

OJSC "FETEC"

**Non-audited
Consolidated financial statements**

For 6 months period, ended on June 30th, 2007.

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Consolidated financial statements

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OJSC "FETEC"
Non-audited consolidated balance sheet as for June 30th, 2007
(RUR thousand)

	Note	June 30 th , 2007	December 31 st , 2006
ASSETS			
Non-current assets			
Property, plant and equipment	2	13 356 604	11 785 204
Intangible assets	3	2 582 188	1 031 218
Investments in associates	5	17 340	24 388
Long-term investments	6	17 279	7 109
Long-term employee loans and other financial assets	8	17 282	16 760
Long-term advances given	7	409 481	2 554 366
Total non-current assets		16 400 174	15 419 045
Current assets			
Inventories	9	471 870	337 584
Accounts receivable	10	1 336 305	1 027 444
Current profit tax assets		15 695	549
Short-term investments		772 204	1 248
Other current assets	11	489 318	379 960
Cash and cash equivalents	12	250 015	184 459
Total current assets		3 335 407	1 931 244
Total assets		19 735 581	17 350 289
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	13	4 365 706	4 365 706
Treasury shares		(1 091)	(5 681)
Retained earnings and other reserves		3 169 195	2 637 719
Total equity attributable to equity holders of the parent company		7 533 810	6 997 744
Minority interest		925 827	20 778
Total shareholders' equity		8 459 637	7 018 522
Non-current liabilities			
Long-term borrowings	14	4 944 771	3 247 072
Long-term finance lease obligations	17	392 419	554 726
Long-term profit tax accounts payable		350	441
Long-term tax accounts payable		901	1 014
Pension obligation		458 322	435 956
Deferred revenue		107 956	101 528
Deferred income tax liabilities		1 043 355	902 557
Long-term reserves for contingent liabilities		182 068	179 484
Total non-current liabilities		7 130 142	5 422 778
Current liabilities			
Accounts payable, accrued expenses	15	1 298 700	1 293 087
Payables to Rostelecom		164 813	6 806
Current profit tax accounts payable		26 295	29 479
Tax and social welfare accounts payable	16	157 164	106 130
Dividends payable		183 170	24 193
Краткосрочные резервы по условным обязательствам	24	205 768	632 340
Short-term borrowings	14	1 055 835	2 021 499
Current portion of long-term borrowings payable within 12 months		707 166	423 538
Current portion of finance lease obligations	17	346 891	371 917
Total current liabilities		4 145 802	4 908 989
Total liabilities		11 275 944	10 331 767
Total shareholders' equity and liabilities		19 735 581	17 350 289

General Director

_____ A. Yu. Kolpakov Chief accountant _____ E. V. Sidorova

Notes given herein are integral part of present consolidated statements

OJSC "FETEC"
Non-audited consolidated profit and loss report
for 6 months 2007.
(RUR thousand)

	Not e	6 months 2007	6 months 2006
Revenues	18	7 249 843	5 167 388
Wages, salaries, other employee benefits and social contributions		(2 345 744)	(1 905 275)
Depreciation of property, plant and equipment, construction in progress, intangible assets		-	(419)
Depreciation and amortization		(872 596)	(677 651)
Materials, repairs and malignance, utilities		(640 805)	(450 371)
Taxes other than income tax		(129 096)	(91 477)
Interconnection charges – Russian companies		(745 399)	(376 874)
Allowance for recovery of doubtful receivables		(17 949)	(159 109)
Gain/Loss on disposal of property, plant and equipment		(28 069)	51 538
Other operating expenses	19	(1 005 154)	(559 005)
Operating profit		1 465 031	998 746
Share of result of associates		(5 328)	(1 225)
Interest income/expenses, net	20	(285 059)	(317 063)
Other income/expenses		(126)	15 014
Gain/loss from investments		12 987	341
Foreign exchange gain / loss, net		1 734	13 749
Profit before taxes		1189 239	709 562
Profit tax		(410 365)	(342 524)
Income tax expenditures/compensation – current		(315 411)	(276 135)
Income tax expenditures/compensation – deferred tax		(94 954)	(66 389)
Profit/loss for accounting period		778 874	367 038
Attributable to:			
Shareholders of parent company		707 803	363 872
Minority shares		(71 071)	(3 166)
Profit/loss for accounting period		778 874	367 038

General Director

_____ A. Yu. Kolpakov Chief accountant _____ E. V. Sidorova

Notes given herein are integral part of present consolidated statements

OJSC "FETEC"
Notes for non-audited consolidated financial statements
for 6 months 2007.
(RUR thousand)

1. General information

Confirmation

The non-audited consolidated financial statements OJSC "FETEC" (the Company) and its subsidiaries (jointly called the Group) were comprised as for 6 months 2007 and authorized for publishing in compliance with the decision of General Director A. Yu. Kolpakov and Chief Accountant E. V. Sidorova on September 17th, 2007.

