

***PUBLIC JOINT-STOCK  
COMPANY  
«SOUTHERN  
TELECOMMUNICATIONS  
COMPANY»***



## **Disclaimer**

*Certain statements of this presentation are «forward-looking statements». By their very nature, forward-looking statements involve inherent risks, uncertainties and other factors which could cause actual results to differ materially from the results stated in this presentation.*

*Such risks include the possibility that the economic and financial environment in which the Company operates may change affecting its development prospects. There are also risks related to possible changes in political and economic conditions in Russia, changes in the Russian legislation, changes in the current or future regulation of the Russia telecommunications sector as well as the effects of competition and other factors.*

*The Company does not undertake any obligation to publicly update or revise any information of this presentation whether to reflect events or circumstances which took place after the date of the presentation or to specify unforeseen events that took place, except as maybe required by the Russian federal laws on securities.*

## **Contents**

- 1. Region and Company***
- 2. SFD Telecommunications Market and Company***
- 3. Key Data***
- 4. Revenue***
- 5. Costs***
- 6. Profitability***
- 7. Investment Policy***
- 8. Credit Portfolio***
- 9. Mid-term Strategy***



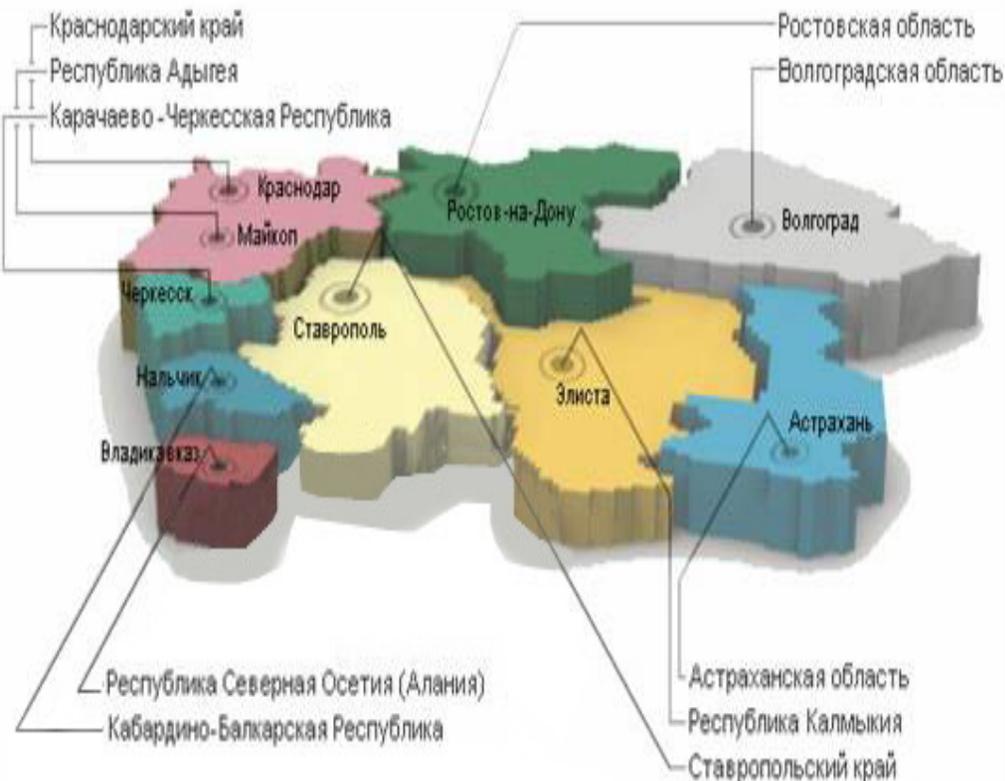
## 1. Region and Company - Southern Federal District Background

- ✓ Population – 22.8 million people
- ✓ 15.8% of RF's population and 3.5% of its territory
- ✓ Strategic geopolitical location
- ✓ Main health resorts of the country
- ✓ Series of oil and gas pipelines for export of these commodities from Russia
- ✓ The largest agro-industrial sector in Russia
- ✓ Sochi-2014 Olympic Games



## Region and Company - Company Background

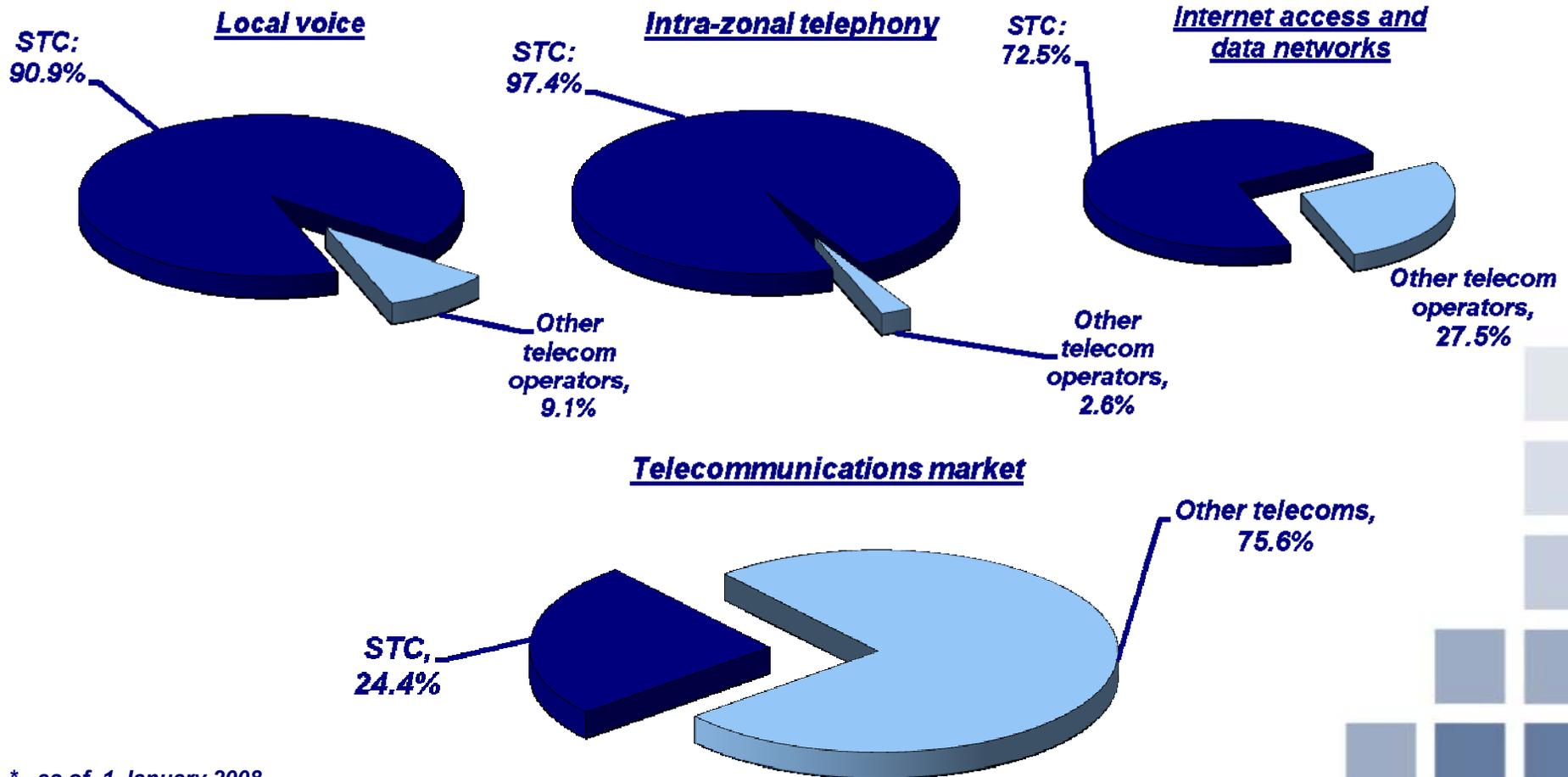
***Southern Telecommunications Company (STC) is the leading fixed-line service provider for the Southern Federal District***



### STC in figures as of 1 April 2008:

- 10 regional branches, licensed territory of 521.8 thousand square km
- Installed capacity – 4,394 thousand lines
- Equipped capacity ratio – 94.2%
- Local network digitization rate – 69.06%
- Headcount - 26,953 employees
- Rated B (stable) by S&P and B1 (stable) by Moody's
- 202.8 thousand broadband subscribers

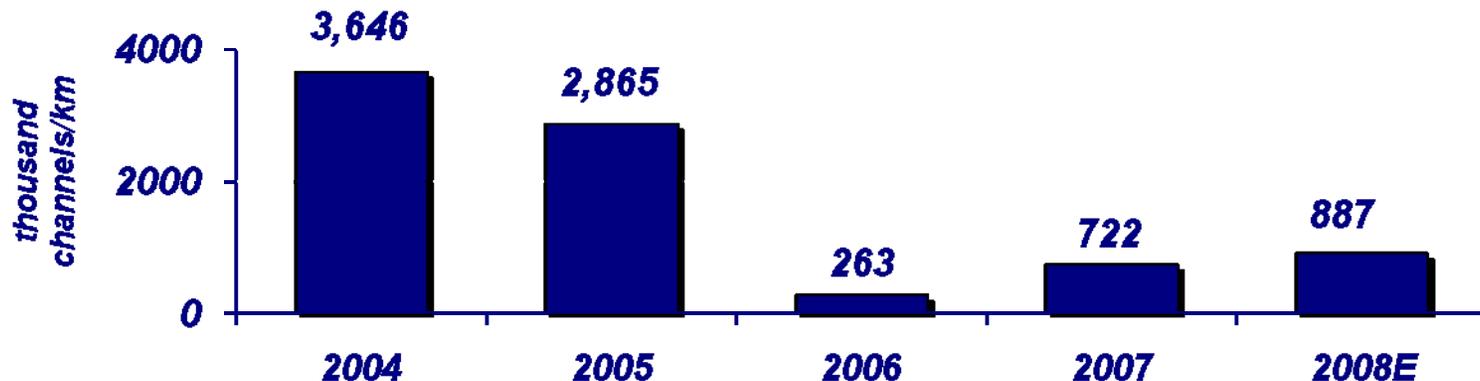
## 2.SFD Telecommunications Market and Company - STC Market Share by Type of Services\*



