

Southern Telecommunications Company reports RAS financial results for the nine months of 2006: Net income up 669.6% to RUR 1.402 billion

Krasnodar, October 31, 2006 – Southern Telecommunications Company (“UTK”) (RTS: **KUBN, KUBNP**; MICEX: **UTEL, UTELP**; ADR OTC: **STJSY, KUE FRA**), the principal fixed-line telecommunications provider for Russia’s Southern Federal District, today announced its financial results for the first nine months of 2006 in accordance with Russian Accounting Standards (RAS).

- Revenue for the nine months of 2006 amounted to RUR 12,866.9 mln (USD 471 mln)[1], a decrease of 2.96% over the comparable period in 2005.
- Revenue from new value-added services [2] increased to RUR 1,292.5 million representing a year-on-year increase of 26.21%, and now accounts for 10.7% of total telecom revenues (versus 7.8% for the same period of 2005).
- 9m2006 EBITDA [3] increased 44.7% year on year to RUR 5,439.9 million (USD 199 million). EBITDA margin was 42.3%, which is up 13.98 percentage points over 9m2005.
- Number of main telephone units grew by 31,918 sets during the nine months of 2006.

During the nine months of 2006 UTK generated a **total revenue** of RUR 12,866.9 million representing a 2.96%-decrease over the nine months of 2005. **Revenue from telecommunications services** decreased by 7.33% to RUR 12,116 mln. Revenue structure showed a stable trend in revenue share growths from local telephony and value-added services. Based on 9m2006 results intra-zonal, local telephony and new value-added services accounted for 17.3 %, 52.2% and 10.7% of the Company’s telecom revenues, respectively. As before, the growth of the Company’s revenues from telecommunication services was due to network development and the increase in local tariffs from September 2005.

Revenues from **local telephone services** increased by 17.05% over 9m2005 to RUR 6,325.8 million. During the nine months of 2006 31,918 main telephone units were added to the Company’s subscriber base, including 23,634 units - in the urban telephone network (TN). As of September 30, 2006 the number of main telephone units operated by UTK amounted to 4,046.9 thousand, 3,001.3 thousand of which being part of the urban TN and 1,045.6 thousand - of the rural TN.

Revenues from **domestic, intrazone and international long-distance telecommunication services** [4] decreased 55.71 % to RUR 2,092.4 mln in the period. The volume of chargeable outgoing intra-zonal traffic during the nine months of 2006 stood at 846 mln minutes (down 39.09%).

9m2006 **revenues from new value-added services** increased by 26.21% to RUR 1,292.5 mln and accounted for 10.7% of total telecom revenues compared to 7.8% in 9m2005. Revenues from Internet services grew by 58.55%, from VPN (virtual private networks) services by 48.02%. Internet services sales were supported by strong usage growth: Internet traffic for the reporting period increased by 80.3% to 747 Tb, connection time via dial-up access to the Internet was up 47.72% to 2,302 million minutes.

Revenues from Russia’s telecom operators (excluding revenues from new value-added services) increased by 35.69% to 1,972.7 million rubles. Revenues from other telecom services decreased 7.43% to: 432.6 million rubles during the nine months of 2006 versus 467.3 million rubles in 9m2005.

Syndicated loan obtained in September 2006 resulted in increase in both **operating revenues** and **operating expenses** of the Company.

SEGMENTAL ANALYSIS OF REVENUES:

RUR mln	9m2006	9m2005	Change, %
1. Revenues from usual activities :			
Operating revenue	12,866.9	13,259.7	-2.96%
Revenue from telecom services, including:	12,116.0	13,074.1	-7.33%
Telecom revenues by kinds of services:			
Local telephony, including.	6,325.8	5,404.5	17.05%

