



**Southern
Telecommunications
Company**

Information memorandum

**Reorganization of "Southern Telecommunications
Company" PJSC through merger of "Kuzminov
Stavtelecom" OJSC into it**

May 2007

Table of contents

1.	Information about the proposed reorganization.....	3
1.1	General information.....	3
1.2	The proposed scheme of reorganization in the form of merger...	3
2.	Main stages of the reorganization.....	3
3.	Information about the merged.....	6
3.1	General information.....	6
3.2	Current position in the local telecom market.....	7
3.3	Key operational and financial highlights.....	8
3.4	Fixed assets of the merged company.....	9
3.5	Telecommunications equipment of the merged company...	9
4.	SWOT analysis (liquidation/accession).....	10
5.	Conclusions.....	11

1. Information about the proposed reorganization

1.1. General information

Within the framework of the approved Model of subsidiaries' reorganization, the Company's Board of Directors made recommendations on expediency of termination of UTK's participation in «Kuzminov Stavtelecom» OJSC in the short run.

The company renders telephone, Internet and data transmission services in the Stavropol kray. Provision of these services is among main activities of "Southern Telecommunications Company" PJSC as well.

In the second quarter of 2006 "UTK" PJSC planned to buy out the property of «Kuzminov Stavtelecom» OJSC and then to liquidate the company.

The plan provided for allocation of funds for assets' repurchase (170 million rubles) and tax payments at liquidation (50 million rubles). In addition it was difficult for implementation due to necessity to re-register officially contractual relations with subscribers.

1.2. The proposed scheme of reorganization in the form of merger

The reorganization is an accession or merger of the subsidiary «Kuzminov Stavtelecom» OJSC, 100%-owned by "UTK" PJSC, with "Southern Telecommunications Company" PJSC.

The merger with the subsidiary will allow it to fully coordinate marketing, organizational and technical actions of "Southern Telecommunications Company" PJSC, to ensure active development and to increase the Company's market capitalization in the long run.

According to effective legislation, reorganization procedures including adoption of decisions by governing bodies and registration of termination of «Kuzminov Stavtelecom» OJSC's activity in the capacity of legal entity, are to be completed in October of 2007.

2. Main stages of the reorganization

At the first stage the Board of Directors of "UTK" PJSC adopted a decision to reorganize «Kuzminov Stavtelecom» OJSC through its merger into "Southern Telecommunications Company" PJSC (Minutes № 32 of April 19, 2007).

Main stages of the reorganization	Time limit	Comment
Stage 1. Taking decision on the reorganization		
Taking decision by the Board of Directors of "UTK" PJSC on the agenda items of the Extraordinary General Shareholders' Meeting of the subsidiary «Kuzminov Stavtelecom» OJSC dealing with reorganization in the form of merger, approving the agreement of merger and the Assignment act of the merged company.	19 April 2007	According to the Charter of "UTK" PJSC terms of reference of its Board of directors include taking decisions on the agenda items of General Shareholders' Meeting of the subsidiaries in which "UTK" PJSC is the sole participant. "UTK" PJSC is the sole shareholder of the merged company, therefore the items being within the terms of reference of General Shareholders' Meeting of this company, are within the competence of the Board of Directors of "UTK" PJSC. As, according to Article 48 of the Federal Law "On Joint –Stock Companies", the decision on reorganization should be approved by the General Shareholders' Meeting, the Board of Directors of "UTK" PJSC takes the decision on the merger at its session.
Taking decision by the Board of Directors of "UTK" PJSC to include the item on reorganization into the agenda of the annual General Shareholders' Meeting of "Southern Telecommunications Company" PJSC.	15 May 2007	According to the Charter of "UTK" PJSC, General Shareholders' Meeting shall adopt resolutions on the agenda items. Making proposals on the agenda items is among the terms of reference of the Board of Directors of "UTK" PJSC

