**	**1,932**	**61,447**
Additions	-	-	-	9,782	9,782
Acquisition of subsidiaries					
Transfer from construction in progress	2,242	4,960	1,496	(8,698)	-
Disposals	(508)	(611)	(153)	(342)	(1,614)
Disposals, related to reclassification to assets held for sale and discontinued operations	(228)	(55)	(1)	(12)	(296)
At 31 December 2008	**30,050**	**28,128**	**8,479**	**2,662**	**69,319**
Additions	-	-	-	3,209	3,209
Additions, related to acquisition of subsidiaries	94	24	2	-	120
Additions, related to reclassification from assets held for sale	192	28	-	-	220
Transfer from construction in progress	739	3,016	856	(4,611)	-
Disposals	(100)	(462)	(155)	(126)	(843)
Disposals, related to reclassification to assets held for sale and discontinued operations	(43)	(4)	(15)	-	(62)
At 31 December 2009	**30,932**	**30,730**	**9,167**	**1,134**	**71,963**
Accumulated depreciation					
At 31 December 2007	**(7,945)**	**(8,747)**	**(3,463)**	**-**	**(20,155)**
Depreciation charged for the year	(1,845)	(2,509)	(1,844)	-	(6,198)
Depreciation on disposals	259	436	131	-	826
Accumulated depreciation on assets reclassified to assets held for sale and discontinued operations	66	53	-	-	119
At 31 December 2008	**(9,465)**	**(10,767)**	**(5,176)**	**-**	**(25,408)**
Depreciation charged for the year	(2,018)	(3,208)	(1,676)	-	(6,902)
Accumulated depreciation on assets reclassified from assets held for sale	(62)	(26)	-	-	(88)
Depreciation on disposals	105	306	124	-	535
Accumulated depreciation on assets reclassified to assets held for sale and discontinued operations	12	4	9	-	25
At 31 December 2009	**(11,428)**	**(13,691)**	**(6,719)**	**-**	**(31,838)**
Net book value					
At 31 December 2007	**20,599**	**15,087**	**3,674**	**1,932**	**41,292**
At 31 December 2008	**20,585**	**17,361**	**3,303**	**2,662**	**43,911**
At 31 December 2009	**19,504**	**17,039**	**2,448**	**1,134**	**40,125**

(in millions of Russian Roubles unless stated otherwise)

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

	31 December 2009	31 December 2008
Buildings and constructions	595	627
Switches and transmission devices	1,691	2,299
Vehicles and other property, plant and equipment	36	68
Total net book value of leased property plant and equipment	**2,322**	**2,994**

Depreciation of the property, plant and equipment for 2009 in the amount of 6,902 (2008: 6,198) was recognized in "Depreciation and amortization" in the consolidated income statement.

As at 31 December 2009 the historical cost of fully depreciated property plant and equipment equalled 6,659 (31 December 2008: 4,503).

In 2009 the Group increased the cost of construction in progress by the amount of capitalized interest totalled to 101 (2008: 93). Capitalization rate in 2009 was 13% (2008: 9%).

As at 31 December 2009 net book value of the Company's pledged property plant and equipment amounted to 1,395 (31 December 2008: 3,008). Property, plant and equipment were pledged in respect of borrowing agreements, vendor financing agreements and financial lease agreements (refer to Note 19).

Impairment testing

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

As a result of impairment test no impairment was identified.

Key assumptions management used in the calculation of value in use are as follows:

- For all CGUs cash flow projections cover the period of five years, cash flows beyond five-year period have been extrapolated
- Cash flow projections were prepared in nominal terms
- Discount rate was estimated in nominal terms on the weighted average cost of capital basis. After tax discount rate is 15.97%, pre tax rate is 21.05%
- Projected growth in revenue and expenses is as follows: 2010 – 2%, 2011 – 3%, 2012 – 3.5%, 2013 – 3.5%, 2014 and further – 4%.

Management believes that any possible change in any of these key assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

(in millions of Russian Roubles unless stated otherwise)

9 Intangible assets and goodwill

	Goodwill	Licenses	Software	Number capacity	Customer base	Trade mark	Other	Total
Cost								
At 31 December 2007	**870**	**652**	**4,212**	**61**	**64**	**1**	**5**	**5,865**
Purchases of assets	-	17	826	-	-	-	-	**843**
Disposals	-	-	(524)	-	-	-	(1)	**(525)**
At 31 December 2008	**870**	**669**	**4,514**	**61**	**64**	**1**	**4**	**6,183**
Purchases of assets	-	20	305	-	-	-	1	**326**
Additions, related to acquisition of subsidiaries	210	-	-	1	-	-	5	**216**
Disposals	-	-	(42)	-	-	-	-	**(42)**
At 31 December 2009	**1,080**	**689**	**4,777**	**62**	**64**	**1**	**10**	**6,683**
Accumulated amortization and impairment								
At 31 December 2007	**-**	**(147)**	**(726)**	**(31)**	**(23)**	**-**	**(2)**	**(929)**
Amortization charged for the year	-	(65)	(413)	(6)	(6)	-	-	**(490)**
At 31 December 2008	**-**	**(212)**	**(1,139)**	**(37)**	**(29)**	**-**	**(2)**	**(1,419)**
Amortization charged for the year	-	(67)	(520)	(6)	(6)	-	**(1)**	**(600)**
At 31 December 2009	**-**	**(279)**	**(1,659)**	**(43)**	**(35)**	**-**	**(3)**	**(2,019)**
	-							
Net book value								
At 31 December 2007	**870**	**505**	**3,486**	**30**	**41**	**1**	**3**	**4,936**
At 31 December 2008	**870**	**457**	**3,375**	**24**	**35**	**1**	**2**	**4,764**
At 31 December2009	**1,080**	**410**	**3,118**	**19**	**29**	**1**	**7**	**4,664**

Oracle E-Business Suite

As at 31 December 2009 software included Oracle E-Business Suite with the carrying amount of 1,034 (31 December 2008: 1,211).

From January 2009 the Group started to use full functionality of Oracle E-Business Suite and started its amortization 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 1 January	**1,211**	**1,376**
Implementation costs	-	295
Amortization charge	(177)	(132)
Write-off	-	(328)
At 31 December	**1,034**	**1,211**

Amdocs Billing Suite Software

As at 31 December 2009 software included Amdocs Billing Suite with the carrying amount of 1,044 (2008: 1,044).

This software product was purchased for the purpose of implementation of unified automated billing system. The project is expected to last 4-5 years.

Amortization of the software will start after completion of its implementation proportionally to the value of implemented modules. Management tests the asset for impairment on regular basis.

(in millions of Russian Roubles unless stated otherwise)

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

	2009	2008
As at 1 January	**1,044**	**1,234**
Write-off	-	(190)
As at 31 December	**1,044**	**1,044**

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

HP Open View UIM Software

As at 31 December 2009 the software included a software product HP open View IUM purchased for implementation of data collection and processing system.

	2009	2008
Cost of licences	495	352
Implementation expenses		143
Amortization	(40)	
Total	**455**	**495**

In 2008 the Group completed its implementation.

Amortization of intangible assets

Amortization charge for intangible assets for 2009 in the amount of 600 (2008: 490) 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 well as of goodwill, and intangible assets with indefinite useful life. As a result no impairment of intangible assets was identified. Key assumptions are disclosed in Note 8.

