

**OJSC “Far East Telecommunications Company”**

Non-audited consolidated interim financial statements prepared according to the  
international accounting standards

For 6 months period, ended on June 30, 2008

OJSC “Far East Telecom”

Non-audited consolidated interim financial statements

For 6 months period, ended on June 30, 2008

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**OJSC “Far East Telecom”**  
**Non-audited consolidated interim statement**  
**as of June 30, 2008**  
(RUR million)

	Notes	June 30, 2008	December 31, 2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	12 947	12 992
Intangible assets	8	2 837	2 882
Investments in associates	9	69	67
Long-term investments	10	16	18
Long-term employee loans and other financial assets	11	15	12
Long-term advances given	12	407	234
<b>Total non-current assets</b>		<b>16 291</b>	<b>16 205</b>
<b>Current assets</b>			
Inventories	13	557	449
Accounts receivable	14	1 375	1 263
Current profit tax assets		100	35
Short-term investments	10	4	771
Other current assets	16	546	394
Cash and its equivalents	15	1 091	342
<b>Total current assets</b>		<b>3 673</b>	<b>3 254</b>
<b>Total assets</b>		<b>19 964</b>	<b>19 459</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	18	4 366	4 366
Own shares bought back from shareholders		(1)	(1)
Retained earnings		3 500	2 672
<b>Total equity attributable to equity holders of the parent company</b>		<b>7 865</b>	<b>7 037</b>
<b>Minority interest</b>		1 485	1 399
<b>Total shareholders' equity</b>		<b>9 350</b>	<b>8 436</b>
<b>Non-current liabilities</b>			
Long-term borrowings	19	4 315	4 704
Long-term finance lease obligations	20	124	225
Pension obligation		1 026	964
Deferred revenue		108	115
Deferred income tax liabilities		721	741
<b>Total non-current liabilities</b>		<b>6 294</b>	<b>6 749</b>
<b>Current liabilities</b>			
Accounts payable, accrued expenses	22	1 789	1 640
Accounts payable on current income tax		-	3
Accounts payable on other taxes and social welfare	23	441	183
Dividends payable		236	35
Short-term borrowings	19	30	803
Current portion of long-term borrowings payable within 12 months	19	1 165	846
Current portion of finance lease obligations	20	251	306
Short-term reserves and short-term portion of long-term reserves	21	408	458
<b>Total current liabilities</b>		<b>4 320</b>	<b>4 274</b>
<b>Total liabilities</b>		<b>10 612</b>	<b>11 023</b>
<b>Total shareholders' equity and liabilities</b>		<b>19 964</b>	<b>19 459</b>

Acting General Director \_\_\_\_\_ A.V. Pototskiy

Chief Accountant \_\_\_\_\_ E.V. Sidorova

*Notes given herein are integral part of present consolidated statements*

**OJSC “Far East Telecom”**  
**Non-audited consolidated interim profit and loss statement**  
**for the period of 3 months and 6 months, ended on June 30, 2008**  
(RUR million, excluding earnings per share)

<i>Continued activity</i>	Notes	3 months, ended on June 30, 2008	3 months, ended on June 30, 2007	6 months ended on June 30, 2008	6 months, ended on June 30, 2007
<b>Profit</b>	<b>27</b>	<b>3 849</b>	<b>3 619</b>	<b>7 774</b>	<b>7 257</b>
Salaries, other employee benefits and social contributions		(1 197)	(1 159)	(2 305)	(2 346)
Depreciation and amortization	<b>7,8</b>	(413)	(479)	(1 076)	(989)
Expenses on communications services – Russian companies		(488)	(425)	(945)	(745)
Materials, repairs and maintenance, utility service		(377)	(348)	(727)	(641)
Taxes excluding income tax		(69)	(64)	(137)	(129)
Expenses on allowance for doubtful debts		(28)	(11)	(42)	(18)
Losses on disposal of fixed assets and other assets		(22)	(18)	(24)	(28)
Other operating expenses	<b>29</b>	24	33	24	33
Other operating expenses	<b>28</b>	(443)	(559)	(759)	(1 018)
<b>Operating profit</b>		<b>836</b>	<b>589</b>	<b>1 783</b>	<b>1 376</b>
Profit (loss) on equity from associates	<b>10</b>	-	(5)	2	(5)
Interest expenses, net	<b>30</b>	(116)	(138)	(242)	(285)
Profit from financial investments, net	<b>31</b>	15	14	16	13
Profit from exchange rate differences in currency re-evaluation, net		-	2	-	2
<b>Profit before tax from continued activity</b>		<b>735</b>	<b>462</b>	<b>1 559</b>	<b>1 101</b>
<b>Profit tax</b>		(211)	(498)	(444)	(677)
<b>Profit (loss) for accounting period</b>		<b>524</b>	<b>(36)</b>	<b>1 115</b>	<b>424</b>
Profit (loss) for accounting period attributable to parent company shareholders		493	(88)	1 031	353
Profit for accounting period attributable to minority shareholders of subsidiaries		31	52	84	71
<b>Profit (loss) for accounting period</b>		<b>524</b>	<b>(36)</b>	<b>1 115</b>	<b>424</b>
<b>Basic and diluted profit (loss) per share (in RUR), for annual profit attributable to parent company shareholders</b>	<b>32</b>	<b>5,158</b>	<b>(0,921)</b>	<b>10,787</b>	<b>3,683</b>

Acting General Director \_\_\_\_\_ A.V. Pototskiy

Chief Accountant \_\_\_\_\_ E.V. Sidorova

*Notes given herein are integral part of present consolidated statements*

**OJSC “Far East Telecom”**  
**Non-audited consolidated interim cash flow statement for the period of 6 months, ended**  
**on June 30, 2008**  
(RUR million)

Notes	6 months, ended on June 30, 2008	12 months, ended on December 31, 2007 .
<b>Cash flow from operating activity</b>		
Profit before tax	1 559	2 014
<b>Adjustment for reconciliation of profit before tax with net cash flows</b>		
Depreciation and amortization	7,8      1 076	2 088
Loss on disposal of fixed assets and other assets	25	132
Profit from exchange rate differences in currency re-evaluation, net	-	(3)
Profit (loss) on share from associates	10      (2)	2
Profit from financial investments, net	31      (16)	(44)
Interest profit, net	30      242	550
Expenses on allowance for doubtful debts	42	58
Reserves recovery in case of stock depreciation	(2)	-
Reserves alterations	57	(427)
<b>Operating profit before changes in circulating capital</b>	<b>2 981</b>	<b>4 370</b>
Decrease (increase) of accounts receivable	(166)	63
Decrease (increase) of other current assets	(289)	147
Decrease (increase) of inventory	(108)	14
Increase (decrease) of accounts payable and accrued expenses	26	(275)
Increase of taxes payable, excluding income tax and social security tax	258	77
Increase (decrease) of pension liabilities	3	(55)
Decrease of reserves on contingent liabilities	(49)	-
<b>Cash flow from operating activity</b>	<b>2 656</b>	<b>4 341</b>
Interest paid	(270)	(231)
Income tax paid	(316)	(835)
<b>Net cash flow from main activity</b>	<b>2 070</b>	<b>3 275</b>
<b>Cash flow from investment activity</b>		
Purchase of fixed assets and objects of unfinished construction	(977)	(2 188)
Cash flows from disposal of fixed assets and objects of unfinished construction	49	236
Purchase of intangible assets	(91)	(328)
Purchase of subsidiaries less cash funds received	(12)	(328)
Sale of subsidiaries less cash funds disposed	-	61
Purchase of financial investments and assets	4	(764)
Sale of financial investments and assets	675	11
Interest received	103	30
Dividends received	-	1
<b>Net cash funds used in investment activity</b>	<b>(249)</b>	<b>(2 941)</b>

**OJSC “Far East Telecom”**  
**Consolidated interim cash flow statement**  
**for the period of 6 months, ended on June 30, 2008 (continuation)**  
(RUR millions)

	<b>Notes</b>	<b>6 months, ended on June 30, 2008</b>	<b>12 months, ended on December 31, 2007 .</b>
<b>Cash flow from financial activity</b>			
Revenues from borrowings		390	4 019
Re-payment of borrowings		(946)	(797)
Revenues from debentures issue			
Debentures redemption		(300)	(300)
Redemption of liabilities on financial lease		(184)	(366)
Redemption of liabilities on equipment suppliers' loans		(31)	(164)
Payment of bills		-	(2 428)
Dividends paid		-	(140)
<b>Net cash funds used in financial activity</b>		<b>(1 071)</b>	<b>(176)</b>
<b>Net increase of cash funds and their equivalents</b>		<b>749</b>	<b>158</b>
<b>Cash funds and their equivalents at the beginning of reporting period</b>	<b>15</b>	<b>342</b>	<b>184</b>
<b>Cash funds and their equivalents at the end of reporting period</b>	<b>15</b>	<b>1 091</b>	<b>342</b>

Acting General Director \_\_\_\_\_ A.V. Pototskiy

Chief Accountant \_\_\_\_\_ E.V. Sidorova

*Notes given herein are integral part of present consolidated statements*

**OJSC “Far East Telecom”**  
**Consolidated interim statement of owner’s equity**  
**for the period of 6 months, ended on June 30, 2008**  
(RUR million)

	Notes	Share capital		Own shares bought back from shareholders	Undistributed profit	Total own equity of parent company shareholders	Minority share	Total own equity
		Preferred shares	Ordinary shares					
<b>Balance on December 31, 2006</b>	<b>18</b>	1 081	3 285	(6)	1 552	5 912	21	5 933
Profit (loss) for the reporting period		-	-	-	1 272	1 272	88	1 360
Total income and expenses for the period					-	1 272	88	1 360
Dividends paid to the parent company shareholders		-	-	-	(152)	(152)	-	(152)
Disposal of own shares				5		5	-	5
Purchase of minority shareholders’ equity in existing subsidiaries		-	-	-	-	-	(2)	(2)
Minority equity of subsidiaries obtained		-	-	-	-	-	1 292	1 292
<b>Balance on December 31, 2007</b>	<b>18</b>	<b>1 081</b>	<b>3 285</b>	<b>(1)</b>	<b>2 672</b>	<b>7 037</b>	<b>1 399</b>	<b>8 436</b>
Profit (loss) for the reporting period		-	-	-	1 031	1 031	84	1 115
Total income and expenses for the period		-	-	-	1 031	1 031	84	1 115
Dividends paid to the parent company shareholders		-	-	-	(201)	(201)	-	(201)
Loss on change of financial assets’ fair value		-	-	-	(2)	(2)	-	(2)
Purchase of minority shareholders’ equity in existing subsidiaries		-	-	-	-	-	2	2
<b>Balance on June 30, 2008</b>	<b>18</b>	<b>1081</b>	<b>3 285</b>	<b>(1)</b>	<b>3 500</b>	<b>7 865</b>	<b>1 485</b>	<b>9 350</b>

Acting General Director \_\_\_\_\_ A.V. Pototskiy

Chief Accountant \_\_\_\_\_ E.V. Sidorova

*Notes given herein are integral part of present consolidated statements*

**OJSC “Far East Telecom”**  
**Notes to non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008**  
(RUR million)

1. **General information**

**Confirmation**

The non-audited consolidated interim financial statements of the OJSC "Far East Telecommunications Company" (hereinafter named OJSC “Far East Telecom”) and its subsidiaries (hereinafter called “the Company”) for 6 months of 2008, ended on June 30, 2008 were authorized for publishing in compliance with the decision of the CEO and the Chief Accountant on September 20, 2008.

