

Public Joint Stock Company
“Southern Telecommunications Company”

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED JUNE 30, 2010,
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS (IFRS)

Public Joint Stock Company “Southern Telecommunications Company”

Consolidated Interim Financial Statements for the six months ended June 30, 2010,
prepared in accordance with International Financial Reporting Standards (IFRS)

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PJSC Southern Telecommunications Company
Consolidated Interim Balance Sheet
As at June 30, 2010

(in millions of Russian Roubles unless stated otherwise)

	Notes	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	28,507	28,975
Intangible assets	8	2,388	2,409
Other non-current assets	9	476	220
Investments in associates	10	666	692
Non-current investments	11	999	15
Deferred tax assets		15	14
Total non-current assets		33,051	32,325
Current assets			
Inventories	12	754	585
Trade and other receivables	13	1,508	1,143
Prepaid income tax		150	171
Other current assets	14	221	204
Current investments	11	452	156
Cash and cash equivalents	15	223	598
Total current assets		3,308	2,857
TOTAL ASSETS		36,359	35,182
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	3,039	3,039
Retained earnings		8,756	7,635
Total equity		11,795	10,674
Non-current liabilities			
Non-current loans and borrowings	17	12,691	12,354
Employee benefits	18	1,748	1,670
Long-term other liabilities	19	216	234
Deferred tax liability		335	434
Total non-current liabilities		14,990	14,692
Current liabilities			
Current loans and borrowings	17	5,815	6,531
Accounts payable, accrued expenses and advances received	20	3,349	2,789
Income tax payable		5	-
Other current liabilities	21	405	496
Total current liabilities		9,574	9,816
Total Liabilities		24,564	24,508
TOTAL EQUITY AND LIABILITIES		36,359	35,182

General Director _____ A. P. Shipulin

Chief Accountant _____ T.V. Rusinova

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

PJSC Southern Telecommunications Company

Consolidated Interim Income Statement For the six months of 2010 ended June 30, 2010 (in millions of Russian Roubles unless stated otherwise)

	Notes	6m 2010	6m 2009
Revenue	24	11,547	10,898
Personnel costs	25	(3,207)	(2,976)
Depreciation and amortization	7, 8	(2,122)	(2,086)
Interconnection charges		(943)	(987)
Materials, repairs and maintenance, utilities	26	(1,267)	(1,176)
Other operating income	27	415	306
Other operating expenses	28	(1,684)	(1,697)
Operating profit		2,739	2,282
Share of profit in associates		77	78
Financial expense, net	29	(954)	(1,191)
Other financial income and expense	30	41	118
Foreign exchange loss, net		(55)	(499)
Profit before income tax		1,848	788
Income tax expense		(266)	(263)
Profit for the reporting period		1,582	525
Total profit for the reporting period		1,582	525
Profit for the reporting period attributable to shareholders of the Company:		1,582	525

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

PJSC Southern Telecommunications Company
Consolidated Interim Statement of Cash Flows for the six months ended
30 June 2010

(in millions of Russian Roubles unless stated otherwise)

	6M	6M 2009
Cash flows from operating activities	Note 2010	
Profit before income tax	<u>1,848</u>	<u>788</u>
Adjustments for:		
Depreciation and amortisation	7, 8 2,122	2,086
(Reversal)/accrual of impairment of property, plant and equipment	(4)	-
Loss on disposal of property, plant and equipment and other assets	2	17
Increase of allowance for impairment of receivables	43	73
Share of result of associates	(77)	(78)
Interest expenses	29 954	1,106
Other financial income	(40)	(91)
Foreign exchange losses, net	55	499
Recognition of assets transferred by customers in prior years	(82)	(29)
Operating cash flows before changes in working capital and provisions	<u>4,821</u>	<u>4,371</u>
Increase in inventories	(169)	(41)
Increase in trade and other receivables	(408)	(124)
(Increase)/Decrease in other current assets	(16)	59
Increase in provision for employee benefits	78	100
Increase in trade and other payables	36	363
Decrease in provisions		(7)
Decrease in other operating liabilities	(110)	(67)
Cash flows from operating activities before interest and income tax paid	<u>4,232</u>	<u>4,654</u>
Interest paid	(985)	(1,098)
Income tax paid	(345)	(322)
Cash flows from operating activities	<u>2,902</u>	<u>3,234</u>
Investing activities		
Acquisition of property, plant and equipment	(1,541)	(829)
Proceeds from disposals of property, plant and equipment	28	9
Acquisition of intangible assets	(131)	(286)
Acquisition of investments	(1,435)	-
Proceeds from disposals of investments	155	-
Financial income received	40	84
Dividends received	103	94
Cash flows utilized in investing activities	<u>(2,781)</u>	<u>(928)</u>

PJSC Southern Telecommunications Company
Consolidated Interim Statement of Cash Flows for the six months ended
30 June 2010 year (continued)

(in millions of Russian Roubles unless stated otherwise)

	Note	6M 2010	6M2009
Financing activities			
Proceeds from bank and corporate loans		2,400	2,985
Repayment of bank and corporate loans		(2,670)	(3,604)
Proceeds from bond issue		126	(1,250)
Repayment of bonds		(126)	-
Repayment of commercial credits		(89)	-
Repayment of finance lease obligations		(70)	37
Dividends paid to shareholders of the Company		(67)	(3)
Cash flows from financing activities		(496)	(1,835)
Net (decrease)/increase in cash and cash equivalents		(375)	471
Cash and cash equivalents at the beginning of the reporting period	15	598	1,541
Cash and cash equivalents at the end of the reporting period	15	223	2,012

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

PJSC Southern Telecommunications Company
Consolidated Interim Statement of Changes in Equity for the six months ended
30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

Equity attributable to shareholders of the Company					
Share capital					
Note	Preference shares	Ordinary shares	Retained earnings	Total equity attributable to shareholders of the Company	Total equity
Balance as at 31 December 2008	751	2,288	5,518	8,557	8,557
Comprehensive income for the year					
Profit for the year			525	525	525
Total comprehensive income			525	525	525
Dividends to shareholders of the Company			(139)	(139)	(139)
Balance as at 30 June 2009	751	2,288	5,904	8,943	8,943
Balance as at 31 December 2009	751	2,288	7,635	10,674	10,674
Comprehensive income for the year					
Profit for the year			1,582	1,582	1,582
Total comprehensive income			1,582	1,582	1,582
Dividends to shareholders of the Company	33		(461)	(461)	(461)
Balance as at 30 June 2010	751	2,288	8,756	11,795	11,795

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

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

1. General Information

Authorisation of the Financial Statements

The consolidated interim financial statements of Public Joint-Stock Company Southern Telecommunications Company (hereinafter “the Company”) and its subsidiaries (“the Group”) for the six months ended 30 June 2010 were authorised for issue by the General Director and the Chief Accountant on 10 September 2010.

The Company

The Parent Company - PJSC Southern Telecommunications Company was incorporated as an open joint stock company in the Russian Federation.

As at 30 June 2010 OJCS “Svyazinvest”, which is controlled by the Government of the Russian Federation, owned 50.69% of the Company’s ordinary voting shares and constitutes PJSC Southern Telecommunications Company’s parent company.

The Company’s official address: 66 Karasunskaya street, Krasnodar, 350000, Russian Federation.

The Group Southern Telecommunications Company activities

The Group Southern Telecommunications Company provides communication services (including local and intra-zone telephone services), telegraph services, data transmission services, rents out communication channels and provides radio communication services in the territory of the Southern and North-Caucasian Federal Districts of the Russian Federation.

Information of the Group’s significant subsidiaries is disclosed in Note 6. All the subsidiaries are incorporated under the laws of the Russian Federation, except otherwise stated.

Information about the Group’s significant associates is disclosed in Note 10. All of the associates are incorporated under the laws of the Russian Federation, except otherwise stated.

2. Basis of preparation of financial statements

Statement of compliance

These consolidated interim financial statements have been prepared and presented in accordance with IFRS (IAS) 34 “ Interim reports ” as well as by other IFRS Standards and corresponding interpretations approved by the IFRS Committee (IFRIC).

