

**OJSC ROSTELECOM
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

CONTENT

	Pages
Statement of Directors' Responsibilities	3
Independent Auditors' Report	4
Consolidated Statements of Financial Position	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Cash Flows	9
Consolidated Statements of Changes in Equity	10
Notes to Consolidated Financial Statements	11-62

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OJSC Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results of operations and cash flows for each period. Management is responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management believes that, in preparing the consolidated financial statements set out on pages 6 to 62, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards as issued by the International Accounting Standards Board have been followed.
3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

A.Yu.Kolpakov
General Director



May 14, 2010

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Independent Auditors' Report

The Board of Directors and Shareholders

OJSC Rostelecom

We have audited the accompanying consolidated financial statements of OJSC Rostelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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.

KPMG Limited

KPMG Limited

14 May 2010

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In millions of Russian Rubles)

	Notes	December 31, 2009	December 31, 2008	December 31, 2007
ASSETS				
Non-current assets				
Property, plant and equipment	6	40,249	39,586	38,480
Goodwill and other intangible assets	7	3,743	3,875	2,745
Investments in associates	9	152	178	494
Long-term investments	10	1,037	294	11,847
Other non-current assets		117	49	20
Total non-current assets		45,298	43,982	53,586
Current assets				
Inventories		432	459	447
Accounts receivable	11	8,751	10,133	8,429
Prepaid income tax		321	1,375	778
Short-term investments	12	14,947	8,762	6,920
Cash and cash equivalents	13	6,996	11,992	3,284
Total current assets		31,447	32,721	19,858
Total assets		76,745	76,703	73,444
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	14	100	100	100
Retained earnings and other reserves		61,274	59,285	56,027
Total equity attributable to equity holders of the parent		61,374	59,385	56,127
Non-controlling interest		(177)	40	26
Total equity		61,197	59,425	56,153
Non-current liabilities				
Borrowings, net of current portion	18	-	117	172
Finance lease payable	16	436	461	396
Accounts payable, provisions and accrued expenses	15	213	243	269
Deferred tax liability	19	1,609	1,590	4,119
Total non-current liabilities		2,258	2,411	4,956
Current liabilities				
Accounts payable, provisions and accrued expenses	15	8,603	9,495	7,445
Finance lease payable	16	95	103	108
Taxes payable		692	1,126	533
Vendor financing payable	17	1,780	1,608	1,637
Current portion of long-term borrowings	18	1,980	2,522	2,585
Short-term borrowings		140	13	27
Total current liabilities		13,290	14,867	12,335
Total liabilities		15,548	17,278	17,291
Total equity and liabilities		76,745	76,703	73,444

The notes on pages 11 through 62 are an integral part of these consolidated financial statements.

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions of Russian Rubles unless otherwise stated)

	Notes	Year ended December 31,		
		2009	2008	2007
Revenue				
Telephone traffic		44,527	48,874	50,306
Rent of channels		6,958	7,710	7,725
Data transmission services		9,014	5,437	1,292
Other revenue		5,011	4,608	5,279
Total revenue	20	65,510	66,629	64,602
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(10,197)	(9,473)	(8,763)
Depreciation and amortization	6, 7	(7,580)	(7,174)	(7,613)
Impairment of property, plant and equipment, goodwill and other intangible assets	6, 7	-	(215)	(271)
Charges by network operators – international		(9,625)	(8,706)	(7,817)
Charges by network operators – national		(24,596)	(25,743)	(27,860)
Administration and other costs	22	(7,120)	(6,948)	(6,670)
Taxes other than on income		(649)	(618)	(703)
Repairs and maintenance		(860)	(899)	(864)
Bad debt recovery/ (expense)	11	28	32	(815)
Loss on sale and disposal of property, plant and equipment		(647)	(65)	(197)
Total operating expenses		(61,246)	(59,809)	(61,573)
Operating profit		4,264	6,820	3,029
Income/ (loss) from associates		4	(71)	156
Interest expense		(234)	(268)	(238)
Interest income		1,568	1,646	907
(Loss)/gain on sale of investments		(81)	8,670	-
Other non-operating income/(loss)		49	64	(37)
Foreign exchange (loss)/ gain, net		(893)	(788)	183
Profit before income tax		4,677	16,073	4,000
Current tax charge	19	(1,270)	(4,331)	(1,854)
Deferred tax benefit	19	49	440	660
Income tax expense	19	(1,221)	(3,891)	(1,194)
Profit for the year		3,456	12,182	2,806
Other comprehensive income, net of tax				
Acquisition of subsidiaries		-	268	-
Acquisition of non-controlling interest		-	-	(25)
Valuation gain/(loss) on available-for-sale investments		506	(412)	5,558
Income tax relating to valuation gain on available-for-sale investments		(68)	26	(1,335)
Valuation gain on available-for-sale investments transferred to profit on sale		-	(8,666)	-
Income tax relating to valuation gain on available-for-sale investments transferred to profit on sale		-	2,230	-
Other comprehensive income for the year, net of tax		438	(6,554)	4,198
Total comprehensive income for the year		3,894	5,628	7,004

The notes on pages 11 through 62 are an integral part of these consolidated financial statements.

OJSC Rostelecom**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (continued)**

(In millions of Russian Rubles unless otherwise stated)

		Year ended December 31,		
	Notes	2009	2008	2007
Profit attributable to:				
Equity holders of the parent		3,673	12,178	2,805
Non-controlling interest		(217)	4	1
Total comprehensive income attributable to:				
Equity holders of the parent		4,111	5,614	7,003
Non-controlling interest		(217)	14	1
Earnings per share attributable to equity holders of the parent – basic and diluted (in Russian Rubles)	24	3.78	12.54	2.89

The notes on pages 11 through 62 are an integral part of these consolidated financial statements.

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian Rubles)

	Notes	Year ended December 31,		
		2009	2008	2007
Cash flows from operating activities				
Profit before income tax		4,677	16,073	4,000
<i>Adjustments to reconcile profit before tax to cash generated from operating activities:</i>				
Depreciation and amortization	6, 7	7,580	7,174	7,613
Impairment losses	6, 7	-	215	271
Bad debt (recovery)/ expense	11	(28)	(32)	815
(Income)/ loss from associates		(4)	71	(156)
Loss on sale of property, plant and equipment		647	65	197
Loss/ (gain) from sale of investments		81	(8,670)	-
Net interest income		(1,334)	(1,378)	(669)
Other non-operating (income)/ loss		(49)	(64)	37
Foreign exchange loss/ (gain), net		893	788	(183)
<i>Changes in net working capital:</i>				
Decrease/ (increase) in accounts receivable		1,472	448	(487)
Decrease/ (increase) in inventories		34	(8)	117
(Decrease)/increase in payables and accruals		(1,512)	336	(116)
Cash generated from operations		12,457	15,018	11,439
Interest paid		(236)	(212)	(257)
Interest received		1,278	1,194	1,059
Income tax paid		(212)	(4,740)	(2,454)
Net cash provided by operating activities		13,287	11,260	9,787
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(8,742)	(7,640)	(7,157)
Proceeds from sale of property, plant and equipment		236	316	231
Purchase of available-for-sale investments		-	-	(570)
Purchase of financial assets, other than available-for-sale investments		(20,182)	(12,515)	(20,279)
Proceeds from sale of available-for-sale investments, net of direct costs		-	11,385	38
Proceeds from sale of investment other than available-for-sale, net of direct costs		13,176	10,882	21,518
Dividends received from associates		14	20	4
Purchase of subsidiaries, net of cash acquired		2	(1,454)	-
Purchase of non-controlling interest		-	-	(25)
Net cash (used in)/ provided by investing activities		(15,496)	994	(6,240)
Cash flows from financing activities				
Drawdown of interest bearing loans		284	460	415
Repayment of interest bearing loans and loan facilities		(883)	(1,218)	(927)
Repayment of lease obligations		(56)	(154)	(105)
Repayment of vendor financing payable		-	(410)	(362)
Dividends paid		(2,110)	(2,128)	(1,630)
Net cash used in financing activities		(2,765)	(3,450)	(2,609)
Effect of exchange rate changes on cash and cash equivalents		(22)	(96)	(7)
Net (decrease)/ increase in cash and cash equivalents		(4,996)	8,708	931
Cash and cash equivalents at beginning of year		11,992	3,284	2,353
Cash and cash equivalents at the end of year		6,996	11,992	3,284
Non-monetary transactions:				
Non-cash additions to property, plant and equipment and intangible assets		26	216	49
Non-cash addition of financial assets other than available-for-sale investments		405	-	-
Non-cash proceeds from sale of investment other than available-for-sale		423	-	-

The notes on pages 11 through 62 are an integral part of these consolidated financial statements.

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions of Russian Rubles)

	Attributable to equity holders of the parent					Non-control- ling interest	Total equity	
	Note	Share capital	Unrealized gain/ (loss) on available- for-sale investments	Asset revalua- tion surplus on acquisi- tions	Retained earnings			Total
Balances at December 31, 2006		100	2,694	-	48,126	50,920	25	50,945
Acquisition of non-controlling interest			-	-	(25)	(25)	-	(25)
Valuation gain on available-for-sale investments, net of tax		-	4,223	-	-	4,223	-	4,223
Total other comprehensive income, net of tax		-	4,223	-	(25)	4,198	-	4,198
Profit for the year		-	-	-	2,805	2,805	1	2,806
Total comprehensive income		-	4,223	-	2,780	7,003	1	7,004
Dividends	14	-	-	-	(1,796)	(1,796)	-	(1,796)
Balances at December 31, 2007		100	6,917	-	49,110	56,127	26	56,153
Acquisition of subsidiaries		-	-	258	-	258	10	268
Valuation gain on available-for-sale investments, net of tax		-	(386)	-	-	(386)	-	(386)
Transferred to profit on sale		-	(6,436)	-	-	(6,436)	-	(6,436)
Total other comprehensive income, net of tax		-	(6,822)	258	-	(6,564)	10	(6,554)
Profit for the year		-	-	-	12,178	12,178	4	12,182
Total comprehensive income		-	(6,822)	258	12,178	5,614	14	5,628
Dividends	14	-	-	-	(2,356)	(2,356)	-	(2,356)
Balances at December 31, 2008		100	95	258	58,932	59,385	40	59,425
Valuation gain on available-for-sale investments, net of tax		-	438	-	-	438	-	438
Total other comprehensive income, net of tax		-	438	-	-	438	-	438
Profit/ (loss) for the year		-	-	-	3,673	3,673	(217)	3,456
Total comprehensive income/ (loss)		-	438	-	3,673	4,111	(217)	3,894
Dividends	14	-	-	-	(2,122)	(2,122)	-	(2,122)
Balances at December 31, 2009		100	533	258	60,483	61,374	(177)	61,197

The notes on pages 11 through 62 are an integral part of these consolidated financial statements.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

1. REPORTING ENTITY

These consolidated financial statements are presented by OJSC Rostelecom (“Rostelecom” or the “Company”), and its subsidiaries (together the “Group”), which are incorporated in the Russian Federation (“Russia”). The principal activity of the Group is the provision of long-distance domestic and international telecommunication services to the Government, businesses and individuals of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates in other national and international operators’ networks to other national and international operators for termination.

The Company’s headquarters are located in Moscow at 1st Tverskaya-Yamskaya Street, 14, Russia.

These consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 8.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of December 31, 2009, the Government of the Russian Federation controls OJSC Svyazinvest (“Svyazinvest”), the parent company of Rostelecom, by virtue of 75% less one share direct holding. Svyazinvest holds 50.67% of the voting shares in Rostelecom.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles (Rbl). These consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations prescribed by the IASB.

The consolidated financial statements have been prepared using the historical cost convention, except for measurement of available-for-sale investments at fair value and some other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4). The functional currency of the Company and each of its subsidiaries and the reporting currency for these consolidated financial statements is the Russian Ruble. All financial information presented in Russian Rubles has been rounded to the nearest million, unless otherwise stated.

