OJSC ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2009, 2010 and 2011
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)

CONTENT

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Independent Auditors' Report

The Board of Directors and Shareholders

OJSC Rostelecom

We have audited the accompanying consolidated financial statements of OJSC Rostelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2011, 2010 and 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

26 April 2012

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

	Notes	31 December 2011	31 December 2010	31 December 2009
ASSETS				
Non-current assets				
Property, plant and equipment	6	327,971	301,068	293,497
Investment property		259	356	330
Goodwill and other intangible assets	7	68,187	30,209	32,623
Investments in associates	9	33,646	27,517	1,197
Other investments	10	14,616	10,589	4,074
Deferred tax assets	20	775	530	193
Other non-current assets	11	13,820	3,645	5,308
Total non-current assets		**459,274**	**373,914**	**337,222**
Current assets				
Inventories	12	4,490	4,156	3,789
Trade and other accounts receivable	13	29,377	25,611	22,243
Prepayments		2,409	2,083	2,130
Prepaid income tax		3,304	1,745	1,882
Other investments	10	3,926	5,580	20,622
Cash and cash equivalents	14	7,177	12,627	13,621
Other current assets	15	1,151	1,095	1,671
Total current assets		**51,834**	**52,897**	**65,958**
Total assets		**511,108**	**426,811**	**403,180**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Group				
Share capital	16	106	100	100
Additional paid-in capital		33,424	33,424	33,424
Treasury shares		(25,143)	(25,410)	(67)
Retained earnings and other reserves		251,752	204,981	184,026
Total equity attributable to equity holders of the Group		**260,139**	**213,095**	**217,483**
Non-controlling interests		7,787	12	(72)
Total equity		**267,926**	**213,107**	**217,411**
Non-current liabilities				
Loans and borrowings	17	84,527	87,941	67,092
Employee benefits	19	11,752	16,197	15,578
Deferred tax liabilities	20	18,662	12,281	11,124
Accounts payable, provisions and accrued expenses	18	85	202	44
Other non-current liabilities		3,675	1,574	1,766
Total non-current liabilities		**118,701**	**118,195**	**95,604**
Current liabilities				
Loans and borrowings	17	78,939	50,096	49,104
Accounts payable, provisions and accrued expenses	18	37,396	38,935	34,960
Income tax payable		242	45	292
Other current liabilities		7,904	6,433	5,809
Total current liabilities		**124,481**	**95,509**	**90,165**
Total liabilities		**243,182**	**213,704**	**185,769**
Total equity and liabilities		**511,108**	**426,811**	**403,180**

These consolidated financial statements were approved by management of OJSC Rostelecom on 26 April 2012 and were signed on its behalf by President:

A.Yu.Provotorov

(In millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2011	2010	2009
Revenue	21	**296,015**	**275,731**	**264,645**
Operating expenses				
Wages, salaries, other benefits and payroll taxes	22	(74,838)	(74,417)	(66,926)
Depreciation, amortisation and impairment losses	6, 7	(54,040)	(55,756)	(51,344)
Interconnection charges		(40,225)	(37,374)	(40,502)
Materials, utilities, repairs and maintenance	23	(27,282)	(25,072)	(24,100)
Loss on disposal of property, plant and equipment and intangible assets		(287)	(933)	(1,195)
Bad debt expense	13	(627)	(682)	(1,068)
Other operating income	24	14,638	14,629	14,252
Other operating expenses	25	(49,686)	(45,846)	(43,709)
Total operating expenses, net		**(232,347)**	**(225,451)**	**(214,592)**
Operating profit		**63,668**	**50,280**	**50,053**
Income from associates		3,439	239	216
Finance costs	26	(12,473)	(11,798)	(16,452)
Other investing and financial gain	27	2,656	2,745	3,237
Foreign exchange loss, net		(265)	(87)	(2,717)
Profit before income tax		**57,025**	**41,379**	**34,337**
Income tax expense	20	(10,955)	(10,041)	(8,074)
Profit for the year		**46,070**	**31,338**	**26,263**
Other comprehensive income				
Revaluation gain on available-for-sale investments		19	198	593
Revaluation gain on available-for-sale investments transferred to profit on sale		-	-	(1)
Income tax relating to revaluation gain on available-for-sale investments		(4)	(41)	(82)
Other comprehensive income for the year, net of tax		**15**	**157**	**510**
Total comprehensive income for the year		**46,085**	**31,495**	**26,773**
Profit attributable to:				
Equity holders of the Group		46,240	31,418	26,125
Non-controlling interests		(170)	(80)	138
Total comprehensive income attributable to:				
Equity holders of the Group		46,255	31,575	26,635
Non-controlling interests		(170)	(80)	138
Earnings per share attributable to equity holders of the Group – basic (in RUB)	30	**15.81**	**10.14**	**8.20**
Earnings per share attributable to equity holders of the Group –diluted (in RUB)	30	**15.56**	**10.06**	**8.20**

(In millions of Russian Roubles)

	Notes	Year ended 31 December 2011	2010	2009
Cash flows from operating activities				
Profit before income tax		57,025	41,379	34,337
Adjustments to reconcile profit before tax to cash generated from operations:				
Depreciation, amortization and impairment losses	6, 7	54,040	55,756	51,344
Loss on sale of property, plant and equipment and intangible assets		287	933	1,195
Bad debt expense	13	627	682	1,068
Income from associates		(3,439)	(239)	(216)
Finance costs excluding finance costs on pension and other long-term social liabilities	26	11,434	10,374	14,881
Other investing and financial gain	27	(2,656)	(2,745)	(3,237)
Foreign exchange loss, net		265	87	2,717
Share-based payment expenses	29	588	3,930	-
Changes in net working capital:				
(Increase) /decrease in accounts receivable		(2,204)	(3,659)	1,345
(Decrease)/increase in employee benefits		(4,445)	619	846
(Increase)/decrease in inventories		(85)	(367)	355
(Decrease)/increase in accounts payable, provisions and accrued expenses		(5,607)	(416)	2,360
(Decrease)/increase in other assets and liabilities		(851)	(252)	1,113
Cash generated from operations		**104,979**	**106,082**	**108,108**
Interest paid		(11,234)	(11,356)	(16,412)
Income tax paid		(9,050)	(9,704)	(5,441)
Net cash provided by operating activities		**84,695**	**85,022**	**86,255**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(82,776)	(51,845)	(45,352)
Proceeds from sale of property, plant and equipment and intangible assets		1,484	1,284	1,006
Acquisition of financial assets		(8,565)	(10,764)	(31,138)
Proceeds from disposals of financial assets		9,176	20,152	18,399
Government grant received	24	1,105	-	-
Interest received		934	2,282	2,513
Dividends received from associates		193	188	145
Purchase of subsidiaries, net of cash acquired		(32,281)	(4,548)	(496)
Proceeds from disposals of equity accounted investees		-	-	2
Acquisition of equity accounted investees		(3,640)	(26,000)	(2)
Net cash used in investing activities		**(114,370)**	**(69,251)**	**(54,923)**
Cash flows from financing activities				
Sale of treasury shares		1,754	-	-
Purchase of treasury shares		(1,487)	(25,343)	-
Proceeds from bank and corporate loans		289,470	123,353	44,384
Repayment of bank and corporate loans		(246,941)	(83,215)	(59,328)
Proceeds from bonds		-	126	13,390
Repayment of bonds		(13,932)	(11,077)	(19,712)
Proceeds from promissory notes		12,050	5,340	3,515
Repayment of promissory notes		(13,068)	(7,276)	(5,306)
Repayment of vendor financing payable		(368)	(890)	(1,721)
Proceeds from / (repayment of) other non-current financing liabilities		72	47	(29)
Repayment of finance lease liabilities		(2,514)	(3,764)	(5,097)
Acquisition of non-controlling interest		(366)	-	(1,318)
Dividends paid to shareholders of the Group		(116)	(14,106)	(6,099)
Dividends paid to non-controlling shareholders of subsidiaries		(303)	-	(50)
Net cash provided by/ (used in) financing activities		**24,251**	**(16,805)**	**(37,371)**
Effect of exchange rate changes on cash and cash equivalents		(26)	40	33
Net decrease in cash and cash equivalents		**(5,450)**	**(994)**	**(6,006)**
Cash and cash equivalents at beginning of year		**12,627**	**13,621**	**19,627**
Cash and cash equivalents at the end of year		**7,177**	**12,627**	**13,621**

(In millions of Russian Roubles)

	Attributable to equity holders of the Group								
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Treasury shares**	**Share option reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2009	**100**	**33,424**	**120**	**(67)**	**-**	**162,908**	**196,485**	**1,648**	**198,133**
Profit for the year	-	-	-	-	-	26,125	**26,125**	138	**26,263**
Other comprehensive income									
Revaluation gain on available-for-sale investments	-	-	593	-	-	-	**593**	-	**593**
Revaluation gain on available-for-sale investments transferred to profit on sale	-	-	(1)	-	-	-	**(1)**	-	**(1)**
Income tax in respect of other comprehensive income items	-	-	(82)	-	-	-	**(82)**	-	**(82)**
Total other comprehensive income, net of tax	**-**	**-**	**510**	**-**	**-**	**-**	**510**	**-**	**510**
Total comprehensive income	**-**	**-**	**510**	**-**	**-**	**26,125**	**26,635**	**138**	**26,773**
Transactions with shareholders, recorded directly in equity:									
Dividends to equity holders of the Group	-	-	-	-	-	(6,135)	**(6,135)**	-	**(6,135)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	**-**	**(50)**	**(50)**
Acquisition of non-controlling interest	-	-	-	-	-	525	**525**	(1,843)	**(1,318)**
Other changes in equity	-	-	-	-	-	(27)	**(27)**	35	**8**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**(5,637)**	**(5,637)**	**(1,858)**	**(7,495)**
Balances at 31 December 2009	**100**	**33,424**	**630**	**(67)**	**-**	**183,396**	**217,483**	**(72)**	**217,411**

(In millions of Russian Roubles)

	Attributable to equity holders of the Group								
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Treasury shares**	**Share option reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2010	**100**	**33,424**	**630**	**(67)**	**-**	**183,396**	**217,483**	**(72)**	**217,411**
Profit for the year	-	-	-	-	-	31,418	**31,418**	(80)	**31,338**
Other comprehensive income									
Revaluation gain/(loss) on available-for-sale investments	-	-	198	-	-	-	**198**	-	**198**
Income tax in respect of other comprehensive income items	-	-	(41)	-	-	-	**(41)**	-	**(41)**
Total other comprehensive income, net of tax	**-**	**-**	**157**	**-**	**-**	**-**	**157**	**-**	**157**
Total comprehensive income/ (loss)	**-**	**-**	**157**	**-**	**-**	**31,418**	**31,575**	**(80)**	**31,495**
Transactions with shareholders, recorded directly in equity:									
Dividends to equity holders of the Group	-	-	-	-	-	(14,808)	**(14,808)**	-	**(14,808)**
Acquisition of treasury shares	-	-	-	(25,343)	-	-	**(25,343)**	**-**	**(25,343)**
Acquisition and disposal of non-controlling interest	-	-	-	-	-	2	**2**	-	**2**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	**-**	164	**164**
Employee benefits within share-based employee motivation program	-	-	-	-	4,186	-	**4,186**	-	**4,186**
Total transactions with shareholders	-	-	-	**(25,343)**	**4,186**	**(14,806)**	**(35,963)**	**164**	**(35,799)**
Balances at 31 December 2010	**100**	**33,424**	**787**	**(25,410)**	**4,186**	**200,008**	**213,095**	**12**	**213,107**

(In millions of Russian Roubles)

	Attributable to equity holders of the Group								
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Treasury shares**	**Share option reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-control-ling interest**	**Total equity**
Balances at 1 January 2011	**100**	**33,424**	**787**	**(25,410)**	**4,186**	**200,008**	**213,095**	**12**	**213,107**
Profit for the year	-	-	-	-	-	46,240	**46,240**	(170)	**46,070**
Other comprehensive income									
Revaluation gain/(loss) on available-for-sale investments	-	-	19	-	-	-	**19**	-	**19**
Income tax in respect of other comprehensive income items	-	-	(4)	-	-	-	**(4)**	-	**(4)**
Total other comprehensive income, net of tax	**-**	**-**	**15**	**-**	**-**	**-**	**15**	**-**	**15**
Total comprehensive income/ (loss)	**-**	**-**	**15**	**-**	**-**	**46,240**	**46,255**	**(170)**	**46,085**
Transactions with shareholders, recorded directly in equity:									
Dividends to equity holders of the Group	-	-	-	-	-	(5)	**(5)**	**-**	**(5)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	**-**	**(308)**	**(308)**
Acquisition of treasury shares	-	-	-	(1,487)	-	-	**(1,487)**	**-**	**(1,487)**
Sale of treasury shares	-	-	-	1,754	-	-	**1,754**	**-**	**1,754**
Acquisition and disposal of non-controlling interest	-	-	-	-	-	(154)	**(154)**	(212)	**(366)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	**-**	8,465	**8,465**
Employee benefits within share-based employee motivation program	-	-	-	-	(45)	683	**638**	-	**638**
Issue of share capital	6	(6)	-	-	-	-	**-**	-	**-**
Other changes in equity	-	-	-	-	-	43	**43**	-	**43**
Total transactions with shareholders	**6**	**(6)**	-	**267**	**(45)**	**567**	**789**	**7,945**	**8,734**
Balances at 31 December 2011	**106**	**33,418**	**802**	**(25,143)**	**4,141**	**246,815**	**260,139**	**7,787**	**267,926**

1. REPORTING ENTITY

The accompanying consolidated financial statements are of OJSC Rostelecom ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia").

The Group provides communication services (including local, intra-zone, long-distance domestic and international fixed-line telephone services, mobile services), data transmission, Internet, Pay TV, VPN and data centers services, rent of communication channels and radio communication services in the territory of Russian Federation. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying voice and data traffic that originates in its own network and other national and international operators' networks to other national and international operators for termination.

The Company operates socially important Government programs, including "E-Government", "Unified communication service" and other.

On 1 April 2011, the Company completed the merger with OJSC North-West Telecom, OJSC Centrtelecom, OJSC South Telecommunications Company, OJSC VolgaTelecom, OJSC Uralsvyazinform, OJSC Sibirtelecom, OJSC Far East Telecom (collectively referred to as the Interregional Companies ("IRCs") and OJSC Dagsvyazinform ("Dagsvyazinform") with the IRCs and Dagsvyazinform ceasing to exist as separate legal entities and all of their assets (including licenses), rights and liabilities being transferred to the Company as the legal successor of the IRCs and Dagsvyazinform under Russian law. The purpose of the reorganization was to establish an integrated telecommunications operator, a market leader in each segment of the Russian telecommunications market, eliminate internal conflicts of interest, expand into new market segments and optimize costs and capital expenditures.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As at 31 December 2011, the Government of the Russian Federation controls the Company by holding of 53.2% of the Company's ordinary shares through OJSC "Svyazinvest", "Vnesheconombank" and Federal Agency of State properties management.

The Company's headquarters are located in Russian Federation, Moscow at 1st Tverskaya-Yamskaya Street, 14, 125047.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for measurement of available-for-sale investments at fair value and certain other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of Group entities and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Changes in Estimate of Useful Lives

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Share-based employee benefits

The Group measures cost of share-based employee benefit by reference to the fair value of equity instruments granted. This requires judgment in estimating future volatility of basis asset which is determined using historical data on market price of the shares. Future volatility may differ significantly from that estimated.

