



PRE-APPROVED

by the Board of Directors
of OJSC N.W.Telecom

Minutes of _____ 2009 No.19-01/ _____

Chairperson

of the Board of Directors

O.G. Korolyova

APPROVED

by the annual general meeting of the shareholders
of OJSC N.W.Telecom

Minutes of _____ 2009 No. _____

Chairperson

of the general meeting of the shareholders

V.A. Akulich

**ANNUAL REPORT
of the OPEN JOINT-STOCK COMPANY
NORTH-WEST TELECOM
FOR THE YEAR 2008**

General Manager

V.A. Akulich

Chief Accountant

M.M. Semchenko

Located at: 14/26 ul. Gorokhovaya (26 ul. Bolshaya Morskaya) St. Petersburg, 0.191186

Date of state registration and registration No. of the Company.

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ADDRESS OF THE GENERAL MANAGER

Dear Shareholders!

I am pleased to present to you the annual report of the Company for the year 2008, showing the basic results of OJSC N.W. Telecom's work for the past year.

Each year you, our shareholders, set us ambitious tasks, and we exert as much effort as we can to fulfill them. The year 2008 has been no exception. The basic goals of the year 2008 were: to implement a large-scale investment program, to improve the efficiency of business, to increase significantly the number of broadband access subscribers, to launch new services, to improve the quality of the ones that had been provided and to ensure equal access to telecommunication services for residents of the North-West using the all-in-one service mechanism. And I am really proud that the tasks set by the shareholders have been fulfilled in spite of the dramatic deterioration of the macroeconomic situation in the country and in the world starting from the second half of the year 2008.

Year in, year out, we have managed to improve the financial indicators of the Company, also enhancing the efficiency of the business. Thus, according to the results of the year 2008, the proceeds of the Company grew by 4% to 24.5 billion roubles, the income from new services (Internet and data transmission) having grown by 47% and reached 4.3 billion roubles and their share in the total amount of the proceeds having amounted to 18% (taking into account that it was just 13% in 2007), which allows us to state an increased diversification of OJSC N.W. Telecom's business.

According to the results of the year, the Company's net profit amounted to 3.6 billion roubles, which 2% higher than in the previous year, EBITDA having grown by 14% as compared to the year 2007 and the EBITDA margin having reached 39%, having exceeded the figure of 2007 by 3.6 p.p.*

As a result, we expect that according to the results of the year 2008, OJSC N.W. Telecom's shares will show a high dividend yield – much higher than the annual bank deposit rates.

Provided the general meeting of the shareholders approves the dividend rate proposed by the Board of Directors, the dividend yield on preferred shares will be 23% and that on common shares 9%. The total amount allocated for dividend payment will be 864 million roubles, or 23.86% of the net profit.

In 2008 OJSC N.W. Telecom implemented the most ambitious investment programme for the recent years, its volume amounted to 13.5 billion roubles. We could afford such investment, as we had the sufficient financial "cushion" thanks to receiving money from the sale of OJSC Telecominvest's shares. The investment was allocated for participation in implementing federal projects and for increasing the digitization in the region, for a leading development of the broadband access network in the Northwestern Federal District and expansion of own backbone network.

In 2008 OJSC N.W. Telecom put into operation 94,400 new telephone numbers, as a result of which the Company's installed capacity reached 5,174,800 numbers. The digitization level grew by 5.2 p.p. to 66.65%. The length of the fibre-optic communication lines was increased by 4,849 km to 11,630 km. More than 501,000 broadband access ports were put into operation in 2008. Thus, the installed capacity of the Company's broadband access network exceeded 1,000,000 ports, which has made the most branched and extensive broadband access network in the North-West of Russia and enhanced one of OJSC N.W. Telecom's most important competitive advantages – the possibility of providing all state-of-the-art telecommunication services in any point of the Northwestern Federal District.

The implementation of Company's commercial initiatives and projects aimed at expanding the product range of services, improving their quality and increasing the accessibility of services for the purpose of the maximum satisfaction of subscribers' demand was the pledge of the successful financial and economic results of the year 2008. Along with the aggressive marketing and rate policy, these initiatives have made it possible for us to more

* For the purposes of comparison, the figures of 2007 are given without taking into account the influence of the one-time transaction of the sale of the 15% block of shares of OJSC Telecominvest

than double the number of our subscribers for broadband access – to 636,000. Thus, today almost every second user of broadband access services in the North-West connects to the Internet using the services of OJSC N.W.Telecom. Moreover, we have managed to achieve such an impressive growth (105%) in the highly competitive and already very well-developed market of broadband access services.

Among the most significant projects of the year was the launch of the Triple Play service into commercial operation in St. Petersburg. OJSC N.W. Telecom has been the first operator in the region to offer its subscribers three quality services in one package offer (telephony, broadband Internet access and IP-TV). Another, equally important project to be developed in regions in the year 2009 is the start of the provision of PON technology services in St. Petersburg. The implementation of these projects has allowed us to outstrip our competitors and to be able to offer our clients services of a higher quality even today, to improve subscribers' loyalty and to create an up-to-date infrastructure ensuring the quality of various services.

On the whole, the results of the year 2008 can be realistically called successful from the commercial standpoint. In spite of the pessimistic forecasts in the field of demand for fixed telephony services, the Company managed to ensure a growth of the number of fixed communication subscribers by 36,200 to 4,475,000 base telephone sets. Taking into account the significant growth of the number of broadband access users and the offer of new attractive rate plans in the entire range of services to subscribers, all this has made it possible to achieve the following growth of the Company's shares in the telecommunication market of the Northwestern Federal District: to 73.2% in the local communication segment, and to 36,6% in the broadband access segment.¹ Thus, OJSC N.W. Telecom has accomplished one of the most important goals of its development – retained its leading positions in the segment of local communication and strengthened its positions in the segment of broadband access, which is most attractive segment today.

OJSC N.W. Telecom has been and remains a socially oriented company, therefore the Company could not help taking part in tenders for the right of providing all-in-one communication services using payphones. In 2006 and 2007 the Company won 104 tenders for the right of providing such services in all entities of the Northwestern Federal District, except for St. Petersburg. As a result of implementing this project, OJSC N.W. Telecom installed over 25,000 payphones, thus having solved the problem of providing remote and sparsely populated settlements of the North-West with telephone communication and having provided equal access to telecommunication services for all residents of the federal district.

In 2008 we continued the optimization of the personnel number by reducing the management tiers and creating an organizational structure meeting the needs of all business processes of the Company and thus improving its efficiency. In 2008 the personnel number was reduced by 9,5%, the average wages of the Company's employees having increased by 40%, due to which we managed both to retain the most skilled employees and to create all conditions for them to achieve the best results for the benefit of the Company's development.

The corporate culture has indisputably helped form a team of like-minded workers seeking the achievement of a common result. For the recent years OJSC N.W. Telecom has built quite a well-developed institute of intracorporate relations. The basics of corporate identification, traditions and most varying kinds of nonmaterial incentives and self-motivation have been already laid in the Company. The year 2008 saw the development and approval of the Corporate Culture Code, the basic document that describes the values and ethical principles underlying the work of the Company and sets forth single standards of conduct. A clear definition of the values and strategic goals will help each employee understand how OJSC N.W. Telecom is developing, what principles should underlie relations with clients and what the employer is expecting from its employees. All intracorporate measures implemented in the Company in 2008 were aimed at making the working team more cohesive and improving the currently operating system of nonmaterial incentives for the staff. This has made it possible for the employees to manifest their best qualities and capabilities, to enhance their loyalty and to build the employee's responsibility both for the results of his/her own work and for the results of the Company on the whole.

Under the conditions of a dramatic deterioration of the macroeconomic situation in the country, increased apprehensions of shareholders and investors as to possible problematic assets and mass "capital flight" from Russia, the matters of corporate governance and transparency of the Company become most important. OJSC N.W. Telecom has always been one of the leaders in the industry's corporate governance. Based on the results of the year 2008, the Standard & Poor's rating agency increased the corporate governance score of OJSC N.W.Telecom to 5.7 according to the national scale, which confirms the correct choice of the strategy of

¹ The market share is given according to the results of 2008, by the income.

interaction with the key stake-holders of the Company. Today North-West Telecom has the highest corporate score assigned to subsidiaries of OJSC Svyazinvest.

Credit ratings of OJSC N.W.Telecom are the highest among the interregional companies, too, and we can state that they passed the strength test in 2008. While we heard in fact every day about the decrease of corporate and independent ratings, the Company's credit rating was confirmed at the BB- level, "Stable" forecast, by both Standard & Poor's and Fitch Ratings. Such an opinion of the experts shows that OJSC N.W. Telecom has chosen a reasonable financial policy in the field of funding and has formed a diversified debt portfolio with the optimum duration, which the Company will be easily able to service. All this has made it possible for us to attract a syndicated loan of 150 million US dollars on the pre-crisis terms, in the full swing of the crisis, in November 2008. This is a sign of first of all trust and confidence of the foreign investors that OJSC N.W. Telecom is a reliable borrower with an impeccable credit history. Having signed the agreement of loan, OJSC N.W. Telecom has received a reserve of liquidity for a year or a year and a half, which will provide funds for the investment programme and will allow us to repay the debentures without attracting any significant amounts of extra borrowed funds.

In summing up the results of the year 2008, it should be stressed that we have created the necessary stock that helps us look into the future with confidence, solve the problems of retaining the leading positions in the telecommunications market of the Northwestern Federal District and improving the efficiency and diversification level of business and, which is the main thing under the present circumstances, successfully resist external challenges and threats. We guarantee that in these conditions of uncertainty OJSC N.W. Telecom will remain a transparent and open company, thus creating pre-requisites for a progressive growth of OJSC N.W. Telecom's value and for increasing the yield on the investment of our shareholders.

KEY CORPORATE EVENTS OF THE YEAR 2008

JANUARY

The Standard & Poor's international rating agency confirmed the long-term credit rating of OJSC N.W. Telecom for foreign currency liabilities at the level of "BB-", and the Russian-scale rating at the level of "ruAA-". The forecast is "Stable".

FEBRUARY

The Board of Directors of OJSC N.W. Telecom has established the interest rate for the coupons from the 13th to the 24th under 03 series Bonds in the amount of 8.6% per annum.

The OJSC N.W. Telecom's bonds of the third and fourth issue were included in Quotation List A, level 1 at the MICEX Stock Exchange.

By the results of the 7th "Russian Company of High Social Efficiency" All-Russian Competition, N.W. Telecom was awarded the Russian Federation Government diploma and the Honorary Diploma of the Presidium of the National Communication Workers Trade Union Central Committee.

N.W. Telecom enabled users of all-in-one service payphones in the North-Western Federal District (NWFD) to call from payphones to mobile phones.

OJSC N.W. Telecom fully paid the 12th coupon yield under the bonds of the third issue. The total amount allocated for the coupon payment amounted to 69,180 thousand roubles.

MARCH

Before and during the election for President of Russia from February 28 till March 4, N.W. Telecom provided trouble-free communication for 11 election committees of subject territories of the Russian Federation, 238 territorial election committees, and over 8300 local election committees in the North-Western Federal District.

The Board of Directors of N.W. Telecom approved the "Capitalization Improvement Concept for N.W. Telecom for 2008-2012."

LLC Ernst & Young won the contest for selecting the independent audit organization for OJSC NWT for 2008.

OJSC N.W. Telecom fully paid the 5th coupon yield under the bonds of the fourth issue. The total amount allocated for the coupon payment was 40,380 thousand roubles.

During the offer, N.W. Telecom fulfilled all of its obligations to buy the Series 03 bonds in good time and in full.

N.W. Telecom challenged the tax claims for the years 2003-2004 in courts of all instances.

APRIL

N.W. Telecom summed up its 2007 business results to Russian accounting standards (RAS.)

N.W. Telecom was recognized as St. Petersburg's best taxpayer in 2007.

Jointly with its subsidiary LLC Novgorod Datacom, N.W. Telecom started commercial operation of the digital interactive television service under the Avangard TV trademark in Novgorod Oblast.

N.W. Telecom launched a pilot project to provide Triple Play services (digital telephony, Avangard high-speed access to the Internet at bit rates of up to 30 Mbit/s, and Avangard TV digital interactive television based on passive optical networks (PON) in St. Petersburg.

By decision of the Expert Panel of the Silver Threads – North-West 2008 corporate media resources competition, the *SvyazisT Severo-Zapada* newspaper as N.W. Telecom's corporate publication was awarded in the "Efficient editorial concept and content" nomination.

MAY

Standard&Poor's international rating agency assigned a national rating at the "ruAA-" level to the fifth issue of N.W.Telecom's bonds.

N.W.Telecom successfully floated the fifth bond issue in the amount of RUR 3 billion. The first coupon rate was defined at the exchange auction to be 8.4% per annum.

OJSC N.W. Telecom fully paid the 13th coupon yield under the bonds of the third issue. The total amount allocated for the coupon payment was 64,320 thousand roubles.

JUNE

N.W.Telecom summed up its 2007 results according to the International Financial Reporting Standards (IFRS). The financial accounts were audited by LLC Ernst and Young.

OJSC N.W. Telecom fully paid the 6th coupon yield under the bonds of the fourth issue. The total amount allocated for the coupon payment was 40,380 thousand roubles.

The annual general meeting of N.W.Telecom shareholder was held, where the Annual Report for 2007 and the annual accounts were approved, the Profit and Loss Statement included. The shareholders also approved the size of dividend by the results of the Company's business for 2007, which was RUR 3.997 per preferred share and RUR 0.642 per common share. The meeting of the shareholders elected new namelists of the Board of Directors and the auditing committee, and approved LLC Ernst and Young as independent auditor.

As part of implementation of the strategy of N.W.Telecom withdrawal from secondary businesses, and by resolution of the Board of Directors, the Company sold 25.00019% of the shares of Medexpress insurance close joint-stock company to OJSC ROSNO, the majority shareholder of Medexpress ICJSC.

N.W.Telecom completed the second phase of the project for implementation of all-in-one telephone communication services using payphones in Archangel, Kaliningrad, Leningrad, Murmansk, and Novgorod Oblasts, the Republic of Karelia, and the Republic of Komi. 4,021 all-in-one service payphones were installed in these regions.

JULY

Circulation of N.W.Telecom bonds of the fifth issue started at the MICEX stock exchange.

N.W.Telecom changed the conversion ratio of Level One American Depositary Receipts (ADR) issued for common shares. One ADR now corresponds to 10 common shares of N.W.Telecom.

The Board of Directors of N.W.Telecom decided on floatation of the sixth issue bonds.

AUGUST

Standard&Poor's international rating agency deleted N.W.Telecom from the list of companies susceptible to liquidity risks in the next 12 to 18 months.

N.W.Telecom offered a new package of services named AlliancePro-Mini-Office and intended for small companies and offices in all regions of NWFD.

N.W.Telecom offered a new unified package of telecommunication services named AlliancePro-Corporation for large companies and enterprises with a ramified structure of offices and units in all NWFD except for Kaliningrad.

N.W.Telecom started providing the New Telephony service on the basis of the Softswitch program switch, which is a basic component of the Next Generation Network (NGN) in St. Petersburg.

N.W.Telecom set the interest rate for a next (second) coupon on the Series 5 bonds at 9.73% per annum.

OJSC N.W. Telecom fully paid the 1st coupon yield under the bonds of the fifth issue. The total amount allocated for the coupon payment was 62,820 thousand roubles.

OJSC N.W. Telecom fully paid the 14th coupon yield under the bonds of the third issue. The total amount allocated for the coupon payment was 64,320 thousand roubles.

SEPTEMBER

Fitch Ratings international rating agency confirmed the international and national long-term credit rating of N.W.Telecom at the level of “BB-”, “Stable” forecast, and “A+ (rus)”, “Stable forecast”, accordingly. The Company’s short-term rating was also confirmed at the level of “B”.

Expert RA rating agency confirmed the recently assigned corporate governance score of N.W.Telecom at the level of “A (7+)” within the framework of the RID-Expert RA National Corporate Governance Rating.

OJSC N.W. Telecom fully paid the 7th coupon yield under the bonds of the fourth issue. The total amount allocated for the coupon payment was 40,380 thousand roubles.

At the conference of employees, N.W.Telecom signed the Collective Agreement for 2009-2011, which is the basic legal document regulating the social and labor relations within the Company.

N.W.Telecom summed up its results for the first half of 2008 according to the International Financial Reporting Standards (IFRS).

OCTOBER

N.W.Telecom and CJSC Delta Telecom, a mobile communication operator (Sky Link St. Petersburg) launched a joint action named “Sky Link in Avangard”, where customers are offered to use the Avangard service of dedicated Internet access and Sky Link service of wireless Internet access at special reduced tariffs.

As part of implementation of the “one stop shopping” service provision concept, N.W.Telecom jointly with Intel launched a program named Avangard+PC, where you can buy a mini notebook on special terms if you connect to the Avangard service in any region of NWFD.

NOVEMBER

N.W.Telecom successfully completed the transaction of taking a three-year syndicated credit of US\$ 150 million on the international capital market. The credit interest rate was LIBOR+2.75%.

The Auditing Committee of the N.W.Telecom Board of Directors adopted several initiatives aimed to improve the Company’s investment attractiveness. In particular, from 2009 on, non-audited quarterly accounts according to IFRS will be prepared and a stable business development (corporate social responsibility) report will be issued.

The N.W.Telecom's bonds of the fifth issue were included in Quotation List A, level 1 at the MICEX Stock Exchange.

N.W.Telecom set the interest rate for a next (third) coupon on the Series 5 bonds at the limit rate level of 15% per annum.

N.W.Telecom became one of Russia’s first companies to have started commercial operation of Triple Play services on the basis of passive optical networks (PON) in St. Petersburg.

OJSC N.W. Telecom fully paid the 2nd coupon yield under the bonds of the fifth issue. The total amount allocated for the coupon payment was 72,780 thousand roubles.

By decision of the Expert Panel of the Silver Threads – North-West 2008 corporate media resources competition, N.W.Telecom’s corporate website www.nwtelecom was awarded a prize in the Best Corporate Website nomination.

OJSC N.W. Telecom fully paid the 15th coupon yield under the bonds of the third issue. The total amount allocated for the coupon payment was 64,320 thousand roubles.

DECEMBER

Standard&Poor's international rating agency confirmed N.W.Telecom's long-term international credit rating at the level of "BB-", "Stable" forecast. The national rating also remained at the previous level of "ru AA-".

Standard&Poor's corporate governance rating service raised the Company's Corporate Governance Score (CGS) from CGS 5.6 to CGS 5.7 by the Russian scale. The Corporate Governance Score by the international scale was confirmed at 5+.

N.W.Telecom paid dividends on preferred and common shares calculated by the results of the Company's financial activity in 2007.

N.W.Telecom provided engineering support to the live Q&A broadcast with V. V. Putin, Chairman of the Russian Government, for the first time enabling residents of remote communities of NWFD to call to the live Q&A from all-in-one service payphones.

OJSC N.W. Telecom fully paid the 8th coupon yield under the bonds of the fourth issue. The total amount allocated for the coupon payment was 40,380 thousand roubles.

The first regional office for dealing with N.W.Telecom Flagman category customers in the "one stop shopping" mode was opened in Kaliningrad.

N.W.Telecom started commercial operation of the Triple Play on the basis of passive optical networks (PON) with Internet access speeds of up to 30 Mbit/s.

N.W.Telecom connected the 600,000th user of the broadband Internet access service.

N.W.Telecom held a tender for the right to provide services of liability insurance of the Company's directors and officers. OJSC SOGAZ was named winner of the tender.

In order to improve the efficiency of handling accounts receivable, N.W.Telecom signed agency contracts with the collector companies Sequester Management LLC and Lindorff LLC for collection of overdue debts of individual users having debts over three months old to the Company.

N.W.Telecom commissioned the fiber optic communication line (FOCL) between Vozhega and Verkhovazhye in Vologda Oblast.

EVENTS AFTER THE REPORTING DATE

JANUARY

N.W.Telecom completely repaid the first syndicated credit in the amount of 50 million euros taken in December 2005. The lead arrangers for the credit were Citibank N.A., ING Bank (Eurasia), Bank Societe General Vostok, and Moscow Narodny Bank Limited.

