Open Joint Stock Company

Far East Telecommunications Company

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

OJSC Far East Telecommunications Company

Consolidated Financial Statements

For the year ended 31 December 2009, prepared in accordance with International Reporting Standards (IFRS)

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Independent Auditors' Report

To the Board of Directors of OJSC Far East Telecommunication Company

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

20 May 2010

OJSC Far East Telecommunications Company

Consolidated Statement of Financial Position

As at 31 December 2009

(in millions of Russian Roubles)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	8	15,397	14,094
Intangible assets and goodwill	9	3,119	2,934
Other non-current assets	10	252	594
Investment property	11	74	38
Investments in equity accounted investees		76	72
Non-current financial assets	13	18	11
Total non-current assets		**18,936**	**17,743**
Current assets			
Inventories	14	585	511
Trade and other receivables	15	1,490	1,479
Income tax receivable		128	95
Other current assets	16	297	313
Current financial assets	13	158	154
Cash and cash equivalents	17	338	554
		2,996	**3,106**
Assets held for sale	7	42	36
Total current assets		**3,038**	**3,142**
Total assets		**21,974**	**20,885**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	19	4,366	4,366
Treasury shares		(1)	-
Unrealized gain on available-for-sale financial assets		6	-
Retained earnings		6,814	4,568
Total equity attributable to shareholders of the Company		**11,185**	**8,934**
Non-controlling interest		39	1,566
Total equity		**11,224**	**10,500**
Non-current liabilities			
Loans and borrowings	20	3,260	3,206
Employee benefits	21	898	1,025
Other non-current liabilities	22	70	95
Deferred income tax liabilities	35	712	670
Total non-current liabilities		**4,940**	**4,996**
Current liabilities			
Loans and borrowings	20	3,016	2,481
Trade and other payables	24	2,311	2,446
Income tax payable		-	3
Other current liabilities	25	396	348
Provisions	23	87	111
Total current liabilities		**5,810**	**5,389**
Total liabilities		**10,750**	**10,385**
Total equity and liabilities		**21,974**	**20,885**

Acting General Director
Vitaliy I. Dobrovolsky

Chief Accountant
Elena V. Sidorova

The accompanying notes on pages 10 – 57 form an integral part of the consolidated financial statements

OJSC Far East Telecommunications Company

Consolidated Income Statement

For the year ended 31 December 2009

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

	Note	2009	2008
Revenue	28	**17,197**	**16,109**
Personnel costs	29	(4,971)	(4,923)
Depreciation and amortization	8,9,11	(2,361)	(2,204)
Interconnection charges		(2,108)	(1,990)
Materials, repairs and maintenance, utilities	30	(1,736)	(1,649)
Other operating income	31	395	598
Other operating expenses	32	(2,613)	(2,411)
Operating profit		**3,803**	**3,530**
Share of results of associates		6	7
Finance costs	33	(576)	(626)
Other investing and financial gains and losses	34	(14)	96
Foreign exchange losses		(6)	(2)
Profit before income tax		**3,213**	**3,005**
Income tax expense	35	(695)	(738)
Profit for the year		**2,518**	**2,267**
Profit for the year attributable to:			
Shareholders of OJSC “Far East Telecommunications Company”		2,152	2,071
Non-controlling shareholders of subsidiaries		366	196
Profit for the year		**2,518**	**2,267**
Basic and diluted earnings per share attributable to shareholders of the Company for the period (in Russian Rubles)	36	**16.98**	**16.34**

The accompanying notes on pages 10 – 57 form an integral part of the consolidated financial statements

OJSC Far East Telecommunications Company

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(*in millions of Russian Roubles*)

	2009	2008
Profit for the year	**2,518**	**2,267**
Other comprehensive income		
Changes in fair value of available-for-sale financial assets	6	-
Comprehensive income for the year	**2,524**	**2,267**
Comprehensive income for the year attributable to:		
Shareholders of the Company	2,158	2,071
Non-controlling shareholders of subsidiaries	366	196
Comprehensive income for the year	**2,524**	**2,267**

The accompanying notes on pages 10 – 57 form an integral part of the consolidated financial statements

OJSC Far East Telecommunications Company

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

	2009	2008
Cash flows from operating activities		
Profit before income tax	3,213	3,005
Adjustments for		
Depreciation and amortization	2,361	2,204
Loss / (gain) on disposal of property, plant and equipment and other assets	58	(24)
Bad debt expense	100	108
Share of profit in equity accounted investees	(6)	(7)
Finance costs	571	626
Foreign exchange losses	6	2
Other investing and financing gains and losses	14	(96)
Trade payables write-off	(34)	-
Reversal of provisions	(21)	(347)
Operating profit after adjustments	**6,262**	**5,471**
Increase in inventories	(94)	(62)
Increase in trade and other receivables	(77)	(174)
Decrease / (increase) in current other assets	7	(162)
(Decrease) / increase in employee benefits	(189)	11
Increase in trade and other payables	163	482
Increase in other operating assets and liabilities	(25)	(20)
Cash flows from operating activities before interest and income tax paid	**6,047**	**5,546**
Interest paid	(478)	(592)
Income tax paid	(690)	(870)
Cash flows from operating activities	**4,879**	**4,084**
Investing activities		
Acquisition of property, plant and equipment and investment property	(3,319)	(3,282)
Proceeds from disposals of property, plant and equipment and investment property	115	268
Acquisition of intangible assets	(547)	(274)
Acquisition of non-controlling interest	(1,361)	(13)
Acquisition of financial assets	(155)	(146)
Proceeds from disposals of financial assets	151	772
Interest received	26	132
Dividends received	3	2
Cash flows utilised in investing activities	**(5,087)**	**(2,541)**

OJSC Far East Telecommunications Company

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

(*in millions of Russian Roubles*)

	2009	2008
Financing activities		
Proceeds from bank and corporate loans	6,416	1,020
Repayment of bank and corporate loans	(6,513)	(1,087)
Proceeds from bonds	1,500	-
Repayment of bonds	(750)	(750)
Acquisition of treasury shares	(1)	-
Repayment of vendor financing liabilities	(1)	(26)
Repayment of finance lease liabilities	(196)	(309)
Dividends paid	(463)	(179)
Cash flows utilized in financing activities	**(8)**	**(1,331)**
Net (decrease) / increase in cash and cash equivalents	**(216)**	**212**
Cash and cash equivalents as at the beginning of the year	**554**	**342**
Cash and cash equivalents as at the end of the year	**338**	**554**

The accompanying notes on pages 10 – 57 form an integral part of the consolidated financial statements

OJSC Far East Telecommunications Company

Consolidated Statement of Changes in Equity
For the year ended 31 December 2009

(in millions of Russian Roubles)

	Equity attributable to shareholders of the Company							
	Share capital							
	Preference shares	Ordinary shares	Treasury shares	Unrealized gain on available-for-sale financial assets	Retained earnings	Total equity attributable to shareholders of the Company	Non-controlling interest	Total equity
Balance as at 31 December 2007	**1,081**	**3,285**	**(1)**	**-**	**2,672**	**7,037**	**1,399**	**8,436**
Profit for the year				-	2,071	2,071	196	2,267
Total comprehensive income for the year				**-**	**2,071**	**2,071**	**196**	**2,267**
Dividends to shareholders	-	-	-	-	(175)	(175)	(27)	(202)
Treasury shares sold	-	-	1	-	-	1	-	1
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	(2)	(2)
Balance as at 31 December 2008	**1,081**	**3,285**	**-**	**-**	**4,568**	**8,934**	**1,566**	**10,500**
Balance at 1 January 2009	**1,081**	**3,285**	**-**	**-**	**4,568**	**8,934**	**1,566**	**10,500**
Profit for the year	-	-	-	-	2,152	2,152	366	2,518
Recognition of changes in fair value of available for sale financial assets in income statement				7	-	7	-	7
Income tax in respect of other comprehensive income items				(1)	-	(1)	-	(1)
Total comprehensive income for the year				**6**	**2,152**	**2,158**	**366**	**2,524**
Dividends to shareholders	-	-	-	-	(431)	(431)	(50)	(481)
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	525	525	(1,843)	(1,318)
Acquisition of treasury shares	-	-	(1)	-	-	(1)	-	(1)
Balance as at 31 December 2009	**1,081**	**3,285**	**(1)**	**6**	**6,814**	**11,185**	**39**	**11,224**

The accompanying notes on pages 10 – 57 form an integral part of the consolidated financial statements

1 General information

Authorization of the consolidated financial statements

The consolidated financial statements of OJSC Far East Telecommunications Company (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") for the year ended 31 December 2009 were authorized for issue by the General Director on 20 May 2010.

The Company

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

OJSC "Svyazinvest", which is controlled by the Government of the Russian Federation, owned 50.56% of the Company's ordinary voting shares as at 31 December 2009 and is the Company's Parent Company.

The Company's official address: The Russian Federation, 690950, Primorskiy Kray, Vladivostok, Svetlanskaya str. 57.

The Group activities

The Group provides communication services (including local and intra-zone telephone services), telegraph services, data transmission services, rents out communication channels and radio communication lines in the territory of the Far East Federal District of the Russian Federation.

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

Information about the Company's significant associates is disclosed in Note 12. All of the associates are incorporated under the laws of the Russian Federation, unless otherwise stated.

Liquidity and financial resources

In prior period the Group raised short- and long-term borrowings to finance the development of its communications networks. The financing has primarily been provided through bank loans and bond issues.

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

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

As at 31 December 2009 the current liabilities of the Group exceeded its current assets by 2,772 (as at 31 December 2008: 2,247). Profit before tax in 2009 and 2008 amounted to 3,213 and 3,005, respectively.

2 Basis of preparation

Statement of compliance

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

Going concern

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

Presentation of the Financial Statements

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

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

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

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

Basis of accounting

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

Adoption of new standards

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

The 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.	Required disclosures are presented in Note 5.