10 Other non-current assets

	31 December 2009	31 December 2008
Long-term advances, given for investing activities	133	301
Long-term advances, given for operating activities	53	-
Long-term VAT recoverable	7	9
Long-term receivables	3	1
Total	**196**	**311**

(in millions of Russian Roubles unless stated otherwise)

11 Investments in associates

		As at 31 December 2009		
Equity accounted investees	**Activity**	**Share in equity, %**	**Voting share, %**	**Net book value**
CJSC Samara Telecom	Telecommunication services	27.80	27.80	150
CJSC S-Bank	Banking services	41.73	41.73	20
Total				**170**

		As at 31 December 2008		
Equity accounted investees	**Activity**	**Share in equity, %**	**Voting share, %**	**Net book value**
CJSC Samara Telecom	Telecommunication services	27.80	27.80	141
CJSC S-Bank	Banking services	41.73	41.73	21
Total				**162**

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

The Group has investments in the following associates with negative assets as at 31 December 2009 and 2008:

	Net assets	
Name	**31 December 2009**	**31 December 2008**
CJSC Nizhegorodsky radiotelefon	(37)	(41)

Net book value of investments in the listed above associates were decreased to zero as their accumulated losses exceeded amounts of investments.

Changes in net book value of investments in associates for 2009 and 2008 are presented below:

	2009	**2008**
Investments in associates as at 1 January	**162**	**146**
Share of profit in equity accounted investees	8	16
Investments in associates as at 31 December	**170**	**162**

Aggregated information about most significant associates is presented below:

Equity accounted investees	**Share in equity, %**	**Assets**	**Liabilities**	**Revenues**	**Net profit/Loss**
As at 31 December 2009 and for 2009					
CJSC Samara Telecom	27.80	601	(60)	305	35
CJSC S-Bank	41.73	203	(156)	7	(4)
As at 31 December 2008 and for 2008					
CJSC Samara Telecom	27.80	572	(66)	361	54
CJSC S-Bank	41.73	223	(171)	13	2

(in millions of Russian Roubles unless stated otherwise)

12 Financial assets

	31 December 2009	31 December 2008
Non-current available for sale financial assets	19	20
Non-current loans	9	7
Total non-current financial assets	28	27
Current available for sale financial assets	5	-
Current held to maturity financial assets	406	202
Current loans	1	2
Total current financial assets	412	204
Total financial assets	440	231

As at 31 December 2009 and 2008 available for sale financial assets included:

	As at 31 December 2009		As at 31 December 2009	
Company	**Share in equity, %**	**Fair value**	**Share in equity, %**	**Fair value**
Non-current financial assets		**19**		**20**
OJSC "NTK «Region 2009" (OJSC NTK "Zvezda")	1.668%	48	1.668%	48
OJSC "Informacionnye technologii svyazi" (OJSC "Svyazintek")	13.00%	15	13.00%	15
CJSC "Leasing Point"	7.30%	12	7.30%	12
OJSC "Svyaz-bank"	0.01%	4	0.02%	4
OJSC "Sberbank RF"		-	0.0003%	1
Provision		(61)		(62)
Other		1		2
Current financial assets		**5**		**-**
OJSC Sberbank	0.0003%	5	-	-
Total		**24**		**20**

In 2009 Group purchased two ordinary promissory notes of CJSC "Investment company "Region" in amount of 198 and 186 with payback period 17 August 2010 and 23 December 2010, respectively. Par value of promissory notes is 219 and 206, respectively.

13 Inventories

	31 December 2009	31 December 2008
Spare parts	115	142
Cable	83	64
Finished goods and goods for resale	24	30
Tools and accessories	17	18
Construction materials	9	23
Fuel	6	7
Other inventory	172	199
Total	**426**	**483**

Changes in the inventory provision balances are presented in the table below:

	2009	2008
Balance as at 1 January	(3)	(3)
Accrual	(12)	(3)
Reversal	3	3
Balance as at 31 December	**(12)**	(3)

(in millions of Russian Roubles unless stated otherwise)

14 Trade and other receivables

	Total, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Settlements with customers for operating activities	2,573	(650)	1,923
Settlements with customers for non-operating activities	150	(58)	92
Settlements with commissioners and agents	106	-	106
Settlements with personnel	7	-	7
Settlements with other debtors	158	(22)	136
Total	**2,994**	**(730)**	**2,264**

	Total, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Settlements with customers for operating activities	2,735	(632)	2,103
Settlements with customers for non-operating activities	162	(55)	107
Settlements with commissioners and agents	106	-	106
Settlements with personnel	9	-	9
Settlements with other debtors	323	(20)	303
Total	**3,335**	**(707)**	**2,628**

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

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Receivables from individuals	1,331	(286)	1,045
Receivables from corporate customers	518	(113)	405
Receivables from budget organizations	176	(10)	166
Receivables from interconnected operators	522	(215)	307
Tariff compensation from the state budget	26	(26)	-
Total settlements with customers for core activities	**2,573**	**(650)**	**1,923**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Receivables from individuals	1,263	(254)	1,009
Receivables from corporate customers	497	(95)	402
Receivables from budget organizations	157	(8)	149
Receivables from interconnected operators	784	(241)	543
Tariff compensation from the state budget	34	(34)	-
Total settlements with customers for core activities	**2,735**	**(632)**	**2,103**

Changes in balance of allowance for impairment of receivables are presented in the table below:

	2009	2008
Balance as at 1 January	(707)	(622)
Accrual	(103)	(167)
Write-off	80	82
Balance as at 31 December	**(730)**	**(707)**

(in millions of Russian Roubles unless stated otherwise)

15 Other current assets

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Prepayments and advances	197	(5)	192
VAT recoverable	26	-	26
Prepayments for other taxes	24	-	24
Deferred expenses	84	-	84
Other current assets	57	(15)	42
Total	**388**	**(20)**	**368**

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

Changes in the balances of allowance for impairment of other current assets are presented in the table below:

	2009	2008
Balance as at 1 January	(20)	(21)
Accrual	(5)	(9)
Reversal	4	7
Write-off	1	3
Balance as at 31 December	**(20)**	**(20)**

16 Cash and cash equivalents

As at 31 December 2009 and 2008 cash and cash equivalents comprised cash in bank and in hand. The Group did not have any restricted cash balances as of 31 December 2009 (2008: nil).

	31 December 2009	31 December 2008
Cash-in-bank and cash-in-hand	**2,033**	**1,648**
Short-term deposits and promissory notes up to 3 months	**-**	**30**
Total	**2,033**	**1,678**

(in millions of Russian Roubles unless stated otherwise)

17 Significant non-cash transactions

In 2009 the part of sales revenues arising as a result of services rendering, execution of works, sale of goods was collected as non-cash payments:

	2009	2008
Total number of counterparties with non-cash payments	105	80
OJSC Rostelecom	2,052	882
OJSC MTS	161	25
OJSC Vympel-kommunikatsii	101	8
Other	217	109
Total	**2,531**	**1,024**
Proceeds from contracts stipulating non-cash payments (% of total annual proceeds)	9.35	3.87
Proceeds from contracts with affiliated parties, stipulating non-cash payments (% of total annual proceeds)	7.59	3.37

Non-cash transactions are based on market prices.

