Open Joint Stock Company

Sibirtelecom

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

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

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Sibirtelecom

We have audited the accompanying consolidated financial statements of OJSC Sibirtelecom 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 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 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 about whether the financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

As at 31 December 2008, certain assets of the Group which were ready for use, were presented within "Construction in progress and equipment for installation" category of Property, Plant and Equipment as disclosed in Note 7 to the consolidated financial statements. The amount of overstatement of the balance of "Construction in progress and equipment for installation" category and respective understatement of the balances of "Land, buildings and constructions", "Switches and transmission devices" and "Transport equipment and other assets" categories as at 31 December 2008 had not been determined. Our Audit Report on the Group's consolidated financial statements for 2008 was qualified, accordingly. In 2009 the stated assets were reclassified to the respective categories.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion on the comparative information for 2008, 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
3 June 2010

OJSC Sibirtelecom

Consolidated Statement of Financial Position as at 31 December 2009

(in millions of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	40,633	44,282
Investment property		12	13
Intangible assets and goodwill	8	4,160	4,593
Other non-current assets	9	218	347
Investments in equity accounted investees	10	20	19
Non-current investments and loans granted	11	22	29
Deferred tax assets	31	99	51
Total non-current assets		**45,164**	**49,334**
Current assets			
Inventories	12	529	673
Trade and other receivables	13	2,294	2,719
Income tax receivable		36	401
Other current assets	14	408	579
Current investments and loans granted	11	662	70
Cash and cash equivalents	15	532	1,109
Total current assets		**4,461**	**5,551**
TOTAL ASSETS		**49,625**	**54,885**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	17	3,541	3,541
Unrealised gain on available-for-sale financial assets		83	21
Retained earnings		16,998	15,547
Total equity attributable to shareholders of the Company		**20,622**	**19,109**
Non-controlling interest		2	2
Total equity		**20,624**	**19,111**
Non-current liabilities			
Loans and borrowings	18	9,723	12,802
Employee benefits	19	3,800	3,560
Other non-current liabilities	20	79	92
Deferred tax liabilities	31	954	628
Total non-current liabilities		**14,556**	**17,082**
Current liabilities			
Loans and borrowings	18	8,887	11,220
Trade and other payables	22	4,475	6,355
Other current liabilities	23	1,019	1,058
Provisions	21	64	59
Total current liabilities		**14,445**	**18,692**
Total liabilities		**29,001**	**35,774**
TOTAL EQUITY AND LIABILITIES		**49,625**	**54,885**

General Director
I.V. Dadykin

ОАО «СИБИРЬТЕЛЕКОМ»

Chief Accountant
G.I. Khvoschinskaya

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

OJSC Sibirtelecom

Consolidated Income Statement for the year ended 31 December 2009

(in millions of Russian Roubles)

	Notes	2009	2008
Revenues	24	**38,036**	**37,509**
Personnel costs	25	(9,883)	(10,504)
Depreciation and amortisation	7, 8	(8,220)	(7,357)
Interconnection charges		(4,590)	(4,400)
Materials, repairs and maintenance, utilities	26	(2,998)	(3,217)
Other operating income	27	463	461
Reimbursement of losses from provision of universal services	27	893	680
Other operating expenses	28	(7,565)	(7,397)
Operating profit		**6,136**	**5,775**
Share of profit in equity accounted investees	10	–	4
Finance costs	29	(3,052)	(2,198)
Other investing and financing gains and losses	30	69	83
Foreign exchange losses		(290)	(1,230)
Profit before income tax		**2,863**	**2,434**
Income tax expense	31	(889)	(905)
Profit for the year		**1,974**	**1,529**
Attributable to:			
Shareholders of the OJSC "Sibirtelecom"		1,974	1,529
Non-controlling interest		–	–
Profit for the year		**1,974**	**1,529**
Basic and diluted earnings per share attributable to shareholders of OJSC "Sibirtelecom" (in Russian Roubles)	32	**0.124**	**0.096**

OJSC Sibirtelecom

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

(in millions of Russian Roubles)

	Notes	2009	2008
Profit for the year		**1,974**	**1,529**
Changes in fair value of available-for-sale financial assets		62	(76)
Other comprehensive income (loss)		**62**	**(76)**
Total comprehensive income for the year		**2,036**	**1,453**
Comprehensive income for the year attributable to :			
Shareholders of OJSC "Sibirtelecom"		2,036	1,453
Non-controlling shareholders of subsidiaries		–	–
Total comprehensive income for the year		**2,036**	**1,453**

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

	Notes	2009	2008
Cash flows from operating activities:			
Profit before income tax		2,863	2,434
Adjustments for:			
Depreciation and amortisation	**7, 8**	8,220	7,357
Loss on disposal of property, plant and equipment and other assets	**28**	92	98
Impairment losses on property, plant and equipment, construction in progress, intangible assets and goodwill	**7, 8**	401	366
Reversal of allowance for inventory and other assets	**27**	(1)	(4)
Increase of allowance for doubtful debts	**28**	142	47
Share of profit of equity accounted investees	**10**	–	(4)
Foreign exchange losses		290	1,230
Other investing and financing gains and losses	**30**	(70)	(85)
Finance costs	**29, 30**	2,690	1,906
Operating cash flows after adjustments		**14,627**	**13,345**
Decrease/(increase) in inventories	**12**	145	(136)
Decrease/(increase) in trade and other receivables		282	(197)
Decrease in other current assets and liabilities		138	382
Increase in employee benefits	**19**	240	111
Decrease in trade and other payables		(988)	(250)
Increase in taxes payable, other than income tax	**22**	734	276
Increase/(decrease) in contingent liabilities	**21**	5	(28)
Cash flows generated from operations before income taxes and interest paid		**15,183**	**13,503**
Interest paid		(2,695)	(1,802)
Income tax paid		(310)	(1,022)
Cash flows from operating activities		**12,178**	**10,679**
Investing activities			
Acquisition of property, plant and equipment, construction in progress and investment property		(5,709)	(9,704)
Proceeds from disposals of property, plant and equipment and investment property		80	177
Acquisition of intangible assets		(438)	(1,308)
Acquisition of subsidiaries, net of cash acquired		–	(80)
Acquisition of investments and loans granted		(1,102)	(409)
Proceeds from sale of investments and recovery of loans		575	486
Interest received		61	90
Dividends received	**30**	4	1
Cash flows utilized in investing activities		**(6,529)**	**(10,747)**

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

	Notes	2009	2008
Financing activities			
Proceeds from loans and borrowings		10,300	7,573
Repayment of loans and borrowings		(14,921)	(3,977)
Proceeds from bond issue		1,721	1,997
Repayment of bonds		(2,000)	(5,358)
Proceeds from promissory notes		1,176	1,255
Repayment of promissory notes		(1,358)	(500)
Repayment of vendor financing liability		(454)	(294)
Repayment of other non-current liabilities	**20**	(13)	(2)
Repayment of finance lease liabilities		(171)	(222)
Dividends paid to shareholders of OJSC Sibirtelecom		(518)	(678)
Cash flows utilised in financing activities		**(6,238)**	**(206)**
Effect of exchange rate fluctuations on cash and cash equivalents		**12**	**–**
Net decrease in cash and cash equivalents		**(577)**	**(274)**
Cash and cash equivalents at beginning of year	**15**	1,109	1,383
Cash and cash equivalents at end of year	**15**	**532**	**1,109**

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

		Equity attributable to shareholders of OJSC Sibirtelecom						
		Share capital						
	Note	Preference shares	Ordinary shares	Unrealised gain on available-for-sale investments	Retained earnings	Total equity attributed to shareholders of OJSC Sibirtelecom	Non-controlling shareholders	Total equity
Balance as at 31 December 2007	**17**	**869**	**2,672**	**97**	**14,709**	**18,347**	**2**	**18,349**
Total comprehensive income for the year		–	–	(76)	1,529	1,453	–	**1,453**
Dividends to shareholders of OJSC Sibirtelecom		–	–	–	(691)	(691)	–	**(691)**
		869	**2,672**	**21**	**15,547**	**19,109**	**2**	**19,111**
Balance at 31 December 2008	**17**							
Total comprehensive income for the year		–	–	62	1,974	2,036	–	**2,036**
Dividends to shareholders of OJSC Sibirtelecom		–	–	–	(523)	(523)	–	**(523)**
Balance at 31 December 2009	**17**	**869**	**2,672**	**83**	**16,998**	**20,622**	**2**	**20,624**

1. General Information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC Sibirtelecom and its subsidiaries (hereinafter "the Company") for the year ended 31 December 2009 were authorized for issue by the General Director and the Chief Accountant on 3 June 2010.

Company

OJSC Sibirtelecom ("the Parent Company") was incorporated as an open joint stock company in the Russian Federation.

The parent company's official address is: Russia, 630099, city of Novosibirsk, Maksima Gorkogo street, 53.

The Company provides telephone services (including local and intra-zone telephone services), mobile radiotelephony services (including access to external telecommunication networks – roaming services), telegraph services, data transmission services, rents out communication and radio communication channels in the territory of the Siberian Federal District of the Russian Federation.

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

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

Liquidity and Financial Resources

As at 31 December 2009 the Company's current liabilities exceeded its current assets by 9,984 (as at 31 December 2008 – 13,141).

To date the Company has significantly relied on both short-term and long-term borrowings to finance development of its communications networks. This financing has historically been proved through bank loans, issue of own promissory notes, credit notes, bonds, financial lease and vendor financing.

In 2010 the Company expects to generate funds from the following sources: cash proceeds from operating activities; offering of rouble bonds in the Russian market; raising funds from domestic lending institutions; and issue of promissory notes. Moreover, management believes that the existing contractual payment terms relating to current operations could be extended, and certain capital investment projects may be deferred or curtailed in order to fund the Company's current operating needs.

2. Basis of Preparation

Statement of Compliance

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

Going Concern

The financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Presentation of Financial Statements

Consolidated financial statements comprise OJSC "Sibirtelecom" and its subsidiaries, and are prepared using unified accounting policies. Investments in equity accounted investees are accounted for using the equity method.

The consolidated financial statements of the Company 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 changes in equity related to owners in the statement of changes in equity separately from the changes in equity related to non-owners which are presented in the consolidated statement of comprehensive income.

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

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS; and that available-for-sale investments are stated at fair value.

Changes in Accounting Policies

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

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

Standard/Interpretation	Content of change	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.	New disclosures are presented in Note 5.

(in millions of Russian Roubles)

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

(in millions of Russian Roubles)

Standard/Interpretation	Content of change	Effects
IFRIC Interpretation 18 "Transfers of Assets from Customers"	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company's assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IAS 24 (as revised in 2009) "Related party disclosures" (early adoption)	The Standard specifies and simplifies approaches for related party definitions. The Standard also simplifies requirement for state-controlled entities to disclose detailed transactions with other state-controlled entities.	New and revised disclosures are presented in Note 38.

IFRSs and IFRIC Interpretations not yet effective

The Company has not adopted the following IFRSs and IFRIC Interpretations 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 embedded 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.

To date management of the Company has not completed the assessment of the impact of new Standards and various improvements to IFRSs not yet effective on the Company's financial position or performance.

Reclassification of Comparative Information

Due to changes in presentation of the financial statements in 2009, the Company reclassified certain comparative amounts as at and for the year ended 31 December 2008.

Consolidated Income Statement for the year ended 31 December 2008	Before reclassification	Effect of reclassification	After reclassification	Reclassification Description
Revenue	37,674	(165)	37,509	Comment 1
Finance costs	(2,161)	(37)	(2,198)	Comment 2
Other operating expenses	(7,602)	205	(7,397)	Comment 3
Other operating income	464	(3)	461	Comment 4
Foreign exchange losses	–	(1,230)	(1,230)	Comment 5
Other finance costs	(1,232)	1,232	–	Comment 6
Finance income	85	(85)	–	Comment 7
Other investing and financing gains and losses	–	83	83	Comment 8

Comment 1	Revenues of the Company's subsidiary, CJSC Baikalwestcom, from services to its customers, which contain agency elements, are presented net of fees payable to content providers
Comment 2	Reclassification of loan maintenance expenses from other operating expenses to finance costs
Comment 3	Comments 1, 2, 4

(in millions of Russian Roubles)

Comment 4	Reclassification of reversal of inventory provision from other operating expenses to other operating income
Comment 5	Comment 6
Comment 6	Reclassification of foreign exchange loss from other finance costs to foreign exchange losses Reclassification of loss from financial assets disposal from other finance costs to other investing and financing gains and losses
Comment 7	Reclassification of financial income to other investing and financing gains and losses
Comment 8	Comments 6, 7

Consolidated Statement of Cash Flows for the year ended 31 December 2008	**Before reclassification**	**Effect of reclassification**	**After reclassification**	**Reclassification Description**
Interest expenses	1,867	(1,867)	–	Comment 9
Other finance costs	2	(2)	–	Comment 10
Finance costs	–	1,906	1,906	Comment 11
Operating cash flows after adjustments	13,308	37	13,345	Comment 12
Cash flows generated from operations before income taxes and interest paid	13,466	37	13,503	Comment 12
Interest paid	(1,765)	(37)	(1,802)	Comment 12

Comment 9	Reclassification of interest expenses to finance costs
Comment 10	Reclassification of other finance costs to finance costs
Comment 11	Comments 2, 9, 10
Comment 12	Comments 9, 10, 11

Foreign Currency Transactions

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

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

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

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OJSC Sibirtelecom and its subsidiaries as of 31 December 2009 including comparative information for 2008.

All intra-group balances, transactions, income and expenses, as well as gains and losses resulting from operations within the Company and recognized within the assets, are entirely eliminated.

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

Acquisition of Subsidiaries

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

The excess of purchase consideration over the fair value of the Company's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company'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 as at the date of acquisition is recognized in equity.

3.2 Property, Plant and Equipment

3.2.1. Cost of Property, Plant and Equipment

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

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if there are indicators of reversal of impairment, and the recoverable amount determined on the basis of revised estimates exceeds the asset's carrying value, provided that the asset's carrying value after the reversal of previously recognised impairment does not exceed its carrying value that would have been determined, net of depreciation, had no impairment been recognised previously.

(in millions of Russian Roubles)

3.2.2. Depreciation and Useful Life

Depreciation of property, plant and equipment is calculated on a straight-line basis.

The Company applies the following useful lives:

	2009
Buildings	5-50
Transmission devices (radio and communication lines)	5-15
Other constructions (exclusive communication lines)	5-30
Analogue switches	5-10
Digital switches	2-15
Other telecommunication equipment	2-16
Computers, office and other equipment	2-7
Transportation equipment	3-20
Other property, plant and equipment	3-25
Land	Not depreciated

The property, plant and equipment's residual values, useful lives and 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 management reviewed the remaining useful lives of items of property, plant and equipment. The effect of changes in remaining useful lives of the items of property, plant and equipment is disclosed in note 7.

