

**Public Joint Stock Company**  
**“Southern Telecommunications Company”**

Unaudited Consolidated Interim Financial Statements prepared under  
International Financial Reporting Standards

*For the six months ended June 30, 2008*

**Public Joint Stock Company “Southern Telecommunications Company”**

Unaudited Consolidated Interim Financial Statements

*For the six months ended June 30, 2008*

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**"Southern Telecommunications Company" PJSC**  
**Unaudited Consolidated Interim Balance Sheet**  
**As of June 30, 2008**  
(in million Russian rubles)

	Notes	30 June 2008	31 December 2007 adjusted (Note 2)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	31,254	31,235
Intangible assets and goodwill	6	2,181	2,037
Investments in associates	8	598	615
Long-term investments	9,	18	22
Long-term accounts receivable and other financial assets	10	68	142
Long-term advances given		303	47
Deferred tax asset		-	4
<b>Total non-current assets</b>		<b>34,422</b>	<b>34,102</b>
<b>Current assets</b>			
Inventories	11	674	681
Accounts receivable	12	1,176	986
Prepaid income tax		120	241
Prepaid current assets		113	86
Other current assets	13	574	808
Cash and cash equivalents	14	967	562
<b>Total current assets</b>		<b>3,624</b>	<b>3,364</b>
<b>TOTAL ASSETS</b>		<b>38,046</b>	<b>37,466</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		3,039	3,039
Retained earnings		7,100	6,728
<b>Total equity</b>		<b>10,139</b>	<b>9,767</b>
<b>Non-current liabilities</b>			
Long-term borrowings	16	12,514	13,032
Long-term finance lease obligations	17	251	472
Pension liabilities		1,543	1,458
Long-term provision for contingent liabilities		1	4
Deferred revenue		295	313
Deferred income tax liability		692	563
<b>Total non-current liabilities</b>		<b>15,296</b>	<b>15,842</b>
<b>Current liabilities</b>			
Accounts payable, accrued expenses and advances received	18	3,000	3,722
Income tax payable		-	31
Other taxes payable	19	579	348
Dividends payable		455	31
Short-term borrowings	16	1074	2,181
Current portion of long-term borrowings	16	6,798	4,654
Current portion of long-term finance lease obligations	17	579	758
Short-term provision for contingent liabilities		126	132
<b>Total current liabilities</b>		<b>12,611</b>	<b>11,857</b>
<b>Total Liabilities</b>		<b>27,907</b>	<b>27,699</b>

**TOTAL EQUITY AND LIABILITIES**

**38,046**

**37,466**

*General Director* \_\_\_\_\_ *Andreev A. V.*

*Chief Accountant* \_\_\_\_\_ *Rusinova T. V.*

*The accompanying notes form an integral part of these consolidated interim financial statements.*

# "Southern Telecommunications Company" PJSC

## Unaudited Consolidated Interim Profit and Loss Statement

**For the first six months of 2008**

(in million Russian rubles except per share amounts)

	Notes	6m2008	6m2007
<b>Revenues</b>	<b>20</b>	<b>10,446</b>	<b>9,820</b>
Wages, salaries, other employee benefits and payroll taxes		(3,264)	(2,849)
Depreciation and amortization		(1,776)	(1,679)
Materials, repairs and maintenance, utilities		(1,330)	(1,215)
Taxes other than income tax		(417)	(411)
Interconnection charges - national operators		(910)	(817)
Provision for impairment of receivables		(55)	32
Loss on disposal of property, plant and equipment		(57)	(7)
Other revenues	<b>11</b>	<b>129</b>	<b>-</b>
Other operating expenses		(1,168)	(1,017)
<b>Operating profit</b>		<b>1,598</b>	<b>1,857</b>
Share of result of associates		115	90
Interest expense, net	<b>22</b>	(1,053)	(935)
Gain on financial investments		8	47
Foreign exchange gain, net		184	84
<b>Profit before income tax</b>		<b>851</b>	<b>1,143</b>
<b>Income tax expense</b>		<b>(38)</b>	<b>(440)</b>
<b>Profit (loss) for the reporting period from continuing operations</b>		<b>813</b>	<b>703</b>
Profit for the reporting period from discontinued operation		-	17
<b>Profit for the reporting period</b>		<b>813</b>	<b>720</b>
<b>Attributable to:</b>			
Equity holders of the parent		813	721
Minority interests		-	(1)
		<b>813</b>	<b>720</b>
Earnings/(loss) per share (in Russian Rubles)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	<b>23</b>	<b>0.21</b>	0.18

General Director \_\_\_\_\_ Andreev A. V.

Chief Accountant \_\_\_\_\_ Rusinova T. V.

