

Approved by the General
Shareholders' Meeting of
"Southern Telecommunications
Company" PJSC
(Minutes № 19 of June 17, 2008)

Approved by the Board of Directors
of "UTK" PJSC on a preliminary
basis
(Minutes № 27 of May 7, 2008)

2007 ANNUAL REPORT
PUBLIC JOINT-STOCK COMPANY
"SOUTHERN TELECOMMUNICATIONS COMPANY"

General Director of "UTK" PJSC

A. V. Andreev

Chief Accountant of "UTK" PJSC

T. V. Rusinova

Krasnodar, 2008

TABLE OF CONTENTS

GENERAL INFORMATION	4
LETTER OF THE GENERAL DIRECTOR.....	6
I. KEY CORPORATE EVENTS OF 2007.....	7
1.1. General Shareholders' Meetings.....	7
1.2. Participation in Road shows, large exhibitions and conferences.....	8
1.3. Meetings of the top management with investment funds	8
1.4. Assignment (revision) of Credit ratings and Corporate Governance Scores.....	9
1.5. Information on floatation of bond issues and on the bond issues in circulation.....	10
1.6. Measures to maintain the Company's securities in quotation lists	11
1.7. IR Actions and development of secondary market of shares	11
1.8. Charity.....	12
1.9. Work with population, consumers of the Company's value-added services.....	13
1.10. Work with the Company's staff (corporate events, corporate periodicals).....	14
II. POSITION OF THE COMPANY IN THE TELECOMMUNICATIONS SECTOR	14
III. PRIORITY TRENDS OF THE COMPANY'S BUSINESS OPERATIONS	15
3.1. Building and updating of intra-zone transportation networks on the basis of DWDM technology. Construction of data transmission networks on the basis of MPLS technologies.	15
3.2. Development of next generation networks (NGN), mobile networks and networks of wired and wireless broadband access. Broadening the range of services provided on the basis of intelligent networks, new content and Triple Play services, including IP – TV.....	15
3.3. Introducing and updating of IT solutions including implementation of the centralized IT Programs.....	16
IV. DEVELOPMENT PROSPECT	18
4.1. Development priorities for 2008 – 2012	18
4.2. Major investment projects in 2008	20
4.2.1. Traditional telephony.....	20
4.2.2. New and other services.....	21
4.2.3. Development of Call centers	22
4.2.4. Meeting the requirements of the Russian legislation.....	23
4.2.5. Communication lines.....	23
4.2.6. Investments in Information Technologies.....	24
4.3. IT Development Priorities.....	24
V. MAIN PERFORMANCE RESULTS.....	25
5.1. Investment policy	25
5.2. Key highlights of network development.....	34
5.3. Key financial highlights.....	39
5.4. 2007 revenue breakdown by kind of services and client segment	41
5.5. 2007 operating costs.....	42
5.6. Main business efficiency indicators.....	43
5.7. Net assets	44
VI. RISK MANAGEMENT	44
VII. SOCIAL RESPONSIBILITY.....	49
7.1. Work with personnel.....	49

7.2. Social policy and charity.....	53
VIII. CORPORATE GOVERNANCE	55
8.1. The Company's organizational structure.....	55
8.2. Board of Directors	55
8.3. General Director.....	69
8.4. Management Board.....	70
8.5. Auditing Commission	74
8.6. Credit ratings and Corporate Governance Scores assigned to the Company.....	77
8.7. The Company's Auditor (RAS and IFRS).....	77
8.8. The Company's Registrar.	78
IX. SECURITIES.....	79
9.1. Authorized capital and securities.	79
9.2. Share capital structure	79
9.3. Information on the principal shareholders	79
9.4. Report on payment of declared (accrued) dividends under the Company's shares	81
9.6. ADR Program.....	82
X. INFORMATION FOR SHAREHOLDERS	85
10.1. Information about the Company's branches.....	85
Appendix 1. MATERIAL TRANSACTIONS.....	87
Appendix 2. INFORMATION ON THE COMPANY'S PARTICIPATION IN CAPITAL OF OTHER COMPANIES PROVIDING TELECOM SERVICES (SHARE IN WHICH AUTHORIZED CAPITAL IS NOT LESS THAN 25 PERCENT)	97
Appendix 3. OBSERVANCE OF THE CODE OF CORPORATE CONDUCT	99
1. Information about the Company's Corporate Governance Code	99
2. Report on compliance with the recommendations of the Code of Corporate Conduct Code of the Federal Commission for Securities Market of the Russian Federation.....	102

GENERAL INFORMATION

Full registered name: Public Joint –Stock Company "Southern Telecommunications Company"

Abbreviated registered name: PJSC "UTK"

Registered office: 66, Karasunskaya street, Krasnodar, 350000, Russian Federation

Mailing address: 66, Karasunskaya Street, Krasnodar, 350000, Russian Federation

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Internet web-site: <http://www.stcompany.ru/>

Data on the State Registration of the Company:

Date of the state registration: May 20, 1994

No. of the certificate of the state registration: series A № 494

Authority of the state registration: Krasnodar City Registration Chamber

State registration number: 186-p

Certificate of making an entry in the Single State Register of Legal Entities on the legal entity registered before 1st July 2002:

Date of making an entry: August 2, 2002

Number of the certificate: series 23 № 003062350

State registration number: 1022301172112

Name of the registering authority: Interregional inspectorate on the largest taxpayers of the Ministry of Taxes and Fees of the Russian Federation for the Krasnodar Krai.

Public Joint –Stock Company "Southern Telecommunications Company" was founded as Open-type joint-stock company "Kubanelectrosvyaz" by the Committee of the State Property Management of the Krasnodar kray according to the Decree of the President of the Russian Federation № 721 of July 1, 1992 "On organizational measures on transformation of the state-run enterprises, voluntary associations of the state enterprises to joint-stock companies ", and the Decree of the Government of the Russian Federation № 1003 of December 22, 1992 "On privatization of telecom enterprises".

20.05.1994. "Kubanelectrosvyaz" OJSC was registered by the Decree of the Head of Krasnodar Administration №186-p as a legal successor of the state-run telecom enterprise of the Krasnodar Territory "Rossvyazinform".

30.05.2001. General Shareholders' Meeting of "Kubanelectrosvyaz" OJSC approved the resolution on introducing changes into the Company's Charter regarding renaming the Company into Public Joint Stock Company "Southern Telecommunications Company" (registered by Krasnodar Registration Chamber, № 16048 of 28.06.01).

02.08.2002. The Company was re-registered by the Interregional inspectorate № 4 of the Ministry of Taxes and Fees of the Russian Federation for the Krasnodar Krai and the entry was made in the Single State Register of Legal Entities on the legal entity registered before 1st July 2002 under the main state registration number 1022301172112. Date of making the entry was August 2, 2002.

31.10.2002. On the basis of the resolution of the General Shareholders' Meeting of "UTK" PJSC (former "Kubanelectrosvyaz" OJSC) approved on 21 December 2001 "Southern Telecommunications Company" PJSC was reorganized through merger of the following companies into it as branches: "Vologradelectrosvyaz" OJSC; "KabBalktelecom" OJSC; "Karachaevo-

Cherkesskelectrosvyaz” OJSC; “Svyazinform” OJSC, Astrakhan Region; “Sevosetinelectrosvyaz” OJSC; “Electrosvyaz of Adygeia Republic” OJSC; “Electrosvyaz” OJSC, Kalmykia Republic; “Rostovelectrosvyaz” OJSC; “Electrosvyaz” OJSC, Stavropol Territory;

31.10.2002 Interregional inspectorate № 4 of the Ministry of Taxes and Fees of the Russian Federation for the Krasnodar Kray made an entry in the Single State Register of Legal Entities on state registration of the changes in the constituent documents of a legal entity (state registration of the reorganization) under main state registration number 202230117254;

21.01.2003. Joint Extraordinary General Shareholders’ Meeting of "UTK" PJSC was held completing the process of the Company’s formal reorganization.

LETTER OF THE GENERAL DIRECTOR

Dear shareholders, investors and colleagues!

I am pleased to present our Annual Report to you. I'd like to note that the year 2007 was a successful one both for the telecommunications industry as a whole and for the Company. It was a year of national projects, anniversaries and important events such as: step-by-step introduction of three tariff plans in the regions, connection of 5,180 schools to the Internet network, installation of 7,500 payphones within the framework of the project "Universal service", 70th anniversaries of several regional communication companies being at present UTK's branches, getting the Olympic status by Sochi. The Company's business result was also a success in 2007. We fulfilled our plans of technical development, got good financial results and achieved the set business objectives.

Last year we launched the construction of NGN networks and extended our broadband access network that allowed the Company to broaden IP-TV service area. At present IP-TV services are rendered in 6 branches of "UTK" PJSC. Flexible marketing solutions such as introduction of unlimited tariffs, offer of the package of services "Full UNLIM", development of the popular multimedia content portal "Mediazona 2.0" contributed greatly to the Company's progress.

Last year we developed and approved the Development Program of "Southern Telecommunications Company" PJSC till 2012 which determined its business strategy. One of the first results of the Program realization was a stable net income growth to 1,826.8 million rubles. Now we are convinced that our strategy is correct and will continue our work with enthusiasm.

When speaking about the Company's progress, I want to thank all our partners and clients for their fruitful cooperation and confidence. I would like to assure them that UTK's management will follow the development strategy aimed at improvements in the Company's business efficiency, increase in its investment appeal and revenue growth.

A. V. Andreev

General Director of "Southern Telecommunications Company" PJSC

I. KEY CORPORATE EVENTS OF 2007

1.1. General Shareholders' Meetings

Annual General Shareholders' Meeting of "Southern Telecommunications Company" PJSC was held on June 26, 2007. Procedure for the AGM preparation was in full compliance with the Russia laws, the Company's Charter, Provisions of the Company's Corporate Governance Code (Set of Rules) and other corporate by-laws.

List of shareholders entitled to participate in the Annual General Shareholders' Meeting was made up on the basis of records in the shareholders' register as of May 7, 2007.

The Annual General Shareholders' Meeting of the Company approved the following resolutions:

1. To approve annual report, annual financial statements including profit and loss statement (profit and loss accounts) for fiscal year 2006.

To distribute the Company's profit on the basis of the reported fiscal year 2006 financial results as follows:

- 275,444 thousand rubles to pay dividends, including:
0.121838 rubles per one preference share;
0.053031 rubles per one ordinary share;
- 908,998 thousand rubles to increase the Company's owned capital.

To pay dividends on preference shares in cash prior to 24 August 2007; to pay dividends on ordinary shares in cash prior to 20 December 2007.

To determine the following procedure for payment of dividends to the persons included in the list of persons entitled to receive dividends, made up according to the data in the register of shareholders of the Company as of May 7, 2007:

- transfer to bank accounts of shareholders (shareholders shall bear expenses related to the dividends to be received by them);
- postal order (shareholders shall bear postal expenses related to the dividends to be received by them);
- cash payment in the Company's pay-offices (only to the Company's employees).

2. To elect the following members to the Company's Board of Directors:

Alexander Vladimirovich Andreev
Boris Dmitrievich Antonyuk
Yuriy Alexandrovich Bilibin
Andrey Alexandrovich Vinkov
Yevgeny Petrovich Yenin
Vladimir Borisovich Zhelonkin
Oleg Borisovich Zyuzin
Gennady Georgievich Kudryavtsev
Denis Viktorovich Kulikov
Stanislav Nikolaevich Panchenko
Elena Petrovna Selvich

3. To elect the following members to the Company's Auditing Commission:

Ruslan Kyarimovich Aksyaitov
Sergey Vladimirovich Podosinov
Mikhail Viktorovich Tretyakov
Natalia Vadimovna Feoktistova
Olga Sergeevna Chetvyorkina

4. To appoint the auditing company CJSC "KPMG" the Company's Auditor for 2007
5. To approve the following rates of deductions for calculation of the annual remuneration payable to the members of the Board of Directors elected by the annual General Shareholders' Meeting:
 - 0.26% (naught point two six percent) of the Company's EBITDA stated in the Company's 2007 financial statements in accordance with IFRS;
 - 0.78% (naught point seven eight percent) of the Company's net profit allocated to dividend payment based on 2007 financial results.
6. To introduce amendments and additions to the Charter of "UTK" PJSC.
7. To introduce amendments and additions to the Regulations on the procedure for conducting a General Shareholders' Meeting of "Southern Telecommunications Company" PJSC.
8. To introduce amendments and additions to the Statute on the Board of Directors of "UTK" PJSC.

1.2. Participation in Road shows, large exhibitions and conferences

- On March 30, 2007 the Company's management held a call conference with representatives of Golden Sachs Ltd. During the conference top managers of "UTK" PJSC answered the questions concerning the Company's development prospects and its strategy in the value-added market segment.
- In June 2007 the Company was awarded a golden medal "For Leadership in the Telecommunications Sector" at the second regional exhibition "Protection. Security. Communications-2007" held in Vladikavkaz.
- On October 10, 2007 the Company's management held a call conference with representatives of the bank "ZAO "Credit Suisse". During the conference top managers of "UTK" PJSC answered the questions concerning the Company's business activity, development prospects and its strategy in different market segments.
- In October 2007 the Company took part in the 7th International Exhibition-Forum "InfoCom-2007" acting as a general sponsor and co-organizer of the only regional site of the Forum in Krasnodar. The Company demonstrated new technologies and new telecom services as well as the ways they could be used in business, government and social spheres of life.
- On November 19-22, 2007 Southern Telecommunications Company together with "Svyazinvest" OJSC and Deutsche Bank took part in a road show in Europe. The Company's management presented financial and performance results of "UTK" PJSC as well as the main parameters of its Development Program for 2008-2012.
- On November 27, 2007 the Company's management held a call conference with analysts of Renaissance Capital. During the conference the parties discussed the questions related to the Company's financial policy, competitive activity and selection of three tariff plans by subscribers.

1.3. Meetings of the top management with investment funds

- On March 16, 2007 the Company's management met with representatives and analysts of Russian and foreign investment funds, banks, financial and management companies. Forty representatives of the investment community including investment financial companies "Metropol", "Solid", "Diamond Age" (UK), "FIM" (Finland) took part in the meeting. Top managers of Southern Telecommunications Company made a presentation of 2006 preliminary results and development prospects.
- On June 8, 2007 a meeting was held in Moscow between the management of the company and analysts from leading Russian investment companies and banks, such as: Advanced Research, ING Bank (Eurasia), Antanta Capital, Aton Capital, KIT Finance, Alfa-bank, Deutsche UFG, UBS

Russia, Bank Societe Generale Vostok, Veles Capital, Bars Finance, Alemar, Rye, Man & Gor Securities. UTK CEO gave a presentation which showcased the RAS results of the Company's main activities in 2006 and Q1 2007, as well as its growth outlook.

- On December 20, 2007 the Company's management met in Moscow with analysts of "Citi" bank. At the meeting the parties discussed the issues on investment activity, interaction with other telecom operators as well as on the Company's business strategy.

1.4. Assignment (revision) of Credit ratings and Corporate Governance Scores

Table 1

Date of assignment (revision)	Rating agency	Object of rating	Rating
CREDIT RATINGS			
05.04.2007	Moody's Investors Service Moody's Interfax	"UTK" PJSC	Upgraded to "B1" of the corporate family rating of Southern Telecommunications Company. The outlook of the rating is stable. Upgrade of the Company's long-term national scale credit rating to A2.ru. The ratings reflect the Company's incumbent leadership position in the SFD fixed-line telecommunications market, supported by UTK's historical ownership of the relevant infrastructure, remaining low fixed-line penetration, providing for growth perspectives, and significant pent-up demand for new value-added services in the region, proven dedication of the management to de-leveraging of the company, reduced reliance on short-term debt associated with re-financing risks, and the Company's efforts to commensurate investment with internal cash flow generation.
06.06.2007	Standard & Poor's	"UTK" PJSC	Standard & Poor's Ratings Services placed its B-long-term corporate credit rating and ruBBB Russia national scale rating on CreditWatch with positive implications. According to Standard & Poor's, the CreditWatch placement reflects potential improvement in UTKs creditworthiness given the Company's apparent progress in gradually addressing its liquidity risk, strengthening financial position and maintaining positive performance trend.
21.11.2007	Standard & Poor's	"UTK" PJSC	Standard & Poor's Rating Services raised its long-term corporate credit rating on Southern Telecommunications Company to B from B- with "Positive" outlook. At the same time, the Russia national scale rating was raised to ruA from ruBBB. The rating upgrade was mainly attributable to generation of positive free operating cash flow due to decline in debt leverage, the Company's limited capital expenditures, EBITDA increase as well as active development of value-added services and tight cost control. According to Standard & Poor's analysts, UTK's dominant position in local and intra-zonal telephony segments and its established position as a regional incumbent operator in Russia's telecoms industry moderate the Company's main risks.
CORPORATE GOVERNANCE SCORES			

Date of assignment (revision)	Rating agency	Object of rating	Rating
24.08.2008	Standard & Poor's	"UTK" PJSC	<p>Standard & Poor's Governance Services raised its Russia national scale corporate governance score (CGS) on Southern Telecommunications Company to "CGS-4.9" from "CGS-4.8". The global scale score was affirmed at 'CGS-4+'. The upgrade on the Russia national scale primarily reflects the fact that "UTK" PJSC has conducted an open tender for audit services in 2007. The main strengths of corporate governance practices at "UTK" PJSC include:</p> <ul style="list-style-type: none"> • relatively high overall transparency level, and the Company's proactive approach to investor relations; • the Company's auditor having a good global reputation has been chosen at the open tender. "UTK" PJSC seeks to strengthen its Internal Audit Department; • high quality of procedures for preparing and holding of General shareholders' meetings and great range of rights granted to shareholders according to Russian legislation; • great influence and effectiveness of the Board of Directors. Each of the four board-level committees has outside directors in its structure.
11.03.2008	Rating agency «Expert RA»	"UTK" PJSC	<p>Expert RA Rating Agency affirmed its "A" (or "7+" – according to numerical score) national rating of corporate governance assigned earlier to "Southern Telecommunications Company" PJSC. Companies with "7+" rating have low risks associated with corporate governance. The Company does not break the requirements of the Russian legislation in the sphere of corporate management, follows the main recommendations of the Russia Code of corporate conduct and of the advanced international corporate governance practice. Corporate governance practice of "Southern Telecommunications Company" PJSC has been developing very quickly driven by strategic initiatives of the Company's management and its shareholders. The important step in corporate governance improvement was quicker preparation of the financial statements under International Financial Reporting Standards (IFRS). According to monitoring results, the Company has become one of the leaders in Russia with respect to corporate governance quality. (The Company's 2007 performance results were audited).</p>

1.5. Information on floatation of bond issues and on the bond issues in circulation

As of January 1, 2007 the Company had three bond issues in circulation worth total 9,500,000 thousand rubles. During the year the Company fully and timely executed its obligations on coupon income payments, repayment and buy-back of the bonds on demand of their owners.

One of the important last year corporate events was the placement of the Company's 05-series bond issue in MICEX Stock section (trading codes - UTK-05 ob., ISIN RU000A0JP9K1). Series 05 non-convertible interest-bearing documentary pay-to-bearer bonds were placed on June 6, 2007. The issue is for a total of Rub 2 bln. Period to maturity is 5 years. The face value of 1 bond is Rub

1,000. The bond issue carries 10 coupon periods, each lasting 182 days. The interest rate for the 1st – 6th coupons is set at 7.55% per annum. The 7th through 10th coupons shall be fixed by the Issuer.

The sum of the paid coupon income under the bond issues circulating in the bond market in 2007 made 947,790,000.00 rubles.

In October 2007 all obligations provided by "UTK" PJSC offer to buy back series 03 bonds presented for redemption were fulfilled on time and completely. The obligation was fulfilled in time stipulated in the Decision on the Bond Issue. During the offer the Company acquired the bonds presented for redemption to the amount of 2,865,295,400.31 rubles (including the accumulated coupon yield). The agent for the offer was OAO AKB Svyaz-Bank. All the redeemed bonds were further placed in the secondary market.

In February 2007 the Company redeemed the nominal value of UTK series 02 bonds to the amount of 1,500,000 thousand rubles.

In June 2007 the Company fulfilled in full its obligation on redemption of the second part of the nominal value of UTK series 04 bonds to the amount of 750,000,000 rubles.

In December 2007 the Company fulfilled in full its obligation on redemption of the third part of the nominal value of UTK series 04 bonds to the amount of 500,000,000 rubles.

1.6. Measures to maintain the Company's securities in quotation lists

The Company undertakes continuous measures to maintain its securities in quotation lists in accordance with the requirements of Regulations on the activity for organization of trade on the equity market approved by the Decree of the Federal Financial Markets Service of the Russian Federation № 06-68/pz-n of 22 June 2006, Regulations on information disclosure by issuers of securities № 06-117/pz-n of 10 October 2006 and Listing Rules of CJSC "SE"MICEX" and OJSC "RTS".

Series 03 non-convertible interest-bearing certificated pay-to-bearer bonds were included in the MICEX A1 Quotation List by the Decision of MICEX SE Executive Board of October 30, 2007).

In addition, the Company's ADRs representing its common shares circulate in foreign equity markets. According to the Decree of FCSM № 1819/r of 24.12.2002 circulation of "UTK" PJSC common registered non-documentary shares outside the Russian Federation is permitted in the form of ADRs in the amount of 2,102,078,765 units. Level 1 ADR program was registered on 5th February 1998. The Company's ADRs are quoted in the US over-the-counter market, and in Europe – Frankfurt and Berlin Stock Exchanges and NEWEX, thus making UTK's shares widely available to foreign investors. JP Morgan Chase Bank is at present the Company's ADR Depository. ING Bank (Eurasia) ZAO acts as the Custodian.

1.7. IR Actions and development of secondary market of shares

During 2007 "UTK" PJSC developed certain investment solutions related to the Company's shares and carried out analysis of strengths and weaknesses of its business profile that resulted in the shares' liquidity growth. The trading volume of UTK's ordinary shares increased on MICEX by 56% to 1.1 billion rubles and the trading volume of UTK's preference shares remained the same. UTK bonds were also quite liquid in 2007.

Table 2

Liquidity of UTK bonds in 2007

Bonds	2006		2007	
	Number of deals	Trading volume, RUR mln	Number of deals	Trading volume, RUR mln

UTK-03	2,020	3,188	1,552	3,591
UTK-04	1,642	3,871	1,184	3,425
UTK-05 (trading started from August 8, 2007)	-	-	345	1,911.8

In April 2007 the interview with the Company's CEO "UTK: focus on development of new telecom services" was published in the special project "The Issuer" of the periodical "RTsB" ("Securities Market").

During 2007 the Company published on a regular basis detailed analytical press releases about material corporate events as well as press releases on intermediate unaudited performance results of the Company for 2006 according to Russian Accounting Standards (RAS), 1Q 2007 performance results (RAS), 1H 2007 performance results (RAS), 2006 financial results of "UTK" PJSC according to International Financial Reporting Standards (IFRS), 1H 2007 financial results (IFRS), 9m 2007 performance results of "UTK" PJSC (RAS) as well as on development of new technologies in 1 H 2007 and plans for 2H 2007, business development forecast and financial strategy of "UTK" PJSC for 2008-2012.

To increase transparency of the Company's business, section "Investor relations" of the corporate site has been updated on a regular basis including maintaining active status of subsection "Company's Statistics", regular updates of information on the Company's share capital structure, reports on optimization of receivables; data on remuneration paid to the governing bodies, information about the contract with the Auditor. Materials subject to disclosure according to the requirements of the RF FFMS were published on the corporate site in statute-established time.

Business profile of "UTK" PJSC was regularly updated in SKRIN and Interfax electronic disclosure systems as well as in domestic and international systems of business information distribution such as Bloomberg, Reuters, Quote, and RBC Consulting.

"UTK" PJSC presented detailed information on the secondary bond market after coupon payments and put options by publishing press releases and communicating with analysts. During the preparation of UTK series 05 bond issue the Company disclosed information on each stage of the issue and drew up the information memorandum together with Svyaz-Bank.

The Company communicated with leading telecom analysts on a regular basis, answered their questions, presented necessary information for analytical reviews of UTK's operations. In 2007 "Southern Telecommunications Company" PJSC received 72 queries from analysts which were fully answered. The Company published 33 analytical reviews in Russian and 18 reviews in English in the section "Investor Relations/ Analytics" of the corporate website.

The Company performed analysis of financial markets, dynamics of share, bond and ADR prices of mega-regional telecom companies, news streams relating to telecommunications market. Surveys on UTK's position in the stock market were prepared for its top management on a monthly basis.

1.8. Charity

Charity is the basis of social pattern of the business community. In 2007 sponsorship and charitable contributions of "UTK" PJSC amounted to 18,327 thousand rubles. 44% of them or 8,000 thousand rubles were spent to support the centralized projects aimed at improvement of the telecommunications infrastructure of educational institutions and the Russian Fund of Telecommunications History.

Other funds were spent as follows:

- 1,582.9 thousand rubles to render assistance to the Company's employees and pensioners
- 591.1 thousand rubles to support disabled and needy persons

- 1,196.2 thousand rubles to prepare and conduct anniversary celebrations, to support administrations and public authorities
- 6,651.2 thousand rubles to restore historic and religious monuments, to support culture and science
- 305.6 thousand rubles to support educational and medical institutions.

1.9. Work with population, consumers of the Company's value-added services

Highly competitive environment in the telecommunications market and growing demand for telecom services stimulate for search and development of new methods of customer service. Call centers are among the key instruments in creation of the effective mechanism of customer service. At present all branches of "UTK" PJSC except for the Kalmykia branch operate their Call centers.

The basic effectiveness indicator of this tool of customer service is a qualitative return manifested by a high level of customer loyalty to the Company supported by high quality of service and attraction of new clients.

Therefore, one of the priority services provided on the basis of Call-centers is the information service of "UTK" PJSC. By calling the number 069, a customer can both receive most full answers to his/her questions and submit an application on expansion of the services package. A potential subscriber can fill in the application to subscribe to UTK's services. Due to characteristics of Call-centers' platforms, load on service is distributed in the best way allowing it to achieve the highest possible quality of customer service.

Organizational and technological resources of Call-centers are also used to ensure high quality of information and technical support provided to Internet users. Earlier, it was the engineer who answered all the calls to the phone number of technical support, and major part of the calls did not require technical support. In case of need it was very difficult to get the reply and receive technical consultation. Now the largest branches of the Company provide information and technical support consisting of three lines of support. Call center operators working on the first line of technical support process major part of calls which require mainly information support (tariff plans and price of the terminal equipment, balance on a pre-paid card, access number, advantages and characteristics of broadband access, possibility of installations at the address, etc.). They also consult on simple user's setups. Information inquiries processed at the first line of support account for 70-90% of total calls, and only the remaining calls requiring technical support are transferred to the second line - to engineers who can give technical consultations of high quality on-line or later on, using the contact information of the client. In case of need an engineer can apply for information to the 3rd line – to network administrators.

From February 1, 2007 the Company offered three tariff plans for local voice services to its customers in the following branches, where it was technically feasible to meter the cost of local telephone connections on the time basis:

- Astrakhan branch (in all the centers of districts);
- Krasnodar branch (in all the centers of districts except for the district of Bolshoe Sochi);
- Volgograd branch (the cities of Volgograd and Volzhsky).

To inform its subscribers, the Company developed the Program of informing population about introduction of three obligatory tariff plans. According to the Program the following information campaign has been carried out:

- Delivery of information letters to subscribers;
- Placing of information posters at the Company's front - offices;
- Publication of the information in mass-media and on the corporate site, holding of press conferences;
- Special notifications in the bills for telecom services delivered to customers;
- Virtual calculators on the branches' sites.

"UTK" PJSC monitors regularly the level of customers' satisfaction in quality of provided services by means of:

- Daily telephone polling of subscribers according to STP-1.94-06.1 «Methodology of estimation of the customers' satisfaction based on the results of telephone polling»;
- annual questionnaires of subscribers using a method of crossover questioning by Call-center operators;
- electronic questionnaires filled by the visitors of the corporate Internet site;
- continuous analysis of submitted claims.

Experts of the quality control unit perform the analysis of the received information and find out localities having poor quality of service.

Claims of the customers stated at telephone polling are sent to the branches for elimination of drawbacks. Then the branches report on the results of their work with claims.

The done work allowed it to increase the satisfaction level in the branches and in the whole Company to 84.09% in 2007 vs. 75.71% in 2005 and 82.92% in 2006.

1.10. Work with the Company's staff (corporate events, corporate periodicals)

A set of uniform corporate values, traditions and ethic rules has been formed by the Company, many of which have become elements of the Company's corporate culture. They include corporate holidays, sporting events, contests of child arts, corporate awards. Such events contribute to employees' loyalty to the Company, provide for stability and satisfaction in work as well as increase the Company's competitive power.

Corporate actions of 2007:

- Intellectual Marathon "Step Toward the Future" – 2nd quarter;
- Fifth anniversary of "UTK" PJSC – 4th quarter;
- Monthly corporate newspaper "Vestnik UTK";
- Branch and corporate awards to the Company's employees – 2nd and 4th quarters;
 - Final competitions of V Sports and Athletics Games of telecommunications workers of "UTK" PJSC were held in the recreation center "Orbita" on 19-20 May 2007;
 - In September 2007 the Company held the fifth tourist rally of UTK's employees in the territory of the Volgograd branch.

II. POSITION OF THE COMPANY IN THE TELECOMMUNICATIONS SECTOR

According to the Company's estimates, the telecom market of UTK's licensed territory exceeded 77.5 billion rubles in 2007. Total revenue of large and medium-size enterprises of the telecommunications and information technologies sector increased 19% over 2006. Mobile telecom services accounted for major part (50.5%) of the telecom revenue structure.

Revenues from interconnection and traffic transit services, local telephone services and intra-zone services accounted for major part of the fixed-line telecom market revenue, representing 34.7%, 26.0% and 8.5%, accordingly. Revenues from documentary communication accounted for 11.2% of the total revenue of fixed-line operators.

According to 2007 results UTK's share of the SFD telecommunications market was 24.4 %. At the same time UTK's share of the SFD fixed-line market was 49.3%.

Table 3

Description	2007
Local telephony	
Market, billion rubles	9.98*
"UTK" PJSC, billion rubles	9.07
Market share	90.9%
Intra-zone telephony	
Market, billion rubles	3.28*
"UTK" PJSC, billion rubles	3.19
Market share	97.4%
Documentary communication	
Market, billion rubles	4.31*
"UTK" PJSC, billion rubles	2.87
Market share	66.4%
Interconnection and traffic transit	
Market, billion rubles	13.29*
"UTK" PJSC, billion rubles	2.90
Market share	21.8%
Other services	
Market, billion rubles	1.98*
"UTK" PJSC, billion rubles	0.33
Market share	16.5%

* According to the Company's estimates of the SFD telecom market revenue.

Telecommunications markets of traditional and value-added services of the Southern federal district are characterized by severe competitive environment for fixed-line and mobile operators. The Company decided to follow the strategy aimed at retaining its positions on the traditional telecom market and at the development of new value-added telecom services.

III. PRIORITY TRENDS OF THE COMPANY'S BUSINESS OPERATIONS

3.1. Building and updating of intra-zone transportation networks on the basis of DWDM technology. Construction of data transmission networks on the basis of MPLS technologies.

Intra-zone transportation networks, data transmission networks

Under license №53222 for lease of communication channels the Company implements the project of construction of a single corporate data transmission network (KSPD) on the basis of the existing intra-zone FOLs and the FOLs under construction between the branches, using DWDM technology. The Company uses DWDM multiplexers of Huawei 6100 type for 40 wavelengths. Data transmission network on the basis of IP/MPLS technology will interconnect the largest distribution centers of the branches' packet traffic, the regional centers of the Russian Federation. The network will allow it both to lease channels to customers and to ensure transmission of the growing corporate traffic within the framework of ERP, CRM, billing systems, transmission of content and other types of official traffic.

3.2. Development of next generation networks (NGN), mobile networks and networks of wired and wireless broadband access. Broadening the range of services provided on the basis of intelligent networks, new content and Triple Play services, including IP – TV.

Mobile networks

The Company does not develop mobile radiotelephone communication networks.

Broadband access networks

The Company uses generally accepted schemes of providing broadband services to subscribers on the basis of Ethernet - to the home, ADSL2+ technologies. The following technologies are determined as priority ones when building broadband access networks:

- Optic cable using FTTH, FTTP technologies to a group of buildings in densely populated districts; internal cable of UTPcat.5e type;
- Existing copper lines using ADSL2+ technology to a group of buildings in low populated districts;

Deployment of ADSL2 + - based wired broadband access made it possible to provide customers with services of high-speed Internet access and digital TV under the brand DISEL-TV. Total number of the organized access nodes reached 356. This development trend of broadband access networks remains to be a priority one for the Company due to low costs and quick deployment.

Intelligent network

In 2007 "UTK" PJSC implemented the program of a single intelligent network development by putting a single service card "Card Number One" into commercial operation and by providing a number of additional services, both prepaid and on credit, on the public switched telephone network. The Company's intelligent network has been integrated with the core element of UTK's billing system which allows customers to pay for telecom services by means of "Card Number One" all over the licensed territory of "Southern Telecommunications Company" PJSC on the basis of intelligent networks. Volume of payments made through front-offices decreases, thus reducing their maintenance costs.

Triple play services

Another priority trend of the Company is the development of IP-TV services including provision of broadcasting TV service (BTV) for 40 TV channels with a possibility to view an Electronic Program Guide (EPG) and the following additional services

- Parental control;
- Video on Demand (with the possibility to choose various tariff plans);
- Virtual cinema (with the possibility to choose various tariff plans);
- Personal Video Recorder (with the possibility to choose various tariff plans);
- Possibility to subscribe to and refuse from various packages of services;

Content is delivered to subscribers using xDSL and Ethernet-to-the-Home technologies. Subscriber access is provided via subscriber adapters (STB) of AmiNet103 type through special multimedia portal.

