



2002 annual report of “Southern Telecommunications Company” PJSC

25.06.2003

№

Annual General Shareholders' Meeting of “UTK” PJSC

Structure of the report



- * **General information about “UTK” PJSC**
- * **The Company’ governing bodies**
- * **Main corporate events of the year**
- * **The Company’s organizational framework**
- * **Personnel policy**
- * **Position of the Company in the telecommunications sector**
- * **The Company’s operating results**
- * **Distribution of the Company’s retained earnings**
- * **Report of the Auditor**
- * **Report of the Company’s Auditing Commission**
- * **Priority trends of the Company’s activity**
- * **Strategic goals**

General information about “UTK” PJSC

<http://www.stcompany.ru>

E-mail: operator@mail.stcompany.ru

Tel. +7(8612) 53-20-56



Registered

by the Act of the Krasnodar City Registration Board №494 – A series

by the Act of the Head of the Krasnodar City Administration № 186-P of 20 May 1994

Seat:

66, Karasunskaya Str., Krasnodar

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Annual General Shareholders' Meeting of “UTK” PJSC

The Company’s Auditor

“Ernst and Young Vneshaudit” CJSC



- Location

20/12, Podsosenskiy per., Moscow

Phone: (095) 917-33-06

- License:

Central Certifying and Licensing
Auditing Commission of the Ministry of
Finance of the Russian Federation

№003246 of 17.01.2003



The Company’s Registrar

CJSC «Registrar – svyaz»



- Location

27, Presnenskiy Val St., Moscow

- License

Issued by Federal Commission on Securities’ Market of the Russian Federation

№10-000-1-00258 of 01.10.2002



Charter capital

Size – RUR 1 bln 297 mln 779 ths 384.66

- Common registered uncertificated shares

2 bln 960 mln 512 ths 964 shares

- Preferred registered uncertificated shares

972 mln 151 ths 838 shares

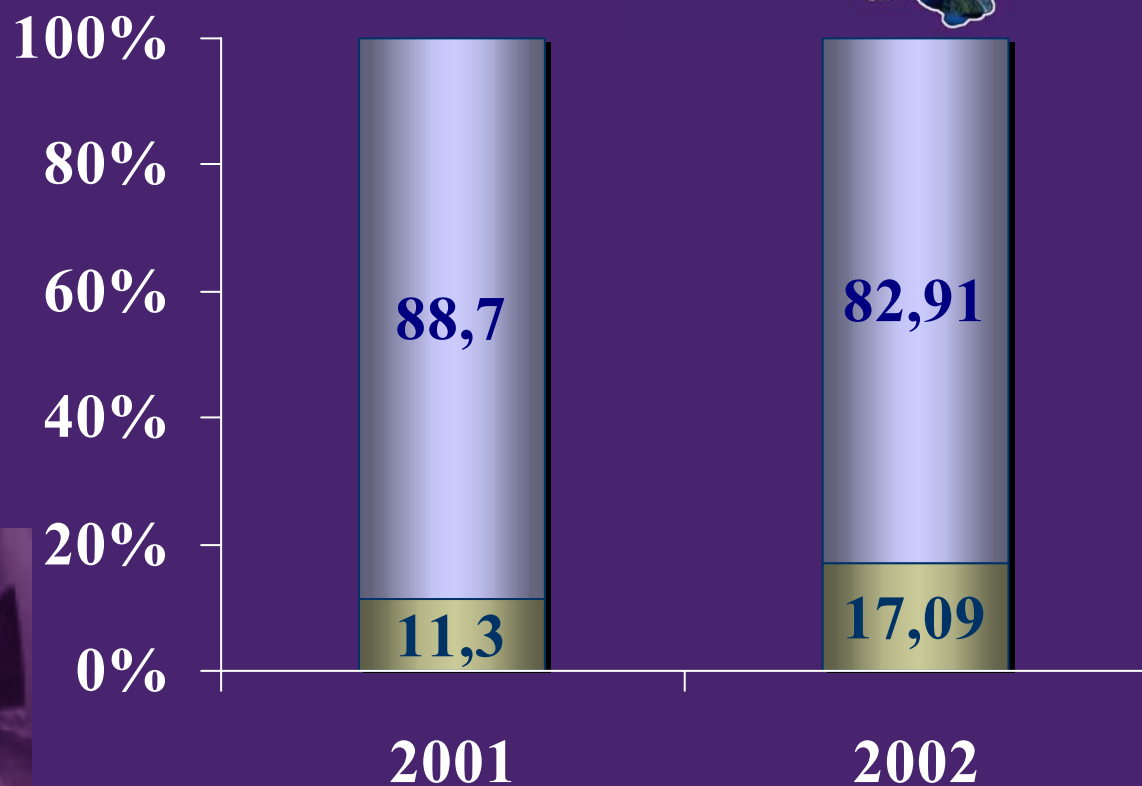


Par value: RUR 0.33

Distribution of “UTK” PJSC shares among the shareholders



- Juridical persons
- Natural persons



Share capital structure



"ING BANK
EVROASIA-ZAO"
CJSC
11%

"Depository and
Clearing
Company" CJSC
13%

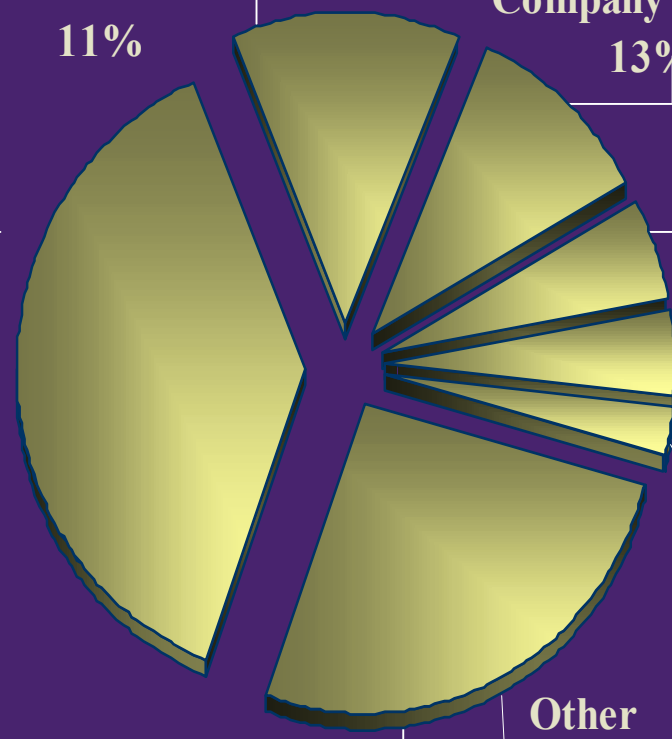
"ABN AMRO
BANK A.O." CJSC
5%

OJSC
"Investitsionnaya
Kompaniya Svyazi"
("Svyazinvest")
38%

CB "J.P. Morgan
Bank
International" Ltd.
4%

"Branswick UBS
Warburg
Nominees" CJSC
3%

Other
26%



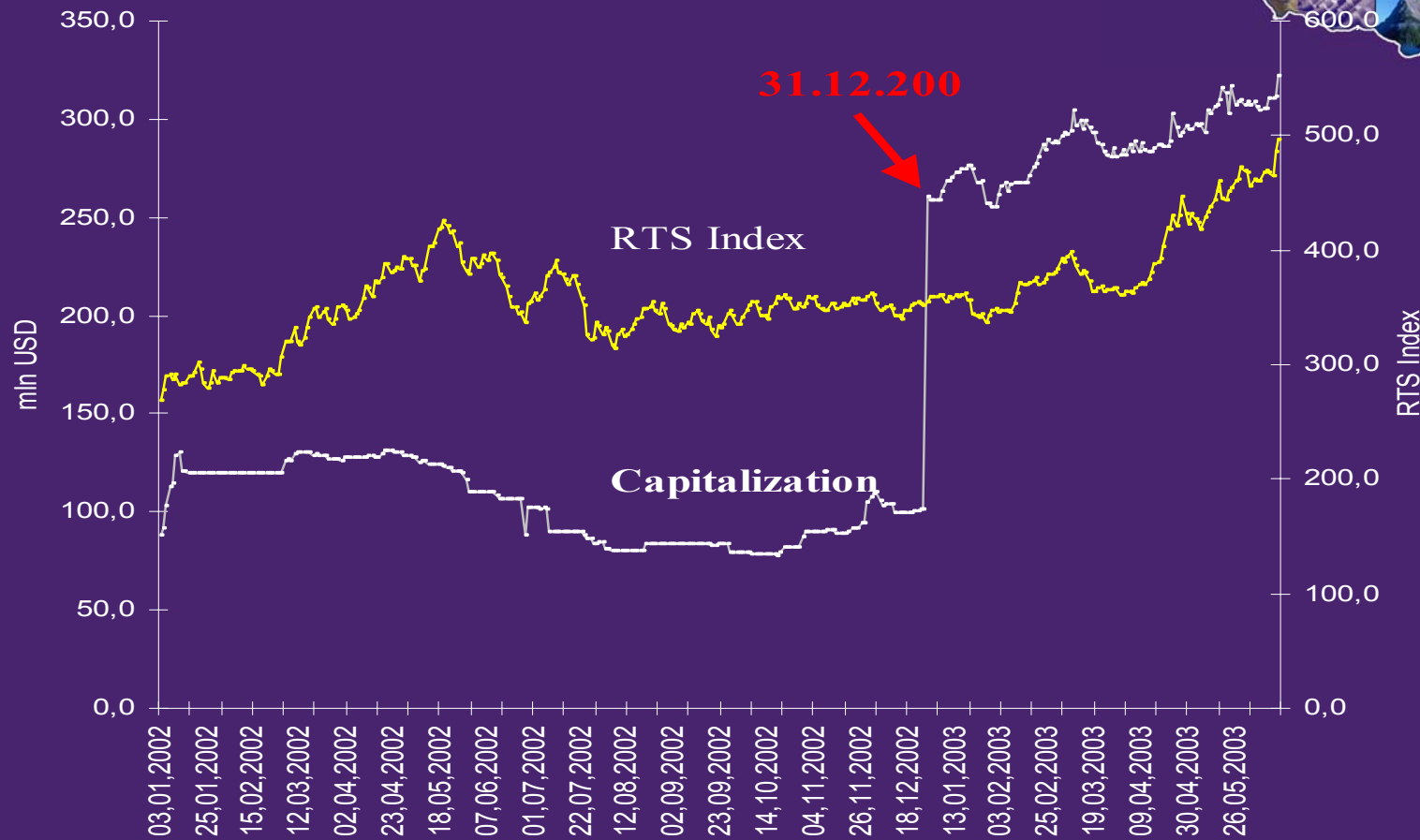


“UTK” PJSC shares are used
when calculating official stock
market indices

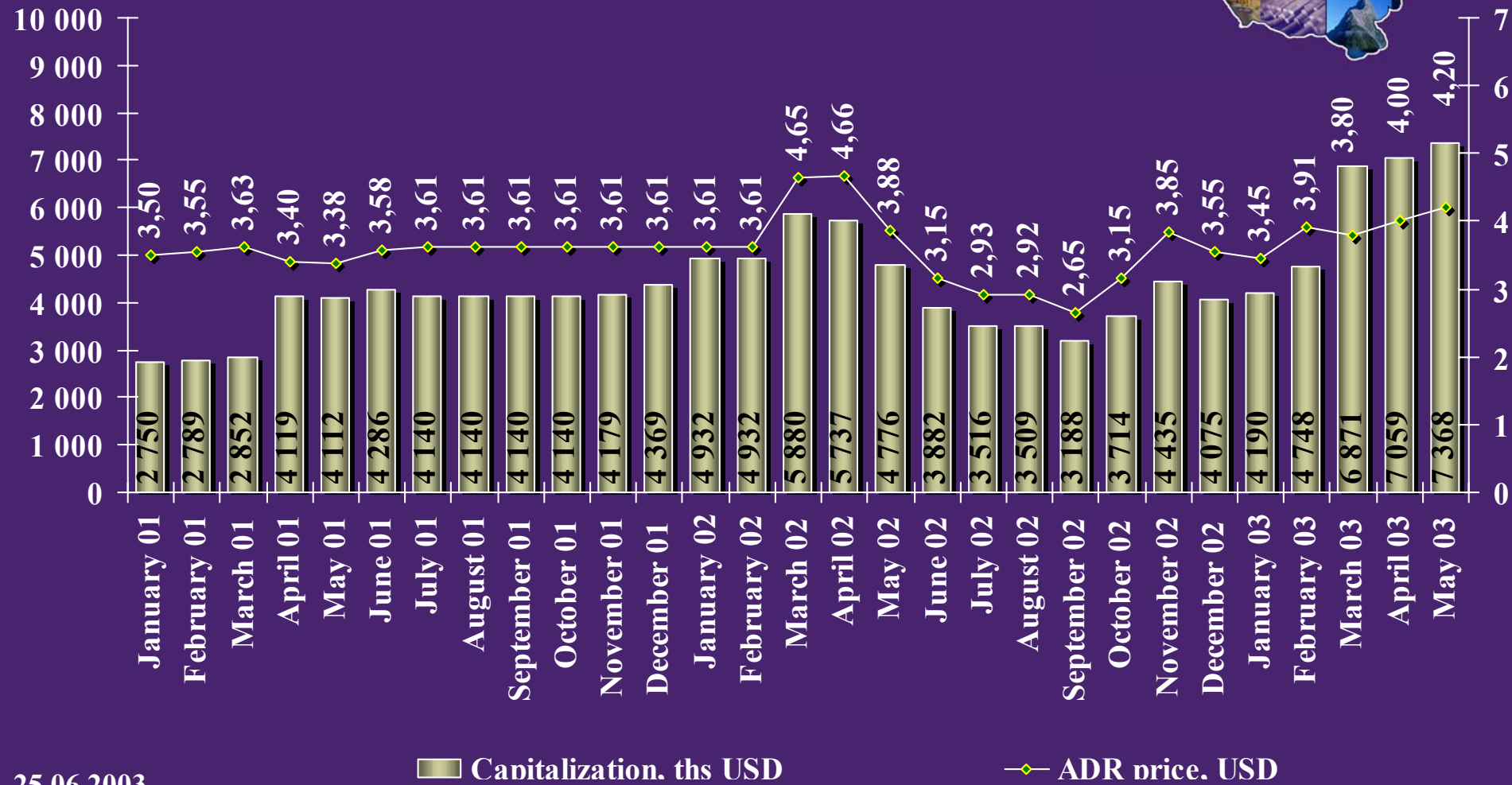
- **AK&M Composite Index**
- **AK&M Branch Index**
- **RTS Index**
- **S&P/RUX Index**
- **S&P/RUX - Telecom**



Dynamics of the main quotes of the Company's shares



ADR program



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Board of Directors

48 meetings were held

164 resolutions were considered and passed

Main areas of activity:

- Financial and economic activity
- Financing new corporate developments
- Corporate restructuring
- Analysis of the efficiency of “UTK” PJSC shareholding in other companies
- Approval of dividend pay schedule
- Consideration and approval of business plans and contracts



The Company's governing bodies

Management Board

31 meetings were held

218 resolutions were considered and passed

Main areas of activity:

- Financial and economic activity
- Capital construction
- Development and approval of the investment program
- Determination of the priority development trends
- Approval of the main documents regulating the Company's principal activity
- Accounts receivable and measures on their reduction
- Socioeconomic development



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The Company's governing bodies

The Company's Auditing Commission

2 meetings were held and 2 audits of financial and economic activity were performed