(in millions of Russian Roubles unless stated otherwise)

Standard / Interpretation	Content of changes	Effects
IAS 1 (as revised in 2007) "Presentation of Financial Statements"	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	The Consolidated Financial Statements contain new / adjusted reporting statements.
IAS 23 (as revised in 2006) "Borrowing Costs"	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	The revised Standard did not have a material impact on the financial position or performance of the Group.
IFRS 3 (as revised in 2008) "Business Combinations" (early adoption)	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	The revised Standard adjusted the process of subsidiaries consolidation, however it did not have a material impact on the financial position or performance of the Group.
IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements" (early adoption)	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised Standard adjusted the process of subsidiaries consolidation, however it did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 13 "Customer Loyalty Programmes"	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 15 "Agreements for the Construction of Real Estate"	The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 16 "Hedges of a Net Investment in a Foreign Operation"	The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 17 "Distributions of Non-cash Assets to Owners"	The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	The Interpretation did not have a material impact on the financial position or performance of the Group.
IFRIC Interpretation 18 "Transfers of Assets from Customers"	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company's assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the financial position or performance of the Group.

(in millions of Russian Roubles unless stated otherwise)

Standard / Interpretation	Content of changes	Effects
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 IFRSs that have been issued but are not yet effective:

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

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

Foreign currency transactions

The functional and presentation currency of the Group is the Russian Rouble (RUR). Foreign currency transactions are initially recorded in the functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the functional currency exchange rate at that date. All resulting differences are recognized in the income statement as foreign exchange gains (losses). 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.

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 represent the financial statements of OJSC Far East Telecommunications Company and its subsidiaries as at and for the year ended 31 December 2009 including comparative information for 2008.

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

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

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

Acquisition of Subsidiaries

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

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

Acquisition of non-controlling interest in subsidiaries

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

3.2 Property, plant and equipment

Cost of property, plant and equipment

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

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

(in millions of Russian Roubles unless stated otherwise)

Depreciation and useful life

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

The Company applies the following useful lives:

	Years
Land	Not depreciated
Buildings	10 –50
Constructions and transmission lines	10 – 15
Transmission devices (except for transmission lines)	7 – 50
Analogous switches	8 – 10
Digital switches	2 – 10
Other network equipment	2 – 15
Computer and office equipment	2 – 7
Vehicles	4 – 10
Other fixed assets	1 – 10

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

As of 31 December 2009 the Group's management reassessed the remaining useful lives of them of property plant and equipment. Based on the analysis performed there was no property plant and equipment items which required a change in the useful lives.

Assets received free of charge

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

3.3 Intangible assets

Goodwill

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

Other intangible assets

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

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

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

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 reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of other intangible assets are as follows:

	Years
Licenses	1 – 5
Trade mark	4
Customer base	30

Impairment

Goodwill, intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the caring value over the recoverable amount is recognised as impairment loss. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed. The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. The recoverable amount is the higher of value in use and net selling price.

3.4 Borrowing costs

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

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

3.5 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.

3.6 Investments and other financial assets

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

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Carrying value of these assets decreased by accruing of the provision. 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, available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

3.7 Inventories

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

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

3.8 Cash and cash equivalents

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less. All these items are included as a component of cash and cash equivalents for the purpose of the statement of financial position and statement of cash flows.

3.9 Equity

Share capital

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

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased 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.

3.10 Non-derivative financial liabilities

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

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

3.11 Leases

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

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

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

3.12 Employee benefits

Current employment benefits

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

Defined benefits pension plans and other long-term employee benefits

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

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

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

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

3.13 Provisions

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

3.14 Income tax

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

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

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

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

Deferred tax assets and liabilities are not discounted

3.15 Revenue recognition

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

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

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

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

3.16 Earnings per share

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

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 6 branches and 6 subsidiaries, which are considered as operating segments. financial information of each operating segment is regularly analyzed by the Company's Chief Operating Decision Maker and is used for operating decisions making.

4 Significant accounting judgments and estimates

4.1 Judgments

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

Revenue recognition (agent / principal)

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

- Although the Group collects the revenue from the final customers, all credit risks is borne by the supplier of services;
- The Group cannot vary the selling prices set by the supplier.

Lease classification

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

4.2 Estimates

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

Useful life of property, plant and equipment

The Group estimates remaining useful lives of its property, plant and equipment at least once a year at the reporting date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2009 is 15,397 (as at 2008: 14,094). Refer to Note 8 for detailed information.

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.

Impairment of non-current assets

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

The impairment loss recognized for 2009 is nil. (2008: nil).

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 979 (2008: 979). Refer to Note 9 for detailed information.

Fair values of unquoted available-for-sale investments

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

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the statement of financial position, and the corresponding changes in the fair values recorded in the statement of comprehensive income are reasonable and the most appropriate at the reporting date. As at 31 December 2009, the fair values of unquoted available-for-sale investments amounted to 7 (2008: 6). Refer to Note 13 for detailed information.

Allowance for impairment of receivables

Allowance for impairment is based on the historical data related to collectability of receivables and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As at 31 December 2009, a doubtful debt allowance amounted to 416 (2008: 360). Refer to Notes 15,16 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 898 (2008: 1,025). Refer to Note 21 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, provision for litigations amounts to 10 (2008: 37). Refer to Note 23 for detailed information.

(in millions of Russian Roubles unless stated otherwise)

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 Company's Chief Operating Decision Maker is the Management Board.

The components of the Group, which financial information is regularly analyzed by the Company's Chief Operating Decision Maker and is used for operating decisions making are branches and subsidiaries. The 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. Corresponding amounts of income, expenses, assets and liabilities are included in general directory's information, presented in table "Operating segments and Head office information".

The Group provides telecommunication services within the territory of Far East federal district of Russian Federation. The whole range of services is provided using similar equipment and channels. Governing body of the Group considers that the Group operates within one reporting segment. The Group consists of 6 branches and Subsidiaries (Note 6), which are considered as operating segments.

Transformation adjustments

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.

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

	Parent Company	Subsidiaries – fixed line	Subsidiaries – mobile	Total reporting segments
Revenue				
Third party revenue	13,268	3,388	1,042	17,698
Revenue from other segments	128	33	2	163
Total revenue	**13,396**	**3,421**	**1,044**	**17,861**
Interest income	15	82	3	100
Interest expense	(592)	(1)	(13)	(606)
Income tax	(501)	(204)	(48)	(753)
Profit for the year	**2,171**	**783**	**166**	**3,120**
Assets and liabilities				
Segment assets	13,602	3,429	948	17,979
Unallocated assets	5,756	-	-	5,756
Segment liabilities	(2,160)	(582)	(260)	(3,002)
Unallocated liabilities	(7,313)	-	-	(7,313)
Other segment information				
Capital investments in:				
Property, plant and equipment	2,670	539	203	3,412
Intangible assets	479	15	23	517
Depreciation and amortization	(1,443)	(287)	(127)	(1,857)
Bad debt expense	(56)	(35)	(3)	(94)

(in millions of Russian Roubles unless stated otherwise)

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	17,698	(501)	-	17,197
Revenue from other segments	163	-	(163)	-
Total revenue	**17,861**	**(501)**	**(163)**	**17,197**
Share of profit from equity accounted investees	-	6	-	6
Interest income	100	(10)	(56)	34
Interest expense	(606)	79	56	(471)
Income tax	(753)	58	-	(695)
Profit for the year	**3,120**	**(156)**	**(446)**	**2,518**
Assets and liabilities				
Segment assets	17,979	2,104	253	20,336
Unallocated assets	5,756	(192)	(3,926)	1,638
Including investments in equity accounted investees	-	76	-	76
Segment liabilities	(3,002)	(246)	138	(3,110)
Unallocated liabilities	(7,313)	(920)	593	(7,640)
Other segment information				
Capital investments in:				
Property, plant and equipment	3,412	73	-	3,485
Intangible assets	517	-	-	517
Depreciation and amortization	(1,857)	(504)	-	(2,361)
Bad debt expense	(94)	(6)	-	(100)

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

Operating segments and Head office information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital investments in PPE	Deprecia-tion and amortiza-tion	Bad debt expense
OJSC Far East Telecommunications Company – fixed line	**13,396**	**2,171**	**13,602**	**(2,160)**	**2,670**	**1,443**	**(56)**
Primorie branch	4,832	1,872	4,002	(356)	419	420	(26)
Khabarovsk branch	3,420	957	3,002	(223)	715	364	(11)
Amur branch	1,269	198	1,833	(121)	363	213	(6)
Sakhalin branch	1,829	457	1,717	(203)	511	167	1
Kamchatka branch	1,280	246	1,286	(159)	283	133	(4)
Magadan branch	745	(2)	947	(130)	311	118	(3)
Head office	21	(1,557)	815	(968)	68	28	(7)
Unallocated items	**-**	**-**	**5,756**	**(7,313)**	**-**	**-**	**-**
Subsidiaries – fixed line	**3,421**	**783**	**3,429**	**(582)**	**539**	**287**	**(35)**
OJSC Sakhatelecom	3,356	775	3,402	(563)	539	286	(35)
LLC Interdaltelecom	19	4	18	(16)	-	1	-
Other	46	4	9	(3)	-	-	-
Subsidiaries – mobile	**1,044**	**166**	**948**	**(260)**	**203**	**127**	**(3)**
CJSC AKOS	1,032	185	891	(206)	203	121	(2)
LLC BIT	12	(19)	57	(54)	-	6	(1)

(in millions of Russian Roubles unless stated otherwise)

