

Approved  
By the Board of Directors of "UTK"  
PJSC  
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Amended and restated  
by the Board of Directors of "UTK"  
PJSC  
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## Corporate Governance Code (Set of rules)

“Southern Telecommunication Company”  
PJSC

Krasnodar  
2004

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### 1. Introduction

Public joint stock company “Southern Telecommunication Company” (hereinafter referred to as the Association or the Company) is a major operator of fixed telecommunication in Southern federal district. The Association offers the services of local, long-distance and foreign network, documentation communication, data transfer, teleprogram, paging, rent of channels and telematic services, Internet access and other services in the sphere of telecommunications.

Concentration of financial asset lines for development of priority directions will give the possibility to realize projects of creating a unified information space of the region. For providing the mentioned objectives the Company gradually improves corporate management.

The policy of corporate management constant perfection is directed for the increase of capitalization of the Company, modernization of production basis, retention and consolidation of leadership on telecommunication market of Russia, break-through to a quality new development level.

Information openness, intense technical development in combination with effective management is the criteria for defining the Association as reliable business associate.

The key task of the Association is to provide southern regions of Russia with all kinds of telecommunication services of high quality with advanced service for the purpose of increasing level and quality of economic, social and other functions performance of the state and civil society.

The mission of the Association is to provide southern regions of Russia with all kinds of telecommunication services of high quality with advanced service, thereby increasing living standard of the team and society.

The purpose of the given Code adoption is to form and introduce into day-to-day activity the principles and rules of corporate conduct, promoting the Company’s successful development, expressed by long-term development outlooks of the Association, increase of its capitalization, observance of legitimate interests and rights of shareholders and formation of positive image of

the company among shareholders, employees, customers of the Association and other persons concerned.

Realizing this responsibility and accepting the importance of good corporate management for successful business and achieving mutual understanding between all the persons concerned, "STC" PJSC voluntarily assumes liability to follow the stated here principles and to make all reasonable efforts for their observation by the Association in its day-to-day activity.

The statements of the given Code are elaborated on the basis of international and national standards of corporate management advanced practice, particularly, taking into account the Principles of corporate management of OECD and the Code of corporate conduct, recommended by Federal Commission of Securities of Russia.

Principles and rules of the given Code represent higher, in comparison with current legislation, level of management and control bodies functioning, business culture and observation of high ethical norms.

The Code must organize corporate identity of the major company which is acting on vast spaces and has many branches and subdivisions. Top executives of the branches are entitled to make direct suggestions to the Board of Directors about changes or additions to the given Code.

The following persons concerned are also entitled to make suggestions to the Board of Directors about changes or additions to the given Code: shareholders possessing total not less than 2 per cent of voting shares of the Association, members of the Board of Directors and top-managers of the Association, branch managers, and members of auditing commission.

In its activity the Company is guided by the following documents:

- The norms of current legislation of Russian Federation;
- Articles of Association
- The given Code of corporate management (Set of rules);
- Regulations about shareholders meeting procedure
- Regulations about Board of Directors of the Association;
- Regulations about Administration of the Association;
- Regulations about Auditing commission of the Association;
- Regulations about dividend policy of the Association;
- Regulations about Corporate secretary and Staff of the Corporate secretary of the Association;
- Information regulations of the Association.

## 2. The Notion and Principles of Corporate Management

2.1. Corporate management in the Company is the system of principles and norms, which help to coordinate for the benefit of the Company the rights and legitimate interests of the shareholders, members of the Board of Directors, executive offices, employees and other persons concerned, and aimed at receiving maximum profit from company's activity according to the current legislation and taking into account international standards.

2.2. The Association assumes liability to perfect the corporate management, respect the rights and legitimate interests of all persons concerned and assist in effective activity of the Association, including assets value of the association, creation of jobs and maintenance of financial stability and profitability of the Association.

2.3. The association assumes liability to develop corporate relations according to the principles which provide:

- 2.3.1. a real possibility for shareholders to execute all their rights of participating in the Association in their full volume;
- 2.3.2. equal attitude to shareholders possessing shares of one type (category), and possibility to get effective protection in case of rights violation;

- 2.3.3. execution of strategic management of the Association activity by the Board of Directors and its effective control of executive offices activity as well as accountability of the Board of Directors to shareholders;
- 2.3.4. possibility for executive offices to rationally, bona fide, only in the interest of the association accomplish effective management of the Association current activity as well as accountability of executive offices to the Board of Directors and shareholders;
- 2.3.5. timely opening of full and true information about the Association, including its financial situation, economic indicators, structure of property and management for the purpose of providing possibility for shareholders of the Association and investors to make reasoned decisions;
- 2.3.6. taking into account legal rights of persons concerned, including employees of the Association, and encouragement of active cooperation of the Association and other participants of corporate relations (hereinafter referred to as persons concerned) with the purpose to increase assets of the Association, stock value and other securities of the Association, creation of jobs;
- 2.3.7. effective control of financial and economic activity of the Association with the purpose of protection the rights and legitimate interests of shareholders;
- 2.3.8. observation of all the norms of current legislation;
- 2.3.9. introduction of ethic norms and rules into the Association activity.

