OJSC Tattelecom

International Financial Reporting Standards
Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

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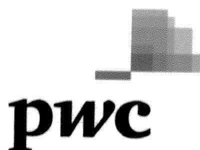

Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC Tattelecom:

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

Management's Responsibility for the Consolidated Financial Statements

2 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.

Auditor's Responsibility

3 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 whether the consolidated financial statements are free from material misstatement.

4 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.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

20 May 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
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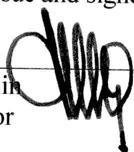
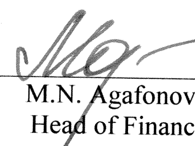
OJSC TATTELECOM
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of Russian Roubles)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	10,305,120	10,415,453
Intangible assets	13	143,746	138,145
Financial investments	14	149,349	198,421
Other non-current assets	15	141,259	57,265
Total non-current assets		**10,739,474**	**10,809,284**
Current assets			
Inventory	16	138,933	144,282
Accounts receivable	17	634,940	772,549
Advances paid and prepaid expenses	18	191,932	193,086
Prepaid income tax		58	71,197
Prepaid taxes, other than income tax		30,170	23,823
Financial investments	14	19,313	400,725
Cash and cash equivalents	19	369,057	81,701
Total current assets		**1,384,403**	**1,687,363**
TOTAL ASSETS		**12,123,877**	**12,496,647**
EQUITY			
Ordinary shares	20	2,104,799	2,104,799
Treasury shares	20	(81,892)	(81,892)
Revaluation reserve for available-for-sale investments	14	(1,895)	(5,267)
Additional paid in capital	20	232,275	232,275
Retained earnings		4,472,056	3,792,124
TOTAL EQUITY		**6,725,343**	**6,042,039**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	21	1,905,732	826,917
Long-term obligations under finance lease		220	12,157
Deferred income tax liability	23	509,362	459,965
Deferred revenue	24	215,599	344,999
Post-retirement benefit obligations	25	192,298	199,068
Other long-term liabilities		63,930	92,955
Total non-current liabilities		**2,887,141**	**1,936,061**
Current liabilities			
Current portion of long-term borrowings	21	859,252	2,876,063
Short-term obligations under finance lease		7,175	31,379
Accounts payable and accrued liabilities	26	1,127,689	1,123,280
Taxes payable, other than income tax	22	170,355	201,703
Deferred revenue, current portion	24	346,922	286,122
Total current liabilities		**2,511,393**	**4,518,547**
TOTAL LIABILITES		**5,398,534**	**6,454,608**
TOTAL EQUITY AND LIABILITIES		**12,123,877**	**12,496,647**

Approved for issue and signed on behalf of the Board of Directors on 20 May 2011.



L.N. Shafigoullin
General Director



M.N. Agafonova
Head of Finance

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Russian Roubles)

	Note	For the year ended 31 December 2010	2009
Revenue	9	5,939,421	5,519,614
Operating expenses	10	(4,775,256)	(4,118,993)
Operating profit		**1,164,165**	**1,400,621**
Finance income		93,229	24,012
Finance cost	11	(287,624)	(497,752)
Foreign exchange gain (loss)		37,814	(55,242)
Profit before income tax		**1,007,584**	**871,639**
Income tax expense	23	(220,231)	(194,107)
Profit for the year attributable to the owners of the Company		**787,353**	**677,532**
Other comprehensive income:			
Actuarial gain, net of deferred tax charge of RR 1,550 (2009: RR 2,962)	25, 23	6,199	11,848
Gain on revaluation of available-for-sale investments, net of deferred tax charge of RR 843 (2009: RR 1,381)	14, 23	3,372	5,524
Total comprehensive income for the year attributable to the owners of the Company		**796,924**	**694,904**
Weighted average number of outstanding ordinary shares	20	20,419,338,080	20,419,338,080
Earnings per ordinary share, basic and diluted, in roubles per share		0.039	0.033

	Note	Ordinary shares	Additional paid in capital	Revaluation reserve for available for sale investments	Treasury shares	Retained earnings	Total
Balance at 31 December 2008		**2,104,799**	**–**	**(10,791)**	**(82,109)**	**3,379,703**	**5,391,602**
Adjustment to property, plant and equipment contributed by ultimate parent	20	–	232,275	–	–	(70,136)	162,139
Total comprehensive income for the year		–	–	5,524	–	689,380	694,904
Dividends declared	20	–	–	–	–	(206,823)	(206,823)
Sale of treasury shares		–	–	–	217	–	217
Balance at 31 December 2009		**2,104,799**	**232,275**	**(5,267)**	**(81,892)**	**3,792,124**	**6,042,039**
Total comprehensive income for the year		–	–	3,372	–	793,552	796,924
Dividends declared	20	–	–	–	–	(113,620)	(113,620)
Balance at 31 December 2010		**2,104,799**	**232,275**	**(1,895)**	**(81,892)**	**4,472,056**	**6,725,343**

