OJSC ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

CONTENT

	Pages
Statement of Directors' Responsibilities	3
Independent Auditors' Report	4
Consolidated Statements of Financial Position	5
Consolidated Statements of Comprehensive Income	6-7
Consolidated Statements of Cash Flows	8
Consolidated Statements of Changes in Equity	9-10
Notes to Consolidated Financial Statements	11-65

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OJSC Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results of operations and cash flows for each period. Management is responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management believes that, in preparing the consolidated financial statements set out on pages 5 to 65, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards as issued by the International Accounting Standards Board have been followed.

3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

A.Yu.Provotorov

President

April 11, 2011

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Independent Auditors' Report

The Board of Directors and Shareholders

OJSC Rostelecom

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

11 April 2011

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

	Notes	December 31, 2010	December 31, 2009	December 31, 2008
ASSETS				
Non-current assets				
Property, plant and equipment	6	41,019	40,249	39,586
Goodwill and other intangible assets	7	3,400	3,743	3,875
Investments in associates	9	26,496	152	178
Long-term investments	10	2,610	1,037	294
Other non-current assets		312	117	49
Total non-current assets		**73,837**	**45,298**	**43,982**
Current assets				
Inventories		380	432	459
Accounts receivable	11	8,299	8,751	10,133
Prepaid income tax		422	321	1,375
Short-term investments	12	1,887	14,947	8,762
Cash and cash equivalents	13	7,633	6,996	11,992
Total current assets		**18,621**	**31,447**	**32,721**
Total assets		**92,458**	**76,745**	**76,703**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	14	100	100	100
Treasury shares	14	(6,071)	-	-
Retained earnings and other reserves		61,037	61,274	59,285
Total equity attributable to equity holders of the parent		**55,066**	**61, 374**	**59,385**
Non-controlling interest		(271)	(177)	40
Total equity		**54,795**	**61,197**	**59,425**
Non-current liabilities				
Borrowings, net of current portion	18	23,084	-	117
Finance lease payable	16	111	436	461
Accounts payable, provisions and accrued expenses	15	214	213	243
Deferred tax liability	19	1,732	1,609	1,590
Total non-current liabilities		**25,141**	**2,258**	**2,411**
Current liabilities				
Accounts payable, provisions and accrued expenses	15	8,139	8,603	9,495
Finance lease payable	16	46	95	103
Taxes payable		963	692	1,126
Vendor financing payable	17	1,919	1,780	1,608
Current portion of long-term borrowings	18	1,455	1,980	2,522
Short-term borrowings		-	140	13
Total current liabilities		**12,522**	**13,290**	**14,867**
Total liabilities		**37,663**	**15,548**	**17,278**
Total equity and liabilities		**92,458**	**76,745**	**76,703**

The notes on pages 11 through 65 are an integral part of these consolidated financial statements.

OJSC Rostelecom

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of Russian Rubles unless otherwise stated)

		Year ended December 31,		
	Notes	2010	2009	2008
Revenue				
Telephone traffic		39,218	44,527	48,874
Rent of channels		5,313	6,958	7,710
Data transmission services		12,238	9,014	5,437
Other revenue		6,198	5,011	4,608
Total revenue	20	**62,967**	**65,510**	**66,629**
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(11,093)	(10,197)	(9,473)
Depreciation and amortization	6, 7	(7,584)	(7,580)	(7,174)
Impairment of property, plant and equipment, goodwill and other intangible assets	6, 7	(1,082)	-	(215)
Charges by network operators – international		(8,224)	(9,625)	(8,706)
Charges by network operators – national		(23,601)	(24,596)	(25,743)
Administration and other costs	22	(7,935)	(7,120)	(6,948)
Taxes other than on income		(713)	(649)	(618)
Repairs and maintenance		(869)	(860)	(899)
Bad debt recovery	11	17	28	32
Loss on sale of property, plant and equipment		(17)	(647)	(65)
Total operating expenses		**(61,101)**	**(61,246)**	**(59,809)**
Operating profit		**1,866**	**4,264**	**6,820**
Income/(loss) from associates		88	4	(71)
Interest expense		(691)	(234)	(268)
Interest income		1,435	1,568	1,646
(Loss)/gain on sale of investments		-	(81)	8,670
Other non-operating income		14	49	64
Foreign exchange loss, net		(227)	(893)	(788)
Profit before income tax		**2,485**	**4,677**	**16,073**
Current tax expense	19	(615)	(1,270)	(4,331)
Deferred tax (expense)/benefit	19	(221)	49	440
Income tax expense	19	**(836)**	**(1,221)**	**(3,891)**
Profit for the year		**1,649**	**3,456**	**12,182**
Other comprehensive income				
Acquisition of subsidiaries		-	-	268
Share of the other comprehensive income of associates		10	-	-
Revaluation gain/(loss) on available-for-sale investments		530	506	(412)
Income tax relating to revaluation gain on available-for-sale investments		(106)	(68)	26
Revaluation gain on available-for-sale investments transferred to profit on sale		-	-	(8,666)
Income tax relating to revaluation gain on available-for-sale investments transferred to profit on sale		-	-	2,230
Other comprehensive income for the year, net of tax		**434**	**438**	**(6,554)**
Total comprehensive income for the year		**2,083**	**3,894**	**5,628**

		Year ended December 31,		
	Notes	2010	2009	2008
Profit attributable to:				
Equity holders of the parent		1,743	3,673	12,178
Non-controlling interest		(94)	(217)	4
Total comprehensive income attributable to:				
Equity holders of the parent		2,177	4,111	5,614
Non-controlling interest		(94)	(217)	14
Earnings per share attributable to equity holders of the parent – basic and diluted (in RUB)	25	**1.83**	**3.78**	**12.54**

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian Rubles)

		Year ended December 31,		
	Notes	2010	2009	2008
Cash flows from operating activities				
Profit before income tax		2,485	4,677	16,073
Adjustments to reconcile profit before tax to cash generated from operating activities:				
Depreciation and amortization	6, 7	7,584	7,580	7,174
Impairment losses	6, 7	1,082	-	215
Bad debt recovery	11	(17)	(28)	(32)
Income/(loss) from associates		(88)	(4)	71
Loss on sale of property, plant and equipment		17	647	65
Loss/(gain) from sale of investments		-	81	(8,670)
Net interest income		(744)	(1,334)	(1,378)
Other non-operating income		(14)	(49)	(64)
Foreign exchange loss, net		227	893	788
Share-based payment expenses		811	-	-
Changes in net working capital:				
Decrease in accounts receivable		352	1,472	448
Decrease/(increase) in inventories		52	34	(8)
(Decrease)/increase in payables and accruals		(464)	(1,512)	336
Cash generated from operations		**11,283**	**12,457**	**15,018**
Interest paid		(637)	(236)	(212)
Interest received		1,559	1,278	1,194
Income tax paid		(723)	(212)	(4,740)
Net cash provided by operating activities		**11,482**	**13,287**	**11,260**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(9,226)	(8,742)	(7,640)
Proceeds from sale of property, plant and equipment		194	236	316
Purchase of available-for-sale investments		(2,179)	-	-
Purchase of financial assets, other than available-for-sale investments		(1,686)	(20,182)	(12,515)
Proceeds from sale of available-for-sale investments, net of direct costs		-	-	11,385
Proceeds from sale of investment other than available-for-sale, net of direct costs		14,350	13,176	10,882
Dividends received from associates		9	14	20
Purchase of subsidiaries, net of cash acquired		-	2	(1,454)
Purchase of interest in associate		(26,000)	-	-
Net cash (used in)/provided by investing activities		**(24,538)**	**(15,496)**	**994**
Cash flows from financing activities				
Proceed from interest bearing loans		24,213	284	460
Repayment of interest bearing loans and loan facilities		(1,828)	(883)	(1,218)
Repayment of lease obligations		(34)	(56)	(154)
Repayment of vendor financing payable		-	-	(410)
Dividends paid		(2,655)	(2,110)	(2,128)
Purchase of treasury shares		(6,071)	-	-
Net cash provided by/(used in) financing activities		**13,625**	**(2,765)**	**(3,450)**
Effect of exchange rate changes on cash and cash equivalents		**68**	**(22)**	**(96)**
Net increase/(decrease) in cash and cash equivalents		**637**	**(4,996)**	**8,708**
Cash and cash equivalents at beginning of year		**6,996**	**11,992**	**3,284**
Cash and cash equivalents at the end of year		**7,633**	**6,996**	**11,992**
Non-monetary transactions:				
Non-cash additions to property, plant and equipment and intangible assets		114	26	216
Non-cash proceeds from sale of property, plant and equipment and intangible assets		518	-	-
Non-cash addition of financial assets other than available-for-sale investments		-	405	-
Non-cash proceeds from sale of investment other than available-for-sale		-	423	-
Non-cash repayment of lease liabilities		454	-	-

The notes on pages 11 through 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Russian Rubles)

		Attributable to equity holders of the parent							Non-controlling interest	Total equity
	Note	Share capital	Unrealized gain/ (loss) on available-for-sale investments	Asset revaluation surplus on acquisitions	Treasury shares	Reserve related to share-based payment transaction	Retained earnings	Total		
Balances at January 1, 2008		**100**	**6,917**	**-**	**-**	**-**	**49,110**	**56,127**	**26**	**56,153**
Acquisition of subsidiaries		-	-	258	-	-	-	258	10	268
Revaluation gain on available-for-sale investments, net of tax		-	(386)	-	-	-	-	(386)	-	(386)
Transferred to profit on sale		-	(6,436)	-	-	-	-	(6,436)	-	(6,436)
Total other comprehensive income, net of tax		-	**(6,822)**	**258**	-	-	-	**(6,564)**	**10**	**(6,554)**
Profit for the year		-	-	-	-	-	12,178	12,178	4	12,182
Total comprehensive income		-	**(6,822)**	**258**	-	-	**12,178**	**5,614**	**14**	**5,628**
Dividends	14	-	-	-	-	-	(2,356)	(2,356)	-	(2,356)
Balances at December 31, 2008		**100**	**95**	**258**	-	-	**58,932**	**59,385**	**40**	**59,425**
Revaluation gain on available-for-sale investments, net of tax		-	438	-	-	-	-	438	-	438
Total other comprehensive income, net of tax		-	**438**	-	-	-	-	**438**	-	**438**
Profit/(loss) for the year		-	-	-	-	-	3,673	3,673	(217)	3,456
Total comprehensive income/ (loss)		-	**438**	-	-	-	**3,673**	**4,111**	**(217)**	**3,894**
Dividends	14	-	-	-	-	-	(2,122)	(2,122)	-	(2,122)
Balances at December 31, 2009		**100**	**533**	**258**	-	-	**60,483**	**61,374**	**(177)**	**61,197**

The notes on pages 11 through 65 are an integral part of these consolidated financial statements.