3.3. Introducing and updating of IT solutions including implementation of the centralized IT Programs.

2007 development of the Company's IT infrastructure is characterized by a number key events aimed at formation of the Company's uniform IT area, improvement of services' provision and increase in appeal for partners:

- Automated settlement system "Interconnect" has been put into commercial operation. This system organizes an effective control of settlements between telecom operators allowing it to meet the requirements of the new sector legislation in respect of the rules of telecom operators' interconnection. The system makes it possible to process accounting information about the calls of different types, to calculate the cost of the provided services in any currency, to execute bills for services in the native language of a partner, to collect statistical information and to compute the cost of traffic transit services depending on the traffic route;

- to ensure the quality control of network and information services and the effective centralized monitoring of the status of telecommunications and IT resources on UTK's network, in 2007 the Company launched the introduction of «Automated System of QoS Control and Monitoring of Telecommunications and IT infrastructure» built on the basis of IBM Tivoli Netcool platform. The system makes it possible to collect and process information on the current condition of all components of the infrastructure, to control the components' productivity, as well as to ensure comprehensive quality control of the offered network and information services, efficiency of the network and IT equipment, trouble shooting of the network equipment, and to monitor applications on the servers, efficiency and capacity of communication channels and data transmission network devices. The system being introduced in the branches, it will be possible not only to detect quickly malfunctions in the work of the equipment but also to foresee them that will reduce the time of the problems' elimination due to localization of faults and will improve the quality of provided services;
- In 2007 "UTK" PJSC started the construction of Data-processing centre (COD) in Krasnodar. The construction is aimed at consolidation of computing resources and means of a data storage, centralization of information systems and, therefore, reduction in total cost of IT-infrastructure ownership due to effective usage of technical means and a due to decrease in administrative expenses. To make information systems available as a whole, the Stavropol branch started the construction of the standby COD (RCOD) to guarantee continuous work of IT-infrastructure in case of failure of the main COD. These technical solutions will allow restoring the operation of basic IT-services even at complete failure of one of the CODs in case of flood, fire, power cut and other external impacts. COD and RCOD are being constructed in accordance with existing national standards and the best practices in formation of similar systems in global IT community;
- to integrate external payment systems with the billing systems "KURS" and "ONIMA" with the purpose to receive payments online, the Company organized the Processing Center of "Southern Telecommunications Company" PJSC. Using the processing center, an operator of external payment systems can receive information about the present balance of the subscriber and make payment for the selected service. The client can pay for telecom services in any way convenient for him/her: through payment terminals, touch-sensitive terminals, cash dispensers, payment modules of Internet sites, by sending SMS from their mobile phones, by pre-paid cards, in cashier's offices of the banks and post offices. The payment system works round the clock without days off. Before payment through self-service device a customer can get the information on his/her personal account and sub-accounts with detailed description of the consumed services. Sub-accounts related to long-distance operators are stated separately;
- to continue the roll out of broadband services, ACR "ONIMA" was equipped with the function of advance provision of services with disconnection of the subscriber broadband access port and quotas on the consumed traffic. The Company made new configuration of billing resources in order to realize a number of tariff plans for unlimited Internet access "DiSeL-Unlim", tested and introduced the service of the tariff plan change by broadband subscribers using "personal office", made ACR set-ups and tests of EV-DO wireless technology for implementation of the joint project with the company SkyLink allowing the subscribers to use both fixed-line and mobile hi-speed Internet broadband access.
- the Company continued the introduction of an enterprise resource planning system (ERP) on the basis of Oracle E-Business Suite software. From September 2007 "UTK" PJSC started the implementation of the second stage of the Program, tested the modules together with the branches' specialists, planned the organizational changes within the framework of the Program and data conversion in the modules "Logistics", "Workforce", "Finances" to be introduced in 2008;
- within the framework of the Uniform program of settlements and relations with customers, the Company determined the main directions for unification of business - processes of billing and settlement service and analyzed the necessity of alignment of automated settlement systems;
- within the framework of the modernization of the technical architecture of IT-projects, in 2007 IBM server equipment, EMC data storage system and IBM tape library were supplied to

Krasnodar, Rostov, Stavropol and Astrakhan branches. The equipment is meant to extend the functions of IT technical architecture.

IV. DEVELOPMENT PROSPECT

4.1. Development priorities for 2008 – 2012

In 2008 and in the nearest 2-3 years the Company plans the following actions aimed at fulfillment of its strategic goals:

- To bring digitization level of municipal communication centers to 100% (FOL, CRRL), to construct data transmission network (access nodes) in all the above mentioned centers;
- to construct FOLs on local primary networks in cities and big localities, to update (increase the carrying capacity) the existing rural copper wired communication lines using G.SHDSL technology;
- to develop fixed-line telephone network only on the basis of NGN-technologies with installation of MSAN nodes and their integration into PSTN using V5.2 protocol , to plan optimal proportion of SIP-subscribers and POTS analog subscribers;
- to apply SoftSwitch equipment for network development and replacement of analog equipment when integrating program switchboards of different manufactures;
- to upgrade the parameters of copper wired access lines to technical standards supporting xDSL technology in order to organize broadband access;

Great part of investments will be directed at realization of the requirements of regulatory acts, national and social projects.

The breakdown of the investments structure is the following:

Traditional telephony – investments are planned in the amount sufficient to retain the Company in the segment of lucrative customers. Investments in traditional telephony are to be mainly directed to earlier launched projects, projects with short pay-back periods and installation of telephones in elite newly-erected buildings as well as to the projects needed to conform to the requirements of the new regulatory acts developed under the Federal law “On Communications”. In 2008-2012 the Company plans to continue modernization of its networks in order to bring their digitization rate to 91.01% by 2012. Starting from 2008 "UTK" PJSC plans to switch over to NGN technology and to install multi-service access equipment in order to meet the demand, extend the network capacity and increase the digitization rate.

Value-added services – when forming the forecast it is assumed that the Company should strengthen its positions in the developing value-added services market, especially in the segment of broadband access services. As the solvent demand for value-added services is growing, UTK expects their share in revenues to increase. The Company tries to build-up its presence in this market segment in order to forestall the competitors. Therefore it is planned to increase investments in new value-added services. In 2008 such investments will account for 20.3% of total investments. The Company plans to increase share of investments in new telecom services to 30.9% in 2009, 23.9% in 2010, 28.1% in 2011 and 31.5% in 2012.

Transmission lines and telecommunications infrastructure – the budget provides for construction of the main intra-zone and inter-exchange communication lines, as well as for replacement of analog transmission equipment with digital one. The volume of the proposed investments is sufficient to put into service 1,036 km of FOLs in 2008, 1,192 km - in 2009, 1,192 km – in 2010, 886 km – in 2011, 305 km of FOLs in 2012.

IT – In addition to development of new technologies and investments in transmission lines the Company plans to increase investments in infrastructure necessary to introduce new information systems (ERP, billing, corporate re-structuring programs, other IT programs).

In 2010-2012 the Company plans to direct investments to technical support of computer facilities, and, if necessity, to modernization of IT-projects architecture.

Table 3

Capex breakdown by years, million rubles				
2008	2009	2010	2011	2012
4,919	4,895	6,620	6,260	6,280

Requirements of regulatory acts and national and social projects will be implemented mainly in 2008-2010.

You can see amount of investments needed to conform to the requirements of the new regulatory acts developed under the Federal law "On Communications" as well as to introduce SORM system (system of detection) in the following tables:

2008 Investments

Table 4

Actions	Capex, RUR mln
Traffic record at connection points	3.95
Technical measures on networks' interconnection at local and zonal levels	3.07
Ensuring a subscriber right to choose a method of payment for telephone connections, ensuring a subscriber right to choose a long-distance operator	95.29
Providing access to code «112»	30.95
Introduction of SORM (system of detection)	31.98
Total investments	165.24

Investment planned till 2010

Table 5

Actions	Capex, RUR mln	
	2009	2010
Technical measures on networks' interconnection at local and zonal levels and ensuring a subscriber right to choose a long-distance operator	35	30
Modernization of multi-service network to retain market share and subscribers' base, upgrade of city and rural TNs of the Company in order to ensure a subscriber right to choose a method of payment for telephone connections	3,100	2,000
Providing access to code «112»	50	100
Introduction of SORM (system of detection).	50	50
Total investments	3,235	2,180

Measures aimed at realization of Decree of the Communications and IT Ministry № 142 of November 17, 2006 call for the following investments:

Table 6

Stage	Description	Capex, RUR mln
Stage II - the year 2009	Switching over to "Pmn=00" when making international telephone connections and to "Pn = 0 " when making intra-zonal and domestic telephone connections, using "1UV (x1 (x2))-type numbers for access to emergency services, information services of telecom operators and special services of local networks	284
Stage III – the year 2010	Switching over to closed numbering plan when making local telephone connections	9,898

Switching over of the subscribers using CDMA technology to other technologies in connection with reserving of this frequency resource for development of digital TV:

Table 7

Branches	Capital investments, RUR thousand	
	2009	2010
Rostov branch	375,000	300,000
Northern Ossetia branch	75,000	70,000
TOTAL:	450,000	370,000

When making the Development Forecast for 2008 and 2-3 years ahead, the Company took into consideration a number of factors which determine overall development of the telecommunications market in the Southern federal district as well as development trends of separate market segments, namely:

- current changes in development of product and geographical market segments in terms of customer categories;
- probability of new telecommunications technologies and their impact on existing services;
- world experience of the telecommunications market development.

The Company expects local market growth rates to slow down that will reduce share of local communications in the telecom market revenue structure and will entail migration of customer preferences from fixed telephony to mobile communications. Broadband access technology being deployed, services of voice, data and content transmission will integrate thus increasing the probability of migration from fixed telephone services to VoiP services.

At present the conditions have been formed for growing demand for high-speed data transmission technologies that will increase share of revenues from new telecom services in the telecom revenue structure of "UTK" PJSC from 15.1% to 20.1%. There are many offers of content services in the market. Providers of content services will expand their offers by using new access technologies to telecom services, and first of all, high-speed and mobile access to the Internet network.

The Company expects increase in share of revenues from business sector in the telecom market revenue structure.

Main tasks for three years ahead are the following:

1. retaining the market share of local and intra-zonal communications;
2. growing share of the Internet and data transmission markets;
3. growing number of broadband access subscribers.

4.2. Major investment projects in 2008

4.2.1. Traditional telephony

According to the Company's investment program 156,454 subscriber lines based on traditional telephony technology are to be put into operation using Si-2000 equipment manufactured by Iskratel, EWSD equipment manufactured by Siemens, S-12 equipment manufactured by Alcatel-Lucent, as well as the equipment of ALS-4096S, Kvant-E, Kvant-E-Sokol, Elcom types, produced domestically. To develop communication networks under conditions of switching over to NGN technologies, "UTK" PJSC plans to purchase and install BroadAccess equipment manufactured by Teledata Networks and U-SYS equipment manufactured by Huawei. It is also planned to update the existing digital automatic telephone exchanges and to equip them with OKS №7 and SORM functions. Total amount of investments in these projects is expected to make 1,523,718 thousand rubles in 2008.

2008 investment program provides for 250,000 thousand rubles for implementation of the second stage of the project on organization of access for universal services provided from payphones in the Southern federal district, in accordance with Article 57 of the Federal Law «On Communications». The Company plans to paint and draw necessary inscriptions on the existing

payphones, to move payphones to the places specified in the bidding documents, as well as to update the existing payphones and their control centers, to build and organize additional lines, to purchase new payphones and the access equipment for realization of radio, satellite and cellular solutions.

Investments in the amount of 800 million rubles are planned to increase the digitization rate of local telephone network. At the end of 2008 the digitization rate is expected to reach 71.58%, the installed capacity of NGN-based POTS ports is proposed to make 193.3 thousand ports or 4.3% of total installed capacity or 6.1% of the capacity of digital ATEs. As this equipment will be installed first of all in the regions having solvent demand, the Company will be able to make quick and inexpensive replacement of traditional services with broadband access services for major part of its subscribers on their demand.

4.2.2. New and other services

Providing Internet access (DSL, Dial-up, Ethernet)

In 2008 the Company plans to put 208,766 ports into operation bringing their number to 457,897 ports by the end of 2008. The investment budgets of the branches for implementation of this project total 571,777 thousand rubles.

To make the capacity extension of xDSL equipment technically feasible, the Company implements the projects of its data transmission network modernization. It is projected to update the data network, to introduce typical technical solutions of rendering broadband access services, to change the design and configuration of the data transmission network in order to improve its external safety, including DDoS attacks protection. A total amount of 142,822 thousand rubles will be invested in the network modernization.

The Company's investment program includes project №0401202071002 «Organization of VPN-channels for FGUP «Mail of Russia» with the purpose of modernization of payment system and development of PKD network».

It is planned to invest 100 million rubles in the network development in 2008 within the framework of project 0401614081001 "Reconstruction of communication networks infrastructure under the program "Sochi - 2014".

The Company projects to increase the capacity of the existing xDSL access nodes in Sochi and to install new DSLAM in Sochi, Adler and Dagomys. New xDSL access nodes will be installed in the villages Kazachiy Brod, Yakornaya Schel, Vishnyovka, Ashe, Sovet-Kvadje and Volkonka. It is planned to construct 8 multi-service access nodes based on NGN technology having total capacity of 4,450 numbers in Sochi.

The Company plans to construct sub-FOLs from the FOL Tuapse – Sochi in order to connect ATEs in the villages Ashe, Sovet-Kvadje, Vishnyovka, Volkonka and Vesylloe (the splitters have been installed at the FOL construction).

The planned investments will allow the Company to enlarge the broadband access service area and to improve the quality of traditional services. Only cellular operators out of alternative ones can provide communication services in the above mentioned localities, but the quality of services provided by "Southern Telecommunications Company" PJSC will be much higher.

Broadband access subscriber networks (multi-service networks)

The Company plans the construction of multi-service access nodes of Si-2000 MSAN type manufactured by Iskratel, of BroadAccess type manufactured by Teledata Networks and of Litespan A1540 type manufactured by Alcatel-Lucent, having total capacity of 20,900 ports. The planned investments amount to 181,629 thousand rubles in 2008. The applied technical solutions will allow the Company to provide subscribers with broadband access services, voice services, services of digital TV, etc. Pay-back periods of these projects are from 1.5 to 4 years.

Update and development of communication networks on the basis of Softswitch equipment, etc.

The Company plans the construction of software switchboards (Softswitch) in the cities of Stavropol and Rostov-on-Don. Implementation of these projects will make it possible to switch over the branches' communication networks to NGN-technologies.

4.2.3. Development of Call centers

In 2007 the Krasnodar branch updated its hardware and software platform by switching it to IP technology and increasing the number of simultaneously working operators by 30 workplaces. Introduction of IP technology made the work the Krasnodar Call center more flexible allowing it not only to organize workplaces of operators in any convenient place, but to provide the Call center resources for outsourcing, including organization of the operator's workplaces on the customer's site. Introduction of IP technology made it possible to organize a remote branch of the Call center for 12 workplaces in the Adygeia branch thus reducing to minimum the expenses on its creation. The remote branch is equipped with the same functions as the Krasnodar Call-center has.

To develop the automatic provision of services, the Kabardino-Balkaria branch installed the software program of an interactive voice response server (IVR) with WEB graphic interface for services' configuring. IVR resources are used by the branches both for development of commercial information and entertainment services, and for corporate purposes (making telephone calls to warn debtors, receiving applications for subscription to traditional and new telecom services, call back function, informing about new services and tariff plans, etc.).

The Call center in the Northern Ossetia branch has been equipped with Telemarketing function with WEB graphic interface for organization of services.

2008 priorities in development of Call centers are the following:

1. Centralization of regional voice traffic processing at the Call-center of each branch.
2. Integration of regional Call-centers into a common information area.
3. Broadening of the range of commercial services, revenue growth and reduction of operational and overhead expenses.
4. High quality of information and technical support.
5. Extension of alternative access channels to the Call-centers' resources.

At present traffic processing of order-making and information services is completely centralized in the Astrakhan and Kabardino-Balkaria branches. Other branches will introduce centralized traffic processing when it becomes technically feasible (availability of communication channels, workplaces, regional databases and appropriate hardware and software means) and the necessary number of operators is available. Centralization of traffic processing in regional Call center provides for most efficient work of operators and maximal financial and qualitative return on the investments in purchase of hardware and software means. Investment projects of expansion and modernization of regional platforms will be initiated by the branches as the necessary funds become available within the framework of their investment programs.

Integration of regional Call-centers into the distributed platform is considered an obvious and promising direction of development of this kind of remote customer service and non-contact sales. This platform should be based on a common information area representing comprehensive database which includes information classified by services and regions. This database has the distributed structure to ensure maximal reliability. Personnel of all regional Call-centers can get access to its resources through a single interface.

Due to using and updating the available database, the branches have been increasing their revenues from information services. Growing demand for chargeable information services caused, among other, by increase in their quality, is supported by implementation of new commercial projects. The Company's Call-centers conclude contracts on carrying out roll-call polling campaigns (telemarketing, questionnaires), on organization of "Hot lines», on lease of the Call-center resources and actualization of databases. The Call centers expand their service for mobile

subscribers as content providers and provide new services in cooperation with other content providers (such as OJSC "MGTS", LLC «Unified Information Service», etc.) Hardware and software support will be extended and updated as may be required for further development of services.

According to regulatory documents of the RF Communications Ministry the Company is obliged to provide round the clock free-of-charge information services to any client calling 09 inquiry service, meeting the established QoS parameters. This fact adversely affects the pay-back of Call centers. To reduce the non-productive costs related to this obligation, "UTK" PJSC is going to draw on experience of other Russian companies (OJSC "MGTS", OJSC "Moscow Telegraph") and to equip free-of-charge inquiry services with the function «Voice recognition». It will allow to reduce the number of operators working at 09 free inquiry service and to engage them in provision of information and technical support to broadband access subscribers.

Information and technical support of broadband access subscribers is one of the main tasks of a Call center. Its operators being «the first line» of such support, solve all non-technical problems. Technical problems requiring consultation of an engineer are transferred to "the second line" of the support. Due to growing number of xDSL and cable TV subscribers, work of the operators of the first and the second lines of technical support becomes more intensive. In case of necessity, the branches will include the projects on increase in number of workplaces of the Call-centers in their investment programs in order to ensure the required QoS parameters of technical support and to organize alternative self-service channels.

4.2.4. Meeting the requirements of the Russian legislation

The Company's investment program provides for modernization of the existing automatic telephone exchanges or their replacement in order to meet the following regulatory requirements: traffic record at the connection points, interconnection of networks at local and zonal levels, providing subscribers with the right to choose a method of payment for telephone calls, preparation of the network for introduction of code "112", introduction of SORM (system of detection) function in accordance with plans – schedules approved by FSB of Russia. Total amount of investments in these projects is to make 165,992 thousand rubles in 2008. Their implementation will reduce the risks associated with failure to meet the regulatory requirements in the telecommunications sector.

4.2.5. Communication lines

In 2008 it is planned to build 1,036 km of intra-zonal fiber optic lines (FOL), 248 km of which will be constructed within the framework of the project "Construction of a corporate data transmission network of "Southern Telecommunications Company" PJSC".

Kalmykia branch. FOL from Sadovoe to M. Derbety, B.Tsaryn and Tsagan Aman will be built to continue the earlier launched project on construction of intra-zonal fiber optic ring. This project is meant to satisfy the existing demand for telecom services. Its implementation will allow to replace the obsolete equipment on the analog line Sadovoe - M. Derbety - B.Tsaryn - Tsagan Aman (243 km long) having low carrying capacity. In 2008 it is projected to put into operation 93 km of this line.

Stavropol branch. Construction of the FOL from Svetlograd to Alexandrovskoe will allow to reduce traffic on the part of the ring from Alexandrovskoe to Blagodarny, Letnyaya Stavka and Svetlograd and to route traffic directly from Alexandrovskoe to Svetlograd. This project is meant to increase the network carrying capacity and to replace the existing analog lines with digital ones.

Karachaevo-Cherkessia branch. Construction of the FOL from Cherkessk to Kavkazskaya 26 km long, being a part of the communication line from Cherkessk to Kavkazskaya and Uchkeken will make it possible to provide high-quality telephone, data transmission and high-speed Internet access services to inhabitants and enterprises of the district center Kavkazsky, which is the only one in the republic, operating on the basis of K-60 analog transmission system. Implementation of this project will create conditions for further development of the Prikubansky district communication network.

Rostov branch. Construction of intra-zonal FOLs from Semikarakorsk to Bagaevskaya and Novocherkassk, from Chertkovo to Kazanskaya, from Millerovo to Kashary, from Remontnoe to Zavetnoe, from Semikarakorsk to Konstantinovsk, from Konstantinovsk to Ust-Donetsk, from Kazanskaya to Veshenskaya, a total of 505 km long, will continue the development of the regional transportation network. It will allow to organize digital voice and data communication channels to regional centers using copper cables or leased channels as well as to increase the number of intra-zone communication channels and to reduce traffic loss. The Company plans to install T-splitters on the projected FOLs intended for rural localities. In 2008 303,979 thousand rubles will be invested in these projects.

Kabardino-Balkaria branch. It is planned to construct the FOL from Nalchik to Anzorey 48 km long to organize a high-speed transportation link between the automated long-distance telephone exchange in Nalchik and the regional communications center in Anzorey, making it possible to provide a wide range of modern telecommunications services to the population and enterprises of the Leskensky district. SDH equipment of Metro 1000 - type manufactured by Huawei will be installed on the FOL as it is reliable and compatible with the equipment operating on the branch's transportation network.

Interoffice networks

Kabardino-Balkaria branch. Construction of the local FOL from Tyrnyauz to Terskol and Azau 44 km long is needed to develop telecommunications infrastructure in the tourist zone "Prielbrusie". Implementation of this project will allow to satisfy great demand for voice and data transmission services in Prielbrusje area on the part of the population, federal, municipal and private organizations rendering tourist and recreation services. 2008 investments will amount to 4,900 thousand rubles.

4.2.6. Investments in Information Technologies

2008 investments in IT are planned at 827.1 million rubles or 16.8% of total capital investments. Among other, the plan includes investments in modernization of technical architecture for ERP, billing and CRM programs, updating of ONIMA equipment and renewal of computer facilities.

4.3. IT Development Priorities

To implement its IT programs the Company plans the following actions:

- **Introduction of ERP.** By the end of 2008 the Company plans to complete the introduction of ERP-system. It will make possible to perform current management control, to increase the quality and transmission speed of management information, thus improving the efficiency of control and management of the Company's resources;
- **System of remote education.** Uniform system of remote education for solving the tasks of Centralized IT Programs (Program of ERP introduction, Unified Program of introduction of billing and CRM systems) is aimed at automation of the process of education organization and control, simultaneous training of a great number of geographically distributed students (up to 1000 persons), minimal withdrawal of employees from their workplaces. The System of remote education is to be introduced at the end of 2008;
- **Unified Program of introduction of billing and CRM systems.** In 2008 the Company plans to perform analysis of billing processes and to prepare recommendations on their unification, to create the model of business processes in view of specificity of the automated billing system (ASR), as well as to develop recommendations on organizational changes needed to support and operate the automated billing system ASR;
- **Introduction of pre-billing platform.** In 2008 the Company will continue works on implementation of the automated pre-billing system to be introduced in the first half of 2009;
- **Technical architecture of IT projects.** In 2008 "UTK" PJSC plans to complete preparation of premises for server equipment of data processing center and standby data processing center

including installation of power supply equipment, systems of ventilation, air-conditioning, fire fighting, as well as to purchase the equipment for modernization and expansion of technical architecture for centralized IT Programs, to design technical architecture of ERP, OPO RVK, SDO systems and of the information security system of the corporate network, to form an integrated system of monitoring and management of TA objects, to create a subsystem of identification and control of users' accounts within the framework of ERP and OPO RVK programs, to ensure realization of SORM (system of detection) on the basis of data processing center and to purchase the equipment ensuring information security for technical architecture projects;

- **Modernization of ONIMA equipment.** Due to development of broadband access services and subscriber base increase as well as to the necessity to expand the license parameters of the automated billing system ASR, it is planned to update the central node of the system and the authorization centers of regional branches in order to ensure reliable operation of the automated billing system ASR.

V. MAIN PERFORMANCE RESULTS

5.1. Investment policy

Capital investments of the Company

Table 8

No	Description	Measurement unit	2006	2007	Y-o-y change 2007/2006 (%)
1.	Capital investments - total	RUR mln	2,053.9	4,079.7	198.6
1.a	Funds invested in:	RUR mln			
	- Fixed-line telephony		755.8	1,380.8	182.7
	- Cellular communication;		0	0	-
	- Domestic, international long-distance telephony and intra-zone telephony;		238.6	353.3	148.1
	- New services;		548.9	1,166.7	212.6
	- Data transmission networks and infrastructure;		293.5	511	174.0
1.б	- Information technologies;	%			
	- Other		7.8	12.5	
			45.3	33.9	x
2.	Share of internal funds in investments	%	99.4	100	x
3.	Share of borrowings in investments	%	0.6	-	x

Note: data is taken from annual report form P-2 «Data on investment activity in 2007» and from consolidated forms C-1, C-2 for 2007.

In 2007 rate of capital investments assimilation increased by 99.1% over 2006.

2007 capex were mainly directed to completing the construction of new digital exchanges, reconstruction of analog networks, introduction of new technologies and further development of value-added services based on digital networks as well as to meeting the new regulatory requirements, provision of universal telecom services and implementation of the national project "Education". Expansion of the operating facilities accounted for 13% of the total amount of investments, new construction – for 45.2%, reconstruction – for 22.1%, technical renewal – for 19.7%,

2007 capital expenditures made RUR 4,079.7 mln versus the planned RUR 4,038.7 mln. In 2007 fixed assets for the total amount of RUR 4,450.0 mln were put into operation versus the planned RUR 4,828.9 mln. The plan was not fulfilled due to delay in completion of some objects' construction attributable to late delivery of equipment and late implementation of building and assembly jobs.

Number capacity of 184,317 lines were put into service (up 57% versus the planned 113 696 lines). Due to capex optimization, additional capacity was put into operation within the framework of realization of the program on digitization rate growth of UTK's networks.

736 km of fiber optic lines were built in 2007 compared to the planned 559 km representing a 34%-increase over the planned parameters.

164.3 thousand xDSL ports were put into service (up 34% versus the planned 122.3 thousand ports) due to the necessity to satisfy the growing demand for broadband access services.

List of major objects put into operation in 2007

Table 9

Name of the project (according to the Company's 2007 Investment program)	Capacity put into service in January-December of 2007	
	Measurement unit (according to C-1, C-2 consolidated forms)	Fact (according to C-1, C-2 consolidated forms)
1	3	5
General Management		149.5
Construction of corporate data transmission network	km	149.5
Adygeia branch		
Updating of data transmission network and extension of xDSL access equipment	port	1,872
Construction of fiber-optic line (FOL) from Giaginskaya to Krasnogvardeiskoe and Ponezhukay	km	101.04
Astrakhan branch		
Installation of telephones in new blocks of flats and offices	№№	5,248
Digitization of rural telephone network in the Astrakhan region	№№	3,856
Construction of intra-zone fiber-optic line (FOL) from village Ikryanoe to village Liman	km	45.30
Updating of multi-service data transmission network and expansion of xDSL access equipment	port	13,682
Volgograd branch		
Reconstruction of city and rural TNs in the Volgograd region with extension, including MSS	№№	23,591
Reconstruction of city TN in Volgograd with OPTS extension	№№	15,965
Extension of OPTS-56/58 by 3,744 №№ in Volzhskiy	№№	3,744
Construction of fiber-optic line (FOL) from Volzhsky to Bykovo, Nikolaevsk, Pallasovka and Staraya Poltavka	km	162.70
Construction of fiber-optic line (FOL) from Srednyaya Akhtuba to Slavyansky Posad	km	15.80
Extension of ADSL access network	port	17,472
Kabardino-Balkaria branch		
Extension of OPTS-5 "Baksan" by 1,280 №№	№№	280
Extension of the outstation of RSM C&C08-type in Nalchik having total capacity of 1,024 №№	№№	1,024
Extension of OPTS of C&C 08 type in Nartkala having total capacity of 3,840 №№ with replacement of ATSK 100/2000 having capacity of 3,800 №№	№№	3,840
Reconstruction of rural TN in Urvansky, Chegemsky, Prokhladnensky, Baksansky districts with installation of outstations, including SL	№№	1,856
Construction of connection lines on different parts of MSS (multi-service network)	km	41
Construction of fiber optic ring in Zolsky district	km	38
Development of broadband access network	port	4,368
Karachaevo-Cherkessia branch		
Reconstruction of ATE-7 with replacement of ATE-3 in Cherkessk	№№	9,042
Reconstruction of telephone exchange in villages Adyge-Khabl, Djingirik, Uchkeken, Erken-Shakhar	№№	5,056
Organization of xDSL access	port	1,776
Kalmykia branch		
Extension of digital exchange "Kvant E-Sokol" in Laganj by 512 №№, including LKS	№№	512

Name of the project (according to the Company's 2007 Investment program)	Capacity put into service in January-December of 2007	
	Measurement unit (according to C-1, C-2 consolidated forms)	Fact (according to C-1, C-2 consolidated forms)
Extension of digital exchange "Kvant E" in village Troitskoe by 1,536 №№	№№	1,536
Updating of data transmission network	xDSL port	912
Krasnodar branch		
Reconstruction and extension of city and rural TNs of Novorossiysk	№№	4,648
Reconstruction of city TN in Sochi with installation of PSE-6/3 of EWSD type, including MSS (Bytkha)	№№	512
Construction of PSE-2/10 of EWSD type having capacity of 512 №№ in Anapa	№№	512
Reconstruction of city TN in Armavir with extension of PSE-3/8 of EWSD-type having capacity of 2,000 №№ by 998№№	№№	998
Reconstruction of Sochi city TN with extension of PSE-460 of EWSD-type having capacity of 512№№ by 2,448№№, including MSS (PSE-4/1) Reconstruction of Sochi city TN with installation of PSE of EWSD-type in the village Golubie Dali, including MSS	№№	5,408
Installation of telephones in blocks of flats in Anapa using NGN technology. Reconstruction of Anapa city TN with installation of OPS-3 and PSE-3/1 of SI 2000 V.6-type having total capacity of 448 №№, including MSS	№№	896
Reconstruction of city TN in Sochi with installation of PSE of EWSD type	№№	5,920
Reconstruction of city TNs in Kurganinsk, Kropotkin, Ust-Labinsk, Timashevsk, Apsheronk with extension. Including SL (connection lines)	№№	6,448
Construction of 6 outstations in Krasnodar using Broad Access equipment, including MSS	№№	3,584
Extension of Anapa city TN with replacement of the existing ATE in village Sukko with PSE-2/8 of EWSD type having capacity of 520 №№ including 16 ISDN №№)	№№	520
Extension of PSE-2/7 of EWSD type by 1,816 №№ in the village Anapskaya	№№	1,816
Reconstruction of rural TN in villages Vyshesteblyevskaya and Strelka, Scherbinovsky district, OPS-3 of SI-2000 type having capacity of 1,024№№, including MSS	№№	2,688
Construction of ATE with installed capacity of 180№№ in the village Verkhnee Loo, Lazarevsky district of Sochi, including SL (connection lines)	№№	510
Construction of fiber-optic line (FOL) from Adler to Krasnaya Polyana and Laura	km	17.8
Updating of data transmission network and extension of xDSL access equipment	port	49,488
Extension of TZUS of AXE-10-type by 3,360 field points, including MSS in Krasnodar	channel	3,360
Northern Ossetia branch		
Extension of PSTN in Vladikavkaz, OPTS- 57 having installed capacity of 4,096 №№.	№№	4,150
Reconstruction of rural TN in Ardonsky and Prigorodny districts, including MSS	№№	1,600
Extension and modernization of transit and zonal communications center-TZUS (AMTS) in Vladikavkaz by 1,590 channels with transfer to WR1A software	channel	1590
Modernization of multi-service network (MSS) with extension by 2,200 xDSL ports	port	7,016
Construction of access nodes of multi-service network for implementation of the national project "Education"	port	432
Stavropol branch		
Updating of city TN in Stavropol ATE-51(PS-2) in Stavropol	№№	3,048
Updating of ATE-3/5/9 in Pyatigorsk	№№	5,000

Name of the project (according to the Company's 2007 Investment program)	Capacity put into service in January-December of 2007	
	Measurement unit (according to C-1, C-2 consolidated forms)	Fact (according to C-1, C-2 consolidated forms)
Construction of multi-service access node in Pyatigorsk	№№	300
Extension of ATE-7/6/3 (2 nd stage) in Kislovodsk	№№	2,000
ATE-5 in Svetlograd	№№	1,002
ATE in Lermontov	№№	3,500
Extension of ATEs in 10 rural settlements	№№	5,140
Development of xDSL access nodes	port	15,168
Extension of TZUS in Stavropol	channel	2,880
Modernization of TZUS in Minvody	channel	2,310
Rostov branch		
Extension of the connecting field of OPTS-60 of NEAX-type in Taganrog	№№	350
Construction of OS of Proton-SSS type having capacity of 800 №№, including CLs in Taganrog to replace coordinate ATEs	№№	1,000
Reconstruction of city TN in Semikarakorsk with installation of OPTS, PSE-1 and PSE-2 of SI-2000 type having total capacity of 5,008 №№, including MSS. 2 nd stage	№№	528
Extension of OPTS-36/38 of EWSD type by 448№№ in Taganrog	№№	880
Extension of city TN in the towns of Novocherkassk, Proletarsk, Azov, Bataisk, Volgodonsk, Belaya Kalitva, Ust-Donetsky, Konstantinovsk, Kamensk-Shakhtinsky, Novoshakhtinsk, including MSS	№№	9,270
Extension of Rostov-on-Don city telephone network	№№	416
Organization of access for provision of a universal telecom service in municipal areas, 3 rd stage	№№	5,570
Reconstruction of rural TN with installation of OPTS, including MSS	№№	10,736
Updating of telephone networks in 17 districts of the Rostov region	№№	15,340
Extension of telephone networks in Azovsky, Chertkovsky, Tatsinsky, Morozovsky districts	№№	600
Construction of fiber-optic line (FOL) from Volgodonsk to Semikarakorsk, Dubovskoe, Zavetnoe and Millero-Chertkovo	km	261,5
Updating of data transmission network and extension of xDSL access equipment by 20,016 ports in the Rostov branch	port	41,744
Connection of schools to the Internet network	port	5,280

Capital expenditures were financed from in-house funds only (amortization).

Implementation of major investment projects

Traditional telephony

In 2007 number capacity of 184,317 lines was put into operation on the basis of traditional telephony technology, 111,616 of them – for replacement. Major implemented projects are the following:

- Reconstruction of city TN in Kamyshino of the Volgograd region with installation of OPTS-9 of ALS-16384 type. 3,552 lines were put into service allowing to put step-by-step telephone exchanges out of operation;
- Reconstruction of digital exchange SI-2000 V.4 in the town of Serafimovich of the Volgograd region with extension by 2,151 lines. ATSK having capacity of 2,000 №№ was replaced;
- Reconstruction of city TN in Volgograd with installation of OPTS-34, 35, 39 with replacement of ARF-50 having capacity of 20,000№№ with Alkatel S-12 having capacity of 30,000№№ in Volgograd. 5,500 lines were put into operation;

- Extension of OPTS-56/58 in Volzhsky by 3,744 №№ with transfer of the existing equipment Linea UT-100. 3,744 lines were put into operation;
- Extension of the outstation of RSM C&C08 type (Kenje, Khasanya) in Nalchik having total capacity of 1,024 №№;
- Extension of digital exchange "Kvant E" by 1,536 №№ in village Troitskoe of the Kalmykia Republic ;
- Extension of the city telephone network in Kamensk-Shakhtinsky of the Rostov region with installation of PSE of EWSD type having capacity of 1,504 №№;
- Reconstruction of the telephone network in village Chertkovo of the Rostov region with installation of OPTS of SI-2000 type having capacity of 3,008 №№, including MSS;
- 1,520 lines of ATE-29 of S-12 type were put into service in Stavropol with replacement of PSK-1000 having capacity of 1,000 lines. 1,228 lines of ATEs-24//21/22/23/28/29 of S-12 type were also put into operation in Stavropol;
- 5,036 lines of ATEs-3/5/9 were put into operation in Pyatigorsk;
- 1,002 lines of ATE-5 were put into service in Svetlograd with replacement of 500 lines of ATSK;
- Connecting field of OPTS-60 of NEAX-type was extended by 45E1 in Taganrog in order to connect alternative operators;
- Rural ATEs of the Rostov region were extended by a total of 3,855 lines in order to provide access to universal communication services;
- City telephone networks in Novorossiysk and Anapa were extended using EWSD equipment by 4,648 lines and 2,336 lines, accordingly, with replacement of analog ATEs;
- To replace coordinate ATEs, OS of Proton-SSS type having capacity of 1,000 lines was constructed in Taganrog, OPTS of Si-2000 type having capacity of 1,376 lines – in the village Zavetnoe, OPTS of Si-2000 type having capacity of 3,920 lines – in the village Yegorlykская;
- Rural ATEs of the Rostov region were extended by a total of 5,555 lines in order to provide access to universal communication services;
- Within the framework of the program on network digitization 64,703 lines were put into operation including 45,570 lines – for replacement.

Development of payphone network

During 2007 the Company was developing its payphone network within the framework of implementation of the program on provision of universal telecom services using payphones in accordance with the agreements concluded with Federal Communications Agency.

The Company fulfilled its obligations under the agreements with Federal Communications Agency in full and put into operation 7,555 universal payphones. As of the end of the year "UTK" PJSC installed 7,581 payphones for provision of universal services on its network.