	Note	For the year ended 31 December 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**1,007,584**	**871,639**
Adjustments for:			
Depreciation of property, plant and equipment	12	1,104,765	1,000,376
Amortization of intangible assets	13	68,411	95,895
Loss on disposal of property, plant and equipment	10	99,077	86,583
Finance income		(93,229)	(24,012)
Finance costs	11	287,624	497,752
Loss (gain) on impairment of accounts receivable	17	36,399	(142,040)
Foreign exchange (gain) loss		(37,814)	55,242
Other non-cash operating items		(3,917)	8,298
Operating cash flows before changes in working capital		**2,468,900**	**2,449,733**
Decrease in accounts receivable		102,598	34,651
Decrease (increase) in inventory		5,349	(9,874)
Decrease (increase) in advances paid and prepaid expenses		159,832	(72,379)
(Increase) decrease in prepaid taxes, other than income tax		(6,347)	44,397
Increase (decrease) in accounts payable and accrued liabilities		279,635	(258,803)
(Decrease) increase in taxes payable, other than income tax		(31,348)	41,653
Decrease in deferred revenue		(68,600)	(277,777)
Changes in working capital		**2,910,019**	**1,951,601**
Income taxes paid		(102,088)	(19,692)
Interest paid		(327,310)	(504,003)
Net cash from operating activities		**2,480,621**	**1,427,906**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		(1,353,017)	(886,712)
Purchases of intangible assets		(105,666)	(118,232)
Proceeds from sale of property, plant and equipment		106,768	82,328
Interest received		34,865	11,743
Purchases of investments		(22,182)	(525,587)
Acquisition of subsidiaries, net of cash acquired		–	(16,970)
Proceeds from repayment of investments		330,000	30,000
Net cash used in investing activities		**(1,009,232)**	**(1,423,430)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bonds issue		–	1,620,131
Repayment of bonds		(1,330,665)	(219,187)
Proceeds from borrowings		3,202,010	1,111,620
Repayment of borrowings		(2,772,045)	(2,332,388)
Finance lease payments		(36,142)	(33,443)
Dividends paid		(247,191)	(187,065)
Net cash used in financing activities		**(1,184,033)**	**(40,332)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		287,356	(35,856)
CASH AND CASH EQUIVALENTS, beginning of the year		81,701	117,557
CASH AND CASH EQUIVALENTS, end of the year		**369,057**	**81,701**

1. OJSC TATTELECOM AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for OJSC Tattelecom ("Tattelecom" or the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated on 22 July 2003 as an open joint stock company and is domiciled in the Russian Federation.

Tattelecom is the largest telecommunications operator in the Republic of Tatarstan ("RT"). The Company operates through seven regional branches: Almetyevsky, Arsky, Buinsky, Nizhnekamsky, Chistopolsky, Kazansky and Naberezhno-Chelninsky zonal telecommunication nodes.

The Company's registered and principal place of business is N. Ershova street, 57, 420061, Kazan, Republic of Tatarstan, Russian Federation.

As of 31 December 2010 and 2009, the Company's major shareholders were as follows:

	% of ownership
OJSC Svyazinvestneftekhim	87.2%
Other	12.8%
Total	**100.0%**

The Company's ultimate parent and controlling party is the Republic of Tatarstan.

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 31 December		
Subsidiary	**2010**	**2009**	**Immediate parent**
LLC Kamatel-K	100	100	OJSC Tattelecom
LLC Kamatel K	100	100	OJSC Tattelecom
LLC LiNet	100	100	OJSC Tattelecom
LLC Elemte Invest	100	100	OJSC Tattelecom
LLC StroiRemKompania	100	100	LLC Elemte Invest (88.9%) LLC LiNet (11.1%)

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in Russian financial and corporate sectors has significantly deteriorated starting mid-2008. In 2010 Russia witnessed certain revival of economic growth rates. The economic recovery went hand in hand with the growth of people's income, decrease in refinancing rates, stabilization of the Russian rouble against major global currencies as well as the growth of liquidity in banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Russia's economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition at the fair value of financial instruments and the carrying amounts of equity items in existence at 31 December 2002 which include the adjustment for the effects of hyperinflation, calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Company and its subsidiaries maintain their accounts and prepare financial statements for regulatory purposes in accordance with Russian accounting legislation. The accompanying consolidated financial statements are based on statutory accounting records, which are maintained under historical cost convention. At each reporting date, the Company makes appropriate adjustments and reclassifications to its stand-alone statutory financial statements and those of its subsidiaries for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The Company's financial statements are measured in the currency prevailing in the economic environment in which the Company operates (functional currency). The functional and the presentation currency of the Company is the Russian Rouble ("RR"). All amounts in these consolidated financial statements are in thousands of RR unless otherwise stated.

Transactions denominated in foreign currencies are translated into the functional currency using the official exchange rates of the Central Bank of the Russian Federation ("CBRF") prevailing at the date of transactions. Exchange rate differences arising from such transactions and from translation of monetary assets and liabilities denominated in foreign currency at the closing exchange rate are recorded in the finance costs of the consolidated statement of comprehensive income.

The exchange rates of the Russian Rouble to the US Dollar ("USD") as of 31 December 2010 and 2009 were RR 30.4769 and RR 30.2442 to USD 1, respectively. The exchange rates of the Russian Rouble to Euro as of 31 December 2010 and 2009 were RR 40.3331 and RR 43.3883 to 1 Euro, respectively.

Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or obtainable from presently convertible instruments are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated financial statements (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. Inter-company transactions, balances and unrealized gains and losses on transactions between the Group companies are eliminated.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. If a unit of property, plant and equipment consists of several elements with different useful lives they are treated as separate fixed assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognized in profit or loss.

Depreciation

Depreciation of property, plant and equipment is calculated using the straight–line method to allocate the cost less the residual values over their estimated useful lives, as follows:

	Useful life in years
Land	Not depreciated
Buildings	40
Telecommunication equipment	10
Transmission devices	15
Vehicles	7
Office equipment and other	3-5

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from a disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are ready to be placed in service.

Leases

The Company accounts for the leased property in accordance with the requirements of IAS 17 "*Leases*". A lease is classified as a finance lease if the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

For finance leases, the assets leased are capitalized in property, plant and equipment at the lower of the fair value of the leased asset and the present value of future minimum lease payments, at the inception of the lease in the lessee's statement of financial position. Amounts due within one year after the reporting date are classified as short-term obligations and the remaining balance – as long-term liabilities.

Leased assets are depreciated over their useful lives as determined in accordance with the accounting policy or over the term of the finance lease, if shorter. Where there is reasonable certainty that the lessee will obtain ownership by the end of the finance lease term, the asset is depreciated over its useful life. Where it is possible that the assets received under finance lease agreements will be returned upon the end of the lease term, such assets are depreciated over their useful lives or the lease term, whichever is shorter.

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to the profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Intangible assets

Intangible assets primarily represent licenses, software and subscribers' base. Intangible assets are amortized using the straight-line method over their useful lives:

	Useful life in years
Licenses	1-7
Software	1-10
Subscribers' base	5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or at amortized cost as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – key measurement terms (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Amortized cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any) are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial assets

Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. The Group uses discounted cash flow valuation techniques to determine the fair value of financial instruments that are not traded in an active market.