*The accompanying notes form an integral part of these consolidated financial statements.*

**"Southern Telecommunications Company" PJSC**  
**Notes to Unaudited Consolidated Interim Financial Statements**  
**for the first six months of 2008**  
(in million Russian rubles)

**1. General Information**

**Authorization of Accounts**

The unaudited Consolidated Interim financial statements are presented by PJSC "Southern Telecommunications Company" (hereafter - "Southern Telecommunications Company") and its subsidiaries (together - the "Company") for the first six months of 2008 ended 30 June 2008.

**The Company**

The Company is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The registered office of the Company is in the city of Krasnodar (the Russian Federation), 66 Karasunskaya street.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, data transmission services, rents out communication and radio communication lines in the territory of the Southern Federal District of the Russian Federation.

OJSC Svyazinvest is the Company's parent company which owned 50.69% of the Company's ordinary voting stock as at 30 June 2008. OJSC Svyazinvest is controlled by the Federal Government of the Russian Federation.

Information of the Company's main subsidiaries is disclosed in note 7. All subsidiaries are incorporated under the laws of the Russian Federation.

**2. Basis of preparation of financial statements**

**Statement of compliance**

These consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS.") The financial statements of PJSC "Southern Telecommunications Company" for 6 months of 2008 according to IFRS are presented as the balance sheet, profit and loss statement and notes to the financial statements. These financial statements do not contain all disclosures required by IFRS (IAS0) 34 "Interim reports" as well as by other IFRS Standards and corresponding interpretations approved by the IFRS Committee (IFRIC), in respect of the presentation of the comparable data on PP&E in notes as well as of non-disclosure of the interim Consolidated Statement of Changes in Equity and the interim Consolidated Statement of Cash Flows.

When examining the indicated data, one should take into consideration the Company's Annual Consolidated Financial Statements for the year ended 31 December 2007.

**Presentation of financial statements**

The consolidated financial statements are prepared based on the standalone financial statements of the parent company, OJSC Southern Telecommunications Company, its subsidiaries and associates using unified accounting policies.

Consolidated financial statements of the Company are presented in millions of Russian Roubles, except when otherwise indicated.

**"Southern Telecommunications Company" PJSC**  
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**for the first six months of 2008**  
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**Accounting principles**

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of financial position in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following items: property, plant, and equipment recognized at fair value; available-for-sale investments measured at fair value.

**Revision of the financial reports of the previous periods**

*Fair value of PP&E*

The Company transitioned to IFRS as of 1 January 2003 using the provisions of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost.

For the purposes of the unaudited consolidated interim financial statements for the first six months of 2008 the Company adjusted the carrying value of property, plant and equipment in accordance with the data presented by the independent appraiser (Note 5).

The Company adjusted by retrospective restatement the corresponding balance sheet items presented in 2007 financial statements, on the basis of the results of estimating PP&E.

	Before adjustment	Estimation result	Total adjustments	Taking adjustments into account
Property, plant and equipment	32,857	(1,621)	(1,621)	31,236
<b>Total assets</b>	<b>39,088</b>	<b>(1,621)</b>	<b>(1,621)</b>	<b>37,467</b>
Deferred income tax liability	(953)	389	389	(564)
<b>Total current liabilities</b>	<b>(31,128)</b>	389	<b>389</b>	<b>(30,739)</b>
<b>Retained earnings as of 31 December 2007</b>	<b>(7,960)</b>	1,232	<b>1,232</b>	<b>(6,728)</b>

Impact of adjustments on 2007 financial result will be presented in the Company's consolidated financial statements for 2008.

**"Southern Telecommunications Company" PJSC**  
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**Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year. Adoption of new and revised standards and interpretations did not have significant effect on the financial statements of the Company.

The changes in accounting policies resulted from adoption of the following new interpretations in 2008:

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions;*
- *IFRIC 12 Service Concessions Arrangements;*
- *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements*
- *and their Interaction;*

The principal effects of these changes in policies are discussed below:

*IFRIC 11, IFRS 2 – Group and Treasury Share Transactions*

*IFRIC 11* determines whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and relates to the accounting treatment of share-based payment arrangements that involve two or more entities within the same group. This interpretation did not have a material effect on the result of operations or financial position of the Company.

*IFRIC 12 Service Concessions Arrangements*

*IFRIC 12 Service Concessions Arrangements* sets out general recognition principles for the obligations and related rights in service concession arrangements. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

*IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

*IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

During the reporting period the Company has not applied ahead of time new or revised IFRSs and IFRIC Standards and Interpretations.



