

OJSC "FETEC"

**Non-audited
Consolidated financial statements**

For 3 months period, ended on March 31, 2008

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OJSC "FETEC"
Non-audited consolidated balance sheet as for March 31, 2008
(RUR million)

	Note	March 31, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	2	12 720	12 992
Intangible assets and goodwill	3	2 835	2 882
Investments in associates	5	69	67
Long-term investments	6	18	18
Long-term employee loans and other financial assets	8	10	12
Long-term advances given	7	255	234
Total non-current assets		15 907	16 205
Current assets			
Inventories	9	436	449
Accounts receivable	10	1 423	1 263
Current profit tax assets		44	35
Short-term investments	6	770	771
Other current assets	11	595	394
Cash and cash equivalents	12	1 128	342
Total current assets		4 396	3 254
Total assets		20 303	19 459
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	13	4 366	4 366
Treasury shares	13	(1)	(1)
Retained earnings and other reserves		3 210	2 672
Total equity attributable to equity holders of the parent company		7 575	7 037
Minority interest		1 452	1 399
Total shareholders' equity		9 027	8 436
Non-current liabilities			
Long-term borrowings	14	4 693	4 704
Long-term finance lease obligations	17	175	225
Pension obligation		1 004	964
Deferred revenue		110	115
Deferred income tax liabilities		723	741
Total non-current liabilities		6 705	6 749
Current liabilities			
Accounts payable, accrued expenses and advances received	15	1 540	1 640
Current profit tax accounts payable		27	3
Tax and social welfare accounts payable	16	560	183
Dividends payable		34	35
Short-term borrowings	14	874	803
Current portion of long-term borrowings payable within 12 months	14	827	846
Current portion of finance lease obligations	17	279	306
Краткосрочная часть резервов по условным обязательствам	18	430	458
Total current liabilities		4 571	4 274
Total liabilities		11 276	11 023
Total shareholders' equity and liabilities		20 303	19 459

Acting General Director _____ S. I. Frolov 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 3 months 2008.
(RUR million)

	3 months 2008	3 months 2007
Revenues	19	3 925
Wages, salaries, other employee benefits and social contributions	(1 108)	(1 187)
Depreciation and amortization	(663)	(510)
Materials, repairs and malignance, utilities	(350)	(293)
Taxes other than income tax	(68)	(65)
Interconnection charges – Russian companies	(457)	(320)
Allowance for recovery of doubtful receivables	(14)	(7)
Loss on disposal of property, plant and equipment	(2)	(10)
Other operating expenses	20	(459)
Operating profit	947	787
Profit from share of result of associates	2	-
Interest expenses	21	(147)
Gain/loss from investments	1	(1)
Profit before taxes	824	639
Profit tax	(233)	(179)
Profit for accounting period	591	460
Attributable to:		
Shareholders of parent company	538	441
Minority shares	53	19
Profit/loss for accounting period	591	460

Acting General Director _____ S. I. Frolov Chief accountant _____ E. V. Sidorova

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OJSC "FETEC"
Shareholders' equity consolidated flow report for 3 months 2008
(RUR million)

	Share capital		Own shares purchased from shareholders	Undistributed profit and other reserves	Total shareholders equity related to parent company shareholders	Minority interest	Total shareholders equity	
	Preferred shares	Ordinary shares						
Balance as on December 31, 2006	13	1 081	3 285	(6)	1 552	5 912	21	5 933
Reported period profit	-	-	-	1 272	1 272	88	1 360	
Total annual revenue and expenses	-	-	-	-	1 272	88	1 360	
Dividends payable to parent company shareholders	-	-	-	(152)	(152)	-	(152)	
Sale of own shares	-	-	5	-	5	-	5	
Minority interest of associates acquired	-	-	-	-	-	1 292	1 292	
Purchase of minority interest	-	-	-	-	-	(2)	(2)	
Balance as on December 31, 2007	13	1 081	3 285	(1)	2 672	7 037	1 399	8 436
Reported period profit	-	-	-	538	538	53	591	
Total annual revenue and expenses	-	-	-	538	538	53	591	
Balance as on March 31, 2008		1 081	3 285	(1)	3 210	7 575	1 452	9 027

Acting General Director _____ S. I. Frolov 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 3 months 2008
(RUR million)

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 3 months 2008 ended September 30 and authorized for publishing in compliance with the decision of General Director and Chief Accountant on August 26, 2008.

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 as on March 31, 2008 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 millions of Russian Roubles.

Basis of Presentation of Non-audited Consolidated Financial Statements

OJSC "FETEC" non-audited consolidated financial statements for 3 months of 2008 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 IFRS, however it is sufficient to receive a foretaste of the Company's financial condition and business results for 3 months 2008.

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 2008 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.

3. Property, plant and equipment

As on March 31, 2008 and December 31, 2007 balance value of property, plant and equipment was:

	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 31, 2007	9 435	7 868	902	1 813	20 018
Depreciable value as on March 31, 2008	9 427	7 918	1 145	1 809	20 299
Accumulated depreciation and deterioration December 31, 2007	(3 785)	(2 279)	-	(962)	(7 026)
Accumulated depreciation and deterioration March 31, 2008	(3 955)	(2 574)	-	(1 050)	(7 579)
Balance value as on December 31, 2007	5 650	5 589	902	851	12 992
Balance value as on March 31, 2008	5 472	5 344	1 145	759	12 720

Depreciation

Depreciation is calculated using linear method.

Depreciation of property, plant and equipment calculated at the amount of 588 in quarter 1 was accepted in line *Depreciation and deterioration* of consolidated profit and loss report (quarter 1 of 2007 – 480).

