Open Joint Stock Company
Uralsvyazinform

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

OJSC Uralsvyazinform

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Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Uralsvyazinform

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
31 May 2010

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

	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	8	**48,472**	52,100
Intangible assets and goodwill	9	**2,678**	2,764
Other non-current receivables		**50**	46
Other non-current assets	10	**15**	49
Investment property	11	**149**	43
Non-current financial assets	12	**51**	74
Total non-current assets		**51,415**	55,076
Current assets			
Inventories	13	**258**	340
Trade and other receivables	14	**3,394**	3,646
Income tax receivable		**121**	335
Other current assets	15	**357**	279
Current financial assets	12	**3,010**	1,552
Cash and cash equivalents	16	**1,624**	1,095
Assets held-for-sale	7	**23**	10
Total current assets		**8,787**	7,257
Total assets		**60,202**	62,333
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	18	**8,749**	8,749
Unrealized gain on available-for-sale financial assets		**4**	1
Retained earnings		**16,925**	13,940
Total equity attributable to shareholders of the Company		**25,678**	22,690
Total equity		**25,678**	22,690
Non-current liabilities			
Loans and borrowings	19	**14,102**	17,334
Employee benefits	20	**2,301**	2,094
Other non-current payables		**1**	5
Other non-current liabilities	21	**145**	182
Deferred tax liabilities	34	**2,829**	2,532
Total non-current liabilities		**19,378**	22,147
Current liabilities			
Loans and borrowings	19	**8,626**	10,357
Trade and other payables	23	**5,284**	6,038
Income tax payable		**87**	-
Other current liabilities	24	**1,122**	1,009
Provisions	22	**27**	92
Total current liabilities		**15,146**	17,496
Total liabilities		**34,524**	39,643
Total equity and liabilities		**60,202**	62,333

General Director
Lukash S. A. __________

Chief Accountant
Balueva S.I. __________

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

	Note	2009	2008
Revenue	27	**40,412**	40,691
Personnel costs	28	**(8,287)**	(9,243)
Depreciation and amortization	8,9,11	**(8,276)**	(7,675)
Interconnection charges		**(5,671)**	(5,845)
Materials, repairs and maintenance, utilities	29	**(3,333)**	(3,526)
Other operating income	30	**1,717**	1,720
Other operating expenses	31	**(8,569)**	(9,641)
Operating profit		**7,993**	6,481
Finance costs	32	**(3,490)**	(2,898)
Other investing and financing gains and losses	33	**447**	150
Foreign exchange losses		**(140)**	(399)
Profit before income tax		**4,810**	3,334
Income tax expense	34	**(1,156)**	(799)
Profit for the year		**3,654**	2,535
Profit for the year attributable to:			
Shareholders of the Company		**3,654**	2,535
Basic and diluted earnings per share attributable to shareholders of the Company (in Russian Roubles)	35	**0.0910**	0.0632

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

	2009	2008
Profit for the year	**3,654**	2,535
Other comprehensive income		
Changes in fair value of available-for-sale financial assets	**3**	(4)
Comprehensive income for the year	**3,657**	2,531
Comprehensive income for the year attributable to:		
Shareholders of the Company	**3,657**	2,531
Comprehensive income for the year	**3,657**	2,531

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

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**4,810**	3,334
Adjustments for:			
Depreciation and amortization	8,9,11	**8,276**	7,675
Loss on disposal of property, plant and equipment and other assets	31	**125**	484
Decrease of allowance for inventory and other assets	13	**(2)**	(4)
Increase in allowance for doubtful debts	10,14,15	**358**	140
Finance costs	32	**3,206**	2,689
Other investing and financing gains and losses	33	**(447)**	(150)
Foreign exchange losses		**140**	399
Operating profit after adjustments		**16,466**	14,567
Decrease in inventories		**86**	47
Increase in trade and other receivables		**(131)**	(493)
(Increase) / decrease in current other assets		**(76)**	298
Increase in employee benefits		**207**	232
(Decrease) / increase in trade and other payables		**(26)**	1,300
Decrease in provisions		**(66)**	(128)
Decrease in other operating assets and liabilities		**129**	24
Cash flows from operating activities before interest and income tax paid		**16,589**	15,847
Interest paid		**(3,197)**	(2,834)
Income tax paid		**(567)**	(1,172)
Cash flows from operating activities		**12,825**	11,841
Investing activities			
Acquisition of property, plant and equipment and investment property		**(4,833)**	(8,522)
Proceeds from disposals of property, plant and equipment and investment property		**37**	388
Acquisition of intangible assets		**(385)**	(665)
Acquisition of subsidiaries, net of cash acquired		**(129)**	-
Proceeds from disposals of subsidiaries, net of cash disposed		**-**	13
Acquisition of financial assets		**(2,985)**	(1,792)
Proceeds from disposals of financial assets		**1,675**	228
Interest received		**245**	94
Dividends received		**11**	1
Cash flows used in investing activities		**(6,364)**	(10,255)

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

	Note	2009	2008
Financing activities			
Proceeds from bank		**2,516**	12,298
Repayment of bank		**(5,493)**	(10,356)
Proceeds from bonds		**1,510**	1,991
Repayment of bonds		**(1,928)**	(1,898)
Proceeds from promissory notes		**26**	-
Repayment of promissory notes		**(26)**	(27)
Repayment of vendor financing liabilities		**(446)**	(404)
Repayment of finance lease liabilities		**(1,420)**	(1,692)
Repayment of other non-current liabilities		**(2)**	(2)
Dividends paid to shareholders of the Company		**(669)**	(1,106)
Cash flow used in financing activities		**(5,932)**	(1,196)
Net increase in cash and cash equivalents		**529**	390
Cash and cash equivalents as at the beginning of the year	16	**1,095**	705
Cash and cash equivalents as at the end of the year	16	**1,624**	1,095

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

	Note	Equity, attributable to shareholders of OJSC "Uralsvyazinform"				
		Share capital		Unrealized gain on available-for-sale financial assets	Retained earnings	Total equity
		Preference shares	Ordinary shares			
Balance as at 31 December 2007		**1,708**	**7,041**	**5**	**12,511**	**21,265**
Profit for the year				-	2,535	2,535
Changes in fair value of available-for-sale financial assets				(4)	-	(4)
Total comprehensive income for the year				**(4)**	**2,535**	**2,531**
Transactions with shareholders recorded directly in equity						
Dividends to shareholders of the Company		-	-	-	(1,106)	(1,106)
Balance as at 31 December 2008		**1,708**	**7,041**	**1**	**13,940**	**22,690**
Profit for the year				**-**	3,654	3,654
Changes in fair value of available-for-sale financial assets				3	-	3
Total comprehensive income for the year				**3**	**3,654**	**3,657**
Transactions with shareholders recorded directly in equity						
Dividends to shareholders of the Company	36	**-**	**-**	**-**	**(669)**	(669)
Balance as at 31 December 2009		**1,708**	**7,041**	**4**	**16,925**	**25,678**

1. General information

Authorization of the consolidated financial statements

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

The Company

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

OJCS "Svyazinvest", which is controlled by the Government of the Russian Federation, owned 51% of the Company's ordinary voting shares as at 31 December 2009 and constitutes Company's Parent Company.

The Company's official address: Russian Federation, Yekaterinburg, Moskovskaya Str.,11.

The Group activities

The Group provides communication services (including local and intra-zone telephone services), telegraph services, data transmission services, provides wireless communication services and rents out communication channels and radio communication lines on the territory of the Ural Federal District and Permsky kray of the Russian Federation.

Information about the Group's significant subsidiaries is disclosed in Note 6. All of the subsidiaries are incorporated under the laws of the Russian Federation, unless stated otherwise.

Liquidity and financial resources

As at 31 December 2009 the Group's current liabilities exceeded its current assets by 6,359 (2008 – 10,239).

In 2009 and earlier periods, the Group raised short- and long-term borrowings to finance the development of its communication networks. The financing has primarily been provided through bank loans, bond issues, as well as commercial loans from equipment suppliers.

In 2010 the Group expects that the sources of finance will be the following: cash flow from operating activities, placement of bonds on Russian market and bank loans.

2. Basis of preparation of the Financial Statements

Statement of compliance

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

Going concern

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

Presentation of the Financial Statements

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

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

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all changes in equity related to owners in the statement of changes in equity separately from the changes in equity related to non-owners which are presented in the consolidated statement of comprehensive income.

Comparative information has been represented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Basis of accounting

The consolidated financial statements have been presented under historical cost convention, except for the following: property, plant and equipment, which were revaluated to determine deemed cost as a part of adoption of IFRS; financial assets available-for-sale, which were stated at fair value; and that share capital which was revalued to include the effects of inflation accumulated before 1 January 2003.

Changes in accounting policies

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

The effect from adoption of the following new or revised standards and interpretations is as follows:

Standard / Interpretation	Content of changes	Effects
IFRS 8 “Operating Segments”	The Standard sets out requirements for disclosure of information about an entity’s operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company’s management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	Revised disclosures are presented in Note 5.
IAS 1 (as revised in 2007) “Presentation of Financial Statements”	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	The Consolidated Financial Statements contain new / adjusted reporting statements.
IAS 23 (as revised in 2007) “Borrowing Costs”	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	The revised Standard did not have a material impact on the financial position or performance of the Group.

(in millions of Russian Roubles unless stated otherwise)

Standard / Interpretation	Content of changes	Effects
IFRS 3 (as revised in 2008) "Business Combinations" (early adoption)	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	The revised Standard adjusted the process of consolidation of subsidiaries, however it did not have a material impact on the financial position or performance of the Group.
IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements" (early adoption)	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised Standard adjusted the process of consolidation of subsidiaries, however it did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 13 "Customer Loyalty Programmes"	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 18 "Transfers of Assets from Customers"	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company's assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IAS 24 (as revised in 2009) "Related party disclosures" (early adoption)	The Standard specifies and simplifies approaches for related party definitions. The Standard also simplifies requirement for state-controlled entities to disclose detailed transactions with other state-controlled entities.	Required disclosures were included in the Consolidated Financial Statements.

IFRSs not yet effective

The Group has not adopted the following IFRS that has been issued but is not yet effective:

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

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

Foreign currency transactions

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

(in millions of Russian Roubles unless stated otherwise)

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

Exchange rates as of 31 December	**2009**	**2008**
RUR / USD	30.2442	29.3804
RUR / EUR	43.3883	41.4411

3. Summary of Significant Accounting Policies

3.1. Principles of Consolidation

The consolidated financial statements of the Group represent the financial statements of OJSC "Uralsvyazinform" and its subsidiaries as at and for the year ended 31 December 2009 including comparative information for 2008.