18 Share capital

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

	Number of shares authorised (millions)	Par value, roubles	Total par value	Carrying value
As at 31 December 2008	**328**	**-**	**1,640**	**3,854**
Ordinary	246	5	1,230	2,891
Preference	82	5	410	963
As at 31 December 2009	**328**	**-**	**1,640**	**3,854**
Ordinary	246	5	1,230	2,891
Preference	82	5	410	963

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

Share capital has been entirely paid.

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

Shareholders	Share of capital,	Ordinary shares		Preference shares	
	%	Number (thousands)	%	Number (thousands)	%
	92.05	**236,790**	**96.27**	**65,079**	**79.38**
OJSC Svyazinvest	38.00	124,634	50.67	-	-
-shareholders holding more than 5% of charter capital,	48.93	99,285	40.37	61,170	74.61
including:					
- CJSC Depozitarno-Cliringovaya Kompania	19.20	27,320	11.11	35,635	43.47
- Non-commercial partnership National depositary centre	23.99	57,250	23.28	21,440	26.15
- CJSC ING Bank (Evrasia)	5.74	14,715	5.98	4,095	4.99
-other legal entities	5.12	12,871	5.23	3,909	4.77
Individuals	**7.95**	**9,180**	**3.73**	**16,904**	**20.62**
Total	**100.00**	**245,970**	**100.00**	**81,983**	**100.00**

The ordinary shareholders are entitled to one vote per share.

(in millions of Russian Roubles unless stated otherwise)

“A” class 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 as the higher of 10% of net income for the year determined under Russian accounting standards or dividend per ordinary share. If holders of preference shares receive the amount less than 10% of net income determined under Russian accounting standards, no dividends are distributed to holders of ordinary shares. Holders of preference shares are entitled to vote in the general shareholders’ meeting 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 approved.

Statutory retained earnings of the Group determined under Russian legislation as at 31 December 2009 and 2008 amounted to 21,457 and 17,847, respectively.

In October 2007, the Company placed Level I American Depositary Receipts (ADRs). The Company entered in to Depository Agreement with the Bank of New-York and registered Level 1 American Depositary Receipts (ADR). In April 2002 this agreement was reconcluded with JPMorgan Chase Bank. Each ADR represents 2 shares of common stock of the Company.

According to Order of the Federal Financial Markets Service of the Russian Federation No. 04-1232/pz dated 15 December 2004, the Company was authorized to circulate 65,673,880 shares outside the Russian Federation in the form of ADR.

As at 31 December 2009, the Company had a registered issue of 5,165,918 ADRs (1 January 2009: 9,148,092) and deposited 10,331,836 of ordinary shares (31 December 2008: 18,296,184), which is 4.2% (2008: 7.4%) 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	**14,481,559**	**28,963,118**	**11.78**	**8.83**
Change in 2008	(5,333,467)	(10,666,934)	-4.34	-3.25
31 December 2008	**9,148,092**	**18,296,184**	**7.44**	**5.58**
Change in 2009	(3,982,174)	(7,964,348)	-3.24	-2.43
31 December 2009	**5,165,918**	**10,331,836**	**4.20**	**3.15**

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

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

(in millions of Russian Roubles unless stated otherwise)

19 Loans and borrowings

	31 December 2009	31 December 2008
Long-term loans and borrowings		
Bank loans	6,551	8,141
Bonds	1,876	4,822
Promissory notes	-	146
Commercial credits	416	583
Finance lease liabilities	1,229	1,772
Less: Current portion of long-term borrowings	(2,943)	(5,978)
Total long-term loans and borrowings	**7,129**	**9,486**
Short-term loans and borrowings		
Bank loans	297	1,232
Promissory notes	-	250
Interest payable	35	81
Total short-term loans and borrowings	**332**	**1,563**
Current portion of long-term loans and borrowings	2,943	5,978
Total short-term loans borrowings	**3,275**	**7,541**
Total borrowings	**10,404**	**17,027**

As at December 31, 2009 and 2008 Group borrowings were secured by following pledged assets (refer to Note 8):

	31 December 2009	
	Type of pledge	
	Property, plant and equipment	Total
Bank and corporate loans	1,395	1,395
Total	**1,395**	**1,395**

	31 December 2008	
	Type of pledge	
	Property, plant and equipment	Total
Bank and corporate loans	3,008	3,008
Total	**3,008**	**3,008**

(in millions of Russian Roubles unless stated otherwise)

Long-term 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 2009.

Counteragent	Rate per agreement	As at 31 December 2009	As at 31 December 2008	Currency, per the loan agreement	Date of maturity	Security
CJSC UniCredit Bank	from 2.8% to 3.6% +Mosprime (31 days)	2,477	3,149	RUR	2010 - 2013	Unsecured
OJSC Bank VTB	12%	1,500	1,500	RUR	2012	Unsecured
CJSC BSGV	from 2.75% to 2.8% +Mosprime (31 days)	860	927	RUR	2010 - 2011	Unsecured
OJSC Sberbank	9,75%	700	2,129	RUR	2011	Pledged
CJSC Globexbank	12%	500	-	RUR	2012	Unsecured
OJSC Svyaz-Bank	from 11.8% to 18%	310	45	RUR	2010 - 2012	Pledged
CJSC BSGV	3.5% +LIBOR (91 days)	88	105	USD	2010 - 2011	Pledged
Ministry of Finance	2%	77	112	EUR	2012	Pledged
Fund Sozidanie	-	39	86	RUR	2010-2011	Unsecured
CJSC UniCredit Bank	Libor +3.25% (91 days)	-	46	USD		Unsecured
CJSC UniCredit Bank	Euribor +3.25% (91 days)	-	42	EUR		Pledged
		6,551	8,141			

CJSC Unicredit Bank

The long-term loans from UniCredit Bank were received in 2008, denominated in Roubles. The loans mature in 2010-2013. Effective interest rate was 12.67-12.88%. As at 31 December 2009 the outstanding liability was 2,477 (2008: 3,149).

OJSC Vneshtorgbank (VTB)

The long-term debt to Vneshtorgbank is represented by the loans received in 2007 denominated in Roubles. The loans mature in 2012, interest rate is 12%. As at 31 December 2009 the outstanding balance was 1,500 (2008: 1,500).

CJSC Bank Societe Generale Vostok (BSGV)

The long-term loans from BSGV were received in 2008, denominated in Roubles and USD. The loans mature in 2010-2011. Effective interest rate on loans denominated in RUR equals 13.35-14.55% p.a. As at 31 December 2009 the outstanding liability was 1,032 (2008: 948). The loan is secured by the property, plant and equipment with a carrying value of 139.

OJSC Sberbank

The long-term debt to Sberbank is represented by the loans received in 2007 denominated in Roubles. The loans mature in 2011. As at 31 December 2009 the outstanding balance was 700 (2008:2,129). The loan is secured by the property, plant and equipment with a carrying value of 201.

(in millions of Russian Roubles unless stated otherwise)

Ministry of Finance of Russian Federation

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

In July 2005 the Group received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount overdue to the bank equal 227 (6.6 million Euro) as at the date of receiving the claim. In December 2006 at the stage of legal proceedings the Group signed an amicable agreement with Ministry of Finance which stipulated a restructuring of the Group’s liability and forgiving liability on penalty interest accrued for non-timely payments. Restructured liability would be paid in equal annual payments by 1 January 2012.

