OJSC ROSTELECOM

COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2008, 2009 and 2010,
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)

CONTENT

	Pages
Combined and Consolidated Statements of Financial Position	3
Combined and Consolidated Statements of Comprehensive Income	4
Combined and Consolidated Statements of Cash Flows	5
Combined and Consolidated Statements of Changes in Equity	6-8
Notes to Combined and Consolidated Financial Statements	9-63

(In millions of Russian Roubles)

	Notes	31 December 2010	31 December 2009	31 December 2008
ASSETS				
Non-current assets				
Property, plant and equipment	6	301,068	293,497	307,078
Investment property		356	330	94
Goodwill and other intangible assets	7	30,024	32,623	33,428
Investment in associates	9	27,517	1,197	1,087
Other investments	10	10,589	4,074	516
Deferred tax assets	20	530	193	156
Other non-current assets	11	3,645	5,308	5,192
Total non-current assets		**373,729**	**337,222**	**347,551**
Current assets				
Inventories	12	4,156	3,789	4,144
Trade and other accounts receivable	13	25,200	22,243	23,588
Prepayments		1,993	1,700	1,372
Prepaid income tax		1,745	1,882	3,351
Other investments	10	5,580	20,622	11,514
Cash and cash equivalents	14	12,627	13,621	19,627
Other current assets	15	1,781	2,101	3,456
Total current assets		**53,082**	**65,958**	**67,052**
Total assets		**426,811**	**403,180**	**414,603**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Group				
Share capital	16	100	100	100
Additional paid-in capital		33,424	33,424	33,424
Treasury shares		(25,410)	(67)	(67)
Retained earnings and other reserves		204,981	184,026	163,028
Total equity attributable to equity holders of the Group		**213,095**	**217,483**	**196,485**
Non-controlling interests		12	(72)	1,648
Total equity		**213,107**	**217,411**	**198,133**
Non-current liabilities				
Loans and borrowings	17	87,941	67,092	79,523
Employee benefits	19	16,197	15,578	14,732
Deferred tax liabilities	20	12,281	11,124	9,981
Accounts payable, provisions and accrued expenses	18	202	44	108
Other non-current liabilities		1,574	1,766	1,878
Total non-current liabilities		**118,195**	**95,604**	**106,222**
Current liabilities				
Loans and borrowings	17	50,096	49,104	64,172
Accounts payable, provisions and accrued expenses	18	38,935	34,960	39,908
Income tax payable		45	292	18
Other current liabilities		6,433	5,809	6,150
Total current liabilities		**95,509**	**90,165**	**110,248**
Total liabilities		**213,704**	**185,769**	**216,470**
Total equity and liabilities		**426,811**	**403,180**	**414,603**

(In millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2010	2009	2008
Revenue	21	**275,731**	**264,645**	**258,921**
Operating expenses				
Wages, salaries, other benefits and payroll taxes	22	(73,142)	(66,926)	(66,936)
Depreciation and amortisation	6, 7	(51,138)	(51,517)	(45,572)
Interconnection charges		(37,374)	(40,502)	(40,892)
Materials, utilities, repairs and maintenance		(25,954)	(24,769)	(22,727)
Other operating income		14,630	14,252	9,444
Other operating expenses	23	(52,472)	(45,130)	(48,404)
Total operating expenses, net		**(225,450)**	**(214,592)**	**(215,087)**
Operating profit		**50,280**	**50,053**	**43,834**
Income from equity accounted investees		239	216	111
Finance costs	24	(11,798)	(16,452)	(13,915)
Other investing and financial gains	25	2,745	3,237	11,524
Foreign exchange loss, net		(87)	(2,717)	(5,554)
Profit before income tax		**41,379**	**34,337**	**36,000**
Income tax expense	20	(10,041)	(8,074)	(8,990)
Profit for the year		**31,338**	**26,263**	**27,010**
Other comprehensive income				
Revaluation gain/(loss) on available-for-sale investments		198	593	(720)
Revaluation gain on available-for-sale investments transferred to profit on sale		-	(1)	(8,675)
Adjustment for fair value of net assets of acquired subsidiaries		-	-	267
Income tax in respect of other comprehensive income (loss) items		(41)	(82)	2,328
Other comprehensive income for the year, net of tax		**157**	**510**	**(6,800)**
Total comprehensive income for the year		**31,495**	**26,773**	**20,210**
Profit attributable to:				
Equity holders of the Group		31,418	26,125	26,783
Non-controlling interests		(80)	138	227
Total comprehensive income attributable to:				
Equity holders of the Group		31,575	26,635	19,973
Non-controlling interests		(80)	138	237
Earnings per share attributable to equity holders of the Combined entity – basic and diluted (in RUB)	28	**10.06**	**8.20**	**8.41**

(In millions of Russian Roubles)

	Notes	Year ended 31 December 2010	2009	2008
Cash flows from operating activities				
Profit before income tax		41,379	34,337	36,000
Adjustments to reconcile profit before tax to cash generated from operations:				
Depreciation and amortization	6, 7	51,138	51,517	45,572
Loss on sale of property, plant and equipment	23	542	1,185	2,981
Impairment losses /(reversal of impairment losses)	6,7	4,974	(163)	2,027
Bad debt allowance	23	682	1,068	802
Income from equity accounted investees		(239)	(216)	(111)
Finance costs excluding finance costs on pension and other long-term social liabilities	24	10,374	14,881	12,631
Other investing and financing gains	25	(2,745)	(3,237)	(11,524)
Foreign exchange loss, net		87	2,717	5,554
Share-based payment expenses		3,932	-	-
Changes in net working capital:				
(Increase) /decrease in accounts receivable		(3,626)	1,345	(2,819)
Increase in employee benefits		619	846	412
(Increase)/decrease in inventories		(367)	355	(281)
(Decrease)/increase in accounts payable, provisions and accrued expenses		(416)	2,360	1,867
(Decrease)/increase in other assets and liabilities		(232)	1,113	3,915
Cash generated from operations		**106,102**	**108,108**	**97,026**
Interest paid		(11,356)	(16,412)	(11,910)
Income tax paid		(9,704)	(5,441)	(14,252)
Net cash provided by operating activities		**85,042**	**86,255**	**70,864**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(51,845)	(45,352)	(66,681)
Proceeds from sale of property, plant and equipment		1,284	1,006	2,465
Acquisition of financial assets		(10,764)	(31,138)	(18,201)
Proceeds from disposals of financial assets		20,152	18,399	33,792
Interest received		2,286	2,513	900
Dividends received from associates		188	145	156
Purchase of subsidiaries, net of cash acquired		(4,470)	(1,814)	(2,532)
Proceeds from disposals of equity accounted investees		-	2	-
Proceeds from disposals of subsidiaries		-	-	14
Acquisition of equity accounted investees		(26,000)	(2)	273
Net cash used in investing activities		**(69,169)**	**(56,241)**	**(49,814)**
Cash flows from financing activities				
Purchase of treasury shares		(25,343)	-	-
Proceeds from bank and corporate loans		123,353	44,384	51,535
Repayment of bank and corporate loans		(83,215)	(59,328)	(35,696)
Proceeds from bonds		126	13,390	6,987
Repayment of bonds		(11,077)	(19,712)	(15,099)
Proceeds from promissory notes		5,340	3,515	4,313
Repayment of promissory notes		(7,276)	(5,306)	(5,952)
Repayment of vendor financing payable		(890)	(1,724)	(1,405)
Proceeds from / (repayment of) other non-current financing liabilities		47	(26)	33
Repayment of finance lease liabilities		(3,764)	(5,097)	(6,063)
Acquisition of non-controlling interest		(82)	-	-
Dividends paid to shareholders of the Group		(14,106)	(6,099)	(7,836)
Dividends paid to non-controlling shareholders of subsidiaries		-	(50)	(7)
Net cash used in financing activities		**(16,887)**	**(36,053)**	**(9,190)**
Net (decrease)/increase in cash and cash equivalents		(1,014)	(6,039)	11,860
Effect of exchange rate changes on cash and cash equivalents		20	33	(118)
Cash and cash equivalents at beginning of year		13,621	19,627	7,885
Cash and cash equivalents at the end of year		**12,627**	**13,621**	**19,627**

The accompanying notes are an integral part of these combined and consolidated financial statements.

OJSC Rostelecom

COMBINED AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Russian Roubles)

	Attributable to equity holders of the Combined group								
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Treasury shares**	**Share option reserve**	**Retained earnings**	**Total**	**Non-control-ling interest**	**Total equity**
Balances at 1 January 2008	**100**	**33,424**	**7,187**	**(67)**	**-**	**144,701**	**185,345**	**1,692**	**187,037**
Profit for the period	-	-	-	-	-	26,783	**26,783**	227	**27,010**
Other comprehensive income									
Revaluation gain/(loss) on available-for-sale investments	-	-	(720)	-	-	-	**(720)**	-	**(720)**
Revaluation gain on available-for-sale investments transferred to profit on sale	-	-	(8,675)	-	-	-	**(8,675)**	-	**(8,675)**
Adjustment for fair value of net assets of acquired subsidiaries	-	-	-	-	-	257	**257**	10	**267**
Income tax in respect of other comprehensive income (loss) items	-	-	2,328	-	-	-	**2,328**	-	**2,328**
Total other comprehensive income, net of tax	**-**	**-**	**(7,067)**	**-**	**-**	**257**	**(6,810)**	**10**	**(6,800)**
Total comprehensive income	**-**	**-**	**(7,067)**	**-**	**-**	**27,040**	**19,973**	**237**	**20,210**
Transactions with shareholders, recorded directly in equity:									
Dividends to equity holders of the Group	-	-	-	-	-	(8,089)	**(8,089)**	-	**(8,089)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	**-**	(31)	**(31)**
Acquisition of non-controlling interest	-	-	-	-	-	(737)	**(737)**	(248)	**(985)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	**-**	(2)	**(2)**
Other changes in equity	-	-	-	-	-	(7)	**(7)**	-	**(7)**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**(8,833)**	**(8,833)**	**(281)**	**(9,114)**
Balances at 31 December 2008	**100**	**33,424**	**120**	**(67)**	**-**	**162,908**	**196,485**	**1,648**	**198,133**

(In millions of Russian Roubles)

	Attributable to equity holders of the Combined group								
	Share capital	Additional paid-in capital	Unrealized gain/ (loss) on available-for-sale investments	Treasury shares	Share option reserve	Retained earnings	Total	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 period	-	-	-	-	-	26,125	**26,125**	138	**26,263**
Other comprehensive income									
Revaluation gain/(loss) 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 (loss) items	-	-	(82)	-	-	-	**(82)**	-	**(82)**
Total other comprehensive income, net of tax	**-**	**-**	**510**	**-**	**-**	**-**	**510**	**-**	**510**
Total comprehensive income/ (loss)	**-**	**-**	**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 Combined group							Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Unrealized gain/ (loss) on available-for-sale investments	Treasury shares	Share option reserve	Retained earnings	Total		
Balances at 1 January 2010	**100**	**33,424**	**630**	**(67)**	**-**	**183,396**	**217,483**	**(72)**	**217,411**
Profit for the period	-	-	-	-	-	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 (loss) 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**	(48)	**(46)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	**-**	212	**212**
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**

1. REPORTING ENTITY

These combined and consolidated financial statements aggregate the consolidated financial statements of OJSC Rostelecom (the "Company"), and OJSC North-West Telecom, OJSC Centrtelecom, OJSC South Telecommunications Company, OJSC VolgaTelecom, OJSC Uralsvyazinform, OJSC Sibirtelecom, OJSC Far East Telecom, OJS OJS Company of Telecommunication and Information of the Republic of Dagestan (Dagsvyazinform) and their subsidiaries (the "Companies", collectively with OJSC Rostelecom referred to as the "Group"), which are incorporated in the Russian Federation ("Russia").