Total number of payphones operated by "Southern Telecommunications Company" PJSC increased by 1,966 units to 17,640 payphones. At the same time, number of ETK-based payphones (those using a single payphone card) decreased by 6,770 units to 10,059 payphones.

Providing access to code «112» (single number of emergency services)

"UTK" PJSC made up a plan-schedule on preparation of local telephone networks for introduction of single emergency service «112». According to the plan-schedule no measures were needed to disengage index «1» on the local telephone network as this numbering was free.

In order to support the construction of a single emergency service (EDDS) «112», in 2007 the Company worked on updating of software of digital ATEs in regional centers and on partial replacement of analog ATEs in regional centers with digital ATEs, because during the transition

period only digital equipment can provide simultaneous access to emergency services using both index "112" and numbers starting from index "0".

At present there exist a number of problems dealing with construction and further operation of single emergency services (EDDS) «112», which are outside the Company's competence.

1. at federal level:

- development and approval of documents describing the principles of formation, organizational and legal form of EDDS «112»;
- development and approval of specifications for EDDS «112» equipment;
- development and approval of documents regulating obligations and responsibility of different parties involved in this service including obligations of telecom operators which provide call routing to EDDS «112»;
- determination of financing sources for construction of EDDS «112», including for construction of EDDS «112» access lines to national telecommunications network;
- determination of financing sources for operating expenses on maintenance of EDDS «112» equipment and communication lines;
- definition of a single Customer and Coordinator of works, as different branches of industry are involved in this work.

2. at a level of local Administrations:

- formation of working groups including representatives of telecom operators to work out interaction algorithm between services and departments incorporated in this service;
- determination of the procedure and volume of works to be performed by telecom operators;
- definition of mailing addresses where EDDS «112» equipment will be installed;
- informing population about the start of EDDS «112» work.

The Company is ready to start works on preparation of design documentation and estimation of investments needed to build access lines to EDDS «112», provided all the abovementioned conditions are met.

Meeting the regulatory requirements

- provision of traffic record at the connection points;

During 2006 the Company fulfilled all the works needed to provide technical possibility for traffic formation and record at the connection points of alternative operators to UTK's network. New connection points are organized where the traffic can be recorded.

- technical measures on connection status and levels;

"UTK" PJSC executed in full the Requirements on construction of public switched telephone network. It organized connection points at a zonal level in the administrative center and each municipal region of 10 Russia's administrative units (the Company's licensed territory). Connection points at local and subscriber levels were organized in each municipal unit.

To extend the capacity of transit zonal communication centers (TZUS) for connecting long-distance operators, "UTK" PJSC extended TZUS in Vladikavkaz by 1,590 channels and updated it with WR1A software. TZUSes in Stavropol and Minvody were extended by 2,880 channels and 2,310 channels, respectively. TZUS software in Nalchik was upgraded. The Rostov branch bought and installed additional equipment, upgraded software and added new functions to local automatic telephone exchanges for connection of alternative operators.

- providing subscribers with the right to choose a long-distance operator

Major part of works for realization of the function of a long-distance operator's selection was completed in 2006. At present the Company provides its subscribers with the right to choose a

long-distance operator all over the licensed territory. In Q4 2007 "UTK" PJSC upgraded software version at two TZUSes in Volgograd and Cherkessk in order to enhance their functions while the number of long-distance operators increased.

- providing subscribers with the right to choose a method of payment for telephone calls

In order to equip coordinate automatic telephone exchanges operating in the licensed territory of "Southern Telecommunications Company" PJSC with the function of time-based billing of calls, in Q1 2007 the Company installed SIDS equipment manufactured and delivered by the company "EL SIS-SPb" according to the contract № ES-AVA-086 of September 6, 2006. 309 coordinate automatic telephone exchanges with a total capacity of 526,800 lines were equipped with this function. According to Q1 2007 results the Company ensured technical possibility to record the made calls on the switching equipment with total installed capacity of 3,964,434 lines that accounted for 91.16% of UTK's total installed capacity.

Providing Internet access (xDSL, Dial-up, Ethernet), providing cable TV services

Results of xDSL access expansion in the Company's branches in 2007 in the context of implementation of the investment projects:

Table 10
xDSL ports

Branch	Number of xDSL ports put into service in 2007
Adygeia branch	608
Astrakhan branch	7,640
Volgograd branch	20,304
Kabardino-Balkaria branch	4,768
Karachaevo-Cherkessia branch	2,032
Krasnodar branch	28,992
Kalmykia branch	1,776
Northern Ossetia branch	6,144
Rostov branch	27,344
Stavropol branch	15,016
TOTAL	114,624

The largest projects of xDSL-access deployment were realized by Rostov, Krasnodar, Volgograd and Stavropol branches of the Company.

The investment program provided for introduction of IP-TV services.

Table 11

Branch \ Service	Branch							
	Krasnodar	Rostov	Stavropol	Kabardino-Balkaria	Astrakhan	Adygeia	Northern Ossetia	Volgograd
BTB – TV broadcasting via IP network. TV channels are broadcasted in multicast mode	1	2	2	1	2	2	2	2
EPG – Electronic Program Guide	1	2	2	1	2			
VOD – video on demand. VOD allows users to choose any content for personal viewing using interface on TV display. This technology supposes that content is transmitted to users in a unicast mode and they pay for the viewing demand.	2	3	3		3			
NPVR – network video recorder, users can place an order for record of future TV programs from EPG and pay for the order	3		3		3			
Start Over – viewing current TV program from any episode/re-start of the program	3		3		3			

NVOD – virtual cinema, video content broadcasting according to time-schedule in a multicast mode		3							
SVOD – TV series		3							
Radio – radio broadcasting via IP network. Radio channels are broadcasted in multicast mode	1	3	3		3				
Music On Demand - indexed audio content is stored in a single bank and is available for play-lists' formation by a subscriber		3							
Cable TV based on HFPC, HFC technologies								1	

- 1 – commercial roll out
- 2 – technical trial
- 3 - planned

The Krasnodar branch broadened the range of IP-TV - VOD services provided in Krasnodar on the basis of ETTH and xDSL technologies. The Kabardino-Balkaria branch implemented the project on provision of IP-TV-BTV service and its further extension.

All branches of the Company implemented the investment projects on updating and extension of their multi-service networks in order to extend the coverage area, broaden the range and improve the quality of both MSS services provided in package (Triple Play) and video and audio content services. The Krasnodar, Northern Ossetia, Astrakhan and Kabardino-Balkaria branches modernized their networks increasing carrying capacity to 10 Gbit/sec.

One of 2007 priorities in supporting pass-through of growing official traffic and information streams between the branches was building of corporate data transmission network. Within the framework of the project the following administrative centers were interconnected through Gigabit Ethernet channels: Krasnodar, Maikop, Rostov-on-Don, Volgograd, Astrakhan, Stavropol, Cherkessk, Vladikavkaz and Nalchik.

In 2007 "UTK" PJSC implemented the program of a single intelligent network development with commercial roll out of a single service card "Card Number One" and offer of additional services, both prepaid and on credit, provided on the basis of public switched telephone network. The Company's intelligent network was integrated with the core element of UTK's billing system which allowed customers to pay for telecom services by means of "Card Number One" all over the licensed territory of "Southern Telecommunications Company" PJSC on the basis of intelligent networks. Volume of payments made through front-offices decreased, thus reducing their maintenance costs.

Communication lines

The Rostov branch put into operation the FOL from Volgodonsk to Semikarakorsk 81 km long. This project was launched in 2004. This fiber optic line will provide modern telecom services, high-quality long-distance telephony and high-speed Internet access services to inhabitants and organizations of Semikarakorsk, Bolshaya Martynovka and involved rural areas. It will also allow it to surrender the leased channels and reduce costs of the Rostov branch. Then the branch put into operation the FOL from Dubovskoe to Zavetnoe, 96 km long. The existing equipment Siemens SMA 4/1 (STM-4) dismantled from the Rostov-on-Don City telephone exchange was installed on the line. In Q4 2007 the Rostov branch put into service the FOL from Millerovo to Chertkovo 84.4 km long. The FOL continues the regional transportation network. The existing equipment Siemens SMA 4/1 dismantled from the Rostov-on-Don City telephone exchange was installed on the line.

The Volgograd branch put into operation the first stage "Volzhsky – Bykovo" 162.7 km long of the FOL from Volzhsky to Bykovo, Nikolaevsk, Palpasovka and Staraya Poltavka. SDH (STM-4) equipment of 1660SMC type manufactured by Alcatel was installed on the line. This FOL will replace the analog line (cable MKPV 1x4x1,2 multiplexed by K-60P) allowing to connect ATE-6 through digital channels.

The Astrakhan branch constructed 45.3 km of intra-zone fiber optic line from Ikryanoe to Liman. SDH equipment of STM-4 level disengaged from the city transportation network of Astrakhan was installed on the line. The FOL will replace four existing K-60P systems with linear and cable facilities 108 km long which are planned to be put out of operation.

The Adygeia branch completed the construction of the FOL from Giaginskaya to Krasnogvardeiskoe and Ponezhukay 101 km long. The existing equipment of Wave Star AM1 + level STM-1 type on the FOL from Enem to Takhtamukay, Adygeisk and Ponezhukay is planned to be replaced with SDH Surpass hiT7050 equipment manufactured by SIEMENS. The FOL makes it possible to form a single transportation network of the Adygeia Republic. Installation of single-type SDH Surpass hiT7050 equipment manufactured by SIEMENS will allow organizing a uniform management and controlling system of the republican transportation network. The project provides for installation of additional multiplexer in village Yablonovsky for organization of data transmission network from Enem to Krasnodar Gigabit Ethernet.

In 2007 "Southern Telecommunications Company" PJSC put into operation 604 km of fiber optic lines versus the planned 628 km (96.2% of the plan) due to changes in routes of fiber optic lines in Rostov, Volgograd and Krasnodar branches as compared in the route length calculated in design estimates.

In the fourth quarter of 2007 the Company added 149.5 km to its corporate data transmission network, namely: 16 km was built by the Astrakhan branch, 37.4 km - by the Volgograd branch, 11.5 km - by the Kabardino-Balkaria branch, 17 km – by the Krasnodar branch, 21.4 km – by the Karachaevo-Cherkessia branch, 26.03 km – by the Rostov branch and 20.2 km – by the Stavropol branch.

National program “Education”

In 2007 within the framework of the program the Company connected 2,814 schools to the Internet network on the basis of Agency Agreement № 136-07/06 of September 29, 2006 between “UTK” PJSC and OJSC “RTComm.RU”.

According to the technical solution all schools were integrated into single virtual private network (VPN) “Education”.

VPN “Education” is supported by resources of national IP MPLS network of OJSC “RTComm.RU”. The Company provides connection to VPN “Education” by means of organization of communication channels from schools to the nearest access node of “UTK” PJSC and then to the connection point on RTComm.RU data transmission network.

To provide schools with access to VPN “Education” at a speed of 128 Kbit/sec, the Company uses xDSL technologies on existing or constructed copper-wire subscriber lines. Where it is technically impossible to organize xDSL access due to lack of the appropriate ground-based communication infrastructure, the Company uses radio access and satellite communication equipment.

Realization of national programs in 2007

Table 12

Description	Investments – total per year		
	Plan (RUR mln)	Fact (RUR mln)	% of execution
Program of providing access to the Internet network in schools of the Russian Federation within the national project «Education»	499.9	498.9	100%
Program of providing universal communication services	566.4	613.1	108%
Program of meeting the new regulatory requirements (NPA)	118.9	92.3	78%
- Technical measures on connection of networks at local and zonal levels	55.3	37.4	68%
- Providing subscribers with the right to choose a long-distance operator	4.9	4.7	96%
- Providing subscribers with the right to choose a method of payment for telephone calls	37.3	36.6	98%
- SORM (system of detection)	21.4	13.6	63%

As of January 1, 2008 5,136 schools were connected to the Internet network. The allocated investments were used in full and the Company completed its works on implementation of the national program "Education". At present "UTK" PJSC provides technical support of Internet access service to the connected schools.

In 2007, within the framework of the program of providing Universal communication services (UCS), the Company put into operation 7,555 payphones rendering universal services, including:

- Adygeia branch	– 194
- Astrakhan branch	– 416
- Volgograd branch	– 1,425
- Kabardino-Balkaria branch	– 188
- Kalmykia branch	– 264
- Karachaevo-Cherkessia branch	– 134
- Krasnodar branch	– 1,693
- Rostov branch	– 2,202
- Northern Ossetia branch	– 164
- Stavropol branch	– 875

The Company fulfilled its obligations under the agreements with Federal Communications Agency in full and put into operation 7,581 UCS payphones in 2006-2007.

2007 program on meeting the new regulatory requirements (NPA) was implemented in full in respect of providing subscribers with the right to choose a long-distance operator (96%) and providing subscribers with the right to choose a method of payment for telephone calls (98%). The program in respect of connection of networks at local and zonal levels and introduction of SORM was implemented by 68% and 63%, respectively, due to delay in supply of equipment resulting in late performance of works.

Investments in Information Technologies (IT)

In 2007 the Company expended 862,777 thousand rubles out of the planned 999,989 thousand rubles of investments in IT (i.e. 86.3%).

The bulk of the investments was in the group of projects “Modernization of the technical architecture of IT projects” aimed at construction of a single technical architecture, including in the centralized IT-programs (ERP, OPO RVK, SDO). In 2007 these projects were implemented by 77.4%. 427,444 thousand rubles out of the planned 552,513 thousand rubles were expended. Shortfall of the plan in the amount of 125,069 thousand rubles was mainly attributable to transfer of the funds to purchase of computers (22.2 million rubles), creation of the main data processing center (69.7 million rubles), power supply of the main and reserve data processing centers (30 million rubles).

In addition, significant funds were invested in the group of projects “Introduction of the pre-billing platform based on HP IUM”. The Company concluded a centralized supply agreement of IBM store, servers and workstations as well as of the tape library for General Management and branches of "UTK" PJSC. In the year under report 119,828 thousand rubles out of the planned 120,388 thousand rubles were expended on these projects (99.5%).

5.2. Key highlights of network development

Main goal of UTK’s strategy is to retain the Company’s leadership position in the regional fixed-line telecommunications market due to:

- balanced investments and cost reduction;
- adequate technical strategy;
- effective business practice;
- arrangement of conditions for further development.

Main priorities of the Company’s operations in 2007:

- ensuring leadership position of the Company in the regional telecom market;
- rapid development of services on the basis of new technologies;
- providing universal and unlimited access to communications channels.

This strategy will allow a stable associative relation to be formed between customers, services provided by "UTK" PJSC and the Company itself. Creation of such associative relation in its turn will have a positive impact on the Company's competitive strength due to increase in the level of customers' loyalty.

Key highlights of network development are presented in the following table:

Table 13

№	Description	Measurement unit	2006	2007	Y-o-y change 2007/2006 (%)
1.	Increase in length of long-distance (intra-zonal) telephone channels, total	Ths channels/km	263.2	772	293.4
	Including those formed using digital transmission systems	Ths channels/km	672.4	1,274.9	189.6
2.	Increase in number of basic telephones, total	Ths sets	49.0	11.9	24.3
3.	Installed capacity of x DSL ports, total (as at the end of the period under report)	ports	169,481	284,105	167.6
4.	Number of subscriber units connected to mobile wireless networks (as at the end of the reporting period)	Ths units	0	0	-

New telecom services (value-added services)

Main value-added services offered by the Company to various target client segments are the following:

- Services based on broadband access technologies
 - Internet access (hardwired, wireless)
 - Multi-media, information and entertainment services based on digital interactive IP-TV (TV and radio broadcasting, video on demand, virtual video recorder, virtual cinema hall, information and entertainment services)
 - Building of virtual private networks
 - Voice transmission via data networks
- Intelligent services
- Content services
- Package services
- Integrated services on the basis of fixed and mobile networks
- Services provided on the basis of Call centers

New value-added services accounted for 15% of total 2007 telecom revenues of "UTK" PJSC.

SERVICES PROVIDED ON THE BASIS OF BROADBAND ACCESS TECHNOLOGIES

Internet services

Internet services account for major part of the Company's revenues from value-added services. According to 2007 results Internet services accounted for 86% of UTK's revenues from new services.

At present xDSL-based Internet access is becoming more and more popular among customers. In 2007 number of xDSL Internet subscribers using TM DiSel brand increased by 142% over 2006. At the end of 2007 the Company operated 174,445 equipped xDSL ports.

2007 revenues from Internet access through dedicated lines grew by 188% over 2006. 2007 revenues from xDSL-based services were up 193% over 2006.

To retain the Company's market share, "UTK" PJSC plans to develop actively DSL-based Internet access services in the residential client segment, in the segments of small and medium-size and large corporate clients. The Company will also negotiate with national operators on conditions of competitive tariffs in the mentioned client segments (including unlimited ones), as well as on the possibility of their flexible change depending on the demand and market situation.

The main principles of consumer value formation of Internet services are access speed to the Internet network, quality of services' provision and availability of additional services, including those bundled with telephony and interactive digital TV (IP-TV).

To provide Internet access in the areas with low-grade infrastructure or low density of subscribers, the Company will construct wireless access networks on the basis of Wi-Fi, Wi-Max, EV-DO technologies.

To increase its revenues from moving subscribers (business trips), the Company will take part in national projects of Wi-Fi roaming.

Multi-media services on the basis of digital interactive IP-TV

In 2007 the Company continued to introduce a Single system of content distribution for centralized provision of IP-TV services under DISEL-TV brand in its Krasnodar, Rostov, Stavropol and Kabardino-Balkaria branches.

By the end of 2007 the Company started commercial roll out of the following IP-TV services: **BTV** – TV broadcasting via IP network (TV channels are broadcasted in multicast mode), **EPG** – Electronic Program Guide. The following services were put into technical trial: **VOD** – video on demand (VOD allows users to choose any content for personal viewing using interface on TV display. This technology supposes that content is transmitted to users in a unicast mode and they pay for the viewing demand), **NPVR** – network video recorder (users can place an order for record of future TV programs from EPG and pay for the order), **NVOD** – virtual cinema (video content broadcasting according to time-schedule in a multicast mode).

Commercial roll out of IP-TV services has been realized by the Krasnodar branch of "UTK" PJSC including provision of EPG and BTV services and comprising two packages of IP-TV channels «Start TV» (40 TV channels) and «Much TV» (55 TV channels). At the end of 2007 the subscriber base included 7,077 ADSL 2+ subscribers and 2,576 ETTH subscribers. "Southern Telecommunications Company" PJSC plans to expand provision of IP-TV services in its branches.

In December 2007 presentation of IP-TV service was made in the Astrakhan branch. At the end of 2007 the Company collected all necessary data for development of IP-TV services in Northern-Ossetia and Adygeia branches.

Construction of virtual private networks (VPN)

Service of VPN construction is actively developing now. So the Company sees priority in development of the existing multi-service networks and construction of new data transmission networks in the Company's licensed territories showing the highest potential demand for the service.

According to 2007 results, number of VPN connection points increased by 138.8% over 2006 to 726 ones (vs. 304 VPN connection point in 2006). 2007 revenues from VPN services grew by 138.8% over 2006.

The Company sees priority in development of VPN services in:

- Improvements in customer service for large corporate clients according to a “single window” principle.
- Reaching the inter-regional level of VPN construction throughout the licensed territory of "Southern Telecommunications Company" PJSC on the basis of the corporate multi-service network.
- Reaching the inter-regional level of VPN construction outside the licensed territory of "Southern Telecommunications Company" PJSC with attraction of high-level national providers.
- Build-up of VPN services in the corporate client segment

Voice transmission via data networks

Taking into consideration the changes in licensing terms, the Company sees priorities in development of the following services:

- Software-only telephony is a telephony based on software installed in computers allowing to connect IP phones or USB phones. The Company believes that this technical solution is economically feasible and can be quickly introduced.
- IP-centrex is the provision of UATE services on the operator’s side («virtual UATE»).
- Voice VPN is a service of IP-centrex category, when a corporate client can organize private numbering plans and use them while connecting to PSTN.
- CALL-BACK is a service meant for existing customers of "UTK" PJSC and alternative operators as well as for mobile subscribers leaving UTK’s licensed territory on business or on holiday. This service can provide for traffic growth and, thereafter, revenue increase.

INTELLIGENT SERVICES

Introduction of intelligent services makes it possible to broaden the range of offered services, to attract new customers, to increase VAS revenues.

Intelligent Network, IN, is a new way of rendering additional services through telecommunication network. Part of call processing algorithm related to additional service is controlled by a common network controller of services – SCP, that simplifies input and modification of additional services (CS-1 and CS-2) including directly by service provider.

Intelligent Network supports provision of the following additional services:

- Services based on using a single service card under the brand “Card Number One”:
 - Internet
 - DLD and ILD calls, local and inter-zone telephony
 - payments for telecom services
 - operations with abbreviated numbers
 - transfer of balance from a card to the personal account.

The main concept of the services based on using a single service card under the brand “Card Number One” is to ensure roaming of services for a subscriber or a customer moving within the licensed territory of "Southern Telecommunications Company" PJSC.

- Other intelligent services:
 - Information about personal account balance
 - Universal access number (using DEF codes 8-8xx-302-xx-xx)
 - Free phone (using DEF codes 8-8xx-302-xx-xx)

- Premium rate (using DEF codes 8-8xx-302-xx-xx)
- Televoting (using DEF codes 8-8xx-302-xx-xx)
- Quick polls
- Direct line of the RF President.

In 2007 the Company made all necessary preparations for introduction of «Universal access number», «Free phone», «Premium rate» and "Televoting" services. Their commercial roll out is planned in 2008.

According to 2007 results, revenues from intelligent services increased 21% over 2006.

CONTENT SERVICES

The Company develops the following main content services:

- Development of content services on the basis of broadband access network
 - Internet - content (multimedia portal www.mediazona.ru and other content resources)
 - Content of interactive digital TV DISEL-TV (TV and radio channels, films and music, information and entertainment textual content)
- Development of content services on the basis of intelligent communication network
- Development of content services on the basis of Call centers

The Company sees the following priorities in development of content services on the basis of broadband access network:

- Creating conditions for generation and accumulation of local content in the Internet network of the Company by users themselves;
- Involving external content providers in realization of the content offered by them, using the business - model "profit share";
- Joint content projects with large aggregators of content;
- Convergence of content types, i.e. providing access for subscribers using content on the basis of one technology to content rendered on the basis of other technology, by means of various interfaces.

PACKAGING OF SERVICES

In order to increase ARPU, the Company develops actively packaging of services.

In 2007 "UTK" PJSC started to introduce the following packages of services:

- Full UNLIM which includes:
 - telephone services
 - additional services of electronic automatic telephone exchanges
 - broadband Internet access on the basis of tariff plans DISEL-UNLIM (at speeds of 64 kb/sec, 128 kb/sec, 256 kb/sec at customer's option). In 2007 Full UNLIM was introduced in Krasnodar, Volgograd and Astrakhan branches, at the beginning of 2008 – in other branches of the Company.
- Double and Triple Play services which include:
 - telephone services
 - broadband Internet access on the basis of DISEL tariff plans
 - services of interactive digital TV DISEL-TV

The Krasnodar branch realized Duet and Trio tariff offers on the basis of Double and Triple Play services.

CONVERGENT SERVICES ON THE BASIS OF FIXED AND MOBILE NETWORKS

In 2007 the Company together with mobile operators started the development of convergent projects on provision of telecom services on the basis of mobile technologies.

Astrakhan and Krasnodar branches have been chosen as pilot zones for implementation of two convergent projects.

The Astrakhan branch will act as a virtual mobile operator (MVNO) and will provide services under the brand of "Southern Telecommunications Company" PJSC and under the licenses of the mobile operator being a partner.

The Krasnodar branch will use a segment of wireless network of CDMA 2000 standard based on EV-DO technology to provide broadband Internet access services under the trade mark DISEL. In 2007 this technical solution was successfully tested.

If these technical solutions are introduced successfully, they will be further rolled out in other branches of the Company.

Call centers

In 2007 the Krasnodar branch updated its hardware and software platform by switching it to IP technology and increasing the number of simultaneously working operators by 30 workplaces. Introduction of IP technology made the work the Krasnodar Call center more flexible allowing it not only to organize workplaces of operators in any convenient place, but to provide the Call center resources for outsourcing, including organization of the operator's workplaces on the customer's site. Introduction of IP technology made it possible to organize a remote branch of the Call center for 12 workplaces in the Adygeia branch thus reducing to minimum the expenses on its creation. The remote branch is equipped with the same functions as the Krasnodar Call-center has.

To develop the automatic provision of services, the Kabardino-Balkaria branch installed the software program of an interactive voice response server (IVR) with WEB graphic interface for services' configuring. IVR resources are used by the branches both for development of commercial information and entertainment services, and for corporate purposes (making telephone calls to warn debtors, receiving applications for subscription to traditional and new telecom services, call back function, informing about new services and tariff plans, etc.).

The Call center in the Northern Ossetia branch has been equipped with Telemarketing function with WEB graphic interface for organization of services.

To improve the customer service and to ensure centralized regional traffic processing in regional Call centers, their platforms were extended by:

- 5 working places in the Northern Ossetia branch;
- 10 workplaces in Sochi of the Krasnodar branch, in the Karachaevo-Cherkessia branch and in the Kabardino-Balkaria branch,
- 50 workplaces in the Stavropol branch.

5.3. Key financial highlights

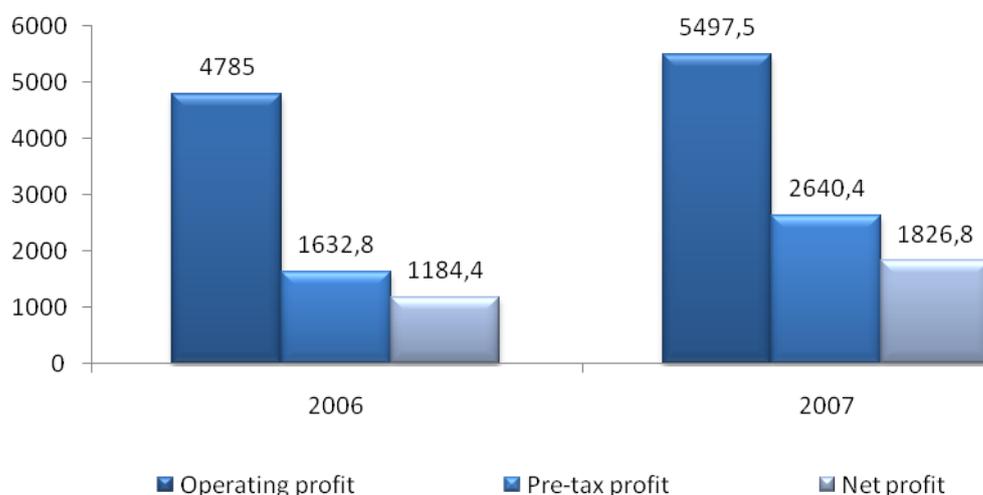
2007 was a favorable and successful year for the Company. "UTK" PJSC managed to offset the loss of revenues due to introduction of 2006 regulatory changes (loss of revenues from DLD and ILD services which accounted for about 25% of the Company's total revenue) and reported positive sales against 2005. It was mainly attributable to revenue growth derived from Internet access and intra-zonal telecom services. Stringent cost-containment efforts allowed us to achieve a substantial increase in net profit.

Table 14

Description	Measure unit	2006	2007	Y-o-y change 2007/2006 (%)
Revenue	RUR mln	17,570.6	19,772.4	112.5

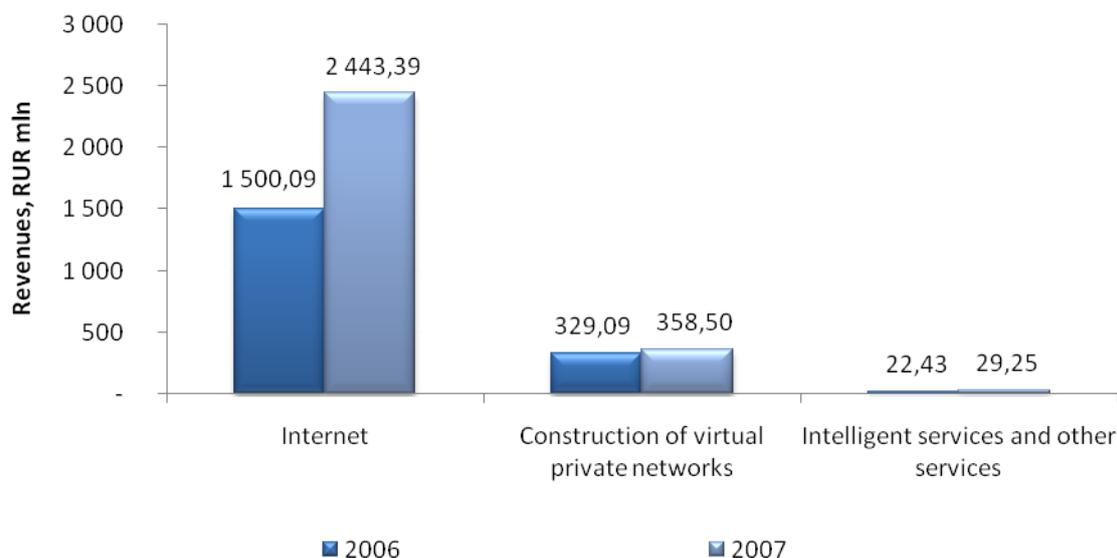
Description	Measure unit	2006	2007	Y-o-y change 2007/2006 (%)
Revenue from telecom services	RUR mln	16,561.5	18,926.6	114.3
Costs	RUR mln	12,785.5	14,274.9	111.6
Operating profit	RUR mln	4,785.0	5,497.5	114.9
Profit before tax	RUR mln	1,632.8	2,640.4	161.7
Net profit	RUR mln	1,184.4	1,826.8	154.2

Dynamics of the Company's profit in 2006-2007



Growing demand for data transmission services both in residential and business segments allowed the Company to increase the volume of Internet traffic by 2.3 times over 2006 to 2,613 Tbytes. Dial-up Internet traffic grew by 1.2 times over 2006 reaching 3,958 million minutes. Internet traffic growth was due to construction of new broadband access nodes and modernization of the existing ones. Promotion of broadband access services was supported by introduction of unlimited tariff plans in all branches of the Company. Due to client base growth, revenues from value-added services reached 2,831.1 million rubles, which is up 1.5 times over 2006. The Company's revenues from xDSL-based Internet services more than doubled allowing "UTK" PJSC to gain a significant share of the regional data transmission and Internet markets.

Revenues from new telecom services in 2006-2007



5.4. 2007 revenue breakdown by kind of services and client segment

Table 15

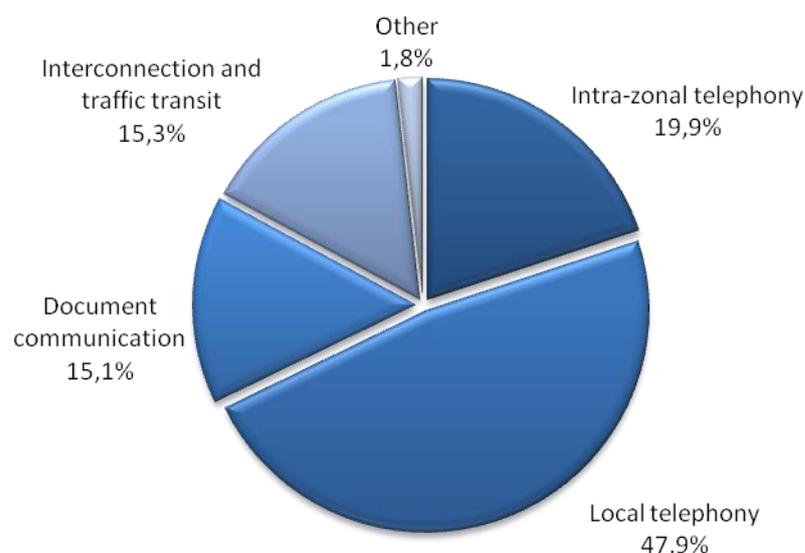
Kind of services	Total (excl. VAT), RUR ths	Including from residential sector
Revenues from telecom services – total, including:	18,926,624.3	10,178,758.9
Intra-zonal, domestic and international long-distance telephony	3,767,802.8	1,652,835.5
Local telephony	9,062,557.7	6,794,295.5
Document communication	2,865,461.1	1,478,449.9
Mobile communication	4,487.8	1,557.1
Interconnection and traffic transit services	2,895,460.0	0
Other	330,854.9	251,620.9

The information is presented on the basis of form 65-svyaz for the year 2007

The Company's revenues from telecom services increased by 14.3% over 2006 to 18,926.6 million rubles.

Revenues from telecom services provided to residential sector amounted to 10,178.7 million rubles accounting for 53.8% of total telecom revenues. Revenues from local telephone services constituted a great share in telecom revenue structure (47.9%).

Structure of the Company's revenues from telecom services in 2007



5.5. 2007 operating costs

2007 operating expenses increased by 11.6% over 2006 to RUR 14,274.9 million.

Structure of the Company's costs in 2007

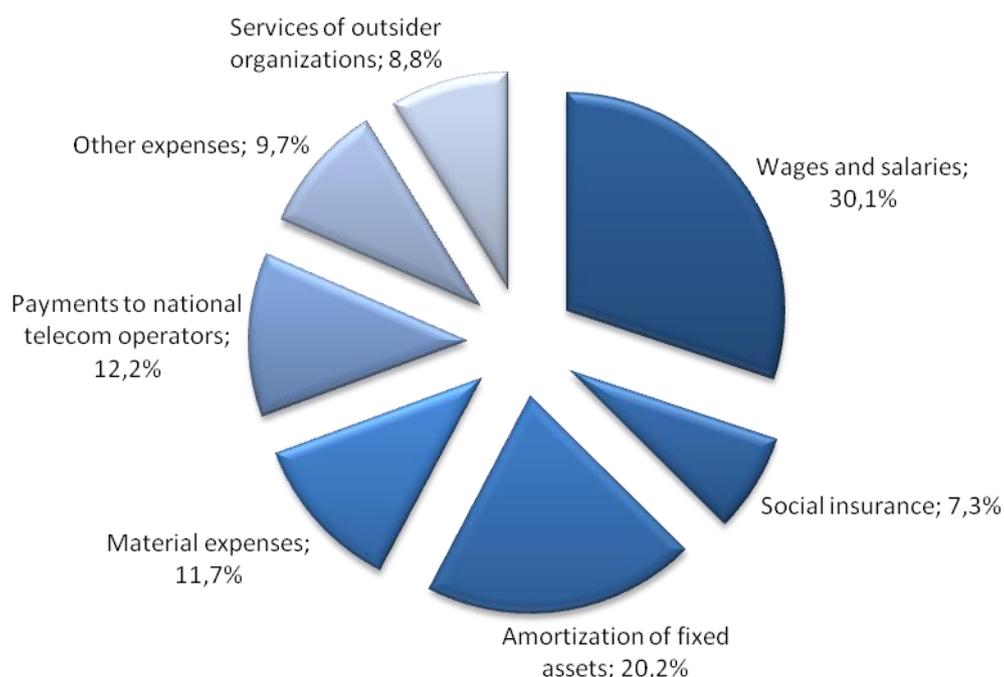


Table 16

Costs	Amount of expenses, RUR mln		Specific weight, %		Change in expense		y-o-y change, %
	2006	2007	2006	2007	Absolute change, RUR mln	Relative change, %	
Wages and salaries	4,244.9	4,297.7	33.2	30.1	52.8	0.4	101.2

Costs	Amount of expenses, RUR mln		Specific weight, %		Change in expense		y-o-y change, %
	2006	2007	2006	2007	Absolute change, RUR mln	Relative change,%	
Social insurance	1,051.0	1,047.6	8.2	7.3	-3.4	0.0	99.7
Depreciation and amortization	2,608.0	2,887.5	20.4	20.2	279.5	2.2	110.7
Material expenses (total)	1,467.8	1,667.0	11.5	11.7	199.2	1.5	113.6
Payments to national telecom operators	995.5	1,738.3	7.8	12.2	742.8	5.8	174.6
Services of outsider organizations	1,122.4	1,250.4	8.8	8.8	128.0	1.0	111.4
Other expenses	1,295.9	1,386.4	10.1	9.7	90.5	0.7	107.0
TOTAL	12,785.5	14,274.9	100	100	1,489.4	11.6	111.6

Expenses for wages and salaries accounted for major part of 2007 operating expenses (30.1%) amounting to RUR 4,297.7 million, which represents a 1.2% (or 52.8 million rubles)-increase over 2006.