Assets received free of charge

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Company, which have been gratuitously transferred to the Company 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 Company to entities, which have transferred property, plant and equipment. In such instances, the Company records deferred income at fair value of received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

3.3. Investment Property

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

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

The useful life of investment property is the same as useful life defined for the similar groups of property, plant and equipment (Note 3.2).

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

3.4. Intangible Assets and Goodwill

Goodwill

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

Goodwill on acquisition of an equity accounted investees is included in investments in equity accounted investees

Other Intangible Assets

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

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

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

Useful lives of intangible assets are determined on individual basis.

Impairment

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

3.5. Borrowing Costs

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

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

3.6. Equity Accounted Investees (Associates)

Equity accounted investees are entities in which the Company 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 equity accounted investees are accounted for under the equity method.

3.7. Investments and Other Financial Assets

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

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

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

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company 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 three 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.

3.8. Inventories

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

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

3.9. Cash and Cash Equivalents

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

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

3.10. Shareholders' Equity

Share Capital

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

Non-controlling Interest

Non-controlling interest at the reporting date represents the equity in a subsidiary not attributable, directly or indirectly, to the parent.

Dividends

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

3.11. Borrowings

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

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

3.12. Leases

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

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

3.13. Employee Benefits

Current Employment Benefits

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

Defined Benefits Pension Plans and Other Long-Term Employee Benefits

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

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

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

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

3.14. Provisions

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

3.15. Income Tax

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

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.

3.16. Revenue Recognition

Revenue from service contracts is accounted for when the services are provided. Revenue from timed 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 and not the period when the reimbursement is received.

Dividend income is recognised in the income statement on the date that the Company’s right to receive payment is established.

3.17. Earnings per Share

For the purpose of calculating earnings per share, the Company classifies preferred shares as participating equity instruments.

3.18. Segment Reporting

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

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

The structure of reporting and operational segments is disclosed in Note 5.

4. Significant Accounting Judgments and Estimates

4.1. Judgments

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

Revenue Recognition (principal/agent)

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

- Although the Company collects the revenue from the final customer, all credit risk is borne by the supplier of the goods.
- The Company cannot vary the selling prices set by the supplier.

Lease Classification

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

Software Classification

When equipment and inseparable software form a single hardware-software complex, the cost of such software is included in the cost of equipment, which functionality depends on such software. In other cases, software is accounted for separately as an intangible asset.

Pension Plan Classification

Pension plan classification depends on determination of a party, which assumes actuarial and investment risks related to provision of future benefits. When these risks are borne by the employer, the pension plan is classified as a defined benefit pension plan. In respect of defined contribution pension plans, all actuarial and investment risks are borne by the employees.

4.2. Estimation Uncertainty

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 Company estimates remaining useful lives of its property, plant and equipment at least once a year at the reporting sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2009 was 40,633 (as at 31 December 2008 – 44,282). Refer to Note 7 for detailed information.

Impairment of Non-current assets

Identification of indicators of impairment of non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount on a cash-generating unit level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on a cash-generating unit level, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows.
These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment. The impairment loss recognized for 2009 was 401 (2008 – 366). Refer to Notes 7, 8 for detailed information.

Impairment of Goodwill

The Company tests goodwill for impairment at least ones per year. Impairment testing requires value in use estimation of cash-generating units to which the goodwill is allocated.
Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As of 31 December 2009, the carrying amount of goodwill amounted to 5 (2007 - 33). The loss from goodwill impairment for the year ended 31 December 2009 amounted to 28 (2007 – 91). Refer to Note 8 for detailed information.

Fair Values of Available-for-Sale Investments

Fair value of quoted investments is determined using closing bid market prices as at the reporting date. 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.

Allowance for Impairment of Receivables

Provision for impairment is based on historical data related to collectability of accounts receivable 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 the allowance for impairment of receivables amounted to 511 (2008 – 483). Refer to Note 13 for detailed information.

Employee Benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If an adjustment to the key assumptions is made, it may have a significant impact on the amount of pension benefit liabilities and related future expenses. As at 31 December 2009 net defined benefit obligations amounted to 3,800 (2008 – 3,560). Refer to Note 19 for detailed information

Litigation and Claims

The Company 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. Management 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 from internal specialists, if available, or from external consultants. Revisions to the estimates may significantly affect future operating results. Refer to Note 21 for detailed information.

Deferred Tax Assets

Deferred tax assets are recognised only to the extent that there is a probability that they will be realised. Realisation of a deferred tax asset will depend upon the probability of earning sufficient taxable income which may be decreased by deductible temporary differences. Different factors are considered when assessing the probability of future realisation of a deferred tax asset, including results of performance in previous years, performance plans, expiration of tax loss carry-forwards and tax planning strategies. If actual results differ from those estimates or if those estimates are to be adjusted in future, it may have a negative effect on the financial position, performance results and cash flows of the Company.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. The carrying value of deferred tax assets as at 31 December 2009 was 99 (2008 – 51). Refer to Note 31 for detailed information.

5. Segment Information

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

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

The smallest components of the Company, for which financial information is regularly analyzed by the Company's Chief Operating Decision Maker and used for operating decision-making, are branches and subsidiaries.

The analysis of the reported information and operating decision-making are performed based on accounting data, prepared using statutory accounting principles. The information in tables "Combined operating segments" and "Operating segments" is presented in accordance with the above mentioned principles.

The OJSC Sibirtelecom operates mainly within the territory of one federal district.

"OJSC Sibirtelecom – fixed line" subgroup includes: Gornoaltaisky, Buryatsky, Khakassky, Altaisky, Krasnoyarsky, Irkutsky, Kemerovsky, Novosibirsky, Omsky, Tomsky, Zabaikalsky regional branches, providing the following services: telephone services (including local and intra-zone telephone services), telegraph services, data transmission services, radio and TV broadcasting, rents out communication channels. Each of the listed branches represents a separate operating segment.

The head office concentrates the major part of financing and investing activities of OJSC Sibirtelecom: 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 revenues, expenses, assets and liabilities are presented within the "Head office" category.

"Subsidiaries – fixed line" subgroup includes CJSC ChitaNet, OJSC Rinet, CJSC ATS-32, CJSC ATS-41, OJSC Mobiltelecom, CJSC Novocom, providing the following services: local telephone services, data transmission services. Each of the listed subsidiaries represents a separate operating segment.

"Subsidiaries – mobile" subgroup includes CJSC Yeniseytelecom and CJSC Baikalwestcom, providing the following services: mobile radiotelephony services (including access to external telecommunication networks – roaming services). Each of the listed subsidiaries represents a separate operating segment.

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

(in millions of Russian Roubles)

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

Combined operating segments as at 31 December 2009 and for 2009	**OJSC Sibirtelecom – fixed line**	**Subsidiaries – fixed line**	**Subsidiaries – mobile**	**Total segments**
REVENUE				
Third party revenue	27,610	235	10,502	**38,347**
Revenue from other segments	360	72	453	**885**
Total revenue	**27,970**	**307**	**10,955**	**39,232**
Interest income	53	5	59	**117**
Interest expense	(2,069)	–	(670)	**(2,739)**
Income tax	(672)	(4)	(324)	**(1,000)**
Profit for the year	**2,345**	**(1)**	**554**	**2,898**
ASSETS AND LIABILITIES				
Segment assets	37,188	216	13,224	**50,628**
Segment liabilities	(19,411)	(41)	(7,914)	**(27,366)**
OTHER SEGMENT INFORMATION				
Capital investments in:				
property, plant and equipment	2,618	17	1,679	**4,314**
intangible assets	25	–	–	**25**
Depreciation and amortization	(4,731)	(24)	(1,982)	**(6,737)**
(Loss)/reversal of loss from doubtful debt allowance	(134)	(2)	(471)	**(607)**

(in millions of Russian Roubles)

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

Combined operating segments as at 31 December 2008 and for 2008	OJSC Sibirtelecom – fixed line	Subsidiaries – fixed line	Subsidiaries – mobile	Total segments
REVENUE				
Third party revenue	27,168	305	10,334	**37,807**
Revenue from other segments	449	59	393	**901**
Total revenue	**27,617**	**364**	**10,727**	**38,708**
Interest income	67	1	60	**128**
Interest expense	(1,393)	–	(443)	**(1,836)**
Income tax	(694)	(10)	(464)	**(1,168)**
Profit for the year	**2,107**	**21**	**553**	**2,681**
ASSETS AND LIABILITIES				
Segment assets	40,614	230	14,083	**54,927**
Segment liabilities	(24,660)	(42)	(8,824)	**(33,526)**
OTHER SEGMENT INFORMATION				
Capital investments in:				
property, plant and equipment	8,033	31	2,769	**10,833**
intangible assets	50	–	–	**50**
Depreciation and amortization	(4,043)	(23)	(1,567)	**(5,633)**
(Loss)/reversal of loss from doubtful debt allowance	(6)	(2)	(242)	**(250)**

(in millions of Russian Roubles)

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

Reconciliation of statutory and IFRS data as at 31 December 2009 and for 2009	**Total segments**	**Transformation adjustments**	**Consolidation adjustments**	**Total consolidated**
REVENUE				
Third party revenue	38,347	(311)	–	**38,036**
Revenue from other segments	885	–	(885)	**–**
Total revenue	**39,232**	**(311)**	**(885)**	**38,036**
Interest income	117	(43)	(6)	**68**
Interest expense	(2,739)	62	5	**(2,672)**
Income tax	(1,000)	(65)	46	**(889)**
Profit for the year	**2,898**	**(1,331)**	**407**	**1,974**
ASSETS AND LIABILITIES				
Segment assets	50,628	87	(1,090)	**49,625**
Segment liabilities	(27,366)	(1,708)	73	**(29,001)**
OTHER SEGMENT INFORMATION				
Capital investments in:				
property, plant and equipment	4,314	(73)	70	**4,311**
intangible assets	25	475	–	**500**
Depreciation and amortization	(6,737)	(1,490)	7	**(8,220)**
(Loss) from impairment of property, plant and equipment	–	(349)	–	**(349)**
(Loss) from impairment of intangible assets	–	(52)	–	**(52)**
(Loss)/reversal of loss from doubtful debt allowance	(607)	452	13	**(142)**

(in millions of Russian Roubles)

Reconciliation of statutory and IFRS data as at 31 December 2008 and for 2008	**Total segments**	**Transformation adjustments**	**Consolidation adjustments**	**Total consolidated**
REVENUE				
Third party revenue	37,807	(298)	–	**37,509**
Revenue from other segments	901	–	(901)	**–**
Total revenue	**38,708**	**(298)**	**(901)**	**37,509**
Share of profit in equity accounted investees	–	–	4	**4**
Interest income	128	(29)	(17)	**82**
Interest expense	(1,836)	(16)	16	**(1,836)**
Income tax	(1,168)	263	–	**(905)**
Profit for the year	**2,681**	**(1,962)**	**810**	**1,529**
ASSETS AND LIABILITIES				
Segment assets	54,927	1,257	(1,299)	**54,885**
Segment liabilities	(33,526)	(2,455)	207	**(35,774)**
OTHER SEGMENT INFORMATION				
Capital investments in:				
property, plant and equipment	10,833	183	(17)	**10,999**
intangible assets	50	1,497	–	**1,547**
Depreciation and amortization	(5,633)	(1,741)	17	**(7,357)**
(Loss) from impairment of property, plant and equipment	–	(274)		**(274)**
(Loss) from impairment of intangible assets	–	(92)	–	**(92)**
(Loss)/reversal of loss from doubtful debt allowance	(250)	(2)	205	**(47)**

(in millions of Russian Roubles)

As at 31 December 2009 and for 2009 the key financial information of significant operating segments was as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization	Reversal / (accrual) of doubtful debt allowance
OJSC Sibirtelecom – fixed line							
Gorno-Altaysk branch	270	(73)	324	(33)	20	(54)	(1)
Buryatiya branch	2,255	264	2,010	(213)	82	(292)	(5)
Khakasiya branch	718	(3)	1,085	(54)	52	(133)	(2)
Altay branch	3,748	672	3,682	(284)	287	(506)	(19)
Krasnoyarsk branch	3,485	153	4,189	(385)	260	(526)	(11)
Irkutsk branch	3,241	320	3,167	(274)	235	(393)	(36)
Kemerovo branch	3,225	84	3,917	(263)	282	(554)	(10)
Novosibirsk branch	5,002	1,013	5,636	(519)	766	(784)	(18)
Omsk branch	2,558	195	3,160	(237)	210	(421)	(8)
Tomsk branch	2,231	286	2,235	(194)	123	(335)	(7)
Zabaykalsky branch	1,237	(159)	1,827	(215)	202	(254)	(11)
Head office	–	(407)	5,956	(16,740)	124	(479)	(6)
Total	**27,970**	**2,345**	**37,188**	**(19,411)**	**2,643**	**(4,731)**	**(134)**
Subsidiaries – fixed line							
CJSC ChitaNet	16	(3)	9	(4)	1	(1)	–
OJSC Rinet	78	1	18	(8)	1	(3)	–
CJSC ATS-32	48	(3)	81	(11)	4	(7)	–
CJSC ATS-41	50	3	34	(3)	4	(6)	(1)
OJSC Mobiltelecom	64	–	32	(10)	3	(3)	–
CJSC Novocom	51	1	42	(5)	4	(4)	(1)
Total	**307**	**(1)**	**216**	**(41)**	**17**	**(24)**	**(2)**
Subsidiaries – mobile							
CJSC Yeniseytelecom	5,183	52	5,874	(3,359)	385	(743)	(480)
CJSC Baikalwestcom	5,772	502	7,350	(4,555)	1,294	(1,239)	9
Total	**10,955**	**554**	**13,224**	**(7,914)**	**1,679**	**(1,982)**	**(471)**

(in millions of Russian Roubles)