The Company

Parent company OJSC Far East Telecommunications Company (hereinafter referred to as OJSC FETEC or Company) is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The Company's official address: 690950, Russia, Primorskiy Kray, Vladivostok, 57 Svetlanskaya st.

The Company's principal activity is providing telephone services (including local, domestic long-distance and international long-distance calls), telegraph and data transmission services, rent of communication channels and wireless communication services on the territory of the Far East region of the Russian Federation.

Open joint-stock company Svyazinvest owns 51% of the Company's voting shares and is Company's parent company.

Information of the Company's main subsidiaries is disclosed in Note 4. All subsidiaries are incorporated under the laws of the Russian Federation, unless otherwise stated.

Presentation of Financial Statements

Consolidated financial statements of the Company and its subsidiaries and associates were prepared under unified accounting policies.

The functional and presentation currency of the Company is Russian Rouble, which is the national currency of the Russian Federation.

Consolidated financial statements of the Company are presented in thousands of Russian Roubles.

Basis of Presentation of Non-audited Consolidated Financial Statements

OJSC "FETEC" non-audited consolidated financial statements for 6 months of 2007 were prepared on IFRS basis, represented as balance sheet, profit and loss report and financial statements notes. Present financial statements do not contain all necessary disclosures required according to IRFS, however it is sufficient to receive a foretaste of the Company's financial condition and business results for 6 months 2007.

These statements are non-audited consolidated financial statements of OJSC FETEC. No audit, review or any similar procedures will be applied with relation to them. Meantime, accounting for OJSC FETEC's experience in submitting IFTS statements Company opines that financial statements users may rely upon these statements.

These financial statements were prepared on the basis of accounting data and statements kept and made up in compliance with the system for regulation of accounting set forth by the current laws of the Russian Federation by means of extra adjustment and re-grouping of accounting data required to reflect financial condition and business results in compliance with IFTS provisions.

While present non-audited consolidated financial statements preparation, OJSC "FETEC" made less quantity of procedures that could be done while preparation of annual financial statements. In this connection OJSC "FETEC" accepted assumptions, including assumption regarding fair value of assets and liabilities of subsidiaries purchased, pension liability cost, deferred revenues, provision for impairment of property, plant and equipment, inventory and accounts receivable. Actual data of annual financial statements as for December 31st 2007 may differ from present financial statements data because of updating information about assumptions accepted by the Company and new information appearance.

Notes content for OJSC "FETEC" non-audited consolidated financial statements do not disclose all the information that shall be disclosed for international financial reporting statements correspondence. Notes content for OJSC "FETEC" annual consolidated financial statements may disclose larger volume of information, than disclosed in OJSC "FETEC" present non-audited consolidated financial statements.

2. Property, plant and equipment

For information disclosure purposes property, plant and equipment are grouped in the following way:

	Land plots, buildings and structures	Switch boards and transmission devices	Incomplete construction and equipment for installation	Transport facilities, other property, plant and equipment	Total
Depreciable value as on December 31st, 2006	5 100 774	4 974 183	662 054	1 048 193	11 785 204
Depreciable value as on June 30th, 2007	5 553 403	5 556 967	1 182 672	1 063 562	13 356 604

The Company applied exception, allowed by IFRS 1, that let companies evaluate property, plant and equipment as on the date of IFRS transfer at the fair value and to use this fair value as the actual cost of property, plant and equipment. Management supposes that balance-sheet value of all Company's property, plant and equipment can be approximately compared with their fair value, but nevertheless continues working with independent valuator for the purpose of this fair value confirmation. At the moment, valuation of fair value of property, plant and equipment were conveyed for auditing. Results of valuation of fair value of property, plant and equipment will be reflected in Company's statements for 2007, and balance-sheet value of property, plant and equipment may be adjusted accordingly.

At this stage, the independent valuator is testing Company's property, plant and equipment for depreciation. Tests for depreciation were decided to be done as on January 01, 2006.

In the first six months of 2007 Company increased incomplete construction the amount of capitalized interest in the amount of RUR 5 906 (6 months of 2006 – 7 963). Capitalization rate for the first 6 months of 2007 was 3.8% (6 months of 2006 – 4.4%).

As on June 30, 2007 property, plant and equipment for the amount of about 2 782 535 (6 months of 2006 – 677 290) were used as security under loan agreements.

As on June 30, 2007 and 2006, balance-sheet value of property, plant and equipment received under financial lease contract was:

	As on June 30, 2007	As on December 31, 2006
Buildings and structures	2 427	2 498
Switch boards and transmission devices	1 539 593	1 621 514
Incomplete construction and equipment for installation	7 900	11 228
Transport facilities, other property, plant and equipment	41 660	44 759
Total received under financial lease, balance-sheet value	1 591 580	1 679 999

Company uses property, plant and equipment received under financial lease contracts as security for relevant financial liabilities.