Employee Benefits

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

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Impairment of non-current assets

Each asset or cash generating unit is evaluated at the end of every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds the recoverable amount. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

This requires an estimation of the value in use of the cash-generating units. Estimating of value in use requires the Group to make significant judgement concerning expected future cash flows and discount rates applicable. Expected future cash flows of cash-generating unit are typically based on approved budgets for next financial years and strategic plan for the period from second till fifth years. Cash flows beyond five–year periods are extrapolated using industry growth rate. Discount rates are determined based on historical information of cost of debt and equity of a respective cash-generating unit. Any future changes in the aforementioned assumptions could have significant impact on value in use.

Lease classification

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

Litigation

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

3. OPERATING ENVIRONMENT OF THE GROUP

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks of the Russian Federation which displays characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group and its subsidiaries.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relations. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Costs related to the acquisitions other than those associated with issue of debt or equity securities, that the Group incurs in connection with business combination are expensed as incurred.

Combination of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

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

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

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

Investments in associates (equity accounted investees)

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

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

Crossholding structures

When the Group has significant influence over an entity, which also has significant influence or controls the Company, the effective ownership interest approach is used. Under the effective ownership interest approach, the Group determines its share of comprehensive income of the associate on the basis of the

Group's effective interest in the associate. The effect of the reciprocal interests is incorporated into the associate's financial statements through the associate's own equity accounting or consolidation.

Special purpose entities

A special purpose entity ("SPE") is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Non-controlling interest

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

The losses applicable to non-controlling interest, including negative other comprehensive income, are charged to non-controlling interest even if it causes non-controlling interest to have a deficit balance.

(b) Goodwill

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

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

(a) the aggregate of:

- the acquisition-date fair value of consideration transferred;
- non-controlling interest's proportionate share of the acquiree's identifiable net assets; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

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

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

Goodwill is not amortized. Instead, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

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

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

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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

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

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

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

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

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

Advances given to suppliers of property, plant and equipment are included in other non-current assets.

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

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

(d) Leases

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

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

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

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

(e) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The Group applies cost model to its investments properties and subsequent to initial recognition investment properties are measured in accordance with IAS 16's requirements for that model.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(f) Intangible assets

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

Development expenditures are capitalised if they meet criteria for an assets recognition. Expenditure on research phase are expensed as incurred.

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment when there is an indication that the intangible asset may be impaired. Useful lives of intangible assets with finite lives are determined on individual basis.

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any indication that a finite lived intangible asset may be impaired at each reporting date. The Group also performs annual impairment tests for finite lived assets not yet placed in use. The amortization expense on intangible assets with finite lives is included in depreciation and amortization expenses in profit or loss.

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

(g) Impairment of property, plant and equipment and intangible assets

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. In addition, annual impairment test is carried out for intangible assets with indefinite useful life or that are not yet available for use and goodwill. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as a loss. Any subsequent increase in the recoverable amount of the assets, except for goodwill, is reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit (further- CGU) to which the assets belong. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the CGUs or groups of CGUs expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment determined in accordance with IFRS 8 Operating Segments.

(h) Inventory

Inventory principally consists of cable, spare parts for the network and other supplies. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost is calculated using weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs uncured in bringing them to their existing location and condition. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(i) Accounts receivable

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

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

(j) Financial instruments

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

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

All other investments not classified in any of the three preceding categories are classified as available-for-sale. After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognized in other comprehensive income until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the determination of profit or loss.

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

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

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's investments may be impaired. The fair value of investments that are actively traded in organized markets is determined by reference to the quoted market bid price at the close of business at the reporting day. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, references to the current market value of other instruments which is substantially the same, discounted cash flow analysis or other valuation models.

Investing and financial gains comprise interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings (other than capitalised into the cost of qualifying assets), unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(k) Borrowings

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

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

(l) Foreign currency transactions

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

(In millions of Russian Roubles unless otherwise stated)

As at December 31, 2011, 2010 and 2009, the rates of exchange used for translating foreign currency balances were (in Russian Roubles for one unit of foreign currency):

	2011	2010	2009
US Dollar (USD)	32.20	30.48	30.24
Japanese Yen (100)	41.50	37.38	32.83
Special Drawing Rights (SDR)	49.27	46.73	47.46
EURO (EUR)	41.67	40.33	43.39

Source: the Central Bank of Russia

(m) Cash and cash equivalents

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

(n) Deferred income taxes

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

(o) Revenue and operating costs recognition

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

Revenues from directly billed subscribers are recognized in the period where the services were provided based on the Group's billing system's data. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period. Revenues from subscribers billed via agents are recognized in the period where the services were provided based on agent reports.

The Group charges its subscribers throughout Russia for certain communication services based on pre-set tariffs regulated by the Ministry of Telecom and Mass Communications and Federal Tariff Service.

The Group charges amounts to interconnected operators for incoming traffic and is charged by operators for termination. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle liability simultaneously.

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

(p) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(q) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on systematic basis in the periods in which the expenses are recognised.

(r) Employee benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to a separately administered pension fund upon employees' dismissal. The pension fund is liable for payments to the retired employees.

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

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.

The Group also participates in a defined contribution plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred.

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

(s) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for options for shares of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(t) Dividends

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

(u) Treasury shares

The cost of treasury shares purchased is debited to a separate category of equity. When treasury shares are sold or re-issued, the amount received for the instruments is credited to this category, and any surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital. The average cost method is used to determine the cost of treasury shares sold. However, if the entity is able to identify the specific items sold and their costs, the specific cost is applied.

(v) Earnings per share

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

(w) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(x) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on January 1, 2011. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- IFRS 3 "Business Combinations" (as amended in May 2010);
- IFRS 7 "Financial Instruments: Disclosures" (as revised in May 2010);
- IAS 1 "Presentation of Financial Statements" (as revised in May 2010);
- IAS 27 "Consolidated and Separate Financial Statements" (as revised in May 2010);
- IAS 32 "Financial Instruments: Presentation" (as revised in October 2009);
- IAS 34 "Interim Financial Reporting" (as revised in May 2010);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".

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

(y) IFRSs and IFRIC interpretations not yet effective

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The new Standard will not have any impact on the Group's financial position or performance.

- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new Standard is not expected to have a significant effect on the presentation and disclosures in the consolidated financial statements of the Group

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The new Standard will not have any impact on the Group's financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The new amendment to the Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The new amendment to the Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- Amendment to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The new amendment to the Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The new Interpretation will not have any impact on the Group's financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(z) Changes in presentation of financial statements

Certain comparative amounts have been reclassified to conform with the current year's presentation. The most significant reclassification relates to the impairment loss/ (reversal of impairment loss) which was reclassified from Other operating expenses to Depreciation, amortization and impairment loss in the amount of 4,618 for the year ended 31 December 2010 and (173) for the year ended 31 December 2009. Management believes that such presentation is more appropriate.

5. BUSINESS COMBINATIONS

2011 transactions

Acquisitions of subsidiaries

OJSC National Telecommunications

In February 2011 the Group acquired 71.8% equity interest in OJSC National Telecommunications from CJSC National Media Group, OJSC Surgutneftegas and Raybrook Limited. The purchase price amounted to USD 951 million. Further, the Group purchased promissory notes issued by OJSC National Telecommunications for USD 126 million from Shepton Holdings Limited. The acquisition-related costs of 206 were included in other investing and financial gain in this consolidated statement of comprehensive income for the year ended 31 December 2011.

As of the acquisition date OJSC National Telecommunications was a holding structure consisting of 42 companies. The primary activity of the entity mainly focused on IP-television and data transmission services. The Group intends to take up a leading role on the IPTV market through this acquisition. The Group accounted for the acquisition of OJSC National Telecommunications by applying the acquisition method, in accordance with provisions of IFRS 3 Business combinations.

The results of operations and financial position of OJSC National Telecommunications were consolidated by the Group starting from February 1, 2011.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

From the date of acquisition until 31 December 2011, OJSC National Telecommunications has contributed 0.2 to the increase of net profit of the Group and 9,170 to the increase of revenue for 2011. If the combination had taken place at the beginning of 2011, the profit of the Group would have been 46,127 and revenue would have been 296,774. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

CJCS Volgograd-GSM

In August 2011, the Group acquired an additional interest of 50% in CJCS Volgograd-GSM thus obtaining control of 100%. The shares were acquired from SMARTS Group for cash payment of 2,322. CJCS Volgograd-GSM primarily provides mobile communication services.

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

The goodwill is attributable mainly to the diversification of activities of the Group.

The remeasurement to fair value of the Group's existing interest of 50% in CJCS Volgograd-GSM resulted in a gain of 1,505 which has been recognised in other investing and financial gains in this consolidated statement of comprehensive income for the year ended 31 December 2011.

From the date of acquisition until 31 December 2011, CJCS Volgograd-GSM has contributed 132 to the increase of net profit of the Group and 584 to the increase of revenue for 2011. If the combination had taken place at the beginning of 2011, the profit of the Group would have been 46,201 and revenue would have been 297,187. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

The following table summarizes the fair values of identifiable net assets of OJSC NTC and CJSC Volgograd - GSM as of the acquisition dates:

(In millions of Russian Roubles unless otherwise stated)

	OJSC NTC	CJSC Volgograd-GSM	Total
Consideration			
Paid in cash	27,907	2,322	30,229
Promissory notes	3,688	-	3,688
Total consideration transferred	**31,595**	**2,322**	**33,917**
NCI	**8,465**	**-**	**8,465**
Deferred consideration	**-**	**23**	**23**
Investment in associate before the acquisition	**-**	**817**	**817**
Fair value revaluation of previously acquired share	**-**	**1,505**	**1,505**
Fair value of identifiable assets and liabilities:			
Property, plant and equipment	7,959	2,817	10,776
Intangible assets	16,867	1,250	18,117
Deferred tax assets	451	7	458
Other non-current assets	99	-	99
Non-current financial assets	1	4	5
Trade and other accounts receivable	2,368	147	2,515
Cash and cash equivalents	1,628	8	1,636
Current investments	1,808	-	1,808
Inventories	208	43	251
Non-current loans and borrowings	(2)	(131)	(133)
Current loans and borrowings	(2,471)	(90)	(2,561)
Accounts payable, provisions and accrued expenses	(1,899)	(190)	(2,089)
Deferred tax liabilities	(3,912)	(479)	(4,391)
Total net assets	**23,105**	**3,386**	**26,491**
Goodwill	**16,955**	**1,281**	**18,236**
Costs directly attributable to acquisition	206	3	209

Acquisition of non-controlling interests

In September 2011 the Group acquired an additional 49% interest in CJCS Orenburg-GSM from SMARTS Group for USD 4 million in cash, increasing its ownership from 51% to 100%. The Group recognised a decrease in non-controlling interests of 32 and a decrease in retained earnings of 84.

In April 2011 the Group acquired an additional 49% interest in CJCS STS from MELVOND HOLDINGS LIMITED for cash payment of 250, increasing its ownership from 51% to 100%. The Group recognised a decrease in non-controlling interests of 180 and a decrease in retained earnings of 70.

2010 transactions

Acquisitions of subsidiaries

In June 2010, OJSC Volgatelecom acquired 98.19% of ordinary shares in Teleset Networks Public Company Limited for 4,283 and obtained control over this entity. Teleset Networks Public Company primarily provides local fixed line communication services in Tatarstan and Ulyanovsk region.

In December 2010, OJSC North-West Telecom acquired 100% of ordinary shares in CJSC Severen-Telecom's ordinary voting shares for 863 and obtained control over this entity. CJSC Severen-Telecom provides various telecom services in Saint-Petersburg.

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

(In millions of Russian Roubles unless otherwise stated)

The following table summarizes the fair values of identifiable net assets of Teleset Network Public Company Limited and CJSC Severen-Telecom as of the acquisition dates:

	Severen Telecom	Teleset Networks Public Company Limited	Total
Consideration			
Paid in cash	863	4,283	5,146
Total consideration transferred	**863**	**4,283**	**5,146**
NCI	**-**	**48**	**48**
Fair value of identifiable assets and liabilities:			
Property, plant and equipment	259	2,228	2,487
Intangible assets	206	714	920
Other non-current assets	19	10	29
Non-current investments		1	1
Trade and other accounts receivable	55	169	224
Cash and cash equivalents	1	597	598
Other current assets	-	128	128
Non-current liabilities	(48)	(391)	(439)
Current liabilities	(61)	(319)	(380)
Deferred tax liabilities	-	(322)	(322)
Non-controlling interests	-	(164)	(164)
Total net assets	**431**	**2,651**	**3,082**
Goodwill	**432**	**1,680**	**2,112**
Costs directly attributable to acquisition	-	-	-

The goodwill is attributable mainly to the expected expansion of new and existing services in the potentially lucrative regions.

From the date of acquisition until 31 December 2010 Teleset Networks Public Company Limited has contributed 443 to the increase of net profit of the Group and 612 to the increase of revenue for 2010. Financial results of CJSC Severen-Telecom from the date of its acquisition, 21 December 2010, until the end of year were not included in the Group's financial results as immaterial.

If the combinations had taken place at the beginning of 2010, the profit of the Group would have been 31,765 and revenue would have been 276,803. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

2009 transactions

Acquisitions of subsidiaries

In July 2009, OJSC Volgatelecom acquired 100% of ordinary shares in LLC GTS for 350 and obtained control over this entity. LLC GTS primarily provided telecommunication services to corporate and residential customers.

In July 2009, OJSC Rostelecom acquired 100% of ordinary shares in CJSC Rosmedia for 0.01 and obtained control over this entity. CJSC Rosmedia was a start-up project for providing IPTV-services.

In December 2009, OJSC Uralsvyazinform acquired 100% of ordinary shares of LLC Uzhno-Uralskaya telefonnaya compania for 132 and obtained control over this entity. LLC Uzhno-Uralskaya telefonnaya compania mainly provide fixed-line telephone services, internet and data transmission services.

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

(In millions of Russian Roubles unless otherwise stated)

The following table summarizes the fair values of identifiable net assets of LLC GTS, LLC Uzhno-Uralskaya telefonnaya compania and CJSC Rosmedia as of the acquisition dates:

	LLC GTS	Uzhno-Uralskaya telefonnaya compania	CJSC Rosmedia	Total
Consideration				
Paid in cash	350	132	-	482
Total consideration transferred	**350**	**132**	**-**	**482**
NCI				
Fair value of identifiable assets and liabilities:				
Property, plant and equipment	120	111	17	248
Intangible assets	19	4	3	26
Non-current investments	-	-	7	7
Trade and other accounts receivable	14	13	12	39
Cash and cash equivalents	23	3	2	28
Other assets	3	8	7	18
Non-current liabilities	-	(1)	-	(1)
Current liabilities	(16)	(21)	(100)	(137)
Deferred tax liabilities	(8)	(8)	-	(16)
Total net assets	**155**	**109**	**(52)**	**212**
Goodwill	**195**	**23**	**52**	**270**
Costs directly attributable to acquisition	-	8	-	8

The goodwill is attributable mainly to the diversification of the activities of the Group.

From the date of acquisition until 31 December 2009 LLC GTS, LLC Uzhno-Uralskaya telefonnaya compania and CJSC Rosmedia have contributed 1 to the increase of net profit of the Group and 49 to the increase of revenue for 2009.

If the combinations had taken place at the beginning of 2009, the profit of the Group would have been 26,206 and revenue would have been 264,855. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

Acquisition of non-controlling interest

In addition, in October 2009, OJSC Far East Telecom acquired 49% of ordinary shares in its subsidiary OJSC Sakhatelecom for 1,318 and increased its share to 100%. The carrying value of acquired share in net assets exceeded additional shares purchase consideration by 525 and was accounted for as an equity transaction.