Main stages of the reorganization	Time limit	Comment
Stage 1. Taking decision on the reorganization		
Taking decision on reorganization of "Southern Telecommunications Company" PJSC through merger of «Kuzminov Stavtelecom» OJSC into it and approving agreement of merger by the annual General Shareholders' Meeting of "UTK" PJSC	26 June 2007	Shareholders of "Southern Telecommunications Company" PJSC shall take the decision on the reorganization and approve the Agreement of merger (according to Article 17 of the Federal Law "On Joint –Stock Companies"). Holders of both ordinary and preferred shares have equal rights when voting on the agenda item dealing with the reorganization at the General Shareholders' Meeting (Articles 31, 32 of the Federal Law "On Joint –Stock Companies"). The Company's reorganization and the Agreement of merger shall be approved by no less than 75% of shareholders participating in the voting (Article 49 of the Federal Law "On Joint –Stock Companies").
Stage 2. Notifying tax authorities		
Written notification to tax authorities situated at the location of «Kuzminov Stavtelecom» OJSC of its reorganization in the form of merger into "Southern Telecommunications Company" PJSC no later than three days from the date of taking such decision.	19 April 2007 – 22 April 2007	According to Article 23 of the Tax Code of the Russian Federation (Part One) №146-FZ.
Written notification to tax authorities situated at the location of "Southern Telecommunications Company" PJSC of the reorganization in the form of merger of «Kuzminov Stavtelecom» OJSC into "UTK" PJSC no later than three days from the date of taking such decision.	27 June 2007 – 30 June 2007	According to Article 23 of the Tax Code of the Russian Federation (Part One) №146-FZ.
Stage 3. Settlements with creditors and buy-out of shares		
Written notification to creditors of the companies participating in the reorganization about the adopted decisions.	Prior to 1 July 2007	No later than 30 days after the date of taking decision on reorganization by the last of the companies participating in the merger, each company to be reorganized is obliged to notify its creditors in writing about it and to publish the notice of the taken decision in the magazine «Bulletin of the state registration». Necessity and procedure of notifying creditors of the reorganized companies about the reorganization are stipulated by Article 15 of the Federal Law "On Joint –Stock Companies".
Settlement of relations with creditors	Prior to 1 August 2007	Within 30 days from the date of sending notices to creditors or within 30 days from the date of publication of the notice of the taken decision, they have the right to demand in writing termination or early fulfillment of the corresponding obligations. As the legislation does not regulate the procedure for settlement of such relations with creditors, each company defines on its own procedure of settlements with them, when such claims are presented by the creditors.

Main stages of the reorganization	Time limit	Comment
Stage 1. Taking decision on the reorganization		
UTK's shareholders may exercise their right to demand buyout of the shares owned by them according to the terms and procedures set forth by the Board of Directors of "Southern Telecommunications Company" PJSC.	Prior to 10 September 2007	Holders of voting shares, who voted against the reorganization or did not take part in the vote on this agenda item, have the right to demand buyout by the Company of a portion or all shares owned by them (Article 75 of the Federal Law "On Joint –Stock Companies"). Redemption price of ordinary and preference shares as well as the buyout procedure shall be determined by the Board of Directors on the basis of the recommendations of an independent appraiser (Articles 75 and 77 of the Federal Law "On Joint –Stock Companies"). The company is obliged to inform its shareholders of their right to demand buyout of shares owned by them, as well as of the redemption price and procedure (Article 76 of the Federal Law "On Joint –Stock Companies"). The procedure for buyout of shares from their holders, determined by the Board of directors and described in the Agreement of merger, is regulated by Article 76 of the Federal Law "On Joint –Stock Companies".
Stage 4. Merger		
The merged company makes final accounting reports and an explanatory note showing changes in the cost of the assigned assets and liabilities, as of the day preceding the date of the entry in the Single State Register of Legal Entities on the termination of activity of the merged company in the capacity of legal entity. All assets and liabilities, as well as rights and obligations reflected in the accounts of «Kuzminov Stavtelecom» OJSC pass to "Southern Telecommunications Company" PJSC according to the corresponding Assignment act.	Prior to 20 September 2007	According to the Order of the Ministry of Finance of the Russian Federation № 44n of May 20, 2003 «Approval of methodical instructions on making accounting reports at reorganization of companies».
Main stages of the reorganization		
Time limit		
Comment		
"UTK" PJSC submits to the registering authority situated at its location the documents required under the current legislation for making entries in the Single State Register of Legal Entities on the termination of «Kuzminov Stavtelecom» OJSC's activity in the capacity of legal person.	Prior to 1 October 2007	The procedure is set forth by the Federal law «On State Registration of Legal Entities and Individual Entrepreneurs».
On the date of making corresponding entries in the Single State Register of Legal Entities on the termination of activity of the merged company in the capacity of legal person shares of «Kuzminov Stavtelecom» OJSC are to be cancelled.	Prior to 1 November 2007	Floation of UTK's shares is not required during the merger as no shares are alienated by an original holder (Letter of the RF FCSM «On some matters related to stock floation at reorganization» of 17.04.2000. № IK-04/1872). According to Article 17 of the Federal Law "On Joint –Stock Companies" shares of the merged company shall be cancelled.

