

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

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009,  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS (IFRS)  
AND INDEPENDENT AUDITORS' REPORT

# Open Joint Stock Company North-West Telecom

Consolidated financial statements  
for the year ended 31 December 2009  
Prepared in accordance with International Financial Reporting Standards (IFRS)

## Contents

Independent auditor's report	
Consolidated Balance Sheet at December 31, 2009 .....	1
Consolidated Income Statement for the year ended December 31, 2009 .....	2
Consolidated Statement of Comprehensive Income for the year ended December 31, 2009 .....	3
Consolidated Cash Flow Statement for the year ended December 31, 2009 .....	4
Consolidated Statement of Changes in Equity for the year ended December 31, 2009 .....	5
Notes to the Consolidated Financial Statements for the year ended December 31, 2009 .....	6
1. General information .....	7
2. Basis of presentation of the financial statements .....	8
3. Summary of Significant Accounting Policies .....	12
4. Significant accounting judgements and estimates .....	19
5. Segment information .....	22
6. Subsidiaries .....	27
7. Assets held for sale .....	28
8. Property, plant and equipment .....	28
9. Intangible assets .....	30
10. Other non-current assets .....	33
11. Investment property .....	33
12. Investment in associates .....	34
13. Financial assets .....	35
14. Inventories .....	38
15. Trade and other receivables .....	38
16. Other current assets .....	39
17. Cash and cash equivalents .....	40
18. Significant non-cash transactions in investing and financing activities .....	40
19. Share capital .....	40
20. Borrowings .....	42
21. Pensions and other long-term employee benefits .....	52
22. Other long-term liabilities .....	54
23. Current provisions .....	55
24. Accounts payable and accrued liabilities .....	55
25. Other current liabilities .....	56
26. Contingencies and operating risks .....	56
27. Financial instruments and risk management .....	58
28. Revenue .....	71
29. Personnel costs .....	71
30. Materials repairs and maintenance utilities .....	71
31. Other operating income .....	72
32. Other operating expenses .....	72
33. Finance costs .....	73
34. Other investing and financing gains and losses .....	73
35. Income tax .....	74
36. Earnings (loss) per share .....	76
37. Dividends declared and proposed for distribution .....	76
38. Operating leases .....	77
39. Commitments .....	78
40. Balances and Transactions with Related Parties .....	79
41. Subsequent Events .....	82

## Independent auditor's report

To the shareholders and Board of directors of OJSC North-West Telecom:

We have audited the accompanying consolidated financial statements of OJSC North-West Telecom and its subsidiaries (hereinafter – “the Group”) which comprise the consolidated balance sheet as of 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*ZAO PricewaterhouseCoopers Audit*

1 June 2010

Saint-Petersburg, Russian Federation

# Open Joint Stock Company North-West Telecom

## Consolidated Balance Sheet at December 31, 2009

(in millions of Russian Roubles)

	Note	December 31, 2009	December 31, 2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	41,787	43,207
Intangible assets	9	5,326	5,207
Long-term receivables		6	6
Other long-term assets	10	715	393
Investment property	11	96	-
Investments in associates	12	88	84
Non-current financial assets	13	3,200	44
<b>Total non-current assets</b>		<b>51,218</b>	<b>48,941</b>
<b>Current assets</b>			
Inventories	14	431	460
Trade and other receivables	15	2,928	2,596
Prepaid income tax		415	315
Other current assets	16	270	384
Current financial assets	13	756	327
Cash and cash equivalents	17	574	1,001
Assets held for sale	7	9	162
<b>Total current assets</b>		<b>5,383</b>	<b>5,245</b>
<b>Total assets</b>		<b>56,601</b>	<b>54,186</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to OJCS NWT shareholders</b>			
Share capital	19	2,855	2,855
Treasury shares	19	(67)	(67)
Retained earnings		28,658	26,931
<b>Total equity attributable to OJCS NWT shareholders</b>		<b>31,446</b>	<b>29,719</b>
Non-controlling interest		1	-
<b>Total equity</b>		<b>31,447</b>	<b>29,719</b>
<b>Non-current liabilities</b>			
Non-current borrowings	20	8,108	13,366
Pension liabilities and long-term social liabilities	21	2,258	2,108
Long-term payables		34	22
Other long-term liabilities	22	333	358
Deferred income tax liability	35	1,061	1,079
<b>Total non-current liabilities</b>		<b>11,794</b>	<b>16,933</b>
<b>Current liabilities</b>			
Current borrowings	20	9,058	2,726
Trade and other payables	24	3,853	4,281
Other current liabilities	25	443	520
Current provisions	23	6	7
<b>Total current liabilities</b>		<b>13,360</b>	<b>7,534</b>
<b>Total liabilities</b>		<b>25,154</b>	<b>24,467</b>
<b>Total equity and liabilities</b>		<b>56,601</b>	<b>54,186</b>

General Director  
June 1, 2010

V.A. Akulich

Chief Accountant

M.M. Semchenko

*The accompanying notes form an integral part of these consolidated financial statements*

**Open Joint Stock Company North-West Telecom**  
**Consolidated Income Statement for the year ended December 31, 2009**  
(in millions of Russian Roubles, except for earnings per share)

	Note	2009	2008
<b>Revenues</b>	<b>28</b>	<b>26,566</b>	<b>25,176</b>
Personnel costs	29	(8,403)	(8,221)
Depreciation and amortization	8,9,11	(6,859)	(5,514)
Interconnection charges		(1,924)	(1,904)
Materials, repairs and maintenance, utilities	30	(4,762)	(3,299)
Other operating income	31	4,440	2,587
Other operation expenses	32	(4,340)	(4,229)
<b>Operating income</b>		<b>4,718</b>	<b>4,596</b>
Profit from investments in associates	12	4	13
Finance costs	33	(1,472)	(1,066)
Other investing and financing gains and losses	34	373	559
Exchange loss from foreign currency restatement		(691)	(754)
<b>Profit before income tax</b>		<b>2,932</b>	<b>3,348</b>
Income tax	35	(340)	(787)
<b>Profit for the year</b>		<b>2,592</b>	<b>2,561</b>
<b>Profit for the year attributable to:</b>			
OJSC NWT shareholders		2,591	2,561
Non-controlling shareholders of subsidiaries		1	-
<b>Profit for the year</b>		<b>2,592</b>	<b>2,561</b>
<b>Basic and diluted earning per share (Russian Roubles) attributable to OJSC NWT shareholders for the year</b>	<b>36</b>	<b>2.073</b>	<b>2.049</b>

General Director  
June 1, 2010

V.A. Akulich

Chief Accountant

M.M. Semchenko



*The accompanying notes form an integral part of these consolidated financial statements*

# Open Joint Stock Company North-West Telecom

## Consolidated Statement of Comprehensive Income for the year ended December 31, 2009

(in millions of Russian Roubles, except for earnings per share)

	Note	2009	2008
<b>Profit for the year</b>		<b>2,592</b>	<b>2,561</b>
Changes in fair value of financial assets held for sale	13	-	(152)
<b>Total other comprehensive loss, net of income tax</b>		<b>-</b>	<b>(152)</b>
<b>Total comprehensive income for the year</b>		<b>2,592</b>	<b>2,409</b>
<b>Comprehensive income for the year attributable to:</b>			
OJSC NWT shareholders		2,591	2,409
Non-controlling shareholders of subsidiaries	6	1	-
<b>Total comprehensive income for the year</b>		<b>2,592</b>	<b>2,409</b>

General Director  
June 1, 2010

V.A. Akulich

Chief Accountant

M.M. Semchenko

*The accompanying notes form an integral part of these consolidated financial statements*

**Open Joint Stock Company North-West Telecom**  
**Consolidated Cash Flow Statement for the year ended December 31, 2009**

(in millions of Russian Roubles)

	Note	2009	2008
<b>Cash flows from operating activities</b>			
Profit before income tax		2,932	3,348
<b>Adjustments for</b>			
Depreciation and amortization		6,859	5,514
Profit (loss) on disposals of property, plant and equipment and other assets	31, 32	50	(35)
Provisions for impairment of property, plant and equipment, construction in progress and intangible assets	8	26	-
Provisions for impairment of inventories and other assets		1	-
Increase (decrease) in provision for doubtful debts	15	113	(23)
Profit from investments in associates		(4)	(13)
Financial costs	33	1,472	1,066
Other income from financing and investment activities	34	(373)	(559)
Foreign exchange loss		691	754
<b>Operating profit after adjustment for non-cash transactions</b>		<b>11,767</b>	<b>10,052</b>
Decrease (increase) in inventory		28	(157)
Increase in trade and other receivables		(534)	(678)
Decrease in other current assets		1,096	251
Increase in pension and other long-term social liabilities		(80)	245
Increase in accounts payable and accrued liabilities		837	96
Decrease in other operating assets and liabilities		5	1
<b>Cash flows generated from operations</b>		<b>13,119</b>	<b>9,810</b>
Interest paid		(1,369)	(944)
Income tax paid		(456)	(3,304)
<b>Cash flows from operating activities</b>		<b>11,294</b>	<b>5,562</b>
<b>Investment activities</b>			
Purchase of property, plant and equipment, construction in progress and investment property		(6,787)	(14,099)
Proceeds from disposal of property, plant and equipment, construction in progress and investment property		148	407
Purchase of intangible assets		(1,189)	(896)
Proceeds from disposal of associates and interests in joint ventures		-	273
Purchase of financial assets		(4,848)	(3,027)
Proceeds from disposal of financial assets		1,357	9,203
Interest received		117	314
Dividends received		8	-
<b>Cash flows used in investing activities</b>		<b>(11,194)</b>	<b>(7,825)</b>



**Open Joint Stock Company North-West Telecom**  
**Consolidated Cash Flow Statement for the year ended December 31, 2009 (continued)**  
(in millions of Russian Roubles)

	Note	2009	2008
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		5,818	4,859
Repayment of borrowings		(7,962)	(3,453)
Proceeds from bond issue		2,979	2,999
Repayment of bonds		(500)	-
Proceeds from issue of promissory notes		300	-
Repayment of promissory notes		(302)	(6)
Repayment of vendor financing		-	(16)
(Repayment of) proceeds from other long-term liabilities		(6)	54
Repayments of finance lease liabilities		(31)	(150)
Dividends paid to OJSC NWT shareholders		(867)	(1,504)
<b>Cash flows (used in) from financing activities</b>		<b>(571)</b>	<b>2,783</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>44</b>	<b>(22)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(427)</b>	<b>498</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,001</b>	<b>503</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>574</b>	<b>1,001</b>

General Director  
June 1, 2010

V.A. Akulich

Chief Accountant

M.M. Semchenko

*The accompanying notes form an integral part of these consolidated financial statements*

**Open Joint Stock Company North-West Telecom**  
**Consolidated Statement of Changes in Equity for the year ended December 31, 2009**  
(in millions of Russian Roubles)

Note	Equity attributable to OJCS NWT shareholders						Total equity attributable to OJCS NWT shareholders	Non-controlling interest	Total equity
	Preference shares	Ordinary shares	Treasury shares	Accrued provision for revaluation of financial assets available for sale	Retained earnings	Share capital			
	622	2,233	(67)	152	25,922	28,862	-	28,862	
Balance as at December 31, 2007	-	-	-	-	2,561	2,561	-	2,561	
Profit for the year	-	-	-	(152)	-	(152)	-	(152)	
Changes in fair value of financial assets available for sale	-	-	-	(152)	-	(152)	-	(152)	
Total other comprehensive loss net of income tax	-	-	-	(152)	-	(152)	-	(152)	
<b>Total comprehensive income for the year</b>	-	-	-	(152)	2,561	2,409	-	2,409	
Shareholder transactions accounted for in equity:									
Dividends paid to OJCS NWT shareholders	-	-	-	-	(1,552)	(1,552)	-	(1,552)	
Balance as at December 31, 2008	622	2,233	(67)	-	26,931	29,719	-	29,719	

Note	Equity attributable to OJCS NWT shareholders						Total equity attributable to OJCS NWT shareholders	Non-controlling interest	Total equity
	Preference shares	Ordinary shares	Treasury shares	Accrued provision for revaluation of financial assets available for sale	Retained earnings	Share capital			
	622	2,233	(67)	-	26,931	29,719	-	29,719	
Balance as at December 31, 2008	-	-	-	-	2,591	2,591	-	2,592	
Profit for the year	-	-	-	-	2,591	2,591	-	2,592	
Total comprehensive income for the year	-	-	-	-	2,591	2,591	-	2,592	
Shareholder transactions accounted for in equity:									
Dividends paid to OJCS NWT shareholders	-	-	-	-	(864)	(864)	-	(864)	
Balance as at December 31, 2009	622	2,233	(67)	-	28,658	31,446	-	31,447	

General Director  
June 1, 2010



V.A. Akulich

Chief Accountant

M.M. Semchenko

*The accompanying notes form an integral part of these consolidated financial statements*

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 1. General information

### Authorization for issue

The consolidated financial statements of Open Joint Stock Company North-West Telecom (hereinafter “the Company”, “OJSC NWT”) and its subsidiaries (hereinafter “the Group NWT”) for the year ended December 31, 2009 were authorized for issue by the General Director and the Chief Accountant of the Company on June 1, 2010.

### The Company

The parent company – OJSC NWT is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

As at December 31, 2009 OJCS Svyazinvest, which is controlled by the Government of the Russian Federation, owned 50.76% of the Company’s ordinary voting shares. OJCS Svyazinvest is OJSC NWT’s parent company.

The registered office of the Company is 14/26, Gorokhovaya Str., St. Petersburg, Russia, 191186.

### The Group NWT activities

The Company provides telephone communications services (including local and intrazone telephony), telegraph, data transmission services, rent of communication channels and wireless communication services in the North-West Region of the Russian Federation.

Information about the Company’s core subsidiaries is disclosed in Note 6. All of its subsidiaries are incorporated under the laws of the Russian Federation, unless stated otherwise.

Information about the Company’s core associates is disclosed in Note 12. All of its associates are incorporated under the laws of the Russian Federation, unless stated otherwise.

### Liquidity and financial resources

As of December 31, 2009 current liabilities of the Group NWT exceeded its current assets by 7,977 (December 31, 2008: 2,289). Profit of the Group NWT before taxation in 2009 and 2008 was 2,931 and 3,348 respectively.

In 2009 the Company suffered decline across most liquidity ratios. The ongoing global financial crisis caused instability in the stock markets affecting the financial situation, operating performance and general economic outlook for the Company. Thus, the interest rate under loan agreements entered into in 2009 is 13.75% p.a. Due to a significant weakening of the Russian Rouble against the major foreign currencies, exchange losses on currency-denominated assets and liabilities in 2009 were 691 (2008: 754).

In addition, in the reporting period the liquidity ratios were affected by the following:

- 1) increase in current liabilities due to the reclassification of a portion of non-current borrowings into current, specifically:
  - 3<sup>rd</sup> bond issue: 1,800;
  - 4<sup>th</sup> bond issue: 500;
  - 5<sup>th</sup> bond issue: 3,000 (offer);
  - Syndicated loan: 1,113 (36.81 million US Dollars);
  - Syndicated loan: 2,041 (67.5 million US Dollars);
- 2) recognition within long-term investments of bank promissory notes in the amount of 3,000 with a submission period in June 2011.

On 05 August, 2009, the Company placed the 6th bond issue in the amount of 3,000 with a 10-year period of circulation, which sustained the Company's investment attractiveness and enabled it to improve the liabilities structure.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 1. General information (continued)

In 2009 the Group NWT management monitored compliance with financial performance requirements set in certain loan agreements. As of December 31, 2009 the Group NWT financial performance indicators were in line with the covenants imposed by the loan agreements.

The Group NWT manages its liability portfolio to ensure that short-, mid- and long-term instruments are mixed in equal proportions. Average liability duration target, including new borrowings, is established at 2.5 years, which is in line with international practices. Maintaining maturity dates within the aforementioned range would enable the Company to put in place a loan portfolio with a low risk of refinancing.

The Company does not expect any decrease in cash inflows from operating activities in 2010.

The Company has an action plan in place to maintain and improve current liquidity level in 2010 and raise long-term debt which includes the following:

1. Raising a total of 1,555 in credit facilities under contracts with North-West Branch of OJSC Sberbank in 2010.
2. Raising a total of 1,000 in a credit facility under the contract with OJSC AKB Svyazbank in 2010.
3. Reduction of 2,244 investment programme in 2010 as compared with the previous year.
4. The management believes that, if required, duration of some projects may be postponed or scaled down in line with the financing needed to support the Company's current operations. Also, payment dates under certain current operations may be postponed to bridge working capital gap, if any.

The above measures are expected to ensure cash inflows sufficient to finance operations in 2010, including refinancing of the short-term liability under the existing loans and borrowings.

## 2. Basis of presentation of the financial statements

### Statement of compliance

These consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

### Going concern

The consolidated financial statements are prepared based on the assumption that the Group NWT will continue as a going concern in the foreseeable future, and its assets will be recovered and liabilities met as they become due.

### Presentation of financial statements

The consolidated financial statements of the Group are prepared based on standalone financial statements of the OJSC NWT and its subsidiaries and associates prepared under unified accounting policy.

The consolidated financial statements are presented in millions of Russian Roubles, rounded to the nearest million, unless stated otherwise.

### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for the following items: property, plant and equipment recognized at fair value, which was used as the deemed cost of the property, plant and equipment as of the date of transition to IFRS; available-for-sale investments measured at fair value.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 2. Basis of presentation of the financial statements (continued)

### Changes in accounting policy

The accounting policies used for preparation of the consolidated financial statements for 2009 are consistent with those of the 2008 financial year, except for the changes to the accounting policies made in connection with the new/revised IFRS standards and interpretations which have come into effect or been early adopted by the Company starting from January 1, 2009. The adoption of new or revised standards and interpretations did not have effects on the financial position and financial results of the Company, but could have impacted on the presentation and disclosure of financial statements.

The changes in accounting policies result from the adoption of the following new or revised standards and interpretations:

Standard / Interpretation	Essence of amendments	Effect
IFRS 8 "Operating Segments"	The Standard sets out requirements for disclosure of information about an entity's operating segments and removes the requirement for identification of primary (business) and secondary (geographical) reporting segments. It changes the principle of presentation of segment financial information and requires that the financial data of operating segments be presented based on information used by the Company's management in making decisions on allocating resources and assessing performance. It also requires disclosure of factors used in identifying operating segments.	New disclosures are presented in Note 5.
IAS 1 (as revised in 2007) "Presentation of Financial Statements"	The Standard requires presentation of all owner changes in equity separately from non-owner changes in equity. A statement of changes in equity shall contain detailed information on all owner changes in equity only, while all other non-owner changes in equity (i.e. income and expenses recognised immediately in equity) are required to be presented separately. The Standard also introduces the statement of comprehensive income which shall present all income and expenses recognised in income statement, as well as other income and expenses recognised directly in equity. Changes in income and expenses recognised in equity may be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).	The consolidated financial statements contain new or adjusted reporting statements.
IAS 23 (as revised in 2007) "Borrowing Costs"	The Standard removes the option to immediately expense borrowing costs directly attributable to assets which require a substantial period of time to get prepared for intended use or sale.	The revised Standard did not have a material impact on the presentation and disclosure of financial statements.
IFRS 3 (as revised in 2008) "Business Combinations" (early adoption)	The Standard makes a number of amendments to the accounting for business combinations which will make an impact on goodwill and the financial result to be recognised in the period of acquisition and subsequent periods.	The revised Standard did not have a material impact on the presentation and disclosure of financial statements.
IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements" (early adoption)	The Standard requires that any changes in a parent's ownership interest in a subsidiary are accounted for within equity. The Standard amends requirements for the accounting treatment of losses incurred by a subsidiary and of the loss of control over a subsidiary.	The revised Standard did not have a material impact on the presentation and disclosure of financial statements.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

## 2. Basis of presentation of the financial statements (continued)

Standard / Interpretation	Essence of amendments	Effect
IFRIC Interpretation 13 “Customer Loyalty Programmes”	The Interpretation requires that award credits granted to support customer loyalty should be accounted for as a separately identifiable component of the sales transaction in which they are granted. Part of the fair value of the consideration received shall be allocated to the award credits and carried forward to the next reporting periods until the credit awards are redeemed.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
IFRIC Interpretation 15 “Agreements for the Construction of Real Estate”	The Interpretation defines criteria for the classification of agreements for the construction of real estate to the relevant revenue recognition principals within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
IFRIC Interpretation 16 “Hedges of a Net Investment in a Foreign Operation”	The Interpretation determines which risks related to investments in foreign operations qualify for hedge accounting, and addresses hedge accounting rules.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
IFRIC Interpretation 17 “Distributions of Non-cash Assets to Owners”  (early adoption)	The Interpretation provides guidance on the accounting for distribution of assets other than cash (non-cash assets) to owners. The Interpretation also discusses situations when an entity allows owners a choice whether to receive non-cash assets or their cash equivalents.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
IFRIC Interpretation 18 “Transfers of Assets from Customers”  (early adoption)	The Interpretation defines, in which conditions transferred by customers assets, have to be recognized within company’s assets and defines approaches for their initial measurement. The Interpretation also describes cases, when customers give cash to a company for purchase of these assets.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
IAS 24 (as revised in 2009) “Related party disclosures”  (early adoption)	The Standard specifies and simplifies approaches for related party definitions. The Standard also simplifies requirement for state-controlled entities to disclose detailed transactions with other state-controlled entities.	The Interpretation did not have a material impact on the presentation and disclosure of financial statements.
Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment	The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.	The amendments did not have an impact on the Group NWT Consolidated Financial Statements.
Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment	The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.	The amendments did not have an impact on the Group NWT consolidated financial statements.
Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008	The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.	The amendments are applied prospectively from the January 1, 2009. As a result the Group NWT 2008 consolidated financial statements comparative data were not restated accordingly. The amendments did not have an impact on the Group NWT consolidated financial statements.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

## 2. Basis of presentation of the financial statements (continued)

Standard / Interpretation	Essence of amendments	Effect
Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures	The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.	The enhanced disclosures are included in Group NWT consolidated financial statements.
Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009	The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.	The amendments did not have an impact on the Group NWT consolidated financial statements.
The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses	The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability.	The Group NWT is a public company which shares are listed on the stock exchange, thus should not apply the IFRS for SMEs.

### IFRSs and IFRIC which have not yet come into effect

The Company has not adopted the following IFRSs and IFRICs that have been issued but are not yet effective:

Standard / Interpretation	Content of changes	Effects
IFRS 9 "Financial Instruments"	The Standard sets new approaches for financial instruments classification. The Standard cancels requirement to exclude embedded derivatives from financial assets. The Standard enforces requirements for reclassification of financial assets after initial classification. The Standard also clarifies approaches for financial assets valuation and measurements.	To be applied for annual reporting periods beginning on or after January 1, 2013.