OJSC Rostelecom

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

(In millions of Russian Rubles)

		Attributable to equity holders of the parent							Non-controlling interest	Total equity
	Note	Share capital	Unrealized gain/ (loss) on available-for-sale investments	Asset revaluation surplus on acquisitions	Treasury shares	Reserve related to share-based payment transaction	Retained earnings	Total		
Revaluation gain on available-for-sale investments, net of tax		-	424	-	-	-	-	424	-	424
The Group's share of changes recognized in other comprehensive income by associate		-	10	-	-	-	-	10	-	10
Total other comprehensive income, net of tax		-	**434**	-	-	-	-	**434**	-	**434**
Profit/(loss) for the year		-	-	-	-	-	1,743	1,743	(94)	1,649
Total comprehensive income/ (loss)		-	**434**	-	-	-	**1,743**	**2,177**	**(94)**	**2,083**
Dividends	14	-	-	-	-	-	(2,669)	(2,669)	-	(2,669)
Purchase of shares		-	-	-	(6,071)	-	-	(6,071)	-	(6,071)
Decrease of value of the contribution to the motivation programme fund on initial recognition	10	-	-	-	-	(815)	-	(815)	-	(815)
Share options reserve	24	-	-	-	-	811	-	811	-	811
The Group's share of changes recognised in equity by associates		-	-	-	-	259	-	259	-	259
Balances at December 31, 2010		**100**	**967**	**258**	**(6,071)**	**255**	**59,557**	**55,066**	**(271)**	**54,795**

1. REPORTING ENTITY

These consolidated financial statements are presented by OJSC Rostelecom ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia"). The principal activity of the Group is the provision of long-distance domestic and international telecommunication services to the Government, businesses and individuals of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates in other national and international operators' networks to other national and international operators for termination, provides data transmission services and channel rent.

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

These consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 8.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of December 31, 2010, the Government of the Russian Federation controls OJSC Svyazinvest ("Svyazinvest"), the parent company of Rostelecom, by virtue of 75% less one share direct holding. Svyazinvest holds 50.67% of the voting shares in Rostelecom.

On April 1, 2011 the Company merged with and into seven Svyazinvest Interregional Companies ("IRCs") and OJS Company of Telecommunication and Information of the Republic of Dagestan (collectively, the "Merging Companies") (refer to Note 34).

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles (RUB). These consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations prescribed by the IASB.

The consolidated financial statements have been prepared using the historical cost convention, 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). The functional currency of the Company and each of its subsidiaries and the reporting currency for these consolidated financial statements is the Russian Ruble. All financial information presented in Russian Rubles has been rounded to the nearest million, unless otherwise stated.

3. OPERATING ENVIRONMENT OF THE GROUP

General

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

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the year ended December 31,	Annual inflation
2010	8.8%
2009	8.8%
2008	13.3%

Source: Federal Service of Public Statistics

4. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare these consolidated financial statements:

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on January 1, 2010. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

Starting January 1, 2010, the Group applied the following IFRSs and IFRIC Interpretations:

- IFRS No. 2 "Share-based Payment" (as revised in June 2009);
- IAS No. 39 "Financial Instruments: Recognition and Measurement" (as revised in July 2008);
- Improvements to International Financial Reporting Standards 2009;
- IFRIC No. 17 "Distributions of Non-cash Assets to Owners".

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

Among amendments introduced by Improvements to IFRS 2009 there was one that eliminated the prescribed requirement to classify lease of land as operating. Following the amendment, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. The Group has numerous land lease arrangements with government bodies and thus the new amendment required the Group to undertake thorough analysis of such arrangements. Analysis showed that no changes in the classification of the lease arrangements are required.

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 most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, fair values of assets and liabilities acquired in business combinations, share-based employee benefit, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

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 (refer to Note 23). This involves the use of demographic assumptions about the future characteristics of current employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2010, 2009 and 2008, allowances for doubtful accounts have been created in the amount of 1,762, 1,986 and 2,042, respectively (refer to Note 11).

Goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating unit(s) to which goodwill is allocated. 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.

Litigations

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

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31 each year.

A subsidiary is an entity that is controlled by the Company, 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 parent company, 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.

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.

Goodwill

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

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

(a) the aggregate of:

(i) the acquisition-date fair value of consideration transferred;

(ii) the fair value amount of any non-controlling interest in the acquiree; and

(iii) 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:

(a) reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;

(b) recognizes in profit or loss any excess remaining after that reassessment immediately.

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. Based on management's analysis there were indicators of impairment of property, plant and equipment as of December 31, 2010 (refer to Note 6).

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunication industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method, which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Methods used to determine the value in use include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment 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 construction in progress.

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. All other borrowing costs are expensed.

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) 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.

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.

Inventory

Inventory principally consists of fuel and spare parts for the network. 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.

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.

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 as a separate component of equity 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.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows

discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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.

Finance costs comprise interest expense on borrowings, 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).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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.

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.

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.

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.

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. Revenues from subscribers billed via agents are recognized in the period where the services were provided based on agent reports.

The Group charges all its subscribers throughout Russia for outgoing telephone traffic based on pre-set per minute tariffs regulated by the Ministry of Telecommunications. The Group is charged by regional local operators for originating and terminating calls. The Group also incurs agent fees in connection with the service contracts concluded with regional local operators.

The Group charges amounts to foreign network operators for incoming calls and other traffic that originate outside Russia. The Group is charged by foreign operators for completing international calls. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position where a legal right of offset exists and there is intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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.

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 Company 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. Actuarial gains and losses are recognized in profit or loss immediately.

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.

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 January 1, 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.

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.

Borrowing Costs

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, other than borrowings made specifically for the purpose of obtaining the qualifying asset. 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.

Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into Rubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Rubles 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 Rubles 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

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.

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 Company. 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.

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.

Segment Information

Rostelecom and each of its subsidiaries represent separate operating segments of the Group. These operating segments were identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group reports separately information about operating segments if they exceed any of the quantitative thresholds specified in IFRS 8 Reporting Segments.

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 effective date for the amendments to Standard is July 1, 2010. 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 January 1, 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 July 1, 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 consolidated financial statements. The impact of these

changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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 January 1, 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 effective date for the amendment to the Standard is July 1, 2010. 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 effective date for the amendment to the Standard is February 1, 2010. 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 January 1, 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

CJSC Rosmedia

In July 2009 the Group acquired a 100% equity interest in CJSC Rosmedia from an individual, a non-related party, for 0.01 paid in cash. CJSC Rosmedia is a start-up project for providing IPTV-services. This acquisition will allow the Group to diversify in new separate services as well as expand its broadband services.

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

The results of operations and financial position of CJSC Rosmedia were consolidated by the Group starting from July 1, 2009. The following table summarizes the fair values of identifiable net assets of CJSC Rosmedia acquired as at the acquisition date:

	July 1, 2009
Property, plant and equipment	17
Intangible assets	3
Long-term investments	7
Inventories	7
Trade and other accounts receivable	12
Cash and cash equivalents	2
Short-term debt	(88)
Accounts payable and accrued liabilities	(12)
Fair value of net assets	**(52)**
Consideration paid	-
Goodwill	**52**

The disclosure of carrying amounts of assets, liabilities and contingent liabilities of CJSC Rosmedia in accordance with IFRS, immediately before the business combination, is impracticable as CJSC Rosmedia had not been an IFRS reporter.

From the date of acquisition until December 31, 2009, CJSC Rosmedia has contributed 11 to the decrease of the net profit of the Group for 2009. If the control was obtained at the beginning of the year, the profit of the Group would have been 3,452 and revenue would have been 65,510.

OJSC RTComm.RU

In March 2008, the Group's Board of Directors authorized the purchase of an additional 68.4% equity interest in OJSC RTComm.RU from CJSC Sinterra, a non-related party.

Control was passed to the Group on July 1, 2008. The Group's share in OJSC RTComm.RU before the acquisition was 31.1%. OJSC RTComm.RU is one of the leading companies in the Russian telecommunication market, providing Internet access services to enterprises and individuals. The purchase of OJSC RTComm.RU was aimed to increase the diversification of activities of the Group. The cost of the additional investment amounted to 1,560, including costs directly attributable to the acquisition of 15 and was settled in cash.

OJSC RTComm.RU has three subsidiaries: CJSC RTComm-Sibir, LLC RTComm-Volga-Ural (former LLC Bashrtcomm in year 2008), LLC RTComm-Yug.

The Group accounted for the acquisition of OJSC RTComm.RU by applying the acquisition method, in accordance with the provisions of IFRS 3 *Business combinations.*

The results of operations and financial position of OJSC RTComm.RU were consolidated by the Group starting from July 1, 2008. The following table summarizes the fair values of identifiable net assets of OJSC RTComm.RU acquired as at the acquisition date:

	Pre-acquisition carrying amounts on a comparable IFRS basis	Fair value adjustments	Recognized fair values on acquisition
Property, plant and equipment	669	128	797
Intangible assets			
Trademark	-	76	76
Contract-based intangible assets	-	298	298
Customer list	-	424	424
Computer software	46	(5)	41
Other	-	3	3
Inventories	5	(1)	4
Trade and other receivables	849	(12)	837
Cash and cash equivalents	113	-	113
Other current assets	524	(8)	516
Deferred tax liabilities	98	(265)	(167)
Short-term debt	(122)	-	(122)
Accounts payable and accrued liabilities	(1,414)	188	(1,226)
Other current liabilities	(16)	-	(16)
Fair value of net assets	**752**	**826**	**1,578**
Less: non-controlling interest (0.5%)			(10)
Less: fair value of previously acquired 31.1% share			(490)
Group's share of the fair value of net assets acquired (68.4%)			1,078
Consideration paid			1,560
Goodwill			**482**

The Group's share of the identifiable assets, liabilities and contingent liabilities acquired in previous transactions was revalued, with the adjustment of 258 recognized directly in equity.

From the date of acquisition until December 31, 2008, OJSC RTComm.RU has contributed 15 to the increase of the net profit of the Group for 2008. If the combination had taken place at the beginning of 2008, the profit of the Group would have been 11,921 and revenue would have been 68,883.

6. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2010	23,916	82,202	26,725	10,167	143,010
Additions	-	-	232	9,441	9,673
Disposals	(916)	(7,904)	(1,796)	(227)	(10,843)
Transfer	180	7,585	2,528	(10,293)	-
Reclassification between groups	12	79	(91)	-	-
Reclassification from intangible assets	-	-	-	54	54
At December 31, 2010	23,192	81,962	27,598	9,142	141,894
Accumulated depreciation and impairment losses					
At January 1, 2010	(19,457)	(63,972)	(19,232)	(100)	(102,761)
Depreciation expense	(527)	(3,973)	(2,438)	-	(6,938)
Impairment losses	-	-	-	(1,082)	(1,082)
Disposals	889	7,325	1,599	93	9,906
Reclassification between groups	(9)	(69)	78	-	-
At December 31, 2010	(19,104)	(60,689)	(19,993)	(1,089)	(100,875)
Net book value at December 31, 2010	**4,088**	**21,273**	**7,605**	**8,053**	**41,019**

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2009	23,779	89,792	26,031	10,247	149,849
Additions	-	1	251	8,312	8,564
Acquisition through business combination	-	13	4	-	17
Disposals	(476)	(12,274)	(2,064)	(453)	(15,267)
Transfer	613	4,670	2,503	(7,786)	-
Reclassification to intangible assets	-	-	-	(153)	(153)
At December 31, 2009	23,916	82,202	26,725	10,167	143,010
Accumulated depreciation and impairment losses					
At January 1, 2009	(19,109)	(72,284)	(18,770)	(100)	(110,263)
Depreciation expense	(788)	(3,807)	(2,243)	-	(6,838)
Disposals	440	12,119	1,781	-	14,340
At December 31, 2009	(19,457)	(63,972)	(19,232)	(100)	(102,761)
Net book value at December 31, 2009	**4,459**	**18,230**	**7,493**	**10,067**	**40,249**

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2008	24,108	96,908	24,889	9,486	155,391
Additions	-	-	341	7,490	7,831
Acquisition through business combination	43	589	72	93	797
Disposals	(966)	(11,160)	(1,691)	(353)	(14,170)
Transfer	579	3,653	2,237	(6,469)	-
Reclassification	15	(198)	183	-	-
At December 31, 2008	23,779	89,792	26,031	10,247	149,849
Accumulated depreciation and impairment losses					
At January 1, 2008	(19,002)	(79,607)	(18,189)	(113)	(116,911)
Depreciation expense	(984)	(3,693)	(2,091)	-	(6,768)
Impairment losses	(3)	(57)	(65)	-	(125)
Disposals	888	11,013	1,627	13	13,541
Reclassification	(8)	60	(52)	-	-
At December 31, 2008	(19,109)	(72,284)	(18,770)	(100)	(110,263)
Net book value at December 31, 2008	**4,670**	**17,508**	**7,261**	**10,147**	**39,586**

As of December 31, 2010, the balance of construction in progress includes advances given to suppliers of property, plant and equipment in the amount of 1,320 (2009: 3,145, 2008: 3,050).