The growth of depreciation charges by 10.7% was attributable to increase in value of the Company's fixed assets in the year under report.

Material expenses were up 13.6 % due to electricity and power tariffs growth and increase in prices of materials, components and spare parts. Specific weight of material expenses accounted for 11.7% of the reporting year total costs.

Amount of payments to national telecom operators increased by 1.7 times over 2006 due to changes in the methodology of settlements with mobile operators (introduction of "Calling Party Pays" principle). Specific weight of this item in total costs increased from 7.8% in 2006 to 12.2% in 2007.

Payments to outsider organizations for the provided services rose 11.4% due to increase in agency fees and in expenses for major and current repairs.

Other expense grew by 7.0% due to obligatory deductions to a universal service reserve and increase in expenses for software and databases (Oracle E-Business Suite).

5.6. Main business efficiency indicators

Economic and financial activity of the Company in 2007 was aimed at maintaining positive trend in business efficiency performance.

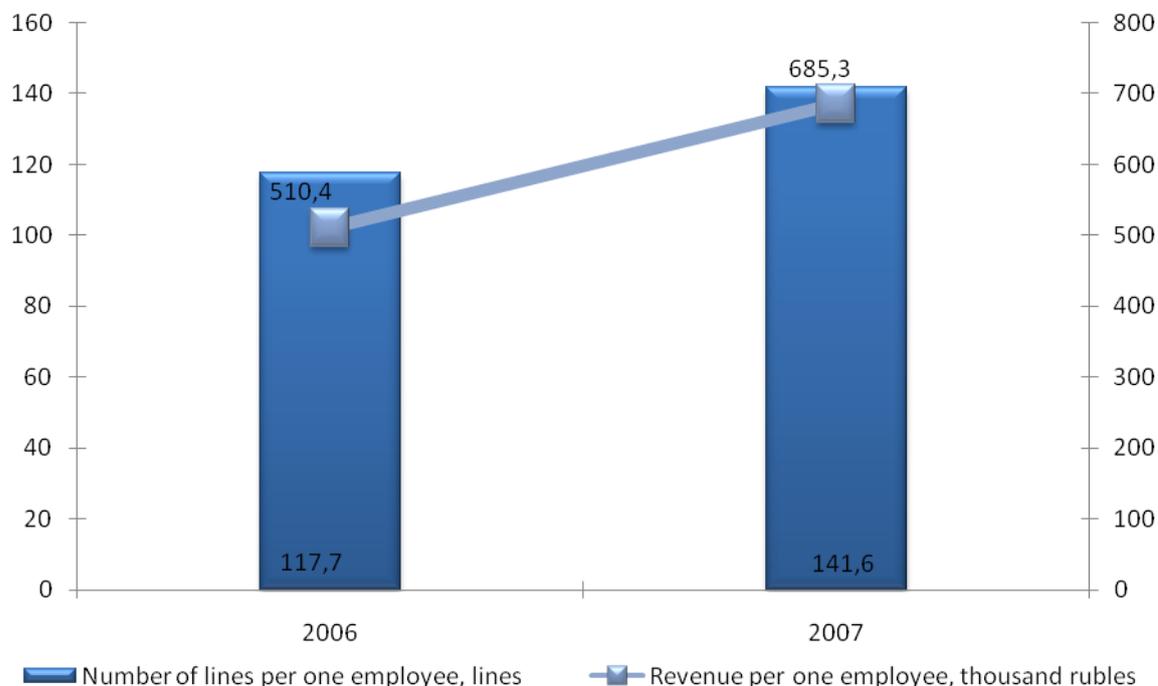
Table 17

Indicator	Measure unit	2006	2007	Growth rate,%
Operating margin	%	27.2	27.8	+0.60 p.p.
Net profit margin	%	6.7	9.2	+2.5 p.p.
Cost price of 100 rubles of revenues	RUR	72.8	72.2	-0.6
EBITDA	RUR mln	6,307.6	7,348.0	116.5
EBITDA margin	%	35.9	37.2	+1.3 p.p.
Revenue per one line	RUR	4,334.5	4,839.7	111.7
Operating profit per one line	RUR	1,180.4	1,345.6	114.0
Revenue per one employee*	RUR	510,386.4	685,303.9	134.3
Operating profit per one employee*	RUR	138,994.8	190,541.1	137.1
Number of lines per one employee*	line	117.7	141.6	120.3

Operating profit per one line was up 14.0% over 2006 to 1,345.6 rubles. 2007 EBITDA margin increased by 1.3 percentage points over 2006 reaching 37.2%

In 2007 the Company continued optimization of its workforce to increase business efficiency. As a result the number of lines per one employee grew by 20.3% to 141.6 lines. Revenue per one employee reached 685.3 thousand rubles representing a 34.3% increase over 2006.

Main business efficiency indicators of "UTK" PJSC, 2006-2007



5.7. Net assets

Table 18

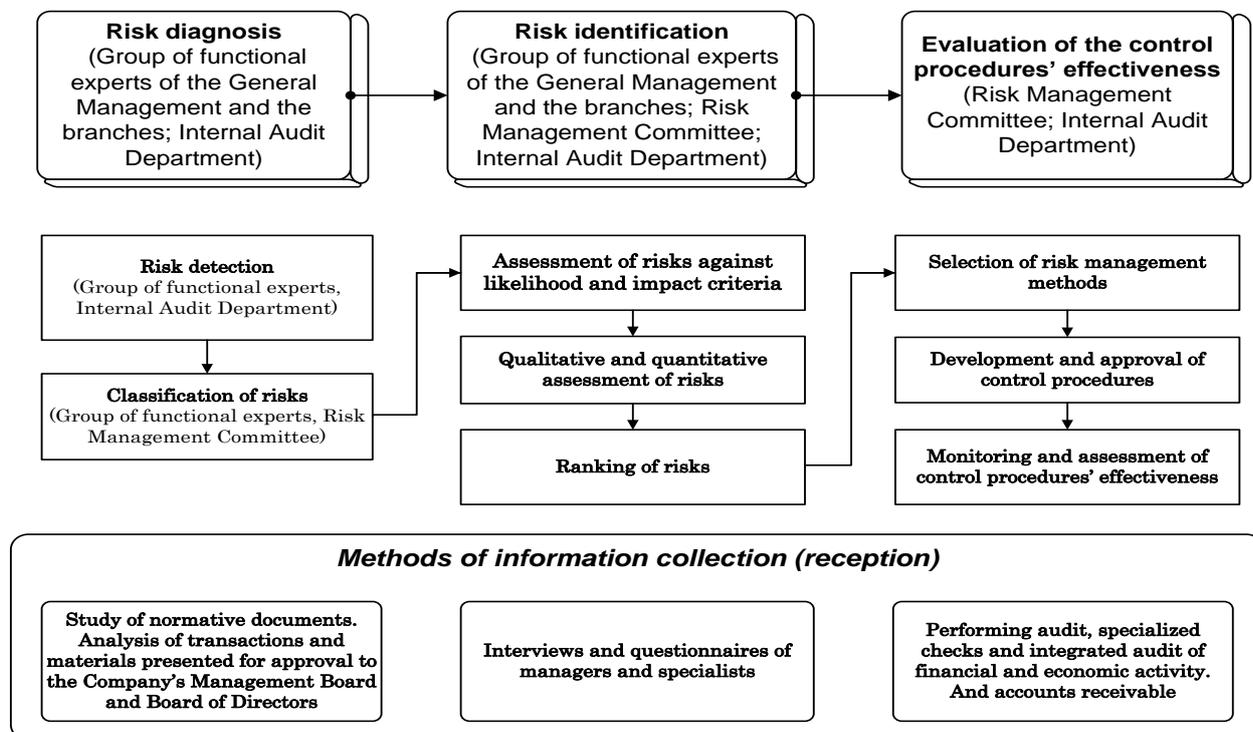
№	Description	Measurement unit	As at January 1, 2008
1.	Net assets	RUR ths	15,421,055
2.	Authorized capital	RUR ths	1,297,779
3.	Reserve fund	RUR ths	64,889
4.	Net assets/authorized capital ratio (return on equity ROE) (line.1/line.2)	%	1,188.3
5.	Net assets/sum of authorized capital and reserve fund ratio (line.1/(line.2+line.3))	%	1,131.7

In the period under report net assets increased by 1,515,031 thousand rubles or 10.9%.

VI. RISK MANAGEMENT

During 2007 the Company used the system of operational risks management introduced within the framework of the pilot project of risk management which had been launched in 2004.

During 2007 "UTK" PJSC regularly revealed the risks, analyzed them in detail, assessed the risk and developed actions on their prevention and minimization:



Functional experts of the branches and General Management as well as the specialists of the Internal Audit Department carried out identification, regular monitoring and likelihood analysis of risk events. The collected information was consolidated in the Summary list of the Company's risks with preliminary ranking of risks against likelihood and impact criteria (high, medium and low). Every quarter the Company performed inventory of the revealed risks and worked on identification of new ones.

Based on the results of the analysis of risks and violations revealed during checks and inspections, the Company formed a register of typical violations and sent it to its regional branches for development of the preventive control measures.

Material risks with high level of likelihood and impact criteria were examined by the Risk Management Committee to work out plans of their treatment. The Internal Audit Department presented reports on implementation of the approved risk treatment actions in respect of the risks with high status to the Risk Management Committee and the Audit Committee of the Company's Board of Directors.

At the beginning of 2007 the Risk Management Committee considered 60 risks to be material and exercised control over them. Due to implementation of the approved risk management actions major part of the risks were minimized and became acceptable with existing controls.

The Company undertook the following actions to reduce the likelihood of risk events occurrence:

- Development and improvement of internal standards («Organization of work with other receivables», «Procedure for write-off of unfinished construction projects», etc.);
- Development of methods and normative models (Methodical instructions «On the procedure of formation and usage of reserve in respect of provided services and executed works in case primary documents are not available»);
- Development and improvements in development strategy and priorities (Development Program for 2008-2012 approved on September 28, 2007);
- Current control over compliance with rules and methodologies;
- Control of functions performance (introduction of the system of electronic documents circulation, inspections);
- Staff recruitment and-or training;

- Incentive premium to the personnel (on the basis of the achieved objectives);
- Automation and development / purchase of software (ASR Interconnect);
- Purchase of the equipment and software allowing to minimize risks;
- Interaction with supervising authorities (to minimize risks associated with implementation of national programs);
- Interaction with partners (signing of cooperation agreements);
- Interaction with outsider contractors (carrying out tenders on delivery of equipment and provision of services);
- Changes in organizational structure of the Company's management and its separate functional blocks (centralization of the Internal Audit Department, formation of the branches' organizational framework on the basis of functionality factor, etc.).

In the fourth quarter of 2007 the Company started to introduce changes in methodological basis of its risk management system. The Internal audit department took an active part in development and introduction of the Integrated Risk Management System.

On December 27, 2007 the Company's Board of Directors approved the following internal documents:

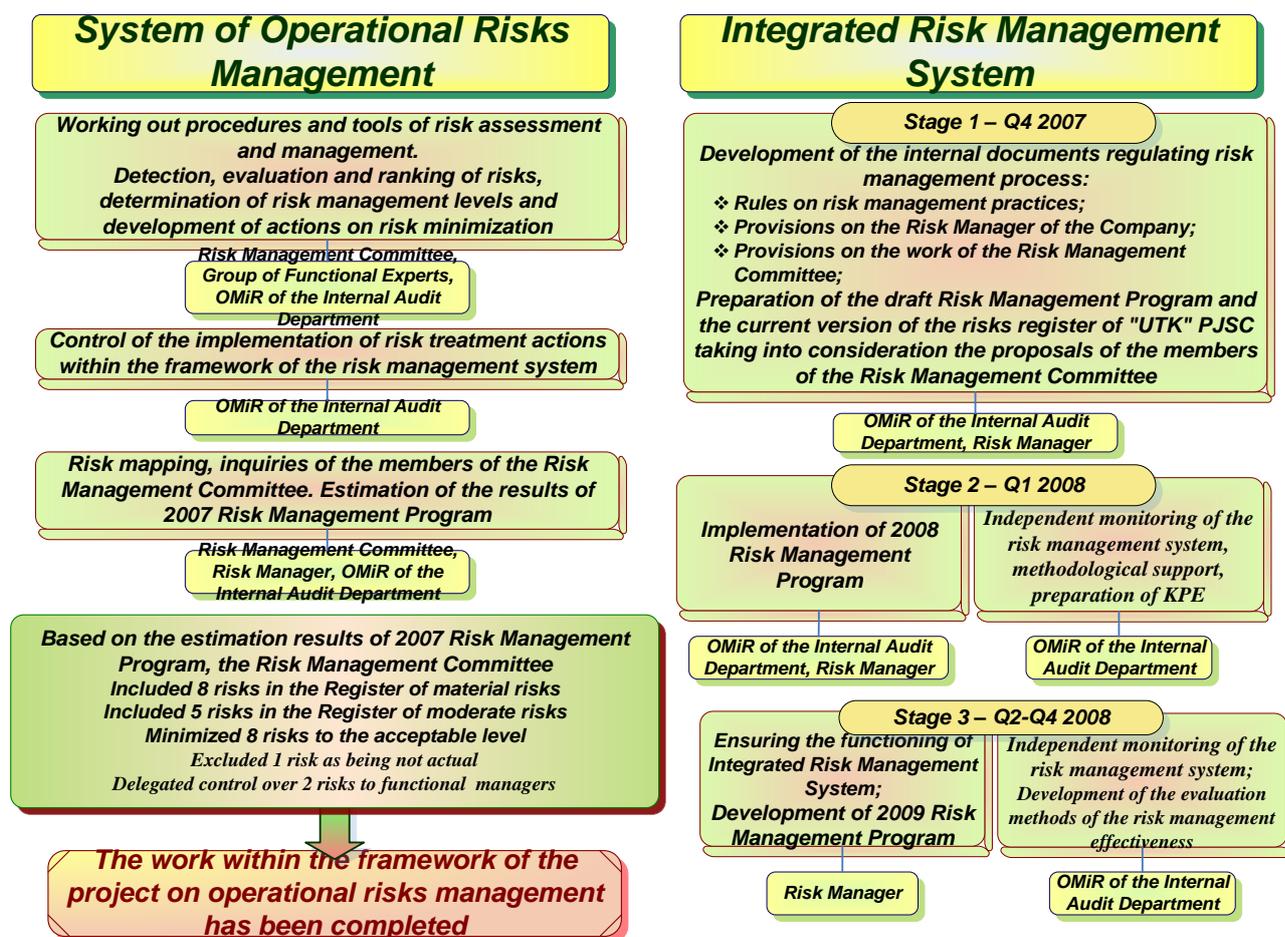
1. Rules of implementation of risk management actions with the appendix «Classification of the functions assigned to the participants of risk management system»;
2. Risk management program of "UTK" PJSC for 2008;
3. Provisions on the Risk Management Committee;
4. Provisions on risk manager of "UTK" PJSC.

To increase the risk management and control effectiveness, the Company introduced the following new elements into its risk management system:

- The Company determined the risk level acceptable for shareholders, or the risk level which cannot be exceeded without preliminary analysis of this risk by UTK's Board of Directors and its further approval. The acceptable risk level was set by the Company's Board of Directors at a rate of 0.5% of UTK's annual revenue.

According to the new internal standards, classification of the functions of the risk management system participants was described in «Risk Management Program of "UTK" PJSC for 2008», approved by the Board of Directors on December 25, 2007. The functions of the risk management system participants have been changed as follows: the Internal Audit Department performs independent monitoring of the risk management system, estimates the effectiveness of risk management processes and provides methodological support. Functions of organization and support of risk management processes that had earlier been within the terms of reference of the Internal Audit Department were delegated to the risk manager. To organize the integrated risk management system and to maintain continuous control of implementation of actions on the revealed risks' treatment, the Board of Directors assigned the functions of the risk manager to the Company's Financial Director.

Changes in risk management processes



The main principals of the Integrated Risk Management System are the following:

- Integrity, i.e. focus on assessment of risks taking into consideration the nature of their correlation;
- Flexibility, i.e. capability of the system to integrate new elements and to respond quickly to occurrence of new risks;
- Comprehensiveness, i.e. the system takes into account the complexity of control objects including risks correlation and specific impact of the proposed procedures on risks.

Being a part of general management procedures, the introduced System agrees fully with the Company's development strategy. Risk management provides for consideration of internal and external risk factors.

According to the principles of the integrated Risk Management System, risk management can be aimed at risk prevention and risk treatment. Actions on risk mitigation include purchase of equipment, development of the rules on control procedures for risk management as well as carrying out of researches, which results will allow to mitigate the detected risks

Measures on prevention and mitigation of risks include researches on competitive environment and competition growth outlook of the regional telecommunications market.

On the fixed-line market "Southern Telecommunications Company" PJSC competes with large local operators providing telecom services on the basis of xDSL technology as well as with large Internet providers using other broadband access technologies.

Telecommunications market of the Southern federal district has growing investment appeal providing for high competitive level. In 2007 400 telecom operators operated in the territory of the Southern Federal District, majority of them being Internet-providers and providers of local telephone services. The Company's share in the fixed-line market is estimated at 50.4%.

"UTK" PJSC expects the competitive environment in the market to develop as follows:

1. Large national telecommunications companies will acquire leading regional alternative local communications operators, Internet and cable TV providers in order to build-up their presence on the markets of the SFD regions actively promoting their broadband access and cable TV services under a uniform national brand.
2. Mobile operators will undertake marketing efforts to promote package data transmission services on the basis of wireless technologies, including their positioning as a «mobile office» for business sector.
3. Mobile operators will strengthen their positions in the zonal market as they can set and change flexibly the price of an intranet call in many regions of the Southern federal district.

In order to minimize existing and potential risks the Company determined a number of strategic objectives and supporting initiatives aimed at:

- search and realization of latent resources of revenue growth in the market segment of higher-margin services (Internet access, IP-TV, data transmission, intelligent services (services provided on the basis of Call-centers), etc.);
- active development of broadband access to create a basis for competitive advantages;
- Increase in business efficiency and cost reduction;
- development of commercial skills and increase in sales efficiency of traditional services;
- target work in the segment of large corporate clients (KKK);
- increase in efficiency of trading and investment activity.

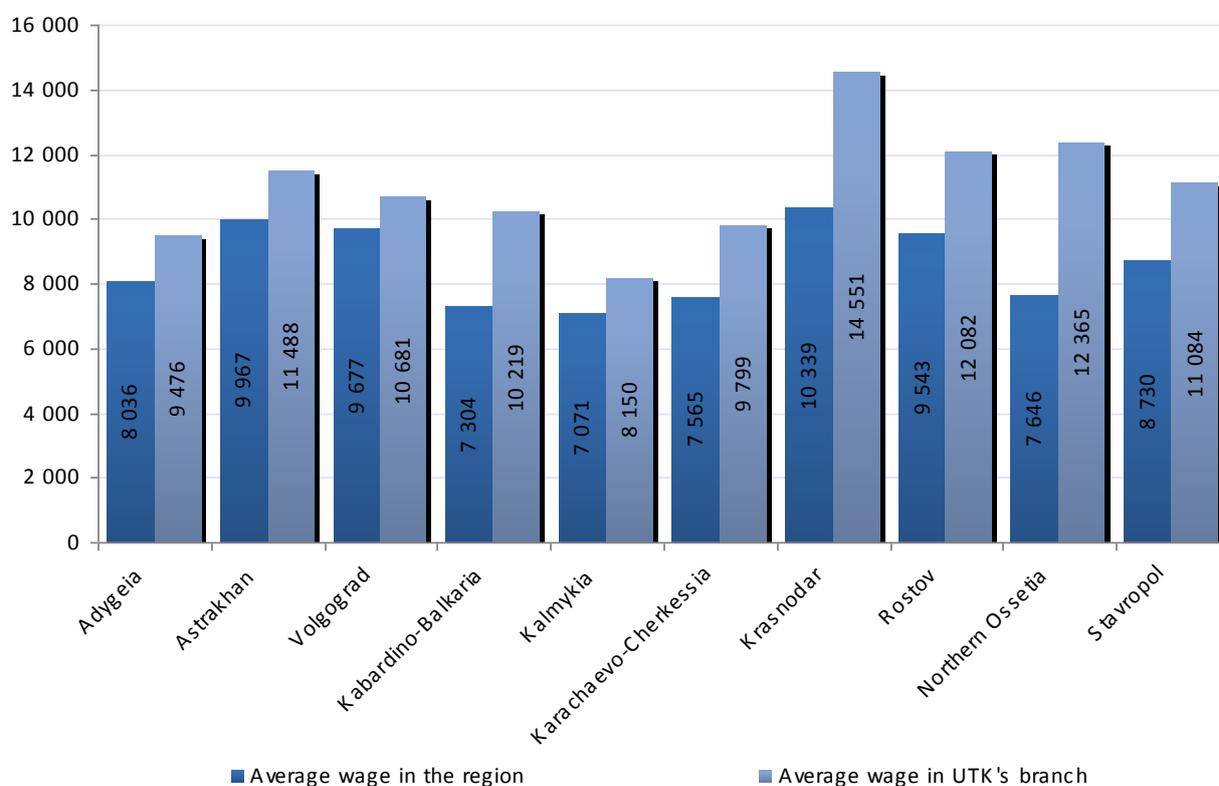
VII. SOCIAL RESPONSIBILITY

7.1. Work with personnel

7.1.1. Remuneration of labour

In 2007 remuneration of labour in "Southern Telecommunications Company" PJSC was organized on the basis of the following forms of payments – “payment by the hour”, “payment by results” and “payment without tariff rate”. Remuneration of labour of each worker depended on his professional skill, importance of work, quality of work, and was calculated in accordance with schemes of official salaries of "UTK" PJSC ensuring both socially guaranteed level of wages and motivation of workers' labour behavior. People working in heavy and unhealthy conditions received extra remuneration.

Comparison of 2007 average wages in UTK's branches and in the corresponding regions (rubles)



The Company described and estimated workplaces that made it possible to determine the value of all workplaces in the Company, allowing it to improve the labour remuneration system.

In 2007 "UTK" PJSC used incentive system based on evaluation of a worker's contribution to fulfillment of the basic economic, financial, marketing and technical parameters by the Company. The incentive system included the following bonus payments:

1. bonus for current performance results
 - bonus for fulfillment of individual plans
 - bonus for fulfillment of collective plans
 - bonus on the overall annual results

2. Special bonus

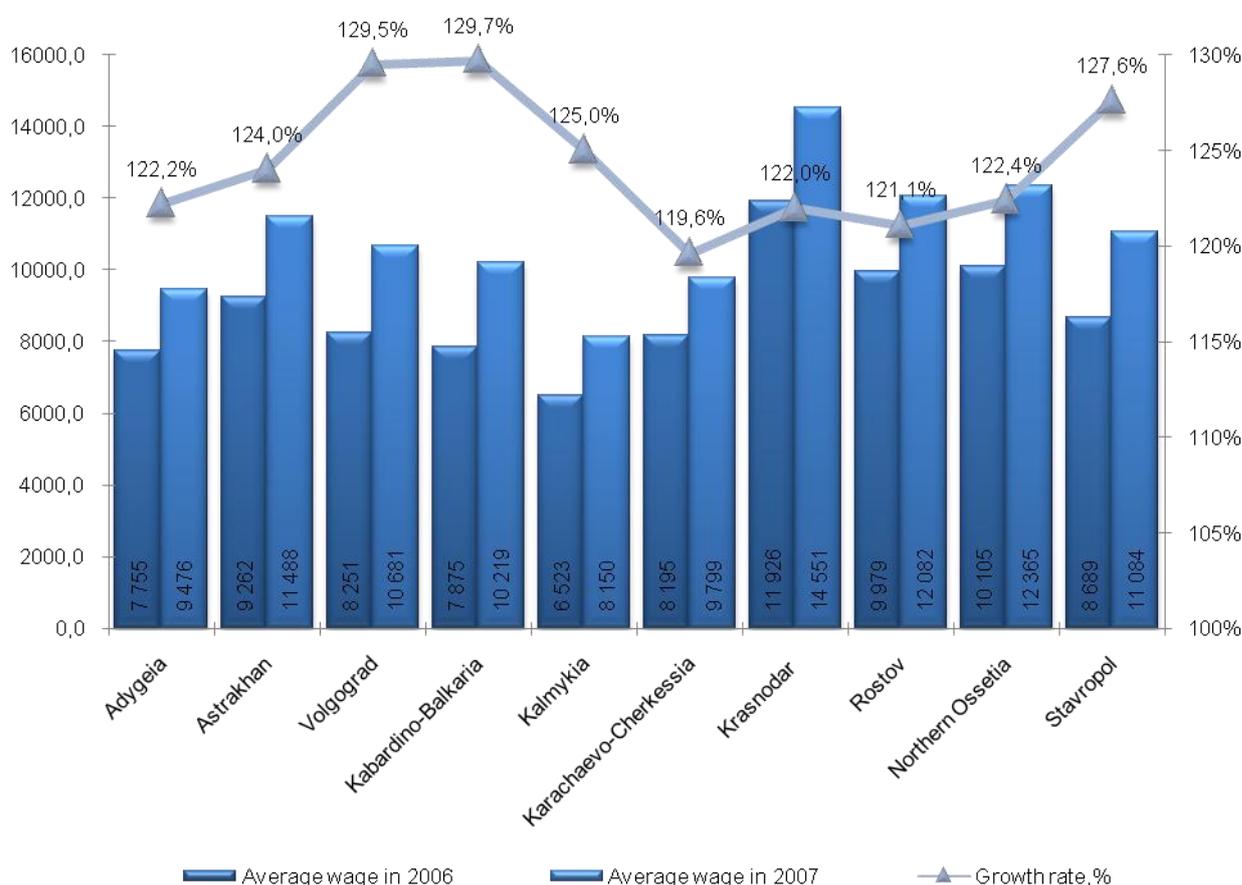
- bonus for fulfillment of the planned figures in design work
 - bonus for fulfillment of long-term budget figures
 - bonus for fulfillment of an important production task,
 - bonus for work-improvement suggestion and/or for invention
 - bonus for winners of production competition,
 - bonus for overfulfillment of the planned figures

During 2007 "Southern Telecommunications Company" PJSC carried out a number of actions aimed at optimization of its staff number. As a result, the staff number reduced by 2,445 people to 28,572 employees as of 31 December 2007.

In 2007 wages fund increased from 4,150.1 million roubles to 4,306.8 million roubles.

2007 average salary of an employee on payroll amounted to 12,439.3 rubles gaining 23.8% over 2006 (2006 average salary was 10,046.0 rubles).

Dynamics of average wages in UTK's branches in 2006-2007



Tariff-based share in the structure of the wages fund was 58.6% in 2007.

7.1.2. Improvement of management structure

During 2007 "UTK" PJSC has been actively working on improvement of its organizational structure. Special attention was paid to reduction in the number of the branches' structural units, organization of the branch structure according to the functional principle and development of the new organizational model of the branch commercial and technical functional blocks.

Krasnodar, Rostov and Stavropol branches analyzed thoroughly the functioning of structural units looking for ways of their optimization. As a result, the number of structural units decreased by 5 units in the Krasnodar branch, by 8 units – in the Stavropol branch and by 3 units – in the Rostov branch.

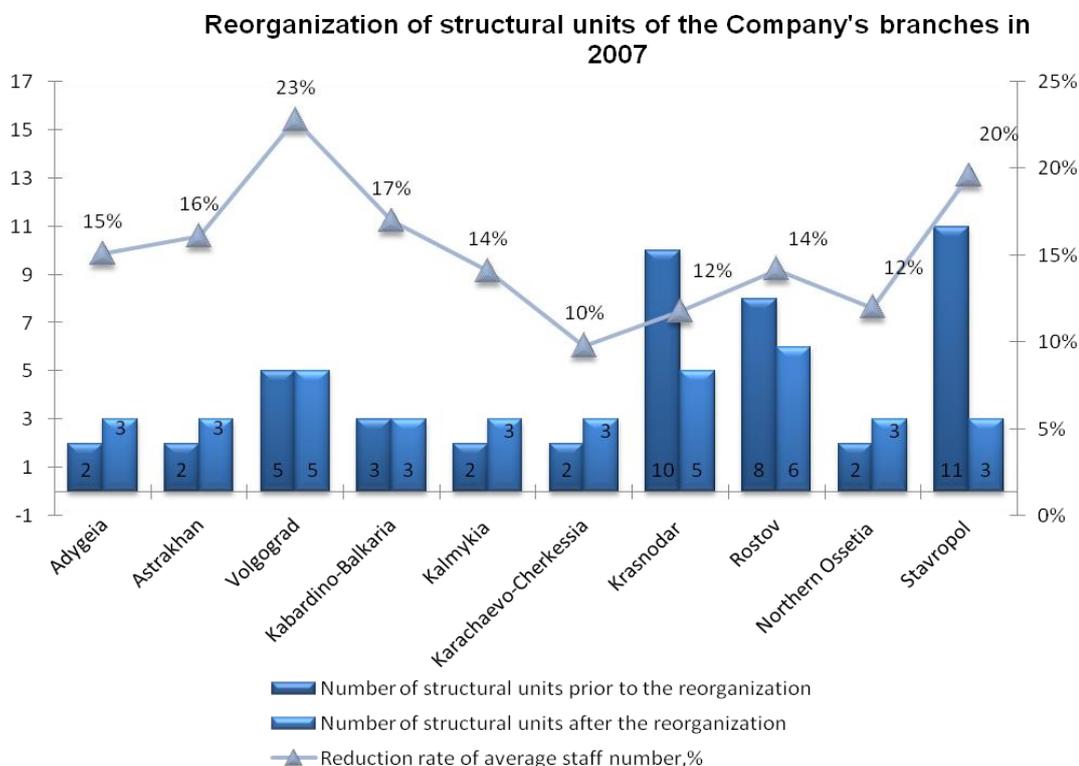
To organize the branch structure according to the functional principle, the Company's Kabardino-Balkaria and Stavropol branches have also started to reorganize their frameworks.

The Company's branches, that had already realized the functional principle of organization, formed Units of business support integrating the functions of material, technical, administrative, transport and remedial maintenance of the branch as well as the function of the corporate assets management.

In order to improve its business operations, the Company changed the structure of commercial and technical blocks. In particular, the separate units for work with individuals and corporate clients have been created in the commercial block, and the separate units for work with local and zonal communication networks have been formed in the technical block.

Improvements in the organizational structure of the General Management were aimed at optimization of the number of functional blocks, structural units as well as redistribution of functions among internal structural subdivisions. In particular, the functional block of regional policy and the securities department have been excluded from the structure of the General Management and the investment projects department has been formed on the basis of the similar structural subdivision.

During implementation of the actions on centralization of the administrative functions the Internal Audit Department of the General Management was vested the functions of development and implementation of internal control procedures in all spheres of the Company's business and the internal audit units were excluded from the organizational structures of the branches' General managements.



Decisions on carrying out of the abovementioned actions were taken by the Company's governing bodies in conformity with their terms of reference set forth by the Charter. In particular, the Company's Board of Directors took 2 decisions and the Management Board adopted 28 decisions.

At the end of 2007 the improved organizational structure of "UTK" PJSC was the following:

- organizational structure of the Company's General Management included 20 departments, 74 sections and subdivisions and 37 groups;
- organizational structure of "UTK" PJSC incorporated 10 branches of core business:
 - Adygeia branch
 - Astrakhan branch
 - Volgograd branch
 - Kabardino-Balkaria branch
 - Kalmykia branch
 - Karachaevo-Cherkessia branch
 - Krasnodar branch
 - Rostov branch
 - Northern Ossetia branch
 - Stavropol branch

7.1.3. Work with personnel

Personnel policy of "UTK" PJSC defines strategic role, goals, tasks and principles of personnel management and is aimed at increase in labour efficiency, introduction of modern forms of personnel development and estimation, formation of a highly professional and strongly motivated team able to ensure leadership in the market as well as to achieve final goals and to realize the Company's Mission.

Therefore, quality of personnel potential and general strategy of personnel formation and management are among the main factors of the Company's effectiveness and competitive power.

In 2007 personnel policy of "UTK" PJSC was aimed at strategic development of the Company's human resources and professional skills of employees to meet the requirements of modern business, as well as at staff number optimization, introduction of modern technologies, increase in level of satisfaction and social support of the personnel.

One of the key tasks of the Company's strategy is to improve the professional skills of the workforce. In 2007, as per the Company's plan and budget, 7,551 employees raised the level of their professional skills. 3,103 of them studied in the Company's training center on the basis of corporate training programs. 1,894 workers study in telecommunication institutes and colleges of higher and secondary education including 101 persons – at the expense of the Company. In addition 64 children of the Company's employees received training at the expense of "UTK" PJSC in 2007.

The Company continues to cooperate actively with regional educational institutions. Within the framework of the agreement on joint activity in professional training concluded between the Kuban State University and "Southern Telecommunications Company" PJSC, students of the university faculty "Physics and technology of optical communication» graduates with diplomas of communication engineers. The university physical faculty organized and equipped its branch on the basis of UTK's Training Center. The laboratory, training appliances and electronic library of the Training Center allow it to prepare skilled engineers.

The Astrakhan branch cooperates with the Astrakhan State Technical University, College of Communication, and Professional School. The branch equipped 5 computer classrooms in the School and connected them to the Internet via a dedicated channel. The branch's employees receive advanced training at the Astrakhan College of communication. In 2007 the Astrakhan branch together with the Astrakhan State University trained its specialists by correspondence according to the programs «Information systems and technologies», «Organization and technology of information protection», "Quality management".

The Krasnodar and Rostov branches concluded contracts on training of specialists with Moscow Technical Communications University, Rostov Communications Institute and other regional educational institutions. The branches' managers advise students on their degree works which subjects are vital for operation of telecommunication networks of "UTK" PJSC. The students do practical work at the structural units of UTK's branches and get necessary practice and experience for future work.

In 2007 the Company's provision with specialists having university degrees or equivalent was 87.4%, and with those having secondary professional education – 90.8%.

To develop the elements of the corporate culture and to increase loyalty of young employees as well as to create the staff reserve for the key corporate posts and the strategic reserve from young specialists, the Company held the Intellectual marathon "Step forward to the future» with 44 participants. The winners of the Contest were awarded a two-week training course at Deutsche Telekom AG, Germany.

The project "Oracle EBS" being introduced, "UTK" PJSC continued commercial operation of Release 1 Personnel (reflection of all operations related to the module "Personnel" in Release 1 of ERP system, including records of organizational structures, staff lists, time-sheets). Work on introduction a uniform master system (VOMS) has been started. The Company performs training of functional specialists, tests different applications and collects data for converting.

"UTK" PJSC streamlined its organizational structures with a view to transfer to functional management and centralization model of commercial and technical functional blocks of the Company.

Collective Agreement for 2008-2009 has been developed and approved according to the requirements of the Unified system of labour remuneration and motivation for companies of Svyazinvest group.

Other important matters in personnel management were social benefits and improvements in personnel material well-being. The existing system of labour motivation provides both for material and moral rewards. Best workers of the Company were rewarded with corporate awards and titles. The Company rewarded winners of production competitions and professional contests, published corporate newspapers and released corporate TV programs.