**"Southern Telecommunications Company" PJSC**  
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**Foreign Currency Transactions**

The measurement functional and presentation currency of the Company is the Russian Rouble, which is the national currency of the Russian Federation. Transactions in foreign currencies are initially recorded in the measurement functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the measurement functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Assets and liabilities settled in Roubles but denominated in foreign currencies are recorded in the Company's consolidated financial statements using the same principles as for assets and liabilities denominated in foreign currencies.

The exchange rates as of 30 June 2008 and 31 December 2007 were as follows:

<b>Currency</b>	<b>30 June 2008</b>	<b>31 December 2007</b>
Russian Roubles per US dollar	23.4573	24.5463
Russian Roubles per Euro	36.9077	35.9332

**3. Main Accounting Policies**

The consolidated interim financial statements are prepared on the basis of a uniform accounting policy of the Company for 2008, adjusted taking into consideration requirements of the above-stated new / revised standards / interpretations and the version of the accounting policy for the previous year.

**4. Significant Accounting judgments and estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the same as described in the Consolidated Financial Statements for the year ended 31 December 2007.

**"Southern Telecommunications Company" PJSC**  
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**5. Property, Plant and Equipment**

Property, plant, and equipment and the corresponding accumulated depreciation include:

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other PP&E	Construction in progress and equipment for installation	Total
<b>Initial cost</b>					
<b>As of 1 January 2008</b>	<b>18,362</b>	<b>13,816</b>	<b>4,461</b>	<b>1,876</b>	<b>38,515</b>
Additions	-	-	-	1,937	1,937
Disposals	(105)	(31)	(187)	(55)	(378)
Transfers	330	339	259	(928)	-
<b>As of 30 June 2008</b>	<b>18,587</b>	<b>14,124</b>	<b>4,533</b>	<b>2,830</b>	<b>40,074</b>
<b>Accumulated depreciation:</b>					
<b>As of 1 January 2008</b>	<b>(2,906)</b>	<b>(2,977)</b>	<b>(1,397)</b>	-	<b>(7,280)</b>
Charge for the period	(586)	(723)	(390)	-	(1,699)
Disposals	19	6	134	-	159
<b>As of 30 June 2008</b>	<b>(3,473)</b>	<b>(3,694)</b>	<b>(1,653)</b>	-	<b>(8,820)</b>
<b>Net book value</b>					
<b>As of 1 January 2008</b>	<b>15,456</b>	<b>10,839</b>	<b>3,064</b>	<b>1,876</b>	<b>31,235</b>
<b>Net book value</b>					
<b>As of 30 June 2008</b>	<b>15,114</b>	<b>10,430</b>	<b>2,880</b>	<b>2,830</b>	<b>31,254</b>

The net book value of property, plant and equipment held under finance leases as of 30 June 2008 and 31 December 2007 amounted to:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Switches and transmission devices	3,046	3,319
Construction in progress and equipment for installation	173	178
Vehicles and other	42	21
<b>Total net book value of property, plant and equipment held under finance leases</b>	<b>3,261</b>	<b>3,518</b>

In the first half of 2008, the Company increased the cost of construction in progress by the amount of capitalized interest totaling 17 (2007 – 89). As of June 30, 2008 the capitalization rate was 9.56% (vs. 10.07% in 2007).

As of June 30, 2007, the bank borrowings are secured by property, plant and equipment with a carrying value of approximately RUR 5,712 million (2007: RUR 6,071 million) (see Note 16).

**"Southern Telecommunications Company" PJSC**  
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**6. Intangible Assets**

	<b>Licenses</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
<b>Initial cost</b>				
<b>As of 31 December 2006</b>	<b>34</b>	<b>1,930</b>	<b>2</b>	<b>1,966</b>
Additions	-	660	-	660
<b>As of 31 December 2007</b>	<b>34</b>	<b>2,590</b>	<b>2</b>	<b>2,626</b>
Additions	-	221	-	221
<b>As of 30 June 2008</b>	<b>34</b>	<b>2,811</b>	<b>2</b>	<b>2,847</b>
<b>Accumulated amortization and impairment</b>				
<b>As of 31 December 2006</b>	<b>(6)</b>	<b>(103)</b>	<b>(1)</b>	<b>(110)</b>
Charge for the year	(1)	(136)	-	(137)
Impairment loss	-	(342)	-	(342)
<b>As of 31 December 2007</b>	<b>(7)</b>	<b>(581)</b>	<b>(1)</b>	<b>(589)</b>
Charge for the period	(1)	(76)	-	(77)
<b>As of 30 June 2008</b>	<b>(8)</b>	<b>(657)</b>	<b>(1)</b>	<b>(666)</b>
<b>Net book value</b>				
<b>As of 31 December 2006</b>	<b>28</b>	<b>1,827</b>	<b>1</b>	<b>1,856</b>
<b>Net book value</b>				
<b>As of 31 December 2007</b>	<b>27</b>	<b>2,009</b>	<b>1</b>	<b>2,037</b>
<b>Net book value</b>				
<b>As of 30 June 2008</b>	<b>26</b>	<b>2,154</b>	<b>1</b>	<b>2,181</b>

*Oracle E-Business Suite (OEBS)*

As of 30 June 2008 software includes OEBS software with a net book value of RUR 1,086 million (2007: RUR 965 million), including capitalized interest of RUR 20 million (2007: RUR 8 million).