### 3. Shareholders Meeting

3.1. The practice of corporate management of the Association provides for the right of shareholders to receive from the Board of Directors and executive offices of the Association a detailed and reliable report about the policy of the Association. The holding of a shareholders meeting gives the Association the opportunity not less than once per year to inform shareholders about its activity, achievements and plans, to engage them into discussion and making decisions on the most important questions of the Association activity.

3.2. The procedure of shareholders meeting, confirmed in the Association, provides equal attitude to all the shareholders and is not very expensive and complicated.

3.3. The procedure of preparing and holding a shareholders meeting is regulated by Articles of the Association and internal document of the Association – by “Regulations of shareholders meeting procedure of public corporation “Southern Telecommunication Company”.

3.4. It is established by the internal documents of the Association, Articles of the Association and Regulations of shareholders meeting procedure of the Association, that the notification about holding a shareholders meeting is to contain enough information and to be done on term which permits shareholders to elaborate a viewpoint for every question of the agenda.

3.5. Notice of the General Shareholders’ Meeting shall be given not later than 30 days before its opening. Should the proposed agenda of the Extraordinary General Shareholders’ Meeting include the issue on election of the Company Board of Directors, notification of the Extraordinary General Shareholders’ Meeting shall be made not later than 50 (fifty) days before the meeting.

Should an Extraordinary General Shareholders' Meeting be convened on request of the Company’s Auditing Commission, Auditor as well as of any shareholder or group of shareholders that owns 10 percent or more of the Company’s total number of voting shares, notice of the Extraordinary General Shareholders’ Meeting should be given not later than 20 days before its opening.

3.6. The Association aims at notifying about holding a shareholders meeting not later than 30 days from the date of the meeting irrespective of the questions, included into agenda, if greater terms are not stated by the law.

3.7. A notification about holding a shareholders meeting is to contain the following: В сообщении о проведении общего собрания акционеров должны быть указаны:

- full trade name of the Association and the whereabouts of the Association;
- the form of a shareholders meeting (meeting or absentee voting)
- date, place, time of holding a shareholders meeting and post address for sending completed voting paper, or in case of shareholders meeting in a form of absentee voting – the final date of acceptance voting papers and post address for sending completed voting papers;
- beginning of registration persons (their representatives) participating in a shareholders meeting;
- date of compilation of the list of persons entitled for participation in a shareholders meeting;
- agenda of a shareholders meeting;
- procedure of conforming their authorities by representatives of persons entitled for participation in a shareholders meeting;
- procedure of examination of the information (material) which is subject to submission to the persons entitled for participation in a shareholders meeting, during preparation for holding a meeting, and address (addresses) where the examination is possible, address (the whereabouts) of a sole executive office of the Association as well as addresses of other places where the information may be submitted;
- other information according to the questions of agenda for a meeting.

3.8. The methods of notification are defined by the necessity to inform all the listed persons entitled to participate in a shareholders meeting. The notification about holding a shareholders meeting is sent to every person indicated in the list or persons entitled for participation in a meeting by registered letter or is given to every mentioned person with necessary addressee signature, or is published in print edition of “Rossiyskaya Gazeta”, defined in Articles of the Association, and is located on the Internet site of the Association by the address <http://www.stcompany.ru>

3.9. In the place provided for information submission for a shareholders meeting the Association gives possibility for the shareholders possessing not less than one per cent of votes to examine the list of persons entitled to participate in a shareholders meeting.

3.10. The Association provides the right of shareholders possessing total not less than 2 per cent of voting shares of the Association to include questions into agenda of annual shareholders meeting and nominate candidates into the Board of Directors of the Association, Auditing commission of the Association.

3.11. The Company wants that information made available in connection with preparation for the General Shareholders' Meeting and the access to such information enable shareholders to gain a full picture of the Company's operations and make informed decisions on the agenda issues. Such information shall be made available for shareholders at the address of the Company's General Director and at the addresses of the Company's branches. Electronic telecommunication means being developed, the Company endeavors that shareholders be given an additional opportunity to access General Shareholders' Meeting-related information by electronic telecommunication channels.

Reports reflecting the Board's position and any dissenting opinions of the directors on each agenda item should be submitted to shareholders before each General Shareholders' Meeting.

3.12. From the persons nominating candidates for the membership in the Board of Directors and Auditing commission the Association demands submission of biographic data of the candidates for further notification of the shareholders during preparation for the shareholders meeting.

3.13. For the control of the right for the share of the Association is executed by keeping the register of shareholders of the Association under the supervision of a specialized registering

clerk, the Association does not require submission of any documents confirming the rights of the shareholder, recorded in the register.

