

**OJSC "FETEC"**

**Non-audited  
Consolidated financial statements**

*For 9 months period, ended on September 30<sup>th</sup>, 2007.*

Non-audited  
Consolidated financial statements

*For 9 months period, ended on September 30<sup>th</sup>, 2007*

**Content**

Consolidated financial statements

Non-audited consolidated balance sheet .....	3
Non-audited consolidated profit and loss report .....	4
Notes to non-audited consolidated financial statements .....	5

**OJSC "FETEC"**  
**Non-audited consolidated balance sheet as for September 30<sup>th</sup>, 2007**  
(RUR thousand)

Not  
e  
September 30<sup>th</sup>, 2007 December 31<sup>st</sup>, 2006

**ASSETS**

**Non-current assets**

Property, plant and equipment	2	13 597 808	11 785 204
Intangible assets	3	2 558 680	1 031 218
Investments in associates	5	16 750	24 388
Long-term investments	6	18 703	7 109
Long-term employee loans and other financial assets	8	13 734	16 760
Long-term advances given	7	377 353	2 554 366
<b>Total non-current assets</b>		<b>16 583 028</b>	<b>15 419 045</b>

**Current assets**

Inventories	9	489 418	337 584
Accounts receivable	10	1 363 607	1 027 444
Current profit tax assets		17 873	549
Short-term investments	6	772 305	1 248
Other current assets	11	437 982	379 960
Cash and cash equivalents	12	377 798	184 459
<b>Total current assets</b>		<b>3 458 983</b>	<b>1 931 244</b>

**Total assets**

**20 042 011**      **17 350 289**

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Share capital	13	4 365 706	4 365 706
Treasury shares		(748)	(5 681)
Retained earnings and other reserves		3 797 971	2 637 719
<b>Total equity attributable to equity holders of the parent company</b>		<b>8 162 929</b>	<b>6 997 744</b>

**Minority interest**

**992 438**      **20 778**

**Total shareholders' equity**

**9 155 367**      **7 018 522**

**Non-current liabilities**

Long-term borrowings	14	4 956 171	3 247 072
Long-term finance lease obligations	17	310 701	554 726
Long-term profit tax accounts payable		484 244	435 956
Long-term tax accounts payable		152	441
Pension obligation		348	1 014
Deferred revenue		115 152	101 528
Deferred income tax liabilities		1 069 664	902 557
Long-term reserves for contingent liabilities		24 597	179 484
<b>Total non-current liabilities</b>		<b>6 961 029</b>	<b>5 422 778</b>

**Current liabilities**

Accounts payable, accrued expenses	15	1 500 629	1 293 087
Payables to Rostelecom		154 163	6 806
Current profit tax accounts payable		38 873	29 479
Tax and social welfare accounts payable	16	199 261	106 130
Dividends payable		87 161	24 193
Short-term reserves for contingent liabilities	24	-	632 340
Short-term borrowings	14	938 426	2 021 499
Current portion of long-term borrowings payable within 12 months		673 094	423 538
Current portion of finance lease obligations	17	334 008	371 917
<b>Total current liabilities</b>		<b>3 925 615</b>	<b>4 908 989</b>