During 2007 the following awards were given to the Company's employees to recognize their important contribution to the development of the telecommunications in the Southern federal district:

- Special Expression of Gratitude by the Minister of Information Technologies and Telecommunications of the Russian Federation - 2 employees;
- Honorary title «Master of Telecommunications» - 39 employees;
- Badge «Radioperson of Honor» - 8 employees;
- Special Expression of Gratitude by the Ministry of Information Technologies and Telecommunications of the Russian Federation - 33 employees
- The Diploma of Honor by the OJSC «Investment Telecommunications Company» - 10 employees;
- Honorary title «Master of Telecommunications of "UTK" PJSC» - 26 employees;
- The Diploma of Honor by "Southern Telecommunications Company" PJSC - 30 employees;
- Special Expression of Gratitude by the General Director of "UTK" PJSC - 39 employees.

7.2. Social policy and charity

In 2007 the Company funded realization of a package of social benefits to the amount of more than 349.814 million rubles. The Company's social policy has been realized through the Collective Agreement which includes a vast package of social benefits, such as Non-governmental pension provision for future corporate pensions – 100.963 million rubles or 29% of total social costs, vacation benefits – 76.607 million rubles or 22 % and improvements in protection of labour – 51.078 million rubles or 15 %. Expenses for organization of employees' rest under voluntary medical insurance contracts amounted to 25,270.441 thousand rubles. 1,579 employees underwent medical treatment, 3,660 workers had a rest at the Company's recreation centers. In

2007 "UTK" PJSC compensated medical services provided to its employees to the amount of 3,630.4 thousand rubles.

The Company's social policy is aimed at increasing the financial security of its employees and helping its employees and their families to enjoy rest and recreation. Sports and cultural events, organized on a regular basis, are an important instrument in strengthening the Company's corporate culture and forming corporate solidarity.

In 2007 3,994.39 thousand rubles were spent on the cultural work among the masses and 10,279.56 thousand rubles – on sports activities.

The Company held Sports and Athletics Games of telecommunications workers, tourist rally, intellectual marathon, amateur art competition, fair of talents conducted during the celebration of the fifth anniversary of "UTK" PJSC.

In order to increase employees' satisfaction in work and their loyalty to the Company, "UTK" PJSC undertakes regular measures on improvement of their children's health and on rest and recreation of its young workers.

In 2007 1,559 children had a rest in children's recreation camps of the Southern federal district. "Southern Telecommunications Company" PJSC spent 8,077.97 thousand rubles for this purpose.

The Company finances 6 kindergartens visited annually by more than 630 children. In 2007 "UTK" PJSC allocated 35.27 million rubles to sponsor the kindergartens.

In the year under report 1,892.2 thousand rubles were expended to compensate the expenses of employees for their education and education of their children who wished to study in the sphere of telecommunications.

The Company tries to adhere to existing traditions. Always being bright and outstanding events in the life of the Company, traditional corporate parties devoted to professional holiday, national holidays or the Company's birthday, join the workers together.

VIII. CORPORATE GOVERNANCE

8.1. The Company's organizational structure

The Company's governing bodies:

General Shareholders' Meeting is the Company's supreme governing body.

Board of Directors is a collegiate governing body exercising general management of the Company's activity.

Management Board is a collegiate executive organ of the Company providing realization of the resolutions adopted by a General Shareholders' Meeting and the Company Board of Directors.

General Director is the personal executive power exercising management of the Company's current activity.

Bodies of Control over Financial and Economic Operations of the Company

Auditing Commission is an independent control body of the Company exercising control over financial and economic operations.

General Shareholders' Meeting is the Company's supreme governing body. Activity of the General Shareholders' Meeting is regulated by the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007) as well as by the Board of Directors (Minutes № 8 of 31.08.2006), Regulations on the procedure for holding a General Shareholders' Meeting of "UTK" PJSC approved by the General Shareholders' Meeting (Minutes №14 of 25.06.2003) amended and restated (Minutes №16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007).

8.2. Board of Directors

The Board of Directors exercises general management of the Company's operations.

Activity of the Board of Directors is regulated by the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007) as well as by the Board of Directors (Minutes № 8 of 31.08.2006), the Provisions on the Board of Directors approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007).

Membership of the Board of Directors elected at the annual General Shareholders' Meeting held on 27.06.2006 which functioned till June 26, 2007

1	Stanislav Nikolaevich Panchenko (Chairman)
2	Boris Dmitrievich Antonyuk
3	Valentina Fyodorovna Veremianina
4	Andrey Alexandrovich Vinkov
5	Anatoly Anatolievich Gavrilenko
6	Yevgeny Petrovich Yenin
7	Elena Viktorovna Zabuzova
8	Denis Viktorovich Kulikov
9	Ekaterina Alexandrovna Punina

10	Elena Petrovna Selvich
11	Yuriev Vladimir Pavlovich

UTK's Annual General Shareholders' Meeting held on June 26, 2007 elected the following membership of the Board of Directors consisting of 11 directors:

No	Full name	Position in the Board of Directors
1	Stanislav Nikolaevich Panchenko	Chairman of the Board of Directors
2	Alexander Vladimirovich Andreev	Member of the Board of Directors
3	Boris Dmitrievich Antonyuk	Member of the Board of Directors
4	Yury Alexandrovich Bilibin	Member of the Board of Directors
5	Andrey Alexandrovich Vinkov	Member of the Board of Directors
6	Yevgeny Petrovich Yenin	Member of the Board of Directors
7	Vladimir Borisovich Zhelonkin	Member of the Board of Directors
8	Oleg Borisovich Zyuzin	Member of the Board of Directors
9	Gennady Georgievich Kudryavtsev	Member of the Board of Directors
10	Denis Viktorovich Kulikov	Member of the Board of Directors
11	Elena Petrovna Selvich	Member of the Board of Directors

Members of the Board of Directors:

Stanislav Nikolaevich Panchenko (Chairman)

Date of birth: **1945**

Education: **higher education (Chelyabinsk Polytechnical Institute)**

Main place of employment and other posts held during the period under report:

Company	Position held
OJSC "Svyazinvest"	Deputy General Director
OJSC "Svyazinvest"	Member of the Management Board
"UTK" PJSC	Chairman of the Board of Directors
OJSC "Dagsvyazinform"	Chairman of the Board of Directors
"Central Telegraph" OJSC	Member of the Board of Directors {from June 2007}
"Central Telegraph" OJSC	Chairman of the Board of Directors {prior to June 2007}
OJSC "Rostelecom"	Member of the Board of Directors {till June 2007}

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when he was elected to the Company's Board of Directors for the first time: **2003**

Andreev Alexander Vladimirovich

Date of birth: **1954**

Education: **higher education (Bonch-Bruевич Leningrad Technical Institute for Communications)**

Main place of employment and other posts held during the period under report:

Company	Position held
"UTK" PJSC	General Director
"UTK" PJSC	Chairman of the Management Board
"UTK" PJSC	Member of the Board of Directors (from June 2007)
NP «CIPRT»	Member of the Partnership Board

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report:

Share in the authorized capital – 0.00024%;

Share of common stock – 0.00032%.

The year when he was elected to the Company's Board of Directors for the first time: **2007**

Antonyuk Boris DmitrievichYear of birth: **1949**Education: **higher education (Peoples Friendship University of Russia named after P. Lumumba)**

Main place of employment and other posts held during the period under report:

Company	Position held
Ministry for Information Technologies and Communications of the Russian Federation	Deputy Minister
"UTK" PJSC	Member of the Board of Directors
"Svyazinvest" OJSC	Member of the Board of Directors
"Uralsvyazinform" OJSC	Member of the Board of Directors (prior to June 2007)
OJSC "MGTS"	Member of the Board of Directors
"CenterTelecom" OJSC	Member of the Board of Directors (prior to June 2007)
Fund " Russian Fund of Telecommunications History"	Member of the Management Board

Citizenship: **Russian Federation**Stockholding in the Company during the year under report: **none**The year when she was elected to the Company's Board of Directors for the first time: **2006****Bilibin Yury Alexandrovich**Year of birth: **1971**Education: **higher education (Saint Petersburg State Technical University)**

Main place of employment and other posts held during the period under report:

Company	Position held
"Svyazinvest" OJSC	Advisor of the General Director (prior to July 2007)
CJSC "Sky Link"	First Deputy Director General (from July 2007)
"UTK" PJSC	Member of the Board of Directors (from June 2007)
"RTComm.RU" OJSC	Member of the Board of Directors (prior to June 2007)
"Telecominvest" OJSC	Member of the Board of Directors (prior to June 2007)
"Startcom" CJSC	Chairman of the Board of Directors (prior to June 2007)
"PeterStar" CJSC	Member of the Board of Directors (prior to June 2007)
"Centel" CJSC	Member of the Board of Directors (prior to June 2007)
"Uralsvyazinform" OJSC	Member of the Board of Directors
"RTK-Invest" CJSC	Member of the Board of Directors
"United Registration Company" OJSC	Member of the Board of Directors
"Informatsionnie tehnologii svyazi" OJSC	Chairman of the Board of Directors
"Giprosvyaz" OJSC	Member of the Board of Directors
"Dalsvyaz" OJSC	Member of the Board of Directors (prior to June 2007)
"Volgatelecom" OJSC	Member of the Board of Directors (from June 2007)
«Baikalvestcom» CJSC	Member of the Board of Directors
NP «CIPRT»	Chairman of the Partnership Board (from March 2007)

Citizenship: **Russian Federation**Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2007**

Vinkov Andrey Aleksandrovich

Year of birth: **1977**

Education: **higher education (Lomonosov Moscow State University)**

Main place of employment and other posts held during the period under report:

Company	Position held
ANO Magazine "Expert"	Reviewer
"UTK" PJSC	Member of the Board of Directors
"Gornozavodsktsement" OJSC	Member of the Board of Directors (prior to May 2007)
"Moscow Confectionery "Krasny Oktyabrj" OJSC	Member of the Board of Directors
"Tuimazinsky zavod avtobetonovozov" OJSC	Member of the Board of Directors (from May 2007)

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2006**

Yenin Eugheny Petrovich

Year of birth: **1958**

Education: **higher education (Leningrad State University)**

Main place of employment and other posts held during the period under report:

Company	Position held
NP "Russia Institute of Directors"	Deputy Director General
"UTK" PJSC	Member of the Board of Directors
"Volgatelecom" OJSC	Member of the Board of Directors
"Uralsvyazinform" OJSC	Member of the Board of Directors (prior to June 2007)

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2006**

Zhelonkin Vladimir Borisovich

Year of birth: **1967**

Education: **higher education (University of Knowledge Methodology)**

Main place of employment and other posts held during the period under report:

Company	Position held
"Svyazinvest" OJSC	Deputy Director General
"UTK" PJSC	Member of the Board of Directors (from June 2007)
"Central Telegraph" OJSC	Chairman of the Board of Directors (from June 2007)
"North-Western Telecom" OJSC	Member of the Board of Directors (from June 2007)
"Volgatelecom" OJSC	Member of the Board of Directors (from June 2007)
"Dalsvyaz" OJSC	Member of the Board of Directors

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2007**

Zyuzin Oleg Borisovich

Year of birth: **1966**

Education: **higher education (Pushkin Radio-electronic Higher School of Air-raid Defense)**

Main place of employment and other posts held during the period under report:

Company	Position held
"Leader" CJSC (Pension fund assets management company)	Head of Information Technologies Department
"UTK" PJSC	Member of the Board of Directors (from June 2007)

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2007**

Kudryavtsev Gennady Georgievich

Year of birth: **1941**

Education: **higher education (Moscow Telecommunications Institute)**

Main place of employment and other posts held during the period under report:

Company	Position held
Ministry for Information Technologies and Communications of the Russian Federation	Adviser of the Minister
"UTK" PJSC	Member of the Board of Directors (from June 2007)
"Sibirtelecom" OJSC	Member of the Board of Directors (from June 2007)

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company's Board of Directors for the first time: **2007**

Denis Viktorovich Kulikov

Date of birth: **1975**

Education: **higher education (Moscow State Legal Academy)**

Main place of employment and other posts held during the period under report:

Company	Position held
Investor Protection Association	Deputy Executive Director
"UTK" PJSC	Member of the Board of Directors
"OGK-5" OJSC	Member of the Board of Directors
"OGK-2" OJSC	Member of the Board of Directors {from June 2007}
"Interregional distribution network company of South" OJSC	Member of the Board of Directors {from June 2007}

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when he was elected to the Company's Board of Directors for the first time: **2003**

Selvich Elena Petrovna

Date of birth: **1968**

Education: **higher education (Kirov Saint Petersburg Forestry Engineering Academy, Saint Petersburg Institute of Economics and Finance)**

Main place of employment and other posts held during the period under report:

Company	Position held
OJSC "Svyazinvest"	Executive Director - Director of the Economics and Finance Department
"UTK" PJSC	Member of the Board of Directors

Company	Position held
“CenterTelecom” OJSC	Member of the Board of Directors
“Svyazintech” OJSC	Chairman of the Auditing Commission (prior to June 2007)
“Sibirtelecom” OJSC	Member of the Auditing Commission (prior to June 2007)
“Pochtobank” CJSC	Member of the Auditing Commission (prior to June 2007)
“Rostelecom” OJSC	Member of the Board of Directors
“Startcom” CJSC	Member of the Board of Directors (from June 2007)

Citizenship: **Russian Federation**

Stockholding in the Company during the year under report: **none**

The year when she was elected to the Company’s Board of Directors for the first time: **2006**

Data on availability of independent directors in the Company’s Board of Directors presented in accordance with item 2 of Appendix № 1 to the Provisions on activity related to organization of trade in the securities market

1. Vinkov Andrey Aleksandrovich,
2. Yenin Yevgeny Petrovich
3. Zyuzin Oleg Borisovich
4. Kulikov Denis Viktorovich.

Data on the remuneration (determination criteria and personal amount of the remuneration (reimbursement of expenses) to the members of the Board of Directors) paid to the members of the Board of Directors during the year under report:

Members of the Board of Directors of the Company received remuneration and compensation of expenses related to execution of their functions of the members of the Board of Directors, if the current legislation of the Russian Federation did not impose a ban on their participation in the governing body of a commercial organization on a paid basis (in this case they exercised their functions of members of the Board of Directors on a gratis basis).

Remuneration to the members of the Board of Directors comprised quarterly and annual remunerations.

Quarterly remuneration to each member of the Board of Directors was established in the fixed amount and paid in accordance with the Provisions on the Board of Directors approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007).

Remuneration to the Chairman of the Board of Directors was rated by a raising factor 1.5.

Quarterly remuneration to a member of the Board of Directors was reduced by:

30 percent – should he attend less than a half of the Board of Directors meetings being held in the form of joint personal presence;

100 percent – should he participate in less than a half of all the Board of Directors sessions being held. Remuneration for the quarter in which the Board of Directors had been reelected was paid to the members of the Board of Directors in proportion to the time actually served in such a quarter.

If the personal structure of the Board of Directors and-or the conditions of performing the duties by a member of the Board of Directors (paid / gratis basis) have changed during the quarter, quarterly remuneration was calculated and paid in proportion to the hours worked by the member of the Board of Directors on a paid basis.

If a member of the Board of Directors was also a member of a Board of Directors' Committee, the bonus was paid to him in addition to his quarterly remuneration. A member of the Board of Directors should not be at the same time a member of more than two Committees of the Board of

Directors. This bonus for the Chairman of a Board of Directors' Committee was rated by a raising factor 1.25.

The annual remuneration for the entire body of the Board of Directors of the Company was rated as a sum total of deductions according to standards (percentage):

from the Company's EBITDA for the reported year based on the Company's financial statements for the reported year compiled in accordance with IFRS;

from the Company's net profit allocated to dividend payment based on the financial results of the reporting year.

The annual remuneration to a member of the Board of Directors was reduced by 50 percent, if he/she attended less than a half of the Board of Directors meetings held during his term of office.

Rates of deductions for calculation of the annual remuneration were set by the resolution of the General Shareholders' Meeting and applied to determine remuneration size paid to the persons acting as the members of the Board of Directors till the next Annual General Shareholders' Meeting

Rates of deductions for calculation of the annual remuneration to be paid to the members of the Board of Directors of "UTK" PJSC being in office from 27.06.2006 till 26.06.2007 (Minutes of UTK's AGM № 17 of 27.06.2006)	Rates of deductions for calculation of the annual remuneration to be paid to the members of the Board of Directors of "UTK" PJSC being in office from 26.06.2007 till 17.06.2008 (Minutes of UTK's AGM № 18 of 26.06.2007)
0.26% of the Company's EBITDA for the reporting year as per the Company's IFRS financial statements;	0.26% of the Company's EBITDA as per the Company's 2007 IFRS financial statements;
0.78% of the Company's net profit allocated to dividend payment according to the reporting year financial results	0.78% of the Company's net profit allocated to dividend payment according to 2007 financial results

Remuneration paid to the members of the Board of Directors in the period under report amounted to 16,189 thousand rubles.

Information about the transactions on acquisition or disposal of the Company's shares effected by the members of the Company's Board of Directors during the year under report (in accordance with Order № 06-117/pz-n of 10 October 2006 of the Federal Service for Financial Markets "Approval of the Provisions on information disclosure by the Issuer of securities"):

Andreev Alexander Vladimirovich holds 9,600 ordinary shares of "UTK" PJSC (date of the transaction is June 1, 2007).

Committees of the Board of Directors

There are four Board Committees in the Company:

- Strategic Development Committee,
- Audit Committee,
- Corporate Governance Committee,
- Personnel and Rewards Committee.

BoD Committees are auxiliary bodies of the Board of Directors instituted for previewing of matters defined by the Charter of the Company to be in the frame of reference of the Board of Directors in order to increase efficiency and quality of the Board of Directors' work.

Activity of the BoD Committees is regulated by the following by-laws of the Company:

- Provisions on Strategic Development Committee of the Board of Directors of "UTK" PJSC approved by UTK's Board of Directors (Minutes № 15 of 17 November 2004)

- Provisions on Audit Committee of the Board of Directors of "UTK" PJSC restated by UTK's Board of Directors (Minutes № 39 of 28 June 2005); Provisions on Audit Committee of the Board of Directors of "UTK" PJSC restated by UTK's Board of Directors (Minutes № 37 of 24 May 2007); Provisions on Audit Committee of the Board of Directors of "UTK" PJSC restated by UTK's Board of Directors (Minutes № 17 of 27 December 2007);

- Provisions on Corporate Governance Committee of the Board of Directors of "UTK" PJSC approved by UTK's Board of Directors (Minutes № 15 of 17 November 2004)

- Provisions on Personnel and Rewards Committee of the Board of Directors of "UTK" PJSC restated by UTK's Board of Directors (Minutes № 39 of 28 June 2005)

Strategic Development Committee

Full name	Place of employment and position held
Membership of the Board Strategic Development Committee of "UTK" PJSC (with term of office from 27 June 2006 till 26 June 2007)	
Zabuzova Elena Viktorovna (Chairman)	Deputy Head of the audit and consulting group "Top-Audit"
Andreev Alexander Vladimirovich	General Director of "UTK" PJSC
Gavrilenko Anatoliy Anatolievich	General Director of CJSC "Leader" (Pension Fund Assets Management Company)
Yenin Yevgeny Petrovich	Deputy Director General of NP "Russia Institute of Directors"
Membership of the Board Strategic Development Committee of "UTK" PJSC formed on 12th July 2007	
Selvich Elena Petrovna (Chairman)	Executive Director - Director of the Economics and Finance Department of "Svyazinvest" OJSC
Andreev Alexander Vladimirovich	General Director of "UTK" PJSC
Avdiyants Stanislav Petrosovich	Executive Director – Director of Strategic Development Department of "Svyazinvest" OJSC (prior to September 2007) Representative of "Svyazinvest" OJSC (from September 2007)
Vinkov Andrey Aleksandrovich	Reviewer of ANO Magazine "Expert"
Kerber Sergey Mikhailovich	Director for Investments of "Leader" CJSC (Pension fund assets management company)
Kudryavtsev Gennady Georgievich	Part-time Advisor of the Minister for Information Technologies and Communications of the Russian Federation
Kulikov Denis Viktorovich	Deputy Executive Director of Investor Protection Association (non-profit organization)

The main purpose of the Committee is to increase efficiency and quality of the Board of Directors' work aimed at approval of budgets of different levels, perspective plans, Company's development strategies and programs as well as determination of the Company's priority development trends.

The Board Strategic Development Committee held 10 meetings, 8 of them in the form of personal attendance, and made recommendations to the Board of Directors on the following matters:

- Results of 4Q2006, 1Q2007, 2Q2007, 3Q2007 budgets implementation (Minutes №8 of 16.03.2007, Minutes №10 of 04.06.2007, Minutes №11 of 19.06.2007, Minutes №4 of 26.11.2007);
- Approval of the Company's adjusted budget for the year 2007 (Minutes № 11 of 19.06.2007);
- Termination of UTK's participation in CJSC "TeleRoss-Volgograd" (Minutes № 11 of 19.06.2007);
- Termination of UTK's participation in CJSC "TeleRoss-Kubanelectrosvyaz" (Minutes № 11 of 19.06.2007);

- Approval of the Development Program for 2008-2012 (Minutes № 2 of 20.09.2007);
- Approval of main investment priorities of "UTK" PJSC for 2008 (Minutes № 3 of 09.10.2007) ;
- Implementation of the Model of reorganization of UTK's non-core businesses in 2007 (Minutes № 4 of 26.11.2007);
- Approval of the Company's budget for the year 2008 (Minutes № 5 of 19.12.2007);

Audit Committee

Full name	Place of employment and position held
Membership of the Board Audit Committee of "UTK" PJSC (with term of office from 27 June 2006 till 26 June 2007)	
Yenin Yevgeny Petrovich (Chairman)	Deputy Director General of NP "Russia Institute of Directors"
Kulikov Denis Viktorovich	Deputy Executive Director of Investor Protection Association (non-profit organization)
Selvich Elena Petrovna	Executive Director - Director of the Economics and Finance Department of "Svyazinvest" OJSC
Membership of the Board Audit Committee of "UTK" PJSC approved on 12th July 2007)	
Yenin Yevgeny Petrovich (Chairman)	Deputy Director General of NP "Russia Institute of Directors"
Zyuzin Oleg Borisovich	Head of Information Technologies Department of "Leader" CJSC (Pension fund assets management company)
Selvich Elena Petrovna	Executive Director - Director of the Economics and Finance Department of "Svyazinvest" OJSC

The main purpose of the Committee is to improve efficiency and quality of the Board of Directors' work and to ensure open communication with independent auditor, Auditing commission, accounting, financial, economic and internal audit structural units and Internal Audit Department. In the reporting period the Board Audit Committee held 14 meetings, 5 of them in the form of personal attendance, and made recommendations to the Board of Directors on the following matters:

- Report on activities of the Internal Audit Department for the year 2006 (Minutes № 8 of 07.03.2007);
- Approval of the Work Plan of the Internal Audit Department for 2008 (Minutes № 5 of 14.11.2007);
- Risks Management Program (Minutes № 7 of 25.12.2007);
- Approval of the terms of the Agreements of Audit of the Company's 2007 financial statements compiled in accordance with RAS and IFRS standards (Minutes № 2 of 21.08.2007);
- and others.

The Committee recommended to the Board of Directors to approve the following internal documents:

- Revised Provisions on the procedure of holding a tender for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC (Minutes №6 of 12.01.2007);
- Revised Provisions on the Tender Committee for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC (Minutes №6 of 12.01.2007);
- Provisions on the Internal Control System of "Southern Telecommunications Company" PJSC (Minutes №9 of 17.04.2007);

- Revised Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC (Minutes №9 of 17.04.2007);
- Revised Regulations on the Audit Committee of the Board of Directors of "Southern Telecommunications Company" PJSC (Minutes №9 of 17.04.2007);
- Revised Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC (Minutes №7 of 25.12.2007).

The Board Audit Committee considered other matters being within its terms of reference:

- Consideration of the confidential report of the Auditor to the Company's management on 9m 2006 performance results (Minutes №7 of 19.02.2007);
- Consideration of the changes in the Company's accounting policies (Minutes №6 of 12.01.2007);
- Consideration of the preliminary Auditor's Report on 2006 financial statements (Minutes №10 of 27.04.2007);
- Consideration of 2006 audit results. Estimation of the Auditor's Report on 2006 financial statements (Minutes №11 of 11.05.2007);
- Preparation of proposals on the candidate of the Company's independent Auditor for 2007 for its approval at the Annual General Shareholders' Meeting (Minutes №11 of 11.05.2007);
- Consideration of the Auditing Commission's Report on the Company's 2006 financial statements (Minutes №11 of 11.05.2007);
- consideration of the Report on the risks management for the year 2006 (Minutes №12 of 09.06.2007);
- Consideration of the Company's Management report on elimination of the drawbacks revealed during the audit of 2006 financial statements (Minutes №1 of 03.08.2007);
- Consideration of the Company's 2006 IFRS financial statements (Minutes №3 of 18.09.2007);
- Consideration of 1H 2007 IFRS performance results (Minutes №6 of 06.12.2007);
- Consideration of IFRS accounting policy for 2007 (Minutes №6 of 06.12.2007);
- Consideration of RAS accounting policy for 2008 (Minutes №7 of 25.12.2007);
- Consideration of the results of the preliminary audit of 9m 2007 RAS financial statements and the draft of the confidential report to the Company's management (Minutes №7 of 25.12.2007);
- and others.

Corporate Governance Committee

Full name	Place of employment and position held
Membership of the Board Corporate Governance Committee of "UTK" PJSC (with term of office from 27 June 2006 till 26 June 2007)	
Punina Ekaterina Alexandrovna (Chairman)	Chief specialist, Corporate Governance and Legal Department, "Svyazinvest" OJSC
Veremianina Valentina Fyodorovna	Deputy Director of Corporate Governance and Legal Department of "Svyazinvest" OJSC
Vinkov Andrey Aleksandrovich	Reviewer of ANO Magazine "Expert"
Membership of the Board Corporate Governance Committee of "UTK" PJSC approved on 12th July 2007	
Vinkov Andrey Aleksandrovich (Chairman)	Reviewer of ANO Magazine "Expert"
Lyubich Anna Anatolievna	Corporate Secretary of "Southern Telecommunications Company" PJSC

Punina Ekaterina Alexandrovna	Chief specialist, Corporate Governance and Legal Department, "Svyazinvest" OJSC
Tushunov Dmitry Yurievich	Head of Analytic Department – Chief economist of "Leader" CJSC (Pension fund assets management company)

The main purpose of the Committee is to increase efficiency and quality of the Board of Directors' work relating to calling, preparing and conducting General Shareholders' Meetings, corporate reorganizations of the Company and other.

In the reporting period the Board Corporate Governance Committee held 10 meetings, 1 of them in the form of personal attendance, and made recommendations to the Board of Directors, including on the following matters:

- **Changes in functional blocks of the Company's organizational structure and in main functions of the structural units** of such functional blocks (Minutes № 7 of 27.02.2007);
- Consideration of the proposals submitted by shareholders on introducing issues in the AGM agenda of "UTK" PJSC and on the nominees to the Company's governing and control bodies (Minutes № 8 of 02.03.2007);
- Approval of the terms of Additional agreement № 2 to employment Contract with the Corporate Secretary of "UTK" PJSC Anna Lyubich (Minutes № 9 of 19.03.2007);
- Convening of the Annual General Shareholders' Meeting on the results of 2006 financial year (Minutes № 10 of 25.04.2007);
- Changes in financial block of the Company's organizational structure and in the main functional subdivisions of this block (Minutes № 10 of 25.04.2007);
- Preparation and conducting of the annual General Shareholders' Meeting (Minutes № 1 of 11.05.2007);
- and others.

The Committee recommended to the Board of Directors to approve the following internal documents:

- Revised Provisions on the Corporate Secretary and the Office of the Corporate secretary of "Southern Telecommunications Company" PJSC (Minutes №7 of 27.02.2007);
- Provisions on the Internal Control System of "Southern Telecommunications Company" PJSC (Minutes №12 of 21.05.2007);
- Revised Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC (Minutes №12 of 21.05.2007);
- Revised Regulations on the Audit Committee of the Board of Directors of "Southern Telecommunications Company" PJSC (Minutes №12 of 21.05.2007);
- Provisions on the remuneration payable to the members of the Management Board of "Southern Telecommunications Company" PJSC (Minutes №3 of 19.12.2007);
- and others.

The Committee considered other matters being within its terms of reference:

- Application of item 3 Article 49 of the Federal law «On Joint –Stock Companies» in practice (Minutes №2 of 16.11.2007);
- Registration of votes of the members of the Board of Directors on the agenda issues of the BoD sessions held in the form of absentee voting (Minutes №3 of 19.12.2007);
- And others.

Personnel and Rewards Committee

Full name	Place of employment and position held
Membership of the Board Personnel and Rewards Committee of "UTK" PJSC (with term of	

office from 27 June 2006 till 26 June 2007)	
Kulikov Denis Viktorovich (Chairman)	Deputy Executive Director, Investor Protection Association (non-commercial organization)
Veremianina Valentina Fyodorovna	Deputy Director of the Legal and Corporate Governance Department of "Svyazinvest" OJSC
Zabuzova Elena Viktorovna	Deputy Head of the audit and consulting group "Top-Audit"
Yuriev Vladimir Pavlovich	Head of the Department for economics, finance and state property of the Federal Communications Agency
Membership of the Board Personnel and Rewards Committee of "UTK" PJSC approved on 12th July 2007	
Kulikov Denis Viktorovich (Chairman)	Deputy Executive Director, Investor Protection Association (non-commercial organization)
Yenin Yevgeny Petrovich	Deputy Director General of Non-profit Partnership «Russian Institute of Directors»
Zhelonkin Vladimir Borisovich	Deputy Director General of "Svyazinvest" OJSC

The main purpose of the Committee is to increase efficiency and quality of the Board of Directors' work relating to definition of the criteria of selection of candidates to the Company's elected bodies, preliminary approval of candidates for the posts of the directors of branches, consideration of the candidacy of the General Director, regular estimation of his/her activity.

In the reporting period the Personnel and Rewards Committee held 17 meetings, 3 of them in the form of personal attendance, and made recommendations to the Board of Directors, including on the following matters:

- Changes in numerical and personal structure of the Management Board of "UTK" PJSC (Minutes № 9 of 24.01.2007);
- Approval of the terms of Additional Agreements to Employment Contracts with the members of the Company's Management Board (Minutes № 10 of 08.02.2007);
- Preliminary approval of the candidate for the post of the Deputy Director General – Director of UTK's branch and the terms of his/her Employment contract (Minutes №12 of 02.03.2007, №17 of 25.05.2007, № 4 of 26.10.2007, № 6 of 12.12.2007);
- Approval of Additional Agreements to Employment Contracts with Deputy Directors General – Directors of UTK's branches (Minutes № 13 of 19.03.2007);
- Recommendations to the Annual General Shareholders' Meeting of "UTK" PJSC on determination of the rates of deductions for calculation of the annual remuneration payable to the members of the Company's Board of Directors (Minutes № 16 of 10.05.2007);
- Bonus payment to the General Director based on 2006 performance results (Minutes № 17 of 25.05.2007);
- Approval of the Additional tasks for the General Director of "UTK" PJSC to be fulfilled by him in 2007 (Minutes № 18 of 19.06.2007);
- Formation of the Management Board of "UTK" PJSC and determination of its term of office (Minutes № 1 of 30.07.2007);
- Approval of the terms of Additional Agreements to Employment Contracts with the members of the Company's Management Board (Minutes № 3 of 03.10.2007);
- Approval of the Provisions on the remuneration payable to the members of the Management Board of "Southern Telecommunications Company" PJSC (Minutes № 7 of 18.12.2007);
- And others.

The Committee considered other matters being within its terms of reference:

- Preliminary consideration of the nominees to the Company's Board of Directors (Minutes № 15 of 28.04.2007);
- Incentive system for employees of "Southern Telecommunications Company" PJSC (Minutes № 5 of 31.10.2007, Minutes № 7 of 18.12.2007);

- And others

The Board of Directors activity aimed at realization of the Company's development priorities. Sessions of the Board of Directors:

In 2007 the Board of Directors worked according to work plans approved at its sessions as well as to the initiatives submitted in the order established by the Statute on the Board of Directors of "UTK" PJSC.

During 2007 the Board of Directors held 36 meetings, 19% of which were held in the form of personal attendance. In the year under report the Board of Directors considered the following matters providing for implementation of the Company's priority development trends and being within the terms of reference of the Board of Directors pursuant to paragraph 1, item 13.4, Article 13 of the Company's Charter:

- Course of implementation of the actions stipulated by the Concept of Capitalization Growth of "Southern Telecommunications Company" PJSC for 2005-2007 (Minutes №28 of 19.03.2007);
- Results of 4Q2006, 1Q2007, 2Q2007, 3Q2007 budgets implementation (Minutes №29 of 22.03.2007, Minutes №39 of 17.06.2007, Minutes №4 of 10.08.2007, Minutes №14 of 30.11.2007);
- Approval of the Company's adjusted budget for the year 2007 (Minutes №40 of 22.06.2007);
- Approval of the Company's Development Program for 2008-2012 (Minutes №10 of 28.09.2007);
- Approval of main investment priorities of "UTK" PJSC for 2008 (Minutes №11 of 12.10.2007);
- Approval of the Company's budget for the year 2008 (Minutes №16 of 21.12.2007);

Matters related to preparation and conducting of General Shareholders' Meetings and referred to the terms of reference of the Board of Directors pursuant to paragraphs 3-6, 14 of item 13.4 Article 13 of the Company's Charter:

- Convening of the Annual General Shareholders' Meeting on the results of 2006 financial year (Minutes №33 of 26.04.2007);
- Consideration of the proposals submitted by shareholders on introducing issues in the AGM agenda of "UTK" PJSC and on the nominees to the Company's governing and control bodies (Minutes №27 of 05.03.2007);
- Other issues related to preparation and conducting of the Annual General Shareholders' Meeting (Minutes №35 of 15.05.2007).