N.W.Telecom closed the last ten-step telephone exchange (TSX) in the North-West Federal District.

FEBRUARY

N.W.Telecom started pilot operation of a network safety threat detection and suppression system in St. Petersburg.

N.W.Telecom started up "Federal Information", a new information service with contact telephone No. 8-128.

N.W.Telecom specialists became winners of the 9th "Engineer of the Year 2008" All-Russian Competition.

MARCH

N.W.Telecom introduced new no-limit tariff plans for intra-zone telephone communication services inside a region named "Region" and "Region+" in the coverage area of all of its branches.

Standard&Poor's international rating agency confirmed OJSC North-West Telecom's long-term international credit rating at the level of "BB-", "Stable" forecast. The national rating of N.W.Telecom was confirmed at the previous level of "ru AA-".

The Board of Directors of N.W.Telecom elected O. G. Korolyova its new Chairperson.

COMMERCIAL ACTIVITY

The Company's Position on the Telecommunications Market of NWFD and the RF

At the moment, universal availability, a good quality of communication and a wide range of telecommunication services is the necessity for all users of communication services.

The North-Western Federal District (NWFD) is one of Russia's most economically developed regions. The District comprises 11 subject territories of the Russian Federation, Its area is about 1.7 million square kilometers, which makes 9.8% of the Russian Federation's area. The population of the District is 13.5 million, 82% of these residing in cities. In terms of average per capita income, The District is No. 4 in Russia, which ensures the region's quite high paying capacity. NWFD also enjoys a favorable geographical situation, bordering seven countries, and is one of Russia's key transport nodal points.

Despite the vigorous growth of telecommunication services' penetration in other regions, NWFD has been the most developed telecommunication region in Russia for a few recent years.

Table 1. Infocommunication services penetration level

Region	Telephone density, telephone per 100 residents	Penetration, %	
		BRB	Mobile
Russia	32	22	130
NWFD	40	28	150
St. Petersburg	54	52	167

Due to the high paying capacity of its residents and developed infrastructure, the telecommunication market of NWFD is one of the most attractive ones, and therefore highly competitive. In 2008, N.W.Telecom managed not only to retain its leading positions in the local and intra-zone communication segments, but also to noticeable enhance the market position in the market's most competitive segment, i.e. BBA.

Table 2. The Company's share on the NWFD market

Index	NWFD market share in terms of earnings, %		
	2006	2007	2008
Telecommunication services, total	18.6	19.1	17.6
Local access*	74.2	75.2	73.2
including:			
Residential	91.6	94.3	94.5
legal entities	49.8	50.4	47.96
Intra-zonal access	43.9	94	93.9
Dial-up Internet access	45.4	57.2	61.3
Broadband Internet access* (BRB)	20.8	27.6	36.6

**less cellular operators*

Competitive Environment

N.W.Telecom operates on one of the most competitive markets in the RF. Actually all federal operators include NWFD in their plans of aggressive regional expansion. Moreover, harsh competitive struggle is going on in all

segments and for each subscriber. As of this day, N.W.Telecom's main competitors may be conditionally subdivided into fore groups:

- Federal mobile communication operators (MTS, Vimpelcom, Megafon)
- Federal and regional fixed communication operators (Vimpelcom, Transtelecom, Peterstar, Svyazinform)
- Local operators (home networks, departmental operators.)

Despite the high competition, the Company efficiently operates on the NWFD market and opportunely puts forward its counter arguments so that the user would choose no one else but N.W.Telecom as the telecommunication services supplier.

The most active competitive struggle is going on in the broadband Internet access segment, since this telecommunication market segment is the least costly one in terms of investment and the most profitable one in terms of sales.

The BRB market is very fragmentary, but there is a recent trend towards consolidation of players on that market, which is related both to the developing affordability of this service and to several M&A transactions seen in 2008.

The main competitors in BRB segment are local operators (home networks).

In the voice services segment, mobile communication operators are N.W.Telecom's greatest competitors. Due to the increased mobility of population and harsh struggle for subscribers by mobile operators, resulting in lower call prices per minute of conversation (especially for on-network calling), some subscribers (especially short-talking ones) may refuse the public telephone network services. Therefore, the Company does its best to improve the attractiveness of its services for users and to enhance the value of fixed communication services.

Historically, N.W.Telecom positioned itself as "private customers' operator" and did not operate in the corporate customer segment (B2B), so competitors occupy a larger market share in the "corporate" segment. However, in the recent years, the Company managed to set up business processes and to significantly increase its market share in the segment. The Company forecasts its future growth due to implementation of efficient marketing offers.

Table 3. N.W.Telecom's market share in terms of earnings by user segment, 2008

Segment	Market share, %			
	OJSC N.W.Telecom		Competitors	
	private customers	corporate customers	private customers	corporate customers
Local access	94.5	47.96	5.5	52.04
Intra-zonal access	95.4	92.2	4.5	7.8
Broadband access	43.6	31.9	56.4	68.1

Year's results

The year 2008 became another year of successful development of N.W.Telecom in terms of business. Despite all negative forecasts regarding the future of fixed communication services, the Company managed to increase its own local communication customer base by 36,200 subscribers. The number of BBA users increased more than twofold against the year 2007 and reached 636,000, the main locomotives of such growth being the regions rather than St. Petersburg.

Thus, by the results of 2008, N.W.Telecom not only confirmed its status of the largest fixed communication operator in the District, but also became the largest broadband Internet access provider.

Table 4. Subscriber base of N.W.Telecom

Service	Number of subscribers		
	2006	2007	2008
Broadband Internet	91,873	311,430	635,873
IP TV	-	-	4,326
Dial-up access to the Internet	559,952	368,120	210,354
Fixed line	4,407,425	4,439,350	4,475,541

Voice services (local and intra-zone communication)

Among the primary tasks of N.W.Telecom in the local communication segment for 2008 was to prevent customers from leaving and to implement actions to win new users for the services. To accomplish the goals, the Company developed and approved a terminal contract for provision of communication services, and developed and implemented special tariff plans for subscribers having signed a terminal contract for provision of communication services. Besides, to attract new subscribers, N.W.Telecom made special package offers for users who move into new homes, and entered into contractual relations with virtually every largest developer in NWFD.

The reasonable tariff policy and successful implementation of marketing initiatives enabled an increase in the local communication customer base, its quality remaining at a high level.

Table 5. Subscribers distribution among the tariff plans (percentage of users technically able to choose a tariff plan)

Tariff plan name	Subscribers share, %	
	2007	2008
Combined	24	24
No-limit	49	48
Per minute	27	28

To improve the quality, to expand the range, and to increase the affordability of telephony services, N.W.Telecom launched the Softswitch-based New Telephony project in August 2008. This revolutionary solution will enable the Company to “unpair” the users of shared lines, and to offer “digital” telephony services, telephone number transfer, and many other features.

The implementation of this project enabled the Company to extend its product line as early as in 2008, generating a few more advantageous package offers, thus noticeably increasing the value of a customer line.

The task of increasing its presence in the corporate sector is no less important for the Company. In general, as a result of actions related to improvement of dealing with the Company’s corporate customers, 6,500 new corporate customers and 34 business centers were connected to communication services in 2008, which indicates a higher attractiveness of the Company as supplier of telecommunication services for corporate clients. The corporate customer base exceeded 111,000 by the end of 2008.

In order to enhance customer loyalty, special tariffs for “terminal” contracts were introduced as part of the “Avangard + local communication” special offer.

Internet and data transmission

During 2008, N.W.Telecom continued active connection of its customers to the broadband Internet access service to the xDSL technology under the Avangard trademark. In order to enhance BBA customer loyalty and to win new customers, the Company launched various marketing actions. To win more users for the Avangard service, “turnkey” services was implemented in all Company branches’ coverage areas in 2008, a program of “terminal” contracts was developed offering sizeable discounts on BBA services, the number of extra services was extended, and the Internet access speeds were increased several times.

For the first time in Russia, N.W.Telecom implemented a program to sell notebooks when connecting to the Avangard service. This program enabled customers to buy a notebook on installment simultaneously with connecting to the Avangard service or when signing a terminal contract for provision of communication services. In 2008, N.W.Telecom continued development of the IP-TV project, solved several engineering problems, and extended the package offers and improved the films quality for the VoD service.

In 2008, St. Petersburg Branch of N.W.Telecom started up a new generation network based on the PON (passive optical network) technology. As a result, full-scale implementation of the Triple Play concept was enabled, i.e. provision of telephony, Internet access, and interactive television services via an optic cable from one socket. One of the PON technology’s features is access to the Internet provided at speeds of up to 30 Mbit/s, while on the basis of the ADSL technology, users are offered Internet access speeds of up to 8 Mbit/s. The engineering feasibility of connecting to broadband access services using the PON technology was provided in more than 200 houses by the end of 2008.

In general, due to implementation of marketing initiatives and the most advanced engineering initiatives, N.W.Telecom managed to increase affordability of the admission ticket for BBA users.

Activity to improve the customer service quality was an important aspect of customer loyalty enhancement. As part of such activity, the following actions were implemented in 2008:

- a “Personal office” service was offered to the Avangard service users, enabling them to get fast information on the services and monitor their account status,
- as part of the N.W.Telecom sales network restructuring, the first regional Sales and Service Station (SSS) of the Flagman format was opened in Kaliningrad (this SSS is operated in the “one stop shopping” mode), and two SSS’s were opened at shopping centers in St. Petersburg,
- pilot operation of the Company’s network safety threat detection and suppression system was started,
- a work package to improve the customer engineering support system was started,
- as part of extra services development, on-network high-speed exchange and on-network resources (My Files, My Video, My Games) were provided.

Goals and plans

The year 2009 will be an uneasy one for the Company due to the recent worldwide trends, however OJSC N.W.Telecom is optimistic about the future, setting ambitious goals. Its primary goals are:

- retaining its leading position in the local communication segment,
- keeping the proportion of subscribers using the no-limit tariff plan at least 45%,
- increasing the BBA user base by 236,000,
- diversification of its service sales channels,
- reaching a 25% growth of revenue from communication operators for channel leasing,
- development of the IP-TV project in Kaliningrad, Archangel, and Komi branches.

Besides, in 2009 N.W.Telecom intends to expand its own product line, and offer new attractive charge rates for services for private and corporate customers, i.e. it will be highly active on the NWFD telecommunication market.

ENGINEERING AND TECHNOLOGIES

OJSC N.W.Telecom has the most powerful and ramified engineering infrastructure in NWFD, comprising the largest local and intra-zone communication network, an own multiservice network connecting all regional centers of the federal district, a BBA network with a total installed capacity exceeding 800,000 ports, and a payphone network covering all the remotest and sparsely populated localities of the North-West. The total length of N.W.Telecom's telephone lines exceeds 270,000 km, which covers 16% of the total area of the District.

The growing demands for telecommunication services by the business and individuals require that N.W.Telecom continuously develop and update its own network, in order to improve the quality of provided services, expand its own product portfolio, and implement up-to-date and ambitious projects.

Table 6. Basic Indices of N.W.Telecom Network Development

No.	Indices	2007	2008	Change rate of 2008/2007 indices (in %)
1.	Length of long-distance (intra-zone) telephone channels total, thousands of channels/km	35 964	34 692,8	96,47
	including those formed by digital transmission systems, thousands of channels/km	35 964	34 692,8	96,47
2.	Total FOCL length, km	6 781	11 630	171,5
3.	Installed capacity, numbers	5 080 451	5 174 875	101,9
4.	Number of fixed line subscribers	4 439 350	4 475 541	100,8
5.	Capacity in use, %	88,49	87,82	99,2
6.	Digitalization of local telephone network, %	61,48	66,65	108,4
7.	Installed capacity of BRB ports, total (as of the end of reporting period)	517 577	1 019 209	197
	of which, installed xDSL capacity, ports	517 577	862 025	167
8.	Installed capacity of automatic long-distance telephone exchanges, channels	92 005	153 823	167,2
9.	Commissioned capacity of automatic long-distance telephone exchanges, channels	64 562	67 876	105,1
10.	Number of subscriber sets connected to mobile radiotelephone communication networks (as of the end of reporting period) (to be filled in if license is available), thousands of units	1,44	1,13	78,5

In 2008, the Company implemented the following actions related to large investment projects, including the following areas:

- development of the user broadband access network on the basis of the xDSL and PON (FTTx) technologies

Projects	Number of ports commissioned as of 31.12.2008, pieces
Development of the user broadband access network to the xDSL technology	344,448
Development of the user broadband access network to the PON (FTTx) technology	157,184

- construction of FOC traffic network using the xWDM, GE, and SDH technologies

Projects	Total FOCL length (km) as of 31.12.2008
Roll on of intra-zonal FOCL's	3,431.19

	Numbers commissioned and replaced (pieces) as of 31.12.2008
Capacity commissioned, total	324,343
of which, for replacement (of total commissioned)	239,812
City network capacity commissioned	279,407
of which, for city network replacement	203,588
Rural network capacity commissioned	44,936
of which, for rural network replacement	36,224

commissioning and replacement of fixed communication numbering capacity

In 2008, the Company completed the following projects of construction and commissioning of intra-zone FOCL's along the following routes:

- in Archangel Branch: Velsk-Dolmatovo-Nyandoma-Kargopol, Babonegovo-Koskovo;
- in Vologda Branch: Verkhovazhye-Vozhega, Cherepovets-Kadui-Babaevo-Ustyuzhna-Chagoda, Cherepovets-Belozersk, Vologda-Kirillov-Vashki-Vytegra;
- in Kaliningrad Branch: Kaliningrad-Zelenogradsk-Pionersky-Svetlogorsk, Svetlogorsk-Yantarny-Baltiysk;
- in Karelian Branch: Essoila-Petrozavodsk, Kem'-Kostomuksha;
- in Murmansk Branch: Kandalaksha-Umba;
- in Komi Branch: Aikino-Mikun'-Usogorsk, Israel – Izhma – Ust'-Tsilma;
- in Leningrad Oblast Branch: Lodeinoye Pole-Podporozhye, Kingisepp-Slantsy;
- in Novgorod Branch: Novgorod-Shimsk-Soltsy-Volot-Staraya Russa;
- in Pskov Branch: Opochka-Bezhanitsy.

Key Projects

Due to many years of efforts to update and develop the backbone network, today N.W.Telecom manages the longest and most technically developed communication infrastructure in NWFD. In order to increase the volume, to improve the quality, and to expand the range of its services, the Company continues updating the existing line using advanced equipment, and builds new communication lines.

In 2008, the Company continued construction of backbone traffic networks using the SDH and DWDM technologies. As a result, by the end of 2008, N.W.Telecom had a corporate traffic network connecting all the Oblast and Republic centers of NWFD to St. Petersburg. The inter-regional companies' multiservice network is the main user of resources of this inter-regional traffic network.

In the reporting year, construction of zonal and local (city exchange level) traffic networks using the SDH technologies was continued. The results of the construction are refusal to lease digital flows from third-party operators, more zonal communication channels, higher quality of telephone communication services, prospects for new multiservice network services to be provided, satisfying the existing demand for provision of broadband access services to the ADSL technology, and ability to provide IP VPN services to corporate customers.

In the reporting year, the Company implemented an investment project named "Construction of Transit Zonal Communication Nodes (TZCN) in the Branches." This project provided for construction of new transit communication nodes on the basis of AXE-10 switching equipment by the Manufacturer Eriksson Nicola Tesla. TZCN's were commissioned in the cities of Archangel, Vologda, Pskov, Veliky Novgorod, Syktyvkar, Kaliningrad, Petrozavodsk, Murmansk, and St. Petersburg. The overall capacity of the zonal transit communication nodes reached 126,510 ports. Under the project, it is intended to set up a common network monitoring and control center to provide centralized control of all zonal transit communication nodes in the Branches. The full-scale start-up of the center is scheduled for 2009.

In the reporting year, to increase the local network digitization level, N.W.Telecom implemented investment projects for replacement of analog telephone exchanges in district centers and of the terminal facilities of rural exchanges, and for expansion of exchange capacity for telephone installation in new-built houses. In 2008, 22 analog exchanges performing the functions of central exchanges were replaced with new generation electronic exchanges in local telephone communication networks of seven Branches of N.W.Telecom. As a result of analog exchange replacement, 231,400 numbers were cancelled from the analog capacity. Ten-step type equipment was completely withdrawn from service in N.W.Telecom's communication network. The last ten-step exchanges in Apatity, Murmansk Oblast, and Severodvinsk, Archangel Oblast, were replaced. As a result of the above actions, the digitization level actually reached in 2008 was 66.65%.

As of this day, broadband access to the Internet is the fastest-growing and most demanded segment of communication services. Responding to the market demands, N.W.Telecom is developing its own BBA network and extending the list of technologies used to provide the BBA services.

In 2008, enhancement of the xDSL-based access network capacity was continued. DSLAM equipment by Siemens and Alcatel was installed. By the end of 2008, the total installed capacity of xDSL equipment was 862,000 ports. The primary service provided on the basis of this technology is broadband access to the Internet.

In the reporting year, the Company implemented several revolutionary engineering initiatives. In particular, the 1st phase of development of the new generation network, NGN, based on Softswitch equipment by Siemens and designed for a capacity of up to 300,000 customers, was commissioned for full-scale operation in St. Petersburg. Provision of the "New Telephony" service, i.e. VoIP based on the SIP protocol, was started, in particular for users of the Triple Play service (telephone, Internet, IP TV.) The access network to the PON (FTTx) technology, for a capacity of 157,000 ports, was designed and commissioned for full-scale operation in St. Petersburg Branch of N.W.Telecom.

To ensure equal access to telecommunication services for all NWFD residents, N.W.Telecom took part in the "Implementation of All-in-one Communication Services by Means of Payphones" (ACS) federal project in the entire North-Western Federal District except St. Petersburg. The purpose of the project is to enable any District resident in any remotest locality of NWFD to use a minimum set of telecommunication services. In all, under the all-in-one project, 25,174 localities in NWFD were connected to telephone lines by the end of 2008, with 25 824 all-in-one payphones installed.

IT Solutions

In 2008, the Company was active implementing its key IT projects.

Under the Unified Programme for Customers Billing and Relationships Management (UP CBRM), implementation of the centralized automatic settlements system (ASS) was completed in Archangel, Murmansk, and Komi branches. Thus, the process of switching of N.W.Telecom Branches to the centralized unified ASS was finalized.

In 2008, implementation of the automatic service activation system (“Service Activator”) for broadband access and Triple Play services on the basis of the HP OV Service Activator software was completed in St. Petersburg Branch of N.W.Telecom. Within the framework of UP CBRM, equipment for the CIAS (criminal investigation actions system) was purchased and commissioned.

Under the Telephone Set Generation Project of the Program for implementation of the Oracle E-Business Suite Unified Business Management System, retrofitting and adjustment of data processing center equipment was provided to meet the requirements of the Unified Master System (UMS).

Plans

Table 7. Expected capacity commissioning indices for 2009-2011

Indices	2009	2010	2011
Target indices of xDSL ports commissioning, pieces	207682	111500	64500
Target indices of PON (FTTx) ports commissioning, pieces	69560	230741	215789
Target indices of channel infrastructure development, km	2834	2311	2894

Projects related to broadband access to the Internet will be the priority areas of N.W.Telecom development in the engineering/technology area in 2009. Such priority in investments will enable an increase of the BBA customer base in 2009, which, given the mass scale of provision of the services, will provide a prerequisite for growing sales of extra services (IP TV included.)

- The purpose of the “xDSL Broadband Access Network Expansion” project is to satisfy customers’ applications for high-speed Internet access and provision of VPN.
- The purpose of the “PON Broadband Access Network Expansion” project is to set up a network infrastructure as a basis for provision of the Triple Play services.

Implementation of the above projects will enable provision of the full package of telecommunication services (voice, data, and video) via one customer line, which will promote keeping and expansion of the customer base, and therefore growing revenues of the Company.

Important areas of the Company’s investment activities in 2009 are:

- development of local telephone communication, with the most part of new number capacity intended to satisfy the demand of new building project residents (mostly in St. Petersburg),
- improvements in corporate customer handling (implementation of integrated “turnkey” projects),
- construction of call service centers.