(In millions of Russian Roubles unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as at 31 December 2011, 2010 and 2009 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost/Deemed cost					
At 1 January 2009	192,215	284,988	66,669	18,801	562,673
Additions	235	29	252	35,493	36,009
Acquisition through business combination	160	72	8	8	248
Disposals	(1,832)	(14,802)	(3,513)	(1,091)	(21,238)
Transfer	10,118	22,808	6,950	(39,876)	-
Reclassification	427	(1,046)	702	(83)	-
At 31 December 2009	201,323	292,049	71,068	13,252	577,692
At 1 January 2010	201,323	292,049	71,068	13,252	577,692
Additions	247	136	385	53,987	54,755
Acquisition through business combination	1,521	814	98	54	2,487
Disposals	(2,282)	(11,238)	(3,200)	(646)	(17,366)
Transfer	15,358	25,758	8,632	(49,748)	-
Reclassification	446	(1,688)	1,194	2	(46)
At 31 December 2010	216,613	305,831	78,177	16,901	617,522
At 1 January 2011	216,613	305,831	78,177	16,901	617,522
Additions	201	1,103	3,105	64,559	68,968
Reclassification from investment property and assets held for sale	262	121	-	-	383
Acquisition through business combination	1,270	8,079	525	902	10,776
Disposals	(3,826)	(7,551)	(4,806)	(483)	(16,666)
Transfer	16,905	36,615	6,405	(59,925)	-
Reclassification	(12,240)	20,313	(8,204)	131	-
At 31 December 2011	219,185	364,511	75,202	22,085	680,983

(In millions of Russian Roubles unless otherwise stated)

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Accumulated depreciation and impairment losses					
At 1 January 2009	(72,379)	(140,958)	(41,839)	(419)	(255,595)
Depreciation expense	(11,200)	(26,058)	(10,084)	-	(47,342)
Impairment losses	253	(33)	19	(28)	211
Disposals	1,268	14,035	3,228	-	18,531
Reclassification	(73)	609	(611)	75	-
At 31 December 2009	(82,131)	(152,405)	(49,287)	(372)	(284,195)
At 1 January 2010	(82,131)	(152,405)	(49,287)	(372)	(284,195)
Depreciation expense	(11,352)	(25,957)	(9,576)	-	(46,885)
Impairment losses	(233)	(22)	3	38	(214)
Disposals	1,825	10,006	3,009	-	14,840
Reclassification	(186)	(145)	179	152	-
At 31 December 2010	(92,077)	(168,523)	(55,672)	(182)	(316,454)
At 1 January 2011	(92,077)	(168,523)	(55,672)	(182)	(316,454)
Depreciation expense	(9,654)	(30,953)	(9,779)	-	(50,386)
Reclassification from investment property and assets held for sale	(119)	(61)	-	-	(180)
Impairment losses	(1)	(111)	(1)	(150)	(263)
Disposals	2,882	6,702	4,687	-	14,271
Reclassification	(9,274)	3,260	6,014	-	-
At 31 December 2011	(108,243)	(189,686)	(54,751)	(332)	(353,012)
Net book value					
At 31 December 2009	**119,192**	**139,644**	**21,781**	**12,880**	**293,497**
At 31 December 2010	**124,536**	**137,308**	**22,505**	**16,719**	**301,068**
At 31 December 2011	**110,942**	**174,825**	**20,451**	**21,753**	**327,971**

For the purposes of consistent classification of similar item of property, plant and equipment the Group made reclassification as at 31 December 2011.

At 31 December 2011, 2010 and 2009, cost of fully depreciated property, plant and equipment was 133,698, 120,414 and 111,439, respectively.

Interest capitalization

Interest amounting to 948, 563 and 769 was capitalized in property, plant and equipment for the years ended 31 December 2011, 2010 and 2009, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.50%, 9.48% and 10.54% for the years ended 31 December 2011, 2010 and 2009, respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 2,360, 9,949 and 30,245 was pledged in relation to loan agreements entered into by the Group as at 31 December 2011,2010 and 2009, respectively.

(In millions of Russian Roubles unless otherwise stated)

Leased property, plant and equipment

As at 31 December 2011, 2010 and 2009 net book value of leased property, plant and equipment comprised:

	31 December 2011	31 December 2010	31 December 2009
Buildings and constructions	1,107	1,629	969
Switches and transmission devices	2,735	5,482	10,224
Vehicles and other property, plant and equipment	657	1,348	3,022
Construction in progress	13	17	19
Total net book value of leased property, plant and equipment	**4,512**	**8,476**	**14,234**

Impairment of property, plant and equipment

As at 31 December 2011 the Group conducted impairment testing of its property, plant, equipment, to identify possible irrecoverability of the assets. The Group assessed the recoverable amount of the assets for which estimation on individual basis is impossible within respective CGU. The Group defines CGUs as regional branches (in case of Rostelecom), legal entities or group of legal entities (in case of subsidiaries).

The recoverable amount of each CGU is determined by estimating its value in use. Value in use calculation uses cash-flow projections based on actual and budgeted financial information approved by management and a discount rate which reflects time value of money and risks associated with each individual CGU. Key assumptions management used in the calculation of value in use are as follows:

- for all CGUs cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2%;
- discount rates are estimated in nominal terms as the weighted average cost of capital on pre tax basis and varies from 11.6% to 16.26% per CGU.

For individual items of construction in progress for which the Group has no intention to complete and use or sell them impairment loss recognised in the amount of their carrying value.

2011 impairment testing

Impairment loss of property, plant and equipment in the amount of 113 (CGU regional branch Ural) and construction in progress of 150 were recognised in 2011 as a result of impairment testing. Impairment losses are included in the line *Depreciation, amortisation and impairment losses* in the statement of comprehensive income

2010 impairment testing

As a result of the impairment testing performed as at 31 December 2010, for certain CGUs the Group recognized an impairment loss of property, plant and equipment: Sibirtelecom (64), Uralsvyazinform (293), and reversal of impairment loss of property, plant and equipment: Rostelecom (93) and Southern Telecommunications Company (50).

(In millions of Russian Roubles unless otherwise stated)

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The net book value of goodwill and other intangible assets as at 31 December 2011, 2010 and 2009 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2009	5,819	560	371	34,262	1,554	1,310	785	44,661
Additions	-	16	1	2,818	1	240	89	3,165
Acquisition through business combination	270	2	15	3	-	-	6	296
Disposals	-	(1)	-	(1,216)	-	(48)	(10)	(1,275)
Reclassification	16	1	(16)	(1)	2	-	(2)	-
At 31 December 2009	6,105	578	371	35,866	1,557	1,502	868	46,847
At 1 January 2010	6,105	578	371	35,866	1,557	1,502	868	46,847
Additions	-	11	-	3,128	-	80	508	3,727
Acquisition through business combination	2,112	4	5	13	692	-	206	3,032
Disposals	(35)	(4)	(57)	(1,058)	-	(7)	(95)	(1,256)
Reclassification	(1)	(1)	133	(169)	(27)	(43)	108	-
At 31 December 2010	8,181	588	452	37,780	2,222	1,532	1,595	52,350
At 1 January 2011	8,181	588	452	37,780	2,222	1,532	1,595	52,350
Additions	-	7	-	4,794	16	99	548	5,464
Acquisition through business combination	18,236	310	263	124	13,157	217	4,046	36,353
Disposals	(84)	(1)	-	(3,989)	-	(295)	(229)	(4,598)
Reclassification	49	-	(106)	393	209	(195)	(374)	(24)
At 31 December 2011	26,382	904	609	39,102	15,604	1,358	5,586	89,545
Accumulated amortization and impairment losses								
At 1 January 2009	(1,584)	(132)	(100)	(8,404)	(274)	(550)	(189)	(11,233)
Amortization expense	-	(18)	(57)	(3,741)	(102)	(175)	(82)	(4,175)
Disposals	-	1	-	1,199	-	17	5	1,222
Impairment losses	(14)	-	-	(9)	-	-	(15)	(38)
Reclassification	(15)	-	(117)	105	25	1	1	-
At 31 December 2009	(1,613)	(149)	(274)	(10,850)	(351)	(707)	(280)	(14,224)
At 1 January 2010	(1,613)	(149)	(274)	(10,850)	(351)	(707)	(280)	(14,224)
Amortization expense	-	(19)	(25)	(3,696)	(106)	(164)	(243)	(4,253)
Disposals	35	4	55	614	-	8	24	740
Impairment losses	-	(1)	-	(4,402)	-	-	(1)	(4,404)
Reclassification	-	-	-	88	-	-	(88)	-
At 31 December 2010	(1,578)	(165)	(244)	(18,246)	(457)	(863)	(588)	(22,141)
At 1 January 2011	(1,578)	(165)	(244)	(18,246)	(457)	(863)	(588)	(22,141)
Amortization expense	-	(28)	(83)	(4,613)	(1,033)	(189)	(762)	(6,708)
Disposals	84	-	-	3,617	-	190	223	4,114
Impairment losses	(197)	-	-	(11)	-	-	(5)	(213)
Reversal of impairment losses	-	-	-	3,566	-	-	-	3,566
Reclassification	-	1	(8)	(65)	31	64	1	24
At 31 December 2011	(1,691)	(192)	(335)	(15,752)	(1,459)	(798)	(1,131)	(21,358)

(In millions of Russian Roubles unless otherwise stated)

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Net book value								
At 31 December 2009	**4,492**	**429**	**97**	**25,016**	**1,206**	**795**	**588**	**32,623**
At 31 December 2010	**6,603**	**423**	**208**	**19, 534**	**1,765**	**669**	**1007**	**30,209**
At 31 December 2011	**24,691**	**712**	**274**	**23,350**	**14,145**	**560**	**4,455**	**68,187**

Interest amounting to 172, 12 and 90 was capitalized in intangible assets for the years ended 31 December 2011, 2010 and 2009, respectively.

Intangible assets with indefinite useful lives and Goodwill

The owned number capacity with a carrying amount of 697 (2010: 402, 2009: 402) are intangible assets with indefinite useful lives and are not amortized. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

The Group, on an annual basis, performs testing for impairment of goodwill and intangible assets with indefinite lives.

At each reporting date the Group performs impairment testing of goodwill allocated to CGUs that were acquired upon business combinations. Principal approaches and assumptions which were used to determine value in use of cash-generating units, to which goodwill has been allocated, are disclosed in Note 6.

Goodwill and intangible assets with indefinite useful lives were allocated to the following CGU:

	31 December 2011		**31 December 2010**		**31 December 2009**	
CGU	**Goodwill before impairment loss recognition**	**Intangible assets with indefinite useful lives before impairment loss recognition**	**Goodwill before impairment loss recognition**	**Intangible assets with indefinite useful lives before impairment loss recognition**	**Goodwill before impairment loss recognition**	**Intangible assets with indefinite useful lives before impairment loss recognition**
Natsionalnye telecommunikatsii	16,955	290	-	-	-	-
Teleset Networks Public Company Limited	1,680	-	1,680	-		-
Volgograd GSM	1,281	20	-	-	-	-
Nizchegorodskaya sotovaya sviaz	1,076	-	1,076	-	1,076	-
MRF Dalniy Vostok	973	-	973	-	973	-
MRF Severo-Zapad	911	-	911	-	911	-
Globus Telecom	636	359	636	359	636	359
RTComm.RU	596	-	596	-	596	-
Severen telecom	432	-	432	-		-
MRF Volga	210	-	210	-	210	-
Rosmedia	52	-	52	-	52	-
Other	86	28	37	43	52	43
Total	**24,888**	**697**	**6,603**	**402**	**4,506**	**402**

As a result of impairment testing loss amounted to 145 was recognised in respect of CGU Teleset Networks Public Company Limited. Impairment loss is included in the line *Depreciation, amortisation and* *impairment losses* in the statement of comprehensive income and decreased carrying amount of goodwill.

Discount rate and operating income before amortization and depreciation (OIBDA) margin are the key assumptions to which calculations of value in use of CGUs with goodwill and indefinite useful life intangible assets allocated to are the most sensitive. Management approach to gross margin projection is based on historical actual results and growth rate forecasts which correlates to industry growth rate.

A 3% decrease in OIBDA margin in the forecasted period results in impairment loss of RTComm.RU by 496 and Globus Telecom by 142. For the value in use of these CGUs to be equal to the carrying amount of the assets OIBDA margin should decrease by 1.89% and 1.43% accordingly.

A 1% increase in discount rate applied to calculation of value in use for Globus Telecom results in impairment loss of 21. For the value in use of Globus Telecom to be equal to the carrying amount of its assets discount rate should increase by 0.85%.

As a result of impairment testing goodwill in respect of Rosmedia was impaired by 52. Impairment loss was recognized in the line *Depreciation, amortisation and impairment losses* in the statement of comprehensive income.

2010 impairment testing

As a result of the impairment testing performed as at 31 December 2010 no impairment loss was recognized.

Impairment Testing of Other Intangible Assets

At each reporting date the Group performs impairment testing of intangible assets not yet available for use and intangible assets with indefinite useful lives. Principal approaches and assumptions which were used to determine value in use of cash-generating units, to which these intangible assets belong, are disclosed in Note 6.

2011 impairment testing

As at 31 December 2010 impairment loss on billing system Amdocs was recognized due to the absence of intentions to implement and use it. However, in 2011 management approved the decision to implement customer relations management system (further – CRM) on Amdocs platform. According to the agreement with vendor of software billing system licenses were converted into CRM licenses. As a result, previously recognized loss in respect of licenses amounting to 3,419 was reversed in the statement of comprehensive income for 2011 and recognised in the line *Depreciation, amortisation and impairment losses.*

2010 impairment testing

As a result of the impairment testing performed as at 31 December 2010, the Group recognized impairment losses on intangible assets (including on Amdocs): Rostelecom (1,080), Volgatelecom (1,044), Southern Telecommunications Company (828), North-West Telecom (628), CenterTelecom (356), Sibirtelecom (348) and Far East Telecom (120).

2009 impairment testing

As a result of the impairment testing performed as at 31 December 2009, Sibirtelecom recognized impairment losses on intangible assets in the amount of 24.

(In millions of Russian Roubles unless otherwise stated)

8. SUBSIDIARIES

These consolidated financial statements include the assets, liabilities and results of operations of the following significant subsidiaries:

Subsidiary	Main activity	Effective share of the Group as at 31 December 2011	2010	2009
CJSC MTs NTT	Communication services (fixed line)	100%	100%	100%
CJSC Westelcom	Leasing of equipment	100%	100%	100%
CJSC Zebra Telecom	Communication services	100%	100%	100%
OJSC RTComm.RU	Communication services (internet)	99.51%	99.51%	99.51%
OJSC RTS	Communication services	100%	100%	100%
LLC GTS	Communication services	-	100%	100%
CJSC NSS	Communication services (mobile)	100%	100%	100%
OJSC Stavtelecom	Communication services	-	100%	100%
LLC Uzhno-Uralskaya telefonnaya compania	Communication services	100%	100%	100%
CJSC Baikalwestcom	Communication services (mobile)	100%	100%	100%
CJSC Yenisey telecom	Communication services (mobile)	100%	100%	100%
OJSC Sahatelecom	Communication services	-	-	100%
CJSC Akos	Communication services (mobile)	94.45%	94.45%	94.45%
CJSC Novocom	Communication services (internet)	-	100%	100%
CJSC Globus-Telecom	Communication services	94.92%	94.92%	94.92%
CJSC GlobalTel	Communication services	51%	51%	51%
OJSC National Telecommunications	Communication services (pay TV)	71.8%	-	-
CJSC Volgograd-GSM	Communication services (mobile)	100%	50%	50%
CJSC Orenburg-GSM	Communication services (mobile)	100%	51%	51%
CJSC Severen-Telecom	Communication services	100%	100%	-
OJSC OK Orbita	Recreational services	100%	100%	100%
CJSC RPK Svyazizt	Recreational services	100%	100%	100%
CJSC BIT	Communication services (mobile)	100%	100%	100%
Teleset Networks Public Company Limited	Communication services	100%	100%	-
OJSC Svyazintek	IT consulting	98%	98%	98%

All of the above entities have the same reporting date as the Group.