As at 31 December 2009 the outstanding restructured liability to the Ministry of Finance amounted to 77 (2008: 112), including short term part of 27 (2008: 31). Interest on restructured liability is accrued at an effective rate of 6.5% and payable annually not later than on December 31.

The loan is secured by the property, plant and equipment with a carrying value of 212.

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	Date of early redemption offer	Coupon interest
VT_2	10.43%	4	10	2010	-	9.5
VT_3	8.91%	918	1,835	2010	-	8.5
VT_4	12.60%	954	2,977	2011	11.03.2011	12
Total		**1,876**	**4,822**			

In December 2005 the Group registered two bond issues (VT-2 and VT-3) consisting of 5,300,000 bonds (3,000,000 and 2,300,000 respectively) with a par value of RUR 1,000 each. Bond issues have 10 coupons payments. Payments on the 1st coupon was made on 182nd day after placement (in June 2006), payment on other coupons will be made every 182 days. Coupon interest rate for VT-2 issue was determined as 9.5% till maturity date, for VT-3 issue as 8.5% till maturity date. Bonds are payable in the proportion determined in percentage of par value starting from December 2009. The bonds should be fully repaid in November 2010. The finance raised from bond issue was used for current assets replenishment.

In December 2009 the Group has fulfilled its liability of early redemption of VT-2 issue bonds in amount of 2 of par value. Under the offer the Company paid coupon interest in amount of RUR 0.21 per bond. In June and December 2009 the Company has fulfilled its obligation on repayment of 40% of par value of VT-2 and VT-3 bonds in amount of 5 and 920, respectively.

In 2009 the Company repaid coupon interest for 7th and 8th coupons in amount of 138. Coupon interest

per one bond for 7th coupon was RUR 51.86 and RUR 38.89 – for 8th coupon. Coupon interest per one bond of VT-3 for 7th coupon equalled RUR 33.91and for 8th coupon – RUR 25.43. The liability of coupon interest payment is fulfilled in full and in terms as stipulated in the Decision on issue and Emission Prospectus.

As at 31 December 2009 outstanding short-term liability for VT-2 issue was 4 (2008:10), outstanding short-term liability for VT-3 issue was 918 (2008: 932 and 920 classified as short-term and long-term respectively).

In September 2006 the Group registered bond issue consisting of 3,000,000 bonds (VT-4) with a par value of RUR 1,000 each. Bond issue has 28 coupons payments. Payments on the 1st coupon was made on 91st day after placement (in June 2006), payment on other coupons will be made every 91 days. Coupon interest rate was determined as 12% till March 2011. Bonds are payable in the proportion determined in percentage of par value starting from September 2011.

(in millions of Russian Roubles unless stated otherwise)

That bond issue (VT-4) has an option of early redemption on 11 March 2011.

In 2009 the Company repaid coupon interest for 10-13th coupons at interest rate of 7.99%-12% p.a. in amount of 208. Coupon interest per one VT-4 bond equalled RUR 19.92 for 10th, 11th and 12th coupons and RUR 29.92 for 13th coupon. The liability of coupon interest payment is fulfilled in full and in terms as stipulated in the Decision on issue and Emission Prospectus. In September 2009 the Company has fulfilled its liability of early redemption of VT-4 bonds. The Company redeemed 2,046,416 bonds at a price of 100% of outstanding part of bonds' par value. The Company also paid accumulated coupon interest in amount of RUR 0.66 per one bond.

As at 31 December 2009 outstanding liability for VT-4 issue was 7 and 954, classified as short-term and long-term, respectively (2008: 2,977 classified as short-term).

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
ISG	8.59%	-	146	RUR	2009	Unsecured
Total			**146**			

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	Security
CISCO Capital CIS	12.49%	230	320	RUR	2011 - 2012	-
Metrosvyaz Limited	11%	98	95	USD	2010	-
Huawei Technologies Co. Ltd.	9.23	42	99	USD	2010	-
ZTE Corporation	LIBOR (91 day) + 0	23	38	USD	2011	-
Alcatel-Lucent	12.49%	13	30	EUR	2010	-
Huawei Ufa Ltd	7%	9	-	USD	2010	-
CJSC Huawei BETO	9.23%	1	1	USD	2010	-
Total		**416**	**583**			

CISCO Capital

Vendor financing from CISCO Capital represents amount payable for the telecommunication equipment received under contracts signed in 2008. Outstanding liability as at 31 December 2009 is 230 (2008: 320).

Metrosvyaz Limited

The Group's long-term vendor financing from Metrosvyaz Limited represents amounts payable for the equipment and CDMA services under contracts signed in 2005. The amounts payable under these agreements are denominated in US Dollars. The amount outstanding as of 31 December 2009 is 98 (2008: 95). Equipment received under these agreements is pledged to the supplier until the final payment is made.

Huawei Technologies Co. Ltd.

The Group's long-term vendor financing from Huawei Technologies Co. Ltd represent amounts payable for the telecommunication equipment under contracts signed in 2005-2007. The amount outstanding as of 31

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December 2009 is 42 (2008: 99). The amount payable under these agreements is denominated in US Dollars. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Short-term borrowings

Bank and corporate loans

The table below summarizes the information about the most significant short-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
CJSC BSGV	From 8.99% to 10.24%	296	305	RUR	2010	Pledged
OJSC Svyaz-bank	14%	1	-	RUR	2010	Unsecured
OJSC Sberbank	16%	-	700	RUR	2010	Pledged
CJSC BSGV		-	215	USD		
OJSC VTB Bank		-	10	RUR		
CJSC Promsvyazbank		-	2	RUR		
Total		**297**	**1,232**			

CJSC Bank Societe Generale Vostok (BSGV)

The short-term debt to BSGV is represented by the loans received in 2007-2008, denominated in Roubles. The loans were received in 2009 for purchase and construction of an asset. The loans mature in 2010.

The interests on loans in RUR varied from 8.99% to 10.24% p.a. The total amount of debt as at 31 December 2009 was 296 (2008: 520). The loans are secured by the property, plant and equipment with a carrying value of 402 (refer to Note 8).

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
OJSC Svyazbank	12.375%	-	250	RUR	2009	Unsecured
Total		-	250			

Borrowings provided by state-controlled entities

As at 31 December 2009 and 2008 Group liabilities to state-controlled entities amounted to 2,203 and 4,344, respectively.

In 2009 Group obtained borrowed funds from state-controlled entities in the amount of 500 (2008: 4,766).

In 2009 Group repaid funds previously borrowed from state-controlled entities funds in the amount of 2,630 (2008: 4,061).

Interest accrued in respect to borrowings obtained from state-controlled entities in 2009 amounted to 470 (2008: -303).

(in millions of Russian Roubles unless stated otherwise)

Finance lease liabilities

	31 December 2009		31 December 2008	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion (less than 1 year)	604	437	791	544
From 1 to 5 years	949	792	1,553	1,228
More than 5 years	-	-	-	-
Total minimum lease payments	**1,553**	**1,229**	**2,344**	**1,772**

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 15,06 % to 25,12 % (2008: from 16.59 % to 21.61%).

Finance lease assets under finance lease agreements with OJSC RTK-Leasing mainly comprise telecommunication equipment. The Group's obligations to OJSC RTK-Leasing as at 31 December 2009 amounted to 1,197 (2008: 1,735).