3. OPERATING ENVIRONMENT OF THE GROUP

General

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 Group. The future business environment may differ from management’s assessment.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the year ended December 31,	Annual inflation
2009	8.8%
2008	13.3%
2007	11.9%

Source: Federal Service of Public Statistics

4. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare these consolidated financial statements:

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on January 1, 2009. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

Starting January 1, 2009, the Group applied the following IFRSs and IFRIC Interpretations:

- IFRS No. 8 “Operating Segments”;
- IFRS No.1 “First-time Adoption of International Financial Reporting Standards” (as revised in May 2008);
- IFRS No. 2 “Share-based Payment” (as revised in January 2008);
- IFRS No. 7 “Financial Instruments: Disclosures (as revised in March 2009)”;
- IAS No. 1 “Presentation of Financial Statements” (as revised in September 2007 and February 2008);
- IAS No. 23 “Borrowing Costs” (as revised in March 2007);
- IAS No. 27 “Consolidated and Separate Financial Statements” (as revised in May 2008);
- IAS No. 32 “Financial Instruments: Presentation” (as revised in February 2008);
- IAS No. 39 “Financial Instruments: Recognition and Measurement” (as revised in March 2009);
- Improvements to International Financial Reporting Standards 2008.
- IFRIC No. 13 “Customer Loyalty Programmes”;
- IFRIC No. 15 “Agreements for the Construction of Real Estate”;
- IFRIC No. 16 “Hedges of a Net Investment in a Foreign Operation”;
- IFRIC No. 18 “Transfers of Assets from Customers”;

The following revised standards were applied early before their mandatory effective dates:

- IFRS No. 3 “Business Combinations” (as revised in January 2008);
 - IAS No. 27 “Consolidated and Separate Financial Statements” (as revised in January 2008);
 - IAS No. 24 “Related Party Disclosures” (as revised in November 2009).
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OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The adoption of new/ revised Standards and Interpretations did not have material impact on the Group's results of operations, financial position and cash flows, except for non-controlling interests.

The Group has adopted early IAS 27 "Consolidated and Separate Financial Statements" and IFRS 3 "Business Combinations" (as revised in January 2008). The revised Standards require that losses applicable to non-controlling interests, including negative other comprehensive income, should be allocated to non-controlling interests even if doing so causes non-controlling interests to have a deficit balance. Previously, losses that exceeded the minority interests in the equity of the subsidiary might have created a deficit balance only if the minority had a binding obligation to fund the losses and is able to make an additional investment to cover the losses. If a deficit on a subsidiary attributable to minority interest was previously absorbed by the Company, the Group has not adjusted this balance in the opening statement of financial position on the adoption of IAS 27 (as revised in January 2008). Instead, total comprehensive loss arising subsequent to adoption of IAS 27 (as revised in January 2008) was allocated to the parent and to non-controlling interests based on their respective interests. Due to the adoption of IAS 27 (as revised in January 2008), the total comprehensive income of the Group attributable to equity holders of the parent increased by 223 and non-controlling interest decreased by 223 as of and for the year ended December 31, 2009. The change in accounting policy was applied prospectively.

The Group has early adopted IAS 24 "Related Party Disclosures" (as revised in November 2009). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party. As stated in Note 1 the Company is controlled by the Government of the Russian Federation and therefore has the right to apply a partial exemption from the disclosure requirements of IAS 24 for government-related entities. Specifically, under the new amendments a reporting entity is exempt from the general disclosure requirements of IAS 24 in relation to related party transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity;
- and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

However, where a reporting entity is exempt from the general disclosure requirements, the revised IAS 24 requires some qualitative or quantitative additional information regarding individually or collectively significant transactions (refer to Note 27 for details).

In accordance with revised IAS 1 "Presentation of Financial Statements" the Group elected a single statement presentation of comprehensive income.

Significant Accounting Judgments and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, fair values of assets and liabilities acquired in business combinations, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

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

Changes in Estimate of Useful Lives

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Site Restoration Provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

Post-Employment Benefits

The Group uses actuarial valuation methods for measurement of the present value of defined post-employment benefit obligations and related current service cost (refer to Note 23). This involves the use of demographic assumptions about the future characteristics of current employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2009, 2008 and 2007, allowances for doubtful accounts have been created in the amount of 1,986, 2,042 and 2,187, respectively (refer to Note 11).

Goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating unit(s) to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions 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

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

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, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31 each year.

A subsidiary is an entity that is controlled by the Company, either through ownership, directly or indirectly, of more than 50% of the voting share capital of the entity. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses are allocated to the parent and to non-controlling interests based on their respective interests.

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20% and 50% of the voting ownership interest or by power to participate in the financial and operating policy decisions of associates. The Group's share of the net income or losses of associates is included in profit or loss, the Group's share of movement in reserves is recognized in equity and the Group's share of the net assets of associates is included in the consolidated statements of financial position.

An assessment of investments in associates for possible impairment or reversal of impairment recognized previously is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment to fund future losses. Unrealized profits and losses that arise from transactions between the Group and its associates are eliminated in the proportion to the Group's share in such associates.

Goodwill

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

The acquirer recognizes goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the acquisition-date fair value of consideration transferred;

(ii) the fair value amount of any non-controlling interest in the acquiree; and

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

(b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized by allocating to other assets on pro rata basis, but not below their fair value unless another basis is more appropriate.

Goodwill is not amortized. Instead, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's reporting format determined in accordance with IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

In case of excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination the Group:

- (a) reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;
- (b) recognizes in profit or loss any excess remaining after that reassessment immediately.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of the network comprises all qualifying expenditures up to and including the cabling and wiring to the local telephone operator's intercity exchange, and includes contractors' charges and payments on account, materials, direct labour, and interest costs on specific project financing up to the date of commissioning of the relevant assets. Dismantling costs are included in cost of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation. Any difference between the net disposal proceeds and carrying amount of the item is reported as a gain or loss on

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

derecognition. The gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	<u>Number of years</u>
Buildings and site services	10 – 50
Cable and transmission devices:	
• Cable	10 – 40
• Radio and fixed link transmission equipment	8 – 20
• Telephone exchanges	15
Other	5 - 10

The useful life of assets encompasses the entire time they are available for use, regardless of whether during that time they are in use or idle. The useful lives and residual value of assets and methods are reviewed at each reporting date or more frequently if events occur that suggest a change is necessary and, if expectations differ from previous estimates, the changes are accounted for prospectively. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized.

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as a loss. Any subsequent increase in the recoverable amount of the assets is reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate. Based on management's analysis there were indicators of impairment of property, plant and equipment as of December 31, 2009 (refer to Note 6).

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunication industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method, which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Methods used to determine the value in use include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Advances given to suppliers of property, plant and equipment are included in construction in progress.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Leases

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. Determining whether an arrangement contains a lease is determined based on the facts and circumstances of each arrangement to determine whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use that asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRU) represent the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

Leases, including IRU leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is 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. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment when 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 financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

indication that a finite lived intangible asset may be impaired at each reporting date. The Group also performs annual impairment tests for finite lived assets not yet placed in use. The amortization expense on intangible assets with finite lives is included in depreciation and amortization expenses in profit or loss.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently when indicators of impairment exist, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Inventory

Inventory principally consists of fuel and spare parts for the network. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost is calculated on a first-in first-out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

Accounts Receivable

Trade and other accounts receivable are stated in the consolidated statement of financial position at original invoice amount less an allowance for any uncollectible amounts. The allowance is created based on the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

Bad debts are written off in the period in which they are identified.

Financial Instruments

Financial instruments carried in the consolidated statement of financial position include cash and cash equivalents, investments (other than in consolidated subsidiaries and equity method investees), non-hedge derivatives, accounts receivable, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item. The Group classifies financial assets and liabilities into the following categories: loans and receivables, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, financial liabilities at amortized cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not originated with the intent to be sold immediately. Such assets are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets and liabilities at fair value through profit and loss are financial assets or liabilities, which are either classified as held for trading or derivatives or are designated by the Group as at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purposes of selling in the near term. Gains and losses on investments held for trading are recognized in profit or loss.

All financial liabilities are carried at amortized cost using the effective interest method, except for derivative financial liabilities which are carried at their fair values.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

All other investments not classified in any of the two preceding categories are classified as available-for-sale. After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the determination of profit or loss. At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's investments may be impaired. The fair value of investments that are actively traded in organized markets is determined by reference to the quoted market bid price at the close of business at the reporting day. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions; references to the current market value of other instruments which is substantially the same; discounted cash flow analysis or other valuation models.

Interest income from investments is accrued during the period in which it is earned.

The Group invests temporarily available funds in bills of exchange issued by various Russian companies maturing within 12 months after the reporting date.

Borrowings

Borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. In subsequent periods, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

Deferred Income Taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized:

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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 measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the reporting date.

Revenue and Operating Costs Recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be reliably measured. Revenues and expenses are reported net of respective value added tax.

Revenues from directly billed subscribers are recognized in the period where the services were provided based on the Group's billing system's data. Revenues from subscribers billed via agents are recognized in the period where the services were provided based on agent reports.

The Group charges all its subscribers throughout Russia for outgoing telephone traffic based on pre-set per minute tariffs regulated by the Ministry of Telecommunications. The Group is charged by regional local operators for originating and terminating calls. The Group also incurs agent fees in connection with the service contracts concluded with regional local operators.

The Group charges amounts to foreign network operators for incoming calls and other traffic that originate outside Russia. The Group is charged by foreign operators for completing international calls. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position where a legal right of offset exists and there is intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Revenues from the sale of transmission capacity on terrestrial and submarine cables, which relates to IRU under operating leases where the Group is a lessor, are recognized on a straight-line basis over the life of the contract.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is charged in profit or loss or capitalized in an asset if it is required by IFRS.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Employee Benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to a separately administered pension fund upon employees' dismissal. A participating employee with fifteen or more years of service in the telecommunication industry including not less than five years of service in the Company is eligible for the pension provided dismissal is accepted within one month after the statutory retirement age. The pension fund is liable for payments to the retired employees. Under the scheme benefits payable are indexed periodically. Actuarial gains and losses are recognized in profit or loss immediately.

The Group uses the Project Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

The Group also participates in a defined contribution plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred. Effective January 1, 2004, the maximum contribution is established at 100.00 Rubles per month per employee.

The Group accrues for the employees' compensated absences (vacations) as the additional amount that the Group expects to pay as a result of the unused vacation that has accumulated at the reporting date.

Borrowing Costs

Borrowing costs are expensed, except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average rate of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining the qualifying asset. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to profit or loss in the period over which the asset is depreciated.

Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into Rubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Rubles at the exchange rate as of the reporting date. Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency exchange gains or losses in the period in which they arise.

As at December 31, 2009, 2008 and 2007, the rates of exchange used for translating foreign currency balances were (in Russian Rubles for one unit of foreign currency):

	2009	2008	2007
US Dollar (USD)	30.24	29.38	24.55
Japanese Yen (100)	32.83	32.58	21.84
Special Drawing Rights (SDR)	47.46	45.73	38.75
EURO (EUR)	43.39	41.44	35.93

Source: the Central Bank of Russia

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognized as a liability at the reporting date in accordance with IAS 10 Events After the Reporting Period.

Non-Controlling Interest

Non-controlling interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Company. Non-controlling interest at the reporting date represents the non-controlling shareholders' portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and their portion of movements in net assets since the date of the combination.

The losses applicable to non-controlling interests, including negative other comprehensive income, are charged to non-controlling interests even if it causes non-controlling interests to have a deficit balance (see section Changes in accounting policies above).

Earnings per Share

IAS 33, as revised, requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a numerator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Segment Information

Rostelecom and each of its subsidiaries represent separate operating segments of the Group. These operating segments were identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group reports separately information about operating segments if they exceed any of the quantitative thresholds specified in IFRS 8 Reporting Segments.

IFRSs and IFRIC Interpretations Not Yet Effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS No. 9 "Financial Instruments: Classification and Measurement";
 - IFRS No.1 "First-time Adoption of International Financial Reporting Standards" (as revised in November 2008 and July 2009);
 - IFRS No. 2 "Share-based Payment" (as revised in June 2009);
 - IAS No. 32 "Financial Instruments: Presentation" (as revised in October 2009);
 - Improvements to International Financial Reporting Standards 2009;
 - IFRIC No. 17 "Distributions of Non-cash Assets to Owners";
 - IFRIC No 19 "Extinguishing Financial Liabilities with Equity Instruments".
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OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

IFRS 9 “Financial Instruments: Classification and Measurement” introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013 with early adoption permitted. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 and IFRS 7. All recognised financial assets that are currently in the scope of IAS 39 will be measured at either amortised cost or fair value. All equity investments within the scope of IFRS 9 are to be measured on the statement of financial position at fair value with the default recognition of gains and losses in profit or loss. Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

The objective of the November 2008 revision of IFRS 1 “First-time Adoption of International Financial Reporting Standards” was to improve the structure of the Standard – no new or revised technical material has been introduced. The July 2009 amendments to IFRS 1 provide additional exemptions for first-time adopters relating to oil and gas assets and arrangements containing leases. No significant effects on the financial statements of the Group are expected as a result of those amendments.

The amendments to IFRS 2 “Share-based Payment” provide additional guidance on the accounting for share-based payment transactions among group entities. The revised Standard states explicitly that the entity receiving the goods or services will recognise the transaction as an equity-settled share-based payment transaction only if the awards granted are its own equity instruments or it has no obligation to settle the transaction. The effective date for the amendments to Standard is January 1, 2010. The Group does not expect the amendments to have a significant impact on the financial statements of the Group.