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

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

Acquisition of Subsidiaries

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

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

Acquisition of non-controlling interest in subsidiaries

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

3.2. Property, plant and equipment

Cost of property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at 1 January 2003, the date of transition to IFRSs, was determined by reference to its fair value at that date. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Cost of each major inspection is capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria is satisfied. Major reconstructions and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

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

Depreciation and Useful Life

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

The Group applies the following useful lives:

	Years
Land	Not depreciated
Buildings and constructions	20 – 50
Switches and transmission devices	5 – 15
Vehicles and other property, plant and equipment	3 – 10

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

3.3. Investment property

The investment property is recognized at cost of acquisition or construction less accumulated depreciation and impairment losses. Reconstruction and modernization costs are capitalized, replaced components are written-off. Repair and maintenance costs are recognized in the income statement in the period, when they are incurred.

Depreciation of the investment property is calculated on a straight-line basis over the useful life of the asset.

The useful life of investment property is the same as useful life defined for the similar groups of property, plant and equipment.

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

3.4. Intangible assets

Goodwill

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

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

Other Intangible Assets

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

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

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

The useful lives of other intangible assets are determined on an individual basis to be either finite or indefinite.

Impairment

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

3.5. Borrowings costs

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

3.6. Investments in equity accounted investees

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

3.7. Investments and other financial assets

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

The Group determines the classification of its financial assets at initial recognition and reviews the classification of financial assets when appropriate and is allowed by standards.

Purchases and sales of financial assets are recognized on the settlement date, which is the date that the investment is delivered to or by the Group.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity.

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

3.8. Inventories

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

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

3.9. Cash and cash equivalents

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

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

3.10. Equity

Share capital

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

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue.

No gain or loss on purchase, sale or cancellation of treasury shares is recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

Non-controlling interest

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

Dividends

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

3.11. Loans and Borrowings

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

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

3.12. Leases

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

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

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

3.13. Employee benefits

Current employment benefits

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

Defined benefits pension plans and other long-term employee benefits

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

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

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

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

3.14. Provisions

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

3.15. Income tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period. Income tax expense is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

3.16. Revenue recognition

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

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

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

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

3.17. Segment reporting

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 Operating Segments. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 Segment Reporting.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

The Group consists of 7 branches and 2 subsidiaries, which are considered as operating segments. Financial information of each operating segment is regularly analyzed by the Group's Chief Operating Decision Maker and is used for operating decisions making.

3.18. Earnings per share

The Group presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares. The Company prepares a reconciliation of the profit attributable to ordinary and preference shareholders.

4. Significant estimates

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

Useful life of property, plant and equipment

The Group estimates remaining useful lives of its property, plant and equipment at least once a year at the reporting date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2009 is 48,472 (2008 –52,100). Refer to Note 8 for detailed information.

Impairment of non-current assets

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

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

Fair value of assets and liabilities in business acquisition

At the acquisition date the Group recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions. Refer to Note 6 for detailed information.

Impairment of goodwill

Impairment testing requires value in use estimation of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As at 31 December 2009, the carrying amount of the goodwill amounted to 23 (2008 - 0). Refer to Note 6 for detailed information.

Fair values of unquoted available-for-sale investments

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

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of comprehensive income are reasonable and the most appropriate at the balance sheet date. As at 31 December 2009, the fair values of unquoted available-for-sale investments amounted to 26 (2008 – 24). Refer to Note 12 for detailed information.

Allowance for impairment of receivables

Doubtful debt allowance is based on the historical data related to collectability of receivables and creditworthiness analysis of the most significant debtors. If the customers’ financial position continues to deteriorate, actual write-offs might be higher than expected. As at 31 December 2009, allowances for impairment of accounts receivable have been created in the amount of 931 (2008 - 678) for trade and other receivables and in the amount of 8 (2008 – 15) for other current and non-current assets. Refer to Notes 10,14,15 for detailed information.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As at 31 December 2009, net defined benefit obligations amounted to 2,301 (2008 – 2,094). Refer to Notes 20 for detailed information.

Litigation and claims

The Group exercises considerable judgment in measuring and recognizing loss and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As at 31 December 2009 no provision was created.

5. Segment information

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

The Group's Chief Operating Decision Maker is the Management Board.

The components of the Group, which financial information is regularly analyzed by the Group's Chief Operating Decision Maker and is used for operating decisions making are branches and subsidiaries. The reporting information analysis and operating decisions making are performed based on accounting data, prepared using statutory accounting principles. The information in table "Operating segments information" is presented in accordance to the mentioned principles.

Head office concentrates the major part of financing and investing activities of the Group: obtaining, servicing and repayment of borrowings, financial lease, acquisition of financial assets, development and further maintenance of corporate assets, centralized investment projects. Inter-regional branch of information and networking technologies (MFIST) concentrates the major part of development and further maintenance of corporate assets. Corresponding amounts of income, expenses, assets and liabilities are included in general directory's information, presented in table "Operating segments, MFIST and Head office information".

The Group provides telecommunication services within the territory of Ural Federal District and Permsky kray of Russian Federation. The Group consists of subsidiaries and 7 branches (Note 6), which are considered as operating segments.

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

(in millions of Russian Roubles unless stated otherwise)

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

	The Company	Subsidiaries	Total reporting segments
Revenue			
Third party revenue	40,744	-	40,744
	40,744		**40,744**
Interest income	466	-	466
Interest expense	(4,408)	-	(4,408)
Income tax	(1,338)	-	(1,338)
Profit for the year	**4,069**	**-**	**4,069**
Assets and liabilities			
Segment assets	55,452	91	55,543
Unallocated assets	1,984	-	1,984
Segment liabilities	(6,945)	(22)	(6,967)
Unallocated liabilities	(23,575)	-	(23,575)
Other segment information			
Capital investments in:			
Property, plant and equipment	4,247	-	4,247
Intangible assets	389	-	389
Depreciation and amortization	(6,080)	-	(6,080)
Bad debt expense	(351)	-	(351)

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

	Total reporting segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue				
Third party revenue	40,744	(332)	-	40,412
Total revenue	**40,744**	**(332)**	**-**	**40,412**
Interest income	466	(21)	-	445
Interest expense	(4,408)	1,209	-	(3,199)
Income tax	(1,338)	182	-	(1,156)
Profit for the year	**4,069**	**(415)**	**-**	**3,654**
Assets and liabilities				
Segment assets	55,543	3,060	(7)	58,596
Unallocated assets	1,984	(246)	(132)	1,606
Segment liabilities	(6,967)	(4 286)	7	(11,246)
Unallocated liabilities	(23,575)	297	-	(23,278)
Other segment information				
Capital investments in:				
Property, plant and equipment	4,247	2	15	4,264
Intangible assets	389	-	-	389
Depreciation and amortization	(6,080)	(2,196)	-	(8,276)
Bad debt expense	(351)	-	-	(351)

(in millions of Russian Roubles unless stated otherwise)

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

Operating segments, MFIST and Head office information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital investments	Depreciation and amortization	Bad debt expense
OJSC Uralsvyazinform	**40,744**	**4,069**	**55,492**	**(6,945)**	**4,636**	**(6,080)**	**(351)**
Perm branch	8,758	1,621	10,253	(696)	408	(1,349)	(43)
Khanty-Mansyiski branch	8,713	2,693	6,403	(872)	808	(713)	(60)
Yekaterinburg branch	7,306	476	9,486	(725)	512	(1,181)	(70)
Chelyabinsk branch	6,754	938	8,553	(621)	360	(851)	(92)
Tyumen branch	4,472	931	4,139	(368)	188	(505)	(55)
Yamalo-Nenetski branch	3,345	475	2,678	(372)	754	(325)	(19)
Kurgan branch	1,396	(177)	2,135	(144)	83	(272)	(7)
MFIST	-	(115)	5,942	(938)	1,364	(867)	-
Head office	-	(2,773)	5,863	(2,209)	159	(17)	(5)
Unallocated amounts	**-**	**-**	**1,984**	**(23,575)**	**-**	**-**	**-**
Subsidiaries	-	-	91	(22)	-	-	-

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

	The Company	Subsidiaries	Total reporting segments
Revenue			
Third party revenue	40,581	-	40,581
Total revenue	**40,581**	**-**	**40,581**
Interest income	63	-	63
Interest expense	(3,981)	-	(3,981)
Income tax	(1,469)	-	(1,469)
Profit for the year	**2,678**	**-**	**2,678**
Assets and liabilities			
Segment assets	55,016	-	55,016
Unallocated assets	1,949	-	1,949
Segment liabilities	(7,973)	-	(7,973)
Unallocated liabilities	(26,927)	-	(26,927)
Other segment information			
Capital investments in:			
Property, plant and equipment	9,924	-	9,924
Intangible assets	662	-	662
Depreciation and amortization	(5,269)	-	(5,269)
Bad debt expense	(145)	-	(145)

(in millions of Russian Roubles unless stated otherwise)

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

	Total reporting segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue				
Third party revenue	40,581	97	13	40,691
Total revenue	**40,581**	**97**	**13**	**40,691**
Interest income	63	52	-	115
Interest expense	(3,981)	1,310	-	(2,671)
Income tax	(1,469)	670	-	(799)
Profit for the year	**2,678**	**(137)**	**(6)**	**2,535**
Assets and liabilities				
Segment assets	56,016	4,639	-	60,655
Unallocated assets	1,949	(271)	-	1,678
Segment liabilities	(7,973)	(5 264)	-	(13,327)
Unallocated liabilities	(26,927)	521	-	(26,406)
Other segment information				
Capital investments in:				
Property, plant and equipment	9,924	1,074	-	10,998
Intangible assets	662	32	-	694
Depreciation and amortization	(5,269)	(2,406)	-	(7,675)
Bad debt expense	(145)	-	-	(145)

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

Operating segments, MFIST and Head office information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital investments	Depreciation and amortization	Bad debt expense
OJSC Uralsvyazinform	**40,581**	**2,678**	**56,016**	**(7,973)**	**10,586**	**(5,269)**	**(145)**
Perm branch	8,727	1,705	11,397	(866)	1,066	(1,269)	(19)
Khanty-Mansyiski branch	8,554	2,396	6,310	(987)	1,015	(644)	(40)
Yekaterinburg branch	7,374	295	9,894	(989)	1,984	(1,059)	(2)
Chelyabinsk branch	6,961	444	9,148	(1,099)	1,583	(771)	(18)
Tyumen branch	4,443	802	4,452	(416)	573	(499)	(21)
Yamalo-Nenetski branch	3,224	517	2,498	(362)	948	(252)	(15)
Kurgan branch	1,298	(256)	2,320	(168)	384	(250)	(5)
MFIST	-	(112)	5,425	(1,051)	2,493	(484)	-
Head office	-	(3,113)	4,572	(2,035)	540	(41)	(25)
Unallocated amounts	-	-	**1,949**	**(26,927)**	-	-	-
Subsidiaries	-	-	-	-	-	-	-

(in millions of Russian Roubles unless stated otherwise)

6. Subsidiaries

The following subsidiaries are controlled by the Company:

Name	Activities	Ownership, %		Voting shares,%	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
LLC "Uzhno – Uralskaya telefonnaya compania"	Communication services	100	-	100	-
CJSC "FK-Svyaz"	Communication services	75	75	75	75

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

Acquisition of subsidiaries

In December 2009 the Company acquired 100% of ordinary shares of LLC "Uzhno-Uralskaya telefonnaya compania" (hereinafter LLC "UUTC") for 132 and obtained control over this entity. The Company's management considers that the carrying amount of identifiable assets, liabilities and contingent liabilities of LLC "UUTC" as at the date of acquisition represent their fair value.