The Company’s main goals related to IT solutions for the years 2009-2010 are:

- completion of ongoing projects of a high degree of availability,
- implementation of new quick-yielding solutions (payback period of 1 to 3 years),
- retention of the required level of service for existing information systems while cutting down costs.

For 2009, it is planned for St. Petersburg Branch to achieve connection of users and equipment of the other nine Branches of the Company to the automatic service activation system (“Service Activator”) for the broadband access and Triple Play services. This will reduce the time for customer connection to new services.

N.W.Telecom will continue development and implementation of the Customer Relation Management (CRM) system as part of UP CBRM and implementation of the CIAS information system as part of UP CBRM. Implementation of the communication network service support system (CNSSS) in St. Petersburg Branch will continue, with the system replication to other branches of the Company.

FINANCE

The financial policy of OJSC N.W.Telecom is intended to promote its investment attractiveness, to create prerequisites for higher capitalization and lower credit risks of the Company, to keep its solvency high, and to reduce the borrowings value. The key principles of the financial policy are:

- transparency and consistency,
- keeping the financial ratios at the best international analogs' level,
- diversified sources of financing,
- effective management of circulating capital,
- system management of financial risks.

In this time of financial crisis, the Company gives special attention to liquidity risk and currency risk management.

A well-balanced investment policy, strict control of costs, moderate debt burden, and efficient use of currency debt hedging enabled N.W.Telecom, in the crisis year 2008, to retain a high efficiency of its business, to strengthen its market position, to confirm its high credit quality, and to increase its net profit (disregarding the OJSC Telecominvest sale transaction in 2007.)

In 2008, the Company continued its considerable efforts to extend the range and quality of new services where the tariffs are not government-regulated, which led to an increase in their proportion in the revenues from communication services. Compared to 2007, the proportion of revenues from data transmission services and telematic services in the total revenues from communication service sales was 18% (13% in 2007.) However, local communication services still make the most sizeable share in N.W.Telecom's revenues from communication service sales, i.e. 56%.

Compared to 2007, the receipts in 2008 grew by 4% to make RUR 24,500 million. The Company's revenues from communication services also increased by 4% and amounted to RUR 22,711 million. The main factor in the receipts increase were revenues from data transmission and telematic services.

Table 8. Main economic indices of the Company, millions of roubles

Indices	2006	2007	2008	Rate of index change, 2008/2007 (%)
Revenue	20,473	23,643	24,500	104
Income from communication services	18,803	21,926	22,711	104
Expenses	15,499	17,689	20,638	117
Operating income	4,974	5,954	3,862	65
Profit before taxes	3,508	14,827	4,775	32
Net income	2,426	11,305	3,622	32

The costs increased in 2008 against 2007 by 17%, which is due to increased customer dealing actions related to BRB service sales because of materially higher competition on the NWFD market, and to the costs of maintenance and service of payphones for all-in-one communication services (2nd phase of provision of all-in-one communication services, hereafter "ACS".)

The Company's net profit was RUR 3,622 million in 2008, which is nearly three times less than in 2007. The reduction is due to the sale of a 15% interest in OJSC Telecominvest by N.W.Telecom in 2007. Disregarding this 2007 transaction, the net profit grew by 2% in 2008.

The profit before taxes decreased threefold in 2008 compared to 2007, to make RUR 4,775 million by the year's results. This fact is also related to the sale of the interest in OJSV Telecominvest, and disregarding this transaction, the profit before taxes grew by 4% in 2008.

The sale profit in 2008 decreased 1.5 times compared to 2007, amounting to RUR 3,862 million by the year's results, which was determined by the leading growth rates of receipts compared to expenditures, which in its turn is related to the costs of the "All-in-one Communication Service" project. Disregarding this project, the sale profit increased by 7% in 2008.

Income

*Table 9. Structure of income by types and categories of consumers in 2008**

Varieties of services	Total (less VAT), thousand roubles	of which from individuals
Revenues from communication services, total including:	22,710,718	12,740,457
Intra-zonal access	2,418,682	997,410
local access	12,828,445	8,989,861
document telecommunication	4,342,053	2,502,191
<i>including those from data transmission and on-network telematic services</i>	<i>4,162,893</i>	<i>2,467,793</i>
mobile communication	2,966	1,074
from connection and traffic transmission services	2,716,458	0
other	402,113	249,922

**Information based on the data of Form 65-communication for 2008.*

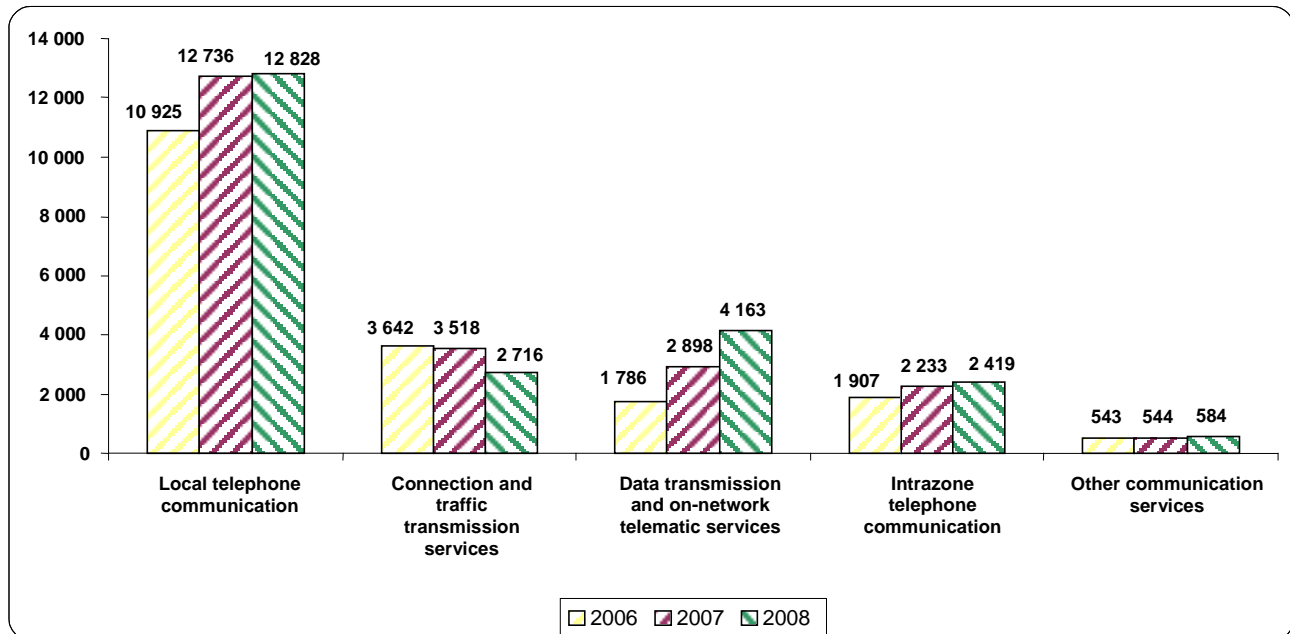
Private customers still remain the main users of communication services, accounting for 65% of receipts.

The 2008 results show a slight growth of the index ARPU (Average Revenue Per User) for local telephony services. In the last three years there has been a gradual decrease in ARPU for BBA services, which is related to high competition on the market of these services. However, the drop of this index has had no adverse effect on the Company's revenues and is fully compensated by the customer base growth. The drop of ARPU from dial-up Internet access services is attributable to the general trend towards a decrease in the number of users of this services due to the active development of BBA services.

Table 10. Average revenue per user, roubles

Index	ARPU		
	2006	2007	2008
Local communications	177	210	211
Internet BRB	742	544	482
IP TV	-	-	200
Dial-up Internet access	148	213	83

Fig.1. Revenue trends by service, millions of roubles*



*Information based on the data of Form 65-communication.

In 2008, the Company managed to increase its revenues from all kinds of communication services. For instance, the revenues from local communication services by the results of 2008 grew by 1% to RUR 12,828 million. The revenues from intra-zone communication grew by 8% compared to the previous year, and amounted to RUR 2,419 million. The revenue growth in the intra-zone communication segment was due both to an increase in the F2M traffic (calls from a fixed to mobile phone) and to active marketing actions by N.W.Telecom in this segment, such as the extension of the “Oblast” and “Oblast+” package offers (supplement to the package of calls to DEF.) The greatest revenue increase by the 2008 results was recorded in the data transmission and telematic communication services segment. The revenues from these services increased by 44% to RUR 4,163 million, of which, the Internet access services amounted to RUR 3,375 million (+49 % over 2007, despite some drop in ARPU from BBA services in 2008.) The growth of revenues from data transmission and telematic services was attributable to the nearly twofold increase of the BBA customer base.

The revenues from connection and traffic transmission services amounted in RUR 2,716 million in 2008 (-23% against the year 2007.) The decrease of revenues from connection and traffic transmission services is attributable to the following:

- 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 was cancelled from January 1, 2008.
- Resolution No. 666 of the RF Government dated October 12, 2007 “On amendments to certain RF Government acts related to communications” cancelled the connection points servicing fee from March 1, 2008.

Expenses

The expenses related to normal activities increased by 16.7% in 2008 compared to 2007, amounting to RUR 20,638 million. The main cause of the expense growth were actions for installation, upkeeping, and maintenance of payphones supporting ACS.

Table 11. The Company's expenses structure in 2006-2008, millions of roubles

Item	2006	2007	2008	Abs. deviation (2008/2007)	Rate of index change, 2008/2007 (%)
Expenses for wages*	5,296	5,758	6,383	625	110.9
Deductions for social insurance	1,171	1,258	1,356	98	107.8
Depreciation	2,495	3,008	4,179	1,171	138.9
Material expenses	826	911	1,264	353	138.8
Expenses related to services of communication operators	1,302	1,850	1,788	-61	96.7
Expenses for Rostelecom OJSC services	134	118	108	-10	91.2
Services of outside organizations	1,961	2,200	2,663	462	121.0
Taxes and fees included in the expenses for normal activities	16	16	19	2	113.3
Rental	244	242	247	5	102.2
Other expenses	2,069	2,328	2,632	304	113.1
TOTAL	15,513	17,689	20,638	2,949	116.7

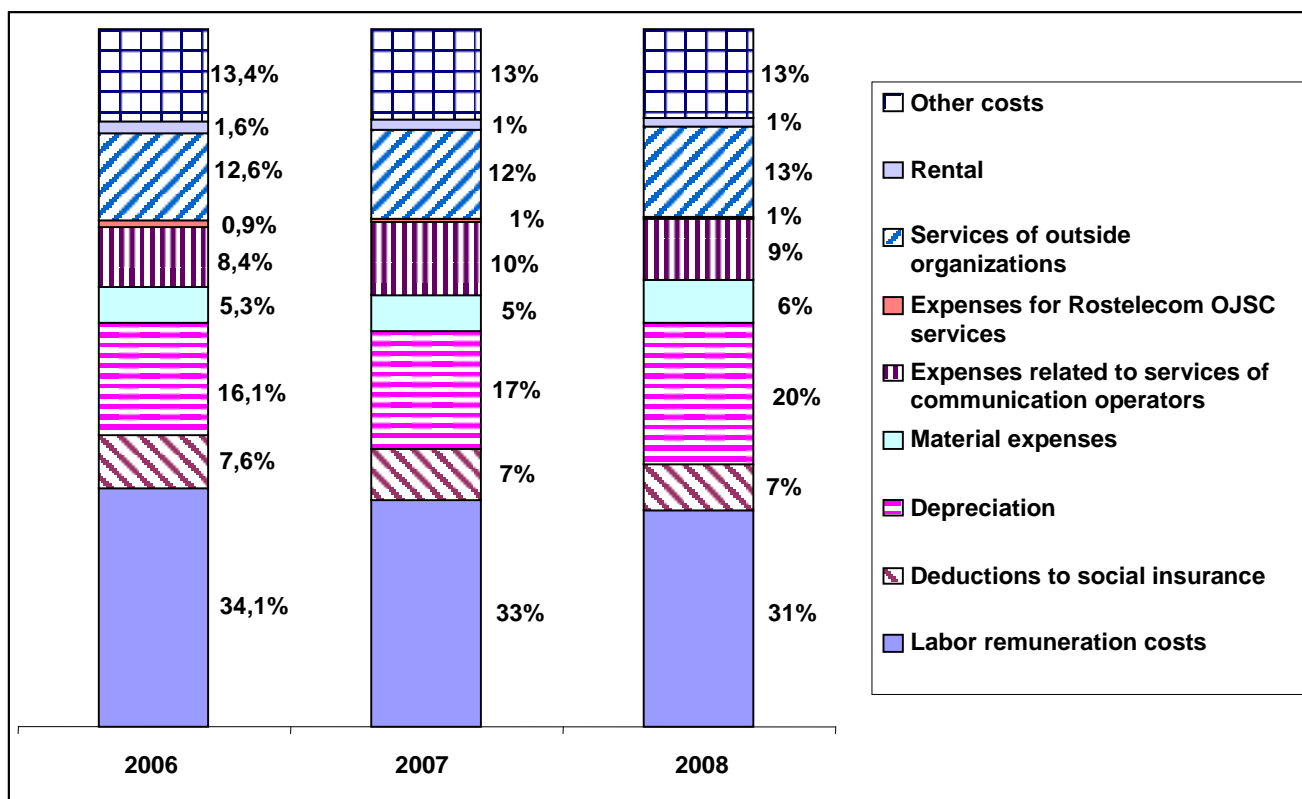
*This line includes the wages and payments in accordance with the collective agreement and labor contracts.
Source: the Company's accounts for 2008 after the audit.

The most sizeable expense growth in 2008 against 2007 was recorded for the "Depreciation" and "Material expenses" lines. The depreciation costs increased by 38.9%, which is attributable to the large-scale commissioning of fixed assets (in particular due to the costs of the 2nd wave of all-in-one payphones installation) and changed depreciation rate (fixed assets useful life reduced from 2007.) The expense growth in the "Material expenses" line was 38.9%, which is mainly attributable to the necessity of social protection of the Company's personnel for their better motivation and for retention of core staff, and to higher man-hours for ACS operation. Besides, the costs in the "Services of outside organizations" line grew noticeably by 21%, which was due to higher transport expenses related to ACS, and due to indication of the costs of upkeep and maintenance of payphones for all-in-one communication services (2nd wave of ACS implementation.)

A 11% raise in wages was also recorded in 2008, related to the necessity of social protection of the Company's personnel for their better motivation and for retention of core staff, and to higher man-hours for ACS operation. The 13.1% growth of expenses in the "Other expenses" line was mainly due to the following costs:

- "Agency": an increase of RUR 114 million (+26%) attributable to the larger scope of customer handling for BBA service sales due to the materially increasing competition on the NWFD market and in St. Petersburg in particular;
- "Electric power": an increase of RUR 73 million (+19.8%) due to the tariff growth and changed structure of regulated and non-regulated tariffs;
- "Inventory and property assessment expenses": an increase of RUR 74 million (+166.2%) due to registration of the title to the linear cable communication facilities.

Fig. 2. The Company's expenses structure in 2006-2008, %



Investment Policy

In the reporting period, OJSC N.W.Telecom performed its investment activities in accordance with the key targets defined by the Board of Directors for the current year and enabling achievement of the entire range of goals faced by the Company:

- meet the target indices of numbers commissioned,
- develop and offer new hi-tech and highly profitable services,
- provide maximum satisfaction of users' applications for connection to public use telephones,
- meet the Company's social obligations.

Table 12. N.W.Telecom investment structure, millions of roubles

Investment area	2006	2007	2008	Rate of index change, 2008/2007 (%)
Investment in the fixed capital,	5,012	9,733	13,523	139
including:				
investment in traditional telephony	2,035	3,928	7,363	187
investment in new services and IT	1,160	2,783	4,205	151
investment in transmission lines and communication infrastructure items	1,142	1,592	1,348	85
other investment	675	1430	607	42

In 2008, the investment in the fixed capital amounted to RUR 13,523 million, of which:

- new construction: RUR 5,882 million,
- reconstruction: RUR 2,420 million,
- expansion: RUR 3,628 million,
- upgrading: RUR 1,329 million,
- purchase of separate fixed asset items: RUR 266 million.

Within the framework of implementation of the national programs, the Company made the following capital investments:

Category	millions of roubles
Socially significant investment programs and investments required to meet legislative requirements, in particular:	6,206
• All-in-line communication service provision program	4,191
• Program of compliance with legislative requirements (regulations), of which:	2,015
traffic metering at the connection points	0
engineering actions for network connection at the local and zonal level	0
subscribers enabled to choose a network operator for national/international telephone communication	0
ensuring the subscriber's right to choose their telephone connection payment method	
provision of a closed numbering system (Order 142)	2,015

Assets

In the reporting period, the net assets grew by RUR 2,051 million, or by 7%, and reached RUR 31,013,641,000. The positive trend of this index shows a higher stability of the Company's financial standing. The net assets size by the end of 2008 greatly (27.4 times) exceeds the size of the issuer's authorized capital.

Table 13. Basic information on the amount of the Company's net assets

Indices	as of 31.12.2007	as of 31.12.2008
Total net assets, thousands of roubles	28,962,398	31,013,641
Authorized capital, thousands of roubles	1,131,415	1,131,415
Reserve fund, thousands of roubles	56,571	56,571
Ratio of net assets to authorized capital (line 1/line 2), %	2,560	2,741
Ratio of net assets to sum total of authorized capital and reserve (line 1/(line 2+line 3)), %	2,438	2,611

Liabilities and Equity Capital

- The total size of liabilities by the 2008 results increased by RUR 3,476,120,000. In particular, the long-term liabilities increased, their proportion by the year's results being 66.5% of the total liabilities size. The main causes of such increase of long-term liabilities were: transfer of the Series 3 N.W.Telecom bonds from the short-term to the long-term line due to the fulfillment of the offer's terms in March 2008 and to the return of the Series 3 bonds presented for retirement to the secondary market.
- taking a three-year syndicated credit of US\$ 135 million in November 2008.

The Company's financial stability, transparency of its financial policy, and favorable credit history enabled the Company to borrow funds in 2008 on advantageous terms. For instance, in July 2008, the Company arranged an open auction in order to take a third syndicated credit of US\$ 150 million for three years.

CJSC UniCredit Bank became the auction's sole bidder. The bank was one of the lead arrangers of the syndicated credit, and was authorized to appoint Additional Arrangers. Among the lead arrangers were also ING Bank N.V. and Natixis; Bayerische Hypo- und Vereinsbank AG, London Branch was appointed as Agent.