**The Company**

The parent company OJSC “Far East Telecom” is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The Company’s official address: 57 Svetlanskaya st., Vladivostok, Primorskiy Krai, Russia 690950.

The Company’s principal activity is providing of telephone services (including local, intra-zone telephone communications), telegraph and data transmission services, rent of communication channels and mobile radiotelephonic (cellular) communications in the territory of the Far East region of the Russian Federation.

The Open joint-stock company Svyazinvest owns 50.57% of Company’s voting shares as of June 30, 2008 and is Company’s parent company.

Information of Company’s main subsidiaries is disclosed in the Note 6. All subsidiaries are incorporated under the laws of the Russian Federation.

**Tariff regulation**

According to the Order №365-c/10 of the Federal Tariff Service of November 23, 2007 and on the basis of the OJSC “Far East Telecom” Order №15 of January 15, 2008:

- from January 01, 2008 all branches approved the Combined tariff plan for local telephone communications for those subscribers who are corporate bodies;
- from February 01, 2008 all branches increased the tariff for 1 minute of local telephone connection over basic volume of local connections with combined system of payment for local connections from 0,23 to 0,24 rubles for those subscribers who are individuals.
- from January 01, 2008 the Amur branch decreased the tariff for local connections service with subscriber system of payment for unlimited volume of local connections from subscriber’s number for population of northern regions of the Urban Telephone Network (UTN):
  - individual use from 210 to 190 rubles
  - dual line use from 105 to 95 rubles

By the Order №24 of the OJSC “Far East Telecom” of January 21, 2008 date of tariffs introduction into use was moved.

For all branches for local telephone connection service to subscribers who are corporate bodies, approved by the order № 15 of the OJSC “Far East Telecom” of January, 2008, from January to February 1, 2008.

For Amur branch for the service of local telephone connection to subscribers who are individuals, approved by the order № 15 of the OJSC “Far East Telecom” of January, 2008, from January to February 1, 2008.

*Tariffs for local telephone connections service*



## **OJSC “Far East Telecom”**

### **Notes to non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008**

(RUR million)

For subscribers who are citizens:

- ultimate levels of tariffs for local telephone connections services for 1 minute with timely payment system and for 1 minute over basic volume of local telephone connections are rounded to even numbers: from 0,23 rubles per minute to 0,24 rubles per minute including VAT;
- ultimate levels of tariffs that have been established by the Federal Tariff Service are decreased for local telephone connections with subscribers' payment system for unlimited volume of local telephone connections for subscribers living in northern regions of UTN, Amur branch, for 9,5% that from February 1, 2008 equal to: from subscriber number of individual use – 330 rubles including VAT, from subscriber number of dual line use – 235 rubles including VAT (in January of 2008 tariffs were:
  - from subscriber number of individual use – 350 rubles including VAT, from subscriber number of dual line use – 245 rubles including VAT).

For subscribers who are corporate bodies:

- there was established ultimate level of tariffs for the basic volume of local telephone connections service with combined payment system amounting at (VAT not included) (not existed in 2007):
  - Primorye branch – 120 rubles (excluding line cost);
  - Khabarovsk branch – 100 rubles; UTN, Village Telephone Network (VTN) (zone 1) – 100 rubles; UTN, VTN (zone 2) -250 rubles (excluding line cost);
  - Jewish Autonomous Region - 100 rubles (excluding line cost);
  - Sakhalin branch – 180 rubles (excluding line cost);
  - Kamchatka branch - 180 rubles (excluding line cost);
  - Amur branch- UTN, VTN (zone 1) – 180 rubles; UTN, VTN (zone 2) -280 rubles (excluding line cost);
  - Magadan branch – UTN – 230 rubles, VTN - 110 rubles (excluding line cost).
- ultimate levels of tariffs for one minute of local telephone connections over the basic volume with combined payment system at the level of corresponding tariffs are set for population as 0,24 rubles without VAT (in 2007 the tariff for population was 0,23 rubles including VAT);
- ultimate levels of tariffs for local telephone connections service with subscribers payment system for unlimited volume of local connections amounting at 295.78 rubles without VAT remain at the level of 2007.

## **2. Basis of financial statements presentation**

### **Declaration of conformity**

These consolidated financial statements are prepared and presented with deviations from the International Accounting Standards (IAS) 34 “Interim Financial Statements” as well as other International Accounting Standards (IAS) and corresponding interpretations, approved by the Internal Accounting Standards Committee (IASC). These deviations are connected with comparable data for the same period of the last year in the following statements and notes:

- Statement forms:
  - Cash flow statement ;
  - Statement of owner's equity
- Notes:
  - 5. Information on activity segments;
  - 7. Fixed assets;
  - 8. Intangible assets.

**OJSC “Far East Telecom”**  
**Notes to non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008**  
(RUR million)

Comparable data on the above mentioned statements and notes are stated for 2007.

All information shall be considered, including Annual consolidated financial statement of the Company for the year, ended on December 31, 2007.

**Presentation of financial statements**

Financial statements of the OJSC “Far East Telecom” and its subsidiaries and subordinate companies on the basis of which these non-audited consolidated interim financial statements are prepared, are made on the basis of common accounting policy.

Non-audited consolidated interim financial statements of the Company are presented in million rubles of the Russian Federation, and all sums are rounded to million except for cases, stated otherwise.

**Accounting principles**

These financial statements are made on the basis of accounting data and accounting statements, that are conducted and drawn up according to the system of accounting regulation established by the law of the Russian Federation via additional adjustment and reorganization of accounting data in order to reflect the financial condition, activity results and cash flow in accordance with the IAS requirements.

Non-audited consolidated interim financial statements were prepared in accordance with evaluation principles by historical cost excluding the following aspects: fixed assets, accounted on the fair value, used as actual cost of fixed assets at the date of transition to the IAS; investments available for sale and evaluated by their fair cost.

**Changes in accounting policy**

Applied accounting policy is the same that was used in the previous fiscal year. Introduction of new or revised standards and interpretations did not affected the financial statements of the Company significantly.

In 2008 there have been introduced new interpretations as follows:

<b>Introduced / Changed Standard / Interpretation</b>	<b>Content of changes</b>	<b>Effects</b>
Interpretation № 11 of the Interpretation Committee of the IFRS 2 – “Operations with shares of the group and own shares bought back from the shareholders”	It defines in what cases according the IFRS 2 requirements transactions should be considered as transactions with equity instruments payment or as transactions with monetary funds payment. This applies to accounting of contracts with payment via equity instruments if there are two or more enterprises from one group.	Interpretation has not affected significantly the financial condition or performance of the Company.
Interpretation № 12 of the Interpretation Committee of the IAS “Concessional agreements”	It explains how to account liabilities assumed and rights obtained by concessioners under concession contracts of service rendering .	Interpretation has not affected significantly the financial condition or performance of the Company.
Interpretation № 14 of the Interpretation Committee of the IAS “IAS 19 – Minimum sum of assets, minimum requirements for payment and their correlation»	It contains guidelines for how to define the limit size of surplus amount according to the plan with set payments that can be approved as an asset as of the IAS 19 “Remuneration of employees”.	Interpretation has not affected significantly the financial condition or performance of the Company.

**OJSC “Far East Telecom”**  
**Notes to non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008**  
(RUR million)

During the reporting period the Company did not applied new or revised standards or interpretations in advance.

**Revision of past years statements**

During the preparation of the financial statements for the first 6 months of 2008 the Company found some mistakes in the financial statements of the previous periods. Mistakes attributed to the year 2007 and earlier periods were corrected by revision of comparative information for the first 6 months of 2007.

**Transactions in foreign currency**

Non-audited consolidated financial statements are accounted in million Russian rubles, that are functional currency and currency of Company’s financial statements presentation. Transactions in foreign currency originally are reflected in functional currency at the exchange rate as of the transaction date. Monetary assets and liabilities reflected in foreign currency are counted into functional currency at the exchange rate as of the transaction date. Differences arising in re-calculation are reflected in profit and loss statement as profit (loss) from exchange rate differences. Non-monetary items that are evaluated on the basis of historical cost in foreign currency are calculated at the rate existing on the date of their initial appearance. Non-monetary items that are evaluated according to their fair value in foreign currency are calculated at the rate existing on the date of their fair value determination.

Rates of major currencies as of June 30, 2008 and December 31, 2007 are stated in the following table:

<b>Rate as of</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
US Dollar	23.4573	24.5462
Euro	36.9077	35.9332

**3. Basic principles of accounting policy**

Non-audited consolidated interim financial statements are prepared on the basis of common accounting policy of the Company for 2008 that is adjusted according to requirements of above stated new/revised standards/interpretation, accounting policy version for the previous year.

**4. Material accounting judgements and evaluations**

**4.1 Judgements**

During accounting policy usage by Company’s management except for accounting evaluations there were made the following judgements that significantly affect the amounts reflected in the consolidated financial statements:

**4.2 Uncertainty of evaluation**

Main assumptions in respect of the future events as well as other sources of evaluation uncertainties on the reporting date that imply substantial risk of arising the necessity of substantial corrections in balance-sheet value of assets and liabilities during the next reporting period are similar to those that are described in the consolidated financial statements of the Company for 2007.