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

20 Employee benefits

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

Defined contribution plans

The non-state pension fund "Telecom-Soyuz" maintains the defined contribution plan of the Group

As at 31 December 2009 the Group employed or provided for 12,962 participants of defined contribution plans (31 December 2008: 15,224).

In 2009 the Group expenses in relation to defined contribution plans amounted to 82 (2008: 101).

Defined benefit plans

The majority of the employees are eligible for defined benefit plan. The defined benefit pension plan provides retirement 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 is served. The amount of pension benefit depends on certain factors, employee's position upon retirement among them.

The non-state pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 39).

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 Group employed 12,962 participants of defined benefit plan and supported 17,917 pensioners eligible for post-employment benefits (31 December 2008: 15,224 and 17,465 respectively).

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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	2,245	2,560
Present value of unfunded obligations	**2,245**	**2,560**
Unrecognized past service cost	(272)	(374)
Unrecognized actuarial (gains)/ losses	**238**	**(202)**
Net defined benefit plan liability	**2,211**	**1,984**

As at 31 December 2009 management estimated that employees' average remaining working lives 10 years (2008: 10 years).

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

	2009	2008
Current service cost	138	173
Interest cost	233	194
Actuarial gains and losses	(16)	7
Amortization of past service cost - non-guaranteed part	102	109
Final settlement effect	(16)	10
Net expense for the defined benefit plans	**441**	**493**

Net expense for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated income statement in the line "Personnel costs". Return on plan assets and interest cost are recognized in "Other investing and financing gains and losses" and "Finance costs" line items 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 at 1 January	**2,560**	**2,861**
Current service cost	138	173
Interest cost	233	194
Past service cost	-	(74)
Benefits paid	(67)	(68)
Liabilities extinguished on settlements	(148)	(127)
Actuarial gain	(471)	(399)
Present value of defined benefit obligations as at 31 December	**2,245**	**2,560**

Interest cost is recognized in "Finance costs" of the consolidated income statement.

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	**-**	**-**
Benefits paid	(67)	(68)
Assets distributed on settlement	(148)	(127)
Contributions by the employer	215	195
Fair value of plan assets as at 31 December	**-**	**-**

The Company expects to contribute 80 to its non-state pension fund in 2010 in respect of defined benefit plans.

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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	9.00%	9.00%
Future salary increases	9.72%	10.24%
Relative salary increase	0%	1%
Rate used for calculation of annuity value	4.00%	4.00%
Rate of dismissed employees	5.00%	7.00%
Mortality tables (source of information)	USSR1985/86	USSR 1985/86

Historical information on defined benefit plan is as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	2,245	2,560	2,861	2,377	1,919
Defined benefit assets	-	-	-	-	(110)
Plan (deficit) / proficit	2,245	2,560	2,861	2,377	1,809
Experience adjustments on defined benefit plan liabilities	(308)	(249)	(51)	(134)	(121)
Experience adjustments on defined benefit plan assets	-	-	-	(4)	3

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.

21 Other long-term liabilities

	31 December 2009	31 December 2008
Deferred revenue	420	453
Special purpose financing	40	46
Total	**460**	**499**

22 Provisions

	Staff optimisation provision	Total
Balance at 31 December 2007	11	11
Accrued	8	8
Utilised	(10)	(10)
Balance at 31 December 2008	9	9
Accrued	12	12
Utilised	(8)	(8)
Reversed	(1)	(1)
Balance at 31 December 2009	**12**	**12**

	Staff optimization provision	Total
Current provision	12	12
Balance at 31 December 2009	12	12
Current provision	9	9
Balance at 31 December 2008	9	9

(in millions of Russian Roubles unless stated otherwise)

23 Trade and other payables

	As at 31 December 2009	As at 31 December 2008
Payables for purchases and construction of property, plant and equipment	1,023	2,178
Payables for purchases of software	37	92
Payables to interconnected operators	324	371
Payables for operating activities	229	310
Other taxes payable	1,108	650
Payables to personnel	969	813
Dividends payable	19	19
Settlements with principals	112	296
Other accounts payable	320	517
Total	**4,141**	**5,246**

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

	31 December 2009	31 December 2008
Value-added tax	826	388
Property tax	169	169
Personal income tax	38	27
Unified social tax	66	57
Other taxes	9	9
Total	**1,108**	**650**

24 Other short-term liabilities

	As at 31 December 2009	As at 31 December 2008
Deferred income	6	2
Advances received from operating activities	602	635
Advances received from non-operating activities	26	22
Total	**634**	**659**

25 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 recent 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 Company. The future business environment may differ from management’s assessment.

Taxation

Management interpretation of industry, tax, foreign currency and customs legislation related to Company's operations may be argued by corresponding legal bodies. Tax authorities may change their view of interpretation of legislation related to separate operations and review of tax operations. As a consequence, tax authorities may have claims on those operations and accounting methods, which were not previously argued. As a result additional taxes, fines and penalties may be accrued. No reliable estimate can be made on amount of probable claims not yet brought to action as well as on the probability of their negative outcome. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

Management believes that as at 31 December 2009 its interpretation of the relevant legislation is appropriate and, therefore, it is highly likely that the Company's position with regard to compliance with tax, currency and customs legislation will be sustained.

Staff optimization program

In 2010 the Company plans to discharge 341 employees. As at 31 December 2009, 99 employees are notified of forthcoming reductions. In December 2009 the Company created provision for future termination payments to employees which are planned to be discharged in 2010, the amount of provision is 12.

Legal proceedings

During the year, the Group was involved in a number of court proceedings. Management believes these proceedings would not have a material effect on financial position of the Company.

26 Financial instruments and risk management

The Company'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 finance the Group 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 operations.

Capital management policy

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 Company monitors and manages its debt using financial independence ratio and net debt/equity, net debt/EBITDA ratios.

The financial independence ratio is calculated as ratio of equity to the total assets as at the end of the period. Net debt / equity is calculated as ratio of net debt to equity as at the end of the period. Net debt / EBITDA is calculated as ratio of net 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.

As of the balance sheet date Fitch international rating agency and Standard and Poor's confirmed the Group's short term credit risk as national "AA-" (2008: "AA-") and international "BB-" (2008: "BB-").