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

	Parent Company	Subsidiaries – fixed line	Subsidiaries – mobile	Total reporting segments
Revenue				
Third party revenue	12,116	3,189	1,016	16,321
Revenue from other segments	116	18	31	165
Total revenue	**12,232**	**3,207**	**1,047**	**16,486**
Interest income	74	24	4	102
Interest expense	(492)	-	(16)	(508)
Income tax	(593)	(208)	(67)	(868)
Profit for the year	**1,736**	**569**	**161**	**2,466**
Assets and liabilities				
Segment assets	12,765	3,091	869	16,725
Unallocated assets	4,017	-	-	4,017
Segment liabilities	(2,332)	(573)	(349)	(3,254)
Unallocated liabilities	(6,350)	-	-	(6,350)
Other segment information				
Capital investments in:				
Property, plant and equipment	1,982	337	214	2,533
Intangible assets	262	9	3	274
Depreciation and amortization	(1,409)	(265)	(97)	(1,771)
Bad debt expense	(39)	(50)	(6)	(95)

(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	16,321	(212)	-	16,109
Revenue from other segments	165	-	(165)	-
Total revenue	**16,486**	**(212)**	**(165)**	**16,109**
Share of profit from equity accounted investees	-	7	-	7
Interest income	101	(6)	(5)	90
Interest expense	(508)	44	5	(459)
Income tax	(868)	130	-	(738)
Profit for the year	**2,466**	**(185)**	**(14)**	**2,267**
Assets and liabilities				
Segment assets	16,725	2,217	608	19,550
Unallocated assets	4,017	(116)	(2,566)	1,335
Including investments in equity accounted investees	-	72	-	72
Segment liabilities	(3,254)	(341)	78	(3,517)
Unallocated liabilities	(6,350)	(820)	302	(6,868)
Other segment information				
Capital investments in:				
Property, plant and equipment	2,533	450	-	2,983
Intangible assets	274	-	-	274
Depreciation and amortization	(1,771)	(433)	-	(2,204)
Bad debt expense	(95)	(13)	-	(108)

(in millions of Russian Roubles unless stated otherwise)

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

Operating segments and Head office information	Revenue	Profit / (loss)	Segment assets	Segment liabilities	Capital investments in PPE	Depreciation and amorti-zation	Bad debt expense
OJSC Far East Telecommunications Company – fixed line	**12,232**	**1,736**	**12,765**	**(2,332)**	**1,982**	**1,409**	**(39)**
Primorie branch	4,408	1,733	3,785	(316)	668	398	(6)
Khabarovsk branch	3,082	834	2,701	(226)	521	389	(16)
Amur branch	1,116	151	1,723	(111)	487	160	(5)
Sakhalin branch	1,635	336	1,585	(174)	104	136	(2)
Kamchatka branch	1,211	179	1,043	(127)	147	176	(4)
Magadan branch	758	80	763	(113)	23	114	(5)
Head office	22	(1,577)	1,165	(1,265)	32	36	(1)
Unallocated items	**-**	**-**	**4,017**	**(6,350)**	**-**	**-**	**-**
Subsidiaries – fixed line	**3,207**	**569**	**3,091**	**(573)**	**337**	**265**	**(50)**
OJSC Sakhatelecom	3,148	574	3,062	(544)	337	264	(50)
LLC Interdaltelecom	21	(7)	20	(21)	-	1	-
Other	38	2	9	(8)	-	-	-
Subsidiaries – mobile	**1,047**	**161**	**869**	**(349)**	**214**	**97**	**(6)**
CJSC AKOS	1,017	174	803	(306)	214	91	(6)
LLC BIT	30	(13)	66	(43)	-	6	-

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
OJSC Sakhatelecom	Fixed line communications	100.00%	51.00%	100.00%	51.00%
CJSC AKOS	Mobile communications	94.45%	94.35%	94.45%	94.35%
LLC BIT	Mobile communications	100.00%	100.00%	100.00%	100.00%
LLC Interdaltelecom	Fixed line communications	100.00%	100.00%	100.00%	100.00%
LLC Set Stolitsa	Fixed line communications	100.00%	100.00%	100.00%	100.00%
LLC Shakhtersksvyaz	Fixed line communications	100.00%	100.00%	100.00%	100.00%

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

Transactions with non-controlling interests

In February 2009 the Group additionally acquired 0.1% of ordinary shares of CJSC AKOS for 0.9 and increased its share to 94.45%.

In October 2009 the Group additionally acquired 49% of ordinary shares of OJSC Sakhatelecom for 1,318 and increased its share to 100%. Carrying value of acquired share in net assets exceeded additional shares purchase consideration as at the date of acquisition by 525 and was accounted as equity transaction.

(in millions of Russian Roubles unless stated otherwise)

7 Assets held for sale

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

	31 December 2009	31 December 2008
Property, plant and equipment	42	36
Non-current assets, classified as held for sale	**42**	**36**

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	**9,435**	**7,868**	**1,813**	**902**	**20,018**
Additions	14	2	1	3 320	**3 337**
Acquisition of subsidiaries	7	6	4	-	**17**
Transfer from construction in progress	1,071	1,620	292	(2,983)	**-**
Disposals	(250)	(176)	(60)	(30)	**(516)**
Disposals related to reclassification to assets held for sale	(47)	(3)	(1)	-	**(51)**
Disposals related to reclasification to investment property	(46)	-	-	-	**(46)**
At 31 December 2008	**10,184**	**9,317**	**2,049**	**1,209**	**22,759**
Additions	-	-	1	3,520	**3,521**
Transfer from construction in progress	1,273	1,745	467	(3,485)	**-**
Disposals	(124)	(134)	(62)	(19)	**(339)**
Reclassification	(2)	(45)	47	-	**-**
Disposals related to reclassification to assets held for sale	(25)	-	-	-	**(25)**
Disposals related to reclasification to investment property	(45)	-	-	-	**(45)**
At 31 December 2009	**11,261**	**10,883**	**2,502**	**1,225**	**25,871**
Accumulated depreciation					
At 31 December 2007	**(3,785)**	**(2,279)**	**(962)**	**-**	**(7,026)**
Depreciation charged for the year	(618)	(981)	(371)	-	**(1,970)**
Depreciation for disposals	162	103	43	-	**308**
Accumulated depreciation on assets reclassified to assets held for sale	14	1	-	-	**15**
Accumulated depreciation on assets reclassified to investment property	8	-	-	-	**8**
At 31 December 2008	**(4,219)**	**(3,156)**	**(1,290)**	**-**	**(8,665)**
Depreciation charged for the year	(605)	(1,105)	(320)	-	**(2,030)**
Depreciation for disposals	88	63	57	-	**208**
Reclassification	1	22	(23)	-	**-**
Accumulated depreciation on assets reclassified to assets held for sale	7	-	-	-	**7**
Accumulated depreciation on assets reclassified to investment property	6	-	-	-	**6**
At 31 December 2009	**(4,722)**	**(4,176)**	**(1,576)**	**-**	**(10,474)**
Net book value					
At 31 December 2007	**5,650**	**5,589**	**851**	**902**	**12,992**
At 31 December 2008	**5,965**	**6,161**	**759**	**1,209**	**14,094**
At 31 December 2009	**6,539**	**6,707**	**926**	**1,225**	**15,397**

(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
Switches and transmission devices	132	647
Vehicles and other property, plant and equipment	5	40
Total net book value of leased property plant and equipment	**137**	**687**

Depreciation charge for 2009 in the amount of 2,030 (2008: 1,970) was recognized in "Depreciation and amortization" in the consolidated income statement.

As at 31 December 2009 the historical cost of fully depreciated property plant and equipment equalled 2,084 (31 December 2008: 1,338).

In 2009 the Group increased the cost of construction in progress by the amount of capitalized interest totalled to 113 (2008: 76). Capitalization rate in 2009 was 10.4% (2008: 8.8%).

As at 31 December 2009 net book value of the Group's pledged property plant and equipment amounted 290 (31 December 2008: 370). Property, plant and equipment were pledged in respect of borrowing agreements, and financial lease agreements (Refer to note 20).

Impairment testing

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

As a result of the impairment test performed no impairment was identified.

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

- for all CGU cash flow projections cover a period of five years, cash flows beyond five-year period have been extrapolated;
- cash flow projections were prepared in nominal terms;
- discount rate was estimated in nominal terms on the weighted average cost of capital basis. After tax discount rate 15.97% (as at 31 December 2008: 17.40%)
- projected growth of revenue and expenses as follows is as follows: 2010 – 2%, 2011 – 3%, 2012 – 3.5%, 2013 – 3.5%, 2014 and later – 4% (as at 31 December 2008: 2009 – 2%, 2010 – 3%, 2011 – 3.5%, 2012 – 3.5%, 2013 and later – 4%).

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

(in millions of Russian Roubles unless stated otherwise)

9 Intangible assets and goodwill

	Goodwill	Licenses	Software	Customer base	Trademark	Total
Cost						
At 31 December 2007	**1 057**	**193**	**1 270**	**655**	**57**	**3 232**
Purchases of assets	-	1	273	-	-	**274**
Additions related to acquisition of subsidiaries	13	-	-	-	-	**13**
Disposals	-	(1)	(36)	-	-	**(37)**
At 31 December 2008	**1 070**	**193**	**1 507**	**655**	**57**	**3 482**
Purchases of assets	-	3	514	-	-	**517**
Disposals	-	(1)	(44)	-	-	**(45)**
At 31 December 2009	**1 070**	**195**	**1 977**	**655**	**57**	**3 954**
Accumulated amortization and impairment						
At 31 December 2007	**(91)**	**(69)**	**(140)**	**(36)**	**(14)**	**(350)**
Amortization charged for the year	-	(27)	(172)	(21)	(14)	**(234)**
Disposals	-	-	36	-	-	**36**
At 31 December 2008	**(91)**	**(96)**	**(276)**	**(57)**	**(28)**	**(548)**
Amortization charged for the year	-	(27)	(266)	(21)	(14)	**(328)**
Disposals	-	1	40	-	-	**41**
At 31 December 2009	**(91)**	**(122)**	**(502)**	**(78)**	**(42)**	**(835)**
	-					
Net book value						
At 31 December 2007	**966**	**124**	**1 130**	**619**	**43**	**2 882**
At 31 December 2008	**979**	**97**	**1 231**	**598**	**29**	**2 934**
At 31 December 2009	**979**	**73**	**1 475**	**577**	**15**	**3 119**

Oracle E-Business Suite

As at 31 December 2009 software included Oracle E-Business Suite with the carrying amount of 627 (31 December 2008 –578).