3. Information about the merged company

3.1 General information

During reorganization the subsidiary "Kuzminov Stavtelecom" OJSC will merge into "Southern Telecommunications Company" PJSC.

The company was registered by the State registration Chamber of the Ministry of Economics of the Russian Federation on October 26, 1995. Number of the State registration certificate is R-5354.16.

Company	Core activities	Licensed area
«Kuzminov Stavtelecom» OJSC	Local telephony; Lease of communication channels; Internet access services;	Stavropol kray

Authorized capital

Category (type) of shares	Number (shares)	Face value (rubles)	Size of the authorized capital (rubles)
Distributed shares:			
• ordinary	4,050	1,000	4,050,000
• preference	0	0	

Stake of "UTK" PJSC

Name	Amount, Ths rub	Shareholding (%)
«Kuzminov Stavtelecom» OJSC	29 665	100

The company's licenses for provision of communication services

№	License number	Date of issue	Valid till	Licensing authority	Activity category	Licensed territory
1	25088	17.02.2003	17.02.2008	Ministry of Communications and Informatization of the Russian Federation	Lease of communication channels	Stavropol kray
2	26500	24.07.2003	24.07.2008	Ministry of Communications and Informatization of the Russian Federation	Services of local, intra-zonal and long-distance telephony	Stavropol kray, territories of the regions of the Russian Federation within the bounds of numbering zone (ABC)
3	35044	19.09.2005	19.09.2010	Federal Communications Supervision Service of the Russian Federation	Telematic communication services	Stavropol kray
4	33991	25.08.2005	25.08.2010	Federal Communications Supervision Service of the Russian Federation	Data transmission services except for voice data transmission	Stavropol kray

At present «Kuzminov Stavtelecom» OJSC offers a wide spectrum of additional services of modern telephony:

- ISDN services;
- Interconnection of end-user units all over the territory of the city of Stavropol through one ATE 94 in Stavropol;
- Interconnection of end-user units in the cities of Caucasian MinVody through ATE 97 in Essentuki;
- Interconnection of end-user units all over the territory of the Stavropol kray through ATE-94 and ATE-97;

- Making connections from 6-digit numbers during six seconds all over the territory of the Stavropol kray;
- Creation of corporate telephone networks using 2,3 or 4-digit numbers in the city of Stavropol as well as in other cities and regional centers;
- Creation of integrated corporate networks (telephone and data transmission).
- Providing access to Internet resources.

3.2 Current position in the local telecom market

«Kuzminov Stavtelecom» OJSC provides local communication services in the territory of the Stavropol kray and takes the second market position following the Stavropol branch of "UTK" PJSC. Share of the company in the local telecom market makes 1.7 %.

Main development priorities of «Kuzminov Stavtelecom» OJSC are aimed at expansion and development of telecommunications services, improvements in customer service as well as at deployment of new services, such as rendering Internet broadband access services on the basis of ADSL technology.

The following companies besides «Kuzminov Stavtelecom» OJSC provide telecommunication services in the Stavropol kray:

№	Telecom operator	№, date and period of validity of the license	Telecom services provided (under the license)
1	LLC "Russian telephone company"	№ 36584 of 21.11.2005, till 21.11.2010	Local telephony services, except for telephone services using payphones and multiple access devices. Telematic communication services
2	LLC "Stavropol Communications"	№21587 of 28.03.2002 till 28.03.2007	Telematic communication services
3	OJSC "Interregional Transit Telecom"	№ 32042 of 31.05.2005 till 31.05.2012	DLD and ILD services
4	OJSC "Russian Telecommunications Network"	№ 32121 of 27.06.2005 till 27.06.2010	Telematic communication services
		№ 32572 of 27.06.2005 till 27.06.2010	Voice data transmission through data network
5	OJSC "Svyaztransneft"	№ 35568 of 13.10.2005 till 13.10.2010	Local telephony services, except for telephone services using payphones and multiple access devices
6	LLC "Stavrolen"	№ 12189 of 11.06.1999 till 11.06.2009	Local telephony services
7	CJSC "Manufacturing firm Potok"	№ 27180 of 02.07.2003 till 02.07.2013	Local telephony services
		№ 27348 of 18.08.2003 till 18.08.2008	Telematic communication services
8	CJSC "RusSDO"	№ 8965 of 19.12.1997 till 19.12.2007	Local telephony services using radio access
9	CJSC "Stavropolskaya Sotovaya Svyaz"	№ 8618 of 17.10.1997 till 17.10.2007	Cellular services of 800 MHz standard
		№ 21246 of 01.03.2002 till 01.03.2007	Telematic communication services
10	CJSC "Mobicom - Kavkaz" (in the Stavropol kray)	№ 15412 of 03.07.2000 till 03.07.2010	Cellular services of 900/1800 MHz, GSM standard
11	OJSC "MTS" (branch in the city of Stavropol)	№ 29525 of 30.12.2003 till 30.12.2013	Cellular services of 900/1800 MHz GSM standard