When examining the indicated data, one should take into consideration the Company’s Annual Consolidated Financial Statements for the year ended 31 December 2009.

Going concern

The consolidated interim financial statements have been presented on a going concern basis, which contemplates the recovering of assets and redemption of liabilities in the normal course of business.

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

Presentation of financial statements

The consolidated interim 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.

The consolidated interim financial statements are presented in millions of Russian Roubles, rounded to the nearest million, unless stated otherwise.

Basis of measurement

The interim consolidated financial statements have been presented under historical cost convention, except following: property, plant and equipment, which were revaluated to determine deemed cost as a part of adoption of IFRS; financial assets available for sale, which were stated at fair value.

Foreign currency transactions

The functional and presentation currency of the Group is the Russian Rouble (RUR). Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the functional currency exchange rate ruling at that date. All resulting differences are recognised in the income statement as foreign exchange gains (losses) except for differences arising on the translation of available-for-sale equity instruments. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange rates of the primary currencies as of June 30, 2010 and December 31, 2009 are as follows:

Exchange rates	As of June 30, 2010	As of December 31, 2009
RUR / USD	31.1954	30.2442
RUR / EUR	38.1863	43.3883

3. Main Accounting Policies

The consolidated interim financial statements are prepared on the basis of a uniform accounting policy of the Company for 2009.

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 2009.

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

5. Segment reporting

The Group identifies operating segments as components, which financial information is regularly analyzed by the Group's Chief Operating Decision Maker and is used for operating decisions making.

The Company's Chief Operating Decision Maker is Management Board.

The components of the Group, which financial information is regularly analyzed by the Company's Chief Operating Decision Maker and is used for operating decisions making are branches and subsidiaries. The Group Southern Telecommunications Company consists of 10 branches and 6 subsidiaries (Note 6), which are considered as operating segments.

The Group provides telecommunication services within the territory of Southern and North-Caucasian federal districts of Russian Federation. The whole range of services is provided using similar equipment and channels.

The reporting information analysis and operating decisions making are performed based on accounting data, prepared using Russian statutory accounting principles. The information in table "Operating segments information" is presented in accordance with the mentioned principles. Subsidiaries are aggregated due to their insignificance.

Head office concentrates the major part of financing and investing activities of the Group obtaining, servicing and repayment of borrowings, financial lease, acquisition of financial assets, development and further maintenance of corporate assets, centralized investment projects. Corresponding amounts of income, expenses, assets and liabilities are presented in the Head office line of table "Operating segments".

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

The reconciliation of Russian statutory accounting data to the figures, included in IFRS consolidated financial statements is presented below:

Reconciliation of statutory and IFRS data as at 30 June 2010 and for the six months ended 30 June 2010	Total reporting segment				
	PJSC Southern Telecommunications Company	Subsidiaries	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue					
Third party revenue	11,409	156	(18)	-	11,547
Revenue within the segment	16	44	-	(60)	-
Total revenue	11,425	200	(18)	(60)	11,547
Share of profit in equity accounted investees	93	-	-	(16)	77
Interest income	45	4	-	(9)	40
Interest expense	(780)	(9)	(57)	9	(837)
Income tax	(424)	8	152	(2)	(266)
Profit (loss) for the reporting period	1,542	(41)	98	(17)	1,582
Assets and liabilities					
Segment assets including investments in equity accounted investees	42,072	1,051	(6,343)	(421)	36,359
Segment liabilities	-	-	666	-	666
	(23,742)	(538)	(640)	356	(24,564)
Other segment information					
Capital investments in:					
Property, plant and equipment	1,373	67	95	-	1,535
Intangible assets	-	-	124	-	124
Depreciation and amortization	(2,070)	(17)	(44)	9	(2,122)
Loss from doubtful debt allowance	(3)	(5)	(35)	-	(43)
Pension plan cost	(63)	-	-	-	(63)

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

Reconciliation of statutory and IFRS data as at 30 June 2009 and for the six months ended 30 June 2009	Total reporting segment				Total for Group consolidated
	PJSC Southern Telecommunications Company	Subsidiaries	Transformation adjustments	Consolidation adjustments	
Revenue					
Third party revenue	10,742	152	4	-	10,898
Revenue within the segment	10	38	-	(48)	-
Total revenue	10,752	190	4	(48)	10,898
Share of profit in equity accounted investees	86	-	-	(8)	78
Interest income	92	5	-	(6)	91
Interest expense	(1,211)	(11)	167	6	(1,049)
Income tax	(179)	2	(85)	(1)	(263)
Profit (loss) for the reporting period	518	(21)	44	(16)	525
Assets and liabilities					
Segment assets including investments in equity accounted investees	43,392	1,038	(6,913)	(450)	37,067
Segment liabilities	-	-	601	-	601
	(27,471)	(498)	(446)	291	(28,124)
Other segment information					
Capital investments in:					
Property, plant and equipment	242	11	271	-	524
Intangible assets	-	-	238	-	238
Depreciation and amortization	(1,995)	(18)	(82)	9	(2,086)
Loss from doubtful debt allowance	(40)	(3)	(30)	-	(73)
Pension plan cost	(87)	-	(3)	-	(90)

Transformation adjustments

The entities of the Group maintain their accounting records in accordance with the accounting and reporting principles of the Russian Federation. Those principles are substantially differing from those generally accepted under IFRS. Financial statements of these entities have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS (transformation adjustments). Such adjustments include revaluation of property, plant and equipment as part of IFRS adoption, subsequent recognition/reversal of impairment losses, accrual of employee benefit obligations, recognition of respective deferred income tax and other, as well as a number of reclassification adjustments.

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

As at 30 June 2010 and for the six months ended 30 June 2010 the major items of significant operating segments were as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization
Krasnodar branch	3,486	818	13,680	(734)	323	(646)
Rostov branch	2,508	719	7,111	(390)	367	(427)
Stavropol branch	1,895	550	4,436	(341)	168	(237)
Volgograd branch	1,533	218	4,291	(307)	61	(285)
Astrakhan branch	532	107	2,211	(132)	105	(108)
North-Ossetia branch	530	171	995	(81)	36	(62)
Adygeia branch	441	128	1,388	(72)	42	(62)
Kabardino-Balkaria branch	184	(4)	936	(39)	32	(49)
Kalmykia branch	183	15	785	(32)	22	(40)
Karachay-Cherkessia branch	133	(22)	754	(35)	62	(48)
Head Office	-	(1,158)	5,485	(21,579)	155	(106)
Subsidiaries	200	(41)	1,051	(538)	67	(17)
Total	11,625	1,501	43,123	(24,280)	1,440	(2,087)

As at 30 June 2009 and for the six months ended 30 June 2009 the major items of significant operating segments were as follows:

Operating segments information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization
Krasnodar branch	3,323	742	14,384	(814)	93	(630)
Rostov branch	2,316	536	7,123	(428)	32	(418)
Stavropol branch	1,800	598	4,306	(307)	34	(204)
Volgograd branch	1,454	235	4,718	(315)	25	(284)
Astrakhan branch	517	38	2,217	(105)	10	(110)
North-Osetian branch	495	165	1,047	(87)	12	(65)
Kabardino-Balkaria branch	394	91	1,401	(80)	2	(63)
Karachay-Cherkessia branch	162	(12)	990	(39)	21	(51)
Adygeia branch	170	9	810	(38)	6	(40)
Kalmykia branch	121	(29)	779	(26)	3	(47)
Head Office	-	(1,855)	5,617	(25,232)	4	(83)
Subsidiaries	190	(21)	1,038	(498)	11	(18)
Total	10,942	497	44,430	(27,969)	253	(2,013)

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

6. Subsidiaries

The following subsidiaries are controlled by PJSC Southern Telecommunications Company:

Name	Activities	Ownership, %		Voting Shares, %	
		30 June 2010	31 December 2009	30 June 2010	31 December 2009
OJSC "Kuzminov Stavtelecom"	Communication services	100	100	100	100
OJSC "Orbita Recreational House"	Recreation services Repair of communication facilities	100	100	100	100
LLC "Intmashservice"	facilities	100	100	100	100
CJSC "Yugsvyazstroy"	Construction services	100	100	100	100
LLC "Factorial -99"	Information agency	100	100	100	100
LLC "UTK-Finance"	Financial services	100	100	100	100

All of the above entities are Russian legal entities established pursuant to the legislation of Russian Federation and have the same reporting date as the Company.