As on March 31, 2008 initial value of completely depreciated property, plant and equipment was 2 924 (December 31, 2007 - 2 856).

Lease of machinery and equipment

As on March 31, 2008 and December 31, 2007 balance-sheet value of property, plant and equipment received under financial lease contract was:

	March 31, 2008	December 31, 2007
Buildings and structures	-	-
Switch boards and transmission devices	1 107	1 206
Incomplete construction and equipment for installation	4	4
Transport facilities, other property, plant and equipment	33	53
Total received under financial lease, balance-sheet value	1 144	1 263

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

Capitalized interest

In quarter 1, 2008 Company increased the value of incomplete construction for the amount of capitalized interest at the amount of 3 (in quarter 1 of 2007 – 2). Capitalization rate in quarter 1 of 2008 was 2.1 % (quarter 1 of 2007 – 2.2 %).

2. Intangible assets

Intangible assets are capitalized at purchase value.

As on March 31, 2008 intangible assets were:

	Goodwill	Licenses	Software	Subscribers database	Trademark	Other	Total
Initial value							
December 31, 2006	91	180	943	15	-	23	1 252
December 31, 2007	1 057	193	1 248	655	57	22	3 232
March 31, 2008	1 057	193	1 271	655	57	22	3 255
Depreciation and deterioration accumulated							
December 31, 2006	(91)	(42)	(60)	(15)	-	(13)	(221)
December 31, 2007	(91)	(69)	(128)	(36)	(14)	(12)	(350)
March 31, 2008	(91)	(75)	(183)	(41)	(18)	(12)	(420)
Depreciable value							
December 31, 2006	-	138	883	-	-	10	1 031
December 31, 2007	966	124	1 120	619	43	10	2 882
March 31, 2008	966	118	1 088	614	39	10	2 835

Software

As on March 31, 2008 software includes Oracle E-Business Suite, balance-sheet value is 360.

Company started to use the software functionally and to calculate depreciation since the start of using (March 2006) within life period set for 10 years. Company plans to complete implementation of that system before 2009.

As on March 31, 2008 software includes Amdocs Billing Suite, balance-sheet value is 293 (December 31, 2007 – 293).

That software was developed to introduce uniform automatic billing system. Scheduled automatic billing system bringing into use based on Amdocs Billing Suite platform is 4 -5 years.

Company decided on suspension of that project based on Amdocs Billing Suite platform and review of implementation terms.

Licenses

Licenses useful life is set based on licensing terms and conditions on individual basis for each license. Licenses useful life is 1 – 5 years. Life of Company's key licenses may differ from their useful lives.

Trademarks

Company set useful life for trademarks – 4 years.

Subscribers database

Subscribers database is contractual relations with subscribers. Company set useful life of subscribers database – 30 years.

Depreciation of intangible assets

Depreciation of intangible assets calculated in quarter 1, 2008 at the amount of 75 (quarter 1, 2007 – 30) was accepted in line *Depreciation and deterioration* of consolidated profit and loss report.

Goodwill and intangible assets accepted upon purchase of a subsidiary

Intangible assets accepted separately as a result of purchase of OJSC Sakhatelecom (note 4) are the resources bringing economic benefits to Company and include the following:

- Subscribers database;
- Software;
- Other intangible assets.

3. Дочерние компании

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, %	
		March 31, 2008	December 31, 2007	March 31, 2008	December 31, 2007
CJSC AKOS (ZAO)	Mobile telecommunications	94,26	94,26	94,26	94,26
OJSC A-Svyaz (OAO)	Local telecommunications	91.80	91,80	91.80	91,80
Wireless information technologies Co., Ltd. (OOO)	Mobile telecommunications	100,00	100,00	100,00	100,00
CJSC Integrator.ru (ZAO)	Investments	0,00	100,00	0,00	100,00
Interdaltelecom Co., Ltd. (OOO)	Telecommunications	100,00	97,00	100,00	97,00
OJSC Sakhatelecom (OAO)	Local telecommunications	51,00	51,00	51,00	51,00
CJSC Sakhalinugol-Telecom (ZAO)	Local telecommunications	100.00	100,00	100,00	100,00

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.

Liquidation of subsidiaries CJSC Sakhalinugol-Telecom (ZAO) and OJSC A-Svyaz (OAO)

In April 2008 liquidation of CJSC Sakhalinugol-Telecom (ZAO) was completed in compliance with resolution of Board of Directors of OJSC FETEC made in June 2007.

In April 2008 liquidation of OJSC A-Svyaz (OAO) was completed in compliance with resolution of Meeting of shareholders made in September 2007.

Merger of CJSC AKOS (ZAO) and CJSC Integrator.ru (ZAO)

In compliance with resolution of Board of Directors made in November 2007 and resolution of Meeting of shareholders of CJSC AKOS (ZAO) made in January 2008, CJSC Integrator.ru (ZAO) was joined to CJSC AKOS (ZAO). Relevant entry into uniform state register of legal entities was made on March 4, 2008.

Purchase of share in Interdaltelecom Co., Ltd. (OOO)

In compliance with resolution of Company's Board of Directors Company bought in January 2008 3% share in Interdaltelecom Co., Ltd. (OOO) for 1, making up total shareholding from 97% to 100%.