All significant subsidiaries, except for Teleset Networks Public Company Limited, are incorporated in Russia. Teleset Networks Public Company Limited is incorporated in Cyprus.

In August 2011 the Group increased its share in CJSC Volgograd-GSM from 50% to 100%. Additional shares were bought for cash payment of 2,322 from Bolaro Holdings ltd, CJSC Info-Telecom and OJSC SMARTS.

In the year 2011 the Group increased its share in CJSC Orenburg-GSM from 51% to 100%. Additional shares were bought for cash payment of 116 from OJSC Srednevolzhskaya mezhregionalnaya assotsiatsia radiotelecommunicatsionnih system.

OJSC Stavtelecom, LLC GTS and CJSC Novocom were liquidated during year 2011.

In February 2011 the Group acquired 71.8% equity interest in OJSC National Telecommunications from CJSC National Media Group, OJSC Surgutneftegaz and Raybrook Limited. The purchase price amounted to USD 951 million.

(In millions of Russian Roubles unless otherwise stated)

9. INVESTMENTS IN ASSOCIATES

Investments in associates as at 31 December 2011, 2010 and 2009 were as follows:

Associate	Main activity	Voting share capital, %	2011 Carrying amount	2010 Carrying amount	2009 Carrying amount
OJSC Svyazinvest	Investments	25.00	29,190	26,309	-
OJSC Bashinformsvyaz	Communication services	40.16	3,820	-	-
CJSC Volgograd-GSM	Mobile communication services	100.00	-	695	692
CJSC Samara Telecom	Communication services	27.78	147	144	150
OJSC MMTS-9	Communication services	49.14	260	186	149
OJSC WestBalt Telecom	Communication services	38.00	127	87	88
OJSC Vostoktelecom	Communication services	25.00	75	65	61
Other	Various	-	27	31	57
Total investments in associates			**33,646**	**27,517**	**1,197**

In September 2010, the Group acquired 25% plus one share of OJSC Svyazinvest for a cash payment of 26,000.

The acquisition of interest in OJSC Svyazinvest resulted in a crossholding because OJSC Svyazinvest is the Company's parent. The Company is the main subsidiary of OJSC Svyazinvest and represents the major part of OJSC Svyazinvest group. The investment in OJSC Svyazinvest is accounted for using the equity method applicable for crossholding structures.

In March 2012 the decision about the merger of OJSC Svyazinvest and the Company was approved by the President of Russian Federation (see note 34). The crossholding will be eliminated upon the merger's completion.

In June 2011 the Group acquired 38.78 % equity interest (40.16 % of voting share capital) in OJSC Bashinformsvyaz from LLC Bashtelecominvest. The purchase price amounted to 3,640.

Summarized financial information as at 31 December 2011, 2010 and 2009 and for the years then ended of the associates disclosed above is presented below:

Aggregate amounts	2011	2010	2009
Assets	531,872	447,301	3,456
Liabilities	296,126	260,501	694
Revenue	310,353	284,115	2,990
Net income	12,974	27,188	479

None of the Group's associates are publicly listed entities and consequently do not have published price quotations, except for OJSC Bashinformsvyaz, which is listed on MICEX_RTS exchange, Moscow. Based on its closing bid price of 12.48 Roubles at the reporting date, the fair value of the Group's investment is 4,722.

In 2011 the Group received dividends from its investments in equity accounted investees in the amount of 182 (2010: 151, 2009: 95).

(In millions of Russian Roubles unless otherwise stated)

10. OTHER INVESTMENTS

	31 December 2011	31 December 2010	31 December 2009
Non-current investments			
Available for sale financial assets	3,558	916	763
Loans and receivables	11,058	9,673	3,311
Total other non-current investments	**14,616**	**10,589**	**4,074**
Current investments			
Available for sale financial assets	-	144	118
Loans and receivables	3,926	5,436	20,504
Total other current investments	**3,926**	**5,580**	**20,622**
Total other investments	**18,542**	**16,169**	**24,696**

The Group's exposure to credit, currency and interest rate risks related and fair value information related to other investments is disclosed in Note 31.

11. OTHER NON-CURRENT ASSETS

	31 December 2011	31 December 2010	31 December 2009
Non-current advances, given for investing activities	12,539	3,017	4,979
Non-current advances, given for operating activities	258	220	95
Non-current receivables	1,098	449	218
Other non-current assets	32	6	52
Less: doubtful debt allowance	(107)	(47)	(36)
Total other non-current assets	**13,820**	**3,645**	**5,308**

12. INVENTORIES

	31 December 2011	31 December 2010	31 December 2009
Cable	854	885	770
Finished goods and goods for resale	423	445	433
Spare parts	945	841	783
Tools and accessories	188	158	219
Construction materials	69	212	80
Fuel	164	127	173
Other inventory	1,847	1,488	1,331
Total inventories	**4,490**	**4,156**	**3,789**

(In millions of Russian Roubles unless otherwise stated)

13. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2011 and 2010, 2009 comprised of the following:

	Gross, 31 December 2011	Doubtful debt allowance	Net, 31 December 2011
Amounts due from customers for operating activities	28,311	(4,148)	24,163
Amounts due from customers for non-operating activities	2,572	(651)	1,921
Amounts due from commissioners and agents	1,624	-	1 ,624
Amounts due from personnel	89	-	89
Amounts due from other debtors	1,766	(186)	1,580
Total trade and other accounts receivable	**34,362**	**(4,985)**	**29,377**

	Gross, 31 December 2010	Doubtful debt allowance	Net, 31 December 2010
Amounts due from customers for operating activities	26,941	(4,470)	22,471
Amounts due from customers for non-operating activities	2,047	(852)	1,195
Amounts due from commissioners and agents	1,122	-	1,122
Amounts due from personnel	153	-	153
Amounts due from other debtors	1,085	(415)	670
Total trade and other accounts receivable	**31,348**	**(5,737)**	**25,611**

	Gross, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Amounts due from customers for operating activities	23,359	(4,969)	18,390
Amounts due from customers for non-operating activities	2,119	(612)	1,507
Amounts due from commissioners and agents	1,157	-	1,157
Amounts due from personnel	79	-	79
Amounts due from other debtors	1,325	(215)	1,110
Total trade and other accounts receivable	**28,039**	**(5,796)**	**22,243**

As at 31 December 2011, 2010 and 2009 settlements with customers for operating activities included settlements with the following counterparties:

	31 December 2011	31 December 2010	31 December 2009
Residential customers	12,734	11,524	11,301
Corporate customers	4,969	4,193	3,432
Governmental customers	5,374	5,635	3,020
Interconnected operators - domestic	3,814	4,272	4,529
Interconnected operators - international	1,420	1,314	1,029
Social security bodies	-	3	48
Less: doubtful debt allowance	(4,148)	(4,470)	(4,969)
Total accounts receivable due from customers for operating activities	**24,163**	**22,471**	**18,390**

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

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2011, 2010 and 2009 the share of accounts receivable that are past due but not impaired amounted to approximately nil, 4% and 6% of the Group's total accounts receivable, respectively.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Balance, beginning of year	(5,880)	(6,064)	(5,645)
Bad debt expense	(627)	(682)	(1,068)
Acquisition through business combinations	(299)	(137)	(8)
Accounts receivable written-off	1,588	1,003	657
Balance, end of year	**(5,218)**	**(5,880)**	**(6,064)**

As at 31 December 2011, 2010 and 2009 amounts due from other debtors include finance lease receivables of 241, 151 and nil, respectively.

The Group entered into two finance lease agreements for use the terrestrial optical fiber cables with OJSC FSK EES. The periods of leases approximate the remaining useful life of the optical fibers. Effective interest rates of the leases are in range of 27-28 % p.a. In 2011 the Group entered into finance lease agreement for use of telecommunication equipment with CJSC Astarta. The period of lease 3 years, effective interest rate is 36 % p.a.

Finance income for the years ended 31 December 2011, 2010 amounted to 61 and 81, respectively, and are included in other investing and financial gain in these consolidated statements of comprehensive income.

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2011 and 2010 are as follows:

	31 December 2011		31 December 2010	
	Gross investments in lease	Present value of minimum lease payments	Gross investments in lease	Present value of minimum lease payments
Current portion (less than 1 year)	86	25	39	2
More than 1 to 5 years	236	54	156	12
Over 5 years	415	162	336	137
Total	**737**	**241**	**531**	**151**

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2011, 2010 and 2009 included cash in bank, cash in-hand, short-term deposits and bills of exchange with original maturities of less than three months as follows:

	31 December 2011	31 December 2010	31 December 2009
Cash in bank and in-hand	4,592	11,521	13,064
Short-term deposits and promissory notes up to 3 months	2,468	1,100	541
Other cash and cash equivalents	117	6	16
Total cash and cash equivalents	**7,177**	**12,627**	**13,621**

(In millions of Russian Roubles unless otherwise stated)

15. OTHER CURRENT ASSETS

	31 December 2011	31 December 2010	31 December 2009
Deferred expenses	35	281	400
VAT recoverable	647	387	644
Assets held for sale	261	164	120
Other current assets	264	296	632
Less: doubtful debt allowance	(56)	(33)	(125)
Total other current assets	**1,151**	**1,095**	**1,671**

16. EQUITY

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through 31 December 2002. The share capital of the Company in the Russian statutory accounts at 31 December 2011 amounted to 7,965,224 nominal (uninflated) RUB (2010, 2009: 2,428,819).

The authorized share capital of the Company as at 31 December 2011 comprised 6,628,696,320 ordinary shares and 242,832,000 non-redeemable preferred shares (2010: 6,628,696,320 and 242,832,000, 2009: 1,634,026,541 and 242,832,000). The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

On the 2010 Annual General Meeting, the shareholders of OJSC Rostelecom resolved to increase the number of shares available for additional issue to 5,900,000,000 ordinary shares with par value of RUB 0.0025 per share with the same rights as previously issued ordinary shares. Of them 2,214,561,949 ordinary shares were actually issued on April 1, 2011 to the shareholders of IRCs and OJSC Dagsvyazinform as part of the merger.

As at 31 December 2011 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary Shares, RUB 0.0025 par value	2,943,258,269	7.358	81
Preferred Shares, RUB 0.0025 par value	242,831,469	0.607	25
Total	**3,186,089,738**	**7.965**	**106**

As at 31 December 2010 and 31 December 2009 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary Shares, RUB 0.0025 par value	728,696,320	1.822	75
Preferred Shares, RUB 0.0025 par value	242,831,469	0.607	25
Total	**971,527,789**	**2.429**	**100**

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

Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders’ general meetings following the annual shareholders’ general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

(In millions of Russian Roubles unless otherwise stated)

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

Accordingly, the preferred shares of the Company are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 30).

Treasury shares

As at 31 December 2011, 2010 and 2009 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2011	31 December 2010	31 December 2009
Ordinary Shares	183,348,169	191,795,532	4,080
Preferred Shares,	70,384,795	70,384,795	62
Total	**253,732,964**	**262,180,327**	**4,142**

As at 31 December 2010 and 2009 number of shares represents equivalent of shares of the Combined entity.

At the 2010 Annual General Meetings of Shareholders of the Companies, comprising the Group, which took place in May - June 2010, shareholders approved the merger of the seven Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan with and into OJSC Rostelecom. Shareholders dissenting with the decision, could require redemption of their shares at predetermined rates for both ordinary and preferred shares. According to applicable law, funds allocated for share redemption are limited to 10% of net assets of the companies comprising the Group determined in accordance with Russian accounting principles. As at 31 December 2010, the Group had completed the repurchase of its shares from dissenting shareholders. Total number of treasury shares purchased was an equivalent of 79,356,780 ordinary and 70,384,733 preferred shares of the Combined entity. As at 31 December 2010, all repurchased shares were held by the Group.

During 2010, the Group also purchased share of the companies comprising the Group of an equivalent of 112,434,672 ordinary shares of the Combined entity for 10,850 as a part of a management motivation program (refer note 29).

In October 2011 the Board of Directors of the Company approved decision on shares buy back up to the amount of USD 500 million.

In December 2011 first tranche of share options granted to employee under the management motivation program started to be exercisable. As at 31 December 2011 total number of ordinary shares realized as an exercise of the options constitutes 18,122,013.

In December 2011 the Group purchased 9,674,650 ordinary shares for 1,480.

Dividends

According to the charter of the Company a preferred share carries dividend amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by 25% of total number of shares and the dividend paid on one ordinary share.

Total amount of dividend paid on ordinary shares should be not less than 20% of net profit of the Group as reported under IFRS.

(In millions of Russian Roubles unless otherwise stated)

17. BORROWINGS

Borrowings as at 31 December 2011, 2010 and 2009 were as follows:

	31 December 2011	31 December 2010	31 December 2009
Long-term Borrowings			
Non-current portion of long-term borrowings			
Bank and corporate loans	79,232	81,441	47,166
Bonds	4,604	4,365	13,894
Promissory notes	9	9	604
Vendor financing	69	135	499
Finance lease liabilities	572	1,901	4,563
Interest payable	13	77	270
Restructured customer payments	28	13	96
Total non-current portion of long-term borrowings	**84,527**	**87,941**	**67,092**
Current portion of long-term borrowings			
Bank and corporate loans	44,379	22,652	16,503
Bonds	4,285	18,335	19,735
Promissory notes	-	597	1,927
Vendor financing	2,362	2,424	2,803
Finance lease liabilities	1,491	2,474	3,880
Restructured customer payments	77	79	57
Total current portion of long-term borrowings	**52,594**	**46,561**	**44,905**
Total long-term borrowings	**137,121**	**134,502**	**111,997**
Short-term Borrowings			
Bank and corporate loans	25,893	2,269	2,017
Interest payable	452	1,266	1,786
Other short-term borrowings	-	-	396
Total short-term borrowings	**26,345**	**3,535**	**4,199**
Current portion of long-term borrowings	52,594	46,561	44,905
Total current borrowings	**78,939**	**50,096**	**49,104**
Total borrowings	**163,466**	**138,037**	**116,196**

Included in current portion of long-term loans is an amount of 537 on a credit agreement between Rostelecom and Vnesheconombank (VEB) entered into in December 2005. The loan is repayable annually up to the end of 2012. Under the existing credit agreement with Vnesheconombank and CSFB, the Group is required to meet at the end of each quarter various financial covenants applied to the statutory financial statements of the Company, including maintaining certain levels of debt to equity and debt to income ratios. As at 31 December 2011 the Group was not in compliance with some of the covenants and at the time these financial statements were authorized for issue no waiver had been obtained by the Group from the bank. Consequently, the entire amount of the loan is included in the current portion of long-term borrowings as at 31 December 2011. As at 31 December 2010 the Group was not in compliance with some of the covenants and at that date no waiver had been obtained by the Group from the bank. Consequently, the entire amount of the loan is included in the current portion of long-term borrowings as at 31 December 2010. As at 31 December 2009 the Group was in compliance with all of the covenants, but as at 30 June 2009 and 30 September 2009 the Group was not in compliance with some of the covenants and as at 31 December 2009 no waiver had been obtained by the Group from the bank, so the entire amount of the loan is included in the current portion of long-term borrowings as at 31 December 2009.