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

7. Property, plant and equipment

	Land, buildings and constructions	Switches and transmission devices	Other assets	Construction in progress and equipment for installation	Total
<i>Cost</i>					
At 31 December 2008	23,508	20,065	3,644	2,428	49,645
Additions	-	59	-	465	524
Transfers from construction in progress	210	285	159	(654)	-
Disposals	(56)	(18)	(26)	(8)	(108)
Reclassifications	307	(2,987)	2,363	317	-
At 30 June 2009	23,969	17,404	6,140	2,548	50,061
At 31 December 2009	24,237	21,303	3,819	1,658	51,017
Additions	-	-	-	1,535	1,535
Transfers from construction in progress	294	396	390	(1,080)	-
Disposals	(21)	(28)	(29)	(6)	(84)
Reclassifications	433	(3,182)	2,749	-	-
At 30 June 2010	24,943	18,489	6,929	2,107	52,468
<i>Accumulated depreciation and impairment losses</i>					
At 31 December 2008	(9,154)	(7,167)	(2,668)	-	(18,989)
Charge for the year	(655)	(794)	(507)	-	(1,956)
Disposals	24	18	15	-	57
Reclassification	(102)	747	(645)	-	-
At 30 June 2009	(9,887)	(7,196)	(3,805)	-	(20,888)
At 31 December 2009	(9,989)	(8,540)	(3,513)	-	(22,042)
Charge for the year	(654)	(903)	(420)	-	(1,977)
Disposals	19	11	24	-	54
Impairment loss recovered	1	3	-	-	4
Reclassification	(141)	780	(639)	-	-
At 30 June 2010	(10,764)	(8,649)	(4,548)	-	(23,961)
<i>Net book value</i>					
At 31 December 2008	14,354	12,898	976	2,428	30,656
At 30 June 2009	14,082	10,208	2,335	2,548	29,173
At 31 December 2009	14,248	12,763	306	1,658	28,975
At 30 June 2010	14,179	9,840	2,381	2,107	28,507

As at 30 June 2010 and 31 December 2009 net book value of leased property, plant and equipment comprised:

	30 June 2010	31 December 2009
Switches and transmission devices	236	825
Other property, plant and equipment	3	74
Total net book value of leased property plant and equipment	239	899

Assets acquired under finance lease contracts secure finance lease liabilities.

Depreciation charge for the first six months of 2010 in the amount of 1,977 (6M 2009 – 1,956) was recognized in line “Depreciation and amortization” of the consolidated income statement.

As at 30 June 2010, the historical cost of fully depreciated property, plant and equipment comprised 5,804 (2009 – 5,664).

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

During the first six months of 2010 the Group increased the cost of property, plant and equipment and construction in progress by the amount of capitalized interest of 25 (6M 2009 – 256). Capitalized interest rate for the six months of 2010 was 8.17% (6M 2009 – 11.13%).

As at 30 June 2010 property, plant and equipment in the amount of 4,059 (2009 – 5,991) were pledged to secure borrowing liabilities.

Reversing an impairment loss

As a result of the impairment testing performed as at 31 December 2008, the Group has recognised an impairment loss in relation to cable infrastructure and other specialised telecommunication assets in the amount of 1,642. The impairment loss was incurred in 2008 at the level of the following cash generating units: Karachaevo-Cherkessia – 611, Kalmykia – 538, Adygeia – 173 and Astrakhan – 320.

At 31 December 2009, the Group estimated the recoverable amount of those cash generating units and determined that an impairment loss no longer existed in relation to Adygeia and Astrakhan branches. The Group has recognised a reversal of an impairment loss in the amount of 442 (Adygeia – 153; Astrakhan – 289).

As a result of the impairment testing performed as at 30 June 2010, the Group has recovered an earlier recognised impairment loss in the amount of 4 (Adygeia – 1; Astrakhan – 3).

The recoverable amount was determined based on value in use calculations. The cash flow projections were based on actual operating results and business plan approved by management. The discount rate reflects time value of money and risks associated with individual cash generating unit.

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

8. Intangible assets

	Licenses	Software	Other	Total
<i>Cost</i>				
At 31 December 2008	34	3,379	2	3,415
Purchases of assets	12	226	-	238
Disposals	(27)	(721)	(2)	(750)
At 30 June 2009	19	2,884	-	2,903
At 31 December 2009	40	3,612	-	3,652
Purchases of assets	-	124	-	124
Reclassification	(1)	-	1	-
At 30 June 2010	39	3,736	1	3,776
<i>Accumulated amortisation and impairment losses</i>				
At 31 December 2008	(7)	(966)	(1)	(974)
Amortization charge for the year	(1)	(129)	-	(130)
Amortization on disposals	2	589	1	592
At 30 June 2009	(6)	(506)	-	(512)
At 31 December 2009	(7)	(1,236)	-	(1,243)
Amortization charge for the year	(1)	(144)	-	(145)
Reclassification	-	-	-	-
At 30 June 2010	(8)	(1,380)	-	(1,388)
<i>Net book value</i>				
As at 31 December 2008	27	2,413	1	2,441
As at 30 June 2009	13	2,378	-	2,391
As at 31 December 2009	33	2,376	-	2,409
As at 30 June 2010	31	2,356	1	2,388

Oracle E-Business Suite

As at 30 June 2010 software included Oracle E-Business Suite with the carrying amount of 952 (2009 – 1,041).

No interest expense was capitalised during 2009-2010.

The Group started to use Oracle E-Business Suite from the date of its implementation (September 2006). Amortization of the software is performed over its useful life of 10 years.

Changes in carrying amount of Oracle E-Business Suite for 2009 and for the first six months of 2010 are presented below:

	2010	2009
At 01 January	1,041	1,193
Implementation costs	-	23
Amortisation charge	(89)	(88)
At 30 June	952	1,128

PJSC Southern Telecommunications Company
Notes to Consolidated Interim Financial Statements
for the six months ended 30 June 2010 year

(in millions of Russian Roubles unless stated otherwise)

Amdocs Billing Suite

As at 30 June 2010 software included Amdocs Billing Suite with the carrying amount of 527 (2009 – 527).

During 2011-2012 years, the Company intends to implement a CRM Amdocs using its existing Amdocs licenses. The volume of licenses required in the CRM Amdocs as well as utilisation of the other components of Amdocs software will be recognised based on the results of implementation of CRM Amdocs project.

Amortization of the software will start after completion of its implementation proportionally to the value of implemented modules. Management plans to test the asset for impairment on regular basis until it will be completely implemented.

Peter-Service ITC

As at 30 June 2010 software included Peter-Service ITC with carrying amount of 10 (2009 – 12).

Changes in carrying amount of Peter-Service ITC for 2009 and for the first six months of 2010 are presented below:

	2010	2009
At 01 January	12	17
Amortisation charge	(2)	(2)
At 30 June	10	15

Hewlett-Packard Open View Internet Usage Manager (HP Open View)

As at 30 June 2010 software included HP Open View with the carrying amount of 386 (2009 – 386).

The implementation of HP IUM is planned to be completed in the fourth quarter of 2010.

Licences

As at 30 June 2010 the Group owned licenses for the following activities:

- local and intra-zone telecommunication services;
- data transmission services with the exception of data transmission services for voice information transmission;
- telematic services;
- telegraph services;
- radio communication;
- local telecommunication services using payphones and collective access facilities.

Useful life of licenses is defined based on terms of individual license agreements. The useful life was defined as 3 - 9 years. At the same time the nominal useful life period of the Group Southern Telecommunications Company core licenses may differ from defined useful life due to the decision of licensing authority to revoke a license or due to the abatement of a license by a court decision.

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Amortisation of intangible assets

Amortisation charge for intangible assets for the six months of 2010 in the amount of 145 (6M 2009 – 130) was recognized in “Depreciation and amortization” of the consolidated income statement.

Impairment testing of intangible assets not yet available for use

As at 30 June 2010 the Group performed impairment test of intangible assets not yet available for use. As a result no impairment of intangible assets was revealed.