3.14. When defining the place, the date and the time of holding a shareholders meeting the Association proceeds from the necessity to provide the real and not difficult possibility for the shareholders to take part in it.

3.15. The definition of the agenda questions for a shareholders meeting by the way which minimize the possibility of their different and ambiguous interpretation.

3.16. The procedure of participant registration is elaborated and fixed in the internal documents of the Association in such a way that prevents obstacles for participation.

3.17. For the purpose of giving to the shareholders of the Association the possibility to get the answer for all the questions the Association aims at providing the presence of the Director General, full membership of the Administration, members of the Board of Directors, as well as candidates for the new Board of Directors, Auditor representatives and members of Auditing commission.

3.18. The Board of Directors appoints the chairman of the meeting.

3.19. Voting at the meeting is executed with the help of voting papers. The Association aims at creating and realizing of effective voting mechanism for protection of minority shareholders from unfair treatment.

3.20. For the purpose of strict observation of shareholders rights when sizing up voting results the Association aims at summing and declaring the results on the day of the shareholders meeting (before its end).

#### 4. Board of Directors of the Association

4.1. The Association considers the effective, professional and independent Board of Directors to be an important element of good corporate management. The Board of Directors can not substitute talented managers or change economical sphere of the Association activity. However, it can influence the efficiency of work by executing common strategic management and control of executive offices for the sake of the Association and its shareholders. The executive offices responsible for current activity of the Association also take important part in the process of management. Effective cooperation between these two governing bodies and strict distinction of authorities are the key factors for providing proper corporate management.

4.2. The basic objectives of the Board of Directors activity is to control the effective management of the company activity for long-term stable development of the Association, increase of its assets, protection of rights and legitimate interests of the shareholders.

4.3. To realize its objectives of activity the Board of Directors is guided by the following principles:

- making decisions on the basis of reliable information about the activity of the association;
- prevention of limitation of the rights of shareholders to participate in managing the business of the Association, getting dividends and information about the Association;
- balancing the interests of different shareholders groups and making maximum objective decisions in the interests of all the shareholders of the Association.

4.4. The Board of Directors of the Association fulfills the following basic functions:

- defines the strategy for the Association development and accepts annual budget of the Association;
- provides effective control of financial and economic activity of the Association;
- provides realization and protection of shareholders rights as well as contributes to corporate conflicts settlement;
- provides effective activity of executive offices of the Association, also by means of controlling their activity;

- defines ethic rules which are to be introduced into the activity of the Association;
- establishes a risk management mechanism in the Company.

4.5. The principles and rules of the Board of Directors activity, its competence, the rights and obligations of the Board of Directors members are stipulated in the Articles and in the internal document of the Association - Regulations of the Board of Directors.

The structure of the Board of Directors and its formulation.

4.6. The staff of the Board of Directors of the Association provides the most effective execution of its functions.

4.7. The members of the Board of Directors should refrain from actions that may result in a conflict of interests. If such conflict of interests arises they must disclose it to Board of Directors and act in compliance with the requirements of the applicable legislation, constituent and other internal documents of the Company.

The members of the Board of Directors must inform in writing about the fact of share ownership, the intention to make transactions with the securities of the Company, its affiliates and subsidiaries as well as about the concluded transactions with such securities.

4.8. The Board of Directors of the Association is annually elected by annual shareholders meeting at the amount of 11 persons. The basis task of the Board of Directors is to arrange a fruitful and productive discussion, make quick and evaluated decisions, and organize effective activity of the committees of the Board of Directors.

4.9. The presence of independent directors within the frame of the Board of Directors promotes the formulation of objective viewpoint of the Board of Directors over the points in question.

4.10. The basic demand to the independent director is his ability to make objective judgments on the basis of his professional experience and competence which assumes no property, sibling, official or any other circumstances that may affect his viewpoint.

4.11. The independent director is considered to be a person:

4.11.1. which is not and was not during a year before decision is made:

- a person which executes the functions of a sole executive office of the Association, including being a manager, member of joint executive office, a person which takes positions in management of governing organization.
- a person thereof a spouse, parents, children, native or half native siblings, adoptive parent or adopted are persons which take positions in indicated management offices of the Association, governing organization of the Association or managers of the Association;
- affiliated person of the Association excluding a member of the Board of Directors.

4.11.2. which is not a party by obligations with the Association according to which he can purchase property (receive money), the value of which makes up 10 and more per cent of the annual receipt of the mentioned person, except a bonus for participating in the activity of the Board of Directors.