The Group started to use full functionality Oracle E-Business Suite from the 01 January 2009 (prior to this date only payroll and property, plant and equipment modules were put into operations). Amortization of the software is calculated on the basis of its useful life of 10 years.

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

	2009	2008
At 1 January	**578**	**360**
Implementation costs	141	407
Amortization charge	(92)	(188)
Write-off	-	(1)
At 31 December	**627**	**578**

(in millions of Russian Roubles unless stated otherwise)

Amdocs Billing Suite Software

As at 31 December 2009 software included Amdocs Billing Suite with the carrying amount of 197 (2008: 277).

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

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

In September 2009 part of the licenses for Amdocs Billing Suite amounted to 80 was reclassed into the licenses of CRM Amdocs and transferred to another intangible asset.

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

	2009	2008
As at 1 January	**277**	**293**
Transferred to CRM Amdocs	(80)	-
Transferred to Start billing system	-	(16)
As at 31 December	**197**	**277**

CRM Amdocs Software

As at 31 December 2009 software included CRM Amdocs with the carrying amount 118 (2008: 8).

In December 2009 the Group put CRM Amdocs into implementation.

Changes in carrying amount of the software product CRM Amdocs for years ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
At 01 January	**8**	**-**
Implementation costs	34	8
Transferred from Amdocs Billing Suite	80	-
Amortization charge	(4)	-
At 31 December	**118**	**8**

Amortization of intangible assets

Amortization charge for intangible assets for 2009 in the amount of 328 (2008: 234) was recognized in "Depreciation and amortization" of the consolidated income statement.

Impairment testing of intangible assets not yet available for use and other intangible assets

As at 31 December 2009 the Group performed impairment test of intangible assets not yet available for use as well as other intangible assets, goodwill and intangible assets with indefinite useful lives. As a result no impairment of intangible assets was identified. Key assumptions are disclosed in note 8. Goodwill has been allocated to OJSC "Sakhatelecom".

10 Other non-current assets

	31 December 2009	31 December 2008
Long-term advances, given for investing activities	250	592
Long-term advances, given for operating activities	2	2
Total	**252**	**594**

(in millions of Russian Roubles unless stated otherwise)

11 Investment property

	Intended for rent	Total
Cost		
At 31December 2007	-	-
Reclassification from property, plant and equipment	46	46
At 31December 2008	**46**	**46**
Reclassification from property, plant and equipment	45	45
At 31 December 2009	**91**	**91**
Accumulated depreciation and impairment losses		
At 31 December 2007	-	-
Reclassification of accumulated depreciation from property, plant and equipment	(8)	(8)
At 31 December 2008	**(8)**	**(8)**
Depreciation charged for the year	(3)	(3)
Reclassification of accumulated depreciation from property, plant and equipment	(6)	(6)
At 31 December 2009	**(17)**	**(17)**
Net book value as at 31 December 2008	**38**	**38**
Fair value as at 31 December 2008	303	303
Net book value as at 31 December 2009	**74**	**74**
Fair value as at 31 December 2009	357	357

Depreciation charge for 2009 in the amount of 3 (2008: nil) was recognized in “Depreciation and amortization” in the consolidated income statement.

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 of operating of the Group.

12 Investments in equity accounted investees

		As at 31 December 2009		
Equity accounted investees	**Activity**	**Share in equity, %**	**Voting share, %**	**Net book value**
LLC Kamalyascom	Telecommunications services	50	50	-
LLC Magalyascom	Telecommunications services	50	50	15
CJSC Vostoktelecom	Telecommunications services	25	25	61
Total				**76**

		As at 31 December 2008		
Equity accounted investees	**Activity**	**Share in equity, %**	**Voting share, %**	**Net book value**
LLC Kamalyascom	Telecommunications services	50	50	1
LLC Magalyascom	Telecommunications services	50	50	16
CJSC Vostoktelecom	Telecommunications services	25	25	55
Total				**72**

(in millions of Russian Roubles unless stated otherwise)

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

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

	2009	2008
Investments in associates as at 1 January	**72**	**67**
Share of profit in equity accounted investees	6	7
Dividends received	(2)	(2)
Investments in associates as at 31 December	**76**	**72**

Aggregated information about most significant associates is presented below:

Equity accounted investees	Share in equity, %	Assets	Liabilities	Revenues	Net profit/(loss)
LLC Kamalyascom	50	1	(2)	2	(1)
LLC Magalyascom	50	29	-	3	(2)
LLC Vostoktelecom	25	281	(36)	289	29
As at and for the year ended 31 December 2009		**311**	**(38)**	**294**	**26**
LLC Kamalyascom	50	3	(2)	8	-
LLC Magalyascom	50	30	-	2	(2)
LLC Vostoktelecom	25	256	(30)	284	29
As at and for the year ended 31 December 2008		**289**	**(32)**	**294**	**27**

13 Financial assets

	31 December 2009	31 December 2008
Non-current available for sale financial assets	16	9
Non-current loans	2	2
Total non-current financial assets	**18**	**11**
Current available for sale financial assets	-	146
Current held to maturity financial assets	155	-
Current loans	3	8
Total current financial assets	**158**	**154**
Total financial assets	**176**	**165**

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

	As at 31 December 2009		As at 31 December 2008	
Company	**Share in equity, %**	**Fair value**	**Share in equity, %**	**Fair value**
Non-current financial assets				
OJSC Sberbank	-	9	-	3
OJSC Svyazintek	4.00%	5	4.00%	5
OJSC Svayz-Bank	0.03%	1	0.03%	1
Others	-	1	-	-
Current financial assets				
OJSC Sberbank	Promissory notes	-		146
CJSC IK Region	Promissory notes	155		-
Total investments		**171**		**155**

The Group places temporary available financial resources in promissory notes, issued by different Russian entities with maturity less than 12 months from the reporting date or without fixed maturity date, which the Group plans to redeem during the following year. Promissory notes yield have profitability from 11% to 12%

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and are nominated in roubles. The Group uses promissory notes as financial instruments mainly for deriving financial income. As at 31 December 2009 promissory notes for redemption amounted 155 (31 December 2008 - 146) and are included in investments held to maturity.

Long term loans given were recorded at the amortised cost calculated using the interest rate of 17%.

14 Inventories

	31 December 2009	31 December 2008
Cable and spare parts	230	236
Finished goods and goods for resale	4	4
Other inventory	351	271
Total	**585**	**511**

As at 31 December 2009 Group established the allowance for obsolete inventories in the amount of 7 (2008: 2).

15 Trade and other receivables

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Receivables from customers for operating activities	1,706	(365)	1,341
Receivables from customers for non-operating activities	98	(23)	75
Receivables from commissioners and agents	32	-	32
Receivables from personnel	5	-	5
Receivables from other debtors	54	(17)	37
Total	**1,895**	**(405)**	**1,490**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Receivables from customers for operating activities	1,580	(317)	1,263
Receivables from customers for non-operating activities	86	(24)	62
Receivables from commissioners and agents	33	-	33
Receivables from personnel	5	-	5
Receivables from other debtors	127	(11)	116
Total	**1,831**	**(352)**	**1,479**

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

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Receivables from individuals	1,090	(268)	822
Receivables from corporate customers	278	(66)	212
Receivables from budget organizations	90	(10)	80
Receivables from interconnected operators	236	(9)	227
Tariff compensation from the state budget	12	(12)	-
Total settlements with customers for core activities	**1,706**	**(365)**	**1,341**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Receivables from individuals	951	(222)	729
Receivables from corporate customers	265	(54)	211
Receivables from budget organizations	88	(7)	81
Receivables from interconnected operators	252	(22)	230
Tariff compensation from the state budget	24	(12)	12
Total settlements with customers for core activities	**1,580**	**(317)**	**1,263**

(in millions of Russian Roubles unless stated otherwise)

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

	2009	2008
Balance as at 1 January	**352**	**272**
Accrual	81	108
Write-off of receivables	(28)	(28)
Balance as at 31 December	**405**	**352**

16 Other current assets

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Prepayments and advances	173	(5)	168
VAT recoverable	70	-	70
Prepayments for other taxes	15	-	15
Deferred expenses	29	-	29
Other current assets	21	(6)	15
Total	**308**	**(11)**	**297**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Prepayments and advances	126	(3)	123
VAT recoverable	95	-	95
Prepayments for other taxes	48	-	48
Deferred expenses	33	-	33
Other current assets	19	(5)	14
Total	**321**	**(8)**	**313**

17 Cash and cash equivalents

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

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18 Significant non-cash transactions

Sales revenues arising as a result of mutual offset, offsetting receivables from the provision of goods and services against payables owed for supply of goods and services from the same counterparty to the Group, were 1,250 and 597 in 2009 and 2008 respectively. Non cash transactions are based on market prices. Non-cash transactions below have been excluded from the consolidated statement of cash flows.