**Total liabilities**

**10 886 644**      **10 331 767**

**Total shareholders' equity and liabilities**

**20 042 011**      **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 9 months 2007.**  
(RUR thousand)

	Not e	9 months 2007	12 months 2006
<b>Revenues</b>	<b>18</b>	<b>11 002 931</b>	<b>10 885 401</b>
Wages, salaries, other employee benefits and social contributions		(3 463 738)	(3 891 271)
Depreciation and amortization		(1 238 019)	(1 298 112)
Materials, repairs and malignance, utilities		(966 150)	(941 465)
Taxes other than income tax		(195 622)	(186 178)
Interconnection charges – Russian companies		(1 169 780)	(954 913)
Allowance for recovery of doubtful receivables		(57 588)	(39 865)
Gain/Loss on disposal of property, plant and equipment		(10 619)	29 749
(Expenses) recovery of reserve for tax liabilities	<b>24</b>	178 080	(810 420)
Other operating expenses	<b>19</b>	(1 564 019)	(1 350 578)
<b>Operating profit</b>		<b>2 515 476</b>	<b>1 442 348</b>
Loss from share of result of associates		(5 918)	(1 620)
Interest income/expenses, net	<b>20</b>	(420 276)	(542 144)
Other expenses		(3 474)	(9 298)
Gain/loss from investments		32 870	(46 867)
Foreign exchange gain / loss, net		2 700	19 262
<b>Profit before taxes</b>		<b>2 121 378</b>	<b>861 681</b>
<b>Profit tax</b>		<b>(641 771)</b>	<b>(522 880)</b>
<b>Profit for accounting period</b>		<b>1 479 607</b>	<b>338 801</b>
Attributable to:			
Shareholders of parent company		1 340 073	328 557
Minority shares		139 534	10 244
<b>Profit/loss for accounting period</b>		<b>1 479 607</b>	<b>338 801</b>

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 9 months 2007 ended September 30, 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 9 months 2007 ended September 30 and authorized for publishing in compliance with the decision of General Director A. Yu. Kolpakov and Chief Accountant E. V. Sidorova on December 5<sup>th</sup>, 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 9 months of 2007 ended September 30 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 9 months 2007.

IFTS statements were submitted by OJSC FETEC for the first time, earlier they have never been submitted. 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 31<sup>st</sup> 2007 may differ from present financial statements data because of updating information about assumptions accepted by the Company and new information appearance.

Present non-audited consolidated financial statements do not contain any information about financial statements for 9 months of 2006 and 3 months ended September 30, 2006 and 2007. For comparison purposes Company submits financial indicators for the year ended December 31, 2006 and as on December 31, 2006.

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.

**Re-grouping of previous periods**

Some amounts in consolidated profit and loss report for 2006 were regrouped for comparison with submitting new data for intermediate period.

## 1. 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
<b>Depreciable value as on December 31<sup>st</sup>, 2006</b>	5 100 774	4 974 183	662 054	1 048 193	<b>11 785 204</b>
<b>Depreciable value as on September 30<sup>th</sup>, 2007</b>	5 519 263	5 510 617	1 566 786	1 001 142	<b>13 597 808</b>

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.

In the first 9 months of 2007 Company increased incomplete construction the amount of capitalized interest in the amount of RUR 22 666. Capitalization rate for the first 9 months of 2007 was 6.5%.

As on September 30, 2007 and December 31, 2006, balance-sheet value of property, plant and equipment received under financial lease contract was:

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Buildings and structures	2 391	2 498
Switch boards and transmission devices	1 476 856	1 621 514
Incomplete construction and equipment for installation	7 900	11 228
Transport facilities, other property, plant and equipment	40 440	44 759
<b>Total received under financial lease, balance-sheet value</b>	<b>1 527 587</b>	<b>1 679 999</b>

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

## 2. Intangible assets

	Goodwill	Licenses	Software	Other	Total
<b>Depreciable value as on December 31<sup>st</sup>, 2006</b>	-	138 026	883 106	10 086	<b>1 031 218</b>
<b>Depreciable value as on September 30<sup>th</sup>, 2007</b>	1 410 681	116 089	1 061 603	307	<b>2 558 680</b>

### *Oracle E-Business Suite (OEBS) software*

As on September 30, 2007, OeBS is included in software group, depreciable value is 411 784 (as on December 31, 2006 – 326 280). In the reported period Company had expenses on OeBS implementation of 152 793.

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.

### 3. 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, %	
		September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 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	94,26	93,58	94,26	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:

Company is planning to complete valuation of fair value of identified assets and liabilities of OJSC Sakhatelecom. Results of property, plant and equipment valuation will be reflected in statements made up as per IFRS for 2007.

