

**Open Joint-Stock Company**  
**North-West Telecom**

Unaudited consolidated intermediate financial accounts

*For the 6 months period expiring on June 30, 2008*

Open Joint-Stock Company North-West Telecom

Unaudited consolidated intermediate financial accounts

For the 6 months period expiring on June 30, 2008

**Contents**

Unaudited Consolidated Intermediate Balance Sheet.....	3
Unaudited Consolidated Intermediate Profit and Loss Report.....	4
Unaudited Consolidated Intermediate Cash Flow Report.....	5
Unaudited Consolidated Intermediate Capital Flow Report.....	7
Unaudited Notes to the Consolidated Intermediate Financial Statements.....	8

OPEN JOINT-STOCK COMPANY NORTH-WEST TELECOM  
 UNAUDITED CONSOLIDATED INTERMEDIATE BALANCE SHEET as of June 30, 2008  
 (in millions of Russian rubles)

	Note	30.06.2008	31.12.2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed Assets	6	37 587	34 846
Intangible Assets	7	4 791	4 619
Investment in associated companies	9	76	125
Long-term financial investments	10	224	224
Advances to non-current assets suppliers	11	975	233
Other non-current assets	12	41	78
<b>Total non-current assets</b>		<b>43 694</b>	<b>40 125</b>
<b>Current assets</b>			
Inventory holdings	13	458	304
Accounts receivable, net	14	1 527	1 611
Short-term financial investments	10	4 669	6 394
Other current assets	15	1 304	1 063
Cash and cash equivalents	16	690	503
<b>Total current assets</b>		<b>8 648</b>	<b>9 875</b>
<b>Total assets</b>		<b>52 342</b>	<b>50 000</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Equity</b>			
Authorized capital	18	2 855	2 855
Equity shares purchased from shareholders	18	(67)	(67)
Gained reserve for revaluation of cash investments available for sale		152	152
Additional capital and retained profit		26 405	25 922
<b>Total equity</b>		<b>29 345</b>	<b>28 862</b>
<b>Long-term liabilities</b>			
Long-term credits and loans	19	10 545	5 640
Finance lease long-term liabilities	20	4	12
Pension obligations		1 999	1 838
Deferred income		293	303
Deferred tax liabilities		1 306	1 234
Other long-term liabilities		-	1
<b>Total long-term liabilities</b>		<b>14 147</b>	<b>9 028</b>
<b>Current liabilities</b>			
Accounts payable and charged reserves and liabilities	21	4 498	4 254
Accounts payable in respect of tax payment	22	507	2 590
Dividends payable		1 575	20
Short-term credits and loans		90	79
Share of long-term credits and loans to be repaid within the year	19	2 111	5 040
Current portion of liabilities under finance leases	20	69	127
<b>Total current liabilities</b>		<b>8 850</b>	<b>12 110</b>
<b>Total liabilities</b>		<b>22 997</b>	<b>21 138</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>52 342</b>	<b>50 000</b>

General Manager \_\_\_\_\_ V. A. Akulich  
 M. Semchenko

Chief Accountant \_\_\_\_\_ M.

The attached notes on pages 8-48 are an integral part of these Consolidated Accounts.

**OPEN JOINT-STOCK COMPANY NORTH-WEST TELECOM**  
**Unaudited consolidated intermediate profit and loss report for the six-month period ending June 30, 2008**  
**(in millions of Russian rubles, less profit per share)**

	Note	for 6 months of 2008	for 6 months of 2007
<b>Income</b>	<b>23</b>	12 455	11 947
Wages, other pays and social deductions		(3 760)	(3 549)
Wear and depreciation	<b>6,7</b>	(2 806)	(1 891)
Materials, repairs and maintenance, utilities		(1 320)	(1 177)
Taxes other than income tax		(351)	(292)
Expenses related to services of communication operators		(931)	(1 049)
(Expenses) restoration of reserve for doubtful debts	<b>14</b>	(64)	87
Loss from withdrawal of fixed assets and intangible assets		(3)	13
Other operating income	<b>25</b>	854	135
Other operating expenses	<b>24</b>	(1 419)	(1 427)
<b>Profit from operations</b>		<b>2 655</b>	<b>2 797</b>
Profit from interest in associated companies	<b>9</b>	5	3
Interest expense, net	<b>26</b>	(206)	(394)
Profit from financial investments, net	<b>27</b>	221	9
Profit due to exchange rate differences under currency revaluation, net		88	31
<b>Profit before taxes</b>		<b>2 763</b>	<b>2 446</b>
Profit tax		(727)	(774)
<b>Profit for the period under report</b>		<b>2 036</b>	<b>1 672</b>

General Manager \_\_\_\_\_ V. A. Akulich  
Semchenko

Chief Accountant \_\_\_\_\_ M. M.

The attached notes on pages 8-48 are an integral part of these Consolidated Accounts.

**OPEN JOINT-STOCK COMPANY NORTH-WEST TELECOM**  
**Unaudited consolidated intermediate cash flow report for the six-month period ending June 30, 2008 (in**  
**millions of Russian rubles)**

	<b>Note</b>	<b>for 6 months of 2008</b>
<b>Cash flows from operating activities</b>		
Profit before taxes		2 763
<b>Corrections for comparison of profit before taxes with net cash flows</b>		
Profit due to exchange rate differences under currency revaluation, net		(88)
Wear and depreciation	<b>6,7</b>	2 806
Loss from withdrawal of fixed assets and intangible assets		3
Profit from interest in associated companies	<b>9</b>	(5)
Profit from financial investments, net	<b>27</b>	(221)
Interest expense, net	<b>26</b>	206
(Expenses) restoration of reserve for doubtful debts	<b>14</b>	42
Pension liabilities flow		160
<b>Operating profit before working capital change</b>		<b>5 666</b>
Decrease in accounts receivable		16
Increase in other current assets		(486)
Increase in stocks of goods and inventories		(154)
Decrease in accounts payable and accrued liabilities		(392)
Decrease in taxes and social contributions payable, except for the profit tax		(10)
<b>Cash from core business</b>		<b>4 640</b>
Interest paid		(414)
Profit tax paid		(2 733)
<b>Net cash provided by core business</b>		<b>1 493</b>
<b>Cash flow from investment activities</b>		
Acquisition of fixed assets and sites of construction in progress		(5 258)
Acquisition of intangible assets		(44)
Acquisition and introduction of Oracle EBS software		(226)
Acquisition and implementation of Amdocs Billing Suite software		(16)
Acquisition of financial investments and assets		(3 005)
Sale of financial investments and assets		5 086
Returns from sale of fixed assets and sites of construction in progress		32
Interest received		166
Dividend received		1
<b>Net cash used in investing activities</b>		<b>(3 264)</b>
<b>Cash flow from financing activities</b>		
Proceeds from credits and loans		298
Repayment of credits and loans		(1 245)
Proceeds from bond issue		3 000
Repayment of finance lease obligations		(77)
Repayment of obligations under credits of equipment suppliers		(15)
Dividend paid		(3)

The attached notes on pages 8-48 are an integral part of these Consolidated Accounts.



**OPEN JOINT-STOCK COMPANY NORTH-WEST TELECOM**

**Unaudited Consolidated Intermediate Capital Flow Report for the six-month period ending June 30, 2008 (in millions of Russian rubles)**

	<b>Authorized capital</b>		<b>Equity shares purchased from shareholders</b>	<b>Retained profit</b>	<b>Additional capital</b>	<b>Gained reserve for revaluation of cash investments available for sale</b>	<b>Total equity</b>
<b>Note</b>	<b>Preferred shares</b>	<b>Common shares</b>					
<b>Balance as of December 31, 2007</b>	622	2 233	(67)	23 397	2 525	152	28 862
Profit (loss) for the period under report	-	-	-	2 036	-	-	2 036
Dividends paid to shareholders of the parent company	-	-	-	(1 553)	-	-	(1 553)
<b>Balance as of June 30, 2008</b>	<b>622</b>	<b>2 233</b>	<b>(67)</b>	<b>23 880</b>	<b>2 525</b>	<b>152</b>	<b>29 345</b>

General Manager \_\_\_\_\_ V. A. Akulich

Chief Accountant \_\_\_\_\_ M. M. Semchenko

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

## **1. General**

### **Authorization of Accounts**

The consolidated intermediate financial statements of Open Joint-Stock Company North-West Telecom and its subsidiaries (hereafter the “Company”) for the 6 months period expiring on June 30, 2008 were authorized for issue by the General Director and Chief Accountant’s order of September 17, 2008.

### **Company**

OJSC N.W.Telecom is an open joint-stock company incorporated in accordance with the laws of the Russian Federation.

Official address of the Company: 14/26 ul. Gorokhovaya, St. Petersburg, Russia.

The Company provides telephone services (including local and intrazonal communication), telegraph, data transmission services, lease of communication channels and wireless communication services within the North-Western region of the Russian Federation.

OJSC Svyazinvest controlled by the Russian Federation Government owned 50.8% of the Company’s voting shares as of June 30, 2008, and is the parent company of N.W.Telecom.

The information on the essential subsidiaries is presented in Note 8. All th subsidiaries are registered in accordance with the Russian Federation laws.

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

### **Principles of preparing the unaudited consolidated financial statements**

These consolidated financial statements were prepared and presented with deviations from IAS 34 “Interim Financial Reporting” and other International Accounting Standards (IAS) and appropriate interpretations approved by the International Accounting Standards Committee (IACS). The Consolidated Intermediate Capital Flow Report, Consolidated Intermediate Cash Flow Report, and several notes to the Company’s consolidated financial statements do not contain comparable data for the first half of 2007.

All the information should be reviewed with regard to the Company’s Annual Consolidated Financial Statements for the year ending on December 31, 2007.

### **Presenting financial statements**

The financial statements of OJSC North- West Telecom and its subsidiaries and affiliates, on the basis of which these consolidated intermediate financial statements have been prepared, are based on a common accounting policy.

The Company’s consolidated intermediate financial statements are presented in millions of Russian Federation Rubles, and all the amounts are rounded to million values, unless otherwise specified.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк



**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**Accounting principles**

These financial statements are based on the data of accounting and reports kept and issued in compliance with the accounting regulation system established by the Russian Federation laws, by re-adjustment and regrouping of the accounting data needed for showing the financial standing, business results, and cash flows in compliance with the IAS requirements.

The consolidated intermediate financial statements were prepared in accordance with the historical cost evaluation principle, except for the following items: fixed assets included at their fair value used as actual of the fixed assets as of the IAS adoption date; investments available for sale and evaluated at their fair value.

**Accounting policy changes**

The accounting policy used is the same as used in the previous fiscal year. Adoption of new or revised standards and interpretations had no material effect on the Company's financial accounts.

