

EXPLANATORY NOTE
to Accounts and Reports
of the Open Joint-Stock Company
North-West Telecom
for the year 2008

OJSC North-West Telecom
Explanatory Note to Accounts and Reports for the Year 2008

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(in thousand roubles, unless specified otherwise)

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The Company and Its Operation

(in thousand roubles, unless specified otherwise)

This Explanatory Note is an integral part of the annual accounts and reports of the Open Joint-Stock Company North-West Telecom for the year 2008 prepared in compliance with the active laws of the Russian Federation.

All amounts presented in thousands of roubles.

2. The Company and Its Operation (The audit was not carried out in respect of data set forth in this clause)

The Open Joint-Stock Company North-West Telecom, abbreviated name OJSC N.W.Telecom, INN (tax-payer's identification No.) 7808020593, (hereinafter referred to as the Company) was registered on 06th May 2005 by the Registration Chamber of the St. Petersburg Administration under registration No. 1027809169849. The Company's personnel number as of 31st December 2008 was 23,236 (as of 31st December 2007 – 23,451). The Company is registered at the address: 14/26, ul. Gorokhovaya, St. Petersburg, 191186.

Data on Register Holder (Registrar):

Name: Open Joint-Stock Company "United Registration Company" (OJSC URC)

Location: 15a, ul. Kalanchevskaya, Moscow, 107078

Mailing address: POB 162, Moscow, 107078

No. of license: No.10-000-1-00314

Date of license issue: 30th March 2004

Validity period: without limitation of the validity period

Authority issuing the license: License of the Federal Commission for the Securities Market of Russia for keeping a register:

Data on the Auditor:

Name: Limited Liability Company "Ernst & Young"

Location: 77, Sadovnicheskaya nab., building 1, Moscow, 115035, Russia

Location of the branch in St. Petersburg: 23A, ul. Malaya Morskaya, St.Petersburg, 190000, Russia

Mailing address: 77, Sadovnicheskaya nab., building 1, Moscow, 115035

E-mail: moscow@ru.ey.com

Data on Auditor's license: Auditor's license:

No. of license: E002138

Date of issue: 30th September 2002, issued for a period of five years, prolonged till 30th September 2012 by the Order of RF Ministry of Finance No.573 dated 17th September 2007.

As of 31st December 2008

- **The Company's Board of Directors consists of:**

Chairperson of the Board of Directors:

- Alexandr Nikolayevich Kiselev - General Manager, OJSC Svyazinvest

Deputy Chairperson of the Board of Directors:

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- Dmitry Vladimirovich Levkovsky - Director in charge of corporate management of the Moscow representative office, NCH Advisors, Inc.

Members of the Board of Directors:

- Vladimir Alexandrovich Akulich – General Manager of OJSC N.W.Telecom
- Mikhail Alexeevich Alexeev – a Member of the Board of Directors of OJSC Rostelecom
- Valery Nikolaevich Bugayenko - Chief of the RF Federal Agency for Communication
- Alexandr Alexandrovich Gogol - Rector, Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications
- Vladimir Borisovich Zhelonkin – General Manager of LLC AF Telecom Holding
- Olga Grigorievna Koroleva, Chief Accountant of OJSC Svyazinvest
- Viktor Iosifovich Koresh – Vice-President in charge of regional development, OJSC Comstar-UTS
- Denis Viktorovich Kulikov - Executive Director of Association for Investors' Rights Protection
- Ivan Ivanovich Rodionov - Professor of the Corporate Economics and Finance Chair, The State University “Higher School of Economics”

• The Company's Management Board consists of:

Chairman of the Management Board:

- Vladimir Alexandrovich Akulich – General Manager of OJSC N.W.Telecom

Members of the Management Board:

- Oleg Viktorovich Popov, Deputy General Manager – Commercial Manager of OJSC N.W.Telecom
- Oleg Anatolyevich Semanov, Deputy General Manager – Technical Manager of OJSC N.W.Telecom
- Maya Mikhailovna Semchenko, Chief Accountant of OJSC N.W.Telecom
- Vitaly Evgenievich Strizhkov, Regional Manager – Director of the Leningrad Oblast Branch, the Open Joint-Stock Company North-West Telecom
- Irina Vladimirovna Tambovskaya, Director of Human Resources Management Department of OJSC N.W.Telecom
- Ella Ivanovna Tomilina, Deputy General Manager for corporate relations of OJSC N.W.Telecom
- Leonid Zigmundovich Tufrin, Regional Manager – Director of the St.Petersburg Branch, OJSC N.W.Telecom
- Venera Adykhmovna Khusnutdinova, Deputy General Manager, Economics and Finance Manager of OJSC N.W.Telecom
- Grigory Borisovich Chernyak, Deputy General Manager in charge of property management and general issues, OJSC N.W.Telecom
- Vladimir Ivanovich Shumeyko, First Deputy General Manager of OJSC N.W.Telecom

- **The Auditing Committee of the Company consists of:**

- Vitaly Vyacheslavovich Bekin, Deputy Chief of the Affiliates Division of the Corporate Management and Legal Support Department, OJSC Svyazinvest
- Svetlana Nikolayevna Bocharova, Head of the Tax Division of the Accounting, Tax and Statistical Records Department, OJSC Svyazinvest
- Evgeniya Sergeevna Vinokurova, Head of the Division, Finance Department, OJSC Svyazinvest
- Anna Sergeevna Lunina, Chief Specialist of the Legal Support Division, Corporate Management and Legal Support Department, OJSC Svyazinvest
- Pavel Evgenievich Puchkov, Chief Specialist of the Team, Strategic Development Department, OJSC Svyazinvest
- Ivan Vladimirovich Topolya, Deputy Chief Accountant, OJSC Svyazinvest
- Kirill Viktorovich Frolov, Chief of the Internal Audit Board, OJSC Svyazinvest

Brief Description of the Company's Operation

The Company provides the following services:

- intraareal telephone communication services;
- local telephone communication services;
- including all-in-one communication services;
- interconnection and traffic transmission services;
- services accompanying the provision of long-distance and international communication services by long-distance and international communication operators;
- mobile radio communication, wired radio, broadcasting and television services;
- mobile radio telephone (cellular) communication services;
- telegraph communication, data transmission and telematic communication services;
- leasing out property;
- other services of auxiliary activities.

Intrazone telephone communication services

Intraareal telephone communication services include the provision to users of:

- telephone connections between users connected to a local telephone communication network within the territory of an entity of the Russian Federation;
- telephone connections between user (terminal) equipment connected to a local telephone communication network and user (terminal) equipment connected to a mobile communication network when subscriber numbers of the calling and called subscriber and (or) user are within the numbering resource of the respectively geographically determined and geographically non-determined numbering zones assigned to the same entity of the Russian Federation;
- intraareal telephone connections from payphones;
- provision of intraareal communication channels for use.

Local telephone communication services

Local telephone communication services include the provision of local telephone connections to users (urban and rural telephone communication), as well as all-in-one communication services.

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All-in-one communication services

Starting from 2005, the provision of all-in-one communication services is guaranteed in the Russian Federation, which includes the provision of a local telephone connection using payphones, the provision of access to the information and reference system, free round-the-clock call of emergency services, as well as data transmission and Internet access services using collective access points in hard-to-reach and remote areas of the Russian Federation.

The Company participated in competitions for the right of providing all-in-one communication services, including the provision of telephone communication services using payphones in its license areas. In 2007 the Company won 14 competitions (5 competitions in 2006) and made 88 contracts with the Federal Communications Agency concerning the terms of providing all-in-one telephone communication services using payphones. In 2008 no competitions for the right of providing all-in-one communication services were held by the Federal Communications Agency.

As of 31st December 2008 the total number of payphones that were to be installed by the Company within the framework of the obligations under the contracts was 25,824 (as of 31st December 2007 – 12, 777). In fact, 25,824 payphones were put into operation (connected to the CUT-01 payphone control system). Therefore, the contractual obligations to the Federal Communications Agency regarding the commissioning of payphones were fulfilled by the Company in full.

All-in-one communication services are provided at the rates calculated by the Federal Communications Agency and included in an agreement on the terms of all-in-one communication services provision. The established rates for the all-in-one communication services do not cover the expenses the Company incurs in providing them. The excess of economically justified costs of all-in-one communication services provision over the income gained at the established rates forms losses from the provision of all-in-one communication services, which are to be made up for from a all-in-one servicing reserve.

The rules of forming and spending the funds of the all-in-one servicing reserve were approved by the Resolution of the RF Government of 21st April 2005 No. 243. In compliance with clause 5 of the Resolution, when the draft federal budget is formed for a respective year, deductions of communication operators to the reserve and expenditures of the reserve funds are provided for in the income and expenses of the federal budget in accordance with the budget classification of the Russian Federation. Thus, the all-in-one servicing reserve is one of the budgetary funds.

The losses are made up for by the Federal Communications Agency according to the procedure established by the Resolution of the Government of the Russian Federation of 21st April 2005 No. 246 and set forth in the agreements on the terms of all-in-one communication services provision. In 2007, in compliance with the terms of the agreements, the Company received compensation for the losses once in six months. Starting from the third quarter of 2007 the losses are made up for on a quarterly basis. The final decision on the amount of the loss to be made up for is made by the Federal Communications Agency based on the results of the calendar year after the Company provides a conclusion of an independent auditing organization confirming:

- the correctness of the calculation of the amount of the losses presented for compensation;
- the correctness of the Company's separate accounting;
- the completeness of the Company transferring funds to the all-in-one servicing reserve.

Connection and traffic passage services

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Interconnection services include the services of arranging a point of interconnect and the services of servicing a point of interconnect provided to interconnected operators before 01st March 2008.

Traffic transmission services consist of:

- the services of transmitting telephone communication operators' traffic (call initiation, termination and transit);
- the services of transmitting data transmission network operators' traffic;
- the services of transmitting telegraph communication network operators' traffic.

Services related to rendering long-distance and international communication services by long-distance and international communication operators (assistance and agency services)

The Company is an agent of long-distance and international telephone communication operators in providing the services of long-distance and international telephone communication to subscribers. In this connection, the Company has made contracts with OJSC Rostelecom and OJSC MTT, under which it provides to them services accompanying the provision of long-distance and international communication services, viz.:

- services of subscriber's order processing in providing to him/her/it access to services of long-distance and international communication via an immediate and ordered servicing system;
- services of the billing processing of long-distance and international communication services;
- services of preparing, forming and storing the required documents and reporting forms;
- agency services of payment collection from subscribers and information-and-reference servicing for, on behalf of and for the account of long-distance and international communication operators;
- services of dealing with claims and lawsuits, and delivery of documents.

Industry Legislation

Establishing new rates according to rate plans

In compliance with the current legislation of the Russian Federation concerning the regulation of the activities of natural monopolies, the Company is included in the register of natural monopolies in the field of telecommunications. As a result, the rates for some communication services provided by the Company are established by the Federal Rates Service (hereinafter referred to as FST of Russia).

By Order No. 357-s/2 of the RF Federal Rates Service dated 23rd November 2007, the Company's charge rates for local telephone services were changed from 1st February 2008 as follows:

The rates for provision of local telephone connections

For individual subscribers:

- the base volume of local telephone connections with the rate plan using the combined billing system was increased to 450 minutes (against 400 minutes in 2007);
- the limit per minute rates for local telephone connections, for the time-based billing system, were rounded to even values, from RUR 0.25 to RUR 0.26 for the Central Group of branches (Vologda, Pskov, Kaliningrad, Novgorod, and Leningrad Oblast) and St. Petersburg Branch, and the limit rates for local telephone connections per minute in excess of the base volume, for the “Combined 100” rate plan, from RUR 0.35 to RUR 0.36 for the Northern Group of branches (Archangel, Murmansk, Karelian, and Komi);
- the limit rates for local telephone connections, for the subscriber billing system and unlimited volume of local telephone connections, were reduced by 22% for the Northern Group of branches, i.e. from RUR 270 to RUR 210; by 20% for the Central Group of branches, i.e. from RUR 225 to RUR 180, and by 16.7% in St. Petersburg Branch, i.e. from RUR 240 to RUR 200.
- By Order No. 352-prGD of the Company's General Manager dated 18th August 2008, the rates for local telephone connections with an unlimited volume of local telephone connections based on the no-limit rate plan / subscriber billing system rate plan, were brought to the limit value set by the RF Federal Rates Service. These rates were increased starting from 1st September 2008 from RUR 200 to RUR 210 for the Northern Group of branches, from RUR 170 to RUR 180 for the Central Group of branches, and from RUR 165 to RUR 200 for St. Petersburg Branch.

For subscribers - legal entities:

- On the basis of the Government's Resolution No. 607 of 25th September 2007, the mandatory rate plans for local telephone communication were approved as follows: time-based, combined, and subscriber billing system (no-limit) rate plans;
- the additional rate plan for local telephone communication was transformed into a mandatory combined rate plan, setting the base volume of local telephone connections at the level of the base volume of local telephone connections as for the combined rate plan for individuals. Besides, there was a RUR 10 reduction of the permanent charge for the activated local traffic volume for the Northern Group of branches (i.e. from RUR 140 to RUR 130);

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- the limit per minute rates for local telephone connections, for the time-based billing system, were rounded to even values, from RUR 0.25 to RUR 0.26 for the Central Group of branches and St. Petersburg Branch.

Prices for connection and traffic passage services

By Resolution No. 666 of the Russian Federation Government dated 12th October 2007 “On amendments to certain RF Government acts related to communications”, servicing of communication facilities forming the point of interconnect is deleted from the connection service.

By Resolution No. 776 of the Russian Federation Government dated 14th November 2007 “On amendments to Resolution No. 627 of the Russian Federation Government dated 19th October 2005”, it is stated that from 1st March 2008 an operator may set a volume of traffic transmission services (but not to exceed 1000 minutes per month per interconnect point ensuring one connection at a time) subject to guaranteed payment by the traffic transmission service user, if the volume of services provided in the settlement period is less than the established value.

In accordance with Resolution No. 627 of the Russian Federation Government dated October 19, 2005 “On governmental regulation of prices for connection services and traffic transmission services provided by operators having an important status in the public communication network”, the compensation allowance to the price of local and zonal call initiation introduced by the said regulatory document from January 1, 2006 at the rate of RUR 0.38 per minute set by Order No. 732-s/6 of the RF Federal Rates Service was cancelled from January 1, 2008.

A Change in the numbering plan

By its Order of 17th November 2006 No. 142, the Ministry of Information Technologies and Communication of the Russian Federation approved and enforced "The Russian Numbering System and Plan". It is expected that the Russian Numbering System and Plan will be put into operation on a stage-by-stage basis. By Order No. 118 of the Ministry of Communications of Russia of 29.12.2008, the target dates of implementation of the Russian numbering system and plan were updated.

The first stage (2007) of enforcing this document provides for a transition to using a closed numbering plan when establishing intraareal telephone connections and excluding from the numbering plans of local telephone communication networks the telephone numbers starting with digit 1.

The Company has taken the required organizational and technical measures of implementing stage one. By the moment, the telephone numbers starting with digit 1 have been excluded from the numbering plans of local telephone communication networks, and on the 1st of October 2007 a transition to a closed numbering plan for establishing intraareal telephone connections in the territory of the Company's respective current licenses was effected.

The second stage (2010) provides for:

- a transition to using prefix 0 in establishing intraareal and long-distance telephone connections;
- a transition to using numbers of 1UVx1(x2) type from the numbering resource of the first million group for access to emergency services, reference and information services of communication operators and special services of local telephone communication networks.

These measures will make it possible to ensure access of subscribers and users of fixed telephone and mobile communication to emergency services throughout the territory of the Russian Federation, using the single number 112.

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(in thousand roubles, unless specified otherwise)

The third stage (as soon as the local telephone communication networks are ready) provides for switchover to a closed numbering plan in providing local telephone connections. For this purpose, electronic exchanges of old software versions, quasi-electronic and analog exchanges must be replaced by digital switching equipment. The switching capacity of such exchanges is about 33.4%.

Liquidity and financial resources

Liquidity indicators show the ability of the Company to fulfil its short-term liabilities and are based on the principle of the correspondence of a part of current assets and short-term liabilities. An evaluation of the Company's liquidity for the period under report is given in the following table:

Liquidity indices	Shows	Calculation formula (using lines of Form No. 1 of the balance sheet)	Value of the index	
			31.12.2007	31.12.2008
Absolute liquidity ratio	Shows what part of the short-term liability may be immediately repaid through cash and short-term securities	(line 250 + line 260) / line 690	0.56	0.12
Quick assets (acid test) ratio	Describes the ability of the enterprise to repay short-term liabilities on condition that there will be timely settlements with debtors	(line 240 + line 250 + line 260) / line 690	0.74	0.53
Current liquidity ratio	Shows what part of the current liabilities under loans and settlements can be repaid by mobilizing all current assets	line 290 / line 690	0.81	0.64
Capital (equity) ratio	Shows what part of the current operation is funded from own sources	(line 490 - line 190) / line 290	-0.94	-3.66
Net current liabilities, million roubles		(line 690 – line 290)	2.331	2.670

In 2008, most of the Company's liquidity ratios indicators were observed to be going down. The continuing worldwide financial crisis resulted in instability on the capital markets, which affected the Company's financial standing, transaction results, and business prospects. For instance, the interest rate of the loan agreements signed in 2009 is 13.75% per annum, while the weighted average borrowed funds interest rate was 8.34% in 2008 (7.87% in 2007). Due to the material devaluation of the Russian rouble relative to the basic international currencies, the negative exchange differences for liabilities nominated in foreign currencies were 736,159 in the 4th quarter of 2008. Moreover, in the period from January 1, 2009 till the accounts approval date, the negative exchange differences for liabilities nominated in foreign currencies amounted to about 400,000.

In addition, in the period under analysis, the following factors affected the liquidity ratio trends:

1) increase of short-term liabilities caused by the partial transfer of long-term liabilities in respect of credits and loans to the short-term debt, including those:

- for the 4th bonded loan, in the amount of 500,000;
- for the syndicated loan, in the amount of 885,323 (US\$ 36.3 million);

2) a decrease in short-term investments caused by notes presented for retirement in the amount of 6,200,00. The funds received from the retirement were mainly allotted to investing activity.

In 2008, the Company repaid the following short-term liabilities (disregarding the interest) in accordance with the payment schedules provided in the contracts:

- for the syndicated loan, in the amount of 834,245 (^ 22.2 million);
- with the North-Western Bank of the RF Savings Bank (Sberbank) (hereinafter referred to as JSCB SB of RF), CJSC Raiffeisenbank, and CJSC ING Bank (Eurasia), 2,578,902.

The floatation of the 5th bonded loan to the amount of 3,000,000 for five years on May 27, 2008 confirmed the Company's investment attractiveness, and enabled an improvement of the liabilities structure.

In 2008, the Company's Management carried out monitoring of compliance with the obligations to maintain certain financial standing indicators required by the terms of some loan agreements. As of December 31, 2008, the value of the financial standing indicators complied with the requirements of creditor banks as stated in the loan agreements (Explanation 6.15).

In pursuing its business, the Company forms its liabilities portfolio uniformly spreading the short-term, medium-term, and long-term instruments. The target average debt period, including the new-borrowed funds, is defined at the level of 2.5 years, which corresponds to the international practice. By maintaining the borrowing durations in this range will enable the Company to generate a loan portfolio with a low refinancing risk.