In connection with the USD 100 million loan from Vnesheconombank and CSFB, on 28 June 2006, the Group entered into an interest rate swap agreement with CSFB. In accordance with the interest rate swap agreement, twice a year on 28 June and 28 December, commencing on 28 December 2006 and ending on 28 December 2012, the Group undertakes an obligation to CSFB calculated at a fixed interest rate and CSFB undertakes an obligation to the Group in the amount calculated at floating rate payable by the Group on its loan. The Group did not designate the above interest rate swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial liability at fair value through profit and loss amounted to 24 (2010: 70, 2009: 109). Fair value of the derivative is calculated by discounting future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The net gain of 45 related to the change in the fair value of the interest rate swap contract was included in other investing and financial gain in the consolidated statement of comprehensive income for 2011 year (2010: 39; 2009: 67).

(In millions of Russian Roubles unless otherwise stated)

There is 359 outstanding on a credit agreement between CJSC GlobalTel and Loral Space and Communications Corporation (“Loral”) as at 31 December 2011, (2010: 329, 2009: 317). CJSC GlobalTel is in default in respect of this loan. A penalty in the amount of 136 is included in the outstanding balance. As no waiver has been obtained from Loral, these loans are classified as current in the consolidated statement of financial position as at 31 December 2011. The loan does not provide for any collateral. In 2006, Loral brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of the debt. In 2009, the Supreme Court of Arbitration ordered CJSC GlobalTel to repay the loan and penalty to Loral.

Finance lease liabilities

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

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

The Group has two lease tranches of optical fibers with OJSC FSK EES until year 2030. The effective interest rates of these leases are 15% and 17% p.a. Lease payments are denominated in Russian Roubles.

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2011, 2010 and 2009 are as follows:

	31 December 2011		**31 December 2010**		**31 December 2009**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion (less than 1 year)	1,734	1,491	2,817	2,474	5,160	3,880
More than 1 to 5 years	572	472	2,110	1,798	5,447	4,285
Over 5 years	218	100	238	103	334	278
Total	**2,524**	**2,063**	**5,165**	**4,375**	**10,941**	**8,443**

Depreciation of property, plant and equipment under the finance lease contracts for 2011, 2010 and 2009 amounted to 1,397, 1,961 and 2,542, respectively. Finance charges for the year ended 31 December 2011, 2010 and 2009 amounted to 653, 1,048 and 1,879, respectively, and are included in finance costs in these consolidated statements of comprehensive income.

(In millions of Russian Roubles unless otherwise stated)

Vendor financing

Vendor financing payable includes the following as at 31 December 2011, 2010 and 2009:

	31 December 2011	31 December 2010	31 December 2009
Government of Dagestan Republic	69	79	87
Sisko Capital CIS	-	43	376
Huawei Technologies Co. Ltd.	-	-	3
CJSC Envision Group	-	5	14
Other	-	8	19
Vendor financing payable – long-term	**69**	**135**	**499**
Globalstar L.P.	2,159	1,919	1,780
Metrosvyaz Ltd	99	99	99
Sisko Capital CIS	47	342	371
Huawei Technologies Co. Ltd.	45	45	68
Government of Dagestan Republic	10	-	-
USP Kompyulink	-	-	257
CJSC Envision Group	-	8	64
Other	2	11	164
Vendor financing payable – current portion	**2,362**	**2,424**	**2,803**
Total vendor financing payable	**2,431**	**2,559**	**3,302**

As at 31 December 2011, the Group had the following outstanding vendor financing payable:

2,159 (USD 67 million) payable by CJSC GlobalTel to Globalstar L.P., which is the non-controlling shareholder of CJSC GlobalTel, for the purchase of three gateways and associated equipment and services. Globalstar L.P. has a lien over this equipment until the liability is fully paid. CJSC GlobalTel is in default in respect of payments in 2004 - 2011 and has not obtained a waiver from Globalstar L.P. As a result, the entire balance of 1,323 (2010: 1,252, 2009: 1,242) (USD 41 million) is classified as current in the consolidated statements of financial position as at 31 December 2011, 2010 and 2009. Penalty interest in the amount of 836, 667 and 538, accrued for each day of delay at the rate of 10% p.a., is included in the vendor financing payable in the consolidated statements of financial position as at 31 December 2011, 2010 and 2009, respectively. In 2006, Loral, which is the legal successor of Globalstar L.P., brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of the vendor financing payable. Management believes that immediate repayment of the defaulted vendor financing and loans would not have a material adverse effect on the Group's results of operations, financial position and operating plans.

(In millions of Russian Roubles unless otherwise stated)

18. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2011, 2010 and 2009:

	31 December 2011	31 December 2010	31 December 2009
Payables for purchases and construction of property, plant and equipment	10,839	10,011	5,076
Other taxes payable	6,268	7,779	7,813
Payable to personnel	8,126	8,448	8,305
Payable for operating activities	3,437	3,296	2,073
Payable to interconnected operators	3,487	4,017	4,314
Dividends payable	372	673	342
Payable for purchases of software	312	157	145
Current provisions	337	230	525
Other accounts payable	4,218	4,324	6,367
Current accounts payable, provisions and accrued expenses	**37,396**	**38,935**	**34,960**
Non-current payables	42	129	37
Non-current provisions	43	73	7
Non-current accounts payable, provisions and accrued expenses	**85**	**202**	**44**
Total accounts payable, provisions and accrued expenses	**37,481**	**39,137**	**35,004**

19. EMPLOYEE BENEFITS

According to staff agreements, the Group contributes to pension plans and also provides additional benefits for its active and retired employees.

Defined contribution plans

The non-state pension fund NPF Telecom-Soyuz maintains the defined contribution plan of Group. In 2011 the Group expensed 205 (2010: 148; 2009: 222) in relation to defined contribution plans.

Defined benefit plans and other long-term employee benefits

To become eligible for benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men and fulfil certain minimum seniority requirements.

As at 31 December 2011, the Group employed 173,878 participants of defined benefit plan and supported 59,410 pensioners eligible for post-employment benefits.

As at 31 December 2011, management estimated that employees' average remaining working period was 9 years (2010 – 10 years; 2009 – 14 years)

As at 31 December 2011, 2010 and 2009 net defined benefit plan liability comprised the following:

	2011	2010	2009
Present value of obligations on defined benefit plans	11,189	16,759	15,964
Fair value of plan assets	(4)	(1)	(5)
Present value of unfunded obligations	**11,185**	**16,758**	**15,959**
Unrecognized past service cost	(960)	(1,861)	(2,451)
Unrecognized actuarial gains/losses	1,527	1,300	2,070
Net defined benefit plan liability	**11,752**	**16,197**	**15,578**

(In millions of Russian Roubles unless otherwise stated)

Net expenses for the defined benefit plan recognized in 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Current service cost	604	835	902
Interest cost	1,039	1,423	1,571
Expected return on plan assets	-	-	(15)
Actuarial gains	-	(101)	(137)
Past service cost - guaranteed part	-	-	114
Amortization of past service cost - non-guaranteed part	483	608	735
Curtailment effect	(5,115)	(357)	(254)
Final settlement effect	-	-	(246)
Net (gain)/expense for the defined benefit plan	**(2,989)**	**2,408**	**2,670**

Net gain/expense for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated statement of comprehensive income in the line “Wages, salaries, other benefits and payroll taxes”. Return on plan assets and interest cost are recognized in “Other investing and financing gain” and “Finance costs” line items of these consolidated statements of comprehensive income.

Curtailment effect occurred due to introduction of the new collective labour agreement in December 2011. The agreement abolished certain social benefits in regard of the former Company’s employees and other miscellaneous social payments.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2011, 2010 and 2009:

	2011	2010	2009
Present value of defined benefit obligations as at 1 January	**16,759**	**15,964**	**17,617**
Curtailment of liabilities	(4,868)	(322)	(154)
Interest cost	1,039	1,423	1,571
Current service cost	604	835	902
Past service cost	-	1	(10)
Benefits paid	(1,453)	(1,794)	(435)
Business combinations	-	-	(7)
Liabilities extinguished on settlements	-	-	(1,661)
Actuarial (gains)/losses	(892)	652	(1,859)
Present value of defined benefit obligations as at 31 December	**11,189**	**16,759**	**15,964**

The following table summarizes movements in the fair value of defined benefit plan assets in 2011, 2010 and 2009:

	2011	2010	2009
Fair value of plan assets as at 1 January	**1**	**5**	**288**
Expected return on plan assets	-	-	15
Actuarial (gains)/losses	-	1	(42)
Benefits paid	(1,453)	(1,794)	(435)
Assets distributed on settlement	-	-	(1,661)
Contributions by the employer	1,456	1,789	1,840
Fair value of plan assets as at 31 December	**4**	**1**	**5**

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2011, 201 and 2009 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2011	**2010**	**2009**
Discount rate	8.50%	8.00%	9.00%
Future salary increases	9.72%	9.72%	9.72%
Rate used for calculation of annuity value	4.00%	4.00%	4.00%
Increase in financial support benefits	5.50%	5.50%	5.50%
Staff turnover	5% for aged 50 and below 0% for aged above 50	5% for aged 50 and below 0% for aged above 50	7.00%
Mortality tables (source of information)	1985/86	1985/86	1985/86

The amounts of experience adjustments and present value of defined benefit obligation and defined benefit assets for the current annual period and previous four annual periods are as follows:

	2011	**2010**	**2009**	**2008**	**2007**
Defined benefit obligations	11,189	16,759	15,964	17,617	19,349
Defined benefit assets	(4)	(1)	(5)	(288)	(300)
Plan proficit	11,185	16,758	15,959	17,329	19,049
Experience adjustments on defined benefit plan liabilities	664	266	301	851	1,714
Experience adjustments on defined benefit plan assets	-	(1)	8	30	2

The Group expects to contribute 1,500 to its non-state pension fund in 2012 in respect of defined benefit plans.

20. INCOME TAXES

The components of income tax expense for the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	**2010**	**2009**
Current income tax expense			
Income tax for the year	(8,715)	(9,625)	(7,225)
Adjustments of the current income tax for previous years	(41)	41	159
Total current income tax for the year	**(8,756)**	**(9,584)**	**(7,066)**
Deferred tax expense			
Origination and reversal of temporary differences	(1,867)	(719)	(752)
Changes in unused tax losses	(332)	262	(256)
Total deferred income tax	**(2,199)**	**(457)**	**(1,008)**
Total income tax expense for the year	**(10,955)**	**(10,041)**	**(8,074)**

(In millions of Russian Roubles unless otherwise stated)

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

	2011	2010	2009
Profit before tax	57,025	41,379	34,337
Statutory income tax rate	20%	20%	20%
Theoretical tax charge at statutory income tax rate	(11,405)	(8,276)	(6,867)
Adjustments of the current income tax for previous years	(41)	41	159
Non-deductible expenses and non-taxable income	918	(2,009)	(1,045)
Tax on intragroup dividend income	(44)	(84)	(134)
Changes in unrecognized deferred tax assets	(513)	262	(256)
Tax exemptions	57	60	35
Other	73	(35)	34
Total actual income tax	**(10,955)**	**(10,041)**	**(8,074)**
Effective tax rate, %	19.21%	24.27%	23.51%

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Effect of employee benefits curtailment	1,023	-	-
Effect of business combination achieved in several stages	388	-	-
Reversal/ (accrual) of impairment loss	665	(665)	-
Other	(1,158)	(1,344)	(1,045)
Total non-deductible expenses and non-taxable income	**918**	**(2,009)**	**(1,045)**

Other non-deductible expenses and non-taxable income include income connected with depreciation of certain property, plant and equipment, expenses within share-based employee motivation program, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances, other expenses and value added tax accrued on free-of-charge services.

The components of net deferred tax assets and liabilities as at 31 December 2011, 2010 and 2009, and the respective movements during 2011, 2010 and 2009 were as follows:

		Movement during 2011 recognized in			
	Balance as at 1 January 2011	**Acquisition through business combinations**	**Other comprehensive income**	**Profit / or loss for the year**	**Balance as at 31 December 2011**
Tax effects of future tax deductible items					
Property, plant and equipment	-	9	-	224	233
Unused tax losses	240	476	-	(332)	384
Trade and other accounts receivable	35	4	-	28	67
Inventories	9	1	-	42	52
Investments	469	1	-	(470)	-
Employee benefits	1,880	-	-	104	1,984
Loans and borrowings	1,311	-	-	(927)	384
Other non-current liabilities	85	-	-	469	554
Accounts payable, provisions and accrued expenses	1,245	19	-	282	1,546
Other	782	30	-	(737)	75
Gross deferred tax asset	**6,056**	**540**	**-**	**(1,317)**	**5,279**

(In millions of Russian Roubles unless otherwise stated)

			Movement during 2011 recognized in		
	Balance as at 1 January 2011	Acquisition through business combinations	Other comprehensive income	Profit / or loss for the year	Balance as at 31 December 2011
Tax effects of future taxable items:					
Property, plant and equipment	(14,709)	(788)	-	(2,051)	(17,548)
Intangible assets	(1,495)	(3,621)	-	814	(4,302)
Investments	(604)	-	(4)	447	(161)
Accounts payable, provisions and accrued expenses	(522)	(55)	-	338	(239)
Trade and other accounts receivable	(410)	(3)	-	(266)	(679)
Loans and borrowings	(13)	-	-	9	(4)
Other	(54)	(6)	-	(173)	(233)
Gross deferred tax liability	**(17,807)**	**(4,473)**	**(4)**	**(882)**	**(23,166)**
Net deferred tax liability	**(11,751)**	**(3,933)**	**(4)**	**(2,199)**	**(17,887)**

			Movement during 2010 recognized in		
	Balance as at 1 January 2010	Acquisition through business combinations	Other comprehensive income	Profit / or loss for the year	Balance as at 31 December 2010
Tax effects of future tax deductible items					
Unused tax losses	-	-	-	240	240
Trade and other accounts receivable	58	-	-	(23)	35
Inventories	15	-	-	(6)	9
Investments	234	-	-	235	469
Employee benefits	1,806	-	-	74	1,880
Loans and borrowings	1,824	-	-	(513)	1,311
Other non-current liabilities	92	-	-	(7)	85
Accounts payable, provisions and accrued expenses	1,287	-	-	(42)	1,245
Other	550	-	-	232	782
Gross deferred tax asset	**5,866**	**-**	**-**	**190**	**6,056**
Tax effects of future taxable items:					
Property, plant and equipment	(14,264)	(344)	-	(101)	(14,709)
Intangible assets	(1,879)	22	-	362	(1,495)
Investments	(98)	-	(41)	(465)	(604)
Accounts payable, provisions and accrued expenses	(347)	-	-	(175)	(522)
Trade and other accounts receivable	(165)	-	-	(245)	(410)
Loans and borrowings	(32)	-	-	19	(13)
Other	(12)	-	-	(42)	(54)
Gross deferred tax liability	**(16,797)**	**(322)**	**(41)**	**(647)**	**(17,807)**
Net deferred tax liability	**(10,931)**	**(322)**	**(41)**	**(457)**	**(11,751)**

(In millions of Russian Roubles unless otherwise stated)

		Movement during 2009 recognized in			
	Balance as at 1 January 2009	Acquisition through business combinations	Other comprehensive income	Profit / or loss for the year	Balance as at 31 December 2009
Tax effects of future tax deductible items					
Trade and other accounts receivable	174	-	-	(116)	58
Inventories	21	-	-	(6)	15
Investments	223	-	(82)	93	234
Employee benefits	1,656	-	-	150	1,806
Loans and borrowings	1,651	1	-	172	1,824
Other non-current liabilities	93	-	-	(1)	92
Accounts payable, provisions and accrued expenses	1,034	-	-	253	1,287
Other	88	-	-	462	550
Gross deferred tax asset	**4,940**	**1**	**(82)**	**1,007**	**5,866**
Tax effects of future taxable items:					
Property, plant and equipment	(12,721)	(18)	-	(1,525)	(14,264)
Intangible assets	(1,793)	-	-	(86)	(1,879)
Investments	(49)	-	-	(49)	(98)
Accounts payable, provisions and accrued expenses	15	-	-	(362)	(347)
Trade and other accounts receivable	(127)	1	-	(39)	(165)
Loans and borrowings	(63)	-	-	31	(32)
Other	(27)	-	-	15	(12)
Gross deferred tax liability	**(14,765)**	**(17)**	**-**	**(2,015)**	**(16,797)**
Net deferred tax liability	**(9,825)**	**(16)**	**(82)**	**(1,008)**	**(10,931)**

Taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as at 31 December 2011, 2010 and 2009 amounted to 16,294, 11,315 and 8,736, respectively. Deductible temporary differences associated with investments in subsidiaries for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2011, 2010 and 2009 amounted to 2,596, 1,760 and 1,807, respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2011, 2010 and 2009 amounted to 5,666, 3,103 and 4,475, respectively, of which unused tax losses with expiry date from 2013 to 2021 amounted to 4,418, 1,866 and 2,601 for 2011, 2010 and 2009, respectively.