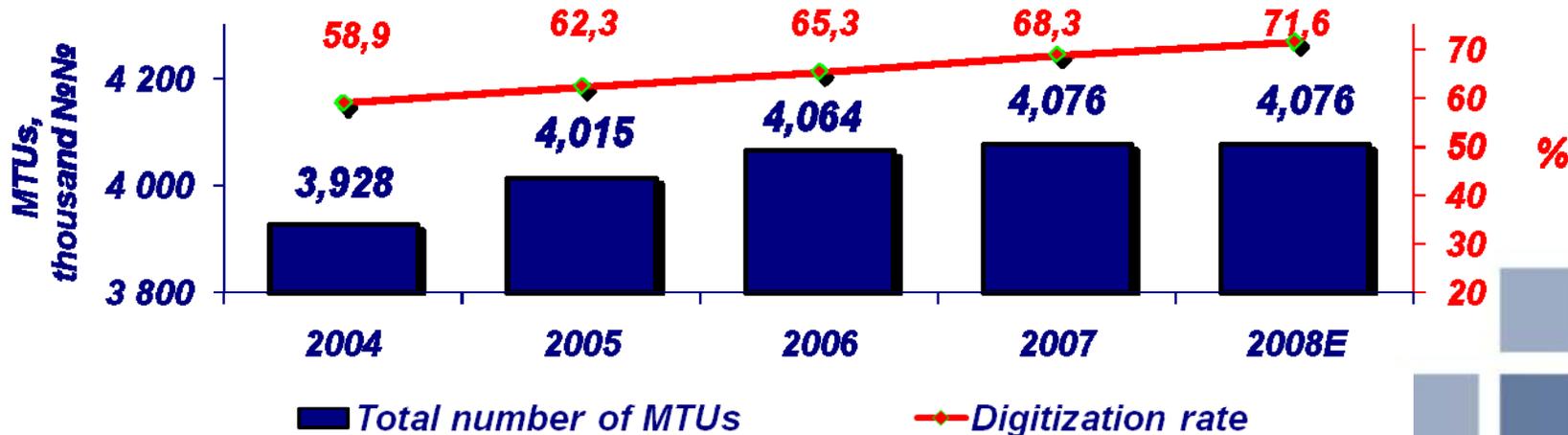
\* - as of 1 January 2008  
Sources: Company data