As of December 31, 2010, the cost of fully depreciated property, plant and equipment was 63,378 (2009: 62,545, 2008: 64,005).

Interest capitalization

Interest amounting to 126, 196 and 159 was capitalized in property, plant and equipment for the years ended December 31, 2010, 2009 and 2008, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 10.4%, 11.8% and 7.7%, respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 777, 1,385 and 1,610 was pledged in relation to loan agreements entered into by the Group as of December 31, 2010, 2009 and 2008, respectively.

Impairment of property, plant and equipment

Management believes that the future reorganization of the Company as well as continuing strengthening of competition in telecommunication industry is an indicator for probable deterioration of performance of the Group and therefore performed an assessment of the impact of such events on its business and result of operations.

In 2010 the Group recognized impairment loss of 1,080 relating to the billing system Amdox which was tested for impairment as individual assets due to obsolescence. The recoverable amount of the asset was determined as fair value less cost to sell based on management estimation. The recoverable amount of other assets that were assessed for impairment was based on value in use and was determined at the cash-generating unit level. The cash generating units of the Group consist of:

- OJSC Rostelecom;
- CJSC RTComm.RU;
- CJSC Globus Telecom;
- CJSC MC NTT;
- CJSC Global Tel

In identifying cash-generating units the Group proceeded from the requirement of IAS 36 that a cash-generating unit to which goodwill is allocated shall not be larger than an operating segment determined in accordance with IFRS 8, which the Group applied starting from annual period ended December, 31 2009. As a result, CJSC RTComm.RU which was considered as integrated with Rostelecom in 2008 was identified as a separate cash-generating unit in 2009.

Furthermore, CJSC Rosmedia with related goodwill, which in 2009 was identified as a separate cash-generating unit, was merged with cash-generating unit - OJSC Rostelecom in 2010 as a result of the transfer of business operations to the latter.

In determining the value in use for a cash-generating unit, cash flows were projected based on financial budgets and forecasts approved by top management for the period from 2011 to 2015, discounted at rates ranging from 12.90% to 15.52% (2009: from16.34% to 20.27%; 2008: from 18.17% to 20.60%) on a pre-tax basis. Cash flows beyond the 5-year period were extrapolated using a growth rates from 1% to 3% (2009: 3%; 2008: from 2% to 3%)

As a result of testing no impairment was identified (2009: 0; 2008: value in use of cash generating unit CJSC Global Tel appears to be lower than its carrying amount by 149, of which 125 was allocated to property, plant and equipment and 24 to intangible assets).

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The net book value of goodwill and other intangible assets as of December 31, 2010, 2009 and 2008 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Contract-based intangible assets	Other	Total
Cost								
At January 1, 2010	1,482	374	273	2,233	571	298	308	5,539
Additions	-	4	-	255	-	-	98	357
Disposals	-	-	-	(7)	-	-	-	(7)
Reclassification to property, plant and equipment	-	-	-	(17)	-	-	(37)	(54)
Reclassification	-	-	-	(105)	-	-	105	-
At December 31, 2010	1,482	378	273	2,359	571	298	474	5,835
Accumulated amortization and impairment losses								
At January 1, 2010	(312)	-	(212)	(1,095)	(120)	(49)	(8)	(1,796)
Amortization expense	-	-	(10)	(402)	(123)	(44)	(67)	(646)
Disposals	-	-	-	7	-	-	-	7
Reclassification	-	-	-	88	-	-	(88)	-
At December 31, 2010	(312)	-	(222)	(1,402)	(243)	(93)	(163)	(2,435)
Net book value at December 31, 2010	**1,170**	**378**	**51**	**957**	**328**	**205**	**311**	**3,400**

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Contract-based intangible assets	Other	Total
Cost								
At January 1, 2009	1,430	371	273	1,686	571	298	301	4,930
Additions	-	3	-	393	-	-	12	408
Acquisition through business combination	52	-	-	3	-	-	-	55
Disposals	-	-	-	(3)	-	-	(4)	(7)
Reclassification from property, plant and equipment	-	-	-	153	-	-	-	153
Reclassification	-	-	-	1	-	-	(1)	-
At December 31, 2009	1,482	374	273	2,233	571	298	308	5,539
Accumulated amortization and impairment losses								
At January 1, 2009	(312)	-	(39)	(631)	(51)	(16)	(6)	(1,055)
Amortization expense	-	-	(173)	(464)	(69)	(33)	(3)	(742)
Disposals	-	-	-	1	-	-	-	1
Reclassification	-	-	-	(1)	-	-	1	-
At December 31, 2009	(312)	-	(212)	(1,095)	(120)	(49)	(8)	(1,796)
Net book value at December 31, 2009	**1,170**	**374**	**61**	**1,138**	**451**	**249**	**300**	**3,743**

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Contract-based intangible assets	Other	Total
Cost								
At January 1, 2008	948	354	197	1,435	-	-	370	3,304
Additions	-	17	-	357	-	-	76	450
Acquisition through business combination	482	-	76	41	424	298	3	1,324
Disposals	-	-	-	(147)	-	-	(1)	(148)
Reclassification	-	-	-	-	147	-	(147)	-
At December 31, 2008	1,430	371	273	1,686	571	298	301	4,930
Accumulated amortization and impairment losses								
At January 1, 2008	(246)	-	(34)	(264)	-	-	(15)	(559)
Amortization expense	-	-	(5)	(343)	(38)	(16)	(4)	(406)
Impairment losses	(66)	-	-	(24)	-	-	-	(90)
Reclassification	-	-	-	-	(13)	-	13	-
At December 31, 2008	(312)	-	(39)	(631)	(51)	(16)	(6)	(1,055)
Net book value at December 31, 2008	**1,118**	**371**	**234**	**1,055**	**520**	**282**	**295**	**3,875**

Intangible assets recognized separately as a result of the acquisition of OJSC RTComm.RU, CJSC Globus-Telecom and CJSC Zebra Telecom (refer to Note 5) represent resources from which future economic benefits are expected to flow to the Group, and include the following classes:

- number capacity,
- trademarks,
- computer software,
- customer list,
- contract-based intangible assets.

The owned number capacity with a carrying amount of 378 (2009: 374, 2008: 371) are intangible assets with indefinite useful lives and are not amortized. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

As of December 31, 2008 the intangible assets include a trademark of CJSC Zebra Telecom which was considered to have useful life of 5 years.

As of December 31, 2009 within the annual procedure of useful life reassessment, the trademark was considered as having nil useful life as no economic benefits is expected from it and was fully amortised. The carrying amount of the trademark as of December 31, 2010, 2009, 2008 amounted to 0, 0 and 163 respectively.

The estimated useful life of the trademark of OJSC RTComm.RU is 7.5 years.

The computer software includes internally generated and acquired intangible assets and has estimated useful lives from 1 to 10 years.

Customer lists has estimated useful lives from 1 to 20 years.

Contract-based intangible assets have estimated useful lives from 3 to 13 years.

Interest amounting to 7, 18 and 4 was capitalized primarily in computer software for the years ended December 31, 2010, 2009 and 2008, respectively.

As described in Note 6, the Group on the annual basis performs testing for impairment of goodwill and intangible assets with indefinite life.

Results of impairment testing for goodwill

Goodwill recognized is attributed to the acquisitions of OJSC RTComm.RU, CJSC Globus-Telecom, and CJSC Rosmedia (refer to Note 5).

Rostelecom

The recoverable amount of the Rostelecom unit to which goodwill from acquisitions of Rosmedia is allocated was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2010 (2009: 0; 2008: 0). The pre-tax discount rate applied to the cash flow projections is 12.9% (2009: 16.34%;2008: 18.17%) and the annual growth rate in the periods beyond 5 years is 1% (2009: 3%; 2008: 2%). An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin would have not resulted in an impairment loss.

RTComm.RU

The recoverable amount of the cash generating unit OJSC RTComm.RU was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2010 (2009:0). The pre-tax discount rate applied to the cash flow projections is 14.43% (2009: 20.27%) and the annual growth rate in the period beyond 5 years is 2% (2009: 3%). An increase of one percentage point in the discount rate as well as a 5% decrease in future planned gross margin would have not resulted in an impairment loss.

CJSC Globus Telecom

The CJSC Globus-Telecom's telecommunication service was identified as a separate cash-generating unit with goodwill and indefinite life intangible assets acquired through business combination. The recoverable amount of the CJSC Globus-Telecom's telecommunication service was higher than its carrying amount at December 31, 2010 (as of December 31, 2008 is lower by 66). Consequently, no impairment loss was recognised for the year ended December 31, 2010 (2009: 0; 2008: 66) The pre-tax discount rate applied to the cash flow projections is 15.08% (2009: 19.08%; 2008: 20.42%) and the annual growth rate for the period beyond 5 years is 3% (2009: 3%; 2008: 3%). The gross margin was based on 64% (2009: 63%; 2008: 63%). Recoverable amount of Globus Telecom exceeds carrying amount by 140. If gross margin decrease to 62.2%-62.7% or pre-tax discount rate increase to 16.17% then the recoverable amount would be equal to the carrying amount.

An increase of one percentage point in the discount rate used would have resulted in an impairment loss of 52 (2009: would have caused an impairment loss of 24; 2008: would have increased the impairment loss by 99). A 5% decrease in future planned gross margin would have resulted in an impairment loss of 209 (2009: would have caused an impairment loss of 157; 2008: would have increased the impairment loss by 339).

MTs NTT

The recoverable amount of the cash generating unit CJSC MTs NTT was higher than its carrying amount, and, accordingly, no impairment loss was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2010. The pre-tax discount rate applied to the cash flow projections is 15.52% (2009: 19.30%; 2008: 20.60%) and the annual growth rate in the period beyond 5 years is 2% (2009: 3%; 2008: 3%) An increase of one percentage point in the discount rate would have not resulted in impairment loss. A 5% decrease in future planned gross margin would have resulted in impairment loss of 5 (2009:0; 2008:0).

Calculations of the value in use for all cash generating units are most sensitive to the gross margin, discount rate and market share assumptions. The gross margin is based on historical actual results. The discount rate is the weighted average cost of capital of the Group adjusted for risks specific to the units. The market share assumptions are important because management assesses how the unit's position, relative to its competitors, might change over the budget period.