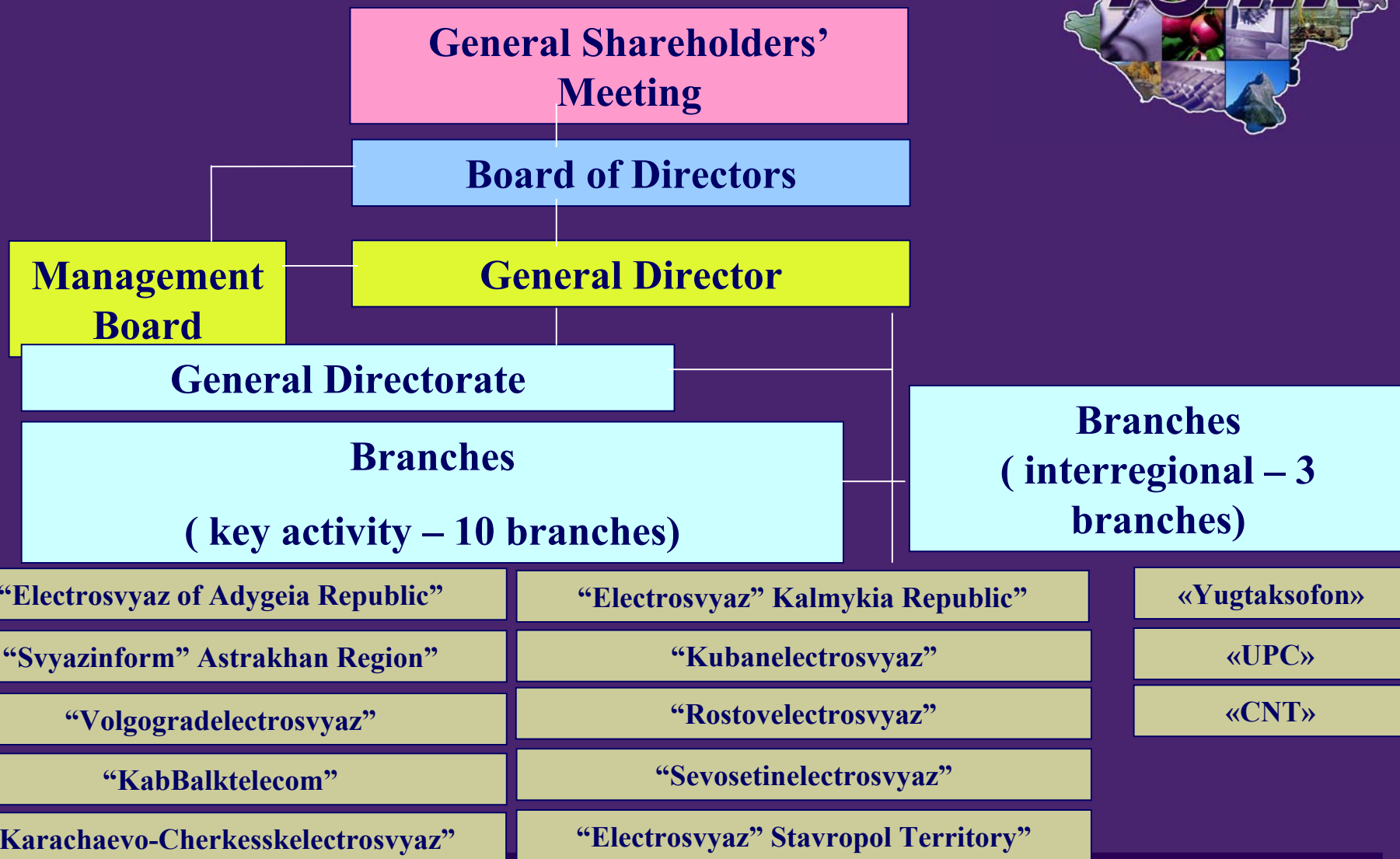
Auditing Commission's terms of reference provide for:

- Checking data adequacy in the Company's reports and financial documents
- Revealing facts of infringements of accounting standards and procedures on submission of financial reports designated by the legal acts of the Russian Federation
- Checking the observance of legal regulations on taxation
- Evaluating economic expediency of economic and financial transactions of the Company



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“UTK” PJSC organizational framework



The Company's organizational framework

The main functional blocks of "UTK" PJSC General Directorate's organization framework



General management

Economics

Finances

Accounting

Technological

Personnel control (HR
issues)

Investment and
construction

Marketing

Corporate governance

Legal

Internal audit

Security

Administrative

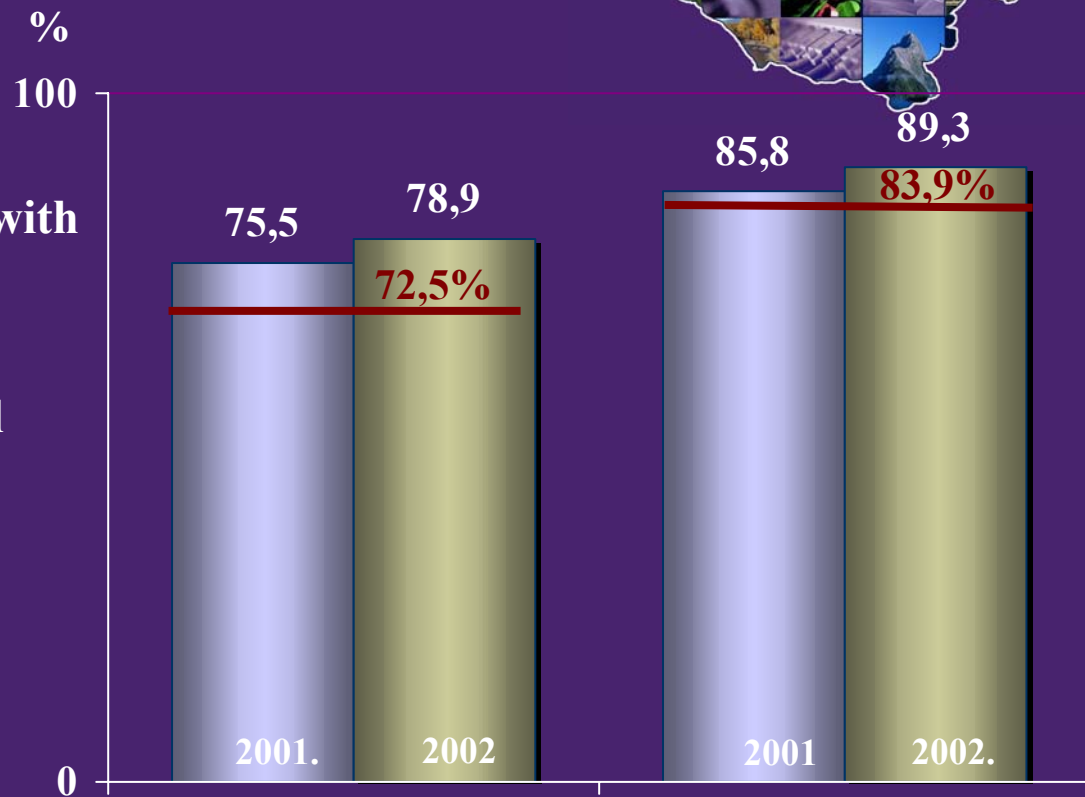
Public relations

Personnel Policy

- Effective usage of the existing intellectual potential of the Company

- Realization of the principle of professional knowledge conformity with position held

- Carrying out the unified policy on recruiting, training and professional development of the personnel



Provision with specialists with higher education

Provision with specialists with specialized secondary education

— Average in "Svyazinvest" OJSC



About the Company's reorganization

- On May 17, 2002 Anti-Monopoly Ministry gave the permit for reorganization.
- On August 15, 2002 FCSM of Russia registered the issue of additional securities in connection with reorganization.
- On July 01, 2002 the merged companies' registers were transferred to the single registrar CJSC "Registrator-Svyaz" in accordance with established procedure.
- The Company's creditors were informed in proper time (December 2001 - January 2002).
- All the necessary actions dealing with redemption and cancellation of shares were carried out (January - February 2002).
- All the necessary measures aimed at minimizing the risks related to reorganization were carried out.
- In October 2002 licenses for provision of telecom services by the regional entity were obtained.
- **On October 31, 2002** an entry was made in the Common state register of juridical persons on cessation of activities of the merged companies. All the merging companies lost their legal status of juridical persons and became branches of "Southern Telecommunications Company" PJSC.
Since then the single regional entity operates in the territory of the Southern Federal District.
- On October 31, 2002 outstanding shares of the merged companies were exchanged for shares of new issuances of "Southern Telecommunications Company" PJSC in accordance with the exchange ratios.
- On December 20, 2002 the report on the results of the securities' issuance was registered by FCSM of Russia.

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Main corporate events



Approval of the Company's budget for 2002

Description	Unit	2001 Actual	2002 plan	On year change, %
Increase in number of basic telephone sets	Sets	153 600	171 288	111,52
Length of long-distance telephone channels	Ths ch/km	1 459,3	1 487,8	101,95
Average number of lines	lines	3 065 344	3 199 313	104,37
Sales revenue	Ths RUR	8 218 500	10 436 866	126,99
Revenues from value-added services	Ths RUR	221 800	307 269	138,50
Pre-tax profit	Ths RUR	1 459 600	2 490 376	170,66
Earnings per 1 line	RUR	2 681	3 262,22	121,68
Pre-tax profit per 1 line	RUR	476	759,66	159,59
Earnings per 1 employee	RUR	179 333	234 578	130,81
Pre-tax profit per 1 employee	RUR	31 849	54 625	171,51
Number of lines per 1 employee	lines	66,9	71,91	107,49
Average number of employees on pay-roll	people	47 705	44 492	93,26
Average salary	RUR	3 643	4 515,1	123,9
Wages fund	Mln RUR	1 997,3	2 410,6	120,7
Volume of capital investments	Mln RUR	1 763,1	3 556,5	201,72
Number capacity put into operation	Ths №№	231,5	365,5	157,88

Main corporate events



Corporate governance score and credit rating

On December 27, 2001 the international rating agency "Standard & Poor's" assigned its triple-C-plus long-term local and foreign currency corporate credit ratings to "Southern Telecommunications Company" PJSC. The outlook is stable.

On April 2, 2003 the international rating agency "Standard & Poor's" raised long-term corporate credit rating of "Southern Telecommunications Company" PJSC to "B-" from "CCC+".

Company	Rating	Outlook	Agency
SibirTelecom	B	Stable	Fitch
VolgaTelecom	B	Stable	S&P
Dalsvyaz	B-	Stable	Fitch
Uralsvyazinform	B-/B	Stable	S&P/Fitch
"UTK" PJSC	B-	Stable	S&P
North-Western Telecom	CCC	Stable	S&P
CenterTelecom	CCC	Stable	S&P

Component of CGS	Scores
Ownership structure and influence	5,5
Financial stakeholder rights & relations	6,3
Financial transparency and information disclosure	4,7
Board structure and process	4,4

On February 12, 2003 "Southern Telecommunications Company" PJSC was assigned corporate governance score (CGS) of "CGS-5.2" by international rating agency "Standard & Poor's". "Standard & Poor's" believes that governance practices at "UTK" PJSC are improving rapidly.

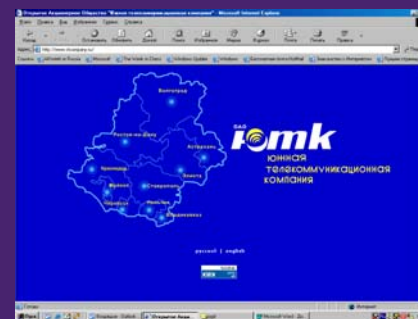
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Participation in road-shows, major exhibitions and conferences

- «CeBit», Germany
- «SecurExpo», Krasnodar
- «Infocom», Moscow
- «Svyaz-Expocomm», Moscow

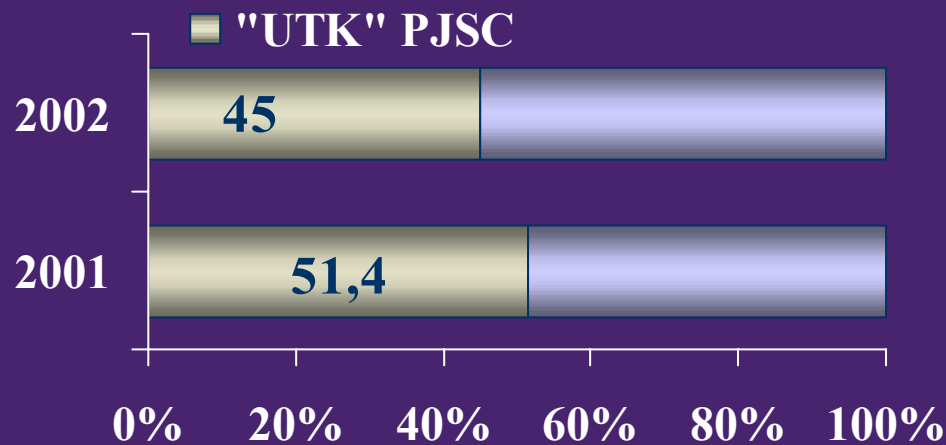


General information and news on the official web-site of the Company



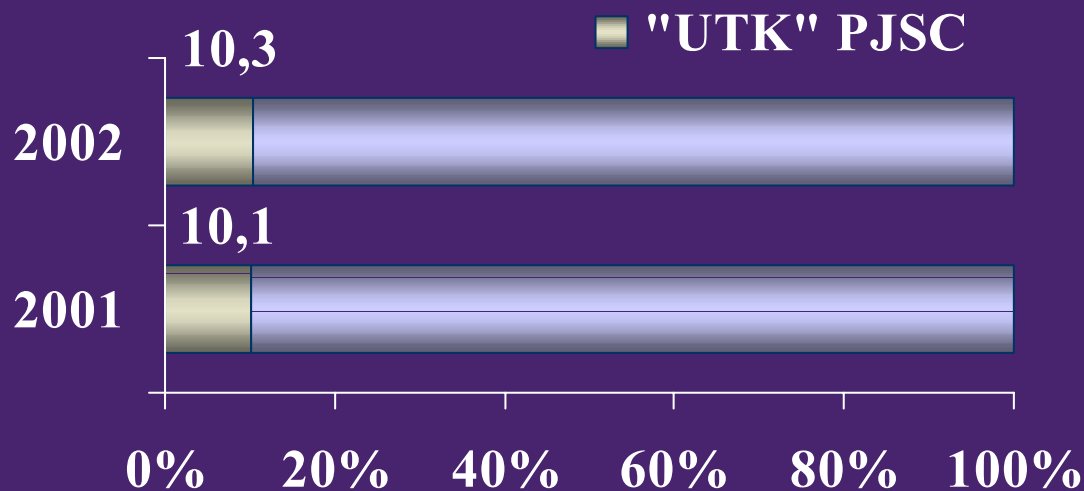
Position of the Company in the telecommunications sector

Position of the Company in the telecommunications sector



In 2002 the telecom market of the Southern Federal District amounted to RUR 22.6 bln.

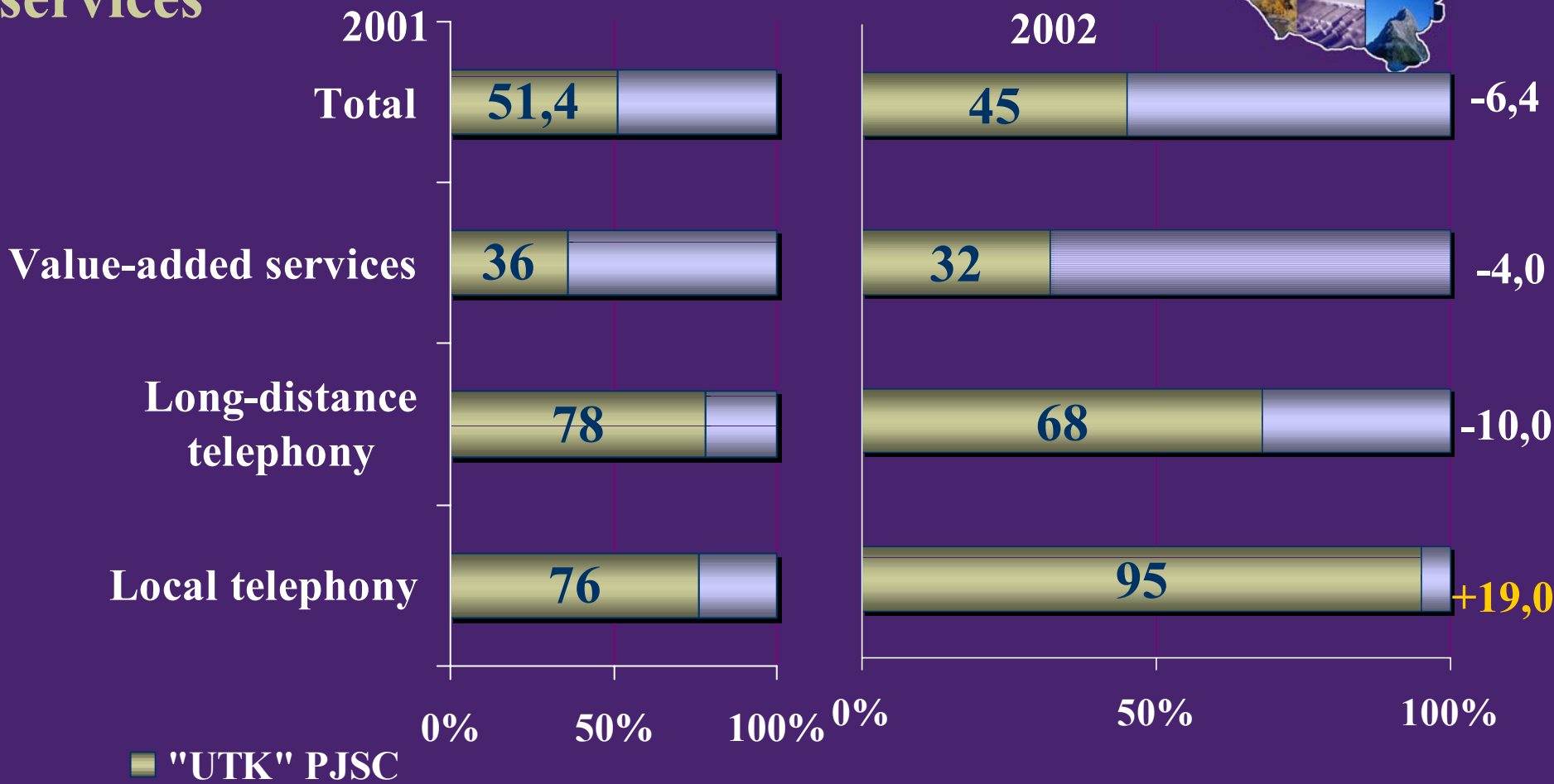
"UTK" PJSC revenue share in "Svyazinvest" OJSC revenue structure