The following new interpretations became effective in 2008:

New / Revised Standard / Interpretation	Revision contents	Effects
Interpretation 11 of the IAS Interpretation Committee "IFRS 2 – Group and Treasury Share Transactions"	Defines the cases when transactions should, in accordance with IAS (IFRS 2) requirements, be accounted for as equity-settled or cash-settled transactions. Related to the procedure of contracts providing for equity instrument payments and involving two or more subsidiaries of one group.	The interpretation had no material effect on the Company's financial standing or business results.
Interpretation 12 of the IAS Interpretation Committee "Concession Arrangements"	Explains how obligations and rights granted to operators under service concession arrangements should be accounted for.	The interpretation had no material effect on the Company's financial standing or business results.
Interpretation 14 of the IAS Interpretation Committee "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	Contains instructions as to how the limit amount under a settled benefit plan recognizable as an asset under IAS 19 "Employee Benefits" should be calculated.	The interpretation had no material effect on the Company's financial standing or business results.

During the period under report, the Company did not prematurely adopt any new or revised standards and interpretations.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

### 3. Basic Provisions of the Accounting Policy

The consolidated intermediate financial statements are based on the Company's uniform accounting policy for 2008, which is an updated version of the preceding years accounting policy with regard to the above new/revised standards/interpretations.

#### Foreign Currency Transactions

The consolidated intermediate financial statements are presented in millions Russian rubles, the ruble being the functional currency and the financial accounts presentation currency of the Company. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the rate of exchange ruling at the balance sheet date. All resulting differences are presented in the profit and loss report as foreign currency exchange profit (loss). Any non-monetary items evaluated on the basis of their historical cost in a foreign currency are converted at the exchange rates ruling as of the initial date of their occurrence. Any non-monetary items evaluated at their fair value in a foreign currency are converted at the exchange rates ruling as of the date of their fair value definition.

The basic currencies' exchange rates as of June 30, 2008 and December 31, 2007 are presented in the table below:

<b>Exchange rates as of:</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Rubles for US Dollar	<b>23,4573</b>	24,5462
Rubles for Euro	<b>36,9077</b>	35,9332

### 4. Material accounting judgments and estimates

In the application of the accounting policy, the Company Management made, apart for accounting estimates, also the following judgments having the most material effect on the amounts shown in the consolidated financial statements.

#### *Useful life of fixed assets*

The Company estimates the remaining useful life of fixed assets at least once in a year, at the end of the fiscal year. For the purposes of the consolidated intermediate financial statements, the remaining useful life was not revised.

#### *Fixed assets and intangible assets depreciation*

Identification of depreciation signs implies the use of estimates including, but not limited to, the causes, periods, and amounts of depreciation. Depreciation is based on analysis of multiple factors, such as changes in the current competition environment, industry rise expectations, equity value increase, changes in fund borrowing prospects, technological obsolescence, service termination, current replacement cost, and other changes in circumstances indicating depreciation. Estimation of the amount to be replaced at the level of a cash flow generating unit requires the use of management estimates. Utilization cost calculation includes methods based on estimation of expected future discounted cash flows and requiring estimation of such flows by the Company at the level of a cash flow generating unit, and selection of a justified discount rate to calculate the present value of cash flows. The above estimates, including the methods used, may materially affect the fair value, and in the end, the fixed assets and intangible assets depreciation value.

#### *Fair value of assets and liabilities acquired in the consolidation of companies*

The Company separately records identifiable assets, liabilities, and contingent liabilities acquired or assumed under the consolidation transaction at their fair value as of the date of acquisition, which suggests the use of

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

estimates. Such estimates are based on estimation methods implying a significant proportion of personal judgments in forecasting future cash flows and in making other assumptions.

*Goodwill value impairment*

Goodwill value impairment analysis requires utilization cost estimation for divisions generating cash flows, to which the goodwill is attributed. Utilization cost estimation requires valuation of future cash flows by the Company at the level of a cash flow generating unit, and selection of a justified discount rate to calculate the present value of cash flow, which indicates uncertainty of such estimates. As of June 30, 2008 and December 31, 2007, the book value of the goodwill was 958. No goodwill value impairment was found in the 6 months of 2008 and in 2007 as a result of the analysis made. Detailed information is presented in Note 7.

*Fair value of unquoted investments available for sale*

The fair value of investments having no free circulation on the market is defined on the basis of assessments made in the preparation of reporting for 2007. The fair value of investments having no free circulation on the market was 224 as of June 30, 2008 and December 31, 2007. Detailed information is presented in Note 10.

*Reserve for doubtful accounts receivable*

The doubtful debt reserve is built up on the basis of actual data on accounts receivable collection and on the solvency analysis of the most important debtors. Should the customers' financial standing deteriorate, the actual size of write-offs may exceed the expected value. As of June 30, 2008, the doubtful debt reserve amounted to 345 (290 as of December 31, 2007). Detailed information is presented in Note 14.

*Pension liabilities*

The discounted value of liabilities under the pension plans with settled benefits, and the corresponding value of current services was calculated on the basis of actuarial evaluations used to prepare the 2007 reporting. The net settled benefit pension plan liabilities were 1999 as of June 30, 2008 (1838 as of December 31, 2007).

*Court trials*

The Company's Management uses material judgments in assessing and accounting for reserves and risks of occurrence of contingent liabilities related to existing legal cases and other unsettled claims that are to be settled by negotiation, mediation, arbitration, or governmental intervention, and of other contingent liabilities. The Management's judgment is necessary for assessing the probability of satisfaction of a claim against the Company or occurrence of a tangible liability, and for estimating the possible amount of final settlement. Due to uncertainty inherent in the estimation process, the actual costs may differ from the initial reserve estimate. Such tentative estimates may change with new information received from corporate experts or from third-party consultants. Revision of such estimates may have a material impact on future results of operations. As of June 30, 2008 and December 31, 2007, the Company had no legal action reserve. Detailed information is presented in Note 31.

*Deferred tax assets*

Deferred tax assets are only recognized to the extent of probability of their disposal. Disposal of a deferred tax asset will depend on the possibility of a sufficient taxable profit, which can be reduced by the sum of deductible time differences. Different factors are used in estimating the probability of future disposal of a deferred tax asset, including past operation results, operation plans, expiry of tax loss carry-forward effective period, and tax planning strategies. If the actual results differ from such estimates, or if such estimates are to be updated on a later date, this may have an adverse impact on the Company's operation results and cash flows. If, as a result of any event, the estimate of the sum of deferred tax assets disposable of in the future goes down, such decrease shall be recognized in the Profit and Loss Statement. The book value of deferred tax assets in the consolidated intermediate balance sheet reduces the book value of deferred tax liabilities.

**5. Information by activity segments**

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The Company pursues its business within one sector, that is, telecommunications services provided within the North-Western region of the Russian Federation. The Company's structure is based on territorial units, which service the corresponding parts of the Company's network. The Company's Management believes that the Company pursues its business within one geographic and operating segment. The Management evaluates the business results and makes investment and strategic decisions on the basis of analysis of results at the level of the Company in general.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**6. Fixed Assets**

	<b>Land, buildings and facilities</b>	<b>Switches and transmission devices</b>	<b>Construction in progress and equipment for installation</b>	<b>Transport facilities and other fixed assets</b>	<b>Total</b>
<b>Initial value as of December 31, 2007</b>	<b>22 379</b>	<b>21 745</b>	<b>2 160</b>	<b>3 757</b>	<b>50 041</b>
Additions			5 409		5 409
Commissioned	1 145	1 252	(2 933)	536	-
Withdrawal	(34)	(47)	(8)	(40)	(129)
<b>As of June 30, 2008</b>	<b>23 490</b>	<b>22 950</b>	<b>4 628</b>	<b>4 253</b>	<b>55 321</b>
<b>Accumulated depreciation as of December 31, 2007</b>	<b>(5 756)</b>	<b>(7 100)</b>	<b>-</b>	<b>(2 339)</b>	<b>(15 195)</b>
Charged for the year	(746)	(1 301)	-	(573)	(2 620)
Depreciation of withdrawn items	8	39	-	34	81
<b>As of June 30, 2008</b>	<b>(6 494)</b>	<b>(8 362)</b>	<b>-</b>	<b>(2 878)</b>	<b>(17 734)</b>
Residual value as of December 31, 2007	16 623	14 645	2 160	1 418	34 846
<b>Residual value as of June 30, 2008</b>	<b>16 996</b>	<b>14 588</b>	<b>4 628</b>	<b>1 375</b>	<b>37 587</b>

As of June 30, 2008 and December 31, 2007, the book value of the fixed assets received under the financial lease contract was:

	<b>Buildings and facilities</b>	<b>Switches and transmission devices</b>	<b>Transport facilities and other fixed assets</b>	<b>Total</b>
Initial value	17	690	11	718
Accumulated depreciation	(2)	(171)	(11)	(184)
<b>Residual value as of December 31, 2007</b>	<b>15</b>	<b>519</b>	<b>-</b>	<b>534</b>
Initial value	13	689	8	710
Accumulated depreciation	(2)	(199)	(8)	(209)
<b>Residual value as of June 30, 2008</b>	<b>11</b>	<b>490</b>	<b>-</b>	<b>501</b>

No fixed assets purchased under financial leasing contracts were recorded in the six months of 2008 and in 2007. In the 6 months of 2008 and in 2007, the Company did not purchase fixed assets on commercial credit terms.

In the six months of 2008, the Company increased the construction in progress value by the capitalized interest amount, i.e. by 28 (9 in the six months of 2007). The capitalization rate was 9.2% for the six months of 2008 (7% for 2007).

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

As of June 30, 2008, the initial value of the fully depreciated fixed assets was 5,650 (4,788 as of December 31, 2007).

As of June 30, 2008, the book value of the Company's fixed assets, which are security under credit agreements, commercial credit agreements, and loan agreements, was 696 (956 as of December 31, 2007) (Note 19).