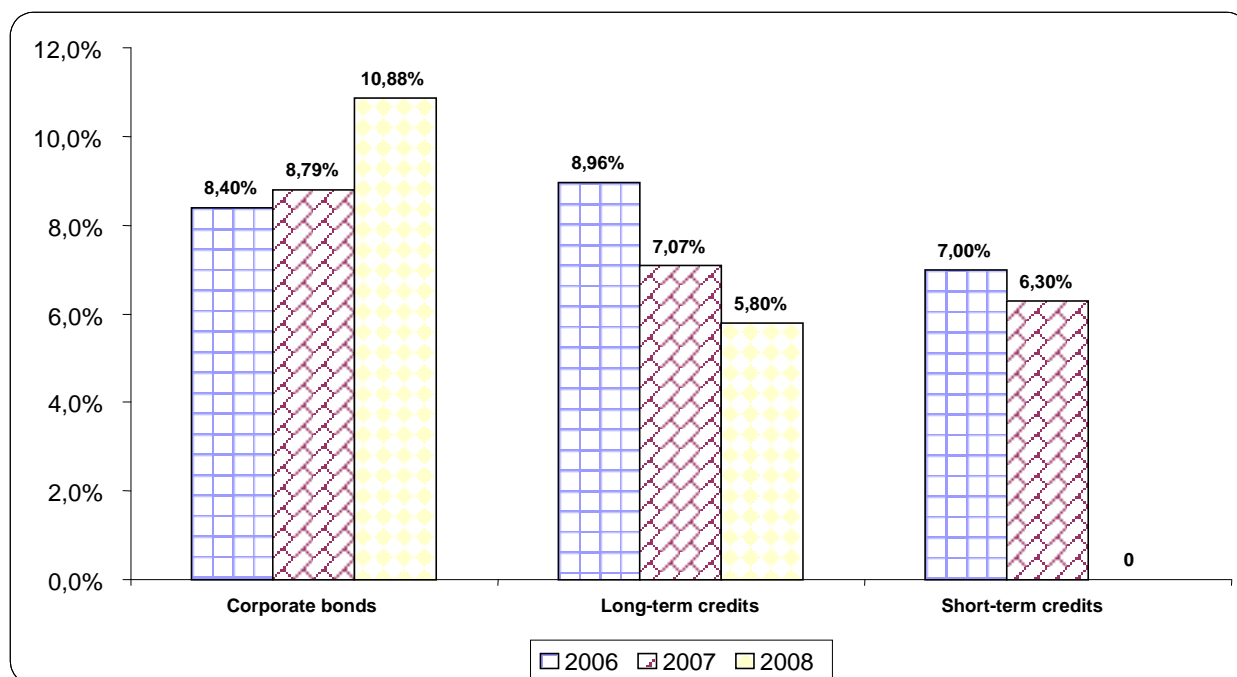
The third syndicated credit is subdivided into two tranches of the following parameters:

- Tranche A: Principal: US\$ 135 million, interest rate: Libor3M+Margin (2.75% per annum) (taken in November 2008);
- Tranche A: Principal: US\$ 15 million, (no funds were borrowed under this tranche.)

Table 14. Structure of accounts payable, thousands of roubles

Indices	2006	2007	2008
<i>Short-term debts</i>			
Accounts payable to suppliers and contractors	1,456,506	2,343,597	2,329,705
Accounts payable to the Company's personnel	105,687	109,897	251,521
Accounts payable to budget and the state out-of-the-budget funds	190,091	2,382,012	370,970
Credits, total	817,660	2,007,235	2,066,286
Loans, total	1,128,711	3,063,008	619,909
including bonded loans	1,100,110	3,032,310	577,280
Other accounts payable	938,971	1,037,357	973,609
Other liabilities	564,344	1,043,817	825,699
<i>Long-term debts</i>			
Credits, total	2,422,106	3,539,252	5,838,951
Loans, total	5,158,655	2,133,638	7,611,675
including bonded loans	5,000,000	2,000,000	7,500,000
Other accounts payable	0	0	0
Other liabilities	1,102,765	1,063,924	1,311,532
Total	13,885,496	18,723,737	22,199,857

Fig. 3. Cost of corporate bonds and long-term and short-term credit service, % per annum



When borrowing funds, the Company's principle is longer periods and lower borrowing costs. For instance, to reduce the interest rate costs, N.W.Telecom prematurely repaid the balance of its debt under a contract with CJSC Raiffeisenbank in December 2008. The borrowed funds duration as of the end of 2008 was 2.33 years.

Accounts receivable

Table 15. Structure of accounts receivable, thousands of roubles

Name	2006	2007	2008
Total accounts receivable (AR), including:	2,231,183	2,512,147	3,318,980
AR for communication services, including:	1,541,456	1,552,401	1,389,970
Overdue AR for communication services, including:	432,383	339,753	251,940
- individuals	111,560	135,618	130,620
- corporate customers	31,854	44,866	63,500
- communication operators	74,489	132,736	43,459
- budgetary organizations	24,707	17,916	14,049
- privileged category of individuals	189,773	8,617	312

As of 01.01.2009, the total accounts receivable of the Company was RUR 3,318,980. In 2008, the debt increased by RUR 806,833,000, or by 32%, due to the growth of arrears of compensation for losses from provision of all-in-one communication services from RUR 221,934,000 to RUR 1,050,241,000 (by 373% or RUR 797,369,000.)

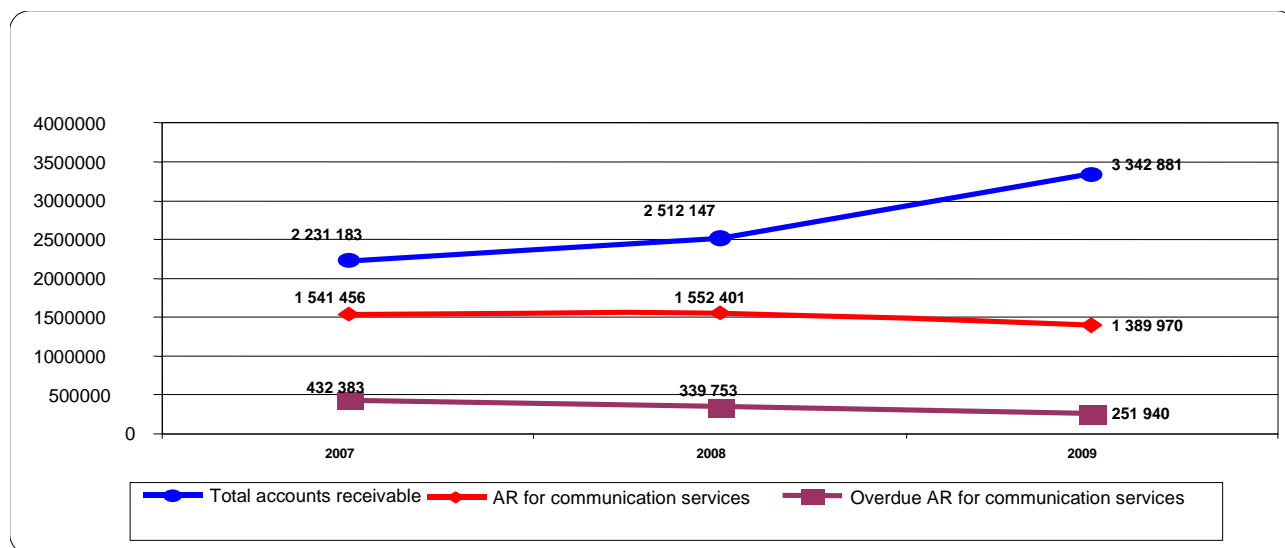
The accounts receivable for communication services amounted to RUR 1,389,970,000, and decreased by RUR 162,431,000 or 10% in 2008, of which:

- the current debt decreased by RUR 74,618,000 or 6% due to additional borrowing of advance payment. In 2008, the proportion of prepayments grew from 50% to 55%;
- arrears decreased by RUR 87,813,000 or 26% due to out-of-court or legal actions. As a result of dedicated actions, funds in the amount of RUR 1,158,441,000 were received in 2008 as payment of arrears.

The turnover of accounts receivable for communication services was 19.2 days, i.e. 1.6 days less than in 2007.

Debt handling is guided by the Company's Accounts Receivable Management Program including actions to prevent or minimize accounts areceivable.

Fig. 4. Dynamics of accounts receivable for the period from 01.01.2007 till 01.01.2009 ,thousands of roubles



Financial ratios

Table 16. Essential financial ratios of the Company

Indices	2006	2007	2008	Change, 2008/2007
Operating income margin, %	24,2	25,2	15,8	-9.4 p.p.
Net income margin, %	11,9	47,8	14,8	-33.0 p.p.
Prime cost per RUR 100 of receipts, roubles	75,79	74,82	84,24	113%
EBITDA, millions of roubles	6 658	18 551	9 561	52%
EBITDA margin, %	32,5	78,5	39,0	-39.5 p.p.
Revenue per line, roubles	4 645	5 323	5 464	103%
Net income per line, roubles	551	2 545	813	32%
Operating income per line, roubles	1 125	1 340	861	64%
ROA, %	8	28	7	-21 p.p.
ROE, %	14	48	12	-36 p.p.
Equity to assets, %	57	61	58	3 p.p.
Current liquidity ratio, %	0,63	0,80	0,64	-0.16 p.p.
Net assets to capital, %	1532	2438	2613	175 p.p.
Revenue per employee, roubles	769 609	942 731	1 079 766	115%
Net income per employee, roubles	91 226	450 760	159 638	35%
Operating income per employee, roubles	186 318	237 404	170 205	72%
Number of lines per employee, lines	165	177	198	112%

In 2008, operating income margin decreased by 9.4 percentage points against 2007, which is mainly attributable to increased costs of the “All-in-one communication service” project in 2008. Disregarding this project, operating income margin grew by 0.7 PPT in 2008 against 2007.

Net income margin dropped by 33 percentage points and was 14.8% by the year’s results, which is related to the extraordinary growth of net income in 2007 due to the sale of the 15% stake in OJSC Telecominvest. Disregarding this transaction, net income margin remained at about the same level in 2008 as in 2007.

By the results of 2008, the receipts per line grew by 3% to make RUR 5,464. The receipts per employee grew by 15% in 2008 compared to 2007, to make RUR 1,079,766. The number of lines per employee increased by 12% to 198 in 2008.





The current liquidity ratio describes the company's total current assets available to cover its current debt. It was 0.64 in 2008, which is 0.16 percentage points less than the 2007 value. The decrease of the ratio was determined by the following factors:

- the deposited amount from the sale of the 15% interest in OJSC Telecominvest was shown in the "short-term financial investment" line as of the end of 2007,
- transfer of the Series 3 N.W.Telecom bonds from the short-term to the long-term line due to the fulfillment of the offer's terms in March 2008 and to the return of the Series 3 bonds presented for retirement to the secondary market.

Credit Ratings

Despite the drop of Russia's sovereign credit rating forecast from "Stable" to "Negative", which took place in October 2008 due to the uncertain economic policy of the RF and the liquidity crisis on Russian financial markets, the credit quality of N.W.Telecom was highly appreciated by the leading rating agencies, i.e. Fitch Ratings and Standard&Poor's.

Table 17. N.W.Telecom credit ratings as of 31.12.2008

Rating Agency	Rating	Assigning / revision date	Change
Fitch Ratings	international credit rating BB-/The "Stable" forecast	25 th September 2008	
Fitch Ratings	national credit rating A+ (rus)/The "Stable" forecast	25 th September 2008	
Standard & Poor's	international credit rating BB-/The "Stable" forecast	26 th December 2008	
Standard & Poor's	national credit rating RuAA-	26 th December 2008	

During the year 2008, in order to improve the ratings, the rating agencies' experts were actively supplied with comprehensive information on the activity of OJSC N.W.Telecom.

According to the rating agencies' analysts, confirmation of the high ratings of N.W.Telecom's credit quality is explained by:

- a balanced financial policy pursued by the Company,
- moderate debt burden,
- N.W.Telecom's leading position in the traditional telephony segment,
- continuing improvement of the network quality,
- active promotion of new services,
- higher operating profitability,
- higher degree of diversification of N.W.Telecom's receipts.

RISKS

The business of N.W.Telecom is connected with several risks, which, under certain circumstances, may have a material effect on industrial and financial results. The Company is eager to assess each detected risk and measure the level of its effect on achievement of strategic goals during the time period under review.

Country Risks and Regional Risks

OJSC N.W.Telecom operates in the Russian Federation (RF) and is subject to country risks typical for the RF, the primary risks being political and economic. 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 oil price drop and the liquidity crisis drive capitals of non-resident investors out of Russia, decrease the RF trade turnover balance, reduction of the country's gold and currency reserve, and rouble devaluation.

An aggravation of the economic situation in the North-Western Federal District of the RF may entail a reduction in the number of industrial and agricultural enterprises of any status of ownership operating in the region, higher unemployment, and a lower solvent demand of residents.

The current negative trends in the economy may result in slower implementation of N.W.Telecom's investment program, slower growth of the volume of communication services offered by N.W.Telecom in the District, and slower growth rate of revenues.

Probability of war conflicts, introduction of a state of emergency and strikes in the country and in the region, in which OJSC N.W.Telecom operates, is not very strong to consider these risks as circumstances that may significantly affect the activities of N.W.Telecom.

The risks related to any geographic features of the region, such as higher danger of natural disaster, or possible break of transport communication due to remoteness or poor accessibility, are evaluated as minimal.

Industry Risks

Risks related to changes in the industry regulation

The Company's main risk related to continuously changing industry laws is ambiguous interpretation of regulatory documents (or amendments/supplements thereto) defining methods and mechanisms of governmental regulation, in particular, of tariffs for services provided by N.W.Telecom to private customers and communication operators.

According to Federal Law No. 147-FZ of 17.08.1995 "On Natural Monopolies", rates for services of operators who are considered natural monopolists are subject to regulation by state authorities.

Currently, governmental regulation of tariffs for communication services for N.W.Telecom subscribers is provided by the Federal Tariffs Service (FTS) by setting limit tariffs for such services.

Besides, the prices for interconnection and traffic transmission services are also subject to regulation by the government. Currently, governmental regulation of prices for such services is provided by the Federal Communication Agency by setting limit tariffs for appropriate services.

A change of regulated rates for services of operators who are natural monopolists may take place in compliance with the parameters of the forecast of social and economic development of the Russian Federation approved by the RF Government, and may therefore lag behind the variations of the actual economic situation and of the operator's costs.

Thus, the Company sees the risk of delayed tariff updating, which impairs its competitiveness and may adversely affect their business profitability, and, accordingly, the possibility to fulfill N.W.Telecom's obligations under credits and loans.

Since according to the active law the primary business of OJSC N.W.Telecom is subject to licensing, changes in the licensing conditions for certain communication services may entail the need of resources re-distribution and the need of changing the Company's plans related to providing such services.

Growth of competition in the industry

There is a growing competition both with alternative fixed communication operators and with cellular (mobile) communication operators in the telecommunication services market of the North-Western Federal District.

Causes of the competition growth:

- reduction of prices for on-network long-distance connections by mobile operators;
- provision of on-network roaming at the price of local connection;
- provision of mobile Internet access services;
- intensified activity of communication operators in promoting services in the "corporate clients" market segment (due to the saturation of the "individual clients" market segment);
- landing of mobile operators' zonal traffic at lower prices via own local communication networks and/or alternative operators' networks.

Said factors constitute a risk of replacement of fixed-line communication by cellular communication and a slow-down of N.W.Telecom's revenue growth rate. Escalation of competition might be the most serious risk in the long term.

Selection of OJSC N.W.Telecom as all-in-one telephone service operator with the use of payphones

Having won the tenders for provision of all-in-one communication services (ACS), N.W.Telecom was named the operator of all-in-one telephone communication service using payphones in NWFD. In providing ACS, N.W.Telecom bears losses defined as the difference between the Company's revenues from providing all-in-one communication services and costs incurred in providing such services, to be refunded in an amount not exceeding the size of compensation for losses as stated in the contract for provision of all-in-one communication services signed by the results of the tender.

The Company faces the risks of refusal to refund losses related to provision of all-in-one telephone communication services using payphones, or of incomplete refunding of such losses from the all-in-one service reserve, due to:

- being late with fulfilling the contracts of all-in-one communication services organization, i.e. delayed commissioning of payphones because it takes long to obtain permissions for the use of radio frequencies;
- non-compliance with the requirements of statutory acts as to the accounting of income and expenses related to all-in-one communication services;
- incomplete accounting of expenses related to all-in-one communication services provision.

In order to minimize the probability of occurrence of the risk of incomplete or denied refunding of losses related to provision of ACS, the Company does its best to prevent situations that might cause such risk.

Implementation of social projects

The increase of the scope of social projects and special projects implemented by the Company as part of federal or regional target programs aimed at development of the infocommunication infrastructure, and at a broader range and higher quality of telecommunication services provided, may result in a reduction in the funding of some of the payback projects forming the investment program.

There are risks related to an increase of the prices of equipment, electric power and other services necessary for the operations, which may result in an increased prime cost of N.W.Telecom's services, and, as a result, in lower profitability of the business.

N.W.Telecom will take the following actions in case of unfavourable conditions in the market:

- optimize the structure of production expenses;
- revise N.W.Telecom's investment program towards its reduction;
- amend N.W.Telecom's marketing policy taking into account the particular market situation;
- change the structure of services provided in order to maximize profit.

Financial Risks

Negative effects of the global financial crisis, such as oil price drop, rouble devaluation, higher interest rates, problems with borrowed funding sources, and considerable growth of the inflation rate, lead to higher costs of N.W.Telecom, and may therefore have an adverse effect on the financial results of its business and on repayment of the existing or potential debt liabilities.

Currency risks.

Material changes in the currency exchange rates increase liabilities denominated in foreign currencies and appropriate costs, and therefore result in reduced reserves and debt service abilities of N.W.Telecom.

The capacity of the Government and the Central Bank of Russia to maintain a stable exchange rate of the Russian rouble will depend on many economic factors, including: inflation rate control and maintaining the international reserves at a sufficient level.

Since a certain part of N.W.Telecom's liabilities is denominated in US dollars and euros, a material devaluation may complicate meeting such liabilities by N.W.Telecom.

As a possible tool for minimizing the currency risks of the financial crisis during the year 2009, N.W.Telecom intends to convert and deposit on its currency bank accounts any free rouble funds to be formed in accordance with the budget, and to replace a part of its currency debt with roubles as soon as affordable medium-term and long-term bank financing becomes available.

In case of a critical change in the currency exchange rate, OJSC N.W.Telecom can minimize the adverse effect by reducing the share of currency liabilities by orientation towards suppliers, settlements with whom are effected in the RF roubles.

Market risks

Unfavorable financial and economic conditions typical for these days may entail a drop of N.W.Telecom's services consumption level. Besides, buyers may become partially or wholly incapable of paying for received services of N.W.Telecom. Non-monetary methods may be used as payment in such conditions (cross deliveries, bills and notes, etc.), which will also adversely affect N.W.Telecom's financial standing and liquidity.

N.W.Telecom settles accounts and keeps its temporarily available cash on accounts of banks having a high reliability rate. However, in case of a crisis of Russia's banking system and/or particular banks, N.W.Telecom's funds may become frozen on their bank accounts. To reduce possible losses in case of a crisis of Russia's banking system, OJSC N.W. Telecom intends to make efforts aimed at maintaining a high level of current liquidity, forming free crediting limits in credit banks and forming a portfolio of liabilities with a long average term of repayment and a uniform service schedule. Besides, N.W.Telecom uses borrowing instruments oriented at Russian and Western financial market players.

Risks related to changes in interest rates

Given the high volatility of interest rates on the Russian and international financial markets caused by the global financial crisis, N.W.Telecom is subject to an increase in the costs of service of its current and future financial obligations. A rise in interest rates may restrict accessibility of external borrowed funds, and therefore reduce the development rates, since the Company actively uses borrowed funds to finance its everyday business and investment programs.

Depending on the nature of changes in interest rates, the following subtypes of risks may be listed:

- the risk of a general change in interest rates – the risk of a growth or a drop of interest rates for all investments in one or several currencies, irrespective of their term and credit rating;
- the risk of a change in the structure of the interest rate curve – the risk of a change in the rates for shorter investments as compared to longer ones (or vice versa), possibly not related to the change in the general level of interest rates;

- the risk of a change in credit straddles – the risk of a change in the rates for investments with certain credit ratings as compared to the rates for investments with other ratings, possibly not related to the change in the general level of interest rates.

To finance its operations, N.W.Telecom may borrow funds in roubles at a floating interest rate calculated on the basis of the MosPrime rate (Moscow Prime Offered Rate is the indicative rate for granting rouble credits (deposits) on Moscow's money market.) The use of such instruments enables extension of the repayment period for borrowings on the existing market and expansion of the range of potential investors, but on the other hand increases the risk of higher service costs in case of a rise in the MosPrime rate.

In case of adverse effect of a change in the interest rates on its activities, OJSC N.W.Telecom can:

- use hedging instruments to lower the interest rates, e.g. an interest rate swap agreement (exchange of interest payments for a certain preliminarily agreed conventional amount on a certain date)
- restrict the share of liabilities with a variable interest rate the Company may apply to new borrowed funding at a fixed interest rate, preferably in roubles.

Liquidity risks

The above listed risks form the liquidity risk, i.e. the probability of shortage of cash within the required time and, as a consequence, triggering the risk of N.W.Telecom's inability to fulfill its obligations. Such a risk event may entail fines, penalties, damage to the Company's goodwill, etc.