Urban telephone network UTN	4,952.3	4,205.9	17.75%
Rural telephone network RTN	1,373.5	1,198.7	14.58%
domestic, intra-zone and international long-distance telecommunication services [4]	2,092.4	4,724.3	-55.71%
New value-added services, including:	1,292.5	1,024.1	26.21%
Internet	1,044.7	658.9	58.55%
VPN	235.2	158.9	48.02%
Revenues from telecom operators	1,972.7	1,453.8	35.69%
Other telecom services [5]	432.6	467.3	-7.43%
Revenues from telecom services by customer segment:			
households	6,516.9	7,739.3	-15.79%
Business sector	4,517.7	4,283	5.48%
Budget-funded organizations	1,081.4	1,051.8	2.81%
2. Results from other operating activities	5,227.3	193.9	2,595.89%
3. Results from other non-sales activities	121.1	178.5	-32.14%
4. Extraordinary revenues	1.1	2.2	-47.77%

9m2006 operating expenses decreased 10.27% to RUR 8,948.5 mln. Expenses on wages and salaries and other social payments to employees (32.6%), depreciation charges (21.7%) and material expenses (11.6%) accounted for major part of operating expenses.

The main contributors to the growth in operating costs in the period were the growth of depreciation charges due to active 2004 investment program, increases in the electricity and public utilities tariffs.

The growth of **depreciation charges** by 14.94% to RUR 1,942.6 mln was attributable to a major increase in fixed assets in operation during 2004 as a result of the rapid expansion of UTK's subscriber base, the process of network digitization, construction of Internet access nodes.

Due to network digitization, optimization of organizational structure and staff cuts, the number of employees on payroll decreased by 6.3% over 9m2005 to 35,512 people.

The growth of **other expenses** by 14.32% to RUR 2,120.5 million was due to the increase in rent charges, the growth of expenses for maintenance and repairs of the Company's buildings and facilities as well as for protection and insurance of the Company's property.

SEGMENTAL ANALYSIS OF EXPENSES:

RUR mln	9m2006	9m2005	Change, %
1. Operating Expenses:	8,948.5	9,972.3	-10.27%
Salaries and wages	2,920.5	2,875.0	1.58%
Social insurance	747.8	729.8	2.46%
Depreciation and amortization	1,942.6	1,690.2	14.94%
Material expenses, electricity & energy costs	1,039.7	1,000.8	3.89%
Payments to Rostelecom	49.6	1,533.3	-96.77%
Taxes	13.2	20.7	-36.23%
Other costs [6]	2,120.5	1,854.9	14.32%
2. Other operating expenses, including	6,936.4	2,855.3	142.93%
Interest expense	1,602.0	1,602.9	-0.06%
Other operating expenses	5,334.4	1,252.4	325.94%
3. Non-sales expenses	435.2	339.3	28.27%
4. Extraordinary expenses	7.4	18.0	-58.99%

9m2006 EBITDA increased 44.74% year on year to RUR 5,439.9 mln. Operating profit grew 19.20% over 9m2005 to RUR 3,918 million. The Company's net income was up 669.6% to 1,402.2 million rubles.

Operating margin increased by 5.65 percentage points in the period reaching 30.5%.

The Company's policy aimed at business efficiency growth allowed to improve the following business efficiency indicators: total revenue per 1 employee increased by 3.54% to 362.3 thousand rubles, operating profit per one line grew 17.29% over 9m2005 to 968.2 rubles, number of lines per 1 employee was up 8.47% to 114 lines.

9m2006 UTK's capital expenditures decreased by 62.14% to RUR 949.2 mln compared to RUR 2,507.3 mln in 9m2005. Fixed assets put into service decreased by 51.03% to RUR 1,469.7 million.