Derecognition of financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Classification of financial assets

The Group classifies its financial assets in the following categories: available-for-sale investments and loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. The Group classifies its financial liabilities as other financial liabilities. Other financial liabilities are carried at amortized cost.

Cash and cash equivalents

Cash and cash equivalents consist cash in hand, deposits and highly liquid financial investments with maturities of three months or less, with low risks of a decrease in value.

Impairment of financial assets carried at amortized cost

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and reliability of related collateral, if any.

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Inventories

Inventories comprise cables, spare parts, telephones and are stated at the lower of cost or net realizable value. Cost of inventory is determined based on actual cost of each inventory item. Net realizable value represents the estimated selling price determined under the ordinary business terms less marketing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advances issued and deferred expenses ("Prepayments")

Advances issued and deferred expenses (hereinafter – "prepayments") are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Pension plan and post-employment benefits

The Group operates a defined benefit pension scheme. The scheme is funded through payments to a non-governmental pension fund, NPF Volga-Capital, determined by periodic actuarial calculations. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognized immediately in profit or loss.

Pension assets do not meet the definition of plan assets of IAS 19 *"Employee Benefits"* as the Group has an unconditional right to redeem the value of these assets from the fund to the extent of the Group's contributions plus 80% of return on these assets less benefits paid. Pension assets are classified as non-current available-for-sale-investments under the caption investment in pension fund and are measured at fair value.

Value added taxes

Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Revenue recognition

Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of any discounts and value added tax.

The Group earns service revenues from usage of its local exchange networks and facilities. The principal services rendered by the Group are as follows:

- Local telecommunications services;
- Internet access services;
- Intrazonal telecommunications services;
- Installation and connection services;
- Interconnection and traffic transmission services;
- Lease of cable capacity;
- Lease of telephone canalization channels;
- IP telephony and IPTV services;
- Other revenues.

Local telecommunications services
Local telecommunication services include the provision of local voice services (urban and rural telephony). The services rendered relate to use by customers (e.g. call minutes), availability over time (e.g. monthly service charges) or other agreed calling plans. Revenue from local telecommunication services is recognized in the period when the services are used by the customers.

Internet access services
Revenue from internet access services is recognized in the period in which the services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Intrazonal telecommunications services
Intrazonal telecommunication services include the following:

- Telephone connections between subscribers of fixed line telephone network within the territory of the Republic of Tatarstan;
- Telephone connections between subscribers of fixed line telephone network and subscribers of mobile communication network where subscriber numbers of the calling party and destination party are included in the numbering capacity within, respectively, geographically identifiable and geographically unidentifiable numbering areas assigned to the same constituent entity.

The services rendered relate to use by customers (e.g. call minutes). The Group recognizes revenues from intrazonal telecommunication services in the period when the services are used by the customers.

Installation and connection fees
Fees received for installation and connection are deferred and recognized as revenue over the estimated average period of customer retention (subscription period).

Interconnection and traffic transmission services
Revenue from interconnection and traffic transmission services is recognized at the time of interconnect traffic's transit across the Company's network.

Lease of cable capacity
The Company recognizes revenue from the lease of local and intrazonal cable capacity in the period in which the service is rendered.

Lease of telephone canalization channels
The Company recognizes revenue from the lease of telephone canalization channels in the period in which the service is rendered.

IP telephony and IPTV services
The Company recognizes revenue from IP telephony and IPTV services in the period in which the services are rendered.

Other revenues
Other revenues primarily consist of revenues from telegraph services, services under agency agreements, maintenance services and sales of goods and are recognized when services are rendered/ goods are delivered.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalization of borrowing costs continues up to the date when the assets are substantially ready for their use. The Group capitalizes borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. All other borrowing costs are recorded in the finance costs of the consolidated statement of comprehensive income in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in Note 29.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Earnings per share

Basic earnings per share are determined by dividing the profit attributable to the Group's shareholders by the weighted average number of ordinary shares outstanding during the reporting period. For the purpose of calculating diluted earnings per share, profit or loss attributable to the shareholders of the Group, and the weighted average number of ordinary shares outstanding are adjusted for the effects of an assumed conversion of all dilutive potential ordinary shares into ordinary shares.

Reporting on related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if the parties are under common control or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *"Related Party Disclosures"*. In considering related party relationships, attention is directed to the substance of the relationship, and not merely the legal form.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Useful lives of property, plant and equipment

The estimation of the useful lives of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. Had the estimated useful lives been 10% higher (lower) than management's estimates, the depreciation expenses would have decreased (increased) by RR 101,988.

Impairment of accounts receivable

Provision for impairment of accounts receivable is based on the historical data related to collectability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Installation and connection fees

Installation and connection fees are of non-refundable fees received at the time of the subscribers' connection to the Group's telecommunication network. Installation and connection services are not separable from other services provided to the subscribers. Revenue from installation and connection services is deferred upon receipt of the fees and amortized to profit or loss over the estimated average fixed line subscription period. Management's estimate of an average subscription period is based on the historical data and is 8 years for residential subscribers and 5 years for commercial organization (2009: 8 and 5 years, respectively). Had the estimated subscription period increased (decreased) by 1 year, for both types of subscribers, the Group's revenue from installation and connection fees would have decreased (increased) by RR 68,225.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group from 1 January 2010:

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The Group started to apply revised standard from 1 January 2010.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The fair value method has also an impact on the consolidated goodwill (goodwill attributable to the minority share should be recognised). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group started to apply the revised standard to all business combinations from 1 January 2010.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. These amendments did not have a material impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement applies to annual periods beginning on or after 1 July 2009. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This amendment did not have a material impact on the Group's consolidated financial statements.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. These amendments did not have a material impact on the Group's consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-Based Payments, apply to annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share-based payment awards in consolidated financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. These amendments did not have a material impact on the Group's consolidated financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009) is effective for annual periods beginning on or after 1 January 2013. Early adoption is encouraged. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income. The Group is currently assessing the impact the standard will have on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments is effective for annual periods beginning on or after 1 July 2010. This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have a material effect on its consolidated financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement is effective for annual periods beginning on or after 1 January 2011. This amendment applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have a material effect on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; revised IAS 1 clarifies that statement of changes in equity includes such items as gains and losses, other comprehensive income and transactions with shareholders. The standard also clarifies that the itemized analysis of other comprehensive income may be presented in notes to financial statements; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect these amendments to have a material effect on its consolidated financial statements.