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

(In millions of Russian Roubles unless otherwise stated)

The consolidated statement of comprehensive income for 2011, 2010 and 2009 includes tax expense in respect of following items of other comprehensive income:

	2011	2010	2009
Change in fair value of available-for-sale financial assets	(4)	(41)	(82)

21. REVENUE

Revenue comprised the following for the years ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Local telephone services	88,018	85,396	79,654
Intra-zone telephone services	21,447	23,358	25,239
Domestic long-distance/International long-distance telephone services	24,070	27,939	31,892
Interconnection and traffic transit services (excluding Internet)	20,202	19,703	23,706
Mobile communication services	35,560	33,872	29,864
Rent of channels	9,756	9,149	12,206
Broadband Internet	46,993	39,215	32,784
Pay TV	7,011	1,102	865
Data services (VPN, data centres, wholesale Internet sales)	18,929	17,191	13,182
Other	24,029	18,806	15,253
Total revenue	**296,015**	**275,731**	**264,645**

In 2011, 2010 and 2009 the Group generated revenue by the following major customer groups:

Customer Groups	2011	2010	2009
Residential customers	160,444	154,787	148,503
Corporate customers	69,774	62,175	60,737
Governmental customers	34,484	28,445	23,272
Interconnected operators	31,313	30,324	32,133
Total	**296,015**	**275,731**	**264,645**

22. WAGES, SALARIES, OTHER BENEFITS AND PAYROLL TAXES

	2011	2010	2009
Salary expenses	58,811	53,649	51,886
Share-based remuneration	588	3,930	-
Social taxes	16,705	12,313	11,508
(Gain)/loss for defined benefit plan	(4,114)	1,072	1,331
Other personnel costs	2,848	3,453	2,201
Total wages, salaries, other benefits and payroll taxes	**74,838**	**74,417**	**66,926**

Gain on pension plans in 2011 occurred due to curtailments effects of some of the Group's defined benefits schemes (refer to Note 19).

(In millions of Russian Roubles unless otherwise stated)

23. MATERIALS, UTILITIES, REPAIRS AND MAINTENANCE

	2011	2010	2009
Repairs and maintenance	12,202	10,968	10,516
Utilities	7,661	6,926	6,108
Materials	7,419	7,178	7,476
Total materials, utilities, repairs and maintenance	**27,282**	**25,072**	**24,100**

24. OTHER OPERATING INCOME

	2011	2010	2009
Reimbursement of losses incurred from universal services fund	11,528	11,297	11,012
Gain on disposals of other assets	132	138	105
Reimbursement of other losses incurred	246	83	48
Fines and penalties	536	617	418
Income on Government grants	11	-	-
Other income	2,185	2,494	2,669
Total other operating income	**14,638**	**14,629**	**14,252**

In 2011 the Group received the grant from the Ministry of Communications for compensating expenses associated with the organization and implementation of activities under the project "Organisation of high-grade access to information networks through a satellite communications system." The Government grant received amounted to 1,105 and initially was recognised as long-term deferred income. As at 31 December 2011 long-term deferred income associated with the grant was included in other non-current liabilities in the accompanying consolidated statement of financial position in the amount of 1,094. For the year ended 31 December 2011 income related to the grant of 11 was recognised in other operating income in the accompanying consolidated statement of comprehensive income.

25. OTHER OPERATING EXPENSES

	2011	2010	2009
Agency fees	7,420	6,809	6,457
Taxes, other than income tax	6,795	6,377	6,210
Third party services and expenses related to administration	5,877	6,171	6,559
Advertising expenses	5,040	3,194	2,806
Rent	4,525	4,167	4,049
Transportation and postal services	3,527	2,633	2,722
Fire and other security services	3,090	2,935	3,003
Contributions to universal service fund	2,952	2,800	2,697
E-Government contract expenses	2,188	1,129	477
Audit and consulting fees	2,241	1,946	2,570
Member fees, charity contribution, payments to labour units	575	680	468
Reorganization expenses	395	951	-
Asset insurance	182	302	340
Fines and penalties	33	30	62
Other	4,846	5,722	5,289
Total other operating expenses	**49,686**	**45,846**	**43,709**

(In millions of Russian Roubles unless otherwise stated)

26. FINANCE COSTS

	2011	2010	2009
Interest expense of defined benefit plans	1,039	1,424	1,571
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	10,649	9,208	12,851
Interest expense on finance lease liabilities	653	1,048	1,879
Borrowing servicing expense	132	118	151
Total finance costs	**12,473**	**11,798**	**16,452**

27. OTHER INVESTING AND FINANCIAL GAIN

	2011	2010	2009
Interest income from finance assets	1,853	2,765	3,063
Income from pension plan assets	-	-	15
Dividend income	27	27	8
(Expenses)/ income related to business combinations	(348)	51	(50)
Loss on disposal of subsidiaries	(120)	-	-
Gain/ (loss) on disposal of other financial assets	-	74	(82)
Gain on change of fair value of financial assets through profit and loss	51	39	67
Fair value revaluation of previously acquired associate	1,505	-	-
Reversal of impairment of financial assets	30	20	70
Other (losses)/gains	(342)	(231)	146
Total other investing and financial gain	**2,656**	**2,745**	**3,237**

Other investing and financial gain include fair value revaluation of previously acquired share in CJCS Volgograd- GSM at the date of obtaining control in the amount of 1,505 (refer to Note 5).

28. SEGMENT INFORMATION

In 2011 the basis of segmentation has changed as compared with 2010 due to the reorganization of the Company completed on April 1, 2011 (refer to Note 1). As at 31 December 2010 there was no single management body that could be identified as chief operating decision maker. However, the financial information of former Rostelecom and IRCs comprising Svyazinvest Group was regularly analyzed by OJSC Svyazinvest, the Group's controlling shareholder, and was used for decision making in regards of their strategy and operations. Thus Rostelecom and IRCs were determined as operating and reportable segments with all subsidiaries included in the segment Other as they did not meet quantitative threshold.

After the merger the former Rostelecom branches and IRCs, which are located in the same geographical area, were integrated into macroregional branches of reorganised Company. Rostelecom Management Body which becomes chief operating decision maker started to analyze operating results of OJSC Rostelecom by macroregional branches. The results of subsidiaries are analysed on standalone basis. Consequently, the Group has determined its macroregional branches and subsidiaries as operating segments. However, subsidiaries do not meet quantitative threshold defined by IFRS 8 and financial information of these operating segments are combined and presented under the heading Other. Currently Group has nine reportable segments, which are the Group's strategic business units. While differentiate geographically, the strategic business units offer mainly the same services to the customers.

Management of the Company assesses the performance of the operating segments based on the accounting data that is prepared using Russian statutory accounting principles on unconsolidated basis. A measure of segment profit or loss reported to the management of the company is earnings before interest, taxes, depreciation and amortization (EBITDA).

The following table illustrates financial information of reportable segment required for disclosure by IFRS 8 for the year ended 31 December 2011:

(In millions of Russian Roubles unless otherwise stated)

2011	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Other	Total segments	Adjustments and eliminations	Total
Revenue												
Third party revenue	21,789	31,598	45,450	26,607	32,737	45,596	31,471	20,217	40,967	296,432	(417)	**296,015**
Revenue from other segments	1,374	846	1,007	929	1,026	798	1,352	353	5,000	12,685	(12,685)	**-**
Total revenue	**23,163**	**32,444**	**46,457**	**27,536**	**33,763**	**46,394**	**32,823**	**20,570**	**45,967**	**309,117**	**(13,102)**	**296,015**
EBITDA	**302**	**14,828**	**15,581**	**11,250**	**13,730**	**19,927**	**12,741**	**6,413**	**13,477**	**108,249**	**13,459**	**121,708**

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2011:

EBITDA of reportable segments	**94,772**
EBITDA of other segments	**13,477**
Adjustments	
Depreciation, amortization and impairment losses	(50,608)
Finance costs and other investing and financial gain	(9,817)
Income from associates	3,439
Net gain for defined benefit plan	4,335
Share-based remuneration	(588)
Reversal of leasing expenses recognized in statutory books	4,177
Reversal of income from revaluation of associates and available-for-sale investments recognized in statutory books	(760)
Intragroup dividends	(563)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	(1,227)
Other adjustments	388
Profit before income tax	**57,025**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2010:

2010	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Other	Total segments	Adjustments and eliminations	Total
Revenue												
Third party revenue	18,448	30,869	43,777	25,831	31,788	45,472	31,000	19,609	30,416	**277,210**	(1,479)	**275,731**
Revenue from other segments	1,143	193	352	294	742	159	787	208	4,516	**8,394**	(8,394)	**-**
Total revenue	**19,591**	**31,062**	**44,129**	**26,125**	**32,530**	**45,631**	**31,787**	**19,817**	**34,932**	**285,604**	**(9,873)**	**275,731**
EBITDA	**(4,349)**	**13,287**	**13,886**	**10,414**	**12,315**	**20,363**	**12,538**	**7,060**	**12,074**	**97,588**	**8,600**	**106,188**

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2010:

EBITDA of reportable segments	**85,514**
EBITDA of other segments	**12,074**
Adjustments	
Depreciation, amortization and impairment losses	(45,503)
Finance costs and other investing and financial gain	(9,053)
Income from associates	239
Share-based remuneration	(3,930)
Net loss for defined benefit plan	(923)
Intragroup dividends	(499)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	(754)
Reversal of leasing expenses recognized in statutory books	5,219
Other adjustments	(1,005)
Profit before income tax	**41,379**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2009:

2009	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Other	Total segments	Adjustments and eliminations	Total
Revenue												
Third party revenue	16,823	29,401	40,556	24,771	30,951	43,929	30,028	15,015	35,410	**266,884**	(2,239)	**264,645**
Revenue from other segments	708	376	258	178	327	75	488	141	1 842	**4 393**	(4,393)	**-**
Total revenue	**17,531**	**29,777**	**40,814**	**24,949**	**31,278**	**44,004**	**30,516**	**15,156**	**37,252**	**271,277**	**(6,632)**	**264,645**
EBITDA	**(6,540)**	**13,110**	**13,827**	**10,608**	**13,749**	**17,472**	**11,429**	**5,473**	**11,342**	**90,470**	**8,426**	**98,896**

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2009:

EBITDA of reportable segments	**79,128**
EBITDA of other segments	**11,342**
Adjustments	
Depreciation, amortization and impairment losses	(45,756)
Finance costs and other investing and financial gain	(13,215)
Net loss for defined benefit plan	(1,011)
Intragroup dividends	(609)
Income from associates	216
Adjustments to loss on disposal of property, plant and equipment and intangible assets	(454)
Reversal of leasing expenses recognized in statutory books	4,941
Other adjustments	(245)
Profit before income tax	**34,337**

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

The Group had no individual customers, other than the Government of the Russian Federation and its related parties, that accounted for greater than 10% of its revenue during the years ended 31 December 2011, 2010 and 2009.

(In millions of Russian Roubles unless otherwise stated)

29. SHARE-BASED PAYMENTS

Share-based program started in 2011 (preferred shares)

In June 2011, the Board of Directors of the Company approved changes to the employee long-term incentive program by launching an additional share option scheme. Members of the Board of Directors and senior employees were granted options to buy preferred shares of the Company at an exercise price 87.6 RUB per share. Total funds allocating to the scheme amounted to 3,500. To operate the program, the Company established fund “Gazpombank – Telecommunication Plus” under management of ZAO “Gazprombank – Upravlenie aktivami”. To execute the program fund “Gazpombank – Telecommunication Plus” purchased shares from the Company’s subsidiary LLC Mobitel. The contracts with part of employees were signed on June 29, 2011. Another part of employees will sign contracts on March 31, 2012.

The scheme is classified as equity-settled share-based payment plan. The Group receives services from its executives and senior employees and grants its own equity instruments as consideration. The share-based transaction is settled by the Fund, which is a SPE controlled by the Group and, therefore, is consolidated in the consolidated financial statements.

Options are exercisable in two tranches: not more than 50% are exercisable after 14 June 2012 and the rest after 14 June 2013. Options may be exercised within a six-month period after exercise date. Unclaimed options of the first tranche may also be exercised within the six-month exercise period attributed to the second tranche.

The following share-based payment arrangements were in existence during 2011:

Options series	Number of options granted	Grant date	Exercise date	Exercise price, RUB	Share price at grant date, RUB
(1) Granted on 29 June 2011	13,892,662	29 June 2011	14 June 2012	87.60	86.30
(2) Granted on 29 June 2011	13,892,662	29 June 2011	14 June 2013	87.60	86.30
(3) Granted on 31 March 2012	3,345,891	31 March 2012	14 June 2012	87.60	88.67
(4) Granted on 31 March 2012	3,345,891	31 March 2012	14 June 2013	87.60	88.67

All options vested during the year ended 31 December 2011 and were outstanding with weighted average remaining contractual life of 257 days for options (1) and (3) and 622 days for options (2) and (4).

The weighted average fair value of the share options as of the grant date is 16.83 RUB for options (1) and (2) and 22.17 for options (3) and (4). Total amount of 588 was recognized as an expense in wages, salaries, other benefits and payroll taxes in this consolidated statement of comprehensive income for the year ended 31 December 2011.

Fair values of options were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average industry share price volatility over the option lives for respective series.

Inputs into the model	Series 1 and 2	Series 3 and 4
Grant date share price, RUB	86.30	88.67
Exercise price, RUB	87.60	87.60
Expected volatility	39.8%	39.8%
Option life	1.75 year	1.75 year
Dividend yield	4.4%	4.4%
Risk-free interest rate	5.58%	5.58%

(In millions of Russian Roubles unless otherwise stated)

Share-based program started in 2010 (ordinary shares)

The Group introduced a share option scheme for executives and senior employees of the Group in August 2010. In accordance with the terms of the scheme, executives and senior employees which were in service with the Svyazinvest Group during the vesting period from May 28, 2010 until 1 December 2010 were granted options to purchase ordinary shares of OJSC Rostelecom at an exercise price of 96.8 RUB per share. The contracts with employees were signed on August 17, 2010. To operate the program, the Group established a fund under management of ZAO "Gazprombank – Upravlenie aktivami" (the "Fund"), which is also a party of the option agreements.

