

**OPINION**  
**of Inspection Commission**  
**on annual statements of open joint stock company**  
**Far East Telecommunications Company (OJSC FETEC)**  
**for 2007**

Moscow

April 11<sup>th</sup> 2008

OJSC Inspection Commission elected by General Meeting of Shareholders on June 6<sup>th</sup> 2007 in the membership of:

Chairman of Commission	O.G. Koroleva
Members of Commission	S.N. Bocharova, V.F. Veremyanina, E.O. Konkova, D.A. Shorokhov

in virtue of the powers determined by Federal Law “On Joint Stock Companies”, Articles of Association of OJSC FETEC and Provision for Inspection Commission have carried out audit of Company business transactions for 2007.

The audit was performed according to Resolution of OJSC FETEC Inspection Commission (Minutes No. 5 dated February 8<sup>th</sup> 2008) in the period from February 10<sup>th</sup> to April 10<sup>th</sup> 2008 in respect of Company annual accounting statements for the fiscal year from January 1<sup>st</sup> to December 31<sup>st</sup> 2007).

The analysis was carried out on the basis of documents, registers of accounting and tax records, books and explanations submitted by Company management. The analysis included examination of business transactions data representation, evaluation of accounting principles and methods and rules of preparation of the financial (accounting) statements and annual report.

The Inspection Commission used the method of sample testing for certain operations.

**Summary of Company**

*Full trade name:* open joint stock company Far East Telecommunications Company

*Location of executive body:* 57 Svetlanskaya St., Vladivostok 690950

*Information about registration:* Company is registered by Registration Chamber of Vladivostok Municipal Administration on May 12<sup>th</sup> 2004.

Persons responsible for bookkeeping and preparation of Company accounting statements in the audited period:

- General Director – A.Yu. Kolpakov
- Chief Accountant – E.V. Sidorova

Company supreme management body is General Meeting of Shareholders, between the meetings the function is performed by Board of Directors headed by Chairman. Collegial executive body of OJSC FETEC is Executive committee.

## Main financial and economic indicators of Company activities for 2007

As a result of activities in 2007 Company achieved the following indicators of its business operations and financial situation:

	Indicator name	Unit	2007	2006	Change (%)
1.	Proceeds from sale of goods, works and services	mln rubles	11 203	10 290	+9
2.	including revenues from communications services	mln rubles	10 611	9 652	+10
3.	Prime cost of goods, works and services sold	mln rubles	8 299	7 707	+8
4.	including prime cost of communications services	mln rubles	8 092	7 436	+9
5.	Sales profit	mln rubles	2 904	2 583	+12
6.	Profit before tax	mln rubles	1 356	1 288	+5
7.	Net profit	mln rubles	757	761	-1
8.	OIBDA	thousand rubles	4 210 257	3 720 275	+13.17
9.	Performance margin (return on sales), %	%	25.92	25.1	+0.82*
10.	Sales profit margin, %	%	35.88	33.51	+2.37*
11.	Prime cost of 100 rubles of proceeds, rub.	%	74.08	74.9	-1.09
12.	OIBDA share in proceeds, %	%	37.58	36.15	+1.43*
13.	Proceeds per employee, thousand rub.	thousand rubles	899.1	683.3	+31.58
14.	Financial independence ratio	-	0.4	0.4	0.00
15.	Long-term fund raising ratio	-	0.44	0.42	+4.76
16.	Interim coverage ratio	-	0.66	0.37	+78.38
17.	Current liquidity ratio	-	0.81	0.56	+44.64
18.	Current assets coverage ratio	-	-0.78	-0.23	+239.13
19.	Accounts receivable average payment term, days	days	39.4	37.5	+5.07
20.	Accounts payable average payment term	days	67.13	82.58	-18.71
21.	Return on equity by net profit, %	%	14.14	13.78	+0.36

\* absolute deviation

## Accounting statements

Accounting is organized in Company in accordance with requirements of legal acts regulating accounting in the Russian Federation and in compliance with Accounting Policy approved by Order of Company General Director No. 472 dated December 28<sup>th</sup> 2006.

Accounting statements for 2007 is prepared in accordance with Federal law “On Accounting” in the scope of Balance Sheet, Profit and Loss Report with appendixes and Explanatory Note. Accounting statements are prepared based on reports submitted by Company branches in approved forms.

Audit of Company business transaction in 2007 performed by Inspection Commission revealed no material violations of Russian Federation legislation requirements or material discrepancies in recording of business transactions.

Company accounting statements allow for obtaining complete and objective information about Company business transactions and their results required for current management and administration and suitable for investors, creditors, governmental authorities and any other organizations and persons concerned.