### 3. Key Data - Network Development

#### Increase in length of intra-zonal telephone channels

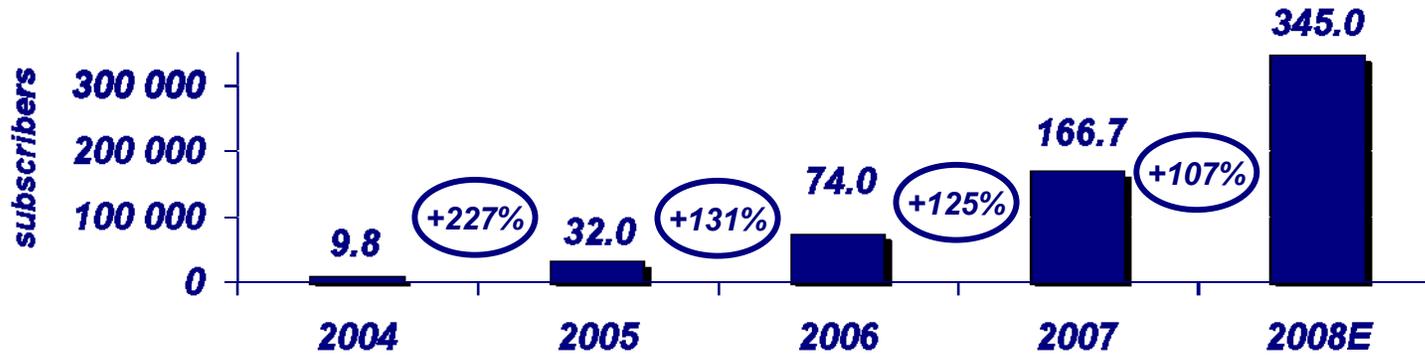


#### Number of main telephone units (MTU) as at the end of the period



### 3. Key Data - Network Development

#### Number of broadband access subscribers

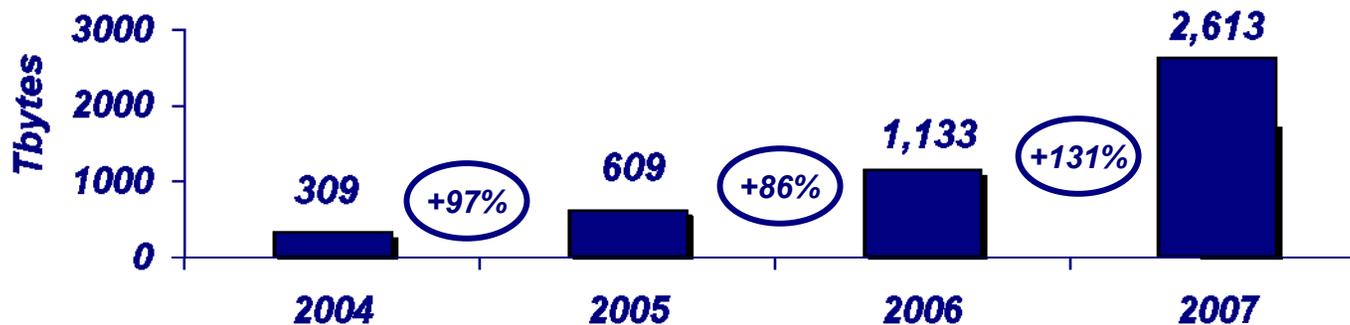


Q1 2008

202,8 thousand  
broadband access  
subscribers

xDSL ARPU –  
940 roubles

#### Internet traffic



### 3.Key Data - Key Financial Highlights (RAS)

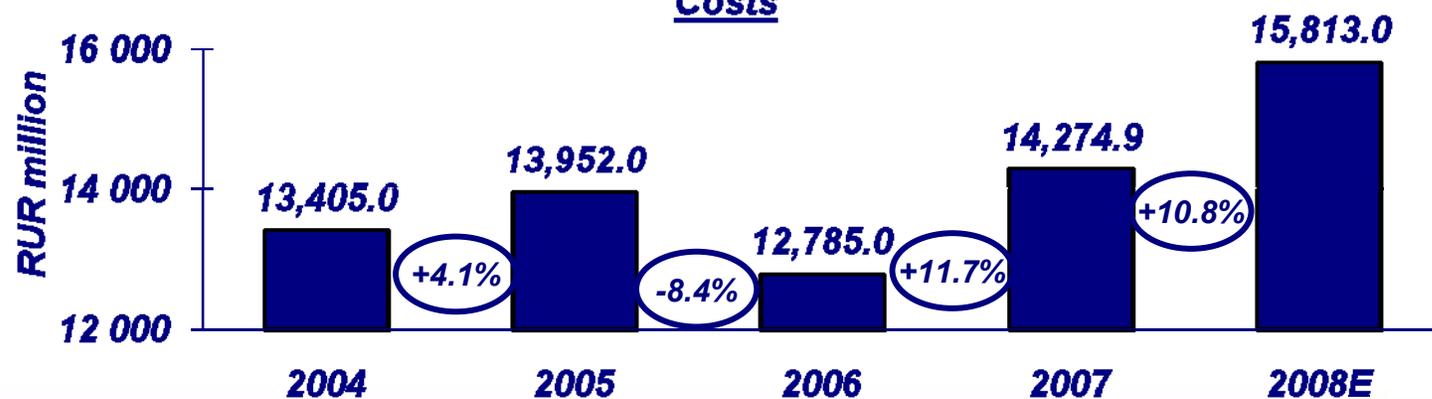
#### Revenue



Q1 2008

Revenue –  
5,103.6 million  
roubles

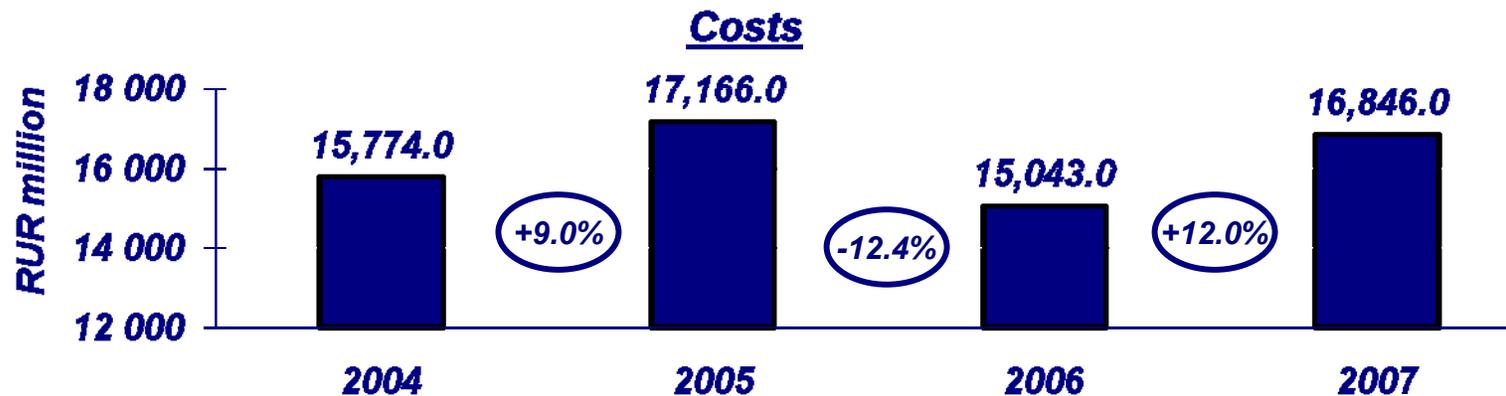
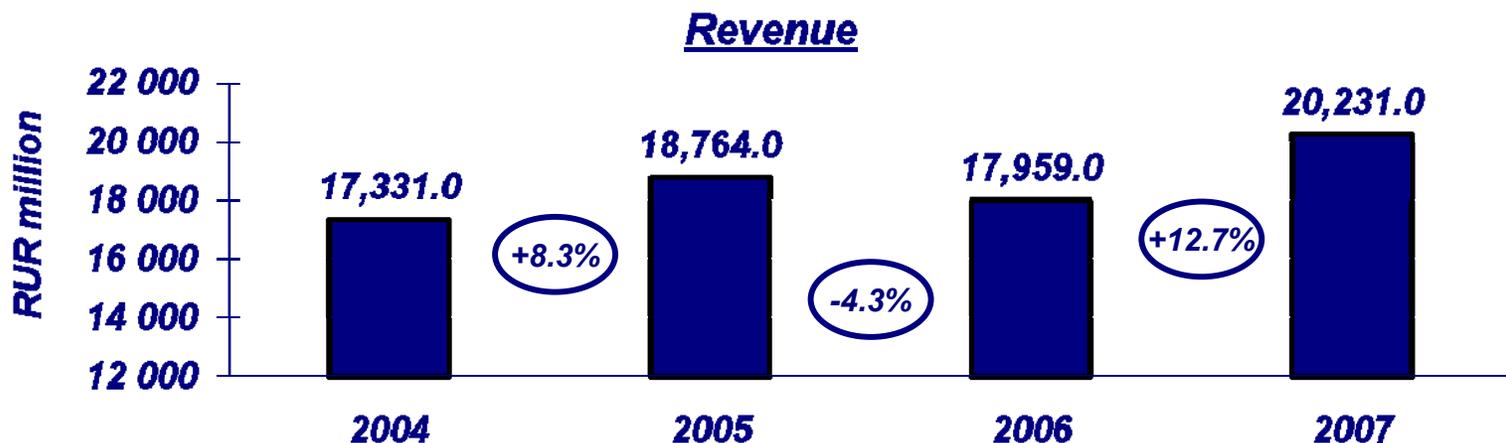
#### Costs



Q1 2008

Costs –  
3,968.8 million  
roubles

### 3.Key Data - Key Financial Highlights (IFRS)

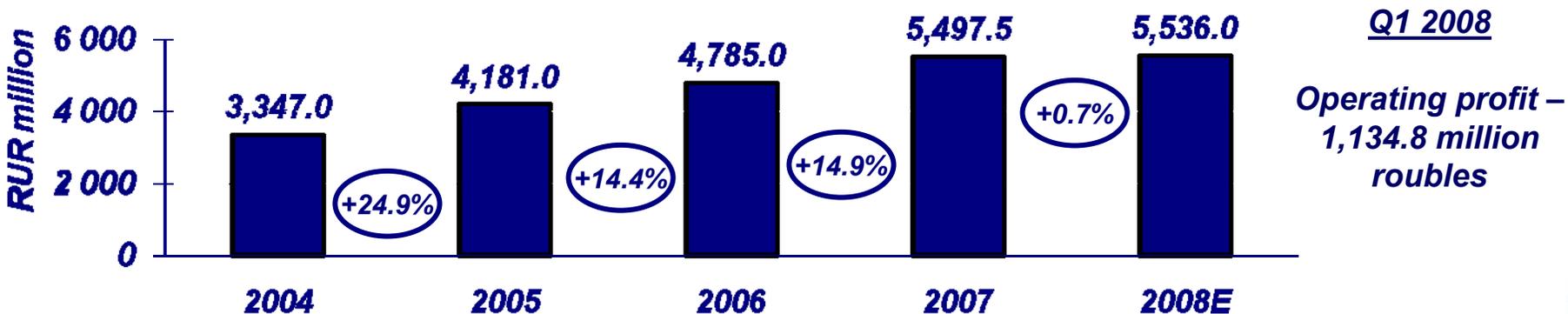


### 3.Key data - EBITDA and EBITDA margin

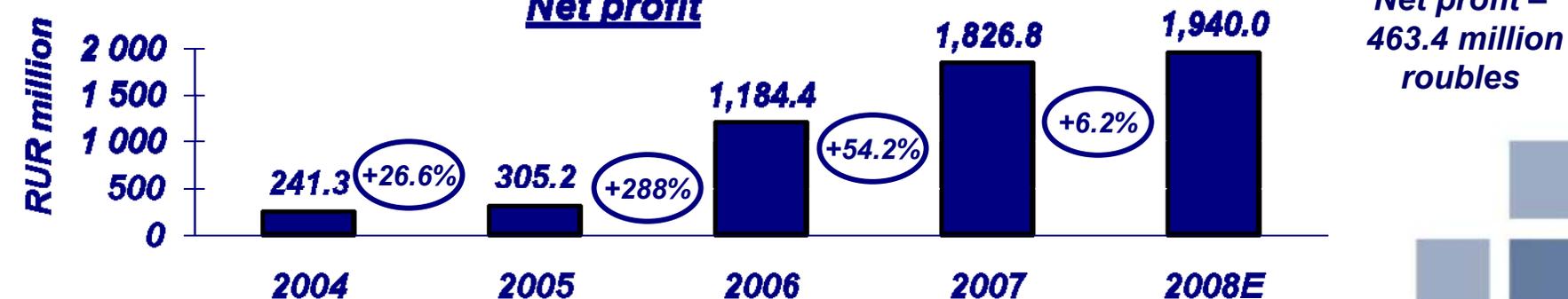
<i>Description</i>	<i>2004</i>	<i>2005</i>	<i>2005/ 2004</i>	<i>2006</i>	<i>2006/ 2005</i>	<i>2007</i>	<i>2007/ 2006</i>	<i>2008E</i>	<i>2008E/ 2007</i>
<b>RAS</b>									
<i>EBITDA, million roubles</i>	<b>4,233</b>	<b>5,382</b>	<b>+27.1%</b>	<b>6,308</b>	<b>+17.2%</b>	<b>7,348</b>	<b>+16.5%</b>	<b>8,137</b>	<b>+10.7%</b>
<i>EBITDA margin, %</i>	<b>25.3</b>	<b>29.7</b>	<b>+4.4 p.p.</b>	<b>35.9</b>	<b>+6.2 p.p.</b>	<b>37.2</b>	<b>+1.3 p.p.</b>	<b>38.1</b>	<b>+0.9 p.p.</b>
<b>IFRS</b>									
<i>EBITDA, million roubles</i>	<b>4,593</b>	<b>5,029</b>	<b>+9.5%</b>	<b>6,394</b>	<b>+27.1%</b>	<b>7,499</b>	<b>+17.3%</b>	<b>~</b>	<b>~</b>
<i>EBITDA margin, %</i>	<b>26.5</b>	<b>26.8</b>	<b>+0.3 p.p.</b>	<b>35.6</b>	<b>+8.8 p.p.</b>	<b>37.1</b>	<b>+1.5 p.p.</b>	<b>~</b>	<b>~</b>