As of December 31, 2009, management of the Company did not complete the assessment of the impact of the Standards and Interpretations not yet effective at that date on the Company's accounting policies.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 2. Basis of presentation of the financial statements (continued)

### Foreign currency transactions

The functional and presentation currency of the Company is the Russian rouble. Foreign currency transactions are initially recognised in the functional currency at the exchange rate as of the date of each transaction, as determined by the Central Bank of the Russian Federation. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the exchange rate as of the reporting date. The differences resulting from the conversion are reflected in the income statement as exchange rate gains (losses). Non-monetary items, which are valued based on their historical value in foreign currency, are converted at the rates as of the date when they were first recorded. Non-monetary items, which are estimated based on their fair value in foreign currency, are converted at the rates as of the date when their fair value was determined.

Exchange rates of the primary currencies as of December 31, 2009 and 2008 are as follows:

Exchange rates as of December 31,	2009	2008
RUR / USD	30.2442	29.3804
RUR / EUR	43.3883	41.4411

## 3. Summary of Significant Accounting Policies

### 3.1. Principles of consolidation

The consolidated financial statements include the financial statements of OJSC NWT and its subsidiaries as of December 31, 2009 and 2008.

All inter-group balances, transactions, income and expenses, gains and losses resulting from operations within the Group NWT and recognized in the assets and liabilities are entirely eliminated.

Subsidiaries are consolidated as of the date of acquisition, being the date when the Group NWT acquired control over the subsidiary, and continue to be consolidated until the date when such control ceases.

### Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the fair value of the Group NWT share of identifiable net assets as at the date of acquisition is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group NWT share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

### Additional interest acquired in subsidiaries

Any difference between the purchase consideration and carrying value of non-controlling interest acquired is reported at the date of acquisition as profit or loss in the statement of changes in equity.



# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 3. Summary of Significant Accounting Policies (continued)

### 3.2. Property, plant and equipment

#### Cost of property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost meets recognition criteria. Cost of each major inspection is capitalised as a component of the carrying amount of the plant and equipment when the recognition criteria is satisfied. Major renewals and improvements are capitalised, and the assets replaced are retired. All repairs and maintenance costs are charged to the income statement when the expenditure is incurred.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's realisable value less costs to sell and its value in use. The excess of the carrying amount over recoverable amount is recognized as an expense (impairment loss) in the income statement and carrying amount of the asset is reduced to its recoverable value. An impairment loss recognised for an asset in prior years is reversed if the recoverable amount recalculated in the current period due to changes in respective conditions exceeded the carrying value of an asset. The value of an asset resulted from impairment loss reversal can not exceed its value adjusted for depreciation, as if the impairment loss was not recognized.

#### Depreciation and useful lives of property, plant and equipment

Depreciation of property, plant and equipment is calculated on a straight-line basis during the useful life period.

The Company applies the following useful lives:

	Years
<u>Land, buildings and structures</u>	
Land	Non-depreciable
Buildings	7 – 70
Transfer devices (communications lines)	15
Other structures (except for communications lines)	7 – 30
<u>Switches and transmission devices</u>	
Switches	10
Other network equipment	3 – 10
<u>Transport and other property, plant and equipment</u>	
Transport	3 – 10
Computer and office equipment	2 – 6
Other property, plant and equipment	1 – 7

The property, plant and equipment's residual values and useful lives are reviewed and adjusted as appropriate at each reporting date; if the current expectations differ from previous estimates, the resultant changes are accounted for as a change in accounting estimates.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 3. Summary of Significant Accounting Policies (continued)

### Assets received free of charge

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group NWT, which have been gratuitously transferred to the Group NWT beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group NWT to entities, which have transferred property, plant and equipment. In such instances, the Company records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

### 3.3. Investment property

The investment property is recognized at cost of acquisition or construction less accumulated depreciation and impairment. Renovation and upgrading costs are capitalized. Repair and maintenance costs are recognized in the income statement in the period, when they were incurred.

The investment property is depreciated under the straight-line method.

Useful lives of investment property are the same as the useful lives defined for the similar groups of property, plant and equipment.

The residual value, useful lives and depreciation methods of the investment property are analyzed and, if necessary, adjusted at the end of each reporting period.

### 3.4. Intangible assets

#### Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets.

Goodwill on an acquisition of associates is included in the investments in associates.

#### Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is their fair value as at the date of acquisition.

After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic lives under the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at each financial year-end. Changes in the expected useful life are accounted for by changing the amortization period, and treated as changes in accounting estimates.

Useful lives of other intangible assets are determined on a case-by-case basis.

#### Intangible assets impairment testing

Goodwill, intangible assets with indefinite useful life, intangible assets available for use and not available for use are reviewed for impairment annually at each reporting date. If the carrying value is in excess of the recoverable amount, the carrying value is written down to the recoverable amount and the resultant difference is recognised as an expense (impairment loss) in the income statement. Impairment of an asset recognised in previous reporting periods is reversed if the current recoverable amount determined using revised estimates exceeds the carrying amount of that asset. Goodwill impairment losses are not reversed.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 3. Summary of Significant Accounting Policies (continued)

### 3.5. Borrowing costs

Qualifying asset is an item of construction, modernization or renovation resultant from any investment project with a separate project code in the investment plan of the corresponding year.

The borrowing costs are capitalized by the Company as part of the cost of the asset when the costs are directly attributable to the acquisition or construction of a qualifying asset. The capitalization rate is calculated at the Group NWT weighted average funding cost not repaid during the reporting period, not including funds that were borrowed specifically for the purpose of the purchase or construction of a qualifying asset.

### 3.6. Associates

Associates are entities in which the Group NWT generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method, initially recognized at cost of acquisition.

### 3.7. Investments and other financial assets

The Group NWT financial assets are classified into the following categories: loans and receivables; financial assets available for sale; and financial assets at fair value through profit or loss.

The Company determines the accounting classification of its financial assets at initial recognition and revises the classification of financial assets when appropriate and is allowed by standards.

All purchases and sales of financial assets under standards terms are recognized at the settlement date, which is the date when the asset is delivered to the buyer.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs and are not classified as recognized "at fair value through profit or loss". Subsequently such assets are carried at amortized cost using the effective interest rate less any impairment loss. If there is objective evidence of an impairment loss on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount is reduced by using the provision account. The loss is recognized in the income statement.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any other category of financial assets. After initial measurement, available for sale financial assets are measured at fair value with gains or losses, less corresponding tax effect, recognized separately in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

The Group NWT derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (ii) the Group NWT has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group NWT has not transferred or retained substantially all risks and rewards of ownership but not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **3. Summary of Significant Accounting Policies (continued)**

### **3.8. Prepayments**

Long-term and short-term advances paid by the Group NWT are recorded in the financial statements according to the delivery time of related goods, other assets and services.

The Group NWT creates provision for advances to suppliers if it is doubtful whether related assets (services) will be received. The amount of the provision is charged to loss for the period in which such provision is made and recorded within other operating expenses.

Advances paid to purchase non-current assets are classified as non-current assets irrespective of the delivery time of the related asset and are treated as non-monetary assets. Long-term advances issued in operating activities are classified as non-current assets and treated as non-monetary assets.

### **3.9. Inventory**

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location. The cost of inventories is determined on the weighted average basis.

Inventories are measured at the lower of historical cost at the reporting date and net realisable value.

### **3.10. Cash and cash equivalents**

Cash comprises cash at banks and in hand and short term deposits with an original maturity of three months or less.

All these items are, on a consistent basis, included as a component of cash and cash equivalents for the purpose of the consolidated balance sheet and consolidated statement of cash flows.

### **3.11. Assets held for sale**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Non-current assets (or disposal groups) held for sale are measured at the lower of carrying value and fair value less cost to sell.

### **3.12. Equity**

#### **Share capital**

Ordinary shares and non-cumulative non-redeemable preference shares are both classified as equity.

#### **Treasury shares**

At stock buyback the amount paid including expenses directly linked to buyback is recognized as reduction of share capital and classified as treasury shares held for sale or recurrent placement.

Profit or loss at buyback, sale or cancellation of treasury shares is not recognized in the income statement. The proceeds from further disposals, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's shareholders.

#### **Non-controlling interest**

Non-controlling interest at the balance sheet date represents the non-controlling shareholders' share of the fair value of the identifiable assets and liabilities of the subsidiaries at the date of the acquisition or the date when the subsidiary was established with due regard for the non-controlling interest' share of movements in equity since the date of the acquisition or establishment.

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **3. Summary of Significant Accounting Policies (continued)**

### **Dividends**

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

### **3.13. Borrowings**

For presentation purposes, loans and borrowings in these consolidated financial statements include banking and corporate loans, bonds and promissory notes, vendor financing and financial lease obligations.

Borrowings are initially recognized at the fair value of the consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an interest expense over the period of the borrowings.

### **3.14. Accounts payable and accrued liabilities**

Trade and other payables are initially recognised at fair value of receipts net of transaction costs. After initial recognition trade and other payables are recorded at amortised cost using effective interest rate method. Trade and other payables are recorded within current liabilities unless they are expected to be repaid in more than 12 months after the reporting date.

### **3.15. Hedging**

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognition of the resulting gain or loss depends on whether the derivative instrument is designated as a hedging instrument, and if so, on the nature of the hedged item. The Group NWT documents relationships between hedging instruments and hedged items at the beginning of the underlying transaction as well as its risk management objectives and hedging strategy. At the beginning of hedging and during later process the Group NWT also documents its assessment whether derivatives used in hedging transactions are highly effective to compensate for changes in cash flows from hedged items.

A precondition for hedge accounting is designation of a hedging instrument as compensation for changes in fair value of or cash flows from a hedged item.

If a hedge is treated as a cash flow hedge of current exchange rate risk, gain or loss on revaluation of a deliverable FX transaction (to account for the effects of changes in current exchange rates), that is effective share, are recognised in comprehensive income. This amount is transferred from comprehensive income to income statement in the same period in which the hedged loan affected profit or loss, i.e. when the loan was remeasured to account for exchange rate fluctuation. Gain or loss on derivative instrument in respect of the ineffective share is immediately recognized in the income statement.

If a hedging instrument expires, or is sold, or ceases to meet the hedge accounting criteria, any cumulative gain or loss recorded within comprehensive income at such point remain in comprehensive income and are recognised when the projected transaction is finally recognised in the income statement. If the projected transaction is not expected any longer, cumulative gain or loss reported within comprehensive income, if any, are immediately credited/charged to the income statement.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 3. Summary of Significant Accounting Policies (continued)

### 3.16. Lease

Finance leases, which transfer to the Group NWT substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to produce a constant rate of interest of the remaining balance of the liability. Finance costs are recognised in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

### 3.17. Employee benefits

#### Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for future vacation payments.

#### Defined benefits pension plans

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the actuarial "projected credit unit" method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognises profit or loss arising on curtailment or final settlement under a defined benefit plan at the moment of such curtailment or settlement.

### 3.18. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 3. Summary of Significant Accounting Policies (continued)

### 3.19. Income tax

Income tax expense (benefit) represents an amount of current tax and an amount of deferred tax recognised as an expense (benefit) in the reporting period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or pronounced (substantively enacted) at the balance sheet date.

### 3.20. Revenue recognition

Revenue from service contracts is accounted for when the services are provided. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period.

Interest income is calculated using the effective interest rate which presents the expected future cash flows during the estimated useful life of a financial instrument to the net carrying amount of the financial asset.

Reimbursement of losses from universal telecommunication services is recognized in the period in which the loss occurred, rather than in the period of reimbursement.

Dividend income is recognized on the date that the Company's right to receive payment is established.

### 3.21. Segment information

The Company segregates as operating segments the smallest structural subdivisions which financial performance indicators are, on a regular basis, analysed by the Company's Chief Operating Decision Maker and used in making executive decisions.

## 4. Significant accounting judgements and estimates

### 4.1 Judgements

In applying accounting policies, management has made the following judgments besides the accounting estimates, which have most significant effect upon recognition of the Company's transactions reported in the consolidated financial statements.

#### Revenue recognition (agent / principal)

Agency fees related to provision of services where the Group NWT acts as an agent in the transaction rather than a principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal management takes into consideration the following factors:

- Although the Group NWT collects the revenue from the final customers, all credit risks are borne by the supplier of services.
- The Group NWT can not vary the selling prices set by the supplier.

Revenue recognized as agency fees are disclosed in Note 28.

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **4. Significant accounting judgements and estimates (continued)**

### **Lease classification**

A lease is classified as financial lease if it transfers substantially all risks and rewards incidental to ownership, otherwise it is classified as operating lease. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement, rather than its legal form.

### **Software classification**

In cases, when equipment and physically undetached software establish united hardware-software complex, the cost of this software is included within initial cost of the equipment, which functionality depends on installed software. In other cases, software is accounted for separately as an intangible asset.

### **Pension plan classification**

Pension plan classification depends on determination of the party, which takes actuarial and investing risks relating to providing of further benefits. If these risks are taken by the employer, the pension plan is classified as a defined benefit pension plan. In respect of defined contribution pension plans, all actuarial and investing risks are incurred by employees.

## **4.2 Uncertainty of estimates**

The key assumptions concerning the future events and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### **Useful life of property, plant and equipment**

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the end of reporting period. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement. The carrying value of property, plant and equipment as at December 31, 2009 is 41,787 (as at December 31, 2008: 43,207). Refer to Note 8 for detailed information.

### **Impairment of non-current assets**

Identification of indicators of impairment of non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount at a cash-generating unit level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on a cash-generating unit level, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

In 2009 the Company recognized impairment loss in the amount of 26 (2008: nil). Refer to Note 8 for detailed information.



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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **4. Significant accounting judgements and estimates (continued)**

### **Fair value of assets and liabilities in business combination**

At the acquisition date the Company recognizes separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions. Refer to Note 9 for detailed information.

### **Impairment of goodwill**

Goodwill impairment testing requires value in use estimation of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows, and hence such estimates are subject to uncertainty. As at December 31, 2009, the carrying amount of the goodwill amounted to 942 (December 31, 2008: 942). Refer to Note 9 for detailed information.

### **Fair values of unquoted available-for-sale investments**

Fair value of investments which are not actively traded is determined using valuation techniques, including those based on reference to recent arm's length market transactions between knowledgeable, willing parties; based on reference to the current fair value of other instruments that are substantially the same; or based on discounted cash-flow analysis and option pricing model.

Management believes that the fair value determined using the valuation technique and recorded in the balance sheet, and the corresponding changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date. As at December 31, 2009, the fair values of unquoted available-for-sale investments amounted to 21 (December 31, 2008: 21). Refer to Note 13 for detailed information.

### **Doubtful debt allowance**

Doubtful debt allowance is based on the historical data related to collectability of receivables and creditworthiness analysis of the most significant debtors. If the customers' financial position continues to deteriorate, actual write-offs might be higher than expected. As at December 31, 2009, a doubtful debt allowance amounted to 265 (at December 31, 2008: 238). Refer to Note 15 for detailed information.

### **Employee benefits**

The discounted value of liabilities under defined benefit pension plans and the related current service cost are determined on the basis of actuarial valuation which relies on demographic and financial assumptions including mortality, both during employment period and thereafter, staff turnover rates, discount rates, future salary and pension levels and, to a lesser extent, the expected income on the pension plan's assets. If adjustment to the key assumption is required, it will have significant impact on the amount of the pension benefit liabilities, non-current social liabilities and related future expenses. As at December 31, 2009, pension benefit and non-current social liabilities amounted to 2,258 (at December 31, 2008: 2,108). Refer to Note 21 for detailed information.

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **4. Significant accounting judgements and estimates (continued)**

### **Litigation and claims**

The Company exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual expenses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. As at December 31, 2009 and 2008, the Group NWT did not make any litigation allowance.

### **Deferred income tax assets**

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income against which the deductible temporary differences can be utilized. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Company may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. As at December 31, 2009, the carrying amount of deferred tax assets amounted to 533 (at December 31, 2008: 389). Refer to Note 35 for detailed information.

## **5. Segment information**

The Company segregates as operating segments the smallest structural subdivisions which financial performance indicators are, on a regular basis, analysed by the Company's Chief Operating Decision Maker and used in making executive decisions.

The Company's Chief Operating Decision Maker is represented by the Management Board.

The smallest structural subdivisions which financial performance indicators are, on a regular basis, analysed by the Company's Chief Operating Decision Maker and used in making executive decisions are represented by the branches and subsidiaries.

The Company considers reportable segments to be equal to its operating segments. Transactions between the operating segments are recorded on the basis of individual accounting information of the operating segments.

Reporting information is analysed and executive decisions are made based on accounting data prepared using statutory accounting principles. The information presented in the tables 'Aggregated information on operating segments and Head Office' and 'Information on operating segments and Head Office' has been prepared in accordance with the aforementioned standards.

The Group NWT primarily operates in the territory of the North-West Region of the Russian Federation.

Although not required by IFRS 8, Operating Segments, for the purpose of the management's analysis of the Group NWT financial performance, the Company combined operating segments into the following groups:

The combined unit 'MK – Fixed Line' comprises Archangel, Vologda, Kaliningrad, Karelia, Komi, Leningrad Region, Murmansk, Novgorod, Pskov and Petersburg branches providing communications services and the Head Office. Each of the aforementioned branches, except for the Head Office, represents an individual operating segment.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 5. Segment information (continued)

The Head Office concentrates the major portion of financing and investing activities of the whole OJSC NWT in terms of raising, servicing and repayment of borrowings, finance lease, purchase of financial assets, putting in place and subsequent running of corporate assets and centralised investment projects. The corresponding amounts of income, expenses, assets and liabilities are included within performance indicators of the Head Office disclosed in the table 'Information on operating segments and Head Office'. The Head Office of is not an operating segment.

The combined unit 'DK – Fixed Line' comprises the OJSC Kolatelecom, CJSC Novgorod Deitacom, CJSC Parma-Inform and CJSC Petersburg Transit Telecom providing communications services. Each of the aforementioned subsidiaries represents an individual operating segment.

The combined unit 'DK – Other Services' comprises CJSC AMT and CJSC RPK Svyazist which are involved in investment in securities and in organizational arrangements for rest and recreation. Each of the aforementioned subsidiaries represents an individual operating segment.

Information on operating segments disclosed in accordance with IFRS 8 was prepared not under the aggregation principles and presented in tables below the additional information prepared on aggregated units.

<b>Combined groups of operating segments and Head office information as at December 31, 2009 and for the year than ended</b>	<b>MK - fixed line</b>		<b>DK - other services</b>	<b>Total segments</b>
	<b>line</b>	<b>DK - fixed line</b>		
<b>Revenue</b>				
Third party revenue	25,982	520	50	<b>26,552</b>
Revenue from other segments	313	177	54	<b>544</b>
<b>Total revenue</b>	<b>26,295</b>	<b>697</b>	<b>104</b>	<b>27,096</b>
Interest income on financial assets	235	75	1	<b>311</b>
Interest expense on financial liabilities	(1,186)	-	(1)	<b>(1,187)</b>
Income tax	(932)	6	1	<b>(925)</b>
<b>Profit (loss) for the year</b>	<b>3,473</b>	<b>(261)</b>	<b>(52)</b>	<b>3,160</b>
<b>Assets and liabilities</b>				
Segment assets	56,528	183	1,043	<b>57,754</b>
including investments in associates	11	-	-	<b>11</b>
Segment liabilities	(22,753)	(76)	(118)	<b>(22,947)</b>
<b>Other segment information</b>				
Capital investments in:				
Property, plant and equipment	7,036	30	26	<b>7,092</b>
Depreciation and amortization	5,412	197	17	<b>5,626</b>
Doubtful debt provision	(60)	(29)	-	<b>(89)</b>
Cost of pension and other long-term social liabilities	230	-	-	<b>230</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

## 5. Segment information (continued)

Combined groups of operating segments and Head office information as at December 31, 2008 and for the year than ended	MK - fixed line	DK - fixed line	DK - other services	Total segments
<b>Revenue</b>				
Third party revenue	24,162	954	47	25,163
Revenue from other segments	331	219	74	624
<b>Total revenue</b>	<b>24,493</b>	<b>1,173</b>	<b>121</b>	<b>25,787</b>
Interest income on financial assets	266	26	-	292
Interest expense on financial liabilities	(869)	(2)	-	(871)
Income tax	(1,153)	(26)	(1)	(1,180)
<b>Profit (loss) for the year</b>	<b>3,622</b>	<b>95</b>	<b>(124)</b>	<b>3,593</b>
<b>Assets and liabilities</b>				
Segment assets	53,163	1,398	1,107	55,668
including investments in associates	11	-	-	11
Segment liabilities	(22,200)	(203)	(119)	(22,522)
<b>Other segment information</b>				
Capital investments in:				
Property, plant and equipment	13,551	62	868	14,481
Depreciation and amortization	4,179	203	16	4,398
Doubtful debt provision	(55)	-	-	(55)
Cost of pension and other long-term social liabilities	152	-	-	152

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

## 5. Segment information (continued)

The reconciliation of Russian statutory accounting data to the figures, included in IFRS consolidated financial statements is presented below:

Reconciliation of statutory and IFRS data as at December 31, 2009 and for the year than ended	Total reportable segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
<b>Revenue</b>				
Third party revenue	26,552	14	-	26,566
Revenue from other segments	544	-	(544)	-
<b>Total revenue</b>	<b>27,096</b>	<b>14</b>	<b>(544)</b>	<b>26,566</b>
Profit from investments in associates	-	-	4	4
Interest income on financial assets	311	(13)	-	298
Interest expense on financial liabilities	(1,187)	(40)	-	(1,227)
Income tax (i)	(925)	585	-	(340)
<b>Profit (loss) for the year</b>	<b>3,160</b>	<b>(322)</b>	<b>(246)</b>	<b>2,592</b>
<b>Assets and liabilities</b>				
Segment assets (ii)	57,754	(1,058)	(95)	56,601
including investments in associates	11	77	-	88
Segment liabilities (iii)	(22,947)	(2,285)	78	(25,154)
<b>Other segment information</b>				
Capital investments in:				
Property, plant and equipment (iv)	7,092	(1,926)	-	5,166
Intangible assets (ii.3), (ii.4)	-	603	-	603
Depreciation and amortization (ii.2)	5,626	1,233	-	6,859
Impairment loss on property, plant and equipment	-	(26)	-	(26)
Doubtful debt provision	(89)	(24)	-	(113)
Cost of pension and other long-term social liabilities (iii.1)	230	(78)	-	152

  

Reconciliation of statutory and IFRS data as at December 31, 2008 and for the year than ended	Total reportable segments	Transformation adjustments	Consolidation adjustments	Total for Group consolidated
<b>Revenue</b>				
Third party revenue	25,163	13	-	25,176
Revenue from other segments	624	-	(624)	-
<b>Total revenue</b>	<b>25,787</b>	<b>13</b>	<b>(624)</b>	<b>25,176</b>
Profit from investments in associates	-	-	13	13
Interest income on financial assets	292	22	-	314
Interest expense on financial liabilities	(871)	(29)	-	(900)
Income tax (i)	(1,180)	393	-	(787)
<b>Profit (loss) for the year</b>	<b>3,593</b>	<b>(295)</b>	<b>(737)</b>	<b>2,561</b>
<b>Assets and liabilities</b>				
Segment assets (ii)	55,668	1,269	(2,751)	54,186
including investments in associates	11	73	-	84
Segment liabilities (iii)	(22,522)	(2,061)	116	(24,467)
<b>Other segment information</b>				
Capital investments in:				
Property, plant and equipment (iv)	14,481	(504)	-	13,977
Intangible assets (ii.3), (ii.4)	-	970	-	970
Depreciation and amortization (ii.2)	4,398	1,116	-	5,514
Doubtful debt provision	55	(32)	-	23
Cost of pension and other long-term social liabilities (iii.1)	152	106	-	258

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 5. Segment information (continued)

Transformation adjustments include adjustments for differences between the accounting treatment of business transactions under the Russian Accounting Standards and International Financial Reporting Standards and comprise:

- (i) adjustment related to difference in deferred tax calculation;
- (ii) adjustments to assets, the major of which include:
  - (ii.1) recognition of property, plant and equipment at fair value as of the IFRS adoption date;
  - (ii.2) depreciation of property, plant and equipment over useful lives determined by an independent appraiser as of the IFRS adoption date and revised by the Group NWT;
  - (ii.3) recognition of intangible assets identified as a result of business combinations;
  - (ii.4) adjustment related to difference in assets classification;
  - (ii.5) Russian statutory deferred tax asset write-off due to its recognition within liabilities in the consolidated financial statements.
- (iii) adjustments to liabilities, the major of which include:
  - (iii.1) recognition of liabilities for non-government defined benefit pension plans;
  - (iii.2) recognition of finance lease liabilities;
  - (iii.3) recognition of financial instruments;
  - (iii.4) recognition of additional deferred tax liability;
  - (iii.5) recognition of borrowings at amortised cost;
- (iv) adjustment related to difference in estimation of Property, plant and equipment value.