In September 2006 the Company started to use this software in relation to the modules for accounting for non-current assets and payroll. The Company commenced amortizing the cost of mentioned software accordingly over its useful life of 10 years.

Full implementation of Oracle E-Business Suite software is expected to be completed by 2009.

*Amdocs Billing Suite*

As of June 30, 2008 software also includes Amdocs Billing Suite software with a net book value of 762 (2007: RUR 762 million). The interest was not capitalized as the Company did not work on implementation of Amdocs Billing Suite.

This software was purchased for the purpose of the implementation of unified automated billing system. The project of implementation of the unified automated billing system is expected to last 4-5 years.

The Company will commence amortizing this asset from the date of software implementation. Up to this moment the Company intends to perform the annual impairment test of the asset.

**"Southern Telecommunications Company" PJSC**  
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**for the first six months of 2008**

(in millions Russian rubles)

**7. Consolidated Subsidiaries**

Subsidiaries consolidated and the share of voting interest held by the Company, are as follows:

Subsidiary	Main activity	Ownership, %		Voting Shares, %	
		6m 2008	2007	6m2008	2007
OJSC "Stavtelecom named after V.I.Kuzminov" (OJSC "Stavtelecom")	Communications services	100	100	100	100
OJSC "Orbita" Recreational House"	Recreational services	100	100	100	100
LLC "Intmashservice"	Communication facilities repairs and support	100	100	100	100
CJSC "Armavirskiy Zavod Svyazi"	Cable production	-	100	-	100
CJSC "Yugsvyazstroy"	Construction services	100	100	100	100
LLC "Faktorial- 99"	Informational and commercial agency activity	100	100	100	100
LLC "YuTC-Finance"	Financial Service	100	100	100	100

All the above companies are Russian legal entities registered in accordance with the Russian legislation, and have the same financial year as the Company.

In June 2008 the Company sold its 100% interests in CJSC "Armavirskiy Zavod Svyazi" for RUR 68 million

**"Southern Telecommunications Company" PJSC**  
**Notes to Unaudited Consolidated Interim Financial Statements**  
**for the first six months of 2008**

(in millions Russian rubles)

**8. Investments in Associates**

Investments in associates comprised the following at June 30, 2008 and December 31, 2007:

Associate	Activity	6m2008		2007	
		Voting Shares	Carrying value	Voting Shares	Carrying value
CJSC "Volgograd GSM"	Cellular services (GSM)	50%	598	50%	615
<b>Total</b>			<b>598</b>		<b>615</b>

The Company has investments in the following associates whose net assets were negative as of 30 June 2008 and 31 December 2007

Associate	Activity	Voting share, %	Net assets	
			30 June 2008	31 December 2007
LLC Yug-Giprosvyaz	Project engineering	24	(8)	(9)
CJSC IR Telekinocompaniya	Commercial TV	24	(1)	(1)

The carrying value of investments accounted for using the equity method and shown in these consolidated financial statements equals to the Company's share in net assets of CJSC "Volgograd GSM".

The carrying amount of investments in LLC Yug-Giprosvyaz and CJSC IR Telekinocompaniya was reduced to nil as these associates have accumulated losses exceeding the cost of the respective investments.

Movement in investments accounted for using the equity method for the periods ended June 30, 2008 and December 31, 2007 is presented below:

	6M 2008	2007
<b>Investments accounted for using the equity method as of June 30</b>	<b>615</b>	<b>530</b>
Share of income net of income tax	115	189
Dividends received	(132)	(87)
Disposal of associates	-	(17)
<b>Investments accounted for using the equity method as of June 30</b>	<b>598</b>	<b>615</b>

**"Southern Telecommunications Company" PJSC**  
**Notes to Unaudited Consolidated Interim Financial Statements**  
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**9. Long-Term Investments**

As of 30 June 2008 and 31 December 2007 the Company's long-term investments comprised the following:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Long-term investments held-to-maturity	3	7
Long-term investments available-for-sale	15	15
<b>Total</b>	<b>18</b>	<b>22</b>

Investments available-for-sale comprised the following:

<b>Company</b>	<b>30 June 2008</b>		<b>31 December 2007</b>	
	<b>Ownership interest, %</b>	<b>Carrying value</b>	<b>Ownership interest, %</b>	<b>Carrying value</b>
OJSC Svyazintech	11.00	13	11.00	13
CJSC RusleasingSvyaz	3.65	1	3.65	1
OJSC BETO	<b>0.15</b>	1	<b>0.15</b>	1
<b>Total investments available-for-sale</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>15</b>

Management believes that the carrying amount of these investments approximates their fair values.

