

**REPORT**  
**of the Auditing Commission of Public Joint –Stock Company "Southern Telecommunications Company" ("UTK" PJSC )**  
**on the Company's annual financial statements for the year 2007**

Moscow

April 14, 2008

The Auditing Commission of "Southern Telecommunications Company" PJSC was elected by the General Shareholders' Meeting held on June 26, 2007. Pursuant to the Federal Law "On Joint – Stock Companies", the Company's Charter and the Provisions on the Auditing Commission, the Auditing Commission consisting of:

Ruslan Karimovich Aksyaitov (Chairman)  
Sergey Vladimirovich Podosinov  
Mikhail Viktorovich Tretyakov  
Natalia Vadimovna Feoktistova  
Olga Sergeevna Chetvyorkina

has performed audit of the Company's annual financial statements for the period from 1 January 2007 to 31 December 2007..

According to the decision of the Auditing Commission of "UTK" PJSC (Minutes № 4 of March 17, 2008) the audit was carried out from March 31 to April 4, 2008.

The analysis was carried out on the basis of documents, accounting and tax registers, registers and explanatory notes presented by the Company's management. Disclosure of information on financial and economic activity in financial reporting was analyzed, accounting principles and book keeping procedure, as well as the rules of preparation of financial statements and annual report were evaluated.

The Auditing Commission used principles of audit of separate operations on a sample basis.

**Brief information about the Company**

*Full registered name:* Public Joint-Stock Company "Southern Telecommunications Company"

*Seat of the executive bodies:* 66, Karasunskaya St., Krasnodar, 350000

*State registration:* Certificate of the state registration series A № 494 of May 20, 1994 issued by the Krasnodar City Registration Chamber to "Kubanelectrosvyaz" OJSC and certificate of the state registration of changes in the Charter of the Company related to its renaming into Public Joint –Stock Company "Southern Telecommunications Company" № 16048 of June 28, 2001 issued by the Krasnodar City Registration Chamber.

Certificate of making an entry in the Single State Register of Legal Entities on the legal entity registered before 1<sup>st</sup> 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 Kray.

The following persons were responsible for book keeping procedures and preparation of the accounting reports during the period under audit:

- General Director - A.V. Andreev
- Chief Accountant – T.V. Rusinova

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 exercising management of the Company's current operations and providing realization of the resolutions adopted by a General Shareholders'

**2007 key financial highlights**

	<b>Description</b>	<b>Measurement unit</b>	<b>2007</b>	<b>2006</b>
	Revenue	RUR mln	19,772.4	17,570.6
	Including from telecom services	RUR mln	18,926.6	16,561.5
	Cost value of sold goods, works and services	RUR mln	14,274.9	12,785.5
	Including cost value of telecom services	RUR mln	13,659.2	11,968.4
	Operating profit	RUR mln	5,497.5	4,785
	Pre-tax profit	RUR mln	2,640.4	1,632.8
	Net profit	RUR mln	1,826.8	1,184.4
	EBITDA, RUR mln	RUR ths	7,347.9	6,307.5
	Operating margin, %	%	27.8	27.2
	Operating profit efficiency, %	%	38.5	37.4
	Cost value of 100 rubles of revenues, RUR	RUR	72.2	72.8
	EBITDA margin, %	%	37.2	35.9
	Revenue per one employee, thousand rubles	RUR ths	685.3	510.49
	Financial independence ratio	-	0.36	0.33
	Long-term borrowings ratio	-	0.50	0.51
	Interim liquidity ratio (Acid test ratio)	-	0.19	0.13
	Current liquidity ratio	-	0.32	0.29
	Own working capital adequacy ratio	-	-2.09	-2.41
	Average repayment period of accounts receivable, days	Days	26.4	25.6
	Average repayment period of accounts payable, days	Days	109.8	135.4
	Return on equity, ROE, %	%	12.67	9.05

**Financial reporting**

The book-keeping procedure in the Company is organized according to the requirements of the Russia legislation on accounting" and is based on the Accounting Policy approved by the Order of UTK's General Director № 010-P of January 17, 2007 (amended and restated by the Order).

The Company's 2007 accounting reports have been prepared in accordance with the Federal Law "On Accounting" and included balance sheet, profit and loss statement, appendixes to them, explanatory note. The accounting reports were compiled on the basis of the reports presented by the Company's branches.