Position of the Company in the telecommunications sector



UTK PJSC share in the telecom market of the Southern Federal District by kinds of services

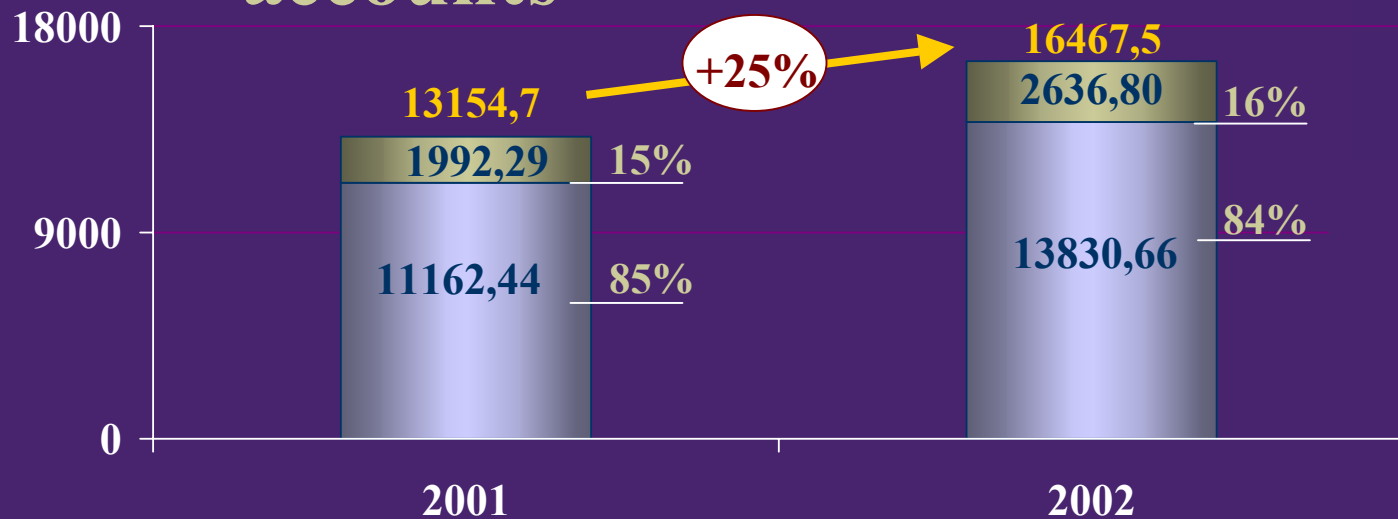


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Structure and dynamics of balance sheet

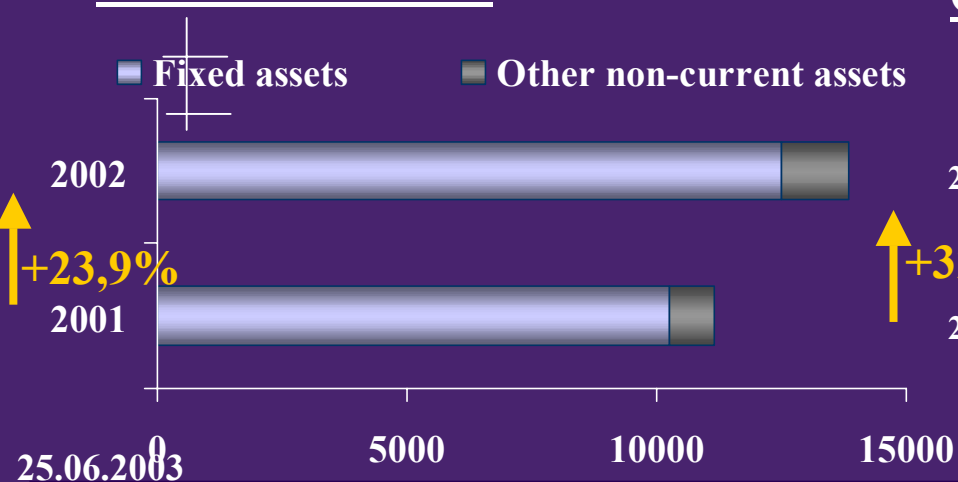
RUR ths **accounts**



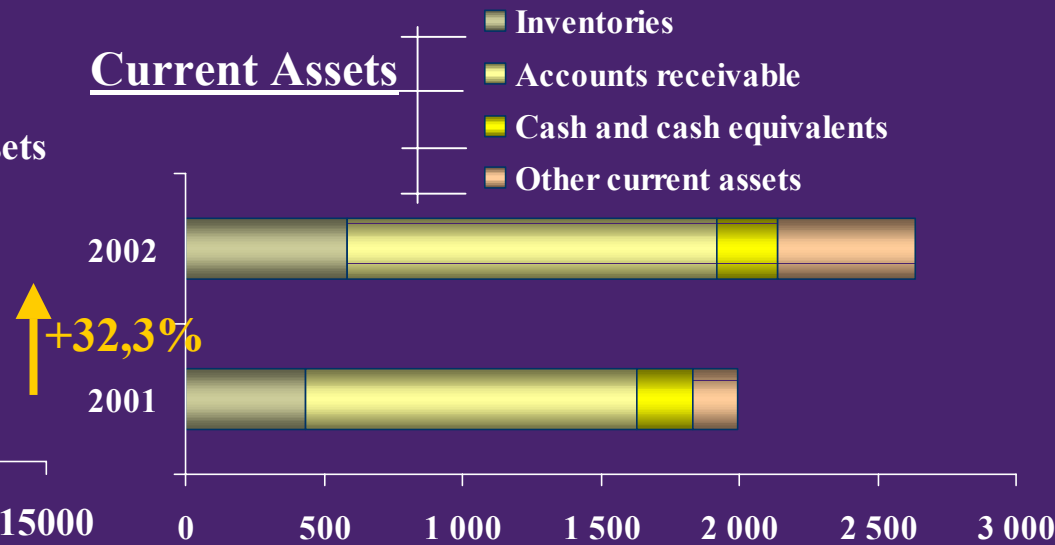
Assets

- Current assets
- Non-current assets

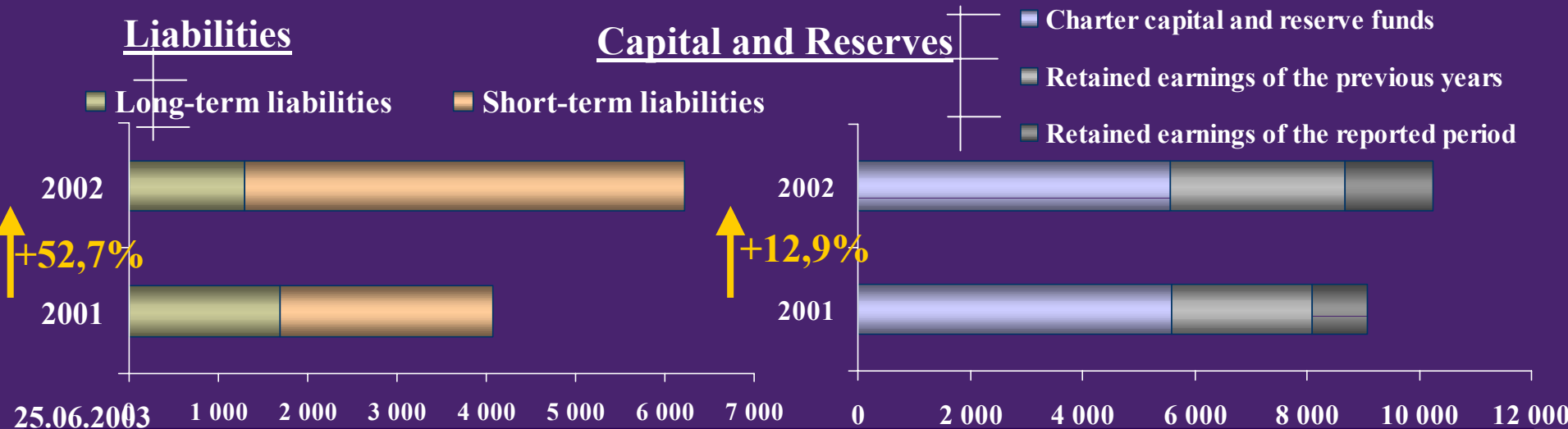
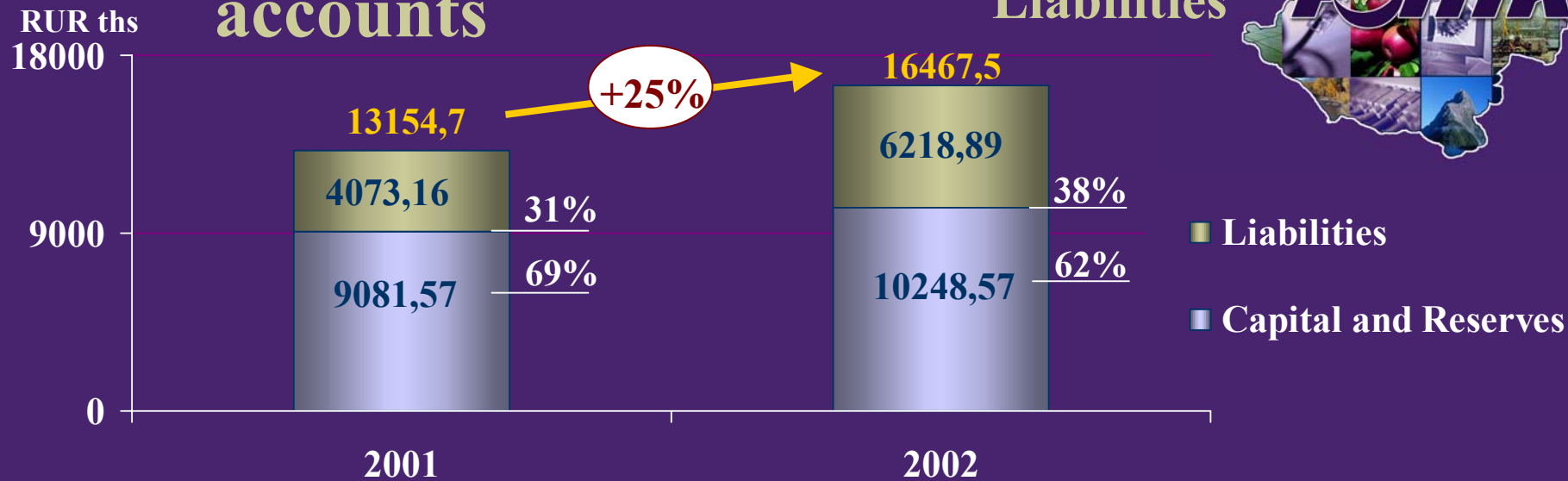
Non-current Assets