As at 31 December 2008 and for 2008 the key financial information of significant operating segments was as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization	Reversal /(accrual) of doubtful debt allowance
OJSC Sibirtelecom – fixed line							
Gorno-Altaysk branch	245	(86)	368	(32)	44	(49)	(1)
Buryatiya branch	2,386	479	2,286	(356)	483	(278)	(4)
Khakasiya branch	641	(28)	1,176	(126)	395	(94)	(2)
Altay branch	3,459	506	4,066	(492)	956	(478)	8
Krasnoyarsk branch	3,398	127	4,632	(623)	1,251	(445)	13
Irkutsk branch	3,357	369	3,499	(717)	830	(344)	(3)
Kemerovo branch	3,076	(192)	4,321	(463)	606	(548)	–
Novosibirsk branch	5,077	1,044	5,708	(827)	1,325	(666)	(6)
Omsk branch	2,581	157	3,493	(418)	669	(335)	(7)
Tomsk branch	2,222	234	2,617	(276)	459	(304)	(2)
Zabaykalsky branch	1,175	(110)	1,938	(218)	544	(197)	3
Head office	–	(393)	6,510	(20,112)	521	(305)	(5)
Total	**27,617**	**2,107**	**40,614**	**(24,660)**	**8,083**	**(4,043)**	**(6)**
Subsidiaries – fixed line							
CJSC ChitaNet	20	–	9	(2)	1	(1)	–
OJSC Rinet	88	1	24	(15)	3	(3)	(1)
CJSC ATS-32	53	4	80	(4)	8	(7)	–
CJSC ATS-41	54	6	36	(4)	7	(4)	(1)
OJSC Mobiltelecom	81	2	34	(11)	8	(3)	–
CJSC Novocom	68	8	50	(5)	4	(5)	–
Total	**364**	**21**	**230**	**(42)**	**31**	**(23)**	**(2)**
Subsidiaries – mobile							
CJSC Yeniseytelecom	5,405	(11)	6,721	(4,050)	1,096	(620)	(217)
CJSC Baikalwestcom	5,322	564	7,410	(4,774)	1,673	(947)	(25)
Total	**10,727**	**553**	**14,083**	**(8,824)**	**2,769**	**(1,567)**	**(242)**

(in millions of Russian Roubles)

6. Subsidiaries

The following subsidiaries are controlled by OJSC "Sibirtelecom":

Subsidiary	Activity	Ownership, %		Voting Shares, %	
		2009	2008	2009	2008
CJSC Yeniseytelecom	Cellular services (GSM 900 and 1800, IMT-MC 450)	100.00	100.00	100.00	100.00
CJSC Baikalwestcom	Cellular services (GSM 900 and 1800, IMT-MC 450)	100.00	100.00	100.00	100.00
CJSC ChitaNet	Data transmission and telematic services	100.00	100.00	100.00	100.00
CJSC Altayskaya telecommunicatcionnaya companiya	Local telephone network services	–	100.00	–	100.00
CJSC STeK GSM [1]	Cellular services (GSM 900 and 1800)	100.00	100.00	100.00	100.00
OJSC Rinet	Internet services	100.00	100.00	100.00	100.00
CJSC ATS-32	Local calls, internet	100.00	100.00	100.00	100.00
CJSC ATS-41	Local calls, internet	100.00	100.00	100.00	100.00
OJSC Mobiltelecom	Cellular services, internet	91.75	91.75	91.75	91.75
CJSC Novocom	Local calls, internet	100.00	100.00	100.00	100.00
OJSC Altaysvyaz [1]	Cellular services	100.00	99.72	100.00	99.72

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

Acquisitions of subsidiaries

In September 2009 the Company acquired additional 0.28% of the ordinary share capital of OJSC Altaysvyaz. Management believes that the carrying amount of identifiable assets, liabilities and contingent liabilities of OJSC Altaysvyaz at the acquisition date represents their fair value.

Disposal of the subsidiaries

In December 2009 the Company disposed of the 100% of the ordinary shares of CJSC Altayskaya telecommunicatcionnaya companiya due to subsidiary liquidation. The company recorded liquidation expenses in amount of 1 in line "other investing and financing gains and losses" of the consolidated income statement (Note 30).

In October 2009 the Board of Directors of the Company decided to discontinue the operations of its wholly owned subsidiaries CJSC ATS-32, CJSC ATS-41, CJSC ChitaNet through liquidation. It is planned that the liquidation process will be completed by August 2010. Management estimates that the liquidation will not have a significant impact on the Company's financial statements.

[1] Indirect ownership via CJSC Yeniseytelecom

(in millions of Russian Roubles)

7. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Transport equipment and other assets	Construction in progress and equipment for installation	Total
Cost					
At 31 December 2007	**20,895**	**27,899**	**4,069**	**3,666**	**56,529**
Additions	–	–	–	10,999	**10,999**
Additions, related to acquisition of subsidiaries	3	1	11	–	**15**
Transfer from construction in progress	2,318	4,714	866	(7,898)	–
Disposals	(226)	(303)	(73)	(57)	**(659)**
Reclassification to investment property	(20)	–	–	–	**(20)**
Reclassification	1,043	(1,345)	294	8	–
At 31 December 2008	**24,013**	**30,966**	**5,167**	**6,718**	**66,864**
Additions	–	–	–	4,311	**4,311**
Reclassification from investment property	28	–	–	–	**28**
Transfer from construction in progress	2,585	6,463	545	(9,593)	**–**
Disposals	(193)	(333)	(130)	(43)	**(699)**
Reclassification to investment property	(32)	–	–	–	**(32)**
Reclassification	227	(634)	490	(83)	**–**
At 31 December 2009	**26,628**	**36,462**	**6,072**	**1,310**	**70,472**
Accumulated depreciation and impairment losses					
At 31 December 2007	**(5,789)**	**(7,743)**	**(2,210)**	**(264)**	**(16,006)**
Charge for the year	(1,684)	(3,895)	(1,073)	–	**(6,652)**
Disposals	150	113	62	–	**325**
Reclassification to investment property	6	–	–	–	**6**
Impairment loss accrued	(101)	(94)	(8)	(71)	**(274)**
Impairment loss reversed	–	4	–	15	**19**
Reclassification	(205)	297	(92)	–	**–**
At 31 December 2008	**(7,623)**	**(11,318)**	**(3,321)**	**(320)**	**(22,582)**
Charge for the year	(1,938)	(4,454)	(947)	–	**(7,339)**
Reclassification from investment property	(10)	–	–	–	**(10)**
Disposals	80	212	113	–	**405**
Reclassification to investment property	14	–	–	–	**14**
Impairment loss accrued	(43)	(288)	–	(18)	**(349)**
Impairment loss on disposals	–	6	–	16	**22**
Reclassification	(90)	399	(384)	75	**–**
At 31 December 2009	**(9,610)**	**(15,443)**	**(4,539)**	**(247)**	**(29,839)**
Net book value					
At 31 December 2007	**15,106**	**20,156**	**1,859**	**3,402**	**40,523**
At 31 December 2008	**16,390**	**19,648**	**1,846**	**6,398**	**44,282**
At 31 December 2009	**17,018**	**20,019**	**1,533**	**1,063**	**40,633**

(in millions of Russian Roubles)

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	420	567
Transport equipment and other assets	1	1
Total net book value of plant and equipment held under finance leases	**421**	**568**

Depreciation charge on property, plant and equipment and investment property for 2009 in the amount of 7,339 (2008 – 6,652) was recorded within line "Depreciation and amortization" of the consolidated income statement.

As at 31 December 2009, the historical cost of fully amortised property, plant and equipment amounted to 7,810 (2008 – 5,232).

As at 31 December 2009, the residual value of property, plant and equipment in joint ownership amounted to 103 (2008 – 109).

In 2009, the Company increased the cost of construction-in-progress by capitalized interest in the amount of 92 (2008 – 152). Capitalization rate in 2009 was 9 % (2008 – 10%)

Impairment testing

The Company analysed property, plant and equipment for impairment as at 31 December 2009. The recoverable amount of cash-generating units have been determined based on value in use calculated as discounted future cash flows arising from continuous use of those cash-generating units.

The Company determined separate cash generating units for each of its regional branches and subsidiaries.

To determine the value in use the Company discounted expected future cash-flows using a pre-tax discount rate which reflects current market expectations of time value of money and risks attributable to the assets.

The Company also analyzed for impairment individual items of property, plant and equipment and capital investments related to the operations of subsidiaries of CJSC Yeniseytelecom. The recoverable amount was determined based on fair value less costs to sell using management's estimate of the depreciated replacement cost adjusted further to reflect the "second-hand" nature of the equipment and management's estimate of dismantling costs. No active market information is available due to the specialized nature of the assets.

As a result of the analysis, an impairment loss on property, plant and equipment in the amount of 349 (2008 – 274) was recognized and allocated to the following cash-generating units:

	Impairment loss for the year ended 31 December 2009	Impairment loss for the year ended 31 December 2008
CJSC Yeniseytelecom	(344)	(85)
CJSC ATS-32	–	(18)
OJSC Mobiltelecom	(3)	–
CJSC Baikalwestcom	(2)	(5)
OJSC Sibirtelecom	–	(161)
OJSC Rinet	–	(4)
CJSC ChitaNet	–	(1)
Total	**(349)**	**(274)**

(in millions of Russian Roubles)

The Company recorded impairment loss as part of other operating expenses in the consolidated income statement (Note 28).

Reassessment of Useful Lives

The Company reviewed the remaining useful lives of property, plant and equipment as at 31 December 2009.

As a result of reassessment performed as at 31 December 2009 depreciation charge in 2010 is expected to decrease by 27.

Reassessment performed in 2008 resulted in an increase in depreciation charge of 36 during 2009.

8. Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Number capacity	Other	Total
Cost						
At 31 December 2007	**129**	**111**	**5,128**	**100**	**40**	**5,508**
Additions	75	42	1,374	5	51	**1,547**
Disposals	–	(4)	(176)	–	(1)	**(181)**
At 31 December 2008	**204**	**149**	**6,326**	**105**	**90**	**6,874**
Additions	–	30	389	14	67	500
Disposals	–	–	(3)	(1)	–	(4)
Reclassification	–	(17)	17	–	–	–
At 31 December 2009	**204**	**162**	**6,729**	**118**	**157**	**7,370**
Accumulated depreciation						
At 31 December 2007	**(80)**	**(60)**	**(1,288)**	**(65)**	**(12)**	**(1,505)**
Charge for the year	–	(16)	(667)	(14)	(8)	**(705)**
Disposals	–	–	21	–	–	**21**
Reclassification	–	18	(18)	–	–	**–**
Impairment loss	(91)	–	–	(1)	–	**(92)**
At 31 December 2008	**(171)**	**(58)**	**(1,952)**	**(80)**	**(20)**	**(2,281)**
Charge for the year	–	(30)	(820)	(10)	(21)	**(881)**
Disposals	–	–	3	1	–	**4**
Impairment loss	(28)	–	(9)	–	(15)	(52)
At 31 December 2009	**(199)**	**(88)**	**(2,778)**	**(89)**	**(56)**	**(3,210)**
Net book value						
At 31 December 2007	**49**	**51**	**3,840**	**35**	**28**	**4,003**
At 31 December 2008	**33**	**91**	**4,374**	**25**	**70**	**4,593**
At 31 December 2009	**5**	**74**	**3,951**	**29**	**101**	**4,160**

(in millions of Russian Roubles)

Oracle E-Business Suite (OEBS)

As at 31 December 2009, software included a software product Oracle E-Business Suite with the carrying amount of 1,019 (2008 – 1,122).

Interest expenses capitalized as at 31 December 2009 and related to the implementation of Oracle E-Business Suite amounted to 70 (2008 – 83). During 2009 interest expenses were not capitalized.

The Company started to partially use Oracle E-Business Suite software and depreciate the software from the date of its implementation (30 November 2005) over its useful life of 10 years. Starting from 1 January 2009 the Company has been using the full functionality of OeBS.

Changes in the carrying amount of Oracle E-Business Suite for years ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
As at 1 January	**1,122**	**907**
Implementation expenses	61	301
Amortization charge	(164)	(86)
As at 31 December	**1,019**	**1,122**

Amdocs Billing Suite Software

As at 31 December 2009, software included a software product Amdocs Billing Suite with the carrying amount of 803 (2008 – 792). As at 31 December 2009 the carrying value includes licenses in amount of 579 (2008-579) and implementation costs in amount of 224 (2008- 213). The purchase of Amdocs Billing Suite Software was approved by Board of Directors of the Company in 2004. The project of implementation of unified automated billing system is expected to last 4-5 years.

Management plans to reassess the value of the asset for impairment on a regular basis until the commencement of its use.

During 2009 the Company undertook certain steps to implement a CRM module of Amdocs Billing Suite: CRM design was completed, software for integration into the START billing system and testing program and methodology were developed, and system testing and acceptance testing were completed. The costs of CRM module implementation were capitalized during 2009. The implementation of Amdocs Billing Suite CRM module is expected in 2010.

No work on implementation of other Amdocs Billing Suite modules were performed during 2009, and such work is expected to continue after the implementation of Amdocs Billing Suite CRM module.

Changes in the carrying amount of Amdocs Billing Suite for the years ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
As at 1 January	**792**	**888**
Implementation expenses	11	–
Write-off	–	(96)
As at 31 December	**803**	**792**

(in millions of Russian Roubles)

ASR Start software

As of 31 December 2009 software included a software product ASR Start with the carrying amount of 490 (2008 -597), including capitalized interest expense in the amount of 22 (2008 – 27).

This product is designed for automation of business processes of customers billing. The Company purchased this product and started its implementation in 2000. The implementation was fully completed by December 2008.

Since 2003 the Company uses this software and depreciates the software from the date of its implementation. As at 31 December 2009 its useful life is estimated at 7 years.

Changes in the carrying amount of ASR Start for the years ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
As at 1 January	**597**	**395**
Implementation expenses	52	298
Amortisation charge	(159)	(96)
As at 31 December	**490**	**597**

HP Open View Software

As at 31 December 2009, the software included a software product HP Open View with the carrying amount of 109 (2008 – 103).

This product is designed for automation of the Company's information processes.

Changes in the carrying amount of HP Open View for the years ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
As at 1 January	**103**	**103**
Implementation expenses	6	–
As at 31 December	**109**	**103**

In December 2009 the Company started to use the "technical support automation" module based on HP Open View Service Desk licence with the carrying amount of 16. Implementation costs were capitalized. The Company will start to depreciate this software from 2010 over its useful life of 10 years.

HP Open View Service Activator Software

As at 31 December 2009, the software included a software product HP Open View Service Activator with the carrying amount of 259 (2008 – 259).

This product is designed to provide automated management of end-user activation. In December 2009 the Company started to perform test installation of one of the HP Open View Service Activator modules with the carrying value 89, and started to prepare for test use. Implementation of HP Open View Service Activator is expected in 2010.

(in millions of Russian Roubles)

CBOSS Billing Suite Software

As at 31 December 2009, the software included licences and implementation costs of software product CBOSS Billing Suite with the carrying amount of 319 (2008 – 352).

	2009	2008
As at 1 January	**352**	**441**
Implementation expenses	134	101
Amortization charge	(167)	(129)
Write-off	–	(61)
As at 31 December	**319**	**352**

The software is used as a billing system by CJSC Yeniseytelecom and CJSC Baikalwestcom.

Intangible Assets Amortisation

Amortisation of intangible assets in amount of 881 (2008 – 705) is recognized within line "Depreciation and amortization" of the consolidated income statement.

Impairment Testing of Intangible Assets not ready for use

The Company analyzed intangible assets not yet available for use for impairment. Intangible assets not yet available for use comprise Amdocs Billing Suite, HP Open View Service Activator and number capacity relating to CJSC Yeniseytelecom and CJSC Baikalwestcom. As a result of analysis no impairment was identified as of 31 December 2009.