**OJSC “Far East Telecom”**  
**Notes to non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008**  
(RUR million)

**5. Information on activity segments**

	for 6 months, ended on June 30, 2008				
	Fixed-line communicati ons services	Mobile communic ations services	Other types of activity	Exemption of transactions within Company	Total on Company
<i>Continued activity</i>					
<b>INCOME</b>					
Sale to third parties	6 894	579	301	-	7 774
Sale between segments	52	-	29	(81)	-
<b>Total income</b>	<b>6 946</b>	<b>579</b>	<b>330</b>	<b>(81)</b>	<b>7 774</b>
<b>FINANCIAL RESULT</b>					
Financial result on activity segments	1 845	117	126	-	2 088
Undistributed expenses					<b>(305)</b>
<b>Profit (loss) from main activity</b>					<b>1 783</b>
Profit from equity in associates					2
Interest expenses , net					(242)
Profit from financial investments					16
Income tax					(444)
<b>Profit (loss) for reporting period</b>					<b>1 115</b>
<b>ASSETS AND LIABILITIES</b>					
Assets of activity segments	14 342	2 156	274	(17)	16 755
Financial investments into associates					69
Undistributed assets of Company					3 140
<b>Consolidated assets, total</b>					<b>19 964</b>
Liabilities on activity segments	(9 032)	(322)	(103)	(17)	(9 440)
Undistributed liabilities of Company					(1 174)
<b>Consolidated liabilities, total</b>					<b>(10 614)</b>
<b>OTHER SEGMENT INFORMATION</b>					
Capital costs					
Fixed assets	1 027	86	45	-	1 158
Intangible assets	83	7	4	-	94
Depreciation and Amortization	937	126	13	-	1 076
Expenses on allowance for doubtful debts	40	2	-	-	42

**OJSC “Far East Telecom”**

**Notes for non-audited consolidated interim financial statements for 6 months of 2008,  
ended on June 30, 2008.**

(RUR million)

**Information on activity segments (continuance)**

	<b>for 6 months, ended on June 30, 2008</b>				
	<b>Fixed-line communicati ons services</b>	<b>Mobile communicati ons services</b>	<b>Other types of activity</b>	<b>Exemption of transactions within Company</b>	<b>Total on Company</b>
<i>Continued activity</i>					
<b>INCOME</b>	<b>12 963</b>	<b>1 186</b>	<b>852</b>	<b>-</b>	<b>15 001</b>
Sale between segments	71	22	46	(139)	-
<b>Total income</b>	<b>13 034</b>	<b>1 208</b>	<b>898</b>	<b>(139)</b>	<b>15 001</b>
<b>FINANCIAL RESULT</b>					
Financial result on activity segments	2 289	855	433	-	<b>3 577</b>
Undistributed expenses					<b>(1 058)</b>
<b>Profit (loss) from main activity</b>					<b>2 519</b>
Loss on equity in associates					(2)
Interest expenses , net					(550)
Loss on financial investments					31
Profit from exchange rate differences in currency re-evaluation, net					3
Income tax					(654)
<b>Profit for reporting period</b>					<b>1 360</b>
<b>ASSETS AND LIABILITIES</b>					
Assets of activity segments	16 920	859	324	-	18 103
Financial investments into associates					67
Undistributed assets of Company					1 289
<b>Consolidated assets, total</b>					<b>19 459</b>
Liabilities on activity segments	(9 837)	(96)	(86)	-	(10 019)
Undistributed liabilities of Company					(1 004)
<b>Consolidated liabilities, total</b>					<b>(11 023)</b>
<b>OTHER SEGMENT INFORMATION</b>					
Capital costs					
Fixed assets	1 498	42	14	-	<b>1 554</b>
Depreciation and Amortization	(1 969)	(93)	(26)	-	<b>(2 088)</b>
Expenses on allowance for doubtful debts	(42)	(16)		-	<b>(58)</b>

**OJSC “Far East Telecom”**  
**Notes for non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008.**  
(RUR million)

**6. Subsidiaries**

This non-audited consolidated financial statements include assets, liabilities and business results of the OJSC “Far East Telecom” and its subsidiaries. Subsidiaries under control of the OJSC “Far East Telecom” are listed below:

Name	Type of business	Equity of share capital and other interests, %		Voting shares, %	
		30.06.2008	31.12.2007	30.06.2008	31.12.2007
CJSC “AKOS”	Cellular communications services	94,26	94,26	94,26	94,26
OJSC “A-Svyaz”	Local telecommunication services	0,00	91,80	0,00	91,80
“Wireless information technologies Co., Ltd.”	Cellular communications services	100,00	100,00	100,00	100,00
CJSC “Integrator.ru”	Investment activity	0,00	100,00	0,00	100,00
“Interdaltelecom, Ltd.”	Communications service	100,00	97,00	100,00	97,00
OJSC “Sakhatelecom”	Local telecommunication services	51,00	51,00	51,00	51,00
“Set Stolitsa, Ltd.” (belongs to the OJSC “Sakhtelecom”)	Local telecommunication services	100,00	0,00	100,00	0,00
CJSC “Sakhalinugol-Telecom”	Local telecommunication services	0,00	100,00	0,00	100,00
“Shakhtersksvyaz, Ltd.”	Local telecommunication services	60,00	0,00	0,00	60,00

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

**Liquidation of subsidiaries: the CJSC “Sakhalinugol-Telecom” and the OJSC “A-Svyaz”**

In April of 2008 the liquidation of the CJSC “Sakhalinugol-Telecom” was completed according to the decision of the OJSC “Far East Telecom” Board of Directors made in June of 2007.

In April of 2008 the liquidation of the OJSC “A-Svyaz” was completed according to the decision of the meeting of shareholders made in June of 2007.

**Consolidation of the CJSC “AKOS” and the CJSC “Integrator.ru”**

According to the decision of the Board of Directors that was taken in November 2007 as well as decision of the meeting of shareholders of the CJSC “AKOS” taken in January, 2008, the CJSC “Integrator.ru” was consolidated with the CJSC “AKOS”. The corresponding entry in the United State Register of Corporate Bodies was made on March 4, 2008.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### Purchase of equity in share capital of the “Interdaltelecom, Ltd.”

According to the decision of the Board of Directors the Company purchased 3% of share in the “Interdaltelecom, Ltd.” in January, 2008 for 1 increasing its equity in the subsidiary from 97% to 100%.

Change of equity in subsidiary’s capital is reflected as change of minority share of the Company.

#### Purchase of “Set Stolitsa, Ltd.”

In May, 2008 the Company signed an agreement of purchase of 100% in “Set Stolitsa, Ltd.”, provider operating in Yakutsk city with 3 000 subscribers. On the date of statement signing the transaction of purchase was completed.

Information on purchase price fair value of identified assets, liabilities and contingent liabilities of “Set Stolitsa, Ltd.” as well as on its goodwill at the moment of purchase is stated below:

##### Purchase cost

Paid by monetary funds	13
Fair value of securities issued for purchase payment	-
Expenses directly connected with transaction	-
<b>Total, purchase cost</b>	<b><u>13</u></b>

##### Fair value of identified assets and liabilities

Fixed assets	18
Accounts receivable	4
Cash fund and their equivalents	1
Other current assets	2
Short-term liabilities	<u>(24)</u>
<b>Total net assets</b>	<b><u>1</u></b>

Share in net assets obtained	100%
Cost of share in net identified assets	1

<b>Goodwill of the Company in net assets of “Set Stolitsa, Ltd.” on purchase cost</b>	<b><u>12</u></b>
<b>Depreciation of goodwill from the date of purchase to June 30, 2008</b>	<b><u>-</u></b>
<b>Goodwill cost as of June 30, 2008 (net)</b>	<b><u>12</u></b>

#### Purchase of “Shakhtersvyaz, Ltd.”

In April, 2008 after the liquidation of “Sakhalinugoltelecom, Ltd.” the Company entered financial investment into “Shakhtersvyaz, Ltd.” into books according to the delivery-acceptance act.

Aggregate information on the companies’ consolidation proceedings for 6 months of 2008 is stated below:

	<b>6 months, ended on June 30, 2008</b>
Aggregate cost of purchase	13
Aggregate cost of purchase paid by monetary funds	<b>13</b>
<b>Aggregate fair value of identified assets, liabilities and contingent liabilities of companies obtained:</b>	
Fixed assets	19
Accounts receivable	5
Cash fund and their equivalents	1
Other current assets	2
Short-term liabilities	<u>(24)</u>

**OJSC “Far East Telecom”**

**Notes for non-audited consolidated interim financial statements for 6 months of 2008,  
ended on June 30, 2008.**

(RUR million)

**7. Fixed assets**

	<b>Land plots, buildings and structures</b>	<b>Switch boards and transmission devices</b>	<b>Unfinished construction and equipment for installation</b>	<b>Transport facilities and other fixed assets</b>	<b>Total</b>
<b>Original cost</b>					
<b>For December 31, 2006</b>	<b>7 447</b>	<b>6 155</b>	<b>649</b>	<b>1 552</b>	<b>15 803</b>
Receipt	-	-	2 177	11	2 188
Receipt due to subsidiaries purchase	1 994	666	132	115	2 907
Bringing into service	477	1 225	(1 894)	192	-
Disposal	(483)	(178)	(162)	(57)	(880)
<b>For December 31, 2007</b>	<b>9 435</b>	<b>7 868</b>	<b>902</b>	<b>1 813</b>	<b>20 018</b>
Receipt	1	-	1 138	-	1 139
Receipt due to subsidiaries purchase	-	19	-	-	19
Disposal	(36)	(45)	(215)	(15)	(311)
Disposal due to subsidiaries liquidation	(3)	-	-	-	(3)
Bringing into service	44	219	(324)	58	(3)
Re-classification	(6)	12	(5)	(1)	-
<b>For June 30, 2008</b>	<b>9 435</b>	<b>8 073</b>	<b>1 496</b>	<b>1 855</b>	<b>(20 859)</b>
<b>Accumulated amortization and accumulated depreciation</b>					
<b>As of December 31, 2006</b>	<b>(3 495)</b>	<b>(1 461)</b>	<b>-</b>	<b>(644)</b>	<b>(5 600)</b>
Accrued amortization per year	(640)	(937)	-	(365)	(1 938)
Amortization of disposed items	350	119	-	43	512
<b>As of December 31, 2007</b>	<b>(3 785)</b>	<b>(2 279)</b>	<b>-</b>	<b>(962)</b>	<b>(7 026)</b>
Accrued amortization for 6 months of 2008	(310)	(413)	-	(213)	(936)
Amortization of disposed items	19	16	-	13	48
Accrued amortization of fixed assets of sold subsidiaries	2	-	-	-	2
Re-classification	2	(3)	-	1	-
<b>As of June 30, 2008</b>	<b>(4 072)</b>	<b>(2 679)</b>	<b>-</b>	<b>(1 161)</b>	<b>(7 912)</b>
<b>Depreciated value as of December 31, 2006</b>	<b>3 952</b>	<b>4 694</b>	<b>649</b>	<b>908</b>	<b>10 203</b>
<b>Depreciated value as of December 31, 2007</b>	<b>5 650</b>	<b>5 589</b>	<b>902</b>	<b>851</b>	<b>12 992</b>
<b>Depreciated value as of June 30, 2008</b>	<b>5 363</b>	<b>5 394</b>	<b>1 496</b>	<b>694</b>	<b>12 947</b>

As of June 30, 2008 and December 31, 2007 the balance-sheet value of fixed assets received under the financial lease contract constitutes:



## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

	as of 30.06.2008	as of 31.12.2007
Switch boards and transmitting devices	1 153	1 206
Incomplete construction and equipment for installation	4	4
Transport facilities and other fixed assets	23	53
<b>Total balance-sheet value received on the financial lease</b>	<b>1 180</b>	<b>1 263</b>

Accrued for 6 months of 2008 fixed assets depreciation amounting at 936 was accounted in the line “Depreciation and amortization” of consolidated profit and loss statement (for 6 months of 2007: 925).