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**7. Intangible Assets**

	Goodwill	Licenses	Software	Client base	Other	Total
<b>Initial value as of December 31, 2007</b>	958	24	3 934	248	221	5 385
Additions	-	1	357	-	-	358
Withdrawal	-	-	(7)	-	-	(7)
<b>As of June 30, 2007</b>	<b>958</b>	<b>25</b>	<b>4 284</b>	<b>248</b>	<b>221</b>	<b>5 736</b>
<b>Depreciation as of December 31, 2007</b>	(16)	-	-	-	-	(16)
Reserve charged for the year						-
<b>As of June 30, 2008</b>	(16)	-	-	-	-	(16)
<b>Accumulated depreciation as of December 31, 2007</b>	-	(14)	(662)	(11)	(63)	(750)
Charged for the year	-	(4)	(176)	-	(5)	(185)
Depreciation of withdrawn items	-	-	6	-	-	6
<b>As of June 30, 2008</b>	-	<b>(18)</b>	<b>(832)</b>	<b>(11)</b>	<b>(68)</b>	<b>(929)</b>
<b>Residual value as of December 31, 2007</b>	942	10	3 272	237	158	4 619
<b>Residual value as of June 30, 2007</b>	<b>942</b>	<b>7</b>	<b>3 452</b>	<b>237</b>	<b>153</b>	<b>4 791</b>

*Oracle E-Business Suite software*

As of June 30, 2008, the software included an Oracle E-Business Suite package of the net book value of 910 (914 as of December 31, 2007). As of June 30, 2008, the accumulated amount of capitalized interest costs related to implementation of Oracle E-Business Suite was 133 (132 as of December 31, 2007). The capitalization rate was 9.2% for the six months of 2008 (7% for 2007).

Since the year 2006, the Company has been full-scale operating Oracle E-Business Suite modules for non-current assets accounting and timekeeping purposes, and amortizing the value of the Oracle E-Business Suite software product since the date of its implementation for its useful life period set at 10 years.

The Company intends to complete implementation of the full functionality of Oracle E-Business Suite in 2009.

The information on the flows related to the Oracle E-Business Suite software product for the period ending on June 30, 2008 is presented below:

<b>As of January 1, 2008</b>	<b>914</b>
Implementation costs incurred	<b>38</b>
Depreciation charged	<b>(42)</b>
<b>As of June 30, 2008</b>	<b>910</b>

*Amdocs Billing Suite software*

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

As of June 30, 2008, the software also included the Amdocs Billing Suite software of the book value of 927, including the accumulated capitalized interest costs related to implementation of Amdocs Billing Suite, in the amount of 72. No implementation costs were recorded for the software for the six months of 2008.

This software was purchased for the purpose of unified automated settlements system implementation. The system implementation started in May 2006. The target duration of implementation of the unified automated settlements system project on the Amdocs Billing Suite platform is 4 to 5 years.

The Company will start amortizing this asset from the starting day of its operation proportional to the value of the modules implemented, for their useful life period, which will be defined by the start of their operation. Until then the Management will periodically evaluate this asset for depreciation.

*HP Open View IUM software for uniform pre-billing*

As of June 30, 2008, the software records also included the value of the HP Open View IUM uniform pre-billing software in the amount of 214 (214 as of December 31, 2007). The software was purchased in December 2006 from Paladin Invent LLC in order to implement the Amdocs Billing Suite unified automated settlements system. Uniform centralized pre-billing is necessary for centralization of settlements with connected operators and for data transmission to Amdocs Billing Suite.

The HP Open View IUM uniform pre-billing implementation project is designed for three to four years. CJSC ISG is preparing the specification and providing the implementation. There were no software implementation costs recorded for the six months of 2008 (6 for the year 2007).

The Company will start amortizing this asset from the starting day of its operation and for its useful life period, which will be defined by the start of its operation. Until then the Management will periodically evaluate this asset for depreciation.

*Communication network operation support systems (CNOSS)*

As of June 30, 2008, the software also included the software product for the communication network operation support system (CNOSS) of the book value of 898 (673 as of December 31, 2007), including the accumulated capitalized interest amounting to 29 (26 as of December 31, 2007). The capitalization rate was 9.2% for the six months of 2008 (7% for 2007).

The CNOSS software implementation project is intended for automation of the network accounting, network control, and services control processes, and is designed for three to four years. The system implementation started in May 2006. STEP LOGIC LLC is the main supplier of the CNOSS software.

The Company will start amortizing this asset from the starting day of its operation proportional to the value of the modules implemented, for their useful life period, which will be defined by the start of their operation. Until then the Management will periodically evaluate this asset for depreciation.

*HP OpenView Service Activator software*

As of June 30, 2008, the software also included an HP OpenView Service Activator package of the book value of 110 (95 as of December 31, 2007).

The HP OpenView Service Activator software was purchased to set up an integrated automated service activation system. The HP OpenView Service Activator software implementation project is designed for two years. CJSC Business Computer Center is the main implementation contractor.

The Company will start amortizing this asset from the starting day of its operation and for its useful life period, which will be defined by the start of its operation. Until then the Management will periodically evaluate this asset for depreciation.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк



**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

*Depreciation of intangible assets*

The intangible assets depreciation calculated for the six months of 2008 at 185 (156 for the six months of 2007) was shown in the "Wear and depreciation" item of the consolidated profit and loss report.

*Intangible assets and goodwill analysis for depreciation*

The Company analyzed depreciation of intangible assets unfit for use, and of intangible assets with an unlimited useful life. As a result of the analysis, no depreciation of the above intangible assets was found as of June 30, 2008.

The Company indicates the goodwill won as a result of acquisition of Novgorod-Datakom LLC in 2006, which was later restructured by merger with Novgorod-Datacom LLC, another subsidiary of the Company. As of June 30, 2008, the book value of the goodwill as distributed with LLC Novgorod Telecom, less the depreciation recognized for previous periods, was 31. The refundable goodwill value was assessed by calculating the utilization cost using future cash flow forecasts based on five-year budget plans approved by the Management. Cash flows for periods over five years are calculated by extrapolation based on average industry return rates and 5% growth rates corresponding to long-term average growth rates. The 15% discount rate was applied to cash flow calculations (15% in 2007).

The Company indicates the goodwill won as a result of acquisition of CJSC Peterburg Transit Telecom in 2007. As of June 30, 2008, the book value of the goodwill as distributed with CJSC Peterburg Transit Telecom was 911. The refundable goodwill value of the said assets was assessed by calculating the utilization cost using future cash flow forecasts based on five-year budget plans approved by the Management. Cash flows for periods over five years are calculated by extrapolation based on average industry return rates and 5% growth rates corresponding to long-term average growth rates. The 15% discount rate was applied to cash flow calculations (15% in 2007).

As a result of the analysis, no goodwill depreciation was found.

*Licenses*

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

- local and intra-zonal telephone communication services;
- local telephone communication services using payphones and public use stations;
- mobile radio telephone communication services;
- cellular radio telephone communication services (IMT-MC 450);
- leasing physical communication circuits, channels, and chains, including broadcasting channels;
- telematic services;
- telegraph communication services;
- services of wired radio;
- data transmission services.

The useful life of the licenses is determined by the license terms for each license in particular. The useful life periods are defined to be from 1 year to 25 years.

*Trademark*

As of June 30, 2008, the Company had certificates for the following trademarks:

- certificate for the trade mark (service mark);
- certificate for the Avangard service trade mark (service mark);
- certificate for the Avans service trade mark (service mark);
- certificate for the Avangard TV service trade mark (service mark).

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The Company defined the trademarks' useful life period to be from nine years to 25 years.

*Subscriber base*

As of June 30, as a result of acquisition of subsidiaries, the Company identified the following subscriber bases:

- CJSC Peterburg Transit Telecom subscriber base
- LLC Parma-Inform subscriber base
- Novgorod Datacom LLC subscriber base

The Company defined the useful life of the CJSC Peterburg Transit Telecom and Novgorod Datacom LLC subscriber bases to be four years. The CJSC Peterburg Transit Telecom subscriber base is classified as an intangible asset with an unlimited service life period.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**8. Subsidiaries**

The presented consolidated financial statements include the assets, liabilities, and business results of OJSC N.W.Telecom and its subsidiaries. Listed below are the essential subsidiaries directly controlled by OJSC N.W.Telecom:

Name	Activity	Interest/Percentage of voting shares	
		30.06.2008	31.12.2007
CJSC AMT	Consulting services	100%	100%
OJSC Kolatelecom	Communication services	50%	50%
LLC Parma-Inform	Communication services	100%	100%
LLC RPK Svyazist	Holiday center	100%	-
Novgorod Datacom LLC	Communication services	100%	100%
St. Petersburg Information Company CJSC	Information services	100%	100%
CJSC Peterburg Transit Telecom	Communication services	100%	100%

All the above companies are Russian legal entities registered in accordance with Russian legislation and have the same fiscal year as the Company.

In accordance with the resolutions of the Board of Directors passed in December 2007 and in March 2008, the Company increased its interest in the authorized capital of LLC RPK Svyazist to 873 by making an additional contribution in the form of the Company's property. Accordingly, the part of the Company's activities previously included in the consolidated financial accounts as activity of OJSC N.W.Telecom has been included in the consolidated financial accounts as activity of its subsidiary LLC RPK Svyazist since March 2008.

**9. Financial investments in associated companies**

As of June 30, 2008 and December 31, 2007 the Company's investments in its associates included:

Company name	Business	30.06.2008		31.12.2007	
		Voting shares, %	Book value	Voting shares, %	Book value
WestBalt Telecom CJSC	Communication services	28	76	28	71
CJSC Medexpress	Insurance services			25	54
<b>Total</b>			<b>76</b>		<b>125</b>

All the above companies are Russian legal entities registered in accordance with the legislation of the Russian Federation and have the same fiscal year as the Company.

In accordance with the resolutions of the Board of Directors of N.W.Telecom passed in March 2008, the Company sold 197,572 registered common shares of Medexpress, which makes 25.00019% of its authorized capital, to OJSC ROSNO at the price of 273.

In the six months of 2008, the Company did not record any depreciation of its financial investment in the associated companies.

The information on withdrawal of interests in the associated companies in the six months of 2008 is presented below:

Name	Business	Book value	Selling price	Sale/Withdrawal of

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

				<b>interest in authorized capital as of transaction date, %</b>
CJSC Medexpress	Insurance services	54	273	25%

The flow of financial investment in associated companies in the six months of 2008 is presented below:

	<b>2008</b>	<b>2007</b>
<b>Financial investments in associates as of January 1</b>	125	98
Profit from interest in associated companies less dividend received	5	3
Sale of Medexpress shares	(54)	
<b>Financial investments in associates as of June 30</b>	<b>76</b>	<b>101</b>

Presented below is aggregated information on the most important affiliates:

Associated company name	Percentage of voting shares, %	Assets	Liabilities	Receipts from sales	Net profit (loss)
<b>2007</b>					
WestBalt Telecom CJSC	28	297	(43)	291	50
CJSC Medexpress	25	807	(588)	874	55
<b>6 months of 2008</b>					
WestBalt Telecom CJSC	<b>28</b>	<b>321</b>	<b>(49)</b>	<b>154</b>	<b>18</b>

#### 10. Financial Investment

The Company's investments as of June 30, 2008 and December 31, 2007 comprised the following:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Long-term investments available for sale	<b>224</b>	224
<b>Total long-term financial investment</b>	<b>224</b>	224
Short-term investments held to maturity	<b>4 669</b>	6 394
<b>Total short-term investments</b>	<b>4 669</b>	6 394
<b>Total investments</b>	<b>4 893</b>	6 618

As of June 30, 2008, the short-term financial investments were ruble-nominated notes receivable in the amount of 4,511 (6,312 as of December 31, 2007), including the interests in the amount of 111 (112 as of December 31), and bank deposits repayable in three months to one year in the amount of 158 (82 as of December 31, 2007).