4.11.3. which is not a great counteragent (or its representative) of the Association (such an agent whose summarized transaction volume with the association makes up 10 and more per cent of balanced assets value of the Association);

4.11.4. which is not a representative of a State;

4.11.5. which does not possess personally or through affiliated persons the share of company's property sufficient for self nomination into the Board of Directors;

- 4.11.6. which does not receive reward for consulting or other services suggested for the company except a bonus for the activity within the Board of Directors;
- 4.11.7. which does not represent the interests of consultants and counteragents working with the Association;
- 4.11.8. which declared publicly about his position of independent director prior to being elected into the Board of Directors.
- 4.12. The independent director can not be considered an independent after 5 year term of executing the obligations of the Board of Directors member.
- 4.13. For the purpose of formulation a wide range of viewpoints over the discussed questions and real influence of the independent directors on the decision made by the Board of Directors, the amount thereof make up not less than three persons out of eleven members of the Board of Directors.
- 4.14. The Association reveals the information about the amount of independent members of the Board of Directors and their names on the Internet-site and in quarterly report. Independent director is to declare about his independent position prior to election – at the moment of nomination as a candidate into the Board of Directors.
- 4.15. Independent director under the circumstances that he ceases to be the one is to make application to the Board of Directors pointing out the changes and circumstances. The Association is obliged to disclose the information on the site and in the messages in authorized information agencies that the member of the Board of Directors ceased to be independent.
- 4.16. The election of the Board of Directors members is done by the way of transparent procedure which takes into account diversity of shareholders viewpoints, provides correspondence of the Board of Directors staff to the law requirements and permits election of independent directors.
- 4.17. The procedure of election the Board of Directors by annual shareholders meeting by means of cumulative voting which permits to take into account the viewpoints of all the shareholders including those possessing moderate shares holding (minority shareholders) is fixed in the Articles of the Association.
- 4.18. The rights and obligations of the Board of Directors are fixed in the internal document of the Association – Regulations about the Board of Directors of the Association.
- 4.19. The Association does not grant loans to the members of the Board of Directors.
- 4.20. The reward of the members of the Board depends on the personal participation of the member in the operation of the Board and long-term development of the Association thus the mechanism of granting bonus does not restrain independence of directors. The committee of rewards from time to time reconsiders the amount of reward paid to directors.
- 4.21. The members of the Board of Directors are to follow the principles of loyalty to the Association and aim to act reasonably and bona fide in relation to the business of the Association.

#### Organization of the Board of Directors Activity.

4.22. The Association suggests a special program for newly elected members of the Board of Directors to get familiar with the Association, directions of its activity and other questions for helping directors to execute their obligations. The Association as well provides possibility for the members to participate in common educational programs within the frames to increase their professional qualification. The Board of Directors and its committees are to have possibility as well to attract independent consultants of juridical, financial and other questions for the Board of Directors if necessary.

4.23. The Board of Directors keeps detailed minutes of the meetings with proper discussion records. The minute is signed by the Chairman of the Board of Directors and Corporate Secretary and includes namely the results of voting.



4.24. The meeting of the Board of directors takes place regularly not less than once per six weeks according to the confirmed plan of the Board meetings over the period of its authority with the list of questions for consideration on the certain meetings. Such list subject to changes and amendments is compiled taking into account viewpoints of persons and bodies entitled by the legislation and the Articles of the Association to demand the Board of Directors meeting.

4.25. The Board of Directors meeting can be done in a form of combined presence (including usage of conference-communication) or correspondence voting.

4.26. The format of the meeting of the Board of Directors should be selected based on the importance of the agenda issues. The Company endeavors that the resolutions on approval of the priority trends of its operations and budget, preliminary approval of the annual report, convening or refusing a request to convene an extraordinary General Shareholders' Meeting, election and reelection of the Chairman of the Board of Directors, creation and early termination of executive bodies of the Company, submission for consideration by the General Shareholders' Meeting of proposals with respect to reorganization or liquidation of the Company should be passed by members of the Board of Directors only by personal vote.

In order to enhance the efficiency of the Board's decisions and to strengthen the role of independent directors, at least 15% of the Board meetings should be held in the form of personal presence of directors.

4.27. Shareholders (a shareholder) possessing totally not less than 5 per cent of voting shares is entitled to demand a Board of Directors meeting of the Association.

4.28. The Association strongly aims to provide the possibility for the members of the Board of Directors to receive all the information necessary for their functioning. To execute their responsibilities the members of the Board have access to the information and documents about the activity of the Association according to the Clause 89 of the Federal Law "About Public Companies" as well as other information necessary for their activity.

4.29. In order to increase efficiency and improve the work of the Board of Directors the Company creates the following standing Board Committees: Corporate Governance Committee, Strategic Development Committee, Personnel and Awards Committee, Audit Committee.

4.30. The given committees serve for preliminary consideration of the most important questions within the competence of the Board of Directors and preparation recommendations over these questions.

4.31. The amount of members, staff, formulation procedure and functions of the committees are defined by the internal documents – Regulations about the Board of Directors Committees of the Association.

4.32. The Board of Directors can create other permanent or temporary (for settling certain questions) committees to its own discretion.