In addition to executives and senior employees of the Group, certain Board members, who are also executives and senior employees of Svyazinvest, were granted options as part of the scheme. The Group recorded a proportionate share of their share-based remuneration.

The scheme is classified as equity-settled share-based payment plan. The Group received services from its executives and senior employees and granted its own equity instruments as consideration. The share-based transaction is settled by the Fund, which is a SPE controlled by the Group and, therefore, is consolidated in the consolidated financial statements. The Fund purchased shares of the companies comprising the Group on open market using cash contributions from the Group of 10,850.

Options are exercisable in two tranches: not more than 60% are exercisable after 1 December 2011 and the rest after 1 December 2012. Options may be exercised within a six-month period after exercise date. Unclaimed options of the first tranche may also be exercised within the six-month exercise period attributed to the second tranche.

The following share-based payment arrangements were introduced during 2010:

Options series	Number of options granted	Grant date	Exercise date	Exercise price, RUB	Share price at grant date, RUB
(1) Granted on 17 August 2010	59,253,817	17 August 2010	1 December 2011	96.80	109.17
(2) Granted on 17 August 2010	39,502,545	17 August 2010	1 December 2012	96.80	109.17

All options vested during the year ended 31 December 2010. The weighted average fair value of the share options granted as of the grant date is 39.61 RUB. As at 31 December 2011 weighted average remaining contractual life of options comprised 60 and 425 for options (1) and (2) respectively (2010: 426 and 791).

For the year ended 31 December 2011 the Group recognized nil (2010: 3,930) as an expense in wages, salaries, other benefits and payroll taxes with the regard of those options.

Fair values of options on grant date were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average industry share price volatility over the option lives for respective series.

Inputs into the model	Series 1	Series 2
Grant date share price, RUB	109.17	109.17
Exercise price, RUB	96.80	96.80
Expected volatility	43.46%	47.88%
Option life	1.54 year	2.54 year
Dividend yield	0.27%	0.27%
Risk-free interest rate	4.99%	6.18%

(In millions of Russian Roubles unless otherwise stated)

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year:

	2011		2010	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
Balance at beginning of year	99,026,362	96.8	-	-
Granted during the year	-		99,026,362	96.8
Exercised during the year	18,122,013	96.8	-	-
Balance at end of year	80,904,349	96.8	99,026,362	96.8

In December 2011 employees exercised 18,122,013 options. The weighted average share price at date of exercise for share options exercised in 2011 was 149.7 RUB (2010: no options exercised).

30. EARNINGS PER SHARE

	2011	2010	2009
Profit for the period attributable to shareholders of the Company	46,240	31,418	26,125
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,925,111,521	3,098,858,910	3,184,735,978
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,971,118,825	3,124,596,635	3,184,735,978
Basic earnings per share attributable to ordinary shareholders of the Combined group, in RUB	**15.81**	**10.14**	**8.20**
Diluted earnings per share attributable to ordinary shareholders of the Combined group, in RUB	**15.56**	**10.06**	**8.20**

Weighted average number of shares outstanding for the years ended 31 December 2011 is adjusted for the treasury shares of the Group, which amounted to 190,826,904 (2010: an equivalent of 191,530,851) ordinary and 70,151,313 (2010: 70,151,313) preferred shares of the Company.

Reconciliation of weighted average number of shares used in calculation of basic and diluted earnings per shares:

	2011	2010	2009
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,925,111,521	3,098,858,910	3,184,735,978
Dilutive effect of call options	46,007,304	25,737,725	-
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,971,118,825	3,124,596,635	3,184,735,978

(In millions of Russian Roubles unless otherwise stated)

31. FINANCIAL INSTRUMENTS

The Group’s principal financial instruments comprise cash and cash equivalents, investments, bank loans, bonds and promissory notes issued and finance leases liabilities. These instruments serve to finance the Group’s operations and capital expenditures; its corporate financial transactions such as share repurchase and acquisition strategy; place available funds in course of cash management. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group’s operations. The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2011, 2010 and 2009:

Classes	Categories	31 December 2011	31 December 2010	31 December 2009
Cash and cash equivalents	Loans and receivables	7,177	12,627	13,621
Trade and other receivables	Loans and receivables	30,368	26,013	22,425
Available-for-sale financial assets at cost	Available-for-sale	9	35	38
Available-for-sale financial assets at fair value	Available-for-sale	3,549	1,025	843
Loans	Loans and receivables	14,984	15,109	23,815
Total financial assets		**56,087**	**54,809**	**60,742**
Bank and corporate loans	Liabilities at amortized cost	149,504	106,362	65,686
Bonds	Liabilities at amortized cost	8,889	22,700	33,629
Promissory notes	Liabilities at amortized cost	9	606	2,531
Vendor financing	Liabilities at amortized cost	2,431	2,559	3,302
Finance lease liabilities	Liabilities at amortized cost	2,063	4,375	8,443
Interest payable	Liabilities at amortized cost	466	1,343	2,056
Hedge derivative	Financial liabilities at fair value through profit and loss	-	-	396
Other borrowings	Liabilities at amortized cost	105	92	153
Trade and other payables	Liabilities at amortized cost	30,077	30,035	24,750
Non-hedge derivative	Financial liabilities at fair value through profit and loss	24	70	109
Total financial liabilities		**193,568**	**168,142**	**141,055**

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

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

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

(In millions of Russian Roubles unless otherwise stated)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	2011	2010	2009
Available-for-sale financial assets			
Long-term equity investments at fair value			
Level 1	776	1,007	815
Level 2	2,773	18	28
Level 3	-	-	-
Total long-term equity investments at fair value	**3,549**	**1,025**	**843**
Financial liabilities at fair value through profit and loss			
Non-hedge derivatives			
Level 1	-	-	-
Level 2	24	70	109
Level 3	-	-	-
Total non-hedge derivatives	**24**	**70**	**109**
Hedge derivatives			
Level 1	-	-	-
Level 2	-	-	396
Level 3	-	-	-
Total hedge derivatives	**-**	**-**	**396**

(In millions of Russian Roubles unless otherwise stated)

Income and expenses on financial instruments

		Finance costs	Other investing and financing gains and losses							Equity	
2011	**Bad debt income / (expense)**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / losses on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains / losses**	**Fair value change**	**Total**
Cash and cash equivalents	-	-	332	-	-	-	-	-	(42)	-	290
Trade and other receivables	(627)	21	62	-	-	-	-	-	141	-	(403)
Available for sale financial instruments	-	-	-	27	-	-	-	-	-	19	46
Loans	-	-	1,459	-	-	-	76	-	(88)	-	1,447
Total financial assets	**(627)**	**21**	**1,853**	**27**	**-**	**-**	**76**	**-**	**11**	19	**1,380**
Bank and corporate loans	-	(8,849)	-	-	-	-	-	-	(32)	-	(8,881)
Bonds	-	(1,589)	-	-	-	-	-	-	-	-	(1,589)
Promissory notes	-	(74)	-	-	-	-	-	-	-	-	(74)
Vendor financing	-	(148)	-	-	-	-	-	-	(125)	-	(273)
Finance lease liabilities	-	(653)	-	-	-	-	-	-	(2)	-	(655)
Interest payable	-	(10)	-	-	-	-	-	-	(7)	-	(17)
Trade and other payables and non-hedge derivatives	-	-	-	-	-	51	-	(1)	(110)	-	(60)
Total financial liabilities	**-**	**(11,323)**	**-**	**-**	**-**	**51**	**-**	**(1)**	**(276)**	-	**(11,549)**

(In millions of Russian Roubles unless otherwise stated)

		Finance costs	Other investing and financing gains and losses							Equity	
2010	**Bad debt income / (expense)**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / losses on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains / losses**	**Fair value change**	**Total**
Cash and cash equivalents	-	-	989	-	-	-	-	-	29	-	1,018
Trade and other receivables	(681)	-	19	-	-	-	-	-	(21)	-	(683)
Available for sale financial instruments	-	-	-	27	74	-	4	-	-	198	303
Loans	-	-	1,757	-	-	-	16	-	(283)	-	1,490
Total financial assets	**(681)**	**-**	**2,765**	**27**	**74**	**-**	**20**	**-**	**(275)**	**198**	**2,128**
Bank and corporate loans	-	(5,535)	-	-	-	-	-	(37)	168	-	(5,404)
Bonds	-	(2,933)	-	-	-	-	-	-	-	-	(2,933)
Promissory notes	-	(399)	-	-	-	-	-	-	-	-	(399)
Vendor financing	-	(184)	-	-	-	-	-	-	3	-	(181)
Finance lease liabilities	-	(1,048)	-	-	-	-	-	-	(12)	-	(1,060)
Interest payable	-	(39)	-	-	-	-	-	-	2	-	(37)
Other borrowings and hedge derivatives	-	(64)	-	-	-	-	-	(48)	-	-	(112)
Trade and other payables and non-hedge derivatives	-	(53)	-	-	-	39	-	-	27	-	13
Total financial liabilities	**-**	**(10,255)**	**-**	**-**	**-**	**39**	**-**	**(85)**	**188**	**-**	**(10,113)**

(In millions of Russian Roubles unless otherwise stated)

		Finance costs	Other investing and financing gains and losses								Equity	
2009	**Bad debt income / (expense)**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / losses on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains / losses**	**Recognition of fair value change in income statement**	**Fair value change**	**Total**
Cash and cash equivalents	-	-	784	-	-	-	-	-	(96)	-	-	**688**
Trade and other receivables	(1,068)	-	1	-	-	-	-	-	214	-	-	**(853)**
Available for sale financial assets	-	-	13	8	(81)	-	-	63	(692)	(1)	593	**(97)**
Loans	-	-	2,265	-	(1)	-	70	70	(65)	-	-	**2,339**
Total financial assets	**(1,068)**	**-**	**3,063**	**8**	**(82)**	**-**	**70**	**133**	**(639)**	**(1)**	**593**	**2,077**
Bank and corporate loans	-	(7,681)	-	-	-	-	-	28	(1,180)	-	-	**(8,833)**
Bonds	-	(4,426)	-	-	-	-	-	-	-	-	-	**(4,426)**
Promissory notes	-	(666)	-	-	-	-	-	-	1	-	-	**(665)**
Vendor financing	-	(43)	-	-	-	-	-	-	(70)	-	-	**(113)**
Finance lease liabilities	-	(1,879)	-	-	-	-	-	-	(45)	-	-	**(1,924)**
Interest payable	-	(35)	-	-	-	-	-	-	(22)	-	-	**(57)**
Other borrowings and hedge derivatives	-	-	-	-	-	67	-	-	-	-	-	**67**
Trade and other payables and non-hedge derivatives	-	-	-	-	-	-	-	69	(762)	-	-	**(693)**
Total financial liabilities	**-**	**(14,730)**	**-**	**-**	**-**	**67**	**-**	**97**	**(2,078)**	**-**	**-**	**(16,644)**

(a) Credit risk

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

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

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2011, 2010 and 2009.

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

The Group deposits excess cash available with several Russian banks and makes investments in bills of exchange. To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the creditworthiness of the banks. To facilitate this assessment, deposits are mainly placed with banks where the Group has already had current settlement account and can easily monitor activity of such banks. Prior to investing in bills of exchange, management of the Group performs an analysis of financial position of the issuer and monitors its creditworthiness over periods up to maturity.

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

(b) Liquidity risk

The Group monitors its risk of a shortage of funds by preparing and monitoring compliance with cash flow budgets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases. Cash flow budgets consider the maturity of both cash inflows and outflows from the Group's operations. Based on projected cash flows the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis. However, since the companies comprising the Group were managed on individual basis in 2009-2011 no financing was provided within the Group introducing the need for certain companies to raise financing from third parties rather than from fellow subsidiaries with excess liquidity.

(In millions of Russian Roubles unless otherwise stated)

Maturity analysis as at 31 December 2011, 2010 and 2009 represented below shows undiscounted cash flows, including estimated interest payments:

	2012	2013	2014	2015	2016 and later	Total
31 December 2011						
Bank and corporate loans	80,245	49,099	10,994	13,703	13,865	**167,906**
Bonds	5,085	2,022	351	351	4,250	**12,059**
Promissory notes	-	-	-	-	8	**8**
Vendor financing	2,366	8	8	8	47	**2,437**
Finance lease liabilities	1,734	532	22	18	218	**2, 524**
Other borrowings and hedge derivatives	77	13	10	9	12	**121**
Trade and other payables and non-hedge derivatives	30,101	43	1	1	1	**30,147**
Total financial liabilities	**119,608**	**51,717**	**11,386**	**14,090**	**18,401**	**215,202**

	2011	2012	2013	2014	2015 and later	Total
31 December 2010						
Bank and corporate loans	34,415	47,276	33,797	4,122	2,306	**121,916**
Bonds	20,091	4,018	721	-	-	**24,830**
Promissory notes	612	-	-	-	8	**620**
Vendor financing	2,705	52	-	-	-	**2,757**
Finance lease liabilities	2,825	1,613	443	22	256	**5,159**
Other borrowings and hedge derivatives	207	23	28	13	13	**284**
Trade and other payables and non-hedge derivatives	29,976	103	36	18	-	**30,133**
Total financial liabilities	**90,831**	**53,085**	**35,025**	**4,175**	**2,583**	**185,699**

	2010	2011	2012	2013	2014 and later	Total
31 December 2009						
Bank and corporate loans	24,877	26,900	19,709	4,906	2,522	**78,914**
Bonds	21,626	13,879	1,000	-	-	**36,505**
Promissory notes	2,205	597	-	-	23	**2,825**
Vendor financing	3,016	383	51	-	-	**3,450**
Finance lease liabilities	4,793	2,833	1,803	430	404	**10,263**
Other borrowings and hedge derivatives	432	61	23	28	23	**567**
Trade and other payables and non-hedge derivatives	24,822	27	10	9	92	**24,960**
Total financial liabilities	**81,771**	**44,680**	**22,596**	**5,373**	**3,064**	**157,484**

In September 2011, the Group entered into a guarantee contract with OJSC Gazprombank for the benefit of OJSC MSS, a related party, with regard to counterparty's liability on credit agreements for amount of 6,400 (refer to Note 33).

In December 2011, the Group entered into a guarantee contract with OJCS TransCreditBank for the benefit of OJSC MSS, a related party, with regard to counterparty's liability on credit agreement for amount of 500 (refer to Note 33).

(In millions of Russian Roubles unless otherwise stated)

In December 2011, the Group entered into a guarantee contract with OJCS Promsvyazbank for the benefit of SJSC Skylink, a related party, with regard to counterparty's liability on credit agreement for amount of 1,210 (refer to Note 33).

(c) Market risks

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

Interest rate risk

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

	31 December 2011	31 December 2010	31 December 2009
Fixed rate instruments			
Financial assets	22,026	27,736	37,436
Financial liabilities	(157,266)	(116,890)	(88,376)
	(135,240)	**(89,154)**	**(50,940)**
Variable rate instruments			
Financial assets	135	-	-
Financial liabilities	(6,200)	(21,147)	(27,820)
	(6,065)	**(21,147)**	**(27,820)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

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

	2011	2010	2009
LIBOR (+0.1%)	(6)	(10)	(17)
LIBOR (-0.1%)	6	10	17
Euribor (+0.1%)	-	(1)	(2)
Euribor (-0.1%)	-	1	2
MosPrime (+0.1%)	(2)	(9)	(10)
MosPrime (-0.1%)	2	9	10
CB refinancing (+0.1%)	-	(3)	(2)
CB refinancing (-0.1%)	-	3	2

Foreign exchange risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's consolidated statement of comprehensive income, statement of financial position and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies, mostly from accounts receivable and payable from operations with international telecom operators, accounts payable for equipment, borrowings issued in foreign currencies. The Group does not have formal procedures to reduce its currency risks.