As of 31 December 2009 the Company has no intangible assets with indefinite useful life.

Impairment Testing of Goodwill

As at 31 December 2009, the Company performed and impairment testing of goodwill. The recoverable amount of cash-generating units to which goodwill was allocated has been determined based on value in use calculated using cash flow projections derived from five-year financial budgets approved by management. Cash flows for period beyond the five-year period have been extrapolated using a growth rate equal to the long-term average growth rate for the relevant cash-generating units.

Principal assumptions which were used to determine the value in use of the cash-generating units, to which goodwill has been allocated, are disclosed in Note 7.

As a result of goodwill analysis at 31 December 2009, an impairment loss of 28 (2008-91) was recognised in other operating expenses of the consolidated income statement (Note 28).

The carrying amount of goodwill as at 31 December 2009 has been allocated as disclosed below:

	2009			2008
CGU	**Carrying value of goodwill before impairment**	**Impairment of goodwill for 2009**	**Carrying value of goodwill after impairment**	**Carrying value of goodwill after impairment**
CJSC Yeniseytelecom	5	–	5	5
CJSC Novocom	28	(28)	–	28
Total	**33**	**(28)**	**5**	**33**

Impairment Testing of Other Intangible Assets

The Company analysed other intangible assets, number capacity and licences for impairment as at 31 December 2009.

(in millions of Russian Roubles)

As a result of this analysis an impairment loss in CJSC Yeniseytelecom in amount of 24 (2008-1) was recognized in relation to software and radio-frequency licences.

9. Other Non-current Assets

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Long-term advances given for the investing activities	207	(2)	205
Long-term accounts receivables	13	–	13
Total	**220**	(2)	**218**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Long-term advances given for the investing activities	354	(19)	335
Long-term accounts receivables	12	–	12
Total	**366**	(19)	**347**

Changes in provision for other non-current assets are as follows:

	2009	2008
Balance as at 1 January	**19**	**8**
Accrual of allowance	2	19
Reversal of allowance	(13)	–
Write-off	(6)	(8)
Balance as at 31 December	**2**	**19**

(in millions of Russian Roubles)

10. Investments in Equity Accounted Investees

For the years ended 31 December 2009 and 2008 investments in associates comprise following:

		31 December 2009		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
LLC Giprosvyaz-Sibir	Engineering, development of project documentation	24.00	0.00	4
OJSC Loktelecom	Local telephone network services	36.81	36.81	16
OJSC Irkutskaya raschetnaya palata	Local calls, internet	34.00	34.00	–
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	Local and intrazone calls	30.00	30.00	–
Total	**–**	**–**	**–**	**20**

		31 December 2008		
Equity accounted investees	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
LLC Giprosvyaz-Sibir	Engineering, development of project documentation	24.00	0.00	4
OJSC Loktelecom	Local telephone network services	36.56	36.56	15
OJSC Irkutskaya raschetnaya palata	Local calls, internet	34.00	34.00	–
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	Local and intrazone calls	30.00	30.00	–
Total	**–**	**–**	**–**	**19**

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

Changes in the carrying amount of investments in associates for the years ended 31 December 2009 and 2008 are disclosed below:

	2009	**2008**
As 1 January	**19**	**35**
Acquisition of associate	1	–
Share of profit in equity accounted investees	–	4
Dividends received	–	(1)
Reclassification of investments	–	(19)
As 31 December	**20**	**19**

(in millions of Russian Roubles)

Aggregated information about most significant associates is presented below:

Name	Share in equity, %	Assets	Liabilities	Revenue	Profit for the year
As at 31 December 2009 and for 2009					
LLC Giprosvyaz-Sibir	24.00	16	–	3	–
OJSC Irkutskaya raschetnaya palata	34.00	2	3	–	–
OJSC Loktelecom	36.81	48	4	37	–
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	30.00	–	–	–	–
As at 31 December 2008 and for 2008					
LLC Giprosvyaz-Sibir	24.00	15	–	5	–
OJSC Irkutskaya raschetnaya palata	34.00	2	3	–	–
OJSC Loktelecom	36.56	46	6	45	9
CJSC Tsifrovaya set I telecommunicatsionnie systemy Novosibirskoi oblasti	30.00	–	–	–	–

11. Investments and Loans Granted

	2009	2008
Non-current investments available-for-sale	13	13
Non-current loans granted	8	12
Non-current investments in joint ventures	1	–
Non-current investments held to maturity	–	4
Total non-current investments and loans granted	**22**	**29**
Current investments available-for-sale	103	28
Current loans granted	5	28
Current investments held to maturity	554	14
Total current investments and loans granted	**662**	**70**
Total investments and loans granted	**684**	**99**

Financial investments available-for-sale as at 31 December 2009 and 2008 are listed below:

	31 December 2009		31 December 2008	
	Ownership interest, %	**Carrying value**	**Ownership interest, %**	**Carrying value**
Non-current investments available-for-sale				
OJSC NTK Region 2009 (formerly OJSC NTK Zvezda)	1.665	–	1.665	–
OJSC Svyazintek	11.00	13	11.00	13
OJSC AKB Svyaz-Bank	0.0004	–	0.01	–
		13		**13**
Non-current investments in joint ventures				
LLC Sibirskie taxofony	90.00	1	–	–
		1		**–**
Current investments available-for-sale				
OJSC Sberbank	0.01	103	0.01	28
		103		**28**
Total investments	–	**117**	**–**	**41**

(in millions of Russian Roubles)

Non-current investments available-for-sale

The Company's interest in OJSC AKB Svyaz-Bank was diluted to 0.0004% due to additional shares issue and increase in share capital of OJSC AKB Svyaz-Bank.

As a result of changes to the charter of OJSC NTK Zvezda, which were registered on 29 April 2009, OJSC NTK Zvezda was renamed to OJSC NTK Region 2009.

Non-current loans granted

As of 31 December 2009 and 2008 non-current loans given to employees were carried at amortized cost with effective interest rate of 21%.

Non-current investments in joint ventures

The Company's non-current investments into joint venture represent a contribution to a joint venture with LLC Sibirskie taxofony in amount of 1, which comprises a 90% share. The purpose of the joint venture is provision of transportation services and increase in quality and competitive strength of these services. The joint-venture agreement came into effect in September 2009.

Joint venture profits are distributed to investors on a quarterly basis proportionately to their respective shares.

The Company applies equity accounting for investment in this joint venture.

Current investments available-for-sale

The Company places temporary available financial resources in promissory notes, issued by different Russian entities with maturity less than 12 months:

Company name	acquisition date	interest rate, %	currency	maturity date	Carrying value as at 31 December 2009
CJSC IK Region	17.09.2009	12.00	Rouble	17.09.2010	331
CJSC IK Region	25.12.2009	11.00	Rouble	25.12.2010	200
Total	–	–	–	–	**531**

As of 31 December 2009 current investments held to maturity comprise bank deposits with maturity from 3 month to 1 year in amount of 23 (2008 – 14).

Company name	acquisition date	interest rate, %	currency	maturity date	Carrying value as at 31 December 2009
OJSC Rosselhozbank	08.05.2009	13.25	Rouble	08.05.2010	2
OJSC Rossselhozbank	15.07.2009	12.25	Rouble	15.07.2010	4
OJSC KB Akcept	19.10.2009	13.00	Rouble	16.10.2010	2
OJSC MDM Bank	13.08.2009	16.78	Rouble	14.08.2010	15
Total	–	–	–	–	**23**

(in millions of Russian Roubles)

12. Inventories

	31 December 2009	31 December 2008
Finished goods and goods for resale	196	199
Cable	80	107
Spare parts	44	66
Sundry tools	22	26
Fuel	16	15
Construction materials	5	3
Other inventories	166	257
Total	**529**	**673**

Changes in allowance for obsolete inventories for the year ended 31 December 2009 and 2008 are disclosed below:

	2009	2008
As at 1 January	**4**	**8**
Accrual of provision	2	3
Reversal of provision	(3)	(7)
As at 31 December	**3**	**4**

Expense from accrual and income from reversal of allowance for obsolete inventories are included in "Other operating expense" and "Other operating income" of the consolidated income statement, respectively (Notes 27, 28).

13. Trade and Other Receivables

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Receivables from customers for operating activity	2,202	(411)	1,791
Receivables from customers for non-operating activity	137	(73)	64
Receivables from agents and commissioners	213	–	213
Settlements with personnel	8	–	8
Other receivables	245	(27)	218
Total	**2,805**	**(511)**	**2,294**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Receivables from customers for operating activity	2,526	(393)	2,133
Receivables from customers for non-operating activity	104	(23)	81
Receivables from agents and commissioners	220	(47)	173
Settlements with personnel	10	–	10
Other receivables	342	(20)	322
Total	**3,202**	**(483)**	**2,719**

(in millions of Russian Roubles)

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

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Receivables from individuals	1,324	(287)	1,037
Receivables from commercial organizations	381	(72)	309
Receivables from budget organizations	147	(4)	143
Receivables from interconnect operators	350	(48)	302
Total	**2,202**	**(411)**	**1,791**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
Receivables from individuals	1,302	(290)	1,012
Receivables from commercial organizations	407	(49)	358
Receivables from budget organizations	169	(3)	166
Receivables from interconnect operators	643	(46)	597
Tariff compensation from the state budget	5	(5)	–
Total	**2,526**	**(393)**	**2,133**

The following table summarizes the changes in the allowance for impairment of trade and other receivables:

	2009	2008
Balance at 1 January	**483**	**498**
Accrual of allowance	170	111
Reversal of allowance	(20)	(79)
Write-off of receivables	(122)	(47)
Balance at 31 December	**511**	**483**

14. Other Current Assets

As at 31 December 2009 and 2008 other current assets comprised the following:

	Gross as at 31 December 2009	Allowance for impairment	Net as at 31 December 2009
Advances given	183	(6)	177
VAT receivable	86	–	86
Deferred expenses	64	–	64
Prepayment of other taxes	64	–	64
Other current assets	17	–	17
Total	**414**	**(6)**	**408**

	Gross as at 31 December 2008	Allowance for impairment	Net as at 31 December 2008
VAT receivable	208	–	208
Advances given	173	(4)	169
Deferred expenses	121	–	121
Prepayment of other taxes	55	–	55
Other current assets	26	–	26
Total	**583**	**(4)**	**579**

(in millions of Russian Roubles)

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

	2009	2008
Balance as at 1 January	**4**	**8**
Accrual of allowance	3	–
Reversal of allowance	–	(4)
Write-off	(1)	–
Balance as at 31 December	**6**	**4**

15. Cash and Cash Equivalents

	2009	2008
Cash at bank and on hand	338	1,014
Short-term deposits up to 3 month	194	95
Total	**532**	**1,109**

The maturity period of short-term deposits varies from 1 day to 3 months depending on the current cash requirements and bear interest at the current deposit rates. The interest rate on short-term deposits with a maturity of up to three months varies from 3.0 % to 8.0 %.

16. Significant Non-cash Transactions

Other significant non-cash transactions include fixed assets additions arising from assembly of new fixed assets using dismantled equipment. In 2009 such transactions amounted to 147 (in 2008 – 76).

17. Share Capital

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

	Number of shares authorised (millions)	Par value, roubles	Total par value	Carrying value
Ordinary	12,011	0.15	1,802	2,672
Preference	3,909	0.15	586	869
As at 31 December 2009	**15,920**	**–**	**2,388**	**3,541**

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

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

	Share capital	Ordinary shares		Preference shares	
Shareholders	**%**	**Number (thousands)**	**%**	**Number (thousands)**	**%**
Legal entities, total	**92.1**	**11,464,445,193**	**95.4**	**3,207,351,831**	**82.1**
OJSC Svyazinvest	38.2	6.,086,601,672	50.7	–	–
-those with more than 5% of share, including:	51.7	5,105,289,930	42.5	3,124,224,905	79.9
• CJSC ING Bank Eurasia (nominee)	9.1	1,181,029,579	9.8	262,666,635	6.7
• NP National Depositary Centre (nominee)	19.6	1,899,236,138	15.8	1,219,578,674	31.2
• CJSC Depositary-clearing company (nominee)	17.1	1,761,241,256	14.7	970,161,726	24.8
• CJSC UBS Nominees (nominee)	5.9	263,782,957	2.2	671,817,870	17.2
other	2.2	272,553,591	2.2	83,126,926	2.2
Individuals, total	**7.9**	**546,956,636**	**4.6**	**701,068,183**	**17.9**
Total	**100.0**	**12,011,401,829**	**100**	**3,908,420,014**	**100**

(in millions of Russian Roubles)

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 divided by the number of shares which comprise 25% of the Company's share capital. The annual amount of dividends on a preference share may not be less than dividends on an ordinary share.

Distributable earnings of the parent company are limited to its respective retained earnings, as determined in accordance with Russian statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2009 and 2008 amounted to 13,719 and 11,807 respectively.

In September 2001, the Company placed Level I American Depositary Receipts (ADRs). As at 31 December 2009, the number of ADRs on issue was 2,515,285 (31 December 2008 –4,070,800) with 503,057,000 ordinary shares deposited against this issue (31 December 2008 – 814,160,000), which is 4.19 % (2008 – 6.78 %) of total issued ordinary shares.

The following table represents ADR registration for 2008-2009:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
1 January 2008	**1,278,221**	**1,022,576,800**	**8.5**	**6.4**
Change in 2008	(1,042,084)	(208,416,800)	–	–
Change in conversion rate	3,834,663	–	–	–
31 December 2008	**4,070,800**	**814,160,000**	**6.8**	**5.1**
Change in 2009	(1,555,515)	(311,103,000)	–	–
31 December 2009	**2,515,285**	**503,057,000**	**4.2**	**3.2**

Significant decrease of ADRs issued in 2009 was caused by negative trends in the global financial markets against the backdrop of the crisis ,and a related decline in investments into securities of companies from emerging markets.

Currently ADR's are traded on the following stock markets.

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter market (OTC) USA	825735103	SBTLY	US8257351036
Berlin Stock Exchange (Freiverkehr)	260452	S3T1.BER	US8257351036
Frankfurt Stock Exchange (Freiverkehr)	260452	S3T1.FRA	US8257351036

18. Loans and Borrowings

	31 December 2009	31 December 2008
Long-term loans and borrowings		
Bank loans	12,565	17,337
Bonds	3,828	4,093
Promissory notes	700	8
Vendor financing	2	2
Finance lease liabilities	174	345
Less: Current portion of long–term loans and borrowings	(7,546)	(8,983)
Total long-term loans and borrowings	**9,723**	**12,802**

(in millions of Russian Roubles)

	31 December 2009	31 December 2008
Short-term loans and borrowings		
Bank loans	971	714
Promissory notes	–	850
Vendor financing	–	416
Interest payable	370	257
Total short-term loans and borrowings	**1,341**	**2,237**
Current portion of long-term loans and borrowings	**7,546**	**8,983**
Total current loans and borrowings	**8,887**	**11,220**
Total loans and borrowings	**18,610**	**24,022**

As of 31 December 2009 carrying value of pledged objects of property, plant and equipment amounted to 10,266 (21 December 2008 – 5,217).