Under the amendment to IAS 32 “Financial Instruments: Presentation” rights, options and warrants issued to acquire a fixed number of an entity’s own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity’s own non-derivative equity instruments. The effective date for the amendment to Standard is February 1, 2010. The Group does not expect the amendment to have a significant impact on the financial statements of the Group.

In April 2009 IASB issued Improvements to IFRSs (2009) This is published under the annual improvements process which is intended to deal with non-urgent, minor amendments to various Standards. The Standard includes amendments to 12 IFRSs with various effective dates. The Group evaluated the effect of adoption of the Standard on the Group’s results of operations and financial position and concluded than its adoption will not have material impact on the financial statements.

IFRIC 17 “Distributions of Non-cash Assets to Owners” was issued in November 2008 and becomes effective for annual periods beginning on or after July 1, 2009. The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 follows the principle that an entity should recognize a liability at the point when the dividend is appropriately authorized, the liability should be measured at the fair value of the non-cash assets to be distributed and the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable, if any, should be recognized in profit and loss. The Group does not expect this Interpretation to have a significant impact on the financial statements of the Group.

IFRIC No 19 “Extinguishing Financial Liabilities with Equity Instruments” was issued in November 2009 and becomes effective for annual periods beginning on or after July 1, 2010. The Interpretation addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as “debt for equity swaps”). The Interpretation concludes that the issue of equity instruments to extinguish an obligation constitutes consideration paid. The Group does not expect this Interpretation to have a significant impact on the financial statements of the Group.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

5. BUSINESS COMBINATIONS

CJSC Rosmedia

In July 2009 the Group acquired a 100% equity interest in CJSC Rosmedia from an individual, a non-related party, for 0.01 paid in cash. CJSC Rosmedia is a start-up project for providing IPTV-services. This acquisition will allow the Group to diversify in new separate services as well as expand its broadband services.

The Group accounted for the acquisition of CJSC Rosmedia by applying the acquisition method, in accordance with the provisions of IFRS 3 Business combinations.

The results of operations and financial position of CJSC Rosmedia were consolidated by the Group starting from July 1, 2009. The following table summarizes the fair values of identifiable net assets of CJSC Rosmedia acquired as at the acquisition date:

	July 1, 2009
Property, plant and equipment	17
Intangible assets	3
Long-term investments	7
Inventories	7
Trade and other accounts receivable	12
Cash	2
Short-term debt	(88)
Accounts payable and accrued liabilities	(12)
Fair value of net assets	(52)
Consideration paid	-
Goodwill	52

The disclosure of carrying amounts of assets, liabilities and contingent liabilities of CJSC Rosmedia in accordance with IFRS, immediately before the business combination, is impracticable as CJSC Rosmedia had not been an IFRS reporter.

From the date of acquisition until December 31, 2009, CJSC Rosmedia has contributed 11 to the decrease of the net profit of the Group for 2009. If the control was obtained at the beginning of the year, the profit of the Group would have been 3,452 and revenue would have been 65,510.

OJSC RTComm.RU

In March 2008, the Group's Board of Directors authorized the purchase of an additional 68.4% equity interest in OJSC RTComm.RU from CJSC Sinterra, a non-related party.

Control was passed to the Group on July 1, 2008. The Group's share in OJSC RTComm.RU before the acquisition was 31.1%. OJSC RTComm.RU is one of the leading companies in the Russian telecommunication market, providing Internet access services to enterprises and individuals. The purchase of OJSC RTComm.RU was aimed to increase the diversification of activities of the Group. The cost of the additional investment amounted to 1,560, including costs directly attributable to the acquisition of 15 and was settled in cash.

OJSC RTComm.RU has three subsidiaries: CJSC RTComm-Sibir, LLC RTComm-Volga-Ural (former LLC Bashrtcomm in year 2008), LLC RTComm-Yug.

The Group accounted for the acquisition of OJSC RTComm.RU by applying the acquisition method, in accordance with the provisions of IFRS 3 *Business combinations*.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The results of operations and financial position of OJSC RTComm.RU were consolidated by the Group starting from July 1, 2008. The following table summarizes the fair values of identifiable net assets of OJSC RTComm.RU acquired as at the acquisition date:

	Pre-acquisition carrying amounts on a comparable IFRS basis	Fair value adjustments	Recognized fair values on acquisition
Property, plant and equipment	669	128	797
Intangible assets			
Trademark	-	76	76
Contract-based intangible assets	-	298	298
Customer list	-	424	424
Computer software	46	(5)	41
Other	-	3	3
Inventories	5	(1)	4
Trade and other receivables	849	(12)	837
Cash and cash equivalents	113	-	113
Other current assets	524	(8)	516
Deferred tax liabilities	98	(265)	(167)
Short-term debt	(122)	-	(122)
Accounts payable and accrued liabilities	(1,414)	188	(1,226)
Other current liabilities	(16)	-	(16)
Fair value of net assets	752	826	1,578
Less: non-controlling interest (0.49%)			(10)
Less: fair value of previously acquired 31.1% share			(490)
Group's share of the fair value of net assets acquired (68.4%)			1,078
Consideration paid			1,560
Goodwill			482

The Group's share of the identifiable assets, liabilities and contingent liabilities acquired in previous transactions was revalued, with the adjustment of 258 recognized directly in equity.

From the date of acquisition until December 31, 2008, OJSC RTComm.RU has contributed 15 to the increase of the net profit of the Group for 2008. If the combination had taken place at the beginning of 2008, the profit of the Group would have been 11,921 and revenue would have been 68,883.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2009, 2008 and 2007 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2009	23,779	89,792	26,031	10,247	149,849
Additions	-	1	251	8,312	8,564
Acquisition through business combination	-	13	4	-	17
Disposals	(476)	(12,274)	(2,064)	(453)	(15,267)
Transfer	613	4,670	2,503	(7,786)	-
Reclassification to intangible assets	-	-	-	(153)	(153)
At December 31, 2009	23,916	82,202	26,725	10,167	143,010
Accumulated depreciation and impairment losses					
At January 1, 2009	(19,109)	(72,284)	(18,770)	(100)	(110,263)
Depreciation expense	(788)	(3,807)	(2,243)	-	(6,838)
Impairment losses	-	-	-	-	-
Disposals	440	12,119	1,781	-	14,340
Reclassification	-	-	-	-	-
At December 31, 2009	(19,457)	(63,972)	(19,232)	(100)	(102,761)
Net book value at December 31, 2009	4,459	18,230	7,493	10,067	40,249

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2008	24,108	96,908	24,889	9,486	155,391
Additions	-	-	341	7,490	7,831
Acquisition through business combination	43	589	72	93	797
Disposals	(966)	(11,160)	(1,691)	(353)	(14,170)
Transfer	579	3,653	2,237	(6,469)	-
Reclassification	15	(198)	183	-	-
At December 31, 2008	23,779	89,792	26,031	10,247	149,849
Accumulated depreciation and impairment losses					
At January 1, 2008	(19,002)	(79,607)	(18,189)	(113)	(116,911)
Depreciation expense	(984)	(3,693)	(2,091)	-	(6,768)
Impairment losses	(3)	(57)	(65)	-	(125)
Disposals	888	11,013	1,627	13	13,541
Reclassification	(8)	60	(52)	-	-
At December 31, 2008	(19,109)	(72,284)	(18,770)	(100)	(110,263)
Net book value at December 31, 2008	4,670	17,508	7,261	10,147	39,586

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2007	24,329	103,039	25,129	8,293	160,790
Additions	-	-	-	7,144	7,144
Disposals	(1,070)	(9,782)	(1,620)	(71)	(12,543)
Transfer	489	3,708	1,683	(5,880)	-
Reclassification	360	(57)	(303)	-	-
At December 31, 2007	24,108	96,908	24,889	9,486	155,391
Accumulated depreciation and impairment losses					
At January 1, 2007	(18,767)	(85,265)	(17,436)	(136)	(121,604)
Depreciation expense	(1,197)	(4,007)	(2,150)	-	(7,354)
Disposals	967	9,640	1,417	23	12,047
Reclassification	(5)	25	(20)	-	-
At December 31, 2007	(19,002)	(79,607)	(18,189)	(113)	(116,911)
Net book value at December 31, 2007	5,106	17,301	6,700	9,373	38,480

As of December 31, 2009, the balance of construction in progress includes advances given to suppliers of property, plant and equipment in the amount of 3,145 (2008: 3,050, 2007: 4,278).

As of December 31, 2009, the cost of fully depreciated property, plant and equipment was 62,545 (2008: 64,005, 2007: 69,222).

Interest capitalization

Interest amounting to 196, 159 and 239 was capitalized in property, plant and equipment for the years ended December 31, 2009, 2008 and 2007, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 11.8%, 7.7% and 9.1%, respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 1,385, 1,610 and 2,097 was pledged in relation to loan agreements entered into by the Group as of December 31, 2009, 2008 and 2007, respectively.

Impairment of property, plant and equipment

Management believes that the capital and credit crisis and the world economic decline is an indicator for probable deterioration of performance of the Group and therefore performed an assessment of the impact of such events on its business and result of operations.

The recoverable amount of the assets that were assessed for impairment was based on value in use and was determined at the cash-generating unit level. The cash generating units of the Group consist of:

- OJSC Rostelecom including its subsidiary CJSC Westelcom, CJSC Zebra Telecom
 - CJSC RTComm.RU;
 - CJSC Globus Telecom;
 - CJSC MC NTT;
 - CJSC Global Tel
 - CJSC Rosmedia
-

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

In identifying cash-generating unit the Company proceeded from the requirement of IAS 36 that cash-generating unit to which goodwill is allocated shall not be larger than operating segment determined in accordance with IFRS 8 which the Company first time applied for annual period of 2009. As a result, CJSC RTComm.RU which was considered as integrated with Rostelecom in 2008 was identified as a separate cash-generating unit in 2009.

In determining value in use for the cash-generating unit, the cash flows were based on cash flow projections from financial budgets and forecasts approved by senior management for the period from 2010 to 2014 and discounted at rates ranging from 16.34% to 20.27% (2008: from 18.17% to 20.60%) on a pre-tax basis. Cash flows beyond the 5-year period were extrapolated using a growth rate of 3% (2008: from 2% to 3%)

As a result of testing no impairment was identified (2008: value in use of cash generating unit CJSC Global Tel appears to be lower than its carrying amount by 149, of which 125 was allocated to property, plant and equipment and 24 to intangible assets).

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The net book value of goodwill and other intangible assets as of December 31, 2009, 2008 and 2007 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Contract-based intangible assets	Other	Total
Cost								
At January 1, 2009	1,430	371	273	1,686	571	298	301	4,930
Additions	-	3	-	393	-	-	12	408
Acquisition through business combination	52	-	-	3	-	-	-	55
Disposals	-	-	-	(3)	-	-	(4)	(7)
Reclassification from property, plant and equipment	-	-	-	153	-	-	-	153
Reclassification	-	-	-	1	-	-	(1)	-
At December 31, 2009	1,482	374	273	2,233	571	298	308	5,539
Accumulated amortization and impairment losses								
At January 1, 2009	(312)	-	(39)	(631)	(51)	(16)	(6)	(1,055)
Amortization expense	-	-	(173)	(464)	(69)	(33)	(3)	(742)
Disposals	-	-	-	1	-	-	-	1
Reclassification	-	-	-	(1)	-	-	1	-
At December 31, 2009	(312)	-	(212)	(1,095)	(120)	(49)	(8)	(1,796)
Net book value at December 31, 2009	1,170	374	61	1,138	451	249	300	3,743

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Contract-based intangible assets	Other	Total
Cost								
At January 1, 2008	948	354	197	1,435	-	-	370	3,304
Additions	-	17	-	357	-	-	76	450
Acquisition through business combination	482	-	76	41	424	298	3	1,324
Disposals	-	-	-	(147)	-	-	(1)	(148)
Reclassification	-	-	-	-	147	-	(147)	-
At December 31, 2008	1,430	371	273	1,686	571	298	301	4,930
Accumulated amortization and impairment losses								
At January 1, 2008	(246)	-	(34)	(264)	-	-	(15)	(559)
Amortization expense	-	-	(5)	(343)	(38)	(16)	(4)	(406)
Impairment losses	(66)	-	-	(24)	-	-	-	(90)
Reclassification	-	-	-	-	(13)	-	13	-
At December 31, 2008	(312)	-	(39)	(631)	(51)	(16)	(6)	(1,055)
Net book value at December 31, 2008	1,118	371	234	1,055	520	282	295	3,875

	Goodwill	Number capacity	Trademarks	Computer software	Other	Total
Cost						
At January 1, 2007	948	353	197	1,176	150	2,824
Additions	-	1	-	259	220	480
At December 31, 2007	948	354	197	1,435	370	3,304
Accumulated amortization and impairment losses						
At January 1, 2007	(9)	-	-	(13)	(7)	(29)
Amortization expense	-	-	-	(251)	(8)	(259)
Impairment losses	(237)	-	(34)	-	-	(271)
At December 31, 2007	(246)	-	(34)	(264)	(15)	(559)
Net book value at December 31, 2007	702	354	163	1,171	355	2,745

The intangible assets recognized separately as a result of the acquisition of OJSC RTComm.RU, CJSC Globus-Telecom and CJSC Zebra Telecom (refer to Note 5) represent resources from which future economic benefits are expected to flow to the Group, and include the following classes:

- number capacity,
- trademarks,
- computer software,
- customer list,
- contract-based intangible assets.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The owned number capacity with a carrying amount of 374 (2008: 371, 2007: 354) are intangible assets with indefinite useful lives and are not amortized. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use during indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

As of December 31, 2007 intangible assets include trademark of CJSC Zebra Telecom which was considered to have indefinite useful life which was reassessed as finite of 5 years as of December 31, 2008.