The principal activity of LLC "UUTC" is rendering fixed telecommunication services, services of Internet access and data transfer.

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

	LLC "UUTC"
Consideration transferred - cash	132
Cash and cash equivalents acquired	(3)
Net of cash outflow	**129**
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	111
Intangible assets	4
Trade and other receivables	13
Cash and cash equivalents	3
Other assets	9
Non-current liabilities	(1)
Current liabilities	(21)
Deferred income tax liability	(9)
Total net assets	**109**
Share in acquired net assets	100%
Fair value of share in acquired net assets	109
Goodwill as at 31 December 2009	**23**

(in millions of Russian Roubles unless stated otherwise)

LLC "UUTC" was acquired with the purpose of Company's operations expansion and improvement of the quality of services rendered to participants of telecommunication market, due to this acquisition, goodwill in amount of 23 was recognized in consolidated financial statements.

Information about revenue and net profit of the Group, as if the described acquisition of LLC "UUTC" occurred as at 1 January 2009, is presented below:

Revenue	40,526
Net profit	3,575

7. Assets held-for-sale

The Group approved the program of improvement of corporate property management. The scope of the program included increase of income from disposal of unused production premises. Based on the program the Group reclassified certain items of property, plant and equipment to assets held-for-sale:

	31 December 2009		31 December 2008	
	Net book	**Fair value**	**Net book**	**Fair value**
Assets held-for-sale	23	84	10	46

Fair value of assets held-for-sale was determined based on market prices of comparable premises located in respective regions.

(in millions of Russian Roubles unless stated otherwise)

8. Property, plant and equipment

	Land and buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Capital investments in property, plant and equipment	Total
Cost					
At 31 December 2007	**25,945**	**38,171**	**6,287**	**432**	**70,835**
Additions	-	-	-	10,998	10,998
Transfers from construction in progress	2,582	6,444	1,771	(10,797)	-
Disposals	(533)	(351)	(343)	(27)	(1,254)
Reclassification to assets held-for-sale	(13)	-	-	-	(13)
Reclassification to investment property	(126)	-	-	-	(126)
At 31 December 2008	**27,855**	**44,264**	**7,715**	**606**	**80,440**
Additions	-	-	-	4,249	4,249
Additions, related to acquisition of subsidiaries	66	35	2	15	118
Additions, related to reclassification from assets held-for-sale	4	-	-	-	4
Additions, related to reclassification from investment property	11	-	-	-	11
Transfers from construction in progress	1,089	2,598	744	(4,431)	-
Disposals	(109)	(478)	(287)	(57)	(931)
Reclassification to assets held-for-sale	(19)	-	-	-	(19)
Reclassification to investment property	(102)	-	-	-	(102)
At 31 December 2009	**28,795**	**46,419**	**8,174**	**382**	**83,770**
Accumulated depreciation and impairment losses					
At 31 December 2007	**(6,314)**	**(13,205)**	**(2,308)**	**-**	**(21,827)**
Depreciation charged for the year	(1,479)	(3,994)	(1,821)	-	(7,294)
Depreciation on disposals	141	255	299	-	695
Reclassification to assets held-for-sale	3	-	-	-	3
Reclassification to investment property	83	-	-	-	83
At 31 December 2008	**(7,566)**	**(16,944)**	**(3,830)**	**-**	**(28,340)**
Depreciation charged for the year	(1,477)	(5,048)	(1,270)	-	(7,795)
Accumulated depreciation of acquired subsidiaries	-	(7)	-	-	(7)
Accumulated depreciation on assets reclassified from assets held-for-sale	(1)	-	-	-	(1)
Accumulated depreciation on assets reclassified from investment property	(37)	-	-	-	(37)
Depreciation on disposals	90	496	274	-	860
Reclassification to assets held-for-sale	3	-	-	-	3
Reclassification to investment property	19	-	-	-	19
At 31 December 2009	**(8,969)**	**(21,503)**	**(4,826)**	**-**	**(35,298)**
Net book value as at 31 December 2007	**19,631**	**24,966**	**3,979**	**432**	**49,008**
Net book value as at 31 December 2008	**20,289**	**27,320**	**3,885**	**606**	**52,100**
Net book value as at 31 December 2009	**19,826**	**24,916**	**3,348**	**382**	**48,472**

(in millions of Russian Roubles unless stated otherwise)

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

	31 December 2009	31 December 2008
Buildings and constructions	**373**	467
Switches and transmission devices	**2,781**	3,787
Vehicles and other property, plant and equipment	**354**	863
Total net book value of leased property plant and equipment	**3,508**	5,117

Depreciation charge for 2009 in the amount of 7,795 (2008 – 7,294) was recognized in "Depreciation and amortization" in the consolidated income statement.

As at 31 December 2009 the historical cost of fully depreciated property plant and equipment comprised 7,672 (2008 – 7,081). Addition to property, plant and equipment acquired through finance leases and vendor financing in 2009 comprised 276 (2008 – 914).

In 2009 the Group increased the cost of construction in progress by the amount of capitalized interest totalled to 1 (2008 – 99). Capitalization rate in 2009 was 13.87% (2008 – 9.075 %).

As at 31 December 2009 the carrying value of assets pledged under loan, vendor financing and finance lease contracts amounted 4,137 (2008 – 5,912).

In 2009 capital investments of the Group for property, plant and equipment comprised 4,249 (2008 – 10,998).

Reassessment of Useful Lives

As at 31 December 2009 the Group analyzed the residual useful lives of property, plant and equipment. As a result the useful lives in respect of series of assets were revised. The effect of this reassessment will result in an increased depreciation charge of property, plant and equipment of approximately 21, which will be recorded in 2010.

9. Intangible assets and goodwill

	Goodwill	Licenses	Software	Number capacity	Customer base	Other	Total
Cost							
At 31 December 2007	**-**	**70**	**3,330**	**23**	**45**	**35**	**3,503**
Additions	-	-	694	-	-	-	694
Disposals	-	(1)	(524)	-	-	(11)	(536)
At 31 December 2008	**-**	**69**	**3,500**	**23**	**45**	**24**	**3,661**
Additions	-	-	389	-	-	-	389
Additions, related to acquisition of subsidiaries	23	-	1	1	2	-	27
Disposals	-	(1)	(289)	-	-	-	(290)
At 31 December 2009	**23**	**68**	**3,601**	**24**	**47**	**24**	**3,787**
Accumulated amortization and impairment							
At 31 December 2007	**-**	**(46)**	**(444)**	**(13)**	**(26)**	**(10)**	**(539)**
Amortization charge for the year	-	(8)	(353)	(2)	(4)	(14)	(381)
Amortization on disposals	-	1	22	-	-	-	23
At 31 December 2008	**-**	**(53)**	**(775)**	**(15)**	**(30)**	**(24)**	**(897)**
Amortization charge for the year	-	(7)	(464)	(2)	(5)	-	(478)
Amortization on disposals	-	1	265	-	-	-	266
At 31 December 2009	**-**	**(59)**	**(974)**	**(17)**	**(35)**	**(24)**	**(1,109)**
Net book value as at 31 December 2007	**-**	**24**	**2,886**	**10**	**19**	**25**	**2,964**
Net book value as at 31 December 2008	**-**	**16**	**2,725**	**8**	**15**	**-**	**2,764**
Net book value as at 31 December 2009	**23**	**9**	**2,627**	**7**	**12**	**-**	**2,678**

(in millions of Russian Roubles unless stated otherwise)

Oracle E-Business Suite

As at 31 December 2009 software included Oracle E-Business Suite ("OeBS") with the carrying amount of 1,043 (2008 – 1,172) including capitalised interest costs related to the implementation of Oracle E-Business Suite in the amount of 111 (2008 – 129).

In 2009 the Company did not capitalized interest expenses in respect of implementation of Oracle E-Business Suite (2008 – 16).

The Company started to partially use OeBS and amortise it from the date of its implementation in 2005 over its useful life of 10 years. Since 2008 the Company has been using the full functionality of OeBS.

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

	2009	**2008**
At 1 January	**1,172**	1,172
Implementation costs	**45**	224
Amortization charge	**(174)**	(136)
Write-off	**-**	(88)
At 31 December	**1,043**	1,172

Amdocs Billing Suite

As at 31 December 2009 software included Amdocs Billing Suite with carrying amount of 579 (2008 – 579).

This software was purchased for the purpose of implementation of unified automated billing system. In accordance with Protocol of meeting of the steering committee on Integrated Program on Revenue Assurance and Customer Relations Management (OPO RVK) dated 28 January 2010 the Company plans to resume works on introduction of Amdocs Billing Suite software in December 2010.

Management reassesses the value of the assets for impairment on a regular basis until it will be completely implemented.