As at December 31, 2009 and for the year 2009 performance indicators of the operating segments and Head Office are presented below:

Operating segments and Head office information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization
<b>MK - fixed line</b>						
Archangelsk branch	2,299	(171)	3,407	(255)	499	437
Vologda branch	2,100	(557)	4,725	(286)	304	593
Kalinigrad branch	1,443	(117)	2,554	(210)	370	293
Karelia branch	1,212	(243)	2,307	(164)	215	264
Komi branch	2,662	393	3,445	(274)	501	403
Leningrad region branch	2,117	(582)	4,277	(426)	371	523
Murmansk branch	2,011	(31)	2,492	(210)	314	388
Novgorod branch	1,008	(427)	2,237	(123)	280	342
St-Petersburg branch	10,624	3,658	16,464	(911)	2,755	1,455
Pskov branch	818	(661)	2,662	(89)	106	433
Head Office	1	2,211	11,958	(19,805)	1,321	281
<b>DK - fixed line</b>						
OJSC Kolatelecom	72	(3)	52	(57)	4	13
CJSC Novgorod Datacom	153	42	102	(15)	24	5
CJSC Parma Inform	63	13	29	(4)	2	2
CJSC Petersburg Transit Telecom	409	(313)	-	-	-	177
<b>DK-Other</b>	<b>104</b>	<b>(52)</b>	<b>1,043</b>	<b>(118)</b>	<b>26</b>	<b>17</b>
<b>Total</b>	<b>27,096</b>	<b>3,160</b>	<b>57,754</b>	<b>(22,947)</b>	<b>7,092</b>	<b>5,626</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 5. Segment information (continued)

At December 31, 2008 and for the year 2008 key performance indicators of the operating segments and Head Office are presented below:

Operating segments and Head office information	Revenue	Profit (loss)	Segment assets	Segment liabilities	Capital expenditures	Depreciation and amortization
<b>MK - fixed line</b>						
Archangelsk branch	2,122	31	3,344	(335)	1,028	351
Vologda branch	1,915	144	4,966	(258)	2,064	379
Kalinigrad branch	1,318	227	2,538	(233)	875	223
Karelia branch	1,115	(65)	2,347	(183)	689	199
Komi branch	2,418	534	3,396	(380)	775	337
Leningrad region branch	2,006	(109)	4,386	(593)	1,852	397
Murmansk branch	1,863	262	2,582	(206)	783	264
Novgorod branch	908	(222)	2,352	(165)	874	228
St-Petersburg branch	10,112	4,626	14,199	(879)	790	1,318
Pskov branch	753	(253)	3,012	(146)	1,497	258
Head Office	(37)	(1,553)	10,041	(18,822)	2,324	225
<b>DK - fixed line</b>						
OJSC Kolatelecom	80	(8)	62	(64)	8	6
CJSC Novgorod Datacom	133	34	75	(16)	17	3
CJSC Parma Inform	65	14	28	(5)	2	1
CJSC Petersburg Transit Telecom	895	55	1,233	(118)	35	193
<b>DK-Other</b>	<b>121</b>	<b>(124)</b>	<b>1,107</b>	<b>(119)</b>	<b>868</b>	<b>16</b>
<b>Total</b>	<b>25,787</b>	<b>3,593</b>	<b>55,668</b>	<b>(22,522)</b>	<b>14,481</b>	<b>4,398</b>

## 6. Subsidiaries

Subsidiaries controlled by OJSC NWT are presented below:

Name	Activity	Interest in share capital, %	
		December 31, 2009	December 31, 2008
CJSC AMT	Consultation services	100.00	100.00
OJSC Kolatelecom	Telecommunication services	50.00	50.00
CJSC Novgorod Datacom	Telecommunication services	100.00	100.00
CJSC Parma Inform	Telecommunication services	100.00	100.00
CJSC Petersburg Transit Telecom	Telecommunication services	-	100.00
CJSC RPK Svyazist	Recreational services	100.00	100.00

All of the above entities are Russian legal entities established pursuant to the legislation of the Russian Federation and have the same reporting date as the Company.

Management believes that the Group NWT has control over OJSC Kolatelecom as it has a majority (over 50% of votes) in the Board of Directors, necessary to vote on all matters within the Board of Directors' province. Therefore, OJSC Kolatelecom is treated as a subsidiary in the consolidated financial statements of the Group NWT.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 6. Subsidiaries (continued)

During the reporting period, some of the Company's subsidiaries were restructured via changes in their legal structure in accordance with the relevant decisions of the sole equity participant of the subsidiaries:

- LLC Novgorod Deitacom was restructured into CJSC Novgorod Deitacom (Resolution No. 02-08 of September 30, 2008), date of posting the entry into the Unified Statutory Register of Legal Entities: February 02, 2009, Main State Registration Number: 1095321000510;
- LLC Parma-Inform was restructured into CJSC Parma-Inform (Resolution No. 02-08 of September 30, 2008), date of posting the entry into the Unified Statutory Register of Legal Entities: February 02, 2009, Main State Registration Number: 1091101000946;
- LLC RPK Svyazist was restructured into CJSC RPK Svyazist (Resolution No. 03-08 of September 30, 2008), date of posting the entry into the Unified Statutory Register of Legal Entities: February 04, 2009, Main State Registration Number: 1094712000129.

In December 2009, voluntary liquidation procedures were completed with respect to CJSC Petersburg Transit Telecom. Assets received by the Group NWT as a result of the liquidation in the amount of 1,393 were transferred to the Petersburg and Leningrad Region branches of the Group NWT and its Head Office.

## 7. Assets held for sale

As of December 31, 2009 the Group NWT recognized assets held for sale in the amount of 9 (at December 31, 2008: 162). The assets comprise buildings which the Group NWT intends to sell during 2010 based on its Program of the property management approved by Board of Directors. In accordance with the Program the Group NWT will sell property which is not planned to be used in operations in the future. The management expects that the above assets will be sold at prices exceeding their carrying value as of December 31, 2009. Assets in the amount of 142 recognised as of December 31, 2008 as those held for sale and not sold during 2009 have been reclassified by the Group NWT into investment property. The Group NWT is actively casting about for a tenant or a buyer with respect to those assets.

## 8. Property, plant and equipment

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Construction in progress and equipment for installation	Total
<b>Cost</b>					
<b>As at December 31, 2007</b>	<b>22,379</b>	<b>21,745</b>	<b>3,757</b>	<b>2,160</b>	<b>50,041</b>
Additions	-	-	-	13,977	13,977
Put in operation	5,043	7,311	1,356	(13,710)	-
Disposals	(342)	(110)	(82)	(46)	(580)
Disposal due to classification assets held for sale	(218)	-	-	-	(218)
Reclassifications	(112)	112	48	(48)	-
<b>As at December 31, 2008</b>	<b>26,750</b>	<b>29,058</b>	<b>5,079</b>	<b>2,333</b>	<b>63,220</b>
Additions	-	-	-	5,166	5,166
Put in operation	2,296	2,656	1,138	(6,090)	-
Disposals	(72)	(347)	(159)	(33)	(611)
Disposal due to transfer to assets held for sale	(15)	-	-	-	(15)
Reclassifications	202	(367)	165	-	-
<b>As at December 31, 2009</b>	<b>29,161</b>	<b>31,000</b>	<b>6,223</b>	<b>1,376</b>	<b>67,760</b>



## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 8. Property, plant and equipment (continued)

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other property, plant and equipment	Construction in progress and equipment for installation	Total
<b>Accumulated depreciation and amortisation</b>					
<b>As at December 31, 2007</b>	<b>(5,756)</b>	<b>(7,100)</b>	<b>(2,339)</b>	-	<b>(15,195)</b>
Depreciation	(1,375)	(2,824)	(937)	-	(5,136)
Depreciation on disposed assets	102	85	75	-	262
Depreciation on disposed assets on classification assets held for sale	56	-	-	-	56
Reclassifications	22	(22)	-	-	-
<b>As at December 31, 2008</b>	<b>(6,951)</b>	<b>(9,861)</b>	<b>(3,201)</b>	-	<b>(20,013)</b>
Depreciation	(1,622)	(3,696)	(1,076)	-	(6,394)
Depreciation on disposed assets	56	252	146	-	454
Depreciation on disposed assets on classification assets held for sale	6	-	-	-	6
Impairment loss accrued	-	-	-	(26)	(26)
Reclassifications	16	189	(205)	-	-
<b>As at December 31, 2009</b>	<b>(8,495)</b>	<b>(13,116)</b>	<b>(4,336)</b>	<b>(26)</b>	<b>(25,973)</b>
<b>Net book value As at December 31, 2007</b>	<b>16,623</b>	<b>14,645</b>	<b>1,418</b>	<b>2,160</b>	<b>34,846</b>
<b>Net book value As at December 31, 2008</b>	<b>19,799</b>	<b>19,197</b>	<b>1,878</b>	<b>2,333</b>	<b>43,207</b>
<b>Net book value As at December 31, 2009</b>	<b>20,666</b>	<b>17,884</b>	<b>1,887</b>	<b>1,350</b>	<b>41,787</b>

As of December 31, 2009 and 2008 the net book value of property, plant and equipment received under finance lease contracts amounted to:

	December 31, 2009	December 31, 2008
Buildings and constructions	-	6
Switches and transmission devices	-	174
Vehicles and other property, plant and equipment	38	-
<b>Net book value of property, plant and equipment received under finance lease contracts</b>	<b>38</b>	<b>180</b>

Depreciation charge for 2009 in the amount of 6,393 (2008: 5,136) was recognized in "Depreciation and amortization" of the consolidated income statement.

As at December 31, 2009 the historical cost of fully depreciated but still used in operation property plant and equipment was 7,061 (31 December 2008: 5,677).

Additions to property, plant and equipment acquired through financial leases in 2009 was 45 (2008: 0).

In 2009 the Group NWT increased the cost of construction in progress by the amount of capitalized interest in the amount of 140 (2008: 95). Capitalization rate in 2009 was 7% (2008: 7%).

As at December 31, 2009 carrying value of the Company's property plant and equipment which were pledged under borrowing agreements was 1,990 (December 31, 2008: 1,049).

As at December 31, 2009 the Company analyzed the residual useful life of property, plant and equipment. As a result the useful life periods in respect of a number of assets were revised. Changes in the residual useful life of the aforementioned property, plant and equipment will entail a monthly decrease in depreciation by 24 in the consolidated financial statements for 2010.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 8. Property, plant and equipment (continued)

#### Impairment of property, plant and equipment

At 31 December 2009, the Company carried out impairment testing of capital investments which had not been timely completed upon the sale of the appropriate investment projects. As a result of that, an impairment loss of 26 has been recognised with respect to the Group NWT capital investments (2008: 0).

The impairment loss was recognized in "Other operating expenses" of the consolidated income statement.

No additional impairment of other categories of property, plant and equipment was identified as of December 31, 2009.

### 9. Intangible assets

	Goodwill	Licenses	Software	Customer base	Other	Total
<b>Cost</b>						
<b>as at December 31, 2007</b>	<b>958</b>	<b>24</b>	<b>3,934</b>	<b>248</b>	<b>221</b>	<b>5,385</b>
Purchase of assets	-	10	956	-	4	970
Disposals	-	(3)	(64)	-	-	(67)
<b>as at December 31, 2008</b>	<b>958</b>	<b>31</b>	<b>4,826</b>	<b>248</b>	<b>225</b>	<b>6,288</b>
Purchase of assets	-	156	436	-	11	603
Disposals	-	(13)	(240)	-	(4)	(257)
<b>as at December 31, 2009</b>	<b>958</b>	<b>174</b>	<b>5,022</b>	<b>248</b>	<b>232</b>	<b>6,634</b>
	Goodwill	Licenses	Software	Customer base	Other	Total
<b>Accumulated depreciation and impairment losses</b>						
<b>as at December 31, 2007</b>	<b>(16)</b>	<b>(14)</b>	<b>(662)</b>	<b>(11)</b>	<b>(63)</b>	<b>(766)</b>
Amortization charge for the year	-	(7)	(314)	(1)	(56)	(378)
Amortization on disposals	-	3	60	-	-	63
<b>as at December 31, 2008</b>	<b>(16)</b>	<b>(18)</b>	<b>(916)</b>	<b>(12)</b>	<b>(119)</b>	<b>(1,081)</b>
Amortization charge for the year	-	(13)	(421)	(1)	(23)	(458)
Amortization on disposals	-	11	217	-	3	231
<b>as at December 31, 2009</b>	<b>(16)</b>	<b>(20)</b>	<b>(1,120)</b>	<b>(13)</b>	<b>(139)</b>	<b>(1,308)</b>
<b>Net book value as at December 31, 2007</b>	<b>942</b>	<b>10</b>	<b>3,272</b>	<b>237</b>	<b>158</b>	<b>4,619</b>
<b>Net book value as at December 31, 2008</b>	<b>942</b>	<b>13</b>	<b>3,910</b>	<b>236</b>	<b>106</b>	<b>5,207</b>
<b>Net book value as at December 31, 2009</b>	<b>942</b>	<b>154</b>	<b>3,902</b>	<b>235</b>	<b>93</b>	<b>5,326</b>

#### Oracle E-Business Suite

As at December 31, 2009 software included Oracle E-Business Suite with a carrying amount of 886 (December 31, 2008: 984).

Interest capitalized in 2009 in respect of implementation of Oracle E-Business Suite comprised nil (2008: 5; capitalization rate was 7%).

Changes in carrying amount of Oracle E-Business Suite for 2009 and 2008 are presented below:

	2009	2008
<b>At the beginning of the year</b>	<b>984</b>	<b>914</b>
Implementation costs	23	170
Amortization charge	(121)	(100)
<b>As at December 31</b>	<b>886</b>	<b>984</b>

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **9. Intangible assets (continued)**

### **Amdocs Billing Suite**

As at December 31, 2009 software included Amdocs Billing Suite with a carrying amount of 942 (December 31, 2008: 927).

Interest capitalized in 2009 in respect of implementation of Amdocs Billing Suite comprised 3 (2008: 0). The capitalisation rate was 4%.

The software was acquired with a view to implementing a unified billing system. The project on implementing the unified billing system based on Amdocs Billing Suite is expected to take 4 to 5 years to complete. The Company expects to continue implementing Amdocs in 2010-2011.

Amortization of the software will start after completion of its implementation proportionally to the value of implemented modules. Management plans to test the asset for impairment on a regular basis until it will be completely implemented.

### **Unified Pre-Billing System HP Open View IUM**

As of December 31, 2009, software also included unified pre-billing system HP Open View IUM with a carrying value of 240 (at December 31, 2008: 214).

The software was purchased in December 2006 with a view to implementing unified computerized settlement system Amdocs Billing Suite. A unified pre-billing function is necessary to ensure centralized settlements with interconnected operators and to transfer data to Amdocs Billing Suite.

The HP Open View IUM implementation project is expected to take 3-4 years to complete. System implementation project started in October 2006. The software implementation costs in 2009 were 25 (2008: 0).

It's the Company's plan to complete the work on the project in 2010.

The Company will commence amortizing this asset from the date of software implementation on a pro rata basis (proportionally to the cost of modules implemented) over its estimated useful life that is to be determined upon before the in-service date. Until then, management periodically assesses the asset for impairment.

### **Communication Network Operating Support Systems (SEPSS)**

As at December 31, 2009 software included Communication Network Operating Support Systems with a carrying amount of 1,167 (December 31, 2008: 1,012).

Interest expense capitalized in 2009 in respect of implementation of Communication Network Operating Support Systems was nil (2008: 5; capitalization rate was 7%).

The SEPSS project is being implemented with a view to computerizing network accounting, network and service management processes and is expected to take 3-4 years to complete. Software implementation started in May 2006.

The Group NWT will commence amortizing this asset from the date of software implementation on a pro rata basis (proportionally to the cost of modules implemented) over its estimated useful life that is to be determined upon before the in-service date. Until then, management periodically assesses the asset for impairment.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 9. Intangible assets (continued)

### HP OpenView Service Activator

As of December 31, 2009 included in software was HP OpenView Service Activator software with a carrying value of 148 (at December 31, 2008: 139).

The HP OpenView Service Activator software is being implemented with a view to creating an integrated system of activation of services and is expected to take 2 years to complete. The project was started in March 2008.

In November 2008 the Group NWT started to use the HP OpenView Service Activator software. The Group NWT amortizes the asset starting from the in-service date over the useful life of 10 years. In 2009, 14 of expenses attributable to regular activities (2008: 1) was charged against "Depreciation and amortization" of the consolidated income statement.

### Information Service Support System software (SPISU)

At December 31, 2009, the software included a product for developing an information service support system with a carrying value of 303 (at December 31, 2008: 121). The product was acquired with a view to helping the Group NWT to enhance its competitive position on the telecom market, putting in place a high-performance tool to support core business in the field of sales and client service and generating additional income from paid information services. The SPISU project involves establishing resource centres at branches. Server and telecommunication equipment will be based in the Petersburg branch.

In 4th quarter 2009, PAK SPISU-1 Start-Up Set was put into operation in the Petersburg Branch. In 2009, 1 of expenses attributable to regular activities (2008: 0) was charged against "Depreciation and amortization" of the consolidated income statement.

Currently the Group NWT is implementing phase 2 of the project covering a period of December 2009 through December 2010: performance of design and survey work and connection of the Kaliningrad, Leningrad region and Pskov Branches to the SPISU.

In 2010 resource centres are expected to be established to cover the remaining branches of the Company.

### Amortisation of intangible asset

Amortisation charge for 2009 in the amount of 458 (2008: 378) was recognized in "Depreciation and amortization" of the consolidated income statement.

### Goodwill and intangible assets recognized in business combinations

As of December 31, 2009, intangible assets identified as a result of the acquisition of CJSC Petersburg Transit Telecom in 2007 represent those resources from which future economic benefits are expected to flow to the Group NWT:

- customer basis;
- numbering capacity.

The customer base is an intangible asset that represents contractual relations with the clients of CJSC Petersburg Transit Telecom and has indefinite useful life. This asset is not amortized, but it is tested for impairment annually or more frequently if there is an indication that the intangible asset may be impaired.

Numbering capacity represents CJSC Petersburg Transit Telecom numbering capacity as of the acquisition date; it is amortised on a pro rata basis against unutilised numbering resources as of the end of the reporting period.

The goodwill recognized as a result of the CJSC Petersburg Transit Telecom acquisition is attributed to the expected synergies and other benefits from combining the assets and activities of CJSC Petersburg Transit Telecom with those of the Group NWT. In 2009, in the light of the adoption of IFRS 8 Operating Segments the Company revisited the previous allocation of goodwill and reallocated it to the operating segment "Petersburg Branch".

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 9. Intangible assets (continued)

### Impairment test of intangible assets not yet available for use

The Group NWT performed impairment tests of intangible assets not yet available for use and intangible assets with indefinite useful life as of December 31, 2009. As a result of analysis, no impairment of intangible assets was identified.

In 2006 the Group NWT recognized goodwill resulted from acquisition of LLC Novgorod Deitacom that was subsequently restructured through merger with another Group NWT subsidiary LLC Novgorod Datacom and further restructured into CJSC Novgorod Deitacom. As of December 31, 2009 before impairment testing, the carrying value of goodwill attributable to CJSC Novgorod Deitacom net of impairment recognized in prior periods was 31 (at December 31, 2008: 31). The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period were extrapolated. The discount rate applied to the cash flow projections is 24.7% (2008: 21.77%) that represents weighted average cost of capital of cash generating unit calculated at nominal basis. No additional impairment was identified in 2009.

In 2007 the Group NWT recognized goodwill of 911 resultant from acquisition of CJSC Petersburg Transit Telecom. The recoverable amount of the goodwill was determined based on its value in use calculation using cash flow projections based on financial budgets approved by management covering a five years period. Cash flows beyond the five year period were extrapolated. The discount rate applied to the cash flow projections is 24.7% (2008: 20.89%) which represents weighted average cost of capital of cash generating unit calculated at nominal basis.

As a result of tests performed no impairment of goodwill was identified as of December 31, 2009.