Matters related to appointments, determination of the term of office of the Company's executive bodies, approval of the terms of Employment contracts, as well as consideration of the matters, decisions on which should be taken by the Board of Directors according to the said contracts (paragraphs 26, 28,29,30,33 of item 13.4 of article13 of the Company's Charter):

- Changes in numerical and personal structure of the Management Board of "UTK" PJSC (Minutes №22 of 26.01.2007);
- Approval of the terms of Additional Agreements to Employment Contracts with the members of the Company's Management Board (Minutes №26 of 02.03.2007);
- Approval of the Additional tasks for the General Director of "UTK" PJSC to be fulfilled by him in 2007 (Minutes №40 of 22.06.2007);
- Formation of the Management Board of "UTK" PJSC and determination of its term of office (Minutes №3 of 01.08.2007);
- Changes in the Additional tasks for the General Director of "UTK" PJSC to be fulfilled by him in 2007 (Minutes №4 of 10.08.2007);
- Approval of holding of more than one appointment in the governing bodies of other organizations by the members of the Management Board of "Southern Telecommunications Company" PJSC (Minutes №4 of 10.08.2007);

Matters related to the approval of the Company's internal documents (paragraphs 18, 32, 37-38, 40 of item 13.4 of Article 13 of the Company's Charter):

- Approval of the revised Provisions on the procedure of holding a tender for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC (Minutes №25 of 22.02.2007);
- Approval of the revised Provisions on the Tender Committee for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC (Minutes №6 of 25 of 22.02.2007);
- Approval of the revised Provisions on the Corporate Secretary and the Office of the Corporate secretary of "Southern Telecommunications Company" PJSC (Minutes № 29 of 22.03.2007);
- Approval of the revised Provisions on the Internal Control System of "Southern Telecommunications Company" PJSC (Minutes №37 of 24.05.2007);
- Approval of the revised Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC (Minutes №9 of 24.05.2007);
- Approval of the revised Provisions on the remuneration payable to the members of the Management Board of "Southern Telecommunications Company" PJSC (Minutes №17 of 27.12.2007);

Matters related to making decisions on the Company's participation in other commercial organizations (paragraph 34 item 13.4 article 13 of the Company's Charter):

- Termination of UTK's participation in OJSC KKB «Creditbank» (Minutes №26 of 02.03.2007);
- Termination of UTK's participation in CJSC «TeleRoss-Volgograd» (Minutes №40 of 22.06.2007);
- Termination of UTK's participation in CJSC «TeleRoss-Kubanelectrosvyaz» (Minutes №40 of 22.06.2007);
- Termination of UTK's participation in «Kabardino-Balkarian GSM» (Minutes №12 of 31.10.2007);
- Termination of UTK's participation in «Karachaevo-CherkesskTeleSot» (Minutes №12 of 31.10.2007);
- Course of implementation of the Model of reorganization of UTK's non-core businesses in 2007 (Minutes №15 of 14.12.2007);

Other matters referred by the Company's Charter to the terms of reference of the Board of Directors:

- Report on activities of the Internal Audit Department for the year 2006 (Minutes №28 of 19.03.2007);
- Report on implementation of the projects related to content services and ESK-based services for the year 2006 (Minutes №30 of 23.03.2007);
- Changes in functional blocks of the Company's organizational structure and in main functions of the structural units of such functional blocks (Minutes №33 of 26.04.2007);
- Assessment of the results of the Company's work to reduce overdue accounts receivable for 2006 (Minutes №40 of 22.06.2007);
- Election of the Chairman of the Board of Directors of "UTK" PJSC (Minutes №1 of 26.06.2007);
- Formation of the Committees of the Board of Directors of "Southern Telecommunications Company" PJSC (Minutes №2 of 12.07.2007);
- Approval of the Work Plan of the Board of Directors of "Southern Telecommunications Company" PJSC for 2007-2008 (Minutes №3 of 10.08.2007);

- Approval of the terms of the agreements on audit of the Company's 2007 financial statements compiled in accordance with RAS and IFRS standards (Minutes №7 of 07.09.2007);
- And others.

8.3. General Director

Since June 16, 2006 Andreev Alexander Vladimirovich has been the Company's General Director. He was appointed by the Board of Directors on 15th June 2006 (Minutes of the Board of Directors № 40 of 15.06.2006).

Andreev Alexander Vladimirovich

Year of birth: **1954**

Education: **higher education(Leningrad Bonch-Bruyevich Technical Institute of Telecommunications)**

Period of acting as the General Director: **2 years**

Other positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	General Director
"UTK" PJSC	Chairman of the Management Board
NP "CIPRT"	Member of the Partnership Board

Share in the authorized capital: **0.00024%**;

Share of common stock: **0.00032%**.

Criteria of determination and size of remuneration (compensation of expenses) paid to the General Director in the year under report:

The size of remuneration payable to the General Director was determined by the following criteria, according to the Employment Agreement approved by the Company's Board of Directors on 15 June 2006 (Minutes № 40 of 15.06.2006):

General Director received official salary and compensation bonuses including annual, quarterly and lump-sum bonuses based on performance results, business progress and execution of his duties in good faith.

The Company's Board of Directors took appropriate decisions to pay bonuses to the General Director.

General Director received quarterly bonus payment for duly execution of duties amounting up to 40% of the total amount of the official salary received in the corresponding quarter, based on the results of the quarterly budget execution.

General Director received annual bonus payment for duly execution of duties amounting up to 80% of the total amount of the official salary received in the corresponding year, based on the results of execution of additional tasks.

When determining the size of a quarterly and-or annual bonus, the Board of Directors estimated proper observance by the General director of the requirements of the current legislation, constituent documents of the Company, local statutory acts, as well as duly performance of the duties assigned to him.

The Company's Board of Directors may take a decision to pay a lump-sum premium to the General Director. In October 2007 the Board of Directors took a decision to pay a lump-sum bonus to the General Director for successful implementation of the priority national program "Education" (Minutes № 12 of 31.10.2007)

Information about the transactions on acquisition or disposal of the Company's shares effected by the Company's General Director during the year under report (in accordance with Order № 06-117/pz-n of 10 October 2006 of the Federal Service for Financial Markets "Approval of the Provisions on information disclosure by the Issuer of securities"):

Andreev Alexander Vladimirovich holds 9,600 ordinary shares of "UTK" PJSC (abstract of DEPO account as of June 13, 2007).

8.4. Management Board

Management Board is a collegiate executive organ of the Company providing realization of the resolutions adopted by a General Shareholders' Meeting and the Company Board of Directors and exercising management of the Company's current activities.

Activity of the Management Board is regulated by the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, №17 of 27.06.2006, № 18 of 26.06.2007) as well as by the Board of Directors (Minutes № 8 of 31.08.2006) and the Provisions on the Management Board approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, №17 of 27.06.2006).

Membership of the Management Board acting from 1 January 2007 till 25 January 2007:

1. Andreev Alexander Vladimirovich (Chairman)
2. Borodin Stanislav Petrovich
3. Dobryakov Alexander Anatolievich
4. Metla Yury valentinovich
5. Rzhovsky Evgeny Borisovich
6. Rusinova Tatiana Viktorovna
7. Statuev Vladislav Andreevich

On January 25, 2007 Samoilo A.A. was appointed the member of the Management Board (Minutes of the Board of Directors № 22 of 26.01.2007).

New structure of the Management Board was the following:

	Full name	Position held
1.	Andreev A.V.	Chairman of the Management Board – General Director of "Southern Telecommunications Company" PJSC
2.	Borodin S.P.	Deputy Director General – Director for Information Technologies of "Southern Telecommunications Company" PJSC
3.	Dobryakov A.A.	Deputy Director General – Director for Economics and Finance of "Southern Telecommunications Company" PJSC
4.	Metla Yu.V.	Deputy Director General - Director of the Rostov branch of "Southern Telecommunications Company" PJSC
5.	Rzhovsky Ye.B.	Deputy Director General - Technical Director of "Southern Telecommunications Company" PJSC
6.	Rusinova T.V.	Chief Accountant of "Southern Telecommunications Company" PJSC
7.	Samoilo A.A.	Deputy Director General – Commercial director of "Southern Telecommunications Company" PJSC
8.	Statuev V.A.	Deputy Director General – Director for Assets Management and General Matters of "Southern Telecommunications Company" PJSC

On the 2nd of August 2007 new membership of the Management Board was approved (Minutes of the Board of Directors № 3 of 01.02.2008):

№	Name	Position held
1.	Andreev A.V.	Chairman of the Management Board – General Director of "Southern Telecommunications Company" PJSC
2.	Borodin S.P.	Deputy Director General for Information Technologies – Director of the branch «Center of New Technologies»
3.	Dobryakov A.A.	Deputy Director General – Director for Economics and Finance of "Southern Telecommunications Company" PJSC
4.	Korotenko S.V.	Deputy Director General - Director of the Krasnodar branch of "Southern Telecommunications Company" PJSC

№	Name	Position held
5.	Plotnikov A.P.	Deputy Director General – Director for Security and Secrecy Regime of "Southern Telecommunications Company" PJSC
6.	Rzhevsky Ye.B.	Deputy Director General - Technical Director of "Southern Telecommunications Company" PJSC
7.	Rusinova T.V.	Chief Accountant of "Southern Telecommunications Company" PJSC
8.	Samoilov A.A.	Deputy Director General – Commercial director of "Southern Telecommunications Company" PJSC
9.	Statuev V.A.	Deputy Director General – Director for Security and Secrecy Regime of "Southern Telecommunications Company" PJSC

Members of the Management Board:

Andreev Alexander Vladimirovich

Year of birth: **1954**

Education: **higher education (Leningrad Bonch-Bruyevich Technical Institute of Telecommunications)**

Other positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	General Director
"UTK" PJSC	Chairman of the Management Board
NP "CIPRT"	Member of the Partnership Board

Stockholding in the Company during the year under report:

Share in the authorized capital: **0.00024%**;

Share of common stock: **0.00032%**.

Borodin Stanislav Petrovich

Year of birth: **1966**

Education: **higher education (Leningrad Institute of Aeronautical Engineering)**

Has been holding the post since: **2006**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy Director General – Director for Information Technologies
"UTK" PJSC	Member of the Management Board
OJSC "Svyazintek"	Member of the Board of Directors

Stockholding in the Company during the year under report: **none**

Dobryakov Alexander Anatolievich

Date of birth: **1972**

Education: **higher education (Saint-Petersburg State Academy for Economics and Engineering)**

Has been holding the post since: **2006**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy General Director – Director for Economics and Finance
"UTK" PJSC	Member of the Management Board
OJSC "OK "Orbita"	Member of the Board of Directors

Stockholding in the Company during the year under report: **none**

Korotenko Svetlana Vasilievna

Year of birth: **1962**

Education: **higher education (All-Union Correspondence Technical Institute of Telecommunications, Plekhanov Russian Academy of Economics)**

Has been holding the post since: **2003-2005, 2007**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy General Director – Director of the Krasnodar branch
"UTK" PJSC	Member of the Management Board (from August 2007)

Stockholding in the Company during the year under report:

Share in the Issuer's authorized capital: **0.0158895 %**

Share of the Issuer's common stock: **0.0188981%**

Plotnikov Alexander Petrovich

Date of birth: **1955**

Education: **higher education (Moscow Aircraft Institute)**

Has been holding the post since: **2007**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy General Director – Director for Security and Secrecy Regime
"UTK" PJSC	Member of the Management Board (from August 2007)

Stockholding in the Company during the year under report: **none**

Rzhevsky Yevgeny Borisovich

Year of birth: **1971**

Education: **higher education (Odessa Telecommunications Institute)**

Has been holding the post since: **2006**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy Director General - Technical Director
"UTK" PJSC	Member of the Management Board
CJSC "Tele-Ross-Kubanelectrosvyaz"	Member of the Board of Directors (prior to August 2007)
CJSC "Yugsvyazstroy"	Member of the Board of Directors

Stockholding in the Company during the year under report:

Share in the Issuer's authorized capital: **0.000003%**

Share of the Issuer's common stock: **0.000004%**

Rusinova Tatyana Viktorovna

Year of birth: **1958**

Education: **higher education (Moscow International Institute of Economics and Law, Rostov State Economic University)**

Has been holding the post since: **2003**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Chief Accountant
"UTK" PJSC	Member of the Management Board

Stockholding in the Company during the year under report: **none**

Samoilov Arkady Arkadievich

Date of birth: **1980**

Education: **higher education (Kaliningrad State Technical University)**

Has been holding the post since: **2007**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy General Director – Commercial Director
"UTK" PJSC	Member of the Management Board (from January 2007)

Stockholding in the Company during the year under report:

Share in the Issuer's authorized capital: **0.00009154%**

Share of the Issuer's common stock: **0.000101%**

Statuev Vladislav Andreevich

Year of birth: **1956**

Education: **higher education (Dzerzhinsky Higher Naval Engineering School in Leningrad (now St. Petersburg))**

Has been holding the post since: **2002**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"UTK" PJSC	Deputy Director General – Director for Assets Management and General Matters
"UTK" PJSC	Member of the Management Board
CJSC "Volgograd-GSM"	Member of the Board of Directors

Stockholding in the Company during the year under report: **none**

Criteria of determination and size of remuneration (compensation of expense) paid to the members of the Management Board in the year under report:

Remuneration to the members of the Management Board was paid according to the Provisions on the Management Board approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006) and the Provisions on the remuneration payable to the members of the Management Board approved by the Board of Directors of "UTK" PJSC on 6 September 2005 (Minutes № 6).

During their term of office the members of the Management Board received quarterly remuneration. Total amount of quarterly remuneration was determined by the Board of Directors of "UTK" PJSC and could not exceed the sum set by the Provisions on the remuneration payable to the members of the Management Board of "UTK" PJSC.

The Board of Directors could reduce total amount of quarterly remuneration payable to all members of the Management Board depending on budget execution, realization of the decisions taken by General Shareholders' Meeting and the Board of Directors as well as on quality of materials prepared for the Board of Directors.

After estimation of the abovementioned factors UTK's Board of Directors could take a decision to reduce quarterly remuneration to all members of the Management Board. Such reduction might constitute up to 100% of maximal quarterly remuneration.

From October 2007 due to the conclusion of additional agreements to Employment Contracts with the Company's employees being the members of the Management Board, remuneration payable to them was divided into additional payment to the official salary and quarterly bonuses, the decision on which payment shall be taken by the Board of Directors.

Remuneration paid to the members of UTK's Management Board amounted to 3,817 thousand rubles in the reporting year.

Information about the transactions on acquisition or disposal of the Company's shares effected by the Company's General Director during the year under report (in accordance with Order № 06-117/pz-n of 10 October 2006 of the Federal Service for Financial Markets "Approval of the Provisions on information disclosure by the Issuer of securities"):

Andreev Alexander Vladimirovich holds 9,600 ordinary shares of "UTK" PJSC (abstract of DEPO account as of June 13, 2007).

Samoilov Arkady Arkadievich holds 3,000 ordinary shares of "UTK" PJSC (abstract of DEPO account as of August 24, 2007) and 600 preference shares of "UTK" PJSC (abstract of DEPO account as of August 30, 2007) .

8.5. Auditing Commission

The Auditing Commission is an independent control body of the Company, elected at the annual general meeting of the shareholders for a period till the next annual general meeting of the shareholders, with 5 members.

Activity of the Auditing Commission is regulated by the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting held on 21 January 2003 (Minutes № 13) amended and restated (Minutes of AGMs № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007)) as well as by the Board of Directors (Minutes № 8 of 31.08.2006) and the Provisions on the Auditing Commission approved by the General Shareholders' Meeting of "Kubanelectrosvyaz" OJSC (Minutes № 10 of 30 May 2001) amended and restated by General Shareholders' Meeting of "UTK" PJSC (Minutes of AGMs № 12 of 21.06.2002 and №15 of 30.06.2004, № 17 of 27.06.2006).

The Auditing Commission exercises control over financial and economic activity of the Company including its branches and representative offices

Within its terms of reference the Auditing Commission exercises control over the Company's operations in the following areas:

- audit of financial and economic statutory documents of the Company including, if necessary, source accounting data;
- audit of the legality of the resolutions and actions of the Company's executive bodies including concluded contracts and effected transactions;
- control that the terms of the transactions concluded by the Company conform to the terms of transactions concluded under comparable conditions;
- analysis of the conformity of business and statistical accounting with current legal regulations;
- analysis of the financial standing of the Company, finding out the reserves for improving the Company's economic position;
- analysis of the timeliness and correctness of settlements with counteragents, budgets of various levels, shareholders and other Company's creditors;
- analysis of the settlements with the Company's debtors with regard to the timeliness and completeness of measures taken by the executive bodies;
- in other areas of the Company's operations within the terms of reference of the Auditing Commission.

In April 2008 the Auditing Commission performed audit of the Company's financial and performance results for 2007. Based on the audit results, it was found out that:

- decisions related to financial and economic activities approved by the Company's Management Board and Board of Directors in 2007 comply with the current legislation and the Charter of the Company,

- 2007 financial reporting is trustworthy, and presents in all material aspects the financial position of the Company and its financial results for the period from 1 January till 31 December 2007,

- 2007 annual report of the Company is trustworthy in all its material aspects which should be disclosed in accordance with the requirements of the Russia law.

Prior to 26th June 2007 the structure of the Auditing Commission was the following:

1. Frolov Kirill Viktorovich (Chairman)
2. Ganeeva Alla Albertovna
3. Zubova Tatiana Yurievna
4. Loshakov Dmitry Anatolievich
5. Feoktistova Natalia Vadimovna

On 26th June 2007 the Company's Annual General Shareholders' Meeting elected the following membership of the Auditing Commission:

1. Aksyaitov Ruslan Kyarimovich
2. Podosinov Sergey Vladimirovich
3. Tretiakov Mikhail Viktorovich
4. Feoktistova Natalia Vadimovna
5. Chetvyorkina Olga Sergeevna

Aksyaitov Ruslan Kyarimovich (Chairman)

Year of birth: **1975**

Education: **higher education (Saint Petersburg State University for Economics and Finance)**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"Svyazinvest" OJSC	Deputy chief accountant
"UTK" PJSC	Chairman of the Auditing Commission (from June 2007)
"North-Western Telecom" OJSC	Chairman of the Auditing Commission (prior to June 2007)
"Integrator.ru" CJSC	Member of the Auditing Commission (prior to August 2007)
"Yeniseytelecom" CJSC	Chairman of the Auditing Commission (prior to June 2007)
"Saratov – Mobile" CJSC	Chairman of the Auditing Commission (prior to November 2007)
"Chuvashia Mobile" CJSC	Chairman of the Auditing Commission (prior to November 2007)
"Uralsvyazinform" OJSC	Member of the Auditing Commission (from June 2007)
"Tatincom-T" OJSC	Member of the Auditing Commission (from June 2007)
"Giprosvyaz" OJSC	Member of the Auditing Commission (from June 2007)
"PTT" CJSC	Member of the Auditing Commission (from June 2007)

Stockholding in the Company during the year under report: **none**

Podosinov Sergey Vladimirovich

Year of birth: **1971**

Education: **higher education (Moscow State Academy of Law)**

Positions held in the Company and other organizations during the period under report:

Company	Position held
OJSC "Svyazinvest"	Deputy head of the Internal Audit Administration
"UTK" PJSC	Member of the Auditing Commission (from June 2007)
"CenterTelecom" OJSC	Member of the Management Board (prior to July 2007)
"North-Western Telecom" OJSC	Member of the Management Board (prior to June 2007)

Stockholding in the Company during the year under report: **none**

Tretiakov Mikhail Viktorovich

Year of birth: **1974**

Education: **higher education (Saint Petersburg State University)**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"Svyazinvest" OJSC	Head of the section for investment activity methodology and estimation of the Economics and Finance Department
"UTK" PJSC	Member of the Auditing Commission (from June 2007)
"CenterTelecom" OJSC	Member of the Auditing Commission (from June 2007)
"Sibirtelecom" OJSC	Member of the Auditing Commission (from June 2007)

Stockholding in the Company during the year under report: **none**

Feoktistova Natalia Vadimovna

Year of birth: **1966**

Education: **higher education (All-Union Correspondence Institute of Law)**

Positions held in the Company and other organizations during the period under report:

Company	Position held
"Svyazinvest" OJSC	Head of the section for work with dependent companies of Legal and Corporate Governance Department
"UTK" PJSC	Member of the Auditing Commission
"Volgatelecom" OJSC	Member of the Auditing Commission (from June 2007)
"Uralsvyazinform" OJSC	Member of the Auditing Commission (prior to June 2007)
"Dalsvyaz" OJSC	Member of the Board of Directors
"Giprosvyaz" OJSC	Member of the Board of Directors (from June 2007)
"Mobitel" CJSC	Auditor

Stockholding in the Company during the year under report: **none**

Chetvyorkina Olga Sergeevna

Year of birth: **1956**

Education: **higher education (All-Union Correspondence Technical Institute of Telecommunications)**

Positions held in the Company and other organizations during the period under report:

Company	Position held
OJSC "Svyazinvest"	Chief specialist of the Internal Audit Administration
"UTK" PJSC	Member of the Auditing Commission (from June 2007)
"Urals telephone company" CJSC	Member of the Auditing Commission (prior to June 2007)
"Telecom – Story" LLC	Member of the Auditing Commission (prior to June 2007)
"Dalsvyaz" OJSC	Member of the Auditing Commission (prior to June 2007)
"Giprosvyaz" OJSC	Member of the Auditing Commission (from June 2007)

Company	Position held
"Baikalvestcom" CJSC	Member of the Auditing Commission (from June 2007)

Stockholding in the Company during the year under report: **none**

Remuneration to each member of the Auditing Commission during execution of his (her) duties was paid quarterly. Quarterly remuneration to the Chairman of the Auditing Commission was rated by a raising factor 1.3. Remuneration for the quarter in which the Auditing Commission had been re-elected was paid to the members of the Auditing Commission in proportion to the time worked in the quarter.

Remuneration paid to the members of the Auditing Commission amounted to 3,975 thousand rubles in the reporting year.

8.6. Credit ratings and Corporate Governance Scores assigned to the Company

Table 15

Rating Agency	Rating
CORPORATE GOVERNANCE SCORES	
Rating agency "Expert RA"	A (7+ according to numerical scale)
Standard & Poor's	CGS-4+ according to international scale and CGS-4.8 according to Russia national scale
CREDIT RATINGS	
Standard & Poor's	«B» according to international scale with Positive outlook (ruA according to Russia national scale)
Moody's Interfax RA (MIRA)	Long-term credit rating under Russia national scale - A2 (rus) and short-term rating - RUS-3
Moody's Investors Service	B1 senior implied credit rating according to international scale; Caa1 senior unsecured issuer rating. Ratings outlook - «Stable» Upgrade of senior implied credit rating according to international scale to B1 from B3

8.7. The Company's Auditor (RAS and IFRS).

Based on the results of the tender for selection of an auditor to perform obligatory audit of the bookkeeping procedures and 2007 financial accounts of "UTK" PJSC, the Company's Annual General Shareholders' Meeting held on June 26, 2007 appointed CJSC "KPMG" as the Company's Auditor.

Full registered name: Closed Joint –Stock Company "KPMG"

Location: 11, Gogolevsky Boulevard, Moscow, 119019 Russia

Telephone: +7 (495) 937-4477, **Fax:** +7 (495) 937-4400

License for auditing:

Number: № E 003330

Date of issue: January 17, 2003

Valid till: January 17, 2013

Issuing authority: Ministry of Finance of the Russian Federation

CJSC "KPMG" was registered by the State Institution Moscow Registration Chamber on May 25, 1992 № 011.585, and included in the Single State Register of Legal Entities under the main state registration number 1027700125628. Certificate series 77 № 5721432 was given by Moscow Inter-regional Tax Inspection № 39 on August 13, 2002.

CJSC "KPMG" has the insurance policy of professional responsibility №433-020752/06 issued by Ingosstrakh with the limit of more than 5,000,000 US dollars.

8.8. The Company's Registrar.

Full registered name: Open Joint –Stock Company “Obyedinyonnaya registratsionnaya kompaniya”

Abbreviated registered name: OAO "ORK"

Head: General Director Tolstokhlebov Sergey Nikolaevich

License number: 10-000-1-00314

Date of issue: 30.03.2004

Period of validity: unlimited

Legal address: 15a, Kalanchevskaya Str., Moscow, 107078

Mailing address: Mail-box 162, Moscow, 107078

Phone/fax: (095) 745-78-91

E-mail: ork@ork-reestr.ru

IX. SECURITIES

9.1. Authorized capital and securities.

The Company's charter capital is 1, 297, 779,384.66 rubles.

Table 20

Distributed and Declared Shares of the Company as at 01.01.2008

Type of shares	Number, shares	Par value, rubles
1 Distributed shares:		
- Ordinary - total	2,960,512,964	0.33
- Preference type A	972,151,838	0.33
2 Declared shares:		
- ordinary	130,814,345	0.33
- Preference type A	32,711,532	0.33

9.2. Share capital structure

Table 21

Stock category	Number, shares	Par value, RUR	Total par value, RUR	Share of the charter capital, %
Ordinary shares	2,960,512,964	0.33	976,969,278.12	75.28
Preferred shares	972,151,838	0.33	320,810,106.54	24.72
TOTAL	3,932,664,802	0.33	1,297,779,384.66	100.00

9.3. Information on the principal shareholders

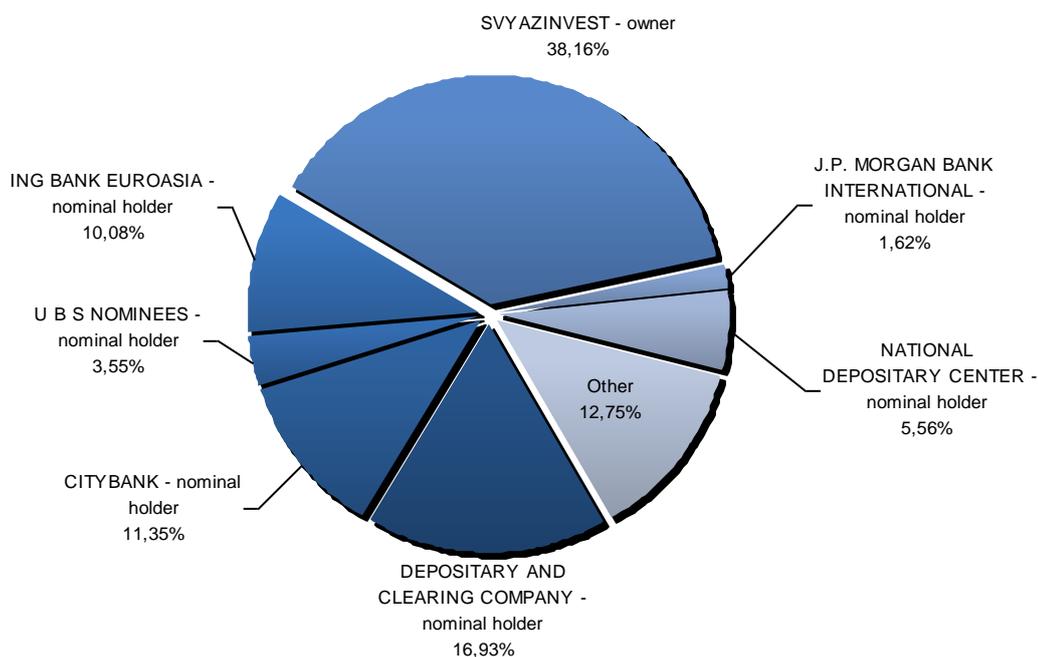
Table 22

Name	As at 31.12.2007			
	Ordinary shares	Preference shares	Share of the charter capital	Voting share
OPEN JOINT –STOCK COMPANY "INVESTITSIONNAYA KOMPANIA SVYAZI" ("SVYAZINVEST" OJSC)	1,500,670,705	-	38.16%	50.69%
CLOSED JOINT –STOCK COMPANY "DEPOSITARY AND CLEARING COMPANY"	426,419,198	239,550,491	16.93%	14.40%
CLOSED JOINT –STOCK COMPANY "CITYBANK"	119,098,980	327,391,759	11.35%	4.02%
NON-COMMERCIAL PARTNERSHIP "NATIONAL DEPOSITARY CENTER" *	180,348,533	38,369,782	5.56%	6.09%
"ING BANK EUROASIA " CLOSED JOINT –STOCK COMPANY"	302,773,845	93,479,611	10.08%	10.23%
CLOSED JOINT –STOCK COMPANY "U B S NOMINEES"	78,685,790	60,902,597	3.55%	2.66%
COMMERCIAL BANK "J.P.	63,812,635	0	1.62%	2.16%

Name	As at 31.12.2007			
	Ordinary shares	Preference shares	Share of the charter capital	Voting share
MORGAN BANK INTERNATIONAL" COMPANY WITH LIMITED LIABILITY*				
Other	288,703,278	212,457,598	12.75%	9.75%
TOTAL	2,960,512,964	972,151,838	100.00%	100.00%

- nominal holder

Principal shareholders of "Southern Telecommunications Company" PJSC as of December 31, 2007



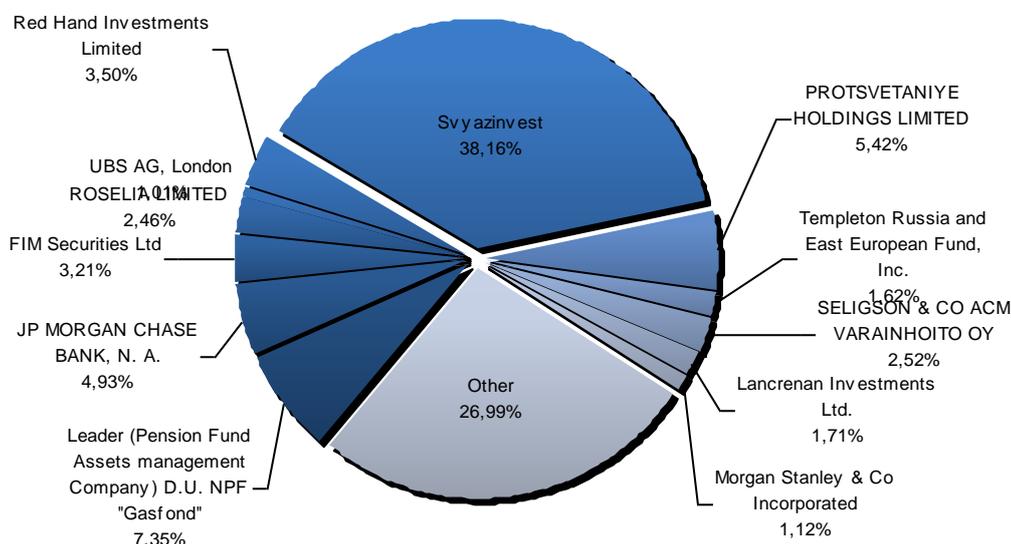
List of shareholders owning 1 and more percent of the Company's authorized capital or 1 and more percent of its voting shares as of 7th May 2007 (the date of making up the list of shareholders entitled to attend the annual General Shareholders' Meeting held on 26.06.2007)

Table 23

Name	Share in the authorized capital	Voting share
OPEN JOINT –STOCK COMPANY "INVESTITSIONNAYA KOMPANIA SVYAZI" ("SVYAZINVEST" OJSC)	38.16%	50.69%
ZAO "LEADER" (PENSION FUND ASSETS MANAGEMENT COMPANY) D.U. NPF "GASFOND" *	7.35%	7.50%
JP MORGAN CHASE BANK N.A.*	4.93%	6.54%
FIM Securities Ltd*	3.21%	4.27%
ROSELIA LIMITED	2.46%	1.84%
UBS AG, London	1.01%	0.98%
Red Hand Investments Limited	3.50%	2.59%
PROTSVETANIYE HOLDINGS LIMITED	5.42%	2.10%
Templeton Russia and East European Fund, Inc.	1.62%	2.16%
SELIGSON & CO ACM VARAINHOITO OY	2.52%	0.61%
Lancrenan Investments Ltd.	1.71%	0.24%
Morgan Stanley & Co Incorporated	1.12%	0.20%

Name	Share in the authorized capital	Voting share
Others	26.99%	20.28%
Total:	100.00%	100.00%

Shareholders owning 1 and more percent of the Company's authorized capital or 1 and more percent of its voting shares as of 11 May 2007



9.4. Report on payment of declared (accrued) dividends under the Company's shares

Data on declared (accrued) and paid dividends on the Company's shares

Table 24

Description	2004		2005		2006	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Amount of stated (accrued) dividend per one share, RUR	0.00934	0.02847	0.01031	0.031395	0.053031	0.121838
Total amount of stated (accrued) dividend on all shares, RUR	27,651,189	27,677,167	30,522,883	30,520,697	156,998,956	118,445,043
Information on taking the decision on payment (stating) of dividend	AGM Minutes № 16 of 30.06.2005		AGM Minutes №17 of 27.06.2006		AGM Minutes № 18 of 26.06.2007	
Time limit fixed for payment of the stated dividend on the issuer's shares	Not later than 15.12.2005	Not later than 29.08.2005	Not later than 15.12.2006	Not later than 25.08.2006	Not later than 20.12.2007	Not later than 24.08.2007
Form of payment of the stated dividend under the issuer's shares	cash					
Total amount of paid dividend, RUR	27,397,764	27,156,790	27,591,411	26,619,869	154,900,719	114,479,465
Portion of paid dividends in total amount of dividends payable	99.08	98.12	90.4	97.05	98.66	96.65
Reasons of non-payment of the stated dividends	Lists of persons entitled to receive dividends contain no or incorrect/incomplete/outdated information on passport data, banking requisites and mailing addresses of shareholders (clients of nominal and sub-nominal holders). Dividends to these persons will be paid as the Company receives the appropriate information from shareholder, nominal holders.					

Dynamics of declared (accrued) dividends on the Company's shares (per one share)

Table 25

Stock category	Amount of dividends
----------------	---------------------

	2004, RUR	2005, RUR	2006, RUR	2007, RUR*
Ordinary shares	27,651,189	30,522,883	156,998,956	242,966,338
Preference type A shares	27,677,167	30,520,697	118,445,043	182,681,913

* Amount of the dividends recommended by the Company's Board of Directors for approval at the Annual General Shareholders' Meeting.

Trading sites (stock exchanges) where the Company's shares and ADRs are quoted

Since January 1997 UTK's shares had been traded through NP Stock Exchange RTS. On 7 March 2001 ordinary and preference shares of "UTK" PJSC were included in the list of securities which can be objects of transactions effected in CJSC "SE MICEX".

In 2007 UTK's shares circulated on two Russian stock exchanges:

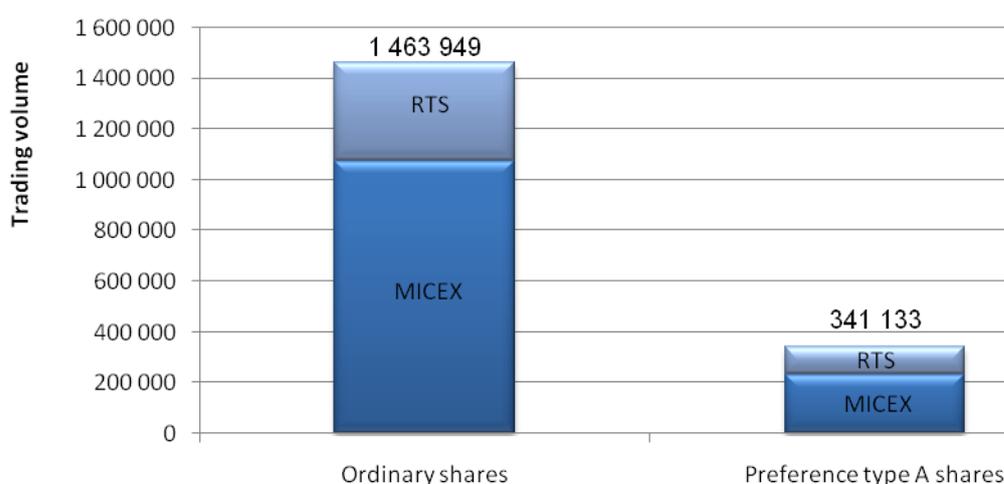
- OJSC «Stock Exchange Russia Trading System (RTS)» (Classic Market, tickers: KUBN, KUBNP. Ordinary shares of "UTK" PJSC were included in RTS quotation list A2, preference shares – in RTS quotation list B). On 29th December 2006 UTK's shares were excluded from Quotation lists of NP "Stock Exchange RTS" due to reorganization of business of RTS group;
- OJSC «Stock Exchange Russia Trading System» (Stock Market, tickers: KUBNG, KUBNPG. Ordinary and preference shares of "UTK" PJSC were included in A2 Quotation List and B Quotation List accordingly);
- CJSC "Moscow Inter-bank Currency Exchange (MICEX)" (UTEL, UTELP. Common and preferred share of the Company are included in A2 Quotation list).

Trading volume of UTK's shares on Russian stock exchanges in 2007

Table 26

Type of shares	OJSC «RTS» (Classic market)		OJSC «RTS» (Stock market)		CJSC SE «MICEX»	
	RUR	shares	RUR	shares	RUR	shares
Ordinary	256,888,664.6	51,717,523,	133,817,090.8	27,411,529	1,073,243,022.4	217,207,300,
Preference	31,022,588.0	9,140,780	75,783,956.5,	21,377,490	234,326,840.1	66,443,100,

Trading volume of UTK's shares on Russian stock exchanges in 2007



RTS - OJSC «Stock Exchange Russia Trading System» Classic Market and Stock Market

9.6. ADR Program

Level 1 ADR program was established on February 5 1998 according to which ordinary registered

shares of "Southern Telecommunications Company" PJSC are traded.