**10. Other long-term assets**

As of 30 June 2008 and 31 December 2007 other long-term assets comprised the following:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Long-term VAT receivable	52	120
Long-term loans given	2	3
Other	14	19
<b>Total</b>	<b>68</b>	<b>142</b>

**11. Inventories**

Inventories comprised the following as of June 30, 2008 and 31 December 2007:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Cable, materials and spare parts for telecommunications equipment	<b>313</b>	<b>273</b>
Construction materials, fuels and instruments	<b>58</b>	<b>59</b>
Finished goods and goods for resale	<b>17</b>	<b>24</b>
Instruments, special cloths, inventory	<b>51</b>	<b>65</b>
Other inventories	<b>235</b>	<b>260</b>
<b>Total</b>	<b>674</b>	<b>681</b>

**"Southern Telecommunications Company" PJSC**  
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**12. Accounts Receivable**

Accounts receivable comprised the following as of June 30, 2008 and 31 December 2007:

	<b>Total, As of 30 June 2008</b>	<b>Allowance for impairment of receivables</b>	<b>Total, As of 30 June 2008</b>
Residential customers	527	(92)	435
Corporate customers	316	(44)	272
Interconnected operators	253	(52)	201
Governmental customers	194	(7)	187
Tariff compensation from the state budget	18	(18)	0
Other receivables	96	(15)	81
<b>Total</b>	<b>1,404</b>	<b>(228)</b>	<b>1,176</b>

	<b>Total, As of 31 December 2007</b>	<b>Allowance for impairment of receivables</b>	<b>Total, As of 31 December 2007</b>
Residential customers	432	(70)	362
Corporate customers	149	(22)	127
Interconnected operators	363	(35)	328
Governmental customers	82	(4)	78
Tariff compensation from the state budget	41	(27)	14
Other receivables	101	(24)	77
<b>Total</b>	<b>1,168</b>	<b>(182)</b>	<b>986</b>

The Company invoices its governmental and corporate customers on a monthly basis. The Company sends monthly payment requests to its residential customers and substantially relies upon these customers' timely payments based on the payment requests. All customer payments are based upon tariffs, denominated in roubles, in effect at the time the calls are made. In certain cases the Company received penalty fees for delayed payments and enforced payments through court decisions.

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**13. Other Current Assets**

Other current assets comprised the following as of June 30, 2008 and 31 December 2007:

	<b>30 June 2008</b>	<b>31 December 2007</b>
VAT receivable	158	507
Deferred expenses	109	114
Other prepaid taxes	9	14
Settlements with personnel	10	7
Prepayments and advance payments	9	-
Other receivables and current assets	279	166
<b>Total</b>	<b>574</b>	<b>808</b>

**14. Cash and cash equivalents**

As at 30 June 2008 and 31 December 2007 cash and cash equivalents comprised the following:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Cash in hand and in bank	967	562
<b>Total</b>	<b>967</b>	<b>562</b>



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**15. Share capital**

The number of outstanding shares is as follows:

	Number of shares Authorized (thousand)	Par value	Carrying value
<b>As of 31 December 2006</b>	<b>3,933</b>	<b>1,298</b>	<b>3,039</b>
Ordinary	2,961	977	2,288
Preference	972	321	751
<b>As of 31 December 2007</b>	<b>3,933</b>	<b>1,298</b>	<b>3,039</b>
Ordinary	2,961	977	2,288
Preference	972	321	751
<b>As of 30 June 2008</b>	<b>3,933</b>	<b>1,298</b>	<b>3,039</b>

The ordinary and preference shares have a par value of RUR 0.33 per share. All authorized shares have been issued and fully paid.

The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated until 1 January 2003.

The ordinary shareholders are entitled to one vote per share.

Dividends were declared in 2008 in respect of 2007 to holders of ordinary shares and preference shares of Rouble 0.082069 per ordinary share (2007: Rouble 0.053031 per ordinary share) and Rouble 0.187915 per preference share (2007: Rouble 0.121838 per preference share). Refer to note 24.