4. Financial investments in associates

As on March 31, 2008 and December 31, 2007 Company's financial investments in associates included the following:

Company name	Business	March 31, 2008	December 31, 2007

		Voting shares	Balance-sheet value	Voting shares	Balance-sheet value
Kamalaskom Co., Ltd. (OOO)	Mobile telecommunications	50%	1	50%	1
Magalaskom Co., Ltd. (OOO)	Mobile telecommunications	50%	17	50%	16
Vostoktelecom Co., Ltd (OOO)	Telecommunications	25%	51	25%	50
Total			69		67

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 March 31, 2008 and December 31, 2007 is as under:

	2008	2007
Financial investments in associates as on January 01	67	24
Purchase of associate	0	50
Profit/loss from participation in associate less profit tax	2	(2)
Withdrawal of associate	0	(5)
Financial investments in associates as on the reporting date	69	67

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. Financial investments

As on March 31, 2008 and December 31, 2007 financial investments were as under:

	March 31, 2008	December 31, 2007
Long-term financial investments hold till repayment	18	18
Total long-term financial investments	18	18
Financial investments hold till repayment	770	770
Financial investments available for sale	-	1
Total short-term financial investments	770	771
Total financial investments	788	789

As on March 31? 2007 and December 31? 2006 financial investments included:

Company name	March 31, 2008		December 31, 2007	
	Ownership, %	Balance-sheet value	Ownership, %	Balance-sheet value
Long-term financial investments				
OJSC AKB Sberbank of Russia		11		11
OJSC Svyazintek	4,00%	5	4,00%	5
OJSC Telecommunications of FEZ Nakhodka	8,47%	1	8,47%	1
OJSC AKB Svyaz-Bank	0,03%	1	0,03%	1

Total long-term financial investments		18		18
Short-term financial investments				
OJSC Russian Industrial Bank	bills	470	bills	470
OJSC AKB Svyaz-Bank	bills	300	bills	300
Other		-		1
Other short-term financial investments		770		771
Total financial investments available for sale		788		789

6. Long-term advances made

As on March 31, 2008 and December 31, 2007 long-term advances made were as under:

	March 31, 2008	December 31, 2007
Purchase of property, plant and equipment	255	234
Total long-term advances made	255	234

7. Long-term accounts receivable and other financial assets

As on March 31, 2008 and December 31, 2007 long-term accounts receivable and other financial assets included:

	March 31, 2008	December 31, 2007
Long-term loans to employees	8	11
Long-term receivables	2	1
Total long-term accounts receivable and other financial assets	10	12

As on March 31, 2008 and December 31, 2007 long-term loans given are reflected at depreciable initial value using effective interest rate 16% (2007 – 18%).

8. Inventories

As on March 31, 2008 and December 31, 2007 inventories included:

	March 31, 2008	December 31, 2007
Cable, S/P and materials for telecommunications equipment	200	194
Ready products and goods for sale	3	5
Other inventories	233	250
Total inventories	436	449

As on March 31, 2008 Company had no inventories pledged or secured as collateral.

9. Accounts receivable

As on March 31, 2008 and December 31, 2007 accounts receivable included:

	Total, December 31, 2007	Doubtful debts reserve	Net, December 31, 2007
Individuals	243	(47)	196
Commercial entities	778	(154)	624

Budget entities	68	(5)	63
Telecommunications operators	280	(20)	260
Social welfare authorities in connection with preferences to some kinds of subscribers	34	(34)	-
Other accounts receivable	132	(12)	120
Total accounts receivable	1 535	(272)	1 263

	Total, March 31, 2008	Doubtful debts reserve	Net, March 31, 2008
Individuals	246	(50)	196
Commercial entities	887	(169)	718
Budget entities	163	(8)	155
Telecommunications operators	292	(20)	272
Social welfare authorities in connection with preferences to some kinds of subscribers	24	(24)	0
Other accounts receivable	96	(14)	82
Total accounts receivable	1 708	(285)	1 423

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 24 (As on December 31, 2007 – 34).

Company assessed compensation ability for those amounts and made up reserve for doubtful accounts receivable of 24, which is 99.9% of the total amount of accounts receivable from state budget in connection with expenses on granting preferences to some kinds of subscribers.

10. Other current assets

As on March 31, 2008 and December 31, 2007 other current assets included:

	Total December 31, 2007	Reserve	Net December 31, 2007
Prepayment and advances	121	(3)	118
Employees payroll	18	-	18
Short-term loans given	53	-	53
VAT to be refunded	79	-	79
Other tax advances	19	-	19
Future periods expenses	34	-	34
Other settlements and current assets	94	(21)	73
Total	418	(24)	394

	Total, March 31, 2008	Reserve	Net, Match 31, 2008
Prepayment and advances	204	(3)	201
Employees payroll	24	-	24
Short-term loans given	74	-	74
VAT to be refunded	77	-	77
Other tax advances	15	-	15
Future periods expenses	25	-	25
Other settlements and current assets	198	(19)	179
Total	617	(22)	595

11. Cash and cash equivalents

As on March 31, 2008 and December 31, 2007 cash and cash equivalents were

	March 31, 2008	December 31, 2007
Cash in banks and cashier	1 128	342
Total	1 128	342

12. Share capital

The respective number of authorized ordinary and preferred shares is 95 581 421 shares (2007 - 95 581 421 shares) and 31 168 901 shares (2007 - 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 March 31, 2008, 75 % of shares were ordinary ones and 25% were preferred shares. Each ordinary share gives its holder one vote. Preferred shares vest their holder with the right to attend general meetings of shareholders without the right to vote except for decisions on restructure and liquidation of Company and bringing changes and supplements to Company's Articles of Association limiting the rights of preferred shares holders. Preferred shares do not vest the holder with the right to claim purchase or conversion of shares but vest with the right to non-cumulative dividends 10% of net profit as per accounting data under Russian standards of accounting. Annual dividends on preferred shares may not be less than dividends on ordinary shares. When Company pays no dividends or when Company receives no profit upon annual results, preferred shares holders receive the right to vote on all matters related to the authority of General meeting of shareholders. Holders of preferred shares have preferential right to reimbursement of the nominal value of preferred shares in case of liquidation.