3. Intangible assets

	Goodwill	Licenses	Software	Other	Total
Depreciable value as on December 31st, 2006	-	138 026	883 106	10 086	1 031 218
Depreciable value as on June 30th, 2007	1 410 681	116 581	1 054 603	323	2 582 188

Oracle E-Business Suite (OEBS) software

As on June 30, 2007, OeBS is included in software group, depreciable value is 396 258 thousand rubles (на 31 декабря 2006 г. – 326 280 thousand rubles). In the reported period Company had expenses on OeBS implementation of 103 036 thousand rubles (in the first six months of 2006 – 15 898 thousand rubles).

Writing-off of software is included in common businesses expenses within the period of useful life set as 10 years.

Expenses for implementation of the second release are reflected in intangible assets for purchase of software and databases will be written-off into current expenses upon implementation.

Company plans to completely implement that system in 2008 – 2009.

4. Affiliates (Subsidiaries)

Present consolidated financial statements include Company's property, liabilities and business results and those of its affiliates which basic business is mobile telecommunications and other related services. Affiliates are represented in the following table:

Name	Business	Share, %		Voting shares, %	
		June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Wireless information technologies Co., Ltd. (OOO)	Mobile telecommunications	100,00	100,00	100,00	100,00
CJSC Sakhalinugol-Telecom (ZAO)	Local telecommunications	100,00	100,00	100,00	100,00
CJSC Integrator.ru (ZAO)	Investments	100,00	100,00	100,00	100,00
CJSC AKOS (ZAO) (belongs to CJSC Integrator.ru)	Mobile telecommunications	93,58	93,58	93,58	93,58
OJSC A-Svyaz (OAO)	Local telecommunications	84,20	84,20	84,20	84,20
OJSC Sakhatelecom (OAO)	Local telecommunications	51,00	0,00	51,00	0,00

All the listed companies are Russian legal entities registered in compliance with the laws of the Russian Federation and have the same fiscal year as the Company.

On January 25 Company bought 51% of ordinary voting shares of OJSC Sakhatelecom. Its main business is PSTN telecommunications in Yakutia. Purchase of that company was reflected in accounting using purchase method. Intermediary non-audited consolidated statements account for the business results of OJSC Sakhatelecom for 6 months ended on June 30, 2007.

Information about purchase price, fair value of assets thereof, liabilities and contingent liabilities of OJSC Sakhatelecom and goodwill is reflected below:

Purchase price

Paid by money	2 295 000
Expenses in connection with the transaction	8 844
Total, purchase price	2 303 844

Fair value of assets and liabilities of OJSC Sakhatelecom as on the purchase date

Property, plant and equipment	1 694 979
Intangible assets	220
Long-term investments	9 996
Other non-current assets	0

Accounts receivable	470 470
Cash and equivalents	121 057
Other current assets	135 312
Short-term liabilities	666 397
Long-term liabilities	17 425
Total net assets (liabilities)	1 751 299
Share in purchased net assets (liabilities), %	51%
Value of share in net assets (liabilities)	893 163
Goodwill	1 410 681

5. Financial investments in associates

As on June 30, 2007, and December 31, 2006, Company's financial investments in associates included:

Company name	Business	June 30, 2007		December 31, 2006	
		Voting shares	Balance-sheet value	Voting shares	Balance-sheet value
Kamalyaskom Co., Ltd. (OOO)	Mobile telecommunications	50%	386	50%	434
Magalyaskom Co., Ltd. (OOO)	Mobile telecommunications	50%	16 915	50%	17 717
CJSC TeleRoss Vladivostok (ZAO)	Mobile telecommunications	0%	0	50%	6 198
Interdaltelecom Co., Ltd. (OOO)	Mobile telecommunications	39%	39	39%	39
Total			17 340		24 388

All the listed companies are Russian legal entities registered in compliance with the laws of the Russian Federation and have the same fiscal year as the Company.

Flow of investments in associates as on June 30, 2007 and December 31, 2006 was as under:

	June 30, 2007	December 31, 2006
Financial investments in associates as on January 01	24 388	25 969
Share in financial results (less income tax)	(5 328)	(1 620)
Withdrawal of associate	(1 720)	-
Re-classification of financial investments	-	39
Financial investments in associates as on the reporting date	17 340	24 388

Balance-sheet value of financial investments in associates reflected in these consolidate financial statements corresponds to Company's share in net assets of these associates.

6. Long-term and short-term financial investments

As on June 30, 2007 and December 31, 2006 financial investments included:

	June 30, 2007	December 31, 2006
Long-term financial investments	17 279	7 109
Long-term financial investments available for sale	17 279	7 109
Short-term financial investments	772 204	1 248
Investments held to maturity	770 000	0
Short-term financial investments available for sale	2 204	1 248
Total financial investments	789 483	8 357

As on June 30, 2007 and December 31, 2006 financial investments available for sale included:

Name	June 30, 2007		December 31, 2006	
	Ownership, %	Balance-sheet value	Ownership, %	Balance-sheet value
Long-term financial investments				
OJSC Svyazintek	4,00%	4 579	4,00%	4 579
OJSC Unified Sakha (Ya) transport company	8,30%	4 980	-	-
OJSC RSK Sterkh	4,17%	4 999	-	-
OJSC FEZ Nakhodka Telecommunications	8,47%	1 101	8,47%	1 101
OJSC Joint-stock Commercial Bank Svyaz-Bank	0,03%	681	0,03%	681
Other		939		748
Total long-term financial investments		17 279		7 109
Short-term financial investments				
Promissory notes		770 000		
OJSC Irlut corporation	-	496	-	-
OJSC Far East Commercial Bank Dalcombank	1,40%	858	1,40%	858
OJSC Center for international cooperation	19,60%	240	19,60%	240
OJSC Imperial	0,60%	150	0,60%	150
Other		460	-	-
Total short-term financial investments		772 204		1 248
Total financial investments available for sale		789 483		8 357

On May 10, 2007 OJSC FETEC entered into bill of exchange issue agreement with OJSC Joint-stock Commercial Bank Svyaz-Bank for the amount of 380 000 thousand rubles. Payment term – at site but not earlier than 11.06.2008. Interest rate – 7.7 % p.a.

- bill of exchange № 596954 – 100 000 thousand rubles;
- bill of exchange № 596959 – 100 000 thousand rubles;
- bill of exchange № 596960 – 100 000 thousand rubles;
- bill of exchange № 596961 – 80 000 thousand rubles

On May 10, 2007 OJSC FETEC entered into promissory note agreement with CJSC Russian Industrial Bank for the amount of 250 000 thousand rubles. Payment term – at site but not earlier than 11.06.2008. Interest rate – 7.5 % p.a.

- bill of exchange № 596950 – 50 000 thousand rubles;
- bill of exchange № 596951 – 50 000 thousand rubles;
- bill of exchange № 596952 – 50 000 thousand rubles;
- bill of exchange № 596953 – 100 000 thousand rubles

On June 29, 2007 OJSC FETEC entered into promissory note agreement with CJSC Russian Industrial Bank for the amount of 140 000 thousand rubles. Payment term – at site but not earlier than 30.07.2008. Interest rate – 7.5 % p.a..

- bill of exchange № 3686968 – 50 000 thousand rubles;
- bill of exchange № 3686969 – 50 000 thousand rubles;
- bill of exchange № 3686970 – 40 000 thousand rubles;

7. Long-term advances made.

As on June 30, 2007 and December 31, 2006 long-term advances made were:

	June 30, 2007	December 31, 2006
Long-term advances made in investments activities	409 065	2 553 950
Long-term advances made in operating activities	416	416
Total long-term advances made	409 481	2 554 366

8. Long-term accounts receivable and loans

As on June 30, 2007 and December 31, 2006 long-term accounts receivable and other financial assets included:

	June 30, 2007	December 31, 2006
Long-term loans to employees	15 614	16 477
Long-term accounts receivable	1 668	283
Total long-term accounts receivable and other financial assets	17 282	16 760

As on June 30, 2007 and December 31, 2006 long-term loans given were shown at depreciable initial value using effective interest rate 16% (2006 – 16%).

9. Inventories

As on June 30, 2007 and December 31, 2006 inventories included:

	June 30, 2007	December 31, 2006
Cable, S/P and materials for telecommunications equipment	231 650	160 229
Ready products and goods for sale	9 493	7 391
Other inventories	230 727	169 964
Total inventories	471 870	337 584

As on June 30, 2007 Company had no inventories pledged or secured as collateral.

10. Accounts receivable

As on June 30, 2007 and December 31, 2006 accounts receivable included:

	June 30, 2007	December 31, 2006
Individuals	799 093	485 248
Commercial entities	579 230	635 888
Budget entities	142 819	56 378
Total telecommunications services receivable	1 521 142	1 177 514
Other accounts receivable	90 091	72 440
Doubtful accounts receivable reserve	(274 928)	(222 510)
Total accounts receivable	1 336 305	1 027 444

Company invoices governmental and commercial entities for telecommunications services on monthly basis. Company sends telephone bills to individuals and materially relies on timely payment for services invoiced. All subscriber payments are made under ruble tariffs as on the moment of services providing.

Accounts payable by social welfare authorities in connection with preferences to some kinds of subscribers is 5.53 % of the total amount of accounts receivable as on June 30, 2007 (7.7% as on December 31, 2006).

Accounts receivable from individuals included accounts receivable from state budget compensation in connection with expenses on granting preferences to some kinds of subscribers for amount of 84 054 (2006 – 91 140). Company assessed compensation ability for those amounts and made up reserve for doubtful

accounts receivable of 45 881 thousand rubles, which is 54.85% of the total amount of accounts receivable from state budget in connection with expenses on granting preferences to some kinds of subscribers.

Expenses on creating reserve for doubtful accounts receivable of 17 949 thousand rubles (for 6 months of 2006 – 159 109 thousand rubles) was included in line (Expenses on recovery of doubtful accounts payable reserve of consolidated profit and loss report.