The carrying amount of goodwill and the number capacity as of December 31, 2010, 2009 and 2008 allocated to each of the cash-generating units, were as follows:

	CJSC Globus-Telecom	Rostelecom	MTs NTT	RTComm. RU	Total
Goodwill	636	52	-	482	1,170
Number capacity	358	1	19	-	378
Net book value at December 31, 2010	**994**	**53**	**19**	**482**	**1,548**

	CJSC Globus-Telecom	Rostelecom	MTs NTT	RTComm. RU	Rosmedia	Total
Goodwill	636	-	-	482	52	1,170
Number capacity	358	1	15	-	-	374
Net book value at December 31, 2009	**994**	**1**	**15**	**482**	**52**	**1,544**

	CJSC Globus-Telecom	Rostelecom	MTs NTT	Total
Goodwill	636	482	-	1,118
Number capacity	357	1	13	371
Net book value at December 31, 2008	**993**	**483**	**13**	**1,489**

8. SUBSIDIARIES

These consolidated financial statements include the assets, liabilities and results of operations of Rostelecom and its subsidiaries, all registered in the Russian Federation, as follows:

Subsidiary	Main activity	Effective share of the Group as of December 31, 2010	2009	2008
CJSC MTs NTT	Fixed line telecommunication services	100%	100%	100%
CJSC Westelcom	Leasing of telecommunication equipment	100%	100%	100%
CJSC Zebra Telecom	Local telecommunication services and Internet services	100%	100%	100%
OJSC RTComm.RU (see Note 5)	Internet services	99.5%	99.5%	99.5%
CJSC RTComm-Sibir (see Note 5)	Internet services	99.5%	99.5%	99.5%
LLC RTComm-Volga-Ural (former LLC Bashrtcomm in 2008) (see Note 5)	Internet services	51%	51%	51%
LLC RTComm-Yug (see Note 5)	Internet services	99.5%	99.5%	99.5%
CJSC Globus-Telecom	Local telecommunication services	94.9%	94.9%	94.9%
CJSC GlobalTel	Satellite telecommunications	51%	51%	51%
CJSC Rosmedia (see Note 5)	Television data transmission	100%	100%	-
CJSC SK Kostars	Insurance services	86.7%	86.7%	86.7%
CJSC Incom	Local telecommunication services	100%	100%	100%
DP Pansionat Malakhit	Recreational services	100%	100%	100%
OJSC InfoTeKS Taganrog Telecom	Local telecommunication services	100%	100%	100%

In July 2009, the Group acquired 100% in CJSC Rosmedia from an individual person, a non-related party, for a cash payment of 0.01.

In December 2008, the Group acquired an additional interest of 15.2% in CJSC Incom from Ericsson Enterprise AB, a non-related party, for a cash payment of 0.5.

9. INVESTMENTS IN ASSOCIATES

Investments in associates as of December 31, 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+1 share	26,309	-	-
OJSC MMTS-9	Telecommunication services	49	186	149	130
OJSC Svyazintek	Implementation of integrated billing systems	19	-	-	47
Other	Various	-	1	3	1
Total investments in associates			26,496	152	178

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

Aggregate amounts	2010	2009	2008
Assets	444,122	345	1,068
Liabilities	260,387	(52)	(615)
Revenue	281,567	440	4,266
Net income/ (loss)	27,172	63	(275)

All associates are registered in the Russian Federation.

In September 2010, the Group acquired 25% plus one share of OJSC Svyazinvest for a cash payment of 26,000 (refer to Note 28).

In 2009, the Group lost the significant influence over OJSC Svyazintek. As of December 31, 2009 the Group had one of eleven representatives in the OJSC Svyazintek's Board of Directors. As of December 31, 2008 the Group had the right to nominate two of eleven directors to the Board and had significant influence over OJSC Svyazintek.

10. LONG-TERM INVESTMENTS

Long-term investments are available-for-sale investments, which are stated at fair value, and loans and receivables, which are stated at amortized cost using the effective interest method. As of December 31, 2010, 2009 and 2008 long-term investments comprised of the following:

	2010	2009	2008
Investment in Gazprombank fund, net	1,531	-	-
Investment in OJSC Sberbank of Russia	828	678	173
Other long-term investments	251	359	121
Total long-term investments	**2,610**	**1,037**	**294**

Investment in Gazprombank fund is a part of management motivation program (refer to Note 24) and represents a residual interest in the fund after execution of the share option. The investment is stated at fair value. Cash paid to Gazprombank fund during the year amounted to 2,088. These funds were used to acquire the underlying shares which will be used to settle options granted to management as described in Note 24. The measurement factors include time value of money and probability that share price on exercise will be lower than the exercise price. The difference of 815 between the fair value of this long-term financial asset and the contribution made is recognized within equity on initial recognition.

The investment in OJSC Sberbank of Russia is stated at fair value determined based on the Russian Trade System (RTS) closing bid price at the last trading day of the year.

In February 2008, the Group accepted an offer by Lilian Acquisition, Inc., a subsidiary of Vimpelcom, to purchase the Group's shares of Golden Telecom, Inc. The consideration from the Group's sale of 4,417,055 shares of Golden Telecom, Inc. amounted to USD 464 million (11,385) paid in cash. Profit from this transaction before tax and related deferred tax effect amounted to 8,666 and 2,230, respectively, and are recognized as gain on sale of investments and tax charge in the accompanying consolidated statements of comprehensive income for the year ended December 31, 2008. The net effect of 6,436, which was previously recorded in unrealized gain on available-for-sale investments as a result of fair value revaluations, was deducted from equity in the accompanying consolidated statements of financial position as of December 31, 2008.

Included within other long-term investment is a deposit of 160 with Capital Credit Bank, which was impaired as the Bank is under insolvency procedure. An impairment loss of 86 is included in other non-operating expenses for the year ended December 31, 2008. The deposit is secured by collateral in the form of property.

11. ACCOUNTS RECEIVABLE

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

	2010	2009	2008
Local operators	1,949	2,178	1,963
Subscribers	3,516	3,629	4,510
Foreign operators	1,314	1,029	1,452
Other	1,760	2,451	2,490
Less: allowance for doubtful trade accounts receivable	(1,579)	(1,759)	(1,716)
Trade accounts receivable, net	6,960	7,528	8,699
Prepayments	985	646	389
Prepaid taxes other than on income	207	382	872
Other accounts receivable	330	369	420
Less: allowance for doubtful other accounts receivable	(183)	(174)	(247)
Other accounts receivable, net	1,339	1,223	1,434
Total accounts receivable	**8,299**	**8,751**	**10,133**

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

As of December 31, 2010 the share of accounts receivable that are past due amounted to approximately 27% (2009: 27%; 2008: 28%) of the Group's total accounts receivable.

The following table summarizes accounts receivables denominated in foreign currencies as of December 31, 2010, 2009 and 2008:

	2010	2009	2008
USD	1,156	865	1,190
EUR	297	213	319
SDR (special drawing right)	16	56	73
Other currencies	1	1	-
Accounts receivable denominated in foreign currency, gross	**1,470**	**1,135**	**1,582**
Less: allowance for doubtful accounts receivable	(472)	(443)	(499)
Accounts receivable denominated in foreign currency, net	**998**	**692**	**1,083**

As of December 31, 2010, 2009 and 2008, the carrying value of trade accounts receivable approximated their fair value.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Balance, beginning of year	1,986	2,042	2,187
Recovery for doubtful accounts receivable	(17)	(28)	(32)
Accounts receivable written-off	(207)	(28)	(113)
Balance, end of year	**1,762**	**1,986**	**2,042**

The balance of the allowance for doubtful accounts receivable decreased the long-term accounts receivable and short-term accounts receivable by the following amounts:

	2010	2009	2008
Long-term accounts receivable	-	53	79
Short-term accounts receivable	1,762	1,933	1,963
Total allowance for doubtful accounts receivable	**1,762**	**1,986**	**2,042**

Long-term accounts receivable are included in other non-current assets in the consolidated statements of financial position.

As of December 31, 2010 other accounts receivable include finance lease receivables of 151. The Group entered into two finance lease agreements for use the terrestrial optical fiber cables with OJSC FSK EES. The periods of leases approximate the remaining useful life of the optical fibers. Effective interest rates of the leases are in range of 27-30% p.a.

Finance income for the year ended December 31, 2010 amounted to 81 and are included in interest income in the consolidated statement of comprehensive income.

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

	2010
Finance lease assets – minimum lease payments	
Current portion of finance lease asset	39
Between one to two years	39
Between two to three years	39
Between three to four years	39
Between four to five years	39
Over five years	336
Total minimum lease payments	**531**
Less: Unearned financial income	(380)
Present value of minimum lease payments	**151**
Present value of minimum lease payments	
Not later than 1 year	2
Later than 1 year and not later than 5 years	12
Later than 5 years	137
Total non-current lease receivable	149
Total lease receivable	**151**

12. SHORT-TERM INVESTMENTS

Short-term investments include Ruble denominated available-for-sale investments, which are stated at fair value, and loans and receivables which are stated at amortized cost using the effective interest method. Short-term investments comprised the following as of December 31, 2010, 2009 and 2008:

	2010	2009	2008
Bills of exchange	1,591	14,842	3,449
Short-term deposits and deposit certificates	178	-	5,300
Other	118	105	13
Total short-term investments	**1,887**	**14,947**	**8,762**

As of December 31, 2010, 2009 and 2008 short-term investments, which are denominated in US dollars, include amounts totalling 1,586, 8,769 and 1,552, respectively. As of December 31, 2010, 2009 and 2008 short-term investments, which are denominated in Euro, include amounts totalling nil, 2,805 and nil, respectively.

Bills of exchange and short-term deposits and deposit certificates are classified as loans and receivables.

The bills of exchange bear interest in the range from 5% to 9% and are denominated in Rubles, as well as in foreign currencies. As of December 31, 2010, approximately 99.7% (2009: 78%, 2008: 0%) of the Group's total bills of exchange are denominated in foreign currencies, represented by US dollars and Euro.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2010, 2009 and 2008 included cash on hand, at bank accounts and short-term deposits and bills of exchange with original maturities of less than three months as follows:

	2010	2009	2008
Cash at bank – RUB	7,382	4,973	9,111
Cash at bank – Foreign currencies	165	1,734	591
Short-term deposits – RUB	80	154	1,327
Short-term deposits – Foreign currencies	-	119	-
Short-term bills of exchange	-	-	957
Other	6	16	6
Total cash and cash equivalents	**7,633**	**6,996**	**11,992**

All the banks where the Group placed cash and deposits have BB and above credit rating.

14. EQUITY

Share capital

On the Annual General Meeting of Shareholders, which took place on June 26, 2010 shareholders approved the reorganization of Rostelecom by merging with and into seven Svyazinvest Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan and approved the merger agreements between Rostelecom and the Merging Companies. Shareholders dissenting with the decision, can require redemption of their shares at RUB 86.21 per both ordinary and preferred share. According to applicable law funds allocated to share redemption is limited to 10% of net assets of the Company determined in accordance with Russian accounting principles which amounted to 6,051. As of December 31, 2010 the Company has completed the repurchase of its shares. The Company repurchased 147,195 of its own ordinary shares and 70,051,483 of its preferred shares for 6,071 including related expenses of 20. As of December 31, 2010 all repurchased shares were held by the Company.

The Annual General Meeting of Shareholders also approved changes to the Charter where by an additional 5,900,000,000 ordinary shares with par value of RUB 0.0025 per share may be issued with the same rights as previously issued ordinary shares.