As on March 31, 2008 nominal and balance-sheet value of ordinary and preferred shares was:

	Number of shares floating (thousand ones)	Own shares (thousand ones)	Number of shares issued (thousand ones)	Nominal value	Balance-sheet value
December 31, 2006	126 701	49	126 750	2 535	4 366
Preferred shares	31 166	3	31 169	623	1 081
Ordinary shares	95 578	3	95 581	1 912	3 285
December 31, 2007	126 744	6	126 750	2 535	4 366
Preferred shares	31 166	3	31 169	623	1 081
Ordinary shares	95 578	3	95 581	1 912	3 285
March 31, 2008	126 744	6	126 750	2 535	4 366

Тип акции	Number of shares floating (thousand ones)	Nominal value of share (RUR)	Total nominal value	Total balance- sheet value	Treasury shares
Preferred shares	31 169	20	623	1 081	3
Ordinary shares	95 581	20	1 912	3 285	3
Total	126 750		2 535	4 366	6

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

12. Loans and credits payable

As on March 31, 2008 and December 31, 2007 loans and credits payable included:

	Effective interest rate	Repayment period	March 31, 2008	December 31, 2007
<i>Short-term accounts payable</i>				
Bank credits (RUR)	7%	2008	771	772

Interest payable	7-8,85%	2008	103	31
Total short-term accounts payable			874	803
			5 520	6 049
Long-term accounts payable				
Bank credits (RUR)	8,75%	2012	2 218	2 237
	Mosprime +	2009		
Bank credits (RUR)	2,3%		110	110
Debentures (RUR)	8,60-8,85%	2009-2012	3 176	3 176
Suppliers credits (RUR)	-	2008	3	7
Suppliers credits (USD)	5,4-10%	2008	13	20
Less current long-term credits and loans			(827)	(846)
Total long-term accounts payable			4 693	4 704

As on March 31, 2008 Company had credit line contracts to cover current need in floating capital and find investments projects. For use of credits, Company is paying interest to banks at the rate 7.4% - 12.8% p.a. Collateral under those credits is Company's assets for the amount of 2 783 (December 31, 2007 - 1 294).

As on December 31, 2007 and March 31, 2008 loans and credits payable were distributed by foreign currency as follows:

	March 31, 2008	December 31, 2007
RUR	6 381	6 333
USD	13	20
Total	6 394	6 353

Short-term accounts payable

Credits and loans

Short-term accounts payable as on March 31, 2008 is represented mainly with credits and loans received to fund floating capital. Most of those credits are secured with telecommunications equipment.

Sberbank

In June 2007, Company entered into two agreements with JSC Sberbank of the RF to receive revolving credit line for the amount of 770. Company pays interest rate of 7.4% p.a. for facilitating of that loan. Company's assets in pledge are the collateral for that credit. Balance-sheet value of assets is 1 046.

Long-term accounts payable

Credits and loans

Сбербанк

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 till January 29, 2012. Company pays interest rate of 8.75% p.a. for facilitating of that loan.

Company's assets in pledge are the collateral for that credit. Balance-sheet value of assets is 202 at least plus ordinary shares of OJSC Sakhatelecom (51% of share capital). As on March 31, 2008 debt was 1 955.

Svyaz-Bank

In December 2007 Company entered into agreement with OJSC AKB Svyaz-Bank to open revolving credit line with limit of 450 to do operational, financial and investments payments at 9.4% p.a. for 12 months. The balance under this agreement as on March 31, 2008 is 128. Company has no collateral under that credit.

Societe Generale Vostok Bank

In December 2007 Company entered into agreement with JSC Societe General Vostok Bank to open non-revolving credit line via separate tranches to finance operational, financial and investments activities. Total amount of tranches may not exceed 500, each tranche may not be under 20. Credit line is facilitated for 18 months. The balance under this agreement as on March 31, 2008 is 110. Company has no collateral under that credit.

Svyaz-Bank

In February 2007 CJSC AKOS entered into agreement with Interregional commercial bank for development of telecommunications and information science OJSC AKB Svyaz-Bank for the amount of 95 to repay the loan to OJSC FETEC and grant loan to WIT Co., Ltd and receive some floating assets. Credit is facilitated since February 13, 2007 till February 13, 2009. AKOS pays 12.75% p.a. The balance under this agreement as on March 31, 2008 is 43. Company has no collateral under that credit.

Promsvyazbank

In November 2005 CJSC AKOS entered into agreement with AKB Promsvyazbank for the amount of 50 to renew fixed and floating assets. For that credit the borrower pays till November 14, 2008 14% p.a. for actual debt under that credit and since November 15, 2008 – 28% p.a. for actual debt. The balance under this agreement as on March 31, 2008 is 21. Company has no collateral under that credit.

Far Eastern Bank

In October 2006 CJSC AKOS entered into agreement with OJSC Far Eastern Bank to renew floating assets and purchase equipment for credit line with limit of 55. For that credit, CJSC AKOS pays interest at 11.25% p.a. Balance as on March 31, 2008 is 69. Company's assets in pledge are the collateral for that credit. Balance-sheet value of assets is 47.

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) 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. therefore, debt for the amount of 750 is classified as short-term.