	2009	2008
Total number of counterparties with non-cash payments	119	38
OJSC Rostelecom	855	493
OJSC MTS	130	32
CJSC ”Kompaniya TransTeleKom”	96	-
OJSC ”MegaFon”	75	-
OJSC MTT	21	42
GUP ZhKH RS (Ya)	17	-
CJSC “ST Mobile”	14	-
OJSC ”Vympelkom”	5	-
CJSC Redcom-Internet	5	1
CJSC ”Almazoavtomatika ST AK ALROSA”	5	-
LLC “Kamstroysvyaz”	4	-
FGUP Pochta Rossii	3	11
Non-commercial partnership ”FK Luch-Energiya”	3	-
LLC Dalsvyaz-Kurier	3	8
LLC “Khabarovsk-Telecom”	2	-
Private entrepreneur Stepanova Y.I.	2	-
LLC “Nakhodka-Telecom”	1	-
Huawei-Ufa	1	-
CJSC DV StroysvyazComplex	-	4
OJSC Kamchatnefteproduct	-	2
CJSC Edelveis Trans Telecom	-	1
Other	8	3
Total	**1,250**	**597**

19 Share capital

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

	Number of shares outstanding (thousands)	Treasury shares (thousands)	Number of shares on issue (thousands)	Total par value	Carrying value
As at 31 December 2008	**126,750**	**-**	**126,750**	**2,535**	**4,366**
Preference	31,169	-	31,169	623	1,081
Ordinary	95,581	-	95,581	1,912	3,285
As at 31 December 2009	**126,744**	**6**	**126,750**	**2,535**	**4,366**
Preference	31,166	3	31,169	623	1,081
Ordinary	95,578	3	95,581	1,912	3,285

All shares have a par value of RUR 20. The difference between the total par value and total carrying value of share capital represents the effect of inflation in the periods prior to 1 January 2003.

Share capital has been entirely paid.

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

Shareholders	Share of capital,	Ordinary shares		Preference shares	
	%	Number (thousands)	%	Number (thousands)	%
	90.22	**90,772,840**	**94.97**	**23,590,711**	**75.69**
OJSC Svyazinvest	38.13	48,330,683	50.56	-	-
-shareholders holding more than 5% of charter capital,	47.66	39,085,590	40.90	21,326,186	68.42
incl:					
- CJSC Depozitarno-Cliringovaya Kompania	16.44	16,955,426	17.74	3,886,510	12.47
- Non-commercial partnership National depositary centre	21.35	16,298,821	17.05	10,765,568	34.54
- CJSC UBS Nominies	9.87	5,831,343	6.11	6,674,108	21.41
-other legal entities	4.43	3,356,567	3.51	2,264,525	7.27
Individuals	**9.78**	**4,808,581**	**5.03**	**7,578,190**	**24.31**
Total	**100.00**	**95,581,421**	**100.00**	**31,168,901**	**100.00**

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 in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated from 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. The annual amount of dividends on a preference share may not be less than dividends on an ordinary share. Thus, the owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations.

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

Distributable earnings of the parent 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 6,648 and 4,900, respectively.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from net income as recognised in the Company's Russian statutory financial statements. The Company reported net income of 2,171 and 1,736 in its statutory financial statements in 2009 and 2008, respectively.

According to the Order of the Federal Service on the Financial Markets of the Russian Federation No. 03 - 17/PS dated 01 April 2003 the Company was authorized to circulate 40% of its ordinary shares (38,232,568 shares) in the form of ADR outside the Russian Federation. On 24 July 2008, the Company changed its conversion rates on ADRs from 1:30 to 1:5.

In 2009 no additional shares were issued.

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The following table represents ADR registration for 2008-2009:

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares %	Share capital %
31 December 2007	**29,124**	**873,720**	**0.91**	**0.69**
Change in conversion rate	145,620	-	-	-
Disposals 2008	(105,624)	(528,120)	(0.55)	(0.42)
31 December 2008	**69,120**	**345,600**	**0.36**	**0.27**
Disposals 2009	(28,800)	(144,000)	(0.15)	(0.09)
31 December 2009	**40,320**	**201,600**	**0.21**	**0.18**

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

Stock market	CUSIP (WKN)	ADR ticker	ISIN
Frankfurt Stock Exchange	A0D91Y	D7A.F	US30732Q1040
Over-the-stock market (OTC)	30732Q104	Feeoy	RU0009101158
Berlin Stock Exchange	A0D91Y	D7A.BE	US30732Q1040

20 Loans and borrowings

	31 December 2009	31 December 2008
Long-term loans and borrowings		
Bank and corporate loans	2,892	3,001
Bonds	3,199	2,431
Finance lease liabilities	27	223
Less: Current portion of long-term borrowings	(2,858)	(2,449)
Total long-term loans and borrowings	**3,260**	**3,206**
Short-term loans and borrowings		
Bank and corporate loans	12	-
Interest payable	146	31
Vendor financing	-	1
Total short-term loans and borrowings	**158**	**32**
Current portion of long-term loans and borrowings	2,858	2,449
Total short-term loans and borrowings	**3,016**	**2,481**
Total loans and borrowings	**6,276**	**5,687**

As of 31 December 2009, the Group had two revolving credit line agreements with total limit 2,200 and two non-revolving credit line agreements with total limit 3,455 in order to cover working capital requirements, financing of the operating, investing and financial activities. The outstanding balance on these agreements as of 31 December 2009 was 2,860 (as of 31 December 2008: 2,905). Also, in order to cover working capital requirements and financing equipment acquisition subsidiaries of the Company had two credit line agreements as of 31 December 2009 (the amount is 272). The outstanding balance on these agreements as of 31 December 2009 was 42 (as of 31 December 2008: 94)

The terms of these facility agreements constitute that the interest should be accrued on unused facility. The amount of such interest accrued as of 31 December 2009 was 2 (2008: 2).

A part of the Group's debt financing is subject to certain covenants. The Group complied with all debt covenants during the years ended December 31, 2009 and 2008.

As at 31 December 2009, the Group's borrowings were secured by the pledge of property, plant and equipment with the carrying value of 290 (31 December 2008: 370).

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As of 31 December 2009 and 2008 the Group has pledged 51% of shares of OJSC Sakhatelecom under loan facility (see below) with the pledge value of 1,836.

Bank and corporate loans

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

Counteragent	Rate e per agreement	As at 31 December 2009	As at 31 December 2008	Currency, per the loan agreement	Date of maturity	Security
OJSC Sberbank	8.75%	1,466	1,955	RUR	29.01.2012	Pledged
OJSC Svyaz-Bank	Refinancing (interest) rate CB RF + 2.55%	1,391	-	RUR	24.12.2012	Unsecured
OJSC Svyaz-Bank	9.40%	-	450	RUR	05.06.2009	Unsecured
CJSC BSGV	Mosprime + 2.30%	-	500	RUR	17.06.2009	Unsecured
OJSC Dalnevostochnyi Bank	15.50%	32	60	RUR	31.07.2010	Pledged
OJSC Dalnevostochnyi Bank	11.25%	-	26	RUR	09.10.2009	Pledged
OJSC Svyaz-Bank	12.75%	-	8	RUR	17.02.2009	Pledged
CJSC Raiffeisenbank	13.90%	10	-	RUR	03.03.2010	Unsecured
LLC Magalyaskom	13.00%	3	-	RUR	30.04.2011	Unsecured
LLC Magalyaskom	13.00%	2	2	RUR	31.12.2010	Unsecured
		2,904	3,001			

OJSC Sberbank

In January 2007, the Company obtained a non-revolving credit line for RUR 1,955 million from Sberbank to finance the acquisition of 51% of shares of OJSC Sakhatelecom. The loan was to be repaid by 29 January 2012 and bear interest rate of 8.75% p.a.

The loan is secured by 51% of shares of OJSC Sakhatelecom with a pledge value of RUR 1,836. Also the Company pledged the property, plant equipment with the carrying value 89. As of 31 December 2009 the outstanding balance was RUR 1,466 (as of 31 December 2008: 1,955).

OJSC Svyaz-Bank

In December 2007, the Company signed the revolving credit line agreement with Svyazbank with limit of RUR 450 million to finance operating, investing and financing activities. The interest rate was 9.4% p.a. The outstanding balance as of 31 December 2009 was nil (as at 31 December 2008: 450).

In February and May 2009 the Company entered into the two loan agreements with Svyazbank for revolving credit lines with the total limit of RUR 2,200 to finance operating, investing and financing activities. The interest rate was 12.85-17% p.a. The outstanding balance as of 31 December 2009 was nil.

In December 2009 the Company obtained a non-revolving credit line agreement with Svayzbank with the limit or RUR 1,500 to finance the operating, investing and financial activities. The credit line should be repaid on the 24th December 2012. The interest rate was an aggregate of refinancing rate of the Central Bank of the Russian Federation and Margin 2.55% p.a. The outstanding balance as of 31 December 2009 was 1,391 (as at 31 December 2008: nil). This loan was unsecured

In February 2007, the subsidiary of the Group CJSC AKOS entered into the loan agreement with SvyazBank for the total amount of RUR 95 million. The interest rate was 12.75% per annum. The outstanding balance as of 31 December 2009 was nil (as at 31 December 2008: 8).

CJSC Bank Societe Generale Vostok (BSGV)

In December 2007, the Company signed a loan agreement with BSGV for the non-revolving credit line of RUR 500 million to finance operating and financing activities. The interest rate was an aggregate of

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MosPrime and 2.3%p.a. The outstanding balance as of 31 December 2009 was nil (as at 31 December 2008: 500).

OJSC Dalnevostochny Bank

In October 2006 CJSC AKOS entered into the loan agreement with Dalnevostochnyi bank in order to cover working capital requirements and financing equipment acquisition. The interest rate was 11.25%. The outstanding balance as of 31 December 2009 was nil (as at 31 December 2008 - 26).

