

REPORT
of the Auditing Committee
Based on the Results of Checking the Financial and Economic Operation of the Open
Joint-Stock Company North-West Telecom (OJSC N.W. Telecom)
for the Year 2008

Moscow

15th April 2009

The Auditing Committee of OJSC N.W. Telecom elected by the general meeting of the shareholders on 23rd June 2008, consisting of the following members:

Chairperson of the Committee S. N. Bocharova
members of the Committee V. V. Bekin, Ye. S. Vinokurova, A. S. Lunina,
P. Ye. Puchkov, I. V. Topol, K. V. Frolov

guided by the powers established by the Federal Law On Joint-Stock Companies, the Articles of Association of OJSC N.W. Telecom and the Provisions on the Auditing Committee, has carried out an audit of the financial and economic activities of the Company for the year 2008.

The audit has been carried out in accordance with the decision of the Auditing Committee of OJSC N.W. Telecom (Minutes of the Meeting No. 5 of 10th February 2009) in the period from 10th February till 15th April 2009 in respect of the Company's annual accounts and reports for the fiscal year from 1st January till 31st December 2008 in the following areas:

- observing the established procedure of book-keeping and submission of financial reports;
- auditing the legality of decisions and actions of the Company's executive bodies, including concluded contracts and made transactions;
 - checking the observance of the legal acts in the performance of the financial and business operations;
 - analysis of internal control organization.

The analysis was carried out on the basis of the documents, accounting and tax ledgers, and explanations provided by the management of the Company, as well as the information disclosed on the web site (<http://www.nwtelecom.ru>). The analysis included a study of the disclosure in the financial (accounting) reports of information on the financial and economic activities, an evaluation of the accounting principles and methods, as well as the rules of preparing the financial (accounting) reports and the annual report.

Methods of total and sampling audit of individual operations were used by the Auditing Committee in combination during the inspection and audit.

Brief Data on the Company

Full official name: Open Joint-Stock Company North-West Telecom.

Location of the executive body: 14/26, ul. Gorokhovaya, St. Petersburg, Russia, 181186

Registration information: The Company was registered by the Resolution of the Registration Chamber of the St. Petersburg Mayor's Office of 6th May 1993, State Registration Certificate No. 2717 of 06.05.93.

In compliance with the Federal Law On State Registration of Legal Entities and Individual Entrepreneurs, the Company was registered in the Unified State Register of Legal Entities on 17th July 2002 under No. 1027809169849.

The following persons are responsible for book-keeping and making up the accounts and reports of the Company in the audited period:

- General Manager – V.A. Akulich
- Chief Accountant – M.M. Semchenko.

The General Meeting of the Shareholders is the supreme management body of the Issuer. The Board of Directors of the Company consisting of 11 persons was formed.

General Manager V. A. Akulich was appointed in compliance with Sub-clause 25 of Clause 13.4., Article 13 of the Articles of Association on the basis of the decision of the Board of Directors of 1st August 2008 for the term of office till 23rd August 2010 inclusive. The terms of the contract of employment with the General Manager have been approved by the Board of Directors.

The Management Board of the Company was formed on the basis of Sub-clause 27 of Clause 13.4., Article 13 of the Articles of Association by the Board of Directors on 23rd June 2008, with 11 members and with the term of office from 01.07.2008 till 31.07.2009.

Key Financial and Economic Indices of the Company's Operation for the Year 2008

The following figures that can describe the business activity and the financial standing were achieved by the Company for 2008:

	Indices	Unit	2008	2007	Change
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	Returns from sales of goods, jobs, services	million roubles	24,500	23,643	+4%
	including income from communication services	million roubles	22,711	21,926	+4%
1.	Prime cost of sold goods, jobs and services	million roubles	20,638	17,689	+17%
	including prime cost from communication services	million roubles	20,638	17,689	+16.7%
2.	Sale profit	million roubles	3,862	5,954	-35%
	Profit before taxes	million roubles	4,775	14,827	-68%
	Net profit	million roubles	3,622	11,305	-68%
3.	OIBDA	thousand roubles	8,041	8,963	-10%
4.	Operation margin, %	%	15.8	25.2	-9.4 PPT
5.	Sales profitability, %	%	18.7	33.7	-15 PPT
6.	Prime cost per 100 roubles of proceeds	%	84.24	74.82	+13%
7.	Share of OIBDA in the proceeds, %	%	32.8	37.9	-5.1 PPT
	Receipts per employee, thousand roubles	thousand roubles	1 079	942	+15%
8.	Financial independence ratio	-	0.59		
9.	Current liquidity ratio	-	0.64	0.80	-0.16
10	Average time of accounts payable re-payment	days	19.2	20.8	-1.6
11	Profitability of equity capital in respect of net profit, %	%	14.9	47.8	-32.9

The net assets as of 31st December 2008 amounted to 31,013 million roubles.

The analysis of the Company's financial reporting allows the Audit Committee to give the following judgement:

- the Company may be positioned as an enterprise capable of generating a flow sufficient for servicing its current activities, including debt servicing;

- the debt load in the ratio to the operating income can be considered as moderate. There have been no significant changes related to defining the company as a reliable borrower for the period analyzed. The weighted average rate of attracting credit resources is at an acceptable level;
- A default is unlikely.
- Assets liquidity may be called satisfactory and having no significant adverse impact on the credit rating of the Company.

Accounts and Reports

Accounting is organized in the Company in compliance with the requirements of the statutory and legal acts regulating the accounting in the Russian Federation, and books and accounts are kept on the basis of the Accounting Policy approved by Order No. 628-prGD of the Company's General Manager dated 29.12.07 and No. 626-prGD of 28.12.07 (with amendments and additions approved by the respective order).