The companies comprising the Group have been under common control of OJSC Svyazinvest ("Svyazinvest"), which is also incorporated in Russia. Svyazinvest is controlled by the Federal Government of the Russian Federation by virtue of 75% less one share direct holding.

On 1 April 2011, the Companies legally merged through the exchange of ordinary and preferred shares of 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 for ordinary shares of OJSC Rostelecom (subsequent to the merger – "the Combined entity") (refer to Note 32).

OJSC 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 27 August 1993.

The principal activity of the Group is the provision of communication services (including long-distance, local and intra-zone telephone services), broadband internet access, pay TV, telegraph services, data transmission services, rental of communications channels and radio communication. 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 Combined entity's headquarters are located in Moscow at 1st Tverskaya-Yamskaya Street, 14, Russia, 125047.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of combination

The companies comprising the Group have been under common control but did not form a legal group until 1 April 2011. These combined and consolidated financial statements present consolidated financial statements of the companies comprising the Group on a combined basis. Under this method, results, assets and liabilities of the relevant entities are aggregated (with eliminations for intercompany transactions and balances). Share capital represents the share capital of OJSC Rostelecom prior to the merger (see also note 16).

(c) Basis of measurement

The combined and 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).

(d) 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 combined and consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

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 markets of the Russian Federation which display 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 combined and 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

Set out below are the significant accounting policies used to prepare these combined and consolidated financial statements.

(a) Significant Accounting Judgments and Estimates

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

The 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.

Post-Employment Benefits

The Group uses actuarial valuation methods for measurement of the present value of defined post-employment benefit obligations and related current service cost. 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 combined 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 unit(s). Estimating the value in use requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Lease classification

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

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, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

(b) Principles of Consolidation

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

Subsidiaries

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

The financial statements of the subsidiaries are prepared for the same reporting period as the 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.

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.

(c) 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;
- the fair value amount of any non-controlling interest in the acquiree; 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. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with IFRS 8 Operating Segments.

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

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

- 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.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. 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. The useful lives and residual value of assets and methods are reviewed at each reporting date or more frequently if events occur that suggest a change is necessary and, if expectations differ from previous estimates, the changes are accounted for prospectively. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized.

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

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.

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

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

(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. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment when there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any 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) 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 on a first-in first-out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(h) 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.

(i) Financial Instruments

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

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

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

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

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

All other investments not classified in any of the two preceding categories are classified as available-for-sale. After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognized 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. 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.

Finance income comprises 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.

(In millions of Russian Roubles unless otherwise stated)

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.

(j) 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.

(k) 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.

As at December 31, 2010, 2009 and 2008, the rates of exchange used for translating foreign currency balances were (in Russian Roubles for one unit of foreign currency):

	2010	2009	2008
US Dollar (USD)	30.48	30.24	29.38
Japanese Yen (100)	37.38	32.83	32.58
Special Drawing Rights (SDR)	46.73	47.46	45.73
EURO (EUR)	40.33	43.39	41.44

Source: the Central Bank of Russia

(l) 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.

(m) 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.

(n) Revenue and Operating Costs Recognition

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

Revenues from directly billed subscribers are recognized in the period where the services were provided based on the Group's billing system's data. 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 communication services based on pre-set tariffs regulated by the Ministry of Telecommunications and Federal Tariff Service.

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

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.

(o) 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.

(p) Employee Benefits

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

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. Effective 1 January 2004, the maximum contribution is established at 100.00 RUB per month per employee.

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

(q) 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 income statement, with a corresponding adjustment to equity.

(r) 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.

(s) 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.

(t) 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.

For the purpose of these combined and consolidated financial statements the number of shares was adjusted for the issue of ordinary shares of OJSC Rostelecom to the shareholders of Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan as part of the merger (refer to Notes 1 and 28).

(u) Segment Information

Since the merger on 1 April 2011 has not been completed by 31 December 2010 there was no single management body that could be identified as chief operating decision maker. However, the financial information of the companies comprising the Group is regularly analyzed by OJSC Svyazinvest, their controlling shareholder, and is used for decision making in regards of their strategy and operations.

(v) IFRSs and IFRIC Interpretations Not Yet Effective

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

- IFRS 3 "Business Combinations" (as amended in May 2010 and October 2010);
- IFRS 7 "Financial Instruments: Disclosures" (as revised in May and October 2010);
- IFRS 9 "Financial Instruments: Classification and Measurement";
- IAS 1 "Presentation of Financial Statements" (as revised in May 2010);
- IAS 12 "Income taxes – Deferred Tax: Recovery of Underlying Assets" (as amended in December 2010);
- IAS 27 "Consolidated and Separate Financial Statements" (as revised in October 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".

Three amendments to IFRS 3 were incorporated in Improvements to IFRSs 2010:

- Measurement of non-controlling interest: Specifies that the option to measure non-controlling interest either at fair value or at the proportionate share of the acquiree's net identifiable assets at the acquisition date under IFRS 3 applies only to non-controlling interest that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation.

- Un-replaced and voluntarily replaced share-based payment awards: Specifies that the current requirement to measure awards of the acquirer that replace acquiree share-based payment transactions in accordance with IFRS 2 at the acquisition date ('market-based measure') applies also to share-based payment transactions of the acquiree that are not replaced.
- Transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (2008): Clarifies that IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of IFRS 3 (2008).

The Group does not expect the amendments to have a significant impact on the financial statements of the Group.

The amendment to IAS 12 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.

IFRS 7 was amended as part of Improvements to IFRSs 2010 in order to clarify the existing disclosure requirements. The effect of the amendment is to encourage qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. This amendment also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The amendment comes into effect on 1 January 2011.

In October 2010, the IASB introduced enhanced disclosure requirements to IFRS 7 Financial Instruments as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendment is effective from 1 July 2011. The Group does not expect the amendments to IFRS 7 will have a significant impact on the financial statements of the Group.

IFRS 9 will be effective for annual periods beginning on or after 1 January 2013. 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 the first half of 2011. 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 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.

IAS 1 was amended as part of Improvements to IFRSs issued in May 2010. The amendment clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. The effective date for the amendment to Standard is 1 January 2011. The Group does not expect the amendment to have a significant impact on the financial statements of the Group.

Amendment to IAS 27 (2008), being a part of annual improvement process, clarifies transitional requirements for consequential amendments that were made to IAS 21, IAS 28 and IAS 31 as a result of IAS 27 (2008) introduction. The Group does not expect the amendment to have a significant impact on the financial statements of the Group.

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

IAS 34 was amended to provide a clarification around significant events and transactions to be disclosed in interim financial reports. The amendment is intended to emphasise that these interim disclosures should update the relevant information presented in the most recent annual financial report. The amendment also clarifies how to apply this principle in respect of financial instruments and their fair values. The effective date for the amendment to Standard is 1 January 2011. The Group does not expect the amendment to have a significant impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 Financial Instruments: Recognition and Measurement. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

5. BUSINESS COMBINATIONS

2010 transactions

Acquisitions

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.

(In millions of Russian Roubles unless otherwise stated)

Final information about the cost of the aforementioned acquisitions, fair value of assets, liabilities and contingent liabilities of Teleset Network Public Company Limited and CJSC Severen-Telecom, estimated in accordance with IFRS, as well as goodwill as at the date of acquisition is presented below:

	Severen Telecom	Teleset Networks Public Company Limited	Total
Cost of acquisition			
Paid in cash	863	4,283	5,146
Total cost of acquisition	**863**	**4,283**	**5,146**
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 receivables	55	169	224
Cash and cash equivalents	1	597	598
Other current assets	-	128	128
Non-current liabilities	(48)	(391)	(439)
Current liabilities	(61)	(320)	(381)
Deferred income tax liability	-	(322)	(322)
Non-controlling interest	-	(163)	(163)
Total net assets	**431**	**2,651**	**3,082**
Share in acquired net assets	100%	98.19%	n/a
Fair value of share in acquired net assets	431	2,603	3,034
Goodwill	**432**	**1,680**	**2,112**
Goodwill as of 31 December 2010	**432**	**1,680**	**2,112**
Costs directly attributable to acquisition	-	-	-

In addition, during the second quarter 2010, the Group acquired the remaining 1.81% of ordinary voting shares of Teleset Networks Public Company Limited for 82.

2009 transactions

Acquisitions

In July 2009, OJSC Volgatelecom acquired 100% of ordinary shares in LLC GTS for 350 and obtained control over this entity.

In July 2009, OJSC Rostelecom acquired 100% of ordinary shares in CJSC Rosmedia for 0.01 and obtained control over this entity.

In December 2009, OJSC Uralsvyazinform acquired 100% of ordinary shares of LLC Uzhno-Uralskaya telefonnaya compania for 132 and obtained control over this entity.

(In millions of Russian Roubles unless otherwise stated)

Final information about the cost of the aforementioned acquisitions, fair value of assets, liabilities and contingent liabilities of LLC GTS, LLC Uzhno-Uralskaya telefonnaya compania, CJSC Rosmedia estimated in accordance with IFRS, as well as goodwill as at the date of acquisition is presented below:

	LLC GTS	Uzhno-Uralskaya telefonnaya compania	CJSC Rosmedia	Total
Cost of acquisition				
Paid in cash	350	132	-	482
Total cost of acquisition	**350**	**132**	**-**	**482**
Fair value of identifiable assets and liabilities:				
Property, plant and equipment	120	111	17	248
Intangible assets	6	4	3	13
Non-current finaicial assets	-	-	7	7
Trade and other receivables	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	(21)	(21)	(100)	(142)
Deferred income tax liability	(5)	(8)	-	(13)
Total net assets	**140**	**109**	**(52)**	**197**
Share in acquired net assets	100%	100%	100%	n/a
Fair value of share in acquired net assets	140	109	(52)	197
Goodwill	**210**	**23**	**52**	**285**
Goodwill as of 31 December 2009	**210**	**23**	**52**	**285**
Costs directly attributable to acquisition	-	8	-	8

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.