4.33. The staff of the committees of the Board is defined by the internal documents – Regulations about committees of the Board of Directors. Persons possessing necessary professional knowledge but not members of the committees can be attracted to work at the committee as experts.

4.34. The Board of Directors makes annual evaluation of its operation. Organization of evaluation process is executed by the Committee of personnel and bonuses and its results are discussed at the meeting of the Board of Directors. The Board of Directors is entitled to invite independent consultants for helping in the evaluation.

4.35. The members of the Board during execution of their responsibilities are paid rewards and the expenses incurred for business purposes are compensated.

4.36. The criteria to define reward amount for the members of the Board are included into the internal document of the Association "Regulations about the Board of Directors." The Association aims that the amount of bonus is conditioned by the results of the Association, increase of its capitalization. Elaboration of suggestions about principles and criteria of bonus amount for the members of the Board of Directors is done by the Committee of personnel and rewards.

4.37. The Association aims to create a transparent and accessible control of the Board of Directors activity and bonuses. Results of the board of Directors activity evaluation as well as information about paid reward amount are disclosed at the annual report of the Association.

4.38. The Association will aim to execute at its expense the insurance of responsibility of the Board of directors members, for in case of loss or damage to the third persons caused by unintentional actions or inactivity of the members of the Board the damage is to be compensated on account of an insurance company.

## 5. Executive Offices of the Association

5.1. Fulfillment of the decisions of shareholders and Board of Directors meetings and operative management of the Association activity is done by corporate body (Administration) and by a sole executive office (Director General).

5.2. The competence of Administration and Director General is defined in the Articles and internal document of the Association – Regulations about Administration.

5.3. The executive offices of the Association act according to the budget of the Association which performance is the main criterion to evaluate efficiency of their activity, Articles of the Association and Regulations about Administration of the Association.

5.4. Quantitative and qualitative structure of the Administration providing the most efficient realization of functions thereof is defined by the decision of the Board of Directors.

5.5. Basic demands made to the elected Administration members are as follows:

5.5.1. Confidence of shareholders of the Association, members of the Board of Directors, other managers and employees of the Association.

5.5.2. Ability to take into account the interests of all the shareholders and make evaluated decisions.

5.5.3. Professional experience and qualifications necessary for effective manager;

5.5.4. Experience of working in the field, knowledge of national specificity and tendencies as well as knowledge of the market, products and competitors.

5.5.5. Ability to use knowledge and experience for making decisions in relation to the activity of the Association.

5.6. Director General is appointed by the Board of Directors for a certain period. Director General, in his turn, proposes for election the members of the Administration for the confirmation by the Board of Directors. The rest of the Administration members are as well elected for a certain period, defined by the Board of Directors.

5.7. Director General fulfils the functions of the Chairman of the Administration.

5.8. The Board of Directors can cease the authorities of the Administration members at any moment at that this decision is to be coordinated with Director General. The reason to cease the authorities can be in addition offer of inadequate information to the Board of Directors, deliberate neglect of duties or charge of a crime.

5.9. The Association does not grant loans to the members of the Administration.

5.10. The Administration accepts succession plan which offers precedence rules in case of incapacity (temporary or constant) of the key managers of the Association offices to fulfill their obligations. For the purpose to arrange this process Director General submits to the Board of Directors a list of persons which fit the best to substitute drop-out positions, including the position of Director General.

5.11. The General Director and the members of the Management Board of the Company should refrain from actions that may result or may potentially result in a conflict between their own interests and the interests of the Company. If such conflict of interests arises the General Director and the members of the Management Board must disclose it to the Board of Directors.

The General director discloses information and the members of the Management Board inform in writing about the fact of share ownership, the intention to make transactions with the

securities of the Company, its affiliates and subsidiaries as well as about the concluded transactions with such securities.

5.12. Proper corporate management provides for free interaction between the supervising and executive bodies of the Company. For this purpose the Company developed a procedure for presentation of reports of the General director and the Management Board to the Board of Directors on a regular basis, according to the Provisions on the Company's Board of directors.

5.13. The meetings of the Administration take place routinely according to the confirmed plan of operation at the meeting in a form of combined presence (including the usage of conference communication) or correspondence voting. In case of need the Administration considers the questions not included into the plan.

5.14. The Association aims that rewarding Director General and members of Administration corresponds to their qualifications and takes into account real contribution into the results of the Association activity.

5.15. Director General and Administration members aim at bona fide and high-grade fulfillment of obligations over current management of the Association.

5.16. The Association will execute at its expense the insurance of responsibility of Director General and Administration members, for in case of loss or damage to the third persons caused by their unintentional actions or inactivity the damage is to be compensated on account of an insurance company.

## 6. Corporate Secretary of the Association

6.1. The task of the Corporate Secretary is to provide observation of the procedure requirements which ensue realization of rights and interests of the shareholders of the Association by the offices and officials.