As on March 31, 2008 unpaid balance was 3 176.

Commercial credits

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 March 31, 2008 was 3.

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities included:

	March 31, 2008	December 31, 2007
Settlements with suppliers and contractors for purchase and construction of property, plant an equipment	139	215
Settlements with suppliers and contractors for purchase of software	22	19
Settlements with telecommunications operators	130	335
Current settlements with suppliers and contractors	284	200
Advances received in main business	264	333

Salary and compensations payable	488	478
Other accounts payable and current liabilities	213	60
Total	1 540	1 640

Other accounts payable includes indebtedness for agency contracts and payments to non-commercial partnership Center for studies of telecommunications development issues.

14. Tax and social welfare accounts payable

Company had the following short-term tax payable:

	March 31, 2008	December 31, 2007
Value-added tax	398	89
Property tax	87	52
Personal income tax	21	8
Unified social tax	45	31
Other taxes	9	3
Total	560	183

Material increase of VAT payable (309) is connected with the change of tax regulations since January 1, 2008 introducing VAT payment on quarterly basis.

Long-term tax payable

Long-term tax payable is various taxes payable which were delayed and then restructured for the period up to 10 years in compliance with Resolution of Government of the Russian Federation # 1002 dated September 3, 1999.

Long-term tax payable is reflected at fair value as on restructuring date and then – at depreciable value. Fair value was defined as net discounted value of future cash flows at discount rate 12%.

15. 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 is listed below:

	March 31, 2008		December 31, 2007	
	Minimal lease payment	Discounted value of minimal lease payments	Minimal lease payments	Discounted value of minimal lease payments
Current	344	279	386	306
1 - 5 years	196	175	257	225
Total minimal lease payments	540	454	643	531
Less financial expenses	(86)	-	(112)	-
Discounted value of minimal lease payments	454	454	531	531
Less short-term liabilities on financial lease	-	(279)	-	(306)
Long-term liabilities on financial lease	-	175	-	225

In quarter 1 of 2008 and in 2007 key Company's lessors were OJSC RTK-Leasing and Independent Leasing Co., Ltd. Effective interest rate under those liabilities was in quarter 1, 2008 from 21 to 59% p.a. (in 2007 – 21-34% p.a.).

OJSC RTK-Leasing buys telecommunications equipment from Russian and foreign suppliers and leases it under lease agreements. Company's liabilities to OJSC RTK-Leasing as on March 31, 2008 were 454 (December 31, 2007 – 530).

Under contracts with OJSC RTK-Leasing, lessor may change the schedule of future lease payments in case of change of certain macroeconomic conditions, in particular, refinancing rate of Central Bank of the Russian Federation.

Contracts do not provide for prolongation terms, buy options and sliding prices. Title to equipment is transferred to Company upon fulfillment of its obligations under financial lease contracts.

16. Reserves

	Staff reduction program			
	reserve	Court suits	Future taxes	Total
Balance as on December 31, 2006	72	1	812	885
Established due to new conditions	46	412	-	458
Used within year	(72)	(1)	(633)	(706)
Recovered		-	(179)	(179)
Balance as on December 31, 2007	46	412	-	458
Used within year	(9)	(19)	-	(28)
Balance as on March 31, 2008	37	393	-	430

	Staff reduction program			
	reserve	Court suits	Future taxes	Total
Out of total reserves				
Long-term	-	-	-	-
Short-term	46	412	-	458
Total reserves, December 31, 2007	46	393	-	458
Long-term	-	-	-	-
Short-term	37	393	-	430
Total reserves, March 31, 2008	37	393	-	430

Staff reduction program

In December 2007 Company established reserve for payment of compensations to employees which were in December 31, 2007 notified of their dismissal (as per Article 180 of the Labor Code of the RF). Reserve was 18 as on March 31, 2008 (December 31, 2007: 46).

Court suits

Reserve accepted in financial statements is the total amount of reserves regarding certain court suits brought against Company. It is expected that the balance of reserve as on March 31, 2008 will be used in the second 6 months of 2008. As opined by Company's management, the amount which may be collected from Company as a result of court proceedings will not exceed the amount of reserve reflected in the statements as on March 31, 2008.

Company established reserves on the following basic episodes:

- suits of CJSC Primtelefon and OJSC New telephone company to claim null and void the results of null and void transactions (joining contracts) for capacity increase at the amount of 356. Company's management assesses the chance to meet the suits as *probable*.
- Claims of OJSC Sakhatelecom staff for night-time work for the amount of 29. Company's management assesses the chance to meet the suits as *probable*.

Tax authorities claims

Company is the plaintiff in the case claiming the decision of tax authority made upon the results of tax inspection of OJSC FETEC in 2003 – 2005. The total tax claims are 202. By decision of Moscow Arbitration court, Company's suit was fully satisfied – tax authority's decision was claimed null and void. As on August 25, 2008 the said decision was not made. As on the date of signing these statements, Company has no information about further actions of tax inspection in courts.