As of December 31, 2009 within annual procedure of useful life reassessment trademark was considered as having nil useful life as no economic benefits is expected from it and was fully amortised. The carrying amount of the trademark as of December 31, 2009, 2008, 2007 amounted to 0, 163 and 163 respectively.

The estimated useful life of the trademark of OJSC RTComm.RU is 7.5 years.

The computer software includes internally generated and acquired intangible assets and has estimated useful lives from 1 to 10 years.

Interest amounting to 18, 4 and 5 was capitalized primarily in computer software for the years ended December 31, 2009, 2008 and 2007, respectively.

The goodwill recognized is attributed to the acquisitions of OJSC RTComm.RU, CJSC Globus-Telecom, CJSC Zebra Telecom and CJSC Rosmedia (refer to Note 5).

CJSC Globus-Telecom's telecommunication service was identified as a separate cash-generating unit with goodwill and indefinite life intangible assets acquired through business combination allocated to it. The recoverable amount of CJSC Globus-Telecom's telecommunication service was higher than its carrying amount at December 31, 2009 (as of December 31, 2008 is lower by 66). Consequently, no impairment loss was recognised for the year ended December 31, 2009 (2008: 66) The pre-tax discount rate applied to the cash flow projections is 19.08 % (2008: 20.42%, 2007: 13.7%) and the annual growth rate for the period beyond 5 years is 3% (2008: 3%). The gross margin was based on 63% (2008: 63%). An increase of one percentage point in the discount rate used would have caused an impairment loss of 24 (2008: would have increased the impairment loss by 99). A 5% decrease in future planned gross margin would have caused an impairment loss of 157 (2008: would have increased the impairment loss by 339).

CJSC Zebra Telecom was identified as a separate cash-generating unit at its acquisition date in June 2006 with goodwill and indefinite life intangible assets allocated thereto. In the last half of 2007, the Group determined that there were indications of impairment of goodwill and indefinite life intangible assets related to CJSC Zebra Telecom due to a decline in market conditions for their services. Therefore, the Group compared the recoverable amount of CJSC Zebra Telecom with its carrying amount and recognized an impairment loss of 271, of which 237 was allocated to goodwill and 34 was allocated to the respective trademark, which is an indefinite life intangible asset. Consequently, goodwill was fully written off in 2007. The recoverable amount of ZAO Zebra Telecom has been determined based on its value in use calculated using the cash flow projection from financial budget approved by senior management for 2008 and extrapolated for the next four-year period. Cash flows beyond this period are extrapolated using a nil growth rate. The pre-tax discount rate applied to the cash flow projection is 15.1% (2006: 14.7%). The gross margin was based on a range of 41% - 44%.

In 2008, as a result of the decline in market conditions, the Group decided to change the business model where CJSC Zebra Telecom will provide termination services to the Group. This change in business model resulted in CJSC Zebra Telecom producing a significant amount of internally generated cash inflows from the provision of the termination services using CJSC Zebra Telecom's zone network. Thus,

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

CJSC Zebra Telecom ceased to be a separate cash-generating unit since that time and is tested for impairment within the cash generating unit, OJSC Rostelecom.

The carrying amount of goodwill and the number capacity as of December 31, 2009, allocated to each of the cash-generating units, is as follows:

	CJSC Globus- Telecom			RTComm.		
	Rostelecom	MTs NTT	RU	Rosmedia	Total	
Goodwill	636	-	482	52	1,170	
Number capacity	358	1	-	-	374	
Net book value at December 31, 2009	994	1	482	52	1,544	

Rostelecom

The recoverable amount of the Rostelecom unit to which indefinite lived intangible assets from the CJSC Zebra Telecom acquisitions are allocated was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2009 (2008: 0). The pre-tax discount rate applied to the cash flow projections is 16.34% (2008: 18.17%) and the annual growth rate in the periods beyond 5 years is 3% (2008: 2%). An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin does not result in impairment loss.

MTs NTT

The recoverable amount of cash generating unit CJSC MTs NTT was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2009. The pre-tax discount rate applied to the cash flow projections is 19.30% (2008: 20.60%) and the annual growth rate in the period beyond 5 years is 3% (2008: 3%) An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin does not result in impairment loss.

RTComm.RU

The recoverable amount of cash generating unit OJSC RTComm.RU was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2009. The pre-tax discount rate applied to the cash flow projections is 20.27% and the annual growth rate in the period beyond 5 years is 3%. An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin does not result in impairment loss.

Rosmedia

The recoverable amount of cash generating unit CJSC Rosmedia was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2009. The pre-tax discount rate applied to the cash flow projections is 16.34% and the annual growth rate in the period beyond 5 years is 3%. An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin does not result in impairment loss.

The calculations of value in use for all cash generating units are most sensitive to the gross margin, discount rate and market share assumptions. Gross margin is based on historical actual results. The discount rate is the weighted average cost of capital of the Group adjusted for risks specific to the units. Market share assumptions are important because management assesses how the unit's position, relative to its competitors, might change over the budget period.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

8. SUBSIDIARIES

These consolidated financial statements include the assets, liabilities and results of operations of Rostelecom and its subsidiaries, all registered in the Russian Federation, as follows:

Subsidiary	Main activity	Effective share of the Group as of December 31,		
		2009	2008	2007
CJSC MTs NTT	Fixed line telecommunication services	100%	100%	100%
CJSC Westelcom	Leasing of telecommunication equipment	100%	100%	100%
	Local telecommunication services and			
CJSC Zebra Telecom	Internet services	100%	100%	100%
OJSC RTComm.RU (see Note 5)	Internet services	99.5%	99.5%	31%
CJSC RTComm-Sibir (see Note 5)	Internet services	99.5%	99.5%	31%
LLC RTComm-Volga-Ural (former LLC Bashrtcomm in 2008)(see Note 5)	Internet services	51%	51%	16%
LLC RTComm-Yug (see Note 5)	Internet services	99.5%	99.5%	31%
CJSC Globus-Telecom	Local telecommunication services	94.9%	94.9%	94.9%
CJSC GlobalTel	Satellite telecommunications	51%	51%	51%
CJSC Rosmedia (see Note 5)	Television data transmission	100%	-	-
CJSC SK Kostars	Insurance services	86.7%	86.7%	86.7%
CJSC Incom	Local telecommunication services	100%	100%	84.8%
DP Pansionat Malakhit	Recreational services	100%	100%	100%
OJSC InfoTeKS Taganrog Telecom	Local telecommunication services	100%	100%	100%

In July 2009, the Group acquired 100% in CJSC Rosmedia from an individual person, a non-related party, for a cash payment of 0.01.

In December 2008, the Group acquired an additional interest of 15.2% in CJSC Incom from Ericsson Enterprise AB, a non-related party, for a cash payment of 0.5.

9. INVESTMENTS IN ASSOCIATES

Investments in associates as of December 31, 2009, 2008 and 2007 were as follows:

Associate	Main activity	Voting share capital, %	2009 Carrying amount	2008 Carrying amount	2007 Carrying amount
OJSC RTComm.RU (refer to Note 5)	Internet services	-	-	-	317
OJSC MMTS-9	Telecommunication services	49	149	130	114
	Implementation of				
OJSC Svyazintek	integrated billing systems	19	-	47	60
Other	Various	-	3	1	3
Total investments in associates			152	178	494

Summarized financial information as of December 31, 2009, 2008 and 2007 and for the years then ended of the associates disclosed above is presented below:

Aggregate amounts	2009	2008	2007
Assets	345	1,068	3,624
Liabilities	(52)	(615)	(2,037)
Revenue	440	4,266	8,539
Net income/ (loss)	63	(275)	444

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

All associates are registered in the Russian Federation.

In 2009, the Group lost significant influence on OJSC Svyazintek. As of December 31, 2009 the Group had only one of eleven representatives in OJSC Svyazintek's Board of Directors. As of December 31, 2008 the Group had the right to nominate two of eleven directors to the Board and had significant influence over OJSC Svyazintek.

In March 2007, the Group acquired 53.72% of the preferred shares of OJSC MMTS-9 for a cash payment of 17. This acquisition resulted in effective ownership of 50.29%, however, these shares do not have voting rights. Therefore, the acquisition did not result in obtaining control over OJSC MMTS-9.

As of December 31, 2007, Rostelecom had significant influence over OJSC RTComm.RU through ownership of 31.1% of the voting shares of OJSC RTComm.RU. On July 1, 2008, the Group obtained control over OJSC RTComm.RU by acquiring an additional 68.4% equity interest. For more details refer to Note 5.

10. LONG-TERM INVESTMENTS

Long-term investments are available-for-sale investments and loans and receivables, which are stated at amortized cost using the effective interest method. As of December 31, 2009, 2008 and 2007 long-term investments comprised of the following:

	2009	2008	2007
Investment in Golden Telecom	-	-	10,945
Investment in OJSC Sberbank of Russia	678	173	826
Other long-term investments	359	121	76
Total long-term investments	1,037	294	11,847

The investment in OJSC Sberbank of Russia is stated at fair value determined based on the Russian Trade System (RTS) closing bid price at the last trading day of the year ended December 31, 2009.

In February 2008, the Group accepted an offer by Lilian Acquisition, Inc., a subsidiary of Vimpelcom, to purchase the Group's shares of Golden Telecom, Inc. The consideration from the Group's sale of 4,417,055 shares of Golden Telecom, Inc. amounted to USD 464 million (11,385) paid in cash. Profit from this transaction before tax and related deferred tax effect amounted to 8,666 and 2,230, respectively, and are recognized as gain on sale of investments and tax charge in the accompanying consolidated statements of comprehensive income for the year ended December 31, 2008. The net effect of 6,436, which was previously recorded in unrealized gain on available-for-sale investments as a result of fair value revaluations, was deducted from equity in the accompanying consolidated statements of financial position as of December 31, 2008.

As of December 31, 2007, the investment in Golden Telecom was recorded at its fair value determined based on NASDAQ closing bid price on the last trading day.

Included within other long-term investment is the deposit of 160 with Capital Credit Bank, which was impaired as the Bank is under insolvency procedure. An impairment loss of 86 is included in other non-operating expenses for the year ended December 31, 2008. The deposit is secured by collateral in the form of property.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

11. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2009, 2008 and 2007 comprised of the following:

	2009	2008	2007
Local operators	2,178	1,963	1,067
Subscribers	3,629	4,510	5,056
Foreign operators	1,029	1,452	1,033
Other	2,451	2,490	1,751
Less: allowance for doubtful trade accounts receivable	(1,759)	(1,716)	(1,994)
Trade accounts receivable, net	7,528	8,699	6,913
Prepayments	646	389	503
Prepaid taxes other than on income	382	872	791
Other accounts receivable	369	420	349
Less: allowance for doubtful other accounts receivable	(174)	(247)	(127)
Other accounts receivable, net	1,223	1,434	1,516
Total accounts receivable	8,751	10,133	8,429

Based on historic default rates, management believes that trade and other receivables that are past due are adequately impaired..

