Open Joint Stock Company

Southern Telecommunications Company

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009, PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

OJSC Southern Telecommunications Company

Consolidated Financial Statements
for the year ended 31 December 2009,
prepared in accordance with International Financial Reporting Standards (IFRS)

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Southern Telecommunications Company

We have audited the accompanying consolidated financial statements of OJSC Southern Telecommunications Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

28 May 2010

OJSC Southern Telecommunications Company
Consolidated Balance Sheet as at 31 December 2009
(in millions of Russian Roubles)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	28 975	30 656
Intangible assets	8	2 409	2 441
Other non-current assets	9	220	111
Investments in associates	10	692	617
Non-current investments	11	15	14
Deferred tax assets	31	14	17
Total non-current assets		**32 325**	**33 856**
Current assets			
Inventories	12	585	676
Trade and other receivables	13	1 143	1 098
Income tax asset		171	411
Other current assets	14	204	579
Current investments	11	156	-
Cash and cash equivalents	15	598	1 541
Total current assets		**2 857**	**4 305**
Total assets		**35 182**	**38 161**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	17	3 039	3 039
Retained earnings		7 635	5 518
Total equity		**10 674**	**8 557**
Non-current liabilities			
Non-current loans and borrowings	18	12 354	9 582
Employee benefits	19	1 670	1 587
Long-term other liabilities	20	234	272
Deferred tax liability	31	434	110
Total non-current liabilities		**14 692**	**11 551**
Current liabilities			
Current loans and borrowings	18	6 531	13 740
Trade and other payables	21	2 789	3 793
Other current liabilities	22	496	512
Provisions		-	8
Total current liabilities		**9 816**	**18 053**
Total liabilities		**24 508**	**29 604**
Total equity and liabilities		**35 182**	**38 161**

General Director
A.P.Shipulin

Chief Accountant
T.V. Rusinova

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

OJSC Southern Telecommunications Company
Consolidated Income Statement for the year ended 31 December 2009

(in millions of Russian Roubles, except per share amounts)

	Note	2009	2008
Revenue	25	**22 220**	**21 300**
Personnel costs	26	(5 837)	(5 990)
Depreciation and amortisation	7, 8	(4 087)	(3 620)
Materials, repairs and maintenance, utilities	27	(2 567)	(2 689)
Interconnection charges		(1 975)	(1 834)
Other operating income	28	1 331	649
Other operating expenses	29	(3 445)	(5 501)
Operating profit		**5 640**	**2 315**
Share of profit in associates		169	135
Interest expense	30	(2 612)	(2 202)
Forex loss, net		(346)	(1 207)
Other financial income and expense		216	98
Profit/(loss) before income tax		**3 067**	**(861)**
Income tax expense	31	(811)	190
Profit/(loss) for the year		**2 256**	**(671)**
Attributable to Shareholders of the Company		**2 256**	**(671)**
Basic and diluted earnings/(loss) per share (in Russian Roubles)	32	**0,574**	**(0,171)**

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

OJSC Southern Telecommunications Company
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

(in millions of Russian Roubles)

	Note	2009	2008
Profit/(loss) for the year		**2 256**	(671)
Total comprehensive income/(loss) for the year		**2 256**	(671)
Comprehensive income for the year attributable to:			
Shareholders of the Company		2 256	(671)
Comprehensive income for the year		**2 256**	(671)

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

OJSC Southern Telecommunications Company
Consolidated Statement of Cash Flows for the year ended 31 December 2009

(in millions of Russian Roubles)

	Note	2009	2008
Cash flows from operating activities			
Profit/(loss) before income tax		**3 067**	**(861)**
Adjustments for:			
Depreciation and amortisation	7, 8	4 087	3 620
(Reversal)/accrual of impairment of property, plant and equipment		(442)	1 642
Loss on disposal of property, plant and equipment		181	82
Impairment losses on intangible assets		-	235
Share of result of associates		(169)	(135)
Interest expenses	30	2 612	2 202
Other financial income		(197)	-
Foreign exchange losses, net		346	1 207
Increase of allowance for impairment of receivables		44	116
Recognition of assets transferred by customers in prior years		(265)	-
Operating cash flows before changes in working capital and provisions		**9 264**	**8 108**
Decrease in inventories		91	5
Increase in trade and other receivables		(89)	(248)
Decrease in other current assets		359	315
Increase in provision for employee benefits		83	129
Increase (decrease) in trade and other payables		263	(191)
Decrease in other operating liabilities		(62)	(85)
Cash flows from operating activities before interest and income tax paid		**9 909**	**8 033**
Interest paid		(2 827)	(2 416)
Income tax paid		(244)	(436)
Cash flows from operating activities		**6 838**	**5 181**
Investing activities			
Acquisition of property, plant and equipment		(2 414)	(4 658)
Proceeds from disposals of property, plant and equipment		75	176
Acquisition of intangible assets		(448)	(574)
Acquisition of investments		(150)	-
Proceeds from disposals of investments		-	15
Financial income received		205	13
Dividends received		94	133
Cash flows utilized in investing activities		**(2 638)**	**(4 895)**

OJSC Southern Telecommunications Company
Consolidated Statement of Cash Flows for the year ended 31 December 2009 (continued)

(in millions of Russian Roubles)

	Note	2009	2008
Financing activities			
Proceeds from bank and corporate loans		8 041	9 614
Repayment of bank and corporate loans		(9 716)	(5 225)
Proceeds from bond issue		3 000	-
Repayment of bonds		(5 938)	(764)
Proceeds from promissory notes		-	2 793
Repayment of promissory notes		-	(4 532)
Repayment of finance lease obligations		(391)	(767)
Dividends paid to shareholders of the Company		(139)	(426)
Cash flows from financing activities		**(5 143)**	**693**
Net decrease in cash and cash equivalents		**(943)**	**979**
Cash and cash equivalents at beginning of year	15	**1 541**	**562**
Cash and cash equivalents at end of year	15	**598**	**1 541**

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

OJSC Southern Telecommunications Company
Consolidated Statement of Changes in Equity for the year ended 31 December 2009
(in millions of Russian Roubles)

	Note	Share capital		Retained earnings	Total equity attributable to shareholders of the Company	Total equity
		Preference shares	Ordinary shares			
Balance as at 31 December 2007 (restated)		**751**	**2 288**	**6 615**	**9 654**	**9 654**
Comprehensive income for the year						
Loss for the year				(671)	(671)	(671)
Total comprehensive income				**(671)**	**(671)**	**(671)**
Dividends to shareholders of the Company				(426)	(426)	(426)
Balance as at 31 December 2008		**751**	**2 288**	**5 518**	**8 557**	**8 557**
Comprehensive income for the year						
Profit for the year				2 256	2 256	2 256
Total comprehensive income				**2 256**	**2 256**	**2 256**
Dividends to shareholders of the Company	33			(139)	(139)	(139)
Balance as at 31 December 2009		**751**	**2 288**	**7 635**	**10 674**	**10 674**

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

1. General information

Authorisation of the Financial Statements

The consolidated financial statements of OJSC Southern Telecommunications Company (hereinafter "the Company") and its subsidiaries ("the Group") for the year ended 31 December 2009 were authorised for issue by the Deputy General Director and the Chief Accountant on 28 May 2010.

The Company

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

As at 31 December 2009 OJCS "Svyazinvest", which is controlled by the Government of the Russian Federation, owned 50,69% of the Company's ordinary voting shares and constitutes OJSC Southern Telecommunications Company's parent company.

The Company's official address: Russian Federation, 350000, Krasnodar, Karasunskaya st., 66.

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, rent out communication channels and provides radio communication services in the territory of the Southern Federal District 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.

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.

Liquidity and Financial Resources

As at 31 December 2009, the Group's current liabilities exceeded its current assets by 6 959 (as at 31 December 2008: 13 748).

Historically, the Group has significantly relied on both short-term and long-term borrowings to finance development of its communications networks. This financing has historically been provided through financial leases, bank loans, bonds and vendor financing.

In 2010 the Group expects to generate funds from the following sources: cash proceeds from operating activities; placement of Rouble bonds on the Russian market; and raising funds from domestic and foreign lending institutions. Moreover, management believes that some of existing contractual payment terms relating to current operations could be extended in case of a shortage of working capital.

The Group's management has reached preliminary agreement with a number of lending institutions which are prepared to provide required financing.

Management believes that if necessary, certain capital investment projects may be deferred or curtailed in order to fund the Group's current operating needs.

2. Basis of preparation of the Financial Statements

Statement of compliance

The consolidated financial statements have been prepared in accordance to the International Financial Reporting Standards (“IFRSs”).

Going concern

The consolidated 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.

Presentation of the Financial Statements

The consolidated financial statements comprise the Company, its subsidiaries and associates and are prepared using unified accounting policies.

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

Basis of measurement

The 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.