Long-term loans and borrowings

Bank loans

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

Counteragent	Interest rate per loan agreement	Carrying value 31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
OJSC UralSib	Euribor+5.9 %	14	45	EUR	2010	Pledge of assets
OJSC Svyazbank	12-18 %	1,427	265	Rouble	2010-2014	Pledge of assets
OJSC Svyazbank	14 %	256	371	USD	2011	Pledge of assets
CJSC Gazprombank	9.4 – 11 %	–	185	Rouble	2009	Pledge of assets
CJSC Gazprombank	Libor+3.5 %	273	842	USD	2010	Unsecured
CJSC Bank Societe Generale Vostok (BSGV)	Mosprime+2.8 % Mosibor+3.0 %	849	1,377	Rouble	2009-2011	Pledge of assets
CJSC Raiffeisenbank	Mosprime+2.8 %	1,149	1,350	Rouble	2009-2012	Unsecured
Moscow River B.V.	7.70 %	120	2,620	USD	2011	Unsecured
CJSC UniCredit Bank	Mosprime+3 % 14.5 %	1,350	850	Rouble	2011-2012	Unsecured
CJSC AKB Promsvyazbank	Libor +3.75 %	148	287	USD	2010	Pledge of assets
OJSC KB Petrokommertzbank	8 %	–	72	USD	2009	Pledge of assets
OJSC Bank VTB	14.3 %	1,600	1,600	Rouble	2012	Unsecured
OJSC Bank VTB	Libor+1.1 % 10.3 %	669	347	USD	2009-2014	Pledge of assets
Commerzbank International S.A.	Euribor+2 %	–	1,143	EUR	2009	Unsecured
OJSC Nordea Bank	13.5 %	50	–	Rouble	2011	Unsecured
CJSC Globex bank	14.0 %	50	–	Rouble	2012	Unsecured
CJSC KB Kedr	14.1 %	50	–	Rouble	2011	Pledge of assets
OJSC AKB Sberbank	7.0 – 15.8 %	4,560	5,983	Rouble	2009-2014	Pledge of assets
Total		**12,565**	**17,337**			

Below is a description of the most significant loans and borrowings entered into during 2009.

OJSC Bank VTB

In March 2009 the Company's subsidiary CJSC Baikalwestcom received a loan in amount of USD 18 million under a loan agreement with OJSC Bank VTB concluded in November 2008. The loan was received for general corporate purposes with the maturity date in April 2014. The interest rate under the agreement is LIBOR+8.5%. The loan is secured with a property pledge in the amount of 224.

OJSC AKB Sberbank

In May 2009 the Company signed a loan agreement with OJSC AKB Sberbank for three credit lines in amount of 1,000 each. The maturity period is 5 years, the initial interest rate under the agreement is 20%. During the term of the agreement the interest rate was reduced and amounted to 15.8% as at 31 December 2009. Total loan drawn under the agreement amounted to 1 384 as at 31 December 2009. The loan was received for financing of the investment program in 2009 and refinancing of the current liabilities.

The loan is secured with a property pledge in the amount of 3 160.

OJSC AKB Svyazbank

In April 2009 the Company's subsidiary CJSC Yeniseytelecom received a loan of 330 under a loan agreement with OJSC AKB Svyazbank. The loan was received for general corporate purposes with the maturity date in April 2011. The interest rate under the agreement is 15.5%. The loan is secured with a property pledge in the amount of 413.

In August 2009 the Company's subsidiary CJSC Baikalwestcom received a loan of 186 under a loan agreement with OJSC AKB Svyazbank. The loan was received for general corporate purposes with the maturity date in July 2011. The interest rate under the agreement is 18 %. The loan is secured with a property pledge in the amount of 270.

In September 2009 the Company signed a loan agreement with OJSC AKB Svyazbank for a credit line of 1,000. The maturity period is 60 months from the date of the first tranche, the initial interest rate under the agreement is 15.9%. During the term of the agreement the interest rate was reduced and amounted to 15.1% as at 31 December 2009. The date of maturity is September 2014. The loan was received for financing of current operating activities. There is no pledge under the agreement.

In September 2009 the Company's subsidiary CJSC Yeniseytelecom signed a loan agreement with OJSC AKB Svyazbank for a loan of 300. The loan was received for general corporate purposes with the maturity date in July 2014. The interest rate under the agreement is 16 %. The loan is secured with a property pledge in the amount of 385.

CJSC UniCredit Bank

In October 2009 the Company signed a loan agreement with CJSC UniCredit Bank for credit line in amount of 500. The interest rate under the agreement is 14.5%. The loan was received for financing of current operating activities with the maturity date in October 2012. There is no pledge under the agreement.

CJSC KB Kedr

In October 2009 the Company's subsidiary CJSC Yeniseytelecom signed a loan agreement with CJSC KB Kedr for a loan of 100. The loan was received for general corporate purposes with the maturity date in April 2011. The interest rate under the agreement is 14.1 %. The loan is secured with a property pledge in the amount of 125.

(in millions of Russian Roubles)

OJSC Nordea Bank

In December 2009 the Company's subsidiary CJSC Yeniseytelecom signed a loan agreement with OJSC Nordea Bank for a credit line of 200. The loan was received for general corporate purposes with the maturity period of 18 months since loan receipt. The interest rate under the agreement is 13.5 %. There is no pledge under the agreement.

CJSC Globex Bank

In December 2009 the Company's subsidiary CJSC Yeniseytelecom signed a loan agreement with CJSC Globex Bank for a credit line of 195. The loan was received for general corporate purposes with the maturity period of 33 months from the date of loan receipt. The interest rate under the agreement is 14 %. There is no pledge under the agreement.

CJSC Raiffeisenbank

In December 2009 the Company's subsidiary CJSC Baikalwestcom signed a loan agreement with CJSC Raiffeisenbank for a credit line of 300. The loan was received for general corporate purposes with the maturity date in December 2012. The interest rate under the agreement is MOSPRIME + 6 %. There is no pledge under the agreement.

Syndicated loan

In 2007 the Company signed a syndicated loan agreement for a three-year loan of Euro 50 million. The financing under the agreement was provided by seven banks, the organiser of the transaction was Commerzbank Aktiengesellschaft, and the agent was Commerzbank International S.A. The loan was used for general corporate purposes including the investment program of 2007. In June 2009, in order to minimize the foreign currency risk the Company made a decision to repay the full outstanding amount of the syndicated loan in the amount of Euro 17 million.

Bonds

The table below summarizes the information about the bonds issued as at 31 December 2009 and 2008.

	Carrying value					
Code	**31 December 2009**	**31 December 2008**	**Effective rate**	**Date of maturity**	**Date of the offer**	**Interest on coupon**
Bond issue 06	1,831	111	8.49 %	16.09.2010	–	9.75 %
Bond issue 07	–	1,985	9.14 %	20.05.2009	–	8.65 %
Bond issue 08	1,997	1,997	10.12 %	08.08.2013	18.02.2010	9.75 %
Total:	**3,828**	**4,093**	**–**	**–**	**–**	–

In September 2005 the Company registered an issue of 2,000 interest-bearing bonds, bond issue 06 with par value of 1,000 roubles each. The bonds have ten semi-annual coupons. The interest rate on coupons 1 to 6 is set at 7.85% per annum, the interest rate on coupons 7 to 10 is set at 9.75% per annum. In March and September 2009 the Company made coupon interest payments for the 7th and 8th coupons of bond issue 06 in the amount of 103. The coupon payment per bond amounted to RUR 48.62. In September 2008 the Company redeemed series 06 bonds in the amount of 1,888 when the early redemption option was exercised by the holders. In May 2009 the Company raised an amount of 1 721 by resale of series 06 bonds on the over-the-counter market before their expiry. Outstanding bonds are subject to redemption in September 2010, and the effective interest (discount) rate of the transaction amounted to 8.87 %.

(in millions of Russian Roubles)

In May 2006 the Company registered an issue of 2,000 interest-bearing bonds, bond issue series 07 with par value of 1,000 roubles each. The bonds have six semi-annual coupons. The coupon interest rate is set at 8.65% per annum. These bonds did not provide an early redemption option. In May 2009 the Company fully redeemed bond issue 07 and made coupon interest payment for the sixth coupon in the amount of 86. The coupon payment per bond amounted to RUR 43.13.

In August 2008 the Company registered an issue of 2,000 interest-bearing bonds, bond issue series 08 with par value of 1,000 roubles each. The bonds have ten semi-annual coupons. The interest rate for coupons 1 to 3 is set at 9.75% per annum. The bonds mature in two parts: in 1,638 days and in 1,820 days from the date of issue each bond is repaid in the amount of 50% of the nominal value. These bonds provide for an early redemption option in February 2010 (Note 39). In February and August 2009 the Company made coupon interest payments for the 1st and 2nd coupons of bond issue 08 in the amount of 194. The coupon payment per bond amounted to RUR 48.62.

Promissory notes

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

Counteragent	Effective rate	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
OJSC AKB Russobank	–	–	8	Rouble	30.06.2009	Unsecured
LLC Brokerskaya Companiya Region	26.24%	273	–	Rouble	15.12.2010	Unsecured
CJSC MARKS CAPITAL	26.24%	273	–	Rouble	15.12.2010	Unsecured
LLC Investitsionnye Consultatsii	26.28%	154	–	Rouble	15.12.2010	Unsecured
Total		**700**	**8**			

In June 2009 the Company issued its own discount promissory notes in the amount of 1 000, as follows:

- First noteholder – LLC Brokerskaya Companiya Region, the total amount of 390, including the discount of 117, redemption on demand but not earlier than 15 December 2010;
- First noteholder – CJSC MARKS CAPITAL, the total amount of 390, including the discount of 117, redemption on demand, but not earlier than 15 December 2010;
- First noteholder – LLC Investitsionnye Consultatsii, the total amount of 220, including the discount of 66, redemption on demand, but not earlier than 15 December 2010.

(in millions of Russian Roubles)

Short-term borrowings

Bank loans

The table below summarizes the information about short-term bank credits and loans as at 31 December 2009 and 2008.

Counteragent	Interest rate per loan agreement	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
CJSC Gazprombank	16,5 %	–	224	Rouble	2009	Unsecured
CJSC Bank Societe Generale Vostok (BSGV)	MOSIBOR + 3,5% 23,55 %	296	88	Rouble	2009-2010	Unsecured
Deutsche Bank AG	9 %	150	293	USD	17.04.2009	Unsecured
CJSC KB Kedr	13,9 %	–	52	Rouble	28.01.2009	Unsecured
OJSC AKB International Financial Club	13 %	135	–	Rouble	2010	Pledge of assets
CJSC Raiffeisenbank	Mosprime RZBM +5%	250	–	Rouble	may 2010	Unsecured
CJSC AKB Promsvyazbank	15,5 %	52		Rouble	25.10.2010	Unsecured
OJSC AKB Sberbank	17-17,5 %	88	57	Rouble	2009-2010	Pledge of assets
Total		**971**	**714**			

Below is a description of the most significant loans and borrowings entered into during 2009:

OJSC AKB Sberbank

In February 2009 the Company's subsidiary CJSC Baikalwestcom concluded a loan agreement with OJSC AKB Sberbank for a credit line of 165. The loan was received for general corporate purposes with the maturity date in February 2010. The interest rate under the agreement is 17 %. The loan is secured with a property pledge in the amount of 277.

CJSC Raiffeisenbank

In April-August 2009 the Company's subsidiary CJSC Yeniseytelecom concluded loan agreements with CJSC Raiffeisenbank amounting to 250. The loans were received for general corporate purposes with the maturity period of 12 months from the loan receipt. The interest rate under the agreement is MOSPRIME RZBM + 5 %. There is no pledge under these agreements.

OJSC AKB International Financial Club

In August 2009 the company's subsidiary CJSC Yeniseytelecom concluded a loan agreement with OJSC AKB International Financial Club for a renewable credit line of 205. The loan was received for general corporate purposes with the maturity date in August 2011. The interest rate under the agreement is 13 %. The loan is secured with a property pledge in the amount of 86.

(in millions of Russian Roubles)

CJSC Bank Societe Generale Vostok (BSGV)

During the period from November to December 2009 the Company's subsidiary CJSC Baikalwestcom concluded two loan agreements with CJSC Bank Societe Generale Vostok (BSGV) for credit lines of 300. The loans were received for general corporate purposes with the maturity dates in May-June 2010. The interest rate under the agreement is MOSIBOR + 3,5 %. There is no pledge under the agreements.

CJSC AKB Promsvyazbank

In December 2009 the subsidiary company CJSC Baikalwestcom concluded a loan agreement with CJSC AKB Promsvyazbank for a credit line of 100. The loan was received for general corporate purposes with the maturity date in October 2010. The interest rate under the agreement is 15.5 %. There is no pledge under the agreements.

Promissory notes

The table below summarize the information about the short-term promissory notes issued by the Company as at 31 December 2009 and 2008:

Counteragent	Effective rate	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
OJSC Svyazbank	9.7 %	–	500	Rouble	2009	Unsecured
LLC Brokerskaya Companiya Region	9.7 %	–	350	Rouble	2009	Unsecured
Total		–	**850**			

Vendor Financing

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

Counteragent	Effective rate	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
LLC Huawey-Ufa	5.76 %	–	416	USD	2009	Unsecured
Total		–	**416**			

Finance Lease Obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of 31 December 2009 are as follows:

	31 December 2009		31 December 2008	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion (less than 1 year)	161	145	208	171
More than 1 to 5 years	32	29	193	174
Total	**193**	**174**	**401**	**345**

During 2009 year the Company did not enter into new lease arrangements.

As at 31 December 2009 the main lessors under finance lease contracts were OJSC RTC-Leasing and OJSC Raiffeisen-leasing. The average effective rate under the contract with OJSC RTC-Leasing was 19 % (2008 – 26%), and 18% (2008 – 18%) under the contract with OJSC Raiffeisen-leasing.

(in millions of Russian Roubles)

The discounted present value of minimal lease payments to OJSC RTC-Leasing as of 31 December 2009 amounted to 162 (2008 – 299), including the minimal lease payment of 180 (2008 – 349) less finance cost of 18 (2008 – 50).

OJSC RTC-Leasing is entitled to adjust the lease payment schedule in the event of changes in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

As of 31 December 2009 there were no finance lease obligations denominated in USD (2008 – 8).

19. Employee Benefits

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

Defined Benefit Pension Plans

The majority of the employees are eligible for defined benefit plan. The defined benefit pension plan provides retirement and disability pensions. To become eligible for receiving benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men. The non-statutory pension is granted if at the moment of retirement the continuous employment in the Company amounted to:

- for top management – minimum 4 years;
- for middle management – minimum 4 years and general continuity of employment minimum 10 years;
- for other employees – minimum 15 years;

The non-government pension fund Telecom-Soyuz, which is a related party of the Company (refer to Note 38), maintains the defined benefit pension plan.