7. SEGMENT INFORMATION

The Group has identified seven operating segments which are the Group's regional branches. The discrete financial information for the identified operating segments (i.e. revenue, net financial result) is available and regularly reviewed by the Group's corporate management team ("chief operating decision maker" or "CODM"). This financial information is derived from the Group's statutory accounting records.

All identified operating segments meet the aggregation criteria under the IFRS 8, *"Operating segments"*, as these segments share similar economic characteristics and also are similar in respect of the nature of provided services, types of customer and the methods used to provide the services. On these grounds, the Company's management considers the Group to be a single reportable segment.

7. SEGMENT INFORMATION (CONTINUED)

Management believes that the disclosure of the segments' financial information reviewed by CODM and the reconciliation of this information with these consolidated financial statements are not required as it would not affect the decision making process of the users of these consolidated financial statements, nor would it contribute to a better evaluation of the nature and the financial effects of the Group's business activities. The Company makes entity-wide disclosures as required by IFRS 8. The information required for disclosure can be found in the respective notes below.

8. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In 2009, the Group has early adopted the amendment to IAS 24, *"Related Party Disclosure"*, regarding partial exemption allowed to government-related entities. Accordingly, the Group's disclosure of related party transactions is limited to the transactions which are either individually significant or may be collectively significant.

During 2010, the Company has entered in the following significant transactions with the parties controlled by the Company's ultimate parent:

	Note	2010	2009
Revenue	9	591,408	563,750
Operating expenses		312,114	431,626
Acquisition of property, plant and equipment		100,629	14,761
Promissory notes received	14	–	330,000
Loans received		230,000	683,331

The Group had the following significant balance due to/from related parties:

	Note	2010	2009
Accounts receivable		126,552	196,490
Promissory notes received	14	–	330,000
Advances received		99,481	–
Accounts payable		109,233	106,153
Borrowings	21	239,114	431,169

In 2010 remuneration of the members of the Board of Directors and key management personnel amounted to RR 38,111 (2009: RR 26,459).

9. REVENUE

By types of services	2010	2009
Local telecommunication services	2,061,122	1,929,073
Internet access services	1,384,592	1,153,166
Intrazonal telecommunication services	965,243	1,033,675
Interconnection and traffic transmission services	510,332	534,337
Installation and connection services	220,982	364,075
Lease of cable capacity	192,676	156,681
Lease of telephone canalization channels	94,880	79,750
IP telephony and IPTV services	87,640	50,391
Other revenue	421,954	218,466
Total	**5,939,421**	**5,519,614**

9. REVENUE (CONTINUED)

By classes of customers:	2010	2009
Residential subscribers	3,210,143	3,111,414
Commercial organizations	2,137,870	1,844,450
State organizations	591,408	563,750
Total	**5,939,421**	**5,519,614**

10. OPERATING EXPENSES

	Note	2010	2009
Payroll expenses, including taxes		1,601,400	1,411,346
Depreciation of property, plant and equipment	12	1,104,765	1,000,376
Interconnection and traffic transmission charges		573,005	635,341
Materials, repairs and maintenance		328,417	356,846
Utilities and energy		236,374	225,455
Taxes other than income tax		181,256	177,208
Loss on disposal of property, plant and equipment		99,077	86,583
Rent expense		74,425	72,171
Amortization of intangible assets	13	68,411	95,895
Advertising expenses		38,898	34,143
Loss (gain) on impairment of accounts receivable	17	36,399	(142,040)
Reimbursement from the Universal Service Fund, net of the respective contributions		(113,089)	(83,834)
Other expenses		545,918	249,503
Total		**4,775,256**	**4,118,993**

In 2010, the Group incurred expenses totalling RR 172,646 (2009: RR 137,768) related to the provision of the universal telecommunication services. These expenses are included above in the relevant categories of the operating expenses. The Group received a reimbursement of these expenses from the Federal Telecommunication Agency which is reported in the reimbursement from the Universal Service Fund caption of the operating expenses above. The Group's contributions to the Universal Service Fund amounted to RR 59,557 (2009: RR 53,934).

11. FINANCE COSTS

	2010	2009
Interest expense on loans, bonds, promissory notes and vendor financing, net of capitalized interest	280,400	463,824
Interest expense on finance leases	7,224	33,928
Total	**287,624**	**497,752**