3.3 Key operational and financial highlights

Description	Measurement unit	2002	2003	2004	2005	2006
Installed capacity as at the end of the	lines	21,122	14,296	10,996	15,826	15,826

year						
Equipped capacity as at the end of the year	lines	18,710	12,386	9,863	10,029	10,143
Increase in number of lines in use	lines	1,064	-6,324	-2,523	166	143
Average number of lines in use	lines	18,721	12,155	11,125	9,946	10,086
Revenue	RUR ths	71,914.0	87,238.0	81,918.0	76,858.0	59,191.4
Costs	RUR ths	31,767.0	39,672.0	53,566.0	55,983.5	57,561.3
Gross profit	RUR ths	40,147.0	47,566.0	28,352.0	20,874.5	1,630.1
Net profit	RUR ths	25,009.1	134,205.6*	20,253.7	-15,447.4* *	-3,794.8
Aggregate assets	RUR ths	116,703.0	238,309.7	253,819.5	239,133.5	235,298.8
Including fixed assets	RUR ths	38,882	62,760	62,258.7	172,948.7	167,607.6
Short-term liabilities	RUR ths	20,585.4	10,899.5	3,991.3	4,734.4	3,930.6
Including loans and credits	RUR ths	4,900.2	-	-	-	-
Long-term liabilities (differed tax liabilities)	RUR ths	4,870.2	1,946.6	4,115.7	5,084.2	5,848.2
Including loans and credits	RUR ths	4,870.2	-	-	-	-

* due to sale of financial assets

** due to repurchase of own shares from shareholders

Installed and equipped capacity of the company decreased in 2003 and 2004 due to return of switching equipment of ATE-97 and ATE 502 leased from "UTK" PJSC.

In 2005 the installed capacity increased due to implementation of the project «Installation of telephones in rural areas of the Stavropol kray using digital switching equipment and fiber optic communication lines». Seven telephone exchanges of "ELCOM" type (4.970 lines) and part of FOL were put into operation in Ipatovskiy and Apanasenkovskiy regions of the Stavropol kray.

3.4 Fixed assets of the merged company

Type	Quantity
Automatic Telephone Exchanges (ATEs)	8 exchanges (installed capacity- 6772+126 ISDN)
Digital concentrators	6 concentrators (installed capacity - 6000+120 ISDN)
Main networks	140.761 km long
Fiber optic cables	304.1 km long
Distribution networks	30.9 km long
Immovable property	
- non-residential premises, total area	1,696.6 square meters

- residential buildings, total area

163 square meters

3.5 Telecommunications equipment of the merged

Type	Installed capacity	Functionality	Producer
ATE Alcatel 1000 S12 Stavropol	10,844	City telephone exchange	Alcatel
ATE «Elcom» villages Takhta Bolshevik Kevsala Burukshun M.Dzhalga B.Dzhalga Kievka	991 570 790 730 390 990 510	Rural telephone exchange	CJSC «Russian Telephone Company»
ORTINEX 1660 SM	4 units	SDH equipment	Alcatel
ADM 1651 SM	13 units	SDH equipment	Alcatel
ADM 1641 SM 4	4 units	SDH equipment	Alcatel
Polycom - 200	12 units	PDH equipment	OJSC NPP «Polycom»
Polycom - 300	5 units	PDH equipment	OJSC NPP «Polycom»
Huawei MA 5600	192 ports	Internet broadband access equipment	Huawei Technologies Co., Ltd; China
ZyXEL IES 2000	192 ports	Internet broadband access equipment	ZyXEL Communications Corporation, Taiwan