The bank deposits repayable in three months to one year and shown as of June 30, 2008 are mostly represented by short-term bank deposits that are ruble-nominated and deposited with OJSC Bank Sankt-Peterburg at interest rates of 7.25 to 8.75 percent per annum till January 2009.

In May 2008, the Company purchased 15 short-term notes of OJSC AKB Svyaz-Bank at par value, to the total amount of 3,000. In January-April 2008, 24 AKB Svyaz-Bank notes of the total par value of 4,800 were repaid, the total amount of interest received being 162.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The notes shown as of June 30, 2008 have the following data:

Organization	Value as or reporting date	Annual interest rate	Repayment date
OJSC AKB Svyaz-Bank	1 400	8,5%	Upon presentation, not earlier than 12.04.2008
OJSC AKB Svyaz-Bank	600	7,75%	Upon presentation, not earlier than 28.07.2008
OJSC AKB Svyaz-Bank	2 400	9,0%	Upon presentation, not earlier than 27.08.2008
Charged interest on notes	111	x	x
<b>Total</b>	<b>4 511</b>	x	x

As of June 30, 2008 and December 31, 2007 the Company's finance investments available for sale included:

Company name	30.06.2008		31.12.2007	
	Interest	Fair value	Interest	Fair value
AKB Svyaz-Bank	0,23%	208	0,006%	-
Russian Industrial Bank CJSC	-	-	9%	208
Other long-term financial investment		16		16
<b>Total investments available for sale</b>		<b>224</b>		<b>224</b>

In February 2008, as a result of AKB Svyaz-Bank restructuring in the form of merger of Russian Industrial Bank CJSC thereby, the interest of N.W.Telecom in AKB Svyaz-Bank increased to make 0.23%. For the purposes of the consolidated intermediate financial accounts, the value of the investment in the AKB Svyaz-Bank shares was assessed on the basis of the value of AKB Svyaz-Bank and Russian Industrial Bank as of 31.12.2007. To value the investment in the shares as of December 31, 2008, the Company intends to invite an independent assessor.

There were no changes in the financial investment depreciation reserve in the six months of 2008.

#### 11. Advances to non-current assets suppliers

The Company's advances to suppliers as of June 30, 2008 and December 31, 2007 comprised the following:

	30.06.2008	31.12.2007
Settlements with suppliers for capital construction	463	93
Advances to equipment suppliers	438	71
Advances for acquisition of intangible assets	63	58
Other issued advances	11	11
<b>Total</b>	<b>975</b>	<b>233</b>

#### 12. Other non-current assets

The Company's other non-current assets as of June 30, 2008 and December 31, 2007 comprised the following:

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

	<b>30.06.2008</b>	<b>31.12.2007</b>
Long-term accounts receivable	18	39
Long-term loans issued	13	23
Other long-term financial assets	10	16
<b>Total</b>	<b>41</b>	<b>78</b>

As of June 30, 2008 and December 31, 2007, the granted long-term loans are shown at their depreciable cost using effective interest rates of 17% to 20%.

As of June 30, 2008 and December 31, 2007, the long-term accounts receivable included mostly the debt of the subsidiary CJSC Petersburg Transit Telecom in the amount of 12 (32 as of December 31, 2007), and was shown at its depreciable cost using the effective interest rate of 9.6%.

### 13. Inventory holdings

The Company's inventory holdings as of June 30, 2008 and December 31, 2007 comprised the following:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Cable, materials, fuel, and spare parts for telecommunications equipment	287	157
Construction materials	40	30
Instruments, work wear and other inventories	25	22
Fuel	13	17
Other inventory holdings	93	78
<b>Total</b>	<b>458</b>	<b>304</b>

The prime cost of inventory holdings shown within the expenses for the six months of 2008 amounted to 331 (359 in the six months of 2007).

As of June 30, 2008 and December 31, 2007, the Company's books did not contain any inventory holdings that were outdated or lost their initial quality fully or in part, or whose current market value had decreased. Therefore, the Company did not establish a reserve for inventory holdings depreciation.

As of June 30, 2008 and December 31, 2007, the Company's inventory holdings were not used as a pledge or liability collaterals.

### 14. Accounts receivable

The accounts receivable as of June 30, 2008 and December 31, 2007 comprised the following:

	<b>Total, as of 30.06.2008</b>	<b>Reserve for doubtful accounts</b>	<b>Net, as of 30.06.2008</b>
Business entities, including communication operators	947	(211)	736
Individuals	636	(96)	540
Government customers	155	(13)	142
Social security organizations: reimbursement for expenses related to benefits to certain subscriber categories	1	(1)	-
Other accounts receivable	133	(24)	109
<b>Total, accounts receivable</b>	<b>1 872</b>	<b>(345)</b>	<b>1 527</b>

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

	Total, as of 31.12.2007	Reserve for doubtful accounts	Net, as of 31.12.2007
Business entities, including communication operators	1 039	(159)	880
Individuals	649	(91)	558
Government customers	79	(11)	68
Social security organizations: reimbursement for expenses related to benefits to certain categories of subscribers	9	(9)	-
Other accounts receivable	125	(20)	105
<b>Total, accounts receivable</b>	<b>1 901</b>	<b>(290)</b>	<b>1 611</b>

The Company invoices its governmental and corporate customers for telecommunication services on a monthly basis. For individual customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs denominated in rubles in effect at the time the calls are made.

As of June 30, 2008, the debt of social security organizations with regard to compensation of expenses related to benefits to certain categories of subscribers amounted to 0.05% of total accounts receivable (0.5% as of December 31, 2007). In the six months of 2008, the Company recovered 4 from the federal budget through the court as repayment of the said debt.

The table given below presents changes of the doubtful debt reserve:

	2008	2007
<b>Balance as of January 1</b>	290	327
Charging (restoration) of the reserve	64	(87)
Writing off the accounts receivable	(9)	(3)
<b>Balance as of June 30</b>	<b>345</b>	<b>237</b>

#### 15. Other current assets

As of June 30, 2008 and December 31, 2007, other current assets comprised the following:

	30.06.2008	31.12.2007
Prepayments and advance payments	192	74
Settlements with personnel	27	23
VAT refundable	275	451
Other prepaid taxes	14	21
Deferred expenses	83	140
Prepaid income tax	48	42
Other payments and current assets	665	312
<b>Total</b>	<b>1 304</b>	<b>1 063</b>

As of June 30, 2008, other payments and current assets were shown less the reserve amounting to 3 (26 as of December 31, 2007).

As of June 30, 2008, the "Other payments and current assets" item showed the debt of the Federal Communications Agency to the Company related to reimbursement of losses from provision of universal communication services for the previous period in the amount of 469 (222 as of December 31, 2007).

#### 16. Cash and cash equivalents

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

As of June 30, 2008 and December 31, 2007, the cash and cash equivalents comprised the following:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Cash at bank and on hand	660	405
Short-term deposits with periods to maturity of up to three months	30	98
<b>Total</b>	<b>690</b>	<b>503</b>

As of June 30, 2008, the Company had no restrictions on the use of cash. As of June 30, 2008, the Company's cash at bank and on hand were denominated in Russian rubles.

In May 2008, the Company's subsidiary CJSC Petersburg Transit Telecom deposited a ruble-nominated deposit in the amount of 30 with OJSC MIB, with the maturity date on July 2, 2008 and interest rate of 9% per annum.

**17. Essential non-monetary operations**

In the six months of 2008, the Company did not receive fixed assets under leasing agreements. The value of the equipment received free of charge in the six months of 2008 was 1 (3 in 2007). Non-cash transactions were excluded from the consolidated cash flow report.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк



**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**18. Authorized Capital**

As of June 30, 2008, the face value and book value of the common and preferred shares were:

Type of shares	Number of shares in circulation (thousand)	Face value of shares (rubles)	Total, face value	Total, book value	Repurchased equity shares
Common	881 045	1	881	2 233	28
Preferred	250 369	1	250	622	39
<b>Total</b>	<b>1 131 414</b>		<b>1 131</b>	<b>2 855</b>	<b>67</b>

The difference between the face value and the book value of the shares is caused by inflation during the periods preceding January 1, 2003. All the shares issued were paid for in full.

The repurchased equity shares are common and preferred shares of the Company held by the Company's subsidiary.

The holders of common shares are allowed one vote per share.

The Company's capital stock structure as of June 30, 2008 is presented below:

Shareholders	Share in authorized capital, %	Common shares		Preferred shares	
		Quantity (thousand)	%	Quantity (thousand)	%
<b>Legal entities, total:</b>	88,9	838 351	95,2	167 147	67,1
including:					
OJSC Svyazinvest	39,5	447 231	50,8	-	-
CJSC DKK	14,4	106 179	12,1	82 124	32,8
CJSC UBS Nominees	11,7	109 815	12,5	22 665	9,1
CJSC ING Bank Eurasia	10,7	64 391	7,3	5 780	2,3
National Depository Center Nonprofit Partnership	10,9	100 601	11,4	50 831	20,3
Other entities	1,7	13 139	1,1	6 717	2,6
<b>Individuals, total:</b>	10,5	39 689	4,5	79 026	31,6
<b>Equity shares purchased from shareholders</b>	0,6	3 005	0,3	3 225	1,3
<b>Total</b>	<b>100,0</b>	<b>881 045</b>	<b>100,0</b>	<b>250 369</b>	<b>100,0</b>

In 2001, the Company registered issue of Level 1 American Depository Receipts. Each depository receipt corresponded to 50 common shares of the Company. As of June 30, 2008, 736,872 ADRs represented 36,843,600 deposited common shares, which constituted 4.18% of total common shares issued.