12. PROPERTY, PLANT AND EQUIPMENT

	Note	Land and buildings	Telecom-munication equipment	Transmis-sion devices	Vehicles	Office equipment and other	Construc-tion in progress	Total
Cost as of 31 December 2008		**1,497,488**	**4,426,648**	**5,328,972**	**189,782**	**220,642**	**899,176**	**12,562,708**
Accumulated depreciation as of 31 December 2008		**(102,510)**	**(865,242)**	**(1,055,494)**	**(69,859)**	**(124,838)**	**–**	**(2,217,943)**
Carrying amount as of 31 December 2008		**1,394,978**	**3,561,406**	**4,273,478**	**119,923**	**95,804**	**899,176**	**10,344,765**
Acquisitions through business combinations		29,896	–	–	–	10,176	–	40,072
Additions		–	86,382	–	978	–	1,112,543	1,199,903
Transfers		72,652	875,974	603,625	19,113	20,016	(1,591,380)	–
Reclassification of initial cost		(10)	9,576	(9,569)	–	3	–	–
Reclassification of depreciation		–	(358)	366	–	(8)	–	–
Disposals		(69,318)	(106,030)	(70,151)	(9,250)	(2,432)	(8,008)	(265,189)
Depreciation on disposals		2,591	62,894	22,293	6,231	2,269	–	96,278
Depreciation charge	10	(38,780)	(487,546)	(401,752)	(25,648)	(46,650)	–	(1,000,376)
Cost as of 31 December 2009		**1,530,708**	**5,292,550**	**5,852,877**	**200,623**	**248,405**	**412,331**	**13,537,494**
Accumulated depreciation as of 31 December 2009		**(138,699)**	**(1,290,252)**	**(1,434,587)**	**(89,276)**	**(169,227)**	**–**	**(3,122,041)**
Carrying amount as of 31 December 2009		**1,392,009**	**4,002,298**	**4,418,290**	**111,347**	**79,178**	**412,331**	**10,415,453**
Additions		–	43,202	–	–	–	1,157,075	**1,200,277**
Transfers		12,122	567,773	360,324	4,232	17,590	(962,041)	–
Reclassification of initial cost		(1,234)	4,717	(430)	(3,030)	(23)	–	–
Reclassifications of depreciation		1	(1,726)	47	1,590	88	–	–
Disposals		(58,181)	(227,980)	(49,278)	(8,206)	(24,087)	(6,463)	**(374,195)**
Depreciation on disposals		4,188	139,212	18,170	4,095	2,685	–	**168,350**
Depreciation charge	10	(38,683)	(591,421)	(422,944)	(27,392)	(24,325)	–	**(1,104,765)**
Cost as of 31 December 2010		**1,483,415**	**5,680,262**	**6,163,493**	**193,619**	**241,885**	**600,902**	**14,363,576**
Accumulated depreciation as of 31 December 2010		**(173,193)**	**(1,744,187)**	**(1,839,314)**	**(110,983)**	**(190,779)**	**–**	**(4,058,456)**
Carrying amount as of 31 December 2010		**1,310,222**	**3,936,075**	**4,324,179**	**82,636**	**51,106**	**600,902**	**10,305,120**

Property, plant and equipment with total carrying amount of RR 1,048,029 (2009: RR 3,352,851) was pledged as collateral for borrowings.

Carrying amount of the property, plant and equipment held under finance leases amounted to RR 174,195 (2009: RR 196,515) including telecommunication equipment of RR 92,616 (2009: RR 104,490); vehicles of RR 65,119 (2009: RR 71,380) and office equipment of RR 16,460 (2009: RR 20,645). Additions included capitalized borrowing costs of RR 43,202 (2009: RR 86,382). The capitalization rate was 8% (2009: 13%).

13. INTANGIBLE ASSETS

	Note	Licenses	Software	Subscribers' base	Total
Cost as of 31 December 2008		**53,218**	**68,969**	–	**122,187**
Accumulated amortization as of 31 December 2008		**(18,362)**	**(33,072)**	–	**(51,434)**
Carrying amount as of 31 December 2008		**34,856**	**35,897**	–	**70,753**
Acquisition through business combinations		–	–	45,055	45,055
Additions		9,277	108,955	–	118,232
Disposals		(48,670)	(64,735)	–	(113,405)
Amortization on disposals		48,670	64,735	–	113,405
Amortization expense	10	(38,072)	(54,132)	(3,691)	(95,895)
Cost as of 31 December 2009		**13,825**	**113,189**	**45,055**	**172,069**
Accumulated amortization as of 31 December 2009		**(7,764)**	**(22,469)**	**(3,691)**	**(33,924)**
Carrying amount as of 31 December 2009		**6,061**	**90,720**	**41,364**	**138,145**
Additions		44,465	29,547	–	74,012
Disposals		(12,918)	(38,815)	–	(51,733)
Amortization on disposals		12,918	38,815	–	51,733
Amortization expense	10	(21,298)	(38,102)	(9,011)	(68,411)
Cost as of 31 December 2010		**45,372**	**103,921**	**45,055**	**194,348**
Accumulated amortization as of 31 December 2010		**(16,144)**	**(21,756)**	**(12,702)**	**(50,602)**
Carrying amount as of 31 December 2010		**29,228**	**82,165**	**32,353**	**143,746**

14. FINANCIAL INVESTMENTS

	2010	2009
Available-for-sale investments, including non-current portion of RR 97,718 (2009: RR 98,703)	106,849	105,064
Loans to employees, including non-current portion of RR 16,996 (2009: RR 11,146)	27,178	22,407
Other loans, including non-current portion of RR 34,635 (2009: RR 88,572)	34,635	141,675
Promissory notes	–	330,000
Total	**168,662**	**599,146**
Less non-current portion	(149,349)	(198,421)
Total current portion	**19,313**	**400,725**

Available-for-sale investments include the following:

	2010	2009
Investment in pension fund – unlisted equity security	95,638	96,623
Listed equity securities	9,131	6,361
Other unlisted equity securities	2,080	2,080
Total	**106,849**	**105,064**

14. FINANCIAL INVESTMENTS (CONTINUED)

The changes in the fair value of the investment in pension fund were as follows:

	Note	2010	2009
Balance at beginning of year		**96,623**	**110,609**
The Company's contributions to the fund		14,641	11,643
Amounts paid to the fund to settle pension obligations	25	(19,841)	(30,007)
Gain on revaluation of available-for sale investments		4,215	4,378
Balance at end of year		**95,638**	**96,623**

Gain on revaluation of available-for-sale investments of RR 4,215 (2009: RR 6,905) recognized in other comprehensive income does not include any cumulative loss or gain (2009: cumulative loss of RR 2,527), related to derecognized portion of investment in pension fund.