(in millions of Russian Roubles unless stated otherwise)

Income and expenses on financial instruments

2009

	Other operating expenses	**Financial expenses**	**Total**				
	Bad debt expenses	**Interest expense**	**Interest income**	**Loss/reversal of impairment loss**	**Foreign exchange gains / losses**	**Fair value change**	
Cash and cash equivalents	-	-	165	-	-	-	165
Trade and other receivables	(103)	-	-	-	(4)	-	(107)
Available for sale financial assets	-	-	-	1	-	4	5
Investments	-	-	36	-	-	-	36
Loans	-	-	4	-	-	-	4
Total financial assets	(103)	-	205	1	(4)	4	103
Bank and corporate loans	-	(967)	-	-	(51)	-	(1,018)
Bonds	-	(302)	-	-	-	-	(302)
Promissory notes	-	(32)	-	-	-	-	(32)
Vendor financing	-	(17)	-	-	(14)	-	(31)
Finance lease liabilities	-	(248)	-	-	-	-	(248)
Interest expenses	-	(35)	-	-	-	-	(35)
Trade and other payables	-	-	-	-	(2)	-	(2)
Total financial liabilities	**-**	(1,601)	-	-	(67)	-	(1,668)

2008

	Consolidated Income statement							
	Other operating expenses	**Finance costs**	**Other investing and financing gains and losses**					**Total**
	Doubtful debt allowance	**Interest expense**	**Interest income**	**Dividend income**	**Loss/reversal of impairment loss**	**Foreign exchange gains / losses**	**Fair value change**	
Cash and cash equivalents	-	-	120	-	-	-	-	120
Trade and other receivables	(166)	-	-	-	-	-	-	(166)
Available for sale financial assets	-	-	-	7	(3)	-	(5)	(1)
Investments	-	-	1	-	-	-	-	1
Loans	-	-	1	-	-	-	-	1
Total financial assets	(166)	-	122	7	(3)	-	(5)	(45)
Bank and corporate loans	-	(549)	-	-	-	(71)	-	(620)
Bonds	-	(613)	-	-	-	-	-	(613)
Promissory notes	-	(25)	-	-	-	-	-	(25)
Vendor financing	-	(27)	-	-	-	(46)	-	(73)
Finance lease liabilities	-	(289)	-	-	-	-	-	(289)
Interest expense	-		-	-	-	-	-	(78)
Trade and other payables	-	(78)	-	-	-	(48)	-	(48)
Total financial liabilities	**-**	(1,581)	-	-	-	(165)	-	(1,746)

(in millions of Russian Roubles unless stated otherwise)

Foreign exchange risk

Foreign exchange 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 Group income statement, statement of financial position and/or statement of cash flows. The Group is exposed to foreign exchange risk in relation to its assets and liabilities denominated in foreign currencies.

For the period from 1 January through 31 December 2009 the Rouble to the US Dollar and to Euro decreased by approximately 2.94% and 4.7% respectively.

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**	**Other**	**Total**
Cash and cash equivalents	2,033	-	-	-	**2,033**
Trade and other receivables	2,260	2	2	-	**2,264**
Available for sale financial assets	24	-	-	-	**24**
Held to maturity investments	406	-	-	-	**406**
Loans	11	-	-	-	**11**
Total financial assets	**4,734**	**2**	**2**	**-**	**4,738**
Bank and corporate loans	(6,683)	(88)	(77)	-	**(6,848)**
Bonds	(1,876)	-	-	-	**(1,876)**
Vendor financing	(230)	(173)	(13)	-	**(416)**
Finance lease liabilities	(1,229)	-	-	-	**(1,229)**
Interest payable	(34)	(1)	-	-	**(35)**
Trade and other payables	(2,927)	(100)	(6)	-	**(3,033)**
Total financial liabilities	**(12,979)**	**(362)**	**(96)**	**-**	**(13,437)**

31 December 2008	**RUR**	**USD**	**EUR**	**Other**	**Total**
Cash and cash equivalents	1,676	1	1	-	**1,678**
Trade and other receivables	2,625	2	1	-	**2,628**
Available for sale financial assets	20	-	-	-	**20**
Held to maturity investments	202	-	-	-	**202**
Loans	9	-	-	-	**9**
Total financial assets	**4,532**	**3**	**2**	**-**	**4,537**
Bank and corporate loans	(8,853)	(366)	(154)	-	**(9,373)**
Bonds	(4,822)	-	-	-	**(4,822)**
Promissory notes	(396)	-	-	-	**(396)**
Vendor financing	(320)	(233)	(30)	-	**(583)**
Finance lease liabilities	(1,772)	-	-	-	**(1,772)**
Interest payable	(79)	(2)	-	-	**(81)**
Trade and other payables	(4,479)	(79)	(35)	(3)	**(4,596)**
Total financial liabilities	**(20,721)**	**(680)**	**(219)**	**(3)**	**(21,623)**

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	(36)	-0.69	5	(5)	-0.09
	(10)	36	0.69	(5)	5	0.09
31 December 2008	10	(68)	-1.85	5	(11)	-0.30
	(10)	68	1.85	(5)	11	0.30

(in millions of Russian Roubles unless stated otherwise)

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 the Group.

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

31 December 2009	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	2,004	-	29	2,033
Trade and other receivables	-	-	2,264	2,264
Available for sale financial assets	-	-	24	24
Held to maturity investments	406	-	-	406
Loans	11	-	-	11
Total financial assets	**2,421**	**-**	**2,317**	**4,738**
Bank and corporate loans	(3,423)	(3,425)	-	(6,848)
Bonds	(1,876)	-	-	(1,876)
Vendor financing	(393)	(23)	-	(416)
Finance lease liabilities	(1,229)	-	-	(1,229)
Interest payable	(22)	(13)	-	(35)
Trade and other payables	-	-	(3,033)	(3,033)
Total financial liabilities	**(6,943)**	**(3,461)**	**(3,033)**	**(13,437)**

31 December 2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	1,644	-	34	1,678
Trade and other receivables	-	-	2,628	2,628
Available for sale financial assets	-	-	20	20
Held to maturity investments	202			202
Loans	9	-	-	9
Total financial assets	**1,855**	**-**	**2,682**	**4,537**
Bank and corporate loans	(5,104)	(4,269)	-	(9,373)
Bonds	(4,822)	-	-	(4,822)
Promissory notes	(396)	-	-	(396)
Vendor financing	(545)	(38)	-	(583)
Finance lease liabilities	(1,772)	-	-	(1,772)
Interest payable	(27)	(54)	-	(81)
Trade and other payables	-	-	(4,596)	(4,596)
Total financial liabilities	**(12,666)**	**(4,361)**	**(4,596)**	**(21,623)**

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

	LIBOR			**Mosprime**		
		Effect on profit before income tax			**Effect on profit before income tax**	
	Changes in rate, %	**Million Roubles**	**%**	**Changes in rate, %**	**Million Roubles.**	**%**
31 December 2009	+1	(1)	0.00	+1	(33)	-1
	-1	1	0.00	-1	33	1
31 December 2008	+1	(1)	0.00	+1	(41)	-1
	-1	1	0.00	-1	41	1

(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's 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	2,033	-	-	-	-	2,033
Trade and other receivables	2,261	1	1	1	-	2,264
Available for sale financial assets	5	-	-	-	19	24
Held to maturity investments	406	-	-	-	-	406
Loans	1	1	-	-	-	2
Total financial assets	**4,706**	**2**	**1**	**1**	**19**	**4,729**
Bank and corporate loans	(1,753)	(1,919)	(2,900)	(400)	-	(6,972)
Bonds	(924)	(953)	-	-	-	(1,877)
Vendor financing	(296)	(144)	(2)	-	-	(442)
Finance lease liabilities	(604)	(459)	(379)	(111)	-	(1,553)
Interest payable	(852)	(536)	(242)	(29)	-	(1,659)
Trade and other payables	(3,033)	-	-	-	-	(3,033)
Total financial liabilities	**(7,462)**	**(4,011)**	**(3,523)**	**(540)**	**-**	**(15,536)**

The cash flows in the above table include payments both for interest accrued as at end of the reporting period and interest to be accrued in future on current debt portfolio.

Credit risk

Credit risk is the risk that counterparty will fail to settle its obligation and cause the Group to incur a financial loss.