11. Other current assets

As on June 30, 2007 and December 31, 2006 other current assets included:

	June 30, 2007	December 31, 2006
VAT to be refunded	87 630	127 924
Short-term loans given	22 968	17 156
Future periods expenses	47 505	49 304
Prepayment and advances	224 160	116 465
Other tax advances	14 497	12 330
Employees payroll	28 215	3 874
Other settlements and current assets	64 980	87 804
Reserve for other current assets	(637)	(34 897)
Total other current assets	489 318	379 960

12. Cash and cash equivalents

As on June 30, 2007 and December 31, 2006 cash and cash equivalents included:

	June 30, 2007	December 31, 2006
Cash in banks and cashier	249 839	184 407
Short-term deposits for periods under three months	176	52
Total cash and cash equivalents	250 015	184 459

13. Share capital

As on June 30, 2007 the respective number of authorized ordinary and preferred shares is 95 581 421 shares (2006 - 95 581 421 shares) and 31 168 901 shares (2006 - 31 168 901 shares).

All issued shares were fully paid.

Nominal value of all issued shares comprises 20 rubles per share. From total quantity of issued shares as on June 30, 2007, 75 % of shares were ordinary ones and 25% were preferred shares.

As on June 30, 2007 nominal and balance-sheet value of ordinary and preferred shares was:

	Number of shares floating (thousand ones)	Nominal value	Balance-sheet value
As on December 31, 2004	126 750	2 535 006	4 365 706
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on December 31, 2005	126 750	2 535 006	4 365 706
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on December 31, 2006	126 750	2 535 006	4 365 706
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on June 30, 2007	126 750	2 535 006	4 365 706

Difference between shares nominal and balance-sheet value is inflation effect during periods preceding 01.01.2003.

14. Loans and credits payable

As on June 30, 2007 and December 31, 2006 loans and credits payable included:

	Effective interest rate	Repayment period	June 30, 2007	December 31, 2006
Short-term accounts payable				
Bank credits	7%	2007	1 021 975	-
Bills of exchange	8,60%	2007	-	1 950 000
Interest payable	7,0 -7,85%	2007	33 861	69 524
Other loans	8%	2007		1 975
Total short-term accounts payable			1 055 835	2 021 499
Long-term accounts payable				
Bank credits	8,75%	2012	2 122 167	55 000
Debentures	8,6%	2010-2012	3 468 022	3 486 060
Loans payable to suppliers (rubles)		2008	17 084	27 351
Loans payable to suppliers (euro)	8%	2007	9 347	20 115
Loans payable to suppliers (USD)	5,4-10%	2007-2008	35 317	82 084
Less current long-term credits and loans			(707 166)	(423 538)
Total long-term accounts payable			4 944 771	3 247 072

As on June 30, 2007 loans and credits payable was distributed by repayment period as follows:

Repayment date	Bank loans	Debentures	Suppliers' credits	Other	Total
Within 2007	1 100 975	573 708	54 458	33 861	1 763 002
Within 2008		744 314	7 290	-	751 604
Within 2009	576 917	450 000			1 026 917
Within 2010	651 667	600 000			1 251 667
Within 2011	651 667	700 000			1 351 667
After 2011	162 916	400 000			562 916
Total	3 144 142	3 468 022	61 748	33 861	6 707 772

As on June 30, 2007 loans and credits payable was distributed by foreign currency as follows:

	Foreign currency	Rubles
Russian rubles	6 663 108	6 663 108
USD	1390.707	35 317
Euro	269.259	9 347
Total	x	6 707 772

Company did not hedge its foreign currency risks or interest change risks.

Short-term accounts payable

Bank loans

In June 2007 Company entered into two loan agreements to recover some current and non-current assets and finance current business for the amount of 770 000. Loan servicing costs Company the interest rate of 7.4 p.a. These loans are secured with Company's assets pledged in the amount of 784 533 thousand rubles (2006 – 134 412 thousand rubles).

Bank name	Contract # and date	Contract currency	% rate	Date of issue	Date of repayment (last installment)	Balance debt as on reporting date, thousand rubles	
						Principal	% and fine payable
Primorsky branch of OJSC Sberbank №8635	363 of 13.06.07	Rubles	7,40%	13.06.2007	11.06.2008	630 000	1 277
Primorsky branch of OJSC Sberbank №8635	408 of 29.06.07	Rubles	7,40%	29.06.2007	27.06.2008	140 000	28
Total						770 000	1 305

Long-term accounts payable

Bank loans

In January 2007, Company, to finance part of expenses in connection with purchase of 51% (fifty-one percent) of OJSC Sakhatelecom, opened credit line in Sberbank of Russia in the amount of 1 955 000 till January 29, 2012. Company pays interest rate of 8.75% p.a. for facilitating of that loan.

This loan is secured with Company's assets pledged in the amount of 162 002, and ordinary shares of OJSC Sakhatelecom, 51% of Issuer's share capital in the amount of 1 836 000.