### **Significant facts in economic activity**

Company developed Code of Corporate Conduct to be used as guidance for corporate procedures, and had it approved by its Board of Directors on April 28<sup>th</sup> 2006.

General rules determined by Code of Conduct are implemented by Company in accordance with the Code provisions and valid legislation norms, including those of sublegislative regulatory acts, Company Articles of Association and by-laws (Provision for General Meeting of Shareholders Procedure, Provision for Board of Directors, Provision for Executive committee, Provisions for Board Commissions, Provision for Company Information Policy and Provision for Internal Audit Procedure (System).

In accordance with Articles of Association paragraph 15.1 General Director A.Yu. Kolpakov was appointed by Board of Directors to the position of Acting General Director from January 1<sup>st</sup> 2007 and to the position of General Director from May 25<sup>th</sup> 2007 till May 31<sup>st</sup> 2009. Contract with General Director was approved by Board of Directors.

In pursuance of Articles of Association clause 13 p. 13.4 point 27 Company Executive committee was formed by Board of Directors on July 27<sup>th</sup> 2007 consisting of 7 persons with powers valid from August 1<sup>st</sup> 2007 till July 31<sup>st</sup> 2008.

Inspection Commission did not reveal any gross violations of the Code requirements, valid legislation and Company by-laws in OJSC FETEC activities.

Company formed system of management and control bodies, which, if functioning effectively, can provide for Company normal development and shareholders' interests. Company formed Board of Directors, Board Commissions (Personnel and Awards Commission, Corporate Management Commission, Strategic Planning Commission, Inspection Commission headed by members of Board of Directors), appointed Corporate Secretary and approved provisions regulating activities of the above.

During 2007 Company did not make any big deals (as defined by Federal Law "On Joint Stock Companies"). In 2007 Company made interest-party transactions in accordance with the transaction procedures.

Company disclosed information in the form of significant facts statement in accordance with the procedure specified by Provision for Information Disclosure by Issuers approved by Orders of RF Federal Financial Market Service No. 05-5/ПЗ-Н dated 16.03.2005 and No. 06-117/ПЗ-Н dated 10.10.2006. No facts of the procedure violation were revealed.

The list of Company affiliated persons and changes in the list of affiliated persons are in compliance with the form given in Provision for Information Disclosure by Issuers approved by Orders of RF Federal Financial Market Service No. 05-5/ПЗ-Н dated 16.03.2005 and No. 06-117/ПЗ-Н dated 10.10.2006 and are published quarterly on Company website.

During 2007 Company rendered universal communications services with the proceeds amounting to 92 thousand rubles. Company losses caused by rendering universal communications services amounted to 86,521 thousand rubles in 2007. Losses reimbursement from universal service reserve amounted to 94,508 thousand rubles, including 7,987 thousand rubles for 2006 and 86,521 thousand rubles for 9 months of 2007.

### **Internal Audit System**

From 2005 Company has implemented OJSC FETEC Provision for Internal Audit Procedures (Systems) (Meeting of Board of Directors, Minutes No. 1 dated 05.07.2005), which determines competence of the bodies and persons participating in internal audit system and responsible for internal audit procedures development, approval, application and effectiveness evaluation.

Inspection Commission of Board of Directors acts in accordance with Company Articles of Association, Code of Corporate Conduct and Provision for Board of Directors Inspection Commission. Board of Directors Inspection Commission performs internal audit functions by preliminary consideration and giving out recommendations for Board of Directors on issues of financial accounting, external independent audit, internal audit, internal control procedures and risks related to the scope of information disclosure.

Department of Internal Audit was established, which inspects effectiveness of current internal audit procedures in accordance with procedural regulations. Inspection findings are submitted to Inspection Commission at least once per quarter.

### **Conclusion**

Based on the audit procedures performed Inspection Commission believes that the results obtained allow for the following conclusion:

- Resolutions related to business transactions were made by Company Executive committee and Board of Directors in 2007 in accordance with valid legislation and Company Articles of Association;
- Accounting statements for 2007 reflects Company financial situation and results of its business transactions for the period from January 1<sup>st</sup> till December 31<sup>st</sup> 2007 reliably in all material aspects;
- Annual Report submitted by Company contains reliable data in its material sections as per legislation.

Chairman (signature)  
OJSC FETEC Inspection Commission

O.G. Koroleva

Members (signature)  
OJSC FETEC Inspection Commission (signature)  
(signature)

V.F. Veremyanina  
E.O. Konkova  
D.A. Shorokhov

Secretary (signature)  
OJSC FETEC Inspection Commission

S.N. Bocharova