The following table summarizes accounts receivables denominated in foreign currencies as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
USD	865	1,190	843
EUR	213	319	45
SDR (special drawing right)	56	73	269
Other currencies	1	-	3
Accounts receivable denominated in foreign, gross	1,135	1,582	1,160
Less: allowance for doubtful accounts receivable	(443)	(499)	(405)
Accounts receivable denominated in foreign, net	692	1,083	755

As of December 31, 2009, 2008 and 2007, the carrying value of trade accounts receivable approximated their fair value.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Balance, beginning of year	2,042	2,187	1,594
Provision/(recovery) for doubtful accounts receivable	(28)	(32)	815
Accounts receivable written-off	(28)	(113)	(222)
Balance, end of year	1,986	2,042	2,187

The balance of the allowance for doubtful accounts receivable decreased long-term accounts receivable and short-term accounts receivable by the following amounts:

	2009	2008	2007
Long-term accounts receivable	53	79	66
Short-term accounts receivable	1,933	1,963	2,121
Total allowance for doubtful accounts receivable	1,986	2,042	2,187

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Long-term accounts receivable are included in other non-current assets in the consolidated statements of financial position.

12. SHORT-TERM INVESTMENTS

Short-term investments include Ruble denominated investments available-for-sale, which are stated at fair value, and loans and receivables which are stated at amortized cost using the effective interest method. Short-term investments comprised the following as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
Bills of exchange	14,842	3,449	343
Short-term deposits and deposit certificates	-	5,300	6,547
Other	105	13	30
Total short-term investments	14,947	8,762	6,920

As of December 31, 2009, 2008 and 2007 short-term investments, which are denominated in US dollars, include amounts totalling 8,769, 1,552 and 1,294 respectively. As of December 31, 2009, 2008 and 2007 short-term investments, which are denominated in Euro, include amounts totalling 2,805, nil and nil respectively.

Bills of exchange and short-term deposits and deposit certificates are classified as loans and receivables.

The bills of exchange bear interest in the range from 4% to 14% and are denominated in Rubles, as well as in foreign currencies. As of December 31, 2009, approximately 78% (2008: 0%, 2007: 0%) of the Group's total bills of exchange are denominated in foreign currencies, represented by US dollars and Euro.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009, 2008 and 2007 included cash on hand, at bank accounts and short-term deposits and bills of exchange with original maturities of less than three months as follows:

	2009	2008	2007
Cash at bank – Rubles	4,973	9,111	3,106
Cash at bank – Foreign currencies	1,734	591	105
Short term deposits – Rubles	154	1,327	67
Short term deposits – Foreign currencies	119	-	-
Short-term bills of exchange	-	957	-
Other	16	6	6
Total cash and cash equivalents	6,996	11,992	3,284

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

14. EQUITY

Share capital

The authorized share capital of the Company as of December 31, 2009, 2008 and 2007 comprised 1,634,026,541 ordinary shares and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025 per share.

As of December 31, 2009, 2008 and 2007, the issued and outstanding share capital was as follows:

	Number of shares	Nominal value	Carrying amount
Ordinary Shares, Rbl 0.0025 par value	728,696,320	1.822	75
Preferred Shares, Rbl 0.0025 par value	242,831,469	0.607	25
Total	971,527,789	2.429	100

There were no transactions with the Company's own shares during 2009, 2008 and 2007.

The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further approval of shareholders.

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through December 31, 2002. The share capital in the Russian statutory accounts at December 31, 2009, 2008 and 2007 amounted to 2,428,819 nominal (uninflated) Rubles.

Ordinary shares carry voting rights with no guarantee of dividends. Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization of the Company, changes to dividend levels of preferred shares, or the issuance of additional preferred stock. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Preferred shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by the number of preferred shares and the dividends paid on one ordinary share. If the holders of preferred shares receive dividends of less than 10% of the net income after taxation as reported in the Russian statutory accounts, no dividends to the holders of ordinary shares are declared. Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders' general meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

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

Accordingly, the Company's preferred shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 24).

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2009, 2008 and 2007 amounted to 53,797, 49,708 and 43,645, respectively.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Reserve capital

In accordance with the Company's Charter, Rostelecom has to maintain a reserve fund through a mandatory annual transfer of at least 5% of its statutory net profits up to the maximum amount of 15% of its statutory share capital. As of December 31, 2009, 2008 and 2007 the statutory reserve fund amounted to 364,323 nominal (uninflated) Rubles. These amounts are prohibited for distribution by current Russian legislation except in some limited cases.

Dividends

Dividends declared to holders of preferred and ordinary shares for the years ending December 31, 2009, 2008 and 2007 were accrued in the following years:

	2009	2008	2007
Dividend – preferred shares	707	942	718
Dividend – ordinary shares	1,415	1,414	1,078
Total dividends	2,122	2,356	1,796

	Rbl	Rbl	Rbl
Dividend per preferred share	2.91	3.88	2.96
Dividend per ordinary share	1.94	1.94	1.48

15. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

Accounts payable, provisions and accrued expenses consisted of the following as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
Trade accounts payable	4,726	7,006	3,743
Advances received	782	1,033	858
Short-term portion of pension obligations (refer to Note 23)	41	56	55
Short-term portion of site restoration provisions	49	49	41
Compensation related accruals	1,234	937	1,324
Other accrued expenses	1,675	326	1,349
Dividends payable	96	88	75
Current accounts payable, provisions and accrued expenses	8,603	9,495	7,445
Long-term portion of pension obligations (refer to Note 23)	55	90	98
Long-term portion of site restoration provisions	7	48	57
Long-term advances received	149	72	59
Other long-term accounts payable	2	33	55
Non-current accounts payable, provisions and accrued expenses	213	243	269
Total accounts payable, provisions and accrued expenses	8,816	9,738	7,714

The following table summarizes accounts payable denominated in foreign currencies as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
USD	4,016	2,062	908
SDR	234	255	181
EUR	130	167	323
Other currencies	-	2	19
Accounts payable denominated in foreign currencies	4,380	2,486	1,431

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Site restoration provisions represent the present value of the expenditures the Company expects to incur in connection with phasing out of analogue trunk lines during 2006-2011 in accordance with the formalized plan of the Company. The discount rate, which represents the risk-free government bonds rate, was 6.45%.

16. FINANCE LEASE PAYABLE

Leased assets as of December 31, 2009, 2008 and 2007, where the Group is a lessee of cables, plant and machinery under finance lease agreements, are comprised of the following:

	2009	2008	2007
Cost – capitalized finance leases	725	917	572
Impairment loss and accumulated depreciation	(252)	(217)	(160)
Net book value	473	700	412

In April 2005, the Group entered into a finance lease agreement for use of terrestrial optical fiber cables. The lease agreement is non-cancellable for the period of 15 years, which approximates the remaining useful life of the optical fibers. Effective interest rate of the lease is 7.21% p.a. Lease payments are denominated in US Dollars.

Also, the Group is involved in a finance lease agreement for use of a digital telecommunication station over its estimated remaining useful life of 7 years. Effective interest rate of the lease is 11.7% p.a. Lease payments are denominated in Russian Rubles.

In 2007, the Group entered into a number of minor finance lease agreements for purchase of telecommunication equipment and vehicles for an average period of 3 years. Effective interest rate of these leases is 10.3% p.a.

Future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Finance lease liabilities – minimum lease payments			
Current portion of finance lease liability	131	144	135
Between one to two years	68	81	106
Between two to three years	66	63	54
Between three to four years	66	61	43
Between four to five years	66	61	43
Over five years	334	377	307
Total minimum lease payments	731	787	688
Less interest	(200)	(223)	(184)
Present value of minimum lease payments	531	564	504

Present value of minimum lease payments

Not later than 1 year	95	103	108
Later than 1 year and not later than 5 years	157	157	157
Later than 5 years	279	304	239
Total non-current lease payable	436	461	396
Total lease payable	531	564	504

Depreciation of property, plant and equipment under the finance lease contracts for 2009 amounted to 57 (2008: 74; 2007: 52). Finance charges for the year ended December 31, 2009 amounted to 42 (2008: 44; 2007: 82) and are included in interest expense in the consolidated statements of comprehensive income.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

17. VENDOR FINANCING PAYABLE

Vendor financing payable includes the following as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
Globalstar L.P.	1,780	1,608	1,246
Peter Service	-	-	391
Vendor financing payable – current portion	1,780	1,608	1,637
Total vendor financing payable	1,780	1,608	1,637

As of December 31, 2009, the Group had the following outstanding vendor financing payable:

1,780 (USD 59 million) payable by CJSC GlobalTel to Globalstar L.P., which is the non-controlling shareholder of CJSC GlobalTel, for the purchase of three gateways and associated equipment and services (refer to Note 6). Globalstar L.P. has a lien over this equipment until the liability is fully paid. CJSC GlobalTel is in default in respect of payments in 2004, 2005, 2006, 2007, 2008 and 2009 and has not obtained a waiver from Globalstar L.P. As a result, the whole balance of 1,242 (2008: 1,207, 2007: 1,008) (USD 41 million) is classified as current in these consolidated statements of financial position as of December 31, 2009, 2008 and 2007. Penalty interest in amount of 538, 401 and 238, accrued for each day of delay at the rate of 10% p.a., is included in vendor financing payable in these consolidated statements of financial position as of December 31, 2009, 2008 and 2007, respectively. In 2006, Loral, which is the legal successor of Globalstar L.P., brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of vendor financing payable. Management believes repayment of the defaulted vendor financing and loans would not have a material adverse effect on the Group's results of operations, financial position and operating plans.

18. LONG-TERM BORROWINGS

Long-term borrowings as of December 31, 2009, 2008 and 2007 were as follows:

Maturity	2009	2008	2007
Current portion of interest bearing loans	1,980	2,522	2,585
Between one to two years	-	117	136
Between two to three years	-	-	36
Between three to four years	-	-	-
Between four to five years	-	-	-
Over five years	-	-	-
Non-current portion of interest bearing loans	-	117	172
Total interest bearing loans	1,980	2,639	2,757

As of December 31, 2009, 2008 and 2007, interest bearing loans, which are mostly denominated in foreign currencies, were as follows:

	2009	2008	2007
USD	1,874	2,342	2,397
EUR	-	30	77
Foreign currency denominated loans	1,874	2,372	2,474
Russian Ruble denominated loans	106	267	283
Total interest bearing loans	1,980	2,639	2,757

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

As of December 31, 2009, the Group has loan agreements with 6 banks and other financial institutions. The loans denominated in US Dollars are made at a fixed rate of 6.29% and floating rates of LIBOR + 0.5 – 3.25%. The Russian Ruble denominated loans are made at fixed rates of 13-17% p.a. Effective interest rates of interest bearing loans approximate their nominal rates.

Included in long-term loans is an amount of 1,512 on a credit agreement between Rostelecom and Vnesheconombank (VEB) entered into in December 2005. The loan is repayable annually up to the end of 2012. Under the existing credit agreement with Vnesheconombank and CSFB, the Group is required to meet at the end of each quarter various financial covenants applied to the statutory financial statements of the Company, including maintaining certain levels of debt to equity and debt to income ratios. As of December 31, 2009 the Group was in compliance with all of the covenants, but as of June 30, 2009 and September 30, 2009 the Group was not in compliance with some of the covenants and at the dates these financial statements were authorized for issue no waiver had been obtained by the Group from the bank, so the whole amount of the loan is included in current portion of interest bearing loans as of December 31, 2009. As of December 31, 2008 and December 31, 2007 the Group was not in compliance with some of the covenants, stipulated in the loan agreement and no waiver had been obtained from the banks. The Group received waivers from the bank only after the reporting dates (in May 2009 and June 2008, respectively), hence the whole amount of the loan is included in current portion of long-term loans in the consolidated statements of financial position as of December 31, 2008 and 2007.

In connection with the \$100 million loan from Vnesheconombank and CSFB, on June 28, 2006, the Group entered into an interest rate swap agreement with CSFB. In accordance with the interest rate swap agreement, each year on June 28 and December 28, commencing on December 28, 2006 and ending on December 28, 2012, the Group undertakes an obligation to CSFB calculated at a fixed interest rate and CSFB undertakes an obligation to the Group in the amount calculated at floating rate payable by the Group on its loan. The Group did not designate the above interest rate swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial liability at fair value through profit and loss amounted to 109 (2008: 176, 2007: 73). Fair value of the derivative is calculated by discounting future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The net gain of 67 related to the change in the fair value of the interest rate swap contract was included in the non-operating gain in the consolidated statement of comprehensive income for the year ended December 31, 2009 (2008: 103, 2007: 58).

There is 317 outstanding on a credit agreement between CJSC GlobalTel and Loral Space and Communications Corporation (“Loral”) as of December 31, 2009. CJSC GlobalTel is in default in respect of this loan. A penalty in the amount of 107 is included in the outstanding balance. As no waiver has been obtained from Loral, these loans are classified as current in the consolidated statement of financial position as of December 31, 2009. The loan does not provide for any collateral. In 2006, Loral brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of the debt. In 2009, the Supreme Court of Arbitration ordered CJSC GlobalTel to repay the loan and penalty to Loral.