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

	2009	**2008**
At 1 January	**579**	994
Write-off	**-**	(415)
At 31 December	**579**	579

Other software products

As at 31 December 2009, other software products included the following items:

		Carrying amount	
	Useful lives (years)	**2009**	**2008**
HP IUM	10	**240**	271
Implementation of the integrated billing of fixed telephony	5	**138**	117
Licenses of Oracle software products	5	**100**	129
Microsoft software (non-exclusive rights)	1	**-**	47
System of distance learning	10	**39**	43
System of electronic workflow	5	**84**	38
ASR Bill-Master	5	**63**	33
ASR Comverse	2	**14**	-
Other	2.5-10	**327**	296
Total		**1 005**	**974**

(in millions of Russian Roubles unless stated otherwise)

In 2009 the Group has not capitalized interest expenses in respect of implementation of other software products (2008 – 16). Capitalization rate for the year 2008 was – 9 %.

Amortization of intangible assets

Amortization charge for intangible assets in 2009 in the amount of 478 (2008 – 381) was recognized in "Depreciation and amortization" of the consolidated income statement.

10. Other non-current assets

	31 December 2009	31 December 2008
Long-term advances, given for investing activities	**17**	53
Allowance for impairment	**(2)**	(4)
Total	**15**	49

The following table illustrates movements in allowance for impairment of other non-current assets:

	31 December 2009	31 December 2008
At 1 January	**(4)**	(12)
Reversal of allowance	**1**	3
Utilization of allowance	**1**	5
At 31 December	**(2)**	(4)

11. Investment property

	Intended for rent	Intended for rent and further sale	Total investment property
Cost			
At 31 December 2008	**124**	**2**	**126**
Reclassification from property, plant and equipment	102	-	102
Reclassification to property, plant and equipment	(11)	-	(11)
At 31 December 2009	**215**	**2**	**217**
Accumulated depreciation			
At 31 December 2008	**(82)**	**(1)**	**(83)**
Depreciation charge for the year	(3)	-	(3)
Reclassification of accumulated depreciation from property, plant and equipment	(19)	-	(19)
Reclassification of accumulated depreciation to property, plant and equipment	37	-	37
At 31 December 2009	**(67)**	**(1)**	**(68)**
Net book value as at 31 December 2008	**42**	**1**	**43**
Fair value as at 31 December 2008	376	6	382
Net book value as at 31 December 2009	**148**	**1**	**149**
Fair value as at 31 December 2009	513	5	518

In 2008 the Group approved the program of improvement of corporate property management. The scope of the program included increase of revenue from rentals and/or disposal of unused production premises. Under the program the Group reclassified certain fixed assets to investment property, provided that the definition of investment property was met.

(in millions of Russian Roubles unless stated otherwise)

The Group's specialists performed fair value analysis of investment property in accordance with International valuation standards.

Determination of fair value of investment property was performed by management of the Group by comparison of the information about the last transactions with the same items of constructions in geographical regions where the Group operates.

12. Financial assets

	31 December 2009	31 December 2008
Non-current available-for-sale financial assets	**26**	24
Non-current loans given to employees	**25**	50
Total non-current financial assets	**51**	74
Current held-to-maturity financial assets	**2,996**	1,533
Current loans given to employees	**14**	19
Total current financial assets	**3,010**	1,552
Total financial assets	**3,061**	1,626

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

Name	31 December 2009		31 December 2008	
	Share in equity, %	Fair value	Share in equity, %	Fair value
Non-current available-for-sale financial assets				
OJSC Svyazintec	**11**	**13**	11	13
OJSC AKB Svyazbank	**0.0118**	**-**	0.2190	-
OJSC Sberbank	**0.00019**	**4**	0.00019	1
Other	**-**	**9**	-	10
Total		**26**		24

As at 31 December 2009 long-term loans issued to personnel are recorded at amortized cost using effective rate of 22% (2008 – 19%).

As at 31 December 2009 short-term investments held-to-maturity comprised the following promissory notes denominated in RUR:

Name of the company	2009		2008	
	Amortised cost	Effective interest rate, %	Amortised cost	Effective interest rate, %
Current held-to-maturity financial assets				
OJSC AKB Svyazbank	**1,638**	**14.00%**	1,009	9.00 %
OJSC RTK-Leasing	**340**	**19.25%**	322	11.48%
CJSC IC Region	**1,018**	**10.97%-11.97%**	-	-
CJSC AKB BSGV	**-**	**-**	202	13.5 %
Total	**2,996**		1,533	

The Group places temporary available financial resources in promissory notes, issued by different Russian entities with maturity less than 12 months or without fixed maturity date, which the Group plans to redeem during the following year. The Group uses promissory notes as financial instruments mainly for deriving financial income.

(in millions of Russian Roubles unless stated otherwise)

13. Inventories

	31 December 2009	31 December 2008
Cable	**46**	53
Spare parts	**46**	33
Finished goods and goods for resale	**23**	23
Household equipment	**11**	12
Fuel	**6**	7
Construction materials	**3**	25
Other inventory	**123**	187
Total	**258**	340

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

	2009	2008
Balance as at 1 January	**(13)**	(17)
Accrual of provision	**(8)**	(3)
Reversal of provision	**10**	7
Balance as at 31 December	**(11)**	(13)

Expense from accrual and income from reversal of allowance for obsolete inventories are included in "Other operating expense" and "Other operating income" of the consolidated income statement, respectively.

14. Trade and other receivables

	Gross as at 31 December 2009	Allowance for bad debt	Net as at 31 December 2009
Receivables from customers for operating activities	3,469	(886)	2,583
Receivables from customers for non-operating activities	248	(27)	221
Receivables from commissioners and agents	306	-	306
Receivables from personnel	20	-	20
Receivables under agent contracts for connection services	81	-	81
Compensation from the state budget for universal services	125	-	125
Receivables from other debtors	76	(18)	58
Total	**4,325**	**(931)**	**3,394**

	Gross as at 31 December 2008	Allowance for bad debt	Net as at 31 December 2008
Receivables from customers for operating activities	3,153	(618)	2,535
Receivables from customers for non-operating activities	177	(35)	142
Receivables from commissioners and agents	25	-	25
Receivables from personnel	27	-	27
Receivables under agent contracts for connection services	377	-	377
Compensation from the state budget for universal services	457	-	457
Receivables from other debtors	108	(25)	83
Total	**4,324**	**(678)**	**3,646**

Receivables from customers on operating activities as at 31 December 2009 and 2008 comprise the following:

(in millions of Russian Roubles unless stated otherwise)

	Gross as at 31 December 2009	Allowance for bad debt	Net as at 31 December 2009
Receivables from individuals	1,686	(524)	1,162
Receivables from commercial organizations	1,027	(276)	751
Receivables from budget organizations	220	(27)	193
Receivables from interconnected operators	536	(59)	477
Total	**3,469**	**(886)**	**2,583**

	Gross as at 31 December 2008	Allowance for bad debt	Net as at 31 December 2008
Receivables from individuals	1,479	(421)	1,058
Receivables from commercial organizations	822	(146)	676
Receivables from budget organizations	180	(9)	171
Receivables from interconnected operators	669	(39)	630
Tariff compensation from the state budget	3	(3)	-
Total	**3,153**	**(618)**	**2,535**

The following table summarizes the changes in the allowance for bad debt:

	2009	2008
Balance as at 1 January	**(678)**	(664)
Accrual and reversal	**(351)**	(145)
Additions related to acquisition of subsidiary	**(8)**	-
Write-off of receivables	**106**	131
Balance as at 31 December	**(931)**	(678)

15. Other current assets

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Prepayments and advances	147	(4)	143
Prepayments for other taxes	66	-	66
VAT recoverable	12	-	12
Deferred expenses	112	-	112
Other current assets	26	(2)	24
Total	**363**	**(6)**	**357**

	Gross as at on 31 December 2008	Allowance for impairment	Net as at on 31 December 2008
Prepayments and advances	113	(9)	104
Prepayments for other taxes	30	-	30
VAT recoverable	27	-	27
Deferred expenses	92	-	92
Other current assets	28	(2)	26
Total	**290**	**(11)**	**279**

(in millions of Russian Roubles unless stated otherwise)

The following table summarizes the changes in the allowance for bad debt:

	2009	2008
Balance as at 1 January	**(11)**	(18)
Accrual and reversal	**(8)**	2
Write-off of other current assets	**13**	5
Balance as at 31 December	**(6)**	(11)

16. Cash and cash equivalents

As at 31 December 2009 and 2008 cash in banks, controlled by the State, comprised 421 and 886, appropriately.

As at 31 December 2009 and 2008 the Group did not have any restricted cash balances.

17. Significant non-cash transactions

	Additions of property, plant and equipment	Additions of intangible assets
2009		
Commercial credit agreements	276	7
Free of charge transfers	1	-
Total	**277**	**7**
2008		
Finance lease agreements	707	-
Commercial credit agreements	207	-
Free of charge transfers	1	-
Total	**915**	**-**

In 2009 non-cash sales transactions amounted to 2,671 (2008 – 585).

Non-cash transactions are based on market prices and have been excluded from the consolidated statement of cash flows.

18. Share capital

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

	Number of shares authorized (thousands)	Par value, (RUR)	Total Par value	Carrying value
Ordinary shares	32,298,782	0.12	3,876	7,041
Preference shares	7,835,941	0.12	940	1,708
Total	**40,134,723**	0.12	**4,816**	**8,749**

The difference between the par and carrying value of shares represents the effect of inflation in the periods prior to 1 January 2003. Share capital has been entirely paid.

(in millions of Russian Roubles unless stated otherwise)

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

Shareholders	Share of capital, %	Ordinary shares Number (thousands)	Ordinary shares %	Preference shares Number (thousands)	Preference shares %
Legal entities, total	**91.7**	**30,500,661**	**94.4**	**6,304,688**	**80.5**
OJSC Svyazinvest	41.4	16,608,946	51.4	-	0.0
Those with more than 5% of shares, including:	48.5	13,231,648	41.0	6,226,777	79.5
- Non-commercial partnership National depositary centre*	27.5	8,832,281	27.4	2,197,116	28.0
- CJSC ING Bank*	6.4	1,772, 065	5.5	788,647	10.1
- CJSC Depozitarno-Cliringovaya Company*	14.6	2,627,302	8.1	3,241,014	41.4
- other	1.8	660,067	2.0	77,911	1.0
Individuals, total	**8.3**	**1,798,121**	**5.6**	**1,531,253**	**19.5**
Total	**100**	**32,298,782**	**100**	**7,835,941**	**100**

* - nominee shareholder

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except for instances where decisions are made in relation to reorganization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which would restrict the rights of preference shareholders.