Financial assets, which potentially expose the Group to credit risk, consist primarily of trade and other receivables, cash in bank, bank deposits and other debt-type financial assets.

The Group has no significant concentrations of credit risk due to the significance and diversity 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 overdue trade receivables which are not impaired is provided below:

31 December 2009	**Post due (days)**						
	Total	**< 31**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Corporate customers	103	56	29	18	-	-	-
Individuals	37	19	12	6	-	-	-
Governmental organisations	14	9	4	1	-	-	-
Interconnected operators	19	6	4	6	-	-	3
Total	**173**	**90**	**49**	**31**	**-**	**-**	**3**

31 December 2008	**Post due (days)**						
	Total	**<30**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Corporate customers	51	28	12	11	-	-	-
Individuals	111	61	30	20	-	-	-
Governmental organisations	19	13	4	2	-	-	-
Interconnected operators	62	59	2	1	-	-	-
Total financial assets	243	161	48	34	-	-	-

(in millions of Russian Roubles unless stated otherwise)

Hedging

In 2009 and in 2008 the Group did not hedge its foreign exchange 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).

As at 31 December 2009 and 2008 carrying and fair value of the Group financial assets and liabilities did not be materially differ except for following instances:

	31 December 2009		31 December 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Long term bank loans	3,536	2,627	3,473	2,244
Bonds	1,876	1,882	4,822	4,530
Total financial liabilities	**5,412**	**4,509**	**8,295**	**6,774**

27 Revenue

	2009	2008
Local telephone calls	11,512	10,934
Data transmission, telematic services (Internet), telegraph	5,915	5,095
Long distance intra-zone telephone services	4,557	4,829
Cellular services	4,532	4,658
Interconnection services	4,069	4,427
Radio and TV broadcasting	739	703
Agency fees and revenues from assistance services	510	548
Other telecommunication services	70	111
Other revenues	855	758
Total	**32,759**	**32,063**

Revenue from intrazone and local telephone services include revenue from leased telecommunication channels in the amounts of 501 and 151 respectively (2008: 501 and 162).

Other revenue includes rental income in the amount of 273 (2008: 285).

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

Customer groups	**2009**	**2008**
Individuals	18,714	17,597
Corporate customers	6,721	6,951
Interconnected operators	4,784	5,170
Budget organizations	2,540	2,345
Total	**32,759**	**32,063**

(in millions of Russian Roubles unless stated otherwise)

28 Personnel costs

	2009	2008
Salary expenses	6,560	6,524
Social taxes	1,546	1,527
Pension plan costs	215	317
Staff optimization costs	12	9
Other personnel costs	291	361
Total	**8,624**	**8,738**

29 Materials, repairs and maintenance, utilities

	2009	2008
Materials	1,030	1,181
Utilities	905	712
Repairs and maintenance	875	859
Total	**2,810**	**2,752**

30 Other operating income

	2009	2008
Reimbursement of losses incurred from universal services fund	1,058	884
Fines and penalties	73	63
Reversal of property, plant and equipment, construction-in-progress, intangible assets and other assets impairment	7	3
Other income	312	219
Total	**1,450**	**1,169**

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 - 957 (2008: 626),

for previous year services - 258 (2008: 275).

Losses from rendering of universal telecommunications services during 2009 amounted to 1,191 (2008: 964) and were confirmed by an independent audit firm CJSC “Marketing, Konsalting, Dizain” (license #E002484 dated 06.11.2002).

(in millions of Russian Roubles unless stated otherwise)

31 Other operating expenses

	2009	2008
Third party services and expenses related to the administration	921	1,041
Taxes, other than income tax	763	747
Agency fees	650	578
Lease of premises	377	345
Fire and other security services	327	333
Universal service fund payments	322	313
Advertising expenses	256	376
Audit and consulting fees	195	287
Bad debt expense	103	167
Member fees, charity contribution, payments to labour unions	81	294
Transportation and postal services	54	56
Asset insurance	31	26
Fines and penalties	2	3
Losses on disposal of property, plant and equipment and other assets	7	1,000
Property, plant and equipment, construction-in-progress, intangible assets and other assets impairment	-	29
Other expenses	601	203
Total	**4,691**	**5,798**

32 Finance costs

	2009	2008
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	1,353	1,292
Interest expense on finance lease liabilities	248	289
Interest expense of defined benefit plans	233	194
Borrowings servicing expense	13	11
Total	**1,847**	**1,786**

33 Other investing and financing gains and losses

	2009	2008
Interest income from finance assets	205	122
Dividend income	-	7
Loss on disposal of other financial assets	(1)	-
Loss on change of fair value of financial assets through profit and loss	-	(3)
Total	**204**	**126**

(in millions of Russian Roubles unless stated otherwise)

34 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	(1,149)	(1,485)
Deferred income tax benefit	65	763
Total income tax expense for the year	**(1,084)**	**(722)**
Current income tax expense	(1,167)	(1,491)
Adjustments of the current income tax for previous years	18	6
Total current income tax expense for the year	**(1,149)**	**(1,485)**
Deferred income tax (benefit)/expense related to the temporary differences	65	333
Change in tax rate	**-**	**430**
Total deferred income tax (income)/expense	**65**	**763**
Total income tax expense for the year	**(1,084)**	**(722)**

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

	2009	2008
Profit before income tax	5,265	3,658
Statutory income tax rate	20%	24%
Theoretical tax charge at statutory income tax rate	(1,053)	(878)
Increase (decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	18	6
Non-taxable income	309	163
Dividend income	(115)	(96)
Non-deductible expenses	(243)	(394)
Tax loss not recognised in previous period	-	47
Change of tax rate	-	430
Total actual income tax	**(1,084)**	**(722)**

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

	1 January 2008	Origination and reversal of temporary differences	31 December 2008	Origination and reversal of temporary differences	Revenue from acquisition of subsidiaries	31 December 2009
Trade payables and accrued expenses	296	(60)	236	3		239
Pension liabilities	149	(12)	137	36		173
Inventories	1	16	17	(8)		9
Financial lease	(93)	249	156	67		223
Trade receivables	22	3	25	(23)		2
Total deferred income tax assets	**375**	**196**	**571**	**75**		**646**
Property, plant and equipment	(2 858)	383	(2 475)	(9)	(4)	(2 488)
Intangible assets	(433)	183	(250)	30	(1)	(221)
Investments	(5)	4	(1)	(14)		(15)
Loans	7	(3)	4	(17)		(13)
Total deferred income tax liability	**(3 289)**	**567**	**(2 722)**	**(10)**	**(5)**	**(2 737)**
Net deferred income tax liability	**(2 914)**	**763**	**(2 151)**	**65**	**(5)**	**(2 091)**

(in millions of Russian Roubles unless stated otherwise)

The Group has not recognized a deferred tax liability in respect of investments in subsidiaries in the amount of 192 (2008: 473), as management 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.

35 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
Net profit for the year attributable to the shareholders of the Company	4,192	2,906
Less: attributable to preference shareholders	(1,048)	(726)
Attributable to ordinary shareholders	**3,144**	**2,180**
Weighted average number of ordinary shares outstanding (thousands)	245.970	245.970
Basic and diluted earnings per share attributable to ordinary shareholders, in Roubles	**12.78**	**8.86**

36 Dividends declared and proposed for distribution

In June 2009 in accordance with the decision of general meeting of shareholders, the dividends were declared in the amount of 1.800235 Roubles per ordinary share and 3.600753 Roubles per preference share for year ended 31 December 2008.