OJSC Rostelecom**Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009**

(In millions of Russian Rubles unless otherwise stated)

19. INCOME TAXES

The components of net deferred tax assets and liabilities at December 31, 2009, 2008 and 2007, and the respective movements during 2009, 2008 and 2007, were as follows:

	December 31, 2008	Acquisition through business combination	Movement during 2009 recognized in		December 31, 2009
			Other comprehen- sive income	Profit for the year	
<i>Tax effects of future tax deductible items</i>					
Accounts receivable	107	-	-	(103)	4
Accounts payable, provisions and accrued expenses	89	-	-	(89)	-
Investments	65	-	(68)	30	27
Other	81	-	-	477	558
Gross deferred tax asset	342	-	(68)	315	589

Tax effects of future taxable items:

Accounts payable, provisions and accrued expenses	-	-	-	353	353
Property, plant and equipment	1,654	-	-	(28)	1,626
Intangible assets	278	-	-	(59)	219
Gross deferred tax liability	1,932	-	-	266	2,198
Net deferred tax liability	1,590	-	68	(49)	1,609

	December 31, 2007	Acquisition through business combination	Movement during 2008 recognized in		December 31, 2008
			Other comprehen- sive income	Profit for the year	
<i>Tax effects of future tax deductible items</i>					
Accounts receivable	304	-	-	(197)	107
Accounts payable, provisions and accrued expenses	131	58	-	(100)	89
Investments	-	-	-	65	65
Other	112	20	-	(51)	81
Gross deferred tax asset	547	78	-	(283)	342

Tax effects of future taxable items:

Investments	2,392	-	(2,256)	(136)	-
Property, plant and equipment	2,159	45	-	(550)	1,654
Intangible assets	115	200	-	(37)	278
Gross deferred tax liability	4,666	245	(2,256)	(723)	1,932
Net deferred tax liability	4,119	167	(2,256)	(440)	1,590

OJSC Rostelecom**Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009**

(In millions of Russian Rubles unless otherwise stated)

	December 31, 2006	Acquisition through business combination	Movement during 2007 recognized in		December 31, 2007
			Other comprehen- sive income	Profit for the period	
<i><u>Tax effects of future tax deductible items</u></i>					
Accounts receivable	100	-	-	204	304
Accounts payable, provisions and accrued expenses	246	-	-	(115)	131
Other	101	-	-	11	112
Gross deferred tax asset	447	-	-	100	547
<i><u>Tax effects of future taxable items:</u></i>					
Investments	1,026	-	1,335	31	2,392
Property, plant and equipment	2,716	-	-	(557)	2,159
Intangible assets	149	-	-	(34)	115
Gross deferred tax liability	3,891	-	1,335	(560)	4,666
Net deferred tax liability	3,444	-	1,335	(660)	4,119

Differences between IFRS and statutory taxation and reporting regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and income tax purposes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as of December 31, 2009, 2008 and 2007 amounted to 3,045, 2,174 and 1,353, respectively, of which unused tax losses with expiry date from 2012 to 2019 amounted to 1,586, 1,095 and 574 for 2009, 2008 and 2007, respectively.

Temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as of December 31, 2009, 2008 and 2007 amounted to 989, 1,236 and 606, respectively. Deductible temporary differences associated with investments in subsidiaries for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as of December 31, 2009, 2008 and 2007 amounted to 379, 382 and 321, respectively.

The components of income tax expense for the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Current tax charge	1,270	4,331	1,854
Deferred tax expense/ (benefit)	(49)	(121)	(660)
Effect of tax rate change	-	(319)	-
Income tax expense	1,221	3,891	1,194

The reconciliation of the theoretical amount that would arise using the Russian statutory rate of 20% to the total actual income tax was as follows for the years ending December 31, 2009, 2008 and 2007:

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

	2009	2008	2007
Profit before income tax	4,677	16,073	4,000
Income tax expense at statutory rate (20% in 2009, 2008/ 24% in 2007)	935	3,858	960
Effect of tax rate change	-	(319)	-
Change in unrecognized temporary differences and unused tax losses	174	110	9
Permanent differences	112	242	225
Income tax expense	1,221	3,891	1,194

Permanent differences comprise various costs that are non-deductible for Russian income tax purposes, including depreciation of certain property, plant and equipment, certain employee costs, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances and other expenses and value added tax accrued on free-of-charge services.

20. REVENUE

Revenue comprised the following for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Telephone traffic			
Domestic long-distance traffic	26,212	29,611	31,974
Outgoing international long-distance traffic	11,334	12,082	12,317
Incoming and transit international long-distance traffic	6,236	6,450	5,710
Local traffic	745	731	305
	44,527	48,874	50,306
Rent of channels	6,958	7,710	7,725
Data transmission services	9,014	5,437	1,292
Other revenue			
Television and radio transmission	257	345	448
Satellite services	159	263	699
Intelligent network services (INS)	1,072	1,251	1,133
Interconnection services	27	128	519
Technical support services	410	444	464
Equipment maintenance services	1,100	890	696
Miscellaneous revenue	1,986	1,287	1,320
	5,011	4,608	5,279
Total revenue	65,510	66,629	64,602

For a more appropriate presentation the Group amended the classification of certain categories of revenue relating to revenue from local telephone services. Comparative information for the years ended December 31, 2008 and 2007 was reclassified accordingly.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

21. SEGMENT INFORMATION

The Group's chief operating decision maker reviews statutory financial information of each of the Group's legal entities for purposes of assessing performance and making resource allocation decisions. All of these legal entities have similar economic characteristics and operate in one industry, being the provision of domestic and international long- distance telecommunication services in the Russian Federation. Also, the largest legal entity, the Company, generates 92% of the consolidated revenues of the Group, 94% of combined reporting profit of all operating segments that did not report a loss and 98% of the consolidated total assets of the Group. As a result, the Group's legal entities have been aggregated into a single operating segment whose assets and liabilities as of December 31, 2009, 2008 and 2007 and the results for the years then ended have been presented in the consolidated statement of financial position and consolidated statement of comprehensive income, respectively.

An analysis of revenue by service type is disclosed in Note 20. A geographical analysis of revenue by the country or region of the customer for the years ending December 31, 2009, 2008 and 2007 is as follows:

	Russia	Other CIS countries	USA	Western Europe	Eastern Europe	Others	Total
2009	57,860	2,174	1,194	2,721	470	1,091	65,510
2008	59,218	2,407	1,031	2,491	462	1,020	66,629
2007	58,024	2,406	848	2,068	400	856	64,602

Substantially all of the Group assets are located within the territory of the Russian Federation.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties, that accounted for greater than 10% of its revenue during the years ended December 31, 2009, 2008 and 2007. The total amount of revenue relating to transactions with the Government of the Russian Federation and other state bodies for the years ended December 31, 2009, 2008 and 2007 amounted to 8,646, 8,874 and 7,794, respectively.

22. ADMINISTRATION AND OTHER COSTS

Administration and other costs consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Administration costs	486	592	445
Advertising and similar costs	924	1,367	1,403
Office maintenance	2,258	1,992	1,910
Utilities and similar services	813	725	700
Consulting and similar services	1,428	778	452
Universal service fund	545	563	585
Insurance	153	182	236
Other	513	749	939
Total administration and other costs	7,120	6,948	6,670

For a more appropriate presentation the Group amended the classification of certain categories of administration and other costs, relating to office maintenance, consulting services and insurance. Comparative information for the years ended December 31, 2008 and 2007 was reclassified accordingly.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

23. EMPLOYEE BENEFITS

The numbers of employees of the Group was equal to 21,383 as at December 31, 2009 (2008: 22,372, 2007: 22,534).

The Group makes payments to the Government pension fund for its employees. Such contributions are included in the unified social tax ("UST") calculated by the Group using regressive scale and are charged to expense when incurred during the employee's service period. Total contributions for UST amounted to 1,575 during the year ended December 31, 2009 (2008: 1,435, 2007: 1,426).

Beginning from January 1, 2010 UST was abolished and replaced by contributions to three independent state funds. The rate attributed to the Government pension fund was increased, the regressive scale was eliminated and certain ceiling limitations on the contributions per one employee were introduced. Beginning from the same date contributions to the non-government pension funds were excluded from payroll-related taxation.

The Company participates in the private Joint Participation Program, which is a pension plan with defined contributions. To participate in the program, individuals should be full-time employees of the Company and should enter into a non-state pension insurance agreement with NPF "Telecom-Soyuz", which is the successor of NPF Rostelecom-Garantiya. Total expenses of the Group under this program amounted to 5 during the year ended December 31, 2009 (2008: 6, 2007: 9) and are included in wages, salaries, other benefits and payroll taxes in the consolidated statements of comprehensive income.

The Company also operates a defined benefit pension scheme covering a large number of its employees, which requires contributions to be made to NPF Telecom-Soyuz. Under the scheme, an annuity is acquired by the Company as of the termination date of an employee if the latter satisfies certain criteria, such as seniority of 15 years in telecommunication sector, including seniority of 5 years in the Company, and retirement on pension within one month after the date an employee is entitled to pension in accordance with Russian legislation. The liabilities under this scheme are unfunded.

The following table summarizes movements in the present value of the defined benefit obligation and amounts recognized in the consolidated statements of financial position for the above plan (refer to Note 15):

	2009	2008	2007
Opening defined benefit obligation	216	239	277
Interest cost on benefit obligation	19	17	19
Current service cost	8	11	13
Actuarial (gains)/ losses on obligation	(28)	5	8
Benefits paid	(64)	(56)	(78)
Closing defined benefit obligation	151	216	239
Unrecognized past service cost	(55)	(70)	(86)
Liability recognized in consolidated statements of financial position	96	146	153

Amounts recognized in wages, salaries, other benefits and payroll taxes in the consolidated statements of comprehensive income in respect of the above defined benefit plan are as follows:

	2009	2008	2007
Interest cost on benefit obligation	19	17	19
Current service cost	8	11	13
Amortization of past service cost	15	16	16
Actuarial (gains)/ losses on obligation	(28)	5	8
Total net benefit expense	14	49	56

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The principal assumptions used in determining pension benefit obligation for the Group's plan are shown below:

	2009	2008	2007
Discount rate	10.0%	10.4%	7.9%
Employee turnover rate	10.3%	10.9%	10.9%
Expected inflation rate	6.2%	10.4%	6.9%

The amounts of experience adjustments are as follows:

	2009	2008	2007
Present value of defined benefit obligation	151	216	239
Experience adjustments on plan liabilities	12	(3)	15

The expected amount of benefits to be paid in 2010 is 61.

24. EARNINGS PER SHARE

The calculation of basic and diluted earnings per preferred and ordinary share is presented below (earnings per share data is stated in Rubles):

	2009		2008		2007	
Profit attributable to equity holders of the parent	3,673		12,178		2,805	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Weighted average number of shares outstanding	728,696,320	242,831,469	728,696,320	242,831,469	728,696,320	242,831,469
Basic and diluted earnings per share, Russian Rubles	3.78	3.78	12.54	12.54	2.89	2.89

The calculation of earnings per share is based on net profit for the period divided by the weighted average number of preferred and ordinary shares outstanding during the year. Dividends are fully allocated to continuing operations.

There are no potentially dilutive instruments, therefore, diluted earnings per share equal basic earnings per share.

OJSC Rostelecom**Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009**

(In millions of Russian Rubles unless otherwise stated)

25. FINANCIAL INSTRUMENTS

The table below summarizes the carrying amount by class of all of the Group's financial instruments:

Classes	Categories	December 31, 2009 Carrying amount	December 31, 2008 Carrying amount	December 31, 2007 Carrying amount
Long-term equity investments				
- at fair value	Available-for-sale	699	173	11,771
- at cost	Available-for-sale	39	9	10
Long-term debt investments				
- at amortized cost	Loans and receivables	299	112	66
Long-term receivables	Loans and receivables	8	37	16
Total long-term financial assets		1,045	331	11,863
Short-term equity investments				
- at fair value	Available-for-sale	-	13	30
Short-term debt investments				
- at amortized cost	Loans and receivables	14,947	8,749	6,890
Short-term trade receivables	Loans and receivables	7,528	8,699	6,913
Short-term other receivables	Loans and receivables	195	173	222
Cash and cash equivalents	Loans and receivables	6,996	11,992	3,284
Total short-term financial assets		29,666	29,626	17,339
Long-term bank loans	Liabilities at amortized cost	-	117	172
Non-current finance lease and vendor financing	Liabilities at amortized cost	436	461	396
Non-current accounts payable	Liabilities at amortized cost	2	33	55
Total long-term financial liabilities		438	611	623
Short-term bank loans	Liabilities at amortized cost	1,764	2,046	2,286
Short-term non-bank loans	Liabilities at amortized cost	356	489	326
Short-term finance lease and vendor financing	Liabilities at amortized cost	1,875	1,711	1,745
Short-term accounts payable	Liabilities at amortized cost	7,622	8,181	6,418
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	109	176	73
Total short-term financial liabilities		11,726	12,603	10,848

The fair value of cash and cash equivalents, current receivables, trade payables, other current financial assets and liabilities approximate their carrying amount largely due to the short-term maturity of these instruments.