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The table below presents the registered ADR flow in 2007-2008:

	ADR (quantity)	Equivalent number of common shares	Common shares, %	Authorized Capital, %
<b>December 31, 2006</b>	1 082 726	54 136 300	6.14%	4.78%
Increase in 1 <sup>st</sup> half of 2007	100 414	5 020 700		
<b>June 30, 2007</b>	<b>1 183 140</b>	<b>59 157 000</b>	<b>6.71%</b>	<b>5.22%</b>
<b>December 31, 2007</b>	1 084 818	54 240 900	6.16%	4.79%
Decrease in 1 <sup>st</sup> half of 2008	(347 946)	(17 397 300)		
<b>June 30, 2008</b>	<b>736 872</b>	<b>36 843 600</b>	<b>4.18%</b>	<b>3.25%</b>

**Отформатировано:** По  
 левому краю, интервал  
 Перед: 12 пт, Запрет висячих  
 строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**19. Debts under credits and loans**

As of June 30, 2008 and December 31, 2007, the debts under credits and loans comprised the following:

	Effective interest rate	Repayment period, years	30.06.2008	31.12.2007
<b>Short-term debts</b>				
Bank loans (rubles)	13-15,5%		2	3
Interest payable under bank loans, bonds, notes, and credits of vendors			88	76
<b>Total, short-term credits and loans</b>			<b>90</b>	<b>79</b>
<b>Long-term debts</b>				
Bank credits (rubles)	7.08-10.5%	2009	1 529	2 058
Bank credits (US dollars)	6.08-6.37%	2009-2012	2 328	2 430
Bank credits (Euros)	5.7-7%	2011	776	1 147
<b>Total, bank credits</b>			<b>4 633</b>	<b>5 635</b>
<b>Bonds (rubles)</b>	7.5-9.25%	2011-2013	<b>7 989</b>	<b>4 992</b>
Vendors' credits (US Dollars)	7-8.2%		-	1
Vendors' credits (Euros)	7.5-10.8%		-	15
<b>Total, vendor financing</b>			<b>-</b>	<b>16</b>
Promissory notes (rubles)	23%	2015-2016	4	3
Promissory notes (Euros)	8-11.9%	2008	19	22
<b>Total, promissory notes</b>			<b>23</b>	<b>25</b>
Other loans (rubles)	15.4-15.5%	2008	3	4
Other loans (US dollars)	9,1%	2020	8	8
<b>Total, other loans</b>			<b>11</b>	<b>12</b>
<b>Total, short-term credits and loans</b>				
Less current portion of long-term borrowings			(2 111)	(5 040)
<b>Total, short-term credits and loans</b>			<b>10 545</b>	<b>5 640</b>

As of June 30, 2008, the long-term debts under credits and loans included interest debts in the amount of 8 (7 as of December 31, 2007). As repayment of the said debt in respect of interest is not expected before the year 2009, it has been classified as a long-term debt.

As of June 30, 2008, the Company had signed agreements with the North-Western Bank of the Savings Bank of Russia, CJSC Raiffeisenbank, CJSC ING Bank Eurasia, and Natexis Banques (CJSC) for granting credit lines in the amount of 2,100 (3,289 as of December 31, 2007). As of June 30, 2008, the Company had used 1,750 (2,100 as of December 31, 2007) of the above amounts, therefore the Company may receive 350 under the said credit lines to cover its current needs for circulating capital and investment projects funding.

**Отформатировано:** По  
 левому краю, интервал  
 Перед: 12 пт, Запрет висячих  
 строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

As of December 31, 2007, the bank credits were secured by pledging fixed assets of the total book value of 696 (956 as of December 31, 2007).

#### **Short-term debts**

##### **Credits and loans**

On February 15, 2008 the Company entered into a general short-term credit agreement with CJSC Natexis Banques with the one-time debt limit of 350. The repayment date for all the credits is June 30, 2009. The credit interest rate is the sum of the margin (2% per annum for credits granted for a period of four to six months, 1.75% per annum for credits granted for a period of four months or less) and the MOSPRIME rate. The credits under this general agreements are granted without security. In the six months of 2008, no credits were taken under the general agreement.

#### **Long-term debts**

##### **Credits and loans**

In the six months of 2008, no new long-term credits or loans were taken. As of June 30, 2008, the debt under the syndicated loan from *Citibank N.A.* was 613 (999 as of December 31, 2007), charged interest included.

As of June 30, 2008, the total debt to the Russian Federation Ministry of Finance (with Vneshekonombank as the agent) was 151 (146 as of December 31, 2007), of which the short-term part of the loan was 27 (25 as of December 31, 2007) and the interest, 2 (4 as of December 31, 2007). This credit is secured with a pledge of fixed assets of the book value of 65 (69 as of December 31, 2007).

As of June 30, 2008, the debt under the syndicated loan from CJSC UniCreditBank was 2,341 (2,453 as of December 31, 2007), including the charged interest of 13 (23 as of December 31, 2007). The credit is not secured by a pledge of fixed assets.

##### *Limitations related to credits and loans taken*

The terms of particular credit and loan agreements place obligations on the Company as to compliance with certain financial standing indices.

Under the credit agreements with ING Bank Eurasia and with CJSC Natexis Banques, the Company agreed to maintain the following financial indices (calculated according to the data of financial reporting for each half-year complying with the international standards):

- ratio of the total amount of borrowed funds to EBITDA must not exceed 3:1;
- ratio of EBITDA to interest payment expenses must not exceed 4:1;
- net borrowed funds to net capitalization ratio must not exceed 1.

Besides the obligations related to maintaining the financial standing of the Company according to the said financial indices, there are valid agreements that contain the following reservations, which may result in early repayment of a debt:

##### Credit agreements with CJSC Raiffeisen Bank:

- Threat of court trial, or verdict or judgment of court or another governmental authority to collect an amount exceeding 150 from the Company;
- Overdue debts related to taxes, duties, and other liabilities to the budget and off-budgetary funds to amounts exceeding 150;
- Signs of bankruptcy;
- The Company's property of a size exceeding 10% of the book value is alienated or assigned during the fiscal year;
- The Bank receives a collection order to indisputably write moneys off the Company's settlement account in an amount exceeding 150; or, a court or another authority issues a writ to seize or freeze assets on the

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

Company's accounts or another property to an amount exceeding 150, where such collection order or writ is not cancelled before execution, and such seizure or freeze is not removed within three business days.

**Credit agreement with CJSC ING Bank Eurasia**

- All or a material part (over 15% of the total amount) of the Company's property, liabilities, or assets are penalized or attached, or seized to be possessed by a party in favor of which an encumbrance has been created;
- The Company decides (or takes another action, or a court trials starts) on its dissolution, winding up, external control or supervision, or on amicable arrangement with its creditors, or on appointment of a liquidator, external manager, official receiver, or similar officer in respect of the Company.

**General agreement with CJSC Natexis Banques:**

- The Company's default in tax payment to an amount exceeding 350;
- The Company's breach of its money obligations to a creditor in an amount exceeding 350;
- A bankruptcy (insolvency) petition from the Company itself or any of its creditors is filed by the court at the Company's location;
- All or a material part of the Company's property is seized to an amount exceeding 10% of the Company's total assets;
- The Company's authorized bodies decide on the Company restructuring or winding-up.

**Credit agreements with RF Savings Bank:**

- Amount of monthly receipts on the settlement account of the Company: At least 900.
- The Company is declared insolvent (bankrupt), or the Company bankruptcy procedure is initiated by a third party.
- Decision on restructuring or winding up is made.
- The security is lost.
- Legal actions or property claims against the Company for amounts over USD 5,170,000.

Under the terms of the credit agreement with CJSC ING Bank Eurasia, the transactions are limited as follows

- Annual dividend < 100% of the annual net profit;
- Loans, sureties, and guarantees issued < 10 million Euros;
- Affiliation, takeover, or merger with any other party < 100 million Euros;
- Total annual asset sale transactions < 10% of assets per annum.

Where these limits are to be exceeded, the Company shall obtain a prior consent from the Bank.

Under the terms of the credit agreement with CJSC ING Bank Eurasia, the transactions are limited as follows

- Selling , leasing out, or other alienation of assets to an amount exceeding 15% of the Company's total assets.

The terms of the non-recurrent credit line granted by ING Bank Eurasia provide for charging interest payable by the Company on the unused balance of the credit line for the ability for the Company to draw moneys upon request. In the six months of 2008, the Company had no interest expenses related to the unused balance of the opened credit line.

**Bonded loans**

The changes of the bonded debt amounts in the period from December 31, 2007 till June 30, 2008 is presented below:

<b>Bonds payable as of 31<sup>st</sup> December 2007</b>	<b>4 992</b>
Issue of the 5 <sup>th</sup> bonded loan	3 000
Expenses for organization and floatation	(5)

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

Depreciation of the expenses for organization and floatation	2
<b>Bonds payable as of June 30, 2008</b>	<b>7 989</b>

In the six months of 2008, the Company's bonds of the 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> loans were floated.

In March 2005, the Company registered the issue of 3,000,000 interest-bearing documentary bonds of Series 03 payable to bearer, of the face value of 1,000 rubles each. The bonds have 24 coupons. Payments for the 1<sup>st</sup> coupon are effected on the 91<sup>st</sup> day from the day of the bonds floatation start, and other coupon payments are effected on each 91<sup>st</sup> day thereafter. The interest rate for the coupons from 1 through 12 has been established at 9.25% per annum. The interest rates for Coupons 13 to 24 were set at 8.6% per annum by the resolution of the Company's Board of Directors of February 11, 2008. The bonds' maturity date is scheduled for February 2011, 2184 days after the floatation start date.

The face value of the bonds is retired piecemeal on the following dates: 30% on February 25, 2010; 30% on August 26, 2010; 40% on February 24, 2011. In accordance with the Resolution on Securities Issue and Issue Prospectus, the bonds owners could present their Series 03 bonds for retirement in the period from February 22 till February 28, 2008 at their face value. The bonds repurchase agent was AKB Svyaz-Bank appointed in January 2008 as a result of an open bidding held by the Company.

2,177,779 bonds were presented for retirement, which was 73% of the total issue. The value of the bonds presented by their owners for retirement was 2,181,000 rubles, including the coupon income accrued. On March 6, 2008 the Company completed its obligations related to repurchase of its Series 03 bonds. All the applications were satisfied by AKB Svyaz-Bank as the Company's bonds repurchase agent at its own expense.

In the six months of 2008, the Company fulfilled its obligations related to Coupon 12 income payment in full, at the rate of 9.25% per annum, in the amount of 69,180,000 rubles, and to Coupon 13 income payment at the rate of 8.6% per annum, in the amount of 64,320,000 rubles. The coupon income amount accrued per bond was 23.06 rubles for Coupon 12, and 21.06 rubles, for Coupon 13.

The bonds so issued do not provide for offers enabling the bond holders to present them to the Company on the scheduled dates within 12 months from the reporting date.

In October 2006, the Company registered the issue of 2,000,000 interest-bearing documentary bonds of Series 04 payable to bearer, of the face value of 1,000 rubles each. The bonds have 20 coupons. Payments for the 1<sup>st</sup> coupon are effected on the 91<sup>st</sup> day from the day of the bonds floatation start, and other coupon payments are effected on each 91<sup>st</sup> day thereafter. The interest rate has been established at 8.1% per annum for all the coupons. The bonds' maturity date is scheduled for December 2011, 1820 days after the floatation start date. According to the Resolution on Securities Issue and Issue Prospectus, the bonds may be retired ahead of schedule, if the Company wishes so, on the 728th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be 20 rubles per bond.