In February 1998, the Company placed Level 1 American Depositary Receipts (ADRs). Each depository receipt is equal to 50 ordinary shares of the Company.

The following table represents ADR registration:

Date	ADP (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
<b>31 December 2006</b>	<b>3,657,617</b>	<b>182,880,850</b>	<b>6.18</b>	<b>4.65</b>
Disposals for 2007	(218,349)	(10,917,450)	(0.37)	(0.28)
<b>31 December 2007</b>	<b>3,439,268</b>	<b>171,963,400</b>	<b>5.81</b>	<b>4.37</b>
Disposals for 6 months of 2008	(136,416)	(6,820,800)	(0.23)	(0.17)
<b>30 June 2008</b>	<b>3,302,852</b>	<b>165,142,600</b>	<b>5.58</b>	<b>4.20</b>

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

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter (OTC) market (USA)	843899105	STJSY	S1843899105
Frankfurt Stock Exchange (FSE)	912640	KUE.FRA	US8438991056
Berlin Stock Exchange (BerSE)	912640	KUE	US8438991056
NEWEX (Vienna, Austria)	912640	KUE	US8438991056

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The Company's shareholding structure as of 30 June 2008 was as follows:

	Ordinary shares		Preference shares		Total
	Number (thousands)	%	Number (thousands)	%	
OJSC Svyazinvest	1,500,671	50.69	-	-	1,500,671
Other legal entities	1,219,955	41.21	773,876	79.60	1,993,831
Individuals	239,887	8.10	198,276	20.40	438,163
<b>Total</b>	<b>2,960,513</b>	<b>100.00</b>	<b>972,152</b>	<b>100.00</b>	<b>3,932,665</b>

**16. Loans and Borrowings**

As of June 30, 2008 and December 31, 2007 loans and borrowings comprised the following:

	Interest rate	Maturity	6 months 2007	2006
<b>Short-term borrowings</b>				
Bank loans (Rubles)	11.00%-11.25%	2008	15	1,612
Promissory notes (Rubles)	5.27%-11.0%	2008	793	200
Interest payable			266	369
<b>Total short-term loans and borrowings</b>			<b>1,074</b>	<b>2,181</b>
<b>Long-term borrowings</b>				
Bank loans (Rubles)	9%-9.5%	2008-2013	6,641	3,115
Bank loans (US dollars)	Libor+ (4.4 - 5.6%)	2009-2013	4,105	4,296
<b>Total bank loans</b>			<b>10,746</b>	<b>7,411</b>
<b>Bonds (Rubles)</b>	7.8% - 11.35%	2009-2012	7,947	8,688
<b>Promissory notes (Rubles)</b>	9.23% - 12.2 %	2008	571	1,539
<b>Other loans</b>			48	48
<b>Less: Current portion of long-term borrowings</b>			<b>(6,798)</b>	<b>(4,654)</b>
<b>Total long-term loans and borrowings</b>			<b>12,514</b>	<b>13,032</b>

As of 30 June 2008 bank borrowings are secured by property, plant and equipment with the carrying value of approximately RUR 5,712 million (2007: RUR 6,071 million) (see note 5).

The Company's loans and borrowings are denominated in the following currencies:

	30 June 2008	31 December 2007
Russian Rubles	15,681	14,973
Euro	517	475
US dollars	4,188	4,419
<b>Total</b>	<b>20,386</b>	<b>19,867</b>

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**Short-term borrowings**

**Promissory notes**

In 2007 the Company issued promissory notes to OJSC Vneshtorgbank. The promissory notes mature in 2008. Amount of promissory notes outstanding as of 30 June 2008 was equal to RUR 200 million.

In 2008 the Company concluded an Agreement on purchase and sale of ordinary notes with OJSC «Interregional Commercial Bank of Telecommunications and Informatics Development». The notes mature in 2008. Amount of promissory notes outstanding as of 30 June 2008 was equal to RUR 301 million.

In 2008 the Company issued promissory notes to LLC Region Broker Company. The notes mature in 2008. Amount of promissory notes outstanding as of 30 June 2008 was equal to RUR 301 million.

**Long-term borrowings**

**Bank credits**

*OJSC "Sberbank of Russia"*

Long-term debt payable to Sberbank of Russia is in respect of the ruble loan totaling 1,500,000 received in 2003. The loan is to be repaid in 2008. The interest rate is 9.5% per annum. As of 30 June 2008 the debt amounted to 600 million roubles and is reflected in the structure of long-term borrowings to be repaid within the year. The loan is secured by pledge of PP&E for the total amount of 1,819.