In July 2007 CJSC AKOS signed the non-revolving credit line agreement with Dalnevostochnyi bank in order to cover working capital requirements and financing equipment acquisition. The interest rate was 15.5% p.a. The subsidiary pledged the property, plant equipment with the carrying value as of 31 December 2009 106 (as of 31 December 2008: 107). As of 31 December 2009 the outstanding balance was RUR 32 (as of 31 December 2008: 60).

In April 2009 CJSC AKOS signed the non-revolving credit line agreement with Dalnevostochnyi bank in order to finance equipment acquisition with limit of RUR 40. The credit line was to be repaid by the 28 April 2011. The interest rate was 17.5% p.a. CJSC AKOS pledged equipment for carrying amount as of 96. During year 2009 CJSC AKOS received and repaid 20 and as of 31 December 2009 the outstanding balance was nil (as at 31 December 2008: nil).

CJSC Raiffeisenbank

In December 2009 CJSC AKOS signed the revolving credit line agreement with Raiffeisenbank to finance operating, investing and financing activities with limit of RUR 200. The interest rate was 13.9% p.a. The outstanding balance as of 31 December 2009 was 10 (as at 31 December 2008: nil).

LLC Magalyaskom

In December 2006 the subsidiary of the Group LLC BIT entered into a loan agreement with Magalyaskom in order to development mobile communications GSM-900. The loan had interest rate 13% p.a. The outstanding balance as of 31 December 2009 was 2 (as of 31 December 2008: 2).

In April 2009 LLC BIT entered into a loan agreement with Magalyaskom in order to development mobile communications GSM-900. The loan had interest rate 13% p.a. The outstanding balance as of 31 December 2009 was 3 (as at 31 December 2008: nil).

Bonds

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

Narrative of the issue (loan)	As at 31 December 2009	As at 31 December 2008	Date of maturity	Early redemption date	Interest on coupon
Bond issue D2	1,699	1,982	03.05.2012	04.06.2010	8.85%
Bond issue D3	-	449	03.06.2009	-	8.60%
Bond issue B0-05	1,500	-	18.07.2012	20.07.2011	15.00%
	3,199	2,431			

In June 2006, the Company registered two bond issues consisting of 2,000,000 bonds and 1,500,000 bonds with a nominal value of RUR 1,000 each. Bond issues have 12 and 6 coupon payments, respectively. Payments on the 1st coupon were made on the 182nd day after placement (in December 2006), payment on other coupons will be made every 182 days. Interest rate on coupons was determined as 8.85% and 8.6%, respectively Bonds are payable in the proportion determined in percentage of nominal value starting from December 2007 (for 1,500 bond issue) and starting from December 2009 (for 2,000 bond issue). The bonds with value of 1,500 were fully repaid in July 2009. The bonds with value of 2,000 should be fully repaid in May 2012.

Issued bonds provide the right for the advance repayment for bonds holders on appropriate dates. The nearest date of such offer is the 4th June 2010.

(in millions of Russian Roubles unless stated otherwise)

During 2009, the Company paid the sixth and the seventh coupon in the amount of RUR 196. The amount of total coupon expense per one bond was RUR 64 for (for the RUR 1,500 bond issue) and RUR 88 (for the RUR 2,000 bond issue). Coupon expense per one bond was 42.88 RUR (for the 1,500 bond issue) and 44.13 RUR (for the 2,000 bond issue).The liability was fully repaid.

As of 31 December 2009 the outstanding balance for bond issue D2 was RUR 1,699.

In July 2009 the Company issued bond issue serie B-05 consisting of 1,500,000 bonds with a nominal value of RUR 1,000 each. Maturity of bonds was 1092 days and had 6 coupon payments. Payments on the 1st coupon will be made on the 182nd day after placement; payment on other coupons will be made every 182 days. Interest rate on coupons was determined as 15% p.a. The bonds should be fully repaid in July 2012.

Issued bonds provide the right for the advance repayment for bonds holders on appropriate dates. The nearest date of such offer is 12 July 2011.

As of 31 December 2009 the outstanding balance for bond issue B0-05 was 1,500.

Vendor financing

In 2003-2005, ZAO AKOS entered into several agreements with Huawei Technology denominated in US Dollars, under which it delivered telecommunication equipment to the Group. The amount outstanding as at 31 December 2009 was nil (2008: 1).

Finance lease liabilities

	As at 31 December 2009		As at 31 December 2008	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	25	22	223	196
From 1 to 5 years	6	5	31	27
Total minimum lease payments	**31**	**27**	**254**	**223**
Less amount representing finance charges	(4)	-	(31)	-
Present value of minimum lease payments	**27**	**27**	**223**	**223**
Less current portion of long term financial lease obligation	-	22	-	196
Long-term financial lease obligations	-	5	-	27

In 2009 and 2008, the Group's primary lessors were OJSC RTC-Leasing and LLC Leasing-Point. In 2009, the effective interest rate on lease liabilities is 21% per annum (2008: 21% per annum).

Finance lease assets under finance lease agreements with OJSC RTC-Leasing mainly comprise telecommunication equipment. The Group's obligations to OJSC RTC-Leasing as at 31 December 2009 amounted to 27 (2008: 223).

Under finance lease agreement signed with OJSC RTC-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.

21 Employee benefits

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

Defined benefit plans

The majority of the employees are eligible for defined benefit plan. The defined benefit pension plans cover most of employees and provide old age retirement pension and disability pension. To become eligible for receiving benefits under the plan upon retirement from the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men, subject to a condition for a minimum service period of

(in millions of Russian Roubles unless stated otherwise)

15 years is served. The amount of the pension benefit depends on certain factors, employees's position upon retirement among them.

The non-state pension fund Telecom-Soyuz, which is a related party of the Group (see note 39), maintains the defined benefit pension plan. Non-government pension fund Erel also maintains the defined benefit pension plan for OJSC Sakhatelecom.

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

There were 12,926 active employees participating to the defined benefit pension plan of the Group and 7,271 ex-employees eligible to the post-employment and post-retirement benefits (as at 31 December 2008: 14,137 and 7,343 respectively).

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

	2009	2008
Present value of fully unfunded obligations on defined benefit plans	537	923
Fair value of plan assets	-	(210)
Present value of unfunded obligations	**537**	**713**
Unrecognized past service cost	(146)	(256)
Unrecognized actuarial gains/ losses	507	568
Net defined benefit plan liability	**898**	**1,025**

As at 31 December 2009 management estimated that employees' average remaining working lives at 8 years (2008: 8 years).

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

	2009	2008
Current service cost	30	61
Interest cost	72	88
Expected return on plan assets	(10)	(17)
Net actuarial gains recognized in year	(58)	(18)
Amortization of past service cost - non-guaranteed portion	38	39
Final settlement effect	(168)	(23)
Net expense for the defined benefit plans	**(96)**	**130**

Net expense for the defined benefit pension plan, excluding interest cost and return on plan assets, is included in the consolidated income statement in the line "Personnel costs".

Return on plan assets and interest cost are recognized in "Other investing and financing gains and losses" and "Finance costs" line items of the consolidated income statement respectively.

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

	2009	2008
Present value of defined benefit obligation as at 1 January	**923**	**1 317**
Current service cost	30	61
Interest cost	72	88
Past service cost	5	15
Benefits paid	(23)	(49)
Settlement and curtailment gain	(284)	(23)
Actuarial gain	(186)	(486)
Present value of defined benefit obligations as at 31 December	**537**	**923**

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

(in millions of Russian Roubles unless stated otherwise)

	2009	2008
Fair value of plan assets as at 1 January	**210**	**221**
Contributions	28	69
Benefits paid	(23)	(49)
Curtailment or final settlement effect	(215)	(32)
Actual return on plan assets	-	1
Fair value of plan assets as at 31 December	**-**	**210**

The expected actual returns on plan assets as at 31 December 2009 and 2008 was determined based on the ratio between the current market price at the appropriate date and the structure of the plan assets. The actual return on plan assets for the 2009 year was nil.

As at 31 December 2008 the plan assets were principally comprised of following types of assets (percentage of fair value of total plan assets provided)

	2009	2008
Other Russian equities	-	5.99%
Russian state bonds	-	-
Russian municipal bonds	-	19.75%
Russian corporate bonds	-	49.03%
Russian corporate promissory notes	-	0.84%
Other assets	-	24.39%

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

	2009	2008
Discount rate	9.00%	9.00%
Expected return on plan assets	10.16%	10.28%
Future salary increases	9.72%	10.24%
Rate used for calculation of annuity value	4.00%	4.00%
Increase in financial support benefits	5.50%	6.00%
Rate of dismissed employees	7.00% up to 50 years, 0,00% after 50 years	7.00% up to 50 years, 0.00% after 50 years
Mortality tables (source of information)	USSR1985/86	USSR 1985/86

Historical information on defined benefit plan is as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	537	923	1 317	699	999
Defined benefit assets	-	(210)	(221)	(26)	(173)
Plan (deficit) / proficit	537	713	1 096	673	826
Experience adjustments on defined benefit plan liabilities	(97)	369	60	255	57
Experience adjustments on defined benefit plan assets	5	25	(7)	1	6

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

(in millions of Russian Roubles unless stated otherwise)

22 Other non-current liabilities

	31 December 2009	31 December 2008
Deferred revenue	67	91
Special purpose financing	3	4
Total	**70**	**95**

23 Provisions

	Employee dismissal provision	Provision for legal claims	Total
Balance at 31 December 2007	**46**	**412**	**458**
Accrued	74	18	**92**
Utilised	(46)	(43)	**(89)**
Reversed	-	(350)	**(350)**
Balance at 31 December 2008	**74**	**37**	**111**
Accrued	77	10	**87**
Utilised	(74)	(16)	**(90)**
Reversed	-	(21)	**(21)**
Balance at 31 December 2009	**77**	**10**	**87**

Personnel dismissal plan

To increase the efficiency of business processes the Group adopted staff optimisation plan approved by the Board of Directors and aimed at modification of organisation structure, redistribution of functions and transfer of some functions to outsourcing.