Current Assets

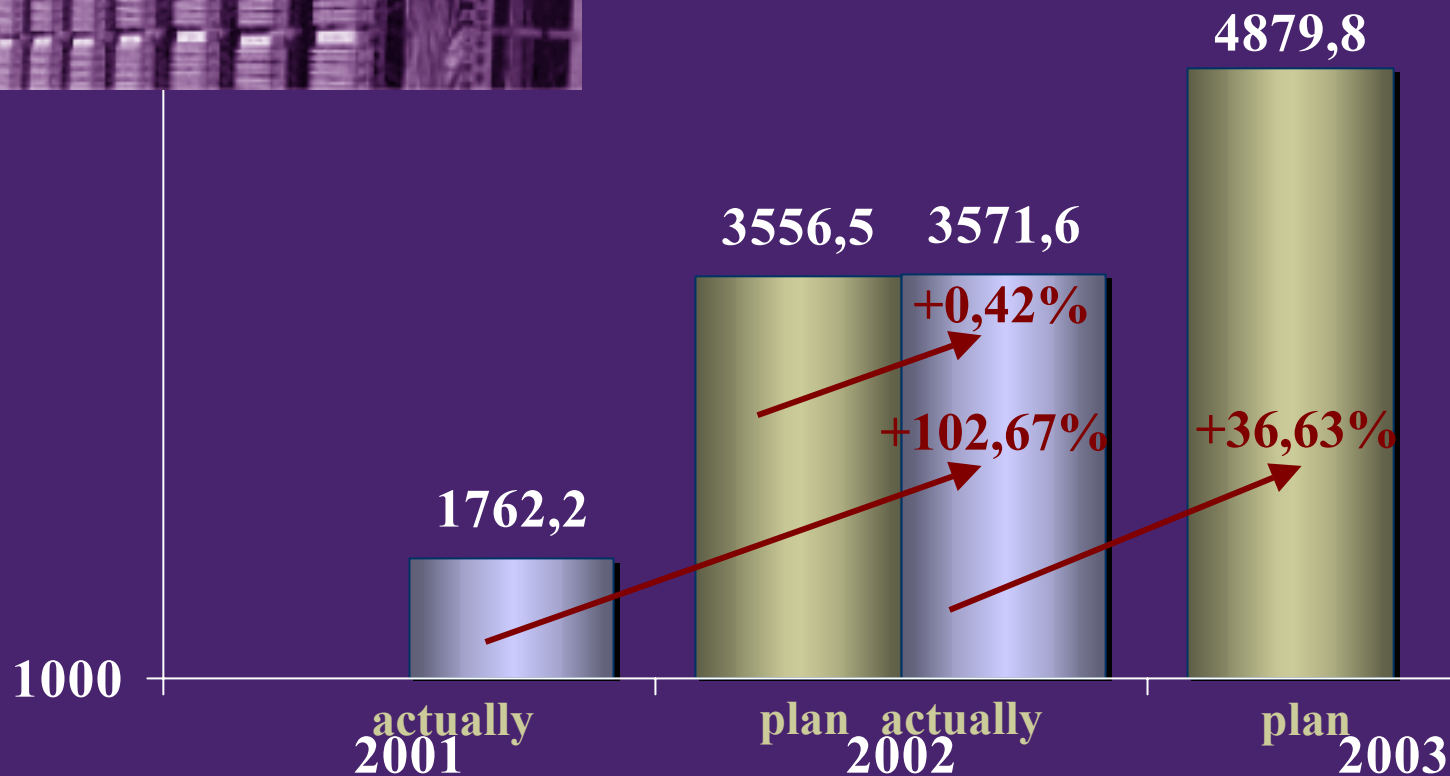


Structure and dynamics of balance sheet accounts



The Company's operating results

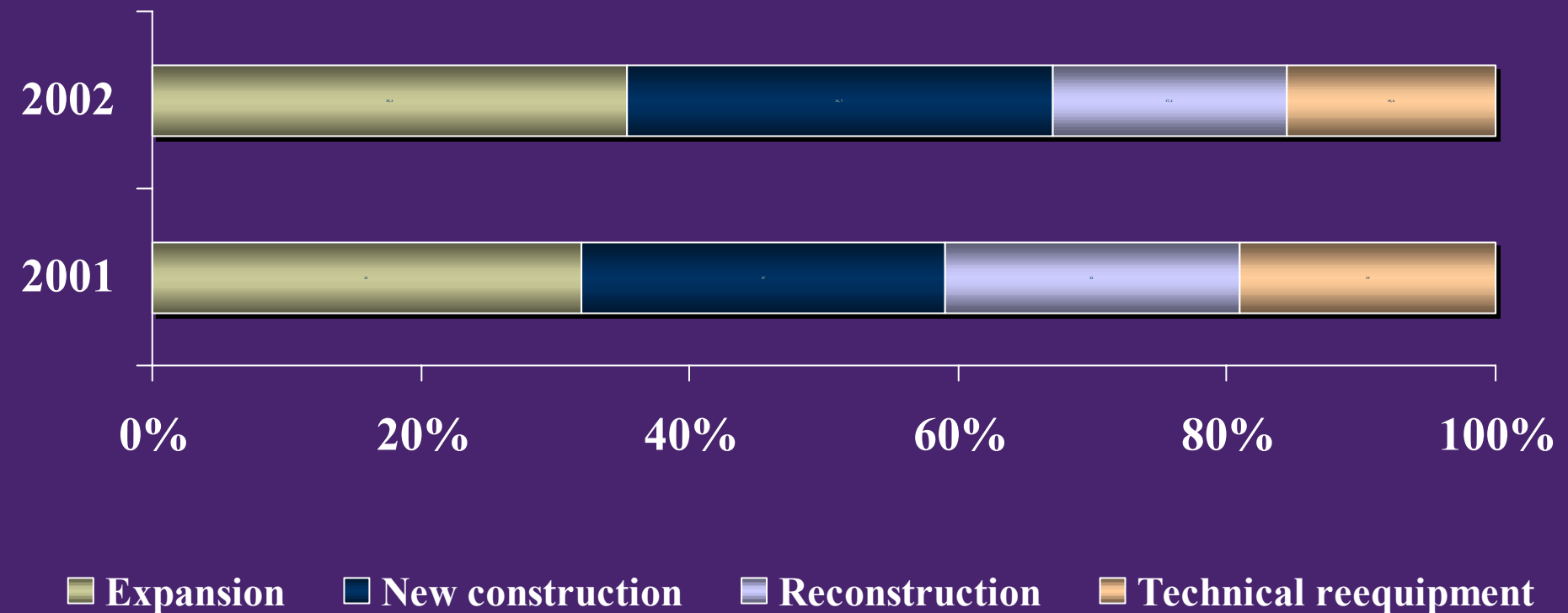
Capital investments, RUR mln



Capital expenditures for the year 2002



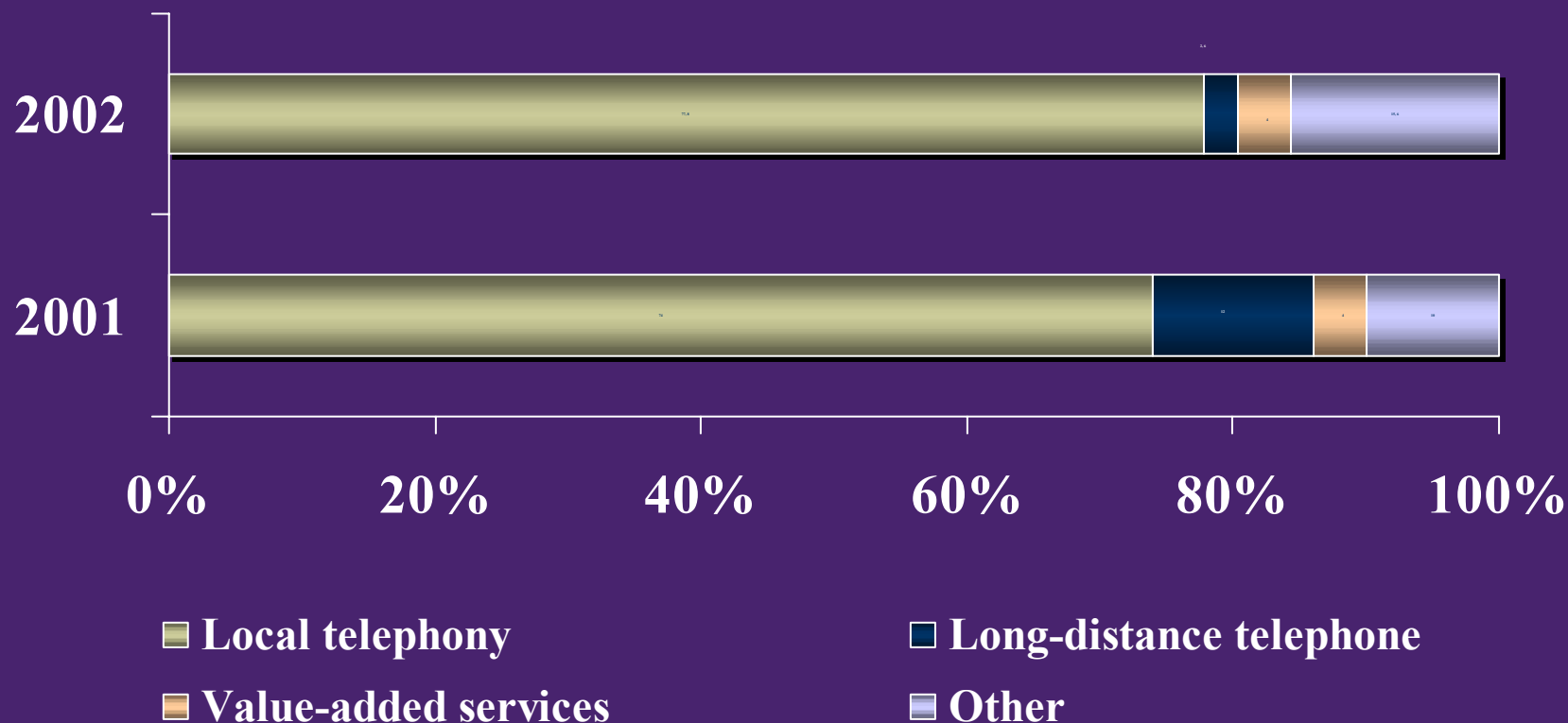
Capex breakdown in terms of project types



The Company's operating results



Capex breakdown in terms of kinds of services

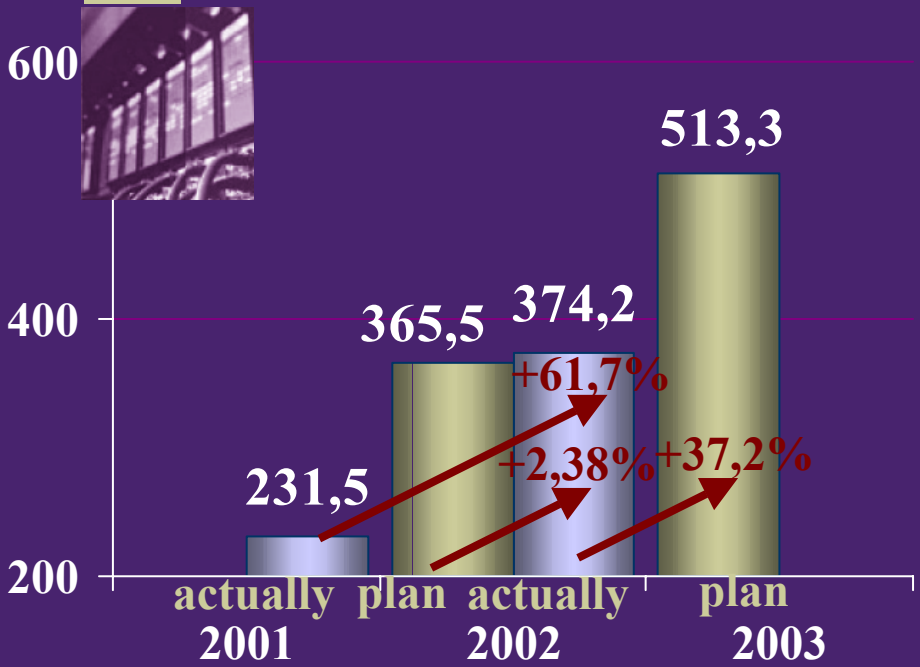


The Company's operating results

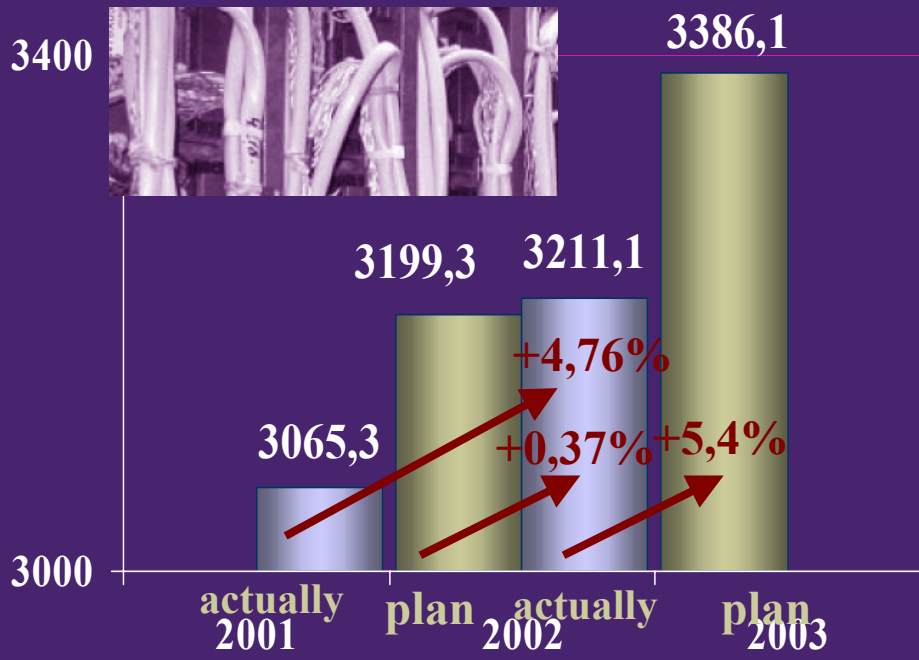


Capital investments

Number capacity put into service, ths
№№



Average number of lines, ths lines



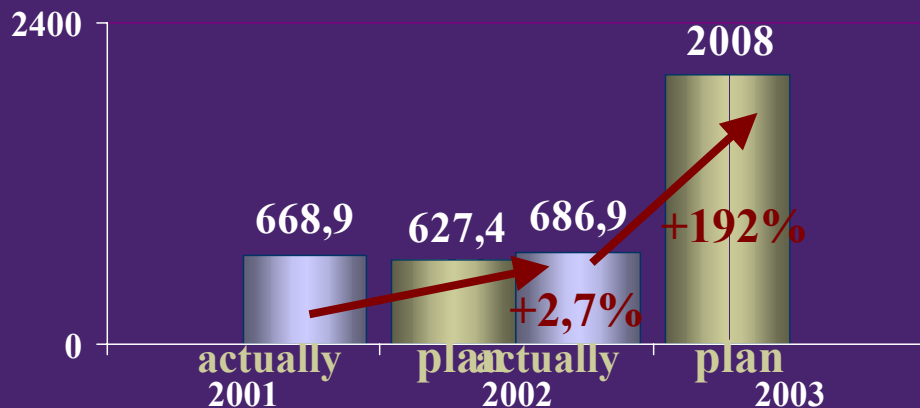
Production capacity

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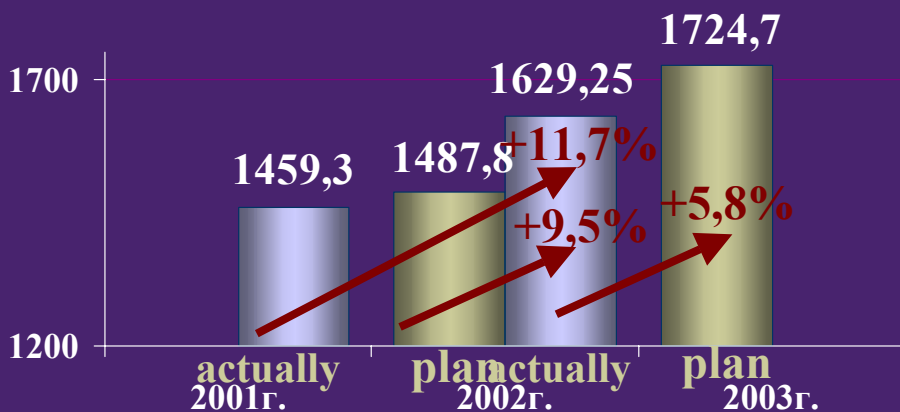
Main indices of network development



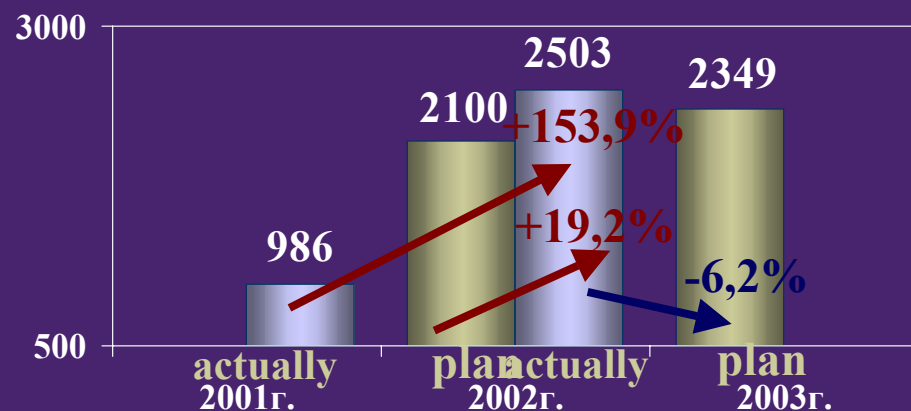
Growth of the length of fiber-optic communication lines, ths km



Growth of the length of long-distance telephone channels, ths channel/km.



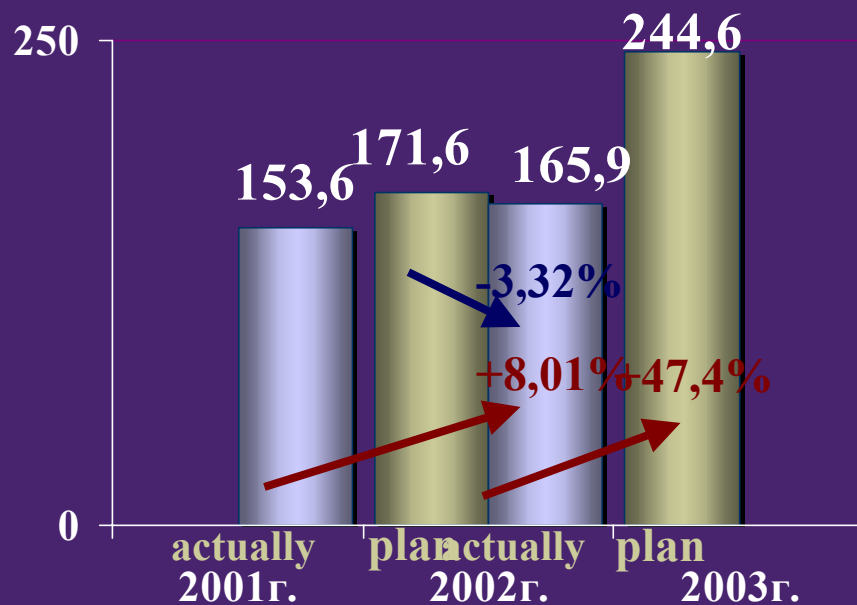
Increase in the number of outgoing automatic long-distance channels, channels