9. Other non-current assets

	30 June 2010	31 December 2009
Long-term advances given for CIP additions	440	186
Long-term VAT receivable	19	18
Other	17	16
Total	476	220

10. Investments in associates

		At 30 June 2010		
Associates	Activity	Ownership Interest, %	Voting shares, %	Carrying value
CJSC “Volgograd-GSM”	• Mobile services	50	50	666
Total				666

		At 31 December 2009		
Associates	Activity	Ownership Interest, %	Voting shares, %	Carrying value
CJSC “Volgograd-GSM”	• Mobile services	50	50	692
Total				692

Movement in investments in equity accounted investees for 2009 and for the first six months of 2010 years is presented below:

	2010	2009
Investments in associates as at 1 January	692	617
Share of profit in equity accounted investees	77	78
Dividends received	(103)	(94)
Investments in associates as at 30 June	666	601

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11. Investments

	30 June 2010	31 December 2009
Non-current investments available-for-sale	999	15
Total non-current investments	999	15
Current investments available-for-sale	2	1
Current promissory notes	450	155
Total current investments	452	156
Total investments	1,451	171

In the first half of 2010 the Group invests its temporary available financial resources in promissory notes, issued by OJSC “Bank of Moscow” and OJSC “Maxwell Bank” with maturity less than 12 months from the reporting date. Promissory notes yields have profitability from 7.5% to 15% and are nominated in roubles. The Group uses promissory notes as financial instruments mainly for deriving financial income. As at 30 June 2010 promissory notes for redemption comprised 450 (31 December 2009 - 155) and are included in current promissory notes.

In June 2010 the Company acquired investment units of Closed Unit Investment Fund “Gazprombank – Telecommunications” controlled by Closed Joint –Stock Company “Gazprombank – Asset Management” for the amount of 986. The Company supposes to use these investment units within the frame of the Long-term Incentive Program for its employees.

As at 30 June 2010 and 31 December 2009 non-current investments available for sale included:

Name	30 June 2010		31 December 2009	
	Share in equity, %	Fair value	Share in equity, %	Fair value
Non-current investments				
CJSC “Gazprombank- Assets Management”	-	986	-	-
OJSC “SvyazIntek”	11.00	13	11.00	13
CJSC “Leasing-Point”	-	-	3.65	2
Total		999		15

12. Inventories

	30 June 2010	31 December 2009
Cable	281	204
Spare parts	119	84
Construction materials	19	20
Tools and accessories	60	53
Other inventory	275	224
Total	754	585

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13. Trade and other receivables

	Total, 30 June 2010	Doubtful debt allowance	Net, 30 June 2010
Settlements with customers for operating activities	1,358	(271)	1,087
Settlements with customers for non-operating activities	81	(20)	61
Settlements with commissioners and agents	110	-	110
Settlements with other debtors	304	(54)	250
Total	1,853	(345)	1,508

	Total, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Settlements with customers for operating activities	1,122	(243)	879
Settlements with customers for non-operating activities	80	(21)	59
Settlements with commissioners and agents	68	-	68
Settlements with other debtors	191	(54)	137
Total	1,461	(318)	1,143

As at 30 June 2010 and 31 December 2009 settlements with customers for operating activities included settlements with the following counterparties:

	Total, 30 June 2010	Doubtful debt allowance	Net, 30 June 2010
Residential customers	518	(111)	407
Corporate customers	389	(82)	307
Governmental customers	270	(14)	256
Interconnected operators	180	(63)	117
Social security bodies – recovering of expenses for privileges for individual categories of customers	1	(1)	-
Total settlements with customers for core activities	1,358	(271)	1,087

	Total, 31 December 2009	Doubtful debt allowance	Net, 31 December 2009
Residential customers	462	(98)	364
Corporate customers	334	(77)	257
Governmental customers	137	(5)	132
Interconnected operators	186	(60)	126
Social security bodies – recovering of expenses for privileges for individual categories of customers	3	(3)	-
Total settlements with customers for core activities	1,122	(243)	879

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Changes in balance of doubtful debts allowance are presented in the table below:

	2010	2009
Balance as at 1 January	318	306
Accrual	43	73
Write-off	(16)	(18)
Balance as at 30 June	345	361

14. Other current assets

	Total, 30 June 2010	Provision	Net, 30 June 2010
Prepayments and advances	96	(1)	95
VAT recoverable	17	-	17
Prepayments for other taxes	24	-	24
Deferred expenses	65	-	65
Other current assets	21	(1)	20
Total	223	(2)	221

	Total, 31 December 2009	Provision	Net, 31 December 2009
Prepayments and advances	81	(1)	80
VAT recoverable	40	-	40
Prepayments for other taxes	17	-	17
Deferred expenses	49	-	49
Other current assets	19	(1)	18
Total	206	(2)	204

15. Cash and cash equivalents

	30 June 2010	31 December 2009
Cash-in-bank and cash-in-hand	214	598
Short-term deposits up to 3 months	9	-
Total	223	598

As at 30 June 2010 and 31 December 2009 cash in banks, controlled by the State comprised 133 and 474 appropriately.

Interest rate on short-term deposits up to 3 months is 7.5%.

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16. Share capital

As at 30 June 2010 the par and carrying value of issued ordinary and preference shares were as follows:

	Number of shares authorised (millions)	Par value	Carrying value
Ordinary	2,961	977	2,288
Preference	972	321	751
Total	3,933	1,298	3,039

Nominal value of ordinary and preference share is 0.33 RUR/share. All authorised shares have been issued and fully paid.

The difference between the par value and the carrying value of shares represents the effect of inflation in the periods prior to 1 January 2003.

The Company's shareholders structure as at 30 June 2010 was as follows:

Shareholders	Share of capital, %	Ordinary shares		Preference shares	
		Number (thousands)	%	Number (thousands)	%
Total legal entities, total	89.5	2,738,574	92.5	782,636	80.5
OJSC Svyazinvest	38.2	1,500,671	50.7	-	-
- those with more than 5% of shares, including:	45.5	1,123,109	37.9	667,248	68.6
- CJSC Deposit-Clearing company	30.7	715,446	24.1	492,943	50.7
- Non-commercial Partnership National Depository Center	14.8	407,663	13.8	174,305	17.9
- other	5.8	114,794	3.9	115,388	11.9
Individuals	10.5	221,939	7.5	189,516	19.5
Total	100	2,960,513	100	972,152	100

The ordinary shareholders are entitled to one vote per share.

"A" type preference shares give the holders the right to participate in general shareholders' meetings without voting rights except for instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter, which would restrict the rights of preference shareholders.

The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share in the amount calculated from 10% of the Russian accounting net income for the year. If the Company fails to pay the above-mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preference shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. If annual dividend paid by the Company on each ordinary share in any year exceed the amount of dividend on each preference share of class A, then preference dividend is to be increased to the level of ordinary share dividend. Thus, the owners of preference shares participate in earnings along with ordinary shareholders.

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

Distributable earnings of the Company are limited to its respective retained earnings of entities constituting Southern Telecommunications group, as determined in accordance with Russian accounting standards. Retained earnings of the Company as at 30 June 2010 and 31 December 2009 amounted to 11,730 and 10,641, respectively.

In February 1998, the Company placed Level I American Depositary Receipts (ADRs). Each depository receipt equals 50 ordinary shares of the Company.