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

As at 31 December 2009 the number of active participants of defined benefit pension plans was 16,864, and 19,485 of former employees were eligible to the post-employment and post-retirement benefits (as at 31 December 2008 – 19,774 and 18,957 respectively).

As at 31 December 2009 and 2008 the net liabilities of the defined benefit pension and other post-employment benefit plans comprised the following:

	2009	2008
Present value of fully unfunded obligations of defined benefit plans	3,727	4,045
Fair value of plan assets	–	(45)
Present value of unfunded obligations	**3,727**	**4,000**
Unrecognized past service cost	(328)	(459)
Unrecognized actuarial gains	401	19
Net pension benefits	**3,800**	**3,560**

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

(in millions of Russian Roubles)

The amount of the net expense for the defined benefit pension and other post-employment benefit plans recognized in 2009 and 2008 was as follows:

	2009	2008
Current service cost	227	275
Interest cost	363	294
Expected return on plan assets	(2)	(4)
Actuarial gains recognised in year	1	(135)
Amortization of past service cost	131	128
Final settlement effect	(45)	–
Net expense for the defined benefit plans	**675**	**558**

The amount of net expense for the defined benefit pension and other post-employment benefit plans, excluding interest expenses, is included in the consolidated income statement in the line “Personnel costs”. Interest expenses are recognised in the consolidated income statement within line “Interest expenses” (Note 29).

The movements in the net liability for defined benefit pension and other post-employment benefit plans in 2009 and 2008 were as follows:

	2009	2008
Present value of employee benefit obligation as at 1 January	**4,045**	**4,474**
Current service cost	227	275
Interest cost	363	294
Past service cost	–	31
Actuarial gains	(430)	(581)
Benefits paid	(43)	(49)
Liabilities extinguished on settlements	(428)	(399)
Settlement gains	(7)	–
Present value of employee benefit obligation as at 31 December	**3,727**	**4,045**

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2009 and 2008 were as follows:

	2009	2008
Fair value of plan assets as at 1 January	**45**	**48**
Expected return on plan assets	2	4
Employer contribution	426	447
Assets distributed on settlement	(428)	(399)
Benefits paid	(43)	(49)
Actuarial loss	(2)	(6)
Fair value of plan assets as at 31 December	**–**	**45**

The Company expects to contribute 406 to its non-government pension fund in 2010.

The expected return on plan assets as at 31 December 2009 and 2008 is determined by combination of market prices and structure of plan assets. The actual return on plan assets for the 2009 year was 0 %.

As at 31 December 2009 and 2008 the principal actuarial assumptions used for defined benefit pension and other post-employment benefit plans were as follows:

	2009	2008
Discount rate	9.00 %	9.00 %
Expected return on plan assets	–	10.28 %
Future salary increase	9.72 %	10.24 %
Rate used for calculation of annuity value	4.00 %	4.00 %
Increase in financial support benefits	5.50 %	6.00 %
Staff turnover	5.00 %	7.00 %
Mortality tables (source of information)	USSR 1985/1986	USSR 1985/1986

(in millions of Russian Roubles)

Historical information on defined benefit plan is as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	(3,727)	(4,045)	(4,474)	(5,574)	(5,141)
Plan assets	–	45	48	55	182
Deficit	**(3,727)**	**(4,000)**	**(4,426)**	**(5,519)**	**(4,959)**
Experience adjustments on plan liabilities	(472)	(492)	(1,033)	(1,178)	(1,434)
Experience adjustments on plan assets	(2)	(5)	(2)	2	(21)

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

Experience adjustments on plan liabilities in 2009 and prior periods were caused primarily by non-recurring considerable excess of actual number of dismissed employees, as well as of the change in the amount of benefits set out in the term of the plan, over initially projected changes in respective parameters for the long-term perspective.

20. Other Non-Current Liabilities

	31 December 2009	31 December 2008
Deferred income	65	76
Special purpose financing	14	16
Total	**79**	**92**

21. Provisions

	Personnel dismissal	Tax provision	Total
Balance at 31 December 2007	**81**	**6**	**87**
Accrued	52	7	59
Utilized	(57)	(6)	(63)
Reversed	(24)	–	(24)
Balance at 31 December 2008	**52**	**7**	**59**
Accrued	47	17	64
Utilized	(30)	(7)	(37)
Reversed	(22)	–	(22)
Balance at 31 December 2009	**47**	**17**	**64**

Personnel dismissal

To increase the efficiency of business processes the Company adopted a Program of staff optimisation approved by the Board of Directors. The program stipulates gradual decrease of average headcount of staff in 2008-2012.

As at 31 December 2009, the Company recorded a provision for termination payments to the employees planned for termination in 2010 in accordance with the staff optimisation program (based on procedures set out in article 180 of the Russian Labour Code). Costs of provision for termination payments amounted to 47 and are recognized in “Personnel costs” of the consolidated income statement (Note 25).

Tax Provision

The amount of a tax provision recognised in the consolidated financial statements represents the total amount of most likely claims from tax authorities.

Management believes that the amount that can be claimed from the Company will not exceed the amount of the provision reflected as at 31 December 2009. Expenses on a tax provision amounted to 17 and were included in “Other operating expenses” of the consolidated income statement (Note 28).

(in millions of Russian Roubles)

22. Trade and Other Payables

	31 December 2009	31 December 2008
Other taxes payable and social insurance	1,495	691
Salaries and wages payable	933	1,188
Accounts payable to suppliers of fixed assets	577	2,294
Accounts payable to interconnected operators	351	505
Accounts payables on operating activity	221	379
Payables to OJSC Rostelecom	152	359
Dividends payable	32	27
Principal and agent settlements	51	77
Accounts payable to suppliers of intangible assets	20	14
Other accounts payable, including:	643	821
accounts payables on core activities	*541*	*712*
accounts payables to universal reserve	*102*	*109*
Total	**4,475**	**6,355**

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

	31 December 2009	31 December 2008
Value-added tax	1,098	358
Property tax	209	191
Unified social tax	76	93
Income tax	71	1
Personal income tax	31	37
Other taxes	10	11
Total	**1,495**	**691**

23. Other Current Liabilities

	31 December 2009	31 December 2008
Advances received from operating activities	993	1,030
Advances received from non-operating activities	19	19
Deferred income	7	9
Total	**1,019**	**1,058**

24. Revenue

By revenue types	**2009**	**2008**
Local telephone calls	11,731	11,432
Cellular services	9,657	9,786
Telegraph, data transmission, telematic services (Internet	5,864	4,654
Intra-zone telephone services	4,928	5,383
Interconnection services	3,655	4,106
Rental income	732	568
Fees for assistance services and agency fees	502	609
Radio and TV broadcasting	403	426
Other telecommunication services	6	10
Other revenue	558	535
Total	**38,036**	**37,509**

Revenue from intra-zone services and local telephone calls includes income from channel rent in the amount of 572 (2008 –519).

Telegraph services, data transmission and Internet includes revenue from data transmission and Internet services in the amount of 5,632 (2008 - 4,401).

(in millions of Russian Roubles)

The Company classifies revenue by the following major customer groups:

Customer groups	**2009**	**2008**
Individuals	23,111	22,500
Commercial organizations	7,990	6,800
Interconnected operators	3,721	5,324
Budget organizations	3,214	2,885
Total	**38,036**	**37,509**

25. Personnel Costs

	2009	**2008**
Salary expenses	(7,705)	(8,203)
Unified social tax	(1,747)	(1,787)
Employee benefits	(312)	(265)
Other personnel expenses	(119)	(249)
Total	**(9,883)**	**(10,504)**

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

26. Materials, Repairs and Maintenance, Utilities

	2009	**2008**
Repair and maintenance expenses	(1,222)	(1,304)
Material, including	(1,083)	(1,301)
fuel	*(95)*	*(179)*
spare parts	*(60)*	*(86)*
cable	*(59)*	*(104)*
construction materials	*(20)*	*(29)*
other materials	*(849)*	*(903)*
Utilities, including	(693)	(612)
energy	*(424)*	*(377)*
heat power	*(231)*	*(190)*
other materials	*(38)*	*(45)*
Total	**(2,998)**	**(3,217)**

Other materials includes cost of inventory for resale in amount of 436 (2008 – 333), household equipment, working clothes, tools, service payment cards and other materials.

27. Other Operating Income

	2009	**2008**
Reimbursement of losses from universal telecommunication services fund	893	680
Fines, late payment interest, penalty for breach of contract	120	54
Reimbursement of losses	45	40
Reversal of accounts payable with expired statute of limitation	38	11
Stock-take surpluses	23	26
Gain from sale and other disposal of asset	–	15
Reversal of property, plant and equipment and other assets impairment	1	3
Other income	236	312
Total	**1,356**	**1,141**

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 a compensation of losses incurred due to provision of universal telecommunication services in the following amounts:

(in millions of Russian Roubles)

- for current year services – 730 (2008 – 452),
- for previous year services – 226 (2008 – 165).

Losses from provision of universal telecommunication services during 2009 amounted to 893 (2008 – 680) and were confirmed by an independent audit firm CJSC Marketing, Consulting, Design.

28. Other Operating Expenses

	2009	2008
Agency fee	(1,215)	(1,059)
Third party services related to the administration	(1,079)	(1,090)
Transportation services	(933)	(714)
Taxes, other than income tax	(892)	(825)
Lease fee	(587)	(568)
Advertising expenses	(577)	(574)
Impairment, including impairment of:	(401)	(388)
property, plant and equipment, intangible assets	*(373)*	*(275)*
Goodwill	*(28)*	*(91)*
other assets	–	*(22)*
Universal service fund payments	(388)	(377)
Fire and other security services	(332)	(359)
Intangible assets	(169)	(159)
Doubtful debt allowance	(142)	(47)
Losses on disposal of property, plant and equipment and other assets, including	(92)	(98)
Impairment on disposed property, plant and equipment items	*(22)*	–
Audit and consulting fees	(89)	(167)
Credit organization services	(81)	(109)
Member fees, charity contribution, payments to labour unions	(76)	(263)
Insurance	(49)	(78)
Tax payments provision	(17)	(7)
Fines and penalties	(8)	(8)
Other expenses	(438)	(507)
Total	**(7,565)**	**(7,397)**

Other expenses mainly include: expenses for social needs other than payments to personnel, property, plant and equipment registration expenses, ownership rights registration, legal costs and other operating expenses.

29. Finance Costs

	2009	2008
Interest expense on bank loans, bonds and promissory notes and vendor financing	(2,635)	(1,798)
Interest expense on pension liabilities	(363)	(294)
Interest expense on finance lease	(37)	(38)
Borrowings servicing expense	(17)	(68)
Total	**(3,052)**	**(2,198)**

(in millions of Russian Roubles)

With capitalization rate of 9 % (2008-10 %) the amount of the interest capitalized was as follows:

	2009	2008
Capitalized to property, plant and equipment	92	152
Capitalized to intangible assets	7	28
Total	**99**	**180**

30. Other Investing and Financing Gains and Losses

	2009	2008
Interest income from the financial assets	68	82
Dividend received	2	3
Total investing and financing income	**70**	**85**
Loss from disposal of financial assets	(1)	(2)
Total investing and financing expenses	**(1)**	**(2)**
Total	**69**	**83**

31. 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	(624)	(1,106)
Deferred tax (expense)/benefit	(265)	201
Total income tax expense for the year	**(889)**	**(905)**
Current income tax expense	(629)	(1,110)
Adjustments of the current income tax for the previous year	5	4
Total current income tax expense for the year	**(624)**	**(1,106)**
Deferred tax (expenses)/income related to origination and reversal temporary differences	(265)	99
Effect of change in tax rate	–	102
Total deferred income tax (expense)/benefit for the year	**(265)**	**201**
Total income tax expense for the year	**(889)**	**(905)**

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

	2009	2008
Profit before income tax	**2,863**	**2,434**
Statutory income tax rate	20 %	24 %
Theoretical tax charge	(573)	(584)
Increase/(decrease) resulting from the effect of:		
Adjustment of the current tax for the previous periods	5	4
Non-deductible expenses	(220)	(294)
Unrecognized deferred tax asset related to current tax losses and origination of unrecognized deductible temporary differences	(82)	(88)
Deferred tax on dividends expected for distribution from subsidiaries	(19)	(45)
Change of tax rate	–	102
Total actual income tax	**(889)**	**(905)**
Effective tax rate	***31 %***	***37 %***

(in millions of Russian Roubles)

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

	31 December 2007	**Origination and reversal of temporary differences**	**Change of the tax rate**	**31 December 2008**	**Origination and reversal of temporary differences**	**31 December 2009**
Trade and other payables	315	(121)	(40)	154	19	173
Trade and other receivables	(84)	(68)	25	(127)	(37)	(164)
Finance lease liabilities	153	(72)	(13)	68	(34)	34
Employee benefits	616	73	(115)	574	39	613
Other assets and liabilities	8	(10)	–	(2)	(10)	(12)
Property, plant and equipment	(1,521)	260	206	(1,055)	(216)	(1,271)
Intangible assets	(264)	21	41	(202)	(12)	(214)
Investments	(25)	40	(2)	13	(27)	(14)
Total deferred tax assets	1,092	–	–	809	–	820
Total deferred tax liabilities	(1,894)	–	–	(1,386)	–	(1,675)
Deferred tax assets (liabilities), net	**(802)**	**123**	**102**	**(577)**	**(278)**	**(855)**
Deferred tax assets after set-off	22	–	–	51	–	99
Deferred tax liabilities after set-off	(824)	–	–	(628)	–	(954)
Deferred tax asset (liabilities), net	**(802)**	**123**	**102**	**(577)**	**(278)**	**(855)**

	2009	**2008**
Deferred tax liabilities as of 1 January, net	**(577)**	**(802)**
Deferred tax (expense)/benefit, recognized in income statement	(265)	201
Deferred tax (expense)/benefit arising from change of the fair value of available-for-sale investments, recognized in equity	(13)	24
Deferred tax assets (liabilities) as of 31 December, net	**(855)**	**(577)**

Due to the Company's current structure, tax losses and current tax assets arising in one entity cannot be set off against current tax liabilities and taxable profits of other entities and, accordingly, taxes may be accrued even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one entity is not offset against a deferred tax liability of another entity.

The Company has not recognised a deferred tax liability in respect of temporary differences of 4,599 (2008 – 4,161) arising in respect of investments in subsidiaries as management believes that the Company is able to control the timing of reversal of these temporary differences, and reversal is not expected in the foreseeable future.

As of 31 December 2009 deferred tax assets of subsidiaries in the amount of 286 (2008 – 204) were not recognized as it was not certain that future taxable profits sufficient to offset the deductible temporary differences related to these assets will be received.