### 3. Key Data – Profitability (RAS)

#### Operating profit

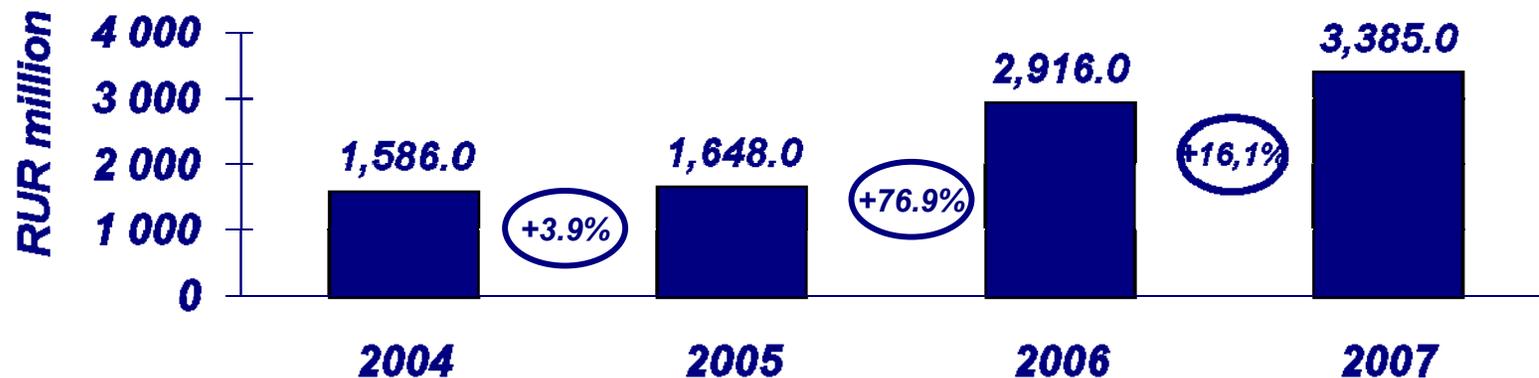


#### Net profit

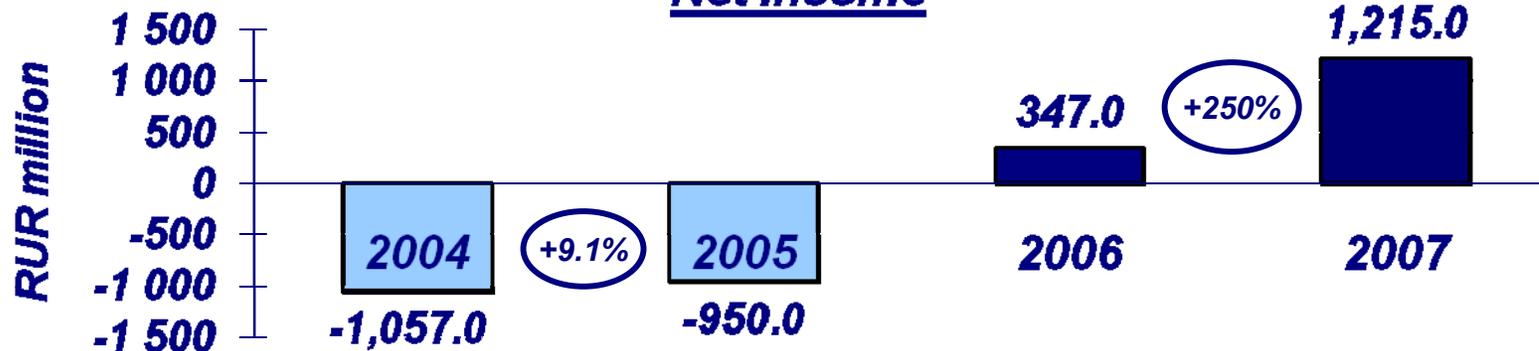


### 3. Key data – Profitability (IFRS)

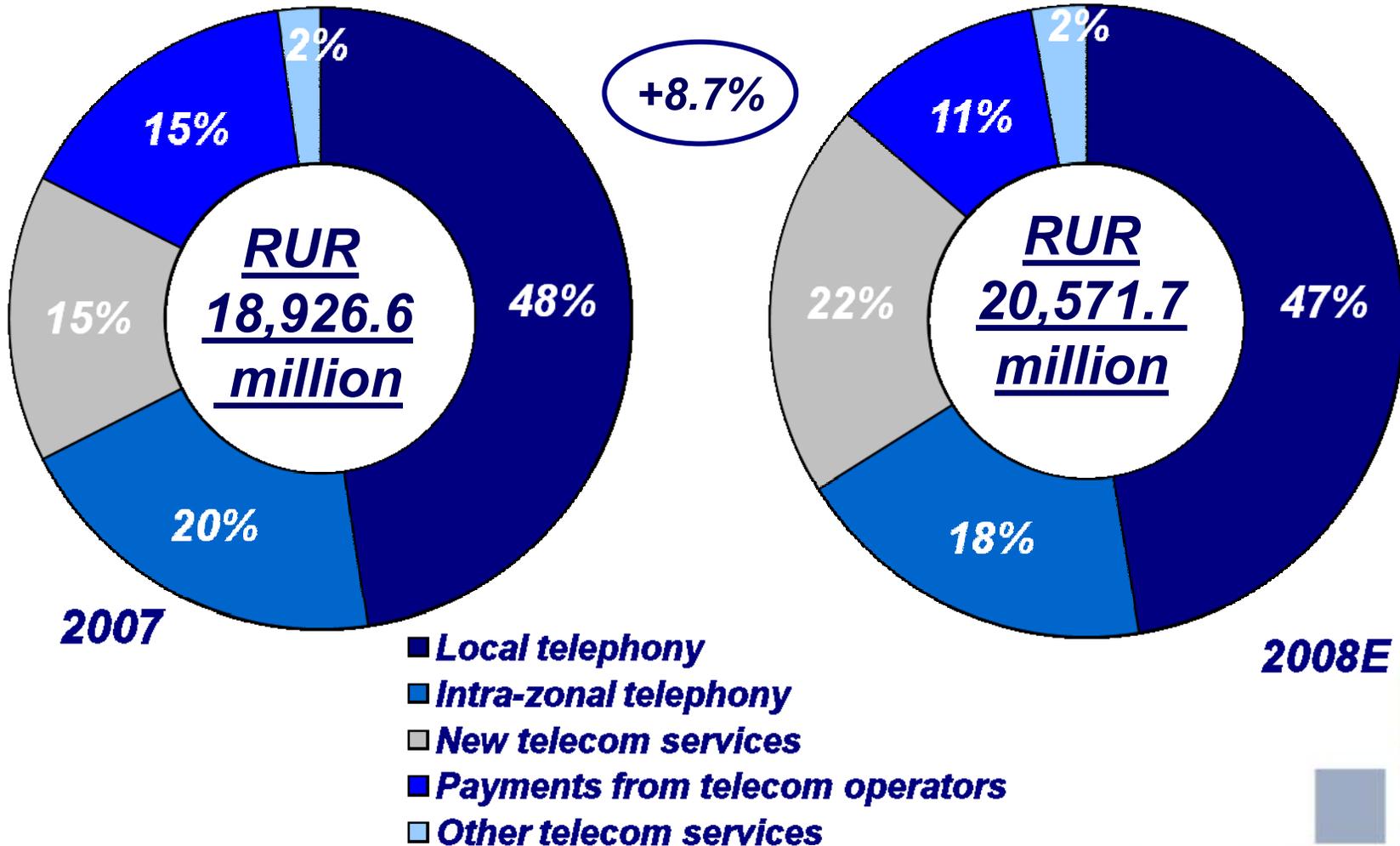
#### Income from core activities



#### Net income



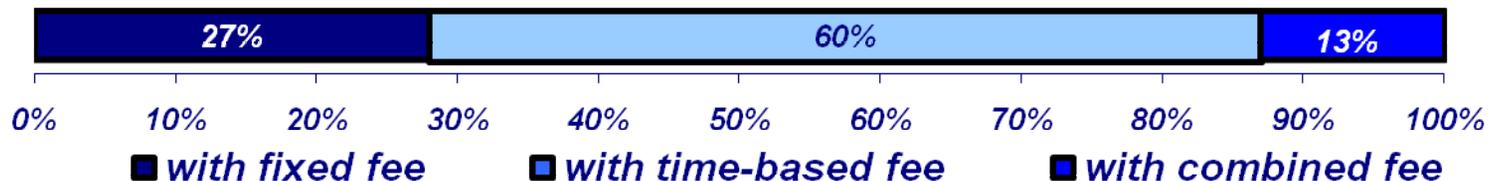
### 4. Revenue – Revenue Breakdown by Type of Services (RAS)



## Tariff Policy

- From February 1, 2008 customers in all branches of the Company have got the opportunity to select one of three tariff plans to pay for local voice services, that resulted in a 5%-increase in revenues from local services in the first quarter of 2008.
- At present not all branches of the Company use the highest statute-permitted tariffs. Southern Telecommunications Company plans to bring such tariffs to their maximal level in the second quarter of 2008.
- According to the Russian legislation the regulatory body shall review tariff rates at least once a year. In the first quarter of 2008 tariffs have not been changed. STC expects tariffs to be revised by the regulatory authority in the third quarter of 2008.
- The Government of the Russian Federation approved the average growth rate of local tariffs at 7.5% in 2009. The Company will submit the application for revision of its tariff rates to the Federal Tariff Service in the fourth quarter of 2008.