2008 transactions

In April 2008, OJSC Sibirtelecom acquired 50% of ordinary shares in CJSC Novocom for 95 and obtained control over this entity.

In July 2008, OJSC Rostelecom acquired 68.4% of equity interest in OJSC RTComm.RU for 1,560, including costs directly attributable to the acquisition of 15 and increased its share to 99.5% and obtained control over this entity.

(In millions of Russian Roubles unless otherwise stated)

Final information about the cost of the aforementioned acquisitions, fair value of assets, liabilities and contingent liabilities of OJSC RTComm.RU, CJSC Novocom estimated in accordance with IFRS, as well as goodwill as at the date of acquisition is presented below:

	RTComm.RU OJSC	**CJSC Novocom**	**Total**
Cost of acquisition			
Paid in cash	1,560	95	1,655
Total cost of acquisition	**1,560**	**95**	**1,655**
Fair value of identifiable assets and liabilities:			
Property, plant and equipment	797	15	812
Intangible assets	843	-	843
Trade and other receivables	837	11	848
Cash and cash equivalents	113	15	128
Other assets	516	6	522
Current liabilities	(1,363)	(6)	(1,369)
Deferred income tax liability	(167)	(1)	(168)
Total net assets	**1,576**	**40**	**1,616**
Share in acquired net assets	68.4%	50%	n/a
Fair value of share in acquired net assets	1,078	20	1,098
Goodwill	**482**	**75**	**557**
Costs directly attributable to acquisition	15	-	15

Acquisition of non-controlling interest

In addition, in July 2008, OJSC VolgaTelecom acquired 40% of ordinary shares in LLC Ulyanovsk-GSM for 985 and increased its share to 100%. Additional shares purchase consideration exceeded carrying value of acquired share in net assets by 737 and was accounted for as equity transaction.

6. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as at 31 December 2010, 2009 and 2008 was as follows:

	Buildings and site services	**Cable and transmission devices**	**Other**	**Construction in progress**	**Total**
Cost/Deemed cost					
At 1 January 2008	177,158	258,383	55,433	16,120	507,094
Additions	14	1	343	75,289	75,647
Acquisition through business combination	53	596	87	92	828
Disposals	(3,944)	(12,907)	(2,903)	(1,142)	(20,896)
Transfer	17,988	40,346	13,184	(71,518)	-
Reclassification	946	(1,431)	525	(40)	-
At 31 December 2008	192,215	284,988	66,669	18,801	562,673

(In millions of Russian Roubles unless otherwise stated)

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
At 1 January 2009	192,215	284,988	66,669	18,801	562,673
Additions	235	29	252	35,486	36,002
Acquisition through business combination	160	72	8	15	255
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	53,967	54,735
Acquisition through business combination	1,521	814	98	74	2,507
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
Accumulated depreciation and impairment losses					
At 1 January 2008	(62,699)	(130,662)	(34,402)	(377)	(228,140)
Depreciation expense	(10,477)	(21,973)	(9,989)	-	(42,439)
Impairment losses	(1,107)	(765)	(94)	(56)	(2,022)
Disposals	2,095	12,107	2,790	14	17,006
Reclassification	(191)	335	(144)	-	-
At 31 December 2008	(72,379)	(140,958)	(41,839)	(419)	(255,595)
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)
Net book value					
At 31 December 2008	**119,836**	**144,030**	**24,830**	**18,382**	**307,078**
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**

(In millions of Russian Roubles unless otherwise stated)

Interest capitalization

Interest amounting to 563, 769 and 915 was capitalized in property, plant and equipment for the years ended 31 December 2010, 2009 and 2008, respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 9,949, 30,245 and 25,647 was pledged in relation to loan agreements entered into by the Group as of 31 December 2010, 2009 and 2008, respectively.

Leased property, plant and equipment

As at 31 December 2010, 2009 and 2008 net book value of leased property, plant and equipment comprised:

	31 December 2010	31 December 2009	31 December 2008
Buildings and constructions	888	969	1,101
Switches and transmission devices	5,499	10,243	17,291
Vehicles and other property, plant and equipment	2,089	3,022	4,240
Total net book value of leased property, plant and equipment	**8,476**	**14,234**	**22,632**

Impairment of property, plant and equipment

For the purpose of impairment testing, the Group identifies cash-generating units (further – CGUs). CGUs are defined as regional branches (in case of IRCs) or legal entities (in case of OJSC Rostelecom, its subsidiaries and subsidiaries of IRCs).

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,
- cash flow projections are prepared in nominal terms,
- discounts rate are estimated in nominal terms as the weighted average cost of capital on pre tax basis.

Impairment losses and reversals are included in “Other operating expenses” in the statement of comprehensive income.

2010 impairment testing

As a result of the impairment testing for other assets 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: Southern Telecommunications Company (50).

2009 impairment testing

As a result of the impairment testing performed as at 31 December 2009, for certain CGUs the Group recognized an impairment loss of property, plant and equipment: Sibirtelecom (327), North-West Telecom (32), and reversal of impairment loss of property, plant and equipment: Southern Telecommunications Company (442), CenterTelecom (128).

2008 impairment testing

As a result of the impairment testing performed as at 31 December 2008, for certain CGUs the Group recognized an impairment loss of property, plant and equipment: Southern Telecommunications Company (1,642), Sibirtelecom (274), Rostelecom (125), and reversal of impairment loss of property, plant and equipment: Sibirtelecom (19).

(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 2010, 2009 and 2008 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2008	4,968	538	295	28,953	1,106	1,241	671	37,772
Additions	(1)	22	-	6,743	-	77	134	6,975
Acquisition through business combination	570	-	75	41	424	-	301	1,411
Disposals	-	-	-	(1,475)	-	(8)	(14)	(1,497)
Reclassification	-	-	-	-	147	-	(147)	-
At 31 December 2008	5,537	560	370	34,262	1,677	1,310	945	44,661
At 1 January 2009	5,537	560	370	34,262	1,677	1,310	945	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	5,823	578	370	35,866	1,680	1,502	1,028	46,847
At 1 January 2010	5,823	578	370	35,866	1,680	1,502	1,028	46,847
Additions	-	11	-	3,128	-	80	323	3,542
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	7,899	588	451	37,780	2,345	1,532	1,570	52,165
Accumulated amortization and impairment losses								
At 1 January 2008	(1,427)	(108)	(80)	(4,385)	(189)	(423)	(103)	(6,715)
Amortization expense	-	(23)	(20)	(2,771)	(72)	(148)	(99)	(3,133)
Disposals	-		-	138	-	3		141
Impairment losses	(157)	(1)	-	(1,368)	-	-	-	(1,526)
Reclassification	-	-	-	(18)	(13)	18	13	-
At 31 December 2008	(1,584)	(132)	(100)	(8,404)	(274)	(550)	(189)	(11,233)
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)

(In millions of Russian Roubles unless otherwise stated)

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
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)
Impairment losses	35	(1)		(4,402)			(1)	(4,369)
Disposals	-	4	55	614	-	8	24	705
Reclassification	-	-	-	88	-	-	(88)	-
At 31 December 2010	(1,578)	(165)	(244)	(18,246)	(457)	(863)	(588)	(22,141)
Net book value								
At 31 December 2008	**3,953**	**428**	**270**	**25,858**	**1,403**	**760**	**756**	**33,428**
At 31 December 2009	**4,210**	**429**	**96**	**25,016**	**1,329**	**795**	**748**	**32,623**
At 31 December 2010	**6,321**	**423**	**207**	**19, 534**	**1,888**	**669**	**982**	**30,024**

Interest amounting to 12, 90 and 252 was capitalized in intangible assets for the years ended December 31, 2010, 2009 and 2008, respectively.

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

Impairment Testing of Goodwill

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.

2010 impairment testing

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

2009 impairment testing

As a result of the impairment testing performed as at 31 December 2009, Sibirtelecom recognized an impairment loss of goodwill in the amount of 14.

2008 impairment testing

As a result of the impairment testing performed as at 31 December 2008, the Group recognized an impairment loss of goodwill: Sibirtelecom (91), Rostelecom (66).

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.

2010 impairment testing

As a result of the impairment testing performed as at 31 December 2010, the Group recognized impairment losses on intangible assets: 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)

2008 impairment testing

As a result of the impairment testing performed as at 31 December 2008, the Group recognized impairment losses on intangible assets: CenterTelecom (1,135), Southern Telecommunications Company (234).

8. SUBSIDIARIES

These combined and 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 2010	2009	2008
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)	99.5%	99.5%	99.5%
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%	100%
LLC Uzhno-Uralskaya telefonnaya compania	Communication services	100%	100%	-
CJSC Baikalwestcom	Communication services (mobile)	100%	100%	100%
CJSC Yenisey telecom	Communication services (mobile)	100%	100%	100%
OJSC Sahatelecom	Communication services	100%	100%	100%
CJSC Akos	Communication services (mobile)	94.45%	94.45%	94.35%
CJSC Novocom	Communication services (internet)	100%	100%	100%
CJSC Globus-Telecom	Communication services	100%	100%	100%
CJSC GlobalTel	Communication services	51%	51%	51%
CJSC Rosmedia	Communication services (TV content)	100%	100%	-
CJSC Severen-Telecom	Communication services	100%	-	-
Teleset Networks Public Company Limited	Communication services	100%	-	-
OJSC Svyazintek	IT consulting	100%	100%	100%

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.

