

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 2006

Moscow

May 2, 2007

The Auditing Commission of "Southern Telecommunications Company" PJSC was elected by the General Shareholders' Meeting held on June 27, 2006. 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:

K.V. Frolov (Chairman)

A.A. Ganeeva

T.Yu. Zubova

D.A. Loshakov

N.V. Feoktistova

has performed an audit of the Company's annual financial statements for the period from 1 January 2006 to 31 December 2006.

According to the decision of the Auditing Commission of "UTK" PJSC (Minutes № 4 of March 12, 2007) the audit was carried out from 2 to 6 April 2007.

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 evaluated.

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

General information about the Company

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

Legal address: 66, Karasunskaya St., Krasnodar, Krasnodar Territory, 350000

Seat of executive bodies: 66, Karasunskaya St., Krasnodar, Krasnodar Territory, 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 1st July 2002:

Date of making an entry: 2.08.2002

Number of the certificate: series 23 № 003062350

State registration number: 1022301172112

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

The following persons were responsible for the Company's financial and business operations during the period under audit:

- General Director : Romsy G.A. (till June 15, 2006)
Andreev A.V. (from June 16, 2006)

- Chief Accountant – T.V. Rusinova

General Shareholders' Meeting is the Company's supreme governing body. Board of Directors is a collegiate executive 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' Meeting and the Company Board of Directors.

Key financial highlights

	Description	Measurement unit	"UTK" PJSC		y-o-y change (%)
			2006	2005	
1	Revenue	RUR ths	17,570,564.00	18,133,104.00	-3.10
	Including from telecom services		16,561,535.00	17,873,014.00	-7.34
2	Cost value of sold goods, works and services	RUR ths	12,785,528.00	13,952,363.00	-8.36
	Including cost value of telecom services		11,968,419.00	13,794,936.00	-13.24
3	Operating profit	RUR ths	4,785,036.00	4,180,741.00	14.45
4	Pre-tax profit	RUR ths	1,632,829.00	701,874.00	132.64
5	Net profit	RUR ths	1,184,442.00	305,203.00	288.08
6	OIBDA	RUR ths	7,393,392	6,466,137.00	14.34
7	Operating margin,	%	27.23	23.06	18.08
8	Operating profit efficiency	%	37.43	29.96	24.93
9	Cost value of 100 rubles of revenues	%	72.77	76.94	-4.8
10	OIBDA margin	%	42.08	35.66	18.00
11	Revenue per one employee	RUR ths	510.39	481.47	6.01
12	Financial independence ratio	-	0.33	0.29	13.79
13	Long-term borrowings ratio	-	0.51	0.50	1.02

Note: Methodology of calculation of financial and economic parameters is shown in the Appendix hereto.

The main parameters of the Company's activity in 2006 showed stability and an upward tendency compared to 2005. Revenue decreased only 3.1% and cost of sold services was down 8.36%.

2006 net profit increased by 288% over 2005, pre-tax profit was up 132% and operating profit rose by 14.45%.

OIBDA showed a 14.34%-increase. Accordingly, operating profit efficiency grew by 27.97%.

Revenue per one employee was up 6% over 2005 indicating that the staff number was optimal.

Financial independence ratio showing the sufficiency of the Company's own funds grew by 13.79%.

Net assets of the Company increased by 7.9% by the end of 2006 to 13,901 million rubles.

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 № 445 of 30 December 2005 (amended and restated by Order № 113-P of May 25, 2006).

The Company's 2006 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. The accounting reports were compiled on the basis of reports presented by the Company's branches.

During the audit of the Company's 2006 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 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).

According to sub-item 26 of item 13.4 of Article 13 of the Company's Charter the Board of Directors appointed A.V. Andreev as General Director for the term of office valid till June 15, 2008 (inclusive) (Minutes №40 of June 15, 2006). The Employment Agreement with the General Director was approved by the Board of Directors.

On August 1, 2006 pursuant to sub-item 28 of item 13.4 of Article 13 of the Charter UTK's Board of Directors formed the Company's Management Board 9 persons in number with the term of office till 1 August 2007 inclusive. At the session held on October 23,2006 the Board of Directors adopted a decision to terminate the powers of the member of the Management Board Kondrakov Denis Yurievich before the appointed time and to appoint Deputy Director General – Director for Economics and Finance of "UTK" PJSC Dobryakov Alexander Anatolievich as a member of the Company's Management Board (Minutes № 12). At the session held on November 30,2006 the Board of Directors adopted a decision to terminate the powers of Lyudmila Ivanovna Devyatkina and Yevgeny Nikolaevich Poyarkov as the members of UTK's Management Board before the appointed time and to change the numerical composition of UTK's Management Board from 9 to 7 members (Minutes № 18).

In 2006 the Management Board considered at its sessions 319 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 approved by Order of Federal Financial Markets Service № 05-5/pz-n of 16 March 2005. This information is published quarterly on the corporate site of the Company.

Internal Audit System

The Company developed and approved the Provisions on Internal Audit Department in which the terms of reference of persons and bodies of internal control system of "Southern Telecommunications Company" PJSC were determined (Minutes of the Board of Directors № 17 of May 27, 2003). In December 2006 the Company started to introduce local by-laws regulating internal audit system, work of the Internal Audit Department and interaction of internal control bodies. Such by-laws as the Provision on the Internal Audit Department of "Southern Telecommunications Company" PJSC, Rules of interaction of the Internal Audit Department with the BoD Audit Committee and the Auditing Commission of "UTK" PJSC, the Provisions on the internal control system of "Southern Telecommunications Company" PJSC developed under initiative of the Audit Committee of the Board of Directors have been approved by the Management Board of the Company and prepared for consideration by the Board of Directors by the time of the audit.. The above mentioned by-laws introduce changes in the list of corporate internal control procedures and rules of interaction with other Company's bodies. The Internal Audit Department checks the efficiency of current internal control procedures according to the effective regulations. Report on the results of work of the Internal Audit Department shall be presented for consideration to the Management Board and 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 2006

- decisions on financial and business matters taken by the Management Board and the Board of Directors of the Company in 2006 comply with the applicable legislation of the Russian Federation and the Charter of "Southern Telecommunications Company" PJSC,
- 2006 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, 2006 till December 31, 2006,
- 2006 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

K.V. Frolov

Members of the Auditing Commission

A.A. Ganeeva.

T.Yu. Zubova.

D.A. Loshakov

N.V. Feoktistova

Appendix

Calculation methodology of the main financial and economic parameters

- 1 OIBDA**
Operating profit + Amortization (Fixed assets+Intangible assets)
- 2 Operating margin**
 $\text{Operating profit} \times 100 / \text{Revenue}$
- 3 Operating profit efficiency**
 $\text{Operating profit} \times 100 / \text{Cost value}$
- 4 Cost value of 100 rubles of revenues**
 $\text{Cost value} \times 100 / \text{Revenue}$
- 5 Revenue per one employee**
 $\text{Revenue} / \text{Average number of employees on payroll}$
- 6 Financial independence ratio**
Line 490 (f.1 of accounting reports (balance sheet))
Line 300 (f.1 of accounting reports (balance sheet))