15. OTHER NON-CURRENT ASSETS

	2010	2009
Advances for the acquisition of non-current assets	150,019	67,201
Less impairment provision	(8,760)	(9,936)
Total	**141,259**	**57,265**

16. INVENTORY

	2010	2009
Cables and spare parts for telecommunications equipment	102,399	118,291
Finished goods and goods for sale	6,827	6,433
Other inventory	29,707	19,558
Total	**138,933**	**144,282**

17. ACCOUNTS RECEIVABLE

	Note	2010	2009
Accounts receivable		791,617	911,767
Less impairment provision	4	(156,677)	(139,218)
Total		**634,940**	**772,549**

By group of customer:	2010	2009
Commercial organizations, net of impairment provision of RR 106,246 (2009: RR 61,501)	335,170	245,580
Residential subscribers, net of impairment provision of RR 45,416 (2009: RR 71,797)	263,507	419,337
State organizations, net of impairment provision of RR 5,015 (2009: RR 5,920)	36,263	107,632
Total	**634,940**	**772,549**

17. ACCOUNTS RECEIVABLE (CONTINUED)

Movements in the provision for impairment of accounts receivable were as follows:

	Note	2010	2009
Balance at beginning of year		**139,218**	**299,449**
Amounts written off during the year		(18,940)	(18,191)
Accrual (release) of the impairment provision	10	36,399	(142,040)
Balance at end of year		**156,677**	**139,218**

Analysis by credit quality of accounts receivable was as follows:

	2010	2009
Neither past due nor impaired – exposure to:		
- Commercial organizations	268,214	177,683
- Residential subscribers	206,698	351,187
- State organizations	26,092	36,167
Total neither past due nor impaired	**501,004**	**565,037**
Past due, not impaired:		
- Less than 30 days overdue	65,754	59,377
- From 30 to 60 days overdue	22,162	45,522
- From 60 to 90 days overdue	16,391	35,949
- From 90 to 120 days overdue	11,172	11,834
- From 120 to 180 days overdue	18,457	15,661
- More than 180 days overdue	–	39,169
Total past due, not impaired	**133,936**	**207,512**
Past due and impaired:		
- Less than 30 days overdue	–	–
- From 30 to 60 days overdue	–	–
- From 60 to 90 days overdue	–	–
- From 90 to 120 days overdue	–	–
- From 120 to 180 days overdue	–	–
- More than 180 days overdue	156,677	139,218
Total past due and impaired	**156,677**	**139,218**
Less impairment provision	(156,677)	(139,218)
Total	**634,940**	**772,549**

The individually impaired receivables mainly relate to debtors which are in unexpectedly difficult economic situations. The Group has no significant concentrations of credit risk as the Group's customer base is highly diversified and management is monitoring customers' ability to settle their debts on regular basis.

18. ADVANCES PAID AND PREPAID EXPENSES

	2010	2009
Advances paid	113,298	166,229
Prepaid expenses	78,634	26,857
Total	**191,932**	**193,086**

19. CASH AND CASH EQUIVALENTS

	2010	2009
Cash at bank and on hand	369,057	60,101
Short-term deposits with maturities of 3 months or less	–	21,600
Total	**369,057**	**81,701**

Based on Fitch's rating, the credit quality of the banks in which the Group held its cash and cash equivalents is AA- (rus) (2009: AA- (rus)).

20. SHARE CAPITAL

	Number of shares, in thousands
At 31 December 2008	**20,414,625**
Treasury shares sold	4,713
At 31 December 2009 and 2010	**20,419,338**

The total authorized number of ordinary shares was 20,885,140 thousand (2009: 20,885,140 thousand) with par value of 0.1 rouble per share. The difference of RR 20,401 between the nominal and carrying values of the shares reflects the effect of hyperinflation using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat").

Additional paid in capital of RR 232,275 represents contributions in the form of property, plant and equipment received by the Company from its ultimate parent.

In 2010, the Company declared dividends of 0.0055 rouble per share (2009: 0.01 rouble per share), totalling RR 115,767 (2009: RR 210,733), including the dividends on treasure shares of RR 2,147 (2009: RR 3,910), for the year ended 31 December 2009.

21. BORROWINGS

	2010	2009
Bank borrowings, including non-current portion of RR 1,800,188 (2009: RR 826,917)	2,658,056	2,265,387
Corporate bonds, including non-current portion of RR 105,544 (2009: nil)	106,928	1,437,593
Total	**2,764,984**	**3,702,980**
Less non-current portion	(1,905,732)	(826,917)
Total current portion	**859,252**	**2,876,063**

Bank borrowings

	Note	Loan currency	2010	2009
Bank Societe Generale Vostok		Russian Roubles	749,082	258,263
UniCredit Bank		Russian Roubles	700,486	850,808
Alfa Bank		Russian Roubles	400,391	–
Bank of Moscow		Russian Roubles	285,382	–
ING Bank (Eurasia)		Euro	283,601	539,436
AK BARS Bank	8	Russian Roubles	239,114	160,448
VTB	8	Russian Roubles	–	270,721
Royal Bank of Scotland		Russian Roubles	–	180,173
Other borrowings		Russian Roubles	–	5,538
Total			**2,658,056**	**2,265,387**

21. BORROWINGS (CONTINUED)

Bank borrowings (continued)

	Maturity	2010 contractual interest rate % p.a.	2009 contractual interest rate % p.a.
UniCredit Bank	2013	8.45	MosPrime+4.9
ING Bank (Eurasia)	Until 2012	LIBOR+3.5 and LIBOR+1.7	LIBOR+3.5 and LIBOR+1.7
Bank Societe Generale Vostok	Until 2013	MosPrime+2.75 and 8.46	MosPrime+2.75
AK BARS Bank	Until 2013	3.1-8.25	3.5-16
Alfa Bank	Until 2013	8.93	10.5-16.92
Bank of Moscow	Until 2012	9.5	–

The loans totalling RR 131,781 (2009: RR 600,406) were collaterized by the Company's property, plant and equipment (refer to Note 12). At 31 December 2010, the Company's was in breach of certain covenants of an outstanding loan with a carrying value of RR 61,239. Loan matures in 2011 and is classified as short-term.

Corporate bonds
In November 2007, the Company issued 1.5 million non-convertible bearer bonds maturing in 2012. The nominal value of each bond was RR 1. The bonds have an early redemption option which can be exercised by the bondholders when the Company changes the coupon rate. In May 2010, the Company changed the coupon rate which was set at 8.25% per annum (2009: 16%) until the bonds' maturity date. As a result, the bondholders exercised the option and the Company repurchased 1,303,205 bonds for the total value of RR 1,330,665, including the coupon of RR 27,460, in May 2010. The fair value of the bonds approximates their carrying value.