The face value of the bonds is retired piecemeal on the following dates: 25% of the value, on December 10, 2009; 25% of the value, on December 9, 2010; 50% of the value, on December 8, 2011. In the six months of 2008, the Company fulfilled its obligations as to Coupon 5 and 6 income payment at the rate of 8.1% per annum, to the amount of 80,760,000. The coupon income size per bond was 20.19 rubles.

The bonds so issued do not provide for offers enabling the bond holders to present them to the Company on the scheduled dates within 12 months from the reporting date.

In October 2007, the Company registered the issue of 3,000,000 interest-bearing documentary bonds of Series 05 payable to bearer, of the face value of 1,000 rubles each. On May 27, 2008 the fifth issue of the bonds was floated at the MICEX stock exchange. The bonds have a period of floatation of 1820 days. The bonds have 20 coupons. Payments for the 1<sup>st</sup> coupon are effected on the 91<sup>st</sup> day from the day of the bonds floatation start, and other coupon payments are effected on each 91<sup>st</sup> day thereafter. According to the loan terms, the bond holders may retire their bonds prematurely at their face value in June 2010. According to the Resolution on Securities

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

Issue and Issue Prospectus, the bonds may be retired ahead of schedule, if the Company wishes so, in the period from on the 728<sup>th</sup> day from the starting date of floatation till the 1729<sup>th</sup> day, and the amount of bonus to be paid in case of early retirement will be 2.5 rubles per bond.

The face value of the bonds is retired piecemeal on the following dates: 25%, on May 22, 2012; 25%, on November 20, 2012; 50%, on May 21, 2013.

The first coupon interest rate was defined as the sum of two components: the MosPrime Rate for three months set on the last business day before the issue floatation starting date, and the premium on the MosPrime Rate for three months, making 8.4% per annum. The premium on the MosPrime Rate for three months was 2.12% per annum. The Coupon 2 to 20 rate will be: the MosPrime Rate value for three months plus the Premium, but not to exceed the Limit Rate, which is 15%.

The return from the bonds issue are mainly allocated to refunding of the Company's existing credit portfolio and to the investment program fuinding.

The bonds so issued do not provide for offers enabling the bond holders to present them to the Company on the scheduled dates within 12 months from the date of these Accounts.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**Commercial credits**

Vendor	Currency	Repayment date	Interest rate according to contract	30.06.2008	31.12.2007
AKB Svyaz-Bank	EUR	2008	7,5%	-	13
Siemens	EUR	2008	0%, EURIBOR+2.5%,7.5%	-	2
Kvant-Intercom	USD,RUR	2011	0%,9%	-	1
<b>Total</b>				-	16

The liabilities under interest-free commercial credits as of 31<sup>st</sup> December 2007 were originally shown at fair value taking into account the discount rate from 7% to 8.2%. Later, the said liabilities were shown at their depreciated value.

**Note loans**

In the six months of 2008, no new note loans were taken.

**20. Financial lease liabilities**

The Company rents telecommunication equipment under financial lease contracts. The contracts do not provide for prolongation terms, buyer's options, or sliding-scale price provision. The ownership title to the equipment will pass to the Company when the leasing recipient has fulfilled its obligations under the financial lease contract. The sum total of future minimum rent payments under financial lease agreements and the discounted value of minimum rent payments as of June 30, 2008 and December 31, 2007 are presented below:

	30.06.2008		31.12.2007	
	Minimum rent payments	Discounted value of minimum rent payments	Minimum rent payments	Discounted value of minimum rent payments
Current part	78	69	150	127
Over 1 year and up to 5 years	4	4	13	12
Total minimum rent payments	82	73	163	139
Less financial expenses	(9)		(24)	
Discounted value of minimum rent payments	<b>73</b>	<b>73</b>	<b>139</b>	<b>139</b>

In the six months of 2008, the Company's main lessors were OJSC RTK-Leasing and OJSC Leasing-Telecom. The effective interest rate under these liabilities was 11% to 41.97% per annum in the six months of 2008 and in 2007.

OJSC RTK-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment out under lease contracts. The future minimum rent payments under the contracts with OJSC RTK-Leasing, as of June 30, 2008, were 80 (151 as of December 31, 2007), of which 72 (128 as of December 31, 2007) is the principal and 8 (23 as of December 31, 2007) is the interest payable.

Under the agreements signed with OJSC RTK-Leasing, the lessor is entitled to adjust the lease payment schedule in the event of change of certain macroeconomic conditions, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк



**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

OJSC Leasing-Telecom purchases transport facilities from Russian and foreign suppliers and leases them out under lease contracts. The future minimum rent payments under the contracts with OJSC Leasing-Telecom, as of June 30, 2008, were 7 (11 as of December 31, 2007), of which 6 (10 as of December 31, 2007) is the principal and 1 (1 as of December 31, 2007) is the interest payable.

As of June 30, 2008, the liabilities under financial lease contracts are denominated in Russian rubles.

**21. Accounts payable and charged reserves and liabilities**

As of June 30, 2008 and December 31, 2007, the Company's accounts payable and other current liabilities comprised the following:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Settlements with vendors and contractors related to fixed assets purchase and construction	2 251	1 592
Accounts payable in respect of wages and compensation pays	550	923
Settlements with vendors and contractors related to current activities	629	539
Advances received in respect of the core business	361	427
Settlements with grantors (principals)	365	344
Settlements with communication operators	169	204
Settlements with vendors and contractors related to purchase of software products	121	152
Other accounts payable and current liabilities	52	73
<b>Total</b>	<b>4 498</b>	<b>4 254</b>

Other accounts payable include the debt related to voluntary property insurance, trade union fees, and agency accounts payable.

As of June 30, 2008 the item "Accounts payable in respect of wages and compensation pays" showed the reserve for the forthcoming funding of employees' holidays and bonus payments, in the total amount of 206 (767 as of December 31, 2007).

In 2007, the personnel number was reduced. In December 2007, the Company established a reserve for compensations to the employees who had been notified of the forthcoming reduction by December 31, 2007 (in the procedure provided by Article 180 of the Russian Federation Labor Code). The amount of the reserve was 6 as of June 30, 2008 (30 as of December 31, 2007). It was included in the item "Accounts payable in respect of wages and compensation pays".

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**22. Accounts payable in respect of tax payment**

As of June 30, 2008 and December 31, 2007, the Company recognized the following short-term liabilities in respect of tax payment:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Accounts payable in respect of current profit tax	90	2 164
Single social tax	158	229
Property tax	152	141
Tax on income of individuals	61	33
Value added tax	41	21
Other taxes	5	2
<b>Total</b>	<b>507</b>	<b>2 590</b>

As of June 30, 2008, the item “Single social tax” showed the single social tax in the amount of 55 related to the reserve for the forthcoming funding of employees’ holidays and bonus payments (170 as of December 31, 2007).

The decrease of the accounts payable in respect of current profit tax is attributable to the decrease of taxable profit as compared to 2007, since Quarter 4 of 2007 showed the earnings from the sale of the Company’s interest in OJSC Telecominvest.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**23. Income**

<b>By income type</b>	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Intrazonal telephone communication services	1 158	1 074
Local telephone services	6 434	6 375
Mobile radio communication services, wired radio services, broadcasting and television services	206	184
Telegraph services, data transmission services and telematic communication services	2 207	1 514
Connection and traffic passage services	1 586	1 971
Assistance and agent services	366	400
Income from services related to non-core business	498	429
<b>Total</b>	<b>12 455</b>	<b>11 947</b>

The Company identified sales income by the following major customer groups:

<b>By customer group</b>	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Individuals	6 347	5 968
Corporate customers	5 038	5 043
Government customers	1 070	936
<b>Total</b>	<b>12 455</b>	<b>11 947</b>

**24. Other operating expenses**

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Agent fee expenses	257	205
Expenses for security and fire protection services	208	187
Deductions to the universal service reserve	115	109
Expenses for premises rent	114	126
Expenses for advertising	88	144
Expenses for audit and consulting services	82	65
Transportation services	76	51
Membership fees, charity, and funds transferred to trade union organizations	75	58
Business travel expenses and representation costs	45	37
Fees to the Nonprofit Partnership	34	49
Mail services	30	29
Training expenses	10	12
Property insurance	9	28
Prime cost of goods sold	1	24
Other services of third-party organizations and management-related costs	136	119
Expenses for paying for services of credit organizations	72	127
Other expenses	67	57
<b>Total, other operating expenses</b>	<b>1 419</b>	<b>1 427</b>

Other expenses mainly include social expenses, the state due, and other operating costs.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**25. Other operating income**

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Reimbursement of losses from provision of universal communication services	777	55
Receipts for damage recovery	22	7
Fines, penalties and forfeits	9	24
Other operating income	46	49
<b>Total, other operating income</b>	<b>854</b>	<b>135</b>

In the six months of 2008, in accordance with the terms of universal communication services provision contracts signed with the Federal Communications Agency, the Company received the following moneys for recovery of losses from provision of universal communication services from the Universal Service Reserve:

- 221: For services provided in Quarter 4 of 2007,
- 309: For services provided in Quarter 1 of 2008.

The difference between the loss in the six months of 2008 and the size of the loss reimbursement received in Quarter 1 of 2008 will be refunded in the established procedure.

The sizeable growth of losses in the 1<sup>st</sup> half of 2008 as compared to the 1<sup>st</sup> half of 2007 is due to the fact that most of the Universal Communication Service payphones were commissioned between December 2007 and June 2008.

**26. Interest-related income and expenses**

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Interest income	(199)	(10)
Interest expenses	422	418
Interest expense accrued under financial lease agreements	15	53
Less: Capitalized interest	(32)	(67)
<b>Total</b>	<b>206</b>	<b>394</b>

The capitalized interest amount in the six months of 2008 and in 2007 was:

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Interest capitalized as fixed assets value	28	9
Interest capitalized as intangible assets value	4	58
<b>Total</b>	<b>32</b>	<b>67</b>

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

**27. Profit (loss) from financial investments, net**

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Earnings from sale of interest in CJSC Medexpress	219	-
Earnings from sale of other financial investments	1	-
Dividend income	1	9
<b>Total</b>	<b>221</b>	<b>9</b>

**28. Profit per share**

The Company has no financial instruments convertible into common shares. Accordingly, the watered profit per share is equal to the basic profit for share.