In order to minimize the liquidity risks, N.W.Telecom keeps the size of available bank credit limits at an optimal level, and generates a credit portfolio with medium-term liabilities and a smoothed repayment schedule.

Inflation risks

According to the Federal State Statistics Service (Rosstat), the inflation in Russia was 13.3% in 2008. In 2009, it will not go below the 2008 level, being aggravated by the rouble devaluation.

The critical inflation level, at which the Company may face problems in fulfilling its obligations, is much higher than the inflation rate predicted for the next few years; it is 30% per annum, which is above the inflation rate predicted for the next few years.

Higher price rise rates may result both in lower consumption of communication services by customers and in the N.W.Telecom's higher costs (for example, due to an energy price rise) and higher borrowed funds cost, causing a decrease in profitability indices. In this case, raising rouble tariffs may prove insufficient to compensate for the drop in the services volume in physical terms.

Legal Risks

The Company is subject to legal risks in the same way as other companies of the Russian Federation. OJSC N.W.Telecom is a communication operator and does not deal with exports of goods, works, or services, therefore legal risks related to the Company's activities are described for the domestic market only.

Currently, the Company regards the risks related to possible changes in currency regulation as minimum, since the Government is pursuing a policy of liberalization of currency regulation.

At the moment, risks related to possible changes in the tax legislation are considered as standard risks for normal business activities of OJSC N.W.Telecom. However, in some cases the Russian legislation allows different interpretations of its standards and is subject to changes, which can occur frequently. In this connection, tax authorities may take a tougher stand in interpreting the tax legislation and tax settlements. As a result, it is possible that transactions and accounting methods that have not been challenged before may be challenged by tax authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. The tax liabilities of N.W.Telecom for the reporting tax period and the previous tax periods were duly charged

and completely shown in the Company's accounts and reports.

As a certain part of the equipment purchased by the Company to provide communication services is made of components manufactured outside Russia, the possible change of the customs inspection rules and customs duties may imply certain risks for OJSC N.W.Telecom related to higher costs of purchased fixed assets.

Risk management

In 2008, the Company implemented a Risk Management System (RMS), its main purposes being higher efficiency of threat and ability management and higher capitalization of the Company.

The RMS executive bodies (risk management commission and working team) developed a N.W.Telecom Risk Management Program (hereafter “the Program”).

In accordance with the Program, the Company has a system of reporting on the progress and results of fulfillment of approved risk management action plans:

- action owners shall quarterly report on RMS actions to appropriate risk owners;
- risk owners shall quarterly report on the risk management progress to the Risk Management Commission;
- the Internal Audit Department shall inspect the risk management process once in 6 months and give recommendations to the commission as to necessary updating of RMS activities.

A summary assessment of the Company's risks is generated on the basis of risk reports. Risk reports serve for risk management efficiency monitoring. Along with the opinion of the Internal Audit Department on the inspections made, they are a basis for considering changes in the effective N.W.Telecom Risk Management Program.

From the point of view of risks' effect on the results of the Company's activity, all risks are subdivided into:

- material,
- moderate,
- insignificant.

Implementation of material risks management action plans is controlled by the Board of Directors. Control of moderate and insignificant risks is a responsibility of risk owners and action owners.

Risk management action plans are development for risk management, including one or both of the options below:

- preventive risk response plan (response to the risk origins or risk factors),
- plan of subsequent response to a risk event (response to risk effects.)

Key Risk Indicators (KRI) are used for measurement and assessment of results of RMS-related activity by units, particular employees, and the Company in general.

The Company's Board of Directors provides general supervision and efficiency monitoring of the Risk Management System's activity and approval of the Risk Management Program.

SOCIAL RESPONSIBILITY

Personnel policy principles

The essential principles and goals of N.W.Telecom's personnel policy consist in a reasonable combination of the processes of personnel renewal and maintaining of its optimal list in terms of number and quality, able to achieve the Company's targets at a high professional level.

The personnel policy is implemented through strict and skillful personnel management. The personnel management development program has the following goals:

- personnel planning,
- generation of a comprehensive system of intracorporate regulatory and procedural documents and personnel handling principles;
- building and strengthening of a corporate spirit, and generation of a sense of corporate identity attractiveness;
- providing a favorable social environment for an employee.

Among the priority goals of N.W.Telecom in the reporting year were development of the personnel potential, management succession, and strengthening of personnel loyalty. Currently, N.W.Telecom is concentrated on providing career growth abilities inside the Company, thus satisfying both the Company's needs and the need of potential leaders for self-actualization.

Personnel Number and Wages

In 2008, all structural changes in the Company were performed under the "N.W/Telecom Functional Model and Target Structure" project.

Among the Project's main goals set by the Company Management are the following:

- unification of the Company's organization,
- higher manageability,
- optimized personnel costs.

The effort of the structural units' functional unification was started as early as in 2007, when the basic functional of structural units was developed and approved by the N.W.Telecom Management Board along with the type organizational structure. In 2008, in order to delineate explicitly the authorities and responsibility of various structural units, the basic functional was detailed, and Responsibility Matrices were developed for structural units of most functional sectors. It is intended to complete this effort in 2009.

In 2008, all Branches of the Company completed their transition to a target organizational structure oriented at transparent activity of the Branches by achieving a uniform structure and its comprehensive presentation, and building of a functional model as the basis for further regulation of type business processes.

All organizational actions were aimed primarily at optimization of production processes, redistribution of job responsibilities, enhanced centralization of certain functions (*maintenance of technological communication infrastructure, reduction of the number of line and station communication sections, processing of primary documents of payment for communication services*), improvement of engineering and technologies (*some of the Branches commissioned equipment enabling remote monitoring of telephone exchange operation*), and reduction in the number of guarded facilities. As a result of the above efforts, the number of structural units was reduced by 38 in the period from 2007 till 2008, and by 270 from 2005 till 2008.

The number of employees by personnel category by the end of the year was as follows: managers, 5.7% of the total number; specialists, 50.8%; office workers, 0.3%; and workers, 43.2%. The number of employees in worker positions decreased by 714 against the end of 2007 due to manning table optimization carried out by the Company with cancellation of worker positions.

Table 18. Employee's breakdown by personnel category, persons

Personnel category	31.12.2007	31.12.2008
Managers	1,454	1,333
Specialists	11,171	11,809
Office workers	93	75
Workers	10,733	10,019
Total	23,451	23,236

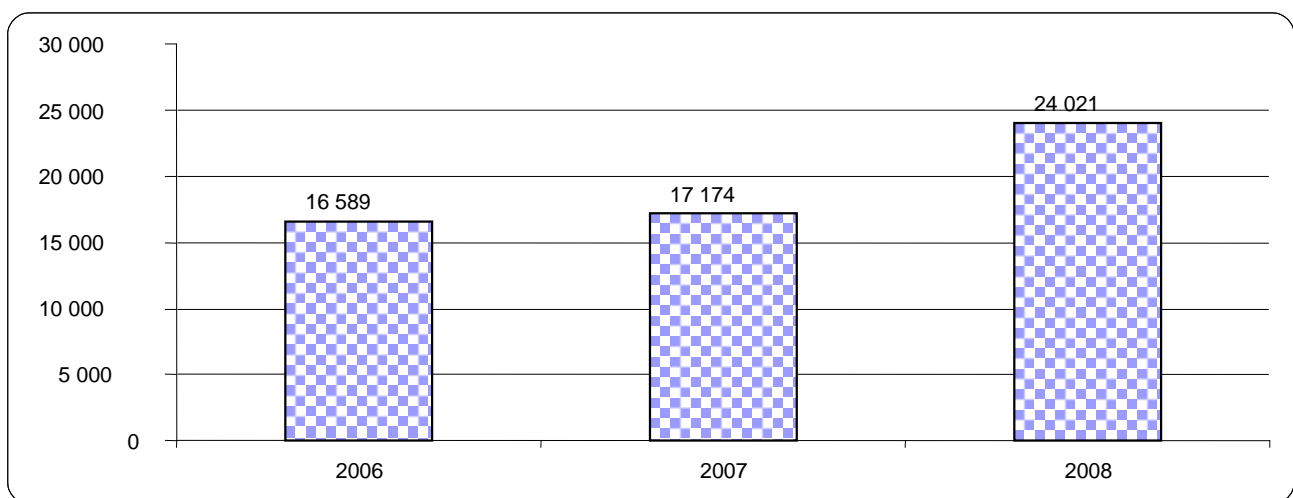
The Company employees' wage terms are regulated by the N.W.Telecom Collective Agreement for 2006-2008 and the Type Provisions on Labor Remuneration to Branch Employees and Provisions on Labor Remuneration to Employees of the N.W.Telecom General Management approved by resolutions of the Company's Management Board.

In 2008, the Company carried out a package of actions aimed at better employees' wage terms and unification of such terms for all Branches of N.W.Telecom. New versions of the N.W.Telecom Collective Agreement for 2009-2011 and intracorporate regulatory documents on the labor remuneration system, corporate social programs, and other benefits were developed, in particular Provisions on Labor Remuneration, Provision on Bonuses, Provisions on Corporate Social Programs, Provisions on Awards, Provisions on Loaning, Provisions on Non-governmental Pension Insurance, Provisions on Vouchers for Health Center and Resort Treatment and Recreation for Employees and Their Family Members, which became effective on 01.01.2009.

On the basis of Resolution of the Company's Board of Directors on the increase of the Wages Fund (WF), the salaries of N.W.Telecom Branches' employees were raised stage by stage from 01.08.2008, by 10% on the average. For motivation of the Company employees, funds for bonuses by the operating results of the year's 3rd and 4th quarter were assigned out of the centralized wages fund.

In 2008, efforts were continued to change the labor remuneration terms as regards bonuses to employees of the Company's commercial sector, aimed at building an efficient system of incentives and orientation for personnel engaged in sales and in N.W.Telecom services supporting, thus to achieve the Company's basic goals. The stage-by-stage implementation of the motivation system for various structural units of the Company's commercial sector, with employees motivated for result achievement, will enable development of entrepreneurship, efficient sales, support, and customer service in N.W.Telecom, thus achieving the Company business goals.

Fig. 5. Changes in the employees' average monthly pay, roubles



Personnel hiring and adaptation

Continuing unification of all aspects of personnel management, the Company concentrated on management of applicants and new employees from early 2008 on. The Provisions "Personnel Recruiting, Selection, and Hiring for the N.W.Telecom General Management" and "Personnel Recruiting, Selection, and Hiring for the Branches of N.W.Telecom" were developed and approved. These documents strictly define the sequence of all phases of

selection for different employee categories. Implementation of these provisions included implementation of a uniform psychological testing package.

In 2008, centralized contracts were signed with companies offering on-line recruiting services that are most popular with applicants.

During the year 2008, 36 events dedicated to career were arranged and presented, such as: participation in vacancy fairs, Career Days, Open Days, vocation/orientation work with students, interaction with colleges and vocational schools (organization of student probations in the Company, participation in examining boards etc.) In 2008, several hundred students of the Bonch-Bruyevich Telecommunications University, Krenkel Telecommunications College, and other colleges of St. Petersburg had their probation in the Company.

In 2008, the Company was developing and promoting its preferable employer's image: a unified "Information for Applicants" brochure, "Join the N.W.Telecom Team!" promo stand, and unified format of vacancy ads in the media were developed. A "Join the N.W.Telecom Team!" action was arranged and held N.W.Telecom's sales and service stations in St. Petersburg and Leningrad Oblast. Boxes for potential applicant's questionnaires, questionnaires themselves, and information on the Company and its vacancies were placed at every sales and service station. The company also competed for the First "Job of the Year 2008" Annual Prize, and finished third in the "Telecommunications" nomination.

A questionnaire reception and handling service (Applicant resumes database) was added to the Company's corporate website www.nwtelecom.ru. Each applicant may fill in a questionnaire for the interesting vacancy right on the website of N.W.Telecom. Moreover, even if the applicant is not selected for the open vacancy, his/her resume will be stored in the applicants database for a long time.

At the end of 2008, the following Provisions were developed and approved:

- "Employees' Adaptation in the N.W.Telecom General Management" (approved by the N.W.Telecom Management Board, Meeting Minutes No. 18-35/39(525) of 25.11.2008,
- "Employees' Adaptation in the Branches of N.W.Telecom" (approved by the N.W.Telecom Management Board, Meeting Minutes No. 18-35/02(532) of 29.01.2009.)

In accordance with the above Provisions, a procedure of employees adaptation was defined, including the adaptation steps on the very first workday (*Newcomer's Navigator in particular*) and the "Welcome to N.W.Telecom" training set in two parts: presentation where new employees watch a film about the telecommunications development history, are introduced to the Company's structure, history of its development and formation, personnel management policy and many other points, and a business game helping new employees to get acquainted and feel the advantages of team work.

It should be noted that the adaptation procedure was unified and implemented in all the Branches and in the General Management of the Company.

Staff reserve formation

In accordance with the N.W.Telecom Concept of Staff Reserve Formation and Management for 2007-2009, the Company set up an integrated reserve management system. It is based on two components: centralized formation of a reserve for the Company's top positions and uniform approach to formation of a reserve for the regional branches' top positions. Uniform approach means in this case uniform starting conditions of reserve selection, use of unified methods and procedures of managerial potential assessment, strict consistency and clear content of subsequent steps of manager training. N.W.Telecom plans a reserve officer's career on the basis of the Company's predicted needs for managerial resources, and the applicant's abilities, preparedness, and professional preferences.

In accordance with the Concept, the main principles of staff reserve formation were formulated:

- relevance and timeliness,
- individual approach,
- voluntary basis,
- differentiated responsibility.

N.W.Telecom wishes to ensure timely filling of vacant executive positions. In the first place, the nominees should be out of the staff reserve. For instance, one-third of the staff reserve employees are already appointed to

top-level executive positions. Thus, N.W.Telecom strives for saving and enhancement of “intellectual capital”, management succession, preservation of corporate values, motivation of talented and professionally skilled employees, and strengthening of their loyalty to the Company.

Training of the Company's personnel

Building a continuous training system is a core competence necessary for any company. Training is a catalyst of development and source of intellectual resources generating a stable competitive advantage of the company, increasing the consumer value, and improving the organizational changes management process.

The process of the Company personnel number optimization improved the qualitative composition of its personnel, since during the restructuring, employees of the lowest skill and educational level were reduced. The number of higher education employees increased, while the number of secondary general education decreased.

Table 19. Qualitative breakdown of the Company's personnel, persons

Employees' education:	31.12.2007	31.12.2008
Higher	7333	7634
Secondary vocational	6484	6216
Primary vocational	4671	4563
Secondary general	4482	4390
Basic general	481	433

The educational level of N.W.Telecom employees is steadily high and constantly rising: 32.8% of employees have higher professional education, and 26.7% of employees have secondary vocational education. Slight changes towards an increase or decrease of the proportion of employees having higher and secondary professional education in the reporting year were related to graduation of specialists employed by the Company from higher or secondary vocational schools, and to personnel flow.

In 2008, the personnel management sector of N.W.Telecom jointly with the training center NOU St. Petersburg Telecommunications Center developed a course titled “Communication networks and new telecommunication services”, or so-called “Communication for Non-professionals”, which is especially popular with employees having no basic engineering education. The purpose of the course is to provide basic knowledge in the fundamentals of building and functioning of various communication networks and their abilities by the range of services offered.

Among the actions to upgrade employees' skills during the year, N.W.Telecom provided centralized training of specialists of the following units:

- engineering sector: under the Juniper program; in operation of Nokia Siemens Networks telecommunication equipment; under the 2008 investment project “ Construction of TZCN's in N.W.Telecom Branches” at the Eriksson Nicola Tesla training center. In all, over 20% of the sector's specialists were trained;
- information technologies sector: in information technologies, certified (ORACLE BD, Microsoft) for more than 100 employees of the sector;
- commercial sector: under the “OJSC Svyazinvest sales and services competency development program” developed by Siemens Roland Berger Strategy Consultants. Over 400 employees of the sector were trained.

In 2008, about 7,000 employees were trained in the Company, which is 9% higher than the relevant figure for 2007. The average costs per trained person were RUR 6,300.

Intangible incentives

The Company gives great attention to other forms of intangible incentives for employees. They enhance the importance of each employee for the Company. A very important incentive emphasized by the Company is nomination of the best employees for corporate awards, and awarding governmental and corporate decorations to them.

In 2008, two persons were awarded the Honorary Diploma of the RF Ministry of IT and Communications. For their great contribution to the development of the industry, 80 employees were given the title of “Master of Communications”, and 35 employees received the Honorary Diploma of OJSC Svyazinvest. 105 employees of

the company received the Honorary Diploma of OJSC N.W.Telecom, and the gratitude of the General Manager was expressed to 25 employees. Seven employees received the N.W.Telecom Badge, the Company's highest decoration.

In 2008, specialists of N.W.Telecom took part in the 9th "Engineer of the Year 2008" national competition. 11 specialists of the Company were awarded by the results of the competition, receiving the title of "Professional Engineer of Russia" and appropriate certificates and badges. Thus, 271 employees of the Company received various awards in 2008.

To develop and implement new methods of moral incentives and forms of public recognition, a virtual Honors Board of N.W.Telecom was opened on the "Issues of the Day" intracorporate information and analytical portal of N.W.Telecom. The virtual Honors Board replaced traditional honors boards where information on production pacemakers and their photos were placed.

In 2008, 50 best employees from all of the Company's structural units were presented on the virtual Honors Board. Nominees for the Honors Board must meet several requirements, and are selected by a special panel by nomination from heads of functional sectors. The list of employees presented on the Honors Board is revised annually. All the historical information is kept in the archive of the virtual Honors Board of N.W.Telecom, and appropriate certificates are issued to employees so honored. ***Social policy and charity***

N.W.Telecom maintains a policy of high social responsibility to its employees, their family members, residents of the regions where it operates, and to society in general.

To achieve the goals, i.e. friendly working environment, improvement of the living and educational standards of employees and their children, and support to the Company's veterans and retired employees, N.W.Telecom implements several large-scale social and charitable projects.

Voluntary medical insurance

In order to provide favorable working conditions and better health, voluntary medical insurance and accident insurance is provided to N.W.Telecom employees working all over the North-Western Federal District. Under unified contacts, 23,274 employees with the record of service for the Company of at least one year, are covered with medical insurance, and 7,225 employees are insured against accidents, including employees whose work is related to life and health risks.

RUR 99.3 million was spent for insurance of employees in 2008. Employees insured under the voluntary medical insurance program are provided with integrated outpatient and dental care, and in case of a danger to life or health, with scheduled or emergency hospitalization providing ambulance and first aid.

Non-governmental pension insurance

In order to enhance social protection of its employees, the Company has a program of non-governmental pension insurance (NPI). Under this program, retired employees are paid corporate non-governmental pensions in addition to governmental pensions.

This program provides for added payments:

- out of the "basic" contributions paid by N.W.Telecom to the employee at his/her dismissal provided that the employee complies with a set of prerequisites for assignment of a non-governmental pension (minimum service etc.),
- out of monthly personal contributions by the employee defined in the individual pension agreement to be signed between the employee and the Telecom-Soyuz non-governmental pension fund (but not less than RUR 200),
- out of fixed monthly contributions by N.W.Telecom, so-called "solidary" contributions.

Since all the Branches of the Company had different terms for assignment of a non-governmental pension (record of service, and branch and service coefficients to calculate the pension size), the pension coefficients were unified in 2008. The unification resulted in coming into effect of a new version of the Provisions on NPI for employees, according to which, the pension and service coefficients and the minimum record of service for assignment of a non-governmental pension to employees hired after 01.01.2009, and for all employees retiring on NPI terms from 01.01.2015, became uniform for all the branches.

As of the end of 2008, 14,535 persons were covered by the corporate NPI program, which makes 62.5% of the official number of employees. During 2008, non-governmental pensions were assigned to 610 ex-employees of

the Company. The number of former N.W.Telecom employees receiving a non-governmental pension was 7,930. The total amount of NPI contributions paid by the Company in 2008 was RUR 151,895,980.