The Company does not expect reduction of cash receipts from its operating activity in 2009.

The Company has developed a plan to maintain and improve the current liquidity in 2009 and to attract long-term funding sources, which provides for the following steps:

1) Floatation of the 6th bonded loan to the amount of 3,000,000 in 2009 if the market is favorable (the decision to issue securities was registered by the RF Federal Financial Markets Service on October 16, 2008 to remain valid till October 16, 2009.)

2) Floatation of commercial paper issues to an amount of up to 4,000,000 during the year 2009.

3) Raising cash funds to a total amount of 1,540,000 in 2009 via medium-term credit lines under agreements with JSCB SB of RF.

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4) Reduction of costs related to the investment programme by 8,054,880 in 2009 compared to the previous year.

5) The management of the Company believes that, if this is necessary, the implementation timing of some projects may be postponed to a later time or their scale may be reduced according to the requirements of current activities funding. Also, the payment deadlines for some current transactions may be postponed if the circulating capital is insufficient.

As a result of such actions, the Company expects inflow of cash sufficient to finance the activities in 2009, including refinancing of short-term debts on previously made credits and loans.

On March 2, 2009, the Standard & Poor's rating agency confirmed the Company's international credit rating for foreign currency liabilities at the level of "BB", and the Russian-scale rating at the level of "ruAA-". The forecast is "Stable".

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Analysis and Evaluation of the Balance Sheet Structure, and Profit Dynamics

(in thousand roubles, unless specified otherwise)

3. Analysis and Evaluation of the Balance Sheet Structure, and Profit Dynamics

(The audit was not carried out in respect of data set forth in this clause)

Analysis and Evaluation of the Balance Sheet Structure

The analysis of the Company's financial standing was carried out on the basis of the accounting balance sheet (Form No. 1) and the profit and loss report (Form No.2).

Balance Sheet Assets

The dynamics and structure of the balance sheet items in 2008 is given in the following table:

Balance Sheet Assets	Absolute values		Percentage in the total of the balance sheet		in absolute values	Changes	
	01.01.2008	31.12.2008	01.01.2008	31.12.2008		in percentage	Growth rate
1	2	3	4	5	6 = L.3 - L.2	7 = L.5 - L.4	8 = (L.3 - L.2) / L. 2
Property - total	47,631,762	53,163,463	100%	100%	5,531,701	-	11.6%
<i>1. Non-circulating assets - total</i>	<i>37,975,670</i>	<i>48,395,315</i>	<i>79.8%</i>	<i>91.0%</i>	<i>10,419,645</i>	<i>11.2%</i>	<i>27.4%</i>
1.1. Intangible assets	74	2,055	0.0%	0.0%	1,981	0.0%	2677.0%
1.2 Fixed assets	29,605,511	38,405,355	62.2%	72.2%	8,799,844	10.0%	29.7%
1.3 Capital investment	1,986,493	2,120,152	4.2%	4.0%	133,659	-0.2%	6.7%
1.4 Profitable investment in material values	759	684	0.0%	0.0%	(75)	0.0%	-9.9%
1.5 Long-term financial investments	2,721,003	3,559,497	5.7%	6.7%	838,494	1.0%	30.8%
1.6 Deferred tax assets	274,210	194,104	0.6%	0.4%	(80,106)	-0.2%	-29.2%
1.6. Other non-circulating assets	3,387,620	4,113,468	7.1%	7.7%	725,848	0.6%	21.4%
<i>2. Circulating assets - total</i>	<i>9,656,092</i>	<i>4,768,148</i>	<i>20.2%</i>	<i>9.0%</i>	<i>(4,887,944)</i>	<i>-11.2%</i>	<i>-50.6%</i>
2.1. Stock including value added tax on acquired values	714,789	735,820	1.5%	1.4%	21,031	-0.1%	2.9%
2.2 Accounts receivable	2,258,788	3,163,782	4.7%	6.0%	904,994	1.3%	40.1%
2.3. Monetary funds and short-time financial investments	6,681,418	863,732	14.0%	1.6%	(5,817,686)	-12.4%	-87.1%
2.4. Other current assets	1,097	4,814	0.0%	0.0%	3,717	0.0%	338.8%

In the period under report the Company's property increased by 5,531,701 (or 11.6%), amounting to 53,163,463 at the end of the year.

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Analysis and Evaluation of the Balance Sheet Structure, and Profit Dynamics

(in thousand roubles, unless specified otherwise)

The bulk of the aggregate assets structure (91.0%) as of the end of the year are non-current assets, which is related to the specific character of the Company's industry. In the period under analysis, any material changes in the non-current assets structure took place in the "Fixed Assets" line only: the residual value grew by 8,799,844 (or 29.7%), the share of fixed assets in the balance sheet total having increased by 10.0% and amounting to 72.2% as of the end of the year. This change is related to the implementation by the Company of its investment programme, according to which, fixed assets to the total amount of 13,354,281 were commissioned during the year.

Current assets for the period under analysis decreased by 4,887,944 (or by 50.6%), their share in the aggregate assets having decreased by 11.2% and amounting to 9.0% as of the end of the year. As regards the current assets structure, materials changes also took place in the "Cash and Short-Term Investments" only. The amount of cash and short-term investments decreased by 87.1% or by 5,817,686, their proportion in the balance sheet total dropping from 14.0 to 1.6% due to the JSCB Svyaz-Bank notes presented for payment in the amount of 6,200,000.

Balance Sheet Liabilities

The dynamics and structure of the balance sheet liabilities items in 2008 are given in the following table:

Balance Sheet Liabilities	Absolute values		Percentage in the total of the balance sheet		in absolute values	Changes	
	01.01.2008	31.12.2008	01.01.2008	31.12.2008		in percentage	Growth rate
1	2	3	4	5	6 = L.3 - L.2	7 = L.5 - L.4	8 = (L.3 - L.2) / L. 2
Property sources - total	47,631,762	53,163,463	100.0%	100.0%	5,531,701		11.6%
1. Equity	28,908,025	30,963,606	60.7%	58.2%	2,055,581	-2.5%	7.1%
Borrowed capital	18,723,737	22,199,857	39.3%	41.8%	3,476,120	2.5%	18.6%
<i>2. Long term liabilities – total</i>	<i>6,736,814</i>	<i>14,762,158</i>	<i>14.1%</i>	<i>27.8%</i>	<i>8,025,344</i>	<i>13.7%</i>	<i>119.1%</i>
2.1 Credits and Loans	5,672,890	13,450,626	11.9%	25.3%	7,777,736	13.4%	137.1%
2.2. Deferred tax liabilities	949,532	1,180,132	2.0%	2.2%	230,600	0.2%	24.3%
2.3. Other long-term liabilities	114,392	131,400	0.2%	0.3%	17,008	0.1%	14.9%
<i>3. Short-term liabilities - total</i>	<i>11,986,923</i>	<i>7,437,699</i>	<i>25.2%</i>	<i>14.0%</i>	<i>(4,549,224)</i>	<i>-11.2%</i>	<i>-38.0%</i>
3.1 Credits and Loans	5,070,243	2,686,195	10.6%	5.1%	(2,384,048)	-5.5%	-47.0%
3.2 Accounts Payable	5,872,863	3,925,805	12.3%	7.4%	(1,947,058)	-4.9 %	-33.2%
3.3. Indebtedness to participants (founders) in respect of income payment	20,865	68,686	0.0%	0.1%	47,821	0.1%	229.2%
3.4 Deferred income	54,373	50,035	0.1%	0.1%	(4,338)	0.0%	-8.0%
3.5. Reserves for forthcoming expenses	938,535	699,611	2.0%	1.3%	(238,924)	-0.7%	-25.5%
3.6 Other short-term liabilities	30,044	7,367	0.0%	0.0%	(22,677)	0.0%	-75.5%

In the period under analysis, the sources of generation of the Company's total assets grew by 5,531,701, or by 11.6%. The following principal changes took place in the balance sheet liabilities structure:

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Analysis and Evaluation of the Balance Sheet Structure, and Profit Dynamics
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- The amount of long-term liabilities increased by 8,025,344, with their proportion in the balance sheet total increasing by 13.7% to make 27.8% by the end of the year. This change was mainly due to the increase of the amount of long-term credits and loans by 7,777,736, which is attributable to borrowing a syndicated loan of US\$ 135 million (3,996,354 at the exchange rate as of December 31, 2008) and floatation of the 5th bonded loan to the amount of 3,000,000.
- The amount of short-term liabilities decreased by 4,549,224, with their proportion in the balance sheet total decreasing by 11.2% to make 14.0% by the end of the year. This change was mainly due to the decrease of the amount of short-term credits and loans by 2,384,049 due to short-term debt repayment as per the payment debts provided in the agreements with the JSCB SB of RF, Raiffeisenbank, and ING Bank (Eurasia), and the syndicated credit from Citibank. Also, the proportion of short-term credits and loans in the balance sheet total dropped from 10.6% to 5.1%.

Dynamics of Profit for 2008

Area of activities	Receipts (line 010, Form No. 2)		Prime cost (line 020, Form No. 2)		Sale profit (line 050, Form No. 2)		Increase / (decrease of sale profit, %	
	2008	2007	2008	2007	2008	2007	2008/ 2007	2007/ 2006
Provision of communication services	22,710,718	21,926,139	20,076,421	16,943,251	2,634,297	4,982,888	-47%	20%
Provision of other services	1,789,178	1,716,603	561,514	745,631	1,227,664	970,972	26%	23%
Total:	24,499,896	23,642,742	20,637,935	17,688,882	3,861,961	5,953,860	-35%	20%

The receipts from communication services provided in 2008 increased by 784,579 (or by 3.6%) against 2007, and receipts from other services, by 72,575 (or by 4.2%). The prime cost of communication services also grew by 3,310,170 (or by 18.5%), with the prime cost of other services dropping by 184,117 (or by 24.7%).

Since the growth rate of the communication services prime cost proved to be higher than the growth rate of receipts from communication services, this resulted in a reduction of communication services sales profit by 2,348,591 (or by 47.1%). The growth of earnings and reduction of prime cost for other services resulted in a corresponding profit increase by 256,692 (or by 26.4%).

The prime cost increase was greatly influenced by the fact that, starting from 2008, the Company has been providing the all-in-one communication service in full, i.e. via all the commissioned universal payphones. The income from indemnification for losses related to the provision of all-in-one communication service is recorded as "Other income". In comparable terms, there was no reduction in the sales profit.

4. Accounting Policy

These accounts and reports of the Company have been prepared on the basis of the following accounting policy.

Basic Approaches Towards Preparing Annual Accounts and Reports

Accounts are kept by the Company in compliance with the Federal Law No. 129-FZ of 21st November 1996 “On Accounting” (with amendments as of 23rd July 1998, 28th March, 31st December 2002, 10th January, 28th May, 30th June 2003, 03rd November 2006) and the “Provisions on Accounting and Reporting in the Russian Federation”, approved by the Order of the Ministry of Finance of the Russian Federation, of 29th July 1998, No. 34n (with amendments as of 30th December 1999, 24th March 2000, 18th September 2006, 26th March 2007), as well as other active provisions on accounting and the Company's Accounting Policy.

The Company's accounts and reports for the year 2008 have been prepared proceeding from an assumption that the Company will continue its operations in the foreseeable future, and it had no intention or need of liquidating or essentially reducing the operations, and, therefore, the obligations would be repaid in time according to the established order.

Uncertainty of Estimates

Set forth below are the basic assumptions in respect of future events, and other sources of estimates uncertainty as of the date of reporting, which imply a significant risk of the need of introducing significant adjustments to the book value of assets and liabilities during the next reporting year:

- a reserve for financial investments depreciation (as of the end of the year);
- a doubtful debt reserve in respect of settlements with buyers and customers (on a quarterly basis);
- a doubtful debt reserve in respect of advances distributed and other accounts receivable (as of the end of the year);
- a reserve for the reduction of the value of stocks of materials and capital equipment (as of the end of the year under report);
- reserves for forthcoming costs (on a monthly basis);
- a contingent liabilities reserves (as of the end of the year under report);
- a debt in respect of revealed shortages (as of the end of the year under report).

Assets and Liabilities in Foreign Currency

In the accounting of economic operations performed in foreign currencies, the official foreign currency to rouble exchange rate as of the day of the operation was applied. Monetary assets and liabilities, the value of which is expressed in terms of a foreign currency, are recorded in the accounts and reports in amounts calculated on the basis of the official currency exchange rates established by the Central Bank of the Russian Federation as of the dates under report (in roubles per currency unit):

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Currency	31 st December 2008	31 st December 2007
US dollars	29.3804	24.5462
Euros	41.4411	35.9332

The exchange rate differences that arose during the year in respect of operations with assets and liabilities and in their re-calculation as of the date of report shall be included in the other income and expenses.

In the cash flow report the rouble equivalent of the currency balance as of the start of the year and the flow of foreign currency during the year were calculated according to the official currency exchange rate that was used as of 31st December 2008, and, respectively, the comparable data were calculated according to the official currency exchange rate that was used as of 31st December 2007.

Short-Term and Long-Term Assets and Liabilities

Assets (liabilities) have been included in short-term assets or liabilities in the accounts and reports, provided their circulation (retirement) period does not exceed 12 months after the reporting date. All other assets and liabilities are presented in the accounts and reports as long-term assets or liabilities.

Intangible Assets

Intangible assets include exclusive rights to intellectual property: trademarks, computer software and databases.

In the accounts and reports, the intangible assets are shown at the initial value less the depreciation accumulated for the entire time of use.

The value of assets transferred or to be transferred is considered as the initial cost of intangible assets acquired in exchange for goods (values) other than money. The said value was established proceeding from the price, at which the Company normally determined the value of similar goods (values) under comparable circumstances.

If it is impossible to determine the value of assets transferred or to be transferred by the Company under these contracts, the cost of stocks of materials and capital equipment received by the Company shall be established proceeding from the cost at which similar intangible assets are acquired in comparable circumstances.

The value of intangible assets shall be retired by charging depreciation deductions by the linear method during the established useful life. The useful life shall be determined by a specially established commission and shall be approved, under the established procedure, based on the expected useful life of such an object, during which the organization can get economic benefit (income).

Depreciation charges on intangible assets are shown in the accounting of the reporting period, to which they belong, and are charged irrespective of the results of the Company's business in the reporting period (paragraph 33 of the Provisions on Accounting PBU 14/2007).

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Useful life of intangible assets for depreciation charging purposes:

Intangible Assets	Useful Life
Trademarks	from 3 to 10 years

The useful life is defined at the acceptance of intangible asset items and approved by the General Manager of the Company.

Fixed Assets

Fixed assets were accepted for accounting at the initial value.

The initial value of the fixed assets acquired on the paid basis shall be determined as the sum total of the actual costs of the Company for acquisition, construction and manufacturing less the value added tax and the other reimbursable taxes (except for the cases provided for by the legislation of the Russian Federation).

The value of assets transferred or to be transferred shall be considered as the initial cost of fixed assets acquired in exchange for goods (values) other than money. The said value was established proceeding from the price, at which the Company normally determined the value of similar goods (values) under comparable circumstances.

In the balance sheet, the fixed assets are shown at the initial (replacement) value less the depreciation accumulated for the entire time of operation.

Real estate sites that are in operation and that are actually used prior to title registration are taken into account within fixed assets.

The value of fixed assets, in which they are accepted for accounting, is subject to changes only in cases of extra construction, extra equipment, renovation, upgrading, partial liquidation and revaluation of fixed assets.

Depreciation of fixed assets shall be calculated by the linear method according to the adopted useful life time.

	Useful life for commissioned items (years)	
	before 01.01.2007	after 01.01.2007
Buildings	from 5 to 70 years	from 7 to 70 years
Facilities and transmission devices	from 10 to 30 years	from 7 to 40 years
Communication equipment	from 3 to 20 years	from 3 to 10 years
Transport facilities	from 3 to 15 years	from 3 to 10 years
Computing and office facilities	from 3 to 5 years	from 2 to 7 years
Other items	from 3 to 7 years	from 1 to 20 years

Depreciation shall not be calculated for land plots.

Depreciation is not charged for housing and environment facilities commissioned before 2006. For the same facilities commissioned starting from 2006, depreciation is charged as usual.

The useful life by groups of uniform objects of fixed assets shall be determined by the fixed assets acceptance commission on the basis of Classifier approved by the Company's General Manager.

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Costs of all kinds of repairs are included in the expenses for normal activities of the period under report. No reserve of forthcoming costs of fixed assets repairs has been created.

Depreciation for fixed assets received under financial lease (leasing) contracts and taken into account within fixed assets was charged by the linear method proceeding from the established useful life.

Finance Investment

Financial investment, for which the current market value is not determined, is shown in the balance sheet according to its initial value.

Initial value of financial investment:

- acquired on the paid basis, has been determined as the sum total of the actual costs of the Company for acquisition;
- acquired under contracts providing for fulfillment of obligations (payment) otherwise than in monetary funds has been determined as the value of the assets transferred by the Company;
- in the form of investment in capitals of subsidiaries, associate and other companies makes a monetary value agreed upon by promoters (participants) of such companies.

Financial investments, for which a stable and significant decrease of value was recognized, are shown in the balance sheet less the created reserve against devaluation of financial investment.

For debt securities where the current market value is not assessed, the difference between the sum total of actual expenses for acquisition of the security and its face value is uniformly recorded as financial results.

Withdrawn issuance securities where the current market value is not assessed are assessed using the method of first-acquired securities' value (FIFO), and non-issuance securities are assessed by the actual value of each security.

The value of finance investments, the current market value of which can be determined according to the established procedure, shall be adjusted at the end of the year.

Inventories

Inventories shall be accepted for accounting at the actual price, which is deemed to mean here the following:

- when inventories are acquired on a paid basis – the amount of actual costs of acquisition, including the costs of bringing the inventories to the state, in which they are fit for use, except for the value added tax and other refundable taxes;
- when inventories are made by the Company itself – the total of actual costs related to their production;
- when inventories are contributed as investment in the authorized capital of the Company – the monetary evaluation agreed upon by the founders of the Company taking into account the requirements of the Law "On Joint-Stock Companies";

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- when inventories are received by the organization under a contract of donation or on a gratuitous basis or remain from retirement of fixed assets and other property - the current market value as of the date of accepting for accounting;
- when inventories are received under contracts providing for execution of obligations (payment) in non-monetary funds – the value of assets transferred or to be transferred by the Company.

Goods in retail trade shall be shown in the accounting at the selling prices.

Recorded as inventories are assets, to which the terms provided in paragraph 4 of the Provisions on Accounting “Fixed Assets Accounting” (PBU 6/2004) apply, i.e. of a unit price not exceeding RUR 10,000 acquired between January 1, 2006 and December 31, 2007, and of a unit price not exceeding RUR 20,000 acquired from January 1, 2008 on.

Inventories shall be stated in the accounts and reports less the reserve for reduction of the value of stocks of materials and capital equipment. The reserve is formed for the amount of the difference between the current market value and the actual prime cost of inventories that have become obsolete or fully or partially lost their initial quality or whose current market value has decreased. Expenses for creating the reserve are included in other expenses.

Withdrawn inventories (other than precious metals and assets, to which the terms provided in paragraph 4 of the Provisions on Accounting “Fixed Assets Accounting” (PBU 6/2004) apply, i.e. of a unit price not exceeding RUR 10,000 acquired between January 1, 2006 and December 31, 2007, and of a unit price not exceeding RUR 20,000 acquired from January 1, 2008 on) shall be assessed at their average sliding prime cost.