Debentures

In June 2006 Company registered two issues of 3 500 000 interest documentary debentures (2 000 000 and 1 500 000) with par value of 1 000 rubles each. Debentures have 12 and 6 coupons respectively. Payments on the first coupon are made on the 182nd day since the day of debentures placing (December 2006), payments on other coupons are made each 182 days. Interest rate on coupons is set at the amount of 8.85 and 8.60 percent p.a. respectively subject to repayment by installments determined as percentage of par value since December 2007 (for principal loan of 1 500 000 thousand rubles) and since December 2009 (for principal loan of 2 000 000 thousand rubles). Final redemption of debentures shall be made in July 2009 and May 2012 respectively. Money from debentures issue to be sent for recovering current assets.

Debentures issued provide for offers allowing to debenture holders submit them to Company on appointed dates. The nearest offer date is June 04, 2010.

Payment of coupon income in the first half of 2007 was not made.

Total amount of each coupon income was 64 320 thousand rubles (for principal loan of 1 500 000 thousand rubles), 88 260 thousand rubles (for principal loan of 2 000 000 thousand rubles). Amount of coupon income per debenture is 42.88 rubles (for principal amount of 1 500 000 thousand rubles), 44.13 rubles (for principal amount of 2 000 000 thousand rubles)

Loans from suppliers

C Boss

In May 2006 Company entered into agreement with C Boss technology Co., Ltd. for purchase of the right to use applied software CBOSS, debt payable in rubles. Amount payable as on June 30, 2007 was 17 083,52 thousand rubles.

IskrauralTel

In 2004 – 2005, Company entered into a few agreements with IskrauralTel for supply of telecommunications equipment, debts payable in euros. Interest rate is 8% p.a. Amount payable as on June 30, 2007 was 9 401,65 thousand rubles. Equipment thereof is pledged by supplier till the moment of balance payment.

Beto-Huawei

In 2003 – 2005, Company entered into a few agreements with Beto-Huawei for supply of telecommunications equipment, debts payable in USD. Amount payable as on June 30, 2007 was 41,8 thousand rubles. Equipment thereof is pledged by supplier till the moment of balance payment.

15. Accounts payable and accrued liabilities

Accounts payable and other Company's current liabilities as on June 30, 2007 and December 31, 2006 included:

	June 30, 2007	December 31, 2006
Accrued expenses for wages, salaries and compensatory payments	386 814	475 320
Main activity accounts payable	427 217	282 318
Subscribers' advance payments	282 085	354 704
Settlements with suppliers and contractors for capital construction	125 625	108 927
Other accounts payable and current liabilities	76 959	71 818
Total accounts payable and accrued liabilities	1 298 700	1 293 087

Other accounts payable includes indebtedness for voluntary insurance, operational leasing, non-commercial partnership payments and others.

16. Tax and social welfare accounts payable

As on June 30, 2007 and December 31, 2006 Company had the following short-term tax payable:

	June 30, 2007	December 31, 2006
Property tax	42 658	42 865
Unified social tax	40 698	30 360
Value-added tax	42 145	15 647
Personal income tax	15 391	13 425
Other taxes	16 272	3 833
Total tax and social welfare accounts payable	157 164	106 130

16. Financial lease agreements liabilities

Company is hiring telecommunications equipment under financial lease agreements. The amount of future minimal lease payments under financial lease agreements and discounted value of minimal lease payments as on June 30, 2007 and December 31, 2006 is listed below:

	June 30, 2007		December 31, 2006	
	Minimal lease payment	Discounted value of minimal lease payments	Minimal lease payments	Discounted value of minimal lease payments
Current	465 193	346 891	531 294	371 918
1 - 5 years	458 061	392 419	669 753	554 725
Over 5 years	-	-	-	-
Total minimal lease payments	923 254	739 310	1 201 047	926 643
Less financial expenses	(183 944)		(274 403)	
Discounted value of minimal lease payments	739 310	739 310	926 644	926 643
Less short-term liabilities on financial lease		(346 891)	-	(371 917)
Long-term liabilities on financial lease		392 419	-	554 726

In the first 6 months of 2007 and in 2006 key Company's lessor was OJSC RTK-Leasing. Effective interest rate for the said liabilities was 26.85% in the first 6 months of 2007 (in 2006 - from 19% to 38% p.a.).

17. Revenues

In the first 6 months of 2007 Company had the following kinds of revenue:

Revenue by type	first 6 months of 2007	first 6 months of 2006
Intrazone telephone services	1 275 012	771 536
Local telephone services	2 787 597	2 004 093
Mobile radio, wired broadcasting, radio, TV	125 208	99 166
Mobile radio (cellular) telecommunications	577 033	461 210
Telegraph services, data transfer and telematic telecommunications	1 091 030	662 905
Connection and traffic transmission	974 552	814 186
Other telecommunication services	46 259	20 220
Cooperation agreement	205 505	149 678
Other sales	167 648	184 394
Total revenue	7 249 843	5 167 388

18. Other operation expenses

In the first 6 months of 2007 Company had the following kinds of operation expenses:

Expenses by type	first 6 months of 2007	first 6 months of 2006
Universal service reserve payments	65 880	45 474
Fire protection and private security	98 793	91 387
Housing allowance and hospitality expenditures	33 864	23 631
Transport services	22 101	9 889
Mail	4 366	4 344
Education	6 423	5 253
Cost-price of goods sold	7 450	4 442
Rent of premises	89 254	78 274
Audit and consulting services	71 889	41 687
Advertising	58 885	51 471
Property insurance	20 063	26 307
Non-commercial partnership	27 832	1 000
Membership fees, charity and transfers to trade unions	20 147	8 475

Tax penalties and sanctions	2 330	209
Loss from withdrawal of property, plant and equipment and inventories	261	3 199
Agency fees	83 013	42 685
Other expenses	186 835	121 277
Contingent liabilities reserve	205 768	0
Total other operation expenses	1 005 154	559 004

19. Interest expenses, net

In the first 6 months of 2007 Company had the following kinds of interest-related expenses:

	first 6 months of 2007	first 6 months of 2006
Interest income	24 280	18 101
Interest expenses	(218 880)	(207 329)
Expenses in connection with interest accrued under financial lease agreements	(90 459)	(128 227)
Expenses in connection with interest accrued under commercial credit agreements	-	392
Total interest expenses, net	285 059	317 063

20. Segmental accounting

Company is providing telecommunications services in the Far Eastern Federal District.

As opined by management, Company is doing its business within one geographical and industrial segments.

21. Settlements with affiliates

OJSC "Svyazinvest"

OJSC "Svyazinvest" is OJSC "FETEC"'s parent company. OJSC "Svyazinvest" was fully owned by Russian Federation until July 1997, when Russian government sold 25% of shares plus one share of OJSC "Svyazinvest" to private investors.

For some reasons, including economical, strategic and national security reasons, it is extremely important for Russia to have effectively working transmission network and data transfer. In this connection the Government is influencing and most probably will be influencing OJSC "Svyazinvest" and its affiliated activity in future.

Government influence is not limited to OJSC "Svyazinvest" shareholding. Government keeps rights for tariffs setting, including tariffs for long-distance communication. Together with that, Russian Federation Ministry of informational technologies and communications controls liquidation process of companies, providing telecommunication services.

OJSC "Rostelecom"

OJSC "Svyazinvest" holds controlling block of shares of OJSC "Rostelecom", and "Rostelecom" is main operator of long-distance and international communication in Russian Federation.

In 2006 relations between Company and OJSC Rostelecom changed. Long-distance national and international calls are provided by OJSC Rostelecom. Payments of subscribers for long-distance national and international calls are the revenue of OJSC Rostelecom.

In 2007, relations with OJSC Rostelecom changed with respect to connecting of telecommunications networks. In 2007 Company is not planning to get connected to OJSC Rostelecom's telecommunications network on long-distance national level, and OJSC Rostelecom will connect to Company's telecommunications network on zone level.

	first 6 months of 2007
Traffic transfer and channels rent	71 490
Revenues from OJSC Rostelecom	549 732
Accounts receivable	97 709
Accounts payable	145 905

Operations with state entities

As on June 30, 2007 state entities occupied 10% (2006 - 27%) of the total amount of accounts receivable.

In the first 6 months of 2007 material operations of Company and state and state-controlled entities were represented as follows:

Type/kind of operation	as on June 30, 2007		first 6 months of 2007	
	Accounts receivable	Accounts payable	Revenue	Expenses
Telecommunication services	-	-	130 198	-
Connection and transfer	-	-	143 821	-
Other main business services	-	-	18 932	-
Accounts receivable	52 758	-	-	-
Power and heating	-	-	-	115 589
Lease	-	-	-	36 326
Other expenses	-	-	-	585 406
Accounts payable	-	124 679	-	-
Total	52 758	124 679	292 951	737 321

Non-commercial partnership "Telecommunication development problems research center"

Payments for partnership, included into other operational expenses structure, in the attached consolidated profit and loss report for the year ended on June 30, 2007 comprised RUR 27 832 thousand rubles accounts payable as on June 30, 2007 comprised 179 thousand rubles.

Revenue from sale of products, services by related parties

In the first 6 months of 2007 Company provided services and sold products to the following related parties:

Name of affiliate	Type of relation	Kind of sales	Pricing method	first 6 months of 2007
CJSC Rostelegraf	Same group of entities together with Company	Telecommunications services	Common commercial terms	7 541
Interdaltelecom Co., Ltd.	Company is entitled to dispose of over 20% of entity's voting shares	Telecommunications services	Common commercial terms	4 294
Bykovsvyaz Co., Ltd.	Same group of entities together with Company	Telecommunications services	Common commercial terms	106
Other				2 118
TOTAL				14 059

Purchase from related parties

In the first 6 months of 2007 Company was provided services by the following related parties:

Name of affiliate	Type of relation	Kind of sales	Pricing method	first 6 months of 2007
OJSC Giprosvyaz	Same group of entities together with Company	Design	Common commercial terms	12 665
CJSC Rostelegraf	Same group of entities together with Company	Telecommunications services	Common commercial terms	8 225
OJSC Svyaz-Bank	Same group of entities together with Company	Bank guarantee	Common commercial terms	4 786
CJSC Baikalvestcom	Same group of entities together with Company	Telecommunications services	Common commercial terms	1 532
Other				1 207
TOTAL				28 415