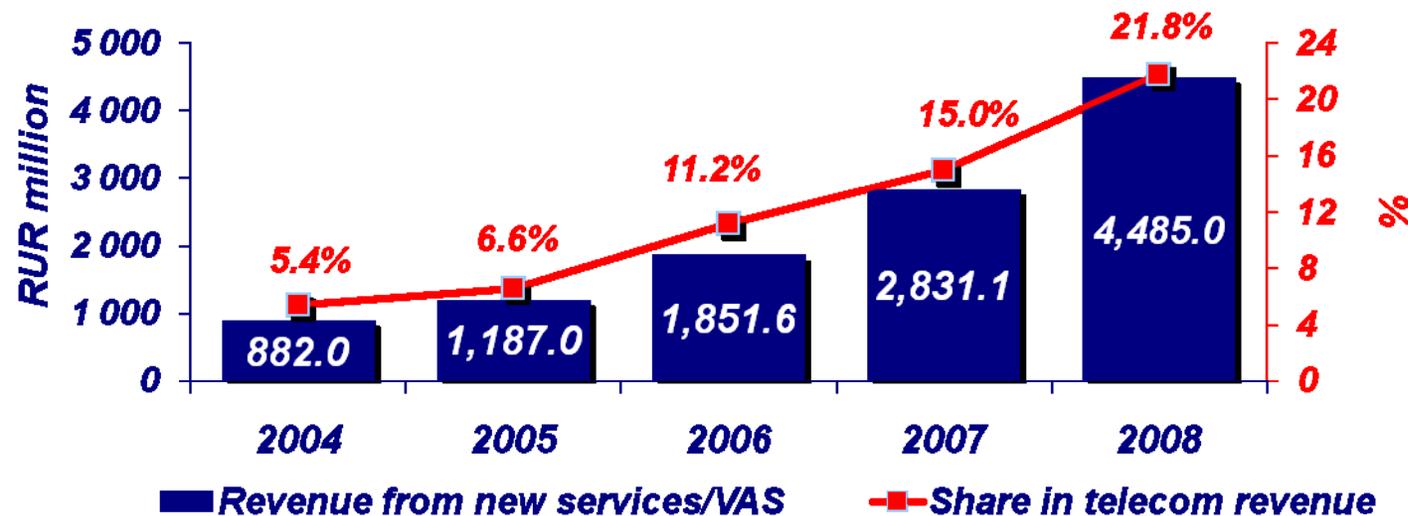
### **Usage of three tariff plans by subscribers as of 1 June 2008\***



\* among subscribers who can use time-base billing system

## 4. Revenue – New services/VAS

Q1 2008

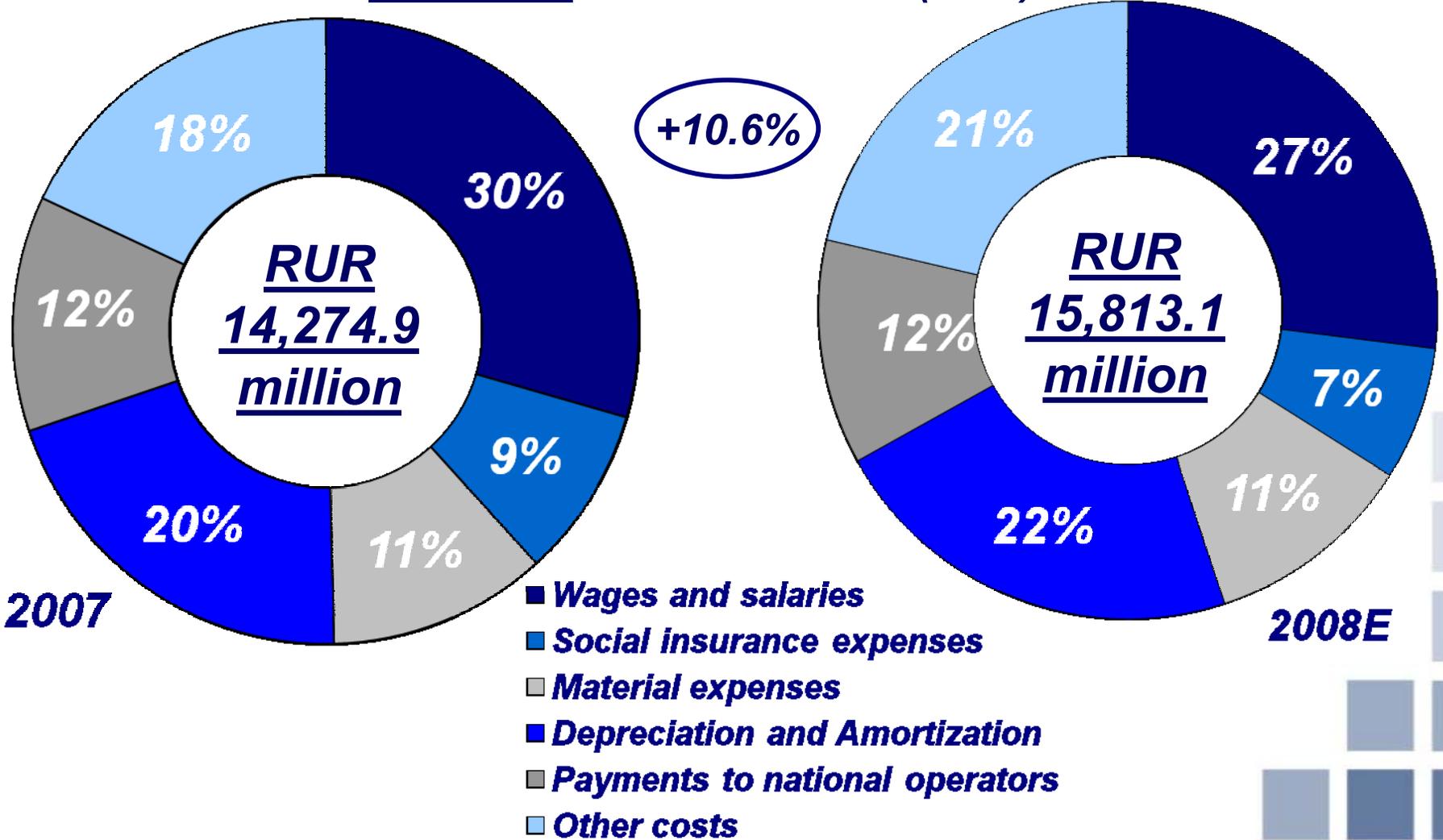


Revenue from VAS – 973.5 million roubles

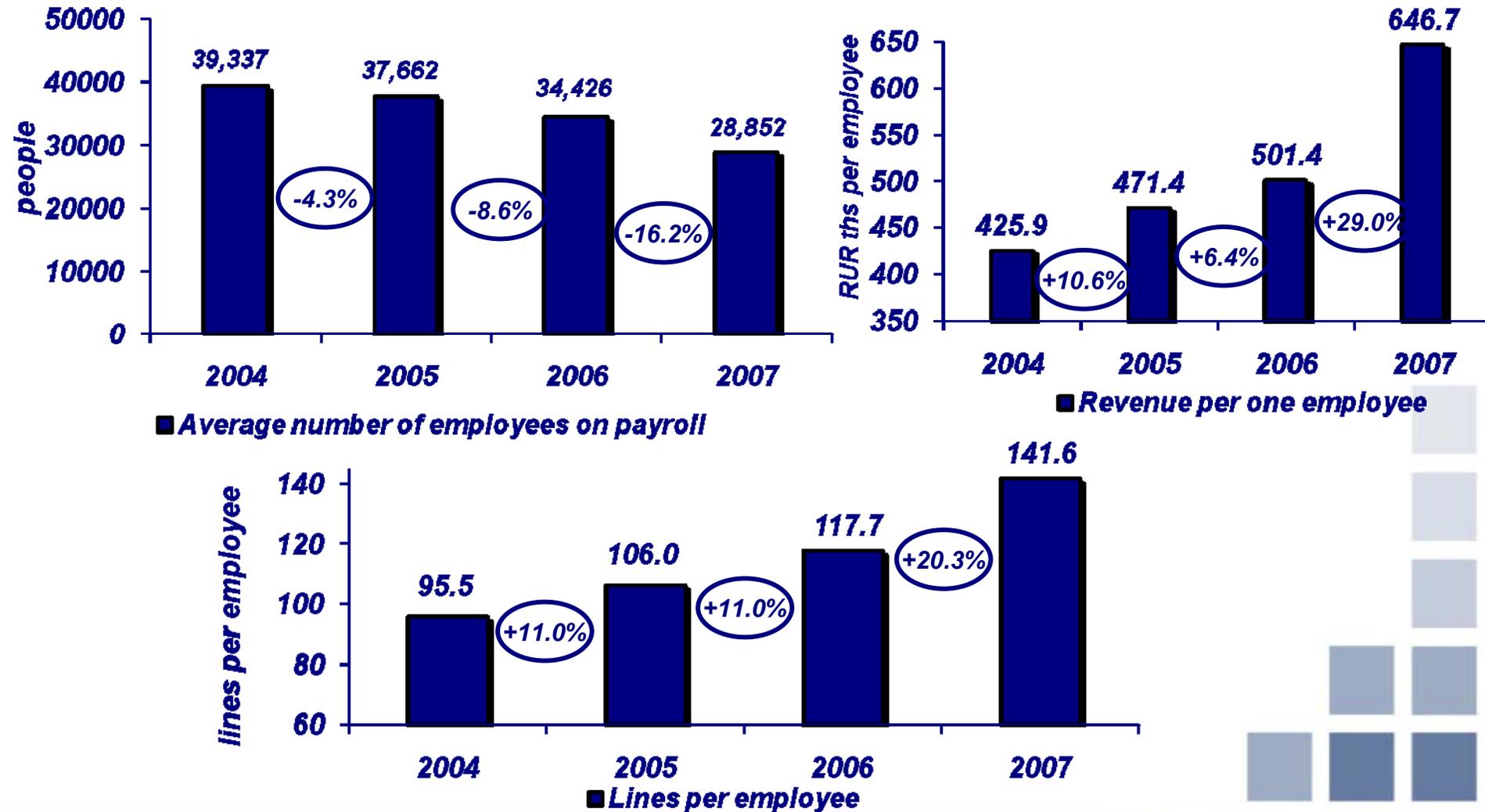
Share in telecom revenue – 19.8%

Description, RUR mln	2006	2007	2007 / 2006
Internet	1,500.0	2,443.4	63.0%
Construction of virtual private networks (VPN)	329.1	356.3	8.3%
Intelligent networks and other	22.5	31.4	39.6%