The Group made a provision in amount of 77 (as at 31 December 2008: 74) for termination payments to the employees who as of 31 December 2009 had been notified of their forthcoming termination (*in accordance with the procedure set forth in article 180 of the Russian Labour Code)*.

Legal claims

Recognized provision represents the amount of provision in respect of certain legal claims against the Group. It is expected that the balance of provision would be fully utilised in 2010. Management believes that the amount of final settlement related to litigation would not exceed the amount of the provision as at 31 December 2009.

24 Trade and other payables

	As at 31 December 2009	As at 31 December 2008
Salaries and wages	671	598
Other taxes payable	523	450
Payables for purchases and construction of property, plant and equipment	364	602
Payables to interconnected operators	361	341
Payables for operating activities	300	244
Settlements with the universal telecommunication service fund	47	108
Dividends payable	43	51
Payables for purchases of software	2	32
Settlements with non-commercial partnership	-	20
Total	**2,311**	**2,446**

(in millions of Russian Roubles unless stated otherwise)

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

	As at 31 December 2009	As at 31 December 2008
Value-added tax	379	329
Property tax	51	55
Unified social tax	38	47
Personal income tax	22	17
Other taxes	33	2
Total	**523**	**450**

25 Other current liabilities

	As at 31 December 2009	As at 31 December 2008
Advances received from operating activities	383	341
Advances received from investing activities	6	3
Advances received from non-operating activities	7	4
Total	**396**	**348**

26 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 Company. 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 profitability of their negative outcome. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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

The Group received the results of the tax audits of the Company and OJSC Sakhatelecom for 2007 – 2008. 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 third party 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 Company 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 proceeding. Management believes these proceeding would not have a material effect on financial position of the Group

27 Financial instruments and risk management

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to finance 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 cost of borrowings.

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

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

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

As of the reporting date Fitch international rating agency confirmed the Company's short term credit risk at "B", with "Stable" outlook. Standard and Poor's assigned Corporate Governance Score of CGS 5+ based on national scale.

The Group's capital management policy was not changed in 2009 compared to 2008.

(in millions of Russian Roubles unless stated otherwise)

Income and expenses on financial instruments

2009	Consolidated Income Statement					Consolidated Statement of Comprehensive Income	
	Other operating expenses	Financial expenses	Other income and expenses				Total
	Bad debt expenses	Interest expense	Interest income	Dividend income	Foreign exchange gains / losses	Fair value change	
Cash and cash equivalents	-	-	(20)	-	-	-	**(20)**
Trade and other receivables	100	-	-	-	-	-	**100**
Financial investments	-	-	(14)	(1)	-	(6)	**(21)**
Total financial assets	**100**	**-**	**(34)**	**(1)**	**-**	**(6)**	**59**
Bank and corporate loans	-	161	-	-	-	-	**161**
Bonds	-	310	-	-	-	-	**310**
Finance lease liabilities	-	28	-	-	-	-	**28**
Trade and other payables	-	72	-	-	6	-	**78**
Total financial liabilities	**-**	**571**	**-**	**-**	**6**	**-**	**577**

2008	Consolidated Income Statement					Consolidated Statement of Comprehensive Income	
	Other operating expenses	Financial expenses	Other income and expenses				Total
	Bad debt expenses	Interest expense	Interest income	Dividend income	Foreign exchange gains / losses	Fair value change	
Cash and cash equivalents	-	-	(51)	-	-	-	**(51)**
Trade and other receivables	108	-	-	-	-	-	**108**
Financial investments	-	-	(38)	(2)	-	-	**(40)**
Loans issued	-	-	(1)	-	-	-	**(1)**
Total financial assets	**108**	**-**	**(90)**	**(2)**	**-**	**-**	**16**
Vendor financing	-	-	-	-	2	-	**2**
Finance lease liability	-	79	-	-	-	-	**79**
Bank and corporate loans	-	192	-	-	-	-	**192**
Bonds	-	267	-	-	-	-	**267**
Trade and other payables	-	88	-	-	-	-	**88**
Total financial liabilities	**-**	**626**	**-**	**-**	**2**	**-**	**628**

Foreign exchange risk

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

(in millions of Russian Roubles unless stated otherwise)

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

The liabilities of the Group denominated in USD as at 31 December 2009 amounted to nil (2008: 1)

The Group does not use any tools to manage foreign exchange risks.

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 as at 31 December 2009 and 2008:

31 December 2009	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	338	**338**
Trade and other receivables	-	-	1,490	**1,490**
Available-for-sale financial assets	-	-	16	**16**
Held to maturity investments	155	-	-	**155**
Loans	5	-	-	**5**
Total financial assets	**160**	**-**	**1,844**	**2,004**
Bank and corporate loans	1,513	1,391	-	**2,904**
Bonds	3,199	-	-	**3,199**
Finance lease liabilities	27	-	-	**27**
Interest payable	-	-	146	**146**
Trade and other payables	-	-	1,788	**1,788**
Total financial liabilities	**4,739**	**1,391**	**1,934**	**8,064**

31 December 2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	-	-	554	**554**
Trade and other receivables	-	-	1,479	**1,479**
Available-for-sale financial assets	146	-	9	**155**
Loans	10	-	-	**10**
Total financial assets	**156**	**-**	**2,042**	**2,198**
Bank and corporate loans	2,501	500	-	**3,001**
Bonds	2,431	-	-	**2,431**
Vendor financing	1	-	-	**1**
Finance lease liabilities	223	-	-	**223**
Interest payable	-	-	31	**31**
Trade and other payables	-	-	2,044	**2,044**
Total financial liabilities	**5,156**	**500**	**2,075**	**7,731**

(in millions of Russian Roubles unless stated otherwise)

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

	MosPrime	
	Changes in interest rate, %	**Effect on profit before income tax**
31 December 2009	+1	-
	-1	-
31 December 2008	+1	5
	-1	(5)
	Central Bank of Russia Rate	
	Changes in interest rate, %	**Effect on profit before income tax**
31 December 2009	+1	14
	-1	(14)
31 December 2008	+1	-
	-1	-

The Group does not use any tools to manage interest rate risks.

Liquidity risk

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

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

	2010	**2011**	**2012**	**Total**
Cash and cash equivalents	338	-	-	**338**
Trade and other receivables	1,490	-	-	**1,490**
Available-for-sale financial assets	-	16	-	**16**
Held to maturity investments	155	-	-	**155**
Loans	2	3	-	**5**
Total financial assets	**1,985**	**19**	**-**	**2,004**
Bank and corporate loans	1,394	1,238	659	**3,291**
Bonds	1,987	1,623	-	**3,610**
Finance lease liabilities	25	6	-	**31**
Interest payable	146	-	-	**146**
Trade and other payables	1,788	-	-	**1,788**
Total financial liabilities	**5,340**	**2,867**	**659**	**8,866**

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

Credit risk

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

Financial assets, which potentially expose the Group to credit risk, consist primarily of trade and other receivables, cash in bank, bank deposits and other debt-type financial assets. The carrying amount of accounts receivables, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. (see notes 15,16)

(in millions of Russian Roubles unless stated otherwise)

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

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

31 December 2009	Post due (days)						
	Total	< 30	31-60	61-90	91-180	181-360	>360
Corporate customers	20	-	10	7	2	1	-
Individuals	84	-	30	19	10	25	-
Budget organizations	9	-	5	3	1	-	-
Interconnected operators	-	-	-	-	-	-	-
Tariff compensation from the State budget	-	-	-	-	-	-	-
Total	**113**	**-**	**45**	**29**	**13**	**26**	**-**

31 December 2008	Post due (days)						
	Total	<30	31-60	61-90	91-180	181-360	>361
Corporate customers	26	-	17	6	3	-	-
Individuals	13	-	8	3	2	-	-
Budget organizations	70	-	41	18	11	-	-
Interconnected operators	20	-	10	6	4	-	-
Tariff compensation from the State budget	12	-	-	-	-	-	12
Total	141	-	76	33	20	-	12

Hedging

In the year 2009 the Group did not hedge its foreign exchange risks or interest rate risks.

Fair value of financial instruments

Financial instruments employed by the Group fall into one of the following categories:

- Held to maturity investments (HTM);
- Available for sale financial assets (AFS);
- Financial assets through profit and loss (FTPL);
- Loans and receivables (LR);
- Liabilities accounted at amortized cost (LAC).

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

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Long term bank loans	1,745	1,558	1,498	1,277
Long-term bonds	1,500	1,632	1,681	1,593
Short-term bonds	1,699	1,567	750	731
Total financial liabilities	**4,944**	**4,757**	**3,929**	**3,601**

(in millions of Russian Roubles unless stated otherwise)

28 Revenue

	2009	2008
Local telephone calls	6,385	5,950
Data transmission, telematic services (Internet), telegraph	4,835	3,825
Long distance intra-zone telephone services	2,477	2,515
Interconnection services	1,401	1,712
Cellular services	1,101	1,151
Agency fees and revenues from assistance services	283	320
Radio and TV broadcasting	161	159
Other telecommunication services	46	39
Other revenues	508	438
Total	**17,197**	**16,109**

Other revenue includes rental income in the amount of 402 (2008: 347).