6.2. The Corporate Secretary is appointed for the position and released from the position by the Board of Directors of the Association.

6.3. The Corporate Secretary acts on continuing basis according to the Articles of the Association and internal document – “Regulations about Corporate Secretary and the Staff of corporate secretary” of “STC” PJSC confirmed by the Board of Directors of the Association.

6.4. The rights, obligations, terms of office, amount of reward and responsibilities of the Corporate Secretary of the Association are defined by the Regulations about Corporate Secretary and the Staff of corporate secretary of “STC” PJSC as well as by the contract with the Association. The contract on behalf of the Association is signed by the Chairman of the Board of Directors.

6.5. The Corporate Secretary of the Association fulfills the following functions:

- 6.5.1. preparation and holding a shareholders meeting according to the law requirements, Articles of the Association and Regulations about procedure of shareholders meeting of “Southern Telecommunication Company” PJSC;
- 6.5.2. preparation and holding the Board of Directors meetings according to the law requirements, Articles of the Association and internal documents of the Association;
- 6.5.3. guarantee of proper consideration by the Association of shareholders appeals and settling conflicts connected with violation of shareholders rights;
- 6.5.4. guarantee of information disclosure (submission) about the Association and keeping the documents of the Association.

6.6. The Corporate Secretary of the Association is to acquire knowledge necessary for fulfilling his functions as well as to enjoy confidence of shareholders and the Board of Directors. The Corporate Secretary of the Association is to have a good business reputation.

6.7. The Staff of the Corporate Secretary is created for the purpose to provide for the Secretary effective fulfillment of his obligations. Its structure, amount and duties of officers are

defined by the “Regulations about Corporate Secretary and the Staff of corporate secretary of “STC” PJSC”.

## 7. Essential Corporate Actions

7.1. The Association aims that actions possible to lead to substantial corporate changes including changing the rights of shareholders (essential corporate actions) are to be accompanied by openness and transparency.

7.2. Essential corporate actions of the Association are recognized to be:

- major transactions and transactions of interest;
- acquiring 30 and more per cent of floating equities (absorption) of the Association;
- reorganization and dissolution of the Association;
- increase or decrease of authorized capital stock of the Association;
- corrective action of the Articles of the Association;
- creation or dissolution of a branch or a representative office of the Association;
- other essential corporate actions recognized as such according to the current legislation and Articles of the Association.

7.3. The Association guarantees to shareholders possibility to influence essential corporate actions by establishing transparent and fair procedure on the basis of proper disclosure of information about consequences entailed by these actions for the Association.

7.4. Major transactions and transactions of interest prior to conclusion are previously considered and approved by corresponding offices of the Association governing – shareholders meeting and the Board of Directors of the Association.

7.5. For the purpose to protect interests of shareholders and other persons concerned the actions of reorganization and dissolution of the association is done according to procedure established by the law of Russian Federation.

## 8. The Association Information Disclosure

8.1. The purpose of disclosure information about the Association is to present accessible, regular and reliable information to the all persons concerned in the volume necessary to make evaluated decision which can affect financial and economic activity of the Association.

8.2. The basic principles of information disclosure are regularity and efficiency of its presentation, accessibility for all the shareholders and other persons concerned, reliability and completeness of its contents, reasonable balance of the Association openness and its commercial interests, its neutrality – that is exclusion of preferred interest satisfaction of one group of recipients before the other.

8.3. The Association does not avoid disclosing negative information about itself which is essential for shareholders and investors.

8.4. The information about the Company shall be disclosed on the basis of the internal document approved by the Board of Directors which contains a list of items subject to disclosure (in addition to those items requiring disclosure by law), as well as rules for their disclosure.

8.5. The policy of the Association in the field of information disclosure is directed to regular and full information interchange between shareholders and other persons concerned and the Association by means of all modern communication facilities and media including electronical means. The Association holds meetings with investors and shareholders of the Association, organizes press conferences, publishes information about the Association in mass media as well as discloses information about the Association in the Internet with registered domain name <http://www.stcompany.ru>.

8.6. On the Internet-site of the Association there is the text of Articles and its amendments, quarterly reports, outlines of securities emission, auditing conclusions, information about essential facts as well as information about holding shareholders meetings and important decisions of the Board of Directors, dividend policy, information of authorized capital stock structure, Board of Directors, Administration, Director General, branches of the Association, client and associated companies, auditor of the Association, registering clerk of the Association, amount of independent directors within the Board of Directors and their names, and the following internal documents:

- 8.6.1. Regulations about procedure of shareholders meeting of the Association;
- 8.6.2. Regulations about the Board of Directors;
- 8.6.3. Regulations about the Administration of the Association;
- 8.6.4. Regulations about Auditing commission of the Association;
- 8.6.5. Regulations about dividend policy of the Association;
- 8.6.6. Regulations about the Corporate Secretary and the Staff of the Corporate Secretary;