9. INVESTMENTS IN ASSOCIATES

Investments in associates as at 31 December 2010, 2009 and 2008 were as follows:

Associate	Main activity	Voting share capital, %	2010 Carrying amount	2009 Carrying amount	2008 Carrying amount
OJSC Svyazinvest	Investments	25.00	26,309	-	-
CJSC Volgograd-GSM	Mobil communication services	50.00	695	692	617
CJSC Samara Telecom	Communication services	28.00	144	150	141
OJSC MMTS-9	Communication services	49.14	186	149	130
OJSC WestBalt Telecom	Communication services	28.00	87	88	84

(In millions of Russian Roubles unless otherwise stated)

OJSC Vostoktelecom	Communication services	25.00	65	61	55
Other	Various	-	31	57	60
Total investments in associates			**27,517**	**1,197**	**1,087**

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

Summarized financial information as at 31 December 2010, 2009 and 2008 and for the years then ended of the associates disclosed above is presented below:

Aggregate amounts	2010	2009	2008
Assets	447,301	3,456	3,413
Liabilities	260,501	694	907
Revenue	284,115	2,990	3,085
Net income	27,188	479	448

10. OTHER INVESTMENTS

	31 December 2010	31 December 2009	31 December 2008
Non-current investments			
Available for sale financial assets	916	763	208
Held to maturity investments	6,651	3,245	197
Loans	3,021	66	97
Other non-current financial assets	1	-	14
Total other non-current investments	**10,589**	**4,074**	**516**
Current investments			
Available for sale financial assets	144	118	220
Held to maturity investments	3,617	5,626	2,443
Loans	1,819	14,878	8,835
Other current financial assets	-	-	16
Total other current investments	**5,580**	**20,622**	**11,514**
Total other investments	**16,169**	**24,696**	**12,030**

11. OTHER NON-CURRENT ASSETS

	31 December 2010	31 December 2009	31 December 2008
Non-current advances, given for investing activities	2,969	4,976	4,996
Non-current advances, given for operating activities	230	95	31
Non-current receivables	433	213	133
Non-current VAT recoverable	13	24	32
Total other non-current assets	**3,645**	**5,308**	**5,192**

12. INVENTORIES

	31 December 2010	31 December 2009	31 December 2008
Cable	885	770	834
Finished goods and goods for resale	445	433	447
Spare parts	841	783	719
Tools and accessories	158	219	274
Construction materials	212	80	104

(In millions of Russian Roubles unless otherwise stated)

Fuel	127	173	182
Other inventory	1,488	1,331	1,584
Total inventories	**4,156**	**3,789**	**4,144**

13. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2010, 2009 and 2008 comprised of the following:

	Gross, 31 December 2010	Doubtful debt allowance	Net, 31 December 2010
Amounts due from customers for operating activities	24,822	(4,470)	20,352
Amounts due from customers for non-operating activities	2,047	(852)	1,195
Amounts due from commissioners and agents	331	-	331
Amounts due from personnel	69	-	69
Amounts due from other debtors	3,539	(286)	3,253
Total accounts receivable	**30,808**	**(5,608)**	**25,200**

	Gross, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Amounts due from customers for operating activities	21,667	(4,969)	16,698
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	3,017	(215)	2,802
Total accounts receivable	**28,039**	**(5,796)**	**22,243**

	Gross, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Amounts due from customers for operating activities	23,303	(4,613)	18,690
Amounts due from customers for non-operating activities	1,247	(419)	828
Amounts due from commissioners and agents	1,868	(47)	1,821
Amounts due from personnel	85		85
Amounts due from other debtors	2,397	(233)	2,164
Total accounts receivable	**28,900**	**(5,312)**	**23,588**

As at 31 December 2010, 2009 and 2008 settlements with customers for operating activities included settlements with the following counterparties:

	31 December 2010	31 December 2009	31 December 2008
Residential customers	9,737	8,930	8,539
Corporate customers	4,939	5,803	8,035
Governmental customers	2,621	1,328	1,092
Interconnected operators	7,522	5,558	5,533
Social security bodies	3	48	104
Less: allowance for doubtful trade accounts receivable	(4,470)	(4,969)	(4,613)
Total settlements with customers for operating activities	**20,352**	**16,698**	**18,690**

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 of 31 December 2010, 2009 and 2008 the share of accounts receivable that are past due amounted to approximately 13%, 14%, 17% of the Group's total gross accounts receivable, respectively.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2010, 2009 and 2008 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 2010	31 December 2009	31 December 2008
Cash in bank and in-hand	11,521	13,064	17,100
Cash equivalents	1,106	557	2,527
Total cash and cash equivalents	**12,627**	**13,621**	**19,627**

15. OTHER CURRENT ASSETS

	31 December 2010	31 December 2009	31 December 2008
Deferred expenses	549	412	551
Prepayments for other taxes	359	460	1,064
VAT recoverable	391	645	1,070
Assets held for sale	164	108	359
Other current assets	318	476	412
Total other current assets	**1,781**	**2,101**	**3,456**

16. EQUITY

Share capital

For the purpose of these combined and consolidated financial statements share capital of OJSC Rostelecom is presented as share capital of the Group. Share capital of other companies comprising the Group is presented as additional paid-in capital.

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 2010, 2009 and 2008 amounted to 2,428,819 nominal (uninflated) RUB.

The authorized share capital of the Company as at 31 December 2010 comprised 6,628,696,320 ordinary shares and 242,832,000 non-redeemable preferred shares (2009, 2008: 1,634,026,541 and 242,832,000).The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

As at 31 December 2010 the outstanding share capital of the Company was as follows:

	Number of shares	Nominal value	Carrying amount
Ordinary Shares, RUB 0.0025 par value	728,549,125	1.821	75
Preferred Shares, RUB 0.0025 par value	172,779,986	0.432	25
Total	**901,329,111**	**2.253**	**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.

(In millions of Russian Roubles unless otherwise stated)

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

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

Accordingly, the preferred shares of the Combined entity are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 28).

On the 2010 Annual General Meeting, the shareholders of OJSC Rostelecom resolved to increase the authorised share capital of the Company by additional 5,900,000,000 ordinary shares with par value of RUB 0.0025 per share with the same rights as previously issued ordinary shares. 2,214,558,509 ordinary shares of OJSC Rostelecom were issued on 1 April 2011 to the shareholders of IRCs and OJSC Dagsvyazinform as part of the merger. Information on conversion ratios is presented in the table below (refer also note 28):

	Conversion ratios (shares for 1 ordinary share of OJSC Rostelecom)	
	Ordinary	**Preferred**
North-West Telecom OJSC	4.1020	5.2200
Centrtelecom OJSC	3.8670	4.9200
South Telecommunications Company OJSC	19.3780	24.6480
VolgaTelecom OJSC	0.8910	1.1340
Uralsvyazinform OJSC	87.3410	111.6020
Sibirtelecom OJSC	46.5370	59.3740
Far East Telecom OJSC	0.9390	1.1950
Dagsvyazinform OJSC	1.7950	2.2840

Treasury shares

At the 2010 Annual General Meetings of Shareholders of the Companies, 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 79,155,902 ordinary 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 112,093,176 ordinary shares of the Combined entity for 10,850 as a part of a management motivation program (refer note 27).

Dividends

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Group as at 31 December 2010, 2009 and 2008 amounted to 55,212, 53,797 and 49,708, respectively.

(In millions of Russian Roubles unless otherwise stated)

The total dividends declared and proposed for distribution by the Group amounted to the following:

	2010 (declared in 2010)		**2009 (declared in 2010)**		**2008 (declared in 2009)**	
	Ordinary	**Preferred**	**Ordinary**	**Preferred**	**Ordinary**	**Preferred**
OJSC Rostelecom	810	329	1,020	510	1,414	707
OJSC North-West Telecom	559	278	521	307	544	321
OJSC Centertelecom	798	532	759	506	388	259
OJSC South Telecommunications company	339	226	277	185	84	56
OJSC VolgaTelecom	661	322	639	426	443	295
OJSC Uralsvyazinform	911	607	610	407	402	268
OJSC SibirTelecom	478	260	352	230	316	207
OJSC Far East Telecom	326	155	326	214	260	221
Total	**4,882**	**2,709**	**4,504**	**2,785**	**3,851**	**2,334**

17. BORROWINGS

Long-term borrowings as at 31 December 2010, 2009 and 2008 were as follows:

	31 December 2010	**31 December 2009**	**31 December 2008**
Long-term Borrowings			
Bank and corporate loans	104,059	63,670	77,458
Bonds	22,706	33,628	39,858
Promissory notes	620	2,532	3,247
Vendor financing	624	3,301	2,750
Finance lease liabilities	4,197	8,442	13,735
Interest payable	17	270	550
Restructured customer payments	156	154	167
Less: current portion of long-term borrowings	(44,438)	(44,905)	(58,242)
Total non-current borrowings	**87,941**	**67,092**	**79,523**
Short-term borrowings			
Bank and corporate loans	2,274	2,017	2,560
Promissory notes	5	-	1,100
Vendor financing	1,919	1	429
Interest payable	1,233	1,786	1,841
Other short-term borrowings	227	395	-
Total short-term borrowings	**5,658**	**4,199**	**5,930**
Current portion of long-term borrowings	44,438	44,905	58,242
Total current borrowings	**50,096**	**49,104**	**64,172**
Total borrowings	**138,037**	**116,196**	**143,695**

(In millions of Russian Roubles unless otherwise stated)

Finance lease liabilities

	31 December 2010		31 December 2009		31 December 2008	
	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	2,817	2,285	5,160	3,879	7,070	5,256
More than 1 to 5 years	2,110	1,809	5,447	4,285	10,387	8,175
Over 5 years	238	103	334	278	377	304
Total	**5,165**	**4,197**	**10,941**	**8,442**	**17,834**	**13,735**

18. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2010, 2009 and 2008:

	31 December 2010	31 December 2009	31 December 2008
Payables for purchases and construction of property, plant and equipment	8,422	5,076	12,029
Other taxes payable	7,779	7,813	5,848
Payable to personnel	8,448	8,305	7,300
Payable for operating activities	3,296	2,073	2,031
Payable to interconnected operators	4,017	4,314	4,417
Dividends payable	673	342	355
Payable for purchases of software	157	145	540
Current provisions	230	525	570
Other accounts payable	5,913	6,367	6,818
Current accounts payable, provisions and accrued expenses	**38,935**	**34,960**	**39,908**
Non-current payables	129	37	61
Non-current provisions	73	7	47
Non-current accounts payable, provisions and accrued expenses	**202**	**44**	**108**
Total accounts payable, provisions and accrued expenses	**39,137**	**35,004**	**40,016**

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 and NPF Erel maintain the defined contribution plan of Group.

As at 31 December 2010, the Group employed or provided for 36,858 participants of defined contribution plans (31 December 2009-73,304, 31 December 2008- 82,500).

In 2010, the Group expensed 148 (2009: 222, 2008: 296) in relation to defined contribution plans.

Defined benefit plans

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 subject to a condition that minimum period of 15 years for non-executive employees and 4 years for executives is served.

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2010, the Group employed 80,236 participants of defined benefit plan and supported 96,668 pensioners eligible for post-employment benefits (31 December 2009: 99,858 and 87,967; 31 December 2008: 112,357 and 84,038, respectively).

As at 31 December 2010, management estimated that employees' average remaining working period was 9 years (2009 – 14, 2008 – 14 years)

The Group expects to contribute 1,478 to its non-state pension fund in 2011 in respect of defined benefit plans.

The expected return on plan assets as at 31 December 2010, 2009 and 2008 is determining by the combination of market prices and structure of plan assets. The actual return on plan assets for the 2010 year was 15.00%.