Written off at the prime cost of each unit shall be:

- precious metals,
- assets, to which the terms provided in paragraph 4 of the Provisions on Accounting “Fixed Assets Accounting” (PBU 6/2004) apply, i.e. of a unit price not exceeding RUR 10,000 acquired between January 1, 2006 and December 31, 2007, and of a unit price not exceeding RUR 20,000 acquired from January 1, 2008 on.

Deferred Expenses

Expenses incurred by the Company in the year under report, but related to later reporting periods, shall be recorded as deferrals. Such expenses shall be written off according to their purpose uniformly during the periods, to which they relate.

Expenses related to the acquisition and implementation of software products and databases shall be written off to current expenses starting from the first day of the month following the month of the start of their use.

Deferred expenses related to the acquisition and implementation of software products and databases to be written-off in over than 12 months after the reporting date shall be reported in the balance sheet within other non-circulating assets.

Indebtedness of Buyers and Customers

Buyers' and customers' debts shall be recorded in the accounts and reports, taking into account the VAT paid to the budget and shall be determined proceeding from the prices established by contracts

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between the Company and the buyers (customers) taking into account all discounts (extra charges) provided by the Company. Debts unlikely to be exacted were written off from the balance sheet as they were recognized as such.

Debts of buyers for sold services, works, goods, products, fixed assets, inventories and other property that were not repaid within the time established by respective contracts and that were not secured by respective guarantees are shown less doubtful debt reserves.

The amount of the reserve is determined separately for each debt based on an inventory, depending on debtor's solvency and debt repayment probability.

As an individual analysis of each doubtful debt is impossible for communication services at communication enterprises because of the large number of subscribers, the reserve shall be created in the amount of 100% of the total debt for all unpaid debts in respect of communication services, the payment of which was outstanding 90 and more days as of the date of creating the reserve. No reserve shall be created for debts, the payment of which is delayed by less than 90 days.

Expenses for creation of doubtful debt reserves are taken into account as the increase of other expenses.

Accounts Receivable in Respect of Issued Advances and Other Accounts Receivable

Debts in respect of issued advances are recorded in the accounts and reports less the doubtful debt reserve formed based on the results of inventory of the issued advances, the probability of receiving assets (services) in respect of which is doubtful.

Other accounts receivable are recorded in the accounts and reports less the doubtful debt reserve formed based on the results of inventory of the debt, in respect of which repayment of the full amount of the debt is recognized as unlikely.

The doubtful debt / advance payments effected / other accounts receivable reserve shall be assessed and recognized in individual cases as applied to debtors that are material in themselves.

Expenses for creating the reserve are included in other expenses.

Added and Reserve Capital

The additional capital has been formed through the increase in the value of fixed assets, determined during revaluation, and the seigniorage gained as a result of selling Company's shares at a price exceeding their par value.

The Company shall form capital reserves intended for covering its losses, for retirement of bonds and redemption of the Company's shares. Capital reserves shall be formed from the net profit of the Company.

The Company shall form a Reserve Fund to the amount provided for by the Company's Articles of Association, but not less than 5% of the Company's authorized capital.

Dividends to be distributed shall be considered as liabilities and deducted from the sum total of the capital as of the date under report only in case they are stated before the date under report inclusive. Dividends to be paid, which are declared after the reporting date, shall be disclosed in the accounts and reports as the events after the reporting date.

Profit Tax Settlements

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The Company shall calculate and show in accounts and reports deferred tax assets and liabilities in respect of the profit tax to be repaid in subsequent reporting periods.

Deferred tax assets and liabilities are to be calculated in respect of temporary differences presented by the income and expenses forming the accounting profit (loss) in one reporting period and the taxable base in respect of the profit tax in other reporting periods.

Deferred tax assets are the part of the deferred profit tax, that must result in a reduction of the profit tax to be paid to the budget in the period that follows the period under report or in subsequent periods under report. Deferred tax assets are determined by applying the profit tax rate established by the legislation of the Russian Federation on taxes and fees to the deducted temporary differences that have been formed in the period under report.

Deferred tax liabilities are the part of the deferred profit tax, that must result in an increase of the profit tax to be paid to the budget in the period that follows the period under report or in subsequent periods under report. Deferred tax liabilities are determined by applying the profit tax rate established by the legislation of the Russian Federation on taxes and fees to the deducted temporary differences that have been formed in the period under report.

The current profit tax shall be the tax for the purposes of taxation, calculated in compliance with chapter 25 of the Tax Code of the Russian Federation, determined in the accounts and reports proceeding from the value of the conventional profit tax and adjusted by the amounts of constant tax assets and liabilities, as well as deferred tax assets and liabilities of the period under report.

The current profit tax shall be considered in the accounts and reports as a liability to the budget, equal to the unpaid value of the profit tax.

The conventional expenses (income) in respect of the profit tax shall be calculated as the product of the accounting profit (loss) multiplied by the profit tax rate established by the legislation of the Russian Federation on taxes and fees.

Overpayments of the profit tax that have been effected to the budgets of entities of the Russian Federation and to local territorial budgets are shown within other accounts receivable.

Credits and Loans Received

The Company shall transfer the long-term debt in respect of received credits and loans to the short-term debt 365 days before the principal debt amount re-payment according to the contract of loan and/or credit.

As of each reporting date, the Company recalculates the value of credits and loans expressed in a foreign currency and/or in conventional monetary units. The differences arising as a result of the recalculation are included in other expenses or income.

Interests on credits and loans are regarded as other costs in the course of charging, except for any part thereof that is to be included in the investment asset value.

Any extra expenses incurred in connection with receiving credits or loans include costs connected with:

- providing legal and consulting services to the Company;
- providing agency services to the Company in floating acceptance and bonded loans;
- conducting expert examinations;
- consumption of communication services;
- other expenses immediately connected with receiving loans in the monetary form.

Extra expenses related to receiving loans or credits, or floating loan obligations, are recognized by the Company as expenses of the period, in which the said costs were incurred.

Interest on received credits (loans) shall be charged on a monthly basis according to the procedure established in the agreement.

For loans obtained in the monetary form and through issuing own notes of the Company, the amount of the discount due to the noteholder shall be included in the deferrals, with subsequent writing off to other expenses on the monthly basis in equal parts during the notes circulation period.

For loans received in the monetary form and attracted by issuing Company's bonds, in case of sale of issued bonds at a price differing from their face value (with a discount), the amount of the discount is included in deferred expenses, with subsequent writing off to other expenses on a monthly basis in equal parts during the bonds circulation period.

Recognizing the Income

Receipts from sales of products and from provision of services shall be recognized by the accrual concept, i.e. as services are provided, and shall be recorded in accounts and reports less the value added tax and discounts provided to buyers.

Receipts from sales of products on the conditions of barter shall be determined according to the cost of valuables received or to be received by the Company, calculated proceeding from the prices at which the Company normally determines the cost of similar valuables under comparable circumstances.

Income from leasing out Company's property is included in the income from normal activities.

Dividend within other income shall be recognized as it is stated.

Earnings to the amount of refunding from the universal service reserve of losses caused by provision of all-in-one communication service are recognized in the service provision period to the amount refundable on the basis of calculation of losses for that period.

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Recognizing the Expenses

The complete production prime cost of provided services, performed jobs and sold products shall be calculated by the Company without separation of managerial or commercial expenses. Accounting of expenses by the areas of operations is organized in compliance with the Order of the Ministry of Information Technologies and Communications of the Russian Federation of 2nd May 2006 No. 54 "On Approving the Procedure of Communication Operators' Separate Accounting of Income and Expenses by the Areas of Operations, Provided Communication Services and Parts of the Telecommunication Network Used for the Provision of Such Services".

Reserves for Forthcoming Costs

The Company shall create the following reserves for forthcoming costs:

- a reserve for forthcoming payment for leaves to the employees;
- a reserve for payment of bonuses for the year business results and for payment of annual remuneration to members of the Company's Board of Directors;
- a reserve for payment of bonuses for the 4th quarter business results and for payment of quarterly remuneration to the Company's managerial officials;
- a reserve for payment of bonuses for the business results in December.

Expenses for creating the reserves are included in the normal operation expenses, in the increase of the initial value of fixed assets units under construction and in other expenses, depending on the area of operations, in which the employees included in the calculation of deferred expenses reserves are working.

Expenses for Pension Insurance

Social deductions consist in the payment of the unified social tax calculated by the Company in compliance with the Tax Code of the Russian Federation.

Besides, the Company takes part in the pension programme in the framework of non-governmental provision of pensions. Amounts of dues are to be determined on the annual basis and shall be included in expenses as they arise.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008****Accounting Policy**

(in thousand roubles, unless specified otherwise)

Changes in the Accounting Policy for the Year 2008**Accounting of Fixed Assets**

In 2008, in compliance with the Provisions on Accounting "Accounting of Fixed Assets" (PBU 6/2001) approved by the Order of the Ministry of Finance of the Russian Federation of 30th March 2001 No. 26n, the Company increases the limit of the value of assets recognized within fixed assets from 10,000 roubles to 20,000 roubles per unit.

Starting from 1st January 2008, the assets, in respect of which the terms provided for in clause 4 of the Provisions on Accounting "Fixed Assets Accounting" (PBU 6/2001) are fulfilled, with the value not exceeding 20,000 roubles per unit, are recorded in the accounts and reports within the inventories.

Changes in the Accounting Policy for the Year 2009

No changes capable of seriously influencing the financial reporting are introduced into the accounting policy for the year 2009.

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Comparative Data

(in thousand roubles, unless specified otherwise)

5. Comparative Data

Comparative data in the Company's accounts and reports for the year 2008 have been formed by the adjustment of the data of accounts and reports for the year 2007 in order to bring them in line with the accounting and reporting indices for the year 2008.

Changes in the Initial Balance Sheet as of 1st January 2008

		as of 31.12.2007	Adjustments for:	as of 01.01.2008
I. NON-CIRCULATING ASSETS				
Intangible Assets	110	74		74
Fixed Assets	120	29,605,511		29,605,511
Capital investments	130	1,986,493		1,986,493
Profitable investment in stocks of materials and capital equipment	135	759		759
Long-term financial investments	140	2,721,003		2,721,003
investment in subsidiaries	141	2,660,496		2,660,496
investment in associate companies	142	45,436		45,436
Investment in other companies	143	15,071		15,071
other long-term finance investment	144	-		-
Deferred tax assets	145	274,210		274,210
Other non-circulating assets	150	3,363,501	24,119	3,387,620
Total for section I	190	37,951,551	24,119	37,975,670
II. CURRENT ASSETS				
Resources	210	564,552	(24,119)	540,433
raw materials, components and other similar values	211	377,185		377,185
expenditures in work-in-process (turnover costs)	213	-		-
finished products and goods for resale	214	2,047		2,047
shipped goods	215	163		163
deferred expenses	216	185,157	(24,119)	161,038
other stock and expenses	217	-		-
Value added tax on acquired values	220	174,356		174,356
to be repaid in over 12 months after the reporting date	221	1,976		1,976
to be repaid within 12 months after the reporting date	222	172,380		172,380
Accounts receivable (payments are expected in over 12 months after the reporting date)	230	70,697		70,697
buyers and customers	231	14,951		14,951
advances distributed	232	21,820		21,820
other debtors	233	33,926		33,926
Accounts receivable (payments are expected within 12 months after the reporting date)	240	2,188,091		2,188,091
buyers and customers	241	1,436,830		1,436,830
advances distributed	242	69,789		69,789
other debtors	243	681,472		681,472
Short-term financial investments	250	6,312,290		6,312,290
Monetary funds	260	369,128		369,128
Other current assets	270	1,097		1,097
Total for section II	290	9,680,211	(24,119)	9,656,092
ASSETS	300	47,631,762		47,631,762
		as of 31.12.2007	Adjustments for:	as of 01.01.2008

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Comparative Data
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III. CAPITAL AND RESERVES				
Authorized capital	410	1,131,415		1,131,415
Additional capital	420	7,799,501		7,799,501
Capital reserves	430	56,571		56,571
Own shares purchased from shareholders	440	-		-
Retained profit (uncovered loss) of previous years	460	8,615,940	11,304,598	19,920,538
Retained profit (loss) of the year under report	470	11,304,598	(11,304,598)	-
Total for section III	490	28,908,025		28,908,025
IV. LONG-TERM LIABILITIES				
Credits and loans	510	5,672,890		5,672,890
credits	511	3,539,252		3,539,252
loans	512	2,133,638		2,133,638
Deferred tax liabilities	515	949,532		949,532
Other long-term liabilities	520	28,620	85,772	114,392
Total for section IV	590	6,651,042	85,772	6,736,814
V. SHORT-TERM LIABILITIES				
Credits and loans	610	5,070,243		5,070,243
credits	611	2,007,235		2,007,235
loans	612	3,063,008		3,063,008
Accounts payable	620	5,958,635	(85,772)	5,872,863
suppliers and contractors	621	2,429,369	(85,772)	2,343,597
advances received	622	434,794		434,794
wage arrears	623	109,897		109,897
indebtedness to state off-budget funds	624	55,681		55,681
debt in respect of taxes and fees	625	2,326,331		2,326,331
other creditors	626	602,563		602,563
Indebtedness to participants (promoters) in respect of income payment	630	20,865		20,865
Deferred income	640	54,373		54,373
Reserves for forthcoming costs	650	938,535		938,535
Other short-term liabilities	660	30,044		30,044
Total for section V	690	12,072,695	(85,772)	11,986,923
LIABILITIES	700	47,631,762		47,631,762

Retained profit of the year 2007 amounting to 11,304,598 has been transferred from the item "Retained Profit (Loss) of the Year under Report" to the item "Retained Profit (Loss) of Past Years".

To ensure data comparability, the initial balances of the following assets and liabilities have been changed:

- licenses and certificates with a term of validity exceeding 12 months, and other deferred costs with a term of validity exceeding 12 months, to the amount of 24,119, are deleted from Line 216 "Deferred Expenses" and transferred to Line 150 "Other non-current assets";
- the long-term part of the debt to new construction suppliers and contractors in the amount of 85.772 is separated from Line 621 "Short-term Accounts Payable".

For the data comparability purposes, the opening balance of Line 902 "Inventories Accepted for Custody" was increased by 912.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008****Comparative Data**

(in thousand roubles, unless specified otherwise)

Due to inclusion of premises, land plots, and buildings in leased fixed assets, and due to changes in the cadastral value of land plots, Line 901 "Leased Fixed Assets" was increased by 23.779.

The said changes in the initial balance do not result in an adjustment of the comparative indices of the Profit and Loss Report for 2007.

Changes in the Comparative Information for the Year 2007 in the Profit and Loss Report

		Before adjustment	Adjustments for:	After adjustment
I. Income from and expenses for normal activities				
Returns from sales of goods, products, works, services	010	23,643,438	(696)	23,642,742
including those from the sales of: communication services	011	21,929,988	(3,849)	21,926,139
Prime cost of sold goods, products, works and services	020	(17,688,882)		(17,688,882)
Including that from communication services	021	(16,943,251)		(16,943,251)
Sale profit	050	5,954,556	(696)	5,953,860
II. Other income and expenses				
Interest receivable	060	156,424		156,424
Interest payable	070	(863,269)		(863,269)
Income from participation in other organizations	080	84,150		84,150
Other income	090	11,109,793	696	11,110,489
Other expenses	100	(1,614,791)		(1,614,791)
Profit before profit tax	140	14,826,863		14,826,863
Profit Tax Expenses	150	(3,522,265)		(3,522,265)
deferred tax liabilities	151	(57,353)		(57,353)
deferred tax assets	152	134,372		134,372
current profit tax	153	(3,599,284)	(74,579),	(3,673,863)
extra paid amounts of profit tax for preceding tax (reporting) periods	154		74,579,	74,579
PROFIT FOR THE PERIOD UNDER REPORT	190	11,304,598		11,304,598

To ensure data comparability the comparative figures of income and expenses has been changed:

- subscriber fee charged for the time of telephone switching off has changed, the amount of 696 has been excluded from item 110 "Proceeds from Sales of Goods" and has been carried over to item 090 "Other Income".

- earnings from other communication services provided in the amount of 3,849 were deleted from Line 011 "Receipts from Communication Service Sales";

- extra charge for the profit tax for the previous taxable (reporting) period, in the amount of 74,579 was separated into a special line from Line 153 "Current Profit Tax".

Changes in the Comparative Information for the Year 2007 in the Cash Flow Report

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008****Comparative Data**

(in thousand roubles, unless specified otherwise)

The agency fee in the amount of 288 was excluded from Line 022 “Cash Received from Current Activity – Funds Earned as Agent” and transferred to Line 021 “Cash Received from Current Activity – Funds Received from Buyers / Customers”.

The contributions to the non-governmental pension fund in the amount of 4,506 were deleted from Line 032 “Cash for Labor Remuneration” and transferred to Line 036 “Cash for Other Transfers”.

The agent fees to banks for cash receipt in the amount of 5,012 were deleted from Line 036 “Cash for Other Transfers” and transferred to Line 035 “Cash for Settlements under Agency Contracts”.

Changes in Comparative Data for the Year 2007 related to Appendix to the Accounting Balance Sheet

Due to inclusion of premises, land plots, and buildings in leased fixed assets, and due to changes in the cadastral value of land plots, Line 260 "Leased Fixed Assets – Total" was increased by 23,779.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

6. Explanations to Essential Items of the Balance Sheet**6.1. Fixed Assets** (line 120 of the Balance sheet)

As of 1st January 2008, the Company did not re-value the fixed assets.

Change in the value of fixed assets:

	2008	2007
Initial value as of the start of the year	48,710,589	39,881,532
Increase in the value, total	13,380,933	9,399,200
<i>including that through:</i>		
acquisition of new facilities	574,471	1,645,691
construction, updating and renovation of the operating facilities	12,779,810	7,665,173
free receipt	3,771	3,425
other receipts (including those recorded as leased in the off-balance account)	22,881	84,911
	(769,662)	(570,143)
Reduction (retirement) in the value, total		
<i>including that through:</i>		
sales	(195,478)	(168,679)
writing-off, partial liquidation	(283,928)	(394,369)
other kinds of withdrawal	(290,256)	(7,095)
Initial value as of the end of the year	61,321,860	48,710,589
Accumulated depreciation as of the start of the year	(19,105,078)	(16,438,680)
Depreciation accrued for the period	(4,186,090)	(3,013,160)
Adjustment of depreciation accrued in previous years	9,864	(5,636)
Depreciation for leased facilities, previously accounted on the lessor's balance sheet	(23,952)	(80,108)
Depreciation of withdrawn items		
for sold items	127,826	111,508
for written off items	220,889	319,871
for other kinds of facilities withdrawal	40,036	1,127
Accumulated depreciation as of the end of the year	(22,916,505)	(19,105,078)
Residual value as of the start of the year	29,605,511	23,442,852
Residual value as of the end of the year	38,405,355	29,605,511

Due to updating of business accounting data, the increase of the fixed assets initial value in 2007 in the amount of 296,533 was transferred from the “due to purchase of new facilities” line to the “due to construction and updating/reconstruction of existing facilities”.

The increase of the lines “Other Withdrawals” and “Other Withdrawals Depreciation” in 2008 is related to transfer of a part of property (fixed assets) as contribution to the Authorized Capital of LLC RDPC Svyazist.