17. Revenues

In quarter 1 of 2008 and in 2007 Company had the following revenues:

	3 months 2008	3 months 2007
Intrazone telephone services	630	630
Local telephone services	1 461	1 365

Mobile radio, wired broadcasting, radio, TV	35	55
Mobile radio (cellular) telecommunications	288	297
Telegraph services, data transfer and telematic telecommunications	860	531
Connection and traffic transmission	473	526
Other services related to basic kinds of activities	1	22
Cooperation and agency services	84	111
Revenue from non-basic services	93	101
Total revenues	3 925	3 638

18. Other operation expenses

In quarter 1 of 2008 and in 2007 Company had the following other operation expenses:

	3 months 2008	3 months 2007
Universal service reserve payments	37	32
Fire protection and private security	51	49
Housing allowance and hospitality expenditures	16	16
Transport services	9	11
Mail	2	2
Education	2	3
Cost-price of goods sold	2	2
Rent of premises	48	42
Audit and consulting services	16	34
Advertising	34	24
Property insurance	5	11
Non-commercial partnership	-	28
Membership fees, charity and transfers to trade unions	6	11
Loss from withdrawal of property, plant and equipment and inventories	1	-
Agency fees	59	36
Other expenses	28	158
Total	316	459

Other expenses include the expenses on payments to credit entities and payments to members of Board of Directors and Inspection Committee.

19. Interest expenses, net

In quarter 1 of 2008 and in 2007 Company had the following interest expenses:

	3 months 2008	3 months 2007
Interest income	29	6
Interest expenses	(130)	(105)
Expenses in connection with interest accrued under financial lease agreements	(25)	(48)
Total	(126)	(147)

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

Relations with the associates Company had material operations with in quarter 1, 2008 and 2007 is represented below:

Name	Subsidiaries of OJSC Svyazinvest	Associates	State controlled companies	Other
Quarter 1, 2008				
Sale of telecommunication services, joining and traffic transfer services	224	-	530	-
Sale of cooperation and agency services	75	-	21	-
Revenue from release of assets	-	-	3	-
Purchase of telecommunication services, joining and traffic transfer services	87	-	110	-
Purchase of other services	1	-	243	-
Purchase of goods and other assets	0	-	2	-
Interest on loans payable	0	-	44	-
Loans granted	0	-	3	-
Quarter 1, 2007				
Sale of telecommunication services, joining and traffic transfer services	289	1	221	7
Sale of cooperation and agency services	-	-	22	-
Purchase of telecommunication services, joining and traffic transfer services	29	1	100	14

Tariffs and prices for operations with affiliated entities were set on common commercial basis.

The character of relations with the associated parties having material balance with Company as on March 31, 2008 is given below:

Name	Subsidiaries of OJSC Svyazinvest	Associates	State controlled companies	Other
March 31, 2008				
Accounts receivable	108	3	282	4
Accounts payable	235	6	169	-
December 31, 2007				
Accounts receivable	125	2	65	10
Accounts payable	157	6	71	43
Security given		-	5	-

Other associated parties include: Key managing staff; Parties having material impact on Company; Non-state pension funds; Other parties admitted associated not included in separate categories.

Accounts payable as on the end of quarter 1, 2008 is not secured, is interest-free and paid by money. No security was granted or received regarding accounts receivable and payable of the associated parties.

OJSC Svyazinvest

OJSC Svyazinvest, Company's parent company, fully belonged to the Russian state before July 1997 when the Government of the Russian Federation sold 25% + 1 share to private investors.

Effectively working communication and data transfer network is crucial for Russia due to a number of reasons including economic, strategic and national security interests. Therefore, Government has and will most likely keep having material influence on OJSC Svyazinvest and its subsidiaries.

Ministry of the RF for telecommunications and informatization controls the process of licensing companies providing telecommunication services.

OJSC "Rostelecom"

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

Revenues from OJSC Rostelecom are formed at the amounts of revenues from zonal initiation, termination of calls from/to Company's networks and from/to joined operators networks and revenues under cooperation agreements.

Expenses on OJSC Rostelecom are formed at the amounts of payments for call termination services to networks of other operators if calls are initialized from mobile radio telephone network expenses on payments for joining services and long-distance and international calls provided to Company.

Respective amounts included in consolidated financial statements as on March 31, 2008 and December 31, 2007 and in reported periods till the said dates were as under:

	1 quarter 2008	1 quarter 2007
Revenues from OJSC Rostelecom for telecommunications services	300	289
Expenses to OJSC Rostelecom for telecommunications services	87	29
	March 31 2008	December 31 2007
Accounts receivable for services provided by OJSC Rostelecom	108	198
Accounts payable for services provided by OJSC Rostelecom	145	8

Operations with state entities

State entities make up a material part of clients database of Company purchasing its services both directly via state authorities and indirectly via branches and commercial entities controlled by them.

Some entities funded from state budget are users of the network belonging to Company. They usually rent communication lines making payments under lower tariffs set by Federal tariffs service compared to tariffs for other customers. Besides that, Government may legally claim Company to provide certain services for the interests of national security and criminal defense. Other state entities (budget entities) like Ministry of defense and those controlled by Government, mainly being state TV and radio broadcasting companies are using Svyazinvest Group's communication networks to transfer information TV and radio traffic all over the country. In some cases, providing of services means rent of communication channels charged by Svyazinvest Group at rates lower than market.

Entities directly or indirectly funded by state do not effect Group's operations with other companies.

Company is unable to switch off a number of such companies being strategic state entities due to resolutions of the RF Government. Tariffs for such companies are also set by regulator on the same level which is used for commercial entities.

24. Financial instruments

Company's key financial instruments include: bank credits, debenture and bill loans, financial rent (leasing), cash and cash equivalents. The basic part of those instruments is attracting funds for operations. Also, short-term deposits are used as a financial instrument to place spare money. Company has other financial assets and liabilities like trading payables and receivables arising directly in the course of its operational activities.

Key risks in connection with Company's financial instruments include foreign currency risk, risk of interest rate effect on future cash-flows, credit risk and liquidity risk.