As at 31 December 2010, 2009 and 2008 net defined benefit plan liability comprised the following:

	2010	2009	2008
Present value of obligations on defined benefit plans	16,759	15,964	17,617
Fair value of plan assets	(1)	(5)	(288)
Present value of unfunded obligations	**16,758**	**15,959**	**17,329**
Unrecognized past service cost	(1,847)	(2,451)	(3,286)
Unrecognized actuarial gains/losses	1,286	2,070	689
Net defined benefit plan liability	**16,197**	**15,578**	**14,732**

Net expenses for the defined benefit plan recognized in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Current service cost	834	902	1,073
Interest cost	1,424	1,571	1,284
Expected return on plan assets	-	(15)	(21)
Actuarial gains and losses	(103)	(137)	(192)
Past service cost - guaranteed part	-	114	14
Amortization of past service cost - non-guaranteed part	610	735	758
Curtailment effect	(271)	(254)	(380)
Final settlement effect	(86)	(246)	(22)
Net expense for the defined benefit plan	**2,408**	**2,670**	**2,514**

Net expense for the defined benefit plan, excluding interest cost and return on plan assets, is included in the combined statement of comprehensive income in the line "Personnel costs". Return on plan assets and interest cost are recognized in "Other investing and financing gains and losses" and "Finance costs" line items of the combined statement of comprehensive income.

(In millions of Russian Roubles unless otherwise stated)

Changes in liability for defined benefit plan in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Present value of defined benefit obligations as at 1 January	**15,964**	**17,617**	**19,349**
Curtailment of liabilities	-	(154)	(370)
Interest cost	1,424	1,571	1,284
Current service cost	834	902	1,073
Past service cost	1	(10)	(10)
Benefits paid	(1,468)	(435)	(451)
Business combinations	-	(7)	-
Liabilities extinguished on settlements	(649)	(1,661)	(1,394)
Actuarial (gains)/losses	651	(1,859)	(1,864)
Present value of defined benefit obligations as at 31 December	**16,759**	**15,964**	**17,617**

Changes in fair value of defined benefit plan assets in 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Fair value of plan assets as at 1 January	**5**	**288**	**300**
Expected return on plan assets	-	15	21
Actuarial (gains)/losses	1	(42)	(17)
Benefits paid	(1,468)	(435)	(451)
Assets distributed on settlement	(327)	(1,661)	(1,394)
Contributions by the employer	1,790	1,840	1,829
Fair value of plan assets as at 31 December	**1**	**5**	**288**

As at 31 December 2010, 2009 and 2008 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2010	2009	2008
Discount rate	8.00%	9.00%	9.00%
Expected return on plan assets	9.40%	10.16%	10.28%
Future salary increases	9.72%	9.72%	10.24%
Relative salary increase ("promotion")	1.00%	1.00%	1.00%
Rate used for calculation of annuity value	4.00%	4.00%	4.00%
Increase in financial support benefits	5.50%	5.50%	6.00%
Staff turnover	7.00%	7.00%	9.00%
Mortality tables (source of information)	1985/86	1985/86	1985/86

Historical information on the defined benefit plan is as follows:

	2010	2009	2008	2007	2006
Defined benefit obligations	16,759	15,964	17,617	19,349	19,426
Defined benefit assets	(1)	(5)	(288)	(300)	(178)
Plan (deficit)/proficit	16,758	15,959	17,329	19,049	19,248
Experience adjustments on defined benefit plan liabilities	203	301	851	1,714	153
Experience adjustments on defined benefit plan assets	-	8	30	2	(21)

Experience adjustments are included into actuarial gains and losses and represent effects of differences between prior actuarial assumptions and actual results. Experience adjustments on defined benefit plan obligations in 2010 and previous periods primarily relates to single significant excess in the number of dismissed staff and excess of the amount of payments over projected changes in respective figures in long-term perspective.

(In millions of Russian Roubles unless otherwise stated)

20. INCOME TAXES

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

The components of net deferred tax assets and liabilities at December 31, 2010, 2009 and 2008, and the respective movements during 2010, 2009 and 2008, were as follows:

	2010	2009	2008
Current income tax expense			
Income tax for the year	(9,625)	(7,225)	(11,135)
Adjustments of the current income tax for previous years	41	159	134
Total current income tax for the year	**(9,584)**	**(7,066)**	**(11,001)**
Deferred tax expense			
Deferred income tax expense related to the temporary differences	(719)	(752)	219
Changes in unrecognized deferred tax asset	262	(256)	(198)
Change in income tax rate	-	-	1,990
Total deferred income tax	**(457)**	**(1,008)**	**2,011**
Total income tax expense for the year	**(10,041)**	**(8,074)**	**(8,990)**

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

	2010	2009	2008
Profit before tax	41,379	34,337	36,000
Statutory income tax rate	20%	20%	24%
Theoretical tax charge at statutory income tax rate	(8,276)	(6,867)	(8,640)
Adjustments of the current income tax for previous years	41	159	134
Non-deductible expenses and non-taxable income	(2,009)	(1,045)	(2,160)
Change in tax rate	-	-	1,990
Tax on intragroup dividend income	(84)	(134)	(135)
Changes in unrecognized deferred tax asset	262	(256)	(198)
Tax exemptions	60	35	42
Other	(35)	34	(23)
Total actual income tax	**(10,041)**	**(8,074)**	**(8,990)**
Effective tax rate, %	24.27%	23.51%	24.97%

The components of net deferred tax assets and liabilities at 31 December 2010, 2009 and 2008 were as follows:

	31 December 2010	31 December 2009	31 December 2008
Deferred tax assets			
Trade and other receivables	35	58	174
Inventories	9	15	21
Investments	469	234	223
Pension liability	1,880	1,806	1,656
Leasing	301	395	700
Non-current borrowings	634	960	633
Non-current other liability	36	35	29
Current borrowings	376	469	318
Trade and other payables	1,245	1,176	995
Provisions	-	111	39
Deferred income	49	57	64
Other	1,022	550	88

(In millions of Russian Roubles unless otherwise stated)

Gross deferred tax asset	6,056	5,866	4,940
Deferred tax liability			
Property, plant and equipment	(14,709)	(14,264)	(12,721)
Intangible assets	(1,495)	(1,879)	(1,793)
Investments	(604)	(98)	(49)
Trade and other payables	(522)	(347)	15
Trade and other receivables	(410)	(165)	(127)
Other	(54)	(12)	(27)
Loans and borrowings	(13)	(32)	(63)
Gross deferred tax liability	**(17,807)**	**(16,797)**	**(14,765)**
Net deferred tax liability	**(11,751)**	**(10,931)**	**(9,825)**

Movement of deferred tax assets and liabilities during 2010, 2009 and 2008 was as follows:

	31 December 2010	**31 December 2009**	**31 December 2008**
Balance at 1 January	**(10,931)**	**(9,825)**	**(14,000)**
Origination and reversal of temporary differences	(719)	(752)	219
Acquisition of subsidiaries	(322)	(16)	(168)
Changes in fair value of available for sale financial assets	(41)	(82)	98
Recognition of changes in fair value of available-for-sale financial assets in income statement	-	-	2,230
Changes in unrecognized deferred tax asset	262	(256)	(198)
Change of tax rate	-	-	1,994
Balance at 31 December	**(11,751)**	**(10,931)**	**(9,825)**

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 December 31, 2010, 2009 and 2008 amounted to 8,001, 6,508 and 7,165, 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 2010, 2009 and 2008 amounted to 379, 379 and 382, respectively.

Deductible temporary differences for which no deferred tax assets were recognized as at December 31, 2010, 2009 and 2008 amounted to 3,103, 4,475 and 3,024, respectively, of which unused tax losses with expiry date from 2012 to 2020 amounted to 1,866, 2,601 and 1,658 for 2010, 2009 and 2008, respectively.

In the context of the Group's current corporate structure, tax losses and current tax assets of the different companies comprising the Group cannot be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net combined tax loss. Therefore, a deferred tax asset of one company could not be offset against a deferred tax liability of another company until the legal merger on 1 April 2011.

The combined statement of comprehensive income for 2010, 2009 and 2008 includes tax expense in respect of following items of other comprehensive income:

	2010	**2009**	**2008**
Change in fair value of available-for-sale financial assets	(41)	(82)	98
Recognition of changes in fair value of available-for-sale financial assets in income statement	-	-	2,230
Total	**(41)**	**(82)**	**2,328**

(In millions of Russian Roubles unless otherwise stated)

21. REVENUE

Revenue comprised the following for the years ended 31 December 2010, 2009 and 2008:

	2010	2009	2008
Local telephone services	85,328	79,633	76,405
Intra-zone telephone services	23,675	25,239	27,083
DLD/ILD (including ILD traffic transit) telephone services	37,850	42,874	46,980
Interconnection and traffic transit services	12,966	14,258	15,371
Mobile communication services	32,024	28,265	29,041
Rent of channels	11,045	12,168	12,875
Broadband Internet	39,596	32,732	22,847
Pay TV	1,107	865	653
Data services (VPN, data centres, wholesale Internet sales)	16,917	13,234	12,360
Other	15,223	15,377	15,306
Total revenue	**275,731**	**264,645**	**258,921**

In 2010, 2009 and 2008 the Group generated revenue by the following major customer groups:

Customer Groups	2010	2009	2008
Residential customers	154,787	148,503	143,044
Corporate customers	62,175	60,737	56,610
Governmental customers	28,445	23,272	21,446
Interconnected operators	30,325	32,133	37,821
Total	**275,731**	**264,645**	**258,921**

22. PERSONNEL COSTS

	2010	2009	2008
Salary expenses	53,649	51,886	51,064
Share-based remuneration	3,930	-	-
Social Taxes	12,313	11,508	11,416
Pension plan costs	1,072	1,331	1,544
Other personnel plan costs	2,178	2,201	2,912
Total personnel costs	**73,142**	**66,926**	**66,936**

(In millions of Russian Roubles unless otherwise stated)

23. ADMINISTRATION AND OTHER COSTS

Administration and other costs consisted of the following for the years ended 31 December 2010, 2009 and 2008:

	2010	2009	2008
Third party services and expenses related to administration	8,128	6,559	7,134
Advertising expenses	3,194	2,806	3,531
Taxes, other than income tax	6,377	6,210	5,978
Agency fees	6,126	6,457	5,603
Rent	3,957	4,049	3,785
Contributions to universal service fund	2,800	2,697	2,597
Fire and other security services	2,935	3,003	3,019
Transportation and postal services	2,633	2,722	2,500
Audit and consulting fees	1,264	2,570	2,052
Member fees, charity contribution, payments to labour units	680	468	2,044
Asset insurance	302	340	507
Fines and penalties	30	62	42
Losses on disposal of property, plant and equipment and other assets	542	1,185	2,981
Property, plant and equipment, construction-in-progress, intangible assets impairment loss/(reversal of impairment loss) and write-offs	4,974	(163)	2,027
Doubtful debt allowance	682	1,068	802
Reorganization expenses	951	-	-
Other	6,897	5,097	3,802
Total administration and other costs	**52,472**	**45,130**	**48,404**

24. FINANCE COSTS

	2010	2009	2008
Interest expense of defined benefit plans	1,424	1,571	1,284
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	9,208	12,851	10,112
Interest expense on finance lease liabilities	1,048	1,879	2,226
Borrowing servicing expense	118	151	293
Total	**11,798**	**16,452**	**13,915**

(In millions of Russian Roubles unless otherwise stated)

25. OTHER INVESTING AND FINANCING GAINS AND LOSSES

	2010	2009	2008
Interest income from finance assets	2,765	3,063	2,554
Income from pension plan assets	-	15	21
Dividend income	27	8	68
Expenses related to business combinations	51	(50)	-
Gain on disposal of subsidiaries	-	-	38
Gain on disposals of associates	-	-	216
Gain / (loss) on disposal of other financial assets	74	(82)	8,757
Gain on change of fair value of financial assets through profit and loss	-	-	(18)
Reversal of impairment of financial assets	20	70	(133)
Excess of fair value of net assets acquired over subsidiary acquisition price	-	-	2
Other (losses)/gains	(192)	213	19
Total	**2,745**	**3,237**	**11,524**

26. SEGMENT INFORMATION

Since the merger on 1 April 2011 had not been completed by 31 December 2010 there was no single management body that could be identified as chief operating decision maker. However, the financial information of the companies comprising the Group is regularly analyzed by OJSC Svyazinvest, the Group’s controlling shareholder, and is used for decision making in regards of their strategy and operations.