The main bulk of the purchased fixed assets is computer and office equipment, 46%, and motor vehicles, 30%. The main bulk of new-built fixed assets are transfer units and other network equipment, 74%.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

The initial value of the fixed assets, for which 100% depreciation has been charged (completely worn fixed assets) and which, however, continue to be operated, was 6,659,833 as of 31st December 2008 (5,167,854 as of 31st December 2007).

The residual value of the fixed assets pledged by the Company as security for liabilities and payments was 1,084,223 as of 31st December 2008 (966,712 as of 31st December 2007).

Fixed Assets Received under Contracts of Leasing

As of 31st December 2008 the Company had 16 effective contracts of financial (lease) leasing for the lease of transport facilities, computer facilities, switchboards and other telecommunication equipment. The lease periods are up to 60 months.

Value of fixed assets acquired under leasing contracts:

	as of 01.01.2008	as of 31.12.2008
Fixed assets on the balance sheet of the Company:		
-initial value	1,037,395	362,088
-accumulated depreciation	(797,435)	(342,775)
-residual (book) value	239,960	19,313
Fixed assets on the balance sheet of the lessor:		
-contractual value	39,514	8,057

Amounts of impending leasing payments:

Payment timing	Amounts to be paid, total	including:	
		those in respect of fixed assets on the balance sheet of the Company (recorded within liabilities in items 520 and 620 of the Balance Sheet)	those in respect of fixed assets on the balance sheet of the lessor (not recorded within liabilities)
2009	15,198	12,956	2,242
2010-2013	-	-	-
after 2013	-	-	-
Total	15,198	12,956	2,242

6.2. Capital Investment (line 130 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Investment in non-circulating assets, total:	1,876,158	1,975,292
<i>including:</i>		
construction, updating and renovation of fixed assets objects	1,859,579	1,954,964
acquisition of fixed assets	16,538	20,303
other	41	25
Equipment to be installed	110,335	144,860
Total	1,986,493	2,120,152

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Change in the Value of Non-Circulating Assets Investment in Progress

	2008	2007
Investment in non-circulating assets as of the start of the year	1,876,158	1,383,815
Investment within the period under report, total	13,496,543	9,820,479
<i>including:</i>		
acquisition of new facilities	576,997	1,600,915
Construction, updating and renovation of the operating facilities	12,915,775	8,216,139
received free of charge	3,771	3,425
Disposal of investment within the period under report, total	(13,397,409)	(9,328,136)
<i>including that through:</i>		
commissioned items	(13,356,273)	(9,311,663)
sold items	-	(660)
written off items	(23,134)	(4,267)
other kinds of withdrawal	(18,002)	(11,546)
Investment in non-circulating assets as of the end of the year	1,975,292	1,876,158

The Company is building and renovating the following telecommunication facilities.

In 2008, the Company capitalized interests on credits and loans in the amount of 95,089.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

6.3. Share Investment (items 141, 142, 143 of the Balance Sheet)

Contributions to authorized capitals of subsidiaries, affiliates and other companies:

Company	Area of activities	Value of investment	Share in the authorized capital and other interests	Voting shares, %
as of 01.01.2008				
Subsidiaries				
- CJSC PTT	communication services	2,572,231	100	100
- LLC Novgorod Datacom	communication services	68,008	100	-
- CJSC AMT	Central Bank transactions	19,572	100	100
-CJSC SPIC	The Company is being liquidated	2,712	60	60
- LLC RDPC "Svyazist"	recreational services	500	100	-
- other		185	-	-
Reserve against depreciation		(2,712)		
Total for subsidiaries (item 141)		2,660,496		
Affiliates				
- CJSC WBT	communication services	11,344	28	28
- Insurance CJSC Medexpress	insurance business	34,092	25.00019	25.00019
Reserve against depreciation		-		
Total for affiliates (item 142)		45,436		
Other companies				
- OJSC Svyazintek	IT services	12,591	11	11
- other		2,480	-	-
Reserve against depreciation		-	-	-
Total for other companies (item 143)		15,071		
Total as of 01.01.2008:		2,721,003		

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Company	Area of activities	Value of investment	Share in the authorized capital and other interests	Voting shares, %
As of 31.12.2008				
Subsidiaries				
- CJSC PTT	communication services	2,572,231	100	100
- LLC Novgorod Datacom	communication services	68,008	100	-
- CJSC AMT	Central bank transactions	19,572	100	100
- LLC RDPC "Svyazist"	recreational services	873,217	100	-
- other		184		
Reserve against depreciation		-		
Total for subsidiaries (item 141)		3,533,212	-	-
Affiliates				
- CJSC WBT	communication services	11,343	28	28
Reserve against depreciation		-		
Total for affiliates (item 142)		11,343	-	-
Other companies				
- OJSC Svyazintek	IT services	12,591	11	11
- other		2,351	-	-
Reserve against depreciation				
Total for other companies (item 143)		14,942	-	-
Total as of 31.12.2008		3,559,497		

Reserve for depreciation of financial investment in authorized capitals of subsidiaries, affiliates and other companies:

	Reserve as of 01.01.2008	Reserve formed	Reserve restored	Reserve as of 31.12.2008
Reserve for subsidiaries:				
-CJSC SPIC	2,712	-	(2,712)	0
Total for reserves:	2,712	-	(2,712)	0

In April 2008, the Company increased the value of its investment in LLC RDPC Svyazist by 872,717 by making an additional non-cash contribution to the Authorized Capital of LLC RDPC Svyazist (sole participany's decision No. 02-07 of 21.12.2007).

The earnings from investments in the authorized capitals of subsidiaries, affiliates, and similar organizations are recorded in Line 080 "Income from Participation in Other Organizations" Profit and Loss Report, at 756,161 (in 2007, 84,150), of which, 121,940 is the dividend and 634,221 is the earning from revaluation of the Company's property contributed to the Authorized Capital of LLC RDPC Svyazist as additional non-cash contribution.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

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In June 2008, the Company sold 25.00019% of shares of Insurance CJSC Medexpress owned thereby. The value of the withdrawn shares in the amount of 34,092, and additional costs of the sale of the shares in the amount of 600 are included in "Other Expenses" and shown in Line 100 "Other Expenses" of the Profit and Loss Report. The earnings from the sale amounted to 273,495 and were shown in Line 090 "Other Income" of the Profit and Loss Report.

In July 2008, the Company terminated its interest in CJSC SPIC due to the voluntary winding-up of CJSC SPIC (an appropriate entry was made in the Single State Register of Legal Entities on 15.7.2008). As a result, cash in the amount of 1,236 was received. The difference between the value of the stock of the would-up company amounting to 2,712 and the received cash amounted to 1,476 and was shown in Line 100 "Other Expenses" of the Profit and Loss Report. The reserve for depreciation of the investment in the authorized capital of CJSC SPIC in the amount of 2,712 was restored in 2008.

In 2008, the securities owned by the Company were not listed on the securities market, therefore the Company did not update the value of its long-term financial investments.

6.4. Other Long-term and Short-term Financial Investments (items 144 and 250 of the Balance Sheet)

As of December 31, other short-term investments of the Company (Line 250) amounted to 6,312,290, including 31 interest-bearing notes of OJSC JSCB Svyaz-Bank of the face value of 6,200,000 and accrued interest on the notes of 112,290. As of December 31, 2008, there were no other short-term investments.

As of 31.12.2007:

Number of notes acquired under the contract	Annual interest rate	Face value
No.БФ-01/037		
9 notes	7.5%	2,800,000
13 notes	8.5%	2,600,000
4 notes	8.5%	800,000
No.БФ-01/038		
5 notes	8.5%	1,000,000
Accrued interest on notes		112,290
TOTAL		6,312,290

All the notes presented in Line 250 as of December 31, 2007 were repaid during 2008.

Two notes with the repayment deadline on 12.03.2008 were repaid prematurely on 5.3.2008 at the annual rate of 7.75%; one note with the repayment deadline on 12.04.2008 was repaid prematurely on 9.4.2008 at the annual rate of 8%. The total amount of accrued interest was 142,573, and was included in the interests receivable in Line 060 of the Profit and Loss Report.

In 2008, under Contract No. S/35/2008 signed with OJSC JSCB Svyaz-Bank on 28.5.2008, the Company purchased 15 interest-bearing notes of Svyaz-Bank to the total amount of 3,000,000.

Number of notes acquired under	Annual interest rate	Face value
---------------------------------------	-----------------------------	-------------------

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Explanations to Essential Items of the Balance Sheet

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the contract		
C/35/2008		
3 notes	7.75%	600,000
12 notes	9%	2,400,000
TOTAL		3,000,000

All the notes purchased in 2008 were presented for payment in 2008.

One note with the repayment deadline on 27.08.2008 was repaid prematurely on 11.8.2008 at the annual rate of 6.9%. The total amount of accrued interest was 86,292, and was included in the interests receivable in Line 060 of the Profit and Loss Report.

There were no short-term financial investments burdened with pledge as of December 31, 2008 and as of December 31, 2007.

No reserve was formed against depreciation of other long-term and short-term financial investment in 2008 and 2007

The value of other long-term and short-term financial investments was not updated in 2008.

6.5. Deferred Tax Assets (line 145 of the Balance Sheet)

Deferred tax assets flow in 2008:

	2008	2007
Balance as of the start of the year	274,210	192,044
Created in the period under report in respect of deductible temporary differences	277,799	358,115
Repaid to reduce tax payments	(350,638)	(223,743)
Written off at retirement of objects, for which they were created	(7,267)	(52,206)
Balance as of the end of the year	194,104	274,210

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

6.6. Other Non-Current Assets (item 150 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Deferred expenses for software acquisition	3,170,345	3,768,966
including:		
Amdocs Billing Suite	883,969	883,969
Oracle E-Business Suite	807,285	885,900
Communication network service support system (CNSSS)	647,623	981,446
HP Open View IUM (pre-billing)	208,470	208,470
HP OpenView Service Activator	101,468	138,784
	-	121,392
Information service support system (ISSS)		
Communication network optimization	62,778	26,789
Billing conversion programme	30,625	18,342
Other	428,127	503,874
Advances paid as settlement for acquisition and formation of non-current assets	217,275	344,502
Total:	3,387,620	4,113,468

Oracle E-Business Suite Software

The records of deferred expenses for the acquisition of software include Company's costs of acquiring and implementation of software of Oracle E-Business Suite (hereinafter referred as OeBS):

	2008	2007
Balance as of the start of the year	807,285	673,469
Implementation expenses incurred	165,353	227,849
Written-off to normal operation expenses	(86,738)	(94,033)
Balance as of the end of the year	885,900	807,285

Starting from 2006, the Company has been operating the OeBS functionality in organizing the personnel records and non-circulating assets accounting and has been writing off to current expenses the respective costs of the acquisition and implementation of the OeBS software that were taken into account within deferrals. The writing off to the expenses for normal activities takes place during the useful life period, the established limit of which is 10 years.

The Company is planning to complete the implementation of OeBS functionality in 2009.

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2008

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Amdocs Billing Suite Software

Deferred expenses for the acquisition and implementation of software and databases show the Company's expenses for the acquisition of the Amdocs Billing Suite software for the purpose of unified automated settlements system implementation.

	as of 01.01.2008	as of 31.12.2008
Cost of Amdocs Billing Suite licenses	542,159	542,159
Implementation expenses	341,810	341,810
Total	883,969	883,969

The system implementation work was started in May 2006. The project of implementing the unified automated settlements system on the Amdocs Billing Suite platform is expected to take 4 or 5 years.

The Company intends to continue work on the Amdocs project in 2010-2011.

The costs of acquiring and implementing the Amdocs Billing Suite software will be written off to Company's current expenses from the moment its operation starts.

It is expected that the costs will be written off in proportion to the cost of the implemented modules during their useful life period which will be determined by the moment of operation start.

HP Open View IUM software

As of 31st December 2008, deferrals contained the cost of the licenses for the acquisition of the HP Open View IUM pre-billing software for the purpose of implementing the Amdocs Billing Suite unified automated settlements system.

	as of 01.01.2008	as of 31.12.2008
Cost of licenses	208,470	208,470
Implementation expenses	-	-
Total	208,470	208,470

Unified centralized pre-billing is required for the centralization of settlements with interconnected operators and for transmitting information to Amdocs Billing Suite.

The project of implementing the HP Open View IUM unified pre-billing software is expected to take 3 or 4 years. The system implementation work was started in October 2006.

The HP Open View IUM software was delivered in December 2006 by LLC Paladin Invent. CJSC ISG (Integrated Services Group) is dealing with the preparation of the requirements specification and implementation. There were no software implementation costs in 2008 (6,362 in 2007, included in "Deferred Expenses".)

The Company intends to complete the work for the project in 2010.

The costs of acquiring and implementing the HP Open View IUM software will be written off to Company's current expenses from the moment its operation starts.

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2008

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

HP OpenView Service Activator software

As of 31st December 2008, deferrals contained the cost of the licenses and expenses for the implementation of the HP OpenView Service Activator software.

	as of 01.01.2008	as of 31.12.2008
Cost of licenses	95,621	95,382
Implementation expenses	5,847	43,402
Total	101,468	138,784

Implementation of this software was aimed at creation of a comprehensive automated system for service activation. The project of implementing the HP OpenView Service Activator software is expected to take 2 years. The system implementation work was started in March 2008. CJSC Business Computer Center is the main implementation contractor.

The system is installed as a centralized common software copy, and physically located in St. Petersburg, on the servers of the Data Processing Center of the Company's General Management. Its is maintained and supported in a centralized manner by the General Management's personnel.

The Company has been operating the software full-scale since November 2008. The writing off to the expenses for normal activities takes place during the useful life period, the established limit of which is 10 years. In 2008, 1,116 was written off to regular activity costs.

For 2009, it is intended to enhance the functionality of work related to this software.

Communication Network Service Support System (CNSSS) software

Deferrals include Company's costs of the acquisition and implementation of software for the communication network service support system (CNSSS) for the purpose of automating the network accounting processes and network and services management.

	as of 01.01.2008	as of 31.12.2008
Software cost	211,364	312,690
Implementation expenses	436,259	668,756
Total	647,623	981,446

The project of implementing the CNSSS software is expected to take 3 or 4 years. The system implementation work was started in May 2006.

The principal supplier of the CNSSS software is LLC STEP LOGIC.

The costs of acquiring and implementing the CNSSS software will be written off to Company's current expenses from the moment its operation starts.

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2008

Explanations to Essential Items of the Balance Sheet

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Information Service Support System software (ISSS)

The “Deferred Expenses” show the Company’s costs of purchase and implementation of software to set up an information service support system.

	as of 01.01.2008	as of 31.12.2008
Software cost	-	76,359
Implementation expenses	-	45,033
Total	-	121,392

The setting up of N.W.Telecom's information service support system (ISSS) is regarded as a priority way to improve the Company’s competitiveness on the telecommunications market and as a highly efficient tool to support the core business in the sales and customer service sectors and gain additional earnings from providing pay information services. The ISSS structure provides for building resource centers to be located on the branches’ premises. The server and telecommunication equipment will be located on the St. Petersburg Branch premises.

CJSC Business Computer Center is the main supplier of the ISSS software.

Currently, Stage 1 of this project is being implemented: design/survey and construction of the master site in St. Petersburg Branch are scheduled for late 2008 – May 2009.

From June 2009, it is intended to start up the St. Petersburg Branch site for commercial operation, and to engage Kaliningrad, Pskov, and Leningrad Oblast branches in the common business process. Development of a sales and service Internet portal is scheduled for the current stage.

Resource centers in other branches of the Company are intended to be set up and engaged in the common business process in 2010.

Oracle Database Management System software

The “Deferred Expenses” as of December 31, 2008 show the value of licenses for the use of the Oracle database management systems (Oracle DBMS) purchased in 2008 in the amount of 40,123.

Oracle DBMS is the software used in the Peterservis information and billing system. The system contains all the data on the volume and price of services provided used by the Peterservis IBS.

The system will also be used for the functioning of the CIAS (criminal investigation actions system) application to be implemented, providing the automatic billing system data to authorized governmental officers.

The Oracle DBMS is installed and operated as a centralized system in the Company’s General Management, while ensuring operability of Peterservis IBS’s of Archangelsk, Karelian, Kaliningrad, Murmansk, and Komi branches physically located in St. Petersburg.

The Oracle DBMS was started up for commercial operation in February 2009. The software purchase costs will be written off to the Company’s current costs for three years.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

6.7. Inventories

Cost of raw materials, components and other similar valuables (line 211 of the Balance Sheet):

	as of 01.01.2008	as of 31.12.2008
Inventories worth less than 10,000 roubles as of 01.01.2008 / 20,000 roubles as of 31.12.2008	51,647	131,860
Spare parts and other basic materials	94,183	123,259
Cable	70,699	102,571
Modems and routers for service connection	21,208	94,147
Construction materials	49,102	48,803
Economic implements	21,514	18,565
Fuel	17,033	12,767
Other	51,799	51,422
Total:	377,185	583,394

In 2008, the modems and routers for service connection were separated into a special group from the group “Inventories of up to RUR 10,000 as of 01.01.2008/RUR 20,000 as of 31.12.2008”.

As of 31.12.08 As of 31st December 2007, the balance sheet of the Company did not contain any inventories that have become obsolete or fully or partially lost their initial quality or whose current market value has decreased. In this connection, the Company did not form a provision for devaluation of materials and capital equipment.

The inventories owned by the Company are not burdened with any pledge.

6.8. Deferred Expenses (line 216 of the Balance sheet)

	as of 01.01.2008	as of 31.12.2008
Expenses for acquisition and implementation of software and databases used for 12 months	23,429	42,931
Insurance expenses	117,632	9,260
Deferred leaves	3,606	6,095
Costs incurred prior to the all-in-one service startup	8,368	-
Other expenses	8,003	8,433
Total:	161,038	66,719

The decrease of insurance costs by 108,372 is due to the fact that the contract for voluntary medical insurance signed with CJSC Medexpress in 2007 was terminated in 2008. A new contract for voluntary medical insurance for 2009 was signed with OJSC IC Russky Mir on December 30, 2008.

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6.9. Value Added Tax on Acquired Values (line 220 of the Balance Sheet)

The reduction of the VAT by 114,221 is accounted for mainly by the decrease of the VAT on capital construction facilities and sites, and leasing liabilities.

6.10. Short-term Buyers' and Customers' Accounts Receivable (line 241 of the Balance sheet)

	Total debt	Doubtful debt reserve	Debt less doubtful debt reserve
as of 01.01.2008			
Settlements with buyers in respect of core activities			
with individuals	644,172	(69,135)	575,037
with commercial organizations	264,053	(24,501)	239,552
with budgetary organizations	79,140	(5,708)	73,432
with communication operators	557,229	(104,024)	453,205
with social security authorities in respect of settlements related to provision of privileges to certain categories of subscribers	8,617	(8,617)	-
Settlements with buyers in secondary areas of activity	91,791	(16,722)	75,069
Settlements with buyers in respect of realized assets	21,549	(1,014)	20,535
Total as of 01.01.2008:	1,666,551	(229,721)	1,436,830

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	Total debt	Doubtful debt reserve	Debt less doubtful debt reserve
as of 31.12.2008			
Settlements with buyers in respect of core activities			
with individuals	615,522	(74,183)	541,339
with commercial organizations	294,679	(26,153)	268,526
with budgetary organizations	82,769	(5,750)	77,019
with communication operators	396,688	(21,566)	375,122
with social security authorities in respect of settlements related to provision of privileges to certain categories of subscribers	312	(312)	-
Settlements with buyers in secondary areas of activity	112,268	(21,758)	90,510
Settlements with buyers in respect of realized assets	34,564	(528)	34,036
Total as of 31.12.2008:	1,536,802	(150,250)	1,386,552

The debt of the reduced charge category of individuals was 0.02% of the total amount of accounts receivable (0.5% as of January 1, 2008.) These accounts receivable arose during the period before January 2005, when article 47 of Federal Law No. 126-FZ of 7th July 2003 "On Communications" took effect, according to which the procedure of providing privileges to individuals in the provision of services to them by communication organizations was changed. Before January 2005 users of communication services entitled to privileges paid 50% of the price of such services themselves, while the other 50% were to be made up for from the federal budget.