Changes in accounting policies

The accounting policies used for preparation of the Consolidated Financial Statements for 2009 are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory or adopted preterm for financial years beginning on or after 1 January 2009. Adoption of new and revised standards did not have significant effect on the financial statements of the Company.

The changes in accounting policies resulted from adoption of the following new or revised standards and interpretations:

Standard / Interpretation	Content of changes	Effects
IFRS 8 "Operating Segments"	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments to be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	Revised disclosures are presented in Note 5.
IAS 1 (as revised in 2007) "Presentation of Financial Statements"	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	The Consolidated Financial Statements contain new or adjusted reporting statements.
IAS 23 (as revised in 2006) "Borrowing Costs"	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	The revised Standard did not have a material impact on the financial position or performance of the Company.
IFRS 3 (as revised in 2008) "Business Combinations" (early adoption)	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	The revised Standard did not have a material impact on the financial position or performance of the Company.
IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements" (early adoption)	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised Standard did not have a material impact on the financial position or performance of the Company.

Standard / Interpretation	Content of changes	Effects
IFRIC Interpretation 13 "Customer Loyalty Programmes"	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 15 "Agreements for the Construction of Real Estate"	The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 16 "Hedges of a Net Investment in a Foreign Operation"	The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 17 "Distributions of Non-cash Assets to Owners"	The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IFRIC Interpretation 18 "Transfers of Assets from Customers"	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company's assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the financial position or performance of the Company.
IAS 24 (as revised in 2009) "Related party disclosures" (early adoption)	The Standard specifies and simplifies approaches for related party definitions. The Standard also simplifies requirement for state-controlled entities to disclose detailed transactions with other state-controlled entities.	New and revised disclosures were included in the Consolidated Financial Statements.

(in millions of Russian Roubles unless stated otherwise)

FRSs and IFRIC Interpretations not yet effective

The Company has not adopted the following IFRSs that have been issued but are not yet effective:

Standard / Interpretation	Content of changes	Effects
IFRS 9 "Financial Instruments"	The Standard sets new approaches for financial instruments classification. The Standard cancels requirement to exclude imbedded derivatives from financial assets. The Standard enforces requirements for reclassification of financial assets after initial classification. The Standard also clarifies approaches for financial assets valuation and measurements.	To be applied for annual reporting periods beginning on or after 1 January 2013.

As at 31 December 2009, management of the Group did not complete the assessment of the impact of the new Standards and various improvements to IFRSs not yet effective at that date on the Company's financial position or performance.

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. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Exchange rates of the primary currencies as of December 31, 2009 and 2008 are as follows:

Exchange rates as of 31 December	2009	2008
RUR / USD	30,2442	29,3804
RUR / EUR	43,3883	41,4411

3. Summary of significant accounting policies

3.1. Principles of consolidation

The Consolidated Financial Statements represent the financial statements of OJSC Southern Telecommunications Company and its subsidiaries as at and for the year ended 31 December 2009 including comparative information for 2008.

All intra-group balances, transactions, income and expenses resulting from operations within the Group and recognized in the assets are entirely eliminated.

Subsidiaries are fully consolidated as of the date of acquisition, being the date when the Group acquired control over the subsidiary, and continue to be consolidated until the date when such control ceases.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the fair value of the Group share of identifiable net assets as at the date of acquisition is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Acquisition of Minority Interest in Subsidiaries

Any difference between carrying value of net assets attributable to non-controlling interest acquired and respective consideration is recognized in equity as at the date of acquisition.

3.2. Property, plant and equipment

Cost of property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s realisable value less costs to sell and its value in use. The excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount. The increased carrying amount of an asset attributable to reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

Depreciation and useful life

Depreciation of property, plant and equipment is calculated on a straight-line basis during the useful life period.

The Company applies the following useful lives:

	Years
Buildings and constructions	11 – 50
Transmission devices	10 – 15
Switches	3 – 15
Other telecommunication equipment	3 – 10
Land	Not depreciated

The property, plant and equipment’s residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each reporting date and are accounted for as a change in accounting estimates.

Assets received free of charge

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

3.3. Intangible assets

Goodwill

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

Goodwill on an acquisition of associates is included in the investments in associates.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortised using linear method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of other intangible assets are determined at individual basis.

Impairment

Goodwill, intangible assets with indefinite useful life and intangible assets not available for use are reviewed for impairment annually at each reporting date. The excess of the carrying value over the recoverable amount is recognised as impairment loss. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed.

3.4. Borrowing costs

The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction or modernization of a qualifying asset including construction in progress. Other borrowing costs are expensed when incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

3.5. Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method.

3.6. Investments and other financial assets

The Group’s financial assets are classified as either financial assets at fair value revalued through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

At the initial recognition, financial assets are measured at fair value, plus, for instruments other than recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The Group determines the classification of its financial assets at initial recognition and reviews the classification of financial assets when appropriate and is allowed by standards.
Purchases and sales of financial assets are recognized on the settlement date, which is the date that the investment is delivered to a buyer.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any impairment loss. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

All other investments, which were not classified to any of the two preceding categories, are available-for-sale investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized in other comprehensive income and presented as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3.7. Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location. The cost of inventories is determined on the weighted average basis.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8. Cash and cash equivalents

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less.

All these items are included as a component of cash and cash equivalents for the purpose of the balance sheet and statement of cash flows.

3.9. Equity

Share capital

Ordinary shares and non-cumulative non-redeemable preference shares are both classified as equity.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased share are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. The gain or loss on purchase, sale or cancellation of treasury shares is not recognized in the income statement. The consideration received from subsequent sale or additional issue of shares is included into share capital.

Non-controlling interest

Non-controlling interest at the balance sheet date represents the non-controlling shareholders' share of the fair value of the identifiable assets and liabilities of the subsidiaries at the date of the acquisition or the date when the subsidiary was established and non-controlling shareholders' share of movements in equity since the date of the acquisition or establishment.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.10. Non-derivative financial liabilities

For presentation purposes, loans and borrowings in these consolidated financial statements include banking and corporate loans, bonds and promissory notes, vendor financing and financial lease obligations.

Borrowings are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

3.11. Leases

At the commencement of the finance lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the Group recognizes finance lease as the assets and liabilities in their balance sheet at amount equal to their fair value or, if lower, at the discounted present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to produce a constant rate of interest of the remaining balance of the liability. Finance costs are recognised in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

3.12. Employee benefits

Current employment benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for future vacation and bonus payments.

Defined benefits pension plans and other long-term employee benefits

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial "projected credit unit" method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Upon introduction of a new plan or improvement of an existing plan past service cost is recognized as an expense on a straight line basis over the average period until the amended benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognises profit or loss arising on curtailment or final settlement under a defined benefit plan at the moment of such curtailment or settlement.

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

3.13. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3.14. Income tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business acquisition and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3.15. Revenue recognition

Revenue from service contracts is accounted for when the services are provided. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

Interest income is calculated using the effective interest rate which presents the expected future cash flows during the estimated useful life of a financial instrument to the net carrying amount of the financial asset.

Reimbursement of losses from universal telecommunication services is recognized in the period in which the loss occurred.

Dividend income is recognized in the income statement on the date that the Group Southern Telecommunications Company right to receive payment is established.

3.16. Segment reporting

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Management Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 Operating Segments. Previously operating segments were determined and presented in accordance with International Financial Reporting Standard IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented in Note 5.
Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

The Group consists of 10 branches and 6 subsidiaries, which are considered as operating segments. Financial information of each operating segment is regularly analyzed by the Company's Chief Operating Decision Maker and is used for operating decisions making.

3.17. Earnings per share

For the purpose of calculating earnings per share, the Company classifies preferred shares as participating equity instruments. Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares. The Company prepares a reconciliation of the profit attributable to ordinary shareholders.

4. Significant accounting judgments and estimates

4.1. Judgments

In applying accounting policies, management has made the following judgments and estimates, which most significantly affected the amounts reported in the financial statements:

Revenue recognition (agent / principal)

Agency fees related to provision of services where the Group acts as an agent in the transaction rather than a principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal, management considers the following factors:

- Although the Group collects the consideration from the final customers, all credit risks is borne by the supplier of services;
- The Group is not in a position to change selling prices set by the supplier.

Lease classification

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

4.2. Estimates

The key assumptions concerning the future events and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group estimates remaining useful lives of its property, plant and equipment at least once a year at the balance sheet date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at 31 December 2009 is 28 975 (as at 2008 – 30 656). Refer to Note 7 for detailed information.

Impairment of non-current assets

Identification of indicators of impairment of non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount at a cash-generating unit level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on a cash-generating unit level, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows.

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

In 2009 the Group the amount of reversal of impairment loss was 442 (in 2008 recognized impairment loss was 1 642). Refer to Note 7 for detailed information.

Fair value of assets and liabilities in business acquisition

At the acquisition date the Company recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions.