The reporting information analysis and decision making are generally performed by key management personnel of the reporting entities with accounting data that is prepared using Russian statutory accounting principles that differ from IFRS. Financial information is presented on unconsolidated basis with separate presentation of information for the parent company and its subsidiaries.

The “Other operations and reconciliation” column represents the sum of financial information of operating segments that were didn’t satisfy the materiality threshold and consolidating adjustments for intercompany operations, mainly transactions and balances on:

- interconnection agreements for exchange of voice and data traffic,
- subscriber agreements for rendering voice and data services,
- property operating lease agreements,
- equipment maintenance and servicing agreements.

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 2010, 2009 and 2008.

(In millions of Russian Roubles unless otherwise stated)

	Rostele-com	North-West Telecom	Center Telecom	Southern Telecom-munications company	Volga Telecom	Uralsvyuaz inform	Sibirtelecom	Far East Telecom	Other	Total segments	Adjust-ments and eliminations	Total
2010												
Third party revenue	55,692	26,106	36,460	21,896	26,749	41,640	27,037	16,979	23,985	276,544	(813)	275,731
Revenue from other segments	4,835	1,998	3,285	1,606	1,939	1,485	2,089	882	3,817	21,936	(21,936)	-
Total revenue	**60,527**	**28,104**	**39,745**	**23,502**	**28,688**	**43,125**	**29,126**	**17,861**	**27,802**	**298,480**	**(22,749)**	**275,731**
Other investing and financial gainsFinance	1,076	491	232	68	296	322	38	81	123	2,727	18	2,745
costs	(593)	(1,070)	(789)	(1,438)	(997)	(2,574)	(1,377)	(682)	(600)	(10,120)	(1,678)	(11,798)
Income tax expense	(969)	(1,091)	(1,872)	(1,009)	(1,414)	(2,345)	(1,268)	(795)	(747)	(11,510)	1,469	(10,041)
Reportable segment profit before income tax	4,429	4,604	7,844	2,893	5,532	10,532	5,055	3,910	4,832	49,631	(8,252)	41,379
Assets and liabilities												
Segment assets	91,382	58,171	49,409	42,547	49,676	58,055	38,157	20,244	30,426	438,067	(11,256)	426,811
Segment liabilities	(37,207)	(23,651)	(20,684)	(24,828)	(23,453)	(26,179)	(19,434)	(10,645)	(13,970)	(200,051)	(13,653)	(213,704)
Other segment information												
Depreciation and amortization	5,394	6,390	3,937	4,186	4,458	5,974	4,636	1,731	3,948	40,654	10,484	51,138
Capital expenditure	8,844	5,651	6,379	5,355	6,576	6,358	6,104	3,050	3,024	51,341	6,936	58,277
Investments in associates	26,095	11	-	-	75	-	-	-	-	26,181	1,336	27,517

(In millions of Russian Roubles unless otherwise stated)

	Rostele-com	North-West Telecom	Center Telecom	Southern Telecom-munications company	Volga Telecom	Uralsvyuazinform	Sibirtelecom	Far East Telecom	Other	Total segments	Adjust-ments and eliminations	Total
2009												
Third party revenue	57,711	24,335	33,028	20,237	25,098	39,230	25,661	12,468	28,689	266,457	(1,812)	264,645
Revenue from other segments	3,513	2,369	3,406	1,620	1,979	1,514	2,309	928	1,389	19,027	(19,027)	-
Total revenue	**61,224**	**26,704**	**36,434**	**21,857**	**27,077**	**40,744**	**27,970**	**13,396**	**30,078**	**285,484**	**(20,839)**	**264,645**
Other investing and financial gains	1,548	235	489	200	202	466	53	15	323	3,531	(294)	3,237
Finance costs	(191)	(1,186)	(1,530)	(2,196)	(1,447)	(4,408)	(2,069)	(592)	(1,120)	(14,739)	(1,713)	(16,452)
Income tax expense	(1,421)	(932)	(1,597)	(579)	(1,046)	(1,338)	(672)	(501)	(926)	(9,012)	938	(8,074)
Reportable segment profit before income tax	6,522	4,092	5,059	2,425	5,309	5,407	3,017	2,672	3,127	37,630	(3,293)	34,337
Assets and liabilities												
Segment assets	74,374	56,528	45,192	40,905	41,062	57,436	37,188	19,358	33,099	405,142	(1,962)	403,180
Segment liabilities	(14,918)	(22,753)	(18,848)	(23,656)	(14,438)	(30,520)	(19,411)	(9,473)	(16,616)	(170,633)	(15,136)	(185,769)
Other segment information												
Depreciation and amortization	(4,579)	(5,589)	(4,290)	(4,004)	(4,847)	(6,080)	(4,731)	(1,443)	(3,928)	(39,491)	(12,026)	(51,517)
Capital expenditure	8,899	7,036	4,275	1,943	1,971	4,590	2,643	3,149	3,464	37,970	1,197	39,167

(In millions of Russian Roubles unless otherwise stated)

	Rostele-com	North-West Telecom	Center Telecom	Southern Telecommunications company	Volga Telecom	Uralsvyuaz inform	Sibirtelecom	Far East Telecom	Other	Total segments	Adjust-ments and eliminations	Total
2008												
Third party revenue	61,327	22,106	30,341	19,278	24,414	39,067	25,219	11,316	26,671	259,739	(818)	258,921
Revenue from other segments	1,875	2,387	3,374	1,606	2,006	1,514	2,398	916	1,150	17,226	(17,226)	-
Total revenue	**63,202**	**24,493**	**33,715**	**20,884**	**26,420**	**40,581**	**27,617**	**12,232**	**27,821**	**276,965**	**(18,044)**	**258,921**
Other investing and financial gains	1,286	266	187	40	125	63	67	74	128	2,236	9,288	11,524
Finance costs	(193)	(869)	(1,759)	(1,879)	(1,206)	(3,981)	(1,393)	(492)	(578)	(12,350)	(1,565)	(13,915)
Income tax expense	(2,487)	(1,153)	(1,461)	(393)	(1,124)	(1,469)	(694)	(593)	(1,137)	(10,511)	1,521	(8,990)
Reportable segment profit before income tax	9,559	4,775	4,046	950	4,076	4,147	2,801	2,329	3,513	36,196	(196)	36,000
Assets and liabilities												
Segment assets	70,733	53,163	49,588	44,778	44,157	57,965	40,614	16,782	35,395	413,175	1,428	414,603
Segment liabilities	(14,251)	(22,200)	(27,566)	(29,454)	(21,239)	(34,900)	(24,660)	(9,007)	(18,890)	(202,167)	(14,303)	(216,470)
Other segment information												
Depreciation and amortization	4,180	4,179	4,278	3,572	4,349	5,269	4,043	1,409	3,033	34,312	11,260	45,572
Capital expenditure	8,545	13,551	6,753	4,808	6,478	10,586	8,083	2,244	5,982	67,030	15,592	82,622

(In millions of Russian Roubles unless otherwise stated)

27. SHARE-BASED PAYMENTS

The Group has a share option scheme for executives and senior employees of the Group. 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 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 combined and 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 in existence 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 and were outstanding with weighted average remaining contractual life of 426 and 791 days for options (1) and (2) respectively.

The weighted average fair value of the share options granted as of the grant date is 39.61 RUB. Total amount of 3,930 was recognized as an expense in wages, salaries, other benefits and payroll taxes.

Fair value of options on grant date was determined using a 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)

28. EARNINGS PER SHARE

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

	2010	2009	2008
Profit for the period attributable to shareholders of the Companies	31,418	26,125	26,783
Weighted average number of shares outstanding	3,122,190,246	3,184,735,977	3,184,735,977
Basic and diluted earnings per share attributable to ordinary shareholders of the Combined group, in RUB	**10.06**	**8.20**	**8.41**

Weighted average number of ordinary shares outstanding used to calculate basic and diluted earnings per share attributable to shareholders of the Combined group for 2010, 2009 and 2008 are derived from information on shares of companies comprising the Group and their conversion ratios to ordinary shares of OJCS Rostelecom upon the 1 April 2011 merger as follows:

	Number of shares		Conversion ratios		Combined entity
	Ordinary	**Preferred**	**Ordinary**	**Preferred**	**equivalent**
OJSC Rostelecom	728,696,320	242,831,469	n/a	n/a	971,527,789
OJSC North-West Telecom	881,045,433	250,369,337	4.1020	5.2200	262,747,832
OJSC CenterTelecom	1,578,006,833	525,992,822	3.8670	4.9200	514,979,147
OJSC South Telecommunications Company	2,960,512,964	972,151,838	19.3780	24.6480	192,218,422
OJSC VolgaTelecom	245,969,590	81,983,404	0.8910	1.1340	348,355,917
OJSC Uralsvyazinform	32,298,782,020	7,835,941,286	87.3410	111.6020	440,014,188
OJSC Sibirtelecom	12,011,401,829	3,908,420,014	46.5370	59.3740	323,931,473
OJSC Far East Telecom	95,581,421	31,168,901	0.9390	1.1950	127,873,413
OJSC Dagsvyazinform	6,313,000	2,104,000	1.7950	2.2840	4,438,183
Total					**3,186,086,364**

Weighted average number of shares outstanding as at 31 December 2010 is adjusted for the treasury shares of the Group, which amounted to an equivalent of 193,090,508 shares of the Combined entity (31 December 2009 and 2008: 1,350,386).