	<b>6 months of 2008</b>	<b>6 months of 2007</b>
Profit for the period under report related to parent company shareholders	2 036	1 630
Weighted average number of common shares and other floating share instruments contributing to earnings (millions)	1 132	1 132
Adjusted for weighted average number of repurchased equity shares (thousand)	(6)	(6)
Basic and watered profit (loss) per share (in Russian rubles), for annual earnings related to parent company shareholders	1,79	1,43

**29. Dividends declared and proposed for distribution**

In 2008, pursuant to the decision of the General Meeting of Shareholders, payment of the dividend for the year that ended on December 31, 2007 was announced to the amount of 0.642 rubles per common share and 3.997 rubles per preferred share.

Dividend on common shares, RUR 0.642/share	565
Dividend on preferred shares, RUR 3.997/share	1 001
<b>Total</b>	<b>1 566</b>

**30. Operating lease**

As of June 30, 2008 and December 31, 2007, the minimum rental payments under operating lease contracts where the Company is the lessee were distributed by year of payment as follows:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Current part (less than one year)	447	488
Over 1 year and up to 5 years	423	400
Over 5 years	1 135	1 098
<b>Total minimum rental payments</b>	<b>2 005</b>	<b>1 986</b>

The amount of the Company's operating lease costs as shown in the "Other operating expenses" and Expenses related to services of communication operators" lines of the consolidated profit and loss report was 239 in the six months of 2008 (244 in the six months of 2007).

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

As of June 30, 2008 and December 31, 2007, the minimum rental payments under operating lease contracts where the Company is the lessor were distributed by year of payment as follows:

	<b>30.06.2008</b>	<b>31.12.2007</b>
Current part (less than one year)	186	236
Over 1 year and up to 5 years	119	104
Over 5 years	157	137
<b>Total minimum rental payments</b>	<b>462</b>	<b>477</b>

The Company's earnings from operational lease as shown in the "Income" line of the consolidated profit and loss report was 418 in the six months of 2008 (297 in the six months of 2007).

Generally, the operating lease contracts are contracts for lease of plots of land and premises, and for access to communication channels.

### **31. Contingent Liabilities and Operating Risks**

#### *Taxation*

As of June 30, 2008, the Svyazinvest Group management believes that its interpretation of the relevant legislation is appropriate on the whole, and that it is most likely that the Company's tax, currency and customs positions will be sustained.

#### *Insurance*

Risk management actions are intended to promote stable growth of the Company's economical and financial performances. Making its lists of items to be insured, the Company is guided by the applicable laws and by the procedures prescribed in the Concept of the Integrated Risk Management System, which provides for regular monitoring and revision of the Company's risks.

In 2008, the Company insured its equipment, motor vehicles, real estate, and other property; personnel, Directors and Officers (D&O), and dangerous production facilities.

The Company is a natural monopoly subject, therefore in accordance with Federal Law No. 135-FZ "Protection of Competition", it has to select financial organizations for insurance services by the results of a public bidding or auction.

#### *Claims of tax authorities, legal controversies, trials, and evaluation of consequences*

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the Company's Management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

In 2008, the legal proceedings held during the year 2007 at the Arbitration Court of Moscow ended. It was initiated by the Company's application to invalidate the Resolution of the Interregional Inspectorate for Major Taxpayers of Russia's Federal Tax Service of December 8, 2006 to bring a taxpayer (or a duty payer, or a tax agent) to tax responsibility for a tax violation.

The challenged Resolution was passed by the Interregional Inspectorate for Major Taxpayers of the Federal Tax Service of Russia on the basis of the results of a field tax inspection that checked the correctness of tax calculation and payment by N.W.Telecom for the period of 2003-2004. The total amount of taxes, fines, and penalties charged by the result of inspection was 585, of which 437 of taxes, 77 of fines, and 70 of penalties.

On March 11, 2008, the Federal Arbitration Court of Moscow District denied satisfaction of the complaint of the

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

Interregional Inspectorate for Major Taxpayers related to tax claims against OJSC North-West Telecom for 2003-2004 *in toto*.

In June 2008, a lawsuit of LLC Svyazinform for collection of a debt of 56 for connection and traffic passing services provided between June 1, 2006 and June 30, 2007 was presented to the Company. The preliminary sitting at the Kaliningrad Oblast Arbitration Court was scheduled for September 19, 2008.

*Guarantees and sureties issued*

As of June 30, 2008, the Company had issued guarantees for several credit lines, mostly granted by the Savings Bank to OJSC RTK-Leasing, lessor of telecommunication equipment. The size of the guaranteed liability was 24 (96 in 2007). The fair value of the guaranteed and sureties issued as of June 30, 2008 and December 31, 2007 was 8. The Company evaluates the probability of the guaranteed event as low.

**32. Future commitments**

As of June 30, 2008 and December 31, 2007, the Company had commitments of 1,834 and 594 respectively, for capital investments into updating and expansion of its network.

As of June 30, 2008 and December 31, 2007, the Company had commitments of 191 and 124 respectively, for the purchase of fixed assets.

As of June 30, 2008 and December 31, 2007, the Company had commitments of 45 and 0 respectively, for the purchase of intangible assets.

**33. Settlements and Transactions with Related Parties**

In the six months of 2008, there were no material changes in the structure of the Company's related parties as compared to the related parties structure as of December 31, 2007, except for the sale of CJSC Medexpress in June 2008.

*OJSC Svyazinvest*

OJSC Svyazinvest is a group of companies comprising seven interregional communication companies (IRC), including N.W.Telecom, Rostelecom, Central Telegraph, Dagsvyazinform, and other subsidiary public communication network operators. As of June 30, 2008, the Russian Federation as represented by the Federal Agency for Federal Property Management (since July 28, Federal Agency for State Property Management) owned a holding of common shares of Svyazinvest of 75%, or 1 share.

*OJSC Rostelecom*

OJSC Rostelecom, a majority owned subsidiary of OJSC Svyazinvest, is the primary provider of national and international telecommunications services in the Russian Federation.

The income from OJSC Rostelecom are recorded in the amounts of income from services of zonal initiating/completion of calls to/from the Company's networks and to/from connected operators' networks, and of income under the assistance agreement.

The expenses for OJSC Rostelecom are recorded in the amounts of payments for services of completion of calls to other communication operators' networks where the call is initiated from a mobile radio telephone network; of connection services payment costs, and of expenses for payment for national and international communication services provided to the Company.

*Non-Profit Partnership Center for Research of Telecommunications Development Problems*

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

Non-Profit Partnership “Center for Research of Telecommunication Development Problems” (hereafter “the Partnership”) is an entity controlled by Svyazinvest via its subsidiaries. The activities of NP CRTDP consist in research of problems of the telecommunication industry development, development of draft regulatory documents, procedural recommendations, and other documents aimed at higher efficiency of communication business entities; and consulting and other support to communication companies in various aspects of their business.

*Svyazintek OJSC*

Svyazintec OJSC was established by Svyazinvest subsidiaries owning 100% of its authorized capital. Svyazintec provides services to the Company in implementation and subsequent support of its information systems functioning, and in particular of the Oracle E-Business Suite и Amdocs Billing Suite software.

*NPF Telecom-Soyuz*

NPF Telecom-Soyuz provides nongovernmental pension schemes under a contract with the Company.

*Compensation to key management personnel*

The key management personnel comprise members of the Company’s Management Board and Board of Directors, totaling 22 as of June 30, 2008 and 22 as of December 31, 2007, respectively.

The compensation to members of the Company’s Management Board and Board of Directors in the six months of 2008 includes the wages, bonuses, compensations, and rewards for participation in the work of the Company’s management bodies, to the amount of 86.

**34. Financial Instruments**

The Company’s essential financial instruments include bank credits, bonded and note loans, financial leasing, cash, and cash equivalents.

The main purpose of these documents is to attract funds for operation financing. Short-term deposits are also actively used as a financial instrument for placement of available cash. The Company has other financial assets and liabilities, such as trade accounts payable and receivable, arising directly during its operations.

The main risks related to the Company’s financial instruments include currency risk, risk of interest rate effect on future cash flows, credit risk, and liquidity risk.

*Equity management policy*

The main goals of the Group’s equity management policy are higher credit level rating, better equity to total assets ratio and liquidity ratio, better accounts payable structure, and lower capital costs.

The key methods of equity structure management are: profit maximization, investment program management, selling assets to reduce the debt load, borrowed capital size management, debt portfolio restructuring, and use of different classes of borrowed funds.

The Company manages its equity using “equity to total assets”, “net debt/equity”, and “net debt/EBITDA” ratios. “ Following its equity management policy, the Company also aims at higher credit ratings assigned by rating agencies.

The Company’s equity is managed at the level of particular material legal entities comprised in the Company. The “equity to total assets”, “net debt/equity”, and “net debt/EBITDA” ratios are calculated by the data of reporting prepared as per the Russian accounting standards. The Group’s equity management policy in 2008 did not change compared to its equity management policy in 2007.

Отформатировано: По  
левому краю, интервал  
Перед: 12 пт, Запрет висячих  
строк



**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The equity to total assets ratio is calculated as the ratio of the equity to the book value as of the end of a period. The “net debt/equity” ratio is calculated as the ratio of the net debt indicator to the equity as of the end of a period. The “net debt/EBITDA” ratio is calculated as the ratio of the net debt indicator as of the end of a period to the EBITDA indicator for the previous period.

*Currency risk*

Currency risk is the risk of negative effect of a currency exchange rate change on the Company's cash flows. As a result, such changes will be shown in the appropriate items of the profit and loss report, balance sheet, and/or cash flow report. Foreign currency denominated liabilities (Notes 19 and 21) indicate potential currency risk.

As a rule, the Company may face currency risk in respect of assets and liabilities denominated in foreign currencies. As of June 30, 2008 the Company's liabilities in the amount of 3,227 (3,779 as of December 31, 2007) are denominated in foreign currency, of which, US dollar-nominated liabilities of 2,404 (2,567 as of December 31, 2007) and Euro-nominated liabilities of 823 (1,212 as of December 31, 2007).

In the period from January 1, 2008 till June 30, 2008 the ruble-to-US dollar exchange rate increased by about 4.4%, and the ruble-to-Euro exchange rate dropped by less than 2.7%, which resulted in a decrease of the ruble amount of such borrowings by about 83.

In the period under report, the currency risk management policy did not change compared to the policy presented in the financial accounts for 2007.

The Company uses forward contracts as a tool to manage its currency risk.

*Hedging*

As it has syndicated credits in foreign currency (Euro), the Company assumes the risk of growth of the ruble amount of payments under this liability with the increasing Euro-to-ruble exchange rate (opening a short position in respect of this currency). In order to restrict and minimize the possible adverse effect from a drop of the exchange rate of the ruble to the currency, in which the syndicated credit is denominated, the Company decided to hedge the currency risks.