The following table represents ADR registration for the first six months of 2010 and 2009:

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares %	Share capital %
31 December 2008	3,305,620	165,281,000	5.58	4.20
Disposals	(1,463,476)	(73,173,800)	(2.47)	(1.86)
30 June 2009	1,842,144	92,107,200	3.11	2.34
31 December 2009	336,025	16,801,250	0.56	0.42
Disposals	-	-	-	-
30 June 2010	336,025	16,801,250	0.56	0.42

The Company's ADRs are listed on the following stock exchanges and over-the-counter markets:

Exchange	CUSIP (WKN)	ADR ticker	ISIN
Over-the-counter market (OTC) 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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17. Loans and borrowings

	30 June 2010	31 December 2009
Non-current loans and borrowings		
Bank and corporate loans	13,068	13,280
Bonds	4,991	4,987
Vendor financing	251	346
Finance lease liabilities	11	81
Loans from individuals	22	22
Other long-term borrowings	24	24
Less: Current portion of long-term borrowings	(5,676)	(6,386)
Total non-current loans and borrowings	12,691	12,354
Current loans and borrowings		
Interest payable	139	145
Current portion of long-term of borrowings	5,676	6,386
Total current loans and borrowings	5,815	6,531
Total loans and borrowings	18,506	18,885

Bank and corporate loans

The table below summarizes the information about the most significant long-term bank and corporate loans outstanding as at 30 June 2010 and 31 December 2009:

Lender	Interest rate under agreement	30 June 2010		31 December 2009		Loan currency	Date of maturity	Security
		Non-current portion	Current portion	Non-current portion	Current portion			
OJSC "VTB"	8.74%	2 400	-	-	-	RUR	2013	Unsecured
OJSC Mejregionalny Kommerchesky Bank Razvitiya Svyazi` I Informatiki	8.5%	-	3 000	-	3 000	RUR	2010	Unsecured
OJSC Bank Moskvyy	8.85%	1 341	-	2 840	-	RUR	2012	Unsecured
Bank Societe Generale Vostok (BSGV)	2.75%+ MOSPRIME	-	998	998	-	RUR	2011	Unsecured
Reachcom Public Limited	9%	-	158	158	-	RUR	2013	Unsecured
OJSC Nordea Bank	8.9%	842	158	2 200		RUR	2012	Pledge of assets
Ministry of Finance of RF	2%	146	146	152	152	EUR	2011	Pledge of assets
Credit Suisse International	4.4% + Libor	2 904	975	2 835	945	USD	2011	Pledge of assets
Total		7 633	5 435	9 183	4 097			

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OJSC "VTB"

Long-term borrowing from OJSC VTB represents a Rouble non-renewable credit line for 2,500 received in May 2010. The loan matures in 2013. The loan accrues annual interest of 8.74%. As at 30 June 2010, the outstanding amount of the loan was 2,400.

OJSC Mejregionalny Kommerchesky Bank Razvitiya Svyazi I Informatiki

Long-term borrowing from OJSC Megregionalny Kommerchesky Bank Razvitiya Svyazi I Informatiki represents a Rouble denominated loan of 3 000 received in 2009. The loan matures in 2010. The loan can be prolonged to June 2012. The loan accrues annual interest of 8.5%. As at 30 June 2010, the principal amount outstanding of 3,000 was classified as current portion of long-term loans and borrowings.

OJSC Bank Moskvyy

Long-term borrowing from *OJSC Bank Moskvyy* represents non-renewable credit line for 3,000 received in 2009. The loan matures in 2012. The loan accrues annual interest of 8.85%. As of 30 June 2010, the outstanding amount of the loan was 1,341.

Bank Societe Generale Vostok (BSGV)

Long-term borrowing from CJSC Bank Societe Generale Vostok represents non-renewable credit line for 1,000 received in 2008. The loan matures in 2011. The loan bears interest at a rate, which is an aggregate of Margin (2.75%) and MOSPRIME. As of 30 June 2010, the outstanding amount of 998 was classified as current portion of long-term loans and borrowings.

Reachcom Public Limited

In February 2008, the Company entered into a loan agreement with Reachcom Public limited for 3,500 that was arranged through an issue by the Company of the credit linked notes (CLNs) worth 3,500. The coupon rate was set at 9% per annum and paid twice a year.

The CLNs maturity period is 5 years. In June 2009 (the first date of premature settlement) 3,342 were paid out by the Company. The remaining amount of the loan is due to be paid in June 2013. As of 30 June 2010, the outstanding amount of the loan was 158.

OJSC Nordea Bank

Long-term borrowing from OJSC Nordea Bank represents non-renewable credit line for 3,000, received in 2009. The loan accrues annual interest of 8.9%. The loan is secured with plant and equipment with a carrying value of 2,101. The loan matures in 2012. As of 30 June 2010, the outstanding amount of the loan was 1,000.

Credit Suisse International

In 2006 the Company entered into Guaranteed financing agreement in amount of 125 million US dollars with Credit Suisse International. Credit period for the second loan is 7 years, including grace period of 4 years. The loan bears interest at a rate, which is an aggregate of Margin (4.40%) and LIBOR. The loan was obtained in order to refinance the Company's debt. The loan is secured by bank guarantee under the agreement concluded between the Company and OJSC Vneshtorgbank. In accordance with this agreement Company pays commission in the amount of 0.3% of the guaranteed amount on a quarterly basis. Bank guarantee is secured by the equipment with carrying value of 1,492. Amount outstanding under the loan as of 30 June 2010 was 3,879.

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Bonds

The table below summarizes the information about the bonds outstanding as at 30 June 2010 and 31 December 2009:

Narrative of the issue	Effective rate	30 June 2010		31 December 2009		Date of maturity	Date of offer	Interest on coupon
		Non-current portion	Current portion	Non-current portion	Current portion			
<i>Bond issue 05</i>	7.77%	2,000	-	-	1,996	2012	2010	7.55%
<i>Bond issue BO-01</i>	11.74%	1,994	-	1,994	-	2012	2011	11.0%
<i>Bond issue BO-04</i>	11.89%	997	-	997	-	2012	-	11.4%
Total		4,991	-	2,991	1,996			

Bond issue 05

In May 2007 the Company issued 2,000 thousands 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 semi-annual coupons. The interest rate under first six coupons is 7.55%. The interest rate for seventh-to tenth coupons will be set 10 days prior to payment of the coupon. The bond issue has an option of early redemption at par value. In June 2010 bondholders exercised the rights of early redemption in the amount of 126, and these bonds were placed at the secondary market at par for the same amount. The outstanding liability was classified as long-term borrowings as at 30 June 2010.

Bond issue BO-01

In October 2009 the Company issued 2,000 thousand exchange bonds Series BO-01, par value 1,000 Roubles each. Bonds mature in three years from the date of issue and provide coupon charge every quarter. The interest rate under first eight coupons is 11%. The interest rate for nine-to twelve coupons will be set 10 days prior to payment of the coupon. The bond issue has the option of early redemption at par value in October 2011. As of 30 June 2010, the outstanding liability is classified as long-term loans and borrowings.

Bond issue BO-04

In October 2009 the Company issued 1,000 thousand exchange bonds Series BO-04, par value 1,000 Roubles each. Bonds mature in three years from the date of issue and provide coupon charge every quarter. The interest rate under first eight coupons is 11.4%. The Bond issue provides for call option to be announced on the expiry date of the eighth coupon period. As of 30 June 2010, the outstanding liability is classified as long-term loans and borrowings.

Vendor financing

The table below summarizes the information about the vendor financing outstanding as at 30 June 2010 and 31 December 2009:

Vendor	Effective rate	30 June 2010		31 December 2009		Loan currency	Date of maturity	Security
		Non-current portion	Current portion	Non-current portion	Current portion			
LLC Cisco capital CIS	8.5-11.4%	34	217	147	199	RUR	2011	Pledge of assets

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In 2009 the Company entered into 5 agreements with LLC Cisco capital CIS on equipment delivery. As of 30 June 2010, the outstanding amount of these vendor financing agreements was 251, including short-term part of 217. The loan matures in 2011.

Finance Lease Obligations

	30 June 2010		31 December 2009	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion (less than 1 year)	12	11	89	81
More than 1 to 5 years	-	-	-	-
Total minimum lease payments	12	11	89	81
Less financial expenses	(1)	-	(8)	-
Discounted value of minimum lease payments	11	11	81	81

OJSC “RTK Leasing” was the key lessor to Southern Telecommunications group in 2010. Effective interest rate under the liabilities to this lessor varied in the first six months of 2010 from 20% to 25% (2009 - from 20% to 25%).

The finance lease assets under finance lease agreements with OJSC “RTK Leasing” mainly comprise switches, pay-stations and other telecommunication equipment.

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18. Employee Benefits

According to the collective agreement the Company contributes to pension plans and also provides additional benefits for its active and retired employees.