### 5. Costs - Costs Structure (RAS)



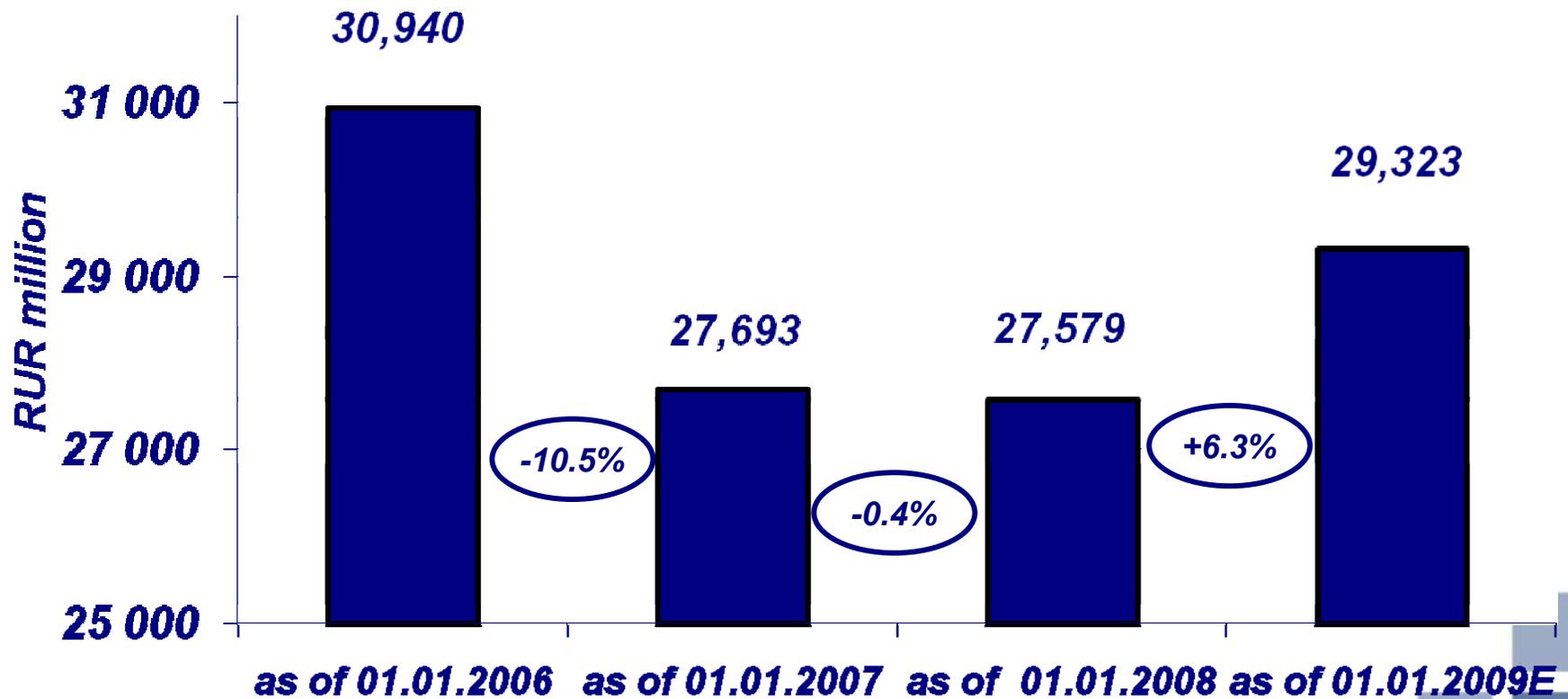
## 6. Business Efficiency Indicators



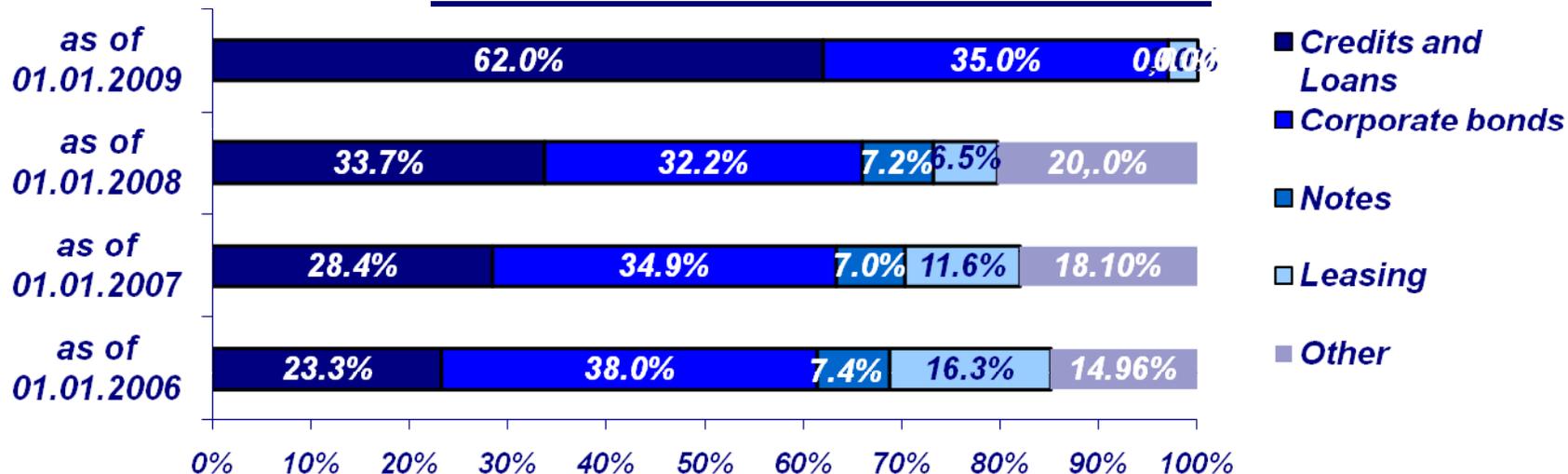
## 7. Investment Policy

<i>Million roubles</i>	<i>2007</i>	<i>2008E</i>	<i>2009E</i>	<i>2010 E</i>	<i>2011E</i>	<i>2012E</i>
<b><i>Investments, total:</i></b>	<b><i>4,089</i></b>	<b><i>5,136</i></b>	<b><i>4,895</i></b>	<b><i>6,620</i></b>	<b><i>6,260</i></b>	<b><i>6,280</i></b>
<b><i>Breakdown by investment category:</i></b>						
<b><i>Traditional telephony</i></b>	<b><i>1,437</i></b>	<b><i>1,307</i></b>	<b><i>1,698</i></b>	<b><i>3,608</i></b>	<b><i>3,655</i></b>	<b><i>3,734</i></b>
<b><i>New services</i></b>	<b><i>926</i></b>	<b><i>1,039</i></b>	<b><i>1,515</i></b>	<b><i>1,585</i></b>	<b><i>1,758</i></b>	<b><i>1,979</i></b>
<b><i>IT investments</i></b>	<b><i>863</i></b>	<b><i>967</i></b>	<b><i>500</i></b>	<b><i>250</i></b>	<b><i>200</i></b>	<b><i>200</i></b>
<b><i>Communication lines and infrastructure</i></b>	<b><i>553</i></b>	<b><i>994</i></b>	<b><i>830</i></b>	<b><i>830</i></b>	<b><i>450</i></b>	<b><i>170</i></b>
<b><i>Other</i></b>	<b><i>310</i></b>	<b><i>828</i></b>	<b><i>352</i></b>	<b><i>346</i></b>	<b><i>197</i></b>	<b><i>197</i></b>
<b><i>Breakdown by investment type:</i></b>						
<b><i>With financial return, %</i></b>	<b><i>39</i></b>	<b><i>55</i></b>	<b><i>62</i></b>	<b><i>45</i></b>	<b><i>45</i></b>	<b><i>45</i></b>
<b><i>With qualitative return, %</i></b>	<b><i>61</i></b>	<b><i>45</i></b>	<b><i>38</i></b>	<b><i>55</i></b>	<b><i>55</i></b>	<b><i>55</i></b>