In 2008 the Company recovered 5,267 from the federal budget through the court as repayment of the said debt and expects to recover 312 in 2008.

Flow of doubtful debt reserve in respect of buyers' and customers' accounts receivable in 2008:

	Reserve as of 01.01.2008	Reserve formed	Reserved spent	Reserve restored	Reserve as of 31.12.2008
Total for reserve	229,721	115,630	(20,607)	(174,494)	150,250

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6.11. Other Accounts Receivable Expected within 12 Months after the Reporting Date (line 243 of the Balance sheet)

	as of 01.01.2008	as of 31.12.2008
Settlements in respect of indemnification for losses related to all-in-one communication services provision	221,934	1,019,303
Settlements in respect of taxes and fees	329,266	481,772
Settlements with the personnel under other transactions	23,520	21,506
Settlements with attorneys (brokers, agents)	27,514	13,665
Settlements in respect of social insurance and security	12,003	12,164
Claim settlements	8,169	6,678
Settlements in respect of due income	997	4,539
Settlements in property insurance and personal insurance	4,035	3,838
Other settlements	54,034	48,268
Total	681,472	1,611,733

Other accounts receivable are recorded in the accounts and reports less the doubtful debt reserve.

Flow of doubtful debt reserve in respect of other accounts receivable:

	Reserve as of 01.01.2008	Reserve formed	Reserved spent	Reserve restored	Reserve as of 31.12.2008
Total for reserve	23,401	3,102	(22,162)	(159)	4,182

6.12. Authorised Capital (line 410 of the Balance Sheet)

The authorized capital amounts to 1,131,414,770 roubles and consists of 881,045,433 common shares and 250,369,337 preferred shares with the face value of 1.00 rouble each.

Stock type	Number of shares in circulation (thous pcs.)	Total face value
Common	881,045	881,045,433
Preferred	250,369	250,369,337
Total	1,131,414	1,131,414,770

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The following parties were the Company's key shareholders as of 31st December 2008:

Shareholders	Interest in the authorized capital	Common shares number (thous pcs.)	%	Preferred shares	
	%			number (thous pcs.)	%
Legal entities, total:	89.4	841,193	95.5	170,656	68.2
including:					
- OJSC Svyazinvest.	39.5	447,231	50.8	0	0
- parties holding over 5% of authorized capital <i>including:</i>	49.2	389,066	44.2	167,185	66.8
NP National Depository Centre	17.6	125,370	14.2	74,000	29.6
CJSC Depository Clearing Company	13.7	86,916	9.9	67,446	26.9
CJSC UBS Nominees	11.7	109,815	12.5	22,666	9.1
ING Bank (Eurasia) CJSC	6.2	66,965	7.6	3,073	1.2
- other parties	0.7	4,896	0.5	3,471	1.4
Individuals, total	10.6	39,852	4.5	79,713	31.8
Total	100	881,045	100	250,369	100

As of 31st December 2008, the authorized capital of the Company was completely paid up.

Preferred shares do not grant the right of vote. They cannot be converted into common shares, however, they give the right of getting an annual fixed dividend, except for the cases provided for by the Company's Articles of Association. The total amount paid as dividend on each preferred type A share is established as 10 per cent of the Company's net profit based on the results of the last fiscal year, divided by the number of shares that make 25 per cent of the Company's Authorized Capital. If the total amount of the dividend paid by the Company on each common share in a certain year exceeds the amount to be paid on each type A preferred share, then the amount of the dividend paid on preferred shares must be increased to the amount of the dividend paid on common shares.

According to the Order of the Federal Executive Authority for the Securities Market of 16th August 2001 No. 701/r and of 3rd December 2002 No. 1590/r, the Company was given the permission for circulation of Company's common shares outside the Russian Federation in the form of American Depository Receipts (ADR) - 536,718,855 Receipts. Each depository receipt corresponds to 10 common shares of the Company (prior to 31st July 2008 – to 50 common shares).

As of 31st December 2008, 3,657,670 ADRs were issued (1,084,818 as of 31st December 2007), against which 36,576,700 common shares were deposited in the J.P.Morgan depository bank (54,240,900 as of 31st December 2007), which made 4.15% (6.16% as of 31st December 2007) of the total number of the issued common shares.

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Flow of the registered ADRs for the years 2007-2008:

	ADRs (number)	Equivalent number of common shares	Common stock, %	Authorized capital, %
as of 01 st January 2007	1,082,726	54,136,300	6.14%	4.78%
Increase for the year 2007	2,092	104,600		
as of 01 st January 2008	1,084,818	54,240,900	6.16%	4.79%
Increase for the year 2008	2,572,852*	-17,664,200		
as of 31 st December 2008	3,657,670	36,576,700	4.15%	3.23%

* - The conversion rate for Level 1 ADR issued for common shares was changed on July 31, 2008. The new ADR conversion rate is: 1 ADR = 10 common shares (before July 31, 2008 the ADR conversion rate was 1 ADR = 50 common shares of N.W.Telecom.)

At the moment ADRs are traded in the following stock exchange venues:

Name of the venue	CUSIP (WKN)	ADR ticker	ISIN
US over-the-counter market (OTC)	663316107	NWTEY	US6633161079
Frankfurt Stock Exchange	A0BLXU	SQ4	US6633161079
Berlin Stock Exchange	A0BLXU	SQ4	US6633161079

6.13. Own Shares Purchased from the Shareholders (line 440 of the Balance Sheet)

As of 31st December 2008 the Company had no redeemed own shares.

6.14. Dividend

In 2008, pursuant to the decision of the General meeting of shareholders, payment of dividend for the year that ended on 31st December 2007 was stated to the amount of 0.642 roubles per common share and 3.997 roubles per preferred share.

The amount of dividend to be paid amounted to:

Shares	Number of shares (pcs.)	Dividend per share (roubles)	Total amount of dividend (roubles)
For 2006			
Preferred shares	250,369,337	0.858	214,816,891
Common shares	881,045,433	0.357	314,533,220
Total	1,131,414,770	-	529,350,111
For 2007			
Preferred shares	250,369,337	3.997	1,000,726,240
Common shares	881,045,433	0.642	565,631,168
Total	1,131,414,770	-	1,566,357,408

The enclosed financial reports show a reduction of the retained profit in the amount of dividends for the year 2007. The dividend for 2008 is not shown. It will be shown as the use of the retained profit during the year expiring on 31st December 2009, after it is approved by the annual general meeting of the Company's shareholders.

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6.15. Credits and Loans (lines 510 and 610 of the Balance Sheet)

	31.12.2008		31.12.2007			
	Short-term liabilities	Long-term liabilities	Short-term liabilities	Long-term liabilities	Rate, %	Currency of contract
Credits						
JSCB SB of RF (contract No.301904) (repayment date - 13.10.2009; credit secured by property mortgage)	28,179	-	37,653	28,125	7.75%	roubles
JSCB SB of RF (contract No.302004) (repayment date - 14.10.2009; credit secured by property mortgage)	93,929	-	376,095	93,750	7.75%	roubles
JSCB SB of RF (contract No.302304) (repayment date - 22.12.2009; credit secured by property mortgage)	56,091	-	168,482	55,985	7.75%	roubles
CJSC Reiffeisen Bank (contract No.RBA/2741-spb-1) (repayment date 26.10.2009 (the credit was repaid prematurely on 29.12.2008), the credit was provided without a security)	-	-	128,794	171,429	Mosprime 3M + a margin (2.3%): Actual rate in 2008 was 8.27 – 11.28% per annum	roubles
CJSC Reiffeisen Bank (contract No.RBA/2741-spb-2) (repayment date 26.10.2009 (the credit was repaid prematurely on 26.01.2009), the credit was provided without a security)	286,753	-	215,201	285,714	Mosprime 3M + a margin (2.3%): Actual rate in 2008 was 8.15 – 19.01% per annum	roubles
ING Bank (Eurasia) CJSC (contract No. 2006/99-1) (repayment date - 23.10.2009; the credit was provided without a security)	258,528	-	259,102	250,000	Mosprime 3M + a margin (2.4%): Actual rate in 2008 was 8.28 – 18.36% per annum	roubles

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	31.12.2008		31.12.2007		Rate, %	Currency of contract
	Short-term liabilities	Long-term liabilities	Short-term liabilities	Long-term liabilities		
Citibank N. A. (syndicated loan) (repayment date - 23.01.2009; the credit was provided without a security)	230,289	-	799,267	199,629	Euribor 3M + a margin (2%) Actual rate in 2008 was 6.699 – 7.119% per annum	Euro
UniCredit Bank Austria AG (syndicated loan – Tranche A) (repayment date - 19.07.2010; the credit was provided without a security)	850,492	629,580	12,599	1,227,310	Libor 3M + a margin (0.95%) Actual rate in 2008 was 3.74625 – 5.96063% per annum	US dollars
UniCredit Bank Austria AG (syndicated loan – Tranche B) (repayment date - 23.01.2009; the credit was provided without a security)	232,829	1,243,017	10,042	1,227,310	Libor 3M + a margin (1.25%) Actual rate in 2008 was 3.485 – 6.13688% per annum	US dollars
Bayerische Hypo- und Vereinsbank AG (syndicated loan) (repayment date - 07.11.2011; the credit was provided without a security)	29,196	3,966,354	-	-	Libor 3M + a margin (2.75%) Actual rate in 2008 was 5.5206% per annum	US dollars
TOTAL credits	2,066,286	5,838,951	2,007,235	3,539,252		
Loans						
Bonded loans (bonded loan No. 3, repayment date - 24.02.2011; bonded loan No.4, repayment date - 24.02.2011; bonded loan No.5, repayment date - 21.05.2013; secured by a warranty of a third party)	577,280	7,500,000	3,032,310	2,000,000	8.1—15%	roubles
Other borrowings Ministry of Finance of RF (agreement on debt restructuring No.01-01-06/07-505, repayment date - 31.12.2011, the loan is secured by property mortgage)	42,630	111,675	30,698	133,638	3%	Euro
TOTAL LOANS	619,910	7,611,675	3,063,008	2,133,638		

In 2008, the Company signed 4 contracts for opening of revolving lines of credit with JSCB SB of RF for an amount of 1,550,000, the term of validity of two of the contracts for an amount of 625,000 being 120 days each, and of two of the contracts for an amount of 530,000, 90 days each. 926,000 was raised and repaid under the said contracts. The term of validity of the last of the

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contracts expired on January 23, 2009. The contracts' interest rate was 8 to 8.25% per annum. The credits were provided without a security.

In February 2008, the Company entered into a general credit agreement with CJSC Natexis Banque with the one-time debt limit of 350,000. The repayment date for all the credits was June 30, 2009. The credit interest rate was the sum of the margin (2% per annum for credits granted for a period of four to six months, 1.75% per annum for credits granted for a period of four months or less) and the MOSPRIME rate. The credits under this general agreement were granted without security. The agreement was prematurely terminated in December 2008, and no money was borrowed under the agreement.

Syndicated loan for US\$ 150,000,000.00 of 06.11.2008, Agent: Bayerische Hypo-und Vereinsbank AG, London Branch (Tranche A, US\$ 135 million; Tranche B, US\$ 15 million)

In 2008, the Company borrowed a syndicated loan (Tranche A) for US\$ 135,000,000.00 (One hundred thirty five million US dollars.) Initial authorized leading Organizers: ING Bank N.V.; Bank Natixis; ZAO UniCredit Bank; Authorized leading Organizer: WestLB AG, London Branch; syndicated loan Agent: Bayerische Hypo-und Vereinsbank AG, London Branch.

The credit was taken to finance investment projects, to repay current credit debts, and to finance the Company's operations.

The credit was granted for 3 years (36 months from the contract signing date, i.e. from 06.11.2008 till 07.11.2011), to be repaid quarterly in equal instalments starting from the date 15 months after the Contract signing date (between 09.02.2010 and 07.11.2010.) No premature repayment of the principal was effected. The interest rate on the credit is an aggregate of the margin (2.75% per annum) and the LIBOR 3M rate (London interbank offered rate set in US dollars for the appropriate interest period), and the initial interest rate for the period from 14.11.2008 till 17.02.2009 is set at 5.5206% per annum (LIBOR: 2.7706%.) The interest accrued in 2008 was 29,196 (US\$ 993,708.) The accrued interest is payable on the last day of the interest period (17.2.2009.)

The syndicated loan was granted without any mortgage security of the Company's property.

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Syndicated loan for 100,000,000 US Dollars of 19.07.2007, Agent - UniCredit Bank Austria AG

In 2007 the Company took a syndicated loan of 100,000,000 (One hundred million) US dollars. CJSC International Moscow Bank (whose name was changed to CJSC UniCredit Bank starting from 25th December 2007) acted as an authorized leading Organizer and the initial Creditor; and Bank Austria Creditanstalt AG (starting from 09.10.2008 called UniCredit Bank Austria AG) acted as an authorized leading Organizer and Agent.

The loan has been borrowed in order to refinance the current accounts payable and to fund investment projects.

The loan was provided in two equal tranches for 120 days from the date of signing.

Tranche A was received on 30th July and 13th August 2007 (40,000,000 and 10,000,000 US dollars respectively). Repayment will be effected in equal parts on a quarterly basis starting from 19th January 2009 till 19th July 2010.

Tranche B was transferred on 13th August and 10th September 2007 (20,000,000 and 30,000,000 US dollars respectively). Repayment will be effected in equal parts on a quarterly basis starting from 19th July 2009 till 19th July 2012.

The interest rate under the loan is the aggregate of the Margin, the London Interbank Offered Rate (LIBOR), established for US dollars for the respective Interest Period and the Obligatory Costs Rate, the Margin being 0.95% per annum for Tranche A and 1.25% per annum for Tranche B.

In 2007 the respective London Interbank Offered Rate (LIBOR) was from 4.88688% to 1.0856%.

The interest accrual and payment period is three months.

The loan is provided without a security in the form of the Company's property.

The interest on the credit accrued in 2008 was 126,195 (US\$ 4,295,207.86.)

Syndicated loan for 50,000,000 Euros of 15.12.2005, Agent - Citibank International PLC

In 2005 the Company took a syndicated loan of 50,000,000 (fifty million) euros for 37 months from the date of receiving it (from 23rd December 2005 till 23rd December 2009). Citibank N.A. is the Organizer of the syndicated loan, and Citibank International PLC is the Agent. Repayment is effected in nine equal quarterly instalments, starting from 23rd March 2007. The final payment will be effected on 23rd January 2009.

The loan has been borrowed in order to refinance the current accounts payable and to fund investment projects.

The interest rate under the loan is the aggregate of the Euribor 3M rate + a margin of 2% per annum. During 2008 the Euribor rate varied from 4.699% to 5.119%.

The credit was provided without a security.

The sum total of the interest charged on the loan for the year 2008 made 49,136 (1,339,379.02 euros). The amount of the principal debt repaid in 2008 made 22,222,222 euros, and the balance of the principal debt was 5,555,555.53 euros.

As a result of having the syndicated loan in a foreign currency (euros), the Company assumes the risk of an increase of the amount of payments in roubles under this liability with the growth of the

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euro-to-rouble exchange rate (opens a short position for this currency). To check and minimize the possible adverse effect from a fall in the rouble-to-euro exchange rate (with the syndicated loan being nominated in euros), the Company took a decision on hedging (insuring) the currency risks.

The Company has used as a hedging instrument the delivery forward – a derivative, under which the Bank undertakes to transfer the underlying asset (euros) to the Company within the time set forth in the agreement or to execute an alternative monetary obligation, while the Company undertakes to accept and pay for such an underlying asset at the price (forward price) and on the conditions agreed upon between the parties at the moment of making the transaction.

The first phase of currency risk insurance (hedging) accomplished in 2006 included the hedging transaction signed with CJSC CB Citibank on 7.9.2006. The said transaction provided for hedging of 20% of the debt under the syndicated loan, which amounted to ^ 10,000,000, and suggested supply of currency (Euros) at a uniform forward rate to the following schedule:

	2007	2008	2009
Hedging amount	183,394	168,044	38,921

As the second stage of insurance (hedging) of currency risks, on 5th March 2007 the Company made a transaction with OJSC Gazprombank of hedging 40% of the debt under the syndicated loan, which makes 20,000,000 euros, implying the delivery of the currency (euros) under a single forward exchange rate according to the following schedule:

	2007	2008	2009
Hedging amount	310,844	310,844	77,711

In March, June, September and December 2008 the Company completely fulfilled the liability of buying the currency (euros) under the hedging transactions that had been made.

For the purposes of information disclosure as of the reporting date, the bank's debt in currency delivery was shown in balance sheet line 910 "Conversion Transaction Requirements", and in line 911 "Conversion Transaction Liabilities" the Company showed the debt in the payment of this currency (116,632).

Restrictions Related to Received Credits and Loans

The terms of some agreements of credits and loans impose on the Company obligations of observing certain indices of financial performance.

Under the credit agreements, the Company undertook to maintain the following financial indices (calculated according to the data of the financial statements for each half year made up in according to the international accounting standards):

Credit agreements with CJSC ING Bank (Eurasia), Citibank N.A., UniCredit Bank Austria AG, and Bayerische Hypo-und-Vereinsbank AG:

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

EBITDA as applied to credit contracts means the Company's aggregate consolidated operating earnings in the appropriate period before:

- interest costs;
- taxes;
- any part of earnings of any related company or enterprise, except for dividend in the form of cash received by the Company;
- extraordinary and exclusive cost items;

except for amounts related to minority interests in the Company's subsidiaries, and adding all wear and amortization amounts calculated on the basis of the Company's appropriate business accounting issued in compliance with the international accounting standards.

Besides the obligations of the Company related to maintaining the financial performance according to the said financial indices, terms are stipulated in some agreements, in case of the occurrence of which pre-schedule repayment of the loan debt is possible:

Credit agreement with CJSC Reiffeisen Bank:

- a threat of court proceedings, resolutions or decisions of a court or another state authority on recovering an amount exceeding 150,000 from the Company;
- any outstanding debt in respect of taxes, duties or other liabilities to the budget or off-budget funds making an amount exceeding 150,000;
- any signs of bankruptcy;
- assets of the Company, the value of which exceeds 10% of the balance-sheet total, have been alienated or transferred for use during the fiscal year;
- the Bank receives a letter of collection for undisputable writing off funds from the Company's settlement account to an amount exceeding 150,000; a court or another competent authority issues a writ of arrest or freezing of funds on Company's accounts or other assets worth of an amount exceeding 150,000, such a letter of collection or writ having not been cancelled before execution and such an arrest or freezing having not been lifted within 3 working days.