In 2008, the Company continued interaction with NPF Telecom-Soyuz to assist employees in exercising their right to choose their insurer under obligatory pension insurance (OPI) to transfer the accumulation part of the retirement pension. As a result, the Company's employees signed 4,070 OPI contracts by the end of 2008, which makes 21.5% of the number of employees entitled to transfer of their pension's accumulation part (18,917 persons.)

Material incentives

Under the N.W.Telecom Collective Agreement for 2006-2008, the Company has a time-plus-bonus wage system, and in some cases, a piece-and-bonus system. An employee's pay consists of the following parts:

- basic wages, i.e. wage rate (salary),
- extra payments allowing for job features, and labor remuneration in special cases, bonuses by the business results (by the results of the year's, quarter's, and month's work),
- lumpsum incentives.

Social-wise material incentives, apart from voluntary insurance and non-governmental pension insurance, include:

- cash allowance for the leave (up to 50% of the official salary),
- service record-based lumpsum incentives,
- holiday lumpsum incentives (May 7 as the Radio Day and holiday of workers of all the communication industries; November 1 as the Birthday of N.W.Telecom; New Year),
- lumpsum incentives for anniversary dates,
- allowances granted to certain employees in the following cases: childbirth; to employees having three or more children under 18; death of close relatives, and similar justified cases, allowance to close relatives in case of death of an employee,
- compensation payments to persons dismissed due to a personnel/staff cutdown (dismissal pay, and average monthly earning payments to reduced employees for the job search period),
- vouchers for recreation and health center and resort treatment. 8003 vouchers were purchased for recreation at RDPC Svyazist, this number including also members of employees' families. 534 vouchers were purchased for recreation at the Svyazist children's health-improvement camp, of which, 94 vouchers for children from remote branches;
- paid travel to the place of recreation for employees and their family members.

Besides, cash allowance by the Communicator's Day, Elderly People's Day, and New Year was paid to employees who retired from the Company's Branches; they were also granted a compensation of 50% of the home telephone installation price and telephone subscriber fee. ***Social projects for NWFD residents***

OJSC N.W.Telecom implements several socially important national projects and social programs to improve availability of telecommunication services to NWFD residents and to build a unified infocommunication space of the District.

The Company won the tenders for provision of all-in-one telephone communication services by means of payphones held by the Federal Communications Agency. In December 2008, the Company completed the second phase of implementation of all-in-one telephone communication services by means of payphones in nine regions of NWFD. In accordance with the terms of the tenders, N.W.Telecom installed 11,136 all-in-one service payphones during this 2nd phase. In all, during the two phases in the years 2006-2008, N.W.Telecom installed 25,824 all-in-one service payphones in cities and rural localities of NWFD, including those that previously had no telephone communication. N.W.Telecom commissioned all the all-in-one service payphones within the target dates, both for the 1st and for the 2nd phase. Thus, thanks to N.W.Telecom and the all-in-one service institution, the problem of telephone installation in remote and under-populated localities of Russia's North-West was solved in 2008, and all the residents of the District got equal access to telecommunication services.

In the implementation of this social federal program, a most important challenge is serviceability of the network of all-in-one service payphones built by N.W.Telecom – that is, guaranteed provision to the region's residents of a minimum package of telecommunication services comprised in the concept of "All-in-one Communication Service".

For more efficient operation of the payphones, the Company implemented a payphone control system in 2008, which covered nine regional centers and the interregional control center. This system enables, actually in the real-time mode, getting information on the serviceability of any payphone all over NWFD, on the scope of all-in-one services provided in any period of time, and renew the payphones' software at minimum costs.

In 2008, first in St. Petersburg and then in Archangel, N.W.Telecom carried out a "Protect Your Home" information campaign aimed to prevent thefts and damage of linear facilities in the Company's St. Petersburg and Archangel Branches, and to engage city residents themselves in suppression of such offences, in their community, house, and staircase. The large scale and social importance of the challenge united not only telecommunication operators representing very different kinds of communication services, but also many infrastructure companies providing necessary conditions for people's everyday life and for proper functioning of all sectors of economy.

The Company's active social policy in the regions is supported by Agreements signed between OJSC N.W.Telecom and Governments of the NWFD territories. The Agreements provide for coordination of the parties' efforts to develop the NWFD telecommunication infrastructure, and help to implement most unique and large-scale projects, and thus to meet the demand for the Company's services to the maximum extent.

Taxes

N.W.Telecom believes that full and timely payment of taxes is a major prerequisite of the business's social responsibility. The Company's charged tax payments dropped by 30.29% in 2008 compared to the similar figure for 2007, amounting to RUR 4,741.39 million, or 19.3 % of the Company's earnings. Of these, RUR 2,596.79 million was transferred to the federal budget, RUR 1,369.98 million to the budgets of subject territories of the Federation, and RUR 774.62 million was paid to off-budget funds.

Sponsorship and charity

Since the day of its incorporation, N.W.Telecom has been paying great attention to charitable activity, providing assistance to least protected groups of population, such as orphan and disabled children and war veterans. The Company's activity in this area is regulated by the Provisions on the Procedure of Donations, Charitable Activity, and Sponsorship of N.W.Telecom approved by the Company's Management Board. Each received application for sponsorship and charity is most thoroughly reviewed and recorded by members of a special Commission for Donations, Charitable Activity, and Sponsorship of N.W.Telecom. A competent collective decision is made on the basis of such review.

Due to an immense flow of incoming applications, most of which are appeals to help children (disabled, orphan, or suffering from various pathologic diseases, the Company decided to select patronized organizations in each region where N.W.Telecom operates, which would receive permanent dedicated charitable assistance.

N.W.Telecom has about 30 patronized organizations and facilities, of which 25 are patronized institutions in the Branches.

In particular, among the patronized organizations are:

- K. K. Grot Special Educational Boarding School No. 1 for blind and visually impaired children in St. Petersburg;
- International Public Academy of Communications, an international public organization;
- GUZ Specialized Child Care Center for children with central nervous system impairments and psychic disturbances in Archangel Oblast;
- MUZ City Specialized Child Care Center in Archangel Oblast;
- Oblast Hospital for War Veterans, a state institution of the department of health of Archangel Oblast, and The Last Draft, a WWII veterans organization in Severodvinsk;
- GOU V. A. Gavrilin Vologda Boarding School No. 1 for orphan children and children without parental support in Vologda;
- MOU Special (Correctional) Child Care Center No. 4 for deviant children, Cherepovets;
- Coast of Hope, a municipal educational institution for orphan children and children without parental support / orphanage of the city of Pravidnsk;
- Orphanage No. 3 in Syktyvkar;
- A. A. Katolikov Agricultural Boarding School in the Republic of Komi;
- High School of Arts, a State general education boarding school under the patronage of the Head of the Republic of Komi;

- Preschool children's home No. 7 in Murmansk Oblast;
- GUZ Oblast Clinic for Children in Novgorod Oblast;
- Galaktika Musical and Choral Studio of the State institution for additional education of children, Out-of-school Education Center, Ka;ininsky District, St. Petersburg;
- Dance On Wheels Sporting Club, a public organization of the disabled in St. Petersburg, and many others.

N.W.Telecom also provides support to sick children, disabled children in problem, large, and poor families, and orphan children, in particular under special charity programs in the Republic of Karelia via the A. A. Katanandov "To Children of Karelia" Charitable Foundation.

To promote development of the educational domain and to strengthen ties with educational centers, financial support is provided to Bonch-Bruyevich Telecommunications University in St. Petersburg for implementation of the Program for Funding and Reconstruction and Major Repair of the school building of the Bonch-Bruyevich State Telecommunications University in St. Petersburg, and for special events for students who are to become telecommunication engineers.

In total, RUR 66.1 million was allocated in 2008 for charity and sponsorship purposes, of which RUR 45,957,000 are costs of charitable help and donations, most of which are sent to patronized institutions.

RUR 20,182,000 was allocated for sponsorship. The essential events and projects sponsored by the Company in 2008 are:

- general sponsorship of the Ice Hockey Championship of Russia in the male teams super league of the 2007-2008 season (Russian Ice Hockey Federation, an all-Russian public organization,)
- general partnership of the Grand-Prix Open Cup of Russia in helicopter sports held in St. Petersburg in May 2008, and of the 13th World Championship in Germany (LLC Helicopter Sports Federation.)

Among the projects traditionally sponsored by N.W.Telecom is Europe's largest Saint-Petersburg Urban Race, an adventure race where over 300 companies of St. Petersburg participate. In 2008, N.W.Telecom won the race twice: the first and second places were shared by the teams of the Company's St. Petersburg Branch and Leningrad Oblast Branch. All the start contributions received from the Business class racers were used for charity purposes.

Development of Intracorporate Relations

Formation of a highly professional team of the Company employees motivated for high business results and common goals was supported both by the intangible incentives actively used in the reporting period and successful intracorporate actions.

All intracorporate actions were aimed at accessibility of information and knowledge for all employees, higher personnel loyalty level, and building a valid system of organizational culture and corporate values.

In 2008, system efforts were continued to develop intracorporate communications, to provide conditions for self-motivation and building a business team of result-oriented people, the main goal being in the end higher labor efficiency and higher business efficiency of the Company. The efforts were conducted in the following areas:

- improvement of the corporate culture level,
- creation and maintenance of corporate traditions,
- development of corporate identity instruments,
- promotion of the most important and demanded jobs in the Company,
- fulfillment of employees' personal potential.

To improve the Company business efficiency, specialized actions and events were held in several branches of N.W.Telecom, for instance:

- in St. Petersburg Branch, "Hot Ten", by the results of which, employees of St. Petersburg Branch and the Company's General Management who wished to sell Internet access services (Avangard trademark) and did it successfully were given valuable prizes,
- in Pskov Branch, "No More Sick Lists" action, involving quite a number of sporting and recreational events, vaccination against flu, eyesight testing of employees etc. For teams with the highest number of sick list people, funds were allocated to purchase vitamins.

For creation and maintenance of corporate traditions, events dedicated to the Birthday of N.W.Telecom were held in all the Branches and in the General Management of N.W.Telecom, including a competition between the Branch CEO's arranged with the use of video conference communication.

On the Radio Day, festive events were arranged in the Company; decoration with governmental and industry awards and N.W.Telecom awards were traditionally timed to them.

The corporate identity system was also actively developing in 2008. In particular, a new improved version of the Company's Corporate Culture Code was adopted; the anthem of OJSC N.W.Telecom was adopted; the design of the intracorporate newspaper *Svyazist Severo-Zapada* was updated.

For promotion of the Company employees' occupations, a large-scale intracorporate contest titled "SpetsnaZ Telekom" was held among the employees of the engineering sector and information technologies sector.

"Occupation Festivals" were held in the Company Branches for employees of particular functional sectors aimed at teambuilding, broader business and cultural relations between employees, and development of erudition and professional potential.

Besides, two new traditions were founded in 2008: celebration of N.W.Telecom employees who spent more than 10 years with the Company, and a chronicle, a "Red Book" of employees where everyone who gave many years of life to the loved occupation and team left his/her trace.

Within the framework of the Year of the Family announced by the RF President in 2008, a large-scale tourist rally was arranged for the Company's employees and their family members titled "I, You, He, She – Telecom Family Are We." A centralized photo contest titled "Family Album" was arranged, with its materials used for a desk calendar issued for N.W.Telecom personnel. For employees' children and grandchildren, contests were produced under the titles "We Are Communicators' Children", "Island of Childhood", "My Parents Work With N.W.Telecom", and "We're All Children", intended to accustom the growing generation to their parents' values. For further improvement of the skills level, development of creative activity, identification and propagation of advanced work techniques and methods, higher prestige of worker occupations and higher motivation of the Company's personnel, workmanship competitions among mass occupation workers were held in the Branches during the year. They consisted of several phases and included tasks of high complexity and diversified content:

- Workmanship competition for the title "Best Telephone Operator of 2008";
 - Workmanship competition for the title "Best Communication Operator of 2008";
 - "Best Cable Jointer of 2008" workmanship competition;
 - "Best Driver of 2008" workmanship competition;
 - "Best Communication Electrician of 2008" workmanship competition.
- In 2008, dynamic mass sporting activity was going on in the Company. It has its established traditions and principles set forth in appropriate documents, such as Provisions on the N.W.Telecom General Manager Cup and Provisions on Olympics in the Branches of N.W.Telecom. In accordance with these Provisions, the following actions were carried out: Events in various sports as part of the Olympics in all of the Branches of the Company (8 to 16 sports;)
 - competition for the N.W.Telecom General Manager Cup: the Cup program includes eight sports, of which seven (track and field – relay race, swimming – relay race, table tennis, billiards, ski race, chess, and darts) are held regularly, and the eighth (a game) varies annually
 - N.W.Telecom teams took part in federal-level competitions: All-Russian ski race among communication workers in Izhevsk (2nd), and all-Russian table tennis competition among communication workers in Sochi (1st).

In 2008, 5,589 employees of the Company took part in competitions of different level.

Environment Protection

An important aspect of N.W.Telecom's social responsibility to society is environmental concern and preservation of natural resources. Complying with the RF Federal Laws "On Environmental Protection", "On Atmospheric Air Protection", and "On Production and Consumption Waste", the Company pursues its business aiming at minimum environmental impacts.

In 2008, the Company developed and adopted Regulations for Environmental Protection at N.W.Telecom Facilities" intended to regulate interaction of the Company's structural units related to environmental protection, to ensure a unified approach, philosophy, and methods in environmental protection at the Company's facilities,

and interaction with regional bodies of the Ministry of Natural Resources and Federal Supervision Agency for Consumer Protection and Human Well-Being.

The Regulations set the rules for the Company's environmental protection work in the following sectors:

- regulation of atmospheric emission; reduction of air pollutants' quantities and toxicity; maintaining the atmospheric air quality in way of the facilities at the rated level;
- regulation of pollutant discharges into bodies of water; reduction of water pollutants' quantities and toxicity; maintaining the water quality in way of the facilities at the rated level;
- regulation of waste handling processes; reduction of quantities and hazard of generated and disposed of waste; complying with the terms and procedures of their disposal; resource saving, waste recovery, implementation of low-waste technologies;
- regulation of subsurface resource management; compliance with well operation terms;
- arrangement of sanitary protection belts; reduction of the facilities' impact on residential buildings;
- payments for negative environmental impacts;
- statistical and other reporting.

In accordance with the applicable laws, the Company carried out the following environmental protection work and actions in 2008:

- development of licensing environmental protection documentation and its approval by Rostekhnadzor, Rospotrebnadzor, and other governmental agencies;
- disposal of generated production and consumption waste in burial grounds, or its delivery to properly licensed organizations for recycling;
- compliance with prescriptions of Rostekhnadzor and Rospotrebnadzor.

In order to prevent pollution of soil, ground water, and air, continuous environmental monitoring is provided at N.W.Telecom's facilities. In the reporting year, the Company's payment for negative environmental impacts amounted to RUR 5,221,900.

The Company regularly renews its vehicle fleet, with emphasis on purchasing vehicles complying with current rates of toxic air pollution. Currently, 360 vehicles of N.W.Telecom have the Euro3 certificate.

Fire- and explosion-hazardous facilities of N.W.Telecom have policies of obligatory insurance of liability for damage, environmental damage included.

Table 20. Moneys spent by N.W.Telecom for environmental protection in 2008, thousands of roubles

Moneys spent for environmental protection, total	22392.07
including:	
water conservation (including sewage water reception and treatment, obtainment of approval documentation, and analytical control)	10322.9
atmospheric air protection	4079.1
environmental protection against production and consumption waste (including its reception, obtainment of approval documentation, and analytical control)	7990.07

CORPORATE GOVERNANCE

North-West Telecom Open Joint-Stock Company places special emphasis on building a well-adjusted corporate governance system. The Company has developed and uses a Corporate Governance Code based on the principles of the Corporate Code of Conduct recommended by the Federal Commission for Securities Market for implementation. As a public company with its shares circulating on stock exchanges, N.W.Telecom fully complies with the corporate conduct requirements set by Russian stock exchanges to keep securities on quotation lists. The high level of corporate governance in N.W.Telecom enables relations of mutual understanding between the management and shareholders for higher business results.

The basic actions to improve the Company's corporate governance are carried out by structural units of the Corporate Secretary sector, corporate relations sector, and financial/economic sector. As part of the actions to improve the Company's corporate governance, new versions of the N.W.Telecom Articles of Association, Provisions on the Board of Directors of N.W.Telecom, and Provisions on the Auditing Committee of N.W.Telecom were approved in 2008, and appropriate amendments and revisions made in the Company's internal documents.

The updating of internal documents was dictated by the necessity to:

- extend the text with federal legislation provisions that were not covered in previous versions,
- make amendments and updates to the competence of the Board of Directors, and give a detailed description of procedures when its meetings are held in the absentee voting mode;
- make amendments intended to settle controversies arising in the course of establishment and operation of various management bodies of the Company;
- change the size of remuneration to members of the board of Directors and Management Board;
- make technical amendments.

Dialog with shareholders

OJSC N.W.Telecom has over 30,000 private and institutional shareholders both in and outside Russia. The Company does its best for its shareholders to have access to the latest information on the key aspects of N.W.Telecom business. Shareholders and anyone concerned may read the latest news, financial and production indices, information on the securities' value, and other useful information on the N.W.Telecom business on the Company's official website (www.nwtelecom.ru). Besides, for shareholders' convenience, a special telephone line is provided in St. Petersburg ((812) 312-5289) and other regional centers of NWFD (see the "Reference and Contact Information" section), where shareholders may get answers to their questions related to meetings and dividend payment, and update information on exercise of their title to shares.

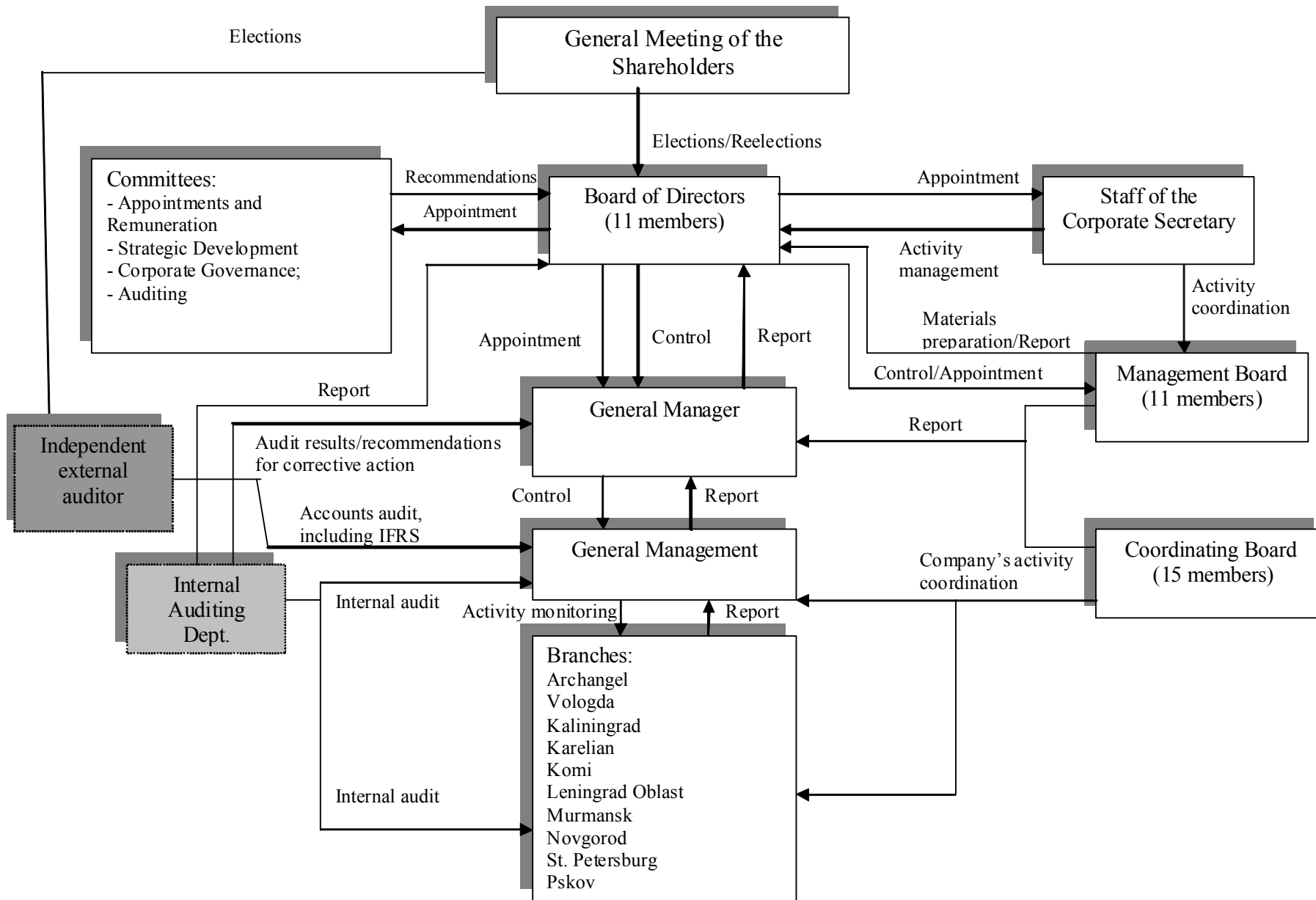
One of the principal rights of common stock owners is voting agenda items of a general meeting of shareholders, which they may exercise either by attending general meetings of shareholders or mailing their ballots. As regards compliance with the right of ADR owners to vote, N.W.Telecom maintains close interaction with its depository bank J. P. Morgan Chase Bank and custody bank ING Bank (Eurasia) CJSC.