29. 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 2010, 2009 and 2008:

Classes	Categories	31 December 2010	31 December 2009	31 December 2008
Cash and cash equivalents	Loans and receivables	12,627	13,621	19,627
Trade and other receivables	Loans and receivables	25,200	22,243	23,588
Available-for-sale financial assets	Available-for-sale	1,060	881	428
Held-to-maturity investments	Held to maturity	10,268	8,871	2,640
Loans	Loans and receivables	4,840	14,944	8,932
Held-for-trading financial assets	Financial assets at fair value through	-	-	2

(In millions of Russian Roubles unless otherwise stated)

Classes	Categories	31 December 2010	31 December 2009	31 December 2008
	profit and loss			
Other financial assets	Loans and receivables	1	-	28
Total financial assets		**53,996**	**60,560**	**55,245**
Bank and corporate loans	Liabilities at amortized cost	106,333	65,687	80,018
Bonds	Liabilities at amortized cost	22,706	33,628	39,858
Promissory notes	Liabilities at amortized cost	625	2,532	4,347
Vendor financing	Liabilities at amortized cost	2,543	3,302	3,179
Finance lease liabilities	Liabilities at amortized cost	4,197	8,442	13,735
Interest payable	Liabilities at amortized cost	1,250	2,056	2,391
Hedge derivative	Financial liabilities at fair value through profit and loss	-	394	-
Other borrowings	Liabilities at amortized cost	383	155	167
Trade and other payables	Liabilities at amortized cost	30,035	24,750	31,566
Non-hedge derivative	Financial liabilities at fair value through profit and loss	70	109	176
Total financial liabilities		**168,142**	**141,055**	**175,437**

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.

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)

(In millions of Russian Roubles unless otherwise stated)

	2010	2009	2008
Available-for-sale financial assets			
Long-term equity investments at fair value			
Level 1	1,007	815	219
Level 2	18	28	172
Level 3	-	-	-
Total long-term equity investments at fair value	**1,025**	**843**	**391**
Financial liabilities at fair value through profit and loss			
Non-hedge derivatives			
Level 1	-	-	-
Level 2	70	109	176
Level 3	-	-	-
Total non-hedge derivatives	**70**	**109**	**176**
Hedge derivatives			
Level 1	-	-	-
Level 2	-	394	-
Level 3	-	-	-
Total non-hedge derivatives	**-**	**394**	**-**

(In millions of Russian Roubles unless otherwise stated)

Income and expenses on financial instruments

	Other operating income	Other operating expenses	Finance costs	Other investing and financing gains and losses								
2010	**Reversal of doubtful debt allowance**	**Doubtful debt allowance**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / losseson 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	-	(682)	-	19	-	-	-	-	-	(21)	-	(684)
Available for sale financial instruments	-	-	-	-	27	74	-	4	-	-	198	303
Held to maturity investments	-	-	-	906	-	-	-	-	-	1	-	907
Loans	-	-	-	807	-	-	-	8	-	(264)	-	551
Held for trading financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	44	-	-	-	8	-	(20)	-	32
Total financial assets	**-**	**(682)**	**-**	**2,765**	**27**	**74**	**-**	**20**	**-**	**(275)**	**198**	**2,127**
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	-	-	(54)	-	-	-	39	-	-	27	-	12
Total financial liabilities	**-**	**-**	**(10,256)**	**-**	**-**	**-**	**39**	**-**	**(85)**	**188**	**-**	**(10,114)**

(In millions of Russian Roubles unless otherwise stated)

	Statement of comprehensive income													
	Other operating income	Other operating expenses	Finance costs	Other investing and financing gains and losses										
2009	**Reversal of doubtful debt allowance**	**Doubtful debt allowance**	**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**	**Effective portion of hedging**	**Total**
Cash and cash equivalents	-	-	-	784	-	-	-	-	-	(96)	-	-	-	**688**
Trade and other receivables	-	(1,068)	-	1	-	-	-	-	-	214	-	-	-	**(853)**
Available for sale financial assets	-	-	-	13	4	(81)	-	-	63	(692)	(1)	593	-	**(101)**
Held to maturity investments	-	-	-	2,288	-	(1)	-	50	70	(65)	-	-	-	**2,342**
Loans	-	-	-	20	-	-	-	20	-	-	-	-	-	**40**
Other financial assets	-	-	-	(43)	-	-	-	-	-	-	-	-	-	**(43)**
Total financial assets	**-**	**(1,068)**	**-**	**3,063**	**4**	**(82)**	**-**	**70**	**133**	**(639)**	**(1)**	**593**	**-**	**2,073**
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)**

(In millions of Russian Roubles unless otherwise stated)

	Statement of comprehensive income													
	Other operating income	Other operating expenses	Finance costs	Other investing and financing gains and losses										
2008	**Reversal of doubtful debt allowance**	**Doubtful debt allowance**	**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**	**Effective portion of hedging**	**Total**
Cash and cash equivalents	-	-	-	437	-	-	-	-	-	(91)	-	-	-	**346**
Trade and other receivables	-	(802)	-	1	-	-	-	-	-	833	-	-	-	**32**
Available for sale financial assets	-	-	-	37	68	8,757	-	(14)	4	-	(8,675)	(720)	-	**(543)**
Held to maturity investments	-	-	-	2,047	-	-	-	(136)	-	-	-	-	-	**1,911**
Loans	-	-	-	32	-	-	-	17	-	-	-	-	-	**49**
Other financial assets	-	-	-	-	-	-	(18)	-	(9)	19	-	-	-	**(8)**
Total financial assets	**-**	**(802)**	**-**	**2,554**	**68**	**8,757**	**(18)**	**(133)**	**(5)**	**761**	**(8,675)**	**(720)**	**-**	**1,787**
Bank and corporate loans	-	-	(5,248)	-	-	-	-	-	56	(4,847)	-	-	-	**(10,039)**
Bonds	-	-	(4,251)	-	-	-	-	-	-	-	-	-	-	**(4,251)**
Promissory notes	-	-	(382)	-	-	-	-	-	-	-	-	-	-	**(382)**
Vendor financing	-	-	(152)	-	-	-	-	-	-	(145)	-	-	-	**(297)**
Finance lease liabilities	-	-	(2,226)	-	-	-	-	-	-	(181)	-	-	-	**(2,407)**
Interest payable	-	-	(78)	-	-	-	-	-	-	(51)	-	-	-	**(129)**
Other borrowings and hedge derivatives	-	-	(1)	-	-	-	(103)	-	-	-	-	-	-	**(104)**
Trade and other payables and non-hedge derivatives	-	-	-	-	-	-	-	-	41	(1,091)	-	-	-	**(1,050)**
Total financial liabilities	**-**	**-**	**(12,338)**	**-**	**-**	**-**	**(103)**	**-**	**97**	**(6,315)**	**-**	**-**	**-**	**(18,659)**

(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 2010, 2009 and 2008.

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

The Group deposits excess cash available with several Russian banks and makes investments 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.

(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 2008-2010 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)

As at 31 December 2010, 2009 and 2008 financial liabilities had the following maturities:

	2011	2012	2013	2014	2015 and later	Total
31 December 2010						
Bank and corporate loans	32,646	46,955	33,689	4,104	2,299	**119,693**
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**
Interest payable	1,769	321	108	18	7	**2,223**
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	20,584	23,495	18,240	4,624	2,498	**69,441**
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**
Interest payable	4,293	3,405	1,469	282	24	**9,473**
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**

	2009	2010	2011	2012	2013 and later	Total
31 December 2008						
Bank and corporate loans	33,029	20,671	22,393	11,629	2,811	**90,533**
Bonds	25,595	10,849	3,543	2,274	1,612	**43,873**
Promissory notes	2,549	1,227	596	-	31	**4,403**
Vendor financing	2,941	226	148	-	-	**3,315**
Finance lease liabilities	6,253	4,816	2,827	1,757	790	**16,443**
Interest payable	5,700	3,548	1,786	547	314	**11,895**
Other borrowings and hedge derivatives	38	25	60	13	41	**177**
Trade and other payables and non-hedge derivatives	31,681	92	31	22	197	**32,023**
Total financial liabilities	**107,787**	**41,454**	**31,384**	**16,242**	**5,796**	**202,663**

(In millions of Russian Roubles unless otherwise stated)

(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 Rubles 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 2010	31 December 2009	31 December 2008
Fixed rate instruments			
Financial assets	26,780	27,539	15,259
Financial liabilities	(115,696)	(86,429)	(102,958)
	(88,916)	(58,890)	(87,699)
Variable rate instruments			
Financial liabilities	(21,147)	(27,820)	(38,521)
	(21,147)	(27,820)	(38,521)

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.

	2010	2009	2008
LIBOR (+0.1%)	(10)	(17)	(26)
LIBOR (-0.1%)	10	17	26
Euribor (+0.1%)	(1)	(2)	(1)
Euribor (-0.1%)	1	2	1
MosPrime (+0.1%)	(9)	(10)	(12)
MosPrime (-0.1%)	9	10	12
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 cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's combined statement of comprehensive income, statement of financial position and/or statement of cash flows. Combined entity 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 2010, 2009 and 2008 were as follows:

	31 December 2010		31 December 2009		31 December 2008	
	USD	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Cash and cash equivalents	568	16	1,647	529	759	291
Trade receivables	690	300	869	215	2,691	330
Held to maturity investments	-	-	333	-	-	-
Loans and receivables	1,586	-	8,768	2,805	1,552	-
Bank and corporate loans	(9,423)	(1,514)	(15,534)	(2,531)	(24,489)	(6,595)
Vendor financing	(1,969)	-	(2,081)	(14)	(2,724)	(64)
Promissory notes	-	-	-	-	-	(4)
Finance lease liabilities	(1)		(530)	-	(535)	-
Interest payable	(71)	(6)	(101)	(7)	(343)	(45)
Other borrowings and hedge derivatives	-	-	(394)	-	-	-
Trade and other payables and non-hedge derivatives	(2,537)	(416)	(2,601)	(198)	(2,338)	(387)
Net exposure	**(11,157)**	**(1,620)**	**(9,624)**	**799**	**(25,427)**	**(6,474)**

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 2010		31 December 2009		31 December 2008	
	USD	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Strengthening (+10%)	(1,116)	(162)	(962)	80	(5,085)	(1,295)
Weakening (-10%)	1,116	162	962	(80)	5,085	1,295

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

(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 2008-2010.

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.

30. 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.

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2010, 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 combined statements of financial position as at 31 December 2010. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

(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 up to 2013.

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 2010, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 1,547 (2009: 2,181, 2008: 3,134).