Credit agreement with ING Bank (Eurasia) CJSC:

- all or a significant part (over 15% of the total volume) of the property, liabilities or assets of the Company are subject to a penalty or seizure, or a party, in whose favour an incumbrance has been created, takes possession of them;

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- the Company takes a decision (or other measures are taken or court proceedings are initiated) to dissolve or liquidate it, to introduce trusteeship or examinership, or to compromise with its creditors or to appoint a liquidator, external administrator, interim receiver or a similar official for the Company.

Credit agreements with JSCB RF Savings Bank (Sberbank):

- the amount of monthly receipts on the settlement account - less than 900,000;
- the Company is declared insolvent (bankrupt), or a procedure of Company's bankruptcy is initiated by a third party;
- a decision is taken on re-organizing or winding up the Company;
- security is lost;
- an action is brought against the Company or property worth of more than 5,170,000 US dollars is claimed.

Liabilities to Ministry of Finance of RF:

- reorganization of the Company, failure to fulfil the obligations under the agreement within a month (agreement on debt restructuring).

In accordance with the terms of the Syndicated Loan Agreement for ^ 50,000,000 of 15.12.2005, Agent: Citibank International PLC, the operations shall be limited as follows:

- sum total of assets sale transactions for a year < 10% of assets value for a year;
- acquisition of other companies for a year < 50,000,000 euros;
- investment programme for a year < 200,000,000 euros during a year;
- issued loans and guarantees < 10,000,000 euros;
- dividend for a year < 100% of the year net profit.

In case of exceeding these restrictions, the Company must get a preliminary approval of the Principal Creditors.

In accordance with the terms of the Syndicated Loan Agreement for \$150,000,000.00 of 06.11.2008, Agent: Bayerische Hypo-und Vereinsbank AG, London Branch, and Syndicated Loan Agreement for \$100,000,000 of 19.07.2007, Agent: UniCredit Bank Austria AG, the operations shall be limited as follows:

- sum total of assets sale transactions for a year < 10% of assets value for a year;
- issued loans, sureties and guarantees < 10,000,000 euros;
- dividend for a year < 100% of the year net profit.
- newly created pledges or other kinds of liabilities security < 150,000,000 US dollars.

In case of exceeding these restrictions, the Company must get a preliminary approval of the Principal Creditors. A preliminary approval of the Principal Creditors must also be obtained for reorganization of the Company (merger, affiliation, split or separation).

The Company fulfilled the above terms in 2008 and as of 31st January 2008.

Bonded Loans

Series 03 Bonds

In December 2004 the Company registered the issue of 3,000,000 series 03 documentary interest-bearing payable to bearer bonds with the face value of 1,000 roubles each. The Bonds have 24 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds floatation, and other coupon payments are effected on each 91st day. The interest rate for the

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coupons from 1 through 12 has been established in the amount of 9.25% per annum. The interest rates for coupons from 13 through 24 have been established by the decision of the Company's Board of Directors on 11th February 2008 in the amount of 8.6% per annum. The bonds' maturity date is scheduled for February 2011, 2184 days after the floatation start date.

The face value of the bonds is retired by piece-meal on the following dates: 30% of the face value – on 25th February 2010, 30% of the face value – on 26th August 2010, 40% of the face value is to be retired on 24th February 2011. According to the Decision on Issue and the Offering Circular, the bond holders were entitled to declare their series 03 Bonds as due to the retirement at the face value within the period from 22nd February till 28th February 2008. The bonds repurchase agent was JSCB Svyaz-Bank appointed in January 2008 as a result of an open bidding held by the Company.

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

In 2008, the Company fulfilled its obligations to pay the coupon return on Coupon 12 in full, at the rate of 9.25% per annum, in the amount of 69,180, and on Coupons 13, 14, and 15 at the rate of 8.6% per annum, in the amount of 192,960. The size of coupon return on one bond was RUR 23.06 for Coupon 12, and RUR 21.06 for Coupons 13, 14, and 15.

The issued bonds do not provide for offers, which would allow the bond holders to present them to the Company on appointed dates, within 12 months from the date of these reports.

As of 31st December 2008, the outstanding balance of the loan was 3,000,000.

Series 04 Bonds

In October 2006 the Company registered the issue of 2,000,000 series 04 documentary interest-bearing payable to bearer bonds with the face value of 1,000 roubles each. The Bonds have 20 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds floatation, and other coupon payments are effected on each 91st day. The interest rate for all coupons has been established in the amount of 8.1% per annum. The bonds' maturity date is scheduled for December 2011, 1820 days after the floatation start date. According to the Decision on Issue and the Offering Circular, Bonds may be retired ahead of schedule, if the Company wishes so, on the 728th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be 20 roubles per bond. The issued bonds do not provide for offers, which would allow the bond holders to present them to the Company within 12 months from the date of these reports.

The face value of the bonds is retired by piece-meal on the following dates: 25% of the face value – on 10th December 2009, 25% of the face value – on 09th December 2010, 50% of the face value is to be retired on 08th December 2011. In 2008 the Company fully executed its liability to pay coupon yield for the 5th, 6th, 7th and 8th coupons established as 8.1% per annum in the amount of 161,520. The coupon yield charged on a bond is 20.19 roubles.

The issued bonds do not provide for offers, which would allow the bond holders to present them to the Company on appointed dates, within 12 months from the date of these reports.

As of 31st December 2008, the outstanding balance of the loan was 2,000,000.

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Series 05 Bonds

In October 2007 the Company registered the issue of 3,000,000 series 05 documentary interest-bearing payable to bearer bonds with the face value of 1,000 roubles each. On May 27, 2008 the fifth issue of the bonds was floated at the MICEX stock exchange. The bonds have a period of floatation of 1820 days. The bonds have 20 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds floatation, and other coupon payments are effected on each 91st day. According to the terms of the loan, bond holders are entitled to bonds' early retirement in June 2010 at the face value. According to the Decision on Issue and the Offering Circular, Bonds may be retired ahead of schedule, if the Company wishes so, on any of the coupon payment dates within the period from the 728th till the 1729th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be 2.5 roubles per bond.

The face value of the bonds is retired by piece-meal on the following dates: 25% of the face value— on 22nd May 2012, 25% of the face value— on 20th November 2012, 50% of the face value is to be retired on 21st May 2013.

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

The funds gained from Bonds' issue were mainly used for refunding of existing credit portfolio and to fund Company's investment programme.

In 2008, the Company fulfilled its obligations to pay the coupon return on Coupon 1 in full, at the rate of 8.4% per annum, in the amount of 62,820. The size of coupon return on one bond was RUR 20.94; on Coupon 2, in full, at the rate of 9.73% per annum, in the amount of 72,780. The size of coupon return on one bond was RUR 24.26.

The issued bonds do not provide for offers, which would allow the bond holders to present them to the Company on appointed dates, within 12 months from the date of these reports.

As of 31st December 2008, the outstanding balance of the loan was 3,000,000.

Loan Liabilities to RF Ministry of Finance

In 1995-1996 the Company (the assignee of OJSC SVYAZ of the Komi Republic) obtained state credits from the RF budget to pay for deliveries of imported telecommunication equipment to the Republic of Komi. The Bank for Foreign Economic Activities of the USSR (Vnesheconombank) was the agent for Company's crediting who acted in the name and on behalf of the RF Government (RF Ministry of Finance). Company's liabilities to the RF Government were made out in the form of two debt instruments: No. 52-1-1-27 of 2nd December 2002 and No. 150-1-1-27 of 21st March 1995.

In 2002 the Company restructured all current debt (Order of the RF Ministry of Finance No. 350 of 31st December 2002) in respect of debt instruments in compliance with article 118 of the Federal Law "On the Federal Budget for the Year 2002" according to the terms of the Resolution of the RF Government No. 574 of 27th July 2002, to certify which an Agreement of Debt Restructuring No. 01-01-06/07-1801 of 31st December 2002 was made between the RF Ministry of Finance, Vnesheconombank and the Company. Euro is the currency of the Agreement of Debt Restructuring.

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As of 31st December 2008, the total amount of the debt to the RF Ministry of Finance was 154,305 (3,723,000 euros), including the short-term part of 42,608 (1,028,000 euros), and the amount of penalty interest to be written off on the terms of the Agreement in the year 2011 was 6,341 (153,000 Euros). Current interest under the Agreement is charged at the rate of 3% per annum. Company's liabilities under the Agreement are secured by the pledge of fixed assets.

Long-Term Credits and Loans Repayment Schedule as of 31st December 2008:

	Credits	Bonded loans	Other borrowings	Total
2010	3,064,763	2,300,000	48,998	5,413,761
2011	2,435,183	2,200,000	62,676	4,697,859
2012	339,005	1,500,000	0	1,839,005
2013 and later	0	1,500,000	0	1,500,000
Total	5,838,951	7,500,000	111,674	13,450,625

Expenses of the Company related to getting and using loans and credits are included in:

	2008	2007
- other expenses	869,187	863,269
- the value of investment assets	95,089	-
Total:	964,276	863,269

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6.16. Deferred Tax Liabilities (line 515 of the Balance Sheet)

Flow of deferred tax liabilities in 2008

	2008	2007
Balance as of the start of the year	949,532	892,179
Created in the period under report in respect of deductible temporary differences	230,600	57,353
Repaid to reduce tax payments	-	-
Balance as of the end of the year	1,180,132	949,532

6.17. Other long-term liabilities (line 520 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Settlements with suppliers and contractors	101,436	131,400
Settlements in respect of leasing payments	12,956	-
Total	114,392	131,400

6.18. Accounts Payable**Settlements with Suppliers and Contractors** (line 621 of the Balance Sheet):

	as of 01.01.2008	as of 31.12.2008
Settlements with suppliers and contractors in respect of acquisition and construction of fixed assets	1,499,553	1,442,557
Settlements with suppliers and contractors in respect of current activities	345,059	471,412
Settlements with suppliers and contractors in respect of acquisition of software	152,352	213,548
Settlements with communication operators	173,571	189,232
Settlements under current leasing payments	173,062	12,956
Total	2,343,597	2,329,705

Settlements in Respect of Received Advances (line 622 of the Balance Sheet):

	as of 01.01.2008	as of 31.12.2008
Settlements in respect of advances received for primary business:		
-advances from individuals	155,211	178,173
-advances from commercial organizations	161,781	129,481
-advances from budgetary organizations	91,601	81,684
-advances from communication operators	2,665	252
- advances from the sale of card means of payment for communication services	4,816	7,776
Settlements in respect of advances received in secondary areas of activity	18,720	85,431
Total	434,794	482,797

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Settlements with Budget on Taxes and Fees (line 625 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Settlements in respect of the property tax	137,866	181,757
Settlements in respect of the income tax of individuals	32,564	78,532
Settlements in respect of value added tax	1,849	7,703
Profit tax settlements	2,151,566	20
Settlements in respect of other taxes	2,486	3,221
Total	2,326,331	271,233

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

Other Accounts Payable (line 626 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Settlements with constituents (clients, principals)	380,188	354,540
Settlements related to Universal services reserve	51,821	61,137
Settlements with attorneys (brokers, agents)	26,909	40,502
Settlements in property insurance and personal insurance	110,604	3,926
Other settlements	33,041	30,707
Total:	602,563	490,812

6.19. Deferred Income (line 640 of the Balance Sheet)

	as of 01.01.2008	as of 31.12.2008
Deferred income, total	54,373	50,035
including		
- gratuitous receipts	48,729	48,954
- other deferred income	5,644	1,081
Total:	54,373	50,035

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6.20. Reserves for Forthcoming Costs (line 650 of the Balance Sheet)

	as of 01.01.2008	Charged	Spent	as of 31.12.2008
Reserve for forthcoming payment for employees' leaves	247,124	774,246	(698,112)	323,258
Reserve for bonuses payment for the year business results	57,136	43,700	(53,934)	46,902
Reserve for payment of bonuses for the business results in the 4 th quarter	546,454	212,332	(546,648)	212,138
Reserve for payment of bonuses for the business results in December	66,603	81,591	(66,273)	81,921
Reserve for payment of remuneration to members of the Company's Board of Directors and to members of the Committees of the Board of Directors	21,218	33,487	(21,554)	33,151
Reserve for payment of reimbursement to members of the Management Board	-	2,241	-	2,241
Total	938,535	1,147,597	(1,386,521)	699,611

Company's expenses in the amount of the formed reserves of deferred expenses are included in:

	2008	2007
- normal operation expenses	1,146,226	1,310,332
- other expenses	1,371	105
Total	1,147,597	1,310,437

In 2008, the format of data presentation in the Forthcoming Expenses Reserve Use Report changed due to the changes in the Company's Single Working Card of Accounts (additional accounts introduced.) Out of the total amount of 624,808 of the "Reserve for Payment of Bonuses for the Year Business Results and for Payment of Annual Remuneration to Members of the Company's Board of Directors" and "Reserve for Payment of Bonuses for the 4th Quarter Business Results and for Payment of Quarterly Remuneration to the Company's Managerial Officials" as of January 1, 2008, a special "Reserve for Payment of Remuneration to Members of the Company's Board of Directors and to Members of the Committees of the Board of Directors" was separated in the amount of 21,218. A "Reserve for Payment of Reimbursement to Members of the Management Board" was separated in 2008 out of the "Reserve for Payment of Bonuses for the 4th Quarter Business Results and for Payment of Quarterly Remuneration to the Company's Managerial Officials".

6.21. Other Short-term Liabilities (line 660 of the Balance Sheet)

In December 2007 the Company created a reserve for paying compensations to the employees who were notified as of 31st December 2007 on the forthcoming reduction of the staff. The reserve amounted to 30,044. As of December 31, 2008, the Company had a reserve for contingent liabilities in the amount of 7,367, of which 5,651 in a reserve for compensations to employees.

7. Explanations to Important Items of the Profit and Loss Report

7.1. Normal Operation Income

Proceeds from sales of products, goods, services and jobs (less the VAT, excise taxes and similar obligatory fees):

	2008	2007
Local telephone communication services	12,829,210	12,734,930
Telegraph services, data transmission services and telematic communication services	4,342,053	3,073,649
Connection and traffic passage services	2,716,458	3,536,037
Intrazone telephone communication services	2,421,399	2,207,650
Income from leasing out the Company's assets	963,963	649,325
Assistance and agency services	709,114	773,732
Mobile radio communication services, wired radio services, broadcasting and television services	401,597	373,873
Other income related to secondary activities	116,102	293,546
Total:	24,499,896	23,642,742

Local telephone communication services

The income from provision of local telephone communication services to individual subscribers amounted in 2008 to 8,989,946 (9,013,429 in 2007), of which:

- income from provision of a subscriber line to a subscriber for permanent use – 4,739,796 (4,353,777 in 2007);
- with the rate plan based on the subscriber billing system - 3,145,718 (3,540,001 in 2007);
- with the rate plan using the time-based billing system - 325,981 (287,397 in 2007);
- with the rate plan using the combined billing system - 488,523 (476,143 in 2007);

The income from provision of local telephone communication services to subscribers – legal entities amounted in 2008 to 3,838,643 (3,721,342 in 2007), of which:

- income from provision of a subscriber line to a subscriber for permanent use – 1,084,205 (976,730 in 2007);
- with the rate plan based on the subscriber billing system - 1,255,593 (1,292,696 in 2007);
- with the extra rate plan 226,835 (237,851 in 2007).

Shown within income from local telephone communication services are receipts from all-in-one communication services in the amount of 620 (158 in 2007).

Connection and traffic passage services

Company's income from interconnection services amounted to 41,960 in 2008 (201,737 in 2007), including:

- payments for organizing a point of interconnect – 10,087 (6,781 in 2007);
- payments for servicing a point of interconnect – -31,873 (194,956 in 2007);

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The decreased earnings from interconnect point servicing is attributable to deletion of this service from the list of connection services from March 1, 2008.

Company's income from providing traffic transmission services in 2008 amounted to 2,674,499, including the amounts received from the extra charge - 0 (3,334,300 and 459,961 respectively in 2007). The decreased earnings from traffic transmission services is mainly attributable to cancellation from January 1, 2008 of the compensation charge on local and area call initiation services, which was in force since 2005.

Services related to rendering long-distance and international communication services by long-distance and international communication operators (assistance and agency services)

The Company's income in 2008 for assistance and agency services amounted to 709,114 (773,732 in 2007), including that under the contract with OJSC Rostelecom – 693,745 (752,516 in 2007).

Telegraph services, data transmission services and telematic communication services

The Company's income for provision of telegraph communication services, data transmission services and telematic communication services amounted in 2008 to 4,342,053 (3,073,649 in 2007) of which:

- data transmission services and Internet access services made 4,162,892 (2,906,509 in 2007);
- telegraph communication services made 179,161 (167,140 in 2007).

Comparative data on income for 2007

In 2008 the Company changed the format of providing information on received income:

Name	Data for 2007 before the adjustment	Data for 2007 after the adjustment
Local telephone communication services	12,548,658	12,734,930
Telegraph services, data transmission services and telematic communication services	3,065,779	3,073,649
Connection and traffic passage services	3,518,311	3,536,037
Intrazone telephone communication services	2,195,414	2,207,650
Income from leasing out the Company's assets	649,300	649,325
Assistance and agency services	773,732	773,732
Mobile radio communication services, wired radio services, broadcasting and television services	371,998	373,873
Other income related to secondary activities	290,418	293,546
Other services related to primary activities	229,828	-

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The accounts for 2007 showed the earnings from other services related to the core business as a separate kind of earnings. Due to the changes in the Company's Single Working Card of Accounts, the earnings from the said kind of services were redistributed in the accounts for 2008 between the following kinds of earnings: from local and intrazonal telephone communication services, telegraph communication services, data transmission and telematic services, traffic connection and transmission services, mobile radio communication services, wire broadcasting, radio broadcasting, television, and earnings from secondary activities.

Settlements in non-monetary funds

In 2008 a part of Company's proceeds from providing services, performing work, selling goods and products was received on the terms of the contracts providing for fulfilling commitments (payment) in non-monetary funds:

	2008	2007
Total number of organizations, settlements with whom were effected otherwise than in monetary funds	25	42
Proceeds from such transactions - total	1,985,285	101,880
including:		
OJSC Rostelecom	1,956,076	40
JSCB SB of RF	0	68,999
Other	29,209	32,841
Proceeds under contracts providing for payment in non-monetary funds (in % of the total annual proceeds)	8	0.4
Proceeds under contracts providing for payment in non-monetary funds with related parties (in % of the total annual proceeds)	8	0

The cost of the provided services, performed work and sold goods was determined by the Company on usual commercial terms.