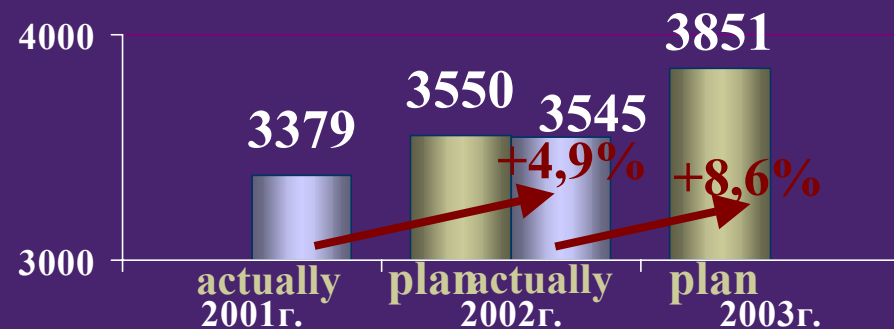


Main indices of network development

Increase in the number of basic telephones, ths sets

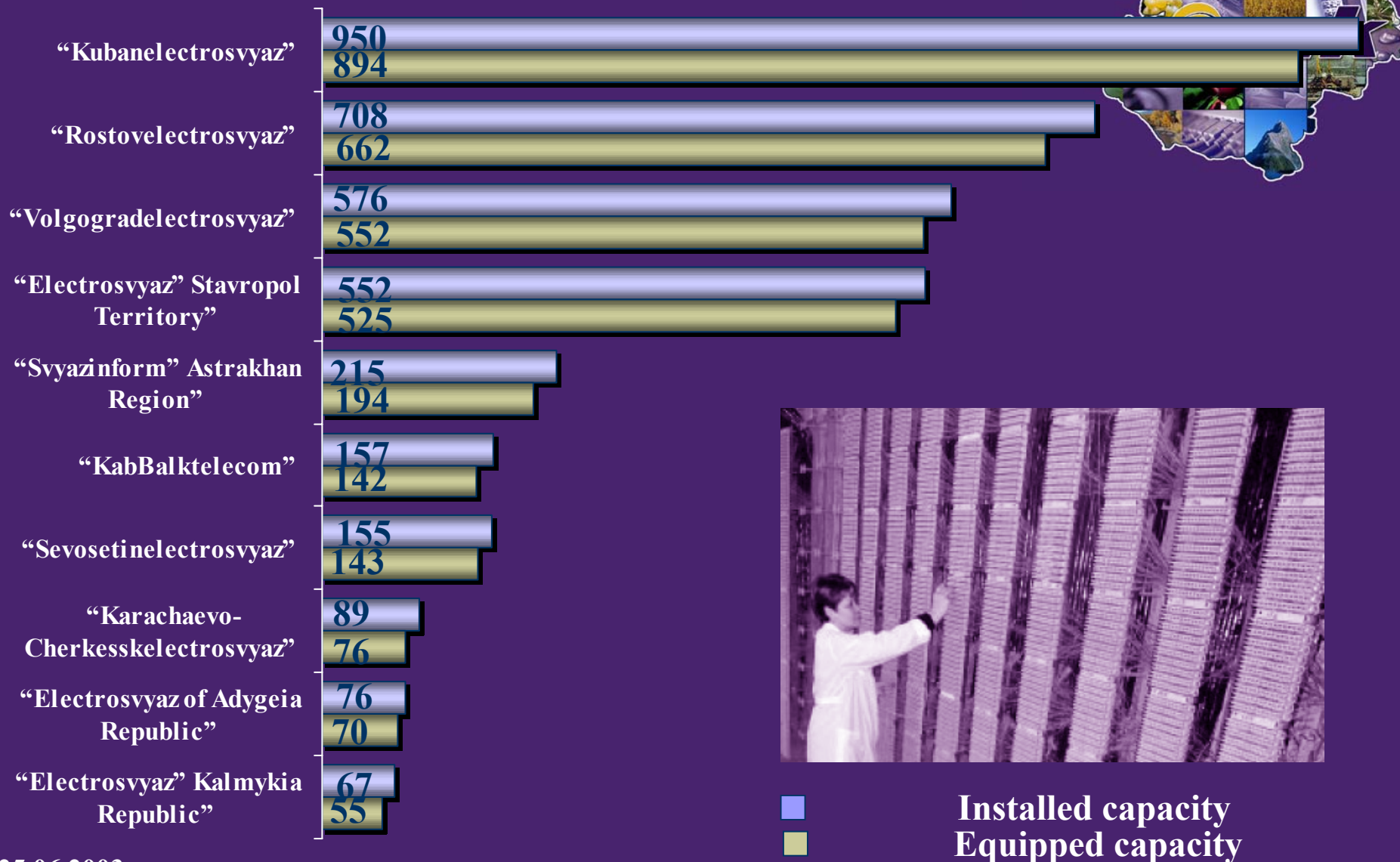


Installed capacity, ths lines



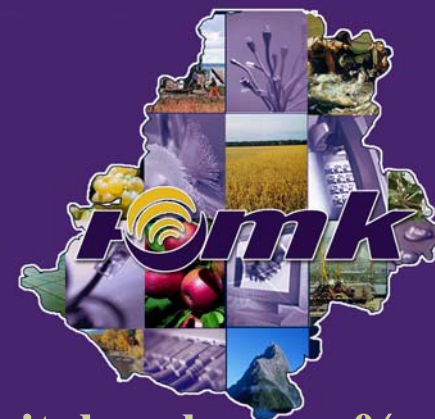
The Company's operating results

Installed capacity, ths №№

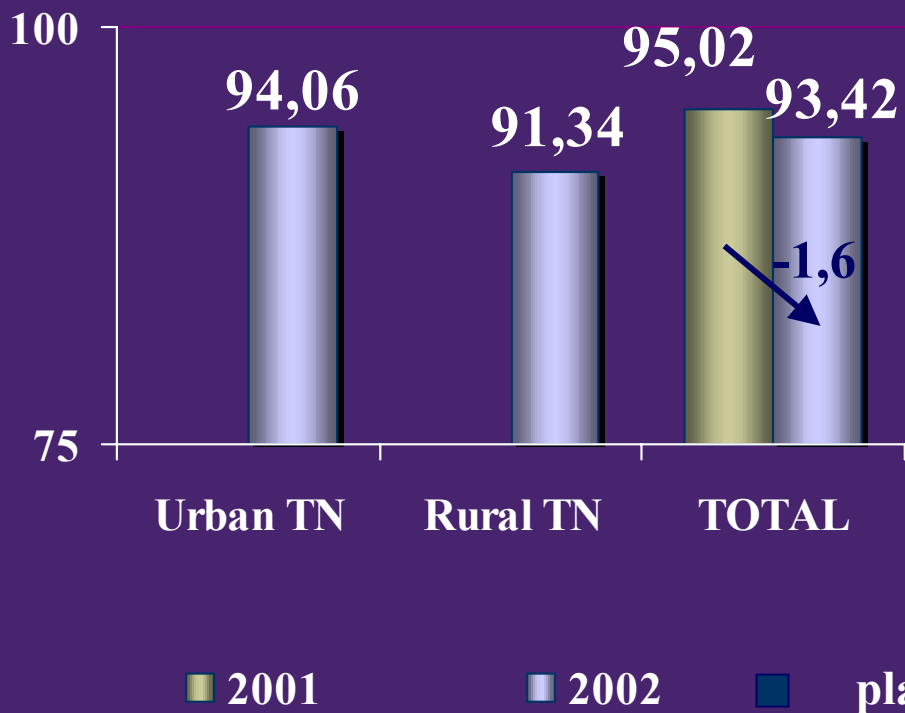


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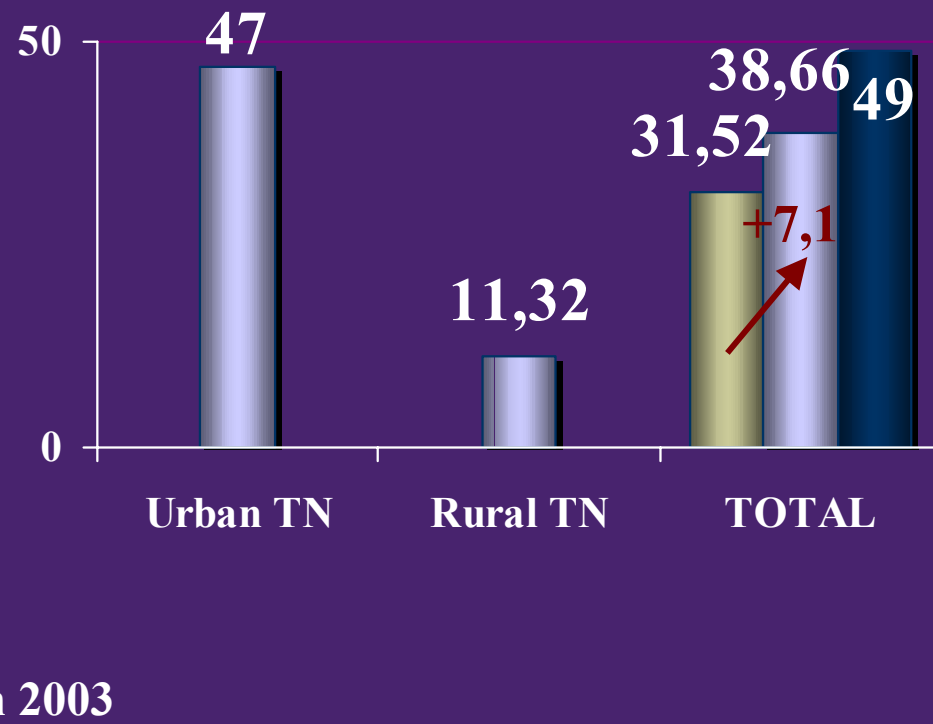
Main indices of network development



Equipped capacity level, %.

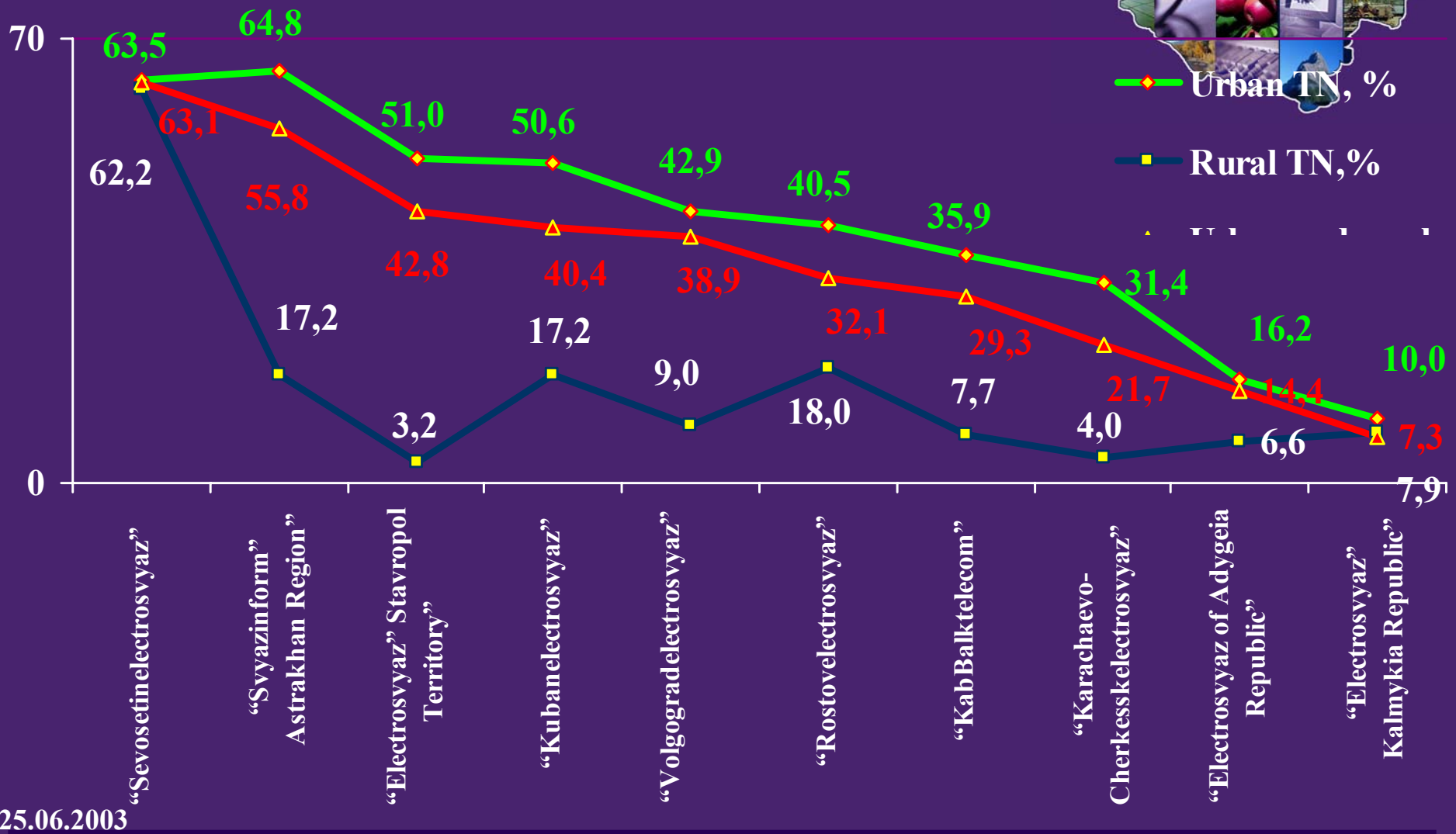


Specific weight of digital exchanges, %.



The Company's operating results

Digitization rate of "UTK" PJSC branches' networks according to 2002 results

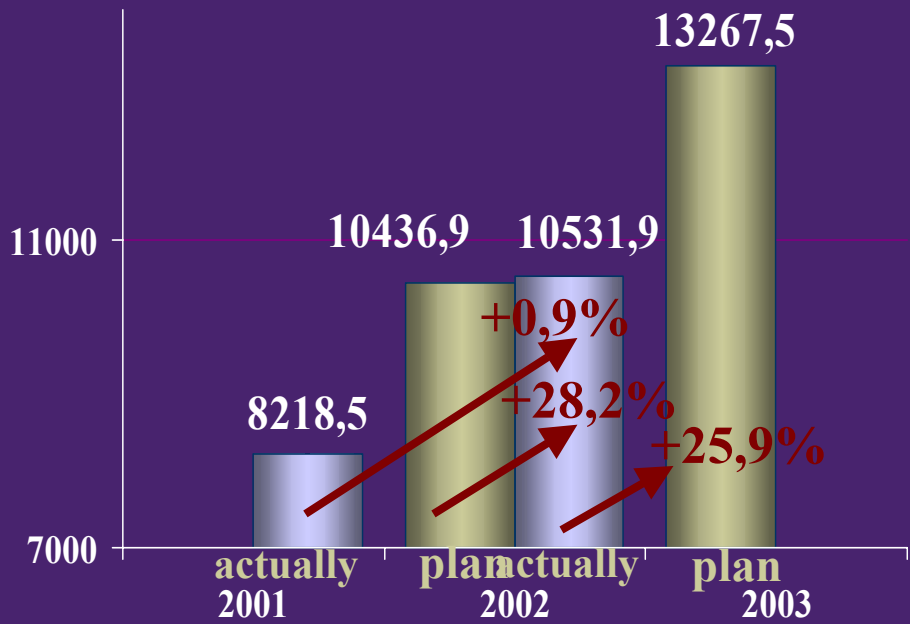


The Company's operating results

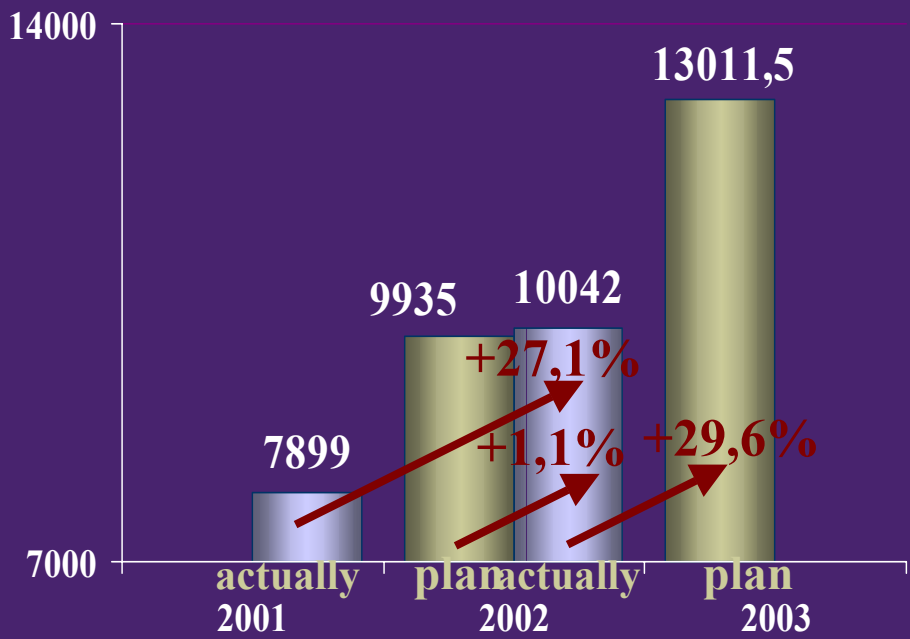


Main 2002 performance results

Revenue, RUR mln



Revenue from telecom services, RUR mln



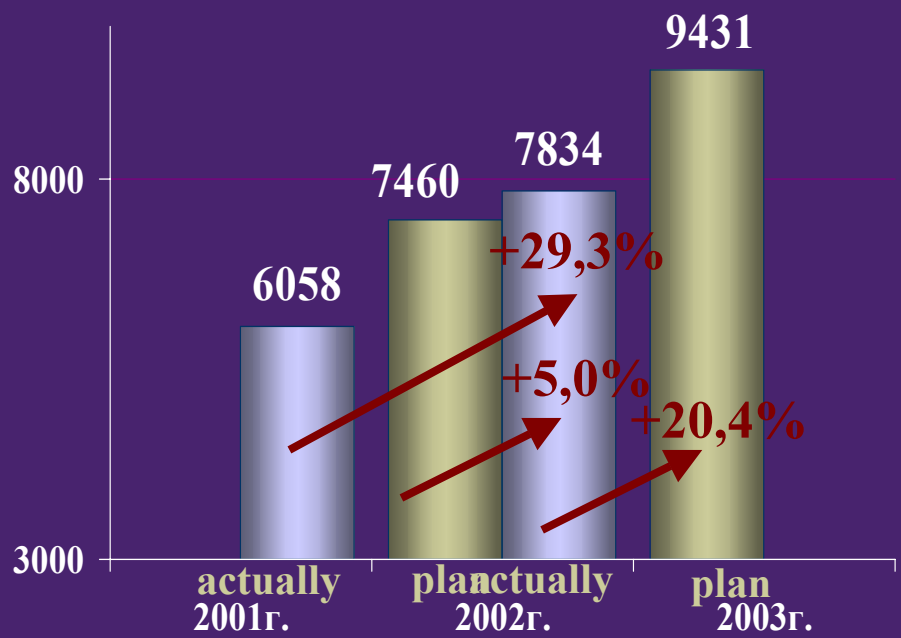
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The Company's operating results