(In millions of Russian Roubles unless otherwise stated)

Financial assets and liabilities of the Group presented by currency as at 31 December 2011, 2010 and 2009 were as follows:

	31 December 2011		31 December 2010		31 December 2009	
	USD	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Cash and cash equivalents	272	32	568	16	1,647	529
Trade receivables	1,283	310	690	300	869	215
Loans and receivables	259	-	1,586	-	9,101	2,805
Bank and corporate loans	(3,959)	(770)	(9,494)	(1,520)	(15,635)	(2,538)
Vendor financing	(2,204)	-	(1,969)	-	(2,081)	(14)
Finance lease liabilities	-	-	(1)		(530)	-
Other borrowings and hedge derivatives	-	-	-	-	(396)	-
Trade and other payables and non-hedge derivatives	(2,269)	(242)	(2,537)	(416)	(2,601)	(198)
Net exposure	**(6,618)**	**(670)**	**(11,157)**	**(1,620)**	**(9,626)**	**799**

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

	31 December 2011		31 December 2010		31 December 2009	
	USD	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Strengthening (+10%)	(662)	(67)	(1,116)	(162)	(963)	80
Weakening (-10%)	662	67	1,116	162	963	(80)

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

Other price risk

As at 31 December 2011, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyzes market securities trends and makes a decision to sell a security, when necessary.

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

	Increase/decrease in percentage point	Effect on revaluation result recognized in other comprehensive income
2011		
MICEX	+ 30.0%	233
MICEX	- 30.0%	(233)
2010		
MICEX	+ 30.0%	387
MICEX	- 30.0%	(497)
2009		
MICEX	+ 30.0%	203
MICEX	- 30.0%	(203)

(d) Capital management policy

Capital management policy of the companies comprising the Group is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings. Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings. In addition, the companies of the Group are subject to externally imposed capital requirements, which are used for capital monitoring. There were no changes in the objectives, policies and processes of capital management during 2009-2011.

The Boards of directors of the companies comprising the Group review their performance and establish a variety of key performance indicators which are based on Russian statutory accounts. The companies comprising the Group monitor and manage their debt using financial independence ratio and net debt/equity, net debt/OIBDA ratios.

32. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings

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

(b) Taxation

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

As at 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax, currency and customs positions will be sustained upon examination. Management of the Group believes that it has adequately provided for tax liabilities in the consolidated statements of financial position as at 31 December 2011, 2010 and 2009. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

In February 2010, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2007-2008 and, as a result, issued a claim in the amount of 715 of additional taxes, fines and penalties. In September 2010, higher taxing authority declared 410 of the total amount invalid. The Group appealed the decision of the higher taxing authority in respect of the remaining 305 to the Arbitration Court of Moscow. In June 2011 the claim of the Group was fully settled, though in October 2011 that decision of the Court was changed as a result of the tax authority’s appeal. The Court declared 265 of 305 invalid. The Group and the tax authority disputed that decision in the Federal Arbitration Court of Moscow Region, which declared 242 of 305 invalid. The claim of the tax authority was declared valid in the amount of 34. The Group appealed the decision in the amount of 28 to a higher taxing authority. No consideration of the suit was held by the moment the present statements were published. Management believes that, overall, taxes for 2007-2008 have been properly calculated by the Group and fairly stated in its financial statements based on the Group’s analysis of the sustainability of liability. However, certain transactions revealed during the tax inspection management assessed as unlikely to be successfully defended in higher courts. As a result, the Group has accrued additional tax liabilities. The total provision for tax liabilities for the period 2004-2008 amounted to 63 as 31 December 2011 (2010:16, 2009:169).

(In millions of Russian Roubles unless otherwise stated)

In September 2009 the Russian Federal Tax Service completed a comprehensive tax inspection of CJSC GlobalTel for the period of 2007-2008 and, as a result, issued a claim amounted to 217 of additional taxes, fines and penalties. Mostly, additional taxes were accrued as a result of the tax authorities' interpretation of pricing for the services. In December 2009, CJSC Global Tel initiated a lawsuit against the Russian Federal Tax Service in Moscow Arbitration Court. The court declared the claim of the tax authority to be invalid. The decision was upheld in the Court of Appeals and the Federal Arbitration Court of Moscow region. As a result, the Group has accrued no additional tax liabilities with regard to GlobalTel tax inspection.

In December 2007, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2004-2006 and, as a result, issued a claim in the amount of 1,812 of additional taxes, fines and penalties. More than 90% of the amount relates to assessments calculated on the basis of the tax authorities' interpretation of telecommunication industry legislation in general and that of interaction between telecommunication operators in particular. The Group appealed the decision to a higher taxing authority and to the Arbitration Court of Moscow. In November 2008, the Arbitration Court of Moscow declared the claim of the tax authorities in the amount of 1,803 invalid and ordered the Group to pay 9. In February 2009, the Court of Appeals confirmed the decision of the Arbitration Court of Moscow. Subsequently, the Federal Tax Service of the Russian Federation filed an appeal to the Court of Cassation, which, in May 2009, upheld the ruling of the Arbitration Court of Moscow. Management believes that, overall, taxes for 2004-2006 have been properly calculated by the Group and fairly stated in its financial statements based on the Group's analysis of the sustainability of liability. As a result, in 2010 the Group has reversed previously recognized provision for tax liabilities and has accrued no additional tax liabilities as at 31 December 2011 (2010: nil; 2009: 151) with regard to 2004-2006.

(c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years from 2013 up to 2021.

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

(d) Capital commitments

As at 31 December 2011, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 56,453 (2010: 8,211; 2009: 5,993).

(e) Operating leases

As at 31 December 2011, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as at 31 December 2011, 2010 and 2009 were as follows:

	31 December 2011	31 December 2010	31 December 2009
As lessee			
Current portion	461	1,963	1,849
Between one to five years	986	1,404	1,269
Over five years	2,217	4,960	4,620
Total minimum rental payables	**3,664**	**8,327**	**7,738**
As lessor			
Current portion	100	834	942
Between one to five years	281	444	483
Over five years	94	490	379
Total minimum rental receivables	**475**	**1,768**	**1,804**

(In millions of Russian Roubles unless otherwise stated)

33. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as a shareholder

As indicated in Note 1, the Government of the Russian Federation controls the Company by indirect holding of 53.2% of the Company's ordinary shares through OJSC "Svyazinvest", "Vnesheconombank" and Federal Agency of State properties management. OJSC "Svyazinvest", the major shareholder of the Company with 43.37% share, is fully owned by the Government. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

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

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

(c) Subsidiaries

The companies comprising the Group perform transactions with subsidiaries as part of their day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from the Group's financial statements. The companies enter transactions with subsidiaries on market terms. Tariffs for subsidiaries are at the same level with tariffs for other parties and mostly are fixed by a regulatory body.

(d) Associates

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

	2011	2010	2009
Revenue	127	115	134
Purchase of telecommunication and other services	(452)	(197)	(170)

The amounts of receivables and payables due from these entities were as follows:

	2011	2010	2009
Accounts receivable	14	15	23
Allowance for doubtful receivables	(1)	(9)	(8)
Accounts payable and accrued expenses	(27)	(20)	(24)

(In millions of Russian Roubles unless otherwise stated)

(e) Transactions with the companies of Svyazinvest Group

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

	2011	2010	2009
Revenue	995	613	400
Purchase of telecommunication services	(438)	(933)	(1,170)
Purchase of other services	(129)	(409)	(47)

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

	2011	2010	2009
Accounts receivable	796	99	258
Allowance for doubtful receivables	(45)	-	(93)
Accounts payable and accrued expenses	(186)	(267)	(181)
Dividends payable	-	(3,678)	(1,032)

The Group also receives services related to the construction of the network from certain companies of the Svyazinvest Group which are included in additions of property, plant and equipment in amount of 658 (2010: 716, 2009: 370).

The Group held promissory notes issued by OJSC Tcentralniy Telegraf which is a part of Svyazinvest Group. Investments in promissory notes of related parties amounted to nil as at 31 December 2011 and 2010 (2009: 500), interest income accrued for the year ended 31 December 2011 is nil (2010: 65, 2009: 48l).

On 4 October 2010, OJSC Svyazinvest exchanged its stake in OJSC MGTS for 100% effective shareholding interest in CJSC Sky Link.

In September – December 2010, the Group acquired the promissory notes of CJSC Sky Link and its subsidiaries. As at 31 December 2011 carrying value of those notes comprised 10,981 (2010: 9,710). Interest income accrued on those notes for the year ended 31 December 2011 is amounted to 1,271 (2010: 488)

In the end of 2011, the Group also entered into a number of guarantee contracts with Russian banks for the benefit of some Svyazinvest Group's companies, with regard to counterparty's liability on credit agreements totalling to 8,110 (refer to Note 31).

(f) Non-state pension fund "Telecom-Soyuz"

The Group has centralized pension agreements with a non-state pension fund "Telecom-Soyuz" (refer to Note 19). In addition to the state pension, the Company provides the employees with a non-state pension and other employee benefits through defined benefit and defined contribution plans.

The total amount of contributions to non-state pension fund paid by the Group in 2011 amounted to 1,661 (2010: 1,937, 2009: 2,062). The fund retains 3% of every pension contribution to cover its administrative costs.

(g) Transactions with other government-related entities

In January 2009, OJSC Rostelecom in partnership with mobile operator OAO Megafon won a tender for sponsorship of the XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi in a category "Telecommunications". According to the agreement with the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi the sponsorship contribution amounts to USD 260 million and should be contributed by each sponsor in the amount of USD 130 million. Half of this amount shall be paid in cash and the other half shall be contributed in free services. In return, each partner will obtain exclusive rights to use the Olympic logo in its advertising and other activity. There is a joint responsibility of the Group and Megafon in respect of non-cash contributions. The total charge of sponsorship contribution to profit and loss for the year ended 31 December 2011 amounted to 463 (2010: 469, 2009: 170). As at 31 December 2011, the total commitment due to be paid in cash by 2014 is USD 31.3 million.

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

In December 2009, OJSC Rostelecom entered into a state contract with the Ministry of Telecom and Mass Communications of the Russian Federation to realise project Electronic government. The project involves equipment and software installation, development of web site for on-line access to information about government services, possibility to apply documents to government bodies via web-site, having support via call center and other related services. In 2010 the Company negotiated the new state contracts on maintenance of the Electronic government systems and on development of some new e-government applications. Total revenue under the contracts for the year ended 31 December 2011 is 2,763 (2010: 1,190, 2009: 655).

The Group received loans from government-related banks OJSC Sberbank, OJSC Bank VTB, OJSC Sviaz-bank, OJSC Gazprombank and others during years 2009-2011. The outstanding balances from these banks amounted to 118,880 as at 31 December 2011 (2010: 78,569, 2009: 37,193). During year ended 31 December 2011 the Group obtained loans from these banks in amount of 212,152 (2010: 101,317, 2009: 38,487), made repayments in amount of 179,439 (2010: 62,998, 2009: 41,621). Interest expense accrued on those loans during year ended 31 December 2011 amounted to 7,509 (2010: 3,080, 2009: 4,827).

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

Proceeds from sales of government-related banks promissory notes for the year ended 31 December 2011 amounted to 1,766 (2010: 9,841, 2009: 5,546), purchases of the same kind of investments comprised 712, nil and 12,652 for 2011, 2010 and 2009 respectively. Related income recognized in profit and loss in respect of government-related banks promissory notes amounted to 66 for the year ended 31 December 2011 (2010: 41, 2009: 89).

The amount of funds placed on deposits with government-related banks for the year ended 31 December 2011 is 1,676 (2010: nil, 2009: 3,215) with related income recognised in profit and loss of 18 (2010: nil, 2009: 162) and amounts repaid back to the Company's account of 875 (2010: nil, 2009: 7,579).

(h) Remuneration of key management personnel

The key management personnel for the purpose of these consolidated financial statements comprises Management Board's members, the Board of Directors' members and Vice-Presidents.

Remuneration to the key management personnel for the year ended 31 December 2011 amounted to 432. Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

The remuneration amounts are stated exclusive of social taxes.

Also in June 2011 the Company introduced a long-term motivation programme for executives and senior employees of the Company. The amount of employee benefits related to the programme and attributed to the Management Board's members, the Board of Directors' members and Vice-Presidents for the year ended 31 December 2011 amounted to 467.

The key management personnel in 2009-2010 comprises also members of the Management Boards and the Boards of Directors of IRC companies.

Short-term benefits accrued to the key management personnel for the year ended 31 December 2010 amounted to 1,756 (2009: 1,067). In 2010, the remuneration of the key management personnel in terms of share option granted amounted to 1,850.

In 2011 the Group made a contribution of nil to the non-state pension fund (2010: 8, 2009: 46) for its key management personnel. The plans provide for payment of retirement benefits starting date employee complies with terms of acting non-state pension program.

34. SUBSEQUENT EVENTS

Acquisition of treasury shares by LLC Mobitel

In February 2012 LLC Mobitel completed the acquisition of additional 3.86% of ordinary shares of the Company for 19,000. As a result LLC Mobitel increased its ownership of ordinary shares of the Company to 6.55%.

To facilitate the financing of the acquisition in January 2012 the Board of Directors of the Company approved decision on issue of guarantee to OJSC Bank VTB for the benefit of LLC Mobitel with regard to counterparty's liabilities on credit agreements for amount of 8,300 for 1 year period starting from 31 January 2012.

Acquisition of non-controlling interest in OJSC National Telecommunications

In February 2012 the Group acquired an additional 28.23% interest in OJSC National Telecommunications from OJSC Gazprombank for 13,826, increasing its ownership to 100%.

Acquisition of GNC-ALFA

In February 2012 the Group acquired 75% minus one share of GNC-ALFA for USD 22.5 million (682).

GNC-ALFA is the largest independent Internet and data provider in Armenia. It operates a modern fibre-optic network, which passes through 70% of the territory of the Republic of Armenia.

The acquisition of GNC-ALFA is part of the Group's international expansion policy. The acquisition of a control stake in GNC-ALFA provides the Group with access to a well-developed infrastructure for broadband and pay-TV services in the Armenian telecommunications market, a market which has a significant growth potential.

Acquisition of LLC Enter

In February 2012 the Group acquired 100% interest in LLC Enter, a broadband Internet services provider to individual subscribers in Barnaul, Novokuznetsk and Tyumen, for 305.

The acquisition of LLC Enter reflects the Group's strategy to increase its subscriber base and modernise its network infrastructure. The deal also serves as an alternative to capital expenditure in LLC Enter's regions.

LLC Enter's network infrastructure was built in 2010 and it is among the most modern networks in the three cities it serves.

Bonds issue

In March 2012 the Board of Directors of the Company approved decision on issue of non-convertible documentary interest-bearer bonds for a total nominal value of 100,000. The number of bonds approved for issue equals to 100,000,000.The offering price is 1,000 RUB per bond.

Reorganization of OJSC Rostelecom

The Decree №340 on the reorganisation of OJSC Rostelecom was signed by the President of Russia on March 24, 2012. The Decree states that a united company will be created by merging Svyazinvest and its total assets with Rostelecom.

As a result of the merger described in Note 9 the crossholding with OJSC Svyazinvest will be eliminated which will result in reduction of Group's equity by the amount of the difference of the Group's investment in OJSC Svyazinvest and the carrying value of OAO Svyazinvest's assets other than its investment in the Company.