#### Purchase price

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

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

#### 4. Financial investments in associates

As on September 30, 2007 and December 31, 2006 financial investments in associates included:

Company name	Business	September 30 <sup>th</sup> , 2007		December 31 <sup>st</sup> , 2006	
		Voting shares	Balance-sheet value	Voting shares	Balance-sheet value
Kamalaskom Co., Ltd. (OOO)	Mobile telecommunication	50%	240	50%	434
Magalaskom Co., Ltd. (OOO)	Mobile telecommunication	50%	16 471	50%	17 717
CJSC TeleRoss Vladivostok (ZAO)	Mobile telecommunications	0%	-	50%	6 198
Interdaltelecom Co., Ltd. (OOO)	Mobile telecommunications	39%	39	39%	39
<b>Total</b>			<b>16 750</b>		<b>24 388</b>

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 March 15, 2007 Company's Board of Directors approved sale of 50% of CJSC TeleRoss Vladivostok for 11 092. transaction was entered into on June 29, 2007. Buyer was STSS Sovintel Co., Ltd. CJSC TeleRoss Vladivostok provides telecommunications services in Primorsky Krai.

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
<b>Financial investments in associates as on January 01</b>	<b>24 388</b>	<b>25 969</b>
Share in financial results (less income tax)	(5 917)	(1 620)
Withdrawal of associate	(1 721)	-
Re-classification of financial investments	-	39
<b>Financial investments in associates as on the reporting date</b>	<b>16 750</b>	<b>24 388</b>

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.

#### 5. Long-term and short-term financial investments

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
<b>Long-term financial investments</b>	<b>18 703</b>	<b>7 109</b>
Long-term financial investments available for sale	18 703	7 109
<b>Short-term financial investments</b>	<b>772 305</b>	<b>1 248</b>
Investments held to maturity	770 000	-
Short-term financial investments available for sale	2 305	1 248
<b>Total financial investments</b>	<b>791 008</b>	<b>8 357</b>

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

Name	September 30 <sup>th</sup> , 2007		December 31 <sup>st</sup> , 2006	
	Ownership, %	Balance-sheet value	Ownership, %	Balance-sheet value
<b>Long-term financial investments</b>				
OJSC RSK Sterkh	4,17%	4 999	-	-
OJSC Unified Sakha (Ya) transport company	8,30%	4 980	-	-
OJSC Svyazintek	4,00%	4 579	4,00%	4 579
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		2 363		748
<b>Total long-term financial investments</b>		<b>18 703</b>		<b>7 109</b>
<b>Short-term financial investments</b>				
Promissory notes		770 000	-	-
<b>Total short-term financial investments held before repayment</b>		<b>770 000</b>	-	-
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		1 057	-	-
<b>Total short-term financial investments available for sale</b>		<b>2 305</b>		<b>1 248</b>
<b>Total financial investments available for sale</b>		<b>21 008</b>		<b>8 357</b>

In May – June 2007, Company bought bills of exchange from OJSC Joint-stock Commercial Bank Svyaz-Bank, CJSC Russian Industrial Bank for the amount of 770 000 with repayment dates in June – July, 2008.

Interest rate on bills of exchange – 7.5 – 7.7%

#### 6. Long-term advances made

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Long-term advances made in investments activities	376 943	2 553 950
Long-term advances made in operating activities	410	416
<b>Total long-term advances made</b>	<b>377 353</b>	<b>2 554 366</b>

Long-term advances made under investments activities as on December 31, 2006 advances on purchase of OJSC Sakhatelcom were reflected.

#### 7. Long-term accounts receivable and loans

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Long-term loans to employees	12 253	16 477
Long-term accounts receivable	1 481	283
<b>Total long-term accounts receivable and other financial assets</b>	<b>13 734</b>	<b>16 760</b>

As on September 30, 2007 and December 31, 2006 long-term loans given were shown at depreciable initial value using effective interest rate 15% (2006 – 16%).