All information on N.W.Telecom's website is available equally in Russian and in English.

Company's Organizational Structure

For comfortable access to information, strict compliance with the shareholders' rights, and improvement of the philosophy of interaction with the shareholders and investor community, the Board of Directors decided on optimization of the organizational structure of the corporate relations sector, personnel management sector, and property management/general sector, on redistribution of functions of units comprised in functional sectors, and on revisions of and amendments to the Provisions on the Corporate Secretary and Staff of the Corporate Secretary of the Company.

Organizational Structure of Interaction of the Company's Management Bodies and Auditor



Corporate Secretary

To ensure responsibility concentration and to form a single centre for interaction with shareholders and investors, some changes were made in 2008 in the Company's organizational structure concerning the Staff of the Corporate Secretary, viz.: the Shareholders Department was transferred to the Corporate Relations Unit (Department of Interaction with Investors).

As a result, now such functions as the registration of letters, applications and requirements received from shareholders and the preparation of replies to them, giving advice to shareholders as to their rights, organizing the contacts with the Company's Registrar in respect of keeping the Shareholders Register, arranging the payment of the yield on OJSC N.W. Telecom's shares, and organizing general meetings of the shareholders are within the terms of reference of the Corporate Relations Unit.

Such a redistribution of the duties and change in the structure is an example of introducing the best world practices into the Company's corporate governance system, the purpose of which is to relieve the Staff of the Corporate Secretary and to facilitate improving the efficiency of its work and bettering the work with the Company's management bodies.

Board of Directors

The Board of Directors of the Company operates on the basis of the Articles of Association and the Provisions on the Board of Directors approved by the Annual General Meeting of the Shareholders.

According to the Articles of Association of OJSC N.W. Telecom, the exclusive terms of reference of the Board of Directors include matters related to determining the priority areas of the Company's activities, approving the annual budget, medium- and long-term budgets, strategies and programmes of the OJSC N.W. Telecom's development, introducing amendments to the said documents, considering the results of their fulfillment, and annual discussion of strategic matters of Company's development.

OJSC N.W. Telecom's Board of Directors is the Company's centre of strategic planning and management and:

- ensures the efficiency of the system for control of the Company's financial and business operations and risk management;
- controls and ensures efficient operation of the management;
- participates in improving corporate governance, ensuring information disclosure and cooperation with other parties concerned;
- ensures the exercise and protection of shareholders' rights.

Table 21. The namelist of the Board of Directors, elected by the Annual General Meeting of the Shareholders on 22nd June 2007 (as of 31.12.2008)

	Full name, position in the principal place of employment, time of work in the BD	Date of birth	Education	Positions in other organizations
1.	<i>Vladimir Alexandrovich Akulich – Chairman of the Management Board, General Manager of OJSC N.W. Telecom</i> <i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2004</i>	23 rd August 1956	The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communication", qualified as Electric communication engineer - Institute of Management and Economics (Moscow), Ph.D. in Economics	- Chairperson of the board of guardians of the Foundation for the State Higher Education Support "Gradient" - Member of the Board of NPF "Telecom-Soyuz"

2.	<p>Mikhail Alexeevich Alexeev – an independent director</p> <p>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</p>	16 th August 1954	- F.E. Dzerzhinsky Higher School at the KGB of the USSR, lawyer	<ul style="list-style-type: none"> - Member of the Board of Directors of OJSC Tetrasvyaz, - Member of the Board of Directors of OJSC Dalsvyaz, - Member of the Board of Directors of OJSC TsentrTelecom, - Member of the Board of Directors of OJSC Rostelecom, - Member of the Board of Directors of CJSC BaltAvtoPoisk,
3.	<p>Sergey Anatolievich Bulancha, *an independent director, Deputy General Manager of CJSC Sinterra</p> <p>Was a member of the Board of Directors of OJSC N.W. Telecom in 2007 - 2008</p>	14 th September 1959	- Electrotechnical Institute of Communication in Odessa, qualified as Multi-channel communications engineer	<ul style="list-style-type: none"> - Member of the Board of Directors of OJSC Dagsvyazinform, - Member of the Board of Directors of OJSC MMTS-9
4.	<p>Alexandr Alexandrovich Gogol, an independent director, Rector, Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications</p> <p>A member of the Board of Directors of OJSC N.W. Telecom starting from 2003</p>	12 th June 1946	- Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications, qualified as Radio engineer	<ul style="list-style-type: none"> - Member of the Management Board of the Russian Foundation of the History of Communications - Member of the Board of Directors of OJSC The St. Petersburg Technopark
5.	<p>Vladimir Borisovich Zhelonkin, an independent director, General Manager of LLC AF Telecom Holding</p> <p>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</p>	23 rd January 1967	- University of Knowledge Methodology in the speciality "Economics and production management"	<ul style="list-style-type: none"> - Member of the Board of Directors of OJSC Dalsvyaz, - Member of the Board of Directors of OJSC STC - Member of the Board of Directors of OJSC "Tsentralny Telegraph" - Member of the Board of Directors of OJSC Rostelecom, - Chairman of the Board of Directors of OJSC Telecominvest
6.	<p>Ivan Alexandrovich Zolochovsky*, an independent director, Director of the Macro-Region North West Branch, OJSC Mobile TeleSystems</p> <p>Was a member of the Board of Directors of OJSC N.W. Telecom in 2007 - 2008</p>	09 th February 1972	<p>A.I. Herzen State Pedagogical University of Russia, speciality: teacher of physics and computer science;</p> <p>Saint Petersburg State Academy of Engineering and Economics, speciality: Management, marketing;</p> <p>The School of Business, the Open University, UK, Professional Diploma in Management (MBA Programmer)</p>	-

7.	<p>Alexandr Nikolayevich Kiselyov, Chairman of the Management Board, a member of the Board of Directors and General Manager of OJSC Svyazinvest</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2005</i></p>	30 th January 1962	<p>- Oriental Faculty of the Leningrad State University, speciality "Regional Study of Foreign East Countries (Japan)"</p>	<p>- Chairman of the Board of Directors of OJSC Rostelecom,</p> <p>- Chairman of the Board of Directors of OJSC TsentrTelecom,</p> <p>- Member of the Board of Directors of OJSC MGTS</p> <p>- Member of the Board of Directors of OJSC JSCB Svyaz-Bank,</p> <p>- Chairman of the board of NPF "Telecom-Soyuz"</p>
8.	<p>Olga Grigorievna Korolyova, Chief Accountant of OJSC Svyazinvest</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</i></p>	15 th August 1950	<p>- Tomsk State University, speciality "Industrial planning"</p> <p>- All-Union Correspondence Institute of Finance and Economics (post-graduate course), Ph.D. in Economics</p>	<p>- Member of the Board of Directors of OJSC UralSvyazInform</p>
9.	<p>Alexandr Evgenievich Krupnov, an independent director, Chairperson of the Union of Information and Communication Services Market Participants</p> <p><i>Was a member of the Board of Directors of OJSC N.W. Telecom in 2007 - 2008</i></p>	26 th June 1941	<p>- Moscow Electrical Engineering Institute of Communication, qualified as Electrical communication engineer, Ph.D.</p>	-
10.	<p>Dmitry Vladimirovich Levkovsky, Director in charge of corporate management of the Moscow representative office, NCH Advisors, Inc., he was an independent director till 28.11.2008</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2001</i></p>	24 th August 1965	<p>- Moscow Institute of Steel and Alloys, qualified as Electronic equipment engineer</p>	-
11.	<p>Ivan Ivanovich Rodionov, an independent director, Professor of the Corporate Economics and Finance Chair, The State University "Higher School of Economics"</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2002</i></p>	30 th November 1953	<p>- Moscow State University, qualified as Economist, Doctor of Economics</p>	<p>- Chairman of the Board of Directors of OJSC FosAgro,</p> <p>a member of the Board of Directors of OJSC "Power Engineering Alliance",</p> <p>- Member of the Board of Directors of OJSC IBS</p> <p>- Member of the Board of Directors of OJSC MGTS</p> <p>- Member of the Board of Directors of OJSC Agroguard-Finance.</p>

*The information is given as of 23rd June 2008, as the membership in the Board of Directors of OJSC N.W. Telecom was stopped then.

Chairperson of the Board of Directors – Alexandr Nikolayevich Kiselyov

Deputy Chairperson of the Board of Directors – Dmitry Vladimirovich Levkovsky

All members of the Board of Directors of OJSC N.W.Telecom are citizens of the Russian Federation.

The current Board of Directors of the Company consisting of 11 members was elected by the Annual General Meeting of the Shareholders on 23rd June 2008.

Table 22. The namelist of the Board of Directors, elected by the Annual General Meeting of the Shareholders on 23rd June 2008

	Full name, position in the principal place of employment, time of work in the BD	Date of birth	Education	Positions in other organizations
1.	<i>Vladimir Alexandrovich Akulich,</i> <i>Chairman of the Management Board, General Manager of OJSC N.W.Telecom</i> <i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2004</i>	23 rd August 1956	The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communication", qualified as Electric communication engineer - Institute of Management and Economics (Moscow), Ph.D. in Economics	- Chairperson of the board of guardians of the Foundation for the State Higher Education Support "Gradient" - Member of the Board of NPF "Telecom-Soyuz"
2.	<i>Mikhail Alexeevich Alexeev, an independent director</i> <i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</i>	16 th August 1954	- F.E. Dzerzhinsky Higher School at the KGB of the USSR, lawyer	- Member of the Board of Directors of OJSC Tetrasvyaz, - Member of the Board of Directors of OJSC Dalsvyaz, - Member of the Board of Directors of OJSC TsentrTelecom, - Member of the Board of Directors of OJSC Rostelecom, - Member of the Board of Directors of CJSC BaltAvtoPoisk,
3.	<i>Valery Nikolaevich Bugayenko,</i> <i>Chief of the RF Federal Agency for Communication</i> <i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2008</i>	05 th January 1951	- The Kharkov Higher Engineering Commanders' School, majored in power engineering; - The F. E. Dzerzhinsky Military Academy, majored in radio systems and communication facilities; - Higher Courses for Management Staff Training in the Field of Defence and Security of the Military Academy at the General Staff of the RF Armed Forces	- Member of the Board of Directors, OJSC Volgatelecom

4.	<p>Alexandr Alexandrovich Gogol, an independent director, Rector, Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2003</i></p>	12 th June 1946	- Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications, qualified as Radio engineer	<ul style="list-style-type: none"> - Member of the Management Board of the Russian Foundation of the History of Communications - Member of the Board of Directors of OJSC The St. Petersburg Technopark
5.	<p>Vladimir Borisovich Zhelonkin, an independent director, General Manager of LLC AF Telecom Holding</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</i></p>	23 rd January 1967	- University of Knowledge Methodology in the speciality "Economics and production management"	<ul style="list-style-type: none"> - Member of the Board of Directors of OJSC Dalsvyaz, - Member of the Board of Directors of OJSC STC - Member of the Board of Directors of OJSC "Tsentralny Telegraph" - Member of the Board of Directors of OJSC Rostelecom, - Chairman of the Board of Directors of OJSC Telecominvest
6.	<p>Alexandr Nikolayevich Kiselyov, Chairman of the Management Board, a member of the Board of Directors and General Manager of OJSC Svyazinvest</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2005</i></p>	30 th January 1962	- Oriental Faculty of the Leningrad State University, speciality "Regional Study of Foreign East Countries (Japan)"	<ul style="list-style-type: none"> - Chairman of the Board of Directors of OJSC Rostelecom, - Chairman of the Board of Directors of OJSC TsentrTelecom, - Member of the Board of Directors of OJSC MGTS - Member of the Board of Directors of OJSC JSCB Svyaz-Bank, - Chairman of the board of NPF "Telecom-Soyuz"
7.	<p>Olga Grigorievna Korolyova, Chief Accountant of OJSC Svyazinvest</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2007</i></p>	15 th August 1950	<ul style="list-style-type: none"> - Tomsk State University, speciality "Industrial planning" - All-Union Correspondence Institute of Finance and Economics (post-graduate course), Ph.D. in Economics 	- Member of the Board of Directors of OJSC UralSvyazInform
8.	<p>Viktor Iosifovich Koresh, an independent director, Vice-President in charge of regional development, OJSC Comstar-UTS</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2008</i></p>	18 th November 1953	- the Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communications"	<ul style="list-style-type: none"> - Chairman of the Board of Directors of OJSC Tyumenneftegazsvyaz - Chairman of the Board of Directors of OJSC Regional Technical Centre, - Chairman of the Board of Directors of LLC Digital Telephone Networks - South

9.	<p>Denis Viktorovich Kulikov, an independent director, Executive Director of Association for Investors' Rights Protection</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2008</i></p>	09 th July 1975	- Moscow state Legal Academy, lawyer, majoring in State and law issues	<ul style="list-style-type: none"> - Member of the Board of Directors of OJSC STC - Member of the Board of Directors of OJSC "The Second Power Generation Company of the Wholesale Electricity Market" ("OGK-2") - Member of the Board of Directors of OJSC "Moscow United Energy Company" (MOEK), - Member of the Board of Directors of OJSC "Territorial Generation Company – 4" (TGK-4)
10.	<p>Dmitry Vladimirovich Levkovsky, Director in charge of corporate management of the Moscow representative office, NCH Advisors, Inc.</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2001</i></p>	24 th August 1965	- Moscow Institute of Steel and Alloys, qualified as Electronic equipment engineer	-
11.	<p>Ivan Ivanovich Rodionov, an independent director, Professor of the Corporate Economics and Finance Chair, The State University "Higher School of Economics"</p> <p><i>A member of the Board of Directors of OJSC N.W. Telecom starting from 2002</i></p>	30 th November 1953	- Moscow State University, qualified as Economist, Doctor of Economics	<ul style="list-style-type: none"> - Chairman of the Board of Directors of OJSC FosAgro, a member of the Board of Directors of OJSC "Power Engineering Alliance", - Member of the Board of Directors of OJSC IBS - Member of the Board of Directors of OJSC MGTS - Member of the Board of Directors of OJSC Agroguard-Finance.

Chairperson of the Board of Directors – Alexandr Nikolayevich Kiselyov (starting from 11.03.2009 Olga Grigorievna Korolyova was elected as the Chairperson of the Board of Directors)
Deputy Chairperson of the Board of Directors – Dmitry Vladimirovich Levkovsky

All members of the Board of Directors of OJSC N.W.Telecom are citizens of the Russian Federation.

Activities of the Board of Directors in 2008

In compliance with the best Russia's and international practices of corporate governance, the operation of the Company's Board of Directors is based on a work plan to be approved by the members of the Board of Directors elected for the shareholders' year.

In 2008 the Board of Directors of the Company held 28 meetings, including 6 meetings with attending members and 22 meetings by correspondence.

In accordance with the Company's established practices, the Board of Directors considered the most important strategic matters at meetings held in the form of joint attendance. Such a practice enables a comprehensive and constructive discussion of the agenda items, including the participation of the Management Board members.

In 2008 the Board of Directors approved the following strategies and programmes of Company's development:

- Company's Budget for 2009;
- Capitalization Increase Concept of the Company for 2008 – 20012;
- Investment Priorities of the Company for 2009;
- Programme for the Transformation of OJSC N.W.Telecom in the Field of Sales and Servicing Organization;
- Company's Risk Management Programmes for 2009;
- Company's Property Complex Development Programme for 2009-2010.

The Board of Directors regularly considered reports on the work of the Management Board of the Company in the following areas:

- Quarterly reports on achieving the key figures of the Company's budget;
- On the progress of implementing the ERP Programme on the basis of Oracle E-Business Suite;
- On the progress of implementing the Concept of Increasing OJSC N.W. Telecom's Capitalization for 2005-2007 in 2007;
- Report on the activities of the Internal Audit Department for 2007;
- On the progress of integrating the business of CJSC PTT into OJSC N.W. Telecom's business;
- Quarterly reports on fulfilment of earlier adopted decisions of the Board of Directors and the General Meeting of the Shareholders;
- On evaluating the results of the Company's work of reducing the outstanding accounts receivable for the 2nd half of the year 2007 and the 1st half of the year 2008;
- On implementing the Programme for Improving the Efficiency of Using OJSC NWT's Property in 2006-2008;
- On the progress of implementing the Model for Reorganization of the Subsidiary Business of the Company.

Taking into account the current economic situation and within the framework of the anti-crisis measures that are being taken, the Board of Directors has considered the report of the Management Board of the Company on OJSC N.W. Telecom's urgent measures of reducing the outflow of subscribers and increasing the volume of traffic in the segment of fixed communication and broadband access. Besides, the management presents information on credit risk monitoring to members of the Board of Directors and the Committees of the Board of Directors on a monthly basis.

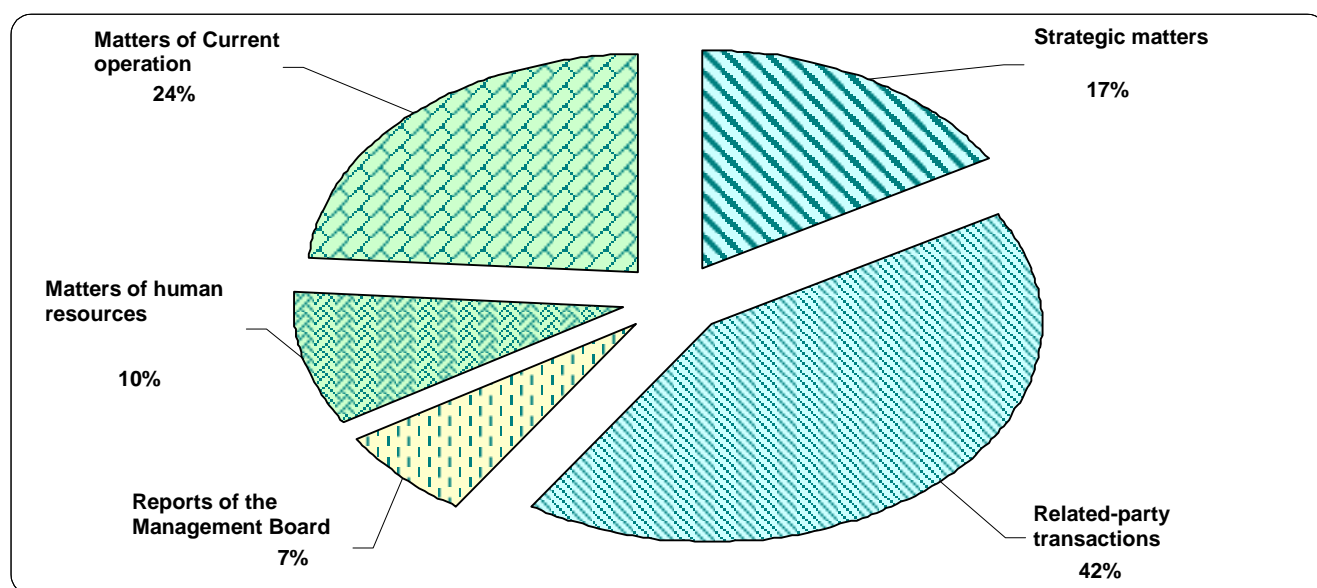
In the framework of improving the bylaws of the Company, the Board of Directors took the decisions to make amendments and additions in the Provisions on the Committees of the Board of Directors, the Provisions on the Internal Audit Department and the Provisions on the Information Policy and to approve the Provisions on the Remuneration of the Members of the Company's Management Board in a new version. Besides, decisions were taken on including in the agenda of the general meeting of the shareholders the items of approving new versions of the Company's Articles of Association, the Provisions on the Board of Directors of the Company and the Provisions on the Auditing Committee of the Company.