The authorized share capital of the Company as of December 31, 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 of December 31, 2010 the outstanding share capital 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**

As of December 31, 2010, 2009 and 2008, the issued and as of December 31, 2009 and 2008 outstanding share capital was as follows:

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

The Board of Directors of the Company is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further approval of shareholders.

The nominal share capital of the Company had been indexed, to account for the effects of hyperinflation from date of incorporation through December 31, 2002. The share capital in the Russian statutory accounts at December 31, 2010, 2009 and 2008 amounted to 2,428,819 nominal (uninflated) Rubles.

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 of the Company, changes to dividend levels of preferred shares, or issuance of additional preferred stock. Such resolutions require a two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Holders of preferred shares are entitled to 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 preferred shares at par value is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Accordingly, the Company's preferred shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 25).

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 Company as of December 31, 2010, 2009 and 2008 amounted to 55,212, 53,797 and 49,708, respectively.

Reserve capital

In accordance with the Company's Charter, Rostelecom has to maintain a reserve fund through a mandatory annual transfer of at least 5% of its statutory net profits up to the maximum amount of 15% of its statutory share capital. As of December 31, 2010, 2009 and 2008 the statutory reserve fund amounted

to 364,323 nominal (uninflated) Rubles. These amounts are prohibited for distribution by current Russian legislation except in some limited cases.

Dividends

Dividends declared to holders of preferred and ordinary shares for the years ending December 31, 2009, 2008 and 2007 were accrued in the following years:

	2010	2009	2008
Dividend – preferred shares	510	707	942
Dividend – ordinary shares	1,020	1,415	1,414
Total dividends	**1,530**	**2,122**	**2,356**

	RUB	RUB	RUB
Dividend per preferred share	2.10	2.91	3.88
Dividend per ordinary share	1.40	1.94	1.94

Also on the Extraordinary Meeting of Shareholders, which took place on November 10, 2010, shareholders approved dividends of 1,139 for 9 months period ended September 30, 2010. Ordinary shares dividends amounted to 1.113 RUB per share (810 in total) and dividends on the preferred shares amounted to 1.6677 RUB per share (329 in total).

15. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

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

	2010	2009	2008
Trade accounts payable	5,309	4,726	7,006
Advances received	946	782	1,033
Short-term portion of pension obligations (refer to Note 23)	30	41	56
Short-term portion of site restoration provisions	28	49	49
Compensation related accruals	1,418	1,234	937
Other accrued expenses	298	1,675	326
Dividends payable	110	96	88
Current accounts payable, provisions and accrued expenses	**8,139**	**8,603**	**9,495**
Long-term portion of pension obligations (refer to Note 23)	52	55	90
Long-term portion of site restoration provisions	73	7	48
Long-term advances received	89	149	72
Other long-term accounts payable	-	2	33
Non-current accounts payable, provisions and accrued expenses	**214**	**213**	**243**
Total accounts payable, provisions and accrued expenses	**8,353**	**8,816**	**9,738**

The following table summarizes accounts payable denominated in foreign currencies as of December 31, 2010, 2009 and 2008:

	2010	2009	2008
USD	1,886	1,734	2,062
SDR	182	234	255
EUR	156	130	167
Other currencies	1	-	2
Accounts payable denominated in foreign currencies	**2,225**	**2,098**	**2,486**

Site restoration provisions represent the present value of the expenditures the Company expects to incur

in connection with phasing out of analogue trunk lines during 2006-2014 in accordance with the formalized plan of the Company. The discount rate, which represents the risk-free government bonds rate, was 7.18%.

16. FINANCE LEASE PAYABLE

Leased assets as of December 31, 2010, 2009 and 2008, where the Group is a lessee of cables, plant and machinery under finance lease agreements, are comprised of the following:

	2010	2009	2008
Cost – capitalized finance leases	278	725	917
Impairment loss and accumulated depreciation	(104)	(252)	(217)
Net book value	**174**	**473**	**700**

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

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

In 2007, the Group entered into a number of minor finance lease agreements for purchase of the telecommunication equipment and vehicles for the average period of 3 years. Effective interest rate of these leases is 10.3% p.a.

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

Future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Finance lease liabilities – minimum lease payments			
Not later than 1 year	63	131	144
Later than 1 year and not later than 5 years	72	266	266
Later than five years	238	334	377
Total minimum lease payments	**373**	**731**	**787**
Less interest	(216)	(200)	(223)
Present value of minimum lease payments	**157**	**531**	**564**
Present value of minimum lease payments			
Not later than 1 year	46	95	103
Later than 1 year and not later than 5 years	8	157	157
Later than 5 years	103	279	304
Total non-current lease payable	111	436	461
Total lease payable	**157**	**531**	**564**

Depreciation of property, plant and equipment under the finance lease contracts for 2010 amounted to 40 (2009: 57; 2008: 74). Finance charges for the year ended December 31, 2010 amounted to 35 (2009: 42; 2008: 44) and are included in the interest expense in the consolidated statements of comprehensive income.

17. VENDOR FINANCING PAYABLE

Vendor financing payable includes the following as of December 31, 2010, 2009 and 2008:

	2010	2009	2008
Globalstar L.P.	1,919	1,780	1,608
Vendor financing payable – current portion	1,919	1,780	1,608
Total vendor financing payable	**1,919**	**1,780**	**1,608**

As of December 31, 2010, the Group had the following outstanding vendor financing payable:

1,919 (USD 63 million) payable by CJSC GlobalTel to Globalstar L.P., which is the non-controlling shareholder of CJSC GlobalTel, for the purchase of three gateways and associated equipment and services. Globalstar L.P. has a lien over this equipment until the liability is fully paid. CJSC GlobalTel is in default in respect of payments in 2004 - 2010 and has not obtained a waiver from Globalstar L.P. As a result, the entire balance of 1,252 (2009: 1,242, 2008: 1,207) (USD 41 million) is classified as current in the consolidated statements of financial position as of December 31, 2010, 2009 and 2008. Penalty interest in the amount of 667, 538 and 401, accrued for each day of delay at the rate of 10% p.a., is included in the vendor financing payable in the consolidated statements of financial position as of December 31, 2010, 2009 and 2008, respectively. In 2006, Loral, which is the legal successor of Globalstar L.P., brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of the vendor financing payable. Management believes that immediate repayment of the defaulted vendor financing and loans would not have a material adverse effect on the Group's results of operations, financial position and operating plans.

18. LONG-TERM BORROWINGS

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

Maturity	2010	2009	2008
Current portion of interest bearing loans	1,455	1,980	2,522
Between one to two years	10,000	-	117
Between two to three years	13,084	-	-
Non-current portion of interest bearing loans	23,084	-	117
Total interest bearing loans	**24,539**	**1,980**	**2,639**

As of December 31, 2010, 2009 and 2008, interest bearing loans were denominated in following currencies:

	2010	2009	2008
USD	1,345	1,874	2,342
EUR	-	-	30
Foreign currency denominated loans	**1,345**	**1,874**	**2,372**
RUB	23,194	106	267
Total interest bearing loans	**24,539**	**1,980**	**2,639**

As of December 31, 2010, the Group has loan agreements with 5 banks and other financial institutions. The loans denominated in US Dollars bare floating rates of LIBOR + 0.5 – 3.25%. The Russian Ruble denominated loans bare fixed rates of 7.3-8.1% p.a and at floating rates of CBR+3%. Effective interest rates of interest bearing loans approximate their nominal rates.

Included in long-term loans is an amount of 1,016 on a credit agreement between Rostelecom and Vnesheconombank (VEB) entered into in December 2005 (refer to Note 28). The loan is repayable annually up to the end of 2012. Under the existing credit agreement with Vnesheconombank and CSFB,

the Group is required to meet at the end of each quarter various financial covenants applied to the statutory financial statements of the Company, including maintaining certain levels of debt to equity and debt to income ratios. As of December 31, 2010 the Group was not in compliance with some of the covenants and at the time these financial statements were authorized for issue no waiver had been obtained by the Group from the bank. Consequently, the entire amount of the loan is included in the current portion of interest bearing loans as of December 31, 2010. As of December 31, 2009 the Group was in compliance with all of the covenants, but as of June 30, 2009 and September 30, 2009 the Group was not in compliance with some of the covenants and at the dates these financial statements were authorized for issue in 2009 no waiver had been obtained by the Group from the bank, so the entire amount of the loan is included in the current portion of interest bearing loans as of December 31, 2009. The Group received waivers from the bank only after the reporting date, in April 2010. As of December 31, 2008 the Group was not in compliance with some of the covenants and at the dates these financial statements were authorized for issue in 2008 no waiver had been obtained by the Group from the bank, so the whole amount of the loan is included in the current portion of interest bearing loans as of December 31, 2008. The Group received waiver from the bank only after the reporting date, in May 2009.

In connection with the USD 100 million loan from Vnesheconombank and CSFB, on June 28, 2006, the Group entered into an interest rate swap agreement with CSFB. In accordance with the interest rate swap agreement, twice a year on June 28 and December 28, commencing on December 28, 2006 and ending on December 28, 2012, the Group undertakes an obligation to CSFB calculated at a fixed interest rate and CSFB undertakes an obligation to the Group in the amount calculated at floating rate payable by the Group on its loan. The Group did not designate the above interest rate swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial liability at fair value through profit and loss amounted to 70 (2009: 109, 2008: 176). Fair value of the derivative is calculated by discounting future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The net gain of 39 related to the change in the fair value of the interest rate swap contract was included in the non-operating gain in the consolidated statement of comprehensive income for the year ended December 31, 2010 (2009: 67, 2008: 103).

The Group has a loan of 23,020 from Sberbank at December 31, 2010 (refer to Note 28). It consists of 5 tranches with interest rates of 7.3-8.1%. The Group used the loan as well as its own cash to finance an acquisition of 25% interest in Svyazinvest.

There is 329 outstanding on a credit agreement between CJSC GlobalTel and Loral Space and Communications Corporation ("Loral") as of December 31, 2010. CJSC GlobalTel is in default in respect of this loan. A penalty in the amount of 118 is included in the outstanding balance. As no waiver has been obtained from Loral, these loans are classified as current in the consolidated statement of financial position as of December 31, 2010. The loan does not provide for any collateral. In 2006, Loral brought an action against CJSC GlobalTel claiming immediate repayment of the full amount of the debt. In 2009, the Supreme Court of Arbitration ordered CJSC GlobalTel to repay the loan and penalty to Loral.