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7.2. Normal Operation Expenses

Expenses for sales of products, goods, services and jobs

	2008	2007
Expenses for wages	6,382,663	5,757,599
Depreciation of fixed assets	4,178,899	3,008,144
Services of outside organizations	2,432,794	1,933,460
Material costs including electrical power	2,018,025	1,558,655
Services of communication operators (except for OJSC Rostelecom)	1,788,429	1,849,670
Deductions for social insurance	1,355,860	1,257,603
Expenses related to services of outside organizations (contracts of commission, of agency)	553,998	439,610
Expenses for software and databases	261,393	270,534
Rental	247,382	242,169
Deductions to Universal services reserve	232,720	214,538
Expenses for advertising	229,740	267,029
Deductions for non-government pensions in favour of employees	151,897	257,759
Services of OJSC Rostelecom	107,856	118,211
Voluntary medical insurance and other insurance in favour of employees	99,336	112,442
Taxes and fees included in the expenses for normal activities	18,669	16,484
Other expenses related to normal operation	578,274	384,975
Total	20,637,935	17,688,882

Comparative data on expenses for 2007

The comparative data on expenses for 2007 were changed to bring them in line with the indices of the accounts and reports for 2008:

- In 2007, in accordance with the payments directory, the costs of compensation to women during their nursing leave (children aged under three) and paid travel to the place of education were recorded as Item 1100 of aggregate cost indicators and shown in the "Expenses for Labour Remuneration" line in the amount of 840. The payments directory for 2008 contains Item 7000 of aggregate cost indicators for such compensations, with the costs shown in the "Other" line, accordingly
- In 2007 leasing payments (219) were shown in the "Rental" line, while in 2008 they were included in the "Other" line.

Expenses related to the contingent liabilities reserve under the staff reduction programme

The "Expenses for Wages" item includes the expenses for creating a reserve for paying compensations to the employees made redundant (5,651).

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Expenses related to services of communication operators

The Company bears the expenses for paying for the services of leasing out network resources and for paying for the services of interconnection and traffic transmission provided by communication operators whose networks are interconnected with the Company's network. The procedure of interaction and settlements between the Company and interconnected operators is established by the Federal Law "On Communication" and the Resolutions of the Government of the Russian Federation No.11 of 28th March 2005 and No.627 of 19th October 2005 (in the version of the Resolutions of the RF Government No.40 of 26th January 2006, No.372 of 13th June 2006 and No.776 of 14th November 2007).

Payment for the above services is effected at the prices determined by the terms of the contracts between the parties.

Company's expenses for the payment for traffic transmission and call initiation and termination services amounted to 1,166,666 in 2008 (1,186,444 in 2007).

Company's expenses for the payment for interconnection services amounted to 43,562 in 2008 (102,042 in 2007).

Company's expenses for the services of leasing out network resources and for lease of channels amounted to 578,201 in 2008 (559,069 in 2007).

Expenses related to services of OJSC Rostelecom

Expenses related to the services of OJSC Rostelecom in 2008 were mainly connected with the services for the provision of communication channels for use - 45,058 (43,318 in 2007), Internet access services - 38,948 (0 in 2007), and interconnection services in the amount of 9,819 (58,402 in 2007).

Expenses related to all-in-one communication services provision

Company's expenses related to all-in-one communication services amounted in 2008 to 2,413,796 (369,010 in 2007). Of which:

normal operation expenses:

- expenses for wages of the personnel amounted to 647,697 or 27% (21% in 2007);
- expenses for fixed assets depreciation amounted to 520,443 or 22% (6% in 2007);
- expenses for material costs made 337,206 or 14% (19% in 2007);
- expenses for payment for goods, works or services of outside organizations - 376,796 or 16% (15% in 2007);
- other expenses related to the normal areas of activities 292,187 or 12% (21% in 2007);

other expenses:

- other expenses recorded on account 91 "Other Income and Expenses" amounted to 239,467 or 10% (8% in 2007).

Losses from the provision of all-in-one communication services using payphones amounted to 2,413,148 in 2008 (368,852 in 2007).

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7.3. Other Income and Expenses**Other income:**

	2008	2007
Indemnification for losses related to the provision of all-in-one communication services	2,382,209	374,378
Income from sale and other retirement of fixed assets	350,305	89,836
Income from sale and other retirement of other assets	291,100	10,266,537
Exchange rate differences related to assets and liabilities to be paid in foreign currency	121,160	101,753
Income from restoration of doubtful debt reserve	54,968	61,004
Receipts for indemnification for losses inflicted	54,840	32,819
Profit of past years, revealed in the year under report	41,952	26,167
Exchange rate differences related to assets and liabilities to be paid in roubles	15,097	78,025
Fines, penalties or forfeits for breaking contractual terms	14,537	23,836
Income from writing off accounts payable	6,153	8,611
Value of property revealed after stock-taking	4,464	1,854
Funds received free of charge	3,722	3,994
Income from restoration of securities depreciation reserve	2,712	22,630
Income arising as consequence of emergency circumstances	761	860
Other income	42,634	18,185
Total	3,386,614	11,110,489

In 2007 the income from the sale of the shares of OJSC Telecominvest held by the Company amounting to 10,243,522 was recorded within the income from the sale and other withdrawal of other assets.

Indemnification for losses related to the provision of all-in-one communication services

In 2008, on the basis of calculation, the losses incurred due to provision of the all-in-one communication service, and subject to refunding in the amount of 2,382,209, were shown as part of “Other Income”. The correctness of the calculation of losses to be refunded was confirmed by an independent auditor.

In 2008 the Company received from the All-in-one Communication Servicing Reserve a compensation for losses to the following amounts:

- 2,191,214 for services provided in the current year (146,918 in 2007);
- 221,934 for services provided in the previous year (5,526 in 2007).

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Other expenses:

	2008	2007
Exchange rate differences related to assets and liabilities to be paid in foreign currency	853,788	42,694
Expenses for taxes and fees	718,544	582,142
Losses of past years, revealed in the year under report	160,859	115,431
Expenses related to sale and other kinds of fixed assets retirement	155,534	135,378
Expenses related to charity activities, cultural events and other similar events	126,862	95,632
Membership fees to associations and non-profit partnerships	110,169	150,058
Expenses related to sale and other kinds of assets retirement	80,523	63,454
Extra expenses related to credits and loans	76,098	30,236
Expenses for paying for services of credit organizations	55,614	61,686
Expenses related to social needs and trade unions	55,181	73,313
Expenses for mobilization training and civil defense	53,916	27,070
Exchange rate differences related to assets and liabilities to be paid in roubles	52,564	13,168
Payment to personnel not included in the expenses for normal activities	10,086	52,665
Writing-off of deferred tax assets in respect of withdrawn items	7,267	52,206
Writing off the accounts receivable	5,352	836
Fines, penalties and forfeits for breaking contractual terms, indemnification for losses inflicted	4,705	7,475
Expenses related to participation in authorized capitals of other organizations;	1,476	9,677
Expenses arising as consequences of emergency circumstances	690	15,261
Other expenses	97,266	86,409
TOTAL	2,626,494	1,614,791

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7.4. Profit Tax Expenses

In 2008 the Company determined the following constituents of the profit tax:

Indices	Amount	Tax rate	Amount	Constituent of the profit tax
Accounting profit	4,775,123		1,087,996	Profit tax conventional expenditures (income)
including:	1,538,718	20%	307,744	Contingent expenses for 2008
	3,354,166	24%	804,999	Contingent expenses for 2008
	(87,877)	20%	(17,575)	On the basis of adjusted tax returns for the previous reported periods
	(29,884)	24%	(7,172)	On the basis of adjusted tax returns for the previous reported periods
Taxable temporary differences:	(1,023,515)		(230,600)	Deferred tax liabilities
including:				including:
- differences arisen	(1,023,515)		(230,600)	deferred tax liabilities created
including:	(275,540)	20%	(55,109)	for the year 2008
	(600,793)	24%	(144,190)	for the year 2008
	(100,556)	20%	(20,111)	On the basis of adjusted tax returns for the previous reported periods
	(46,626)	24%	(11,190)	On the basis of adjusted tax returns for the previous reported periods
Deductible temporary differences	(320,432)		(72,839)	Deferred tax assets
including:				including:
- differences arisen	1,221,360		277,799	deferred tax assets formed
including:	384,485	20%	76,898	for the year 2008
	838,339	24%	201,201	for the year 2008
	(1,285)	20%	(257)	On the basis of adjusted tax returns for the previous reported periods
	(179)	24%	(43)	On the basis of adjusted tax returns for the previous reported periods
- differences repaid	1,541,792		350,638	deferred tax assets repaid
including:	484,772	20%	96,954	for the year 2008
	1,057,005	24%	253,681	for the year 2008
	30	20%	6	On the basis of adjusted tax returns for the previous reported periods
	(15)	24%	(3)	On the basis of adjusted tax returns for the previous reported periods
Constant taxable differences	1,041,364		236,791	Constant tax liability
including:	325,929	20%	65,186	for the year 2008
	711,537	24%	170,768	for the year 2008
	2,466	20%	493	On the basis of adjusted tax returns for the previous reported periods
	937	24%	225	On the basis of adjusted tax returns for the previous reported periods
	495	24%	119	According to Decision of unscheduled tax inspection No.14 of 08.12.2006

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Explanations to Important Items of the Profit and Loss Report

(in thousand roubles, unless specified otherwise)

Indices	Amount	Tax rate	Amount	Constituent of the profit tax
Constant deductible differences	(755,603)		(171,842)	Constant tax assets
Including:	(237,577)	20%	(47,516)	for the year 2008
	(518,017)	24%	(124,324)	for the year 2008
	(8)	20%	(2)	On the basis of adjusted tax returns for the previous reported periods
	(1)	24%	0	On the basis of adjusted tax returns for the previous reported periods
Taxation base (total)	3,716,935		849,506	Current tax (total)
Including:				
Taxation base as per tax return for 2008	2,728,226	24%	654,773	Current tax
Taxation base as per tax return for 2008	1,251,243	20%	250,249	Current tax
Taxation base adjustment amount for 2007	(19,202)	24%	(4,608)	Tax for previous fiscal periods
Taxation base adjustment amount for 2007	(137,798)	20%	(27,560)	Tax for previous fiscal periods
Taxation base adjustment amount for 2006	(56,537)	24%	(13,569)	Tax for previous fiscal periods
Taxation base adjustment amount for 2006	(49,492)	20%	(9,898)	Tax for previous fiscal periods
Taxation base according Decision of unscheduled tax inspection No.14 of 08.12.2006	495	24%	119	Tax for previous fiscal periods

Starting from 2007, in compliance with article 11-4 of the Law of St. Petersburg of 14th July 1995 No. 81-11 "On Tax Privileges", the Company exercised the right of applying a lower profit tax rate (13.5% instead of 17.5%) transferred to the budget of St. Petersburg for the years 2006, 2008, and 2008.

The Company's profit tax expenses for the year 2008 amounted to:

Total	(1,152,945)
including:	
- profit tax conventional expenditure	(1,087,996)
- constant tax liabilities	(236,791)
- constant tax assets	171,842

In the Profit and Loss Report, the Company's profit tax expenses for the year 2008 are shown as the aggregate of the following amounts:

Total	(1,152,945)
including:	
- current tax	(905,023)
- deferred tax liabilities	(230,600)
- deferred tax assets	(72,839)
- extra paid amounts of profit tax for preceding fiscal (reporting) periods	55,517

Constant taxable differences that have led to an adjustment of the conventional profit tax, total	1,041,364
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including:	
Payments to personnel not recognized in tax accounting	246,157
Other payments in favour of employees and their family members	124,776
Expenses related to the Nonprofit Partnership	108,612
Value of property transferred free of charge	91,593
Expenses for entertainment events	83,422
Other taxes and fees not established by federal legislation or by legislation of RF entities	56,926
Expenses arising as a result of writing off non-circulating assets	46,994
Charitable contributions and membership fees	42,994
Depreciation of fixed assets not being a depreciable property for the tax accounting purposes	30,130
Income in the form of gratuitous use of property	28,937
Other deductions to the trade union	25,364
Housing-related losses	18,356
Contributions to Non-governmental Pension Plan without employees' personification	17,277
Expenses related to operation of servicing production units and facilities	12,235
Expenses arising as a result of writing off circulating assets	10,611
Expenses for mobilization training not recognized in tax accounting	9,469
Writing off of a part of deferred tax assets accounting for the used doubtful debt reserve	7,267
Bank credit and loan interest costs in excess of the established rates	5,219
Expenses for writing off accounts receivable with expired limitation period or which is unlikely to be exacted	4,623
Indemnification for damages caused by the organization	3,180
Charged according to Decision of unscheduled tax inspection No.14 of 08.12.2006	495
Other taxable constant differences	66,727
Constant deductible differences that have led to an adjustment of the conventional profit tax, total	755,603
including:	
Positive difference between the book value of the property contributed to the authorized capital of LLC RDPC Svyazist and its market value.	634,484
Income excluded from taxation base for the profit tax (amount of received dividend)	117,400
Income from restoration of reserve against depreciation of investment in securities	2,712
Other constant deductible differences	1,006
Temporary taxable differences that have led to an adjustment of the conventional profit tax, total	1,023,515
including:	
Expenses for capital investment, 10% of the fixed assets value	1,043,786
Expenses for software	214,978
Payments under leasing contracts (property accounted in the lessee's records)	88,144
Depreciation	(315,698)
Other time taxable differences	(7,696)
Time deductible differences that have led to an adjustment of the conventional profit tax, total:	(320,432)
including:	
Reserve for payments to employees	1,150,641
Payment to personnel from reserve	(1,396,692)
Allowance for doubtful accounts	(76,468)
Other temporary deductible differences	2,087

7.5. Profit per Share

The base profit per share shows a part of the profit of the year under report, due to the shareholders holding common shares. It has been calculated as the ratio of the base profit for the year under

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report to the average weighted number of common shares in circulation during the year under report.

The base profit for the year under report is equal to the net profit (item 190 of the Profit and Loss Report) less the dividend on preferred shares for the year 2008 to the amount recommended by the Company's management to be approved by the Board of Directors, however, not approved as of the date of signing the accounts and reports for the year 2008.

	2008	2007
Base profit for the year under report, thousand roubles	3,301,559*	10,303,872
Average weighted number of common shares in circulation during the year under report, thousand shares	881,045	881,045
Base profit per share, in roubles	3.75	11.70

* - the calculated value of the basic profit, because the Company's Board of Directors had not approved the size of profit allotted to dividend payment by the date of issue of the explanatory note.

In 2008 the Company did not issue any extra common shares and any securities, the conditions of the issue of which would provide for their conversion to an extra number of common shares; neither was there any event related to an increase in the number of common shares. Therefore, the Company does not prepare any analyses of watered profit per share.

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8. Related Parties

In the course of its financial and business activities, the Company makes transactions with organizations that are related parties. The complete list of related parties of the Company is given in Appendix No. 1 to this Explanatory Note.

In the Explanatory Note the Company disclose essential information regarding to transactions with related parties including its affiliated parties and the Non-governmental Pension Fund "Telecom - Soyuz".

Parent Company

The Company is controlled by the joint-stock company OJSC Svyazinvest, which holds 50.8% of the Company's common (voting) shares. Other 49.2% of common shares are floated as follows:

- Individual shareholders – 4.5%;
- Legal entity shareholders – 44.7%

Related Party Transactions in the Reporting Period:

Name	OJSC Svyazinvest	Subsidiaries of OJSC "Svyazinvest"	Subsidiaries of the Company	Affiliates of the Company	Other
2007					
Sale of communication services, interconnection services and traffic transmission services	-	2,063,316	422,612	41,417	563,141
Sale of assistance and agency services	-	752,637	129	-	20,461
Income from leasing out the Company's assets	-	11,231	28,808	3,711	125,714
Sale of other services, goods and products	-	1,752	2,174	2	36,051
Sale of fixed assets and other assets	-	-	-	-	26,847
Acquisition of communication services, interconnection services and traffic transmission services	-	118,333	357,278	27,957	441,829
Acquisition of other services	-	84,262	115,239	217,504	811,328
Acquisition of goods and other assets	-	47,373	5,370	-	176,344
Interest on financial investment	-	-	-	-	136,441
Interest payable under loans	-	-	-	-	1,550
Dividends receivable	-	-	81,272	-	1,460
Dividends payable	145,910	9	3,509	-	-
Investment in the authorized capitals	-	-	2,572,231	-	-
Finance investment	-	-	-	-	6,209,578

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Name	OJSC Svyazinvest	Subsidiaries of OJSC "Svyazinvest"	Subsidiaries of the Company	Affiliates of the Company	Other
2008					
Sale of communication services, interconnection services and traffic transmission services	-	1,567,401	295,262	36,935	449,579
Sale of assistance and agency services	-	693,746	-	-	13,328
Income from leasing out the Company's assets	-	8,161	36,705	10,409	32,797
Sale of other services, goods and products	-	1,664	48	864	3,304
Sale of fixed assets and other assets	-	-	-	-	19,938
Acquisition of communication services, interconnection services and traffic transmission services	-	265,872	215,662	23,024	244,943
Acquisition of other services	-	133,246	76,439	114	622,901
Acquisition of goods and other assets	-	48,484	4,470	-	6,712
Interest on financial investment	-	-	-	-	228,866
Dividends receivable	-	-	119,900	-	2,945
Dividends payable	263,223	12	13,587	-	-
Investment in the authorized capitals	-	-	872,717	-	-
Issued loans	-	-	-	-	3,000
Finance investment	-	-	-	-	3,000,000

In 2008 the prices under related-party transactions were established on the normal commercial terms.

In 2008 the Company acquired notes of OJSC AKB Svyaz-Bank, which were repaid in full during 2008 (Explanation 6.3).

In 2008, the Company increased its contribution to the authorized capital of LLC RDPC Svyazist by 872,717 (Explanation 6.3).

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Settlements with Related Parties as of the Reporting Date

Name	OJSC Svyazinvest	Subsidiaries of OJSC "Svyazinvest"	Subsidiaries of the Company	Affiliates of the Company	Other
as of 01.01.2008					
Accounts receivable	-	304,466	7,965	9,170	42,975
- doubtful debt reserve formed	-	-	-	-	-
- accounts receivable less doubtful debt reserve	-	304,466	7,965	9,170	42,975
Finance investment	-	-	-	-	6,312,956
Accounts payable	-	380,915	8,019	112,925	68,714
as of 31.12.2008					
Accounts receivable	-	228,285	13,353	7,580	29,970
- doubtful debt reserve formed	-	-	-	-	-
- accounts receivable less doubtful debt reserve	-	228,285	13,353	7,580	29,970
Issued loans (taking into account interest)	-	-	-	-	3,000
Accounts payable	-	350,705	5,833	2,187	43,727

Essential Related Party Transactions*OJSC Rostelecom*

OJSC "Rostelecom", a majority owned subsidiary of OJSC Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The amounts disclosed in the "Related Party Transactions in the Reporting Period" covered the following indicators:

	2008	2007
Sale of communication services, interconnection services and traffic transmission services	1,501,452	2,058,695
Sale of assistance and agency services	693,746	752,516
Income from leasing out the Company's assets	8,034	11,185
Sale of other services, goods and products	1,581	1,748
Sale of fixed assets and other assets	-	-
Acquisition of communication services, interconnection services and traffic transmission services	124,198	118,211
Acquisition of other services	6,472	10,627
Written off accounts receivable with expired limitation period or which is unlikely to be exacted	-	-
- including those from doubtful debt reserve	-	-

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The amounts disclosed in the “Related Party Transactions as of the Reporting Date” covered the following indicators:

	as of 01.01.2008	as of 31.12.2008
Accounts receivable	296,301	220,121
- doubtful debt reserve formed	-	-
- accounts receivable less doubtful debt reserve	296,301	220,121
Accounts payable	348,499	337,534

In 2008, the Company settled its accounts with OJSC Rostelecom under assistance, interconnection, and agency contracts by bilateral clearing. Total amount of settlements in non-monetary funds in 2008 was 1,956,076 (against 40 in 2007).