4. SWOT analysis (liquidation/merger)

Liquidation of the company

<i>Strengths (S):</i>	<i>Weaknesses (W):</i>
Duty to pay taxes ceases after liquidation of a company-taxpayer and final settlements with budgets (off-budget funds)	Liquidation of a legal entity entails termination of its activity without succession of rights and obligations. At the moment of assignment of the liquidated company's property, a duty to pay income tax arises.
<i>Opportunities (O):</i>	<i>Threats (T):</i>
The competitive telecom operator goes out of business. Property of the subsidiary is assigned to "Southern Telecommunications Company" PJSC	Telecommunications services may fail to be provided to all subscribers. Procedure of determination (confirmation) of the property right to the equipment, used for telecom services' provision, should be observed

Merger of the company

<i>Strengths (S):</i>	<i>Weaknesses (W):</i>
During merger of one legal entity into the other all its rights and obligations pass to the other legal entity by universal succession. All titles to property and other assets according to the Assignment act are assigned simultaneously. Improvements in operational and financial results of UTK's Stavropol branch: <ul style="list-style-type: none"> - net income growth by 19 million rubles. - increase of equipped capacity by 10 thousand lines - assets growth by 240 million rubles. 	Corporate procedures for taking a decision on reorganization take long time. Reorganization entails expenses in connection with necessity to appraise market value of shares (\$ 30 thousand).
<i>Opportunities (O):</i>	<i>Threats (T):</i>
The competitive telecom operator goes out of business. Property of the subsidiary is assigned to "Southern Telecommunications Company" PJSC. Saving of the funds planned for buy-out of the merged company's assets.	UTK's shareholders may demand buyout of the shares owned by them. The Company plans to sell the bought out shares at least at their market price within a year from the date of title assignment in accordance with the current legislation.

5. Conclusions

We can state the following important and positive effects of such reorganization for "Southern Telecommunications Company" PJSC:

1. Assets of the subsidiary «Kuzminov Stavtelecom» OJSC will pass into ownership of "Southern Telecommunications Company" PJSC.
2. The competitive telecom operator will go out of business.
3. Management efficiency will increase.
4. Capabilities of strategic planning and priority programs' development in the long term will grow.
5. Net income of UTK's Stavropol branch will grow by 19 million rubles.
6. Equipped capacity will increase by 10 thousand lines.
7. Due to universal succession there will be no breaks in provision of telecom services to subscribers (there is no need to terminate and/or re-conclude contracts with subscribers).
8. Assets will grow by 240 million rubles (including 170 million rubles of fixed assets for provision of telecom services).
9. There is no need to pay income tax and VAT.
10. The Company will save 170 million rubles (amount fixed in the budget to buy out fixed assets of the merged company).
11. There is no need to convert shares and to increase UTK's authorized capital. (shares of the merged company are to be cancelled).
12. The Company will improve quality of its services and increase its competitive power.
13. The Company will enhance its investment appeal and will be able to attract additional investments (investors and analyst are expected to approve the merger).
14. In the long run the Company will improve its financial and operational results, enhance liquidity of its shares and increase its market capitalization.

The Board of Directors of "Southern Telecommunications Company" PJSC took a decision to reorganize «Kuzminov Stavtelecom» OJSC in the form of its merger into "UTK" PJSC (Minutes № 32 of April 19, 2007).

According to sub-item 2 of item 12.2 of article 12 of UTK's Charter and Article 48 of the Federal Law "On Joint –Stock Companies" taking decision on reorganization and approving the agreement are within the terms of reference of the Company's General Shareholders' Meeting.

In accordance with item 12.3 of Article. 12 of UTK's Charter the General Shareholders' Meeting is entitled to take the decision on reorganization exclusively when it is proposed by the Board of Directors of "UTK" PJSC.

Therefore, it is suggested that the Board of Directors of "UTK" PJSC takes the following decisions:

1. To include the following item into the agenda of the annual General Shareholders' Meeting of "Southern Telecommunications Company" PJSC:

«Reorganization of "Southern Telecommunications Company" PJSC through merger of «Kuzminov Stavtelecom» OJSC into it. Approval of the Agreement of merger».

2. To recommend to the General Shareholders' Meeting to adopt the following decision: “To reorganize "Southern Telecommunications Company" PJSC through merger of OJSC «Kuzminov Stavtelecom» into it. To approve the Agreement of merger.”