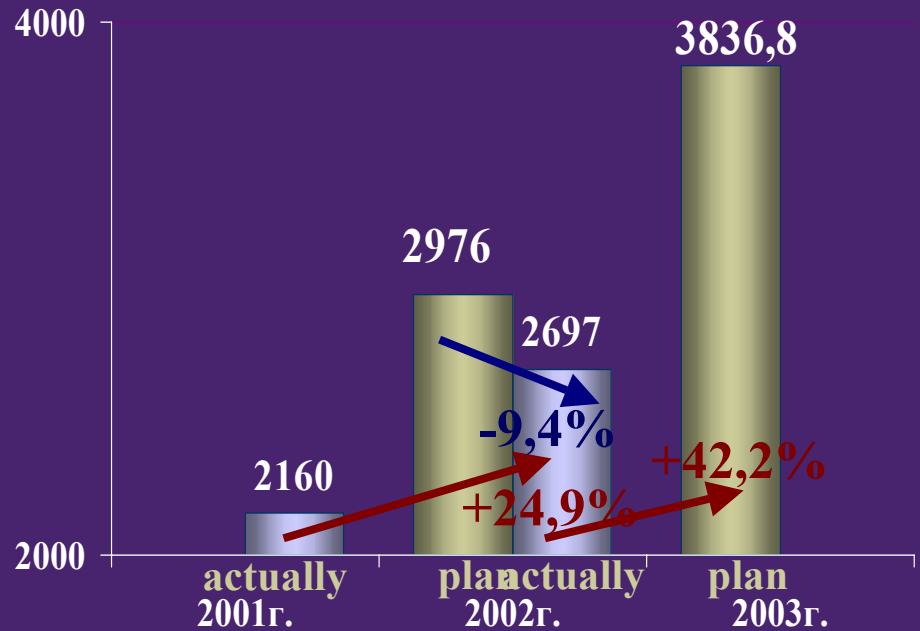


Main 2002 performance results

Costs, RUR mln



Operating profit, RUR mln



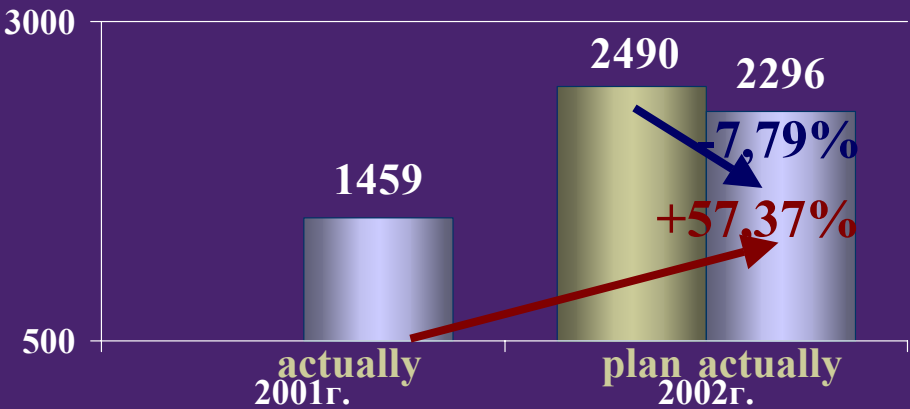
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The Company's operating results

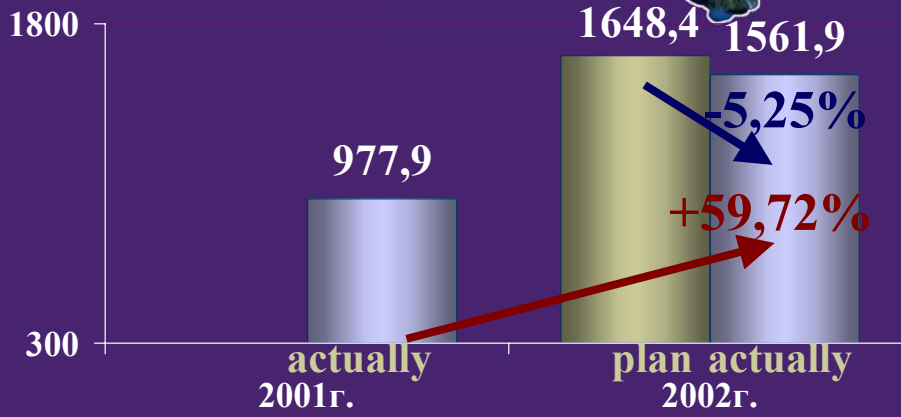


Main 2002 performance results

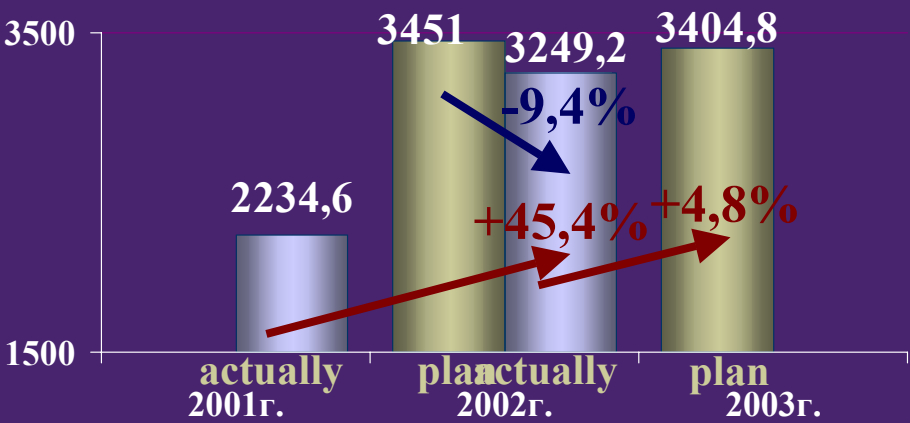
Pre-tax balance sheet profit, RUR mln



Net profit, RUR mln



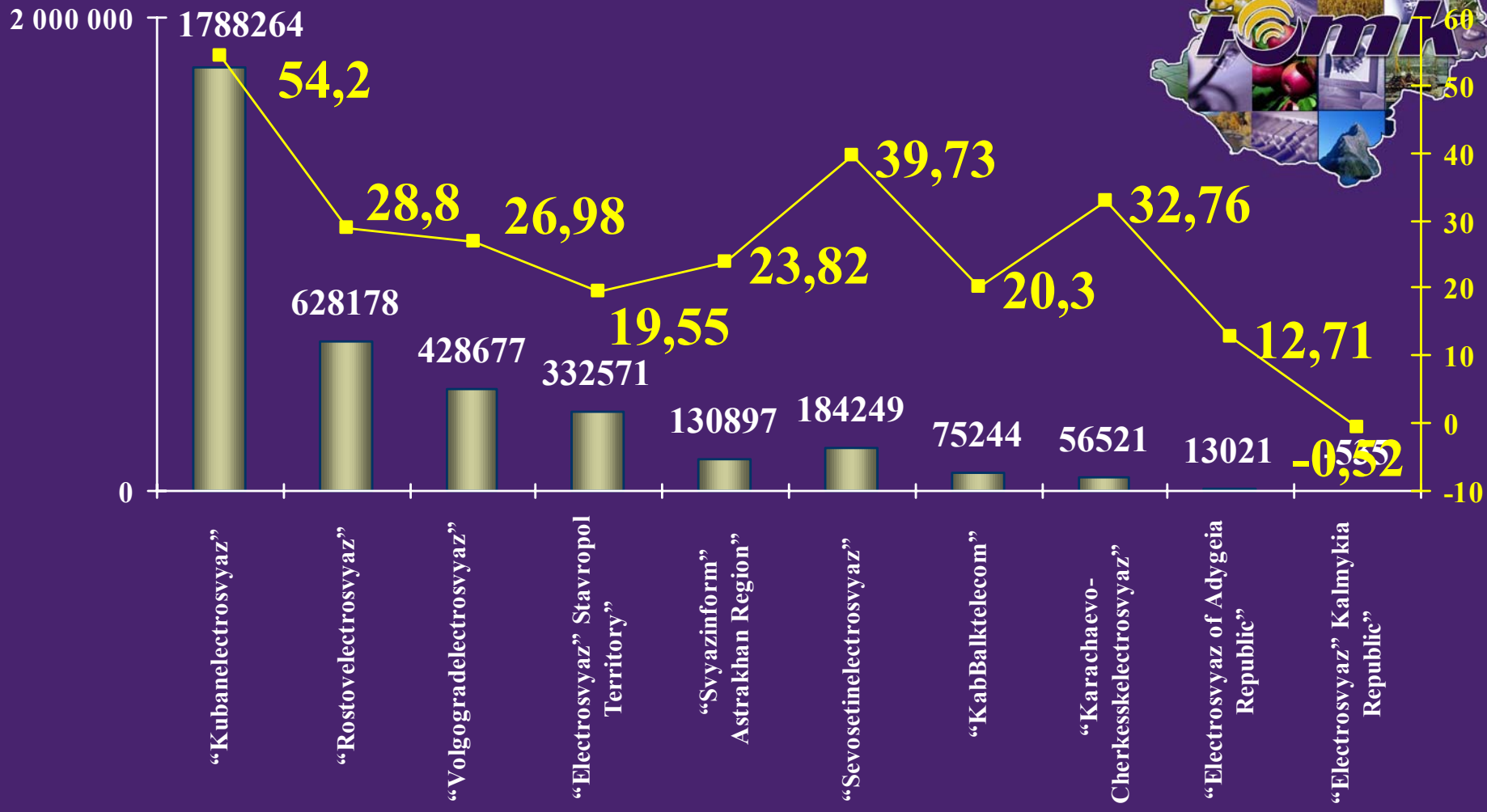
EBITDA, RUR mln



Return on equities according to 2002 performance results amounted to 0.4639 ruble per share.

The Company's operating results

Main 2002 performance results



EBITDA ACTUALLY 2002, RUR ths
 EBITDA margin ACTUALLY 2002, %

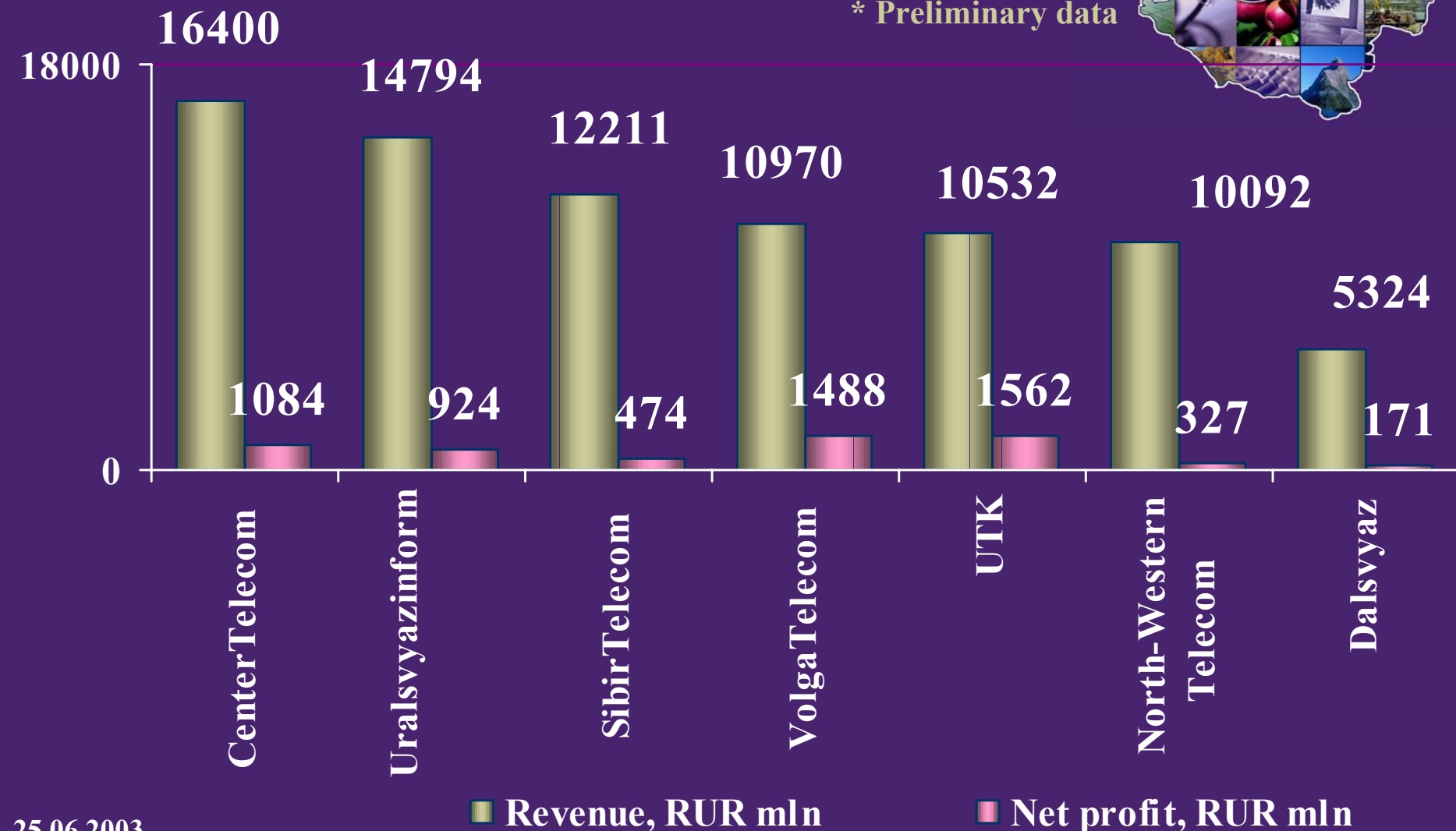
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The Company's operating results

Main 2002 performance results

Source: data reported by the companies

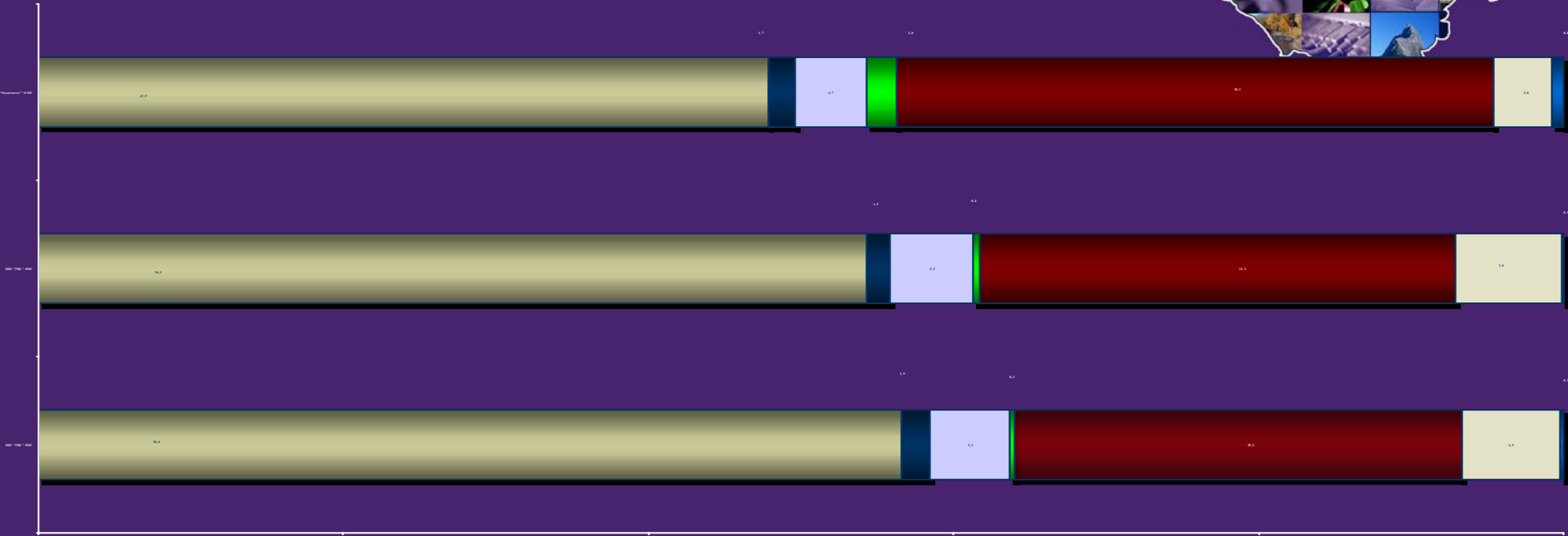
* Preliminary data



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“UTK” PJSC revenue structure by types of telecom services



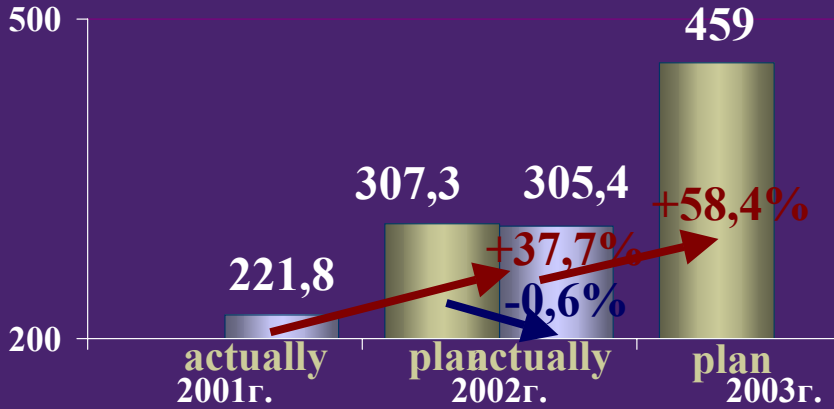
- Domestic and international long-distance telephony
- Wired radio
- Document communication+Value-added services
- Wireless radio communication
- Urban telephony
- Rural telephony
- Radio communication, TV and radio broadcasting

The Company's operating results

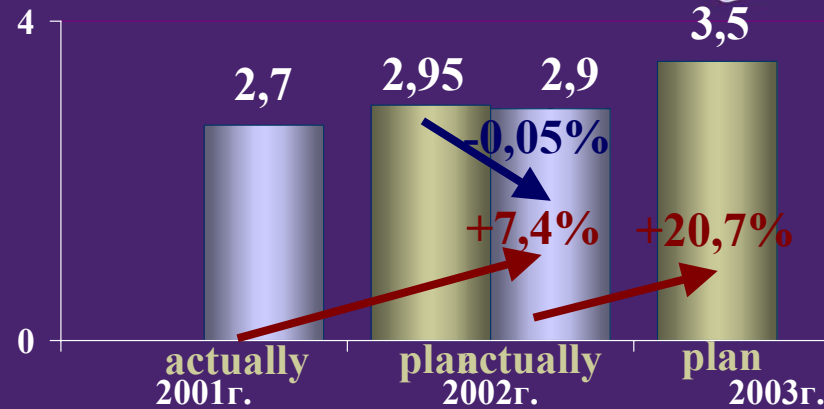


“UTK” PJSC revenues from value-added services

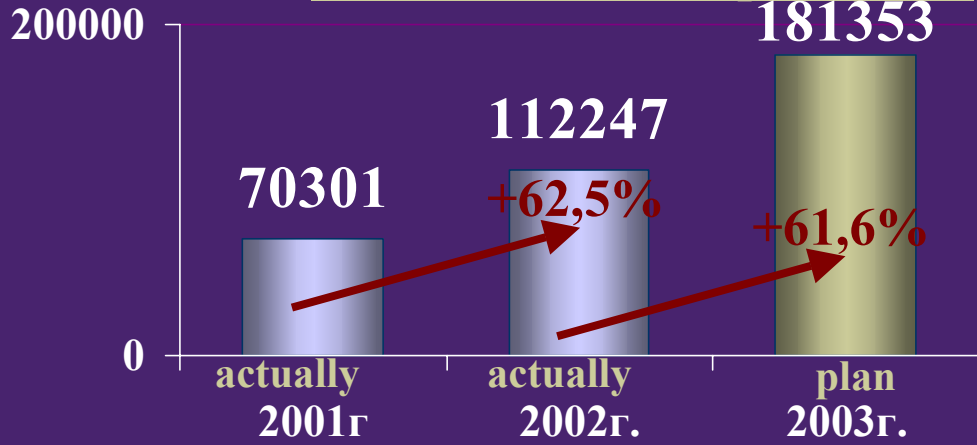
Revenues from value-added services, RUR mln



Share of value-added services, %.