19. INCOME TAXES

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:

	Balance at January 1, 2010	Movement during 2010 recognized in: Equity	Movement during 2010 recognized in: Other comprehensive income	Movement during 2010 recognized in: Profit / or loss for the year	Balance at December 31, 2010
Tax effects of future tax deductible items					
Accounts receivable	4	-	-	(4)	-
Investments	27	204	(106)	2	127
Other	558	-	-	(38)	520
Gross deferred tax asset	**589**	**204**	**(106)**	**(40)**	**647**
Tax effects of future taxable items:					
Accounts receivable	-	-	-	61	61
Accounts payable, provisions and accrued expenses	353	-	-	(5)	348
Property, plant and equipment	1,626	-	-	144	1,770
Intangible assets	219	-	-	(19)	200
Gross deferred tax liability	**2,198**	**-**	**-**	**181**	**2,379**
Net deferred tax liability	**1,609**	**(204)**	**106**	**221**	**1,732**

	Balance at January 1, 2009	Acquisition through business combination	Movement during 2009 recognized in: Other comprehensive income	Movement during 2009 recognized in: Profit/ or loss for the year	Balance at December 31, 2009
Tax effects of future tax deductible items					
Accounts receivable	107	-	-	(103)	4
Accounts payable, provisions and accrued expenses	89	-	-	(89)	-
Investments	65	-	(68)	30	27
Other	81	-	-	477	558
Gross deferred tax asset	**342**	**-**	**(68)**	**315**	**589**
Tax effects of future taxable items:					
Accounts payable, provisions and accrued expenses	-	-	-	353	353
Property, plant and equipment	1,654	-	-	(28)	1,626
Intangible assets	278	-	-	(59)	219
Gross deferred tax liability	**1,932**	**-**	**-**	**266**	**2,198**
Net deferred tax liability	**1,590**	**-**	**68**	**(49)**	**1,609**

	Balance at January 1, 2008	Acquisition through business combination	Movement during 2008 recognized in Other comprehensive income	Movement during 2008 recognized in Profit / or loss for the year	Balance at December 31, 2008
Tax effects of future tax deductible items					
Accounts receivable	304	-	-	(197)	107
Accounts payable, provisions and accrued expenses	131	58	-	(100)	89
Investments	-	-	-	65	65
Other	112	20	-	(51)	81
Gross deferred tax asset	**547**	**78**	-	**(283)**	**342**
Tax effects of future taxable items:					
Investments	2,392	-	(2,256)	(136)	-
Property, plant and equipment	2,159	45	-	(550)	1,654
Intangible assets	115	200	-	(37)	278
Gross deferred tax liability	**4,666**	**245**	**(2,256)**	**(723)**	**1,932**
Net deferred tax liability	**4,119**	**167**	**(2,256)**	**(440)**	**1,590**

Differences between IFRS and statutory taxation and reporting regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and income tax purposes.

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

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as of December 31, 2010, 2009 and 2008 amounted to 3,103, 3,045 and 2,174, respectively, of which unused tax losses with expiry date from 2012 to 2020 amounted to 1,866, 1,586 and 1,095 for 2010, 2009 and 2008, respectively.

Temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as of December 31, 2010, 2009 and 2008 amounted to 1,309, 989 and 1,236, 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 of December 31, 2010, 2009 and 2008 amounted to 379, 379 and 382, respectively.

The components of income tax expense for the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Current tax expense	615	1,270	4,331
Deferred tax expense/ (benefit)	221	(49)	(121)
Effect of tax rate change	-	-	(319)
Income tax expense	**836**	**1,221**	**3,891**

With effect from 1 January 2009 the income tax rate was reduced from 24% to 20%. This rate has been used in the calculation of deferred tax assets and liabilities as at December 31, 2008.

The reconciliation of the theoretical amount that would arise using the Russian statutory rate of 20% to

the total actual income tax was as follows for the years ending December 31, 2010, 2009 and 2008:

	2010	2009	2008
Profit before income tax	2,485	4,677	16,073
Income tax expense at statutory rate	497	935	3,858
Effect of tax rate change	-	-	(319)
Change in unrecognized temporary differences and unused tax losses	12	174	110
Non-deductible expenses	327	112	242
Income tax expense	**836**	**1,221**	**3,891**

Non-deductible expenses include income connected with reversal of tax provision, depreciation of certain property, plant and equipment, certain employee costs, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances and other expenses and value added tax accrued on free-of-charge services.

20. REVENUE

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

	2010	2009	2008
Telephone traffic			
Domestic long-distance traffic	23,521	26,212	29,611
Outgoing international long-distance traffic	8,794	11,334	12,082
Incoming and transit international long-distance traffic	6,060	6,236	6,450
Local traffic	843	745	731
	39,218	**44,527**	**48,874**
Rent of channels	**5,313**	**6,958**	**7,710**
Data transmission services	**12,238**	**9,014**	**5,437**
Other revenue			
Television and radio transmission	218	257	345
Satellite services	82	159	263
Intelligent network services (INS)	1,324	1,072	1,251
Interconnection services	19	27	128
Technical support services	359	410	444
Equipment maintenance services	1,534	1,100	890
Contract revenue	1,190	655	-
Miscellaneous revenue	1,472	1,331	1,287
	6,198	**5,011**	**4,608**
Total revenue	**62,967**	**65,510**	**66,629**

Contract revenue relates to the project "e-Government" which are accounted for using the percentage-of-completion method.

21. SEGMENT INFORMATION

The Group's chief operating decision maker reviews statutory financial information of each of the Group's legal entities for purposes of assessing performance and making resource allocation decisions, which are considered as operating segments. All of these legal entities have similar economic characteristics and operate in one industry, being the provision of domestic and international long-distance telecommunication services in the Russian Federation. However, the largest legal entity, the Company, generates 94% of the consolidated revenues of the Group, 91% of combined reporting profit of all operating segments that did not report a loss and 99% of the consolidated total assets of the Group. As a result, all the Group's legal entities have been aggregated into a single reporting segment whose assets and liabilities as of December 31, 2010, 2009 and 2008 and the results for the years then ended have been presented in the consolidated statement of financial position and consolidated statement of comprehensive income, respectively.

An analysis of revenue by service type is disclosed in Note 20. A geographical analysis of revenue by the country or region of the customer for the years ending December 31, 2010, 2009 and 2008 is as follows:

	Russia	Other CIS countries	USA	Western Europe	Eastern Europe	Others	Total
2010	55,230	2,563	1,196	2,297	420	1,261	62,967
2009	57,860	2,174	1,194	2,721	470	1,091	65,510
2008	59,218	2,407	1,031	2,491	462	1,020	66,629

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 December 31, 2010, 2009 and 2008. The total amount of revenue relating to transactions with the Government of the Russian Federation and other state bodies for the years ended December 31, 2010, 2009 and 2008 amounted to 11,262, 8,646 and 8,874, respectively.

22. ADMINISTRATION AND OTHER COSTS

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

	2010	2009	2008
Administration costs	567	486	592
Advertising and similar costs	1,206	924	1,367
Office maintenance	2,229	2,258	1,992
Utilities and similar services	824	813	725
Consulting and similar services	894	951	778
Universal service fund	501	545	563
Insurance	146	153	182
Contract expenses	1,129	477	-
Other	439	513	749
Total administration and other costs	**7,935**	**7,120**	**6,948**

23. EMPLOYEE BENEFITS

The numbers of employees of the Group was equal to 20,182 as at December 31, 2010 (2009: 21,383, 2008: 22,372).

The Group makes payments to the Government pension fund for its employees. Such contributions were previously included in the unified social tax ("UST"). Beginning from January 1, 2010 UST was

abolished and replaced by contributions to three independent state funds. The rate attributed to the Government pension fund was increased, the regressive scale was eliminated and certain ceiling limitations on the contributions per one employee were introduced. Beginning from the same date contributions to the non-government pension funds were excluded from payroll-related taxation.

Total contributions to government social funds amounted to 1,642 during the year ended December 31, 2010 (2009: 1,575, 2008: 1,435).

The Group participates in the private Joint Participation Program, which is a pension plan with defined contributions. To participate in the program, individuals should be full-time employees of the Company and should enter into a non-state pension insurance agreement with NPF "Telecom-Soyuz", which is the successor of NPF Rostelecom-Garantiya. Total expenses of the Group under this program amounted to 4 during the year ended December 31, 2010 (2009: 5, 2008: 6) and are included in wages, salaries, other benefits and payroll taxes in the consolidated statements of comprehensive income.

The Group also operates a defined benefit pension scheme covering a large number of its employees, which requires contributions to be made to NPF Telecom-Soyuz. Under the scheme, an annuity is acquired by the Group as of the termination date of an employee if the latter satisfies certain criteria, such as seniority of 15 years in telecommunication sector, including seniority of 5 years in the Company, and retirement on pension within one month after the date an employee is entitled to pension in accordance with Russian legislation. The liabilities under this scheme are unfunded.

The following table summarizes movements in the present value of the defined benefit obligation and amounts recognized in the consolidated statements of financial position for the above plan (refer to Note 15):

	2010	2009	2008
Opening defined benefit obligation	151	216	239
Interest cost on benefit obligation	14	19	17
Current service cost	7	8	11
Actuarial (gains)/ losses on obligation	(11)	(28)	5
Benefits paid	(36)	(64)	(56)
Closing defined benefit obligation	125	151	216
Unrecognized past service cost	(43)	(55)	(70)
Liability recognized in consolidated statements of financial position	**82**	**96**	**146**

Amounts recognized in wages, salaries, other benefits and payroll taxes in the consolidated statements of comprehensive income in respect of the above defined benefit plan are as follows:

	2010	2009	2008
Interest cost on benefit obligation	14	19	17
Current service cost	7	8	11
Amortization of past service cost	12	15	16
Actuarial (gains)/ losses on obligation	(11)	(28)	5
Total net benefit expense	**22**	**14**	**49**

The principal assumptions used in determining pension benefit obligation for the Group's plan are shown below:

	2010	2009	2008
Discount rate	7.3%	10.0%	10.4%
Employee turnover rate	10.3%	10.3%	10.9%
Expected inflation rate	5.4%	6.2%	10.4%

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

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	125	151	216	239	277
Experience adjustments on plan liabilities	19	12	(3)	15	46

The expected amount of benefits to be paid in 2011 is 69.

24. 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 till December 01, 2010 were granted options to purchase ordinary shares of the Company at an exercise price of 96.8 RUB per share. The contracts with employees were signed on August 17, 2010. The scheme is realized mutually with IRC, which was merged with the Company on April 1, 2011, and Svyazinvest. To operate the program, Svyazinvest Group established a fund under management of ZAO "Gazprombank – Upravlenie aktivami", 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 Company recorded a proportionate share of their share-based remuneration.

The Group considers the scheme as equity-settled share-based payment transaction because it receives services and has no obligation to settle share-based payments transaction. The settling entity is the Fund, which is acting as an agent for Svyazinvest Group. The Fund purchased shares of the Company and IRC on open market using cash contributions from the Company and IRCs.

The Company made a contribution to the Fund of 2,088.

Options are exercised in two tranches: not more than 60% are exercised after December 01, 2011 and the rest after December 01, 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 the current year:

Options series	Number of options granted	Grant date	Exercise date	Exercise price, RUB	Share price at grant date, RUB
(1) Granted on August 17, 2010	12,005,805	August 17, 2010	December 1, 2011	96.8	109.17
(2) Granted on August 17, 2010	8,003,870	August 17, 2010	December 1, 2012	96.8	109.17

All options vested during the year ended December 31, 2010 and were outstanding with weighted average remaining contractual life of 609 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 40.54 RUB. Total amount of 811 recognized as an expense in the wages, salaries, other benefits and payroll taxes.

Options were priced measured at fair value on grant date using a Black-Sholes option pricing model. Expected volatility is based on the historical average industry share price volatility over the past 2.24 years.

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	50%	50%
Option life	2.24 year	2.24 year
Dividend yield	1%	1%
Risk-free interest rate	6.05%	6.05%

25. EARNINGS PER SHARE

The calculation of basic and diluted earnings per preferred and ordinary share is presented below (earnings per share data is stated in RUB):

	2010		2009		2008	
Profit attributable to equity holders of the parent	1,743		3,673		12,178	
	Ordinary shares	**Preferred shares**	**Ordinary shares**	**Preferred shares**	**Ordinary shares**	**Preferred shares**
Weighted average number of shares outstanding	**728,660,153**	**225,471,459**	**728,696,320**	**242,831,469**	**728,696,320**	**242,831,469**
Basic and diluted earnings per share, RUB	**1.83**	**1.83**	**3.78**	**3.78**	**12.54**	**12.54**

The calculation of earnings per share is based on net profit for the period divided by the weighted average number of preferred and ordinary shares outstanding during the year (refer to Note 14). Dividends are fully allocated to continuing operations.