## 10. Other non-current assets

	December 31, 2009	December 31, 2008
Advances given for investing activities	685	363
Advances given for operating activities	30	30
<b>Total</b>	<b>715</b>	<b>393</b>

## 11. Investment property

	Investment property
<b>Cost</b>	
as at December 31, 2008	-
Reclassification from assets held for sale	142
as at December 31, 2009	142
<b>Accumulated depreciation and impairment</b>	
as at December 31, 2008	-
Depreciation charge for the year	(7)
Reclassification of impairment loss from assets held for sale	(39)
as at December 31, 2009	(46)
<b>Net book value as at December 31, 2008</b>	-
<b>Fair value as at December 31, 2008</b>	-
<b>Net book value as at December 31, 2009</b>	96
<b>Fair value as at December 31, 2009</b>	765

As of December 31, 2009, the Group NWT had no limitations concerning its right to sell investment property.

As of December 31, 2009 no investment property of the Group NWT were pledged in respect of borrowing agreements, commercial credit agreements and financial lease agreements.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 11. Investment property (continued)

In 2009 there were no restrictions in respect of income from rent and sale on investment property of the Group NWT.

Investment property has been valued through the engagement of independent appraisers.

When fair valuing investment property, the Group NWT relied on the market and income approaches.

The following major assumptions were used for establishing fair values of investment property:

- Information about rent rates in the regions where the Group NWT investment properties are located;
- Information about per unit cost of floor space in the regions where the Group NWT investment properties are located;
- Other assumptions.

The above listed assumptions are based on market information about deals with similar assets.

## 12. Investment in associates

Name	Activities	December 31, 2009		
		Share in equity, %	Voting share, %	Net book value
CJSC WestBalt Telecom	Telecommunication services	28.00	28.00	88
<b>Total</b>				<b>88</b>

Name	Activities	December 31, 2008		
		Share in equity, %	Voting share, %	Net book value
CJSC WestBalt Telecom	Telecommunication services	28.00	28.00	84
<b>Total</b>				<b>84</b>

Listed above company is Russian legal entity established pursuant to the legislation of Russian Federation and has the same reporting date as the Group NWT.

Movement in the carrying value of investments in associates for the years ended December 31, 2009 and 2008 is presented below:

	2009	2008
<b>At the beginning of the year</b>	<b>84</b>	<b>125</b>
Profit from investments in associates	4	13
Disposal of associates	-	(54)
<b>Investments in associates as at December 31</b>	<b>88</b>	<b>84</b>

The table below shows aggregated information on the major associates:

Name of associate	Share in equity, %	Assets	Liabilities	Revenue from disposal	Profit for the year
<b>As at December 31, 2009 and for 12 months ended December 31, 2009</b>					
CJSC WestBalt Telecom	28.00	354	38	264	15
<b>As at December 31, 2008 and for 12 months ended December 31, 2008</b>					
CJSC WestBalt Telecom	28.00	347	47	296	45

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 13. Financial assets

	December 31, 2009	December 31, 2008
Non-current promissory notes	3,161	-
Non-current available for sale financial assets	21	21
Non-current loans	18	20
Other non-current financial assets	-	3
<b>Total non-current financial assets</b>	<b>3,200</b>	<b>44</b>
Current promissory notes and deposits	743	292
Current loans	13	21
Other current financial assets	-	14
<b>Total current financial assets</b>	<b>756</b>	<b>327</b>
<b>Total financial assets</b>	<b>3,956</b>	<b>371</b>

As at December 31, 2009 and 2008 non-current available for sale financial assets included the following:

	December 31, 2009		December 31, 2008	
	Share in equity, %	Fair value	Share in equity, %	Fair value
OJSC Informationsnyye tekhnologii svyazi	11.00	13	11.00	13
OJSC AKB Svyaz Bank	0.01	-	0.23	-
Other		8		8
<b>Total</b>		<b>21</b>		<b>21</b>

In 2009, the Company's interest in OJSC AKB Svyaz-Bank share capital reduced from 0.23% to 0.0124%, since the Company did not purchase any of the additional share issue.

Nominal value of the Company's investment in OJSC AKB Svyaz-Bank fell from 11 to 2 due to the reduction of OJSC AKB Svyaz-Bank's share capital to 19,026 through the decrease in nominal value of the shares from RUR 0.01 to RUR 0.002.

No cash distributions were paid to OJSC AKB Svyaz-Bank shareholders upon the reduction of nominal value of each share.

In 2008, the Group NWT engaged independent appraisers to establish the fair value of its equity investment in OJSC AKB Svyaz-Bank. At December 31, 2008 the investment was reported at 0 (nil). In 2009, the Group NWT measured this investment in the same amount as in 2008, because there was no improvement of OJSC AKB Svyaz-Bank's financial position. Total amount of impairment of investment written off through other comprehensive income in 2008 equals to 152 (including deferred tax).

The Company invests temporarily free financial resources into promissory notes issued by sundry Russian companies. The Company uses promissory notes as a financial instrument, mainly for deriving financial income.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 13. Financial assets (continued)

In June 2009, the Company entered into two contracts with OJSC AKB Svyaz-Bank to purchase the following currency-denominated interest-bearing promissory notes of the Bank:

					Thousand US\$'000
Promiser	Contract	Promissory note series and No.	Principal amount	Interest rate per annum	Repayment date
OJSC AKB Svyaz-Bank	BF-01/072	SV №006132	11,000	6.25%	At sight, but not earlier than October 9, 2009
OJSC AKB Svyaz-Bank	BF-01/073	SV №006133	11,000	7%	At sight, but not earlier than January 11, 2010
<b>TOTAL</b>			<b>22,000</b>		

As per the contract, the Bank may accept and repay a promissory note before the maturity expires (with the right of early presentation of the promissory notes for payment). Promissory note SV No.006132 was redeemed in October 2009, and an interest of 6 has been received. At December 31, 2009 USD-denominated promissory notes receivables was 333.

In August 2009, the Company entered into four contracts to purchase the following non-current non-interest bearing notes with maturities falling due in 2011:

					Thousand Roubles
Promiser	Contract	Promissory note series and No.	Principal amount	Cost of purchase	Repayment date
OJSC AB ORGRESBANK (renamed in OJSC Nordea Bank)	VPR-002/09	OB 0071286	371,375	300,000	On demand but no earlier than 10.06.11
		OB 0071287	371,375	300,000	On demand but no earlier than 10.06.11
CJSC Bank Societe Generale Vostok (BSGV)	3229014-PN	3229014-1	371,482	300,000	On demand but no earlier than 11.06.11
		3229014-2	371,482	300,000	On demand but no earlier than 11.06.11
OJSC KIT Finance Investment Bank	110809/PR	BAA 002480	396,082	300,000	On demand but no earlier than 10.06.11
		BAA 002481	396,082	300,000	On demand but no earlier than 10.06.11
CJSC AKB Absolut Bank	V1/33520-09	BAA 002482	264,054	200,000	On demand but no earlier than 10.06.11
		VV 001518	324,349	250,000	10.06.2011
		VV 001519	324,349	250,000	10.06.2011
		VV 001520	324,349	250,000	10.06.2011
		VV 001521	324,349	250,000	10.06.2011
<b>TOTAL</b>			<b>3,839,328</b>	<b>3,000,000</b>	



## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 13. Financial assets (continued)

At December 31, 2009, the aforementioned promissory notes receivables was 3,161, including 161 of interest accrued at the effective rate.

In August 2009, the Company acquired current non-interest bearing notes of OJSC KIT Finance Investment Bank and CJSC GLOBEKSBANK:

Thousand Roubles					
Promiser	Contract	Promissory note series and No.	Principal amount	Cost of purchase	Repayment date
OJSC KIT Finance Investment Bank	310809/PR	BAA 002483	207,786	200,000	On demand but no earlier than 07.12.09
		IX-GL 013481	51,812	50,000	On demand but no earlier than 07.12.09
CJSC GLOBEKSBANK	14/01/01-09	IX-GL 013482	51,812	50,000	On demand but no earlier than 07.12.09
		IX-GL 013483	51,812	50,000	On demand but no earlier than 07.12.09
		IX-GL 013484	51,812	50,000	On demand but no earlier than 07.12.09
<b>TOTAL</b>			<b>415,034</b>	<b>400,000</b>	

The aforementioned promissory notes were settled in December 2009. Income on the settlement was 15.

In September and December 2009, the Company acquired the following current non-interest bearing notes of CJSC IK REGION:

Thousand Roubles					
Promiser	Contract	Promissory note series and No.	Principal amount	Cost of purchase	Repayment date
CJSC IK REGION	160909-1/S	004275	56,000	50,000	16.09.2010
		004276	56,000	50,000	16.09.2010
		004277	56,000	50,000	16.09.2010
		004278	56,000	50,000	16.09.2010
		004289	55,500	50,000	25.12.2010
CJSC IK REGION	251209-2/S	004290	55,500	50,000	25.12.2010
		004291	55,500	50,000	25.12.2010
		004292	55,500	50,000	25.12.2010
<b>TOTAL</b>			<b>446,000</b>	<b>400,000</b>	

At December 31, 2009, the aforementioned promissory notes receivables was 407, including 7 of interest accrued.

In July 2009, Company's subsidiary CJSC AMT placed Russian rouble-denominated deposits in the amount of 3 with OJSC MDM Bank at 14.6% p.a., with a repayment period of 6 months.

As of December 31, 2009 and 2008, loans issued are carried at amortized cost using the effective interest rate of 16%-26%. At December 31, 2009 and 2008, the Company had no financial assets under pledge.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 14. Inventories

	December 31, 2009	December 31, 2008
Spare parts	219	139
Cable	99	95
Finished goods and goods for resale	18	28
Fuel	15	15
Tools and accessories	15	19
Construction materials	8	30
Other inventory	57	134
<b>Total</b>	<b>431</b>	<b>460</b>

As of December 31, 2009 and 2008 the Company reported no inventories which were obsolete, fully or partially lost their original qualities, or whose current market value was impaired. Therefore, no inventory impairment provision was created by the Company.

As of December 31, 2009 and 2008 no inventories were pledged as security for borrowings.

### 15. Trade and other receivables

	Total as at December 31, 2009	Doubtful debt provision	Net as at December 31, 2009
Settlements with customers for operating activities	1,539	(189)	1,350
Settlements with customers for non-operating activities	222	(73)	149
Settlements with personnel	6	-	6
Settlements with other debtors	1,426	(3)	1,423
<b>Total</b>	<b>3,193</b>	<b>(265)</b>	<b>2,928</b>
	Total as at December 31, 2008	Doubtful debt provision	Net as at December 31, 2008
Settlements with customers for operating activities	1,536	(198)	1,338
Settlements with customers for non-operating activities	137	(36)	101
Settlements with personnel	2	-	2
Settlements with other debtors	1,159	(4)	1,155
<b>Total</b>	<b>2,834</b>	<b>(238)</b>	<b>2,596</b>

As of December 31, 2009 and 2008 balances related to the compensation of losses incurred on universal communication services included in 'Other Receivables' was 1,324 and 1,020 respectively.

As of December 31, 2009 and 2008 trade receivables attributable to core operations consist of the following balances and accounts:

	Total as at December 31, 2009	Doubtful debt provision	Net as at December 31, 2009
Residential customers	702	(102)	600
Corporate customers	330	(53)	277
Governmental customers	84	(8)	76
Interconnected operators	423	(26)	397
<b>Total settlements with customers for operating activities</b>	<b>1,539</b>	<b>(189)</b>	<b>1,350</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 15. Trade and other receivables (continued)

	Total as at December 31, 2008	Doubtful debt provision	Net as at December 31, 2008
Residential customers	624	(88)	536
Corporate customers	301	(42)	259
Governmental customers	84	(8)	76
Interconnected operators	527	(60)	467
<b>Total settlements with customers for operating activities</b>	<b>1,536</b>	<b>(198)</b>	<b>1,338</b>

As at December 31, 2009 liability of social security bodies for recovering of expenses attributable to benefits provided to certain categories of customers comprised 0.02% of total trade receivables (at December 31, 2008: 0.02%).

For the year ended December 31, 2009, the Group NWT has, in court, recovered from the federal budget less than 1 of the aforementioned receivables (2008: less than 1).

Movements in the doubtful debt provisions are presented below:

	2009	2008
<b>At the beginning of the year</b>	(238)	(315)
Accrual of provision	(113)	-
Reversal of provision	-	23
Write-off of accounts receivable	86	54
<b>Balance as at December 31</b>	<b>(265)</b>	<b>(238)</b>

## 16. Other current assets

	Total as at December 31, 2009	Provision	Net as at December 31, 2009
Prepayments and advances	127	-	127
VAT recoverable	72	-	72
Prepayment for other taxes	22	-	22
Deferred expenses	33	-	33
Other current assets	16	-	16
<b>Total</b>	<b>270</b>	<b>-</b>	<b>270</b>

	Total as at December 31, 2008	Provision	Net as at December 31, 2008
Prepayments and advances	99	(1)	98
VAT recoverable	64	-	64
Prepayment for other taxes	198	-	198
Deferred expenses	15	-	15
Other current assets	9	-	9
<b>Total</b>	<b>385</b>	<b>(1)</b>	<b>384</b>

Other current assets at December 31, 2009 include claim settlements of 16 (at December 31, 2008: 8) reported in line item 'Other Financial Assets' in Note 27.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 17. Cash and cash equivalents

	December 31, 2009	December 31, 2008
Cash-in-bank and cash-in-hand	546	921
Short-term deposits and promissory notes up to 3 months	28	80
<b>Total</b>	<b>574</b>	<b>1,001</b>

At December 31, 2009 and 2008, the Group NWT had no restrictions on cash balances.

Short-term deposits vary from an original maturity of 30 days to 3 months depending on current cash requirements and bring in interest income at the effective deposit rates. Effective interest rates vary from 5.5% to 12.5%.

### 18. Significant non-cash transactions in investing and financing activities

During 1st quarter 2009, the Company leased in transport vehicles under a lease contract with OJSC VTB-Leasing in the amount of 45. Cost of equipment received free in 2009 was 4 (2008: 4).

### 19. Share capital

As at December 31, 2009 and December 31, 2008 nominal and carrying values of issued ordinary and preference shares were as follows:

Type of share	Number of outstanding shares (thousands)	Par value (RUR)	Total par value	Total carrying value
Ordinary	881,045	1	881	2,233
Preference	250,369	1	250	622
<b>Total</b>	<b>1,131,414</b>		<b>1,131</b>	<b>2,855</b>

The difference between the nominal and carrying value of shares reflects the effect of inflation in periods preceding January 1, 2003.

All issued shares were fully paid up.

Shareholding structure of the Group NWT as of December 31, 2009 was as follows:

Shareholders	Ordinary shares		Preference shares		
	Share %	Quantity (thousand)	%	Quantity (thousand)	%
<b>Total legal entities</b>	89.49	841,612	95.53	170,891	68.26
OJSC Svyazinvest	39.53	447,231	50.76	-	-
Holders of over 5% of equity	49.18	388,584	44.11	167,798	67.02
<i>including:</i>					
NP National Depository Center	19.32	130,736	14.84	87,809	35.07
CJSC Depozitarno-Clearingovaya company	13.13	101,283	11.50	47,254	18.87
CJSC UBS Nominees	11.72	109,815	12.46	22,666	9.05
CJSC ING Bank (Eurasia)	5.01	46,750	5.31	10,069	4.03
Other	0.78	5,797	0.66	3,093	1.24
<b>Total individuals</b>	<b>10.51</b>	<b>39,433</b>	<b>4.47</b>	<b>79,478</b>	<b>31.74</b>
<b>Total</b>	<b>100.00</b>	<b>881,045</b>	<b>100.00</b>	<b>250,369</b>	<b>100.00</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 19. Share capital (continued)

Shareholding structure of the Group NWT as of December 31, 2008 was as follows:

Shareholders	Ordinary shares		Preference shares	
	Share %	Quantity (thousand)	Share %	Quantity (thousand)
<b>Total legal entities</b>	89.43	841,193	95.48	170,656
OJSC Svyazinvest	39.53	447,231	50.76	-
Holder of over 5% of equity	49.16	389,066	44.16	167,185
<i>including:</i>				
NP National Depository Center	17.62	125,370	14.23	74,000
CJSC Depozitarno-Clearingovaya company	13.64	86,916	9.86	67,446
CJSC UBS Nominees	11.71	109,815	12.46	22,666
CJSC ING Bank (Eurasia)	6.19	66,965	7.61	3,073
Other	0.74	4,896	0.56	3,471
<b>Total individuals</b>	<b>10.57</b>	<b>39,852</b>	<b>4.52</b>	<b>79,713</b>
<b>Total</b>	<b>100.00</b>	<b>881,045</b>	<b>100.00</b>	<b>250,369</b>

Ordinary shareholders are entitled to one vote per share.

“A” class preference shares give the holders the right to participate in general shareholders’ meetings without voting rights except for instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company’s charter which would restrict the rights of preference shareholders.

The preference shares carry non-cumulative dividends per share in the amount calculated as the highest of 10% of net income for the year determined under Russian accounting standards divided by the number of preference shares or dividend per ordinary share. If holders of preference shares receive the amount less than 10% of net income determined under Russian accounting standards, no dividends are distributed to holders of ordinary shares. Owners of preference shares have the right to participate in, and vote on all issues within the competence of, annual general shareholders’ meetings following the annual shareholders’ general meeting at which a decision not to pay or to pay partially dividends on preference shares has been taken until the first full payment of dividend on such shares.

Distributable earnings of Group NWT companies are limited to respective retained earnings of entities constituting Group NWT, as determined in accordance with Russian accounting standards. Retained earnings of OJSC NWT determined under Russian legislation as at December 31, 2009 and 2008 amounted to 3,473 and 3,622, respectively.

In September 2001 OJSC NWT listed American Depositary Receipts (ADRs), Level 1. Each ADR represents 10 ordinary shares of OJSC NWT\*. As of December 31, 2009, 2,812,420 (December 31, 2008: 3,657,670) ADRs represented 28,124,200 (December 31, 2008: 36,576,700) ordinary shares deposited with J.P.Morgan, which constituted 3.19% (December 31, 2008: 4.15%) of all ordinary shares issued.

The table below shows movements in registered ADRs for 2009 and 2008:

	ADR (quantity)	Ordinary shares equivalent (quantity)	Ordinary shares	Share capital
<b>December 31, 2007</b>	<b>1,084,818</b>	<b>54,240,900</b>	<b>6.16</b>	<b>4.79</b>
Increase (decrease) in 2008	2,572,852	(17,664,200)	-2.01	-1.56
<b>December 31, 2008</b>	<b>3,657,670</b>	<b>36,576,700</b>	<b>4.15</b>	<b>3.23</b>
Decrease in 2009	(845,250)	(8,452,500)	-0.96	-0.74
<b>December 31, 2009</b>	<b>2,812,420</b>	<b>28,124,200</b>	<b>3.19</b>	<b>2.49</b>

\* - Effective July 31, 2008 the conversion factor for Level 1 ADRs issued against ordinary shares was changed. The new ADR conversion factor is as follows: 1 ADR equal to 10 ordinary shares of OJSC NWT (prior to July 31, 2008 ADR conversion factor was: 1 ADR equal to 50 ordinary shares of OJSC NWT).

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 19. Share capital (continued)

The ADRs are currently traded in the following exchanges:

Exchange	CUSIP (WKN)	ADR ticker	ISIN
OTC	663,316,107	NWTEY	US6633161079
Frankfurt Stock Exchange	A0BLXU	SQ4	US6633161079
Berlin Stock Exchange	A0BLXU	SQ4	US6633161079

Movements in the quantity and carrying value of treasury shares for 2009 and 2008 are shown below:

	Ordinary shares		Preference shares	
	Quantity (thousand)	Net book value	Quantity (thousand)	Net book value
<b>December 31, 2007</b>	<b>3,005</b>	<b>28</b>	<b>3,225</b>	<b>39</b>
<b>December 31, 2008</b>	<b>3,005</b>	<b>28</b>	<b>3,225</b>	<b>39</b>
<b>December 31, 2009</b>	<b>3,005</b>	<b>28</b>	<b>3,225</b>	<b>39</b>

Treasury shares are represented by the Company's shares owned by its subsidiary CJSC AMT.

### 20. Borrowings

	December 31, 2009	December 31, 2008
<b>Long-term borrowings</b>		
Bank and corporate loans	6,075	7,904
Bonds	10,484	7,989
Promissory notes	2	19
Vendor financing	-	1
Finance lease liabilities	32	12
Interest payable	10	8
Other long-term borrowings	23	11
Less current portion of long-term borrowings	(8,518)	(2,578)
<b>Total long-term borrowings</b>	<b>8,108</b>	<b>13,366</b>
<b>Short-term borrowings</b>		
Bank and corporate loans	-	2
Interest payable	146	146
Short-term derivatives (Note 27)	394	-
<b>Total short-term borrowings</b>	<b>540</b>	<b>148</b>
Plus current portion of long-term borrowings	8,518	2,578
<b>Total current borrowings</b>	<b>9,058</b>	<b>2,726</b>
<b>Total borrowings</b>	<b>17,166</b>	<b>16,092</b>

As of December 31, 2009 and December 31, 2008, the Company's bank loans were secured by pledged property, plant and equipment with a total carrying value of 1,990 and 1,049 respectively.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 20. Borrowings (continued)

#### Credit lines

To meet working capital requirements and reduce cash gaps, the Company entered into the following revolving loan agreements as of the reporting dates:

Revolving loan facilities available to the Company in 2008 to meet its working capital needs:

Bank	OJSC ACB North West Bank of Sberbank of Russia
Date of agreement	27.10.2008
Expiration date	23.01.2009
No. of agreement	0103-116408
Credit line limit	225
Credit line interest rate	8.00%
Collateral	unsecured
Drawn down during 2008	-
Repaid during 2008	-
Interest charged for 2008	-
Debt as of 01.01.2009	-
Unused balance remaining as of 01.01.2009	225
Covenants	monthly revenue receipts in the Bank's account of at least 1,100.