The fair value of long-term debt investments, long-term accounts receivables and non-current accounts payable correspond to the present values of the payments related to the assets and liabilities, taking into account the current interest rate parameters that reflect market-based changes to terms and conditions and expectations.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Available for sale investments accounted for at cost include unquoted equity investments whose value cannot be measured reliably. Quoted prices are not available for these investments due to the absence of an active market. It is also impossible to derive fair value using the similar transaction method. The discounting cash flow method cannot be applied to such investments as there are no reliably determinable cash flows from holding them.

The table below provides fair value measurements of financial assets and liabilities by fair value hierarchy levels:

	2009	2008	2007
Available-for-sale financial assets			
Long-term equity investments at fair value			
Level 1	699	173	11,771
Level 2	-	-	-
Level 3	-	-	-
Total long-term equity investments at fair value	699	173	11,771
Short-term equity investments at fair value			
Level 1	-	13	30
Level 2	-	-	-
Level 3	-	-	-
Total short-term equity investments at fair value	-	13	30
Financial liabilities at fair value through profit and loss			
Non-hedge derivatives			
Level 1	-	-	-
Level 2	109	176	73
Level 3	-	-	-
Total non-hedge derivatives	109	176	73

26. GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS

Gain/(loss) from financial instruments for 2009, 2008, 2007 are as follows:

Classes	Categories	2009			
		Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Long-term equity investments					
- at fair value	Available-for-sale	-	506	-	-
- at cost	Available-for-sale	-	-	-	-
Long-term debt investments					
- at amortized cost	Loans and receivables	-	-	-	-
Investments in associates	N/A				
Long-term receivables	Loans and receivables	-	-	-	-
Total long-term financial assets		-	506	-	-

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Classes	Categories	Impairment loss and reversal of impairment loss	2009		Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
			Fair Value revaluation gain/(loss)			
Short-term equity investments						
- at fair value	Available-for-sale	-	-	-	-	-
Short-term debt investments						
- at fair value	Available-for-sale	-	-	-	-	-
- at amortized cost	Loans and receivables	-	-	(81)	(692)	
Short-term trade receivables	Loans and receivables	(43)	-	-	202	
Short-term other receivables	Loans and receivables	71	-	-	9	
Cash and cash equivalents	Loans and receivables	-	-	-	(24)	
Total short-term financial assets		28	-	(81)	(505)	
Long-term bank loans	Liabilities at amortized cost	-	-	-	-	
Long-term accounts payable	Liabilities at amortized cost	-	-	-	-	
Total long-term financial liabilities		-	-	-	-	
Short-term bank loans	Liabilities at amortized cost	-	-	-	(43)	
Short-term non-bank loans	Liabilities at amortized cost	-	-	-	(16)	
Short-term finance lease and vendor financing	Liabilities at amortized cost	-	-	-	(45)	
Short-term accounts payable	Liabilities at amortized cost	-	-	-	(284)	
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	-	67	-	-	
Total short-term financial liabilities		-	67	-	(388)	

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Classes	Categories	2008				2007			
		Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Long-term equity investments									
- at fair value	Available-for-sale	-	(398)	8,666	-	-	5,562	-	(1)
- at cost	Available-for-sale	1	-	4	-	-	-	-	-
Long-term debt investments									
- at amortized cost	Loans and receivables	(86)	-	-	-	2	-	-	(4)
Long-term receivables	Loans and receivables	(13)	-	-	(9)	(60)	-	-	-
Total long-term financial assets		(98)	(398)	8,670	(9)	(58)	5,562	-	(5)
Short-term equity investments									
- at fair value	Available-for-sale	-	(16)	-	-	-	(1)	-	-
Short-term debt investments									
- at fair value	Available-for-sale	-	-	-	-	-	-	-	-
- at amortized cost	Loans and receivables	-	-	-	245	-	-	-	(145)
Short-term trade receivables	Loans and receivables	278	-	-	545	(863)	-	-	(103)
Short-term other receivables	Loans and receivables	(233)	-	-	45	107	-	-	(9)
Cash and cash equivalents	Loans and receivables	-	-	-	(96)	-	-	-	(9)
Total short-term financial assets		45	(16)	-	739	(756)	(1)	-	(266)
Long-term bank loans	Liabilities at amortized cost	-	-	-	(10)	-	-	-	(1)
Long-term accounts payable	Liabilities at amortized cost	-	-	-	-	-	-	-	(3)
Total long-term financial liabilities		-	-	-	(10)	-	-	-	(4)

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

Classes	Categories	2008				2007			
		Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Short-term bank loans	Liabilities at amortized cost	-	-	-	(431)	-	-	-	214
Short-term non-bank loans	Liabilities at amortized cost	-	-	-	(44)	-	-	-	(10)
Short-term finance lease and vendor financing	Liabilities at amortized cost	-	-	-	(181)	-	-	-	(3)
Short-term accounts payable	Liabilities at amortized cost	-	-	-	(852)	-	-	-	236
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	-	(103)	-	-	-	(58)	-	-
Total short-term financial liabilities		-	(103)	-	(1,508)	-	(58)	-	437

27. RELATED PARTY TRANSACTIONS**(a) The Government and OJSC Svyazinvest as a shareholder**

As indicated in Note 1, the main shareholder of the Company is OJSC Svyazinvest, which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. The Government of the Russian Federation, in turn, holds 75% less one share of the voting capital of OJSC Svyazinvest and, therefore, ultimately controls the Company. It is a matter of Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs, and does regulate such tariffs. Except for regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Transactions with the Svyazinvest Group

The Group uses the regional networks of the Svyazinvest Group to terminate telephone traffic. Tariffs for services between the Group and other Svyazinvest Group companies for traffic initiation and termination are materially affected by governmental regulation as disclosed in paragraph (b) of this note.

In addition, the Group contracted the Svyazinvest Group companies as the Group's regional agents for customer service, billing and collection services related to long-distance services provided by the Group. Moreover, while calculating the costs of services rendered, the Group uses appropriate resources of Svyazinvest Group companies, including billing and other information systems data.

The Group also receives services related to the construction of the network from certain companies of the Svyazinvest Group which are included in additions of property, plant and equipment in amount of 56 (2008: 58, 2007: 21).

The Group makes contributions to the non-state pension fund, which provides the Company's employees with a number of post-employment benefits (refer to Note 23). OJSC Svyazinvest executes significant influence over the operations of the fund.

The Group also has investments in OJSC Dagsvyazinform, which is a part of the Svyazinvest Group. These investments represent receivables under long-term lease contracts obtained by the Group through a cession agreement. As of December 31, 2009 the Group's investments in OJSC Dagsvyazinform amounted to 328, of them 103 represent short-term part.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The amounts of revenue and expenses relating to the transactions with the Svyazinvest Group were as follows:

	2009	2008	2007
Revenue	3,361	2,668	2,308
Charges by network operators – national	(14,069)	(15,576)	(21,162)
Administration and other costs	(184)	(172)	(105)
Contributions in pension fund included in wages, salaries, other benefit and payroll taxes	(69)	(62)	(86)
Bad debt recovery / (expense)	52	(27)	(83)

In addition, OJSC Svyazinvest participates in the dividends declared by the Company, commensurate with its shareholding.

The amounts of receivables and payables due from and to the Svyazinvest Group were as follows:

	2009	2008	2007
Accounts receivable	1,371	690	670
Allowance for doubtful receivables	(101)	(153)	(129)
Accounts payable	(349)	(848)	(731)

(d) Transactions with other government related entities

In January 2009, OJSC Rostelecom in partnership with mobile operator OJSC Megafon won a tender for sponsorship of the XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi in the category of Telecommunication. According to the agreement with the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi the sponsorship contribution amounts to USD 260 million and should be charged to each sponsor in the amount of USD 130 million. Half of this amount shall be paid in cash and the other half shall be contributed in free services. In return, each partner will obtain exclusive rights to use the Olympic logo in its advertising and other activity. There is a joint responsibility of the Group and Megafon in respect of non-cash contributions. The total charge of sponsorship contribution to profit and loss in 2009 consists of 170. As of December 31, 2009 the total commitment due to be paid in cash by 2014 is USD 42.5 million.

The Group considers this transaction as a transaction with a related party because the Group treats the Organisation committee as a government related entity. The reason for this is that the federal government was one of the founders of the Organisation committee and government executives are in the Oversight Board of this Organisation.

In December 2009 the Company entered into a state contract with the Ministry of Telecom and Mass Communications of the Russian Federation to realise project Electronic government. The project implies equipment and software installation, development of web site for on-line access to information about government services, possibility to apply documents to government bodies via web-site, having support via call centre and other related services. The Company acts as a sole provider of all services under the project. Total revenue under the contract for the year ended December 31, 2009 is 655.

The Group has collectively but not individually significant transactions with other government-related entities including but not limited to providing telecommunication services, consuming services having both production and miscellaneous nature, depositing and borrowing money. All these transactions are carried out in the course of normal day-to-day business operations on the terms comparable to those with other entities which are not government-related. Management assesses these transactions as not very large except for placing deposits in government-related banks.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

(e) Transactions with associates

The Group is also involved in various telecommunication services with entities in which it has investments, including associates over which it exerts significant influence. A summary of these transactions is as follows:

	2009	2008	2007
Revenue	-	158	575
Charges by network operators – national	(106)	(110)	(118)
Bad debt recovery / (expense)	5	33	(10)

The Group also receives services related to the construction of the network from OJSC Svyazintek which are included in additions of property, plant and equipment in amount of nil (2008: nil, 2007: 9).

Amounts included in the consolidated statements of financial position relating to the operations with these entities were as follows:

	2009	2008	2007
Accounts receivable	-	8	103
Allowance for doubtful receivables	-	(5)	(38)
Accounts payable and accrued expenses	(13)	(17)	(23)

(f) Directors' remuneration

In 2009, the total remuneration of the directors and management board members, represented by short-term benefits, amounted to 304 (2008: 198, 2007: 191). As of December 31, 2009, 12 employees of the Company were members of the management board (2008: 13, 2007: 12).

(g) Other related party transactions

As of December 31, 2009 State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" holds 30% of the voting shares in the Company thus having significant influence over the operations of the Group. The Group has significant outstanding balances owing to VEB in accordance with a loan agreement (refer to Note 18).

28. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business (refer to (b) below). Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Company or the Group.

As mentioned in Note 18, Loral won a lawsuit against CJSC GlobalTel with a claim to repay the principal amount of the loan, interest and related expenses. In addition, Loral filed a lawsuit in the Superior Court of California, County of Santa Clara, USA, to recognize its claim against GlobalTel and to obtain the right to claim the property of CJSC GlobalTel. The Court declined to consider the claim based on jurisdiction criteria.

In April 2009 Loral filed a lawsuit against the Company in the New York Supreme Court, USA demanding to pay back loans issued to the Company's subsidiary CJSC GlobalTel at the amount of 8.5

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

million US dollars. As of the reporting date the Court had not considered the case. Management considers the risk of negative decision to be remote taking into account the abovementioned decision of Superior Court of California.

(b) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group entities may be assessed additional taxes, penalties and interest, which can be significant. The Group entities' tax returns are open for review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year in which the decision on the conduct of the tax audit was adopted. Under certain circumstances, reviews may cover longer periods.

As of December 31, 2009, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained upon examination. Management of the Group believes that it has adequately provided for tax liabilities in the consolidated statements of financial position as of December 31, 2009. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

In December 2007, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2004-2006 and, as a result, issued a claim in the amount of 1,812 of additional taxes, fines and penalties. More than 90% of the amount relates to assessments calculated on the basis of the tax authorities' interpretation of telecommunication industry legislation in general and that of interaction between telecommunication operators in particular. The Group appealed the decision to a higher taxing authority and to the Arbitration Court of Moscow. In November 2008, the Arbitration Court of Moscow declared the claim of the tax authorities in the amount of 1,803 invalid and ordered the Group to pay 9. In February 2009, the Court of Appeals confirmed the decision of the Arbitration Court of Moscow. Subsequently, the Federal Tax Service of the Russian Federation filed an appeal to the Court of Cassation, which, in May 2009, upheld the ruling of the Arbitration Court of Moscow.

Management believes that, overall, taxes for 2004-2006 have been properly calculated by the Group and fairly stated in its financial statements based on the Group's analysis of the sustainability of liability. However, certain transactions revealed during the tax inspection management assessed as unlikely to be successfully defended in higher courts. As a result, the Group has accrued additional tax liabilities of 151 as of December 31, 2009 (2008: 140, 2007: 144) with regard to 2004-2006.