## 8. Inventories

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Cable, S/P and materials for telecommunications equipment	212 889	160 229
Ready products and goods for sale	7 894	7 391
Other inventories	268 635	169 964
<b>Total inventories</b>	<b>489 418</b>	<b>337 584</b>

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

## 9. Accounts receivable

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Individuals	779 541	485 248
Commercial entities	644 488	635 888
Budget entities	145 514	56 378
<b>Total telecommunications services receivable</b>	<b>1 569 543</b>	<b>1 177 514</b>
Other accounts receivable	106 720	72 440
Doubtful accounts receivable reserve	(312 656)	(222 510)
<b>Total accounts receivable</b>	<b>1 363 607</b>	<b>1 027 444</b>

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 6.08 % of the total amount of accounts receivable as on September 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 82 887 (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 55.35% 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 as on September 30, 2007 in the amount of 57 588 thousand rubles was included in line (Expenses on recovery of doubtful accounts payable reserve of consolidated profit and loss report.

## 10. Other current assets

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
VAT to be refunded	179 686	116 465
Short-term loans given	82 512	127 924
Future periods expenses	46 794	49 304
Prepayment and advances	43 769	17 156
Other tax advances	20 371	3 874
Employees payroll	14 303	12 330
Other settlements and current assets	51 184	87 804
Reserve for other current assets	(637)	(34 897)
<b>Total other current assets</b>	<b>437 982</b>	<b>379 960</b>

## 11. Cash and cash equivalents

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Cash in banks and cashier	377 595	184 407
Short-term deposits for periods under three months	-	52
<b>Total cash and cash equivalents</b>	<b>203</b>	<b>-</b>
Cash in banks and cashier	<b>377 798</b>	<b>184 459</b>

## 12. Share capital

← --- Формат: Список

As on September 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 September 30, 2007, 75 % of shares were ordinary ones and 25% were preferred shares.

As on September 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	<b>126 750</b>	<b>2 535 006</b>	<b>4 365 706</b>
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on December 31, 2005	<b>126 750</b>	<b>2 535 006</b>	<b>4 365 706</b>
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on December 31, 2006	<b>126 750</b>	<b>2 535 006</b>	<b>4 365 706</b>
Preferred shares	31 169	623 378	1 081 053
Ordinary shares	95 581	1 911 628	3 284 653
As on September 30, 2007	<b>126 750</b>	<b>2 535 006</b>	<b>4 365 706</b>

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

## 13. Loans and credits payable

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

	Effective interest rate	Repayment period	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
<b>Short-term accounts payable</b>				
Bank credits	7%	2008	827 000	-
Bills of exchange	8,60%	2008	-	1 950 000
Interest payable	7,0 -7,85%	2008	111 426	69 524
Other loans	8%	2008	-	1 975
<b>Total short-term accounts payable</b>			<b>938 426</b>	<b>2 021 499</b>
<b>Long-term accounts payable</b>				
Bank credits	8,75%	2012	2 121 292	55 000
Debentures	8,6%	2010-2012	3 468 022	3 486 060
Loans payable to suppliers (rubles)		2008	11 958	27 351
Loans payable to suppliers (euro)	8%	2007	3 933	20 115
Loans payable to suppliers (USD)	5,4-10%	2007-2008	24 060	82 084
Less current long-term credits and loans			(673 094)	(423 538)
<b>Total long-term accounts payable</b>			<b>4 956 171</b>	<b>3 247 072</b>

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

	<u>Foreign currency</u>	<u>Rubles</u>
RUR		6 539 698
USD	908	24 060
Euro	111	3 933
<b>Total</b>		<b>6 567 691</b>

#### Short-term accounts payable

##### Bank loans

In June 2007 Company entered into loan agreements 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 rubles).

Bank name	Contract # and date	Contract currency	%	Date of issue	Date of repayment (last installment)	Balance debt as on reporting date	
						Principal	% and fine payable
OJSC Sberbank	363 от 13.06.07	руб.	7,40%	13.06.2007	11.06.2008	630 000	1 277
OJSC Sberbank	408 от 29.06.07	руб.	7,40%	29.06.2007	27.06.2008	140 000	284
<b>Total</b>						<b>770 000</b>	<b>1 561</b>

#### 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 182<sup>nd</sup> 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 ) and since December 2009 (for principal loan of 2 000 000). 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), 88 260 (for principal loan of 2 000 000). Amount of coupon income per debenture is 42.88 rubles (for principal amount of 1 500 000), 44.13 rubles (for principal amount of 2 000 000).