Defined benefit plans

The non-state pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 35).

As at 30 June 2010 the Company employed 11,822 participants of defined benefit plan and supported 8,020 pensioners eligible for post-employment benefits (31 December 2009 – 12,031 and 8,168 respectively).

Net expenses for the defined benefit plan recognized for the first six months of 2010 were 63 (6M 2009 – 80).

The Company contributed 45 to the non-state pension fund in H1 2010 in respect of defined benefit plans (6M 2009 – 80).

Net expense for the defined benefit plan, excluding interest cost, is included in the consolidated income statement in the line “Personnel costs”. Interest cost is recognized in “Finance costs” line item of the consolidated income statement.

19. Long-term other liabilities

	30 June 2010	31 December 2009
Deferred income	211	233
Long-term payables and other liabilities	5	1
Total	216	234

20. Trade and other payables

	30 June 2010	31 December 2009
Taxes payable	905	915
Payables to personnel	652	639
Payables for purchases and construction of property, plant and equipment	491	353
Dividends payable	429	34
Payables for operating activities	280	233
Payables to interconnected operators	132	165
Payables to agents	114	143
Payables to OJSC “Rostelecom”	38	32
Other accounts payable	308	275
Total	3,349	2,789

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As at 30 June 2010 and 31 December 2009 taxes payable comprised the following:

	30 June 2010	31 December 2009
Value-added tax	554	597
Property tax	186	183
Unified social tax	100	75
Personal income tax	50	50
Other taxes	15	10
Total	905	915

21. Other current liabilities

	30 June 2010	31 December 2009
Advances received from operating activities	395	479
Advances received from non-operating activities	10	17
Total	405	496

22. Contingencies and operating risks

Operating environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

The Group's management believes that the corresponding provisions of the current law are interpreted by it correctly, and the position of the Company in respect to observance of tax, currency and tariff legislation is most likely to remain intact.

Insurance

The Group is actively implementing its risk management program, including in the field of insurance coverage. During the first six months of 2010 the Group maintained insurance coverage on its equipment, vehicles, objects of real estate and other property, personnel, directors and officers liability (D&O), as well as on its production facilities with dangerous conditions. The Group is a natural monopoly and according to Federal law "On protection of competition" № 135-FZ dated July 26, 2006, is obliged to select financial organizations for rendering insurance services based on the results of public competition or public auction.

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Legal proceedings

During the first six months of 2010, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been provided for or disclosed in these consolidated financial statements.

Staff optimization program

During the first six months of 2010, the Group has made discharged 621 of its employees. As of 30 June 2010, 123 more employees have received notices of their coming dismissal.

23. Financial instruments and risk management

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise finance for the Group's operations. Short-term deposits are also used to place available funds. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations.

Capital management policy

The Group's capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings.

Among the main methods of capital management are profit maximization, investment program management, debt portfolio management and restructuring, use of different classes of borrowings.

The Group monitors and manages its debt using financial independence ratio and net debt/equity, net debt/EBITDA ratios.

The financial independence ratio is calculated as ratio of equity to the total assets as at the end of the period. Net debt / equity is calculated as ratio of net debt to equity as at the end of the period. Net debt / EBITDA is calculated as ratio of net debt as at the end of the period to EBITDA for the corresponding period. The ratios used in capital management are determined using accounting information determined under Russian accounting standards.

The Group policy is to maintain financial independence ratio within a range of 0.33-0.36; net debt/equity - within a range of 1.4-1.25; net debt/ EBITDA - within a range of 3.01-2.64.

The ratios determined based on statutory financial statements for the first six months of 2010 and 2009 were as follows:

	30 June 2010	31 December 2009
Financial independence ratio	0.32	0.42
Net debt / equity	1.55	1.07
Net debt / EBITDA	3.77	2.16

During the reporting period, international rating agency Standard & Poor's confirmed long-term credit rating of the Company as "B" with Stable outlook (2009: «B Stable»).

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Income and expenses on financial instruments

6m 2010	Consolidated Income Statement					Total
	Other operating expenses	Finance costs	Other financial income and expense		Forex loss, net	
	Doubtful debt allowance	Interest expenses	Interest income	Reversal of Impairment		
Cash and cash equivalents	-	-	40	-	-	40
Trade and other receivables	(43)	-	-	-	-	(43)
Available-for-sale financial assets	-	-	-	-	-	-
Total financial assets	(43)	-	40	-	-	(3)
Bank and corporate loans	-	(583)	-	-	(57)	(640)
Bonds	-	(235)	-	-	-	(235)
Trade and other payables	-	(11)	-	-	-	(11)
Finance lease liabilities	-	(8)	-	-	-	(8)
Interest payable	-	-	-	-	2	2
Total financial liabilities	-	(837)	-	-	(55)	(892)

Income and expenses on financial instruments

6m 2009	Consolidated Income Statement					Total
	Other operating expenses	Finance costs	Other financial income and expense		Forex loss, net	
	Doubtful debt allowance	Interest expenses	Interest income	Reversal of Impairment		
Cash and cash equivalents	-	-	91	-	-	91
Trade and other receivables	(73)	-	-	-	-	(73)
Available-for-sale financial assets	-	-	-	27	-	27
Total financial assets	(73)	-	91	27	-	45
Bank and corporate loans	-	(578)	-	-	(483)	(1,061)
Bonds	-	(434)	-	-	-	(434)
Trade and other payables	-	-	-	-	-	-
Finance lease liabilities	-	(37)	-	-	-	(37)
Interest payable	-	-	-	-	(16)	(16)
Total financial liabilities	-	(1,049)	-	-	(499)	(1,548)

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Currency risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Southern Telecommunications Group cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Southern Telecommunications Group income statement, balance sheet and/or statement of cash flows. The Southern Telecommunications Group is exposed to foreign exchange risk in relation to its liabilities denominated in foreign currencies.

Financial assets and liabilities of the Company presented by currency were as follows:

30 June 2010	RUR	USD	EUR	Total
Cash and cash equivalents	223	-	-	223
Trade and other receivables	1,517	-	-	1,517
Available-for-sale financial assets	1,001	-	-	1,001
Promissory notes	450	-	-	450
Total financial assets	3,191	-	-	3,191
Bank and corporate loans	(8,896)	(3,879)	(293)	(13,068)
Bonds	(4,991)	-	-	(4,991)
Vendor financing	(251)	-	-	(251)
Finance lease liabilities	(11)	-	-	(11)
Interest payable	(84)	(52)	(3)	(139)
Other borrowings	(46)	-	-	(46)
Trade and other payables	(1,299)	(3)	(1)	(1,303)
Total financial liabilities	(15,578)	(3,934)	(297)	(19,809)
31 December 2009	RUR	USD	EUR	Total
Cash and cash equivalents	598	-	-	598
Trade and other receivables	1,158	-	-	1,158
Available-for-sale financial assets	16	-	-	16
Promissory notes	155	-	-	155
Total financial assets	1,927	-	-	1,927
Bank and corporate loans	(9,196)	(3,781)	(303)	(13,280)
Bonds	(4,987)	-	-	(4,987)
Vendor financing	(346)	-	-	(346)
Finance lease liabilities	(81)	-	-	(81)
Interest payable	(87)	(58)	-	(145)
Other borrowings	(46)	-	-	(46)
Trade and other payables	(1,129)	(13)	-	(1,142)
Total financial liabilities	(15,872)	(3,852)	(303)	(20,027)

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For the period from 1 January 2010 to 30 June 2010 the Rouble exchange rate changed to the US Dollar and Euro by decreasing approximately 3.15% and 11.99%, respectively.

The sensitivity analysis of profit before income tax to currency risk is shown in the table below:

		USD			EUR		
		Changes in exchange rate, %	Effect on loss before income tax		Changes in exchange rate, %	Effect on loss before income tax	
			Million Roubles	%		Million Roubles	%
30 June 2010	+10	(393)	-21.27	+5	(15)	-0.81	
	-10	393	+21.27	-5	15	+0.81	
31 December 2009	+10	(385)	-15.00	+5	(15)	-0.58	
	10	385	+15.00	-5	15	0.58	

Interest Rate Risk

The interest rate risk is a risk that changes in interest rates on financial instruments used by Southern Telecommunications Group will influence the financial performance and cash flows of Southern Telecommunications Group.