*CJSC Banque Societe Generale Vostok*

In 2008 the Company raised a number of long-term loans amounting to RUR 1,000 million. The loans bear annual interest at 8.5% – 9.0%. The loans mature in 2011. As of 30 June 2008, the amounts outstanding were equal to RUR 1,000 million and presented in long-term borrowings.

*Credit Suisse International*

UTK and Credit Suisse International signed USD 50,000,000 Term Credit Facility Agreement and USD 125,000,000 Guaranteed Term Credit Facility Agreement in August and September of 2006, respectively. As of 30 June 2008 the existing debt payable to Credit Suisse International amounted to 4,105,028 of which 586,433 were included in short-term part of long-term borrowings.

The loans bear interest at a rate which is an aggregate of Margin (5.60% and 4.4%) and LIBOR. The loans were obtained in order to refinance the Company's debt. The loan is secured by equipment valued at RUR 1,673 million under pledge agreement.

The Credit Term Facility Agreements between the Company and Credit Suisse International contain financial covenants to be satisfied by the Company as of the end of each quarter. These financial covenants should be determined on the basis of the accounting reports made according to the Russian Accounting Standards.

*Liabilities to Ministry of Finance of the Russian Federation*

As of June 30, 2008 total restructured debt due to the Ministry of Finance of the Russian Federation were reflected together with interest rate of 9.56% and amounted to 611, 128 of which were short-term debt. To ensure fulfillment of obligations under the amicable agreement, the Company concluded with the Ministry of Finance of the Russian Federation a pledge of property agreement for total amount of 1,260.

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*REACHCOM PUBLIC LIMITED*

In 2008 the Company placed in full its 5-year credit linked notes (CLNs) worth RUR 3.5 billion at 98.154% of nominal value. The yield rate to the 12-month put option equaled 11% per annum. The coupon rate was set at 9% per annum. The issue provides for a buyback option three years after the placement date and the Borrower's right to revise the interest rate. 50% of the CLN issue is to be repaid in 4.5 years. As of 30 June 2008, the amounts outstanding were equal to RUR 3,500 million and presented in long-term borrowings.

**Bonds**

*Bonds (Series 03)*

On 6 October 2004 the Company issued 3,500 thousand non-convertible interest-bearing bonds, Series 03, par value of 1,000 Roubles each. Bonds mature in five years from the date of issue and have 10 semiannual coupons. The interest rate under first three coupons is 12.3 % per annum, interest rate for fourth, fifth and sixth coupons set at 10.9% per annum, interest rates under next coupons will be set 10 days prior to payment of the coupon. The bond issue has two options of early redemption at par value in April 2006 and in October 2007. In April 2006 bondholders did not exercise their right of early redemption. In October 2007 bondholders exercised the rights of early redemption in the amount of RUR 2,860 million, and these bonds were placed at the secondary market at par for the same amount. As there is no right of early redemption of bonds in 2008, the outstanding liability was classified as long-term borrowings as at 30 June 2008.

*Bonds (Series 04)*

In December 2005 the Company issued 5,000 thousand non-convertible interest-bearing bonds Series 04, par value of 1,000 Roubles each. Bonds mature in four years from the date of issue and have 16 quarterly coupons. The interest rate under first four coupons is set at 10.5%, and 10% per annum for the rest of the coupons. In accordance with the terms of the offering, in December 2006 the Company redeemed RUR 500 million of these bonds. In June and December 2007 the Company redeemed second and third portions of the issue in amount of RUR 1,250 million. The rest of the obligation is to be settled in several installments during the period from 2008 to 2009. Respectively, the bonds in amount RUR 1,250 million are included in to current portion of long-term borrowings and the remaining part of these bonds obligations is included into long-term borrowings as of 30 June 2008.

*Bonds (Series 05)*

In May 2007 the Company issued 2,000 thousand non-convertible interest-bearing bonds, Series 05, par value 1,000 Roubles each. Bonds mature in five years from the date of issue and have semiannual coupons. The interest rate under first six coupons is set at 7.55% per annum. The interest rates under next seven to ten coupons will be set 10 days prior to payment of the coupon. The outstanding liability was classified as long-term borrowings as at 30 June 2008.

**Promissory notes**

In 2007 the Company concluded an Agreement on purchase and sale of ordinary notes with OJSC «Interregional Commercial Bank of Telecommunications and Informatics Development». The notes mature in 2008. Amount of promissory notes outstanding as of 30 June 2008 was equal to RUR 654 million including RUR 82 million of interest payable.