The hedging instrument used by the Company is delivery forward, a derivative financial instrument, under which the Bank agrees, within a date specified in the contract, to deliver a (Euro) basic asset to the Company, or to fulfill an alternative cash liability, and the Company agrees to receive and pay for such basic asset at a price (forward price) and on the terms to be defined by the parties when entering into the transaction.

The first stage of currency risk hedging completed in 2007 will proceed in accordance with the following schedule:

	<u>2<sup>nd</sup> half of 2008</u>	<u>2009</u>
Hedging amount	82	39

The said forward contract was defined as spot currency risk hedging for cash flows expected from the outstanding syndicated Euro credit of the Company. This instrument is applied for currency risk hedging of 20% of the credit principal, which makes 10,000,000 Euros, and of a part of interest payments calculated with the fixed part of the interest rate (bank margin: 2%).

As the second stage of currency risk hedging, the Company made a transaction for hedging of 40% of the syndicated credit debt in 2007, to the amount of 20,000,000 Euros. This suggests supply of currency (Euro) at a uniform forward exchange rate according to the following schedule:

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

	2 <sup>nd</sup> half of 2008	2009
Hedging amount	155	78

In March and June 2008, the Company completely fulfilled its obligation to buy currency (Euros) in accordance with the signed hedging transactions.

As of June 30, 2008 and December 31, 2007, the net debt under the syndicated credit was:

	30.06.2008 (millions of Euros)	31.12.2007 (millions of Euros)
Balance of the syndicated credit arrears	16,7	27,8
Principal debt hedging amount	(10,0)	(16,7)
“Net” debt (open currency position)	6,7	11,1

With the expected 3% change of the exchange rate, the net effect on the profit and loss statement will be shown in value terms.

The cash flows are related to outstanding loans and hedged risk, therefore they affect the profit or loss in the period when the currency exchange rate changes. Thus, the amounts were not separated or deleted from the hedging reserve in the equity.

The fair value of the forward contract defined as hedging was 10 as of June 30, 2008 (16 as of December 31, 2007), of which the ineffective part of hedging was recognized at 23 (5 in 2007) and shown among other operating costs of the consolidated profit and loss report; the effective part was 34 (21 in 2007), shown as part of the exchange difference as compensation of the corresponding negative exchange difference under the outstanding loan.

*Liquidity risk*

The Company controls its cash shortage risk using the current liquidity planning instrument. This instrument helps to analyze the maturity dates of payments related to financial investments and financial assets (such as accounts receivable or other financial assets), and predicted cash flows from operations. The Company’s aim is to maintain the balance between the steadiness and flexibility of funding, by using bank overdrafts, bank credits, bonds, or financial leasing.

As of June 30, 2008, the long-term arrears of credits and loans and other liabilities are distributed among the following repayment dates:

Repayment date	Bank loans	Bonds	Promissory notes	Finance leases	Accounts payable and other short-term liabilities	Total
during 2008	1 149	345	19	78	5 005	1 591
during 2009	2 264	1 174	-	3	-	3 441
during 2010	989	2 856	-	-	-	3 845
during 2011	459	2 561	-	-	-	3 020
during 2012	284	1 755	-	-	-	2 039
after 2012	-	1 573	15	-	-	1 588
<b>Total</b>	<b>5 145</b>	<b>10 264</b>	<b>34</b>	<b>81</b>	<b>5 005</b>	<b>15 524</b>

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The information on the debt distribution by repayment date is based on contractual undiscounted cash flows. The said flows include the amounts of repayment of principal debt, interests, and other additional payments payable in the appropriate periods. For liabilities where the interest rate contains a "floating" component, the value of such component for prediction purposes was set at the level of the value as of December 31, 2007.

*Risk of interest rate changes*

The table below shows the Company's itemized financial liabilities with fixed and floating interest rates subject to interest risk, as of June 30, 2008 and December 31, 2007.

	<b>Fixed interest rate</b>	<b>Floating interest rate</b>	<b>Total</b>
<b>As of June 30, 2008</b>			
Short-term liabilities	90		90
Long-term liabilities	8 491	4 165	12 656
Financial lease liabilities	73		73
<b>Total</b>	<b>8 654</b>	<b>4 165</b>	<b>12 819</b>
	<b>Fixed interest rate</b>	<b>Floating interest rate</b>	<b>Total</b>
<b>As of December 31, 2007</b>			
Short-term liabilities	79		79
Long-term liabilities	5 803	4 877	10 680
Financial lease liabilities	139		139
<b>Total</b>	<b>6 021</b>	<b>4 877</b>	<b>10 898</b>

In the period under report, the interest risk management policy did not change compared to the policy presented in the financial accounts for 2007.

*Credit risk*

Credit risk is the risk of a counter-party failing to discharge an obligation in time, thus entailing a financial loss.

The financial assets, which potentially subject the Company to a credit risk, mostly consist of accounts receivable of buyers and customers. The book value of accounts receivable, less depreciation reserve, is the maximum amount exposed to credit risk.

The Company has no significant concentrations of credit risk due to significance of its client base and regular control procedures over customers' and other debtors' solvency. A part of the Company's accounts receivable is related to governmental and other non-profit organizations. Political and economic factors affect the repayability of these debts. In the Management's opinion, as of June 30, 2008, the Company has no material losses in this and other kinds of accounts receivable where appropriate reserves are not established.

The Company places available cash on deposits in several Russian commercial financial institutions. To manage credit risk, the Company places available cash with different banks, and the Company's management analyzes the solvency of the banks where its cash is placed on a regular basis.

In the period under report, the credit risk management policy did not change compared to the policy presented in the financial accounts for 2007.

**35. Events after the Reporting Date**

**Rate regulation**

Отформатировано: По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

On September 1, the tariffs for the service “Provision of local telephone connection for an unrestricted number of local telephone connections” for individuals were brought to the limit level established by the RF Federal Tariff Service.

#### **Purchase of stock of CJSC Hybrid Printing Systems**

In February 2008, the Company’s Board of Directors decided to purchase 4,153, 500 registered common shares of CJSC Hybrid Printing Systems, which makes 6.39% of the authorized capital, for 415. As of the date of issue of these accounts, the purchase did not take place.

#### **Credits and loans**

In August 2008, the Company entered into a General Agreement for Syndicated Credit Services on the International Capital Market with CJSC UniCreditBank, which provides for taking syndicated credits on the following material terms, if the credit agreement is approved by the Company’s Board of Directors:

- Debt limit (“Credit Amount”): US\$200,000,000 (Two hundred million US dollars);
- Credit arrangement commission: 1.75% of the CreditAmount;
- Credit availability period: 120 days, free of any commission to the Bank for the credit liability for the undrawn Credit moneys in the first 45 days from the Credit Agreement signing date; upon expiry of this period, the commission for the credit liability will be 40% of the Margin;
- the Credit will be repaid in equal quarterly installments, starting from the date 15 months after the Credit Agreement signing date;
- final repayment date: 3 years after the Credit Agreement signing date;
- the Agent’s commission: US\$30,000 per annum;
- Credit security: None;
- premature repayment: Subject to prior notification of the Agent at least 10 business days before the intended premature repayment date;
- premature repayment amount: Provided that the repaid amount is at least US\$5,000,000.00 and divisible by US\$1,000,000.
- The credit interest rate consists of:
  - i. Margin, Initial (maximum) Agreement Price is based on a Margin of 2.75% per annum;
  - ii. London Interbank Offered Rate (LIBOR) established for US dollars for the appropriate Interest period, and Mandatory Costs Rate (where existing).

By the results of the (tentative) General Agreement, and in a period not exceeding 90 days from the signing date, the basic Syndicated Crediting Agreement will be signed containing all the essential terms of the General Agreement.

In August 2008, the Company signed Contract No. 0103-112508 for opening of an open-end credit line with the Savings Bank of Russia, for the amount of 310, with the term of validity of 120 days. The interest rate under the Contract was 8.25% per annum. The credits are provided without a security.

In September 2008, the Company signed Contract No. 0103-113308 for opening of an open-end credit line with the Savings Bank of Russia, for the amount of 315, with the term of validity of 120 days. The interest rate under the Contract was 8.25% per annum. The credits are provided without a security.

In September 2008, the Company signed Contract No. 0103-114108 for opening of an open-end credit line with the Savings Bank of Russia, for the amount of 305, with the term of validity of 90 days. The interest rate under the Contract was 8.25% per annum. The credits are provided without a security.

#### **Financial leases**

In August 2008, the Company held an auction for the right to sign a leasing contract for supply of vehicles and self-propelling machines for maintenance of telecommunication equipment to be used in providing the Universal Communication Service. OJSC VTB-Leasing was named the winner of the leasing contract auction.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк

**Open Joint-Stock Company North-West Telecom**  
**Unaudited notes to consolidated intermediate financial accounts (in millions of Russian rubles if not otherwise specified)**

The main parameters of the contract to be signed with VTB-Leasing in case of approval of the contract by the Company's Board of Directors are as follows:

- Total price of vehicles and self-propelling machines to be purchased: 370.
- Gross leasing rate: 14.94% per annum (less insurance costs and property tax).
- Leasing term: Three years.
- Property Holder: Lessor.

#### **Financial Investment**

In July-September 2008, the Company retired 14 notes of AKB Svyaz-Bank of the total face value of 2,800. The total amount of interest received was 120.

#### **Bond issue**

On the basis of the Coupon 2 to 20 rates evaluation procedure set by the Resolution on Securities Issue and Issue Prospectus for bonds of Series 05, the General Manager's order established the rate of the second coupon for the issue's bonds at 9.73% per annum in August 2008.

On June 29, 2008, the Company's Board of Directors approved the Resolution on Securities Issue and the Prospectus for 3,000,000 interest-bearing documentary bonds payable to bearer, Series 06, of the face value of 1,000 rubles each, their floatation period being 3640 days. As of early September 2008, this bond issue was undergoing the State registration procedure at the Federal Financial Markets Service.

#### **American Depository Notes**

In August 2008, the factor was split, and as a result, each American Depository Note now corresponds to 10 common shares of the Company.

#### **Court Trial**

In August 2008, the Arbitration Court of St. Petersburg and Leningrad Oblast denied satisfaction of the appeal of the Inter-District Inspectorate for Major Taxpayers of the Federal Tax Service to bring CJSC Peterburg Transit Telecom to tax responsibility for a tax offense and to after-charge the profit tax in the amount of 54 and 11 as penalties.

#### **Withdrawal by voluntary winding up**

In accordance with the Resolution of the N.W.Telecom Board of Directors of November 2007, the Company withdrew from CJSC SPiK due to voluntary winding up of that company. The entry of the company's winding up was made in the Uniform State Register of Legal Entities was made on July 15, 2008.

**Отформатировано:** По левому краю, интервал Перед: 12 пт, Запрет висячих строк