On April 23, 2002 the Company's Level 1 ADR program was transferred from The Bank of New York to JP Morgan Chase Bank, which at present is the Company's ADR Depository. The Deposit Agreement among the Company and JP Morgan Chase Bank was signed on April 22, 2002 and restated on December 15, 2002 in connection with reorganization. ING Bank (Eurasia) ZAO acts as the custodian of the Company's deposited common shares underlying ADR issue.

One unit of American Depositary Receipt represents 50 common shares of the Company.

According to the Decree of FCSM № 1819/r of 24.12.2002 circulation of "UTK" PJSC common registered non-documentary shares outside the Russian Federation is permitted in the form of securities of foreign issuers issued under foreign legislation and certifying the rights in respect to UTK's registered non-documentary ordinary shares. Circulation of the Company's ordinary shares outside the Russian Federation is permitted in the form of ADRs in the amount of 2,102,078,765 units with a total par value of 693,685,992.45 rubles.

The Company's ADRs are quoted in the US over-the-counter market, and in Europe – Frankfurt and Berlin Stock Exchanges and NEWEX (Vienna, Austria), thus making UTK's shares widely available to foreign investors.

Table 27

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

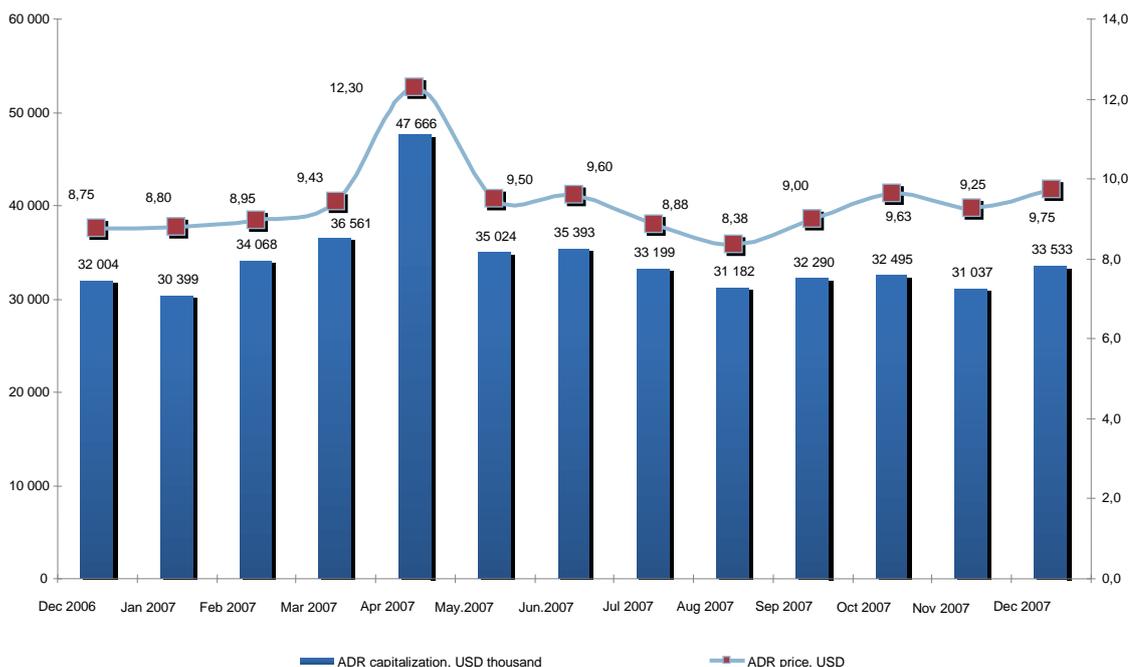
Portion of shares circulating outside the Russian Federation constituted 5.81% of total number of ordinary shares as of 31.12.2007. Total number of ADRs was 3,439,268 units, ADR capitalization amounted to 33.3 million US dollars with the price at \$9.75 per ADR.

Registered ADRs as of 31.12.2007

Table 28

ADR (quantity)	Equivalent number of ordinary shares	% of ordinary shares	% of the authorized capital
3,439,268	171,963,400	5.81	4.37

ADR capitalization and ADR price performance in 2007



Major ADR holders (institutional investors)

Table 29

Mutual funds and institutions	ADR (quantity)	% of ordinary shares	Investment style	City	Country
DWS Investment GmbH	880,000	1.49	GARP	Frankfurt	Germany
Julius Baer Investment Management LLC	797,061	1.35	Core Growth	New York	United States
ABN AMRO Kapitalforvaltning AB	515,191	0.87	Core Growth	Stockholm	Sweden
Seligson & Co Rahastoyhtio Oyj	200,00	0.34	Index	Helsinki	Finland
Third Millennium Investment Advisors LLC	90,000	0.15	GARP	New York	United States
Total	2,482,252	4.2			

During 2007 the Company disclosed regularly information about its operations on the USA market, including among ADR holders, through publications on the site adr.com and distribution of corporate materials among target groups of investors and shareholders.

On July 12, 2007, according to the amendments to Rule 12g3-2(b) effective since 4 June 2007, the Company in order to maintain the obtained exemption from the registration requirements of Section 12(g) of the Securities Exchange Act of 1934 created a special section of the corporate website (<http://www.stcompany.ru/investor/12g3-2b>). There the Company publishes regularly English translations of the information required to be disclosed to general public.

During preparation of the Annual General Shareholders' Meeting "UTK" PJSC interacted with its Depository "J. P.Morgan Chase Bank" and Custodian "ING Bank (Eurasia) ZAO" in order to observe the rights of ADR holders to vote on the agenda items. Notice of the AGM, voting bulletins and shareholder materials in English were distributed among ADR holders. All necessary shareholder materials were published in English on the corporate site. Voting results were received in due time and taken into account when calculating votes at the General Shareholders' Meeting.

X. INFORMATION FOR SHAREHOLDERS

10.1. Information about the Company's branches.

Table 29

№	Branch	Director	Contacts
1	Adygeia branch	Gusev Vladimir Anatolievich	22a, Zhukovskogo Str., Maykop, Adygeya Republic, 352700 tel: (8772) 52-17-83 fax: (8772) 57-12-12 e-mail: era@era.radnet.ru
2	Astrakhan branch	Prachkin Alexey Petrovich	7/8, Teatraljny per., Astrakhan, 414000 tel: (851-2) 22-48-30 fax: (851-2) 22-90-04 e-mail: asicom@astranet.ru
3	Volgograd branch	Martynenko Nikolay Vladimirovich	9, Mira Str., Volgograd, 400066 tel: (844-2) 33-40-92 fax: (844-2) 33-34-04 e-mail: upras@avtlg.ru
4	Kabardino-Balkaria branch	Prosvetov Sergey Alexeevich (from April 9, 2008)	4, Golovko Str., Nalchik, Kabardino-Balkarian Republic, 360000 tel: (866-2) 42-21-02 fax: (866-2) 42-14-40 e-mail: kbtsviaz@gin.global-one.ru
5	Kalmykia branch	Kornyakov Arslan Bataevich	255, Lenin Str., Elista, Kalmykia Republic, 358000 tel: (84722) 4-10-62 fax: (84722) 4-10-51 e-mail: odo@svyaz.elista.ru
6	Karachaevo-Cherkessia branch	Borodinsky Alexey Andreevich (from April 9, 2008)	17, Soyuzny per., Cherkessk, Karachaevo-Cherkesian Republic, 357100 tel: (878-22) 5-43-88 fax: (878-22) 6-66-64 e-mail: svyaz@svkchr.stavropol.ru
7	Krasnodar branch	Korotenko Svetlana Vasilievna	294, Golovatogo Str., Krasnodar, 350000 tel: (861) 251-01-01 fax: (861) 251-01-02 e-mail: kes@kes.kuban.ru
8	Rostov branch	Metla Yury Valentinovich	47, Bratski per., Rostov-on-Don, 344082 tel: (863) 244-22-01 fax: (863) 267-56-71 e-mail: disp@donpac.ru
9	Northern Ossetia branch	Khиров Nikolay Viktorovich	8a, Butyrina Str., Vladikavkaz, Severnaya Osetia – Alania Republic, 362040 tel: (867-2) 53-44-21 fax: (867-2) 54-03-03 e-mail: soes@osetia.ru
10	Stavropol branch	Bulguchev Ruslan Magometovich	10/12, Oktyabrskoi Revolutsii pr., Stavropol, 355035 tel: (865-2) 35-11-12 fax: (865-2) 24-52-58 e-mail: alex@statel.stavropol.ru

The Board of Directors took a decision to rename the Company's branches as follows, effective since 1st November 2006 (Minutes № 8 of August 31,2006):

Former name	New name
Branch "Electrosvyaz of Adygeia Republic"	Adygeia branch
Regional branch "Svyazinform" of the Astrakhan Region"	Astrakhan branch
Regional branch "Volgogradelectrosvyaz"	Volgograd branch
Branch "KabBalktelecom"	Kabardino-Balkaria branch
Branch "Electrosvyaz of Kalmykia Republic"	Kalmykia branch
Branch "Karachaevo-Cherkesskelectrosvyaz"	Karachaevo-Cherkessia branch
Branch "Kubanelectrosvyaz"	Krasnodar
Branch "Rostovelectrosvyaz"	Rostov branch
Branch "Sevosetinelectrosvyaz"	Northern Ossetia branch
Branch "Electrosvyaz" of Stavropol Territory"	Stavropol branch

The following branches of "Southern Telecommunications Company" PJSC were liquidated effective since November 8, 2006:

- "Yugtaksofon"
- "Center of New Technologies"
- "Training and Production Center".

Appendix 1. MATERIAL TRANSACTIONS

The Company's governing body which approved the transaction (Board of Directors or General Shareholders' Meeting)	Type of transaction (major transaction, related-party transaction)	Information about the related party (parties) of the transaction	Subject of the Contract	Contracting Party	Price of the Contract (if the price was determined by an independent appraiser, name of this appraiser should be indicated)	Name, number and date of the Contract	Term of the Contract (if the Contract stipulates for partial execution of the contractual obligations, then the term of each stage should be indicated)
1	2	3	4	5	6	7	8
Board of Directors (Minutes № 22 of 26.01.2007)	Related-party transaction	The contracting party belongs to the group of persons which "UTK" PJSC belongs to	Integration of multiple access points of Burofax service	CJSC "Rostelegraph"	141.60 rubles including VAT per every access point	Service Agreement № 170/2006-1 of 01.04.2007	till 31.12.2007
Board of Directors (Minutes № 28 of 19.03.2007)	Related-party transaction	The related party of the transaction is "Svyazinvest" OJSC as it is UTK's shareholder owning more than 50 percent of the Company's shares	Traffic transit services	OJSC "Rostelecom"	0.53 rubles per 1 minute	Additional Agreement № 2 to Interconnection Contract № 1 of 01.08.2003 of 20.03.2007	Till the termination of the Interconnection Contract
Board of Directors (Minutes № 31 of 02.04.2007)	Related-party transaction	Pursuant to Article 81 of the Federal Law "ON Joint – Stock Companies" transactions between "UTK" PJSC and the Fund "Russian Fund of Telecommunications History" are considered related-party transactions	The Company transfers money on a gratis basis	Fund "Russian Fund of Telecommunications History"	8,000,000 rubles	Sponsoring Agreement № 20/07 of 17.04.2007	Till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 31 of 02.04.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	lease of non-residential premises	LLC "Yug-Giprosvyaz"	475,909.7 rubles including VAT per month	Additional Agreement №1 to Contract of lease of non-residential premises of 01.08.2007	from 01.07.06 and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 31 of 02.04.2007)	Related-party transaction	All rights and obligations of CJSC Registrator-Svyaz under the agreement on keeping the register of UTK's shareholders № 006/01-02 of June 4, 2002 have passed	Introduction of changes in the term of the Agreement	OJSC "ORK"	No data	Additional Agreement № 4 to Service Agreement on keeping shareholders' register № 006/01-	Till full execution of the parties' obligations under the Contract

1	2	3	4	5	6	7	8
		to OJSC ORK by universal succession.				02 of 04.06.02 of 25.04.2007	
Board of Directors (Minutes № 31 of 02.04.2007)	Related-party transaction	All rights and obligations of CJSC Registrator-Svyaz under the agreement on keeping the register of UTK's shareholders № 006/01-02 of June 4, 2002 have passed to OJSC ORK by universal succession.	Reception of the executed voting instruction cards	OJSC "ORK"	150,989.0 rubles excluding VAT	Additional Agreement № 5 κ Service Agreement on keeping shareholders' register № 006/01-02 of 04.06.02 of 25.04.2007	Till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 33 of 26.04.2007)	Related-party transaction	The transaction exceeds the limit set by the Company's annual budget. Belongs to the companies of Svyazinvest group. Rostelecom owns over 50% of shares of CJSC «Globalstar –Space Telecommunications» "Svyazinvest" OJSC is a shareholder of Rostelecom owning over 50% of its shares	Organization of communication for voice transmission	CJSC "Global-Tel"	The price shall be determined according to the tariffs	Service Agreement of 18.06.2007	The term has not been determined
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	415,421.24 rubles including VAT	Contract № 563-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	347,677.81 rubles including VAT	Contract № 565-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	3,898,272.23 rubles including VAT	Contract № 563-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	234,136.80 rubles including VAT	Contract № 567-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	2,814,235.17 rubles including VAT	Contract № 568-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract

1	2	3	4	5	6	7	8
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	616,461.48 rubles including VAT	Contract № 570-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	534,867.56 rubles including VAT	Contract № 571-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	4,582,001.75 rubles including VAT	Contract № 572-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	368,870.86 rubles including VAT	Contract № 588-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	536,966.33 rubles including VAT	Contract № 596-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	177,299.55 rubles including VAT	Contract № 07003/436-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	248,095.01 rubles including VAT	Contract № 07016/495-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 34 of 10.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	2,001,930.14 rubles including VAT	Contract № 07028/494-07 of 10.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	1,864,517.13 rubles including VAT	Contract of execution of design and exploration works № 444-07 of 24.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	594,991.58 rubles including VAT	Contract of execution of design and exploration	From the date of signature and till full execution of the

1	2	3	4	5	6	7	8
						works № 557-07 of 24.05.2007	parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	247,883.18 rubles including VAT	Contract of execution of design and exploration works № 586-07 of 24.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	362,229.90 rubles including VAT	Contract of execution of design and exploration works № 587-07 of 24.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	2,313,320.89 rubles including VAT	Contract of execution of design and exploration works № 592-07 of 24.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	872,061.34 rubles including VAT	Contract of execution of design and exploration works № 644-07 of 24.05.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 37 of 24.05.2007)	Related-party transaction	"Svyazinvest" OJSC - UTK's shareholder owning over 20 percent of the Company's voting shares - owns together with its affiliated persons over 20 percent of voting shares.	transfer of target membership fees	TsIPRT	184 million rubles	Agreement of transfer of target membership fees № 1-07 of 26.07.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 39 of 07.06.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	1,192,869.88 rubles including VAT	Contract of execution of design and exploration works № 566-07 of 07.06.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 39 of 07.06.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	1,511,470.61 rubles including VAT	Contract of execution of design and exploration works № 569-07 of 07.06.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 39 of 07.06.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	47,141,797.63 rubles including VAT	Contract of execution of design and exploration works № 100 of 07.06.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 40 of 22.06.2007)	Related-party transaction	Shareholders of «Yug-Giprosvyaz» LLC are: "Giprosvyaz" OJSC - 51%, Noncommercial partnership	lease of non-residential premises	LLC "Yug-Giprosvyaz"	94,846.96 rubles including VAT	Additional Agreement № 1 to Contract of lease of non-residential	From the date of signature and till 01.03.2007

1	2	3	4	5	6	7	8
		«Center of investigation of telecommunications development problems" - 26%, "UTK" PJSC - 23%. Therefore, "UTK" PJSC and «Yug-Giprosvyaz" LLC belong to Svyazinvest holding and are considered as affiliated parties				premises № 78-A/06 of 01.08.2007	
Board of Directors (Minutes № 40 of 22.06.2007)	Related-party transaction	Shareholders of «Yug-Giprosvyaz" LLC are: "Giprosvyaz" OJSC - 51%, Noncommercial partnership «Center of investigation of telecommunications development problems" - 26%, "UTK" PJSC - 23%. Therefore, "UTK" PJSC and «Yug-Giprosvyaz" LLC belong to Svyazinvest holding and are considered as affiliated parties.	lease of non-residential premises	LLC "Yug-Giprosvyaz"	Rental fee is 343,015.14 rubles including VAT	Additional Agreement № 2 to Lease Contract № 219-06 of 01.08.2006 of 30.07.2007	From the date of signature and till 01.04.2007
Board of Directors (Minutes № 40 of 22.06.2007)	Related-party transaction		voluntary medical insurance	LLC "Rosgosstrakh"	premium to insurer is 1,840 million rubles	Contract of voluntary medical insurance № 04-07/12.12 of 25.06.2007	From the payment date of the first contribution and is valid during 17 months
Board of Directors (Minutes № 9 of 24.09.2007)	Related-party transaction	"Svyazinvest" OJSC - UTK's shareholder owning over 20 percent of the Company's voting shares - owns over 20 percent of voting shares of OJSC "Rostelecom"	purchase and sale of immovable property in the town of Ipatovo	OJSC "Rostelecom"	1,030,000 .0 rubles including VAT	Contract of purchase and sale of immovable property in the town of Ipatovo of 15.10.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 9 of 24.09.2007)	Related-party transaction	100%-owned by "UTK" PJSC	lease of non-residential premises at 100/A, Repin Street, Volgograd	LLC "Intmashservice"	29,761.06 rubles including VAT per 1 month.	Contract of lease of non-residential premises № 181-A/07 of 22.10.2007	From the date of signature and till 01.03.2008
Board of Directors (Minutes № 9 of 24.09.2007)	Related-party transaction	100%-owned by "UTK" PJSC	lease of non-residential premises in Volgograd	LLC "Intmashservice"	11,410.98 rubles including VAT per 1 month.	Contract of lease of non-residential premises № 182-A/07 of 22.10.2007	From the date of signature and till 01.05.2008
Board of Directors (Minutes № 7 of 07.09.2007)	Related-party transaction	The contracting party belongs to the group of persons which "UTK" PJSC belongs to	Financing the kindergarten in 2007	Kindergarten № 14 "Yolochka"	Proposed expenses make 1,676.6 thousand rubles	Sponsoring Agreement of 31.10.2007	From the date of signature and till 01.01.2008
Board of Directors (Minutes № 7 of 07.09.2007)	Related-party transaction	The contracting party belongs to the group of persons which "UTK" PJSC belongs to	Financing the kindergarten in 2007	Kindergarten № 70"	Proposed expenses make 3,795.32 thousand rubles	Sponsoring Agreement of 26.10.2007	From the date of signature and till 01.01.2008

1	2	3	4	5	6	7	8
Board of Directors (Minutes № 7 of 07.09.2007)	Related-party transaction	The contracting party belongs to the group of persons which "UTK" PJSC belongs to	Financing the kindergarten in 2007	Kindergarten № 227 «Snegiryok»	Proposed expenses make 5,900.2 thousand rubles	Sponsoring Agreement of 25.10.2007	From the date of signature and till 01.01.2008
Board of Directors (Minutes № 7 of 07.09.2007)	Related-party transaction	11% of the Company's authorized capital	Centralized works on introduction of ERP program in the companies of Svyazinvest group	OJSC "Svyazintek"	284,641,665.00 rubles including VAT	Service Agreement № 886 of 01.10.2007	Valid from 01.01.06
Board of Directors (Minutes № 7 of 07.09.2007)	Related-party transaction	"Svyazinvest" OJSC - UTK's shareholder owning over 20 percent of the Company's voting shares - owns over 20 percent of voting shares of OJSC "Rostelecom"	Internet traffic transit services, interconnection services of the Company's data transmission network	OJSC "Rostelecom"	The prices are determined in the tables	Agreement of interconnection of data transmission network of 26.09.2007	From the date of signature and till full execution of the parties' obligations under the Contract.
Board of Directors (Minutes № 6 of 24.08.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	629,935.28 rubles including VAT	Contract of execution of design and exploration works № 585-07 of 24.08.07	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 4 of 10.08.2007)	Related-party transaction	"UTK" PJSC owns more than 50% of shares of CJSC "OK "Orbita"	Making changes in Novation Contract of 28.12.2004	OJSC "Recreation center "Orbita".	Decrease in loan amount to 87,170,655.49 rubles	Additional Agreement № 1 to Novation Contract of 10.08.2007	Prolongation of the maturity date till 31.08.2012
Board of Directors (Minutes № 5 of 13.08.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	527,312.80 rubles including VAT	Contract of execution of design and exploration works № 07014/497-07 of 13.08.07	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 5 of 13.08.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	889,391.61 rubles including VAT	Contract of execution of design and exploration works № 07015/496-07 of 13.08.07	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 5 of 13.08.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	20,572,751.51 rubles including VAT	Contract of execution of design and exploration works № ГС-658 of 24.08.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 4 of 10.08.2007)	Related-party transaction	"UTK" PJSC owns more than 50% of shares of CJSC "OK "Orbita"	Making changes in Debt Novation Contract of 02.06.2005	OJSC "Recreation center "Orbita".	No data	Additional Agreement № 1 to Contract of debt substitution for loan obligation of 10.08.2007	Prolongation of the maturity date till 31.08.2012
Board of Directors (Minutes № 2 of 12.07.2007)	Related-party transaction	Belongs to the companies of Svyazinvest group. Rostelecom owns over 50%	Organization of communication for voice transmission	CJSC "Global-Tel"	The price shall be determined according to the tariffs	Service Agreement of 02.08.2007	The term has not been determined

1	2	3	4	5	6	7	8
		of shares of CJSC «Globalstar –Space Telecommunications» "Svyazinvest" OJSC is a shareholder of Rostelecom owning over 50% of its shares					
Board of Directors (Minutes № 12 of 31.10.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	12,902,149.12 rubles including VAT	Contract of execution of design and exploration works of 31.10.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 13 of 09.11.2007)	Related-party transaction	100%-owned by "UTK" PJSC	Cleaning of production areas and offices, cleaning of payphone booths, etc.	LLC "Intmashservice"	1,720,907.43 rubles including VAT	Contract № 106 of 09.11.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 14 of 30.11.2007)	Related-party transaction	"Svyazinvest" OJSC - UTK's shareholder owning over 20 percent of the Company's voting shares - owns over 20 percent of voting shares of OJSC "Rostelecom"	Provision of DLD and ILD services	OJSC "Rostelecom"	20% of the received earnings, transferred by the Company	Additional Agreement to Contract № 750-05-23 of 01.01.06r of 04.12.2007	From the date of signature and till the termination of the term of the Contract
Board of Directors (Minutes № 15 of 14.12.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	3,077,411.83 rubles including VAT	Additional Agreement № 1 к Contract № 568-07 of 10.05.2007 of 14.12.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 15 of 14.12.2007)	Related-party transaction	"Svyazinvest" OJSC owns more than 50 percent of the Company's shares	execution of design and exploration works	OJSC "Giprosvyaz"	2,506,325.04 rubles including VAT	Contract of execution of design and exploration works № GS-1014 of 14.12.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Formation and support of information system of "UTK" PJSC	OJSC "Svyazintek"	7,208,360.40 rubles including VAT	Service Agreement of 01.02.2008	from 03.09.07
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Services on creation of software program	OJSC "Svyazintek"	48,711,179.86 rubles including VAT	Service Agreement of creation of remote education system within the framework of IT Programs №104 of 05.02.2008	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	The contracting party belongs to the group of persons which "UTK" PJSC belongs to	disposal of property for operational management	Kindergarten № 14"	811,104.69 rubles including VAT	Contract № 270 of disposal of property for operational management of 29.12.2007	The term has not been determined
Board of Directors	Related-party	The related party of the	Classification of	Non-governmental	Impossible to determine	Additional	from 01.01.2008

1	2	3	4	5	6	7	8
(Minutes № 17 of 27.12.2007)	transaction	transaction is "Svyazinvest" OJSC as it is UTK's shareholder owning more than 50 percent of the Company's shares	employees when determining their right to non-governmental pension provision	Pension Fund		Agreement № 3 to NPO Contract № 14/2005-VYu of 27.12.2007	
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Making requirements specifications for design of the identification and management subsystem of users' accounts	OJSC "Svyazintek"	2,989,742.0 rubles including VAT	Contractor's Agreement № 163 of 14.02.08	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Making requirements specifications	OJSC "Svyazintek"	12,183,827.0 rubles including VAT	Contractor's Agreement on design of billing system technical architecture № 162 of 14.02.08	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Making requirements specifications	OJSC "Svyazintek"	9,178,070.0 rubles including VAT	Contractor's Agreement of 14.02.08	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Making requirements specifications	OJSC "Svyazintek"	993,750 rubles including VAT	Contractor's Agreement of 14.02.08	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Development and coordination of the requirements to the information systems with FSB of Russia	OJSC "Svyazintek"	1,020,250 rubles including VAT	Contractor's Agreement of 14.02.2008	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	Making requirements specifications	OJSC "Svyazintek"	49,439,460.0 rubles including VAT	Contractor's Agreement № 159 of 14.02.2008	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	Related-party transaction	11% of the Company's authorized capital	ERP management services	OJSC "Svyazintek"	8,744,980.00 rubles including VAT	Service Agreement on ERP management № 156 of 13.02.2008	from 01.10.07 and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 31 of 02.04.2007)	Related-party transaction	The transaction exceeds the limit set by the Company's annual budget	The operators provide for usage of PKD cards to pay for universal telecom services	"North-Western Telecom" OJSC, "CenterTelecom" OJSC, "Volgatelecom" OJSC, "UTK" PJSC, "Uralsvyazinform" OJSC, "Sibirtelecom"	20% of the cost of the provided services	Contract on mutual reception of cards of 18.05.2007	From the date of signature and is valid during 5 years

1	2	3	4	5	6	7	8
				OJSC, "Dalsvyaz" OJSC, "Dagsvyazinform" OJSC			
Board of Directors (Minutes № 22 of 26.01.2007)	Related-party transaction	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	The Maker undertakes to issue promissory notes; the Buyer undertakes to pay for the notes and to accept them	OJSC AKB "Svyaz- Bank"	Total value of promissory notes is 1,500,000,000.00; The Maker undertakes to issue promissory notes; the Buyer undertakes to pay for the notes and to accept them	Contract № 2 of promissory notes issue of 05.02.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 24 of 15.02.2007)	Related-party transaction	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	The parties agreed to conclude an amicable agreement providing for settlement of debts through their consolidation and re- structuring according to the conditions set by the Order of the RF Ministry of Finance of 27.12.2006, with simultaneous write-off of penalty interest charged for late fulfillment of obligations.	Ministry of Finance of the Russian Federation	23,820,043.99 EURO (to be paid (repaid) annually by equal portions till January 1, 2012)	Amicable Agreement of 27.12.2006. (under record № A32-27336/2005- 26/852 of the Arbitration Court of the Krasnodar kray); Mortgage contract; Mortgage contract, Mortgage contract, Mortgage contract, Mortgage contract	From the date of signature and till full execution of the parties' obligations under the Contract. The contracts were signed on 02.03.2007
Board of Directors (Minutes № 36 of 17.05.2007)	Related-party transaction	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets		OJSC AKB "Svyaz- Bank"	9% per annum	Credit Line Facility Agreement № 006/2007-yur of 21.05.2007	from 21.05.07 till 20.05.2010
Board of Directors (Minutes № 36 of 17.05.2007)	Related-party transaction	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	Credit Line Facility Agreement with Interregional Commercial Bank of Communications and Informatics Development (Open Joint –Stock Company)	OJSC AKB "Bank of Moscow"	6.45% per annum	Contract № 05SchKB/15/82-07 of 21.05.2007	from 21.05.07 till 20.05.2008
Board of Directors (Minutes № 8 of 18.09.2007)	transaction associated with possibility of direct or indirect disposals of any Company's property if the balance sheet value of such property constitutes from 0.5 to	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	Giving credit facilities within the established limit of indebtedness	AKB Sberbank of the Russian Federation	Limit of 1,600,000.000 rubles	Credit Line Facility Agreement № 1224 of 20.09.2007	From the date of signature and till full execution of the parties' obligations under the Contract

1	2	3	4	5	6	7	8
	25 percent of the balance sheet value of the Company's assets						
Board of Directors (Minutes № 11 of 12.10.07)	transaction associated with possibility of direct or indirect disposals of any Company's property if the balance sheet value of such property constitutes from 0.5 to 25 percent of the balance sheet value of the Company's assets	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	To accept and pay for the securities – bonds with the state registration number 4-07-00062-A of 17.08.2004, with a face value of 1,000 rubles	Interregional Commercial Bank of Communications and Informatics Development (OJSC)	No more than 3,500,000 bonds at 1,000 rubles	Contract № OK/256/2007 of securities' purchase and sale of 12.10.2007	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 17 of 27.12.2007)	transaction associated with possibility of direct or indirect disposals of any Company's property if the balance sheet value of such property constitutes from 0.5 to 25 percent of the balance sheet value of the Company's assets	The transaction is associated with disposal of the Company's property which balance sheet value constitutes from 0.5 to 25 percent of the book value of the Company's assets	Works on introduction of a unified master system on the basis of ORACLE system	LLC "GMCS"	Price of works makes 265,556,522.00 rubles	Contractor's Agreement № VOMS-utk-2008/1 of 01.02.2008	From the date of signature and till full execution of the parties' obligations under the Contract
Board of Directors (Minutes № 2 of 12.06.2007)	Related-party transaction	The transaction exceeds the limit set by the Company's annual budget	Organization of communication for voice transmission	CJSC "Global-Tel"	The price shall be determined according to the tariffs	Contract № 2007/119 of 02.08.2007	The term has not been determined

Appendix 2. INFORMATION ON THE COMPANY'S PARTICIPATION IN CAPITAL OF OTHER COMPANIES PROVIDING TELECOM SERVICES (SHARE IN WHICH AUTHORIZED CAPITAL IS NOT LESS THAN 25 PERCENT)

Table 23

№	Name of the company	Key activity	Shareholding in the charter capital, %	Shareholding in the charter capital, RUR ths	Key business highlights		
					Number of subscribers/lines	Revenue, RUR ths	Net profit, RUR ths
1	OJSC "Kuzminov Stavtelecom"	Local telephony, data transmission	100%	29,664.9	10,331	63,814	2,263
2	CJSC "Volgograd-GSM"	Cellular communication of GSM-900MHz standard	50%	50.0	803,502	1,792,858	392,676
3	CJSC "Stavropolskaya sotovaya svyaz"	No business activity	50%	27,106.0	n/d	n/d	n/d
4	CJSC "ZanECom"	No business activity	45.0%	24.75	n/d	n/d	n/d

BRIEF REVIEWS OF THE COMPANIES

Open Joint –Stock Company «Kuzminov Stavtelecom»

Fixed line telecom company OJSC «Kuzminov Stavtelecom» operating in the Stavropol Kray was formed in 1995. The operator's main activities are the following:

- Local telephony;
- Lease of channels;
- Internet access.

"Kuzminov Stavtelecom" OJSC is developing new telecom services of ADSL-based broadband Internet access.

According to the recommendations of Model of reorganization of affiliated businesses approved by the Board of directors, UTK's stockholding in the operator's capital has been brought to 100%. UTK's share of participation in this company has been increased in order to merge business of OJSC «Kuzminov Stavtelecom» into business of "UTK" PJSC.

At present the Company has the following resources:

- one base digital telephone exchange: in Stavropol (ATE – 94) and remote concentrators in cities and areas of the Stavropol kray;
- opportunity to organize six--digit numbering system in all the territory of the Kray and to form common corporate networks for distant branches;
- fixed numbering capacity of local (zone) network in the Stavropol kray;
- licenses for telecom activities including for rendering services of local and intra-zonal telephony, telematic services as well as for lease of communication channels.

Closed Joint –Stock Company «Volgograd - GSM"

CJSC "Volgograd - GSM" was registered on July 30, 1997. The company provides cellular services of GSM 900/1800 standard in Volgograd and the Volgograd region.

On September 2, 1997 CJSC "Volgograd - GSM" was granted the license for rendering services of digital cellular radio telephone communication of GSM-900 standard. Act on putting of GSM-900 network into operation was signed by the State Commission in April of 1999.

On April 21, 1999 CJSC "Volgograd - GSM" received a permit on commercial operation of digital cellular radio telephone communication network of GSM-900 standard.

CJSC "Volgograd - GSM" provides the following services: local calls, domestic long-distance communication, roaming, SMS, paging, identification of number, anti-identification of number, call waiting, call holding, call transfer, voice fax - mail, transfer of short text messages from mobile to mobile phones, call barring, conference call, ASSA, ISSA, WAP, paging - number, fax messages, data transmission.

CJSC "Volgograd - GSM" renders roaming service in more than 500 cities of Russia, 66 foreign countries and in the United States of America. It also provides service of intra-network roaming at uniform reduced rates with Astrakhan region, Republic of Bashkortostan, Volgograd region, Ivanovo region, Kalmykia Republic, Mary El Republic, Mordovia Republic, Orenburg region, Penza region, Samara region, Saratov region, Tatarstan Republic, Ulyanovsk region, Chuvashia Republic, Yaroslavl region. The company provides wide range of tariff plans.

According to 2007 performance results the company's market share made 37%, its subscriber base reached 803,502 customers.

Aggregate income of "UTK" PJSC from participation in CJSC "Volgograd - GSM" (dividends) was 117,677.5 thousand rubles in 2007.

Closed Joint –Stock Company «Stavropolskaya Sotovaya Svyaz»

The company was registered on 20th March 1997 by the Department of foreign economic relations of the Government of the Stavropol kray.

The company has two shareholders, namely: "Southern Telecommunications Company" PJSC and Acoustical Enterprises Limited. Each of them owns a 50%- share in the authorized capital of the company.

At present the company has no business activities and is absent at its registered office.

Closed Joint –Stock Company "ZanEiCom"

The company was registered in 1999 in Moscow. The basic activity, according to the Charter is providing information service on the basis of data transmission and switching methods.

At present the company has no business activities and is absent at its registered office.

Appendix 3. OBSERVANCE OF THE CODE OF CORPORATE CONDUCT

1. Information about the Company's Corporate Governance Code

Corporate Governance Code (Set of Rules) of "UTK" PJSC was approved by the Board of Directors on 25 May 2004 (Minutes № 44 of 25.05.2004.). In May of 2005 and December of 2006 the Corporate Governance Code (Set of Rules) of "UTK" PJSC was amended and restated (Minutes of the Board of Directors № 36 of 25.05.2005 and Minutes № 21 of 25.12.2006).

In the Corporate Governance Code the Company undertakes to develop corporate governance practices providing for:

- a real opportunity for shareholders to exercise their rights in relation to the Company in full;
- equal treatment of shareholders owning an equal number of shares of the same type (category).
- All shareholders should have access to effective protection in the event of a violation of their rights;
- the strategic management of the company's business by the Board of Directors, for effective control by the Board over the executive bodies of the Company, and for the accountability of the Board of Directors to shareholders;
- the ability of the Company's executive bodies to manage the day-to-day activities of the company reasonably, in good faith and solely in the interests of the company, and ensure that executive bodies report to the Board of Directors and shareholders;
- timely disclosure of full and accurate information about the Company, including information about its financial position, economic parameters, ownership and management structure, to enable shareholders and investors to make informed decisions;
- taking into account the statutory rights of interested persons, including employees of the Company, and encourage active cooperation between the Company and interested persons with a view to increasing the assets of the company and the value of its shares and other securities, and to creating new jobs;
- efficient control over the financial and business operations of the Company in order to protect the rights and legal interests of shareholders;
- observation of all the norms of the current legislation;
- introduction of ethical standards and rules into the Company operations.