Fair values of unlisted available-for-sale investments

Fair value of investments which are not actively traded is determined using valuation techniques, including those based on reference to recent arm's length market transactions between knowledgeable, willing parties; based on reference to the current fair value of another instruments that are substantially the same; or based on discounted cash-flow analysis and option pricing model.

These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date.

Allowance for impairment of receivables

Doubtful debt allowance is based on the historical data related to collectability of receivables and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As at 31 December 2009, a doubtful debt allowance amounted to 318 (2008 – 253). Refer to Notes 13 for detailed information.

Employee benefits

The discounted value of pension plan benefits and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities and related future expenses. As at 31 December 2009, net defined benefit obligations amounted to 1 670 (2008 – 1 587).

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.

(in millions of Russian Roubles unless stated otherwise)

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 federal district 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 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 OJSC 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".

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

	Total reporting segment				
Reconciliation of statutory and IFRS data as at 31 December 2009 and for 2009	**OJSC Southern Telecommunications Company**	**Subsidiaries**	**Transformation adjustments**	**Consolidation adjustments**	**Total for Group consolidated**
Revenue					
Third party revenue	21 823	397	-	-	22 220
Revenue within the segment	34	79	-	(113)	-
Total revenue	**21 857**	**476**	**-**	**(113)**	**22 220**
Share of profit in equity accounted investees	86	-	-	83	169
Interest income	200	10	1	(14)	197
Interest expense	(2 196)	(19)	(155)	14	(2 356)
Income tax	(579)	(6)	(227)	1	(811)
Profit for the year	**1 846**	**(7)**	**321**	**96**	**2 256**
Assets and liabilities					
Segment assets	38 069	1 039	(6 620)	191	32 679
Unallocated assets	2 836	-	219	(552)	2 503
including investments in equity accounted investees	-	-	692	-	692
Segment liabilities	(4 706)	(485)	881	313	(3 997)
Unallocated liabilities	(18 950)	-	(1 561)	-	(20 511)
Other segment information					
Capital investments in:					
Property, plant and equipment	(1 943)	(11)	6	-	(1 948)
Intangible assets	-	-	(244)	-	(244)
Depreciation and amortization	(4 004)	(35)	(67)	19	(4 087)
Loss from doubtful debt allowance	(66)	(15)	26	11	(44)
Pension plan cost	(170)	-	86	-	(84)
Reversal of impairment loss	-	-	442	-	442

(in millions of Russian Roubles unless stated otherwise)

Reconciliation of statutory and IFRS data as at 31 December 2008 and for 2008	Total reporting segment OJSC Southern Telecommunications Company	Subsidiaries	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
Revenue					
Third party revenue	20 864	397	39	-	21 300
Revenue within the segment	20	71	-	(91)	-
Total revenue	**20 884**	**468**	**39**	**(91)**	**21 300**
Share of profit in equity accounted investees	121	-	-	14	135
Interest income	40	6	-	(15)	31
Interest expense	(1 879)	(20)	(181)	15	(2 065)
Income tax	(393)	(13)	600	(4)	190
Loss for reporting year	**557**	**36**	**(1 274)**	**10**	**(671)**
Assets and liabilities					
Segment assets	42 027	1 055	(7 479)	128	35 731
Unallocated assets	2 751	-	239	(560)	2 430
including investments in equity accounted investees	-	-	617	-	617
Segment liabilities	(5 781)	(485)	1 300	299	(4 667)
Unallocated liabilities	(23 673)	-	(1 244)	(20)	(24 937)
Other segment information					
Capital investments in:					
Property, plant and equipment	(4 808)	(17)	(114)	-	(4 939)
Intangible assets	-	-	(789)	-	(789)
Depreciation and amortization	(3 572)	(35)	(30)	17	(3 620)
Loss from impairment of property, plant and equipment	-	-	(1 642)	-	(1 642)
Loss from impairment of intangible assets	-	-	(235)	-	(235)
Loss from doubtful debt allowance	(72)	-	(48)	4	(116)
Pension plan cost	(139)	-	(1)	-	(140)

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.

(in millions of Russian Roubles unless stated otherwise)

As at 31 December 2009 and for 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
Reporting segment	**22 333**	**1 839**	**41 944**	**(24 141)**	**(1 954)**	**(4 039)**
Operating segments						
Krasnodar branch	6 765	1 691	13 822	(749)	(492)	(1 296)
Rostov branch	4 741	1 321	7 001	(406)	(492)	(833)
Stavropol branch	3 651	1 494	4 446	(360)	(486)	(402)
Volgograd branch	2 922	562	4 412	(304)	(162)	(569)
Astrakhan branch	1 031	124	2 095	(92)	(58)	(220)
North-Ossetia branch	1 004	379	988	(87)	(49)	(128)
Adyghea branch	347	47	793	(35)	(41)	(81)
Kabardino-Balkaria branch	812	211	1 355	(68)	(44)	(124)
Kalmykiya branch	249	(45)	725	(24)	(14)	(96)
Karachay-Cherkessia branch	334	(13)	937	(35)	(38)	(100)
Head Office	1	(3 925)	4 331	(21 496)	(67)	(155)
Subsidiaries	476	(7)	1 039	(485)	(11)	(35)

As at 31 December 2008 and for 2008 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
Reporting segment	**21 352**	**593**	**45 833**	**(29 939)**	**(4 825)**	**(3 607)**
Operating segments						
Krasnodar branch	6 287	1 492	14 925	(947)	(1 272)	(1 174)
Rostov branch	4 516	1 158	7 432	(581)	(1 260)	(707)
Stavropol branch	3 601	1 301	4 442	(358)	(534)	(379)
Volgograd branch	2 874	591	4 922	(346)	(514)	(494)
Astrakhan branch	1 022	136	2 315	(117)	(262)	(221)
North-Osetian branch	956	339	1 092	(82)	(113)	(119)
Adyghe branch	309	31	842	(43)	(72)	(73)
Kabardino-Balkar branch	768	198	1 476	(118)	(159)	(114)
Kalmyk branch	233	(23)	820	(65)	(225)	(73)
Karachay-Cherkessia branch	317	(23)	1 017	(43)	(116)	(85)
Head Office	1	(4 643)	5 495	(26 754)	(281)	(133)
Subsidiaries	468	36	1 055	(485)	(17)	(35)

(in millions of Russian Roubles unless stated otherwise)

6. Subsidiaries

The following subsidiaries are controlled by OJSC Southern Telecommunications Company:

		Ownership, %		Voting Shares, %	
Name	**Activities**	**31 December 2009**	**31 December 2008**	**31 December 2009**	**31 December 2008**
OJSC “Stavtelecom”	Communication services	**100**	100	**100**	100
OJSC “Orbita Recreational House”	Recreation services	**100**	100	**100**	100
LLC “Intmashservice”	Repair of communication facilities	**100**	100	**100**	100
CJSC “Yugsvyazstroy”	Construction services	**100**	100	**100**	100
LLC “Factorial -99”	Information agency	**100**	100	**100**	100
LLC “YuTC-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.

7. Property, plant and equipment

	Land, buildings and constructions	**Switches and transmission devices**	**Other assets**	**Construction in progress and equipment for installation**	**Total**
Cost					
At 31 December 2007	**22 400**	**18 146**	**2 752**	**1 896**	**45 194**
Additions	-	-	-	4 939	4 939
Transfer from construction in progress	1 349	2 003	1 020	(4 372)	-
Disposals	(241)	(84)	(128)	(35)	(488)
At 31 December 2008	**23 508**	**20 065**	**3 644**	**2 428**	**49 645**
Additions	-	-	-	1 948	1 948
Transfer from construction in progress	905	1 351	320	(2 576)	-
Disposals	(176)	(113)	(145)	(142)	(576)
At 31 December 2009	**24 237**	**21 303**	**3 819**	**1 658**	**51 017**
Accumulated depreciation and impairment losses					
At 31 December 2007	**(6 995)**	**(5 007)**	**(2 105)**	**-**	**(14 107)**
Charge for the year	(1 230)	(1 576)	(664)	-	(3 470)
Disposals	74	34	122	-	230
Impairment loss	(1 003)	(618)	(21)	-	(1 642)
At 31 December 2008	**(9 154)**	**(7 167)**	**(2 668)**	**-**	**(18 989)**
Charge for the year	(1 247)	(1 593)	(975)	-	(3 815)
Disposals	136	73	111	-	320
Impairment loss recovered	276	147	19	-	442
At 31 December 2009	**(9 989)**	**(8 540)**	**(3 513)**	**-**	**(22 042)**
Net book value					
At 31 December 2007	**15 405**	**13 139**	**647**	**1 896**	**31 087**
At 31 December 2008	**14 354**	**12 898**	**976**	**2 428**	**30 656**
At 31 December 2009	**14 248**	**12 763**	**306**	**1 658**	**28 975**

(in millions of Russian Roubles unless stated otherwise)

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

	2009	**2008**
Switches and transmission devices	825	2 260
Other property, plant and equipment	74	164
Total net book value of leased property plant and equipment	**899**	**2 424**

Assets acquired under finance lease contracts secure finance lease liabilities.