KEY FINANCIAL HIGHLIGHTS:

Description	Measure unit	9m2006	9m2005	Change, %
Revenue	RUR mln	12,866.9	13,259.7	-2.96%
Operating costs	RUR mln	8,948.5	9,972.3	-10.27%
Operating profit	RUR mln	3,918.4	3,287.4	19.20%
Operating margin, %	%	30.5	24.8	5.65
EBITDA	RUR mln	5,439.9	3,758.3	44.74%
EBITDA margin	%	42.3	28.3	13.98
Profit before tax (PBT)	RUR mln	1,895.2	465.1	307.49%
Profit before tax margin	%	21.2	4.7	16.48
Net income	RUR mln	1,402.2	182.2	669.58%
Business efficiency indicators:				
revenue per line	RUR ths	3.179	3.330	-4.52%
revenue per employee*	RUR ths	362.3	349.9	3.54%
Lines per employee*	lines	114	105.1	8.47%
Operating profit per one line	RUR	968.2	825.5	17.29%

* employees on payroll

During the nine months of 2006 31,918 telephone lines were put into operation in UTK networks, 23,634 of them - in urban TN and 8,284 - in rural TN. As a result, UTK's total installed capacity as of September 30, 2006 stood at 4,046.9 ths lines, including 3,503.2 ths lines in residential sector. Digitization level of UTK local network rose by 3.2 percentage points over 9m2005 reaching 64.2%, including 68.83% in urban telephone network.

MAIN OPERATIONAL HIGHLIGHTS :

Description	Measure unit	9m2006	9m2005	Change, %
Average number of employees on payroll	People	35,512	37,899	-6.30%
Sales results:				
Long-distance traffic including	Mln minutes	846	1,389	-39.09%
DLD and intrazone traffic	Mln minutes	846	1,305	-35.17%
ILD traffic	Mln minutes	-	84	-
Internet traffic, dial-up	Mln minutes	2,302	1,558	47.72%
Internet traffic volume	Tb	747.0	414.3	80.30%
Increase in number of main telephone units in urban and rural telephone networks including	units	31,918	69,328	-53.96%
Urban TN	units	23,634	41,573	-43.15%
Total number of main telephone units in urban and rural TNs	units	4,046,921	3,997,527	1.24%
Telephone penetration in urban and rural TNs	sets/100 inhabitants	21.9	21.5	1.75%
Investment program:				
Capex	RUR mln	949.2	2,507.3	-62.14%
Fixed assets put in operation	RUR mln	1,469.7	3,001.5	-51.03%
Network development:				
Installed capacity growth including	NºNº	107 934	148 531	-27,33
replacement	NºNº	71,703	56,000	28.04
In urban TN	NºNº	77,871	89,300	-12.8
Total installed capacity of urban and rural telephone networks	ths NºNº	4,288.97	4,198.27	2.16
Level of equipped capacity of urban and rural TNs	%	94.92	95.82	-0.9
Local network digitization (urban and rural TNs) including	%	64.2	61.0	3.2
Local urban telephone network digitization	%	68.83	65.76	3.07

Full text of UTK's financial statements for the nine months of 2006 can be viewed on the corporate web site www.stcompany.ru in the section "[Financial reports](#)".

[1] Figures are provided at the Central Bank of Russia exchange rate of USD 1 for the nine months of 2006 = 27.326 rubles.

[2] New value-added services rendered by "UTK" PJSC include: VPN services on the basis of MPLS and other technologies; services of data transmission; Internet access services (hardwired IP-connection, dial-up access, xDSL-based broadband access, wireless access on the basis of Wi-Fi technology); digital cable TV services (IPTV); services of multimedia and multi-service networks based on HFC, Ethernet to the home and other technologies; video telephony and video conferencing; intelligent services (on the basis of SCP-SSP); content services (including on the basis of Call-centers); Hosting and Co-location services.

[3] EBITDA includes Earnings Before Interest, Taxes, Depreciation and Amortization.

[4] From January 1, 2006 "UTK" PJSC provides intra-zonal telephone connections.

[5] Other telecom services rendered by "UTK" PJSC include: wired radio, radio communications, radio broadcasting.

[6] Other costs included in operating expenses are overheads, administrative expenses, advertising expenses, expenditures on research engineering and experimental development, payments to Gossvyaznadzor, postal expenses.