## 8. Credit Portfolio – Debt Volume



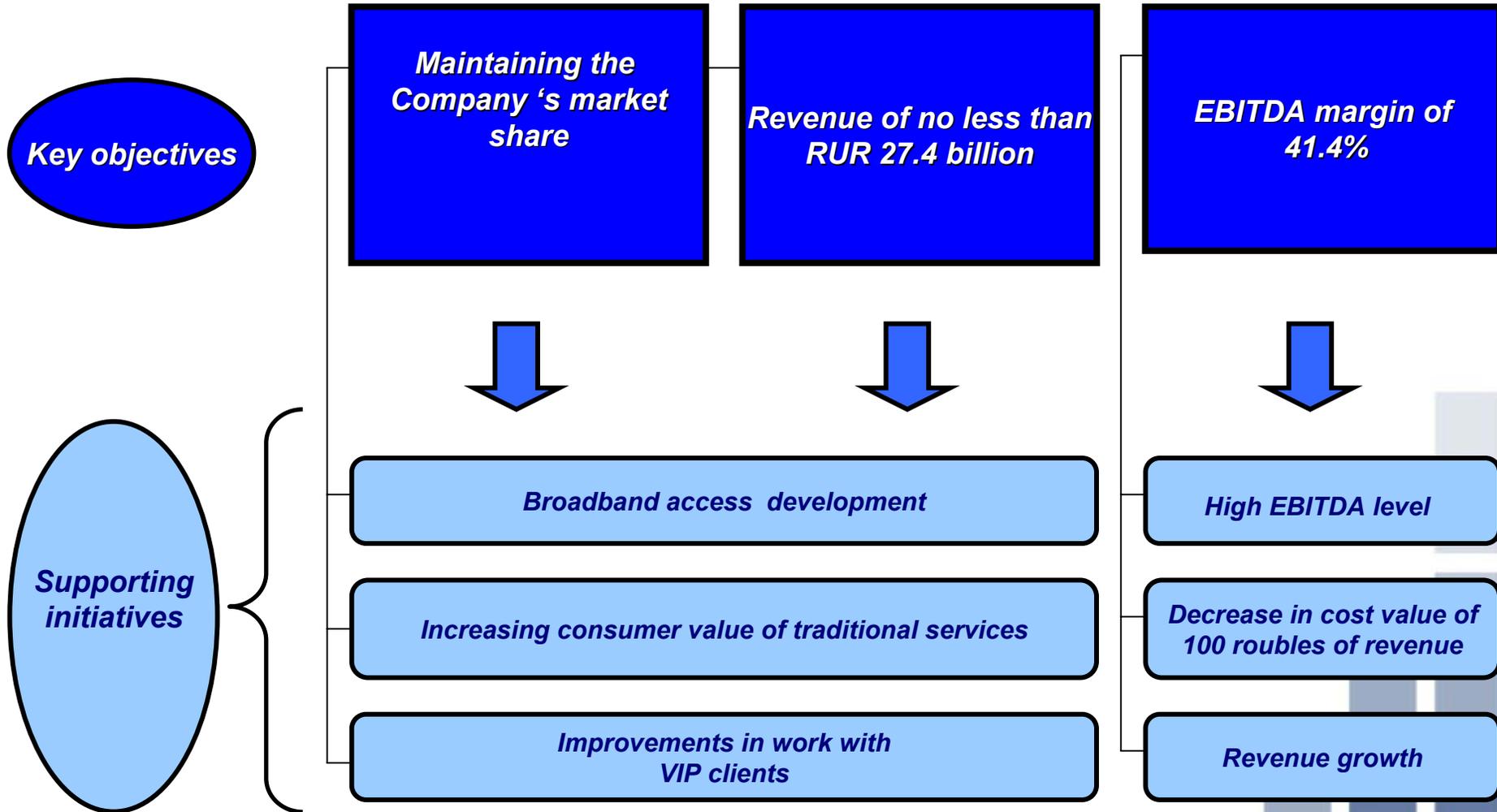
## 8. Credit Portfolio: Debt structure



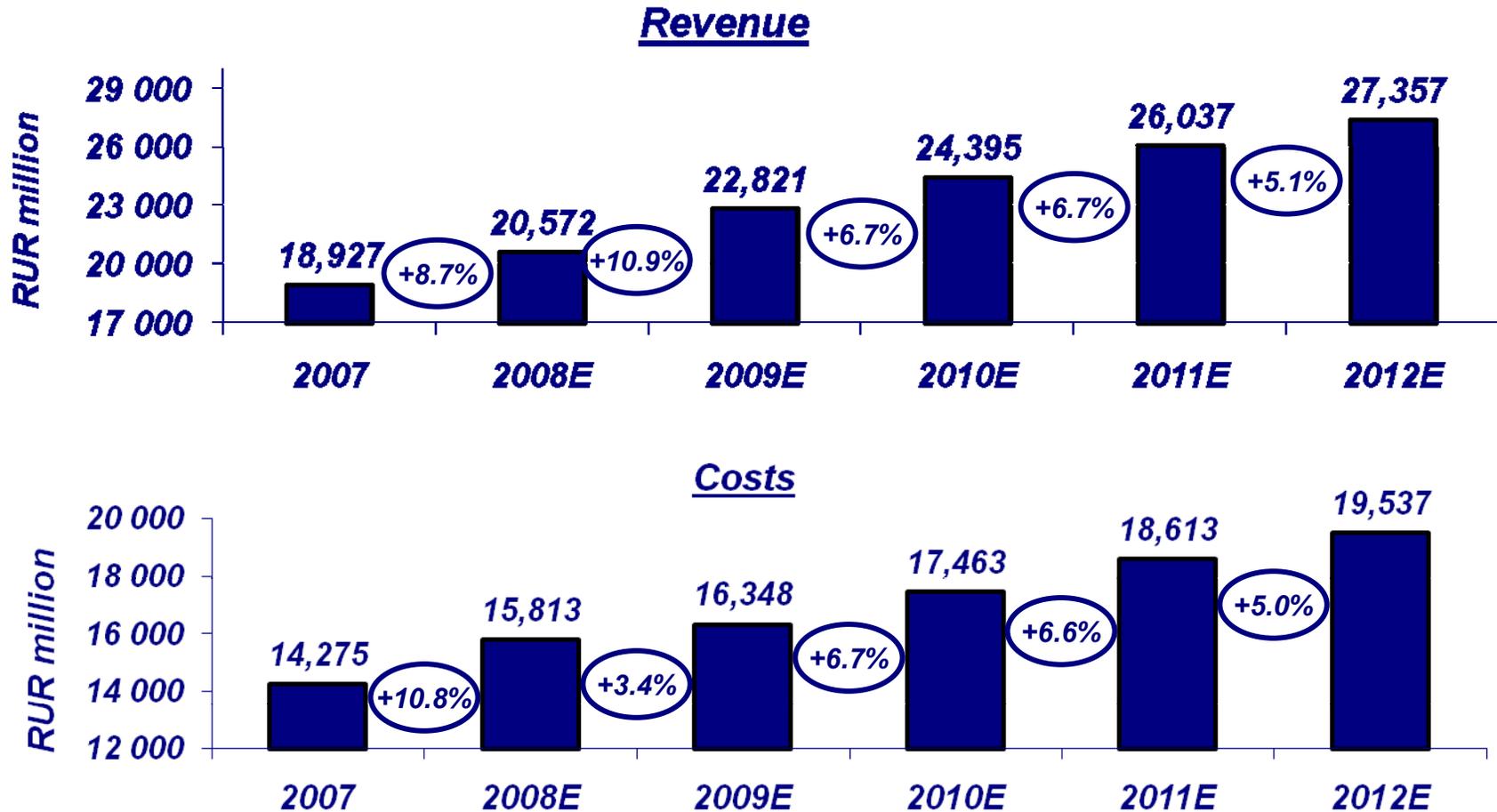
## Weighted average cost of borrowings

Description	As of 01.01.2006	As of 01.01.2007	As of 01.01.2008	As of 01.01.2009
Corporate bonds	11.73%	10.41%	9.04%	8.73%
Long-term credits and loans	12.34%	10.63%	9.63%	9.83%
Promissory notes	10.18%	9.84%	9.76%	-
Short-term credits and loans	13.23%	8.34%	6.8%	9.0%
<b>Total weighted average cost</b>	<b>11.80</b>	<b>10.42</b>	<b>9.10</b>	<b>9.35%</b>

