

REPORT
of the Auditing Commission of Public Joint –Stock Company "Southern Telecommunications Company" on the results of the audit of business and financial activity of Public Joint –Stock Company "Southern Telecommunications Company" PJSC for the year 2005

April 28, 2006

Moscow

Pursuant to the Federal Law “On Joint –Stock Companies”, the Company’s Charter and the Provisions on the Auditing Commission , the Company’s Auditing Commission consisting of:

Kovalenko G.I. (Chairman)

Loshakov D. A.

Umnova E. V.

Chernikova T. A.

Charkovsky V.Y.

has performed an audit of the Company’s financial and business activity for the year 2005.

Pursuant to the decision of the Auditing Commission (Minutes 3 of 16.03.2006) the audit of the Company’s annual financial statements for the period from 1 January 2005 to 31 December 2005 was carried out from March 20 to April 18, 2006. Outsider specialist was engaged in the audit (Antropov L.V., chief specialist of the methodology section of Accounting Department of “Svyazinvest” OJSC).

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 rules of preparation of financial statements and annual report were estimated.

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

General information

Full registered name	Public Joint-Stock Company "Southern Telecommunications Company"
Abbreviated name	"UTK" PJSC
Seat	66, Karasunskaya St., Krasnodar, Krasnodar Territory, 350000
State registration	The Company was registered on 20 May 1994 by the Krasnodar City Registration Chamber, registration number – 186-p
Persons responsible for the Company’s financial and business operation during the period under audit:	General Director : Ivan Fyodorovich Ignatenko (till 01.02.2005), Martynenko N.V. (acting from 01.02.2005 till 03.03.2005), Romsky G.A. (from 03.03. 2005) Tatiana Viktorovna Rusinova– Chief Accountant
	General Shareholders’ Meeting is the Company’s supreme governing body. Board of Directors headed by Chairman acts as the Company’s supreme governing body during intervals between the Meetings. Management Board headed by General Director is “UTK” PJSC executive organ.

Key 2005 financial highlights

1. Revenue – 18,133 mln rubles
Including from telecom services – 17,873 mln rubles
2. Cost of sold goods, works and services – 13,952 mln rubles
Including cost of telecom services –13,795 mln rubles.
3. Operating profit – 4,181 mln rubles
4. Pre-tax profit – 719 mln rubles
5. Net profit – 305 mln rubles

Indicators of the Company's business efficiency and financial position:

	Description	2005	2004
1	EBITDA, mln rubles.	5,420	4,241
2	OIBDA, mln rubles	6,466	5,020
3	Operating margin, %	23.06	19.98
4	EBITDA margin, %	29.96	24.97
5	Cost of 100 rubles of revenues, rubles	76.94	80.02
6	OIBDA margin, %	35.66	29.97
7	Revenue per one employee, ths rubles	481.5	414.7
8	Operating profit per one employee, ths rubles	111.0	82.8
9	Financial independence ratio	0.29	0.28
	Long-term borrowings ratio	0.50	0.56
	Absolute liquidity ratio	0.05	0.03
	Current liquidity ratio	0.29	0.38
	own circulating assets/current assets ratio	-2.47	-1.64
	Average turnover of accounts receivable, days	33.6	28
	Average turnover of accounts payable, days	130.0	161.7
	Net profit/assets ratio, %	0.79	0.88
	Net profit/own capital ratio, %	2.44	2.24

The main parameters of the Company's activity 2005 showed an upward tendency compared to 2004: revenue - a 8.2 %-increase, operating profit – a 24.9% increase and OIBDA - a 28.8% increase. Accordingly, operating margin grew by 3.08 percentage points and EBITDA margin - by 4.99 percentage points. Additional factor for improvements in such indicators as Revenue per one employee (a 16.1% gain) and Operating profit per one employee (a 34.1% gain) was staff reduction by 4.3 %. We see a positive trend in revenue growth compared to the Company's operating costs as the cost price of every 100 rubles of revenues decreased by 3.8 %. EBITDA and net profit of the Company also increased by 23.6 % and 26.5 %, accordingly.

The parameters of the Company's financial standing have an upward trend but still remain at rather low level. Financial independence ratio raised from 0.28 to 0.29), but own circulating assets/current assets ratio decreased from –1.64 to -2.47; absolute liquidity ratio increased from 0.03 to 0.05 while current liquidity ratio decreased from 0.29 to 0.38. However, when analyzing liquidity ratios it is necessary to take into account peculiarities of telecommunications sector requiring essential capital investments and big size of fixed assets. The balance structure shows that non-current assets account for major portion of the Company's assets (88.5 % as of 31.12.2005).

Net assets of the Company was 12,883 million rubles as of 31.12 2005 essentially exceeding the size of the authorized capital.

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 № 563 of 30 December 2003 (amended and restated by Orders № 776 of 30.12.2004, № 222 of 22.03.2005, № 571 of 20.06.2005).