As of June 30, 2008 original cost of totally self-depreciated fixed assets was 3 057 (as of December 31, 2007 - 2 856).

For 6 months of 2008 the Company has increased the cost of incomplete construction up to the sum of capitalized interest amounting at 7 (for 6 months of 2007 – 6). Capitalization rate for 6 months of 2008 was 8% (for 6 months of 2007 – 8%).

#### 8. Intangible assets and goodwill

	Goodwill	Licenses	Software	Subscribers base	Trade mark	Other	Total
<b>As of December 31, 2006</b>	<b>91</b>	<b>180</b>	<b>943</b>	<b>15</b>	<b>-</b>	<b>23</b>	<b>1 252</b>
Receipt	-	6	346	-	-	-	352
Receipt due to subsidiaries purchase	966	9	1	640	57	-	1 673
Disposal	-	(2)	(42)	-	-	(1)	(45)
<b>As of December 31, 2007</b>	<b>1 057</b>	<b>193</b>	<b>1 248</b>	<b>655</b>	<b>57</b>	<b>22</b>	<b>3 232</b>
Receipt	12	-	82	-	-	-	94
Disposal	(22)	-	(8)	-	-	(4)	34
<b>As of June 30, 2008</b>	<b>1 047</b>	<b>193</b>	<b>1 322</b>	<b>655</b>	<b>57</b>	<b>18</b>	<b>3 292</b>
<b>As of December 31, 2006</b>	<b>(91)</b>	<b>(42)</b>	<b>(60)</b>	<b>(15)</b>	<b>-</b>	<b>(13)</b>	<b>(221)</b>
Amortization accrued per year	-	(29)	(86)	21	14	-	(150)
Amortization of disposed items	-	2	18	-	-	1	21
<b>As of December 31, 2007</b>	<b>(91)</b>	<b>(69)</b>	<b>(128)</b>	<b>(36)</b>	<b>(14)</b>	<b>(12)</b>	<b>(350)</b>
Amortization accrued per year	-	(13)	(108)	(11)	(7)	-	(139)
Amortization of disposed items	-	-	8	-	-	4	12
Disposal of depreciation on liquidated subsidiaries	22	-	-	-	-	-	22
<b>As of June 30, 2008</b>	<b>(69)</b>	<b>(82)</b>	<b>(228)</b>	<b>(47)</b>	<b>(21)</b>	<b>(8)</b>	<b>(455)</b>
<b>Depreciated value as of December 31, 2006</b>	<b>-</b>	<b>138</b>	<b>883</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>1 031</b>
<b>Depreciated value as</b>	<b>966</b>	<b>124</b>	<b>1 120</b>	<b>619</b>	<b>43</b>	<b>10</b>	<b>2 882</b>

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

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<b>of December 31, 2007</b>							
<b>Depreciated value as of June 30, 2008</b>	<b>978</b>	<b>111</b>	<b>1 094</b>	<b>608</b>	<b>36</b>	<b>10</b>	<b>2 837</b>

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#### Software product Oracle E-Business Suite

As of June 30, 2008 software includes software product Oracle E-Business Suite with balance-sheet value of 392 (as of December 31, 2007 - 360).

The Company started to use functional aspect of software and began amortization of software product Oracle E-Business Suite from the moment of its introduction (March of 2006) during its useful service established within 10 years.

#### Software product Amdocs Billing Suite

As of June 30, 2008 software also includes software product Amdocs Billing Suite with balance-sheet value of 293 (as of December 31, 2007 – 293).

This software product was purchased in order to introduce united automated accounting system. Planned duration of the united automated accounting system introduction project on Amdocs Billing Suite platform takes 4-5 years.

The Company made a decision to suspend the united automated accounting system introduction project on Amdocs Billing Suite platform and revise the terms of introduction.

#### Amortization of intangible assets

Accounted for 6 months of 2008 amortization of intangible assets amounting at 140 (for 6 months of 2007 – 64) was declared in the line “Depreciation and amortization” of consolidated profit and loss statement.

#### Analysis of intangible assets not being brought to service with a view to depreciation

The Company conducted the analysis of intangible assets not being ready to use. As of June 30, 2008 these assets include the software product Amdocs Billing Suite. As the result of analysis conducted on June 30, 2008 depreciation of above mentioned intangible assets was not found.

#### Depreciation of intangible assets

In 2006 the Company approved goodwill obtained via purchase of the OJSC “A-Svyaz” that was liquidated afterwards. As of December 31, 2006 the Company accepted the goodwill depreciation amounting at the full sum of 14.

In 2007 the Company reflected the goodwill obtained via purchase of the OJSC “Sakhatelecom” amounting at 906. Recoverable amount of named assets was defined on the basis of value in use calculation with implication of future cash flow forecasts based on budget plans for 5 years. Cash flow calculations for the term exceeding 5 years are made by extrapolation method assumed from average indexes of profitability in industry and growth amounting at 4% corresponding to long-term average growth rates. Cash flow calculations were made with the discount rate of 15.5%.

The conducted analysis showed that there had been no goodwill depreciation as of June 30, 2008.

**OJSC “Far East Telecom”**  
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(RUR million)

**Licenses**

As of June 30, 2008 the Company had the following licenses for business activities:

- service of local and intra-zone telephone communication;
- service of local telephone communication with use of payphones and points of collective use;
- service of cellular mobile communication (GSM-900, GSM-1800 standard);
- lease of physical circuit, channels and communication tracks including broadcasting channel;
- service of telematic service;
- service of data transmission.

Useful life of licenses is established according to terms of license individually for each license. Useful life terms are set within 1-5 years. Herein expiration time of main licenses of the Company may differ from their useful life duration.

**Trade marks**

The Company established 4 years term of useful life for trade marks. Trade marks are recognized to be a part of intangible assets in purchase of the subsidiary OJSC “Sakhatelecom”.

**Subscribers’ base**

The Company established 30 years term of useful life for subscribers’ base. Subscribers’ base is recognized to be a part of intangible assets in purchase of the subsidiary OJSC “Sakhatelecom”.

**9. Investment into associates**

As of June 30, 2008 and December 31, 2007 Company’s investments into associates included:

Company name	Type of activity	as of 30.06. 2008		as of 31.12.2007	
		Voting shares and other interests	Balance-sheet value	Voting shares and other interests	Balance-sheet value
Kamalyaskom, Ltd.	Communication services	50%	1	50%	1
Magalyaskom, Ltd.	Communication services	50%	17	50%	16
CJSC Vostoktelecom	Communication services	25%	51	25%	50
<b>Total</b>			<b>69</b>		<b>67</b>

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

Flow of investments in associates as on June 30, 2008 and December 31, 2007 was as follows:

	2008	2007
<b>Financial investment into associates as of January 1</b>	<b>67</b>	<b>24</b>
Purchase of associates	0	50
Profit (loss) from equity in associates excluding income tax	2	(2)
Withdrawal of associates	0	(5)
<b>Financial investments into associates as of the reporting date</b>	<b>69</b>	<b>67</b>

**OJSC “Far East Telecom”**  
**Notes for non-audited consolidated interim financial statements for 6 months of 2008,**  
**ended on June 30, 2008.**  
(RUR million)

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

**10. Financial investments**

As of June 30, 2008 and December 31, 2007 financial investments included:

	<b>as of 30.06.2008</b>	<b>as of 31.12.2007</b>
Long-term financial investment available for sale	16	18
<b>Total long-term financial investments</b>	<b>16</b>	<b>18</b>
Short-term financial investments held to maturity	4	770
Financial investments available for sale	-	1
<b>Total short-term financial investments</b>	<b>4</b>	<b>771</b>
<b>Total financial investments</b>	<b>20</b>	<b>789</b>

As of June 30, 2008 and December 31, 2007 financial investments included:

<b>Company name</b>	<b>as of 30.06.2008</b>		<b>as of 31.12.2007</b>	
	<b>Ownership</b>	<b>Fair value</b>	<b>Ownership</b>	<b>Fair value</b>
<b>Long-term financial investments</b>				
JSC Savings bank of Russia	-	9	-	11
OJSC Svyazintek	4,00%	5	4,00%	5
OJSC FEZ Nakhodka Telecommunications	8,47%	1	8,47%	1
OJSC Joint-stock Commercial Bank “Svyaz-Bank”	0,03%	1	0,03%	1
<b>Short-term financial investments</b>				
OJSC “Russian Industrial Bank”	-	-	Bills of exchange	470
OJSC Joint-stock Commercial Bank “Svyaz-Bank”	-	-	Bills of exchange	300
Other	-	4	-	1
<b>Total financial investments</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>789</b>

**11. Long-term accounts receivable and other financial assets**

As of June 30, 2008 and December 31, 2007 long-term accounts receivable and other financial assets included:

	<b>as of 30.06.2008</b>	<b>as of 31.12.2007</b>
Long-term accounts receivable	8	1
Long-term loans given	7	11
<b>Total long-term accounts receivable and other financial assets</b>	<b>15</b>	<b>12</b>

As on June 30, 2008 and December 31, 2007 long-term loans given were shown at depreciable initial value using effective interest rate 18%.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### 12. Log-term advances made

As of June 30, 2008 and December 31, 2007 suppliers' advances included:

	as of 30.06.2008	as of 31.12.2007
Purchase of fixed assets	407	234
<b>Total long-term advances issued</b>	<b>407</b>	<b>234</b>

#### 13. Inventories

As of June 30, 2008 and December 31, 2007 inventories included:

	as of 30.06.2008	as of 31.12.2007
Cable and spare parts	286	194
Ready products and goods for sale	3	5
Other inventories	268	250
<b>Total inventories</b>	<b>557</b>	<b>449</b>

As of June 30, 2008 the amount of reserve for inventories cost reduction was 1 (as of December 31, 2007 – 1).  
As of June 30, 2008 Company had no inventories pledged or secured as collateral.