OJSC Svyazintek

OJSC Svyazintek was founded by subsidiaries of OJSC Svyazinvest holding 100% of its authorized capital for introducing and then supporting the functioning of the information systems, as well as for coordinating, managing and implementing centralized specialized programmes for information technologies in the companies of the Svyazinvest Group. In 2008 OJSC Svyazintek provided to the Company the services of introducing and then supporting the functioning of information systems, including Oracle E-Business Suite software. The indicators in the “Acquisition of Other Services” line in the “Related Party Transactions in the Reporting Period” table include the Company’s costs related to OJSC Svyazintek services in 2008 in the amount of 145,510 (172,957 in 2007). Of these, 27,012 was recorded as regular activity costs (46,165 in 2007), 6,711 was included in capital investments (0 in 2007), and 111,787 was included in the deferred expenses of software purchase (126,792 in 2007) (Explanation 6.6). Advances issued to OJSC Svyazintek amounted to 7,770 as of 31st December 2008 (9,096 in 2007), and the Company's accounts payable to OJSC Svyazintek were 28,924 (against 37,411 in 2007).

Basic Managerial Staff of the Company

Company's expenses regarding remuneration paid to its basic managerial staff (General Manager, Deputy Managers, members of the Management Board and members of the Board of Directors) include:

	2008	2007
Short-term remunerations, total	151,510	99,152
including:		
labour remuneration	139,666	88,589
payment for annual leave	6,989	7,288
taxes and mandatory payments charged in favour of budgets and off-budget funds	4,855	3,275
Long-term remunerations, total	42	38
including:		
payments (contributions) under contracts of non-governmental pension insurance	42	38

The list of the Members of the Board of Directors and of the Company's Management Board is given in section 2 of this Explanatory Note.

Expenses in the amount of remunerations paid to Company's employees participating in the work of the Board of Directors and the Management Board in 2008 are shown within the normal operations expenses to the amount of 93,903 in the "Expenses for Wages" item (against 68,069 in 2007) and to the amount of 33,392 in the item "Other Expenses Related to Normal Areas of Activities" (17,521 in 2007).

Remunerations and compensations paid to persons who are not Company's employees to the amount of 24,098 (10,557 in 2007) are shown within the normal operations expenses in the item "Other Expenses Related to Normal Areas of Activities".

Transactions with Non-Governmental Pension Fund "Telecom - Soyuz"

The Company made a contract of retirement insurance with NPF Telecom - Soyuz, and in addition to statutory pension benefits the Company also provides benefits for most of its employees by using post-employment benefit plans which include defined contribution plans and defined benefit plans.

A pension plan with fixed pays provides for paying contributions both by the Company and by the employee of the Company during his/her employment period. Contributions of the Company and of the employees are transferred to personal pension accounts of the employees with the Telecom-Soyuz non-governmental pension fund. The amount of the pension provided to an employee according to such plans is determined by the amount of the money accumulated by the date of the employee's retirement.

A pension plan with fixed pays provides for retirement and disability pension provision. A condition of the retirement pension provision is reaching by an employee the age, which entitles a person to a state retirement pension - at the moment it is 55 years of age for women and 60 years for men. According to the terms of the pension program, the amount of pensions is a fixed amount of money depending on the position of an employee. To get the right to the non-governmental pension, the record of service of an employee in the Company by the moment of his/her retirement must be at least 10 years, for managers it must be at least 4 years (the minimum record of service varies among the branches and is determined by the Regulations on Non-governmental Pension Provision for Employees and Managers of the Company).

In 2008 the total amount of the contributions paid by the Company for non-governmental pension provision was 151,035 (257,666 in 2007), and it was completely included in the normal operation expenses as other expenses. The Fund deducts 3% of the amount of each pension contribution of the Company for the support of its own activities according to the charter and to cover its administrative expenses.

Non-Profit Partnership Centre for Research of Telecommunications Development Problems

Non-Profit Partnership "Centre for Research of Telecommunications Development Problems" (hereinafter referred to as "Partnership") was founded by subsidiaries of OJSC Svyazinvest holding 100% of its authorized capital for implementing mutually beneficial projects.

The amount of Company's contributions to the Non-Profit Partnership was 108,612 in 2008 (149,000 in 2007).

Besides, the Partnership acted as the agent of the Company for the services of development and introduction of Oracle E-Business Suite software. Company's expenses for reimbursing Partnership's expenses incurred by it under contracts with contractors were none in 2008 (90,595 in 2007).

9. Segment Reporting

The management believes that the Company is operating within one geographic segment - in the territory of the Northwestern region of the Russian Federation and within one operating segment – provision of fixed communication services. The volume of services provided in 2008 for industry segments other than provision of fixed communication is 4.41% of the total volume of proceeds (in 2007 – 3.99%). In this connection no information is provided by types of geographic or operating segments.

10. Terminated Operation

In 2008 the Company did not terminate any areas of operation.

11. Conventional Assets and Liabilities

Operating Environment of the Company

Russia is continuing the economic reform and developing a legal, tax, and administrative infrastructure that would meet the market economy requirements. The Russian economy's stability will greatly depend on the progress of the reform, and on efficiency of the Government's actions in the domain of economy and financial, monetary, and crediting policy.

The Russian economy is affected by market fluctuations and lower development rates of the world economy. The continuing world financial crisis has brought about instability on the capital markets, a material decline in marketability in the banking sector, and tougher crediting terms inside Russia. Despite the stabilization efforts by the Russian Federation Government to ensure marketability and refinancing of foreign loans of Russian banks and companies, there is uncertainty as to accessibility of capital sources and the price of capital for the Company and its partners. This in its turn affects the Company's financial standing, transaction results, and economic prospects.

The Company's Management believes that it takes all necessary actions to maintain the Company's economic stability in the economic crisis environment (Explanation 2). However, further aggravation of the situation in the above-described sectors may adversely affect the Company's results and financial standing.

Political Situation

Changes in the political situation, legislation, tax and standard regulation influence the financial and business activities and profitability of the transactions of the Company. The nature and frequency of such changes and the related risks, which are, besides, normally not covered by any insurance, are unpredictable, like their influence on the future activity and profitability of the Company's transactions.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation of this law by the Company management as applied to operations and activities of the Company's subsidiaries can be disputed by respective regional or federal authorities. The recent events that have taken place in the Russian Federation show that tax authorities may take a tougher stand in interpreting the legislation and checking tax settlements. As a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It does not seem possible to determine the amounts of claims for possible risks that, however, have not been presented, or to evaluate the probability of an adverse outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain conditions, earlier periods may be audited too.

As of 31st December 2008, the Company's management believes that its interpretation of the relevant legislation is appropriate on the whole and that it is most likely that the Company's tax, currency and customs positions will be sustained. At the same time, based on the results of the tax inspections of the Company and other companies of the OJSC Svyazinvest group that have been carried out recently, the management of the Company assumes that there is a risk of tax authorities lodging significant tax claims against the Company in respect of issues for which the tax legislation may be interpreted in different ways, among other things, the issues of determining the proceeds under contracts of interconnection and traffic transmission. It does not seem possible to determine the amounts of claims for possible risks that, however, have not been presented, or to evaluate the probability of an adverse outcome. .

The accounts and reports as of 31st December 2008 do not contain any adjustments, the need in which might result from such uncertainties and positions taken by the Company.

Existing and Potential Risks

The Company is a defendant in a number of arbitration proceedings, including those with tax authorities. However, in the opinion of the Company's management, the results of the proceedings will not have a serious impact on Company's financial standing.

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In 2008, there was a proceeding in the Arbitration Court of St. Petersburg and Leningrad Oblast by the Company's petition challenging the decision of St. Petersburg Agency of the Federal Antitrust Service dated 01.09.2008 on an administrative offence and subjecting the Company to administrative liability for abuse of dominating position on the local telephone communication market in the form of a penalty of 42,833. The proceeding in the case was suspended until the effective date of the award of the Arbitration Court of St. Petersburg and Leningrad Oblast in the case of invalidation of the decision of St. Petersburg Agency of the Federal Antitrust Service dated 01.09.2008 in Case No. K10-223/08 and the Prescription of 01.09.2008 issued on its basis. By the award of the Arbitration Court of St. Petersburg and Leningrad Oblast dated 26.01.2009 in Case No. A56-46632/2008, the decision of St. Petersburg Agency of FAS and the prescription issued on its basis were found unlawful.

In October 2008, the Interregional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers No. 7 completed its field tax audit of the Company for the years 2005-2007, and in November 2008, based on the audit's results, it issued a Decision to subject N.W.Telecom to tax liability, in accordance to which, the Company was ordered to pay taxes, fines, and penalties to a total amount of 223,346. The Company challenged the tax authority's decision to after-charge the taxes, fines, and penalties to a total amount of 222,550, and sent a petition of appeal to the Federal Tax Service of Russia via Interregional Inspectorate for Major Tax-payers No. 7, which petition was not responded to. The Company prepared a statement of claim, which will presently be sent to the Arbitration Court of Moscow.

Besides, in March 2007, the Interregional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers No. 7 completed its in-office tax audit of the Company based on the updated value added tax declaration for January 2006. Based on the audit's results, a Statement was issued in March 2009, in accordance to which, the Company was ordered to reduce the value added tax amount presented for refunding from the budget in the total amount of 88,002.

The Company intends to send objections to the said Statement to the tax authority, which carried out the audit, in April 2009. If the Company's objections are not considered by the tax authority in making its Decision on the audit results, the Company intends to appeal such Decision before the higher tax authority, and subsequently apply to the Arbitration Court of Moscow.

The Company's management believes that the Company has arguments sufficient for successfully disputing the claims presented by tax authorities in court instances. For this reason, no contingent liabilities related to the results of the above tax audits are shown in the Company's accounts.

Guarantees Issued

As of 31st December 2008 the Company did not act as a guarantor for third parties (96,452 as of 31st December 2007). Besides, Company's liabilities under the conversion transaction (hedging) (explanation 6.15) amount to 116,632 (595,521 as of 31st December 2007).

The hypothecation value of the assets pledged by the Company as security for liabilities and payments is 1,140,874 (1,285,034 as of 31st December 2007), and its residual value makes 1,084,223 (against 966,712 as of 31st December 2007).. The Company's management does not expect that any essential liabilities will arise in connection with the said transactions.

Licenses

The Company has no licenses expiring in 2009.

The Company is working to obtain a supplement to the effective License No. 47657 for local telephone communication services using payphones in Nenets Autonomous District.

The Company does not intend to obtain new licenses or to extend its other available licenses in 2009.

12. Events after the Reporting Date

Rate Regulation

By Order No. 299-s/4 of the RF Federal Rates Service dated 28th November 2008, the Company's charge rates for local telephone services were changed from 1st March 2009 as follows:

The rates for provision of local telephone connections

- For individual subscribers:
 - Rates for permanent use of a subscriber line were raised by RUR 10: for the Northern Group of branches and for St. Petersburg Branch, from RUR 130 to RUR 140, and for the Central Group of branches, from RUR 125 to RUR 135.
 - The price of 1 minute for the time-based rate plan was increased by RUR 0.04: for the Northern Group of branches, from RUR 0.30 to RUR 0.34, and for the Central Group of branches and St. Petersburg Branch, from RUR 0.26 to RUR 0.30; the price per minute was also increased by the same value for exceeded included traffic volume on the mandatory combined rate plan: for the Northern Group of branches, from RUR 0.24 to RUR 0.28, and for the Central Group of branches and for St. Petersburg Branch, from RUR 0.20 to RUR 0.24.
 - The price of 1 minute for exceeded included traffic volume on the "Combined 100" rate plan was raised. For the Northern Group of branches, the rate was raised by RUR 0.12 (from RUR 0.36 to RUR 0.48), and for the Central Group of branches and for St. Petersburg Branch, by RUR 0.06 (from RUR 0.30 to RUR 0.36.)
 - The price of 1 minute for provision of local telephone connection on week-days for the "Day-off" rate plan for individuals was increased. For the Northern Group of branches, the rate was raised by RUR 0.10 (from RUR 0.30 to RUR 0.40), and for the Central Group of branches and for St. Petersburg Branch, by RUR 0.04 (from RUR 0.26 to RUR 0.30.)
 - The included local traffic volume on the mandatory combined rate plan was reduced from 350 to 300 minutes for the Northern Group of branches (except for Karelian),

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from 333 to 250 minutes for the Central Group of branches, from 275 to 250 minutes for Karelian Branch, and from 450 to 400 minutes for St. Petersburg Branch.

- For subscribers - legal entities:
 - Rates for permanent use of a subscriber line were raised by RUR 10: for the Northern Group of branches and for St. Petersburg Branch, from RUR 160 to RUR 170, and for the Central Group of branches, from RUR 150 to RUR 160.
 - The rates for unlimited volume of local telephone connections on the no-limit rate plan were increased by RUR 10: from RUR 340 to RUR 350 for the Northern Group of branches, from RUR 290 to RUR 300 for St. Petersburg Branch, and from RUR 250 to RUR 260 for the Central Group of branches.
 - The price of 1 minute for the time-based rate plan was increased by RUR 0.04 (for the Northern Group of branches, from RUR 0.30 to RUR 0.34, and for the Central Group of branches and St. Petersburg Branch, from RUR 0.26 to RUR 0.30); the price per minute was also increased by the same value for exceeded included traffic volume on the mandatory combined rate plan (for the Northern Group of branches, from RUR 0.24 to RUR 0.28, and for the Central Group of branches and St. Petersburg Branch, from RUR 0.20 to RUR 0.24)
 - The price of 1 minute for exceeded included traffic volume on the “Combined 800 (750, 1000)” rate plan was raised. For the Northern Group of branches, the rate was raised by RUR 0.06 (from RUR 0.20 to RUR 0.26), and for the Central Group of branches and for St. Petersburg Branch, by RUR 0.04 (from RUR 0.18 to RUR 0.22.)
 - The included local traffic volume on the mandatory combined rate plan was reduced from 350 to 300 minutes for the Northern Group of branches (except for Karelian), from 333 to 250 minutes for the Central Group of branches, from 275 to 250 minutes for Karelian Branch, and from 450 to 400 minutes for St. Petersburg Branch.

- For all categories of subscribers:

additional rate plans were established to include an unlimited volume of intrazonal telephone connections between any user (terminal) equipment connected to the local telephone communication network and located within one subject territory of the Russian Federation (hereafter “ABC”) and between any user (terminal) equipment connected to the local telephone communication network and located within one subject territory of the Russian Federation and any user (terminal) equipment connected to a mobile radio telephone communication network (hereafter “ABC+DEF.”)

The rate size will be:

- for individuals:
 - for an unlimited volume of ABC intrazonal telephone connections, RUR 200;
 - for an unlimited volume of ABC+DEF intrazonal telephone connections, RUR 700;
- for corporations:
 - for an unlimited volume of ABC intrazonal telephone connections, RUR 1000;
 - for an unlimited volume of ABC+DEF intrazonal telephone connections, RUR 2500.

Dividend

The amount of the year's dividend per share will be approved by the General Meeting of the Shareholders of the Company in June 2009.

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2008

(in thousand roubles, unless specified otherwise)

Credits and Loans

In January 2009, the Company signed a contract for opening a revolving credit line with JSCB SB of RF with the one-time debt limit of 380,000. The maturity date is 13.07.10. The credit interest rate is 13.75% per annum. The security for the said credit is mortgage of telecommunication equipment to the amount of 409,782.

In January 2009, the Company signed a contract for opening a revolving credit line with JSCB SB of RF with the one-time debt limit of 385,000. The maturity date is July 26, 2010. The credit interest rate is 13.75% per annum. The security for the said credit is mortgage of telecommunication equipment to the amount of 419,889.

In February 2009, the Company signed a contract for opening a revolving credit line with JSCB SB of RF with the one-time debt limit of 390,000. The maturity date is August 6, 2010. The credit interest rate is 13.75% per annum. The security for the said credit is mortgage of telecommunication equipment to the amount of 429,118.

Restructuring of Subsidiaries

For the purpose of improvement and unification of corporate governance of the Company's subsidiary business, to minimize possible risks by bringing interaction with subsidiaries into one legal framework, and to eliminate contradictions between the previous practice of management of subsidiaries via Boards of Directors and provisions of Federal Law No. 208-FZ "On Joint-Stock Companies" of 26.12.1995, limited liability companies were reorganized into close joint-stock companies in the following subsidiaries: LLC Novgorod-Datacom, LLC Parma-Inform, LLC RDPC Svyazist.

Bond Issue

In March 2009 the Board of Directors approved the flotation through public subscription of the 4,000,000 series 01, 02, 03, 04 interest-bearing documentary non-convertible bonds payable to bearer with the obligatory centralized care, with the face value of 1,000 roubles each, with the total face value of 4,000,000,000 roubles. The flotation price of one bond is set equal to the face value and makes 1,000 roubles. The Bonds have 12 coupons. The coupon payments are effected on each 91st day starting from the day of the bonds flotation start. Exchange-traded bonds shall be retired on the 1092nd day from the flotation starting date. If so decided by the Company, premature retirement or partial premature retirement may be provided. Exchange-traded bonds may be prematurely retired by request of their owners if shares and bonds of all categories and types are deleted from the list of securities admitted for trading at all stock exchanges that admitted such bonds for trading (except for cases of bond delisting due to expiry of their flotation period or due to their retirement.)

In April 2009, the issuance documents related to the issue of active bonds will be sent to CJSC MICEX Stock Exchange for registration.

Leasing of Fixed Assets

In 2009, the Company received vehicles of the total value of 42,091 (less VAT) into leasing under Leasing Contract No. DL 200/01 of October 7, 2008 with OJSC VTB-Leasing. The total amount of leasing payments will be 59,801 (less VAT).

Change of the Corporate Profit Tax Rate

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2008**

(in thousand roubles, unless specified otherwise)

In accordance with regulatory changes in the tax and duty legislation of the Russian Federation, the profit tax rate of 20% is generally applicable from January 1, 2009.

The rate of the profit tax payable to the budget of St. Petersburg will not change for the Company provided that the Company continues using a reduced profit tax rate according to Article 11-4 of St. Petersburg Law No. 81-11 "On Tax Benefits" dated July 14, 1995.

In accordance with the requirements of Provisions on Accounting "Accounting of Corporate Profit Tax Settlements" (PBU 18/02), due to the changed profit tax rate, the amounts of deferred tax assets and liabilities shall be recalculated, recording any difference that may arise from such calculation on the retained profit (uncovered loss) account. The amounts of tax assets and liabilities presented in the 2008 accounts were calculated disregarding the above recalculation, which will be made for the accounts for 2009 as applied to the balances as of the beginning of 2009.

Therefore, the balances of deferred tax assets and liabilities, and the net assets value, will be changed in the 2009 accounts as follows:

	as of 31.12.2008 24%	as of 01.01.2009 20%	Change
Amount of deferred tax asset	194,104	147,249	(46,855)
Amount of deferred tax liability	1,180,132	930,444	(249,688)
Net assets	31,037,543	31,240,376	202,833

Other

In March 2009, the Company's Board of Directors decided on termination of the functions of Alexander Nikolaevich Kiselev as Chairman of the Company's Board of Directors, and on election of Olga Grigorievna Koroleva as Chairman of the Board of Directors.

General Manager

/V.A. Akulich/

Chief Accountant

/M.M. Semchenko/