The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated as the higher of 10% of net income for the year determined under Russian accounting standards or dividend per ordinary share. If holders of preference shares receive the amount less than 10% of net income determined under Russian accounting standards, no dividends are distributed to holders of ordinary shares. Holders of preference shares are entitled to vote in the general shareholders' meeting on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been approved. The annual amount of dividends on preference shares can not be less than the annual amount of dividends on ordinary shares.

Distributable earnings of the Company are limited to its respective retained earnings, as determined in accordance with Russian accounting standards. Statutory retained earnings of the Company as at 31 December 2009 and 2008 amounted to 17,974 and 13,875, respectively.

In June 1997 the Company signed Deposit agreement with The Bank of New York as a Depositary and Owners and Holders of American Depositary Receipts (hereinafter - ADRs). At the same time, the Securities and Exchange Commission (SEC) registered a Level 1 ADR program for ordinary shares. In August 2002 the Company changed the Depositary by signing new Deposit agreement with JP Morgan Chase Bank as the successor Depositary.

As at 31 December 2009, the Company registered the issue of 3,008,913 ADRs (31 December 2008 – 2,855,670) and deposited 601,782,600 of ordinary shares (31 December 2008 – 571,134,000), which is 1.86 % (2008 – 1.77 %) of total issued ordinary shares.

(in millions of Russian Roubles unless stated otherwise)

The following table represents ADR registration for 2008-2009:

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares %	Share capital %
31 December 2007	**8,467,317**	**1,693,463,400**	**5.24**	**4.22**
Decrease in 2008	(5,611,647)	(1,122,329,400)	(3.47)	(2.8)
31 December 2008	**2,855,670**	**571,134,000**	**1.77**	**1.42**
Increase in 2009	153,243	30,648,600	0.09	0.08
31 December 2009	**3,008,913**	**601,782,600**	**1.86**	**1.5**

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

Name	CUSIP (WKN)		ADR ticker		ISIN	
	ADR	ADR pfd.	ADR	ADR pfd.	ADR	ADR pfd.
Frankfurt Stock Exchange (FSE)	908291	164647	URL	URL 1	US9168871021	US9168872011
Berlin Stock Exchange (BerSE)	908291	164647	URL	URL 1	US9168871021	US9168872011
Xetra	908291	164647	URL	URL 1	US9168871021	US9168872011
Stuttgart Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-
Dusseldorf Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-
Munich Stock Exchange (SSE)	908291	-	URL	-	US9168871021	-

19. Loans and borrowings

	31 December 2009	31 December 2008
Long-term loans and borrowings		
Bank loans	**13,139**	16,133
Bonds	**6,717**	7,133
Vendor financing	**283**	412
Finance lease liabilities	**1,942**	3,351
Restructured customer payments for connection	**44**	49
Less: Current portion of long-term loans and borrowings	**(8,023)**	(9,744)
Total	**14,102**	17,334
Short-term loans and borrowings		
Bank loans	**599**	599
Vendor financing	**1**	12
Interest payable	**3**	2
Total	**603**	613
Current portion of long-term loans and borrowings	**8,023**	9,744
Total	**8,626**	10,357
Total loans and borrowings	**22,728**	27,691

As at 31 December 2009 the Group had agreements with OJSC Sberbank, CJSC Gazprombank, CJSC Unicredit Bank, CJSK BSGV, OJSC VTB Bank and other credit institutions for open credit lines amounting to 15,304 (31 December 2008 – 17,506). As at 31 December 2009 the Group used 13,756 (31 December 2008 – 16,556) of the above mentioned amount. The Group has an ability to draw an additional amount of 1,548 to finance its working capital and investment projects.

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 loans and borrowings are secured by pledged property plant and equipment with the carrying value of 4,137 (2008 – 5,912).

Long-term loans and borrowings

Bank loans

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

Counteragent	Rate per agreement	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
OJSC Sberbank	8.75 - 12 %	4,448	5,747	RUR	2010-2013	2,955
CJSC Gazprombank	12 %	4,400	5,500	RUR	2011-2012	-
BHF-BANK AG	Euribor (181 days) + 0.70 - 1.90 %	1,729	1,744	EURO	2011-2015	-
CJSC BSGV	Mosprime (31 days) + 3%	1,435	1,507	RUR	2011	-
CJSC Unicredit Bank	8.30 %	1,001	1,505	RUR	2012	
Landesbank Baden-Württemberg	Euribor (181 days) + 1.95 %	72	-	EURO	2015	-
LLC Iskratel, telecommunication systems	Euribor (91 days) + 3.16 %	54	130	EURO	2010-2011	-
		13,139	**16,133**			**2,955**

Bonds

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

Issue code	Effective interest rate	31 December 2009	31 December 2008	Date of issue	Date of maturity	Terms of maturity	Date of early redemption offer	Coupon interest
06	10.5%	522	2,028	2005	2011	20% of nominal value every 6 months starting from November 2009	23.11.2011	10.5%
07	16.7%	3,138	3,067	2006	2012	20% of nominal value every 6 months starting March 2010	18.03.2010	16%
08	10.1%	2,043	2,038	2008	2013	October 2012 – 50% of nominal value; April 2013 – 50% of nominal value	12.04.2010	9.6%
BO - 01	11.3%	1,014	-	2009	2012	November 2012	09.11.2011	10.8%
		6,717	**7,133**					

Series 06 bond issue had an option for early redemption for up to 2 000 000 bonds in November 2009. Obligations were discharged by the Company fully and in time. 630 000 bonds were placed in the market for the second time in December 2009. During 2010 the Company will redeem 40% of bonds nominal value, therefore bonds in the amount of 258 were classified as current liabilities.

Bondholders of bonds series 07 had an option for early redemption in March 2009. The option was not exercised and bonds remained in market circulation. The bond issue series 07 had the next option for early redemption for up to 3 000 000 bonds in March 2010. Thus, the liability in the amount of 3 000 was classified as current.

(in millions of Russian Roubles unless stated otherwise)

Series 08 bond issue had an option for early redemption for up to 2 000 000 bonds in April 2010. Thus, the liability in the amount of 2 000 was classified as current.

In November 2009 the Company issued 1 000 000 bonds series BO-01 with a nominal value of 1 000 roubles each. The nearest offer will take place in November 2011, therefore the liability in the amount of 1 000 was classified as non-current as at the reporting date.

Vendor financing

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

Vendor	Effective interest rate	31 December 2009	31 December 2008	Currency	Date of maturity	Security
OJSC CiscoCapital CIS	13.8%	169	-	RUR	2012	-
Qualcomm	-	-	179	US dollar	2009	-
CJSC NVision Group	6%	58	225	US dollar	2010-2012	-
Huawei Technologies Co.Ltd.	6%	29	-	US dollar	2011	-
CJSC NVision Group	13.8%	21	-	RUR	2012	-
CJSC Italtel	6%	6	8	US dollar	2010	-
		283	**412**			

Information on long term portion on finance lease liability is provided below.

Short-term loans and borrowings

Bank loans

VTB Bank

The short-term debt to VTB Bank is represented by the loan received in 2009 in the amount of 1,000. The loan matures in 2010, and carries an interest rate of 18.75% per annum. As at 31 December 2009 the outstanding balance amounted to 599. The loan is secured with property, plant and equipment in the amount of 1,182.

Promissory notes

During 2009 the Group issued and paid off its interest-bearing notes in Russian roubles in the amount of 340 at the interest rate of 13% p.a., interest-bearing notes in foreign currency in the amount of EUR 580 thousand at the rate of 7% p.a. and non-interest-bearing notes in Russian roubles in the amount of 60. Notes were issued to pay accounts payable related to operating and investing activities of the Group. They are payable on demand but not earlier than 6 months from the date of issue.

Borrowings provided by state-controlled entities

As at 31 December 2009 and 2008 loans and borrowings of the Group with state-controlled entities amounted to 9,447 and 11,846, respectively.

In 2009 the Group received loans and borrowings from state-controlled entities in the amount of 599 (2008 – 8,304).

In 2009 the Group repaid loans and borrowings previously borrowed from state-controlled entities in the amount of 2,998 (2008 – 6,568).

Interest accrued in respect to borrowings obtained from state-controlled entities in 2009 amounted to 1,458 (2008 – 1,015).

(in millions of Russian Roubles unless stated otherwise)

Finance lease liabilities

	31 December 2009		31 December 2008	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion (less than 1 year)	1,372	1,140	1,854	1,418
More than 1 to 5 years	885	802	2,248	1,933
Total	**2,257**	**1,942**	**4,102**	**3,351**

In 2009 and 2008, the Group's primary lessor was OJSC RTK-Leasing. In 2009, effective interest rate on lease liabilities varied from 15 % to 20 % per annum (2008 from 14 % to 20 % per annum).

Assets leased under finance lease agreements with OJSC RTK-Leasing mainly comprise telecommunication equipment. The Group's obligations to OJSC RTK-Leasing as at 31 December 2009 amounted to 1,818 (2008 – 3,065).

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

20. Employee benefits

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

The Group's defined benefit pension plan provides a retirement pension. The plan provides for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men, provided that a condition for a minimum service period of two years for key management personnel, four years for management personnel and 15 years for other employees is met. According to the plan the amount of pension depends on the position of employee as of the date of retirement and is not directly related to the employee's salary level.

Non-state pension fund Telecom-Soyuz, which is the Group's related party (Note 39), maintains the defined benefit pension plan. The Group makes contribution to the fund upon retirement of employees in amount agreed with the fund at the time retirement.

In addition to the existing defined benefit plan the Group also maintains the defined contribution plan which involves payments made by the Group during the employees' service period starting from the date when an individual enters in to a contract with the Non-state pension fund Telecom Soyuz. These contributions are accounted for on the participants' individual accounts in the fund. Payments made by the Group in 2009 under the defined contribution plan equal 42 (2008- 61) and are included into Personnel costs.

The Group further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon death, retirement and jubilees for employees and pensioners. Additionally, the Group provides material support of a defined benefit nature to its pensioners.

As at 31 December 2009, 12,636 employees participated in the defined benefit pension plan of the Group and 12,000 pensioners were eligible to other post-employment benefit plans provided by the Group (2008 – 14,116 and 10,823, respectively).