The following table presents the Company's financial instruments that are exposed to interest rate risk:

30 June 2010	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	223	-	-	223
Trade and other receivables	-	-	1,517	1,517
Available-for-sale financial assets	-	-	1,001	1,001
Promissory notes	450	-	-	450
Total financial assets	673	-	2,518	3,191
Bank and corporate loans	(8,191)	(4,877)	-	(13,068)
Bonds	(4,991)	-	-	(4,991)
Vendor financing	(251)	-	-	(251)
Finance lease liabilities	(11)	-	-	(11)
Interest payable	(87)	(52)	-	(139)
Other borrowings	(46)	-	-	(46)
Trade and other payables	-	-	(1,303)	(1,303)
Total financial liabilities	(13,577)	(4,929)	(1,303)	(19,809)

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31 December 2009	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	598	-	-	598
Trade and other receivables	-	-	1,158	1,158
Available-for-sale financial assets	-	-	16	16
Promissory notes	155	-	-	155
Total financial assets	753	-	1,174	1,927
Bank and corporate loans	(8,501)	(4,779)	-	(13,280)
Bonds	(4,987)	-	-	(4,987)
Vendor financing	(346)	-	-	(346)
Finance lease liabilities	(81)	-	-	(81)
Interest payable	(106)	(39)	-	(145)
Other borrowings	(46)	-	-	(46)
Trade and other payables	-	-	(1,142)	(1,142)
Total financial liabilities	(14,067)	(4,818)	(1,142)	(20,027)

The sensitivity analysis of profit before income tax to interest rate risk is shown in the table below:

	Changes in exchange rate, basis points	Effect on loss/profit before income tax	
		Million Roubles	%
30 June 2010	+100	(49)	-2.65
	-100	49	2.65
31 December 2009	+100	(48)	-11.38
	-100	48	11.38

Liquidity risk

Southern Telecommunications Group monitors its risk of a shortfall of funds by way of current liquidity planning. The Southern Telecommunications Group objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases.

As of 30 June 2010 financial assets and liabilities had the following maturities:

	2010	2011	2012	2013 +	Total
Cash and cash equivalents	223	-	-	-	223
Trade and other receivables	1,501	16	-	-	1,517
Available-for-sale financial assets	2	13	-	986	1,001
Promissory notes	410	40	-	-	450
Total financial assets	2,136	69	-	986	3,191
Bank and corporate loans	(4,126)	(3,294)	(2,706)	(2,975)	(13,101)
Bonds	-	(1,000)	(4,000)	-	(5,000)
Vendor financing	(114)	(149)	-	-	(263)
Finance lease liabilities	(11)	-	-	-	(11)
Interest payable	(738)	(1,303)	(829)	(89)	(2,959)
Other borrowings	(13)	(26)	(3)	(4)	(46)
Trade and other payables	(1,303)	-	-	-	(1,303)
Total financial liabilities	(6,305)	(5,772)	(7,538)	(3,068)	(22,683)

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The cash flows in the above table include interest expenses accrued as at 30 June 2010 end as well as interest expenses to be accrued in future on existing debt portfolio.

Credit Risk

Credit risk is the risk that counter-party will fail to settle its obligation and cause the Company to incur a financial loss.

Financial assets, which potentially expose the Company to credit risk, consist primarily of trade and other receivables, cash in bank, bank deposits and other debt-type financial assets. The carrying amount of trade receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk (Note 13).

The Company has no significant concentrations of credit risk due to the significance of the customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Certain trade receivables are due from state and other non-commercial organizations.

The analysis of trade receivables aged but not impaired is provided below:

30 June 2010

	Post due (days)				
	TOTAL	< 31	31-60	61-90	91-180
Corporate customers	58	36	6	4	12
Residential customers	79	55	9	4	11
Governmental customers	60	45	11	2	2
Interconnected operators	15	11	2	1	1
Total	212	147	28	11	26

31 December 2009

	Post due (days)				
	TOTAL	< 31	31-60	61-90	91-180
Corporate customers	55	32	6	6	11
Residential customers	61	40	8	5	8
Governmental customers	28	21	3	1	3
Interconnected operators	36	15	4	1	16
Total	180	108	21	13	38

Fair value of financial instruments

Financial instruments employed by Southern Telecommunications Group fall into one of the following categories:

- Held to maturity investments (HTM);
- Available for sale financial assets (AFS);
- Financial assets through profit and loss (FTPL);
- Loans and receivables (LR);
- Liabilities accounted at amortized cost (LAC).

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The table below summarizes the information on fair values of the Company's financial assets and liabilities:

		30 June 2010		31 December 2009	
Category		Carrying value	Fair value	Carrying value	Fair value
Cash and cash	LR	223	223	598	598
Trade and other receivables	LR	1,517	1,517	1,158	1,158
Available-for-sale financial assets	AFS	1,001	1,001	16	16
Promissory notes	HTM	450	450	155	155
Total financial assets		3,191	3,191	1,927	1,927
Bank and corporate loans	LAC	13,068	13,068	13,280	13,280
Bonds	LAC	4,991	5,172	4,987	4,975
Vendor financing	LAC	251	251	346	346
Finance lease liabilities	LAC	11	11	81	81
Interest payable	LAC	139	139	145	145
Other borrowings	LAC	46	46	46	46
Trade and other payables	LAC	1,303	1,303	1,142	1,142
Total financial liabilities		19,809	19,990	20,027	20,015

Fair value of issued bonds as of the reporting date is based on the quoted prices of bonds. For other financial instruments management has assessed that the carrying amounts approximate fair value.

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24. Revenue

By revenue types	6 months 2010	6 months 2009
Local telephone services	4,984	4,754
Data transmission, telematic services (Internet), telegraph services	3,291	2,724
Intra-zone telephone services	1,588	1,725
Interconnection and traffic transit services	913	989
Fees on assistance services and agency fees	219	230
Wireless communication with mobile objects, wired radio, TV and radio broadcasting	180	181
Other telecommunications services	45	54
Other revenues	327	241
Total	11,547	10,898

Southern Telecommunications Group generated revenue by the following major customer groups:

Customer groups	6 months 2010	6 months 2009
Residential customers	5,993	5,575
Corporate customers	3,020	2,851
Governmental customers	1,403	1,230
Interconnected operators	1,131	1,242
Total	11,547	10,898

25. Personnel costs

	6 months 2010	6 months 2009
Salary expenses	2,402	2,218
Social taxes	637	582
Pension plan costs	63	90
Other personnel costs	105	86
Total	3,207	2,976

26. Materials, repairs and maintenance, utilities

	6 months 2010	6 months 2009
Materials	492	498
Repairs and maintenance	425	395
Utilities	350	283
Total	1,267	1,176

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27. Other operating income

	<u>6 months 2010</u>	<u>6 months 2009</u>
Reimbursement of losses incurred from universal services fund	242	209
Recognition of assets transferred by customers in prior years	82	20
Write-off of payables	13	-
Reversal of impairment on property, plant and equipment impairment	4	-
Other income	74	77
Total	415	306

During the first six months of 2010, according to the terms of agreements concluded with the Federal Telecommunications Agency for provision of universal telecommunication services the Company received from the universal services fund reimbursement of losses incurred due to rendering of universal telecommunications services in the following amounts:

- for current year services – 121 (6M 2009 – 92),
- for previous year services – 101 (6M 2009 – 84).

Losses from rendering of universal telecommunications services during the first six months of 2010 amounted to 316 (6M 2009 - 211).