There are no potentially dilutive instruments, therefore, diluted earnings per share equal basic earnings per share.

26. FINANCIAL INSTRUMENTS

The table below summarizes the carrying amount by class of all of the Group's financial instruments:

		December 31, 2010	**December 31, 2009**	**December 31, 2008**
Classes	**Categories**	**Carrying amount**	**Carrying amount**	**Carrying amount**
Long-term equity investments				
- at fair value	Available-for-sale	930	699	173
- at cost	Available-for-sale	32	39	9
Long-term debt investments				
- at fair value	Available-for-sale	1,531	-	-
- at amortized cost	Loans and receivables	117	299	112
Long-term receivables	Loans and receivables	152	8	37
Total long-term financial assets		**2,762**	**1,045**	**331**

Classes	Categories	December 31, 2010 Carrying amount	December 31, 2009 Carrying amount	December 31, 2008 Carrying amount
Short-term equity investments				
- at fair value	Available-for-sale	-	-	13
Short-term debt investments				
- at fair value	Available-for-sale	8	-	-
- at amortized cost	Loans and receivables	1,879	14,947	8,749
Short-term trade receivables	Loans and receivables	6,960	7,528	8,699
Short-term other receivables	Loans and receivables	147	195	173
Cash and cash equivalents	Loans and receivables	7,633	6,996	11,992
Total short-term financial assets		**16,627**	**29,666**	**29,626**
Long-term bank loans	Liabilities at amortized cost	23,084	-	117
Non-current finance lease and vendor financing	Liabilities at amortized cost	111	436	461
Non-current accounts payable	Liabilities at amortized cost	-	2	33
Total long-term financial liabilities		**23,195**	**438**	**611**
Short-term bank loans	Liabilities at amortized cost	1,126	1,764	2,046
Short-term non-bank loans	Liabilities at amortized cost	329	356	489
Short-term finance lease and vendor financing	Liabilities at amortized cost	1,965	1,875	1,711
Short-term accounts payable	Liabilities at amortized cost	7,064	7,622	8,181
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	70	109	176
Total short-term financial liabilities		**10,554**	**11,726**	**12,603**

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)

	2010	2009	2008
Available-for-sale financial assets			
Long-term equity investments at fair value			
Level 1	854	699	173
Level 2	76	-	-
Level 3	-	-	-
Total long-term equity investments at fair value	**930**	**699**	**173**
Long-term debt investments at fair value			
Level 1	-	-	-
Level 2	1,531	-	-
Level 3	-	-	-
Total long-term debt investments at fair value	**1,531**	-	-
Short-term equity investments at fair value			
Level 1	-	-	13
Level 2	-	-	-
Level 3	-	-	-
Total short-term equity investments at fair value	-	-	**13**
Short-term debt investments at fair value			
Level 1	8	-	-
Level 2	-	-	-
Level 3	-	-	-
Total short-term equity investments at fair value	**8**	-	-
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**

27. GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS

Gain/(loss) from financial instruments for 2010, 2009, 2008 are as follows:

		2010			
Classes	Categories	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Long-term equity investments					
- at fair value	Available-for-sale	-	134	-	-
- at cost	Available-for-sale	-	-	-	-
Long-term debt investments					
- at fair value	Available-for-sale	-	396	-	-
- at amortized cost	Loans and receivables	-	-	-	-
Long-term receivables	Loans and receivables	-	-	-	-
Total long-term financial assets		**-**	**530**	**-**	**-**

		2010			
Classes	Categories	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Short-term equity investments					
- at fair value	Available-for-sale	-	-	-	-
Short-term debt investments					
- at fair value	Available-for-sale	-	-	-	-
- at amortized cost	Loans and receivables	-	-		(260)
Short-term trade receivables	Loans and receivables	180	-	-	(19)
Short-term other receivables	Loans and receivables	(163)	-	-	1
Cash and cash equivalents	Loans and receivables	-	-	-	60
Total short-term financial assets		**17**	**-**	**-**	**(218)**
Long-term bank loans	Liabilities at amortized cost	-	-	-	-
Long-term accounts payable	Liabilities at amortized cost	-	-	-	-
Total long-term financial liabilities		**-**	**-**	**-**	**-**
Short-term bank loans	Liabilities at amortized cost	-	-	-	(10)
Short-term non-bank loans	Liabilities at amortized cost	-	-	-	(4)
Short-term finance lease and vendor financing	Liabilities at amortized cost	-	-	-	(12)
Short-term accounts payable	Liabilities at amortized cost	-	-	-	17
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	-	39	-	-
Total short-term financial liabilities		**-**	**39**	**-**	**(9)**

		2009				2008			
Classes	Categories	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Long-term equity investments									
- at fair value	Available-for-sale	-	506	-	-	-	(398)	8,666	-
- at cost	Available-for-sale	-	-	-	-	1	-	4	-
Long-term debt investments									
- at amortized cost	Loans and receivables	-	-	-	-	(86)	-	-	-
Long-term receivables	Loans and receivables					(13)	-	-	(9)
Total long-term financial assets		**-**	**506**	**-**	**-**	**(98)**	**(398)**	**8,670**	**(9)**
Short-term equity investments									
- at fair value	Available-for-sale	-	-	-	-	-	(16)	-	-
Short-term debt investments									
- at fair value	Available-for-sale	-	-	-	-	-	-	-	-
- at amortized cost	Loans and receivables	-	-	(81)	(692)	-	-	-	245
Short-term trade receivables	Loans and receivables	(43)	-	-	202	278	-	-	545
Short-term other receivables	Loans and receivables	71	-	-	9	(233)	-	-	45
Cash and cash equivalents	Loans and receivables	-	-	-	(24)	-	-	-	(96)
Total short-term financial assets		**28**	**-**	**(81)**	**(505)**	**45**	**(16)**	**-**	**739**
Long-term bank loans	Liabilities at amortized cost	-	-	-	-	-	-	-	(10)
Long-term accounts payable	Liabilities at amortized cost	-	-	-		-	-	-	
Total long-term financial liabilities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10)**

		2009				2008			
Classes	Categories	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation	Impairment loss and reversal of impairment loss	Fair Value revaluation gain/(loss)	Gain/(loss) from sale of financial instruments	Gain/(loss) from currency translation
Short-term bank loans	Liabilities at amortized cost	-	-	-	(43)	-	-	-	(431)
Short-term non-bank loans	Liabilities at amortized cost	-	-	-	(16)	-	-	-	(44)
Short-term finance lease and vendor financing	Liabilities at amortized cost	-	-	-	(45)	-	-	-	(181)
Short-term accounts payable	Liabilities at amortized cost	-	-	-	(284)	-	-	-	(852)
Non-hedge derivatives	Financial liabilities at fair value through profit and loss	-	67	-	-	-	(103)	-	-
Total short-term financial liabilities		-	67	-	(388)	-	(103)	-	(1,508)

28. RELATED PARTY TRANSACTIONS

(a) The Government and OJSC Svyazinvest as a shareholder

As indicated in Note 1, the main shareholder of the Company is OJSC Svyazinvest, which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. Meanwhile the Company holds 25% plus one share of OJSC Svyazinvest (refer to Note 9).

The Government of the Russian Federation, in turn, holds 75% less one share of the voting capital of OJSC Svyazinvest and, therefore, ultimately controls the Company. It is a matter of Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

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

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs, and does regulate such tariffs. Except for 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) Transactions with the Svyazinvest Group

The Group uses the regional networks of the Svyazinvest Group to terminate telephone traffic. Tariffs for services between the Group and other Svyazinvest Group companies for traffic initiation and termination are materially affected by governmental regulation as disclosed in paragraph (b) of this note.

In addition, the Group contracted the Svyazinvest Group companies as the Group's regional agents for customer service, billing and collection services related to long-distance services provided by the Group. Moreover, while calculating the costs of services rendered, the Group uses appropriate resources of Svyazinvest Group companies, including billing and other information systems data.

The Group also receives services related to the construction of the network from certain companies of the Svyazinvest Group which are included in additions of property, plant and equipment in amount of 97 (2009: 56, 2008: 58).

The Group makes contributions to the non-state pension fund, which provides the Company's employees with a number of post-employment benefits (refer to Note 23). OJSC Svyazinvest executes significant influence over the operations of the fund.

The Group also has investments in OJSC Dagsvyazinform, which is a part of the Svyazinvest Group. These investments represent receivables under long-term lease contracts obtained by the Group through a cession agreement. As of December 31, 2010 the Group's investments in OJSC Dagsvyazinform amounted to 226, of them 110 represent short-term part (2009: 328 and 103 short-term part respectively, 2008: nil).

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

The Group received from OJSC CenterTelecom guarantees amounting to 715 with regard to potential tax liabilities claimed as a result of comprehensive tax inspection for the period of 2007-2008 (refer to Note 29b). Payments for guarantees comprised 0.844.

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

	2010	2009	2008
Revenue	4,672	3,361	2,668
Charges by network operators – national	(12,987)	(14,069)	(15,576)
Administration and other costs	(208)	(184)	(172)
Contributions in pension fund included in wages, salaries, other benefit and payroll taxes	(39)	(69)	(62)
Bad debt recovery / (expense)	98	52	(27)

In addition, OJSC Svyazinvest participates in the dividends declared by the Company, commensurate with its shareholding.

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

	2010	2009	2008
Accounts receivable	1,292	1,371	690
Allowance for doubtful receivables	(3)	(101)	(153)
Accounts payable	(477)	(349)	(848)

(d) Transactions with other government-related entities

In January 2009, OAO 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 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 December 31, 2010 amounted to 469 (2009: 170, 2008: nil). As of December 31, 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 in the Oversight Board of this Organisation.

In December 2009 the Company entered into a state contract with the Ministry of Telecom and Mass Communications of the Russian Federation to realise project Electronic government. The project implies 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. The Company acts as a sole provider of all services under the project. Total revenue under the contract for the year ended December 31, 2010 is 1,190 (2009: 655).

In September 2010 the Company 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 with the respect of that transaction comprise 23 020 as of December 31, 2010 (refer to Note 18), interest expense accrued by that date is 456.

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 December 31, 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 December 31, 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).

Also, the Group engaged ZAO "Gazpombank – Upravlenie aktivami", which is considered government-related, for the purpose of the operation employees motivation program (refer to Note 24).

(e) Transactions with associates

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

	2010	2009	2008
Revenue	-	-	158
Charges by network operators – national	(139)	(106)	(110)
Bad debt recovery / (expense)	-	5	33

Amounts included in the consolidated statements of financial position relating to the operations with these entities were as follows:

	2010	2009	2008
Accounts receivable	-	-	8
Allowance for doubtful receivables	-	-	(5)
Accounts payable and accrued expenses	(15)	(13)	(17)

(f) Directors' remuneration

In 2010, the total remuneration of the key management personnel (Board of Directors members, Management Board members and Directors of Branches), amounted to 770 (2009: 327, 2008: 198) comprising of 353 in term of salary, bonuses and the other regular benefits and taxes thereon and 417 in term of share option granted (refer to note 24). As of December 31, 2010, 12 employees of the Company were members of the management board (2009: 12, 2008: 13)

(g) Other related party transactions

As of December 31, 2010 State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" holds 30% of the voting shares in the Company thus having significant influence over the operations of the Group. The Group has significant outstanding balances owing to VEB in accordance with a loan agreement (refer to Note 18).