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 and 2008 net liabilities of the defined benefit pension plan comprised the following:

	2009	2008
Present value of defined benefit obligation	**(2,799)**	(3,143)
Present value of unfunded obligations	**(2,799)**	(3,143)
Unrecognized past service cost	**1,294**	1,476
Unrecognized actuarial losses	**(796)**	(427)
Net pension benefits	**(2,301)**	(2,094)

As at 31 December 2009 management estimated that employees' average remaining working period was 9 years (2008 - 9 years).

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

	2009	2008
Current service cost	**(176)**	(189)
Interest cost	**(284)**	(209)
Net actuarial gains recognised during the year	**31**	55
Amortization of past service cost - non-guaranteed part	**(182)**	(183)
Curtailment or final settlement effect	**71**	27
Net expense for the defined benefit plans	**(540)**	(499)

Net expense for the defined benefit plan, excluding interest cost, is included in the consolidated income statement in the line "Personnel costs". The amounts of interest expenses are recognized in "Finance costs" line items of the consolidated income statement.

Changes in present value of the defined benefit obligation in 2009 and 2008 were as follows:

	2009	2008
Present value of defined benefit obligations as at 1 January	**(3,143)**	(3,118)
Current service cost	**(176)**	(189)
Interest cost	**(284)**	(209)
Benefits paid	**81**	78
Settlement gains	**251**	189
Actuarial losses	**472**	106
Present value of defined benefit obligations as at 31 December	**(2,799)**	(3,143)

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

	2009	2008
Fair value of plan assets as at 1 January	**-**	-
Contributions by the employer	**332**	267
Benefits paid	**(81)**	(78)
Settlement gains	**(251)**	(189)
Fair value of plan assets as at 31 December	**-**	**-**

Contributions to the defined benefit plan for 2010 are expecting in the amount of 305.

(in millions of Russian Roubles unless stated otherwise)

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

	2009	**2008**
Discount rate	**9 %**	9 %
Expected return on plan assets	**n/a**	n/a
Future salary increase	**9.72 %**	10.24 %
Relative salary increase («promotion»)	**1 %**	1 %
Rate used for calculation of annuity value	**4 %**	4 %
Increase in financial support benefits	**5.5 %**	6 %
Staff turnover	**7 %**	7 %
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

Historical information on defined benefit plan is as follows:

	2009	**2008**	**2007**	**2006**	**2005**
Defined benefit obligation	(2,799)	(3,143)	(3,118)	(3,172)	(3,445)
Defined benefit assets	-	-	-	5	188
Deficit	**(2,799)**	**(3,143)**	**(3,118)**	**(3,167)**	**(3,257)**
Experience adjustments on defined benefit plan liabilities	361	110	280	640	40
Experience adjustments on defined benefit plan assets	-	-	-	(4)	9

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and actual results.

21. Other non-current liabilities

	31 December 2009	**31 December 2008**
Deferred revenue	**139**	175
Special purpose financing	**6**	7
Total	**145**	182

22. Provisions

	Employee dismissal provision
Balance at 31 December 2007	**220**
Accrued	92
Used	(83)
Reversed	(137)
Balance at 31 December 2008	**92**
Accrued	27
Used	(49)
Reversed	(43)
Balance at 31 December 2009	**27**

(in millions of Russian Roubles unless stated otherwise)

	Employee dismissal provision
Long-term provision	-
Current provision	92
Balance at 31 December 2008	**92**
Long-term provision	-
Current provision	27
Balance at 31 December 2009	**27**

Personnel optimization program

The Group made a provision for termination payments to the employees who had been notified of their forthcoming discharge as at 31 December 2009. Costs of providing for termination payments in the amount of 27 are recognized in "Personnel costs" of the consolidated income statement. Unutilized part of the provision in the amount of 43 was included in "Other operating income".

23. Trade and other payables

	31 December 2009	31 December 2008
Other taxes payable	**1,233**	1,086
Payables to personnel	**1,212**	1,086
Payables for operating activities	**1,128**	1,207
Payables for purchases and construction of property, plant and equipment	**934**	1,820
Payables to interconnected operators	**485**	463
Universal service fund liability	**108**	104
Dividends payable	**32**	32
Settlements with principals	**69**	117
Other accounts payable	**83**	123
Total	**5,284**	6,038

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

	31 December 2009	31 December 2008
Value-added tax	**909**	727
Property tax	**214**	206
Unified social tax	**54**	82
Personal income tax	**42**	58
Other taxes	**14**	13
Total	**1,233**	1,086

Other accounts payable

Other accounts payable include guarantees issued.

As at 31 December 2009 the Group has provided guarantees in respect of certain credit lines primarily provided by banks to OJSC "RTK-Leasing" and LLC "Express leasing", telecommunications equipment leasing companies. The amount of credit lines guaranteed liabilities as at 31 December 2009 was 739 (31 December 2008 – 1,358). Fair value of guarantees issued as at 31 December 2009 and 2008 was 6 and 12. Management estimates that the likelihood of payments being required is remote.

(in millions of Russian Roubles unless stated otherwise)

24. Other current liabilities

	31 December 2009	31 December 2008
Advances received from operating activities	**1,044**	948
Advances received from non-operating activities	**46**	5
Deferred revenue	**32**	56
Total	**1,122**	1,009

25. Contingencies and operating risks

Operating environment

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

Taxation

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

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

Tax Authorities performed the tax audit of the Group related to the period of 2006-2008 years. Management believes that the Group will be in the position to defend all the issues raised by the tax authorities.

Insurance

The Group undertakes risk management measures, including those related to insurance. During 2009 the Group maintained insurance coverage on a significant part of its equipment, vehicles, real property and other assets, personnel, professional indemnity of directors and officers and liability in respect of property or environmental damage arising from accidents relating to the Group's property or the Group's operations. As a natural monopoly, the Group has to select a provider of insurance services on an open tender to meet the requirements of the Federal Law No. 135-FZ "On Protection of Competition".

Legal Proceedings

During the year, the Group was involved in a number of legal proceedings arising in the ordinary course of business. In the opinion of management, there are no legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations, financial position or cash flows of the Group and which have not been accrued and disclosed in these consolidated financial statements.

(in millions of Russian Roubles unless stated otherwise)

26. Financial instruments and risk management

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

Capital Management Policy

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

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

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

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

The Group's policy is to maintain the financial independence ratio within a range of 0.47 – 0.58; the net debt/shareholders' equity ratio within the range of 0.8 – 0.42; the net debt/ EBITDA ratio within the range the 1.37 – 0.79.

Ratios used for capital management for the year 2009 and 2008 were as following:

	2009	**2008**
Financial independence ratio	0.47	0.40
Net debt */ shareholders'equity	0.72	1.02
Net debt* / EBITDA	1.25	1.76

*Net debt – loans and borrowings, promissory notes, bonds, vendor finance lease.

In 2009 Standard and Poor's confirmed the Company's short term credit risk at B+, (2008: BB-). Company's policy of capital management is to increase the credit rating up to BB+.

(in millions of Russian Roubles unless stated otherwise)

Income and expenses on financial instruments

2009	Consolidated Income statement						Consolidated statement of comprehensive income	Total
	Other operating expenses	Finance costs	Other investing and financing gains and losses					
	Doubtful debt allowance	Interest expense	Interest income	Dividend income	Other	Foreign exchange gains / losses	Fair value change	
Cash and cash equivalents	-	-	(105)	-	-	-	-	(105)
Trade and other receivables	351	-	-	-	-	-	-	351
Available-for-sale financial assets	-	-	-	(10)	8	-	(3)	(5)
Held-to-maturity investments	-	-	(329)	-	-	-	-	(329)
Loans issued	-	-	(11)	-	-	-	-	(11)
Total financial assets	**351**	**-**	**(445)**	**(10)**	**8**	**-**	**(3)**	**(99)**
Loans and borrowings	-	1,847	-	-	7	99	-	1,953
Bonds	-	882	-	-	-	-	-	882
Promissory notes	-	22	-	-	-	(1)	-	21
Vendor financing	-	13	-	-	-	16	-	29
Finance lease liabilities	-	435	-	-	-	-	-	435
Trade and other payables	-	-	-	-	-	26	-	26
Total financial liabilities	**-**	**3,199**	**-**	**-**	**7**	**140**	**-**	**3,346**

2008	Consolidated income statement							Consolidated statement of comprehensive income	Total
	Other operating expenses	Finance costs	Other investing and financing gains and losses						
	Doubtful debt allowance	Interest expense	Interest income	Dividend income	Gains / losses on asset disposal	Impairment loss	Foreign exchange gains / losses	Fair value change	
Cash and cash equivalents	-	-	(61)	-	-	-	-	-	(61)
Trade and other receivables	145	-	-	-	-	-	(1)	-	144
Available-for-sale financial assets	-	-	-	(9)	(37)	11	-	4	(31)
Held-to-maturity investments	-	-	(33)	-	-	-	-	-	(33)
Loans issued	-	-	(21)	-	-	-	-	-	(21)
Total financial assets	**145**	**-**	**(115)**	**(9)**	**(37)**	**11**	**(1)**	**4**	**(2)**
Loans and borrowings	-	1,271	-	-	-	-	249	-	1,520
Bonds	-	717	-	-	-	-	-	-	717
Promissory notes	-	1	-	-	-	-	-	-	1
Vendor financing	-	-	-	-	-	-	69	-	69
Finance lease liabilities	-	700	-	-	-	-	-	-	700
Trade and other payables	-	-	-	-	-	-	82	-	82
Total financial liabilities	**-**	**2,689**	**-**	**-**	**-**	**-**	**400**	**-**	**3,089**

(in millions of Russian Roubles unless stated otherwise)

Foreign exchange risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's financial performance and cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's income statement, statement of financial position and statement of cash flows. The Group is exposed to foreign exchange risk in relation to its assets and liabilities denominated in foreign currencies.