#### 14. Accounts receivable

As of June 30, 2008 and December 31, 2007 accounts receivable was:

	Total, as of 30.06.2008	Allowance for doubtful debts	Net, as of 30.06.2008
Commercial organizations	259	(56)	203
Individuals	886	(186)	700
Budget organizations	144	(9)	135
Communication providers	281	(17)	264
Social security bodies – allowance of expenses attributed to provision of discounts for certain categories of subscribers	24	(24)	-
Other accounts receivable	89	(15)	73
<b>Total accounts receivable</b>	<b>1 683</b>	<b>(307)</b>	<b>1 375</b>

	Total, as of 31.12.2007	Allowance for doubtful debts	Net, as of 31.12.2007
Commercial organizations	243	(47)	196
Individuals	778	(154)	624
Budget organizations	68	(5)	63
Communication providers	280	(20)	260
Social security bodies – allowance of expenses attributed to provision of discounts for certain categories of subscribers	34	(34)	-
Other accounts receivable	132	(12)	120
<b>Total accounts receivable</b>	<b>1 535</b>	<b>(272)</b>	<b>1 263</b>

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

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

In certain circumstances the Company claimed and recovered fines for delay of payment and managed to obtain some payments via arbitrage.

Social security bodies' indebtedness for recovery of expenses connected with providing of discounts for certain categories of subscribers is 1,5% of the total amount of buyers' accounts receivable for telecommunications service (as of December 31 – 2.3%). These accounts receivable arose at the period before January of 2005 when the article 47 of the Federal Law of July 7, 2003 № 126-FZ “On communications” came into force and according to it the procedure of discounts provision for individuals in their use of telecommunication providers' services was changed. Before January 2005 communication services users having the right for discount paid 50% of this service cost by themselves and remaining 50% were paid from the state budget.

In 2005 budgets did not include financing the outstanding indebtedness of social security bodies for recovery of expenses connected with providing of discounts for certain categories of subscribers for previous years.

Changes in allowance for doubtful debts are stated in the table below:

	<u>as of June 30, 2008</u>	<u>as of December 31, 2007</u>
<b>Balance for January 1</b>	272	222
Allowance calculation	35	58
Amortization of accounts receivable	-	(8)
<b>Balance for June 30</b>	<u>307</u>	<u>272</u>

#### 15. Cash funds and their equivalents

As of June 30, 2008 and December 31, 2007 cash funds and their equivalents included:

	<u>30.06.2008</u>	<u>31.12.2007</u>
Cash in banks and cashier	1 091	342
<b>Total cash funds and their equivalents</b>	<u>1 091</u>	<u>342</u>

As of June 30, 2008 the Company has no limitations for use of cash funds.

As of June 30, 2008 and December 31, 2007 the line “Cash in banks and cashier” included sums in the Russian Federation currency.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### 16. Other current assets

As of June 30, 2008 and December 31, 2007 other current assets included:

	<b>Total, as of 31.12.2007</b>	<b>Reserve</b>	<b>Net, as of 31.12.2007</b>
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 period expenses	34	-	34
Other settlements and current assets	94	(21)	73
<b>Total</b>	<b>418</b>	<b>(24)</b>	<b>394</b>

  

	<b>Total, as of 30.06. 2008</b>	<b>Reserve</b>	<b>Net, as of 30.06.2008</b>
Prepayment and advances	210	(3)	207
Employees payroll	43	-	43
Short-term loans given	35	-	35
VAT to be refunded	63	-	63
Other tax advances	23	-	23
Future period expenses	30	-	30
Other settlements and current assets	163	(18)	145
<b>Total</b>	<b>567</b>	<b>(21)</b>	<b>546</b>

#### 17. Substantial non-monetary transactions

Payments in non-monetary funds as of June 30, 2008 and June 30, 2007 were:

	<b>as of 30.06.2008</b>	<b>as of 30.06.2007</b>
Total amount of organizations paid off by non-monetary funds	<b>27</b>	<b>62</b>
Revenue from these transactions – total, Including :	<b>198</b>	<b>66</b>
OJSC Rostelecom	132	-
State Unitary Enterprise Housing and Public Utilities of RS	-	8
OJSC A-Svyaz	-	38
Interregional Tranzit Telecom	33	9
Federal State Unitary Enterprise Pochta Rossii (Mail of Russia)	21	7
Joint-Stock Commercial Bank Sberbank, Primorye branch	-	1
CJSC DV Stroisvyazcomplex	5	-
Dalsvyaz-Courier, Ltd.	4	-
CJSC Edelweis Trans Telecom	1	1
Wireless Informational Technologies, Ltd.	-	1
<b>Other</b>	<b>2</b>	<b>1</b>

Non-monetary transactions were excluded from consolidated cash flow statement.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### 18. Share capital

As of June 30, 2008 nominal and balance-sheet values of ordinary and preferred shares were:

	Number of shares floating (thousand ones)	Own shares (thousand ones)	Amount of shares issued (thousand ones)	Nominal value	Balance-sheet value
<b>As of December 31, 2006</b>	<b>126 701</b>	<b>49</b>	<b>126 750</b>	<b>2 535</b>	<b>4 366</b>
Preferred shares	31 166	3	31 169	623	1 081
Ordinary shares	95 578	3	95 581	1 912	3 285
<b>As of December 31, 2007</b>	<b>126 744</b>	<b>6</b>	<b>126 750</b>	<b>2 535</b>	<b>4 366</b>
Preferred shares	31 166	3	31 169	623	1 081
Ordinary shares	95 578	3	95 581	1 912	3 285
<b>As of June 30, 2008</b>	<b>126 744</b>	<b>6</b>	<b>126 750</b>	<b>2 535</b>	<b>4 366</b>

Share type	Number of shares floating (thousand ones)	Nominal value of share (rubles)	Total nominal value	Total balance- sheet value	Bought-back own shares
Preferred shares	31 169	20	623	1 081	3
Ordinary shares	95 581	20	1 912	3 285	3
<b>Total</b>	<b>126 750</b>		<b>2 535</b>	<b>4 366</b>	<b>6</b>

Difference between nominal and balance-sheet value represents inflation effect for the periods before January 1, 2003.

Company’s share capital structure as of June 30, 2008 is presented below:

Shareholders	Equity in share capital %	Ordinary shares		Preferred shares	
		amount (thousand ones)	%	amount (thousand ones)	%
<b>Corporate bodies, total:</b>	88,42	89 470 302	93,61	22 599 797	72,51
- OJSC “Svyazinvest”	38,10	48 330 683	50,57	-	-
<b>Individuals, total</b>	11,58	6 110 939	6,39	8 569 104	27,49
<b>Total</b>	<b>100,00</b>	<b>95 581 241</b>	<b>100,00</b>	<b>31 168 901</b>	<b>100,00</b>

First the Company registered the issue of American depositary receipts (ADR) of the 1<sup>st</sup> level in 2001. The program was planned to last for 5 years and in 2008 Far East Telecom made re-registration of ADR program with conversion coefficient change. Now each depositary receipt equals to 5 ordinary shares of the Company. As of June 30, 2008 there were issued 528 120 deposited shares representing 0.55% of all issued ordinary shares.

For 6 months of 2008 the Company has not issued additional ADR.

The following table shows the flow of registered ADR in 2007-2008:

<b>Outstanding</b>	<b>Equivalent</b>	<b>Ordinary</b>	<b>Share capital,</b>
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**OJSC “Far East Telecom”**

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(RUR million)

	ADR (amount)	amount of ordinary shares	shares, %	%
<b>December 25, 2007</b>	<b>25 137</b>	<b>754 110</b>	<b>0,79%</b>	<b>0,59%</b>
Increase in 2007	3 987	119 610	0,12%	0,09
<b>December 31, 2007</b>	<b>29 124</b>	<b>873 720</b>	<b>0,91%</b>	<b>0,68%</b>
Decrease in 2008	(17 607)	(345 600)	0,36%	0,27%
<b>June 30, 2008</b>	<b>11 517</b>	<b>528 120</b>	<b>0,55%</b>	<b>0,42%</b>

**19. Loans and credits payable**

As on June 30, 2008 and December 31, 2008 loans and credits payable included:

	Effective interest rate	Repayment period	As of 30.06. 2008	As of 31.12.2007
<i>Short-term accounts payable</i>				
Bank credits (rubles)	7%	2008	-	772
<b>Interest payable</b>		2008	29	31
<b>Other loans (rubles)</b>	8%	2008	1	-
<b>Total short-term accounts payable</b>			<b>30</b>	<b>803</b>
<i>Long-term accounts payable</i>				
Bank credits (rubles)	8.75%	2012	2 598	2 237
Bank credits (rubles)	Mosprime plus 2.3%	2009	-	110
<b>Debentures (rubles)</b>	8.60-8.85%	2009-2012	2 879	3 176
Loans payable to suppliers (rubles)	-	2009	-	7
Loan payable to suppliers (USD)	5.4-10%	2009	3	20
<b>Excluding current amount of long-term loans and credits payable</b>			<b>(1 165)</b>	<b>(846)</b>
<b>Total long-term accounts payable</b>			<b>4 315</b>	<b>4 704</b>

As of June 30, 2008 the Company concluded contracts of credit line in order to cover current needs in floating capital and financing of investment projects. For use of credits the Company pays interest to banks at the rates varying from 7.4% to 12.8% annually. Credit security is Company’s property pledged at the amount of 2 470 (as of December 31, 2007 - -1 294).

Loans and credits payable as of June 30, 2008 and December 31, 2007 are distributed between the following types of currency:

	As of 30.06.2008	As of 31.12.2007
Russian rubles (RUR)	5 507	6 333
American dollars (USD)	3	20
<b>Total</b>	<b>5 510</b>	<b>6 353</b>

**OJSC “Far East Telecom”**  
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**Short-term accounts payable**

**Loans and credits**

Short-term loans and credits payable as of June 30, 2008 mainly is represented by loans and credits obtained for current assets financing. Most of these loans are guaranteed by telecommunication equipment.

*Sberbank*

In June 2007 the Company concluded two Credit line contracts for the sum of 770 with the JSC Savings Bank of the Russian Federation in order to increase current and non-current assets and financing of present activity. For credits usage the Company paid interest at the rate of 7.4% annually to banks. In June, 2008 the Company repaid credits according to the terms of contract.

**Long-term accounts payable**

**Loans and credits**

*Sberbank*

In January, 2007 the Company in order to finance part of expenses connected with purchase of 51% (fifty one) per cent of the OJSC “Sakhatelecom” opened a credit line in the registered shares of the OJSC “Sakhatelecom” opened credit line in the JSC Savings bank of the Russian Federation with amount of 1 955 until January 29, 2012. The Company shall pay interest at the rate 8.75 per cent per year for credit use to the Bank.

Loan security is Company’s pledged property. Balance-sheet value of pledged property constitutes at least 202, as well as ordinary shares of the OJSC “Sakhatelekom” amounting at 51% of share capital of Issuer with assessed value of 2 295. As of June 30, 2008 accounts payable constituted 1 955.

*Svyaz-Bank*

In December 2007 the Company concluded the contract with the OJSC Joint-Stock Commercial Bank “Svyaz-Bank” about opening of revolving credit line limited with the sum of 450 to make payments for operating, financial and investment activity with 9.4 per cent annually for a term of one year. In June, 2008 the Company made credit repayment.