(in millions of Russian Roubles)

Changes in the amount of unrecognized tax assets are due to the following:

	Unrecognized deferred tax assets as at 31 December 2007	**Unrecognized differences arising in 2008**	**Effect from change in tax rate**	**Unrecognized deferred tax assets as at 31 December 2008**	**Unrecognized differences arising in 2009**	**Unrecognized deferred tax assets as at 31 December 2009**
Deductible temporary differences	76	7	(14)	69	14	83
Tax losses carried forward	81	81	(27)	135	68	203
Total	**157**	**88**	**(41)**	**204**	**82**	**286**

Tax losses carried forward expire after 10 years from their origination.

32. Earnings per Share

The Company does not have financial instruments which may be converted into ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share.

	2009	**2008**
Profit for the year attributable to equity holders of OJSC Sibirtelecom	**1,974**	**1,529**
Less: profit attributable to preference shares	(485)	(375)
Profit attributable to ordinary shares	1,489	1,154
Weighted average number of ordinary shares outstanding (millions)	12,011	12,011
Basic and diluted earnings per ordinary share, in Roubles	**0.124**	**0.096**

33. Dividends Declared and Proposed for Distribution

In 2010 the Board of Directors recommended dividends for 2009 year in the amount of 0.0292878 Roubles per ordinary share and 0.0589249 Roubles per preference share.

The total dividends payable amounted to the following:

Category of shares	**Number of shares**	**Dividends per share, Roubles**	**Total dividends payable, Roubles**
Declared and approved for 2008			
Preference shares	3,908,420,014	0.0529390	207
Ordinary shares	12,011,401,829	0.0263130	316
Total	**15,919,821,843**	**–**	**523**
Declared for 2009			
Preference shares	3,908,420,014	0.0589249	230
Ordinary shares	12,011,401,829	0.0292878	352
Total	**15,919,821,843**	**–**	**582**

The amount of dividends paid in 2009 year for the year ended 31 December 2008 is 508.

Dividends paid to shareholders are determined by the Board of Directors and will be declared and officially approved at the annual shareholders' meeting.

(in millions of Russian Roubles)

34. Operating Lease

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

	2009	2008
	Minimum lease payments	**Minimum lease payments**
Current portion (less than 1 year)	798	794
From 1 to 5 years	302	632
Over 5 years	43	15
Total minimum lease payments	**1,143**	**1,441**

For the certain leased items the Company concluded sublease agreements with aggregated future payments as at 31 December 2009 of 9 (2008 – 18). The main objects of sublease agreements are premises and land.

The Company’s operating lease expenses for the 2009 year amounted to 587 (2008 – 568) and are disclosed in Note 28.

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

	2009	2008
	Minimum lease payments	**Minimum lease payments**
Current portion (less than 1 year)	1,106	906
From 1 to 5 years	404	207
Over 5 years	35	22
Total minimum lease payments	**1,545**	**1,135**

The Company’s operating lease income for the 2009 year included in the line “Revenue” of the consolidated income statement amounted to 732 (2008 – 568) and is disclosed in Note 24.

The main objects of operating lease agreements are equipment and premises. Operating lease agreements provide a right to prolong the agreement in relation to leased items.

35. Commitments

As of 31 December 2009 and 2008 the Company’s contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 221 and 685, respectively.

As of 31 December 2009 and 2008 contractual obligations with regard to acquisition of fixed assets were 63 and 14, respectively.

As of 31 December 2009 and 2008 contractual obligations with regard to acquisition of intangible assets were 98 and 33, respectively.

36. 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 in 2008-2009 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's interpretation of the existing Russian industry, currency and customs legislation applicable to the Company's transactions may be challenged by appropriate regional or federal authorities. The tax authorities may change their interpretation of legislation applicable to certain tax transactions and audits. Consequently, the tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, additional taxes, penalties and fines may be accrued. It is not possible to determine the amounts of such potential claims or evaluate the likelihood of their adverse outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting year.

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.

Claims of Tax Authorities

During the period from 30 September 2009 to 07 May 2010, Interregional tax inspectorate of the Federal Tax Service for the largest taxpayers No.7 performed a tax audit of the Company covering the years 2007-2008. As a result of the tax audit the tax authorities claimed additional taxes of 47, primarily related to interest expense taxation policy. Company's management disagreed with the claim and intends to defend its position in accordance with the Russian legislation.

Additionally, as a result of a tax audit of the Company's subsidiary CJSC Baikalwestcom covering the years 2006-2008, the tax authorities claimed additional taxes of 178, including fines and penalties of 49, which primarily relate to provision of telecommunication services with monthly discounts (bonuses), and to accounting for amortization charge on renovated and upgraded property, plant and equipment.

Management of CJSC Baikalwestcom disagreed with the decision of the tax authorities and filed an appeal. In March 2010 an appeal ruling was received which stated that the assessment of additional taxes amounting to 22 including fines and penalties of 12 was unjustified and should be reversed. At the date when these financial statements are authorised for issue, the subsidiary is proceeding with court litigation in respect of the remaining amounts of taxes, fees and penalties claimed.

The consolidated financial statements as at and for the year ended 31 December 2009 do not include any provisions in relation to the matters described above.

Insurance

During 2009 the Company undertook measures to minimise risks of loss and damage to its property. The insured property comprises items with relatively high net book value and relatively low depreciation, which are actively used in production activities.

Moreover, the Company maintained sufficient insurance coverage against third party liabilities (mandatory vehicle insurance, insurance of risks arising from use of hazardous production equipment).

Third party property damage and ecological risks arising from the Company's activities are insignificant.

Legal Proceedings

During the 2009 the Company participated (both as plaintiff and defendant) in a number of legal proceedings that arose in the course of ordinary business activity. In the Company management's opinion, at present there are no current legal proceedings or lawsuits that might have a significant impact on the Company's performance or financial position and that were not recognized or disclosed in these consolidated financial statements.

Licenses

The majority of the Company's revenues were received from business transactions conducted on the basis of licences issued by the Russian Federation Ministry for Telecommunications and Information Technologies. Key operations licences and additional licenses expire during the period from 2010 to 2014.

Suspension of the Company's key licences for the provision of telecommunications services or inability to extend some or all of the licences may have a major negative impact on the financial position and business performance.

The Company regularly extended validity of licenses and management believes that in the future the licences held will be extended without additional expenses in the course of ordinary business.

Reduction of staff headcount

The program of staff optimisation provides for a gradual staff headcount decrease in 2008-2012. During 2009, the Company made redundant 901 of its employees. As of 31 December 2009, the Company notified a further 904 employees of their termination. The provision was created for respective termination payments (refer Note 21).

(in millions of Russian Roubles)

37. Financial Instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Company's operations. Short term deposits are also actively used as a financial instrument to place available funds. The Company has other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations.

Capital Management Policy

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

The main methods of capital management are profit maximisation, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, usage of different classes of borrowed funds.

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

The financial independence ratio is calculated as shareholders' equity to the balance sheet total at the end of the period. Net debt/shareholders' equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/ EBITDA, is calculated as net debt at the year-end to EBITDA for the preceding period. The rations used in capital management are determined based on the Company's only (non-consolidated) statutory financial statements prepared in accordance with the Russian accounting standards.

The ratios used in capital management were as follows:

	31 December 2009	31 December 2008
Financial independence ratio	0.48	0.39
Net debt / shareholders' equity	0.74	1.07
Net debt / EBITDA	1.30	1.84

The financial independence ratio demonstrates a positive trend, having increased in comparison with the beginning of the year. The increase in the ratio is attributable both to an increase in equity, and to a decrease in the Company's liabilities.

The Net debt /shareholder's equity and Net debt/EBITDA ratios have decreased compared to the beginning of the year, which is in line with the Company's policy aimed at solvency improvement.

The Company's credit rating in the national currency has been confirmed by Fitch Ratings agency as follows: the long-term default rating was raised from B+ to BB with stable outlook, while the short-term rating was confirmed at B. The ratings confirm a significant improvement in liquidity and a decrease in refinancing risks.

(in millions of Russian Roubles)

Income and expenses on financial instruments

2009	Consolidated Income Statement						Statement of changes in equity	Total
	Other operating expenses	Finance income and costs						
	Bad debt expenses	Interest expense	Interest income	Dividends income	Gain on disposal of the asset	Forex loss/gain	Change in fair value	
Cash and cash equivalents	–	–	46	–	–	(115)	–	**(69)**
Accounts receivable	(142)	–	–	–	–	–	–	**(142)**
Financial assets available-for-sale	–	–	–	2	(1)	–	62	**63**
Investments held to maturity	–	–	17	–	–	(35)		**(18)**
Loans issued	–	–	5	–	–	–	–	**5**
Total financial assets	**(142)**	**–**	**68**	**2**	**(1)**	**(150)**	**62**	**(161)**
Bank loans	–	(2,011)	–	–	–	(99)	–	**(2,110)**
Bonds	–	(452)	–	–	–	–	–	**(452)**
Promissory notes issued	–	(178)	–	–	–	–	–	**(178)**
Vendor financing	–	(11)	–	–	–	(38)	–	**(49)**
Finance lease	–	(37)	–	–	–	–	–	**(37)**
Interest payable	–	–	–	–	–	1	–	**1**
Other finance liabilities	–	(363)	–	–	–	–	–	**(363)**
Accounts payable	–	–	–	–	–	(4)	–	**(4)**
Total financial liabilities	**–**	**(3,052)**	**–**	**–**	**–**	**(140)**	**–**	**(3,192)**

2008	Consolidated Income Statement						Statement of changes in equity	Total
	Other operating expenses	Finance income and costs						
	Bad Debt expenses	Interest expense	Interest income	Dividends income	Gain on disposal of the asset	Forex loss/gain	Change in fair value	
Cash and cash equivalents	–	–	75	–	–	25	–	**100**
Accounts receivable	(47)	–	–	–	–	8	–	**(39)**
Financial assets available-for-sale	–	–	–	3	(2)	–	(76)	**(75)**
Loans issued	–	–	7	–	–	–	–	**7**
Total financial assets	**(47)**	**–**	**82**	**3**	**(2)**	**33**	**(76)**	**(7)**
Bank loans	–	(1,256)	–	–	–	(1,150)	–	**(2,406)**
Bonds	–	(505)	–	–	–	–	–	**(505)**
Promissory notes issued	–	(74)	–	–	–	–	–	**(74)**
Vendor financing	–	(31)	–	–	–	(14)	–	**(45)**
Finance lease	–	(38)	–	–	–	–	–	**(38)**
Interest payable	–	–	–	–	–	2	–	**2**
Other finance liabilities	–	(294)	–	–	–	–	–	**(294)**
Accounts payable	–	–	–	–	–	(101)	–	**(101)**
Total financial liabilities	**–**	**(2,198)**	**–**	**–**	**–**	**(1,263)**	**–**	**(3,461)**

(in millions of Russian Roubles)

Foreign Exchange Risk

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

Financial assets and liabilities of the Company presented by currency are follows:

As at 31 December 2009	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	531	1	–	**532**
Accounts receivable	2,306	1	–	**2,307**
Financial assets available-for-sale	116	–	–	**116**
Investments in joint ventures	1	–	–	**1**
Investments held for maturity	554	–	–	**554**
Loans issued	13	–	–	**13**
Total financial assets	**3,521**	**2**	**–**	**3,523**
Bank loans	(11,906)	(1,616)	(14)	**(13,536)**
Bonds	(3,828)	–	–	**(3,828)**
Promissory notes issued	(700)	–	–	**(700)**
Vendor financing	–	(2)	–	**(2)**
Finance lease	(174)	–	–	**(174)**
Interest payable	(361)	(9)	–	**(370)**
Accounts payable*	(4,382)	(86)	(7)	**(4,475)**
Total financial liabilities	**(21,351)**	**(1,713)**	**(21)**	**(23,085)**

As at 31 December 2008	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	855	2	252	**1,109**
Accounts receivable	2,728	3	–	**2,731**
Financial assets available-for-sale	41	–	–	**41**
Investments held for maturity	18	–	–	**18**
Loans issued	40	–	–	**40**
Total financial assets	**3,682**	**5**	**252**	**3,939**
Bank loans	(12,031)	(4,832)	(1,188)	**(18,051)**
Bonds	(4,093)	–	–	**(4,093)**
Promissory notes issued	(858)	–	–	**(858)**
Vendor financing	–	(418)	–	**(418)**
Finance lease	(337)	(8)	–	**(345)**
Interest payable	(167)	(67)	(23)	**(257)**
Accounts payable*	(6,169)	(183)	(3)	**(6,355)**
Total financial liabilities	**(23,655)**	**(5,508)**	**(1,214)**	**(30,377)**

*Accounts payable include payables to employees and tax payables.

For the period from 1 January 2009 to 31 December 2009 the exchange rates of the Rouble to the US Dollar and the Euro weakened by approximately 2.94 % and 4.70 %, respectively.

(in millions of Russian Roubles)

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

	USD			EUR		
		Effect on profit before income tax			Effect on profit before income tax	
	Changes in exchange rate, %	**In mln Roubles**	**%**	**Changes in exchange rate, %**	**In mln Roubles**	**%**
31 December 2009	+20	(342)	-12.74	+10	(2)	-0.08
	-20	342	12.74	-10	2	0.08
31 December 2008	+20	(1,017)	-42.93	+10	(96)	-4.06
	-20	1,017	42.93	-10	96	4.06

The Company does not have formal procedures to reduce the risks.

Interest Rate Risk

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

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

As at 31 December 2009	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	194	–	338	**532**
Accounts receivable	–	–	2,307	**2,307**
Financial assets available-for-sale	–	–	116	**116**
Investments in joint ventures	–	–	1	**1**
Investments held for maturity	554	–	–	**554**
Loans issued	13	–	–	**13**
Total financial assets	**761**	**–**	**2,762**	**3,523**
Bank loans	(10,678)	(2,858)	–	**(13,536)**
Bonds	(3,828)	–	–	**(3,828)**
Promissory notes issued	(700)	–	–	**(700)**
Vendor financing	–	–	(2)	**(2)**
Finance lease	(174)	–	–	**(174)**
Interest payable	(355)	(15)	–	**(370)**
Accounts payable*	–	–	(4,475)	**(4,475)**
Total financial liabilities	**(15,735)**	**(2,873)**	**(4,477)**	**(23,085)**

As at 31 December 2008	**Fixed rate**	**Variable rate**	**No rate**	**Total**
Cash and cash equivalents	95	–	1,014	**1,109**
Accounts receivable	–	–	2,731	**2,731**
Financial assets available-for-sale	–	–	41	**41**
Investments held for maturity	18	–	–	**18**
Loans issued	40	–	–	**40**
Total financial assets	**153**	**–**	**3,786**	**3,939**
Bank loans	(12,975)	(5,076)	–	**(18,051)**
Bonds	(4,093)	–	–	**(4,093)**
Promissory notes issued	(858)	–	–	**(858)**
Vendor financing	–	–	(418)	**(418)**
Finance lease	(345)	–	–	**(345)**
Interest payable	(216)	(34)	(7)	**(257)**
Accounts payable*	–	–	(6,355)	**(6,355)**
Total financial liabilities	**(18,487)**	**(5,110)**	**(6,780)**	**(30,377)**

*Accounts payable include payables to employees and tax payables.