Financial assets and liabilities of the Group as at 31 December 2009 and 2008 were presented in following currencies:

31 December 2009	RUR	USD	EURO	Total
Cash and cash equivalents	1,302	2	320	1,624
Trade and other receivables	3,444	-	-	3,444
Available-for-sale financial assets	26	-	-	26
Held-to-maturity investments	2,996	-	-	2,996
Loans	39	-	-	39
Total financial assets	**7,807**	**2**	**320**	**8,129**
Loans and borrowings	11,885	-	1,856	13,741
Bonds	6,717	-	-	6,717
Vendor financing	189	93	1	283
Finance lease liabilities	1,942	-	-	1,942
Restructured payments for connection	45	-	-	45
Trade and other payables *	4,724	507	54	5,285
Total financial liabilities	**25,502**	**600**	**1,911**	**28,013**

* Trade and other payables include settlements with personnel and tax authorities

31 December 2008	RUR	USD	EURO	Total
Cash and cash equivalents	1,093	1	1	1,095
Trade and other receivables	3,682	-	10	3,692
Available-for-sale financial assets	24	-	-	24
Held-to-maturity investments	1,533	-	-	1,533
Loans	69	-	-	69
Total financial assets	**6,401**	**1**	**11**	**6,413**
Loans and borrowings	14,860	-	1,874	16,734
Bonds	7,133	-	-	7,133
Vendor financing	-	416	8	424
Finance lease liabilities	3,351	-	-	3,351
Restructured payments for connection	49	-	-	49
Trade and other payables *	5,470	399	174	6,043
Total financial liabilities	**30,863**	**815**	**2,056**	**33,734**

* Trade and other payables include settlements with personnel and tax authorities

For the period from 1 January through 31 December 2009 the Rouble to the US Dollar and EURO decreased by approximately 2.9% and 4.7%, respectively.

(in millions of Russian Roubles unless stated otherwise)

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

	USD			EURO		
	Changes in exchange rate, %	Effect on profit before income tax Mln RUR	%	Changes in exchange rate, %	Effect on profit before income tax Mln RUR	%
2009	+10	(60)	-1.24	+10	(159)	-3.31
	-10	60	1.24	-10	159	3.31
2008	+20	(163)	-4.88	+20	(409)	-12.27
	-20	163	4.88	-20	409	12.27

According to current risk management policy, the Group performs overall evaluation of risks, taking into account the following:

- The level of impact of risks on the financial ratios;
- The probability of risks.

The Group uses qualitative criteria – the level of risks controllability – to define its risk response strategy.

The Group performs risk evaluation of foreign exchange on a regular basis. If the risk is assessed as significant, the Group will undertake the following measures to decrease the risk:

- Hedging, including the use of futures, forwards, options;
- Refinancing of borrowings nominated in foreign currency.

Interest Rate Risk

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

The following table presents the Group's financial instruments that are exposed to interest rate risk:

31 December 2009	Fixed rate	Variable rate	No rate	Total
Cash and cash equivalents	-	-	1,624	1,624
Trade and other receivables	-	-	3,444	3,444
Available-for-sale financial assets	-	-	26	26
Held-to-maturity investments	2,996	-	-	2,996
Loans issued	-	-	39	39
Total financial assets	**2,996**	**-**	**5,133**	**8,129**
Loans and borrowings	10,451	3,290	-	13,741
Bonds	6,717	-	-	6,717
Vendor financing	87	-	196	283
Finance lease liabilities	1,942	-	-	1,942
Restructured payments for connection	-	-	45	45
Trade and other payables *	-	-	5,285	5,285
Total financial liabilities	**19,197**	**3,290**	**5,526**	**28,013**

* Trade and other payables include settlements with personnel and tax authorities

(in millions of Russian Roubles unless stated otherwise)

31 December 2008	Fixed rate	Variable rate	No rate	Total
Cash and cash equivalents	-	-	1,095	1,095
Trade and other receivables	-	-	3,692	3,692
Available-for-sale financial assets	-	-	24	24
Held-to-maturity investments	1,533	-	-	1,533
Loans issued	-	-	69	69
Total financial assets	**1,533**	**-**	**4,880**	**6,413**
Loans and borrowings	13,353	3,381	-	16,734
Bonds	7,133	-	-	7,133
Vendor financing	237	-	187	424
Finance lease liabilities	3,351	-	-	3,351
Restructured payments for connection	-	-	49	49
Trade and other payables *	-	-	6,043	6,043
Total financial liabilities	**24,074**	**3,381**	**6,279**	**33,734**

* Trade and other payables include settlements with personnel and tax authorities

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

	Euribor			Mosprime		
	Change of rate, basis points	Effect on profit before income tax		Change of rate, basis points	Effect on profit before income tax	
		Mln RUR	%		Mln RUR	%
2009	+100	(19)	-0.39	+200	(29)	-0.60
	-100	19	0.39	-200	29	0.60
2008	+100	(19)	-0.57	+200	(30)	-0.90
	-100	19	0.57	-200	30	0.90

The Group's approach to evaluation of the significance of risk of changes in interest rates is the same as for foreign exchange risk evaluation. If the risk is evaluated as significant, the Group will undertake the following measures to decrease the risk:

- Use of swaps floating rates;
- Refinancing of borrowings with the floating interest rates.

Liquidity risk

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

(in millions of Russian Roubles unless stated otherwise)

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

	2010	2011	2012	2013	2014 and later	Total
Cash and cash equivalents	1,624	-	-	-	-	1,624
Trade and other receivables	3,400	19	17	13	27	3,476
Available-for-sale financial assets	-	-	-	-	26	26
Held-to-maturity investments	3,159	-	-	-	-	3,159
Loans issued	21	12	8	6	11	58
Total financial assets	**8,204**	**31**	**25**	**19**	**64**	**8,343**
Loans and borrowings	1,836	5,231	5,228	1,312	209	13,816
Bonds	5,001	1,516	-	-	-	6,517
Vendor financing	173	90	49	-	-	312
Finance lease liabilities	1,369	751	137	-	-	2,257
Restructured payments for connection	17	9	1	9	8	44
Trade and other payables*	5,284	1	-	-	-	5,285
Total financial liabilities	**13,680**	**7,598**	**5,415**	**1,321**	**217**	**28,231**

* Trade and other payables include settlements with personnel and tax authorities.

These flows include the repayment of principal amount as well as interest payment to be made during respective period.

Credit Risk

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

Financial assets, which potentially expose the Group to credit risk, consist primarily of trade receivables. The carrying amount of trade receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 14).

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

The analysis of overdue trade receivables which are not impaired is provided below:

31 December 2009			Post due (days)				
	Total	**< 31**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Commercial organizations	207	121	51	35	-	-	-
Individuals	255	130	82	43	-	-	-
Budget organizations	52	32	12	8	-	-	-
Interconnected operators	78	57	10	6	-	-	5
Total	**592**	**340**	**155**	**92**	**-**	**-**	**5**

(in millions of Russian Roubles unless stated otherwise)

31 December 2008		**Post due (days)**					
	Total	**< 31**	**31-60**	**61-90**	**91-180**	**181-360**	**>360**
Commercial organizations	129	74	30	25	-	-	-
Individuals	183	121	33	29	-	-	-
Budget organizations	39	24	10	5	-	-	-
Interconnected operators	97	74	14	8	-	1	-
Total	**448**	**293**	**87**	**67**	**-**	**1**	**-**

Management believes that receivables overdue less than 90 days do not generally lead to impairment loss. The estimate is based on historical data analysis of trade receivables collectability.

Hedging

In 2009 the Group did not use any tools to manage foreign exchange risks or interest rate risks.

Fair value of financial instruments

The Group estimates the fair value of its financial assets and liabilities not to be materially different from their carrying amounts except for the following instances:

	2009		**2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and borrowings	13,741	13,251	16,734	15,150
Bonds	6,717	6,795	7,133	7,089
Total	**20,458**	**20,046**	**23,867**	**22,239**

Fair value of bonds for disclosure purposes has been calculated based on quoted market prices as at 31 December 2009 and 2008. For loans and borrowings, measured at amortised cost, fair value has been calculated based on the present value of future principal and interest cash flows, discounted at the incremental borrowing interest rate, which varied at the reporting date between 8% and 18% per annum for rouble-denominated loans (2008 - between 19% and 23% per annum for rouble-denominated loans).

27. Revenue

	2009	**2008**
Mobile services	**12,668**	13,156
Local telephone calls	**10,442**	10,218
Data transmission, telematic services (Internet) and telegraph	**6,516**	5,239
Intra-zone telephone services	**4,556**	5,026
Revenues from interconnected operators	**4,518**	5,229
Other revenues	**1,110**	1,223
Radio and TV broadcasting	**542**	495
Agency fees and revenue from assistance services	**51**	86
Other telecommunication services	**9**	19
Total	**40,412**	40,691

Revenue from intra-zone and local telephone services include revenue from leased telecommunication channels in the amounts of 588 and 314, respectively (2008 - 545 and 315).

(in millions of Russian Roubles unless stated otherwise)

Revenue from data transmission, telematic services (Internet) and telegraph include revenues from data transmission and telematic services (Internet) in the amount of 6,346 (2008 – 4,949).

Other revenue includes rental income in the amount of 819 (2008 - 733).

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

Customer groups	**2009**	**2008**
Individual customers	**24,288**	23,745
Commercial organizations	**8,840**	9,130
Budget organizations	**2,615**	2,434
Interconnected operators	**4,669**	5,382
Total	**40,412**	40,691

28. Personnel costs

	2009	**2008**
Salary expenses	**6,078**	6,933
Social taxes	**1,352**	1,477
Employee benefits	**208**	270
Other personnel costs	**649**	563
Total	**8,287**	9,243

Other personnel costs include other payments under collective agreement and labour contracts.

29. Materials, repairs and maintenance, utilities

	2009	**2008**
Repairs and maintenance	**1,371**	1,451
Materials	**1,210**	1,424
Utilities	**752**	651
Total	**3,333**	3,526

30. Other operating income

	2009	**2008**
Reimbursement of losses incurred from universal services fund	**1,370**	1,525
Payables written-off	**224**	66
Reversal of unused reserve	**43**	-
Fines and penalties	**27**	35
Reversal of other current assets impairment	**1**	7
Other income	**52**	87
Total	**1,717**	1,720

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

- for current year services – 1,251 (2008 – 1,068);
- for previous year services - 455 (2008 – 391).

Losses from rendering of universal telecommunications services during 2009 amounted to 1,467 (2008 – 1,588) and were confirmed by an independent audit firm.