Depreciation charge for 2009 in the amount of 3 815 (2008 – 3 470) was recognized in line "Depreciation and amortization" of the consolidated income statement.

As at 31 December 2009, the historical cost of fully depreciated property, plant and equipment comprised 5 664 (2008 – 5 064).

In 2009 the Group increased the cost of property, plant and equipment and construction in progress by the amount of capitalized interest of 91 (2008 – 113).

The additions of plant and equipment acquired under Vendor financing contracts in 2009 amounted to 346 (2008 – 0).

As at 31 December 2009 property, plant and equipment in the amount of 5 991 (2008 – 4 804) 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-Cherkessiya – 611, Kalmykiya – 538, Adygeya – 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 Adygeya and Astrakhan branches. The Group has recognised a reversal of an impairment loss in the amount of 442 (Adygeya – 153; Astrakhan – 289).

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.

The following key assumptions were made by the Group's management in determining the recoverable amount of the cash generating units:

- Cash flow projections cover a period of five years, cash flows beyond the five-year period have been extrapolated;
- Cash flow projections were prepared in nominal terms;
- A post-tax discount rate of 15,4% was applied in determining the value in use. The Rouble-denominated discount rate was estimated in nominal terms based on weighted average cost of capital;
- The implied pre-tax WACC is 16,8%;

(in millions of Russian Roubles unless stated otherwise)

- Projected growth rates in revenue and expenses are as follows: 1% in 2010, 2% in 2011, 3% in 2012, 3% in 2013, 4% in 2014 and 4,4% after 2014;
- A terminal value was derived at the end of a five-year period assuming 4,4% future growth rate.

The estimated cash flows are not particularly sensitive to a change in the above assumptions. The values assigned to the key assumptions represent management's assessment of future trends in the telecommunications industry and are based on both external sources and internal sources (historical data).

8. Intangible assets

	Licenses	Software	Other	Total
Cost				
At 31 December 2007	**34**	**2 590**	**2**	**2 626**
Purchases of assets	-	789	-	789
At 31 December 2008	**34**	**3 379**	**2**	**3 415**
Purchases of assets	11	233	-	244
Disposals	(5)	-	(2)	(7)
At 31 December 2009	**40**	**3 612**	**-**	**3 652**
Accumulated amortisation and impairment losses				
At 31 December 2007	**(7)**	**(581)**	**(1)**	**(589)**
Amortization charge for the year	-	(150)	-	(150)
Impairment losses accrued	-	(235)	-	(235)
At 31 December 2008	**(7)**	**(966)**	**(1)**	**(974)**
Amortization charge for the year	(2)	(270)	-	(272)
Amortization on disposals	2	-	1	3
At 31 December 2009	**(7)**	**(1 236)**	**-**	**(1 243)**
Net book value as at 31 December 2007	**27**	**2 009**	**1**	**2 037**
Net book value as at 31 December 2008	**27**	**2 413**	**1**	**2 441**
Net book value as at 31 December 2009	**33**	**2 376**	**-**	**2 409**

Oracle E-Business Suite

As at 31 December 2009 software included Oracle E-Business Suite with the carrying amount of 1 041 (2008 – 1 193).

No interest expense was capitalised during 2009. In 2008, 11 was capitalised with respect to the implementation of Oracle E-Business Suite with a capitalization rate of 10.37%.

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 2008 are presented below:

(in millions of Russian Roubles unless stated otherwise)

	2009	2008
At 01 January	**1 193**	**965**
Implementation costs	26	311
Amortisation charge	(178)	(83)
At 31 December	**1 041**	**1 193**

Amdocs Billing Suite

As at 31 December 2009 software included Amdocs Billing Suite with the carrying amount of 527 (2008 – 527).

During 2010-2011 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.

Changes in carrying amount of Amdocs Billing Suite for 2009 and 2008 years are presented below:

	2009	2008
At 01 January	**527**	**762**
Impairment loss	**-**	(235)
At 31 December	**527**	**527**

Peter-Service ITC

As at 31 December 2009 software included Peter-Service ITC with carrying amount of 12 (2008 – 17).

Changes in carrying amount of Peter-Service ITC for 2009 and 2008 are presented below:

	2009	2008
At 01 January	**17**	**16**
Implementation costs	-	5
Amortisation charge	(5)	(4)
At 31 December	**12**	**17**

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

As at 31 December 2009 software included HP Open View with the carrying amount of 386 (2008 – 356).

Changes in carrying amount of HP Open View for 2009 and 2008 years are presented below:

	2009	2008
As at 1 January	**356**	**176**
Implementation expenses	30	180
As at 31 December	**386**	**356**

(in millions of Russian Roubles unless stated otherwise)

The implementation of HP IUM is planned to be completed by 2010.

Licences

As at 31 December 2009 the Group owned licenses for the following activities:

- local and intrazone 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.

Amortisation of intangible assets

Amortisation charge for intangible assets in 2009 in the amount of 272 (2008 – 150) was recognized in "Depreciation and amortization" of the consolidated income statement.

Impairment testing of intangible assets not yet available for use

As at 31 December 2009 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

	2009	**2008**
Long-term advances given for CIP additions	186	73
Long-term VAT receivable	18	23
Other	16	15
Total	**220**	**111**

10. Investments in associates

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

(in millions of Russian Roubles unless stated otherwise)

		At 31 December 2008		
Associates	**Activity**	**Ownership Interest, %**	**Voting shares, %**	**Carrying value**
CJSC "Volgograd-GSM"	Mobile services	50	50	617
Total				**617**

Movement in investments in equity accounted investees for 2009 and 2008 years is presented below:

	2009	2008
Investments in associates as at 1 January	**617**	**615**
Share of profit in equity accounted investees	169	135
Dividends received	(94)	(133)
Investments in associates as at 31 December	**692**	**617**

11. Investments

	2009	2008
Non-current investments available-for-sale	15	14
Total non-current investments	**15**	**14**
Current promissory notes	155	-
Current investments available-for-sale	1	-
Total current investments	**156**	**-**
Total investments	**171**	**14**

In 2009 the Group invests its temporary available financial resources in promissory notes, issued by CJSC "IC Region" with maturity less than 12 months from the reporting date. Promissory notes yields have profitability from 5% to 12% and are nominated in roubles. The Group uses promissory notes as financial instruments mainly for deriving financial income. As at 31 December 2009 promissory notes for redemption comprised 155 (31 December 2008 - 0) and are included in current promissory notes.

As at 31 December 2009 and 2008 non-current investments available for sale included:

	31 December 2009		31 December 2008	
Name	**Share in equity, %**	**Fair value**	**Share in equity, %**	**Fair value**
Non-current investments				
OJSC "SvyasIntek"	11,00	13	11,00	13
CJSC "Leasing-Point"	3,65	2	-	-
OJSC "BETO"	-	-	0,15	1
Total		**15**		**14**

(in millions of Russian Roubles unless stated otherwise)

12. Inventories

	2009	2008
Cable	204	223
Spare parts	84	112
Tools and accessories	53	60
Construction materials	20	22
Other inventory	224	259
Total	**585**	**676**

13. Trade and other receivables

Receivables as at 31 December 2009 and 2008 comprised the following:

	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**

	Total, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Settlements with customers for operating activities	1 210	(243)	967
Settlements with customers for non-operating activities	72	(10)	62
Settlements with commissioners and agents	69	-	69
Total	**1 351**	**(253)**	**1 098**

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

	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**

(in millions of Russian Roubles unless stated otherwise)

	Total, 31 December 2008	Doubtful debt allowance	Net, 31 December 2008
Residential customers	485	(96)	389
Corporate customers	346	(55)	291
Governmental customers	130	(6)	124
Interconnected operators	241	(78)	163
Social security bodies – recovering of expenses for privileges for individual categories of customers	8	(8)	-
Total settlements with customers for core activities	**1 210**	**(243)**	**967**

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

	2009	2008
Balance as at 1 January	243	154
Accrual	44	116
Write-off	(44)	(27)
Balance as at 31 December	**243**	**243**

14. Other current assets

	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**

	Total, 31 December 2008	Provision	Net, 31 December 2008
Prepayments and advances	107	(4)	103
VAT recoverable	116	-	116
Prepayments for other taxes	14	-	14
Deferred expenses	107	-	107
Other current assets	242	(3)	239
Total	**586**	**(7)**	**579**

(in millions of Russian Roubles unless stated otherwise)

15. Cash and cash equivalents

	2009	2008
Cash-in-bank and cash-in-hand	598	1 515
Short-term deposits up to 3 months	-	26
Total	**598**	**1 541**

As at 31 December 2009 and 2008 cash in banks, controlled by the State comprised 474 and 495 appropriately.