29. 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 Company or the Group.

As mentioned in Note 18, Loral won a lawsuit against CJSC GlobalTel with a claim to repay the principal amount of the loan, interest and related expenses. In addition, Loral filed a lawsuit in the Superior Court of California, County of Santa Clara, USA, to recognize its claim against GlobalTel and to obtain the right to claim the property of CJSC GlobalTel. The Court declined to consider the claim based on jurisdiction criteria.

In April 2009 Loral filed a lawsuit against the Company in the New York Supreme Court, USA demanding to pay back loans issued to the Company's subsidiary CJSC GlobalTel at the amount of 8.5 million US dollars. As of the reporting date the Court had not considered the case. Management considers the risk of negative decision to be remote taking into account the abovementioned decision of Superior Court of California. However, in the case of negative decision in accordance with local legislation the Group would be obliged to pay additional 9% annual penalties on loan principal, which potentially contribute additional charges of 209.

(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's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group entities may be assessed additional taxes, penalties and interest, which can be significant. The Group entities' tax returns are open for review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year in which the decision on the conduct of the tax audit was adopted. Under certain circumstances, reviews may cover longer periods.

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

In December 2007, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2004-2006 and, as a result, issued a claim in the amount of 1,812 of additional taxes, fines and penalties. More than 90% of the amount relates to assessments calculated on the basis of the tax authorities' interpretation of telecommunication industry legislation in general and that of interaction between telecommunication operators in particular. The Group appealed the decision to a higher taxing authority and to the Arbitration Court of Moscow. In November 2008, the Arbitration Court of Moscow declared the claim of the tax authorities in the amount of 1,803 invalid and ordered the Group to pay 9. In February 2009, the Court of Appeals confirmed the decision of the Arbitration Court of Moscow. Subsequently, the Federal Tax Service of the Russian Federation filed an appeal to the Court of Cassation, which, in May 2009, upheld the ruling of the Arbitration Court of Moscow.

Management believes that, overall, taxes for 2004-2006 have been properly calculated by the Group and fairly stated in its financial statements based on the Group's analysis of the sustainability of liability. As a result, in 2010 the Group has reversed previously recognized provision for tax liabilities and has accrued no additional tax liabilities as of December 31, 2010 (2009: 151, 2008: 140) with regard to 2004-2006.

In February 2010, the Federal Tax Service of the Russian Federation completed the comprehensive tax inspection for the period of 2007-2008 and, as a result, issued a claim in the amount of 715 of additional taxes, fines and penalties (refer to Note 28). In September 2010 higher taxing authority declared 410 of the total amount invalid. The Group appealed the decision of the higher taxing authority in respect of the remaining 305 to the Arbitration Court of Moscow. No consideration of the suit was held by the moment the present statements were published. Management believes that, overall, taxes for 2007-2008 have been properly calculated by the Group and fairly stated in its financial statements based on the Group's analysis of the sustainability of liability. However, certain transactions revealed during the tax inspection management assessed as unlikely to be successfully defended in higher courts. As a result, the Group has accrued additional tax liabilities of 16 as of December 31, 2010. The total provision for tax liabilities for the period 2004-2008 amounted to 16 as of December 31, 2010 (2009:169, 2008:140).

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

In April 2008, the Russian Federal Tax Service completed a comprehensive tax inspection of CJSC GlobalTel for the period 2005-2006 and, as a result, issued a claim in the amount of 91 of additional taxes which was subsequently reduced to 45. CJSC GlobalTel disputed the claim in the Arbitration Court of Moscow. In April 2009, the court declared the claim of the tax authority of 43 to be invalid. In November 2009 the Court of Appeals confirmed the decision of the Arbitration Court of Moscow. On cassation of the Federal Tax Service in March 2010 the Federal Arbitration Court of Moscow region confirmed most cases of the decisions of courts of previous instances.

(c) Licenses

Substantially all of the Company'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 Company 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 Company'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 of December 31, 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 of December 31, 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 of December 31, 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**

30. CREDIT RISK MANAGEMENT

Each class of financial assets represented in the Group's statements 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 subscribers. In particular, credit worthiness 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 December 31, 2010.

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 into promissory notes, both of which expose the Group to credit risk since there is no deposit insurance for banks operating in Russia. To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the credit worthiness of the banks. To facilitate this assessment, deposits are mainly placed with the bank where the Group has already had current settlement account and can easily monitor activity of such banks. Prior to investing in promissory notes, management of the Group performs an analysis of financial position of the issuer and monitors its credit worthiness over periods up to maturity. Credit quality of the promissory notes is enhanced, whenever possible, by collaterals.

To secure the obligation of a debtor to pay on deposits, the Group holds collaterals amounting to 255 representing property. The Group is entitled to take possession of the pledged property only in case of either non-performance or undue performance of obligations by the debtor.

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

31. LIQUIDITY RISK MANAGEMENT

The Group monitors its risk to a shortage of funds by preparing and monitoring compliance with a cash budget/forecast. This tool considers the maturity of both cash inflow and outflow from the Group's operations. Based on projected cash flow 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.

Maturity analysis as of December 31, 2010, 2009 and 2008 represented below shows undiscounted cash flows.

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	3,386	11,552	13,445	-	-	-
Finance lease and vendor financing payable	2,173	18	18	18	18	238
Accounts payable	7,093	35	36	18	-	-
As of December 31, 2010	**12,652**	**11,605**	**13,499**	**36**	**18**	**238**

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	2,295	-	-	-	-	-
Finance lease and vendor financing payable	2,088	68	66	66	66	334
Accounts payable	7,718	26	10	9	11	81
As of December 31, 2009	**12,101**	**94**	**76**	**75**	**77**	**415**

Financial instrument	Less than one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Bank loans	2,776	128	-	-	-	-
Finance lease and vendor financing payable	1,752	81	63	61	61	377
Accounts payable	9,521	88	30	22	24	173
As of December 31, 2008	**14,049**	**297**	**93**	**83**	**85**	**550**

In accordance with Russian legislation, joint stock companies must maintain a level of equity (net assets) that is greater than the charter capital. In the event that a company's net assets, as determined under Russian accounting legislation, fall below certain minimum levels, specifically below zero, the company can be forced to liquidate. CJSC Zebra Telecom, CJSC GlobalTel, OJCS InfoTeKS Taganrog Telecom and CJCS Rosmedia have had, and continue to have, negative equity as reported in their Russian statutory financial statements. Management believes that the risk of the initiation of statutory liquidation procedures or other material adverse actions is remote.

In November 2010 the Company issued guarantee at the amount of 106 for the benefit of FGUP NTTs Atlas with regard to counterparty's liability in accordance with a state contract with Ministry of Foreign Affairs. The Company received 1% of guaranteed amount as a compensation for the service.

32. MARKET RISK

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.

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 and other comprehensive income.

	Increase/decrease in percentage point	Effect on other comprehensive income	Effect on profit before tax
2010			
RUB	+ 1.0%	14	(2)
RUB	- 1.0%	(15)	2
USD	+ 1.0%	-	(13)
USD	- 1.0%	-	13
2009			
USD	+ 1.0%	-	(18)
USD	- 1.0%	-	18
2008			
EUR	+ 5.0%	-	(1)
EUR	- 5.0%	-	1
USD	+ 5.0%	-	(255)
USD	- 5.0%	-	255

Foreign exchange risk

The main business of the Group is maintained with Russian counterparties based on agreements in Russian Rubles. The Group's foreign currency receivables and payables arise mainly on contracts with foreign operators because of international industry practice to make settlements in US dollars, Euro or SDR. Hence, the Group will be exposed to foreign exchange risk as long as it continues to make settlements with foreign currencies.

In 2010, approximately 12.3% (2009: 11.7%, 2008: 11.1%) of the Group's revenues and 15.7% (2009: 18.1%, 2008: 16.6%) of the Group's expenses were denominated in currencies other than the Russian Ruble. Revenues generated in foreign currency represent income received from foreign operators, and foreign currency denominated expenses consist primarily of payments to foreign operators for international long-distance traffic termination. Accounts receivable and accounts payable which are denominated in foreign currencies amounted to approximately 12.0% (2009: 7.9%, 2008: 10.7%) of the Group's total accounts receivable and 26.6% (2009: 23.8%, 2008: 25.8%) of the Group's total accounts payable as of December 31, 2010, 2009 and 2008, respectively. Borrowings denominated in foreign currencies and outstanding as of December 31, 2010, 2009 and 2008 amounted to 5.5%, 88.4% and 89.5% of the Group's total borrowings as of December 31, 2010, 2009 and 2008, respectively.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

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:

	Increase/decrease in percentage point	Effect on profit before tax
2010		
EUR	+ 10%	16
EUR	- 10%	(16)
USD	+ 10%	(256)
USD	- 10%	256
SDR	+ 10%	(17)
SDR	- 10%	17
2009		
EUR	+ 10%	309
EUR	- 10%	(309)
USD	+ 10%	562
USD	- 10%	(562)
SDR	+ 10%	(18)
SDR	- 10%	18
2008		
EUR	+ 20%	31
EUR	- 20%	(31)
USD	+ 20%	(619)
USD	- 20%	619
SDR	+ 20%	(36)
SDR	- 20%	36

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

Other price risk

As of December 31, 2010, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyzes market securities trends and makes a decision to sell a security, when necessary.

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

	Increase/decrease in percentage point	Effect on revaluation result recognized in other comprehensive income
2010		
MICEX	+ 30.0%	387
MICEX	- 30.0%	(497)
2009		
MICEX	+ 30.0%	203
MICEX	- 30.0%	(203)
2008		
MICEX	+ 50.0%	87
MICEX	- 50.0%	(87)

33. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize the return to shareholders. The Board of directors reviews the Group's performance and establishes a variety of key performance indicators which are based on Russian statutory accounts. In addition, the Group is subject to externally imposed capital requirements (VEB loan covenants), which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2010.

Capital includes equity attributable to the equity holders of the Company. Revaluation surplus, which is included in capital, is not subject to capital management because of its nature. The Company manages its capital structure and makes adjustments to it by issuance of new shares, dividend payments to shareholders and purchase of treasury shares. The Company monitors compliance of the amount of legal reserve with the statutory requirements. In addition, the Company monitors distributable profits on a regular basis and determines the amount and timing of dividend payments.

34. SUBSEQUENT EVENTS

Combination under common control

On April 1, 2011 the Company merged with and into seven IRC and OJS Company of Telecommunication and Information of the Republic of Dagestan. 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. Placement of shares was effected through the conversion of ordinary and preferred shares of Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan into them. 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 the Company 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, of which 288,378,479 US dollars were paid by the Company. The Company's share comprised of 21.8% equity interest. Further, the Buyers purchased promissory notes issued by the acquiree of 125,624,224 US dollars from Shepton Holdings Limited, of which 42,281,216 US dollars were purchased by the Company.

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.

On April 1, 2011 due to the abovementioned merger with Svyazinvest Interregional Companies and OJS Company of Telecommunication and Information of the Republic of Dagestan the Group obtained control over the acquiree. 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

As of March 30, 2010 the Company's Board of Directors along with Boards of Directors of IRCs 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 equity (refer to Note 14). The Company's share comprised 41.4% equity interest. After reorganization the share of the combined company in LLC Mobitel will comprise 99.99%.