22. TAXES PAYABLE, OTHER THAN INCOME TAX

	2010	2009
VAT payable	112,776	138,563
Property tax payable	42,483	44,523
Other taxes payable	15,096	18,617
Total	**170,355**	**201,703**

23. INCOME TAXES

The Group's income tax expense comprised the following:

	2010	2009
Current income tax expense	173,227	128
Deferred income tax charge	47,004	193,979
Total	**220,231**	**194,107**

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

	2010	2009
Profit before tax	**1,007,584**	**871,639**
Theoretical income tax at statutory income tax rate of 20% (2009: 20%)	201,517	174,328
Adjustments for:		
Non-taxable income	(43,440)	(34,544)
Non-deductible expenses	79,585	46,511
Other	(17,431)	7,812
Income tax expense	**220,231**	**194,107**

23. INCOME TAXES (CONTINUED)

Differences between IFRS and statutory taxation regulations in Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary deductible/(taxable) differences is detailed below and is recorded at the rate of 20% (2009: 20%):

	Balance at 31 December 2009	(Charged)/ credited to profit or loss	(Charged)/ credited to other comprehensive income	Balance at 31 December 2010
Property, plant and equipment	(671,061)	(8,622)	–	(679,683)
Accounts payable and accrued liabilities	36,902	22,779	–	59,681
Deferred revenue	117,354	(7,380)	–	109,974
Operating loss carried forward	24,161	(24,161)	–	–
Financial investments	(19,324)	8,188	(843)	(11,979)
Defined benefit pension obligations	40,491	(481)	(1,550)	38,460
Accounts receivable	(18,571)	(11,115)	–	(29,686)
Other	30,083	(26,212)	–	3,871
Net deferred tax liability	**(459,965)**	**(47,004)**	**(2,393)**	**(509,362)**

	Balance at 31 December 2008	(Charged)/ credited to profit or loss	(Charged)/ credited to other comprehensive income	Balance at 31 December 2009
Property, plant and equipment	(459,591)	(211,470)	–	(671,061)
Accounts payable and accrued liabilities	40,429	(3,527)	–	36,902
Deferred revenue	146,547	(29,193)	–	117,354
Operating loss carried forward	–	24,161	–	24,161
Financial investments	(22,122)	4,179	(1,381)	(19,324)
Defined benefit pension obligations	44,819	(1,366)	(2,962)	40,491
Accounts receivable	(38,142)	19,571	–	(18,571)
Other	26,417	3,666	–	30,083
Net deferred tax liability	**(261,643)**	**(193,979)**	**(4,343)**	**(459,965)**

24. DEFERRED REVENUE

	2010	2009
Deferred revenue from installation and connection fees, including non-current portion of RR 215,599 (2009: RR 344,999)	486,249	558,761
Subscriber advances	76,272	72,360
Total	**562,521**	**631,121**
Less non-current portion	(215,599)	(344,999)
Total current portion	**346,922**	**286,122**

25. POST-RETIREMENT BENEFIT OBLIGATIONS

The Company operates defined benefit pension plan which is based on the employees' remuneration, age, length of service and the position in the Company. The plan is funded by the Company and the employees.

The Company uses an actuary to carry out an independent valuation of the pension obligations. The most recent valuation was performed as of 31 December 2010.

The amount of pension obligations was determined as follows:

	2010	2009
Present value of pension obligations	192,298	199,068

The movements in the defined benefit obligations were as follows:

	Note	2010	2009
Balance at beginning of year		**199,068**	**228,627**
Current service cost		8,803	14,727
Interest cost		17,916	20,576
Amounts paid to the fund to settle pension obligations	14	(19,841)	(30,007)
Actuarial gain		(7,749)	(14,810)
Other		(5,899)	(20,045)
Balance at end of year		**192,298**	**199,068**

The amounts recognized in profit or loss were as follows:

	2010	2009
Current service cost	8,803	14,727
Interest cost	17,916	20,576
Other	(5,899)	(20,045)
Defined benefit plan expenses	**20,820**	**15,258**

Defined benefit plan expense is included in the other operating expenses.

The principal assumptions used were as follows:

	2010	2009
Discount rate	8%	9%
Future salary increase	8.5%	8.5%
Future benefits increase	8.5%	8.5%
Staff turnover	3%	3%
Average life expectancy of the plan participants from date of retirement	16 years	16 years

26. ACCOUNTS PAYABLE AND ACCRUED LIABILITES

	2010	2009
Payable for non-current assets	457,452	438,187
Payable for interconnection and traffic transmission services	244,298	341,759
Payable to employees	207,253	120,428
Payable for construction services	120,242	16,639
Accrued liabilities	71,954	35,702
Dividends payable	8,441	142,011
Other payables	18,049	28,554
Total	**1,127,689**	**1,123,280**

27. RISK MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk
Credit risk is the risk that counterparty may fail to fulfil its obligations to the Group on a timely basis, which will cause the Group to incur losses. Availability of a diversified client base allows the Group to be independent from specific customers (the Group's receivables are distributed among a significant number of residential subscribers, commercial and state organizations).

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position and amounts to RR 1,172,659 (2009: RR 1,453,396).