(in millions of Russian Roubles unless stated otherwise)

31. Other operating expenses

	2009	2008
Agency fees	**2,480**	2,190
Third party services and expenses related to administration	**1,987**	2,229
Taxes, other than income tax	**1,043**	1,034
Rent	**736**	753
Fire and other security services	**456**	505
Advertising expenses	**426**	511
Universal service fund payments	**416**	404
Doubtful debt allowance	**351**	145
Audit and consulting fees	**133**	364
Losses on disposal of property, plant and equipment, intangible and other assets	**125**	504
Transportation and postal services	**102**	128
Member fees, charity contribution, payments to labour unions	**85**	464
Asset insurance	**32**	177
Fines and penalties	**6**	5
Other expenses	**191**	228
Total	**8,569**	9,641

32. Finance costs

	2009	2008
Interest expense on bank loans, bonds and promissory notes, commercial credits	**2,764**	1,971
Interest expense on finance lease liabilities	**435**	700
Interest expense on employee benefit	**284**	209
Borrowings servicing expense	**7**	18
Total	**3,490**	2,898

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

	2009	2008
Capitalized to property, plant and equipment	**1**	99
Capitalized to intangible assets	**-**	32
Total	**1**	131

33. Other investing and financing gains and losses

	2009	2008
Interest income from finance assets	**445**	115
Gain on disposal of other financial assets	**-**	37
Expenses related to business combinations	**(8)**	-
Impairment of financial assets	**-**	(11)
Dividend income	**10**	9
Total	**447**	150

(in millions of Russian Roubles unless stated otherwise)

34. Income tax

Federal law No. 224-FZ dated 26 November 2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from 1 January 2009.

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

	2009	2008
Current income tax expense	**863**	1,042
Adjustments of the current income tax for previous years	**5**	(64)
Total current income tax expense for the year	**868**	978
Deferred income tax expense related to the temporary differences	**288**	326
Change in income tax rate	**-**	(505)
Total deferred income tax (income)/expense	**288**	(179)
Total income tax expense for the year	**1,156**	799

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

	2009	2008
Profit before tax	**4,810**	3,334
Statutory income tax rate	**20%**	24%
Theoretical tax charge at statutory income tax rate	**962**	800
Increase/(decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	**5**	(64)
Non-taxable income	**(7)**	(3)
Non-deductible expenses	**196**	571
Change in tax rate	**-**	(505)
Total actual income tax	**1,156**	799
Effective tax rate %	***24%***	*24%*

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

	1 January 2008	Origination and reversal of temporary differences	Change of tax rate	31 December 2008	Origination and reversal of temporary differences	Acquisition of subsidiary	31 December 2009
Trade and other payables	255	8	(44)	219	27	-	246
Trade and other receivables	26	(18)	(1)	7	(9)	1	(1)
Finance lease liabilities	966	(224)	(124)	618	(264)	1	355
Employee benefits	108	97	(34)	171	26	-	197
Other	4	7	(2)	9	(5)	-	4
Property, plant and equipment	(3,780)	(189)	662	(3,307)	(97)	(10)	(3,414)
Intangible assets	(271)	(21)	48	(244)	31	(1)	(214)
Investments	(2)	2	-	-	-	-	-
Other	(17)	12	-	(5)	3	-	(2)
Total deferred tax assets (liabilities), net	**(2,711)**	**(326)**	**505**	**(2,532)**	**(288)**	**(9)**	**(2,829)**

(in millions of Russian Roubles unless stated otherwise)

35. Earnings per share

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

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders (see note 18) by the weighted average number of ordinary shares outstanding during the year.

	2009	2008
Net profit for the year attributable to the shareholders of the Company	**3,654**	2,535
Less: attributable to preference shareholders	**(713)**	(495)
Attributable to ordinary shareholders	**2,941**	2,040
Weighted average number of ordinary shares outstanding during the year, thousand	**32,298,782**	32,298,782
Basic and diluted earnings per share attributable to ordinary shareholders in Russian roubles	**0.0910**	0.0632

36. Dividends declared and proposed for distribution

In June 2009, shareholders resolved on the general meeting to approve dividends for year ended 31 December 2008.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
Declared and approved for 2008			
Preference shares	7,835,941,286	0.034175	267,793, 314
Ordinary shares	32,298,782,020	0.012437	401,699,953
Total	**40,134,723,306**		**669,493,267**

Dividends paid in 2009 for the year ended 31 December 2008 amounted to 603.

37. Operating Leases

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

	2009	2008
	Minimum lease payments	Minimum lease payments
Current portion (less than 1 year)	**515**	584
From 1 to 5 years	**118**	160
Over 5 years	**197**	171
Total	**830**	915

In 2009 operating lease expenses included in the line “Other operating expense” of the consolidated income statement amounted to 736 (2008 - 753).

(in millions of Russian Roubles unless stated otherwise)

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

	2009	2008
	Minimum lease payments	**Minimum lease payments**
Current portion (less than 1 year)	**525**	485
From 1 to 5 years	**17**	41
Over 5 years	**1**	4
Total	**543**	530

In 2009 revenue from operating leases included in the line "Revenue" of the consolidated income statement amounted to 819 (2008 - 733).

38. Commitments

As at 31 December 2009 and 2008 the Group's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 59 and 135, respectively, with regard to purchase of property, plant and equipment amounted to 12 and 0, respectively.

39. Balances and transactions with related parties

During 2009 related parties structure has not experienced major changes compared to structure as at 31 December 2008.

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

Transactions	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Other
2009			
Revenue from telecommunication services, interconnection and traffic transmission services	-	1,396	-
Agency services	-	20	-
Rental income	-	6	-
Other revenue	-	110	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	409	-
Purchase of other services	-	129	291
Purchase of goods and other assets	-	3	-
Dividends payable	188	-	-
2008			
Revenue from telecommunication services, interconnection and traffic transmission services	-	1,763	-
Agency services	-	60	-
Rental income	-	8	-
Other revenue	-	92	-
Revenue from sale of property, plant and equipment and other assets	-	3	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	163	-
Purchase of other services	-	50	248
Purchase of goods and other assets	-	9	-
Dividends payable	345	-	-

(in millions of Russian Roubles unless stated otherwise)

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

Type of balances	**Subsidiaries of OJSC Svyazinvest**	**Other**
2009		
Trade and other receivables, net, including:	168	-
- doubtful debt allowance	(4)	-
Trade and other payables	41	7
2008		
Trade and other receivables, net, including:	222	-
- doubtful debt allowance	(4)	-
Trade and other payables	68	6

Other related parties comprise the non-state pension fund.

OJSC Svyazinvest

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

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

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

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

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

Subsidiaries of OJSC Svyazinvest

The Group enters into transactions with subsidiaries of OJSC Svyazinvest on market terms. Tariffs for them are at the same level with tariffs for other counteragents and are fixed by a regulatory body. Subsidiaries do not influence the Group's transactions with other counteragents. The transactions with subsidiaries of OJSC Svyazinvest includes:

OJSC Rostelecom

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

Revenue from OJSC "Rostelecom" relates to traffic transmission services provided by the Group to OJSC "Rostelecom" under the interconnection agreement and to the fees received under the assistance agreement.

Expenses associated with OJSC "Rostelecom" relate to payments for call termination to networks of other telecommunication operators, if the call is initiated from a mobile network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Group.

(in millions of Russian Roubles unless stated otherwise)

The respective amounts included in the consolidated financial statements as of 31 December 2009 and 2008 and for the years then ended were as follows:

	2009	**2008**
Revenue from telecommunication services, interconnection and traffic transmission services	**1,384**	1,752
Agency services	**20**	60
Rental income	**5**	5
Other revenue	**31**	12
Purchase of telecommunication services, interconnection and traffic transmission services	**401**	155
Purchase of other services	**17**	10
Trade and other receivables, net, including.:	**140**	196
- doubtful debt allowance	**(4)**	(4)
Trade and other payables	**5**	45

Operations with state-controlled entities

State-controlled organisations are a significant element in the Group’s customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates.

State-controlled organisations have no effect on Group’s interactions with other organizations.

Non-state pension fund Telecom-Soyuz

The Company signed centralized pension agreement with a non-state pension fund Telecom-Soyuz (Note 20).

The total amount of contributions to non-state pension fund paid by the Company in 2009 amounted to 291 (2008 - 248) and was included as “Personnel costs” in income statement. The fund retains 3% of every pension contribution of the Company to cover its administrative costs.

Remuneration of key management personnel

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

Remuneration to members of the Board of Directors and the Management Committee of the Company for 2009 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 142 (2008 - 127), including salary, bonuses and other compensation to employees of the Company in the key management positions in the amount of 87 (2008 - 104). The remuneration amounts are stated exclusive of the unified social tax.

40. Subsequent events

Dividends

The Board of Directors recommended dividends for 2009 in the amount of 0.018897 roubles per ordinary share and 0.051927 roubles per preference share (for the year 2008: 0.012437 roubles and 0.034175 roubles respectively). Total amount of declared dividends amounted to 610 and 407 for ordinary and preference shares respectively (for the year 2008: 401 and 268 respectively). It is subject to the approval at the annual shareholders’ meeting to be held in June 2010. Following the approval annual dividends payable to shareholders will be recognized in the 2010 financial statements (see also Note 36).

Bank loans

In January 2010 the Group received the tranche in the amount of 3,738 thousands EURO under the loan agreement with Landesbank Baden-Württemberg. The maturity date is December 2015. The Group pays interest on loan at the rate of 6 month EURIBOR + 1.97% p.a. The loan is non-collateral.

On February - March 2010 the Group received the tranche in the amount of 1,018 thousands EURO under the loan agreement with Landesbank Baden-Württemberg. The maturity date is 2013. The Group pays interest on loan at the rate of 6 month EURIBOR + 1,95% p.a. The loan is non-collateral.

In March 2010 the Group received the tranche in the amount of 148 thousands EUR under the loan agreement with Landesbank Baden-Württemberg. The maturity date is December 2015. The Group pays interest on loan at the rate of 6 month EURIBOR + 1.97% p.a. The loan is non-collateral.

Reorganization of OJSC Uralsvyazinform

At the end of 2009 the Government of the Russian Federation approved the reorganization of OJSC Svyazinvest and its subsidiaries. According to the plan of reorganisation, seven supra-regional companies and certain subsidiaries of OJSC Svyazinvest will be merged with OJSC Rostelecom (“Rostelecom”) during 2011. As part of this process, on 12 May 2010, the Board of Directors submitted the merger agreement with Rostelecom for approval of the Annual General Meeting having determined the swap ratios for company’s ordinary and preference shares at 0.000011 and 0.000009, respectively, for one Rostelecom ordinary share. For those shareholders who will not participate in the swap, the buyback share price (both for ordinary and preference) was determined at RUR 0.98. The valuation of the Company’s shares was conducted by the independent appraisal using the following valuation techniques: discounted cash flows (income approach), market value and benchmark method (comparative approach).