Report on observance of the Corporate Governance Code of "UTK" PJSC in 2007

General Shareholders' Meeting

According to the legislation of the Russian Federation, the Charter of the Company, Regulations on procedure for holding a General Shareholders' Meeting and the Corporate Governance Code (Set of Rules), "Southern Telecommunications Company" PJSC hold its Annual General Shareholders' Meeting on 26th June 2007.

The notification about holding a shareholders meeting was published on the corporate web-site and sent by registered letter to every person indicated in the list or persons entitled for participation in the AGM 30 days before its opening (mailing date was May 25, 2007).

To ensure the rights of shareholders at holding General Shareholders' Meetings the Company organized reception of their filled voting instruction cards at the registered address of OJSC "ORK" in Moscow.

Shareholder materials were available for shareholders at the address of the Company and at the addresses of the Company's branches as well as on the corporate site in the Internet.

In addition to obligatory shareholder materials for the Annual General Shareholders' Meeting the Company presented the Corporate Governance Code (Set of Rules) of "UTK" PJSC, Recommendations to the General Shareholders' Meeting, reflecting reasoned opinion of the Board of Directors of "UTK" PJSC on voting on all agenda items of the General Shareholders' Meeting.

The Company disclosed information about the positions held by the nominees to the Board of Directors and the Auditing Commission during the last 5 years and presented biographic data of the said nominees.

Voting results of the Annual General Shareholders' Meeting were announced at the General Shareholders' Meeting.

Board of Directors

UTK's Annual General Shareholders' Meeting held on 26th June 2007 elected a new membership of the Board of Directors consisting of 11 directors, 4 of them being independent directors according to Annex №1 of the Regulations on the activity for organization of the trade on the equity market approved by the Decree of the Federal Service for Financial Markets of the Russian Federation № 06-68/pz-n of June 22, 2006.

In order to improve corporate governance practices the Annual General Shareholders' Meeting of "UTK" PJSC held on 26.06.2007 approved amendments and additions to the Charter of the Company, Regulations on the procedure for conducting the General Shareholders' Meeting of Public Joint Stock Company "Southern Telecommunications Company, Provisions on the Board of Directors of "Southern Telecommunications Company" PJSC.

In 2007 sessions of the Board of Directors were held not less often than once in six weeks in accordance with the approved Plan of work of the Board of Directors. During 2007 the Board of Directors held 36 meetings (7 of them (19%) in the form of personal attendance) and considered 193 issues.

Criteria of determination of the size of annual remuneration payable to the members of the Company's Board of Directors being in office in 2006-2007 were approved by the Annual General Shareholders' Meeting held on June 27, 2006, and to those directors being in office in 2007-2008 - by the Annual General Shareholders' Meeting held on June 26, 2007.

To increase efficiency and quality of work of the Board of Directors the following BoD Committees have been working during the year under report: Strategic Development; Audit; Personnel and Rewards and Corporate Governance Committees.

On the 1st of August 2006 the Board of Directors of "Southern Telecommunications Company" PJSC approved its Plan of works for 2006-2007.

On the 1st of August 2007 the Board of Directors of "Southern Telecommunications Company" PJSC approved its Plan of works for 2007-2008.

During 2007 the Board of Directors considered on a quarterly basis questions on the course of execution of the decisions taken by the Board of directors, General Shareholders' Meeting, Management Board of "UTK" PJSC as well as on realization of the approved Plan of work of the Board of Directors and on the results of work of the Company's Internal Audit Department..

Executive Bodies

Collegiate executive body (Management Board) and individual executive body (General Director) of the Company provide for realization of the resolutions adopted by General Shareholders' Meetings and the Company's Board of Directors as well as for exercising management of the Company's current activity.

Terms of reference of the Management Board and the General Director are set forth in the Charter of "UTK" PJSC.

Numerical and personal structure of the Management Board of "UTK" PJSC is determined by the Board of Directors.

During the reported year meetings of the Company's Management Board were held according to the approved Plan of work of the Management Board.

General Director acts as a Chairman of the Management Board of the Company.

In order to improve corporate governance practice of the Company Annual General Shareholders' Meeting of "UTK" PJSC held on June 26, 2007 approved amendments and additions to the Charter of the Company, Provisions on the Board of Directors and Provisions on the Management Board of "Southern Telecommunications Company" PJSC.

On 19th December 2006 the Company's Management Board approved Plan of actions aimed at improvement of corporate governance practices of "UTK" PJSC for 2007 which takes into account criticism made by rating agencies Expert RA and Standard and Poor's at revision of the Company's corporate governance scores (Minutes № 48 of December 19, 2006). Every half year the Management Board considered the issue on the course of implementation of the said Plan.

On 27th December 2007 the Company's Board of Directors approved the new edition of the Provisions on the Remuneration payable to the members of the Management Board.

Corporate Secretary

On 25 March 2005 the Company's Board of Directors appointed the Corporate Secretary of the Company (Minutes of the Board of Directors №30 of 25.03.2005).

On March 22, 2007 the Company's Board of Directors approved the new edition of the Provisions on the Corporate Secretary and the Office of the Corporate Secretary of "Southern Telecommunications Company" PJSC.

In 2007 the Corporate Secretary worked on preparation and holding of the General Shareholders' Meeting, meetings of the Board of Directors, BoD Committees as well as on duly consideration by the Company of shareholder's applications. The Corporate Secretary provided for disclosure (presentation) of information about the Company and keeping the Company's documents.

Material corporate actions

In 2007 the Board of Directors of "Southern Telecommunications Company" PJSC approved all major and related-party transactions which were determined as such in accordance with the legislation of the Russian Federation and Corporate Governance Code of "UTK" PJSC before they were effected.

Information Disclosure

To increase information disclosure level the Company made the following actions in 2007:

- During preparation and holding of 2007 Annual General Shareholders' Meeting the Company presented biographic data on the nominees to the Board of Directors and the Auditing Commission. Risks associated with peculiarities of registration of ADR holders' votes at General Shareholders' Meetings of "UTK" PJSC were published on the corporate website.
- During the period under report the Company held Internet conferences. Members of the Management Board and heads of the Company's structural subdivisions met with analysts, investors, brokers, representatives of rating agencies, principal and minority shareholders;
- in 2007 the Company worked on improvements in structure and contents of the section "Investor Relations" of the corporate website, namely: information about revisions of the Company's corporate governance scores was updated on a regular basis; information on holding of the Company's General Shareholders' Meeting was disclosed; the fee paid to the Auditor and kinds of services performed by the Auditor, as well as information on the responsibility of the Auditor for causing possible direct / indirect damage to the Company was disclosed. "UTK" PJSC disclosed information on its principles of investment program formation as well as other information.

Supervision of financial and business operations

To improve the system of control over financial and business operations the Company approved the Rules on Risk Management in "UTK" PJSC (Minutes of the Board of Directors №23 of 19.01.2006).

On February 22, 2007 the Company's Board of Directors approved the revised Provisions on the procedure of holding a competition for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC as well as the Provisions on the Contest Committee for selection of an audit company to perform obligatory audit of the bookkeeping procedures and financial accounts of "UTK" PJSC.

On May 24, 2007 the Company's Board of Directors approved the revised Provisions on the Internal Control System of "Southern Telecommunications Company" PJSC, Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC, Provisions on the Audit Committee of the Board of Directors of "Southern Telecommunications Company" PJSC.

On December 27, 2007 the Company's Board of Directors approved Risk Management Program for 2008 and a new edition of the Provisions on the Internal Audit Department of "Southern Telecommunications Company" PJSC.

2. Report on compliance with the recommendations of the Code of Corporate Conduct Code of the Federal Commission for Securities Market of the Russian Federation.

In order to improve its corporate governance practices, "UTK" PJSC adheres to the recommendations of the RF FCSM Code of Corporate Conduct approved by the Government of the Russian Federation on 28th November 2001.

Report on compliance with the provisions of the FCSM Code of Corporate Conduct¹

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
GENERAL SHAREHOLDERS' MEETING			
1.	Notification on the General Shareholders' Meeting shall not be made later than 30 days before its opening irrespective of the issues included in the agenda unless longer period is stipulated by the effective legislation	Observed	Item 12.12 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, № 18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item.4.1 Regulations on the procedure for holding a General Shareholders' Meeting (Minutes of AGM №14 of 25.06.2003) amended and restated (Minutes of AGMs №16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007). Item 3.6 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006). One could familiarize oneself with materials

¹ The information is presented in accordance with the Recommendations on the structure and form of presentation of information on observance of the Corporate Conduct Code in annual reports of Joint – Stock Companies approved by the Decree of the Federal Commission for Securities Market of the Russian Federation № 03-849/r of 30 April 2003.

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
			on the agenda items of the Annual General Shareholders' Meeting (held on June 26, 2007) starting from May 25, 2007 on the corporate website: http://www.stcompany.ru and at the branches' registered offices.
2.	A shareholder's opportunity to familiarize with the list of the persons entitled to participate in the General Shareholders' Meeting, from the day of the notice of the General Shareholders' Meeting and till the closing of the General Shareholders' Meeting held in praesentia and till the cut-off date of voting instruction cards reception - in case the General Shareholders' Meeting is held in absentia	Observed	Item 4 of Article 51 of the Federal Law №208-FZ of 26.12.1995 «On Joint –Stock Company» Item 7.5 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item 3.2 of the Provisions on the Information Policy of "UTK" PJSC approved by UTK's Board of Directors (Minutes № 39 of 28.06.2005) Item 3.9 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
3.	A shareholder's opportunity to familiarize with shareholder information (materials) to the General Shareholders' Meeting using electronic mass media including Internet	Observed	Item 8.6 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006). Items 3.8 and 3.9 of the Provisions on the Information Policy of "UTK" PJSC approved by UTK's Board of Directors (Minutes № 39 of 28.06.2005).
4.	A shareholder's opportunity to make a proposal on the agenda item of the General Shareholders' Meeting or to request calling of the General Shareholders' Meeting without presenting extract from shareholder register, if his rights for shares are being registered in the shareholder register, and sufficiency of an abstract of a shareholder's deposit account at the Depository keeping register if his rights for shares are being registered in accordance with his deposit account at the Depository	Observed	Item 2.6 of the Regulations on procedure for conducting a General Shareholders' Meeting (Minutes of UTK's AGM № 14 of 25.06.2003) amended and restated ((Minutes of UTK's AGM № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
5.	Presence in the corporate Charter and by-laws of the requirement on obligatory attendance of General Director, members of the Management Board, members of the Board of Directors, members of the Auditing Commission, the Company's Auditor at the General Shareholders' Meeting	Observed	Item 3.17. of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
6.	Obligatory attendance of the candidates at the General Shareholders' Meeting electing members of the Board of Directors, General Director, members of the Management Board, members of the Auditing Commission, and determining the Company's Auditor	Observed	Item 3.17. of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
7.	Presence of the procedure for registration	Observed	Item 8 of the Regulations on procedure for

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	of the participants of the General Shareholders' Meeting in the Company's internal documents		conducting a General Shareholders' Meeting (Minutes of UTK's AGM № 14 of 25.06.2003) amended and restated ((Minutes of UTK's AGM № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
BOARD OF DIRECTORS			
8.	Authority of the Board of Directors to approve annual plan of the Company's financial and economic development stipulated by the Charter	Observed	Paragraph 1 of Item 13.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
9.	Risks management procedure in the Joint –Stock Company approved by the Board of Directors	Observed	Regulations on risks management in "UTK" PJSC approved by the Company's Board of Directors (Minutes №23 of 19.01.2006). Risk management program for 2008 approved by the Company's Board of Directors (Minutes №17 of 27.12.2007).
10.	Authority of the Board of Directors to suspend the powers of the General Director appointed by the General Shareholders' Meeting, stipulated by the Charter	Not applicable	Paragraph 26 of Item 13.4. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Appointment of the Company's General Director, determination of his (her) term of office and pre-term termination of his (her) powers are within the terms of reference of the Board of Directors.
11.	Authority of the Board of Directors stipulated by the Charter to establish requirements to qualification and remuneration size to be paid to the General Director, members of the Management Board, heads of the basic structural divisions.	Observed	Sub-items 24, 26, 28, 33 of item 15.4, item 15.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
12.	Authority of the Board of Directors stipulated by the Charter to approve terms of employment Agreements concluded with General Director and members of the Management Board	Observed	Paragraph 33 of Item 13.4, item 15.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
13.	Presence in the charter or internal documents of the Joint-stock company of the requirement that at approval of the terms of employment Agreements with the General Director (managing organization, the manager) and members of the Management Board, votes of the members of the Board of directors being General director and members of the Management Board are not taken into account when	Observed	Item 5.6 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	summing up the voting results.		
14.	Presence in membership of the Board of Directors of not less than 3 independent directors who are meeting the requirements of the Code of Corporate Conduct	Observed	Independent directors are: 1. Zyuzin Oleg Borisovich. 2. Kulikov Denis Viktorovich. 3. Vinkov Andrey Aleksandrovich 4. Yenin Evgeny Petrovich
15.	Absence in the membership of the Company's Board of directors of persons committed economic crimes or crimes against the state, local government or to whom administrative actions were imposed for violation of the rules of business activity and legislation on finance, taxes and securities market	Observed	Executed in practice
16.	Absence in the membership of the Board of Directors of the persons being participants, General Directors (managers), members of the governing bodies or officers of the legal person being the Company's competitor	Observed	Executed in practice
17.	Presence in the charter of the Joint-stock company of the requirement on the election of the Board of Directors by cumulative voting	Observed	Item 13.2 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
18.	Presence in internal documents of the joint-stock company of a duty of the members of the Board of Directors to abstain from actions which will result or may result in conflict of interests, and in case of occurrence of such conflict – to disclose to the Board of Directors information about this conflict	Observed	Item 4.7. of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
19.	Presence in internal documents of the joint-stock company of an obligation of the members of the Board of Directors to inform the Board of Directors in written form on intention to make transaction with securities of the Joint-stock company, which members of the Board of directors they are, as well as of its affiliated (dependent) companies, and also to disclose information on the transactions made by them with such securities	Observed	Items 4.7., 5.11 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006). Items 3.2.9., 3.2.10 of the Provisions on the Board of Directors of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007). Item 5.2 of the Provisions on the Information Policy of "UTK" PJSC approved by UTK's Board of Directors (Minutes № 39 of 28.06.2005) Item 3.3 of the Provisions on the procedure for using information on the activities of Public Joint –Stock Company "Southern Telecommunications Company" or on its securities and transactions with them unavailable to the general public, whose illegal use or disclosure may have a material effect on the market value of securities of "Southern Telecommunications Company" PJSC (Minutes № 40 of 29.06.2005).

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
20.	Presence in internal documents of the joint-stock company of the requirement on holding the meetings of the Board of Directors not less often than once in six weeks	Observed	Item 4.24 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006). Item 6.2 of the Provisions on the Board of Directors of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
21.	Holding of the meetings of the Board of Directors of the joint-stock company during the year for which the annual report of the Joint-stock company is made, at least once every six weeks	Observed	During the year under report meetings of the Board of Directors were held on average once in ten days.
22.	Presence in internal documents of the Joint-stock company procedures for conducting the meetings of the Board of Directors	Observed	Item 6 of the Provisions on the Board of Directors of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
23.	Presence in internal documents of the Joint-stock company of the Provisions on the necessity of approval by the Board of Directors of transactions of joint-stock company involving the Company assets in excess of 10 percent, except for the transactions made during day-to-day economic activities	Observed	Paragraph 19 of Item 13.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
24.	Presence in internal documents of the Joint-stock company of the authority of the members of the Board of Directors to receive from executive bodies and heads of the basic structural divisions of the Company information necessary for exercise of their duties, and also the responsibility for failure to present such information	Observed	Item 3.1.1 of the Provisions on the Board of Directors of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
25.	Presence of the Committee of the Board of Directors on strategic planning or imposing of its functions on another Board committee (except for the Audit committee and Nominations and Compensation Committee)	Observed	Strategic Development Committee of the Board of Directors was formed in the Company. The by-law regulating the activity of the Strategic Development Committee of the Board of Directors of "UTK" PJSC is Regulations on Strategic Development Committee of the Board of Directors of "UTK" PJSC approved by the Board of Directors (Minutes № 15 of 17.11.2004).
26.	Presence of the Board committee (Audit Committee) which makes recommendations on Auditor to the Board of Directors and interacts with it and with the Auditing Commission of the Company	Observed	The Audit Committee of the Board of Directors of "UTK" PJSC was formed in the Company. The by-law regulating the activity of the Audit Committee of the Board of Directors of "UTK" PJSC is Regulations on Audit Committee of the Board of Directors of "UTK" PJSC, the revised version of which was approved by the Board of Directors on May 24, 2007 (Minutes № 37 of 24.05.2007).
27.	Presence in the membership of the Audit Committee of only independent and non-executive directors	Observed	Members of the BoD Audit Committee are: 1. Yenin Evgeny Petrovich – Chairman (independent director).

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			2. Zyuzin Oleg Borisovich (independent director). 3. Selvich Elena Petrovna (non-executive director).
28.	Chairman of the Audit Board Committee of "UTK" PJSC is an independent director	Observed	Chairman of the BoD Audit Committee is: Yenin Yevgeny Petrovich (independent director).
29.	Presence in internal documents of the Company of the authority of all members of the Audit Committee to have access to any documents and materials on the Company under condition of nondisclosure of the confidential information by them	Observed	Item 6.2.1 of the Regulations on Audit Committee of the Board of Directors of "UTK" PJSC restated by the Board of Directors on May 24, 2007 (Minutes № 37 of 24.05.2007). Items 2.2, 4.3 of the Provisions on the procedure for using information on the activities of Public Joint –Stock Company "Southern Telecommunications Company" or on its securities and transactions with them unavailable to the general public, whose illegal use or disclosure may have a material effect on the market value of securities of "Southern Telecommunications Company" PJSC, approved by the Board of Directors of "UTK" PJSC (Minutes №40 of 29.06.2005),
30.	Formation of the Nominations and Compensation Committee responsible for determination of criteria of nomination of candidates to the Board of Directors and development of the Company's incentive system	Observed	Personnel and Rewards Committee of the Board of Directors of "UTK" PJSC was formed in the Company. The by-law regulating the activity of the Personnel and Rewards Committee of the Board of Directors of "UTK" PJSC is Regulations on Personnel and Rewards Committee of the Board of Directors of "UTK" PJSC re-approved by the Board of Directors (Minutes № 39 of 28.06.2005).
31.	Chairman of the Nominations and Compensation Committee is an independent director	Observed	Chairman of the BoD Personnel and Rewards Committee is: Kulikov Denis Viktorovich (independent director).
32.	Absence in the membership of the Nominations and Compensation Committee of the Company's officers	Observed	Item 3.2 of the Regulations on Personnel and Rewards Committee of the Board of Directors of "UTK" PJSC re-approved by the Board of Directors (Minutes № 39 of 28.06.2005).
33.	Formation of Risks management committee or imposing its functions on another Board committee (except for Audit committee and Nominations and Compensation Committee)	Not observed	This function is imposed on the Audit Committee of the Board of Directors of "UTK" PJSC. Items 1.2.2., 2.1.3, 2.1.4, 2.3.2, 2.3.5 of the Regulations on Audit Committee of the Board of Directors of "UTK" PJSC restated by the Board of Directors on May 24, 2007 (Minutes № 37 of 24.05.2007).
34.	Formation of the Committee of settlement of corporate conflicts or imposing its functions on another Board committee (except for Audit committee and Nominations and Compensation Committee)	Observed	The function of settling the corporate conflicts is imposed on the Corporate Governance Committee of the Board of Directors of "UTK" PJSC. Item 2.2.11 of the Regulations on Corporate Governance Committee of the Board of Directors of "UTK" PJSC re-approved by the Board of Directors (Minutes № 15 of 17.11.2004).
35.	Absence in the membership of the Committee of settlement of corporate conflicts of the Company's officers	Observed	The function of settling the corporate conflicts is imposed on the Corporate Governance Committee of the Board of Directors of "UTK" PJSC. One of the members of the Corporate Governance Committee of the Board of Directors of "UTK" PJSC is the Company's

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
			officer. Members of the Corporate Governance Committee of the Board of Directors of "UTK" PJSC are: 1. Vinkov Andrey Alexandrovich - Chairman (independent director). 2. Punina Ekaterina Aleksandrovna– (non-executive director). 3. Lyubich Anna Anatolievna (Corporate Secretary of "UTK" PJSC). 4. Tushunov Dmitry Yurievich (Head of the Analytical Department, Chief economist of CJSC "Leader" (pension fund assets management company).
36.	Chairman of the Committee of settlement of corporate conflicts is an independent director	Observed	The function of settling the corporate conflicts is imposed on the Corporate Governance Committee of the Board of Directors of "UTK" PJSC headed by an independent director Vinkov Andrey Alexandrovich.
37.	Presence of the internal documents of the Company stipulating procedures for formation and work of the Board committees approved by the Board of Directors	Observed	Regulations on the Committees of the Company's Board of Directors are:: 1) Regulations on the Corporate Governance Committee of the Board of Directors of "Southern Telecommunications Company" PJSC, new edition of which was approved by the Board of Directors on 17.11.2004 (Minutes № 15 of 17.11.2004) 2) Regulations on the Audit Committee of the Board of Directors of "Southern Telecommunications Company" PJSC, new edition of which was approved by the Board of Directors on 24.05.2007 (Minutes № 37 of 24.05.2007) 3) Regulations on the Personnel and Rewards Committee of the Board of Directors of "Southern Telecommunications Company" PJSC, new edition of which was approved by the Board of Directors on 28.06.2005 (Minutes № 39 of 28.06.2005) 4) Regulations on the Strategic Development Committee of the Board of Directors of "Southern Telecommunications Company" PJSC, new edition of which was approved by the Board of Directors on 17.11.2004 (Minutes № 15 of 17.11.2004).
38.	Presence in the charter of the Company of procedure for determining the quorum of the Board of Directors sufficient to provide obligatory participation of independent directors in the meetings of the Board of Directors	Not observed	
EXECUTIVE BODIES			
39.	Presence of a collective executive body (Management Board) of the Company	Observed	Article 14 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
40.	Presence in the charter or internal documents of the Company of the provisions on the necessity to approve by Management Board transactions with real	Observed	Approval of transactions related to purchase, alienation or possible alienation by the Company, directly or indirectly, of property, the value whereof ranges from 0.5 to 25

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	estate and credits if the specified transactions are not considered major transactions and their conclusion can not be referred to the Company's day-to-day activities		percent of the book value of the Company's assets as of the latest reporting date determined from its accounting data is within the terms of reference of the Company's Board of Directors. Paragraph 19 of Article 13.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
41.	Presence in internal documents of the Company of procedure for approval of operations which are not included in the Company's business plan	Observed	Paragraph 2 of Article 13.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Section 5 of the Provisions on budgeting system procedures of "UTK" PJSC approved by the Company's Management Board (Minutes № 2 of 26.02.2004).
42.	Absence in the membership of the Management Board of the persons being participants, general directors (managers), members of governing bodies or officers of the legal person being the Company's competitor	Observed	Executed in practice. The Board of Directors gives the permission to the members of the Company's executive bodies to hold more than one appointment in other organizations. Paragraphs 29, 30 of Item 13.4 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006)..
43.	Absence in the membership of the Company's Management Board of persons committed economic crimes or crimes against the government, public bodies or bodies of local self-government or the persons having a record of administrative offences primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation. If the powers of the Company's individual executive body are delegated to a professional manager or managing organization, the director general and the members of the management board of the managing organization or the company's manager should meet eligibility criteria set for the General Director and members of the Management Board of the Company.	Observed	Executed in practice
44.	Presence in the charter or internal documents the Company of prohibition for the managing company (manager) to execute similar functions in a competing company, as well as to be in any other property relations with the Company, besides rendering services of the	Not applicable	No managing company (manager).

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	managing company (manager)		
45.	Presence in internal documents of the joint-stock company of a duty of the members of the Management Board to abstain from actions which will result or may result in conflict of interests, and in case of occurrence of such conflict – to disclose to the Board of Directors information about this conflict.	Observed	Item 5.11 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006). Stipulated by the Agreement concluded with a member of the Management Board.
46.	Presence in the charter or internal documents of the Company of selection criteria for the managing company (manager)	Not applicable	No managing company (manager).
47.	Presentation of monthly reports on the work of the Management Board of the Company to the Board of Directors	Observed partially	Traditionally, reports of the Management Board are presented to the Board of Directors quarterly in accordance with Plan-schedule of the work of the Board of Directors. Item 6.2 of the Provisions on the Board of Directors of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007).
48.	Establishment in the employment Agreements concluded by the Company with the general director (managing company, manager) and members of the Management Board their responsibility for infringement of the provisions on usage of confidential information and information for internal use only.	Observed	The Provisions on the procedure for using information on the activities of Public Joint – Stock Company "Southern Telecommunications Company" or on its securities and transactions with them unavailable to the general public, whose illegal use or disclosure may have a material effect on the market value of securities of "Southern Telecommunications Company" PJSC approved by the Board of Directors (Minutes № 40 of 29.06.2005). The responsibility is stipulated in the Employment Agreements concluded with members of the Management Board of the Company and the General Director.
CORPORATE SECRETARY			
49.	Presence in the Company of a special officer (the corporate secretary) whose objectives should be to ensure that corporate bodies and officers comply with procedural requirements on the corporate governance safeguarding the rights and interests of the Company's shareholders.	Observed	The Provisions on the Corporate secretary and the Office of the Corporate secretary of "Southern Telecommunications Company" PJSC, the revised version of which was approved by the Board of Directors of "UTK" PJSC (Minutes № 29 of 22.03.2007). On 25 March 2005 Lyubich A.A. was appointed the Corporate Secretary of "UTK" PJSC (Minutes of the Board of Directors № 30 of 25.03.2005)
50.	Presence in the charter or internal documents of the Company of the procedure for appointment (election) of the corporate secretary of the Company and his duties	Observed	Article 16 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item 2 of the Provisions on the Corporate secretary and the Office of the Corporate Secretary of "UTK" PJSC, the revised version of which was approved by the Board of Directors of "UTK" PJSC (Minutes № 29 of

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
51.	Presence in the charter of the Company of requirements to a person seeking appointment to the position of the Corporate Secretary	Observed	22.03.2007). Article 16 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item 2.4 of the Provisions on the Corporate Secretary and the Office of the Corporate Secretary of "UTK" PJSC, the revised version of which was approved by the Board of Directors of "UTK" PJSC (Minutes № 29 of 22.03.2007).
MATERIAL CORPORATE ACTIONS			
52.	Presence in the charter or internal documents of the Company of the requirement on approval of the major transaction prior to its conclusion.	Observed	Paragraph 17 of Item 12.2 of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item 7.4 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
53.	Obligatory engagement of the independent assessor for estimation of market value of the property being a subject of the major transaction	Observed	Executed in practice. Item 7 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
54.	Presence in the charter of the Company of prohibition of any actions at acquisition of large stakes of the Company (absorption) aimed at protecting the interests of executive bodies (members of such bodies) and members of the Board of Directors, and which may result in weakening the position of shareholders (in any event, pending the expiration of the acquisition period the Board of Directors should refrain from issuing additional shares, convertible shares or securities that otherwise entitle their holders to purchase shares of the company, even if such issuance is authorized by the Charter of the Company.	Not observed	
55.	Presence in the charter of the Company of the requirement on obligatory engagement of the independent assessor for estimation of the current market value of shares and possible changes of their market value as a result of the absorption	Observed in practice	Independent assessor is engaged according to the existing practice in the Company. Items 7.5, 7.7 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
56.	Absence in the charter of the Company of release of the entity taking over the	Observed	The Charter of "Southern Telecommunications Company" PJSC does

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	Company (that is acquiring 30 percent or more of the outstanding common stock of the Company) of the responsibility to offer to buy out shareholders' common stock (issuer's shares convertible into common stock).		not include provision on such relief.
57.	Presence in the Charter or internal documents of the Company of the requirement on obligatory engagement of the independent assessor for definition of ratio of shares' swap-up at reorganization	Observed	Provide by the existing practice whereas "UTK" PJSC is a public company. Item 7.6 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
INFORMATION DISCLOSURE			
58.	Presence of the internal document approved by the Board of directors determining the Company's rules and procedures for information disclosure (The Provisions on information policy)	Observed	The Provisions on the information policy of "UTK" PJSC approved by the Board of Directors (Minutes №39 of 28.06.2005).
59.	Presence in internal documents of the Company of the requirement on information disclosure for the purpose of placement of shares, about persons who are going to buy shares under placement, including big stakes, and also, whether the top managers of the Company will participate in purchase of the Company's shares under placement	Not observed	Information is disclosed according to the requirements of the Russia law.
60.	Presence in internal documents of the Company of the list of information, documents and materials to be presented to shareholders for taking decisions of agenda items of the General Shareholders' Meeting.	Observed	Item 12.13. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Item 3.7 of the Provisions on the information policy of "UTK" PJSC approved by the Board of Directors (Minutes №39 of 28.06.2005). Item 13.1 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).
61.	Presence of the corporate Internet site and regular disclosure of information about the Company on this website	Observed	http://www.stcompany.ru
62.	Presence in internal documents of the Company of the requirement on disclosure of information on transactions of the Company with the persons being according to the charter the Company's top managers, and also about transactions of the Company with the companies in which the Company's top managers own directly or indirectly over 20 percent of the authorized capital of the company or on which such persons can exert material influence	Observed	The Provisions on the information policy of "UTK" PJSC approved by the Board of Directors (Minutes №39 of 28.06.2005). Information is disclosed according to the requirements of the Russia law
63.	Presence in internal documents of the Company of the requirement on disclosure of information about all transactions which	Observed	The Provisions on the information policy of "UTK" PJSC approved by the Board of Directors (Minutes №39 of 28.06.2005).

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	can influence market price of the Company's shares		Information is disclosed according to the requirements of the Russia law.
64.	Presence of the internal document approved by the Board of Directors on usage of material information about the Company's operations, shares and other securities and transactions with them which is not open to general use and which disclosure can materially influence the market value shares and other securities of the Company	Observed	The Provisions on the procedure for using information on the activities of Public Joint – Stock Company "Southern Telecommunications Company" or on its securities and transactions with them unavailable to the general public, whose illegal use or disclosure may have a material effect on the market value of securities of "Southern Telecommunications Company" PJSC approved by the Board of Directors (Minutes № 40 of 29.06.2005).
SUPERVISION OF FINANCIAL AND BUSINESS OPERATIONS			
65.	Presence of the procedures for the internal control of the Company's business and financial operations approved by the Board of Directors	Observed	The Provisions on internal control procedures (system) of "Southern Telecommunications Company" PJSC, the revised version of which was approved by the Company's Board of Directors (Minutes №37 of 24.05.2007).
66.	Presence of a special subdivision of the Company responsible for ongoing internal supervision (a control and audit service)	Observed	Item 17.3. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Provisions on Internal Audit Department of "UTK" PJSC, the revised version of which was approved by the Company's Board of Directors (Minutes №17 of 27.12.2007).
67.	Presence in internal documents of the Company of the requirement on determination of the structure and composition of the control and audit service by the Board of Directors of the Company	Observed	Item 17.3. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Items 4.2, 5.2 of the Provisions on internal control procedures (system) of "Southern Telecommunications Company" PJSC, the revised version of which was approved by the Company's Board of Directors (Minutes №37 of 24.05.2007). Items 6.7, 6.8, 7.7 of the Provisions on Internal Audit Department of "UTK" PJSC, the revised version of which was approved by the Company's Board of Directors (Minutes №17 of 27.12.2007).
68.	Absence in the membership of the Company's control and audit service of persons committed economic crimes or crimes against the government, public bodies or bodies of local self-government or the persons having a record of administrative offences primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation.	Observed	Executed in practice
69.	Absence in the membership of the Company's control and audit service of the	Observed	Executed in practice

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	persons being participants, General Directors (managers), members of the governing bodies or officers of the legal person being the Company's competitor		
70.	Presence in internal documents of the Company of the date of presentation of documents and materials to the Company's control and audit service for estimation of the financial and economic operation, and also the responsibility of officers and workers of the Company for failure to present them in time	Observed	Fixed by special orders for each inspection
71.	Presence in internal documents of the Company of the requirement of the Company's control and audit service to report violations to the Audit Committee and, absent this Committee, to the Board of Directors	Observed	Item 4.9 of the Provisions on Internal Audit Department of "UTK" PJSC the revised version of which was approved by the Company's Board of Directors (Minutes №17 of 27.12.2007). Item 2.3.8. of the Regulations on the Audit Committee of the Board of Directors of "UTK" PJSC, the revised version of which was approved by the Company's Board of Directors on May 24, 2007 (Minutes №37 of 24.05.2007).
72.	Presence in the charter of the Company of the requirement on preliminary evaluation by the Company's control and audit service whether it is appropriate for the Company to make operations falling outside its financial and business plans (non-standard operations)	Not observed	Approval of operations falling outside the Company's financial and business plan (non-standard operations) is within the terms of reference of the Board of Directors. Paragraph 2 of Item 13.4. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006).
73.	Presence in internal documents of the Company of the procedure for coordinating a non-standard operation with the Board of Directors	Observed	Paragraph 2 of Item 13.4. of the Charter of "UTK" PJSC approved by the Extraordinary General Shareholders' Meeting on 21.01.2003 (Minutes № 13) amended and restated (Minutes of AGMs of "UTK" PJSC № 15 of 30.06.2004, № 16 of 30.06.2005, № 17 of 27.06.2006, №18 of 26.06.2007) as well as by the Company's Board of Directors (Minutes № 8 of 31.08.2006). Rules of planning, approval, execution and control of the budget of "UTK" PJSC approved by the Company's Management Board (Minutes № 30 of 27.08.2007).
74.	Presence of the internal document approved by the Board of Directors of the procedure for performing audits of financial and business operations of the Company by the Auditing Commission	Observed	Provisions on the Auditing Commission of "UTK" PJSC approved by the General Shareholders' Meeting of "Kubanelectrosvyaz" OJSC (Minutes № 10 of 30.05.2001) amended and restated by General Shareholders' Meeting of "UTK" PJSC (Minutes №12 of 21.06.2002, №15 of 30.06.2004, № 17 of 27.06.2006).
75.	Evaluation by the Audit Committee of the Auditor's opinion prior to its presentation to shareholders at the General Shareholders' Meeting	Observed	Item 2.1.8. of Regulations on Audit Committee of the Board of Directors of "UTK" PJSC, the revised version of which was approved by the Board of Directors on May 24, 2007 (Minutes № 37 of 24.05.2007).
DIVIDEND			
76.	Presence of the internal document	Observed	Provisions on Dividend policy of "UTK" PJSC

№	Provisions of the RF FCSM Code of Corporate Conduct	Level of execution (observed or not observed)	Comment
	approved by the Board of Directors according to which the Board of directors makes recommendations on the size of dividends (The Provisions on Dividend policy)		approved by the Company's Board of Directors (Minutes №22 of 21.01.2005).
77.	Presence in the Provisions on Dividend policy of "UTK" PJSC of the procedure for determination of the minimal share of net profit of the joint-stock company to be allocated to dividend payment, and terms of non-payment or partial payment of dividends under preference shares, size of which is determined in the Charter of the Company	Observed partially	Stipulated by items 4.1, 4.2, 7.1 of the Provisions on Dividend policy of "UTK" PJSC approved by the Company's Board of Directors (Minutes №22 of 21.01.2005).
78.	Publication of information about the Company's dividend policy and amendments introduced into it in the periodical stipulated by the Charter of the Company for publication of the notices of the General Shareholders' Meeting, as well as placement of the specified data on the corporate Internet site	Observed	Item 10.3 of the Corporate Governance Code (Set of Rules) approved by UTK's Board of Directors (Minutes № 44 of 25.05.2004) amended and restated by the Board of Directors (Minutes № 36 of 25.05.2005, № 21 of 25.12.2006).