*Bank Societe Generale Vostok*

In December 2007 the Company concluded the contract with the Joint-Stock Commercial Bank “Bank Societe Generale Vostok” about opening of non-revolving credit line in the form of separate cash funds (Tranches) to make payments for operating and investment activity. Total amount of tranches presented in the contract can not exceed 500, amount of each tranche can not be less than 20. Credit line is provided for a term of 18 months with 8.67 per cent annually and further change of interest rate for each tranche provided. Balance as of June 30, 2008 under this contract constitutes 500. The Company has no security for this credit.

*Svyaz-Bank*

In February, 2007 the CJSC “AKOS” concluded the contract with the OJSC Joint-Stock Commercial Bank “Svyaz bank” for the amount of 95 to repay the loan of the OJSC “Far East Telecom” and grant a loan to “BIT, Ltd.” as well as to increase current assets. Term of credit use is set for the period from February 31, 2007 to February 13, 2009. The CJSC “AKOS” shall pay interest at the rate 12.75 per cent per year for credit use to the Bank. Balance as of June 30, 2008 under this contract constitutes 31.7. The Company has no security for this credit.

**OJSC “Far East Telecom”**  
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*Promsvyazbank*

In November 2005 the CJSC “AKOS” concluded the contract with the Joint-Stock Commercial Bank Promsvyazbank in the amount of 50 to refill fixed and current assets. The CJSC “AKOS” pays interest for credit use to the bank up to November 14, 2008 on the basis of 14 per cent annually for actual amount payable, and starting from November 15, 2008 the borrower pays interest to the bank on the basis of 28 per cent annually for actual amount payable. Balance as of June 30, 2008 under this contract constitutes 15. The Company has no security for this credit.

*Far Eastern Bank*

In October, 2006 and June, 2007 the CJSC “AKOS” concluded two contracts with the OJSC “Far Eastern Bank” for provision of credit line with limit of 55 and 100 to refill current assets and equipment purchase. The CJSC “AKOS” pays for credit use to the bank at the rate from 10 to 11.25 per cent annually. Balance as of June 30, 2008 under this contract constitutes 96. Security for this credit is Company’s pledged property. Pledged value of this property constitutes 47.

**Debentures payable**

In June 2006 the Company has placed in the market two issues of 3 500 000 interest documentary debentures (2 000 000 and 1 500 000) with par value 1 000 rubles each. Debentures have 12 and 6 coupons correspondingly. Payment for the first coupon is made on the 182<sup>nd</sup> day from the date of debentures placement (in December 2006), payments for other coupons are made each 182 days. Interest rate for coupons is stated as 8.85 and 8.60 per cent annually correspondingly. Debentures are to be refunded in parts stated in per cent from par value starting from December, 2007 (for a loan with par value 1 500) and from December, 2009 (for a loan with par value 2 000). Final refunding of debentures shall be made in July, 2009 and in May, 2012 correspondingly. Funds from debentures issue shall be used to increase current assets.

Issued debentures provide offers that allow debentures holders to present them to the Company in named dates. The closest offer date is June 04, 2010.

In June 2008 the Company fulfilled its liability of coupon income payment on the forth debenture coupon amounting at 140. Total amount if each coupon income is 64.32 (for a loan with par value 1 500), 88.26 (for a loan with par value 2 000). Amount of coupon income accounted for one debenture is 42.88 rubles (for a loan with par value 1 500), 44.13 rubles (for a loan with par value 2 000). The liability is fulfilled within the term stated by the Decision on issue and Prospectus of debentures.

As of June 30m 2008 the outstanding balance of loan was 2 900.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### 20. Liabilities on financial lease

The Company lease telecommunication equipment on the basis of financial lease contracts. The amount of future minimum lease payment on the financial lease contract and discount value of minimum lease payments for June 30, 2008 and December 31, 2007 are listed below:

	As of 30.06.2008		As of 31.12.2007	
	Minimum lease payment	Discount value of minimum lease payments	Minimum lease payment	Discount value of minimum lease payments
Current part	302	251	386	306
More than 1 year and up to 5 years	137	124	257	225
Total minimum lease payments	439	375	643	531
Excluding financial costs	(64)	-	(112)	-
Discount value of minimum lease payments	375	375	531	531
Excluding short-term part of liabilities on financial lease	-	(251)	-	(306)
Long-term liabilities on financial lease	-	124	-	225

In 2008 main lessors of the Company were the OJSC “RTK-Leasing” and “Independent Leasing, Ltd.”. Effective interest rate on these liabilities for 2008 was from 21% to 59% per year (2007 – from 21% to 34%).

The OJSC “RTK Leasing” buys telecommunications equipment from Russian and foreign suppliers and lease it on the lease contract basis. Liabilities of the OJSC “RTK Leasing” on these contracts as of June 30, 2008 equaled to 375 (as of December 31, 2007 – 530).

According to contracts concluded with the OJSC “RTK Leasing”, a lesser has the right to change future leasing payments schedule in case if certain macroeconomic conditions change, namely refinancing rate of the Russian Central Bank.

Contracts do not provide terms of extension, options for purchase and provision on sliding price. Equipment ownership is transferred to the Company when a lessee fulfills its liabilities under the financial lease contract.

#### 21. Reserves

	Program of payroll deduction	Lawsuits	Up-coming tax payments	Total
<b>Balance as of December 31, 2006</b>	<b>72</b>	<b>1</b>	<b>812</b>	<b>885</b>
Appeared on the basis of newly arisen conditions	46	412	-	458
Used during a year	(72)	(1)	(633)	(706)
Recovered	-	-	(179)	(179)
<b>Balance as of December 31, 2007</b>	<b>46</b>	<b>412</b>	<b>-</b>	<b>458</b>
Used during the period	(31)	(19)	-	50
<b>Balance as of June 30, 2008</b>	<b>15</b>	<b>393</b>	<b>-</b>	<b>408</b>

#### From total amount of reserves

	Program of payroll deduction	Lawsuits	Total
Short-term	46	412	458
Total, reserves as of December 31, 2007	<b>72</b>	<b>1</b>	<b>458</b>
Short-term	15	393	408
Total, reserves as of June 30, 2008	<b>15</b>	<b>393</b>	<b>408</b>

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### Lawsuits

Reserve amount approved in financial statements is made up from the total reserves sum in relation to certain lawsuits that were instituted against the Company. Reserve balance as of June 30, 2008 is expected to be used in the second half of year 2008. According to the position of Company’s management based on the corresponding legal opinion, the amount to be recovered from the Company as the result of legal proceedings shall not exceed the reserve amount reflected in the statement as of June 30, 2008.

#### 22. Accounts payable and accrued liabilities

Accounts payable and other current liabilities of the Company as of June 30, 2008 and December 31, 2007 included:

	<b>As of 30.06.2008</b>	<b>As of 31.12.2007</b>
Settlements with suppliers and contractors on purchase and construction of fixed assets	345	215
Settlements with suppliers and contractors on software products purchase	30	19
Settlements with communication providers	327	335
Settlements with suppliers and contractors on current activity	256	200
Advances received on the main activity	272	333
Accounts payable for salaries and compensations	452	478
Other accounts payable and current liabilities	107	60
<b>Total accounts payable and accrued liabilities</b>	<b>1 789</b>	<b>1 640</b>

Other accounts payable include accounts with Non-commercial partnership amounting at 38 and accounts on withdrawals into the Reserve of universal service amounting at 68.

#### 23. Tax and social security payable

##### Short-term taxes payable

As of June 30, 2008 and December 31, 2007 the Company define the short-term taxes payable as follows:

	<b>As of 30.06.2008</b>	<b>As of 31.12.2007</b>
Value added tax	311	89
Property tax	55	52
Individual income tax	22	8
Uniform social tax	50	31
Other taxes	3	3
<b>Total short-term taxes payable</b>	<b>441</b>	<b>183</b>

Significant increase of value added tax payable (222) is connected with tax legislation changes made on January 1, 2008 related to the value added tax payment on the quarter basis.

**OJSC “Far East Telecom”**  
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**24. Contractual obligations of future periods**

**Liabilities on capital investments**

As of June 30, 2008 and December 31, 2007 contractual obligations of the Company on capital investments for modernization and network extension constituted 544 and 590 correspondingly.

As of June 30, 2008 and December 31, 2007 contractual obligations on main assets purchase constituted 8 and 49 correspondingly.

As of June 30, 2008 and December 31, 2007 contractual obligations on intangible assets purchase constituted 1 and 33 correspondingly.

**25. Conventional liabilities and operating**

**Taxation**

According to the decision of the Company’s management as of June 30, 2008 they interpret the corresponding provisions of legislation correctly and probability for the Company to keep the present condition from the point of tax, currency and customs legal requirements is high.

**Claims of taxation bodies**

On February, 2008 the Presidium of the Supreme Arbitration Court of the Russian Federation partially sustained the claim of the OJSC “Far East Telecom” of judicial acts revision made as the result of appeal by the OJSC “Far East Telecom” of taxation body act made after tax inspection of the OJSC “Far East Telecom” activity for the period of 2001-2002. In compliance with the said act of the Supreme Arbitration Court tax claims in relation to mutual settlements between the OJSC “Far East Telecom” and the OJSC “Rostelecom” concerning providing users with international telecommunications services were found to be inconsistent. Total amount of claims considered to be inconsistent was 74.

The OJSC “Sakhatelecom” is a plaintiff in the case of appeal of taxation body decision resulted from the tax inspection of the OJSC “Sakhatelecom” activity for the period of 2004-2006. Total amount of tax claims including fines and penalties constitutes 140. By the decision of the Arbitration court of Moscow city (declarative part was read on September 11, 2008) the OJSC “Sakhatelecom” claim was sustained in full. The decision was nor made in full volume. The OJSC “Far East Telecom” supposes that the taxation body will not appeal the named decision in the court of appeals.

The OJSC “Far East Telecom” is a plaintiff in the case of appeal of taxation body decision resulted from the tax inspection of the OJSC “Far East Telecom” activity for the period of 2003-2005. Total amount of tax claims including fines and penalties constitutes 202. By the decision of the Arbitration court of Moscow city the OJSC “Far East Telecom” claim was sustained in full – tax body decision was proved to be invalid. As of September 22, 2008 the said decision did not come into legal force and was not appealed by the taxation body in arbitration court of appeals.

**Insurance**

Stable growth of economic and financial indexes of Company’s activity shall be supported by risk management measures. These initiatives are carried out within approved Concept of Integrated System of Risk Management. One of the key Company’s risks management methods is insurance.

To make a list of insurance objects the Company applies regulations of current legislation and procedures stated by the Concept of Integrated Risks Management System that include regular monitoring and re-evaluation of Company’s risks.