16. Significant non-cash transactions

Revenue contains non-cash transactions amounting to 2 461 (2008 – 1 643), out of which 1 694 relates to Rostelecom. These transactions represent mainly mutual offset of the balances with the same customer or supplier incurred in the course of normal operating activity.

Non-cash transactions above have been excluded from the consolidated statement of cash flows.

17. Share capital

As at 31 December 2009 the par and carrying value of issued ordinary and preference shares were as follows:

	Number of shares authorised (millions)	Par value	Carrying value
As of 31 December 2007	**3 933**	**1 298**	**3 039**
Ordinary	2 961	977	2 288
Preference	972	321	751
As of 31 December 2008	**3 933**	**1 298**	**3 039**
Ordinary	2 961	977	2 288
Preference	972	321	751
As of 31 December 2009	**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.

(in millions of Russian Roubles unless stated otherwise)

The Company's shareholders structure as at 31 December 2009 was as follows:

Shareholders	Share of capital, %	Ordinary shares		Preference shares	
		Number (thousands)	%	Number (thousands)	%
Total legal entities, total	**89,1**	**2 725 110**	**92,0**	**778 771**	**80,1**
OJSC Svyazinvest	38,2	1 500 671	50,7	-	-
- those with more than 5% of shares, including:	45,1	1 108 566	37,4	662 991	68,2
- CJSC Deposit-Liring company	25,6	534 479	18,0	470 540	48,4
- Non-commercial Partnership National Depositary center	19,5	574 087	19,4	192 451	19,8
- other	5,8	115 873	3,9	115 780	11,9
Individuals	**10,9**	**235 403**	**8,0**	**193 381**	**19,9**
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.

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 31 December 2009 and 2008 amounted to 10 641 and 8 570, respectively.

In accordance with the Company's Dividend policy, dividends may only be declared to the shareholders of the Company from net income as reported in the Company's statutory financial statements. The Company reported net income of 1 846 and 557 in its statutory financial statements in 2009 and 2008, 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 2008-2009:

(in millions of Russian Roubles unless stated otherwise)

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares %	Share capital %
31 December 2007	**3 439 268**	**171 963 400**	**5,81**	**4,37**
Disposals	(133 648)	(6 682 400)	(0,23)	(0,17)
31 December 2008	**3 305 620**	**165 281 000**	**5,58**	**4,20**
Disposals	(2 969 595)	(148 479 750)	(5,02)	(3,78)
31 December 2009	**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	912640	KUE.FRA	US8438991056
Berlin Stock Exchange	912640	KUE	US8438991056
NEWEX (Vienna, Austria)	912640	KUE	US8438991056

18. Loans and borrowings

	31 December 2009	31 December 2008
Non-current loans and borrowings		
Bank and corporate loans	13 280	14 609
Bonds	4 987	7 925
Vendor financing	346	-
Finance lease liabilities	81	472
Loans from individuals	22	23
Other long-term borrowings	24	25
Less: Current portion of long-term borrowings	(6 386)	(13 472)
Total non-current loans and borrowings	**12 354**	**9 582**
Current loans and borrowings		
Interest payable	145	268
Current portion of long–term of borrowings	6 386	13 472
Total current loans and borrowings	**6 531**	**13 740**
Total loans and borrowings	**18 885**	**23 322**

(in millions of Russian Roubles unless stated otherwise)

Bank and corporate loans

The table below summarizes the information about the most significant long-term bank and corporate loans outstanding as at 31 December 2009 and 2008:

Lender	Interest rate per agreement	31 December 2009	31 December 2008	Loan currency	Date of maturity	Security
OJSC Mejregionalny Kommerchesky Bank Razvitiya Svyazi` I Informatiki	12%	3 000	1 000	RUR	2010	Pledge of assets
OJSC Bank Moskvu	12%	2 840	-	RUR	2012	Unsecured
Bank Societe Generale Vostok (BSGV)	2,75%+ MOSPRIME	998	998	RUR	2011	Unsecured
Reachcom Public Limited	9%	158	3 465	RUR	2013	Unsecured
OJSC Nordea Bank	12,75%	2 200	-	RUR	2012	Pledge of assets
Ministry of Finance of RF	2%	303	418	EUR	2011	Pledge of assets
Credit Suisse International	4,4% - 5,6% + Libor	3 781	4 407	USD	2009 -2011	Pledge of assets
OJSC VTB	5% + MOSPRIME	-	2 000	RUR	2011	Unsecured
OJSC ORGRES-Bank AB	4%+ Euribor	-	2 300	EUR	2010	Pledge of assets
Other loans	11-13%	-	21	RUR	2009-2014	Pledge of assets
Total loans		**13 280**	**14 609**			

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 2012. The loan accrues annual interest of 12%. The loan is secured with plant and equipment with carrying value of 1 793. As at 31 December 2009, the principal amount outstanding of 3 000 was classified as current portion of long-term loans and borrowings.

OJSC Bank Moskvu

Long-term borrowing from *OJSC Bank Moskvu* represents non-renewable credit line for 3 000 received in 2009. The loan matures in 2012. The loan accrues annual interest of 12%. As of 31 December 2009, the outstanding amount of the loan was 2 840.

Bank Societe Generale Vostok (BSGV)

Long-term borrowing to 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 31 December 2009, the outstanding amount of the loan was 998.

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, however the creditor has the right to claim partial or full repayment of the loan in June 2009 (the first date of premature settlement). This right was realized by the Company and 3 342 were paid out in 2009. The remaining amount of the loan is due to be paid in June 2013. As of 31 December 2009, the outstanding amount of the loan was 158.

OJSC Nordea Bank

Long-term borrowing to OJSC Nordea Bank represents non-renewable credit line for 3 000, received in 2009. The loan accrues annual interest of 12,75%. The loan is secured with plant and equipment with a carrying value of 2 375. The loan matures in 2012. As of 31 December 2009, the outstanding amount of the loan was 2 200.

Credit Suisse International

In 2006 the Company entered into the two loan agreements with Credit Suisse International. Financing agreement in the amount of 50 million US dollars was signed in August 2006 and Guaranteed financing agreement in amount of 125 million US dollars was signed in September 2006. Credit period for the first loan is 37 months, including grace period of 24 months. The loan bears interest at a rate which is an aggregate of Margin (5,60%) and LIBOR. The loan was obtained in order to refinance the Company’s debt. The credit was redeemed October, 2009.

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 1 600. Amount outstanding under these loans as of 31 December 2009 was 3 781.

Bonds

The table below summarizes the information about the bonds outstanding as at 31 December 2009 and 2008:

(in millions of Russian Roubles unless stated otherwise)

Narrative of the issue	Effective rate	2009	2008	Date of maturity	Date of offer	Interest on coupon
Bond issue 03	from 9,54% to 10,45%	-	3 420	2009	-	from 8% to 12,3%
Bond issue 04	9,82%	-	2 509	2009	-	from 10% to 10,5%
Bond issue 05	7,77%	1 996	1 996	2012	2010	7,55%
Bond issue BO-01	11,74%	1 994	-	2012	2011	11,0%
Bond issue BO-04	11,89%	997	-	2012	-	11,4%
Total loans		**4 987**	**7 925**			

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. As of 31 December 2009, the outstanding liability is classified as long-term loans and borrowings.

Bond issue BO-01

In October 2009 the Company issued 2 000 thousands 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 2011. As of 31 December 2009, the outstanding liability is classified as long-term loans and borrowings.

Bond issue BO-04

In October 2009 the Company issued 1 000 thousands 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%. Company has a possibility of the announcement of a call-option in a date closed of the eighth coupon. As of 31 December 2009, 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 31 December 2009 and 2008:

Vendor	Effective rate	31 December 2009	31 December 2009	Loan currency	Date of maturity	Security
LLC Cisco capital CIS	11,4%	346	-	RUR	2011	Pledge of assets

In 2009 the Company entered into 5 agreements with LLC Cisco capital CIS on equipment delivery. The Company pays interest at 11,23% p.a. As of 31 December 2009, the outstanding amount of these vendor financing agreements was 346, including short-term part of 199. These payables are classified as long-term and short-term payables. The loan matures in 2011.

(in millions of Russian Roubles unless stated otherwise)

Finance Lease Obligations

	31 December 2009		31 December 2008	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion (less than 1 year)	89	81	464	391
More than 1 to 5 years	-	-	89	81
Total minimum lease payments	**89**	**81**	**553**	**472**
Less financial expenses	(8)	-	(81)	-
Discounted value of minimum lease payments	**81**	**81**	**472**	**472**

OJSC "RTK Leasing" was the key lessor to Southern Telecommunications group in 2009. Effective interest rate under the liabilities to this lessor varied in 2009 from 20% to 25% (2008 from 20% to 25%).