Liquidity risk
Liquidity risk is the risk that the Group will not be able to settle all obligations as they become due. The Group has established a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations. The maturity analysis of the Group's financial liabilities (based on undiscounted contractual cash outflows) as at 31 December 2010 was as follows:

	Note	Less than one year	From one year to five years	Total
Bank loans	21	857,868	1,800,188	**2,658,056**
Corporate bonds	21	1,384	105,544	**106,928**
Other long-term liabilities		–	91,946	**91,946**
Finance lease liabilities		8,523	251	**8,774**
Accounts payable and accrued liabilities	26	1,127,689	–	**1,127,689**
Financial liabilities, total		**1,995,464**	**1,997,929**	**3,993,393**

The maturity analysis of the Group's financial liabilities (based on undiscounted contractual cash outflows) as at 31 December 2009 was as follows:

	Note	Less than one year	From one year to five years	Total
Bank loans	21	1,525,269	887,941	**2,413,210**
Corporate bonds	21	1,437,593	–	**1,437,593**
Other long-term liabilities		–	139,303	**139,303**
Finance lease liabilities		38,560	14,133	**52,693**
Accounts payable and accrued liabilities	26	1,123,280	–	**1,123,280**
Financial liabilities, total		**4,124,702**	**1,041,377**	**5,166,079**

The Group manages its liquidity on a corporate-wide basis to ensure the funding is sufficient to meet Group's operational needs in liquidity.

27. RISK MANAGEMENT (CONTINUED)

Currency risk
In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored on a regular basis. The Group's financial assets of RR 1,172,659 (2009: RR 1,453,396) are denominated in RR and therefore do not bear currency risk. The table below summarizes the exposure of the Group's financial liabilities to foreign currency exchange rate risk:

		2010			2009		
	Note	US Dollar	Euro	Total	US Dollar	Euro	Total
Bank loans	21	–	283,601	**283,601**	–	539,436	**539,436**
Accounts payable and accrued liabilities	26	309,467	–	**309,467**	233,976	117,569	**351,545**
Financial liabilities denominated in foreign currencies		**309,467**	**283,601**	**593,068**	**233,976**	**657,005**	**890,981**

The following table presents sensitivities of equity and net profit to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Group, with all other variables held constant:

	2010	2009
US Dollar strengthening by 10% (2009: 10%)	(30,947)	(23,398)
US Dollar weakening by 10% (2009: 10%)	30,947	23,398
Euro strengthening by 10% (2009: 10%)	(28,360)	(65,701)
Euro weakening by 10% (2009: 10%)	28,360	65,701

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group.

Interest rate risk
Interest rate risk is the risk that changes in market interest rates on financial instruments used by the Group may negatively impact the Group's financial results and cash flows.

The Group has an exposure to changes in interest rates primarily through its debt by changing their fair value (fixed rate debt) or their cash flows (variable rate debt). The Group does not have a formal procedure in place for management of interest risk and does not use any derivative financial instruments to manage the interest rate risk. The Group limits its interest rate risk exposure by maintaining an appropriate mix between fixed and floating rate borrowings. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favourable interest rate terms.

Management assessed the Group's sensitivity to increase or decrease in the floating interest rate. An increase (decrease) of 1% would result in the Group's net profit decrease (increase) of RR 4,171 (2009: RR 18,287). Such sensitivity assessment is used for the Group's management reporting with respect to the interest rate risk and reflects the management's assessment of reasonably possible fluctuations of interest rates. The analysis was applied to loans and borrowings (financial liabilities) on the basis of the assumption that the debt outstanding as at the end of reporting period remains outstanding during the year.

Capital risk management
The Group manages its capital to ensure that it is able to continue as a going concern while maximizing the return to the shareholders through the optimization of the debt and equity balance. In order to achieve this goal, the Group undertakes actions aimed at minimization of risks and costs associated with the future financing. The Group has different types of borrowings available for use in order to meet its needs in capital, such as bonds' issuance, long-term and short-term borrowings.

27. RISK MANAGEMENT (CONTINUED)

Capital risk management (continued)
Though the Group does not establish any formal policies with respect to debt and equity ratio, the Group reviews its capital structure on a regular basis to determine the necessary measures in order to maintain a balanced structure of its capital. In such reviews the management considers the cost of capital and risks related to each category of capital. The Group's targeted net debt to equity ratio should not exceed 50%.

The Group's debt to equity ratio was calculated as follows:

	Note	2010	2009
Borrowings	21	2,764,984	3,702,980
Less cash and cash equivalents	19	369,057	81,701
Net debt		**2,395,927**	**3,621,279**
Shareholders' equity		6,725,343	6,042,039
Net debt to equity ratio, %		**36**	**60**

There were no changes to the Group's approach to capital management during the year.

The Group has a stated dividend policy that stipulates the distribution of at least 30% of the Company's statutory non-consolidated net profit. However, the dividend for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group current financial position. Dividends are recommended by the Board of Directors and approved by the Company's shareholders.

28. COMMITMENTS AND CONTINGENCIES

Operating lease commitments
The Group's future minimum lease payments under non-cancellable operating leases as of 31 December 2010 and 2009 were as follows:

	2010	2009
Within one year	28,844	18,483
Between one and five years	5,828	7,343
After 5 years	41,789	47,122
Total	**76,461**	**72,948**

Litigation
The Company has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the financial position and financial performance of the Company.

Russian Federation tax and regulatory environment
Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

28. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Russian Federation tax and regulatory environment (continued)
Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation in the Russian Federation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all transaction with interdependent parties, provided that the transaction price differs from the market price by more than 20%. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory. The Group's exposure to the risk of transfer pricing adjustment and additional tax liabilities arising from such adjustments cannot be reliably estimated.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Also, Russian legislation sets rigorous documentation requirements and even minor errors normally lead to disallowance of related expenses. Management has assessed, based on their interpretation of the relevant tax legislation, that the Group may be exposed to possible tax risks amounting to RR 193,042 (2009: RR 143,548). No provision has been recorded for these tax risks.

29. SUBSEQUENT EVENTS

In March 2011, the Company acquired 100% interests in the capital of LLC Kamatel-Yantel and LLC Kamatel for the consideration of RR 4,096 and RR 63,693, respectively.

In March-April 2011, the Company renegotiated terms of existing loans with UniCredit Bank and Alfa Bank and decreased interest rates to 7.85% and 7.5%, respectively.

In April 2011, the Company declared dividends of 0.00944 roubles per share, totalling RR 196,767.

In April 2011, the Company repaid RR 283,750 of the loan to Bank of Moscow. The loan was repaid before its maturity.

In May 2011, the Company signed a three year non-revolving credit line agreement with Devon Credit bank for an amount of RR 600,000.