**OJSC “Far East Telecom”**  
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For the period of six months, ended on June 30, 2008 the Company provided insurance of equipment, cars, real estate objects and other property, personnel, dangerous industrial objects.

The OJSC “Far East Telecom”, the OJSC “Sakhatelecom” are subjects of natural monopoly that is why according to the Federal Law “On Protection of the Competition” № 135-ФЗ of July 26, 2006 they select financial organizations to provide insurance services as the result of open contest.

**Court disputes, proceedings and definition of consequences**

During 6 months of 2008 the Company took part (both as plaintiff and defendant) in several court proceedings instituted within the course of common financial and economic activity. According to the opinion of Company’s management at the present time there are no current court proceedings or suits that can affect significantly Company’s performance and financial condition and that were not recognized and presented in these consolidated financial statements.

On May 12, 2008 the OJSC “Far East Telecom” received a claim from the OJSC “Severovostokzoloto” (Magadan city) on transfer of 12 to the benefit of the OJSC “Severovostokzoloto”. The claim was connected with activity of corporate bodies who transferred their rights to the OJSC “Far East Telecom” and the OJSC “Severovostokzoloto” (State Enterprise of Communications and Computers “Rossvyazinform” of Magadanskaya region and North-Eastern Industrial Gold Mining Union “Severovostokzoloto” correspondingly) under the joint activity contract of February 25, 1994. The OJSC “Far East Telecom” believes this claim to be insufficient and supposes the risk sustaining of the OJSC “Severovostokzoloto” claim to be very low if it can be submitted to arbitration. As of September 11, 2008 the OJSC “Far East Telecom” has no documents confirming that the OJSC “Severovostokzoloto” is taking legal actions to submit the claim to the arbitration.

The OJSC “Far East Telecom” is a defendant concerning the claim of the “New Telephone Company” (the OJSC “NTC”, Vladivostok city) on recovery of funds paid by the OJSC “NTC” for power gain of communications network of the OJSC “Far East Telecom” (principal debt and interest for use of other cash funds) amounting at 60. Hearing of that case is planned for October 2008 (exact date is not fixed) in the Arbitration court of Primorskiy krai.

**Optimization of personnel number**

In order to increase Company’s business processes efficiency there was adopted the Program of personnel number optimization that was intended to change organizational structure, re-arrangement of functional and transfer of certain function to outsourcing.

The programs included gradual reduction of personnel number within the period from January 01 to December 31, 2008. During 2008 the Company plans to reduce 1066 employees, 303 persons out of them are notified about upcoming reduction as of June 30, 2008.

There was created reserve on redundancy payment for these employees (Note 21).

As for other employees to be reduced in 2008 at the present moment the Company is not able to make exact evaluation of the amount of necessary payments.

**Guarantees and suretyships issued**

The Company in the 1<sup>st</sup> half of 2008 acted as a grantor of the third party with total amount of 378 (in 2007 it was 529). Company’s management does not expect any significant liabilities resulting from these guarantees.

**OJSC “Far East Telecom”**  
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**26. Financial instruments**

Main financial instruments of the OJSC “Far East Telecom” include bank loans, debenture and acceptance credits, financial lease. Main objective of these instruments is to raise funds for transaction financing. Also short-term deposits are actively used as financial instruments for cash funds placement. The Company has other financial assets and liabilities that arise directly during its operating activity.

**Policy of capital management**

Main objectives of Company’s policy of capital management is to increase credit rating level, improve coefficients of financial independence and liquidity, reform accounts payable structure and lower capital value.

Major ways of capital structure management is to maximize profit, administrate investment program, dispose of assets for reduction of debt load, manage the amount of borrowed funds, reorganize debt portfolio, use different classes of borrowed funds.

The Company manages its capital with the use of coefficients of financial independence, indexes of “net debt/own capital”, “net debt/EBITDA”. Within the capital management policy the Company intends to raise credit rating via rating agencies.

Since the OJSC “Far East Telecom” is the key corporate body of the Company, indexes used in capital management are presented for it on the basis of accounting statements made in compliance with the Russian standards of accounting. The coefficient of financial independence is calculated as ratio between own Capital and balance currency at the end of the period. The index “net debt/EBITDA” is calculated as ratio between the net debt at the end of the period and EBITDA index for the past period.

As of the reporting date the long-term main unsecured rating of the issuer is confirmed by the rating agency «Fitch» to be at the level “B+”, the short-term currency rating of the Company is at the level “B”. Forecast of the long-term rating remains to be “Stable”.

Standard and Poor's assigned corporate management rating at the level CMR 5.4 on the national scale. Rating on the international scale is confirmed to be CMR-5.

During reporting period the policy in the sphere of capital management has not changed significantly comparing to the policy described in the financial statements of 2007.

**Currency risk**

The Company usually runs the currency risk in relation to liabilities presented in foreign currency. As of June 30, 2008 Company’ liabilities amounting at 3 (as of December 31, 2007 – 21) are reflected in foreign currency including liabilities expressed in USD amounting at 3(as of December 31, 2007 – 21).

For the period from January 1, 2008 to June 30, 2008 the exchange rate of RUR to USD had grown by 4.44% that led to ruble amount decrease of these drawings.

During reporting period the policy in the sphere of currency risks management has not changed significantly comparing to the policy described in the financial statements of 2007.



## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

#### Risk of interest rate change

The following table shows the transcript of financial assets and liabilities of the Company with fixed and floating interest rates subject to interest risk as of June 30, 2008 and December 31, 2007:

	<b>&lt; 1 year</b>	<b>1 - 5 years</b>	<b>Total</b>
<b>As of June 30, 2008</b>			
<i>Fixed rate</i>			
Short-term loans and borrowings	30	-	30
Long-term loans and borrowings	1 165	3 815	4 980
Liabilities on financial lease	251	124	375
<i>Floating rate</i>			
Long-term loans and borrowings	-	500	500
	<b>&lt; 1 year</b>	<b>1 - 5 years</b>	<b>Total</b>
<b>As of December 31, 2007</b>			
<i>Fixed rate</i>			
Short-term loans and borrowings	803	-	803
Long-term loans and borrowings	846	4 704	5 550
Liabilities on financial lease	306	225	531
<i>Floating rate</i>			
Long-term loans and borrowings	-	110	110

During reporting period the policy in the sphere of interest risks management has not changed significantly comparing to the policy described in the financial statements of 2007.

#### Liquidity risk

The Company controls the risk of money shortage using instrument of current liquidity planning. This instrument helps to analyze payment terms in relation to financial investments and financial assets (i.e., accounts receivable, other financial assets) as well as forecasted cash flow from operating activity. Company’s objective is to support the balance between steadiness and flexibility of financing via using of bank offers, bank loans, debentures, financial lease.

As of June 30 2008 long-term loans and borrowings payable is distributed between the following repayment terms:

<b>Date of repayment</b>	<b>Bank loans</b>	<b>Debentures</b>	<b>Credits of suppliers</b>	<b>Other</b>	<b>Total</b>
during 2008	28	447	3	30	508
during 2009	1071	732	-	-	1 803
during 2010	684	600	-	-	1 284
during 2011	652	700	-	-	1 352
during 2012	163	400	-	-	563
<b>Total</b>	<b>2 598</b>	<b>2 879</b>	<b>3</b>	<b>30</b>	<b>5 510</b>

During reporting period the policy in the sphere of liquidity risk management has not changed significantly comparing to the policy described in the financial statements of 2007.

#### Credit risk

Credit risk consists in the situation when a counterparty is not able to fulfill his obligations to the Company in time that will lead to financial loss.

## OJSC “Far East Telecom”

### Notes for non-audited consolidated interim financial statements for 6 months of 2008, ended on June 30, 2008.

(RUR million)

Financial assets in relation to which the Company runs the potential credit risk, are mostly represented by accounts receivable of buyers and clients. Balance-sheet value of accounts receivable excluding reserve for cost reduction is expressed in maximum amount subject to credit risk.

The Company has no significant concentration of credit risk because of large client base and regular procedures of control for solvency of clients and other debtors. Part of accounts receivable of the Company falls at state and other non-commercial organizations. Political and economic factors affect the chances to receive the debt. From the management point of view as of June 30, 2008 the Company has no significant loss on this and other types of accounts receivable that have no corresponding reserves.

During reporting period the policy in the sphere of credit risk management has not changed significantly comparing to the policy described in the financial statements of 2007.

#### 27. Revenues

	3 months, ended on June 30, 2008	3 months, ended on June 30, 2007	6 months, ended on June 30, 2008	6 months, ended on June 30, 2007
Local telephone services	1 446	1 423	2 907	2 788
Telegraph services, data transfer and telematic telecommunications	915	560	1 775	1 091
Intrazone telephone services	616	652	1 246	1 282
Connection and traffic transmission	424	449	897	975
Mobile radio (cellular) telecommunications	291	280	579	577
Mobile radio, wired broadcasting, radio, TV	34	70	69	125
Cooperation services and agency fee	79	95	163	206
Other services on the main types of activity	11	24	12	46
Revenues from services on other types of activity	33	66	126	167
<b>Total</b>	<b>3 849</b>	<b>3 619</b>	<b>7 774</b>	<b>7 257</b>

Revenues from Telegraph services, data transfer and telematic telecommunications (Internet) include revenues from data transfer and telematic telecommunications (Internet) amounting at 1 676 (for 6 months of 2007 – 1 014).

Revenues from other sales (other types of activity) include revenues from assets lease amounting at 75 (for 6 months of 2007 – 66).