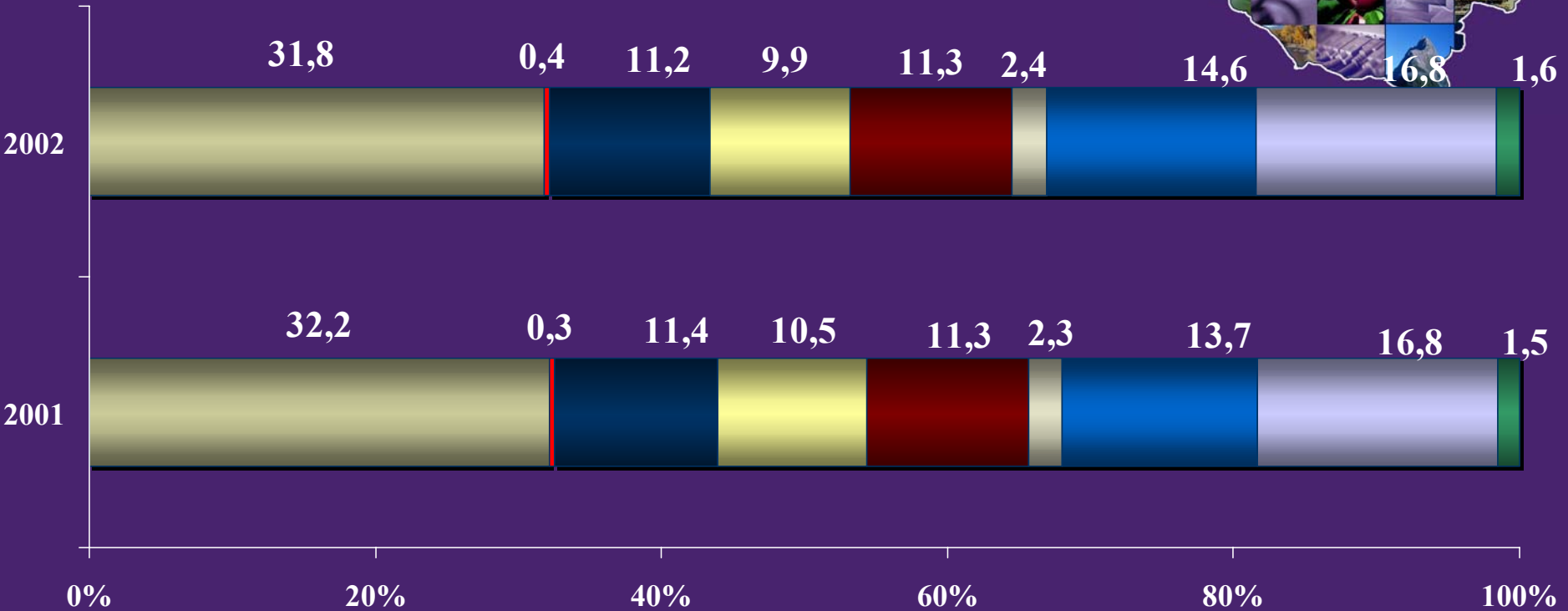


Provided traffic capacity, Gb



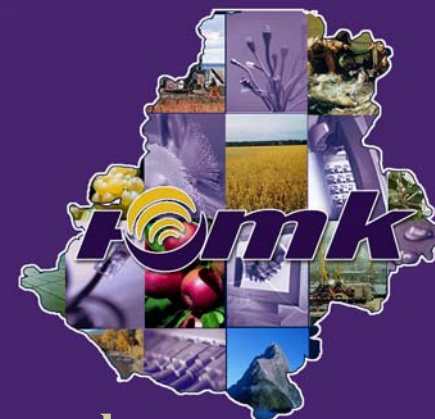
The Company's operating results

2002 operating costs structure



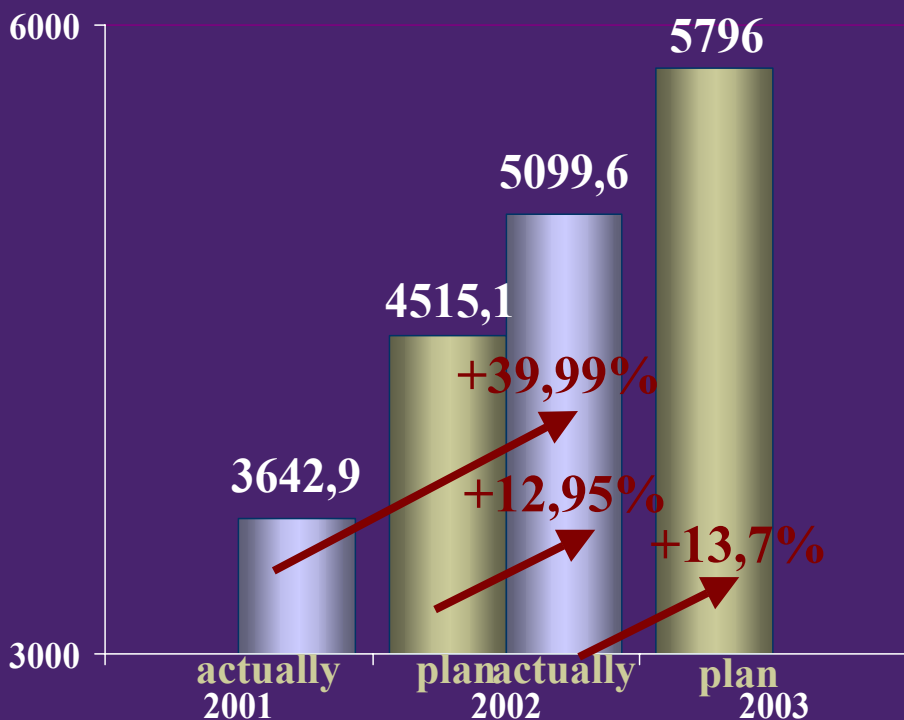
- Wages and salaries
- Payments to "Gossvyaznadzor"
- Social expenses
- Depreciation
- Material expenses
- Electricity charges
- Payments to "Rostelecom"
- Other costs
- Taxes

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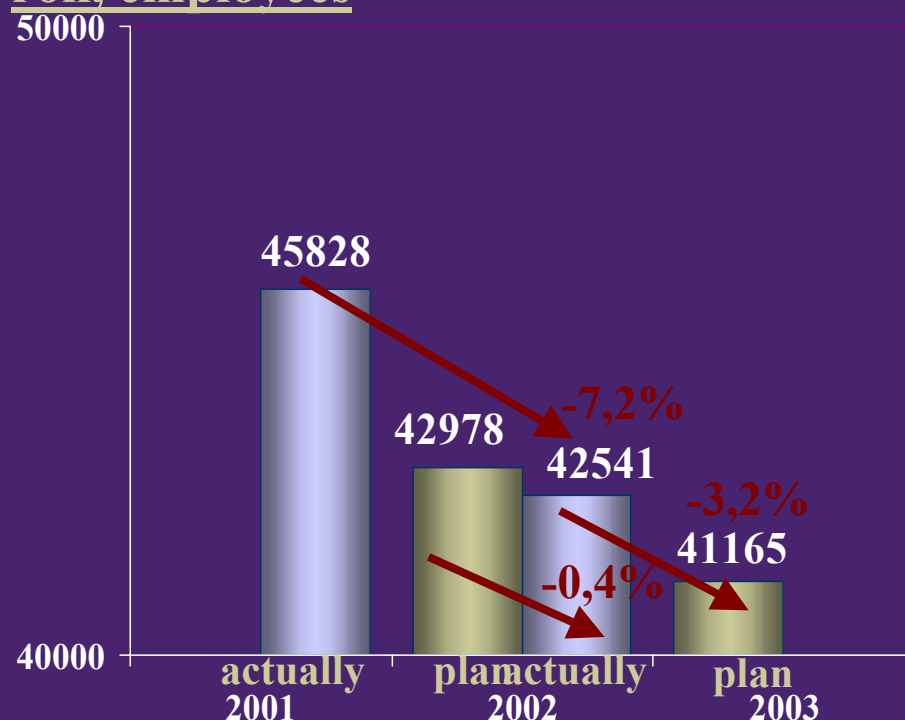


Labour and salary, improvement of management structure

Average salary, RUR



Average number of employees on payroll, employees

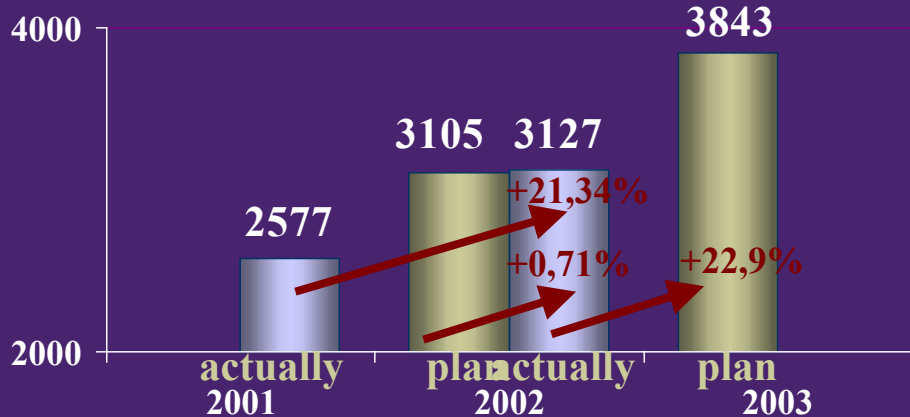


The Company's operating results

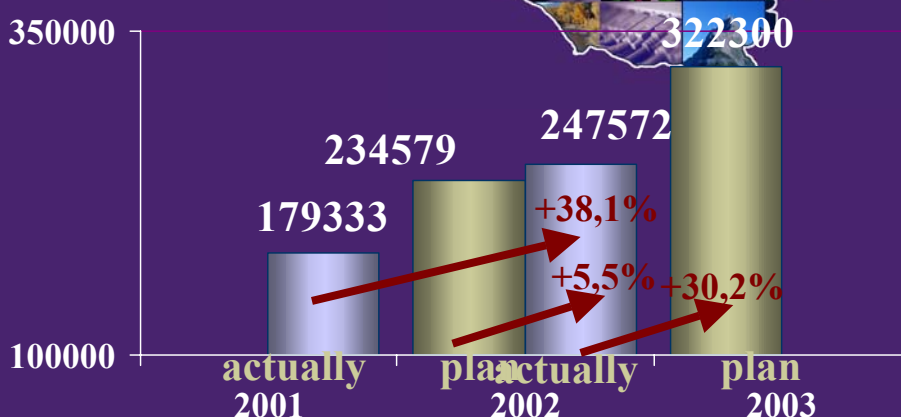


Main indices of business efficiency

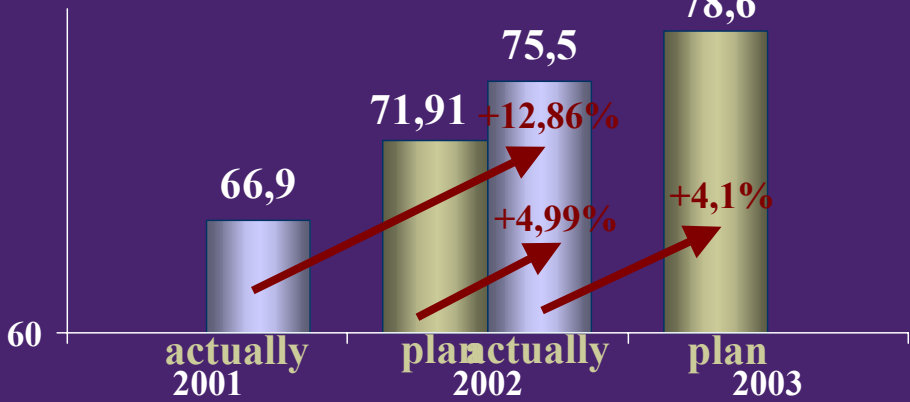
Tariff revenue per 1 line, RUR



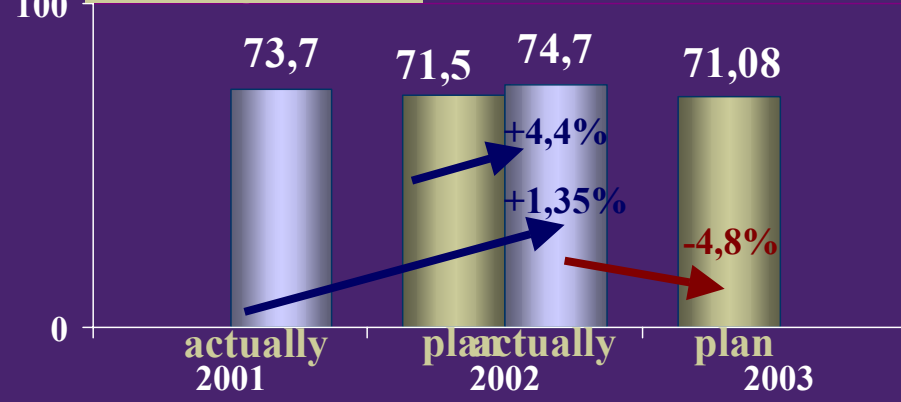
Earnings per 1 employee, RUR



Number of lines per 1 employee, lines



Cost price of 100 rubles of earnings, RUR



The Company's operating results

The Company's net assets



	As at 01.01.2002	As at 01.01.2003
1. Net assets (RUR ths)	9 252 123	10 419 727
2. Authorized capital (RUR ths)	1 297 779	1 297 779
3. Reserve fund (RUR ths)	47 260	63 200
4. Net assets/authorized capital ratio (line.1/line.2) (%)	712,9	802,9
5. Net assets/sum of authorized capital and reserve fund ratio (line.1/(line.2+line.3)) (%)	687,9	765,6