During the audit of the Company's 2007 financial statements the Auditing Commission has not revealed material violations of the RF legislation and material distortions in exposure of financial and economic results.

The accounting reports of the Company allow to form full and objective information on the financial and business activity of the Company and its results as necessary for operational control and management as well as for use by investors, creditors, government bodies and other organizations and persons concerned.

**Material facts of business activity**

Corporate Governance Code (Set of Rules) of "Southern Telecommunications Company" PJSC regulating corporate procedures in the Company was approved by the Board of Directors on

May 25, 2004 (Minutes № 44 of 25.05.2004). In May 2005 and December 2006 it was amended and restated by the Board of Directors (Minutes №36 of 25.05.2005 and Minutes № 21 of 25.12.2006).

The general rules provided by the Code are implemented by "Southern Telecommunications Company" PJSC on the basis of its regulations as well as the rules of effective legislation, including bylaws, Charter and in-house documents of the Company (*Regulations on the procedure for conducting a General Shareholders' Meeting, Provisions on the Board of Directors, Provisions on the Management Board, Regulations on the Committees of the Board of Directors, Provisions on the Information Policy of the Company, 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 "UTK" PJSC, Provisions on the Internal Control Procedure (System) and others*).

The Auditing Commission revealed no facts of violation of requirements of the Code, effective legislation, Charter and in-house documents committed by the Company

The Company has created a system of governing and control bodies, the efficient operation of which can ensure normal development of "UTK" PJSC and the interests of its shareholders. "Southern Telecommunications Company" PJSC formed the Board of Directors, Committees of the Board of Directors (*Personnel and Rewards Committee, Corporate Governance Committee, Strategic Development Committee, headed by a non-executive director, as well as Audit Committee headed by independent members of the Board of Directors*), Management Board, Internal Audit Department, Auditing Commission, appointed the Corporate Secretary and approved provisions on their activities.

In 2007 "UTK" PJSC did not effect any major transactions (as the term is interpreted by the Federal Law "On Joint –Stock Companies"). In 2007 the Company made several related-party transactions. It did not commit any gross breaches of the rules for such transactions, which would unconditionally allow to recognize these transactions as invalid.

The Company disclosed information in the form of notices on material facts in time and order stipulated by the Provisions on information disclosure by issuers of securities approved by Order of Federal Financial Markets Service № 06-117/pz-n of October 10, 2006. The list of the Company's affiliated persons and changes in the list were published quarterly on the corporate site.

### **Internal Audit System**

The Audit Committee of the Board of Directors operates in accordance with the Charter of the Company, Corporate Conduct Code, Regulations on the Audit Committee of the Board of Directors. The Audit Committee of the Board of Directors performs the internal control functions by considering in advance and preparing recommendations for the Board of Directors regarding financial reporting, external independent audit, internal audit, internal control procedures as well as risks relating to the completeness of information disclosure.

The Company has formed the Internal Audit Department to check the efficiency of current internal control procedures in accordance with the effective regulations. Reports on the results of the checks shall be presented for consideration to the BoD Audit Committee of "Southern Telecommunications Company" PJSC at least once a quarter.

### **Conclusion**

In the opinion of the members of the Auditing Commission based on the results of the audit of the financial and business activity of "Southern Telecommunications Company" PJSC for 2007

- decisions on financial and business matters taken by the Management Board and the Board of Directors of the Company in 2007 comply with the applicable legislation of the Russian Federation and the Charter of "Southern Telecommunications Company" PJSC;
- 2007 financial statements of "Southern Telecommunications Company" PJSC reliably present, in all material aspects the financial standing of "Southern Telecommunications

Company" PJSC and its financial results for the period from January 1, 2007 till December 31, 2007;

- 2007 annual report of "Southern Telecommunications Company" PJSC is trustworthy in all its material aspects that should be exposed in accordance with the requirements of the Russia laws.

Chairman of the Auditing Commission	<i>(signature)</i>	Ruslan Karimovich Aksyaitov
Members of the Auditing Commission	<i>(signature)</i>	Mikhail Viktorovich Tretyakov
	<i>(signature)</i>	Natalia Vadimovna Feoktistova
	<i>(signature)</i>	Olga Sergeevna Chetvyorkina
Secretary of the Auditing Commission	<i>(signature)</i>	Sergey Vladimirovich Podosinov