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

Customer groups	2009	2008
Individuals	9,956	9,009
Corporate customers	3,750	3,683
Budget organizations	1,794	1,702
Interconnected operators	1,697	1,715
Total	**17,197**	**16,109**

29 Personnel costs

	2009	2008
Salary expenses	4,303	3,961
Social taxes	793	881
Pension plan costs	(151)	59
Payments according to the labour contracts	26	22
Total	**4,971**	**4,923**

30 Materials, repairs and maintenance, utilities

	2009	2008
Materials	895	824
Utilities	480	397
Repairs and maintenance	361	428
Total	**1,736**	**1,649**

31 Other operating income

	2009	2008
Reimbursement of losses incurred from universal services fund	165	150
Trade accounts payable write-off	34	4
Gain on disposal of property, plant and equipment	33	24
Return of tax fines	22	-
Reversal of provisions	21	350
Fines, late payment interest, penalty for breach of contract	12	6
Other income	108	64
Total	**395**	**598**

During 2009, according to the terms of agreements concluded with the Federal Telecommunications Agency for provision of universal telecommunication services the Company received from the universal services fund reimbursement of losses incurred due to rendering of universal telecommunications services for current year services amounted to 165 (2008: 150).

(in millions of Russian Roubles unless stated otherwise)

Losses from rendering of universal telecommunications services during 2009 amounted to 165 (2008: - 150) and were confirmed by an independent audit firm.

32 Other operating expenses

	2009	2008
Third party services and expenses related to the administration	523	423
Taxes, other than income tax	274	289
Agency fee	274	253
Lease of premises	264	259
Fire and other security services	201	204
Advertising expenses	177	179
Universal service fund payments	176	154
Audit and consulting fees	151	169
Bad debt expense	100	108
Transportation and postal services	41	43
Software implementation cost	31	36
Bank services	31	30
Member fees, charity contribution, payments to labour unions	28	44
Insurance	10	15
Fines and penalties	2	5
Inventories impairment	5	2
Property, plant and equipment for social aim	95	1
Member fees to non-for-profit partnership	-	54
Other expenses	230	143
Total	**2,613**	**2,411**

33 Finance costs

	2009	2008
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	471	459
Interest expense on finance lease liabilities	28	79
Interest expense of defined benefit plans	72	88
Borrowings servicing expense	5	-
Total	**576**	**626**

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

	2009	2008
Capitalized to property, plant and equipment	113	75
Total	**113**	**75**

34 Other investing and financing gains and losses

	2009	2008
Interest income from finance assets	34	90
Income from pension plan assets	10	17
Dividend income	1	2
Expenses related to acquisition of non-controlling interest	(43)	-
Other gains and losses	(16)	(13)
Total	**(14)**	**96**

(in millions of Russian Roubles unless stated otherwise)

35 Income tax

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

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

	2009	2008
Current income tax expense	654	809
Deferred income tax benefit	41	(71)
Total income tax expense for the year	**695**	**738**
Current income tax expense	647	812
Adjustments of the current income tax for previous years	7	(3)
Total current income tax expense for the year	**654**	**809**
Deferred income tax benefit related to the temporary differences	41	(71)
Total deferred income tax benefit	**41**	**(71)**
Total income tax expense for the year	**695**	**738**

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

	2009	2008
Profit before income tax	3,213	3, 005
Statutory income tax rate	20%	24%
Theoretical tax charge at statutory income tax rate	643	721
Increase / (decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	7	(3)
Non-taxable income	(115)	(130)
Non-deductible expenses	160	283
Change of tax rate	-	(133)
Total actual income tax	**695**	**738**
Effective tax rate	**21.63%**	**24.56%**

(in millions of Russian Roubles unless stated otherwise)

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

					Origination and reversal of temporary differences		
	1 January 2008	**Origination and reversal of temporary differences**	**Change of tax rate**	**31 December 2008**	**Recognized in other comprehensive income**	**Recognized in income statement**	**31 December 2009**
Property, plant and equipment	(753)	25	121	(607)	-	(46)	(653)
Intangible assets	(252)	27	37	(188)	-	(29)	(217)
Investment property	-	-	-	-	-	(15)	(15)
Financial investments	(12)	12	-	-	(1)	-	(1)
Inventories	3	2	(1)	4	-	2	6
Trade and other accounts receivable	-	2	-	2	-	1	3
Finance lease liabilities	(4)	4	-	-	-	-	-
Pension liabilities	90	(24)	(11)	55	-	(18)	37
Deferred income	16	(4)	(2)	10	-	1	11
Trade payables and accrue expenses	28	(10)	(3)	15	-	(9)	6
Provisions	143	(96)	(8)	39	-	72	111
Total deferred income tax liability, net	**(741)**	**(62)**	**133**	**(670)**	**(1)**	**(41)**	**(712)**

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

The Company has not recognized a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries in the amount of 656 (2008: 1,187), as managements believes that the Company is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

36 Earnings per Share

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

	2009	**2008**
Net profit for the year attributable to the shareholders of the Company	2,152	2,071
Less: attributable to preference shareholders	(529)	(509)
Attributable to ordinary shareholders	**1,623**	**1,562**
Weighted average number of ordinary shares outstanding (thousands)	95,580	95,579
Basic and diluted earnings per share attributable to ordinary shareholders, in Roubles	**16.98**	**16.34**

(in millions of Russian Roubles unless stated otherwise)

37 Dividends Declared and Proposed for Distribution

The Board of Directors recommended to the general meeting of shareholders, to approve dividends for year ended 31 December 2009 in the amount of 3.4077 roubles per ordinary share and 6.8528 roubles per preference share.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, roubles
Declared and approved for 2008			
Preference shares	31,168,901	5.4772	170,718,305
Ordinary shares	95,581,421	2.7238	260,344,675
Total	**126,750,322**		**431,062,980**
Declared and approved for 2009			
Preference shares	31,168,901	6.8528	213,594,245
Ordinary shares	95,581,421	3.4077	325,712,808
Total	**126,750,322**		**539,307,053**

Dividends paid in 2009 for the year ended 31 December 2008 amounted to 413.

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 284 and 520 respectively.

As at 31 December 2009 and 2008 the Group's contractual obligations with regard to purchase property, plant and equipment amounted to 15 and 15 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 Company's related party transactions in 2009 and 2008 is presented below:

Transactions	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
2008					
Revenue from telecommunication services, interconnection and traffic transmission services	-	832	6	2,305	2
Agency services	-	272	1	-	-
Rental income	-	1	-	138	1
Purchase of telecommunication services, interconnection and traffic	-	444	3	364	-
Purchase of other services	-	92	18	752	96
Purchase of goods and other assets	-	-	-	13	-
Interest income	-	-	-	1	-
Interest expenses	-	-	-	136	-
Dividends payable	45	-	-	27	-
Loans received	-	-	-	1,955	-
Guarantees issued	-	-	-	2,124	-

(in millions of Russian Roubles unless stated otherwise)

Transactions	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
2009					
Revenue from telecommunication services, interconnection and traffic transmission services	-	687	4	2,225	-
Agency services	-	178	-	-	-
Rental income	-	3	-	147	-
Revenue from other services	-	1	1	-	-
Purchase of telecommunication services, interconnection and traffic	-	479	3	340	2
Purchase of other services	-	175	-	1,353	104
Purchase of goods and other assets	-	-	-	9	-
Interest income	-	-	-	3	-
Interest expenses	-	-	-	1	-
Dividends payable	-	-	-	50	-
Loans received	-	-	-	1,466	-
Guarantees issued	-	-	-	2,020	-

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

Balances	Subsidiaries of OJSC Svyazinvest	Associates	State-controlled companies	Other
2008				
Trade and other receivables, net, incl.:	94	1	170	-
- doubtful debt allowance	-	-	4	-
Accounts payable	187	7	257	20
Guarantees issued	-	-	6	-
2009.				
Trade and other receivables, net, incl.:	104	-	118	26
- doubtful debt allowance	-	-	-	-
Accounts payable	188	7	248	2
Guarantees issued	-	-	-	-

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

OJSC "Svyazinvest"

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

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

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

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

(in millions of Russian Roubles unless stated otherwise)

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

Subsidiaries of OJSC Svyazinvest

The Company enters into transactions with subsidiaries 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 Company'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 which is a combination of agent agreement and service agreement.

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

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	665	831
Agent services	174	272
Rental income	3	-
Other revenue	1	1
Purchase of telecommunication services, interconnection and traffic transmission services	477	419
Purchase of other services	11	6
Trade and other receivables	77	93
Trade and other payables	156	164

OJSC "Svyazintek"

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

In 2009 the Group incurred costs on services provided by OJSC "Svyazintek" amounted to 60 (2008: 87) among them 4 (2008: 23) were recognized in the consolidated income statement and the rest were capitalized within the cost of respective items of property, plant and equipment and intangible assets.

(in millions of Russian Roubles unless stated otherwise)

Non-state Pension Fund "Telecom-Soyuz"

The Group signed centralized pension agreement with a non-state pension fund "Telecom-Soyuz" (Note 21). In addition to the state pension, the Group provides the employees with a non-state pension and other post-employment benefits through defined benefit and defined contribution plans.

The total amount of contributions to non-state pension fund paid by the Group in 2009 amounted to 26 (2008: 59). The fund retains 3% of every pension contribution of the Group to cover its administrative costs.

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.

Remuneration of Key Management Personnel

The key management personnel comprise members of the Management Committee and the Board of Directors of the Company, totalling 19 persons as at 31 December 2009 (2008: 19).

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

	2009	2008
Current remuneration, total	99	80
including		
Salaries	94	73
Vacation	3	2
Social taxes	2	5

40 Subsequent events

Dividends

The Board of Directors recommended dividends for 2009 in the amount of 6,8528 Roubles per preference share and 3,4077 Roubles per ordinary share (for the year 2008: 5.4772 RUR and 2.7238 RUR respectively). Total amount of declared dividends amounted to 214 and 326 for preference and ordinary shares respectively (for the year 2008: 170 and 260 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 37).

Bank loans

In January 2010 Group received tranches in the amount of 108 according to the loan agreement with AKB Svyaz-Bank dated 24 December 2009. The date of maturity is 24 December 2012 the interest rate is 10 % since 04 March 2010.

Reorganisation

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