In February 2010, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2007-2008 and, as a result, issued a claim in the amount of 673 of additional taxes. Management believes that, overall, taxes for 2007-2008 have been properly calculated by the Group and fairly stated in its financial statements based on the Group's analysis of the sustainability of liability. However, certain transactions revealed during the tax inspection management assessed as unlikely to be successfully defended in higher courts. As a result, the Group has accrued additional tax liabilities of 18 as of December 31, 2009. Therefore the total provision for tax liabilities for the period 2004-2008 comprised of 169 as of December 31, 2009 (2008:140, 2007:144).

In April 2008, the Russian Federal Tax Service completed a comprehensive tax inspection of CJSC GlobalTel for the period 2005-2006 and, as a result, issued a claim in the amount of 91 of additional taxes which was subsequently reduced to 45. CJSC GlobalTel disputed the claim in the Arbitration Court of Moscow. In April 2009, the court declared the claim of the tax authority of 43 to be invalid. In November 2009 the Court of Appeals confirmed the decision of the Arbitration Court of Moscow. On cassation of the Federal Tax Service in March 2010 the Federal Arbitration Court of Moscow region confirmed most cases of the decisions of courts of previous instances.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

In September 2009 the Russian Federal Tax Service completed a comprehensive tax inspection of CJSC GlobalTel for the period of 2007-2008 and, as a result, issued a claim amounted to 217 of additional taxes, fines and penalties. Mostly, additional taxes were accrued as a result of the tax authorities' interpretation of pricing for the services. In December 2009, CJSC Global Tel initiated a lawsuit against the Russian Federal Tax Service in Moscow Arbitration Court. Management believes that taxes for the inspected period have been properly calculated and recognised in the financial statements. The Group believes it will prevail in the litigation process and consequently no provisions were recognised in the financial statements as of December 31, 2009.

(c) Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years up to 2013.

The Company has renewed all other licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

(d) Capital Commitments

As of December 31, 2009, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 2,181 (2008: 3,134, 2007: 3,298).

As of December 31, 2009, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as of December 31, 2009, were as follows:

Current portion	78
Between one to two years	69
Between two to three years	63
Between three to four years	60
Between four to five years	57
Over five years	1,868
Total minimum rental payables	2,195

In connection with the finance lease agreement referred to in Note 16, the Group, as lessor, also entered into operating IRU lease agreements for the rent of its network capacity of terrestrial fiber-optic cables for the period of 13 years starting at various dates between 2006 and 2009.

Future minimum rentals receivable related to these cancellable operating leases, which are unlikely to be cancelled as of December 31, 2009, 2008 and 2007, were as follows:

	2009	2008	2007
Current portion	91	39	83
Between one to two years	88	98	81
Between two to three years	88	92	80
Between three to four years	88	92	78
Between four to five years	88	92	78
Over five years	214	316	347
Total minimum rental receivables	657	729	747

29. CREDIT RISK MANAGEMENT

Each class of financial assets represented in the Group's statements of financial position to some extent is exposed to credit risk. Management develops and implements policies and procedures aiming to minimize the exposure and impact on the Group's financial position in case of risk realization.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of subscribers. In particular, credit worthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at December 31, 2009.

To reduce risk of exposure on receivables from businesses and individuals the Group implements a range of procedures. Credit risk is determined based on a summary of probabilities of occurrences and possible impact of events negatively influencing the customer's ability to discharge its obligation. A credit rating is attributed to a customer on initial stage of cooperation and, then, reassessed periodically based on credit history. As a part of its credit risk management policy, the Group arranges preventive procedures which are represented by but not limited to advance payments, request for collaterals and banks and third parties party guarantees. For collection of receivables, which are past due, the Group takes a variety of actions from suspension of rendering of services to taking legal action.

The Group deposits excess cash available with several Russian banks and makes investments into promissory notes, both of which expose the Group to credit risk since there is no deposit insurance for banks operating in Russia. To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the credit worthiness of the banks. To facilitate this assessment, deposits are mainly placed with the bank where the Group has already had current settlement account and can easily monitor activity of such banks. Prior to investing in promissory notes, management of the Group performs an analysis of financial position of the issuer and monitors its credit worthiness over periods up to maturity. Credit quality of the promissory notes is enhanced, whenever possible, by collaterals.

To secure the obligation of a debtor to pay on deposits, the Group holds collaterals amounting to 255 representing property. The Group is entitled to take possession of the pledged property only in case of either non-performance or undue performance of obligations by the debtor.

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets. Such exposure is mitigated by collaterals held by the Group.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

30. LIQUIDITY RISK MANAGEMENT

The Group monitors its risk to a shortage of funds by preparing and monitoring compliance with a cash budget/forecast. This tool considers the maturity of both cash inflow and outflow from the Group's operations. Based on projected cash flow the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis.

Maturity analysis as of December 31, 2009, 2008 and 2007 represented below shows undiscounted cash flows.

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	2,295	-	-	-	-	-
Finance lease and vendor financing payable	2,088	68	66	66	66	334
Accounts payable	7,718	26	10	9	11	81
As of December 31, 2009	12,101	94	76	75	77	415

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	2,776	128	-	-	-	-
Finance lease and vendor financing payable	1,752	81	63	61	61	377
Accounts payable	9,521	88	30	22	24	173
As of December 31, 2008	14,049	297	93	83	85	550

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	2,841	147	37	-	-	-
Finance lease and vendor financing payable	1,791	106	54	43	43	307
Accounts payable	7,471	111	29	28	24	144
As of December 31, 2007	12,103	364	120	71	67	451

In 2008-2009, the Russian financial market was influenced by the world economic crisis. The Group deals mainly with short-term financial instruments denominated in Russian Rubles and management does not believe the crisis has or will significantly influence the Group's operations.

In accordance with Russian legislation, joint stock companies must maintain a level of equity (net assets) that is greater than the charter capital. In the event that a company's net assets, as determined under Russian accounting legislation, fall below certain minimum levels, specifically below zero, the company can be forced to liquidate. CJSC Zebra Telecom and CJSC GlobalTel have had, and continue to have, negative equity as reported in their Russian statutory financial statements. Management believes that the risk of the initiation of statutory liquidation procedures or other material adverse actions is remote.

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

31. MARKET RISK

Significant market risk exposures are interest rate risk, exchange rate risk and other price risk. Exposure to other price risk arises from available for sale investments quoted on active markets.

Interest rate risk

Interest rate risk mainly relates to floating rate debt primary denominated in U.S. dollars and euros. To manage this risk, the Group entered into interest rate swaps to hedge significant amounts of its floating rate debt. Other borrowings do not materially influence the exposure to interest risk.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	Increase/decrease in percentage point	Effect on profit before tax
2009		
USD	+ 1.0%	(18)
USD	- 1.0%	18
2008		
EUR	+ 5.0%	(1)
EUR	- 5.0%	1
USD	+ 5.0%	(255)
USD	- 5.0%	255
2007		
EUR	+ 1.0%	(1)
EUR	- 1.0%	1
USD	+ 1.0%	(63)
USD	- 1.0%	63

Foreign exchange risk

The main business of the Group is maintained with Russian counterparties based on agreements in Russian Rubles. The Group's foreign currency receivables and payables arise mainly on contracts with foreign operators because of international industry practice to make settlements in US dollars, Euro or SDR. Hence, the Group will be exposed to foreign exchange risk as long as it continues to make settlements with foreign currencies.

In 2009, approximately 11.7% (2008: 11.1%, 2007: 10.2%) of the Group's revenues and 18.1% (2008: 16.6%, 2007: 15.0%) of the Group's expenses were denominated in currencies other than the Russian Ruble. Revenues generated in foreign currency represent income received from foreign operators, and foreign currency denominated expenses consist primarily of payments to foreign operators for international long-distance traffic termination. Accounts receivable and accounts payable which are denominated in foreign currencies amounted to approximately 7.9% (2008: 10.7%, 2007: 9.0%) of the Group's total accounts receivable and 50.2% (2008: 25.8%, 2007: 18.7%) of the Group's total accounts payable as of December 31, 2009, 2008 and 2007, respectively. Borrowings denominated in foreign currencies and outstanding as of December 31, 2009, 2008 and 2007 amounted to 88.4%, 89.5% and 88.9% of the Group's total borrowings as of December 31, 2009, 2008 and 2007, respectively.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

OJSC Rostelecom**Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009**

(In millions of Russian Rubles unless otherwise stated)

The table below demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax:

	Increase/decrease in percentage point	Effect on profit before tax
2009		
EUR	+ 10%	309
EUR	- 10%	(309)
USD	+ 10%	333
USD	- 10%	(333)
SDR	+ 10%	(18)
SDR	- 10%	18
2008		
EUR	+ 20%	31
EUR	- 20%	(31)
USD	+ 20%	(619)
USD	- 20%	619
SDR	+ 20%	(36)
SDR	- 20%	36
2007		
EUR	+ 3.5%	(12)
EUR	- 6.0%	19
USD	+ 4.0%	(117)
USD	- 5.5%	160
SDR	+ 4.0%	4
SDR	- 5.5%	(5)

The analysis was applied to monetary items denominated in relevant currencies at the reporting date.

Other price risk

As of December 31, 2009, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyzes market securities trends and makes a decision to sell a security, when necessary.

32. CAPITAL MANAGEMENT

The table below demonstrates the sensitivity to a reasonably possible change in market indexes for securities, with all other variables held constant, of the Group in terms of the result of fair value revaluation recognized in other comprehensive income.

	Increase/decrease in percentage point	Effect on revaluation result recognized in other comprehensive income
2009		
MICEX	+ 30.0%	203
MICEX	- 30.0%	(203)
2008		
MICEX	+ 50.0%	87
MICEX	- 50.0%	(87)
2007		
MICEX	+ 30.0%	3,532
MICEX	- 30.0%	(3,532)

OJSC Rostelecom

Notes to Consolidated Financial Statements as of and for the year ended December 31, 2009

(In millions of Russian Rubles unless otherwise stated)

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize the return to shareholders. The Board of directors reviews the Group's performance and establishes a variety of key performance indicators which are based on Russian statutory accounts. In addition, the Group is subject to externally imposed capital requirements (VEB loan covenants), which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2009.

Capital includes equity attributable to the equity holders of the Company. Revaluation surplus, which is included in capital, is not subject to capital management because of its nature. The Company manages its capital structure and makes adjustments to it by issuance of new shares, dividend payments to shareholders and purchase of treasury shares. The Company monitors compliance of the amount of legal reserve with the statutory requirements. In addition, the Company monitors distributable profits on a regular basis and determines the amount and timing of dividend payments.

33. SUBSEQUENT EVENTS

In April 2010 the Board of Directors of the Company approved the acquisition of a 25% equity interest in Envizhn Group via participation in a share capital increase. The cost of the acquisition is expected to be not higher than USD 52 million. The deal is expected to be completed in the second quarter of 2010. The goal of the acquisition is development and promotion of complex high-technology and innovative services including IT-outsourcing, producing of high-technology components and telecommunication equipment, elaboration of new software for information and telecommunication systems, creating infocommunication infrastructure at the federal level and regional expansion of networks and systems of service providing for telecommunication and information equipment.

On May 11, 2010 the Board of Directors of Rostelecom approved the inclusion in the agenda of forthcoming Annual General Meeting of Shareholders the item of reorganization of Rostelecom by merging with and into seven Svyazinvest Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan (together with "Merging Companies"). In the context of this issue the Board also discussed and submitted for approval at the Annual General Meeting, the merger agreements between Rostelecom and the Merging Companies with the share swap ratios for conversion of their shares into Rostelecom ordinary shares. The Board has also determined the buyback price of the Company's shares to be bought from shareholders in case of the reorganization. The buyback price for ordinary and preferred shares of the Company is set at the same level – RUB 86.21 both per one ordinary and preferred share. The Board also passed a resolution to include in the Annual General Meeting agenda the motion to approve the inter-related deals: the Sale and Purchase Agreement for Securities between Rostelecom and OJSC Comstar-UTS and Securities Sales and Purchase Agreement between Rostelecom and MGTS Finance S.A. The deals are subject to the condition that 25% plus one ordinary share of Svyazinvest is to be acquired by Rostelecom, from the aforementioned companies, for the sum of RUB 26 billion.

The Board also decided to recommend shareholders the level of dividends for the year 2009. According to this recommendation, the holders of preferred shares and ordinary shares will receive RUB 2.1005 Rubles and RUB 1.4002 per share, respectively. The total dividends will amount to 1,530 for the year ended December 31, 2009. This is subject to the decision of the shareholders in the forthcoming Annual General Meeting.