Revolving loan facilities available to the Company in 2009 to meet its working capital needs:

Bank	OJSC ACB North West Bank of Sberbank of Russia	OJSC ACB North West Bank of Sberbank of Russia	OJSC ACB North West Bank of Sberbank of Russia
Date of agreement	14.01.2009	27.01.2009	09.02.2009
Expiration date	13.07.2010	26.07.2010	06.08.2010
No. of agreement	0103-100409	0103-101109	0103-101709
Credit line limit	380	385	390
Credit line interest rate	13.75% (since 26.01.2010 – 10.75%)	13.75% (since 26.01.2010 – 10.75%)	13.75% (since 26.01.2010 – 10.75%)
Collateral	pledged telecommunications equipment	pledged telecommunications equipment	pledged telecommunications equipment
Drawn down during 2009	2,442	1,317	2,024
Repaid during 2009	2,442	1,317	2,024
Interest charged for 2009	24	22	25
Debt as of 31.12.2009	-	-	-
Unused balance remaining as of 31.12.2009	380	385	390
Covenants	monthly revenue receipts in the Bank's account of at least 1,100	monthly revenue receipts in the Bank's account of at least 1,100.	monthly revenue receipts in the Bank's account of at least 1,100

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 20. Borrowings (continued)

#### Long-term borrowings - Bank and corporate loans

The table below summarizes the information about the most significant long-term bank and corporate loans outstanding as at December 31, 2009 and 2008:

Lender	Interest rate per agreement	December 31, 2009		December 31, 2008		Loan currency	Date of maturity	Type of collateral, if any
		Long-term portion	Short-term portion	Long-term portion	Short-term portion			
ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch)	5.5206 – 3.1123	1,999	2,041	3,903	-	USD	November 2011	Unsecured
Bank Austria Creditanstalt AG and CJSC UniCredit Bank	Tranche A: 4.3686-1.23406  Tranche B: 6.13688- 1.53406	807	1,111	1,855	1,065	USD	Tranche A – quarterly from January 2009 through October 2010 Tranche B – quarterly from July 2009 through July 2012	Unsecured
CJSC Raiffeisenbank	8.27 – 19.01	-	-	-	286	RUR	October 2009 (the loan was repaid early on 26.01.2009)	Unsecured
CJSC ING Bank (Eurasia)	8.38 – 31.40	-	-	-	250	RUR	October 2009	Unsecured
Citibank N.A	4.72-7.119	-	-	-	230	EUR	January 2009	Unsecured
Sberbank of Russia	7.75 13.75	-	-	-	178	RUR RUR	October, December 2009 July-August 2010	Pledge of telecommunicat ions equipment
Russian Ministry of Finance	3	57	47	100	37	EUR	December 2011	Pledge of telecommunicat ions equipment
CJSC St Petersburg Pay Phones	12	13	-	-	-	RUR	December 2011	Unsecured
<b>Total</b>		<b>2,876</b>	<b>3,199</b>	<b>5,858</b>	<b>2,046</b>			



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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### **20. Borrowings (continued)**

#### **ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch)**

In 2008 the Group NWT obtained a 150 million US Dollar syndicated loan with Bayerische Hypo-und Vereinsbank AG, London Branch acting as agent, and ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG, London Branch acting as original authorized lenders.

The facility comprises two tranches: Tranche A – 135 million US Dollars, Tranche B – 15 million US Dollars.

Tranche A was fully drawn on November 14, 2008. The loan is repayable in equal quarterly installments from February 9, 2010 to November 7, 2011.

Tranche B has not been drawn yet as there was no need for the funds due to the curtailment of the 2009 investment program.

The interest rate under the loan is a combination of interest margin of 2.75% p.a., 3 months US Dollar LIBOR and mandatory cost rate (if applicable). Interest under the agreement is accrued and payable on a quarterly basis.

Transaction costs totaled 2 million US Dollars (arrangement fee of 2 million US Dollars).

As of December 31, 2009, outstanding balance of this loan was 4,040 including short-term portion of 2,041 inclusive of interest accrued of 16 (December 31, 2008: 3,903, 0 and 29 respectively).

#### **CJSC UniCredit Bank**

In 2007 the Company obtained a 100 million US Dollar syndicated loan from CJSC International Moscow Bank (since December 25, 2007 the bank changed its name to CJSC UniCredit Bank) and Bank Austria Creditanstalt AG acting as the Authorized Arrangers, with Bank Austria Creditanstalt AG acting as Agent and CJSC UniCredit Bank acting as Original Lender. Since January 15, 2009, Bayerische Hypo- und Vereinsbank AG was appointed as an Agent in accordance with para.24.11(a) of the underlying Agreement.

The loan facility is issued in two equal tranches.

Tranche A was received on July 30 and August 13, 2007 in the amount of 40 million US Dollars and 10 million US Dollars, respectively. The loan is repayable in equal quarterly installments from January 19, 2009 to July 19, 2010.

Tranche B was received on August 13 and September 10, 2007 in the amount of 20 million US Dollars and 30 million US Dollars, respectively. The loan is repayable in equal quarterly installments from July 19, 2009 to July 19, 2012.

The interest rate under the loan is a combination of interest margin, Libor established for US Dollar for the respective interest period and mandatory cost rate. Interest margin for Tranche A is 0.95% p. a. and for Tranche B is 1.25% p.a.

Transaction costs totaled 1 million US Dollars.

The loan was obtained to refinance current payables and to fund investment projects. No early repayment of the principal was made in 2009 or 2008.

As of December 31, 2009 the amount outstanding under the syndicated loan was 1,918 (December 31, 2008: 2,920), including the current portion of 1,111 (December 31, 2008: 1,065). Accrued interest amounted to 5 (December 31, 2008: 18). The loan is not secured by pledge of property, plant and equipment.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 20. Borrowings (continued)

### The Russian Ministry of Finance

A long-term credit facility was granted to the Company in 1995-1996 by the Russian Federation Ministry of Finance to finance telecom equipment purchases from various foreign vendors. Vnesheconombank acted as a credit agent on behalf of the Ministry. The currency of the original and supplementary agreements is Euro.

As of December 31, 2009 the total amount due to the Ministry (Vnesheconombank acts as an agent) was 104 (December 31, 2008: 137), including short-term portion of 47 (December 31, 2008: 37). Interest to be written off in 2011 in accordance with the agreement was 6 (December 31, 2008: 5). The debt matures by 2011 and is reported at amortized cost using effective interest rate of 7%. The loan is secured by pledge of property, plant and equipment with net book value of 196 (December 31, 2008: 224).

### OJSC Sberbank of Russia

Outstanding loans as of 31 December, 2009 payable to OJSC Sberbank of Russia are represented by the revolving loan facility agreements:

- Agreement dated January 14, 2009 for a total of 380 to be drawn down in tranches. The agreement expires on July 13, 2010. Interest is accrued and paid on a monthly basis. Interest rate is 13.75%.
- Agreement dated January 27, 2009 for a total of 385 to be drawn down in tranches. The agreement expires on July 26, 2010. Interest is accrued and paid on a monthly basis. Interest rate is 13.75 %.
- Agreement dated February 9, 2009 for a total of 390 to be drawn down in tranches. The agreement expires on August 6, 2010. Interest is accrued and paid on a monthly basis. Interest rate is 13.75 %.

As of December 31, 2009 principal amount outstanding was nil (December 31, 2008: 178), including short-term portion (nil) (December 31, 2008: 178), and interest payable (nil) (December 31, 2008: 0.3). The loans are secured by the pledge of property, plant and equipment with net book value of 1,794 (December 31, 2008: 825).

### CJSC Raiffeisenbank

In January 2009, an outstanding balance of non-revolving loan facility advanced to the Company under the loan agreement with CJSC Raiffeisenbank No. RBA/2741-spb-2 of 25.10.2006 was repaid ahead of schedule. The total amount of the agreement was 500, maturity date was October 26, 2009.

### Citibank N.A.

In January 2009 the final settlement was made under the Syndicated Loan Agreement of December 15, 2005 for a total of 50 million Euro with Citibank International PLC (Citibank N.A. was Arranger) acting as Agent. The Company repaid 5.55 million Euro of the principal and less than 1 million Euro of interest for the last period.

### Restrictions and covenants

The current loan agreements impose the following restrictions on the Company's operations:

*Conditions potentially giving rise to the demand for early repayment*

Under the existing borrowing arrangements the Company has an obligation to comply with certain financial ratios.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 20. Borrowings (continued)

Under the fixed-date syndicated loan agreements of July 19, 2007 for 100 million US Dollars and of November 6, 2008 for 150 million US Dollars where Bayerische Hypo- und Vereinsbank AG London Branch acts as an Agent, the Company agrees to maintain the following financial ratios (computed based on the IFRS financial statements for the first six months and for the year):

- Total debt to EBITDA ratio – maximum 3:1;
- EBITDA to interest expense ratio – minimum 4:1;
- Net debt to net capitalization – maximum 1.

EBITDA is calculated as Total consolidated Profit for the year + Financial costs + Income tax + Profit (loss) from investment in associates except for dividends received in cash + Extraordinary and exceptional items – Profit for the year attributable to the non-controlling shareholders of subsidiaries + Depreciation and amortization.

Loan agreements with OJSC Sberbank of Russia:

- Monthly receipts in the Company's settlement account – minimum 1,100.
- The Company goes into insolvency (bankruptcy), third party bankruptcy proceedings initiated against the Company.
- Decision on restructuring or liquidation;
- Loss of collateral.
- Prosecution brought against the Company or claim on the Company's assets in the amount exceeding 5 million US Dollars.

Liabilities to the Russian Ministry of Finance:

- Restructuring of the Company, failure to discharge liabilities under the contract (debt restructuring agreement) during the month.

*Restrictions on operations:*

The fixed-date syndicated loan agreements of July 19, 2007 for 100 million US Dollars and of November 6, 2008 for 150 million US Dollars where Bayerische Hypo- und Vereinsbank AG London Branch acts as an Agent:

- Asset sales in a year < 10.00% of total assets.
- Loans and guarantees given < 10 million Euro.
- Dividends for a year < 100.00% of net profit for the year.
- New pledges and other collaterals of liabilities < 150 million US Dollars.

To be able to exceed these restrictions, the Company needs to obtain preliminary consent from the Principal Lenders. Preliminary consent of the Principal Lenders shall be also obtained in case of the Company's restructuring (merger, acquisition, division, spin-off).

As of 31 December 2009, the Company complied with all aforementioned conditions.

## Bonds

The table below summarizes the information about bonds outstanding as at December 31, 2009 and 2008:

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 20. Borrowings (continued)

Code (name / number)	Effective interest rate	December 31, 2009		December 31, 2008		Date of maturity	Repayment procedure	Offer date	Coupon interest
		Long-term portion	Short-term portion	Long-term portion	Short-term portion				
4-03-00119-A (bonds, series 03)	8.6% p.a.	1,200	1,800	3,000	-	24.02.2011	Nominal value of bonds is repaid by instalments on the following dates: -25.02.2010 30% -26.08.2010 30% -24.02.2011 40%	-	8.6% p.a.
4-04-00119-A (bonds, series 04)	8.6% p.a.	999	499	1,498	496	08.12.2011	Nominal value of bonds is repaid by instalments on the following dates: -10.12.2009 25% -09.12.2010 25% -08.12.2011 50%	-	8.1% p.a.
4-05-00119-A (bonds, series 05)	9.18% p.a.	-	2,996	2,995	-	21.05.2013	Nominal value of bonds is repaid by instalments on the following dates: - 22.05.2012 25%; - 20.11.2012 25% - 21.05.2013 50%	01.06.2010	3M MOSPRIME + 2.12% p.a. but not more than the cap rate of 15% p.a.
4-06-00119-A (bonds, series 06)	12.47% p.a.	2,990	-	-	-	24.07.2019	Nominal value of bonds is repaid by instalments on the following dates: - 26.07.2017 30% - 25.07.2018 30% - 24.07.2019 40%	09.08.2011	11.7% p.a.
<b>Total</b>		<b>5,189</b>	<b>5,295</b>	<b>7,493</b>	<b>496</b>				

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 20. Borrowings (continued)

The table below shows movements in bonds payable:

<b>Bonds as of December 31, 2007</b>	<b>4,992</b>
The 5th bond issue	3,000
Issue costs	(5)
Amortisation of issue costs	2
<b>Bonds as of December 31, 2008</b>	<b>7,989</b>
The 6th bond issue	3,000
Issue costs	(10)
Repayment of the 4 <sup>th</sup> bond issue	(500)
Amortisation of issue costs	5
<b>Bonds as of December 31, 2009</b>	<b>10,484</b>

As of December 31, 2009, the amount of bonds was 10,484.

In 2009 bonds of the 3rd, 4th, 5th and 6th issues were outstanding.

Code	Market value of the bonds per MICEX data as of the date closest to the period end (December 31, 2009)
4-03-00119-A (bonds, series 03)	97.51%
4-04-00119-A (bonds, series 04)	97.45%
4-05-00119-A (bonds, series 05)	100.21%
4-06-00119-A (bonds, series 06)	102.00%

In December 2004, the Company registered the 3rd issue of 3 million of certified coupon bonds with par value of 1,000 Roubles each carrying 24 interest bearing coupons payable every 91 days starting from the 91st day following the initial placement of bonds. The interest rate under coupons 1 through 12 was set at 9.25% p.a. The interest rate for coupons 13-24 was established by the Board of Directors on February 11, 2008 at 8.6% p.a. The bonds mature in February 2011, in 2184 days from the date of placement. The nominal bond value is repayable in instalments as follows: 30% - February 25, 2010, 30% - August 26, 2010, and 40% - February 24, 2011.

In 2009 the Company fully met its coupon obligations under coupon 16, 17, 18 and 19 at 8.6% p.a. for a total of 257. Coupon payment per bond was 21.44 Roubles for 16, 17, 18 and 19 coupons. The obligation was discharged within the time provided in the Offering Decision and Offering Circular.

The bonds issued do not provide for any offer which would enable their holders to present bonds for payment on the set dates within 12 months after the reporting date.

As of December 31, 2009 the outstanding loan totalled 3,000 including a short-term portion of 1,800 and interest payable of 25 (December 31, 2008: 3,000, 0 and 24 respectively).

In October 2006, the Company registered the 4th issue of 2 million of certified coupon bonds with par value of 1,000 Roubles each carrying 20 interest bearing coupons payable every 91 days starting from the 91st day following the initial placement of bonds. The coupon interest rate was set at 8.1% p.a. The bonds' part value schedule is the following: 25% of the value was repaid on December 10, 2009, 25% of the value will be payable on December 9, 2010 and 50% will be repaid on December 8, 2011.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 20. Borrowings (continued)

The bonds issued do not provide for any offer which would enable their holders to present bonds for payment on the set dates within 12 months after the reporting date. The Offering Decision and Offering Circular provide an option for early redemption at the Company's initiative on the 728th day from the date of placement (December 11, 2008). Bond premium payable on early redemption is 20 Roubles per bond. The Company did not exercise this option.

In 2009 the Company fully met its coupon obligations under coupons 9, 10, 11 and 12 at 8.1% p.a. for a total of 161. Coupon payment per bond was 20.19 Roubles for 9, 10, 11 and 12 coupons. The obligation was discharged within the time provided in the Offering Decision and Offering Circular.

As of December 31, 2009, the outstanding bonds totalled 1,498 including a short-term portion of 499 and interest payable of 7 (December 31, 2008: 1,994, 496 and 12 respectively).

In October 2007, the Company registered the 5th issue of 3 million of certified coupon bonds with par value of 1,000 Roubles each carrying 20 coupons payable every 91 days starting from the 91st day following the initial placement of bonds. Under the terms of the issue, bondholders are entitled to present the bonds for early repayment at par value in June 2010. The interest rate under the first coupon was determined as the sum of 3 month MosPrime rate as of the last working day before the date of placement and the 3 month MosPrime rate premium, and amounted to 8.4% p.a. The interest rate under 2 to 20 coupons will be determined as 3M MosPrime Rate + Premium but no more that the cap rate of 15%.

The bonds' part value will be repaid in instalments on the following dates: 25 % of the value will be repaid on May 22, 2012, 25 % of the value will be payable on November 20, 2012 and 50 % will be repaid on May 21, 2013.

Under the terms of the issue, the Company is entitled to early redemption on any coupon maturity date during the period from the 728 th through 1729 th day of the issue, with bond premium payable on early redemption of 2.5 Roubles per bond. The bonds issued provide for an offer enabling their holders to present bonds for payment within 12 months after the reporting date in the period from 18 May through 25 May 2010. The redemption date falls on 1 June 2010.

In 2009 the Company fully met its coupon obligations under coupons 3, 4 and 5 at 15% p.a. and under coupon 6 at 13.51% p.a. for a total of 438. Coupon payment per bond was 37.4 Roubles for 3, 4 and 5 coupons and 33.68 Roubles for 6 coupon.

As of December 31, 2009, the outstanding bonds totalled 2,996 including a short-term portion of 2,996 and interest payable of 29 (December 31, 2008: 2,995, 0 and 44 respectively).

In October 2008, the Company registered the 6th issue of 3 million certified coupon bearer bonds (series 06) with par value of 1,000 Roubles each carrying 40 interest bearing coupons due every 91 day starting from the 91st day of the date of bond placement. The coupon interest rate was set at 11.7% p.a. The nominal value of the bonds will be repaid in instalments on the following dates: 30% of the value will be repaid on July 26, 2017, 30% will be repayable on July 25, 2018 and 40% will be due on July 24, 2019. The bonds mature in July 2019, in 3640 days from the date of placement. Finance raised through the bond issue is generally used to refinance the existing loan portfolio, funding of operations and investment programme.

Under the terms of the issue, the Company is entitled to early redemption on any coupon maturity date on the 1,092 th or 2,184 th day of the issue, with bond premium payable on early redemption of 2.5 Roubles per bond.

In 2009 the Company fully met its coupon obligations under coupon 1 at 11.7% p.a. for a total of 87. Coupon payment per bond was 29.17 Roubles.

The bonds issued do not provide for any offer which would enable their holders to present bonds for payment within 12 months after the reporting date.

As of December 31, 2009, the outstanding bond balance was 2,990 and was reported within long-term borrowings. Interest payable was 55.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 20. Borrowings (continued)

In March 2009, the Board of Directors approved a decision to launch a public offering of 4,000,000 interest-bearing certified non-convertible commercial coupon bonds (series 01, 02, 03 and 04) with par value of 1,000 Roubles each for a total of 4,000 with mandatory centralised custody.

The issue price per commercial bond is set at its par value and amounts to 1,000 Roubles. Commercial bonds carry 12 coupons. The first coupon is payable on the 91st day after the initial bond placement, the rest coupons are payable on every subsequent 91st day. Commercial bonds mature on the 1092nd day after the initial placement. The Company may decide to allow early repayment or partial early repayment of the bonds. Early repayment of commercial bonds at the request of their holder is possible if the Company's shares and bonds of all categories and types are excluded from the list of securities allowed to be traded on all stock exchanges which allow for commercial bond trading (except where bonds are delisted due to expiration of their maturity or repayment).

In May 2009, CJSC SE MICEX decided to allow placement of commercial bonds. A decision on placement has not been taken.

## Promissory notes

In the period from 2000 through 2003 the Company issued promissory notes to finance its current operations and to restructure its liabilities. Issued promissory notes are carried at amortised cost.

## Vendor financing

In April 2002 the Company entered into a contract for delivery of technical equipment with LLC Quant-Intercom. The contractual currency was US Dollars. As of December 31, 2009, the long-term payables under the contract were below 1. The contract does not provide for any interest that is not charged accordingly. The debt in repaid is accordance with the schedule. The final settlement date is July 20, 2011.

## Finance lease liabilities

	December 31, 2009		December 31, 2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Short-term portion (less than 1 year)	20	16	13	12
More than 1 to 5 years	18	16	-	-
<b>Total</b>	<b>38</b>	<b>32</b>	<b>13</b>	<b>12</b>

In 2009 and 2008, the Company's major lessors were OJSC RTC-Leasing and OJSC VTB-Leasing. In 2009, effective interest rate on lease liabilities ranged from 11% to 31% p.a. (2008: 11% to 42%).

OJSC RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases it out under finance lease arrangements. Future minimum lease payments due to OJSC RTC-Leasing under the leases as of December 31, 2009 comprised 0 (December 31, 2008: 11).

Vehicles acquired under the finance lease agreement with OJSC VTB-Leasing are used to provide universal telecommunications services. Future minimum lease payments due to OJSC VTB-Leasing under the leases as of December 31, 2009, comprised 38 of which principal was 31 and interest element was 7.

As of December 31, 2009, finance lease liabilities were denominated in Russian Roubles.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 21. Pensions and other long-term employee benefits

Under the collective agreement, Group NWT maintains non-government pension plans and pays other social benefits to its current and retired employees.

### Defined contribution plans

Non-government pension fund Telecom-Soyuz maintains non-government pension schemes for the Company under defined contribution plans.

As of December 31, 2009, there were 12,845 participants in Group NWT defined contribution pension plan (December 31, 2008; 14,086).

In 2009 Group NWT contributions under the defined contribution pension plans totalled 32 (2008: 36).

### Defined benefit plans and other long-term employee benefits

The majority of employees are eligible for defined benefit plans. The defined benefit pension plan provides old age retirement pension and disability pension. To become eligible for receiving benefits under the non-government plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men subject to a condition that minimum period of 15 years for non-executive employees and 4 years for executives is served. The amount of pension benefit depends on certain factors, an employee's position upon retirement among them.

Non-government pension fund Telecom-Soyuz, which is a related party of the Company (Note 40), maintains non-government pension schemes for the Company under defined benefit plans.

The Company also provides other long-term employee benefits such as a lump-sum payment upon retirement, jubilee payment, death-in-service payments to existing and former employees and other support payments to former employees.

As at 31 December 2009, Group NWT employed 12,845 participants of the defined benefit plan and supported 15,621 pensioners eligible for post-employment benefits (31 December 2008: 14,086 and 13,344 respectively).

As at December 31, 2009 and 2008, post-retirement and other long-term employee benefit liabilities comprised the following:

	<u>2009</u>	<u>2008</u>
Present value of fully unfunded liabilities on defined benefit plans	2,757	2,571
Fair value of plan assets	(6)	(32)
<b>Excess of liabilities over plan assets</b>	<b>2,751</b>	<b>2,539</b>
Unrecognized actuarial losses	(213)	(21)
Unrecognized past service cost	(280)	(410)
<b>Total pensions and long-term social liabilities</b>	<b><u>2,258</u></b>	<b><u>2,108</u></b>

As at December 31, 2009, management estimated that employees' average remaining working period was 10 years (December 31, 2008: 10 years).



## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 21. Pensions and other long-term employee benefits (continued)

Net expenses for the defined benefit plans recognized in 2009 and 2008 were as follows:

	2009	2008
Current service cost	134	135
Interest cost	231	162
Expected return on plan assets	(2)	(1)
Actuarial gains/(losses) recognised in the year	(23)	26
Past service cost – guaranteed part	109	8
Amortization of past service cost - non-guaranteed part	99	100
Curtailment effect	(170)	-
Final settlement effect	20	1
<b>Net expense for the defined benefit plans</b>	<b>398</b>	<b>431</b>

Expense for the defined benefit plans, excluding interest income and expense, is included in the consolidated income statement within “Personnel costs”. Interest income and expense are recognized in “Other investing and financing gains and losses” and “Finance costs” line items of the consolidated income statement.