The accounts and reports for the year 2008 were prepared in compliance with the Federal Law On Accounting of 21.11.96 No. 129-FZ within the scope of the balance sheet, profit and loss report, annexes to them (forms Nos. 3-5 according to OKUD – All-Russia Classifier of Management Documentation), an explanatory note and an auditor's report confirming the reliability of the accounts and reports. The accounts and reports have been made up on the basis of the reports presented by the Company's branches according to the approved forms.

As a result of the audit of the financial and economic activities of the Company for the year 2008, the Auditing Committee has not established any essential breaches in the observance of the requirements of the RF legislation or any essential deviations in presenting financial or economic transactions.

The accounts and reports of the Company make it possible to have complete and objective information on the financial and economic activities of the Company and their results, required for operations governance and management and for use by investors, creditors, state authorities and other organizations and parties concerned.

Material Facts of Business (Economic) Activities

Corporate procedures are observed in the Company in compliance with the Corporate Governance Code (approved by the Board of Directors on 22nd September 2004 (Minutes of the Meeting No. 33-04) with amendments and additions dated 23rd December 2005).

The general rules provided for by the Code are implemented by the Company on the basis of its Provisions and the norms of the current legislation, Articles of Association and bylaws of the Company (*Provisions on the General Meeting of the Shareholders, Provisions on the Board of Directors, Provisions on the Management Board, Provisions on the Committees of the Board of Directors, Provisions on the Information Policy of the Company, and the Provisions on the Internal Control Procedure (System)*).

Information of the Company's observance of the Corporate Governance Code is disclosed in the respective section of the Company's Annual Report. The Auditing Committee did not find in the Company's activities any gross violations of the requirements of the Code, current legislation, Articles of Association or bylaws.

A system of management and control bodies has been formed in the Company, their efficient activities being able to ensure normal development of the Company and the interests of its shareholders. The Board of Directors, Committees of the Board of Directors (*Appointments and Remuneration Committee, Corporate Governance Committee, Strategic Development Committee, and Audit Committee*) have been formed, the Corporate Secretary has been appointed, and the Provisions regulating the procedure of their activities have been approved.

During the year 2008 the Company did not effect any major transactions (in the interpretation of this term by the Federal Law On Joint-Stock Companies).

In 2008 the Company effected some related-party transactions in compliance with the established procedure for making such transactions, and information on such transactions is disclosed in the Annual Report of the Company. The General Manager of the Company effected the following related-party transactions with a violation of the established procedure for making such transactions (*the transactions were not approved by the Board of Directors*):

1. *Contract with M.A. Bonch-Bruyevich Saint Petersburg State University of Telecommunications without No. dated 20.05.08 (educational and training programme);*
2. *Contracts with CJSC PTT No. 218-08 of 10.09.2008 and 219-08 of 10.09.2008 (lease of real estate);*
3. *Contract with LLC Parma Inform No. SVOS/63-35-SZT, registered on 17.04.08 (digital communication channels);*
4. *Contract with LLC RPK Svyazist No. 90-08, registered on 11.08.2008 (lease of the apartment at: ul. Gorokhovaya, 16/71, kv.1) .*

Information in the form of publications on material facts and on data that might have material impact on the value of the Company's securities was disclosed by the Company in compliance with the procedure provided for by the Provisions on Information Disclosure by Securities Issuers, approved by the Order of the RF Federal Service for Financial Markets No. 06-117/pz-n. dated 10.10.2006. The Auditing Committee has revealed some facts of breach of the said procedure.

The list of Company's affiliated parties and the changes introduced to the list of the affiliated parties comply with the form set forth in the Provisions on Information Disclosure by Securities Issuers and are published on the Company's web site on a quarterly basis.

During 2008 the Company provided all-in-one communication services, the proceeds from which amounted to 620,180 roubles. Losses of the Company from the provision of all-in-one communication services amounted to 2,381,952,000 roubles in 2008. The Company received a compensation for losses amounting to 1,731,758,624 roubles from the all-in-one service reserve, including 368,852,308 roubles for the year 2007 and 1,362,906,316 roubles for 9 months of 2008.

Internal Control System

The Audit Committee of the Board of Directors deals with internal control through preliminary consideration and preparation of recommendations to the Board of Directors on the matters of financial reporting, external independent audit, internal audit, risk management, and internal control procedures.

The Internal Audit Department checks the efficiency of the applicable internal control procedures in compliance with the respective regulations. The results of the check are submitted to the Audit Committee once in a quarter.

Risk detection principles and management methods are set forth in the Company's Risk Management Programme approved by the Board of Directors of the Company on 31.03.08 (minutes of the meeting No. 19-01/07(08)). The Company operates in compliance with the approved risk management programme and the existing regulations. A Risk Commission has been established in the Company. It includes the members of the Company's Management Board and the Director of the Internal Audit Department (the Commission was set up on the basis of the Order of the General Manager of 31.08.07 No. 381-prGD).

Conclusion

On the basis of the audit procedures, the Auditing Committee believes that the obtained results make it possible to draw a conclusion that

- the decisions on the issues of the financial and economic activities were taken by the Management Board and the Board of Directors of the Company in 2008 in compliance with the then current laws and the Company's Articles of Association,
- the accounts and reports for the year 2008 reliably show in all essential aspects the financial standing of the Company and the results of its financial and economic activities for the period from 1st January till 31st December 2008,
- and the annual report presented by the Company contains reliable data in its essential provisions, which must be shown according to the law.

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OJSC North-West Telecom

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Secretary of the Auditing Committee,
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