28. Other operating expenses

	<u>6 months 2010</u>	<u>6 months 2009</u>
Third party services and management charges	283	250
Taxes, other than income tax	402	415
Fire and other security services	153	146
Rent of property	147	127
Agency fee	140	127
Universal service fund payments	120	111
Audit and consulting fees	52	92
Allowance for impairment of receivables	43	73
Advertising expenses	33	28
Transportation charges and post services	32	30
Credit organizations services	27	30
Member fees, charity contribution, payments to labour unions	19	15
Insurance of assets and liability	9	7
Loss on disposal of property, plant and equipment and other assets	2	17
Reorganization of the Company	2	-
Penalties and fines	1	3
Other expenses	219	226
Total	1,684	1,697

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29. Interest expense

	<u>6 months 2010</u>	<u>6 months 2009</u>
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	829	1,012
Interest expense on finance lease liabilities	8	37
Interest expense of defined benefit plans	77	85
Cost of financial liabilities' service	40	57
Total	954	1,191

The amounts of the interest capitalized for six months of 2010 and 2009 were as follows:

	<u>6 months 2010</u>	<u>6 months 2009</u>
Capitalized to property, plant and equipment	25	256
Total	25	256

30. Other Income and Expenses relating to financial and investment activities

	<u>6 months 2010</u>	<u>6 months 2009</u>
Interest income	40	91
Other	1	27
Total	41	118

31. 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.

	<u>6 months 2010</u>	<u>6 months 2009</u>
Profit for the period attributable to equity holders of the Parent	1,582	525
Less: attributable to preference shareholders	(391)	(130)
Attributable to ordinary shareholders	1,191	395
Weighted average number of ordinary shares outstanding, ths pieces	2,960,513	2,960,513
Basic and diluted earnings per share, attributable to ordinary equity holders of the Parent, Russian Roubles	0.402	0.133

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32. Dividends

In June 2010 the Annual General Shareholders Meeting of the Company took a decision to approve dividends in the amount of 0.09351 Roubles per ordinary share and 0.18985 Roubles per preference share for year ended 31 December 2009. 2009 dividends are to be paid out in 2010.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
for 2009			
Preference shares	972,151,838	0.18985	184,563,023
Ordinary shares	2,960,512,964	0.09351	276,837,568
Total	3,932,664,802		461,400,591

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual general shareholders' meeting. Profit available for dividends is limited to profit of the Company, determined in accordance with the Russian accounting standards.

33. Operating leases

As of 30 June 2010 and 31 December 2009 minimum lease payments under non-cancellable operating leases where the Company is a lessee were allocated by years as follows:

	30 June 2010	31 December 2009
Current portion (less than 1 year)	139	219
More than 1 to 5 years	94	94
Over 5 years	77	74
Total	310	387

Southern Telecommunications Group operating lease expenses presented in "Other operating expense" line item of consolidated income statement amounted in the first six months of 2010 to 147 (6M 2009 - 127).

34. Capital commitments

As of 30 June 2010 and 31 December 2009 the Company's contractual obligations with regard to capital investments in acquisition of property, plant and equipment amounted to 111; in repair, maintenance and upgrading of assets - to 1,660 and 452 respectively.

35. Balances and transactions with related parties

During the first six months of 2010 the structure of related parties of the Group has not changed greatly compared to the structure of related parties as at 31 December 2009.

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OJSC “Svyazinvest”

OJSC “Svyazinvest” is an Open Joint Stock Company, incorporated under the laws of the Russian Federation. As at 30 June 2010 Russian Government owned 75% less one ordinary share of OJSC “Svyazinvest”.

Svyazinvest Group comprises 7 interregional telecommunications companies (MRK), OJSC “Rostelecom”, OJSC “Tsentralny Telegraph”, OJSC “Dagsvyazinform” and other telecom subsidiaries.

Subsidiaries

The Company performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from the Company’s consolidated financial statements according to IFRS requirements.

The Company enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are at the same level with tariffs for other counteragents and are fixed by a regulatory body. Subsidiaries do not influence the Company’s transactions with other counteragents.

OJSC “Rostelecom”

OJSC “Rostelecom”, controlled by Svyazinvest, is the primary provider of domestic and international long-distance telecommunication services in the Russian Federation.

The revenue from OJSC “Rostelecom” relates to traffic transmission services provided by the Company to OJSC “Rostelecom” under the interconnection agreement and to the fees received under the assistance agreement, which is a combination of agent agreement and service agreement.

The expenses associated with OJSC “Rostelecom” relate to payments for call termination to networks of other telecommunication operators, if the call is initiated from a mobile network, as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Company.

Operations with state-controlled entities

The Group performs a wide range of operations with state-controlled entities comprising a significant part of the Group’s client base. State-controlled entities do not affect the Group’s operations with other parties.

Revenue and receivables from government organizations, which form the majority of entities controlled by the state, are disclosed respectively in Notes “Revenue” and “Trade and other receivables”.

Expenses on utilities which are provided mainly by state-controlled companies are disclosed in Note “Materials, repair and maintenance, utilities”.

The Company enters into transactions with profit-making organizations controlled by the state on market terms.

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OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries, which own collectively 100% of its share capital. OJSC Svyazintek provides to the Company services related to implementation and post-implementation support of information systems, in particular, Oracle E-Business Suite and Amdocs Billing Suite software.

In the first six months of 2010 the Company incurred expenses on services provided by OJSC Svyazintek in the amount of 16 that were reflected in Income statement. In the first six months of 2009 such expenses in the amount of 34 were capitalised in cost of intangible assets.

Non-state pension fund “Telecom-Soyuz”

The Company signed centralised pension agreement with a non-state pension fund Telecom-Soyuz (Note 18). In addition to the state pension, the Southern Telecommunications Group provides the employees with a non-state pension and other post-employment benefits through defined benefit.

The fund retains 3% of every pension contribution of Southern Telecommunications Group to cover its administrative costs.

Remuneration of key management personnel

The key management personnel comprise members of the Management Board and the Board of Directors of the Company, totalling 19 persons as at 30 June 2010 (31 December 2009 – 19).

Remuneration to members of the Board of Directors and the Management Board of the Company for the first six months of 2010 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 23 (6M 2009 - 30). The remuneration amounts are stated exclusive of the unified social tax.

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36. Subsequent Events

Provision of universal telecommunications services

After 30 June 2010, the Group received from the universal services fund reimbursement of losses incurred due to rendering of universal telecommunications services during the first six months of 2010 in the amount of 121.

Change in structure of other non-current investments available for sale

In July 2010 the Company completed a transaction on acquisition of investment units of Closed Unit Investment Fund "Gazprombank – Telecommunications" through transfer of the remaining portion of the fee in the amount of 84. Thus, the total sum of the invested funds transferred to Closed Joint –Stock Company "Gazprombank – Asset Management" under the concluded agreement amounted to 1,070.

Share capital structure

The Company's shareholders structure as of 1 September 2010 is presented in the table below:

Shareholders	Share of capital, %	Ordinary shares		Preference shares	
		Number (thousands)	%	Number (thousands)	%
Legal entities, total	89.6	2,740,778	92.6	783,012	80.5
OJSC Svyazinvest	38.2	1,500,671	50.7	-	-
- those with more than 5% of shares, including:	45.6	1,125,313	38.0	667,625	68.6
- CJSC Deposit-Clearing company	21.0	547,879	18.5	276,554	28.4
- Non-commercial Partnership National Depository Center	24.6	577,434	19.5	391,071	40.2
- other	5.8	114,794	3.9	115,387	11.9
Individuals, total	10.4	219,735	7.4	189,140	19.5
Total	100	2,960,513	100	972,152	100

Staff optimization

Since 01 July 2010 and till the date of signing of these consolidated financial statements, the Company discharged 110 employees and notified 106 employees of forthcoming reductions.

Staff optimization costs amounted to 2 since 01 July 2010 to the date of signing of the consolidated financial statements.

Reorganization

On 05 August 2010 UTK's Board of Directors approved the Report on the Results of the Shareholders Presenting Claims as to Redemption of Their Shares.

Total number the shares bought back by the Company made 86,768,885 pieces for a total amount of 386. PJSC Southern Telecommunications Company paid for all shares presented to buyback.

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Dividends

On 16 August 2010 the Board of Directors of PJSC Southern Telecommunications Company recommended to the General Shareholders' Meeting of UTK to adopt a decision to pay out dividends on the basis of the results for the first nine months of the fiscal year 2010 as follows:

- 0.0000000110475989% of UTK's 9M 2010 net profit per one class A preferred share;
- 0.0000000051007884% of UTK's 9M 2010 net profit per one common share,