Changes in present value of defined benefit obligations in 2009 and 2008 were as follows:

	2009	2008
<b>Net pension liabilities at the beginning of the year</b>	2,571	2,404
Termination of liabilities	(148)	-
Interest expenses on liabilities	231	162
Current service cost	134	135
Past service cost	55	23
Benefits paid	(51)	(46)
Effect of changes of plan settlements	(223)	(116)
Actuarial loss on liabilities	188	9
<b>Net pension liabilities as at December 31</b>	<b>2,757</b>	<b>2,571</b>

Changes in fair value of defined benefit plan assets in 2009 and 2008 were as follows:

	2009	2008
<b>Fair value of plan assets at the beginning of the year</b>	32	31
Expected income on plan assets	2	1
Actuarial gain/(loss)	(2)	-
Benefits paid	(51)	(46)
Assets used in plan settlement	(223)	(116)
Employer's contribution	248	162
<b>Fair value of plan assets as at December 31</b>	<b>6</b>	<b>32</b>

The Company expects to contribute 389 to its non-government pension fund under the defined benefit plans in 2010.

The overall expected rate of return on assets as at December 31, 2009 and 2008 is determined based on the market prices prevailing on these dates and the structure of the plan assets portfolio.

The actual return on plan assets for 2009 was 0% (2008: 5.8%).

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 21. Pensions and other long-term employee benefits (continued)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	<u>2009</u>	<u>2008</u>
OJSC NWT shares	0%	0%
Other Russian companies' shares	4.54%	8.29%
Russian sovereign bonds	2.34%	0%
Russian municipal bonds	18.58%	19.75%
OAO NWT bonds	0%	0%
Other Russian corporate bonds	35.28%	49.00%
Russian promissory notes	0%	0.84%
Other assets	36.26%	22.00%

As of December 31, 2009 and 2008 the principal actuarial assumptions of defined benefit pension plans were as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	9%	9%
Expected return on plan assets	10.11%	10.28%
Future salary increases	9.72%	10.24%
Relative salary increase ("promotion")	1%	1%
Discount rate used for calculation of annuity value	4%	4%
Increase in financial support benefits	5.5%	6%
Staff turnover	Decreases from 24% to 0% per year depending on age group and sex	5% of employees under 49 y.o., 0% over 49 y.o.
Mortality table (source of data)	USSR 1985/1986	USSR 1985/1986

Amounts for the current and previous four periods are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Defined benefit liabilities	2,757	2,571	2,404	2,742	1,960
Plan assets	(6)	(32)	(31)	(41)	(137)
Plan deficit / (profit)	<u>2,751</u>	<u>2,539</u>	<u>2,373</u>	<u>2,701</u>	<u>1,823</u>
Experience adjustments on defined benefit plan liabilities	286	(58)	501	(220)	(53)
Experience adjustments on defined benefit plan assets	1	-	5	(6)	(2)

## 22. Other long-term liabilities

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Deferred income	285	303
Long-term advances received	48	55
<b>Total</b>	<u>333</u>	<u>358</u>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 23. Current provisions

	<b>Headcount optimization programme</b>	<b>Total</b>
<b>Balance at December 31, 2007</b>	30	<b>30</b>
Accrued	7	7
Reversed	(30)	<b>(30)</b>
<b>Balance at December 31, 2008</b>	<b>7</b>	<b>7</b>
Accrued	6	6
Utilised	(7)	<b>(7)</b>
<b>Balance at December 31, 2009</b>	<b>6</b>	<b>6</b>

### Staff optimization

The Group NWT made a provision for termination payments to the employees who had been notified of their forthcoming discharge as at 31 December 2009 in accordance with the procedure provided in Article 180 of the Russian Labour Code. Costs of providing for termination payments in the amount of 6 (2008: 7) are recognized within "Personnel costs".

## 24. Accounts payable and accrued liabilities

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Payable to suppliers and contractors for purchase and construction of property, plant and equipment	349	1,442
Payable to suppliers and contractors for purchase of software	54	214
Payable to interconnected operators	193	218
Payable to suppliers and contractors on operating activities	770	364
Taxes, charges and obligatory social insurance payable	877	517
Payable to personnel	885	856
Dividends payable	66	69
Payable to commissioners and principals	384	356
Payable to other creditors	275	245
<b>Total</b>	<b>3,853</b>	<b>4,281</b>

In 2009, the Company reclassified a number of line items in the above Note:

	<b>2008 in 2008</b>	<b>2008 in 2009</b>	
Current trade payables	532	364	Other payables due to core activities in the amount of 168 are reclassified from 'Current trade payables' to 'Other payables'.
Payables to commissioners and principals	41	356	Payables under the assistance agreement in the amount of 331 are reclassified from 'Other payables' to 'Payables to commissioners and principal', payables under agency agreements on connection services in the amount of 16 are reclassified from 'Payables to commissioners and principals' to 'Other payables'.
Other payables	392	245	Payables under the assistance agreement in the amount of 331 are reclassified from 'Other payables' to 'Payables to commissioners and principals', Other payables due to core activities in the amount of 168 are reclassified from 'Current trade payables' to 'Other payables', payables under agency agreements on connection services in the amount of 16 are reclassified from 'Payables to commissioners and principals' to 'Other payables'

As at December 31, 2009, Payables to employees include Reserve on unused vacation and bonuses for results of 2009 financial performance in the amount of 679 (December 31, 2008: 581)

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 24. Accounts payable and accrued liabilities (continued)

Taxes and social contributions payable as of December 31, 2009 and 2008 were as follows:

	December 31, 2009	December 31, 2008
Value added tax	362	19
Property tax	208	191
Personal income tax	64	80
Unified social tax	238	222
Other taxes	5	5
<b>Total</b>	<b>877</b>	<b>517</b>

Other payables include contributions payable to the universal service fund, insurance payable, settlements with the trade union and payables to operators under the assistance agreements.

As of December 31, 2009, accounts payable and accrued liabilities include non-financial liability of 910 (December 31, 2008: 556).

## 25. Other current liabilities

	December 31, 2009	December 31, 2008
Deferred income	11	11
Advances received from operating activities	407	408
Advances received from non-operating activities	25	101
<b>Total</b>	<b>443</b>	<b>520</b>

## 26. Contingencies and operating risks

### Operating environment of the Group NWT

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The actual effect of future business environment may differ from management's assessment.

### Taxation

Russian tax and/or currency and/or customs legislation is subject to varying interpretations, and changes, which can occur frequently. Interpretation by the Company's management of the industry, tax, currency and customs legislation applicable to the Company's transactions and activities may be challenged by relevant federal authorities. Tax authorities may change their position in interpretation of legislation with regard to individual business transactions and tax assessments. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and interest may be assessed. It is not possible to determine amounts of threatened but unasserted claims or evaluate probability of their negative outcome, and therefore no related disclosure is made in the financial statements. Fiscal periods remain open for review by the tax authorities for three calendar years preceding the year of review.

Management believes that as at December 31, 2009 its interpretation of the relevant legislation is appropriate and, therefore, it is highly likely that the Company's position with regard to compliance with tax, currency and customs legislation will be sustained.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 26. Contingencies and operating risks (continued)

### Insurance

The Group NWT undertakes risk management measures, including those related to insurance. During 2009 the Group NWT maintained insurance coverage on its equipment, vehicles, real property and other assets, personnel, professional indemnity of directors and officers, and hazardous production facilities. Group NWT is subject to natural monopoly regulation and in accordance with Federal Anti-Monopoly Law No. 135-FZ of 26 July 2006 is bound to select insurers through open contests or auctions.

### Disputes, lawsuits and assessment of outcomes

During 2009 the Group NWT 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 Group NWT 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 Group NWT and which have not been accrued or disclosed in these consolidated financial statements.

In October 2008 the Interregional Inspectorate No. 7 for Major Taxpayers of the Federal Tax Service of Russia finalized the field tax audit of OJSC NWT for 2005-2007 and, based on the tax audit findings, in November 2008 issued the Decision to hold OJSC NWT liable for a tax offence and to impose additional taxes, late payment interest and penalties for a total of 223.

The Company appealed the tax authority's decision to charge additional taxes, late payment interest and penalties for a total of 223 in the Moscow Arbitration Court.

In December 2009 the Federal Arbitration Court for the Moscow District (cassation instance) upheld the Decision of the Moscow Arbitration Court on invalidation of the Decision of the Interregional Inspectorate No. 7 for Major Taxpayers of the Federal Tax Service of Russia on the basis of its field tax audit of OJSC NWT for 2005-2007.

In March 2009, Interregional Inspectorate No. 7 for Major Taxpayers of the Federal Tax Service of Russia finalised its desk tax audit of the Company based on the adjusted VAT return for January 2006. Based on its findings a Decision was issued to deny recovery of a part of VAT for a total of 88 claimed for recovery in the tax return for January 2006.

In September 2009, the Company appealed the Decision of the tax authorities in the Moscow Arbitration Court for an amount of 88.

In January 2010, the Moscow Arbitration Court invalidated the Decision of Interregional Inspectorate No. 7 for Major Taxpayers of the Federal Tax Service of Russia with regard to denial of partial recovery of VAT for a total of 88.

Decision of Moscow Appellation Court dated 18 January 2010 for legal action # A40-122662/09-108-929 was left unaltered by Arbitration Court of Appeal, appeal petition of Major Taxpayers of the Federal Tax Service of Russia Interregional Inspectorate No. 7 – without relief (Substantive provisions of Resolution was declared as at 17 May 2010).

### Licenses

Russian Government Regulation No. 87 “On approval of a list of telecommunications services subject to licensing and lists of license provisions” of 18 February 2005 (revised by Russian Government Regulation No. 837 of 29 December 2005) established a list of telecommunications services subject to licensing and lists of licence provisions.

License provisions provided in the licenses issued earlier remain in effect to the extent they do not contradict current regulatory and legislative acts.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 26. Contingencies and operating risks (continued)

In 2009, the following new licenses were obtained:

Document	Number	Registration date	Validity period
Certificate of registration of hazardous production facilities operated by OJSC NWT with the state register of hazardous production facilities (Archangelsk, Vologda, Kaliningrad, Komi, Leningrad Regional, Murmansk, Novgorod, Petersburg branches) with appendices (on 5 pages) + Registration card for the facility registered with the state register of hazardous production facilities	A19-02284	20.04.2009	03.05.2011
Alliance –PRO certificate	380248	27.05.2009	25.10.2016
License to provide local telephony services using pay phones	68435	01.07.2009	02.07.2014
Certificate of work permit with regard to activity which affects safety of infrastructure (NP StroiSvyazTelecom)	SRO-S-062-0152-P-7808020593-18122009	18.12.2009	permanent
Certificate of work permit with regard to activity which affects safety of infrastructure (NP ProektSvyazTelecom)	SRO-P-043-129-R-7808020593-18122009	18.12.2009	permanent

In 2010 the Company does not intend to obtain any new licenses or extend existing licenses.

## Staff optimization

As part of the staff optimisation project aimed at enhancing the Company's performance 1,333 employees were laid off in 2009. As of December 31, 2009, 102 employees were notified about the forthcoming layoffs.

In 2009, layoff costs were 27, including compensations paid to the laid off employees of 21 and provision made in December 2009 for contingent liabilities to pay redundancy compensations of 6 (Note 23).

The Group NWT cannot reliably assess future liabilities for other redundancy measures to be effected after December 31, 2009.

## 27. Financial instruments and risk management

Group NWT principal financial instruments comprise bank loans, bonds and promissory notes payable, finance leases and cash and cash equivalents. The main purpose of these instruments is to raise funds to finance the Group NWT operations. Short-term deposits and promissory notes are also actively used as financial instruments to place free cash. The Group NWT has other financial assets and liabilities such as trade accounts receivable and payable which arise directly from operations. The Group NWT includes payable to personnel in accounts payable in this Note.

## Capital Management Policy

Group NWT capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing the cost of borrowed capital.

The main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt burden, debt capital management, debt portfolio restructuring, use of different classes of borrowed funds.

The Group NWT monitors and manages its borrowings using financial independence ratios, net debt/equity, and net debt/EBITDA.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 27. Financial instruments and risk management (continued)

Net debt is calculated as difference between borrowings (including accrued interest) and cash balance as at the end of period.

The financial independence ratio is calculated as a ratio of shareholders' equity to the balance sheet total as of the end of the period. Net debt/equity is calculated as net debt to shareholders' equity at the end of the period. Net debt/EBITDA is calculated as net debt as of the year-end to EBITDA for the previous period. Ratios used to support capital management are calculated based on the Russian statutory accounts.

The Company's policy is to maintain financial independence ratio within a range of no less than 0.55; net debt/equity within a range of no more than 1; net debt/ EBITDA - within a range of no more than 1.88.

As of December 31, 2009 and 2008 ratios used to support capital management were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Financial independence ratio	0.60	0.58
Net debt/equity	0.49	0.49
Net debt / EBITDA	1.52	1.61

On March 2, 2009 the Company's long-term international credit rating was confirmed by Standard & Poor's at BB-/stable outlook. The Company's national rating was confirmed at the same level - ru AA-. To date these are the highest ratings with stable outlook among Svyazinvest IRCs.

On March 15, 2010 the Company's long-term international credit rating was confirmed by Standard & Poor's at BB-/stable outlook. The Company's national rating was confirmed at the level - ru AA-.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

### 27. Financial instruments and risk management (continued)

#### Income and expenses on financial instruments

	Income statement							Statement of comprehensive income			
	Other operating income	Other operating expenses	Financial costs	Other investing and financing gains and losses				Foreign exchange gains / losses	Fair value change	Total	
	Reversal of doubtful debt provision	Doubtful debt provision	Interest expense	Interest income	Dividend income	Asset disposal	Fair value change				Other
2009											
Cash and cash equivalents	-	-	-	26	-	-	-	-	42	-	68
Trade and other receivables	-	(113)	-	-	-	-	-	-	-	-	(113)
Available for sale financial assets	-	-	-	-	6	(2)	-	-	-	-	4
Promissory notes and deposits	-	-	-	272	-	-	-	-	(29)	-	243
<b>Total financial assets</b>	<b>-</b>	<b>(113)</b>	<b>-</b>	<b>298</b>	<b>6</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-</b>	<b>202</b>
Bank and corporate loans	-	-	(351)	-	-	-	-	-	(264)	-	(615)
Bonds	-	-	(882)	-	-	-	-	-	-	-	(882)
Finance lease liabilities	-	-	(8)	-	-	-	-	-	-	-	(8)
Other financial liabilities	-	-	-	-	-	-	-	54	(448)	-	(394)
Accounts payable	-	-	-	-	-	-	-	15	8	-	23
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(1,241)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>69</b>	<b>(704)</b>	<b>-</b>	<b>(1,876)</b>



## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements

for the year ended 31 December 2009

(in millions of Roubles, unless otherwise stated)

### 27. Financial instruments and risk management (continued)

	Income statement						Statement of comprehensive income				
	Other operating income	Other operating expenses	Financial costs	Other investing and financing gains and losses							
	Reversal of doubtful debt provision	Doubtful debt provision	Interest expense	Interest income	Dividend income	Asset disposal	Fair value change	Other	Foreign exchange gains / losses	Fair value change	Total
2008											
Cash and cash equivalents	-	-	-	70	-	-	-	-	(22)	-	48
Trade and other receivables	23	-	-	-	-	-	-	-	-	-	23
Financial assets available for sale	-	-	-	-	1	221	-	-	-	(152)	70
Deposits	-	-	-	244	-	-	-	-	-	-	244
Other financial assets	-	-	-	-	-	-	(9)	(9)	19	-	1
<b>Total financial assets</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>314</b>	<b>1</b>	<b>221</b>	<b>(9)</b>	<b>(9)</b>	<b>(3)</b>	<b>(152)</b>	<b>386</b>
Bank and corporate loans	-	-	(368)	-	-	-	-	-	(740)	-	(1,108)
Bonds	-	-	(513)	-	-	-	-	-	-	-	(513)
Finance lease liabilities	-	-	(23)	-	-	-	-	-	-	-	(23)
Accounts payable	-	-	-	41	-	-	-	-	(11)	-	30
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(904)</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(751)</b>	<b>-</b>	<b>(1,614)</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

### Foreign exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect Group NWT financial performance and cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Company's income statement, balance sheet and/or statement of cash flows. Assets and liabilities denominated in foreign currencies give rise to a potential foreign exchange risk.

Group NWT financial assets and liabilities are denominated in the following currencies:

December 31, 2009	Russian Roubles	US dollars	EUR	Total
Cash and cash equivalent	574	-	-	574
Trade and other receivables	2,934	-	-	2,934
Available for sale financial assets	21	-	-	21
Promissory notes and deposits	3,571	333	-	3,904
Loans	31	-	-	31
Other current assets	16	-	-	16
<b>Total financial assets</b>	<b>7,147</b>	<b>333</b>	<b>-</b>	<b>7,480</b>
Bank and corporate loans	(14)	(5,960)	(101)	(6,075)
Bonds	(10,484)	-	-	(10,484)
Promissory notes	(2)	-	-	(2)
Derivatives	-	(394)	-	(394)
Finance lease liabilities	(32)	-	-	(32)
Interest payable	(129)	(21)	(6)	(156)
Other financial liabilities	(23)	-	-	(23)
Accounts payable	(2,942)	(1)	-	(2,943)
<b>Total financial liabilities</b>	<b>(13,626)</b>	<b>(6,376)</b>	<b>(107)</b>	<b>(20,109)</b>
<b>December 31, 2008</b>	<b>Russian Roubles</b>	<b>US dollars</b>	<b>EUR</b>	<b>Total</b>
Cash and cash equivalent	807	194	-	1,001
Trade and other accounts receivable	2,602	-	-	2,602
Available for sale financial assets	21	-	-	21
Deposits	292	-	-	292
Loans	41	-	-	41
Other financial assets	17	-	-	17
Other current assets	8	-	-	8
<b>Total financial assets</b>	<b>3,788</b>	<b>194</b>	<b>-</b>	<b>3,982</b>
Bank and corporate loans	(716)	(6,823)	(367)	(7,906)
Bonds	(7,989)	-	-	(7,989)
Promissory notes	(1)	-	(18)	(19)
Vendor financing	(1)	-	-	(1)
Finance lease liabilities	(12)	-	-	(12)
Interest payable	(102)	(47)	(5)	(154)
Other financial liabilities	(2)	(9)	-	(11)
Accounts payable	(3,664)	(56)	(5)	(3,725)
<b>Total financial liabilities</b>	<b>(12,487)</b>	<b>(6,935)</b>	<b>(395)</b>	<b>(19,817)</b>

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 27. Financial instruments and risk management (continued)

Over the period from January 1, 2009 through December 31, 2009 the Rouble rate decreased by 2.9% and by 4.7% against the US Dollar and Euro, respectively.

The sensitivity analysis of profit before tax to the foreign exchange risk is shown in the table below:

	US Dollars			EUR		
	Effect on profit before income			Effect on profit before		
	Changes in exchange rate, %	tax		Changes in exchange rate, %	income tax	
	RUR mln	%		RUR mln	%	
<b>December 31, 2009</b>	18.60	(1,124)	-38.36	16.90	(18)	-0.62
	(12.80)	774	26.40	(7.50)	8	0.27
<b>December 31, 2008</b>	13.80	(930)	-27.78	1.10	(4)	-0.13
	31.80	(2,144)	-64.02	18.30	(72)	-2.16

Sensitivity analysis is performed with exchange rate change of 18.6 % and (12.8%) to US Dollar and 16.9% and (7.5%) to Euro due to high exchange rate fluctuation against Russian Rouble.

US Dollar fluctuation is especially clearly traced in exchange rate changes as of the year end against the first half of the year that is due to continuing global economic crisis. Exchange rate stabilisation by the end of the year is determined by changes in the global banks' floating rates (reduction) that in turn is due to a package of anti-crisis measures taken by banks in different countries. However a change in exchange rates does not have a significant impact on the Euro rate that is due to more profound effect of the crisis on the EU countries (defaults of a number countries and unstable political systems of the member states).

The Company uses forward contracts as a tool for partial managing of its foreign exchange risk (see Hedging Section).

### Interest rate risk

Interest rate risk is the risk that changes in market interest rates on financial instruments used by the Group NWT may negatively impact the Group NWT financial results and cash flows.

Interest rates on Group NWT financial assets and liabilities are as follows:

December 31, 2009	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalent	28	-	546	574
Trade and other receivables	-	-	2,934	2,934
Available for sale financial assets	-	-	21	21
Promissory notes and deposits	3,904	-	-	3,904
Loans	-	-	31	31
Other current assets	-	-	16	16
<b>Total financial assets</b>	<b>3,932</b>	<b>-</b>	<b>3,548</b>	<b>7,480</b>
Bank and corporate loans	(117)	(5,958)	-	(6,075)
Bonds	(7,488)	(2,996)	-	(10,484)
Promissory notes	(2)	-	-	(2)
Derivatives	-	-	(394)	(394)
Finance lease liabilities	(32)	-	-	(32)
Interest payable	-	-	(156)	(156)
Other financial liabilities	(23)	-	-	(23)
Accounts payable	-	-	(2,943)	(2,943)
<b>Total financial liabilities</b>	<b>(7,662)</b>	<b>(8,954)</b>	<b>(3,493)</b>	<b>(20,109)</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

December 31, 2008	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalent	80	-	921	<b>1,001</b>
Trade and other accounts receivable	-	-	2,602	<b>2,602</b>
Available for sale financial assets	-	-	21	<b>21</b>
Deposits	292	-	-	<b>292</b>
Loans	2	-	39	<b>41</b>
Other financial assets	-	-	17	<b>17</b>
Other current assets	-	-	8	<b>8</b>
<b>Total financial assets</b>	<b>374</b>	<b>-</b>	<b>3,608</b>	<b>3,982</b>
Bank and corporate loans	(317)	(7,589)	-	<b>(7,906)</b>
Bonds	(4,994)	(2,995)	-	<b>(7,989)</b>
Promissory notes	(19)	-	-	<b>(19)</b>
Vendor financing	(1)	-	-	<b>(1)</b>
Finance lease liabilities	(12)	-	-	<b>(12)</b>
Interest payable	-	-	(154)	<b>(154)</b>
Other financial liabilities	(11)	-	-	<b>(11)</b>
Accounts payable	-	-	(3,725)	<b>(3,725)</b>
<b>Total financial liabilities</b>	<b>(5,354)</b>	<b>(10,584)</b>	<b>(3,879)</b>	<b>(19,817)</b>

The sensitivity analysis of profit before tax to the interest rate risk is shown in the table below:

	LIBOR			MosprimeRZBM		
	Effect on profit before income tax			Effect on profit before income tax		
	Change of rate, percentage points	RUR mln	%	Change of rate, percentage points	RUR mln	%
<b>December 31, 2009</b>	6	(4)	-0.12	186	(56)	-1.90
	(6)	4	0.12	(186)	56	1.90
<b>December 31, 2008</b>	55	(38)	-1.12	1,180	(417)	-12.44
	(55)	38	1.12	(1,180)	417	12.44

Sensitivity analysis is performed for LIBOR and MosPrime RZBM interest rate change of 6 percentage points and 186 percentage points respectively.