The Company detailed revenues from sale on the following main client groups:

Client groups	3 months, ended on June 30, 2008	3 months, ended on June 30, 2007	6 months, ended on June 30, 2008	6 months, ended on June 30, 2007
Individuals	1 971	1 762	3 980	3 533
Commercial organizations	1 493	1 477	3 016	3 049
Budget organizations	385	380	778	674
<b>Total</b>	<b>3 849</b>	<b>3 619</b>	<b>7 774</b>	<b>7 256</b>

**OJSC “Far East Telecom”**

**Notes for non-audited consolidated interim financial statements for 6 months of 2008,  
ended on June 30, 2008.**

(RUR million)

**28. Other operating expenses**

	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>
Agency fees	60	48	121	83
Fire protection and private security	51	50	102	99
Rent of premises	47	47	89	89
Advertising	53	35	86	59
Management costs	44	31	76	69
Universal service reserve payments	37	33	75	66
Audit and consulting services	42	37	59	72
Travel and hospitality costs	21	17	38	34
Non-commercial partnership	35	-	35	28
Membership fees, charity and transfers to trade unions	23	9	28	20
Transport services	8	12	17	22
Cost-price of goods sold	12	5	14	7
Property insurance	4	9	8	20
Education	4	3	7	6
Mail service	2	2	4	4
Other expenses	-	221	-	339
<b>Total</b>	<b>443</b>	<b>559</b>	<b>759</b>	<b>1 017</b>

**29. Other operating income**

	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>	<b>6 months, ended on June 30, 2008</b>	<b>6 months, ended on June 30, 2007</b>
Repayment of loss on universal communication service	23	21	23	21
Revenues from sale of commodity stocks and supplies	1	12	1	12
<b>Total</b>	<b>24</b>	<b>33</b>	<b>24</b>	<b>33</b>

**30. Interest expenses, net**

	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>	<b>6 months, ended on June 30, 2008</b>	<b>6 months, ended on June 30, 2007</b>
Interest income	(39)	(18)	(69)	(24)
Interest expenses	133	113	264	219
Expenses in connection with interest accrued under financial lease agreements	22	43	47	90
<b>Total</b>	<b>116</b>	<b>138</b>	<b>242</b>	<b>285</b>

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(RUR million)

**31. Revenues from financial income, net**

	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>	<b>6 months, ended on June 30, 2008</b>	<b>6 months, ended on June 30, 2007</b>
Revenues from sale of other financial investments	15	12	15	12
Revenues from change of fair value of financial assets with reflection of fair value change in profit and loss statement	-	-	1	-
Loss on depreciation of financial investments	-	-	-	(1)
Revenues from dividends	-	2	-	2
<b>Total</b>	<b>15</b>	<b>14</b>	<b>16</b>	<b>13</b>

**32. Earnings (loss) per share**

The Company has no financial instruments that could be converted into ordinary shares, thus, diluted earnings per share equals to basic earnings per share.

	<b>3 months, ended on June 30, 2008</b>	<b>3 months, ended on June 30, 2007</b>	<b>6 months, ended on June 30, 2008</b>	<b>6 months, ended on June 30, 2007</b>
<b>Profit (loss) for reporting period related to parent company shareholders</b>	<b>493</b>	<b>(88)</b>	<b>1 031</b>	<b>352</b>
Weighted average amount of ordinary shares and other equity instruments concerned in profit, being in circulation, thousand ones		<b>95 581</b>		
<b>Basic and diluted earnings (loss) per share (in RUR) for annual profit of parent company shareholders</b>	<b>5,158</b>	<b>(0,921)</b>	<b>10,787</b>	<b>3,683</b>

**33. Dividends declared and offered for payment**

In 2008 according to the decision of the General Meeting of Shareholders it was declared about payment of dividends for the year ended on December 31, 2007 amounting at 0.9232 rubles per ordinary share and 2.7571 rubles per preferred share.

Amount of dividends to be paid constituted:

<b>Name of shares</b>	<b>Amount of shares (psc.)</b>	<b>Dividends for 1 share (in rubles)</b>	<b>Total amount of dividends (in rubles)</b>
<b>For 2007</b>			
Preferred shares	31 168 901	2,7571	85 935 777
Ordinary shares	95 581 421	0,9232	88 240 768
<b>Total dividends</b>			<b>174 176 545</b>

**34. Settlements and transactions with affiliates**

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(RUR million)

During 6 months of 2008 the structure of Company’s affiliates had no significant changes comparing to the structure of affiliates as of December 31, 2007.

Type of relations between affiliates having significant dealings with the Company in the first half of 2008 and 2007 is stated below:

Name	OJSC “Svyazinvest”	Company of OJSC “Svyazinvest” group	Company 's associates	Companies under state control	Other
<b>6 months, ended on June 30, 2008</b>					
Sale of communications, connections and traffic transmission services	-	387	4	1 070	-
Sale of cooperation and agent services	-	129	-	-	-
Profit from lease of assets	-	-	-	66	-
Purchase of communications, connections and traffic transmission services	-	184	2	167	1
Purchase of other services	-	2	-	416	-
Purchase of goods and other assets	-	17	-	5	16
Interest payable on credits and loans	-	-	-	87	-
Dividends payable	45	-	-	-	-
Loans received	-	-	-	1 955	-
Security granted	-	-	-	359	-
<b>6 months, ended on June 30, 2007</b>					
Sale of communications, connections and traffic transmission services	-	550	1	274	14
Sale of other services, goods, products	-	-	-	19	-
Purchase of communications, connections and traffic transmission services	-	71	2	-	11
Purchase of other services	-	-	-	737	13
Interest payable on credits and loans	-	-	-	-	5
Dividends payable	39	-	-	-	-

Tariffs and prices of transactions with parties concerned were established on the basis of general commercial conditions.

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Type of relations between the parties concerned where the Company has significant position as of June 30, 2008 is reflected below:

Name	Company of OJSC “Svyazinvest” group	Company’s associates	Companies under state control	Other
<b>As of 30.06.2008</b>				
Accounts receivable	91	5	248	5
Accounts payable	159	13	123	-
Security granted	-	-	6	-
<b>As of 31.12.2007</b>				
Accounts receivable	125	2	65	10
Accounts payable	157	6	71	43
Security granted	-	-	5	-

***OJSC “Svyazinvest”***

The OJSC “Svyazinvest” holds 51% of voting shares of the Company as of March 31, 2008 and is a parent company of the OJSC “Far East Telecommunications”.

The “Svyazinvest” is an open joint-stock company, registered in compliance with the Russian Federation legislation.

***OJSC “Rostelecom”***

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

Revenues of the OJSC “Rostelecom” are made up by revenues from services of zone initiating/call termination from/to Company’s network and from/to networks of connected provided as well as revenues from cooperation agreement.

Loss of the OJSC “Rostelecom” is made up by payments for services of call termination to networks of other communication providers in case if call is initiated from a network of mobile radiotelephonic communications, expenses on connection services payment as well as expenses on long-distance and international communication services provided to the Company.

	<b>6 months, ended on June 30, 2008</b>	<b>6 months, ended on June 30, 2007</b>
Revenues from OJSC “Rostelecom” for communication services	516	550
Expenses on OJSC “Rostelecom” for communication services	203	71
	<b>As of June 30, 2008</b>	<b>As of December 31, 2007</b>
Accounts receivable on services provided for OJSC “Rostelecom”	91	125
Accounts payable on services provided for OJSC “Rostelecom”	159	157

***Operations with state entities***

State entities make significant part of Company’s client base purchasing its services both via different state administration bodies and via their branches and commercial organizations controlled by them.

Some organizations financed from state budget are users of the network belonging to the Company. These organizations usually take communications networks on lease and payment is made according to the lowest

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tariffs approved by the Federal Tariff Service comparing to tariffs existing for other clients. Besides, government may legally claim the Company to provide certain services in the interest of state safety and crime control. Other state organizations (“budget organizations”) like the Ministry of Defense and organizations controlled by the government use communication networks of “Svyazinvest” Group for transmission of information flows and tv and radio broadcasting in the whole territory of the country. In some case services provision is limited by communication channels lease that are paid to “Svyazinvest” Group at the rate lower than the market one.

Organizations that are directly or indirectly controlled by the state do not affect Company’s transactions with other companies.

The Company does not have the right to disconnect such companies that are strategic organizations for state according to the decisions of the Russian Federation government. Tariffs for such companies are also set by regulator and at the level of similar tariffs for commercial organizations.

***Non-commercial partnership “Telecommunication development problems research center”***

Non-commercial partnership “Telecommunication development problems research center” (hereinafter named “Partnership”) is related party of the OJSC “Far East Telecom”.

Partnership’s activity purpose is analyze problems of telecommunications industry development, project planning of regulatory legal acts, methodic recommendations and other documents for achievement of growth in communication organizations’ activity efficiency, provision of consulting and other cooperation to communication organizations in different aspects of their activity.

The OJSC “Far East Telecom” has a contract with the Partnership for provision cash funds to the latter in order to create mutually beneficial projects on the behalf of the OJSC “Far East Telecom” and other related parties of the OJSC “Svyazinvest”. Contribution amount from the OJSC “Far East Telecom” to the Partnership included into other operating expenses in the attached consolidated profit and loss statement constitutes 35 for the first half of 2008 (in 2007 – 112).

Company’s accounts payable to the Partnership as of June 30, 2008 were 38 (as of December 31, 2007 – accounts payable were 20).

***OJSC “Svyazintek”***

The OJSC “Svyazintek” provides the Company with services on introduction and further support of information systems functioning, namely, software of the companies Oracle E-Business Suite and Amdocs Billing Suite.

***Non-state pension funds: NSPF “Telecom-Soyuz” and NSPF “Erel”***

The Company entered into several agreements of pension insurance with the NSPF “Telecom-Soyuz” and the NSPF “Erel”, the latter being the party related to the OJSC “Svyazinvest”.

In addition to contributions to the Pension Fund of the Russian Federation the Company provides its employees with non-state pension using post-employment benefit plans.

For majority of participants there are pension plans with fixed payments. Pension plan with fixed payments provides retirement insurance for old and disabled people. To get old-age retirement insurance it is necessary to reach the age giving the right for state old-age pension, at the present moment this age is 55 years for women and 60 years for men. Payment amount is calculated by the formula, established for each regional branch of the Company. According to the other formula pension depends on several parameters including employees’ salary at the moment of retirement and their labour record in the Company.

Also the Company has some long-term liabilities on payments to the employees having allowances with fixed payments, namely benefits related to death and one-time payment for retirement.

Besides the Company provides additional financial support in the form of fixed payments to old-age and disablement pensioners.

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Total amount of contributions to these non-state pension funds for the first half of 2008 constituted 19 (1<sup>st</sup> half of 2007 – 27).

***Remunerations for basic management personnel***

Basic management personnel consists of Company’s Executive Committee and Board of Directors members amounting at 18 persons as of June 30, 2008 and 18 persons as of December 31, 2007.

Remunerations for the OJSC “Far East Telecom” Board of Directors and Executive Committee for 6 months of 2008 includes salary, bonuses as well as remuneration for participation in management bodies of the OJSC “Far East Telecom” and constitutes 22 (6 months of 2007 – 19), including salary, bonuses and remuneration of the OJSC “Far East Telecom” employees for participation in management bodies constitutes 18 (6 months of 2007 – 14). Remuneration sums are indicated without Uniform Social Tax.

**35. Events after the reporting date**

**Optimization of personnel number**

In order to increase Company’s activity efficiency there was adopted the Program of optimization of personnel number (approved by the Order № 97 of 02.04.08).

In compliance with the Program within the period from July 01, 2008 to the date of signing of annual financial statements 114 employees were notified about reduction and 100 employees were dismissed.

Expenses related to Company’s personnel reduction starting from July 01, 2008 comprised 3.

**Settlements on credit contracts with the OJSC “Svyaz-bank”**

On August 05, 2008 the OJSC “Far East Telecom” chose next tranche amounting at 120 under the revolving credit line contract with the OJSC “Svyaz-Bank”. This tranche was re-paid on August 21, 2008. Intended use: to pay for operating and investments activity.