The Company's 2005 accounting reports have been prepared in terms stipulated by the Federal Law "On Accounting" and include balance sheet, profit and loss statement, appendixes to them, explanatory note made on the basis of reports presented by the Company's branches.

During the audit of the Company's 2005 financial statements the Auditing Commission has not revealed material infringements in observance of the requirements of the RF legislation and material distortions in exposure of financial and economic results.

Material facts of business activity

Corporate Governance Code (Set of Rules) of "Southern Telecommunications Company" PJSC regulating corporate procedures in the Company was developed and approved by the Board of Directors (Minutes № 44, amended and restated by the Board of Directors, Minutes №36 of 25.05.2005).

The Board of Directors appointed I.F.Ignatenko as General Director for the term of two years starting from 25 December 2003 according to item 15.1 of the Charter (Minutes №26), powers of I.F.Ignatenko were terminated on 01.02.2005. N.V.Martynenko was appointed acting General Director from 01.02.2005 (Minutes №23). Then the Board of Directors appointed G.A.Romsky UTK's General Director for the term of office from 03.03.2005 till 05.09.2005 (Minutes №26) which was prolonged from 06.09.2005 till 06.09.2006 (Minutes №6). The employment Agreement with the General Director was approved by the Board of directors.

On June 30, 2004 pursuant to paragraph 27 of item 13.4 of Article 13 of the Charter UTK's Board of Directors formed the Company's Management Board 17 persons in number (Minutes №1). On 3 March 2005 the Board of Directors decided to increase numerical structure of the Management Board to 18 members (Minutes №26). New structure of the Management Board consisting of 13 members was formed by the Board of Directors on 22 July 2005 (Minutes №2), with the term of office till 1 August 2006.

In 2005 the Management Board considered over 200 questions being within its terms of reference according to the Charter. Decisions were taken in full compliance with the requirements of the Charter and the statute on the Management Board.

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 № 05-5/pz-n of 16 March 2005. The Auditing Commission revealed no facts of violation of the established procedures.

The list of the Company's affiliated persons and changes in the list comply in full with the form specified in the Provisions on information disclosure by issuers of securities. This information is published quarterly on the corporate site of the Company.

It should be noted that in 2005 the Company concluded a number of related-party transactions which had not been approved by the Board of Directors of the Company, namely: 53 transactions from CJSC "Yugsvyazstroy", 2 transactions with LLC "Intmashservice", one transaction with LLC "Yug-Giprosvyaz" and one transaction with CJSC «OK "Orbita"» (being concluded by the branches "Volgogradelectrosvyaz", "Rostovelectrosvyaz", "Electrosvyaz of Kalmykia Republic"). The Company owns over 20 percent of shares in the specified companies. In accordance with item 1 of Article 83 of Federal law «On Joint –Stock Companies » № 208-FZ dated 26 December 1995, a related-party transaction should be approved by the Board of

Directors (supervisory council) of a company or by a General Shareholders' Meeting before it is effected. The related-party transaction concluded contrary to the Federal law «On Joint –Stock Companies» may be declared invalid according to the claim of a company or a shareholder (item 1 of Article 84 of the Federal law «On Joint –Stock Companies»).

Internal Audit System

A number of bodies and subdivisions performing different internal control functions operate in the Company: the Auditing Commission, Audit Committee of the Board of directors, internal audit department, other subdivisions performing various control functions.

The Company's Auditing Commission functions in accordance with Federal law №208-FZ «On Joint –Stock Companies» dated 26 December 1995, the Charter of the Company, the Provisions on the Auditing Commission of "UTK" PJSC (approved by the General Shareholders' Meeting of 30.05.2001, amended and restated by General Shareholders' Meetings of 21.06.2002 and 30.06.2004).

The BoD Audit Committee operates according to the Charter of the Society, the Corporate Governance Code of "UTK" PJSC, Regulations on Audit Committee of the Board of directors of "UTK" PJSC approved by the Board of directors on 17 November 2004 (Minutes №15, amended and restated by the Board of directors on 28 June 2005). The Audit Committee of the Board of directors performs internal control functions by previewing and preparing recommendations for the Board of Directors on the matters of financial reporting, external and internal audit, internal quality-control procedures and risks associated with completeness of information disclosure.

Internal audit department operates according to the Regulations on internal audit department approved by the Board of Directors on 27 May 2003. Internal audit department checks efficiency of current internal control procedures, performs overall and special inspections of the Company's structural subdivisions. Results of such inspections shall be presented to the BoD Audit Committee at least once a quarter.

In order to increase efficiency of the Company's internal control system, the Company developed and approved the Provisions on internal control procedures (system) of "Southern Telecommunications Company" PJSC (Minutes № 40 of 29.06.2005 of the Board of Directors of "UTK" PJSC).

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 2005

- 2005 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, 2005 till December 31, 2005,
- 2005 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,
- In 2005 the Company violated the procedure for conclusion of related-party transactions.

Chairman of the Auditing Commission

Kovalenko G.I.

Members of the Auditing Commission

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