##### Loans from suppliers

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 September 30, 2007 was 11 958 .

#### IskraUralTel

In 2004 – 2005, Company entered into a few agreements with CJSC IskraUralTel for supply of telecommunications equipment, debts payable in euros. Interest rate is 8% p.a. Amount payable as on September 30, 2007 was 3 933. Equipment thereof is pledged by supplier till the moment of balance payment.

#### 14. Accounts payable and accrued liabilities

As on September 30, 2007 and December 31, 2006, accounts payable and other Company's current liabilities:

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Main activity accounts payable	597 055	282 318
Accrued expenses for wages, salaries and compensatory payments	335 510	475 320
Subscribers' advance payments	284 470	354 704
Settlements with suppliers and contractors for capital construction	149 943	108 927
Other accounts payable and current liabilities	133 651	71 818
<b>Total accounts payable and accrued liabilities</b>	<b>1 500 629</b>	<b>1 293 087</b>

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

#### 15. Tax and social welfare accounts payable

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

	September 30 <sup>th</sup> , 2007	December 31 <sup>st</sup> , 2006
Value-added tax	60 403	15 647
Property tax	53 955	42 865
Unified social tax	49 351	30 360
Personal income tax	17 150	13 425
Other taxes	18 402	3 833
<b>Total tax and social welfare accounts payable</b>	<b>199 261</b>	<b>106 130</b>

#### 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 September 30, 2007 and December 31, 2006 is listed below:

	September 30 <sup>th</sup> , 2007		December 31 <sup>st</sup> , 2006	
	Minimal lease payment	Discounted value of minimal lease payments	Minimal lease payments	Discounted value of minimal lease payments
Current	433 810	334 008	531 294	371 918
1 - 5 years	357 652	310 701	669 753	554 725
Over 5 years	-	-	-	-
<b>Total minimal lease payments</b>	<b>791 462</b>	<b>644 709</b>	<b>1 201 047</b>	<b>926 643</b>
Less financial expenses	(146 753)		(274 403)	
Discounted value of minimal lease payments	<b>644 709</b>	<b>644 709</b>	<b>926 644</b>	<b>926 643</b>
Less short-term liabilities on financial lease		(334 008)		(371 917)
Long-term liabilities on financial lease		310 701		554 726

As on September 30, 2007 and December 31, 2006 key Company's lessor was OJSC RTK-Leasing. Effective interest rate for the said liabilities was 19% - 38% in the first 9 months of 2007 (in 2006 - from 19% to 38% p.a.).

## 17. Revenues

As on September 30, 2007 and December 31, 2006 Company had the following kinds of revenue:

<b>Revenue by type</b>	<b>9 months 2007</b>	<b>12 months 2006</b>
Intrazone telephone services	4 203 243	4 024 912
Local telephone services	1 872 768	1 702 359
Telegraph services, data transfer and telematic telecommunications	1 668 311	1 443 223
Connection and traffic transmission	1 530 180	1 780 172
Mobile radio (cellular) telecommunications	871 914	1 002 907
Cooperation agreement	295 443	356 448
Mobile radio, wired broadcasting, radio, TV	186 388	228 509
Other telecommunication services	68 277	18 666
Other sales	306 407	328 205
<b>Total revenue</b>	<b>11 002 931</b>	<b>10 885 401</b>

## 18. Other operation expenses

As on September 30, 2007 and December 31, 2006 Company had the following kinds of operation expenses:

<b>Expenses by type</b>	<b>9 months 2007</b>	<b>12 months 2006</b>
Fire protection and private security	147 392	183 295
Agency fees	142 312	107 457
Rent of premises	140 287	171 126
Audit and consulting services	117 035	134 766
Universal service reserve payments	100 752	72 384
Advertising	95 901	124 645
Non-commercial partnership	83 496	69 495
Tax penalties and sanctions	79 747	2 029
Housing allowance and hospitality expenditures	49 804	50 403
Transport services	35 858	20 413
Property insurance	29 507	49 583
Membership fees, charity and transfers to trade unions	25 473	29 049
Cost-price of goods sold	9 350	17 778
Education	8 377	11 681
Mail	6 827	8 213
(Profit)/loss from withdrawal of property, plant and equipment and inventories	(1 166)	2 155
Other expenses	493 067	296 106
<b>Total other operation expenses</b>	<b>1 564 019</b>	<b>1 350 578</b>

## 19. Interest expenses, net

As on September 30, 2007 Company had the following kinds of interest-related expenses:

	<b>9 months 2007</b>	<b>12 months 2006</b>
Interest income	(49 308)	(97 027)
Interest expenses	341 934	400 407
Expenses in connection with interest accrued under financial lease agreements	127 650	238 764
<b>Total interest expenses, net</b>	<b>420 276</b>	<b>542 144</b>

## 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.

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.

### *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.

	<b>9 months 2007</b>	<b>12 months 2006</b>
Revenues from OJSC Rostelecom	631 449	1 415 686
Traffic transfer and channels rent	151 394	120 201
Accounts receivable	118 419	198 057
Accounts payable	154 163	6 806

### *Operations with state entities*

As on September 30, 2007 state entities occupied 15% (2006 - 27%) of the total amount of accounts receivable.

In the first 9 months of 2007 material operations of Group and state and state-controlled entities were represented as follows:

<b>Type/kind of operation</b>	<b>As on September 30, 2007</b>		<b>9 months 2007</b>	
	<b>Accounts receivable</b>	<b>Accounts payable</b>	<b>Revenue</b>	<b>Expenses</b>
Telecommunication services	-	-	189 266	-
Connection and transfer	-	-	198 135	-
Other main business services	-	-	25 204	-
<b>Accounts receivable</b>	<b>45 469</b>	-	-	-
Power and heating	-	-	-	138 135
Lease	-	-	-	46 869
Other expenses	-	-	-	602 645
<b>Accounts payable</b>	-	<b>66 086</b>	-	-
<b>Total</b>	<b>45 469</b>	<b>66 086</b>	<b>412 605</b>	<b>787 649</b>

### *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 9 months ended on September 30, 2007 comprised RUR 83 496. Accounts payable as on September 30, 2007 comprised 103 796.

### *Revenue from sale of products, services by related parties*

In the first 9 months of 2007 Company provided services and sold products to the related parties except for Rostelecom for the amount of 186 044.

### *Purchase from related parties*

In the first 9 months of 2007 Company was provided services by the related parties except for Rostelecom for the amount of 39 737.

### *Settlements with related parties*

As on September 30, 2007 Company's accounts payable/receivable in relations with related parties except for Rostelecom are as follows: accounts receivable 39 360, accounts payable 2 450.

## **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 27 992 (2006 – 102 199) are in foreign currency, including those in USD of 24 059 (2006 – 82 084); in euros – 3 933 (2006 – 20 115).

In December 31, 2006 – September 30, 2007 the exchange rate of Russian ruble to USD grew approx. by 6.5 %, and to euro – fell approx. by 2.5%.

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, including fines and penalties – 256 245.

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, including fines and penalties – 759 051.

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 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.

On October 26, 2007 court sitting in Arbitration court of Moscow took place under Company's suit against the tax authority regarding Resolution based on the results of tax inspection of 2003-2005. Company's suit was satisfied in full. Therefore, it was decided to restore previously created reserve of 178 080.

As on September 30, 2007 the amount of unused reserve of 178 080 was restored in full and reflected in the line (Expenses on establishment) restoration of tax liabilities reserve.

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

Arbitration court of Moscow on September 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 Company are 205 767. Therefore, Company 31.10.2007 fully paid in budget and admitted in its statements for 9 months of 2007 the loss of 205 768 reflecting expenses on accruing and payment of Federal antitrust service's sanctions from previously sold reserve for the said liability.