(in millions of Russian Roubles)

The sensitivity analysis of profit and equity to the interest rate risk is shown in the table below:

	LIBOR			EURIBOR			MOSPRIME		
	Changes in interest rate, percentage points	Effect on profit before income tax		Changes in interest rate, percentage points	Effect on profit before income tax		Changes in interest rate, percentage points	Effect on profit before income tax	
		In mln Roubles	%		In mln Roubles	%		In mln Roubles	%
31 December 2009	+1	(1)	-0.04	+1	–	–	+1	(27)	-1.01
	-1	1	0.04	-1	–	–	-1	27	1.01
31 December 2008	+1	(12)	-0.52	+1	(11)	-0.48	+1	(27)	-1.11
	-1	12	0.52	-1	11	0.48	-1	27	1.11

Liquidity risk

The Company monitors its risk of a shortfall of funds by way of current liquidity planning. The Company'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 of 31 December 2009 financial assets and liabilities had the following maturities:

	2010	2011	2012	2013	2014 and later	Total
Cash and cash equivalents	532	–	–	–	–	**532**
Accounts receivable	2,294	13	–	–	–	**2,307**
Financial assets available-for-sale	103	–	–	–	13	**116**
Investments in joint ventures	–	–	–	–	1	**1**
Investments held to maturity	606	–	–	–	–	**606**
Loans issued	8	3	2	3	5	**21**
Total financial assets	**3,543**	**16**	**2**	**3**	**19**	**3,583**
Bank loans	(5,047)	(4,673)	(3,464)	(997)	(1,922)	**(16,103)**
Bonds	(4,414)	(118)	–	–	–	**(4,532)**
Promissory notes issued	(1,000)	–	–	–	–	**(1,000)**
Vendor financing	(2)	–	–	–	–	**(2)**
Finance lease	(161)	–	(28)	(4)	–	**(193)**
Accounts payable*	(4,475)	–	–	–	–	**(4,475)**
Total financial liabilities	**(15,099)**	**(4,791)**	**(3,492)**	**(1,001)**	**(1,922)**	**(26,305)**

*Accounts payable include payables to employees and tax payables.

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

Credit risk

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

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade receivables. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 13).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by state-owned and non-commercial organizations.

(in millions of Russian Roubles)

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

As of 31 December 2009	**Post due (days)**			
	Total	**<31**	**31-90**	**61-90**
Commercial organizations	38	30	1	7
Individuals	98	75	3	20
Budget organizations	12	11	–	1
Interconnected operators	23	19	–	4
Total	**171**	**135**	**4**	**32**

As of 31 December 2008	**Post due (days)**			
	Total	**<31**	**31-90**	**61-90**
Commercial organizations	41	30	2	9
Individuals	109	84	4	21
Budget organizations	30	29	–	1
Interconnected operators	18	15	–	3
Total	**198**	**158**	**6**	**34**

Hedging

The Company is exposed to the interest rate risk arising from the loan agreement with CJSC UniCredit Bank, which was concluded in April 2008 and matures in April 2011 and carries interest at a rate of Mosprime + 3%.

In order to limit and minimize the potential adverse effect arising from the loan agreement, in December 2009 the Company entered into a hedging (insurance) agreement.

As a hedging instrument the Company used an interest rate swap, a derivative financial instrument, which requires one party to periodically pay to another party a sum in the agreed currency, calculated on the basis of a nominal sum in this currency and a floating rate, and the other party to periodically pay to the first party a sum in the same currency, calculated on the basis of the same nominal sum and a fixed rate.

The hedging agreement was signed with CJSC Financial Broker Troika Dialog, and provides for an effective contract period from 18 January 2010 to 18 April 2011. The Company is the fixed rate payer with the annual rate of 8.40 %, while CJSC Financial Broker Troika Dialog is the payer of the floating rate. The nominal amount of the agreement is 350, except for last interest rate period with the nominal amount of 175.

Fair-value of the financial instruments

Financial instruments employed by Company 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).

Management believes that fair value of financial assets and liabilities of the Company do not significantly differ from its carrying value except for:

		31 December 2009		**31 December 2008**	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Bonds	LAC	3,828	3,809	4,093	3,908
Loans and borrowings	LAC	13,536	12,428	18,051	15,877

Fair value of bonds for disclosure purposes has been calculated based on quoted market prices as at 31 December 2009 and 2008. For loans and borrowings, measured at amortised cost, fair value has been calculated based on the present value of future principal and interest cash flows, discounted at the incremental borrowing interest rate, which was 15.8 % per annum for rouble-denominated loans (2008 – 20%), and between 7% and 8% per annum for currency-denominated loans (2008 – between 7% and 8%).

(in millions of Russian Roubles)

38. Balances and Transactions with Related Parties

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

	OJSC Svyazinvest	Subsidiaries of OJSC Svyazinvest	Other
2009			
Provision of telecommunication services, interconnection and traffic transmission services	–	1,982	–
Other services	–	2	–
Rent income	–	2	–
Other income	–	1	40
Purchase of telecommunication services, interconnection and traffic transmission services	–	628	–
Purchase of other services	–	–	515
Purchase of goods and other assets	–	57	–
Dividends payable	160	–	–
2008			
Rendering of telecommunication services, interconnection and traffic transmission services	–	2,260	–
Other services	–	2	–
Rent income	–	1	–
Other income	–	2	–
Dividends receivables	–	3	–
Purchase of telecommunication services, interconnection and traffic transmission services	–	396	–
Purchase of other services	–	123	492
Purchase of goods and other assets	–	251	–
Dividends payable	218	–	–

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

	Subsidiaries of OJSC Svyazinvest	Equity accounted investees	Other
At 31 December 2009			
Trade and other receivables	33	2	–
Allowance for Bad debt	–	(2)	–
Accounts payable	(142)	–	–
At 31 December 2008			
Trade and other receivables	205	2	1
Allowance for Bad debt	(15)	–	–
Accounts payable	(332)	–	–

Accounts payable and accounts receivable due to and from related parties are disclosed net of Value Added Tax.

Other related parties comprise the non-state pension funds, key management personnel, parties with significant influence over the Company, other related parties.

OJSC Svyazinvest

OJSC Svyazinvest is an Open Joint Stock Company, incorporated under the laws of the Russian Federation.

As of 31 December 2009 the Russian Federation, represented by the Federal Agency for state property management, held 75% minus one ordinary share of OJSC Svyazinvest.

The Svyazinvest group comprises seven interregional telecommunications companies (MRKs) including the Company, as well as OJSC Rostelecom, OJSC Tsentralny Telegraph, OJSC Dagsvyazinform and other telecom subsidiaries.

Telecommunication companies that are a part of Svyazinvest group are operators of general use telecommunications network providing services of local, intra-zone, intercity and international telephone communication, communication services in data transmission networks, telematic services, telegraph communication services, line 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 licences issued by the Russian Federation Ministry of Telecommunications and Mass Communications.

Subsidiaries

The Company enters into transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from the Company's consolidated financial statements according to IFRS requirements.

The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are set at the same level as tariffs for other counteragents and are fixed by a regulatory body. The subsidiaries do not influence the Company's transactions with other counteragents. Additional details about the Company's subsidiaries are presented in Note 6.

OJSC Rostelecom

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

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

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

(in millions of Russian Roubles)

The respective amounts included in the consolidated financial statements as at 31 December 2009 and for the year then ended, and disclosed in the table above, were as follows:

	2009	**2008**
Revenue from telecommunication services, interconnection and traffic transmission services	1,241	1,540
Agent services	586	638
Rental income	16	3
Other income	18	19
Purchase of telecommunication services, interconnection and traffic transmission services	531	297
Trade and other receivables	11	248
Trade and other payables	(129)	(305)

Transactions with State-controlled Companies

The Company conducts a wide range of transactions with state-controlled entities, comprising a significant part of the Company's client base. State-controlled entities do not affect the Company's transactions with other parties.

Revenue and receivables from budget organizations which form the majority of entities controlled by the state are disclosed respectively in Notes "Revenue" and "Trade and other receivables". Operations with commercial entities controlled by the state are carried out on market terms.

Utilities expenses, which are primarily provided by state-controlled entities, are disclosed in Note "Materials, repairs and maintenance, utilities".

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

Business combinations and sale/purchase transactions in relation to associates and financial assets are disclosed in Notes "Subsidiaries", "Investments in equity accounted investees (associates)" and "Financial assets".

OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries which collectively own 100% of its share capital, for the purpose of implementation and subsequent support of information systems, and for coordination, managing and implementation of centralised information technology programs of the Svyazinvest group. OJSC Svyazintek provides the Company with services related to implementation and post-implementation support of information systems, such as Oracle E-Business Suite and Amdocs Billing Suite software.

In 2009 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 42 (2008 – 202) from which nil (2008 – 32) was recognised in the consolidated income statement and the rest was capitalised in the cost of respective intangible assets.

Non-state Pension Fund Telecom Soyuz

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

The total amount of contributions to the non-state pension fund paid by the Company in 2009 amounted to 428 (2008 – 400).

The fund retains 3% of every pension contribution of the Company to cover its administrative costs.

Remuneration of Key Management Personnel

Key management personnel comprises members of the Management Committee and the Board of Directors of the Company, totalling 29 persons as at 31 December 2009 and 30 persons as at 31 December 2008.

Remuneration to the members of the Board of Directors and the Management Committee of the Company for 2009 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 208 (2008 – 231), including salary, bonuses and other compensation to the Company's employees, who hold positions in the management bodies in the amount of 191 (2008 – 216). The remuneration amounts are stated exclusive of the unified social tax.

In 2009 the Company made a contribution of 8 to the non-state pension fund (2008 – 5) for its key management personnel. The plans provide for payment of retirement benefits starting from the statutory retirement age and provided that conditions set in the plan are met (e.g. length of service).

39. Subsequent Events

Dividends

Annual dividend per share is to be approved by the Company's General Shareholders' Meeting on 05 June 2010. The Board of Directors recommended to the General Shareholders' Meeting to approve dividend for 2009 of 0.0292878 Roubles per ordinary share and 0.0589245 Roubles per preference share (2008 – 0.0263130 and 0.0529390 respectively). Total amount of dividends payable by the Company will amount to 352 for ordinary shares and 230 for preference shares (2008 - 316 and 207 respectively). Following the approval by the General Shareholders' Meeting, annual dividends payable to shareholders will be recognized in the financial statements for 2010.

Reduction of staff head count

In accordance with a staff optimization schedule, approved by Board of Directors of the Company and included in "The programs of activities to increase the Company's efficiency in 2009-2013", 202 employees were dismissed after the reporting date.

Loans and Borrowings

In January 2010 based on the results of an open tender, the Company determined providers of credit lines for the total of 2,000 consisting of four lots of 500 each. OJSC AKB Svyazbank was appointed as a provider of non-renewable credit lines under three lots, while OJSC AKB Bank of Moscow was appointed as the provider of a renewable credit line under the fourth lot. The maturity period is 36 months from the agreement date, the interest rate under the agreement is 10.00 % for the non-renewable lines and 10.50 % - for the renewable credit line. The credit lines were drawn in March 2010 in amount of 1,500 (non-renewable credit line), and 218 (renewable credit line) for general corporate purposes. There is no pledge under these agreements.

In January 2010 based on the results of an open tender, the Company appointed OJSC AKB Sberbank as a provider of a credit line, consisting of two lots of 500 each. The agreement matures in March 2013, the interest rate under the agreement is 10.25 %. Up to the date when these consolidated financial statements were authorised, the amount of 218 has been drawn under this agreement. The borrowings have been used to refinance the existing obligations, and to provide finance to the Company's current operating activities. There is no pledge under the agreement.

In February 2010 the Company made coupon interest payment for the third coupon of bond issue series 08 in amount of 97. The coupon interest rate was set at 9.75% per annum. The coupon payment per one bond was RUR 48.62.

In February 2010, holders of series 08 bonds exercised, which represented 3.9% of the issue. The Company repaid the bonds of series 08 in amount of 78 including accumulated coupon interest. In March 2010 the Company made coupon interest payment for the 9th coupon of bond issue series 06 in amount of 97. The coupon interest rate was set at 9.75% per annum. The coupon payment per one bond was 48.62 roubles.

In February and March 2010 the Company repaid the amount of 3,184 under the loan agreements with OJSC AKB Sberbank ahead of schedule.

In March 2010 the Company repaid the amount of 500 under the credit line agreements with OJSC UniCredit Bank ahead of schedule.

In March 2010 the Company made a decision to place five bond issues with nominal value of 1 per each bond, and for the total amount of 8,000 and circulation period of 1,092 days. The purpose of these bond issues is financing of the investment program and refinancing of the existing obligations. The first bond issue in amount of 1,000 is planned to be placed in July-August 2010. The remaining issues are expected to be placed in subsequent periods depending on the Company's needs and the situation in the Russian debt market.

In May 2010 the Company held an open tender for a renewable credit line of 2,000 consisting of four lots of 500 each. The following banks were appointed based on the tender results: OJSC AKB Sberbank for a credit line of 500 with an interest rate of 8.50 %; OJSC AKB Svyazbank for a credit line of 1,000 with an interest rate of 7.93 %; OJSC AKB ROSBANK for a credit line of 500 with an interest rate of 7.89 %. The maturity period under the agreements is 36 months from the agreement date. The purpose of the loans is financing of current operating activities and refinancing of the Company's existing obligations. There is no pledge under the agreement.

Reorganization of OJSC Sibirtelecom

On 23April 2010 the Company's Board of directors made a decision to put for resolution of the annual general shareholders' meeting to be held on 5 June 2010, the approval of the contract to merge OJSC Sibirtelecom with OJSC Rostelecom. This contract contains the following ratios for conversion of OJSC Sibirtelecom shares into OJSC Rostelecom shares: 46.537 ordinary shares of OJSC Sibirtelecom are converted into one ordinary share of OJSC Rostelecom, and 59.374 preference shares of OJSC Sibirtelecom are converted into one ordinary share of OJSC Rostelecom.

Additionally, the Board approved the buy-back share price for the ordinary and preference shares of OJSC Sibirtelecom, which can be presented for buy-back during the reorganisation. The buy-back share price for both ordinary and preference shares was determined at RUR 1.85. The valuation of the Company's shares was conducted by an independent appraiser using the following valuation techniques: discounted cash flows (income approach), market value and benchmark method (comparative approach).