For LIBOR, changes in the global banks' floating rates (reduction) were taken into account that in turn is due to a package of anti-crisis measures taken by banks in different countries.

For MosPrime RZMB (based on the interest rates of top 10 Russian banks), an interest rate reduction caused by the massive state support provided to the banks (with a view to reviving domestic credit market) and stabilisation of the economy to the pre-crisis level was taken into account. Decreasing LIBOR rates also had an effect since Russian lending institutions had open credit lines with foreign banks.

Loans and borrowings with interest rates dependent upon LIBOR are represented by US Dollar denominated loans, and those dependent upon MosPrime RZBM include Russian Rouble loans.

### Liquidity risk

The Group NWT monitors its risk of a shortfall of funds by way of current liquidity planning. Group NWT objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 27. Financial instruments and risk management (continued)

The table below summarizes Group NWT financial asset and liability maturities:

	2010	2011	2012	2013	2014 and later	Total
Cash and cash equivalent	574	-	-	-	-	574
Trade and other receivables	2,928	6	-	-	-	2,934
Available for sale financial assets	21	-	-	-	-	21
Promissory notes and deposits	743	3,178	-	-	-	3,921
Loans	16	11	10	7	5	49
Other current assets	16	-	-	-	-	16
<b>Total financial assets</b>	<b>4,298</b>	<b>3,195</b>	<b>10</b>	<b>7</b>	<b>5</b>	<b>7,515</b>
Bank and corporate loans	(3,381)	(2,628)	(354)	-	-	(6,363)
Bonds	(6,217)	(5,569)	-	-	-	(11,786)
Promissory notes	-	-	-	-	(15)	(15)
Derivatives	(394)	-	-	-	-	(394)
Finance lease liabilities	(20)	(16)	(2)	-	-	(38)
Other financial liabilities	(4)	(3)	(3)	(3)	-	(13)
Accounts payable	(2,943)	-	-	-	-	(2,943)
<b>Total financial liabilities</b>	<b>(12,959)</b>	<b>(8,216)</b>	<b>(359)</b>	<b>(3)</b>	<b>(15)</b>	<b>(21,552)</b>

The data shown in the table above include repayment of interest which has already been accrued or will be accrued in future periods.

Distribution of borrowings by maturity is based on contractual undiscounted cash flows. These flows include the repayment of principal amount as well as interest payments and other additional payments to be made during respective periods. For liabilities with interest rate including a floating part, this part was set as equal to the interest rate as at December 31, 2009 for projection purposes. Liquidity analysis is disclosed in more details in Note 1.

#### Credit risk

Credit risk is the risk that a counter-party will fail to discharge an obligation and cause NWT Group to incur a financial loss.

Financial assets, which potentially subject the Group NWT entities to credit risk, consist principally of trade receivables, cash in bank, bank deposits, promissory notes and other financial assets of debt nature.

The carrying amount of accounts receivable, net of the provision for impairment of receivables and the carrying amount of cash in bank, bank deposits, promissory notes and other financial assets represents the maximum amount exposed to credit risk.

The Group NWT has no significant concentrations of credit risk due to significance and diversity of its customer base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Part of accounts receivable is represented by state and other non-commercial organizations.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

The aging analysis of overdue receivables which are not impaired is provided below:

December 31, 2009	Post due (days)						
	TOTAL	< 31	31-60	61-90	91-180	181-360	> 360
Corporate customers	31	21	6	3	1	-	-
Residential customers	63	42	12	6	3	-	-
Governmental customers	9	6	2	1	-	-	-
Interconnected operators	18	15	2	1	-	-	-
<b>Total financial assets</b>	<b>121</b>	<b>84</b>	<b>22</b>	<b>11</b>	<b>4</b>	-	-

December 31, 2008	Post due (days)						
	TOTAL	< 31	31-60	61-90	91-180	181-360	> 360
Corporate customers	32	18	10	3	1	-	-
Residential customers	49	35	9	3	2	-	-
Governmental customers	7	6	1	-	-	-	-
Interconnected operators	26	20	4	2	-	-	-
<b>Total financial assets</b>	<b>114</b>	<b>79</b>	<b>24</b>	<b>8</b>	<b>3</b>	-	-

Given the prior debtor performance experience, the above accounts receivable are not impaired.

The rest of accounts receivable represents receivable balances of 1,229 which are not either overdue or impaired (December 31, 2008: 1,224).

In 2009, concentration of cash in OJSC AKB Svyaz-Bank was 7.32% (2008: 28.93%).

Deposits in banks which according to Moody's rating agency have long-term bank deposit rating in foreign currency Baa1 and above – 482 (December, 31 2008: 475); banks with lower rating and without rating – 80 (December, 31 2008: 513). Cash on hand and cash equivalents – 12 (December 31, 2008 – 13).

To confirm its financial position, the Group NWT evaluates credit ratings of promissory note issuers based on:

- the data provided by the international rating agency Fitch Ratings:

Issuer	Long-term IDR in foreign currency	Forecast	Short-term IDR in foreign currency	Individual rating	Support rating	National rating	National rating forecast	Rating/ recent review date
Absolut bank	BB+	RW Developing	B	D/E	3	AA(rus)	RW Developing	02.12.2009
Nordea Bank	BBB+	Stable	F2	D/E	2	AAA(rus)	Stable	22.01.2010

- the data provided by the international rating agency Moody's:

	Rating	Rating/ recent review date
Bank Societe Generale Vostok	Long-term bank deposit rating	Baa2/Positive
	Bank financial strength rating	D-/Positive

The Group NWT assesses OJSC AKB Svyaz-Bank's credit risks as immaterial due to existing control exercised through OJSC Svyazinvest.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

KIT Finance is a diversified financial group the ultimate owner of which is a consortium of investors headed by OJSC Russian Railways (hereinafter, "Russian Railways"). Russian Railways which are wholly owned by the state has international agencies ratings: Fitch rating for long-term IDR in foreign currency at the level of BBB with stable outlook, Standard and Poor's rating in foreign and national currency of BBB/Stable outlook and national rating of ruAAA.

The Group NWT assesses credit risks of CJSC IK REGION as immaterial because the REGION Group company has been successfully operating in the Russian stock market for over 13 years and has been constantly holding the leading position in the market in terms of securities transaction volume, namely:

According to the recent MICEX data for 2009:

- ranks 10 among the leading bond market operators for main trading sessions;
- ranks 12 among the leading bond market operators for REPO trading sessions.

According to the recent National Rating Agency's data for 2009:

- was assigned credibility rating of AA- (high credibility, third level) which is maintained.

All the above issuers did not reschedule repayment of promissory notes.

### Hedging

As a result of the existence of syndicated loans, the Company assumes a risk that the Rouble expenses related to the liabilities may increase in case of an increase in the exchange rate of Euro and US Dollar to Rouble. To mitigate or minimize the potential adverse effect of a decrease in the exchange rate of Rouble to Euro and US Dollar the currencies in which the Company's syndicated loans are denominated, the Company has chosen to hedge its exposure to changes in current Rouble exchange rates for expected cash flows from repayment of the fixed element of interest and/or principal.

The Company used a deliverable forward as a hedging instrument. Deliverable forward is a derivative financial instrument under which the Bank is to transfer within an agreed period the basic asset (US Dollars, Euros) to the Company or discharge an alternative financial obligation, while the Company is to accept and pay for such basic asset at the price (forward price) and on the terms agreed between the parties as of the date of the contract.

### Repaid debt hedging

To hedge foreign exchange risks arising from the syndicated loan (Citibank N.A. is an agent), the Company entered into deliverable FX transactions with CJSC KB Citibank on 07.09.2006 as part of the General Agreement on FX and Deposit Transactions of 31.08.2006 and with OJSC Gazprombank on 05.03.2007 as part of General Agreement No. 542 on FX Transactions of 15.02.2007.

The hedged item represents an amount borrowed under the syndicated loan agreement (Citibank N.A. is an agent). The loan was repaid in several instalments at each repayment date in the amounts which reduced the debt by an amount equal to 1/9 of the initial amount of the loan. The repayment date was determined as a date occurring in 15, 18, 21, 24, 27, 30, 33 and 36 months after the first drawdown date. Payments are determined as an amount of the fixed element of interest at the rate of 2% p.a. and 60% of the principal which are payable according to the following schedule in accordance with the syndicated loan agreement:

Within the framework of the General Agreement on FX and Deposit Transactions with CJSC KB Citibank for 2008:

Payment date	Total amount payable, in thousands of Euros
27.03.2008	1,252
27.06.2008	1,223
29.09.2008	1,196
29.12.2008	1,167
<b>TOTAL:</b>	<b>4,838</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

Within the framework of General Agreement No. 542 on FX Transactions with OJSC Gazprombank for 2008:

Payment date	Hedging amount, in thousands of Euros
27.03.2008	2,222
27.06.2008	2,222
29.09.2008	2,222
29.12.2008	2,222
<b>TOTAL:</b>	<b>8,888</b>

A hedging effect is calculated on the basis of comparison of gain or loss from the sale of a deliverable FX forward and a foreign exchange difference on the hedged item calculated over the whole lending period. A positive effect was 17.

### Outstanding debt hedging

#### 2008

Foreign exchange risk hedging for 2009 involved a hedging transaction entered into with CJSC KB Citibank on 07.09.2006 (as part of the General Agreement on FX and Deposit Transactions of 31.08.2006) and a hedging transaction entered into with OJSC Gazprombank (as part of General Agreement No. 542 on FX Transactions of 15.02.2007). These transactions provide for hedging a part of the syndicated loan principal and interest intended to be repaid in the first half of 2009 and involves a currency sale (Euro) at applicable forward rates in accordance with the following schedule:

Value date	Deliverable forward rate Rouble/euro	Citibank N.A.'s syndicated loan, in thousands of Euros	Total (amount payable by Citibank) Hedging amount, in thousands of Euros	Total (amount payable by Gazprombank) Hedging amount, in thousands of Euros	Amount payable by the Company, in thousands of Roubles
16.01.2009	34.73	1,121	1,121	-	38,921
16.01.2009	34.97	2,222	-	2,222	77,711
<b>TOTAL:</b>	-	-	-	-	<b>116,632</b>

The Group NWT estimates effectiveness of its hedging arrangements under the General Agreement on FX and Deposit Transactions with CJSC KB Citibank at 80.5% (2007: 97.8%).

Fair value of the forward contract designated as hedge was 4 as of December 31, 2008 (December 31, 2007: 16), including an ineffective hedge portion of 15 (2007: 5) and effective hedge portion of 19 (2007: 21). These amounts were reported within other income and expenses on financing and investing activities in the consolidated income statement: 'Ineffective portion of hedging transactions' and 'Net translation gain/(loss)' as an offset of respective foreign exchange loss on outstanding loan, respectively.

In 2008 the Group NWT did not designate the forward contract with OJSC Gazprombank as a hedging instrument since it failed to be an effective hedge. Therefore, this financial instrument was classified as financial asset at fair value through profit and loss with fair value of 14 (2007: nil) as of December 31, 2008. Fair value of the derivative represents future cash flows determined by future foreign exchange rates changes against the rates determined by the contract, estimated at the reporting date. Net income of 5 related to the change in fair value of the forward contract was included in other income and expenses from financing and investing activities in the consolidated income statement for the year ended December 31, 2008 (December 31, 2007: nil).



# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

### 2009

The first phase of the foreign exchange risk hedging completed in 2009 involved a hedging transaction entered into with CJSC KB Citibank on 09.07.2009 (within the framework of the General Agreement on FX Transactions). This transaction provides for hedging a part of the syndicated loan principal and interest intended to be repaid in the first half of 2010 and involves a currency sale (US Dollars) at the same forward rate in accordance with the following schedule:

Value date	Deliverable forward rate Rouble/US Dollar	UniCredit Bank Austria AG's syndicated loan - Tranche A, in thousands of US Dollars	UniCredit Bank Austria AG's syndicated loan - Tranche B, in thousands of US Dollars	Bayerische Hypo-und Vereinsbank AG, in thousands of US Dollars	Total (amount payable by Citibank Hedging amount in thousands of US Dollars)	Amount payable by the Company, in thousands of Roubles
01.02.2010	34.64	-	-	16,875	16,875	584,550
09.04.2010	34.64	7,143	3,846	-	10,989	380,659
29.04.2010	34.64	-	-	16,875	16,875	584,550
<b>TOTAL:</b>	-	-	-	-	<b>44,739</b>	<b>1,549,759</b>

The second phase of the foreign exchange risk hedging completed in 2009 involved a hedging transaction entered into with CJSC KB Citibank on 21.07.2009 (within the framework of the General Agreement on FX Transactions). This transaction provides for hedging a part of the syndicated loan principal and interest intended to be repaid in the second half of 2010 and involves a currency sale (US Dollars) at the same forward rate in accordance with the following schedule:

Value date	Deliverable forward rate Rouble/US Dollar	UniCredit Bank Austria AG's syndicated loan - Tranche A, in thousands of US Dollars	UniCredit Bank Austria AG's syndicated loan - Tranche B, in thousands of US Dollars	Bayerische Hypo-und Vereinsbank AG, in thousands of US Dollars	Total (amount payable by Citibank Hedging amount in thousands of US Dollars)	Amount payable by the Company, in thousands of Roubles
09.07.2010	35.41	7,143	3,846	-	10,989	389,121
30.07.2010	35.41	-	-	16,875	16,875	597,544
08.10.2010	35.41	-	3,846	-	3,846	136,192
01.11.2010	35.41	-	-	16,875	16,875	597,544
<b>TOTAL:</b>	-	-	-	-	<b>48,585</b>	<b>1,720,401</b>

The Group NWT estimates efficiency of its hedging arrangements under the General Agreement on FX and Deposit Transactions with CJSC KB Citibank at:

- UniCredit Bank Austria AG syndicated loan Tranche A – 101.9 %.
- UniCredit Bank Austria AG syndicated loan Tranche B – 101.8 %.
- Bayerische Hypo-und Vereinsbank AG – 102.1%.

Fair value of the forward contract designated as hedge was a liability of 394 as of December 31, 2009 (December 31, 2008: an asset of 4) including an ineffective hedge portion of 54 (December 31, 2008: 15) and effective hedge portion of 448 (December 31, 2008: 19). These amounts were reported within other income and expenses on financing and investing activities in the consolidated income statement: 'Ineffective portion of hedging transactions' and 'Net translation gain/(loss)' as an offset of respective foreign exchange loss on the outstanding loan respectively.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 27. Financial instruments and risk management (continued)

### Fair Value of Financial Instruments

Financial instruments used by the Group NWT are classified in either of the following categories:

- Available-for-sale financial assets (AFS);
- Financial assets through profit and loss (FTPL);
- Loans and receivables (LR);
- Financial liabilities at amortized cost (LAC);
- Liabilities at fair value (LFV)

As of December 31, 2009 and 2008 fair value and carrying value of Group NWT financial instruments was as follows:

Financial instrument type	Category	December 31, 2009		December 31, 2008	
		Net book		Net book	
		value	Fair value	value	Fair value
Cash and cash equivalent	LR	574	574	1,001	1,001
Trade and other receivables	LR	2,934	2,934	2,602	2,602
Available for sale financial assets	AFS	21	21	21	21
Promissory notes and deposits	LR	3,904	3,882	292	292
Loans	LR	31	31	41	41
Other financial assets	FTPL	-	-	17	17
Other current assets	AFS	16	16	8	8
<b>Total financial assets</b>		<b>7,480</b>	<b>7,458</b>	<b>3,982</b>	<b>3,982</b>
Bank and corporate loans	LAC	(6,075)	(6,063)	(7,906)	(7,877)
Bonds	LAC	(10,484)	(10,453)	(7,989)	(7,736)
Promissory notes	LAC	(2)	(2)	(19)	(19)
Derivatives	LFV	(394)	(394)	-	-
Vendor financing	LAC	-	-	(1)	(1)
Finance lease liabilities	LAC	(32)	(32)	(12)	(12)
Interest payable	LAC	(156)	(156)	(154)	(154)
Other financial liabilities	LAC	(23)	(23)	(11)	(11)
Accounts payable	LAC	(2,943)	(2,943)	(3,725)	(3,725)
<b>Total financial liabilities</b>		<b>(20,109)</b>	<b>(20,066)</b>	<b>(19,817)</b>	<b>(19,535)</b>

Fair value of promissory notes was defined as discounted (present) value of promissory notes based on future payments including interest component calculated using weighted average interest rates on non-financial institutions' deposit interest rates (CB RF Banking Statistics Bulletin No. 2 (201) for 2010) as of December 31, 2009.

Fair value of bonds was defined as market value of bonds at CJSC MISEX as of December 31, 2009.

Fair value of fixed rate bank loans and borrowings was defined as discounted amount (taking into account future payments including interest component) weighted average value of loans originated to non-financial institutions by commercial banks (CB RF Banking Statistics Bulletin No. 2 (201) for 2010) specifying interest rates as of the end of 2009.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 28. Revenue

	2009	2008
Local telephone services	13,407	12,884
Telegraph, data transmission and telematic services (Internet)	5,526	4,631
Interconnection services	2,596	3,027
Intrazone telephone services	2,581	2,417
Agent and support services	661	712
Mobile radio, wire boradcasting, radio broadcasting and TV services	391	417
Other revenues	1,404	1,088
<b>Total</b>	<b>26,566</b>	<b>25,176</b>

Revenue from intrazone and local telephone services include revenue from leased telecommunication channels in the amounts of 692 and 150 respectively (2008: 458 and 183).

Revenue from local telephone services includes revenue from universal telecommunications services in the amount of 1 (2008: 1).

Revenue from data transmission telematic services (Internet) and telegraph include revenues from data transmission and telematic services (Internet) in the amount of 5,322 (2008: 4,433).

Other revenue includes rental income in the amount of 410 (2008: 932) including income from investment property in the amount of 22 (2008: 0).

Other revenue includes agency fee in the amount of 20 (2008:16).

The Group NWT generated revenue by the following major customer groups:

<b>By customer groups</b>	<b>2009</b>	<b>2008</b>
Residential customers	14,232	12,937
Corporate customers	6,782	6,276
Governmental customers	2,339	2,202
Interconnected operators	3,213	3,761
<b>Total</b>	<b>26,566</b>	<b>25,176</b>

### 29. Personnel costs

	2009	2008
Salary expenses	6,358	6,206
Unified social tax	1,477	1,386
Cost of pension and other long-term social liabilities	152	258
Staff optimization expenses	6	7
Other personnel costs	410	364
<b>Total</b>	<b>8,403</b>	<b>8,221</b>

Other personnel costs are mainly represented by expenses for voluntary medical and other insurance in favour of employees' payments under the collective agreement and labour contracts.

### 30. Materials repairs and maintenance utilities

	2009	2008
Repair and maintenance	2,775	1,590
Materials	1,130	1,009
Utilities	857	700
<b>Total</b>	<b>4,762</b>	<b>3,299</b>

In 2009 expenses on investment properties amounted to 8 and 10 in respect of income generating and non-generating properties respectively.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 31. Other operating income

	<u>2009</u>	<u>2008</u>
Reimbursement of losses from universal telecommunication services	4,282	2,382
Penalties, late payment interest and fines	4	15
Gain from sale of property, plant and equipment and other assets	-	35
Reversal of provision for doubtful debts	-	23
Other income	154	132
<b>Total</b>	<b><u>4,440</u></b>	<b><u>2,587</u></b>

Other income includes mainly receipts from reimbursement of losses cost of property identified as a result of stocktaking payables and receivables with expired statute of limitations.

During 2009 according to the terms of agreements concluded with the Federal Telecommunications Agency for provision of universal telecommunication services the Company received from the universal services fund reimbursement of losses incurred due to rendering of universal telecommunications services in the following amounts:

- For current year services – 2,958 (2008: 1,362)
- For previous year services – 1,018 (2008: 222).

Losses from rendering of universal telecommunications services during 2009 amounted to 4,282 (2008: 2,382) and were confirmed by an independent audit firm CJSC Marketing Consulting Design.

## 32. Other operating expenses

	<u>2009</u>	<u>2008</u>
Taxes, other than income tax	957	769
Agency fees	625	556
Third party services and expenses related to administration	611	609
Fire and other security services	435	425
Transportation and postal services	288	267
Universal service fund payments	255	234
Property lease	219	195
Audit and consulting fees	176	235
Advertising expenses	147	237
Provision for doubtful debts	113	-
Property lease (excluding premises)	101	85
Member fees, charity contribution, payments to labour unions	96	264
Loss on disposal of property, plant and equipment and other assets	50	-
Credit institution services	49	58
Property, plant and equipment, construction-in-progress, intangible assets and other assets impairment	26	-
Property insurance	17	17
Penalties, late payment interest and fines	3	-
Other expenses	172	278
<b>Total</b>	<b><u>4,340</u></b>	<b><u>4,229</u></b>

Other expenses principally comprise social expenses and other operating expenses.

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 32. Other operating expenses (continued)

In 2009 the Company reclassified a number of line items in the above Note:

	2008 in 2009	2008 in 2008	
Taxes other than income tax	769	680	Property tax
		89	Taxes other than income tax
		349	Third party services and expenses related to administration
		105	Travel and entertainment
Third party services and expenses related to administration	609		Remuneration to members of the Board of Directors Management Committee and Internal Audit Committee
		87	Internal Audit Committee
		44	Information services
		24	Training expenses
Transportation and postal services	267	203	Transportation services
		64	Postal services
Member fees charity contribution payments to labour unions	264	155	Member fees charity contribution payments to labour unions
		109	Expenses related to non-commercial partnership

### 33. Finance costs

	2009	2008
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	1,219	877
Interest expense on pension and other long-term social liabilities	231	162
Borrowings servicing expenses	14	4
Interest expense on finance lease	8	23
<b>Total</b>	<b>1,472</b>	<b>1,066</b>

The amount of interest capitalised in 2009 and 2008 was as follows:

	2009	2008
Capitalized to property, plant and equipment	140	95
Capitalized to intangible assets	3	10
<b>Total</b>	<b>143</b>	<b>105</b>

### 34. Other investing and financing gains and losses

	2009	2008
Interest income from finance assets	298	314
Income from pension plan assets	2	-
Dividend income	6	1
Gain on disposal of interests in associates	-	219
SZAO Medexpress	-	219
(Loss) gain on disposal of other financial assets	(2)	2
Loss on change of fair value of financial assets through profit and loss	-	(9)
Ineffective portion of hedging transactions	54	(9)
Other	15	41
<b>Total</b>	<b>373</b>	<b>559</b>

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 35. Income tax

Federal law No. 224-FZ dated November 26, 2008 introduced amendments in the tax legislation that provided for a reduction of income tax rate from 24% to 20% effective from January 1, 2009.