The total dividends payable amounted to the following:

Category of shares	Number of shares (mln)	Dividends per share, roubles	Total sum of dividends
Declared and approved for 2008			
Preference shares	82	3.600753	295
Ordinary shares	246	1.800235	444
Total	**328**	-	**739**

Dividends paid in 2009 for the year ended 31 December 2008 amounted to 731.

37 Operating leases

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

	2009 Minimum lease payments	2008 Minimum lease payments
Current portion (less than 1 year)	74	61
More than 1 to 5 years	99	65
Over 5 years	689	393
Total	**862**	**519**

The primary subjects of operating leases where the Group acts as a lessee were premises, telecommunication equipment, and land.

The Group operating lease expenses presented in line “Other operating expense” of Consolidated Income statement amounted in 2009 to 478 (2008: 444).

(in millions of Russian Roubles unless stated otherwise)

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

	2009 Minimum lease payments	2008 Minimum lease payments
Current portion (less than 1 year)	10	8
More than 1 to 5 years	5	6
Over 5 years	-	1
Total	**15**	**15**

The primary subjects of operating leases where the Group acts as a lessor was telecommunication equipment.

Revenue from operating leases recognized in "Revenue" of the consolidated income statement amounted to 200 in 2009 (2008: 205).

38 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 1,420 and 654 respectively.

As at 31 December 2009 and 2008 the Company's contractual obligations with regard to purchase property, plant and equipment amounted to 577 and 320 respectively.

39 Balances and transactions with related parties

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

Balances	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	Other
2009				
Revenue from telecommunication services, interconnection and traffic transmission services	-	1,282	37	-
Agency services	-	504	-	-
Rental income	-	2	1	2
Other revenue	-	15	5	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	197	20	-
Purchase of other services	-	38	-	243
Purchase of goods and other assets	-	2	-	4
Dividends payables	205	-	-	
Receivables write-off:	-	-	4	-
Inc. Bad debt provision write-off	-	-	4	-
2008				
Revenue from telecommunication services, interconnection and traffic transmission services	-	1,506	48	-
Agency services	-	476	-	-
Rental income	-	1	2	-
Other revenue	-	13	3	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	256	26	-
Purchase of other services	-	45	1	471
Purchase of goods and other assets	-	56	-	184
Dividends receivables	-	-	-	2
Dividends payables	244	-	-	-

(in millions of Russian Roubles unless stated otherwise)

Balances with related parties as at 31 December 2009 and 2008 are provided below:

Transactions	**OJSC Svyazinvest**	**Subsidiaries**	**Associates**	**Other**
2009				
Trade and other receivables, net, incl.:	-	25	13	4
- doubtful debt allowance	-	-	(6)	-
Accounts payable	-	121	2	2
Loans given	-	-	4	-
2008				
Trade and other receivables, net, incl.:	-	209	5	9
- doubtful debt allowance	-	-	(21)	-
Accounts payable	-	321	1	78
Loans given	-	-	4	-

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".

OJSC Svyazinvest is the Company's parent company. The Russian Government is the party with the ultimate control over the Company.

No publicly available financial statements are produced by the Company's parent company, ultimate controlling party or any other intermediate controlling party.

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

Telecommunications companies that are a part of Svyazinvest Group are operators of general telecommunications network providing services of local, intrazone, domestic and international long-distance telephone communications, communication services in data transmission networks, telematic services, telegraph communication services, radio broadcasting, communication services for cable and on-air broadcasting, services of mobile radiotelephone and radio communication, communication services on providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communications.

Subsidiaries of OJSC "Svyazinvest"

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", a majority-owned subsidiary of Svyazinvest, is the primary provider of domestic and international long-distance telecommunication services in the Russian Federation.

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.

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 31 December 2008 were as follows:

	2009	**2008**
Revenue from telecommunication services, interconnection and traffic transmission services	1,156	1,394
Agent services	502	475
Rental income	1	1
Other revenue	13	12
Purchase of telecommunication services, interconnection and traffic transmission services	179	185
Purchase of other services	30	32
Trade and other receivables	8	189
Trade and other payables	115	291

OJSC “Svyazintek”

OJSC “Svyazintek” was established by OJSC “Svyazinvest” subsidiaries and is owned by collectively 100% of its share capital. OJSC “Svyazintek” key objective is to implement and support operations of information systems and to coordinate, manage and execute industry-wide IT programs within the companies of Svyazinvest group. OJSC “Svyazintek” provides to the Group services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

In 2009 the Group incurred costs on services provided by OJSC “Svyazintek” amounted to 19 (2008: 267) among them 15 (2008: 83) were recognized in the consolidated income statement and 4 (2008: 184) were capitalized within the cost of respective items of non-current assets.

Non-state pension fund “Telecom-Soyuz”

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

The total amount of contributions to non-state pension fund paid by the Group in 2009 amounted to 228 (2008: 221). The fund retains 3% of every pension contribution of the Group to cover its administrative costs.

Remuneration of key management personnel

Company’s expenses on remuneration of key management personnel (General Director and his deputies, Management Board, Board of Directors) include:

	2009	**2008**
Current remuneration, total	165	159
including		
Salaries	158	147
Vacation	2	5
Social taxes	4	5
Medical services	1	2
Long term remuneration, total	21	11
Including		
Payments under pension plans	-	5
Other payments for social guarantees	21	6

40 Subsequent events

Dividends

Amount of dividends will be approved by General Shareholders' Meeting in June 2010. Preliminary calculated dividends for 2009 are RUR 2.5995 per ordinary share and 5.1993 per preference share (in 2008: RUR 1.8002 and RUR 3.6008 respectively). Total amount of dividends is calculated as 639 for ordinary shares and 426 for preference shares (in 2008: 443 and 295 respectively). Following the approval the annual dividends payable to shareholders will be recognized in financial statements for the year 2010.

Reorganisation

At the end of 2009 the Government of the Russian Federation approved the reorganization of OJSC Svyazinvest and its subsidiaries. According to the plan of reorganisation, seven supra-regional companies and certain subsidiaries of OJSC Svyazinvest will be merged with OJSC Rostelecom ("Rostelecom") during 2011. As part of this process, on 13 May 2010, the Board of Directors submitted the merger agreement with Rostelecom for approval of the Annual General Meeting having determined the swap ratios for company's ordinary and preference shares at 0.939 and 1.195, respectively, for one Rostelecom ordinary share. For those shareholders who will not participate in the swap, the buyback share price (both for ordinary and preference) was determined at RUR 91.81. The valuation of the Company's shares was conducted by the independent appraisal using the following valuation techniques: discounted cash flows (income approach), market value and benchmark method (comparative approach).

Acquisition of Teleset Networks Public Company Limited

On 12 May 2010 the Board of directors approved the acquisition of Teleset Networks Public Company Limited (157 556 715 ordinary shares with par value EUR 0.02 each, equivalent of 100% of share capital, 83.73 cents per share). The equity interest is to be acquired for a consideration of USD 133 497 805. The acquisition has been cleared by Russian competition regulator FAS but is still subject to the approval of the deal by the majority of shareholders of the acquiree (>90%).