+1 167 RUR mln

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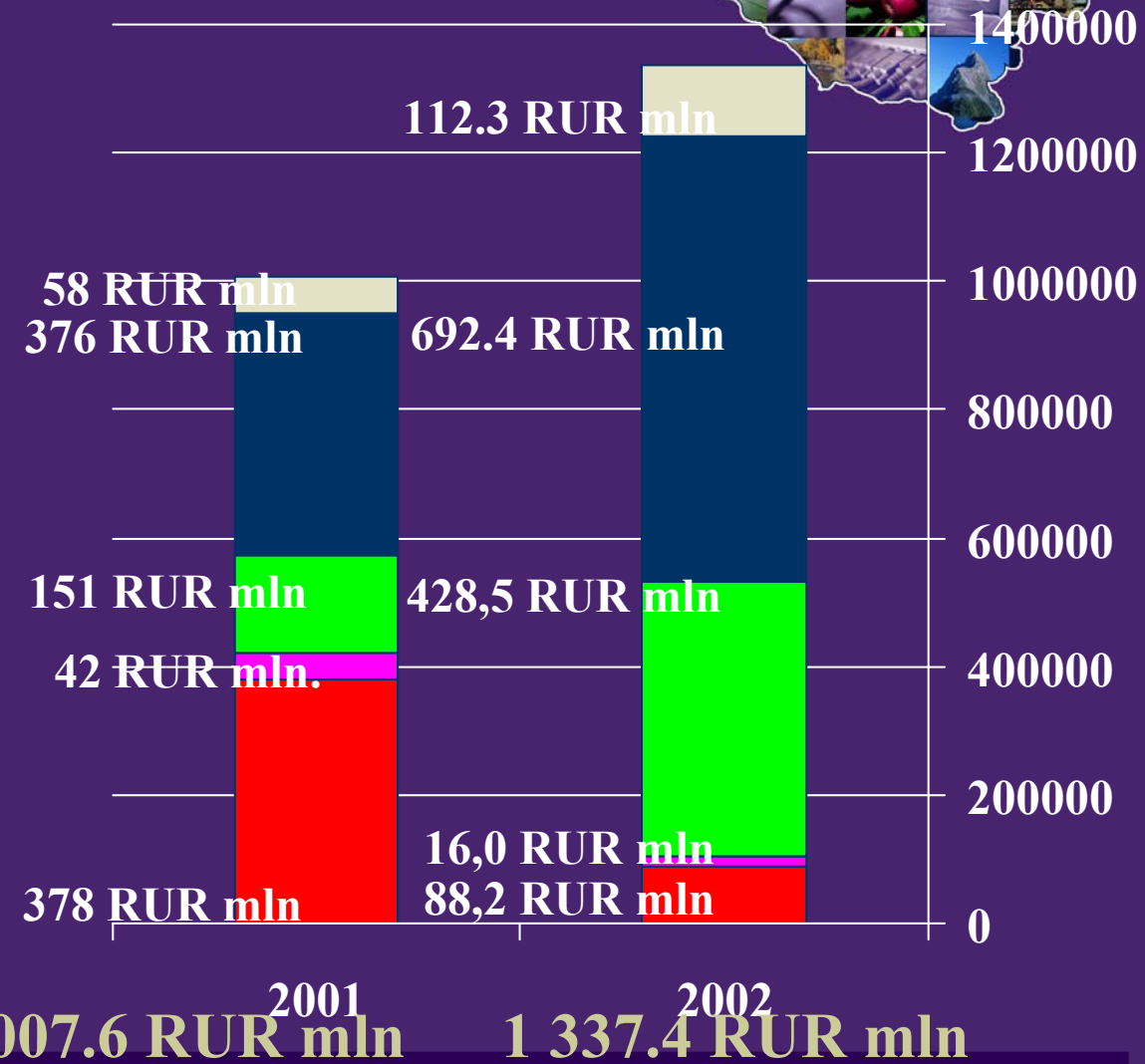
Annual General Shareholders' Meeting of "UTK" PJSC

Distribution of the Company's retained earnings

Main directions of retained earnings allocation



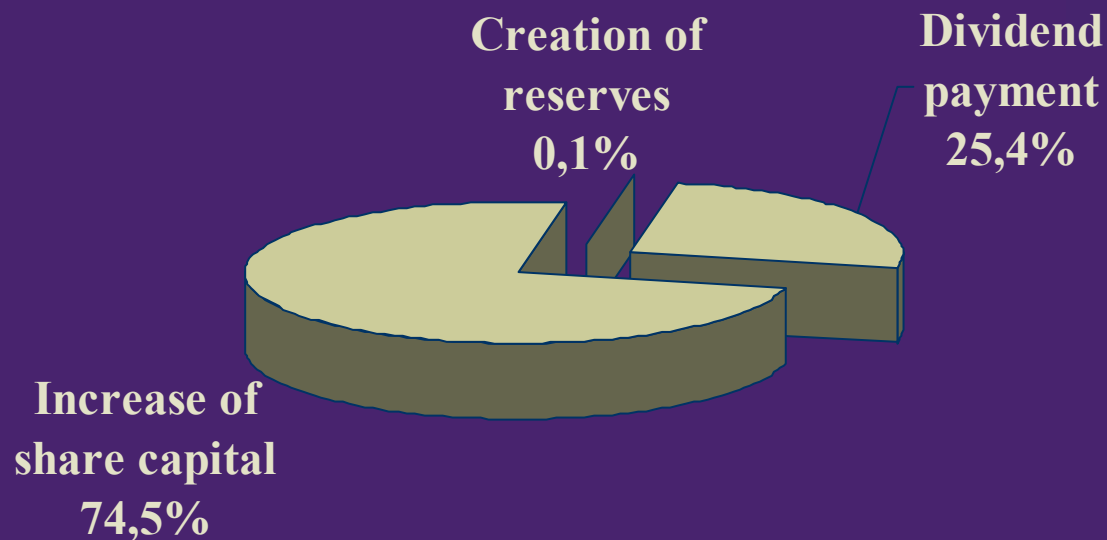
- Covering losses of the past years
- Capital investments
- Dividend payments
- Creation of reserves
- Balance of retained earnings



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Distribution of the Company's retained earnings

Planned directions of retained earnings distribution in 2003



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Auditor's conclusion of "ERNST AND YOUNG VNESHAUDIT" CJSC on the statutory accounting reports of "UTK" PJSC for the year 2002

«In our opinion, in 2002 accounting procedures in respect to preparation of the statutory accounting reports of "Southern Telecommunications Company" PJSC, defined by the words "as at the end of the reported period taking into consideration indices of the merged companies" and "For the reported period", meet the requirements of the Federal Law No 129-FZ as of 21 November 1996 «On Accounting», **and the above mentioned statutory accounting reports are trustworthy and present, in all material respects, the financial situation of "Southern Telecommunications Company" PJSC as of 31 December 2002 and its financial and economic results for the period from 1 January to 31 December 2002 inclusive**».

“Without making reservation in our report we would like to pay your attention to the section 4 “Analysis and assessment of the balance structure” of the Explanatory notes describing surplus of short-term liabilities over the current assets of "Southern Telecommunications Company" PJSC amounting to RUR 2 284 768 ths as of December 31, 2002, as well as plans of the management in relation to this working capital shortage”.

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In the opinion of the members of the Auditing Commission statutory accounting reports of “Southern Telecommunications Company” PJSC are prepared in the way to present, in all material respects, the assets and liabilities of "Southern Telecommunications Company" PJSC as of 31 December 2002 and its financial results for the year 2002 in accordance with the normative documents of the Ministry of Finance of the Russian Federation (Orders № 34n of 29.07.98, № 43n of 06.07.99, № 60n of 28.06.2000, Amended and Restated)».

The Company's budget for 2003



Description	Measure unit	Actually 2002	Plan 2003	On year change, %
Increase in number of basic telephone sets	Sets	165 894	244 596	147,4
Length of long-distance telephone channels	Ths ch/km	1523,2	1724,7	113,2
Average number of lines	lines	3 211 138,2	3 386 116,2	105,4
Sales revenue	Ths RUR	10 531 981	13 267 469,0	125,9
Revenues from value-added services	Ths RUR	305 788	459 045	150,1
Pre-tax profit	Ths RUR	2 296 636	1 861 204	81,0
Earnings per 1 line	RUR	3279,8	3918,0	119,5
Pre-tax profit per 1 line	RUR	715,21	549,66	76,9
Earnings per 1 employee	RUR	245 572,2	322 300,0	130,2
Pre-tax profit per 1 employee	RUR	53 986,0	45 213,0	83,7
Number of lines per 1 employee	Lines\emplo yee	75,5	78,61	104,1
Average number of employees on pay-roll	people	42 541	41 165	96,8
Average salary	RUR	5099,6	5796,4	113,7
Wages fund	Mln RUR	2 603,3	2 996,2	115,1
Volume of capital investments	Mln RUR	3 571,6	4 879,8	136,6
Number capacity put into operation	№.№	374 250	513 281	137,1

Priority trends of the Company's activity

Value-added services

Introduction of new technologies and services in conformity with the trends of telecom market development: by the end of this year the entire range of salable services will have become available in "UTK" PJSC licensed territory



Development of common data networks (multi-service networks) in the Southern Federal District:

in 2003-2004 – integration of network resources and creation of a single control center

Introduction of universal prepaid service cards:

in 2003 – the Krasnodar Territory, in 2005 – the licensed territory of the mega-regional entity

Technical implementation of interregional roaming of services for all "UTK" PJSC customers by the year 2004

Growth of value-added services' share in total revenue structure up to 12 percent in 2006



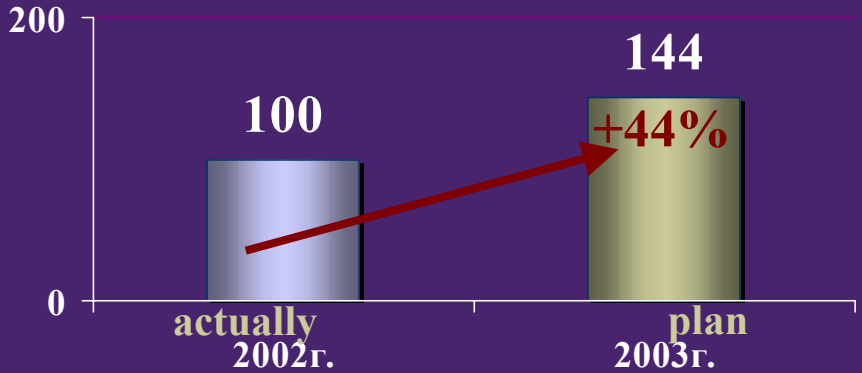
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Priority trends of the Company's activity

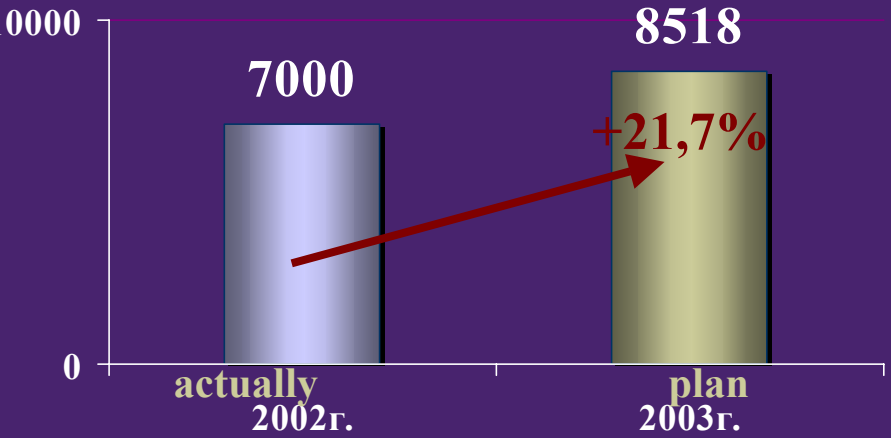
Capacity of "UTK" PJSC multi-service networks



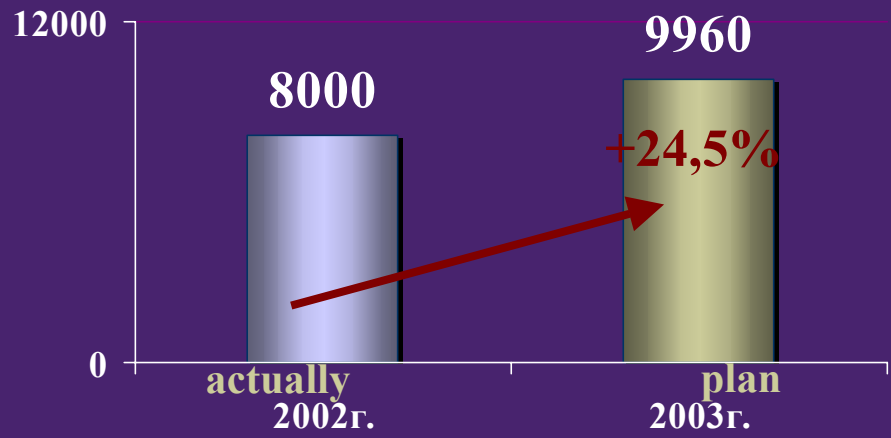
Number of upgraded nodes



Increase in number of assigned ports



Increase in number of Dial-up ports

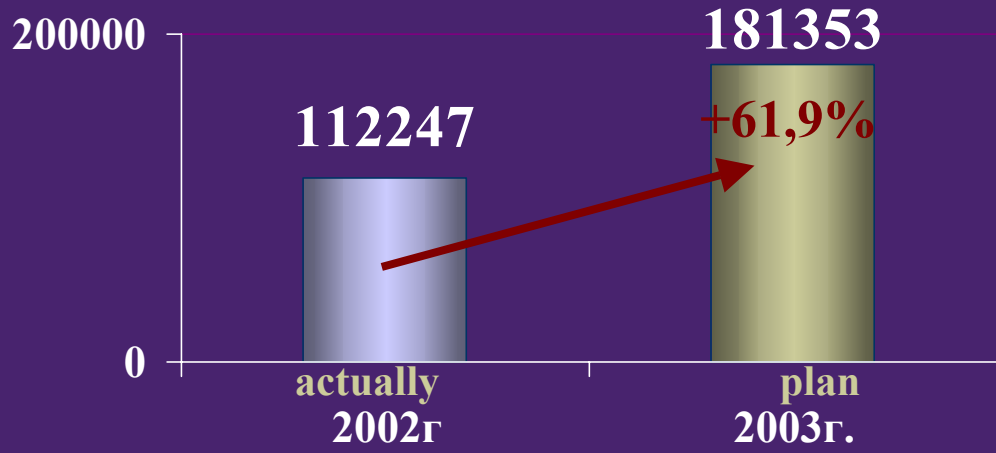


Priority trends of the Company's activity

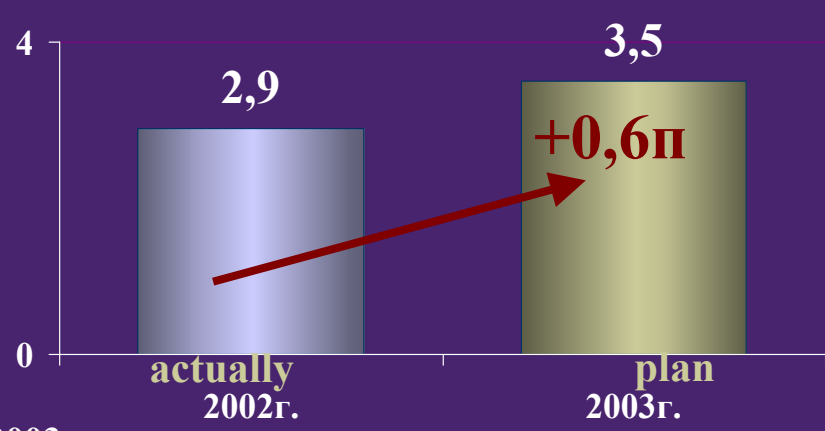
Value-added services



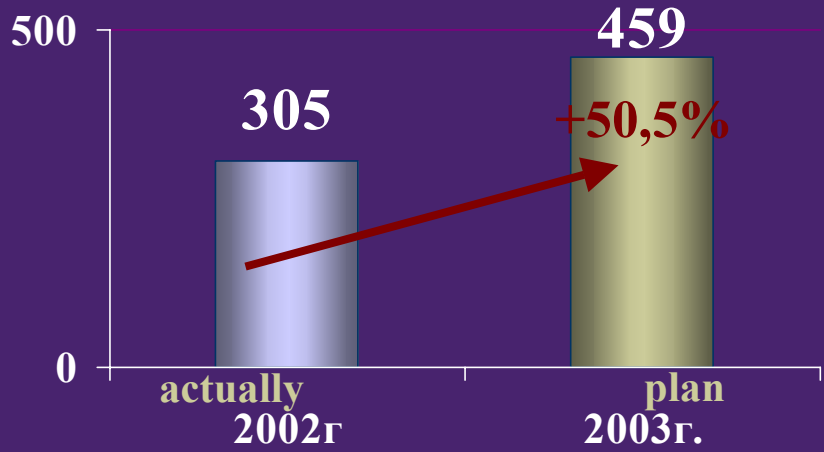
Provided traffic capacity, Gb



Share of VAS, %



Revenues from value-added services, RUR mln



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Strategic goals



- Annual increase of sales volume by no less than 20 percent and growth of the Company's capitalization per one line up to the average value for telecom operators of Eastern European countries by 2006
- Increasing the SFD telecom market share up to no less than 51 percent by the year 2006
- Technical reequipment and development of telecom networks at all levels, achieving digitization rate of 67 percent by 2006
- Developing digital primary networks and providing each region with a digital channel by 2006
- Creating common information area in the Southern Federal District and its integration with global information community
- Providing for realization of the federal Program "Electronic Russia"
- Executing the program of restructuring the merged telecom operators in all spheres till 2006
- Developing market-oriented economically feasible tariff policy on the basis of separate expense accounting of telecom services' production
- Annual increase of operating profit per one line and per one employee by no less than 18 percent at the expense of step-by-step reduction of operating costs during the process of technical reequipment
- Developing and approving the Code of corporate conduct in the current year
- Raising the level of provision with specialists with higher education up to 82 percent by 2006
- Introducing ERP by 2006
- Upgrading the Company's managerial effectiveness
- Improving the well-being of telecommunications workers

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Thank you for your time!

25.06.2003

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Annual General Shareholders' Meeting of "UTK" PJSC