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**17. Finance Lease Liabilities**

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008		31 December 2007	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Current portion	710	586	970	758
From 1 to 5 years	282	251	553	472
<b>Total minimum lease payments</b>	<b>992</b>	<b>837</b>	<b>1,523</b>	<b>1,230</b>
Less amounts representing finance charges	(155)	-	(293)	-
<b>Present value of minimum lease payments</b>	<b>837</b>	<b>837</b>	<b>1,230</b>	<b>1,230</b>

In 2008 and 2007 the Company's primary lessor was OJSC RTC-Leasing. In 6m 2008 the effective interest rate on lease liabilities ranged from 20 % to 25 % per annum (20% - 25% - in 2007).

OJSC RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. OJSC RTC-Leasing is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

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**18. Accounts Payable, Accruals and Advances Received**

Accounts payable and other current liabilities comprised the following as of June 30, 2008 and 31 December 2007:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Accounts payable for capital investments	981	1 361
Accounts payable for software acquisitions	35	-
Accounts payable to interconnected operators	129	200
Accounts payable to suppliers and contractors for current activities	597	814
Salaries and wages	663	636
Advances received from subscribers	369	390
Payables to OJSC Rostelecom	145	154
Advances received on disposal of assets	71	63
Other accounts payable and current obligations	10	104
<b>Total</b>	<b>3,000</b>	<b>3,722</b>

**19. Other taxes payable**

Taxes payable comprised the following as of June 30, 2008 and 31 December 2007:

	<b>30 June 2008</b>	<b>31 December 2007</b>
Value added tax	222	16
Property tax	190	183
Unified social tax	106	93
Employees' income tax	51	46
Other taxes	10	10
<b>Total</b>	<b>579</b>	<b>348</b>

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**20. Revenues**

Revenues for the years 2008 and 2007 comprised the following:

<b>By revenue types</b>	<b>6months2008</b>	<b>6months 2007</b>
Local telephone services	4,711	4,510
Intra-zone connection	1,831	1,816
Interconnection and traffic transit services	1,130	1,398
Data transmission, telematic services (Internet), telegraph services	2,041	1,306
Fees on assistance services	253	280
Wireless communication with mobile objects, wired radio, TV and radio broadcasting	163	155
Other telecommunications services	49	67
Other revenues	268	288
<b>Total</b>	<b>10,446</b>	<b>9,820</b>

**21. Other Operating Expenses**

Other operating expenses comprised the following:

	<b>6months2008</b>	<b>6months 2007</b>
Advertising expenses	29	19
Lease of premises	115	103
Fire and other security services	146	122
Universal service fund payments	105	94
Non-commercial partnership expenses (note 35)	31	100
Business travel expenses and representation costs	35	23
Insurance of property	11	12
Charitable contributions	33	22
Audit and consulting fees	39	23
Cost of goods sold	50	39
Agency fee	113	103
Post services	7	5
Education expenses	8	9
Transportation charges	15	17
Other expenses	431	326
<b>Total</b>	<b>1,168</b>	<b>1,017</b>

Other expenses include expenses related to social expenditure, billing and cash collection services, civil defense, hospitality costs and other operating expenses.

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## 22. Interest Expense, net

Interest expense, net comprised the following:

	<b>6months2008</b>	<b>6months 2007</b>
Interest income	(15)	(2)
Interest expense	945	779
Interest expense accrued on finance leases	123	206
Other finance charges	0	(48)
<b>Total</b>	<b>1,053</b>	<b>935</b>

## 23. Earnings per Share

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

	<b>6months2008</b>	<b>6months 2007</b>
<b>Profit for the period attributable to equity holders of the Parent</b>	813	720
Less: attributable to preference shareholders	(201)	(178)
Attributable to ordinary shareholders	612	542
Weighted average number of ordinary shares outstanding (note 15)	2,960,513	2,960,513
<b>Basic and diluted earnings per share, attributable to ordinary equity holders of the Parent, Russian Roubles</b>	<b>0.21</b>	<b>0.18</b>

## 24. Dividends Declared for Distribution

*2007 Dividends proposed by the Board of Directors for approvals:*

Dividends on ordinary shares – 0.082069 Roubles per share	243
Dividends on preference shares – 0.187915 Roubles per share	183
<b>Total</b>	<b>426</b>

Dividends paid to shareholders are proposed by the Board of Directors and declared and officially approved at the annual General Shareholders' Meeting. Earnings available for dividends are limited to profits of OJSC Southern Telecommunications Company determined in accordance with the Russian Federal Law "On Accounting" and other statutory accounting regulations. Dividends are accrued in the period they are declared and approved.

## 25. Subsequent Events

On 9<sup>th</sup> September 2008 the Company made the first principal payment in the amount of RUR 622 million to repay Credit Suisse International syndicated credit. "UTK" PJSC and «Credit Suisse International» signed USD 50,000,000 Term Credit Facility Agreement on 31st August 2006. The loan facility is repayable in 37 months.