Income tax charge for the years ended December 31, 2009 and 2008 comprised the following:

	<b>2009</b>	<b>2008</b>
Current income tax expense	358	894
Deduction obtained for the current income tax for previous years	(148)	(56)
Deferred income tax benefit related to temporary differences	(18)	(107)
<b>Total income tax expense for the year</b>	<b>340</b>	<b>787</b>

A reconciliation of the theoretical tax charge to the actual income charge is as follows:

	<b>2009</b>	<b>2008</b>
<b>Profit before income tax</b>	<b>2,932</b>	<b>3,348</b>
Statutory income tax rate	20%	24%
Theoretical tax charge at statutory income tax rate	586	804
Increase/(decrease) resulting from the effect of:		
Deductions obtained for items previously considered nondeductible	(148)	(56)
Effect from tax revaluation of property as a result of subsidiary liquidation	(264)	-
Non-deductable expenses	232	299
Change in tax rate	-	(230)
Expected dividends from subsidiaries	-	(6)
Effect of income tax exemption	(35)	(42)
Other	(31)	18
<b>Total actual income tax</b>	<b>340</b>	<b>787</b>
<b>Effective tax rate %</b>	<b>11.60%</b>	<b>23.51%</b>

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 35. Income tax (continued)

Recognized deferred income tax assets and liabilities as at December 31, 2009 and 2008 and their changes in 2009 and 2008 were as follows:

	December 31, 2007	Origination and reversal of temporary differences	Changes in fair value of financial assets available for sale	Change in tax rate	December 31, 2008	Origination and reversal of temporary differences	December 31, 2009
<i>Tax effect of deferred tax assets:</i>							
Accounts payable and accrued liabilities	208	(84)	-	(22)	102	100	202
Trade and other accounts receivable	41	(21)	-	-	20	(7)	13
Pension liabilities	243	64	-	(54)	253	59	312
Finance lease	32	(15)	-	(3)	14	(8)	6
<b>Total deferred tax assets</b>	<b>524</b>	<b>(56)</b>	<b>-</b>	<b>(79)</b>	<b>389</b>	<b>144</b>	<b>533</b>
<i>Tax effect of deferred tax liabilities:</i>							
Property, plant and equipment	(1,417)	(50)	-	257	(1,210)	(63)	(1,273)
Investments	(56)	1	48	-	(7)	7	-
Intangible assets	(274)	(24)	-	52	(246)	(75)	(321)
Dividends from subsidiaries	(11)	6	-	-	(5)	5	-
<b>Total deferred tax liabilities</b>	<b>(1,758)</b>	<b>(67)</b>	<b>48</b>	<b>309</b>	<b>(1,468)</b>	<b>(126)</b>	<b>(1,594)</b>
<b>Total net deferred tax liabilities</b>	<b>(1,234)</b>	<b>(123)</b>	<b>48</b>	<b>230</b>	<b>(1,079)</b>	<b>18</b>	<b>(1,061)</b>

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 35. Income tax (continued)

In the context of the Company's current corporate structure tax losses and current tax assets of a company may not be set off against current tax liabilities and taxable profits of other companies and accordingly taxes may accrue even where there is a net consolidated tax loss. Therefore deferred tax assets of one company cannot be offset against deferred tax liabilities of another company.

The Company has not recognised a deferred tax liability in respect of temporary differences of 15 (2008: 63) associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The statement of comprehensive income for 2009 and 2008 includes income tax in respect of the following items of other comprehensive income (loss):

	2009	2008
Changes in fair value of financial assets available for sale	-	48
<b>Total</b>	<b>-</b>	<b>48</b>

## 36. Earnings (loss) per share

The Group NWT has no financial instruments which may be converted into ordinary shares; therefore the diluted earnings per share equal basic earnings per share.

	2009	2008
Profit for the year attributable to OJSC NWT shareholders	2,591	2,561
Profit for the year attributable to preference shareholders	259	256
<b>Profit for the year attributable to ordinary shareholders</b>	<b>2,332</b>	<b>2,305</b>
Weighted average number of ordinary shares outstanding	1,125	1,125
Basic and diluted earnings per share (in Russian Roubles) for the year	2.073	2.049
<b>Basic and diluted earnings per share attributable to ordinary shareholders for the year (in Russian Roubles)</b>	<b>2.073</b>	<b>2.049</b>

In 2009 the Company reviewed the procedures for calculating Earnings (Loss) per Share. Under the Company's Charter preference shareholders receive rights similar to ordinary shareholders in the following cases:

- The annual shareholders' meeting resolves not to pay dividends on preference shares;
- The annual shareholders' meeting resolves to pay dividends on preference shares in an amount not less than 10% of the Company's net profit as per the statutory financial statements for the period.

In connection with the existing practice (previously unavailable) and a low probability of making the above decisions (the risk that OJSC Svyazinvest loses control over the Company) for the purpose of the financial statements it was resolved to assume that dividends on preference shares would be approved in the amount of 10% of the net profit for the previous annual period.

## 37. Dividends declared and proposed for distribution

In June 2009 in accordance with the decision of the general meeting of shareholders the dividends were declared in the amount of 0.617 Roubles per ordinary share and 1.281 Roubles per preference share for the year ended December 31, 2008.



## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 37. Dividends declared and proposed for distribution (continued)

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share (in Roubles)	Total dividends payable (in Roubles)
<b>2008</b>			
Preference shares	250,369,337	1.281	320,723,121
Ordinary shares	881,045,433	0.617	543,605,032
<b>Total</b>	<b>1,131,414,770</b>	-	<b>864,328,153</b>

Dividends paid in 2009 for the year ended December 31, 2008 amounted to 806.

In 2008 in accordance with the decision of the Board of Directors the dividends were declared in the amount of 0.642 Roubles per ordinary share and 3.997 Roubles per preference share for the year ended December, 31 2007.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share (in Roubles)	Total dividends payable (in Roubles)
<b>2007</b>			
Preference shares	250,369,337	3.997	1,000,726,240
Ordinary shares	881,045,433	0.642	565,631,168
<b>Total</b>	<b>1,131,414,770</b>	-	<b>1,566,357,408</b>

Dividends paid in 2008 for the year ended December 31, 2007 amounted to 1 503.

Dividends paid to shareholders are determined by the Board of Directors and officially approved at the annual shareholders' meeting. Earnings available for dividends are limited to OJSC NWT's profits determined in accordance with Federal law On Joint Stock Companies based on financial statements prepared in accordance with Federal law On Accounting and Russian accounting standards.

### 38. Operating leases

As of December 31, 2009 and 2008 minimum lease payments under operating leases where the Company is a lessee were allocated by years as follows:

	2009	2008
	Minimum lease payments	Minimum lease payments
Current portion (less than 1 year)	436	422
1-5 years	458	346
Over 5 years	1,245	1,201
<b>Total</b>	<b>2,139</b>	<b>1,969</b>

In 2009 Group NWT operating lease expenses presented within lines "Other operating expense" and "Services of Telecommunication Operators" of consolidated income statement amounted to 573 (2008: 553).

## Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

### 38. Operating leases (continued)

As of December 31, 2009 and 2008 minimum lease payments under operating leases where Group NWT is a lessor were allocated by years as follows:

	<b>2009</b>	<b>2008</b>
	<b>Minimum lease payments</b>	<b>Minimum lease payments</b>
Current portion (less than 1 year)	316	289
1-5 years	109	160
Over 5 years	164	231
<b>Total</b>	<b>589</b>	<b>680</b>

In 2009 Group NWT revenue from operating leases recognized in "Revenue" of the consolidated income statement amounted to 727 (2008: 932).

Key operating lease agreements are leases of land plots premises and communication channels.

### 39. Commitments

As at December 31, 2009 and 2008 Group NWT contractual obligations with regard to capital investments in upgrading and expanding the network amounted to 205 and 926 respectively.

As at December 31, 2009 and 2008 Group NWT contractual obligations with regard to purchase of property plant and equipment amounted to 4 and 30 respectively.

As at December 31, 2009 and 2008 Group NWT contractual obligations with regard to purchase of intangible assets amounted to 6 and 0 respectively.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 40. Balances and Transactions with Related Parties

During 2009 Group NWT related parties' structure has not experienced major changes compared to the structure as at December 31, 2008.

The relationships with those related parties with whom the Company entered into significant transactions in 2009 and 2008 are detailed below:

Transactions	OJSC Svyazinvest	OJSC Svyazinvest subsidiaries	Associates	Other	State- controlled entities
<b>2009</b>					
Revenue from telecommunication services,	-	1,415	33	4	2,779
Revenue from support and agency services	-	645	-	-	-
Rental income	-	11	19	-	91
Revenue from other goods, services and products	-	8	-	1	167
Purchase of telecommunication services,	-	283	19	-	251
Purchase of other services	-	135	-	168	1,687
Purchase of goods and other assets	-	71	-	-	23
Interest income	-	-	-	18	-
Interest expense	-	-	-	-	84
Dividends payable	256	-	-	-	-
Loans provided	-	-	-	662	-
Borrowings obtained	-	-	-	-	5,783
Receivables written-off	-	-	-	-	1
<b>2008</b>					
Revenue from telecommunication services,	-	1,603	37	458	2,836
Revenue from support and agency services	-	694	-	13	-
Rental income	-	8	10	34	155
Revenue from other goods, services and products	-	2	1	22	17
Disposal of PPE and other assets	-	-	-	20	-
Purchase of telecommunication services,	-	267	23	249	307
Purchase of other services	-	383	-	379	1,415
Purchase of goods and other assets	-	55	-	-	135
Interest income	-	-	-	-	229
Dividends receivable	-	2	-	1	-
Dividends payable	263	-	-	-	-
Loans provided	-	-	-	3	-

The nature of relationship with those related parties with which the Company has significant balances as of December 31, 2009 and 2008 is presented below:

Transactions	OJSC Svyazinvest	OJSC Svyazinvest subsidiaries	Associates	Other	State- controlled entities
<b>2009</b>					
Trade and other receivables, net of doubtful debt provision	-	215	4	3	153
Accounts payable	-	378	2	9	321
Cash and financial investments	-	-	-	345	180
<b>2008</b>					
Trade and other receivables, net of doubtful debt provision	-	242	7	21	206
Loans provided (incl. interest)	-	-	-	3	-
Accounts payable	-	381	2	15	307
Cash and financial investments	-	-	-	-	3,000

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

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## **40. Balances and Transactions with Related Parties (continued)**

Other related parties comprise the following categories: key management personnel; parties exercising significant influence over the Company; Non-state pension fund; other parties recognized as related parties but not included in separate categories.

### **OJSC Svyazinvest**

OJSC Svyazinvest is an Open Joint Stock Company incorporated under the laws of the Russian Federation.

As at December 31, 2009 Russian Government represented by the Federal Agency for Management of State Property owned 75% less one ordinary share of OJSC Svyazinvest.

Svyazinvest Group comprises 7 interregional telecommunications companies (MRK), OJSC Rostelecom, OJSC Tsentralny Telegraph, OJSC Dagsvyazinform and other subsidiary operating telecommunications companies.

Telecommunications operators that are a part of Svyazinvest Group are operators of general use telecommunications network providing services of local intrazone domestic and international long-distance telephone communications communication services in data transmission networks telematic services telegraph communication services wire radio broadcasting communication services for cable and on-air broadcasting services of mobile radio telephone and radio communication communication services on providing communication channels according to licenses issued by the Russian Federation Ministry of Telecommunications and Mass Communications.

### **Subsidiaries**

The Group NWT performs transactions with subsidiary companies as part of its day-to-day operations. Financial results and account balances on transactions with subsidiaries are excluded from Group NWT consolidated financial statements according to IFRS requirements.

The Group NWT enters into transactions with subsidiaries on market terms. Tariffs for subsidiaries are at the same level with tariffs for other counteragents and are fixed by a regulatory body. Subsidiaries do not influence Group NWT transactions with other counteragents. More details of the nature of interrelations between the Group NWT and its subsidiaries are presented in Note 6.

### **OJSC Rostelecom**

OJSC Rostelecom a majority-owned subsidiary of OJSC Svyazinvest is the primary provider of domestic and international long-distance telecommunication services in the Russian Federation.

Revenue from OJSC Rostelecom relates to zone initiation/call termination services from/to Group NWT Network's and from/to connected operators' networks and to the fees received under the assistance agreement.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 40. Balances and Transactions with Related Parties (continued)

Expenses associated with OJSC Rostelecom relate to payments for call termination to networks of other telecommunication operators if the call is initiated from a mobile network as well as interconnection expenses and expenses related to long-distance domestic and international telecommunication services provided to the Group NWT.

The respective amounts included in the consolidated financial statements as at December 31, 2009 and 2008 and for the years up to the stated dates were as follows:

	<u>2009</u>	<u>2008</u>
Revenue from telecommunication services, interconnection and traffic transmission services	1,334	1,534
Revenue from support and agency services	635	694
Rental income	11	8
Revenue from other goods, services and products	8	2
Purchase of telecommunication services, interconnection and traffic transmission services	240	126
Purchase of other services	1	8
Trade and other accounts receivable	199	224
Accounts payable	369	339

## Operations with state-controlled entities

State-owned entities comprise a significant part of the Group NWT client base and purchase its services both directly through different state administration bodies and indirectly through their related parties

Some of the entities financed from the State budget are users of the Group NWT network. These entities lease communication channels at rates approved by the Federal Tariff Agency that are generally lower as compared to tariffs applied for other clients. In addition the Government may by operation of law request the Group NWT to provide services required for national securities and crime control.

Entities that are directly or indirectly controlled by the State do not affect the Group NWT operations with other parties.

The Group NWT cannot disconnect some of these entities which are strategic institutions for the State in accordance with decisions of the Russian Government. Tariffs for such companies are at the same level with tariffs for commercial organisations and are fixed by a regulatory body.

## OJSC Svyazintek

OJSC Svyazintek was established by OJSC Svyazinvest subsidiaries which collectively own 100% of its share capital. OJSC Svyazintek key objective is to implement and support operations of information systems and to coordinate manage and execute industry-wide IT programs within the companies of Svyazinvest Group. OJSC Svyazintek provides to the Group NWT services related to implementation and post-implementation support of information systems in particular Oracle E-Business Suite and Amdocs Billing Suite software.

Group NWT costs associated with services provided by OJSC Svyazintek amounted to 62 (2008: 146). In the table describing related party transactions in the reporting period relevant expenses are shown in the line "Purchase of goods and other assets" Expenses in the amount of 62 (2008: 119) were included in non-current assets; expenses in the amount of 0 (2008: 27) were included in current period expenses.

## Non-state Pension Fund Telecom-Soyuz

The Group NWT signed a pension agreement with a non-state pension fund "Telecom-Soyuz" which is under ultimate controlled of OJSC Svyazinvest (Note 21). In addition to the state pension the Group NWT provides most of its employees with a non-state pension and other post-employment benefits through defined benefit and defined contribution plans.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 40. Balances and Transactions with Related Parties (continued)

The total amount of contributions to non-state pension fund paid by the Group NWT in 2009 amounted to 230 (2008: 152) and is fully included in the line "Personnel costs" in the statement of income. The fund retains 3% of every pension contribution of the Group NWT to cover own charter activity and administrative costs.

### Remuneration of key management personnel

The key management personnel comprise members of the Management Committee and the Board of Directors totalling 22 persons as at December 31, 2009 and 21 persons as at December 31, 2008.

Remuneration to key management personnel for 2009 includes salaries bonuses and remuneration for participation in the work of management bodies of the Company and amounts to 132 (2008: 145) including remuneration of employees participating in the Company management bodies which includes salary and bonuses in the amount of 103 (2008: 94). The remuneration amounts are stated exclusive of unified social tax.

In 2009 the Group NWT made a contribution of 6 to the non-state pension fund (2008: 0) for its key management personnel. The plans provide for payment of retirement benefits to the Group NWT employees starting from the date they comply with terms of acting non-state pension program (for example minimum service period requirement).

## 41. Subsequent Events

### Tariff regulation

The Company's tariffs for local telephone communication were increased from February 1, 2010 on the basis of Order of the Federal Tariff Agency No. 256-s/1 dated October 23, 2009.

### Staff reductions

Under the staff optimization program the Company discharged 33 employees since December, 31 2009 to the date of signing of the financial statements for 2009. The compensation payments amounted to 2.

### Universal service provision

No tenders for the right to provide universal services were held in 2010 to the issue date of the consolidated financial statements.

### Borrowings

On January 25, 2010 the Company entered into a revolving loan facility agreement with OJSC AKB Svyaz Bank with a debt ceiling of 1 000. The loan matures on January 24, 2013. The interest rates paid by the Company to the Bank range from 10.4% to 11.6% per annum (depending on the period of the tranche use varying from 91 to 548 days). The loan facility is unsecured.

At the same time as of February 16, 2010 and May 1, 2010 OJSC AKB Svyaz Bank decreased the rates for the use of borrowings under the above loan facility agreement. The new rates range from 9.7% to 10.45% and from 7.65% to 8.3% respectively (depending on the period of the tranche use varying from 91 to 548 days).

In Quarter 1 and 2 2010 the Company made use of the borrowings under the revolving loan facility agreement with OJSC AKB Svyaz Bank. The cash was drawn in the amount of 930 during the period from February 9, 2010 through March 31, 2010 and in the amount of 1 020 during the period from May 1, 2010 through May 24, 2010.

In January 2010 alongside with OJSC AKB Svyaz Bank the North-West Bank of the Russian Sberbank also took the decision to reduce the interest rate under the revolving loan facility agreements for the Company from 13.75% to 10.75% per annum as of January 27, 2010.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 41. Subsequent Events (continued)

On May 18, 2010, the Company entered into a revolving loan facility agreement with OJSC TransCredit Bank for 1,000. The loan matures on May 17, 2013. The interest rates payable by the Company to the Bank range from 7.885% to 8.715 % per annum (depending on the period of the tranche use varying from 180 to 910 days). The loan facility is unsecured.

On May 18, 2010 the Company entered into a revolving loan facility agreement with OJSC Alfa-Bank for 1,000. The loan matures on May 17. 2013. The interest rates payable by the Company to the Bank range from 7.933% to 8.768 % per annum (depending on the period of the tranche use varying from 180 to 910 days). The loan facility is unsecured.

On May 18, 2010, the Company entered into a revolving loan facility agreement with OJSC KB Rossia for 1 000. The loan matures on May 17, 2013. The interest rates payable by the Company to the Bank range from 7.933% to 8.768 % per annum (depending on the period of the tranche use varying from 180 to 910 days). The loan facility is unsecured.

In February and April 2010 the Company used short-term borrowings raised through the sale of its promissory notes:

Promissory note purchaser	Series	Number	Issue date	Maturity and domicile	Discount under promissory notes	Value
OJSC Bank VTB North-West	-	3686103	18.02.2010	On demand but no earlier than 19.03.2010	2	400
OJSC MDM Bank	-	20100218	18.02.2010	On demand but no earlier than 19.03.2010	2	400
OJSC Bank VTB North-West	-	3686102	08.04.2010	On demand but no earlier than 08.06.2010	2	200
OJSC MDM Bank	-	20100408_1	08.04.2010	On demand but no earlier than 08.06.2010	2	400
OJSC Perviy Ob'edinennyi Bank	-	20100408	08.04.2010	On demand but no earlier than 08.06.2010	2	200
OJSC TransCreditBank	-	20100412	15.04.2010	On demand but no earlier than 15.06.2010	2	200

## Redemption of promissory notes

OJSC AKB Svyaz Bank promissory note No. 006133 of CB series was redeemed on 11 January 2010. The Company received the principal amount of 332 (11 million USD) and interest in the amount of 13 (0.4 million USD).

## Bond repayment

In accordance with the Decision on series 03 bond issue the Company partially repaid series 03 bonds for a total of 900 (30% of the bond nominal value) on February 25, 2010.

## Bond issue

No decision on bond issue was taken in 2010 to the issue date of the consolidated financial statements.

## Change in composition of OJSC NWT

In January 2010 the Company's Board of Directors took the decision to establish OJSC NWT Saint Petersburg joint branch on the basis of OJSC NWT Saint Petersburg branch and OJSC NWT Leningrad region branch by July 1, 2010.

## Confirmation of the loss incurred on universal telecommunications services in 2009

In 2010 the Federal Telecommunications Agency decided to compensate the Group NWT for the losses of 4,282 incurred on universal telecommunications services in 2009.

# Open Joint Stock Company North-West Telecom

Notes to consolidated financial statements  
for the year ended 31 December 2009  
(in millions of Roubles, unless otherwise stated)

## 41. Subsequent Events (continued)

### Dividends

In May 2010 the Board of Directors proposed dividends for 2009 in the amount of 1.228 Roubles per preference share and 0.591 Roubles per ordinary share. The total amount of declared dividends was 307 and 521 for preference and ordinary shares respectively. Dividends for the year ended December 31, 2009 are payable in 2010.

The total dividends payable amounted to the following:

Category of shares	Number of shares	Dividends per share (Roubles)	Total dividends payable (Roubles)
<b>For 2009</b>			
Preference shares	250,369,337	1.228	307,453,546
Ordinary shares	881 045,433	0.591	521,020,388
<b>Total</b>	<b>1,131,414,770</b>		<b>828,473,934</b>

### Restructuring of OJSC NWT

In May 2010 OJSC NWT's Board of Directors took the decision on including the issue on restructuring of OJSC NWT in the form of its merger into OJSC Rostelecom into the agenda of the forthcoming general shareholders' meeting to be held in June 2010.

Under the agreement on OJSC NWT's merger into OJSC Rostelecom to be approved by the shareholders within the restructuring issue on the agenda OJSC NWT's shares shall be converted to OJSC Rostelecom's shares as follows:

- 4 102 ordinary registered uncertified shares of OJSC NWT shall be converted into 1 ordinary registered uncertified share of OJSC Rostelecom;
- 5 220 preference registered uncertified shares of OJSC NWT shall be converted into 1 ordinary registered uncertified share of OJSC Rostelecom.

In addition the Board of Directors approved the repurchase price of OJSC NWT's shares which can be presented for repurchase in the case of OJSC NWT's restructuring. The repurchase price of the Company's ordinary and preference shares will be 21.01 Roubles respectively. Market value of OJSC NWT's shares was assessed by an independent appraiser who applied the following approaches in the assessment process:

- discounted cash flow (DCF) method under the income approach;
- market quotation method and comparable company's method under the market approach.

### Long term employees incentive program OJSC NWT

On May 31, 2010 the Board of Directors approved main provisions of Long term incentive program for OJSC NWT employees. As part of this program there was approval made on transfer of funds to the trust management of OJSC Gazprombank Asset Management in amount of 1,426. Program duration is 2.5 years.