As at 31 December 2010, 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 2010 were as follows:

Current portion	77
Between one to two years	66
Between two to three years	63
Between three to four years	60
Between four to five years	56
Over five years	1,848
Total minimum rental payables	**2,170**

31. RELATED PARTY TRANSACTIONS

(a) The Government and OJSC Svyazinvest as a shareholder

As indicated in Note 1, the main shareholder of the companies comprising the Group is OJSC Svyazinvest, which holds 50.67% of the voting capital of OJSC Rostelecom, 50.76% of the voting shares in North-West Telecom, 50.69% of the voting shares in Centrtelecom, 50.69% of the voting shares in South Telecommunications Company, 50.67% of the voting shares in VolgaTelecom, 51% of the voting shares in Uralsvyazinform, 50.67% of the voting shares in Sibirtelecom, 50.56% of voting shares in Far East Telecom and 50.66% of the voting shares in OJSC Dagsvyazinform. Representatives of OJSC Svyazinvest comprise a majority of the Companies' Board of Directors.

The Government of the Russian Federation holds 75% less one share of the voting capital of OJSC Svyazinvest and, therefore, is the ultimate controlling party of the companies comprising the Group.

(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 combined 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.

(e) Transactions with other companies of Svyazinvest Group

The Group held some promissory notes issued by OJSC Tcentralniy Telegraf. Investments in promissory notes of related parties amounted to nil as 31 December 2010 (2009: 500, 2008: nil), interest income accrued for the year ended 31 December 2010 is 65 (2009: 48, 2008: nil).

On 4 October 2010, OJSC Svyazinvest exchanged its stake in OJSC MGTS for 100% effective shareholding interest in Sky Link CJSC, which became a fellow subsidiary of the companies comprising the Group.

In 2010, OJSC Centertelecom acquired the promissory notes of CJSC Sky Link in the amount of 2,793. The nominal value of the promissory notes of CJSC Sky Link as at 31 December 2010 is 2,998.

In September 2010 OJSC Uralsvyazinform entered into the contract with JSFC Sistema for acquisition of promissory notes of CJSC SkyLink and of other companies for the amount of 3,226. Payment and acquisition of promissory notes were effected in October. Maturity dates of promissory notes fall on 2012 – 2014. Repurchase price of promissory notes at maturity date will be 3,923. In addition, the drawer of the notes shall pay interest to the Group at 8 – 9.75 % p.a. on the amount representing purchase price.

In September 2010, OJSC Volgatelecom acquired the promissory notes of CJSC Sky Link and other companies in the amount of 3,134. The repurchase price of the promissory notes is 3,709. Interest for promissory notes is accrued at 8-9.75% p.a. The promissory notes mature in 2012-2014.

(f) Non-state Pension Fund "Telecom-Soyuz"

The Group has centralized pension agreements with a non-state pension fund "Telecom-Soyuz" (refer to Note 20). In addition to the state pension, the Companies provide the employees with a non-state pension and other post-employment benefits through defined benefit and defined contribution plans.

(In millions of Russian Roubles unless otherwise stated)

The total amount of contributions to non-state pension fund paid by the Group in 2010 amounted to 1,520 (2009: 1,649, 2008: 1,685) and is included in the line "Personnel costs" in the statement of comprehensive income. The fund retains 3% of every pension contribution to cover its administrative costs.

The nature of the Group's significant related party transactions in 2010, 2009 and 2008 is presented below:

Transactions	OJSC "Svyazinvest"	Associates	Other
2010			
Revenue from telecommunication services, interconnection and traffic transmission services	-	77	500
Agency services	-	-	74
Rental income	-	34	23
Other revenue	-	3	41
Revenue from sale of property, plant and equipment and other	-	1	1
Purchase of telecommunication services, interconnection and traffic transmission services	-	194	28
Purchase of other services	-	3	1,864
Purchase of goods and other assets	-	-	29
Interest expense	-	-	-
Dividend income	-	152	-
Dividend payable	3,678	-	7
2009			
Revenue from telecommunication services, interconnection and traffic transmission services	-	97	303
Agency services	-	-	63
Rental income	-	30	5
Other revenue	-	7	41
Purchase of telecommunication services, interconnection and traffic transmission services	-	87	53
Purchase of other services	-	83	2,828
Purchase of goods and other assets	-	-	5
Interest income	-	-	18
Interest expense	7	-	-
Dividend income	-	94	-
Dividend payable	1,032	-	-
Loans provided	-	-	662
Receivables written-off	-	6	-
- Including against doubtful debt allowance	-	6	-
2008			
Revenue from telecommunication services, interconnection and traffic transmission services	-	129	1,086
Agency services	-	1	13
Rental income	-	25	35
Other revenue	-	5	23
Revenue from sale of property, plant and equipment and other assets	-	-	20
Purchase of telecommunication services, interconnection and traffic transmission services	-	98	304
Purchase of other services	-	102	3,201
Purchase of goods and other assets	-	-	184
Dividend income	-	132	3
Dividend payable	1,498	-	-
Loans provided	-	-	3

(In millions of Russian Roubles unless otherwise stated)

Balances with related parties as at 31 December 2010, 2009 and 2008 are provided below:

Type of balances	OJSC “Svyazinvest”	Associates	Other
2010			
Trade and other receivables, net	-	15	72
Doubtful debt allowance	-	(9)	-
Loans provided (incl. interest)	-	4	-
Trade and other payables	-	20	38
Borrowings (incl. interest)	-	-	-
Cash and cash equivalents	-	-	345
2009	-	-	-
Trade and other receivables, net	-	23	56
Doubtful debt allowance	-	(8)	-
Loans provided (incl. interest)	-	4	-
Trade and other payables	-	24	121
Borrowings (incl. interest)	134	-	-
Cash and cash equivalents	-	-	345
2008			
Trade and other receivables, net	-	19	90
Doubtful debt allowance	-	(21)	(2)
Loans provided (incl. interest)	-	4	3
Trade and other payables	-	30	255

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

(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 2010 amounted to 469 (2009: 170, 2008: nil). As of 31 December 2010, the total commitment due to be paid in cash by 2014 is USD 42.5 million.

The Group considers this transaction as a transaction with a related party because the Group treats the Organisation committee as a government-related entity. The reason for this is that the federal government was one of the founders of the Organisation committee and government executives are 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 centre and other related services. OJSC Rostelecom acts as a sole provider of all services under the project. Total revenue under the contract for the year ended 31 December 2010 is 1,190 (2009: 655, 2008: nil).

In September 2010, the Group obtained a credit from OJSC Sberbank Rossii. The loan was intended for the acquisition of 25% plus one share of OJSC Svyazinvest (refer to Note 9) and amounted to 23,000.

The credit was structured into five loans with the maturity dates varying from August 2012 to August 2013 and annual rates varying from 7.28% to 8.13%. The Group considers OJSC Sberbank a government-related entity as Central Bank of Russian Federation controls it by virtue of holding 60.3% of voting shares. The outstanding balances from OJSC Sberbank comprised 42,749 as at 31 December 2010 (2009: 12,262, 2008: 18,506).

The Group received loans from government related banks OJSC Bank VTB and OJSC Svyazbank during years 2008-2010. The outstanding balances from OJSC Bank VTB comprised 6,689 as at 31 December 2010 (2009: 4,368, 2008: 6,056), the outstanding balances from OJSC Svyazbank comprised 16,343 as at 31 December 2010 (2009: 6,525, 2008: 2,208).

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 2010 amounted to 9,841 (2009: 5,546, 2008: 1,177), purchases of the same kind of investments comprised nil, 12,652 and 3,793 for 2010, 2009 and 2008 respectively. Related income recognized in profit and loss in respect of government-related banks promissory notes amounted to 41 for the year ended December 31, 2010 (2009: 89, 2008: 79). The amount of funds placed on deposits with government-related banks for the year ended 31 December 2010 is nil (2009: 3,215, 2008: 4,650) with related income recognised in profit and loss of nil (2009: 162, 2008: 702) and amounts repaid back to the Company's account of nil (2009: 7,579, 2008: 6,545).

(h) Remuneration of Key Management Personnel

The key management personnel for the purpose of these combined financial statements comprise members of the Management Committees and the Boards of Directors of the companies comprising the Group, totaling 160 persons as at 31 December 2010 (2009 – 156, 2008 – 157).

Remuneration to members of the Boards of Directors and the Management Committees of the companies comprising the Group includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 3,606 (2009 – 1,067, 2008 – 1,030), including salary, bonuses and other compensation to employees of the Group in the key management positions in the amount of 905 (2009 – 840, 2008 – 810). The remuneration amounts are stated exclusive of the unified social tax. In 2010, the remuneration of the key management personnel (Board of Directors members, Management Board members and Directors of Branches) in term of share option granted amounted to 1,850 (refer to note 27).

In 2010 the Group made a contribution of 8 to the non-state pension fund (2009 – 46, 2008 – 18) 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 (for example, minimum service period requirement).

(i) Other related party transactions

As at 31 December 2010, State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" holds 30% of the voting shares in OJSC Rostelecom thus having significant influence over the operations of the Company. The Group has significant outstanding balances owing to the bank in accordance with a loan agreement.

32. SUBSEQUENT EVENTS

Combination under common control

On 1 April 2011, the companies comprising the Group legally merged. Prior to the merger, on February

17, 2011, the Federal Service for Financial Markets registered an additional issue of 2,216,163,000 ordinary shares of OJSC Rostelecom with par value of 0.0025 RUB. The merger was effected through the exchange of ordinary and preferred shares of Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan with the Company. In addition, the Federal Service for Financial Markets registered issues of OJSC Rostelecom bonds amounting up to 31.56 billion RUB for the replacement of bonds issued by IRC.

Acquisition of OJSC National Telecommunications

In February 2011, OJSC Rostelecom together with OJSC Uralsvyazinform and OJSC North-West Telecom (collectively the “Buyers”) acquired 71.8% equity interest in OJSC National Telecommunications (acquiree) from CJSC National Media Group, OJSC Surgutneftegas and Raybrook Limited. The purchase price amounted to 950,854,029 US dollars. Further, the Buyers purchased promissory notes issued by the acquiree of 125,624,224 US dollars from Shepton Holdings Limited.

The primary activity of the acquiree 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.

At the time these financial statements are authorized for issue, the Group has not completed fair value appraisals with respect to the acquiree’s assets, liabilities and contingent liabilities and, therefore, no information on fair value is available.

Contribution of treasury shares to LLC Mobitel

In March 2011, the Companies’ Boards of Directors approved the contribution of their treasury shares to the share capital of LLC Mobitel. These treasury shares had been accumulated as a result of the buyback of dissenting shareholders (refer to Note 14). Following the contribution, the share of the Group in LLC Mobitel comprises 99.99%.