The finance lease assets under finance lease agreements with OJSC "RTK Leasing" mainly comprise commutators, paystations and other telecommunication equipment.

19. 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 majority of the employees are eligible for defined benefit plan. The defined benefit pension plan provides retirement and disability pensions. To become eligible for receiving benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men subject to a condition that minimum period of 15 years for non-executive employees and 4 years for executives is served. The amount of pension benefit depends on certain factors, employee's position upon retirement among them.

The non-state pension fund Telecom-Soyuz, which is a related party of the Company, maintains the defined benefit pension plan (refer Note 36).

The Company also provides other long-term employee benefits such as a lump-sum payment upon retirement, jubilee payment, death-in-service payments and other support payments of a defined benefit nature to former employees.

As at 31 December 2009 Company employed 25 362 participants of defined benefit plan and supported 8 168 pensioners eligible for post-employment benefits (31 December 2008 – 25 551 and 8 467 respectively).

(in millions of Russian Roubles unless stated otherwise)

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

	2009	2008
Present value of fully unfunded obligations on defined benefit plans	1 707	1 869
Fair value of plan assets	-	-
Present value of unfunded obligations	**1 707**	**1 869**
Unrecognized past service cost	(100)	(153)
Unrecognized actuarial gain/(losses)	63	(129)
Net pension benefits	**1 670**	**1 587**

As at 31 December 2009 management estimated employees' average remaining working lives at 8 years (2008 - 8 years).

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

	2009	2008
Current service cost	94	105
Interest cost	168	137
Net actuarial gain recognized in year	(32)	(10)
Past service cost - guaranteed part	1	-
Amortization of past service cost - non-guaranteed part	55	55
Curtailment and final settlement effects	(6)	9
Net expense for the defined benefit plans	**280**	**296**

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.

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

	2009	2008
Employee benefit obligation as at 1 January 2009	1 869	2 052
Current service cost	94	105
Interest cost	168	137
Past service cost	3	-
Benefits paid	(48)	(46)
Liabilities extinguished on settlements	(149)	(121)
Actuarial gains	(230)	(258)
Employee benefit obligation as at 31 December 2009	**1 707**	**1 869**

(in millions of Russian Roubles unless stated otherwise)

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

	2009	2008
Fair value of plan assets as at 1 January	-	-
Contributions by the employer	197	167
Benefits paid	(48)	(46)
Assets distributed on settlement	(149)	(121)
Fair value of plan assets as at 31 December	**-**	**-**

The Company plans to contribute 176 to its non-state pension fund in 2010 in respect of defined benefit plans.

As at 31 December 2009 and 2008 the principal actuarial assumptions used in determining the amount of defined benefit plan were as follows:

	2009	2008
Discount rate	9%	9%
Future salary increase	9,72%	10,24%
Relative salary increase (“promotion”)	1%	1%
Rate used for calculation of annuity value	4%	4%
Increase in financial support benefits	5,5	6%
Staff turnover	Decreases from 20 % to 2 % depending on age group	7%
Mortality tables (source of information)	USSR 1985/86	USSR 1985/86

Historical information on defined benefit plan is as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	1 707	1 869	2 052	1 908	1 982
Plan assets	-	-	-	-	(47)
Deficit	1 707	1 869	2 052	1 908	1 935
Experience adjustments on defined benefit plan liabilities	87	261	229	67	133
Experience adjustments on defined benefit plan assets		-	-	-	(18)

Experience adjustments are included into actuarial gains and losses and represents effects of differences between prior actuarial assumptions and actual results. Experience adjustment on defined benefit plan obligations in 2009 and previous periods primarily relates to single significant excess in the number of dismissed staff and excess of the amount of payments over projected changes in respective figures in long-term perspective.

20. Long-term other liabilities

	2009	2008
Deferred income	233	269
Long-term payables and other liabilities	1	3

(in millions of Russian Roubles unless stated otherwise)

Total	**234**	**272**

21. Trade and other payables

	2009	2008
Payables for purchases and construction of property, plant and equipment	353	1 451
Payables for purchases of software	7	215
Payables to interconnected operators	165	161
Payables for operating activities	233	267
Other taxes payable	915	541
Payables to personnel	639	634
Dividends payable	34	40
Payables to OJSC "Rostelecom"	32	176
Payables to principals	143	11
Other accounts payable	268	297
Total	**2 789**	**3 793**

As at 31 December 2009 and 2008 taxes payable comprised the following:

	2009	2008
Value-added tax	597	222
Property tax	183	189
Personal income tax	50	46
Unified social tax	75	68
Other taxes	10	16
Total	**915**	**541**

22. Other current liabilities

	2009	2008
Advances received from operating activities	479	498
Advances received from non-operating activities	17	14
Total	**496**	**512**

23. 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. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that as of 31 December 2009, it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Insurance

Insurance services are still developing in Russia and many services, available in other countries, are not yet widespread in the Russian Federation. During 2009 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Legal proceedings

During the year, 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

The program provides for a gradual staff headcount decrease in 2008-2013. During 2009, the Group has made discharged 662 (2008- 1 106) of its employees. During 2010, the Group plans to make discharged 498 employees.

24. 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, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings.

(in millions of Russian Roubles unless stated otherwise)

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 2009 and 2008 were as follows:

	31 December 2009	**31 December 2008**
Financial independence ratio	0,42	0,34
Net debt / equity	1,07	1,45
Net debt / EBITDA	2,16	3,36

During 2009, international rating agency Standard&Poor's confirmed long-term credit rating of the Company as "B" (2008: «B»), the rating's projections is "Stable"; and also confirmed corporate credit rating based on national scale at "ruA-" (2008: "ruA-").

(in millions of Russian Roubles unless stated otherwise)

Income and expenses on financial instruments

2009	Consolidated Income Statement							Total
	Other operating expenses	Finance costs	Other financial income and expense					
	Doubtful debt allowance	Interest expenses	Interest income	Dividend income	Gain on asset disposal	Reversal of Impairment	Forex loss, net	
Cash and cash equivalents	-	-	197	-	-	-	-	197
Trade and other receivables	(44)	-	-	-	-	-	-	(44)
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Loans issued	-	-	-	-	-	20	-	20
Total financial assets	**(44)**	**-**	**197**	**-**	**-**	**20**	**-**	**173**
Bank and corporate loans	-	(1 420)	-	-	-	-	(332)	(1 752)
Bonds	-	(875)	-	-	-	-	-	(875)
Finance lease liabilities	-	(61)	-	-	-	-	-	(61)
Interest payable	-	-	-	-	-	-	(14)	(14)
Trade and other payables	-	-	-	-	-	-	-	-
Total financial liabilities	**-**	**(2 356)**	**-**	**-**	**-**	**-**	**(346)**	**(2 702)**

(in millions of Russian Roubles unless stated otherwise)

Income and expenses on financial instruments

2008	Consolidated Income Statement							Total
	Other operating expenses	Finance costs	Other investing and financing gains and losses					
	Doubtful debt allowance	Interest expenses	Interest income	Dividend income	Gain on asset disposal	Reversal of Impairment	Forex loss, net	
Cash and cash equivalents	-	-	31	-	-	-	-	31
Trade and other receivables	(116)	-	-	-	-	-	-	(116)
Available-for-sale financial assets	-	-	-	2	48	-	-	50
Loans issued	-	-	-	-	-	17	-	17
Total financial assets	**(116)**	**-**	**31**	**2**	**48**	**17**	**-**	**(18)**
Bank and corporate loans	-	(1 125)	-	-	-	-	(1 191)	(2 316)
Bonds	-	(739)	-	-	-	-	-	(739)
Finance lease liabilities	-	(201)	-	-	-	-	-	(201)
Interest payable	-	-	-	-	-	-	(15)	(15)
Trade and other payables	-	-	-	-	-	-	(1)	(1)
Total financial liabilities	**-**	**(2 065)**	**-**	**-**	**-**	**-**	**(1 207)**	**(3 272)**

(in millions of Russian Roubles unless stated otherwise)

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 as at 31 December 2009 and 2008 were as follows:

31 December 2009	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	598	-	-	598
Trade and other receivables	1 158	-	-	1 158
Promissory notes	155	-	-	155
Available-for-sale financial assets	16	-	-	16
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	(1 861)	(13)	-	(1 874)
Total financial liabilities	**(16 604)**	**(3 852)**	**(303)**	**(20 759)**