## 9. Mid-term Strategy - Objectives for 2012

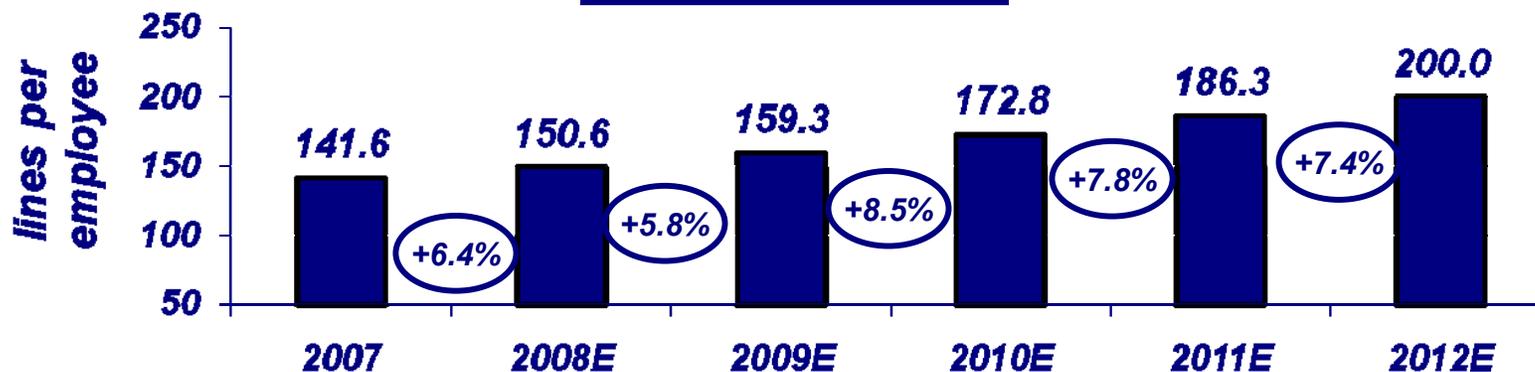


## 9. Mid-term Financial Strategy

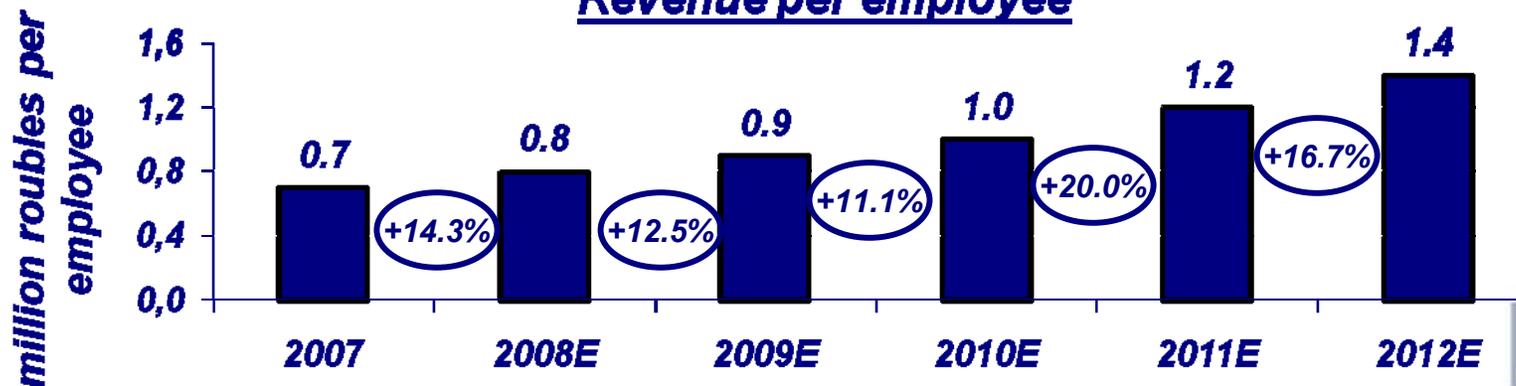


## 9. Mid-Term Strategy

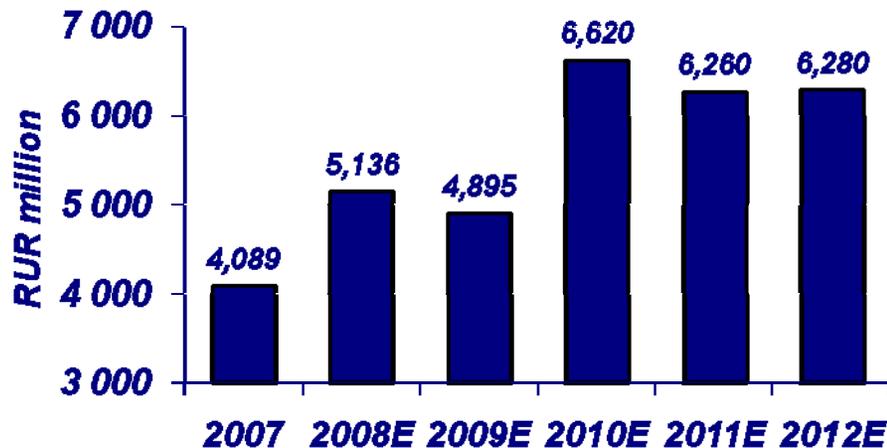
### Lines per employee



### Revenue per employee

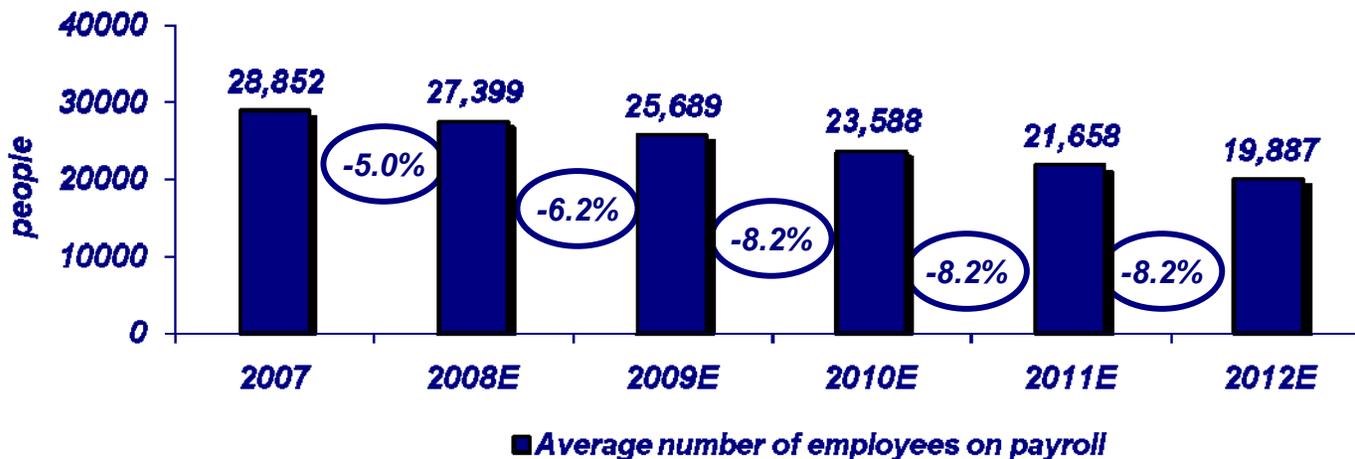


### 9. Mid-Term Strategy



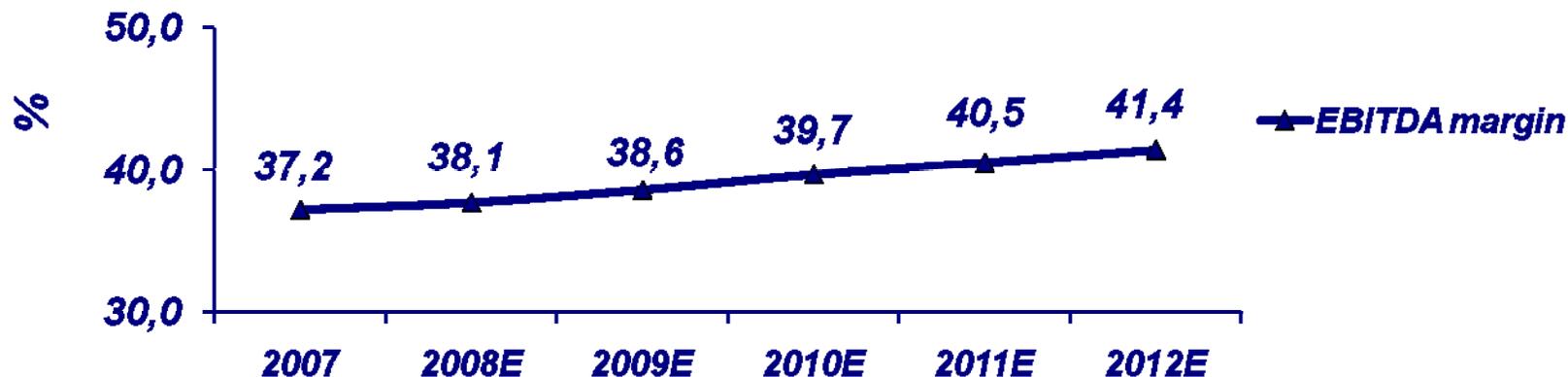
▲ Digitization rate    ◆ Equipped capacity ratio

■ Investments

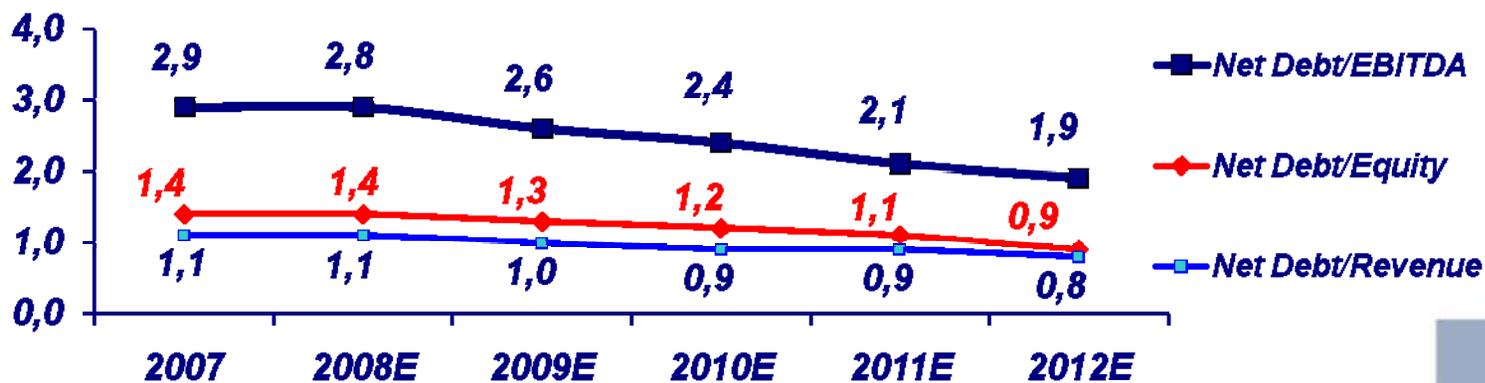


## 9. Mid-Term Strategy

### EBITDA margin performance



### Liabilities cover



***THANK YOU FOR YOUR TIME!***