8.7. For the purpose of information disclosure the Association annually submits annual report to shareholders and investors. Annual report is to contain necessary information for evaluation the results of the Association activity over a year. Annual report is to contain information of the most important aspects of the Association activity including:

- position of the Association in the field;
- solution of strategic tasks of the Association;
- achieved results in comparison with assumed;
- priority directions of the Association activity;
- report of the Board of Directors about results of the association development on priority directions;
- perspectives of the Association development (sales volume, productivity, controlled part of the market, profit increase, profitability, correlation of proper and borrowed assets);
- relations with competitors;
- report of invited (accrual) dividend payments for shares of the Association;
- basic risk factors in the activity of the Association;
- the list of concluded transactions recognized according to the Federal law “About public companies” as major transactions as well as other transactions which according to the Articles of the Association are approved to be major transactions, with notification of each transaction essential conditions and governing office of the Association which made decision to approve it.
- the list of concluded transactions recognized according to the Federal law “About public companies” as transactions of interest, with notification of each transaction the interested person (persons), essential conditions and governing office of the Association which made decision to approve it.
- staff of the Board of Directors including information about changes in the staff of the Board of Directors over the year and information about members of the Board of Directors including their brief biographic data and possessing of the Association shares within financial year;
- information of Director General of the Association and members of Administration including their brief biographic data and possessing of the Association shares within financial year;
- criteria for defining and amount of reward (expenses compensation) of Director General, each member of the Administration and each member of the Board of Directors or total sum of reward (expenses compensation) of all the persons paid or being paid for the results of financial year;

- conclusion of Auditing Commission of the Association and conclusion of the independent auditor of the Association;
- information of observance by the Association of the Code of Corporate Conduct.

8.8. Financial accounts of the association are accompanied by a detailed comment which let the reader interpret correctly the data of financial results. Financial information is augmented by analysis and comments of the management.

8.9. For the purpose of balancing between openness of the association and willing not to damage its interests the Board of Directors confirms the document with the list of information making up commercial classified information (confidential information), criteria for relating the information to confidential as well as procedure of access to it. The Association takes measures to protect confidential information. The information received by employees of the Association and members of governing offices during fulfillment of duties cannot be used for private purposes.

8.10. The Association undertakes to provide regular monitoring of observation by the Board of Directors, executive offices and other employees of the Association the norms of current legislation and requirements provided by the internal documents of the Association to prevent conflict of interest and limit abuse of inside information. The results of monitoring are considered at the meetings of the Board of Directors and its Committee of corporate management. By the results of monitoring the decisions of banning and suppression of the mentioned actions are made by the Association.

## 9. Control of Financial and Economic Activity of the Association

9.1. The operating control system of the financial and economic activity of the Association is directed for ensuring confidence of investors to the Association and its governing offices. The basic purpose of such control is protection of shareholders investments and assets of the Association.

9.2. The control of financial and economic activity of the Association is done by the Board of Directors and its Committee of auditing, Auditing Commission of the Association, department of internal auditing of the Association presenting functions of inside control. Checking and confirmation financial annual accounts correctness is done by independent auditor.

9.3. The control system of financial and economic activity of the Association is to ensue accurate budget execution confirmed by the Board of Directors.

9.4. The elaboration of internal control procedures is done by the Administration of the Association together with the department of internal auditing functioning as internal control presenter and by Committee of auditing of the Board of Directors of the Association.

9.5. The department of internal auditing is a structural subdivision independent of executive offices of the Association and its activity is controlled directly by the Board of Directors. The functions of the mentioned structural subdivision, order of its activity, procedure of officers appointment, requirements for them are defined by the internal document confirmed by the Board of Directors.

9.6. Approval of the internal document regulating procedures for the internal control over the Company's business and financial operations should be assigned to the Company's Board of Directors.

9.7. Application of the internal control procedures constitutes obligations of the executive offices of the Association.

9.8. Committee of auditing concentrates on three key aspects: financial accounts, risk management, internal and external auditing. This Committee consists of non-executive directors each having sufficient knowledge on financial questions. Its authorities, staff, operation order and other questions are coordinated by Regulations about committee of audit of the Association.

9.9. Auditing commission of the Association according to the Articles of the Association and Regulations about Auditing commission of the Association accomplishes annual and out-of-

plan check-ups of financial and economic activity of the Association, thereof conclusions are sent to the Board of Directors and Director General of the Association.