As at 31 December 2008	**RUR**	**USD**	**EUR**	**Total**
Cash and cash equivalents	1 541	-	-	1 541
Trade and other receivables	1 098	-	-	1 098
Available-for-sale financial assets	14	-	-	14
Total financial assets	**2 653**	**-**	**-**	**2 653**
Bank and corporate loans	(7 484)	(4 407)	(2 718)	(14 609)
Bonds	(7 925)	-	-	(7 925)
Finance lease liabilities	(472)	-	-	(472)
Interest payable	(151)	(101)	(16)	(268)
Other borrowings	(48)	-	-	(48)
Trade and other payables	(3 243)	(2)	(7)	(3 252)
Total financial liabilities	**(19 323)**	**(4 510)**	**(2 741)**	**(26 574)**

(in millions of Russian Roubles unless stated otherwise)

For the period from 1 January to 31 December 2009 the Rouble exchange rate changed to the US Dollar and Euro by decreasing approximately 2,94 % and 4,7 %, 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 Million Roubles	Effect on loss before income tax %	Changes in exchange rate, %	Effect on loss before income tax Million Roubles	Effect on loss before income tax %
31 December 2009	+10	(385)	-15,00	+5	(15)	-0,58
	-10	385	15,00	-5	15	0,58
31 December 2008	+10	(451)	-52,38	+5	(137)	-15,91
	-10	451	52,38	-5	137	15,91

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 as of 31 December 2009 and 2008:

31 December 2009	**Fixed rate**	**Floating rate**	**No rate**	**Total**
Cash and cash equivalents	598	-	-	598
Trade and other receivables	-	-	1 158	1 158
Promissory notes	155	-	-	155
Available–for-sale financial assets	-	-	16	16
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	-	-	(1 874)	(1 874)
Total financial liabilities	**(14 067)**	**(4 818)**	**(1 874)**	**(20 759)**

31 December 2008	**Fixed rate**	**Floating rate**	**No rate**	**Total**
Cash and cash equivalents	1 541	-	-	1 541
Trade and other receivables	-	-	1 098	1 098
Available-for-sale financial assets	-	-	14	14
Total financial assets	**1 541**	**-**	**1 112**	**2 653**
Bank and corporate loans	(4 883)	(9 726)	-	(14 609)
Bonds	(7 925)	-	-	(7 925)
Finance lease liabilities	(472)	-	-	(472)
Interest payable	(145)	(123)	-	(268)
Other borrowings	(48)	-	-	(48)
Trade and other payables	-	-	(3 252)	(3 252)
Total financial liabilities	**(13 473)**	**(9 849)**	**(3 252)**	**(26 574)**

(in millions of Russian Roubles unless stated otherwise)

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

		Effect on loss/profit before income tax	
	Changes in exchange rate, basis points	**Million Roubles**	**%**
31 December 2009	+100	(48)	-1,87
	-100	48	1,87
31 December 2008	+100	(98)	-11,38
	-100	98	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 31 December 2009 financial assets and liabilities had the following maturities:

	2010	**2011**	**2012**	**2013+**	**Total**
Cash and cash equivalents	598	-	-	-	598
Trade and other receivables	1 143	15	-	-	1 158
Promissory notes	155	-	-	-	155
Available for sale financial assets	1	15	-	-	16
Total financial assets	**1 897**	**30**	**-**	**-**	**1 927**
Bank and corporate loans	(4 117)	(4 454)	(3 807)	(945)	(13 323)
Bonds	(2 000)	(2 000)	(1 000)	-	(5 000)
Vendor financing	(214)	(149)			(363)
Finance lease liabilities	(81)	-	-	-	(81)
Interest payable	(1 813)	(1 627)	(777)	(65)	(4 282)
Other borrowings	(13)	(26)	(3)	(4)	(46)
Trade and other payables	(1 874)	-	-	-	(1 874)
Total financial liabilities	**(10 112)**	**(8 256)**	**(5 587)**	**(1 014)**	**(24 969)**

The cash flows in the above table include interest expenses accrued at the year 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.

(in millions of Russian Roubles unless stated otherwise)

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

31 December 2009		**Post due (days)**			
	Total	<30	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**
31 December 2008		**Post due (days)**			
	Total	<30	31-60	61-90	91-180
Corporate customers	72	48	8	3	13
Residential customers	79	50	11	5	13
Governmental customers	27	19	4	1	3
Interconnected operators	48	29	6	8	5
Total	**226**	**146**	**29**	**17**	**34**

Hedging

In the years 2009 and 2008 the Company did not hedge its currency risks or interest rate risks.

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).

The table below summarises the information on fair values of the Company's financial assets and liabilities as at 31 December:

		31 December 2009		**31 December 2008**	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	LR	598	598	1 541	1 541
Trade and other receivables	LR	1 158	1 158	1 098	1 098
Available-for-sale financial assets	AFS	16	16	14	14
Promissory notes	LR	155	155	-	-
Total financial assets		**1 927**	**1 927**	**2 653**	**2 653**
Bank and corporate loans	LAC	13 280	13 280	14 609	14 609
Bonds	LAC	4 987	4 975	7 925	7 060
Vendor financing	LAC	346	346	-	-
Finance lease liabilities	LAC	81	81	472	472
Interest payable	LAC	145	145	268	268
Other borrowings	LAC	46	46	48	48
Trade and other payables	LAC	1 874	1 874	3 252	3 252
Total financial liabilities		**20 759**	**20 747**	**26 574**	**25 709**

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

(in millions of Russian Roubles unless stated otherwise)

25. Revenue

	2009	2008
Local telephone services	9 534	9 388
Intra-zone telephone services	3 436	3 721
Data transmission, telematic services (Internet)	5 762	4 440
Interconnection services	1 932	2 211
Fees on assistance services and agency fees	479	520
Radio and TV broadcasting	361	339
Other telecommunication services	92	99
Other revenues	624	582
Total	**22 220**	**21 300**

In 2009 and 2008 Sothern Telecommunications Group generated revenue by the following major customer groups:

Customer groups	2009	2008
Residential customers	11 411	10 929
Corporate customers	5 827	5 462
Governmental customers	2 572	2 184
Interconnected operators	2 410	2 725
Total	**22 220**	**21 300**

26. Personnel costs

	2009	2008
Salary expenses	4 466	4 553
Social taxes	1 109	1 128
Pension plan costs	84	140
Other personnel costs	178	169
Total	**5 837**	**5 990**

27. Materials, repairs and maintenance, utilities

	2009	2008
Materials	1 170	1 354
Repairs and maintenance	825	838
Utilities	572	497
Total	**2 567**	**2 689**

(in millions of Russian Roubles unless stated otherwise)

28. Other operating income

	2009	2008
Reversal of impairment on property, plant and equipment impairment	442	-
Reimbursement of losses incurred from universal services fund	458	302
Recognition of assets transferred by customers in prior years	265	-
Inventory stock take	24	27
Write-off of payables	5	27
Reversal of allowance for tax claims	-	114
Other income	137	179
Total	**1 331**	**649**

During 2009, 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 – 357 (2008 – 217),
- for previous year services – 84 (2008 – 66).

Losses from rendering of universal telecommunications services during 2009 amounted to 458 (2008 - 302) and were confirmed by an independent audit firm.

29. Other operating expenses

	2009	2008
Impairment loss on property, plant and equipment	-	1 642
Third party services and management charges	610	557
Allowance for impairment of receivables	44	116
Taxes, other than income tax	817	817
Loss on disposal of property, plant and equipment	181	82
Agency fee	269	241
Advertising expenses	61	72
Rent of premises	294	243
Fire and other security services	291	292
Audit and consulting fees	41	51
Universal service fund payments	227	213
Member fees, charity contribution, payments to labour unions	31	53
Travel allowance and representative expenses	49	67
Insurance of assets	17	23
Credit organizations services	62	50
Impairment of Amdocs	-	235
Non-commercial partnership “NP CPRT” contributions	-	93
Other expenses	451	654
Total	**3 445**	**5 501**

(in millions of Russian Roubles unless stated otherwise)

30. Interest expense

	2009	2008
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	2 383	1 864
Interest expense on finance lease liabilities	61	201
Interest expense of defined benefit plans	168	137
Total	**2 612**	**2 202**

The amounts of the interest capitalized in 2009 and 2008 were as follows:

	2009	2008
Capitalized to property, plant and equipment	91	113
Capitalized to intangible assets	-	33
Total	**91**	**146**

31. Income tax

Federal law No. 224-FZ dated 26.11.2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from 1 January 2009.