Capital management policy

Key objectives of Company's capital management policy are increase of credit rating, improvement of financial independence and liquidity factors, improvement of payables structure and decrease of capital cost.

Key methods of capital structure management are: maximization of profit, investments program management, sale of assets to decrease debt load, borrowings management, restructuring of debts portfolio, use of various groups of borrowings.

Company manages capital using financial independence factors, factor net debt/equity capital, net debt/EBITDA. Within capital management policy framework, Company is seeking improvement of its credit rating by rating agencies.

As on the reported date, long-term basic non-secured issuer's rating was confirmed by Fitch rating agency at B+ level, short-term foreign currency rating of Company was set at B. Prognostication for long-term rating remained Stable.

Standard and Poor's granted corporate management rating RKU 5.4 under national scale. International scale rating was conformed at RKU-5 level.

Company's capital is managed at the levels of separate existing legal entities included in Company. Calculation of financial independence factors, net debt/equity capital, net debt//EBITDA is done as per accounting data in compliance with Russian accounting standards. Company's capital management policy did not change in 2007 compared to that in 2006.

Foreign currency risk

Foreign currency risk is the risk that foreign currency exchange rate will have negative effect on profit and loss report, balance-sheet and/or cash-flow report. Liabilities in foreign currency evidence the existence of a potential foreign currency risk.

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

Possible drop of RUR exchange rate may lead to growth of actual cost of borrowings for Company and make more difficult calling for loans including those to refinance current liabilities.

Liquidity risk

Liquidity risk is that a contractor may fail to fulfill its liabilities to Company in time causing financial loss.

Company controls the risk of lack of funds via current liquidity planning instrument. Using that, payment times in connection with financial investments and financial assets are analyzed (e.g., receivables, other financial assets) and prognosticated cash-flows from operations. Company's objective is to maintain the balance between continuity and flexibility of financing via bank overdrafts, bank loans, debentures, financial hire (leasing).

Financial assets which may be affected by potential credit risk are represented by receivables. Balance value of receivables less doubtful debts reserve is the maximal amount exposed to credit risk. Company has not material concentration of credit risk due to large customer database and continuous control over creditability of clients and other debtors. Part of Company's receivables accounts for state and other non-commercial entities. Political and economic factors effect the probability of receiving those receivables. As opined by top management as on March 31, 2008 Company has no risk of material loss in connection with that and other kinds of receivables having no reserves.

Insurance of bank deposits is not done by the banks working in the Russian Federation. To manage that credit risk Company distributes spare funds between various banks. Top management periodically analysis creditability of banks where corporate funds are placed.

Repayment date	Payables	Credits and loans	Debenture loans	Commercial loans	Total
Within 2008	1 540	965	727	9	3 241
Within 2009	-	769	750	7	1 527
Within 2010	-	652	600	-	1 252
Within 2011	-	652	700	-	1 352
Within 2012	-	164	399	-	562
Total	1 540	3 202	3 176	16	7 934

Interest rate change risk

That risk is connected with the change of interest rates which may have negative effect on Company's financial results.

The below table shows details of Company's financial instruments with fixed interest rate exposed to interest rate risk as on December 31, 2007 and March 31, 2008:

	<u>< 1 year</u>	<u>1 - 5 years</u>	<u>> 5 years</u>	<u>Total</u>
December 31, 2007				
<i>Fixed rate</i>				
Financial investments	770	-	-	770
Short-term credits and loans	803	-	-	803
Long-term credits and loans	846	4 594	-	5 440
Financial leasing liabilities	306	225	-	531
<i>Floating rate</i>				
Long-term credits and loans	-	110	-	110
March 31, 2008				
Financial investments	770	-	-	-
Short-term credits and loans	874	-	-	874
Long-term credits and loans	827	4 583	-	5 410
Financial leasing liabilities	279	175	-	454
<i>Floating rate</i>				
Long-term credits and loans	-	110	-	110

Interest rate on financial instruments with fixed interest rates remain unchanged till instrument repayment date.

Company has no other material interest rate assets and liabilities.

Company has no formal tools to decrease the risk of interest rates change.

25. Contingent liabilities and operational risks

Company's business environment

Along with the improvement of economic situation, in particular with the growth of gross domestic product and decrease of inflation rate, economic reforms and development of legal, tax and administration systems are continuing in Russia to meet the requirements of the market economy. Stability of the Russian economy in many aspects depends on the course of reforms in the said spheres and effectiveness of governmental measures in economy, finance and monetary/credit policy.

Tariff regulation

Order of Federal tariffs service of Russia of November 23, 2007 # 365-c/10 local telephone tariffs were changed for OJSC FETEC since February 01, 2008.

Local telephone connection tariffs

For individuals:

- rounded to an even value maximal tariff levels for local telephone connections per minute using pay-per-time system and per minute in excess the basic package of local telephone connections using combined system: from 0.23 rubles to 0.24 rubles including VAT;

- maximal tariff levels for local telephone connections using subscriber system for unlimited volume of local telephone connections by 25.7% being since February 2008 198.43 rubles (in 2007 – 267.23 rubles) including VAT.

For entities:

- maximal tariff level for the basic volume of local telephone connections using combined system 154.40 rubles (VAT not included) (in 2007 was not applied);

- maximal tariff level per minute of local telephone connection in excess of the basic package using combined system on the level of respective tariffs for individuals 0.24 rubles (VAT not included) (for individuals in 2007 tariff was 0.23 rubles including VAT).

- maximal tariff level of local telephone connection using subscriber system for unlimited volume of local

telephone connections 295.78 rubles (VAT not included) (in 2007 – 295.78 rubles (VAT not included)).