9.10. Auditing commission within its competence controls the activity of the association on the following directions:

- checking financial and economic documentation of the Association including when necessary the data of primary accounting;
- checking the legality of decisions and actions of executive offices including concluded contracts and effected transactions;
- checking correspondence of the conditions of effected by the Association transactions to the conditions of transactions effected with compared circumstances;
- correspondence analysis of book-keeping and statistic control to accounts of existing normative documents;
- analysis of financial position of the association, detection of resources for improving economical position of the Association;
- analysis of timeliness and correctness of payments with counteragents, budgets of different level, shareholders and other creditors of the Association;
- analysis of debtors payments of the Association, including the timeliness and completeness of measures of executive offices;
- on the other directions of the activity of the Association within the competence of Auditing commission

9.11. For checking and receiving objective and full information about activity of the Association professional auditor not connected with property interests with the Association or its shareholders is attracted annually. The Association provides periodical rotation of its external auditor. The information of the sum of reward is disclosed to the shareholders.

9.12. The external auditor is elected by the shareholders meeting on the basis of open tender by recommendations of the Board of Directors.

9.13. The auditor of the Association executes checking of financial and economic activity of the Association according to the legal norms of Russian Federation on the basis of a contract confirmed by the Board of Directors by recommendation of the Committee of auditing of the Board of Directors.

9.14. Checking (revision) of financial and economic activity of the Association is done at any time by request of the shareholder (shareholders) of the Association possessing total not less than 10 per cent of voting shares for all the questions within the competence of shareholders meeting on the date of demand submission.

## 10. Dividends

10.1. The Association accepts importance of receiving dividends by shareholders as profit from investments into the shares and aims to establish transparent and clear mechanism for setting and paying dividends.

10.2. The information about the strategy of the Association in relation to setting dividend amount and their payment is defined in the internal document of the Association – Regulations about dividend policy of the Association confirmed by the Board of Directors.

10.3. The Association notifies shareholders and other persons concerned about its dividend policy and changes in it by publishing in the periodical “Rossiyskaya Gazeta” provided by the Articles for printing messages about shareholders meetings as well as on the Internet-site of the Association <http://www.stcompany.ru>.

10.4. Announced dividends are paid in terms of money except the cases when by decision of shareholders meeting dividends are assumed to be paid not in terms of money. The procedure of dividends payment is to be arranged in the best way to realize the right of shareholders to receive them.

10.5. The payment of dividends is done within the terms preset by the Articles of the Association and decision of shareholders meeting.

10.6. Dividend policy of the Association presupposes measures excluding not full or untimely payment of announced dividends.

## 11. Corporate Conflicts Settlement

11.1. Prevention and settlement of conflicts between the offices of the association as well as between shareholders in case such conflict affects the interests of the Association (corporate conflicts) allows to provide observation and protection of shareholders rights and protect property interests and business reputation of the Association.

11.2. The Association aims to timely prevention and exposure of conflicts on the very early stages of development as well as fair settlement of corporate conflicts and attentive attitude from the part of officials and employees of the association.

11.3. Position of the Association in a corporate conflict is based on the law regulations of Russian Federation. Consideration and settlement of corporate conflicts by the offices of the Association is fulfilled according to their competence. Committee of corporate management of the Board of Directors executes common coordination of the offices activities of regulating corporate conflicts.

11.4. The Corporate Secretary of the Association plays the key role at exposing corporate conflicts, collection and analysis of primary information and initiation of resolving procedure.

11.5. The Board of Directors of the Association for the purpose of settling corporate conflicts which are within its and executive offices competence can form temporary committee out of its members for settling corporate conflicts.

11.6. In case a corporate conflict arises between shareholders and can affect the interests of the Association or other shareholders, the office responsible for this argument is to set a question if the given argument affects the interests of the Association or other shareholders and if its participation will help settle the corporate conflict.

11.7. By approval of shareholders which are the parties of the corporate conflict offices of the Association (their members) can participate in negotiations between shareholders, to provide relevant information and documents, interpret norms of law and regulations of internal documents, give advice and recommendations, prepare projects of conflict settlement documents for signing by shareholders, on behalf of the Association within its competence to undertake responsibilities to the degree that can help settle the conflict.

## 12. Final Provisions

12.1. Настоящий Кодекс действует с момента его утверждения Советом директоров Общества. The given Code is valid from the moment of its confirmation by the Board of Directors of the Association.

12.2. At its meetings the Board of Directors twice per year considers the questions of observation of the given Code and publishes information of consideration results.

12.3. The Association will perfect the given Code taking into account appearing of new standards of corporate conduct in Russian and international practice, shareholders interests, the Association and other persons concerned.

12.4. The questions not stipulated in the given Code are regulated by the international agreements and contracts, current legislation of Russian Federation, Articles of the Association and internal documents of the Association.

## 13. About Application of the Code



13.1. For the purpose of execution of the Code the association makes publication of the Code as a separate document presented on the corporate website (<http://www.stcompany.ru>) and distributed at General Shareholders' Meetings.

13.2. The committee of the corporate management of the Board of Directors of the Association monitors the Code observation in the activity of the Association.

13.3. The results of such monitoring are reflected in media and on the Internet site of the company.

13.4. The Company's shareholders, members of the Board of Directors, officials and other interested persons are required to report violations of the present Code to the Corporate Secretary of the Company.