Income tax charge for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Current income tax expense	(484)	(241)
Deferred income tax expense benefit	(327)	431
Total income tax expense for the year	**(811)**	**190**
Current income tax expense	(484)	(241)
Deferred income tax expense related to the temporary differences	(327)	413
Change in income tax rate from 24% to 20%	-	18
Total deferred income tax expense benefit	(327)	431
Total income tax expense for the year	**(811)**	**190**

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

	2009	2008
Profit/(loss) before income tax	**3 067**	**(861)**
Statutory income tax rate	20%	24%
Theoretical tax charge at statutory income tax rate	(613)	207
Increase resulting from the effect of:		
Non-deductible expenses	(198)	(35)
Change of tax rate	-	18
Total actual income tax	**(811)**	**190**
Effective tax rate	**26%**	**22%**

(in millions of Russian Roubles unless stated otherwise)

Deferred income tax assets and liabilities as at 31 December 2009 and 2008, and their changes in 2009 and 2008 were as follows:

	31 December 2007	Origination and reversal of temporary differences	Change of tax rate	31 December 2008	Origination and reversal of temporary differences	31 December 2009
Deferred tax assets						
Trade and other payables	12	(11)	-	1	10	11
Trade and other receivables	8	2	(2)	8	1	9
Deferred income	75	(10)	(11)	54	(8)	46
Employee benefits	165	39	(34)	170	10	180
Total deferred tax assets	**260**	**20**	**(47)**	**233**	**13**	**246**
Deferred tax liability						
Property, plant and equipment	(343)	318	4	(21)	(330)	(351)
Intangible assets	(164)	(66)	40	(190)	(37)	(227)
Financial assets	(55)	(8)	9	(54)	(15)	(69)
Loans and borrowings	(197)	121	13	(63)	44	(19)
Other	(25)	28	(1)	2	(2)	-
Total deferred tax liabilities	**(784)**	**393**	**65**	**(326)**	**(340)**	**(666)**
Deferred tax liabilities, net	**(524)**	**413**	**18**	**(93)**	**(327)**	**(420)**

In the context of the Company's current corporate structure, tax losses and current tax assets of the different companies cannot be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one company cannot be offset against a deferred tax liability of another company.

The Company has not recognised a deferred tax liability in respect of investments in subsidiaries in the amount of 37 (2008 – 24), as managements believes that the Company is able to control the timing of reversal of respective temporary differences, and reversal is not expected in the foreseeable future.

32. 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

	2009	2008
Profit (loss) for the year	2 255 746	(671 085)
Less: attributable to preference shareholders	(557 619)	165 892
Attributable to ordinary shareholders	**1 698 127**	**(505 193)**
Weighted average number of ordinary shares outstanding (thousands)	2 960 513	2 960 513
Basic and diluted earnings/(loss) per share in Roubles	0,574	(0,171)

(in millions of Russian Roubles unless stated otherwise)

33. Dividends declared and proposed for distribution

In 2009 in accordance with the decision of general meeting of shareholders, the dividends were declared in the amount of 0,028223 Roubles per ordinary share and 0,057300 Roubles per preference share for year ended 31 December 2008.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share, Roubles	Total dividends payable, Roubles
Declared and approved for 2008			
Preference shares	972 151 838	0,057300	55 704 300
Ordinary shares	2 960 512 964	0,028223	83 554 557
Total	**3 932 664 802**		**139 258 857**

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

34. Operating leases

As of 31 December 2009 and 2008 minimum lease payments under non-cancellable operating leases where the Company is a lessee were allocated by years as follows:

	2009 Minimum lease payments	2008 Minimum lease payments
Current portion (less than 1 year)	219	219
More than 1 to 5 years	94	79
Over 5 years	74	189
Total	**387**	**487**

The primary subject of operating leases where the Southern Telecommunications Group acts as a lessee are premises

Southern Telecommunications Group operating lease expenses presented in "Other operating expense" line item of consolidated income statement amounted in 2009 to 294 (2008 - 243).

35. Capital commitments

As at 31 December 2009 and 2008 the Company's contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 452 and 462 respectively.

(in millions of Russian Roubles unless stated otherwise)

36. Balances and transactions with related parties

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

Transactions	**OJSC "Svyazinvest"**	**OJSC "Svyazinvest" subsidiaries**	**Associates**	**Other**
2009				
Revenue from telecommunication services, interconnection and traffic transmission services	-	1 146	20	-
Agency services	-	461	-	-
Rental income	-	10	7	-
Revenue from sale of property, plant and equipment and other assets	-	-	1	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	456	37	-
Purchase of other services	-	86	-	149
Purchase of goods and other assets	-	2	-	-
Dividend income	-	-	94	-
Dividends payable	42	-		-
Receivables written-off	-	-	2	-
- including against doubtful debt allowance	-	-	2	-
2008				
Revenue from telecommunication services, interconnection and traffic transmission services	-	1 695	27	-
Agency services	-	503	-	-
Rental income	-	-	8	-
Revenue from sale of property, plant and equipment and other assets	-	6	1	-
Purchase of telecommunication services, interconnection and traffic transmission services	-	288	41	-
Purchase of other services	-	428	1	121
Purchase of goods and other assets	-	147	-	-
Dividend income	-	2	132	-
Dividends payable	123	-	-	-

(in millions of Russian Roubles unless stated otherwise)

As of 31 December 2009 and 2008 significant outstanding balances with related parties were as follows:

Type of balances	OJSC "Svyazinvest"	OJSC "Svyazinvest" subsidiaries	Associates	Other
2009				
Trade and other receivables, net	-	11	3	-
Trade and other payables	-	196	3	5
2008				-
Trade and other receivables, net	-	66	3	-
Trade and other payables	-	233	4	4

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

OJSC "Svyazinvest"

OJSC "Svyazinvest" is Open Joint Stock Company, incorporated under the laws of the Russian Federation. As at 31 December 2009 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.

(in millions of Russian Roubles unless stated otherwise)

The respective amounts included in the consolidated financial statements as at 31 December 2009 and 2008 were as follows:

	2009	**2008**
Revenue from telecommunication services, interconnection and traffic transmission services	1 003	1 620
Agency services	461	503
Purchase of telecommunication services, interconnection and traffic transmission services	336	187
Trade and other receivables, net:	1	29
Trade and other payables	160	176

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".

Borrowing transactions with state-controlled entities and related information on interest accrued and security provided are disclosed in Note "Borrowings".

Non-state pension fund "Telecom-Soyuz"

The Company signed centralised pension agreement with a non-state pension fund Telecom-Soyuz (Note 19). 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 total amount of contributions to non-state pension fund paid by Southern Telecommunications Group in 2009 amounted to 149 (2008 – 121). 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 Committee and the Board of Directors of the Company, totalling 19 persons as at 31 December 2009 (2008 – 20).

Remuneration to members of the Board of Directors and the Management Committee of the Company for 2009 includes salaries, bonuses and remuneration for participation in the work of management bodies and amounts to 90 (2008 - 93). The remuneration amounts are stated exclusive of the unified social tax.

37. Subsequent events

Dividends

Annual dividend per share is subject for approval by the Company's General Shareholders' Meeting in June 2010. The Group's management will advise the Board of Directors to recommend dividends for 2009 of 0,09351 Roubles per ordinary share and 0,18985 Roubles per preference share (2008 – 0,02822 and 0,0573 respectively) for approval by the General Shareholders' Meeting.

(in millions of Russian Roubles unless stated otherwise)

Reorganization

On 13 May, 2010 the Board of Directors of the Company approved the inclusion in the agenda of forthcoming Annual General Meeting of Shareholders the issue of reorganization of Southern Telecommunications Company by merging into Rostelecom. In the context of this issue, the merger agreement between Southern Telecommunications Company and Rostelecom was submitted by the Board for approval at the Annual General Meeting. The share swap ratios for the Company's ordinary and preference shares were set at 19,378 and 24,648, respectively, for one Rostelecom ordinary share. The Board has also determined the buyback price of the Company's shares to be bought from shareholders who do not participate in the swap. The buyback price for ordinary and preference shares of the Company is set at RUB 4,45. The swap ratios and buyback price were based on the market value of the Company's shares determined by an independent appraiser.

Staff optimization

Under the staff optimization program the Company discharged 396 employees and notified 400 employees of forthcoming reductions since 01 January 2010 to the date of signing of the consolidated financial statements.

Share capital structure

The Company's shareholders structure as of the date of signing of the consolidated financial statements as follows:

Shareholders	Share of capital, %	Ordinary shares		Preference shares	
		Number (thousands)	%	Number (thousands)	%
Legal entities, total	**89,5**	**2 739 159**	**92,5**	**782 308**	**80,5**
OJSC Svyazinvest	38,2	1 500 671	50,7	-	-
- those with more than 5% of shares, including:	45,5	1 123 694	37,9	666 920	68,6
- CJSC Deposit-Clearing company	24,7	534 875	18,0	436 902	44,9
- Non-commercial Partnership National Depositary center	20,8	588 819	19,9	230 018	23,7
- other	5,8	114 794	3,9	115 388	11,9
Individuals, total	10,5	221 354	7,5	189 844	19,5
Total	**100**	**2 960 513**	**100**	**972 152**	**100**

Loans

On 17 May 2010, the Company signed the two credit line loan agreements with OJSC Bank VTB in the total amount of 5 000. The loan facility matures in May 2013 and bears an interest rate of 8,74%. The proceeds from the loans will be used for refinancing of the Company's short-term debt.