Tariffs for joining services and traffic transfer

In compliance with Resolution of Government of October 19, 2005 # 627 Company since January 01, 2008 was cancelled additional compensation payment to the price for local and zonal call initiation. Therefore Company is expecting substantial drop in revenue from zonal call initiation from operator's network service provided for long-distance and international operators, for the amount of about 101 per year.

Resolution of Government of October 12, 2007 # 666 On amendments to some regulations of Government of the RF on telecommunications, since March 01, 2008 the service of maintenance of telecommunication devices establishing joining unit are excluded from joining services. Therefore, in 2008 Company is expecting drop in revenue from joining services with respect to maintenance of joining unit and drop in expenses on payment for similar services provided to Company by joined operators. As assessed by Company's top management, losses with respect to cancellation of payment for maintenance of joining units will make up about 82, saving 26 on similar expenses.

Taxation

Tax system of the Russian Federation being relatively new is described by frequent changes of regulations, official explanations and court judgments, often unclearly expressed and contradictory making possible biased interpretation by tax authorities. Inspections and investigations in connection with the correctness of taxed calculated are done by a few regulators entitled to impose large penalties and fines. Correctness of taxes calculation in any reported period may be inspected within three subsequent calendar years; however in some circumstances that period may be extended. Recently, tax authorities in Russia have been occupying a more strict position towards interpretation and requiring observance of tax regulations.

Group management judging from the understanding of Russian regulations applied? Official explanations and court judgments opines that tax liabilities are reflected adequately.

As opined by Company's management as on March 31, 2008 relevant provisions of regulations are interpreted correctly in general and the probability to keep the position in which Company stands from the point of view of observance tax, foreign currency and customs regulations is rather high.

On January 28, 2008 Interregional tax inspection # 7 for largest taxpayers of Federal tax service of the Russian Federation upon the results of annual tax inspection for 2004 – 2006 brought tax claims against OJSC Sakhatelecom at the amount of 140, including fines/penalties 40 in connection with settlements with other telecommunications operators under internetwork cooperation in providing telecommunication services and joining and traffic transfer contracts. Company did not agree with the conclusions of the tax authority regarding additionally charged taxes/fines/penalties and submitted supervision complaint to Federal tax service of the Russian Federation. As on the statements date, Company's supervision complaint was not studied. In May 2008 OJSC Sakhatelecom lodged a suit in Moscow arbitration court regarding legality of extra charge of taxes, fines and penalties by the tax authority. Basic intermediate court proceeding was appointed for 04.09.2008.

Insurance

Insurance business in Russia is currently under development and many kinds of insurance available in other countries have not become widespread in the RF. Within quarter 1, 2008 loss risk in case of business suspension, liabilities to third parties for property or ecological damage after breaks or other incidents in connection with Company's assets or business were not insured. Until Company has respective insurance coverage, there is a risk that loss from damage to its assets may have negative effect on its business and good standing.

Court disputes, proceedings and consequences

In quarter 1, 2008 Company was engaged in a few court proceedings (both as plaintiff and defendant) arising in the course of its common financial and business activities. As opined by Company's top management, at present there are no current court proceedings or suits which can have material effect on Company's performance or financial standing and which were not accepted or disclosed in these consolidated financial statements.

Licenses

Most of Company's revenue was received from operations under licenses issued by Ministry of telecommunications and informatization of the Russian Federation. Validity of basic operational and extra licenses expires in 2008 – 2012. Previously Company was prolonging licenses on regular basis and top management opines that in future Company will be able to prolong them without extra material costs. Suspension of basic Company's licenses for telecommunications services or inability to prolong any of licenses may have adverse effect on Company's performance. It is known that the Russian Government is now liberalizing the telecommunications sector granting extra licenses on long-distance and international telecommunication to a number of operators. Currently it is impossible to assess the consequences if any for Company's performance results.

Company's top management opines that there are no reasons why available licenses may not be prolonged or any of them suspended or cancelled.

Guarantees an suretyship granted

Company is grantor of suretyship for third parties for the total amount of 479 (as on December 31, 2007 – 529). Company's top management does not expect any material liabilities in connection thereof.

26. Events after reported date

Court proceedings with OJSC Mobile TeleSystems

OJSC FETEC is the defendant under claim brought by OJSC Mobile TeleSystems (OJSC MTS, Moscow) on repayment of money (principal amount plus interest for using borrowed money) at the amount of 296 as on the moment of claim lodge. The claim was reasoned by payment of money (principal) under terms and conditions of contracts on joining telecommunication networks for development of capacity of OJSC FETEC's telecommunication network. By judgment of Primorsky Krai Arbitration court of June 24, 2008 the claim was rejected. OJSC MTS submitted the appeal. As on the date of publishing these financial statements, the date of considering by court of the said appeal is not clear. Cancellation of the first instance court is considered by Company as *probable*.

Court proceedings with OJSC New telephone company

OJSC FETEC is the defendant under claim brought by OJSC New telephone company (OJSC NTC, Vladivostok) on repayment of money (principal amount plus interest for using borrowed money) at the amount of 60 paid by OJSC NTC for development of capacity of OJSC FETEC's telecommunication network. The case is considered by Primorsky Krai Arbitration court. Company considers the probability of meeting the said claim as *remote*.

Purchase of Stolitsa Network Co., LTD. (OOO)

In May 2008 Company signed the agreement on purchase of 100% share in Stolitsa Network Co., Ltd – an operator working in Yakutsk city, having 3,000 subscribers. As on the date of signing the statements, purchase operation was fully completed.