Settlements with related parties

As on June 30, 2007 Company's accounts payable/receivable in relations with related parties are as follows:

Name of affiliate	Type of relation	Kind of debt	June 30, 2007
Accounts receivable			
OJSC Svyaz-Bank	Same group of entities together with Company	Bills of exchange %%	5 069
CJSC Rostelegraf	Акционерное общество имеет право распоряжаться более чем 20% голосующих акций данного лица	Telecommunications services	1 331
OJSC Giprosvyaz	Same group of entities together with Company	Design and engineering	1 176
Other			2 464
TOTAL		-	10 040
Accounts payable			
OJSC Svyaz-Bank	Same group of entities together with Company	Debenture loan	620 959
CJSC Rostelegraf	Same group of entities together with Company	Telecommunications services	1 511
CJSC Baikalvestcom	Same group of entities together with Company	Telecommunications services	412
Other			185

TOTAL	-	-	623 067
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22. Financial instruments

Foreign currency risk

Company does not hedge any risks related to operations entered into.

As on June 30, 2007 Company's liabilities of 44 664 thousand rubles (2006 – 102 199 thousand rubles) are in foreign currency, including those in USD of 35 317 thousand rubles (2006 – 82 084 thousand rubles); in euros – 9 347 thousand rubles (2006 – 20 115 thousand rubles).

In December 31, 2006 – June 30, 2007 the exchange rate of Russian ruble to USD grew approx. by 1.96 %, and to euro – fell approx. by 0.05%.

Possible decrease of ruble exchange rate may cause growth of actual value of borrowings made by Company and make difficult borrowing loans including those for re-financing the existing liabilities.

23. Reserves

Reserves for contingent liabilities in connection with tax authorities' claims

In 2004, Company's business for 2001 – 2002 was inspected by tax authorities resulting in material claims to Company in the amount of 718 080 thousand rubles, including fines and penalties – 256 245 thousand rubles.

In 2006, Company's business for 2003 – 2005 was inspected by tax authorities resulting in material claims to Company in the amount of 908 773 thousand rubles, including fines and penalties – 759 051 thousand rubles.

Because OJSC FETEC's suit against tax authorities in connection with results of inspection of 2001 – 2002 was rejected in three court instances and taking into account that claims upon results of inspection of 2003-2005 regarding non-reflection of revenue from termination of international traffic for the amount of 178 080 thousand rubles are similar to those moved by tax authorities for the period of 2001-2002, Company admitted contingent loss from tax claims in 2006 statements in the amount of 810 420 thousand rubles.

Due to taking effect of cassation instance court, Company paid to budget in the first 6 months of 2007 some tax claims in the amount of 632 340 thousand rubles. As on June 30, 2007 the amount of unused reserve was 178 080 thousand rubles.

Company also advises that it is going to claim the said court resolutions in Supreme arbitration court of the Russian Federation.

Expenses for creating reserve of liabilities to federal budget for violating antitrust laws

Arbitration court of Moscow on June 5, 2007 rejected Company's suit on claiming illegal Resolution of Federal Antitrust Service of Russia dated January 23, 2006 regarding payment to budget of the revenue received as a result of violating antitrust laws, namely setting payments for connection of telecommunications networks of other operators. The said decision was left unchanged by Resolution of Ninth arbitration court of appeal dated August 20, 2007. Claims to OJSC FETEC is 205 767 thousand rubles. Probability of review of the said court acts by cassation court is rather low. Therefore, Company admitted contingent loss of 205 768 thousand rubles for the first 6 months of 2007 reflecting expenses on creation of reserve in consolidated profit and loss report among other operation expenses (Note 19).

24. Events after reporting date

Tariff regulation

Since July 01, 2007 Company increased tariffs on local telephone connection to PSTN subscribers for transmission of voice information, facsimile messages and data (except for payphones) where engineering capacity to do billing the length of local telephone connections using subscriber system of payment on the basis of maximal volume of services (unlimited tariff). As a result, Company's revenue from that service grew by 28 220 thousand rubles or 28.9% (from 97 653 thousand rubles to 125 871 thousand rubles in July 2007).

Subsidiaries

In June 2007, Company's Board of Directors (protocol # 24 of 05.06.07 r.) decided on liquidation of CJSC Sakhalinugol-Telecom due to termination of its commercial activities, transfer of subscribers and equipment.

Company bought 100% of shares of CJSC Sakhalinugol-Telecom for 40 000 thousand rubles in 2005. Price was paid by money. That subsidiary was providing local telephone services in Sakhalin Oblast.

On September 10, 2007 the extraordinary meeting of shareholders of OJSC A-Svyaz (protocol # 19 of 10.09.2007) decided on liquidation of OJSC A-Svyaz due to termination of its activities. Main kind of business of OJSC A-Svyaz till April 2007 was providing local telephone services in Amur Oblast.