In the framework of improving the procedures of holding an open tender for the right of making a contract of mandatory audit of book-keeping and financial (accounting) reporting of the Company, amendments were made in the Provisions on the Procedure of Holding the Tender and on the Tender Committee.

In the framework of improving the internal control and risk management procedures, the Board of Directors approved a Risk Management Programme of OJSC N.W.Telecom for 2009 and a Work Plan of the Internal Audit Department for 2009.

In the framework of its terms of reference, the Board of Directors took decisions on approving transactions related to the acquisition, alienation or the possibility of alienation by the Company of property with the value from 1% to 25% of the book value of the Company's assets, all in all worth of 7,604,710,231.08 roubles and \$150,000,000. Besides, related-party transactions all in all worth of 666,637,470.99 roubles and \$1,109,110 were considered and approved.

Fig. 6 Structure of the Items Considered at Meetings of the Board of Directors in 2008



Committees of the Board of Directors

The following Committees of the Board of Directors were formed by the decision of the Board of Directors of 23rd June 2008 and are operating:

- 1) Strategic Development Committee;
- 2) Corporate Governance Committee;
- 3) Appointments and Remuneration Committee;
- 4) Audit Committee.

The Committees of the Board of Directors work on the basis of the Provisions on the Committees of the Board of Directors approved by the Board of Directors on 23rd August 2004 and are guided by the Work Plans that make appendices to the annual Work Plan of the Board of Directors. Members of the Committees of the Board of Directors are elected on the annual basis.

The activity of the Committees is aimed at improving the work efficiency and quality of the Board of Directors through preliminary consideration of certain matters included in the terms of reference of the Board of Directors and preparation of recommendations to the Board of Directors.

To ensure comprehensive preliminary consideration of the most strategically significant matters of the terms of reference of the Board of Directors (On the progress of implementing the ERP Programme on the basis of Oracle E-Business Suite; On the Influence of the Financial Crisis on the Operation of the Company), in 2008 the Company started attracting members of the two specialized Committees to discussing matters and holding joint meetings of the Committees, 6 such meetings having been held.

Corporate Governance Committee

Table 23. The namelist of the Corporate Governance Committee as of 31.12.2008

<u>Chairperson:</u> D.V. Kulikov	Member of the Board of Directors, Executive Director of Association for Investors' Rights Protection
<u>Members of the</u>	

<u>Committee:</u> N.G. Bredkov	Corporate Secretary of OJSC N.W.Telecom
R.K. Ishbulatov	Lawyer of the Moscow representative office, NCH Advisors, Inc.
E.O. Kostko	Leading Specialist of Methodology and Information Unit of the Corporate Management and Legal Support Department of OJSC Svyazinvest
M.A. Leshchenko	Counsellor of RF Minister of Communication and Mass Media
O.V. Petrova	Chief of Methodology and Information Unit of the Corporate Management and Legal Support Department of OJSC Svyazinvest

Activities of the Corporate Governance Committee:

In 2008 the Committee held 13 meetings. 32 issues were considered.

The activities of the Committee in 2008 were aimed at raising the efficiency and quality of operation of the Board of Directors in the field of improvement of the corporate governance of the Company, implementation of standards of best practice of corporate governance.

Basic matters of the Committee's terms of reference, on which recommendations to the Board of Directors have been given:

- On considering the Report on Measures Taken in the Framework of Implementing the *Capitalization Increase Concept of OJSC North-West Telecom for 2005 – 2007* in 2007;
- On organizing the process of evaluating the efficiency of the operation of the Board of Directors for 2007 (jointly with the Appointments and Remunerations Committee);
- On changing the structure of the annual report approved by the Annual General Meeting of the Shareholders of OJSC N.W. Telecom based on the results of the year 2007. Draft annual report of the Company for the year 2007;
- On expediency of maintaining the Corporate Governance Score of OJSC N.W.Telecom given by the Standard & Poor's rating agency;
- In the framework of improving the procedural matters in the work of the Board of Directors:
 - on the procedure of voting and taking into account written opinions of the members of the Board of Directors;
 - on the format of the questionnaire and written (special) opinion of a member of the Board of Directors;
- In the framework of improving the bylaws establishing the rules of and approaches to information disclosure:
 - on making amendments and additions No. 1 in the Provisions on the Information Policy of OJSC N.W.Telecom;
- On amendments and additions to the Articles of Association and other internal documents of the Company to be approved by the General Meeting of the Shareholders and the Board of Directors, drafts of the Company Articles of Association, Provisions on the Board of Directors of the Company as well as proposed amendments to the Provisions on the General Meeting of the Shareholders were reviewed;
- On issues related to convoking, preparing and holding annual and extraordinary general meetings of the shareholders taking into account the use of the Company's best practices of corporate governance the following items were considered:
 - The agenda of the annual general meeting of the shareholders, and other issues related to the preparation and conduct of the annual general meeting of the shareholders of the Company.
- On the alteration of the organizational structure of the Company and on making decisions on the agenda items of general meetings of the subsidiaries the sole participant in which is the Company;
- On matters decided in respect of the Company's Corporate Secretary:
 - on making amendments and additions in the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary of the Company and on the payment of bonuses to the Corporate Secretary in compliance with the terms of the contract with the Corporate Secretary.

Strategic Development Committee

Table 24. The namelist of the Strategic Development Committee as of 31.12.2008

<u>Chairperson:</u> A.A. Gogol	Member of the Board of Directors, Rector of Prof. M.A. Bonch-Bruyevich Saint Petersburg State University of Telecommunication
<u>Members of the Committee:</u> V.A. Akulich	Member of the Board of Directors, General Manager of OJSC N.W.Telecom
V.N. Bugayenko	Member of the Board of Directors, Chief of the RF Federal Agency for Communication
N.S. Vorobyova	Manager of the Division of Coordinating Interaction with Regulating and Supervisory Authorities in the Field of Communication of the Strategic Development Department, OJSC Svyazinvest
B.G. Golubitsky	Deputy Director of the Department of Economics and Finance of OJSC Svyazinvest
V.I. Koresh	Member of the Board of Directors, Vice-President in charge of regional development, OJSC Comstar-UTS
D.V. Kulikov	Member of the Board of Directors, Executive Director of Association for Investors' Rights Protection
M.A. Leshchenko	Counsellor of RF Minister of Communication and Mass Media

Activities of Strategic Development Committee

In 2008 the Committee held 19 meetings, including one meeting jointly with the Appointments and Remunerations Committee and two meetings jointly with the Audit Committee. 43 issues were considered. The activity of the Committee in 2008 was aimed at improving the efficiency and quality of the Board of Directors work for the strategic management of the Company.

Basic matters of the Committee's terms of reference, on which recommendations to the Board of Directors have been given:

- On the budget performance results of OJSC N.W.Telecom for the 4th quarter of 2007 and the year 2007;
- Quarterly reports on the budget performance results of OJSC N.W.Telecom for the year 2008;
- Matters in the framework of implementing the Model for the Reorganization of the Subsidiary Business of the Company (joining as a participant, participation by acquisition of shares, termination of participation, changing the share of participation in subsidiaries or affiliates, etc.);
- Considering the Capitalization Increase Concept of OJSC N.W. Telecom for 2008 – 20012;
- Approving the investment priorities of OJSC N.W.Telecom for 2009-2010;
- Considering the Programme for the Transformation of OJSC N.W.Telecom in the Field of Sales and Servicing Organization;
- Considering the Report on the Progress of Integrating the Business of CJSC PTT into OJSC N.W. Telecom's business;
- On the progress of implementing the ERP Programme on the basis of Oracle E-Business Suite (jointly with the Audit Committee);
- On implementing the Programme for Improving the Efficiency of Using OJSC NWT's Property in 2006-2008;
- On the progress of implementing the Model for Reorganization of the Subsidiary Business.

Besides, taking into account the current economic situation and within the framework of the anti-crisis measures that are being taken, the Strategic Development Committee, jointly with the Audit Committee, considered the issue of the influence of the financial crisis on the operation of the Company.

Besides, the following matters were considered:

- capacities of OJSC N.W.Telecom in effecting transactions of merger and takeover;
- information on the prices of the goods and services acquired by the Company through related-party transactions;
- considering the proposals of the Management Board of the Company on developing a Forecast of the Development of OJSC N.W.Telecom for 2009-2013 (in compliance with the decision of the Strategic Development Committee of 09.10.08 and of the Board of Directors of 28.11.08);
- on transactions of the acquisition and sale of shares of other companies by subsidiaries and affiliates of OJSC N.W.Telecom;
- on expediency of getting prepared for floating exchange-traded bonds for funding the current activities of the Company.

Audit Committee

Table 25 The namelist of the Audit Committee as of 31.12.2008

<u>Chairperson:</u> I.I. Rodionov	Member of the Board of Directors, Professor of the Corporate Economics and Finance Chair, the State University "Higher School of Economics"
<u>Members of the Committee:</u> D.V.Levkovsky	Member of the Board of Directors, Director in charge of corporate management of the Moscow representative office, NCH Advisors, Inc
O.G. Korolyova	Member of the Board of Directors, Chief Accountant of OJSC Svyazinvest

Activities of the Audit Committee

In 2008 the Committee held 14 meetings. 27 issues were considered.

The activity of the Committee in 2008 was aimed at raising the efficiency and quality of operation of the Board of Directors for ensuring open communication with the independent auditor, Auditing Committee, Internal Audit Department as well as improvement of the internal control and risk management procedures at OJSC N.W.Telecom.

Basic issues of the Committee's terms of reference, on which recommendations to the Board of Directors have been given:

- on holding a meeting with the independent auditor of the Company for discussing:
 - the results of the preliminary stage of audit according to the Russian Accounting Standards (RAS) for 9 months of 2007;
 - the Confidential Report of the Independent Auditor to the management of OJSC N.W. Telecom based on the results of the audit for 2007 according to the IFRS standards;
 - Company's action plan to implement the proposals contained in the letters of the independent auditor to the management of the Company concerning improvement of the internal control system and risk management procedures (international accounting);
 - proposals on changing the accounting policy, methodology and procedures of accounting in the Company for 2008;
 - presentation of the financial management procedures audit by the Company's Auditor;
 - plan of audit for 2008, problems and questions that the auditors may have;
 - the possibilities and need of taking into account the changes in the foreign legislation in the field of audit and corporate governance in the operation of the Company and the Audit Committee.
- Interaction with the Auditing Committee:
 - a draft report of the Auditing Committee on the outcome of checking the financial and business operation of the Company for the year 2007 was considered.
- Improvement of the internal control and risk management system:
 - Company's Risk Management Programmes for 2008 and 2009 and information on the progress of implementing the ERP Programme on the basis of Oracle E-Business Suite were considered.

- Considering the financial reporting of OJSC N.W.Telecom:
 - the annual accounts and reports, including the profit and loss report (profit and loss account) of the Company for the year 2007;
 - the planned distribution of profit and losses, including that for the payment of the dividend for 2007.
- On holding a tender for the right of making a contract of mandatory audit of book-keeping and financial (accounting) reporting of OJSC N.W. Telecom for 2008, including the recommendations on making amendments in the Provisions on the Procedure of Holding the Tender and the Provisions on the Tender Committee and on the namelist of the Tender Committee.
- At a meeting with the internal audit service dedicated to discussing the improvement of the service's work procedures and cooperation with the Internal Audit Department, the following matters were considered:
 - Report on the Activities of the Internal Audit Department for 2007 and its presentation for consideration by the Board of Directors;
 - Work Plan of the Internal Audit Department for 2009.

Under the conditions of the world financial crisis, in October 2008, upon proposal of the Committee, the Management Board started working on outlining anti-crisis areas of the activities to improve the Company's investment attractiveness. The following areas were proposed:

- making up and publishing on the web site unaudited reports according to the IFRS on a quarterly basis;
- starting the work of corporate social reporting and accounting, issuing the first non-financial (unaudited) report;
- getting prepared for certification and introduction of an integrated management system (IMS);
- monthly monitoring of credit risks. As a result of this initiative, in 2008 the members of the Board of Directors and the Committees of the Board of Directors considered on a monthly basis reports of the Management Board on Company's credit risk monitoring and management.

These initiatives resulted in 2008-2009 in the monthly consideration of the management's reports on the monitoring of the Company's credit risks by the members of the Board of Directors and of the Committees of the Board of Directors.

The Committee discussed at its meetings the material changes that have taken place in the international system of generally adopted accounting principles (IFRS) and the need for the Company to apply them in making up the financial reports according to the IFRS taking effect on 01.01.09. Besides, the Committee initiated the study of the need of evaluating the efficiency of the internal control system according to the requirements of the Sarbanes-Oxley Act.

Appointments and Remuneration Committee

Table 26. The namelist of the Appointments and Remuneration Committee as of 31.12.2008

<u>Chairperson:</u> D.V.Levkovsky	Member of the Board of Directors, Director in charge of corporate management of the Moscow representative office, NCH Advisors, Inc
<u>Members of the Committee:</u> A.A. Gogol	Member of the Board of Directors, Rector of Prof. M.A. Bonch-Bruyevich Saint Petersburg State University of Telecommunication
O.G. Korolyova	Member of the Board of Directors, Chief Accountant of OJSC Svyazinvest
I.I. Rodionov	Member of the Board of Directors, Professor of the Corporate Economics and Finance Chair, the State University "Higher School of Economics"

Activities of the Appointments and Remuneration Committee

In 2008 the Committee held 16 meetings. 33 issues were considered.

The activity of the Committee in 2008 was aimed at improving the efficiency and quality of the decisions made by the Board of Directors for the appointment of highly skilled professionals to key management position and creation of an efficient motivation system for the top management and members of the Board of Directors.

Basic matters of the Committee's terms of reference, on which recommendations to the Board of Directors have been given:

- on quarterly bonuses and on paying quarterly remuneration: to the General Manager, Members of the Management Board and the Corporate Secretary of the Company in 2008; on paying a bonus to the General Manager of the Company for fulfilling the Additional Assignment for the year 2007;
- on appointing the General Manager of the Company, determining his/her term of office and approving the terms of the contract of employment made with the General Manager of the Company;
- on preliminarily agreeing upon the candidacies of the regional directors – managers of OJSC N.W. Telecom's branches; approving the terms of contracts of employment made with the regional directors – managers of OJSC N.W. Telecom's branches;
- on organizing the process of evaluating the efficiency of the operation of the Board of Directors for 2007; considering the Report on Evaluation of the Work of the Board of Directors presented by the Expert RA independent counselor;
- on considering the Provisions on the Remuneration of the members of the OJSC N.W. Telecom's Management Board in a new version, proposals on making amendments in the Provisions on the Board of Directors and the Provisions on the Auditing Committee of the Company in respect of changing the amount of the quarterly remuneration of the members of the Board of Directors, Committees of the Board of Directors and the Auditing Committee;
- on the amount of annual remuneration to members of the Board of Directors;
- on the terms of additional agreements to the contracts of employment made with the Members of the Management Board of the Company;
- on considering the indicators of the Additional Assignment to the General Manager of the Company for the year 2008;
- on insurance of the liability of the members of the Board of Directors, members of the Management Board and the General Manager of the Company.

In 2008 the activities of the Board of Directors were evaluated with the participation of the Expert RA Rating Agency independent counselor and with the active participation of the Appointments and Remunerations Committee. On the basis of the evaluation, the independent counselor drew conclusions on the efficiency of the work of the Board of Directors in 2007 and prepared respective recommendations.

The information on the Evaluation was included in the annual report of the Company for the year 2007.

Evaluation of the Efficiency of the Activities of the Board of Directors

In accordance with the best international and Russian corporate governance practice and provisions of the Corporate Governance Code, the Company evaluates the Board of Directors efficiency on the annual basis. In 2009, as the Company has to reduce expenses under the financial crisis conditions, the Appointments and Remunerations Committee was instructed to carry out this evaluation without engaging an outside consultant, based on the questionnaire developed by the Board of Directors Committees and updated this year.

The main purpose of evaluation was to analyze the performance of the Board of Directors functions regarding strategic management of the Company, relations with the Company's management, activity of the Board of Directors and organization of the Board of Directors operation.

To make a more unbiased evaluation of the Board of Directors performance in individual areas (in particular, to evaluate the role of the Board of Directors in the strategic management of the Company and relations between the Board of Directors and the Company's management), the members of the Company's Management Board were requested to complete a relevant questionnaire in 2009.

Based on the efficiency evaluation and analysis carried out in 2009 by comparison with the preceding periods, the followed should be noted:

- higher efficiency of the Board of Directors on the whole;
- better cooperation between the Board of Directors and the top management;
- identification of individual areas needing improvement.

Following the practice of continuous improvement of the Board of Directors efficiency, the decision was made to develop an activity plan for improving the Board of Directors efficiency in the next period as well as to continue the practice of the Board of Directors efficiency evaluation on the annual basis, reflecting the evaluation results in the Annual Report of the Company.

Remuneration to Members of the Board of Directors

The amount and frequency of remuneration payment to the members of the Board of Directors of OJSC N.W. Telecom and the amount of reimbursement for expenses related to discharging the duties of the members of the Board of Directors are determined proceeding from the Provisions on the Board of Directors (hereinafter referred to as "Provisions").

The remuneration of a member of the Board of Directors is divided into quarterly remuneration and annual remuneration. According to the Provisions, a quarterly remuneration amounting to 300,000 roubles is established for each member of the Board of Directors, and a step-up factor of 1.5 is used for the chairperson.

The annual remuneration for the entire Board of Directors of OJSC N.W. Telecom is established as the sum total of deductions according to the standards (percentage) and depends on the following:

- EBITDA of OJSC N.W. Telecom on the basis of the accounting data according to the International Accounting Standards (IFRS) for the year under report;
- the amount of Company's net profit allocated for dividend payment according to the results of the year under report.

The annual remuneration is adjusted taking into account changes in the capitalization of the Company for the year relative to the average growth of capitalization of all inter-regional companies of the Svyazinvest Group (of medium significance).

An extra pay to the quarterly remuneration shall be paid to the members of the Board of Directors who are members of a committee of the Board of Directors of OJSC N.W. Telecom in connection with their discharge of the duties of members of a committee of the Company's Board of Directors to the amount of 60,000 roubles (for participation in each committee), a member of the Board of Directors being eligible for no more than 2 committees of the Board of Directors. This extra pay to the Chairperson of a committee of the Board of Directors shall have a factor of 1.25.

The total amount of remuneration to the members of the Board of Directors was 52,212,900 roubles in 2008, including:

- 48,758,100 roubles to the members of the Board of Directors who worked before the general meeting of the shareholders of 23.06.08;
- 3,454,800 roubles to the members of the Board of Directors who worked after 23.06.08.

General Manager

According to the Articles of Association of the Company, a General Manager appointed by the Board of Directors is the one-person executive body managing the current operation of the Company.

Table 27. General Manager

Full name, position in the principal place of employment, time of work in the BD	Date of birth	Education	Positions in other organizations
Vladimir Alexandrovich Akulich , Chairman of the Management Board, General Manager of OJSC N.W.Telecom The General Manager of OJSC N.W. Telecom starting from 2004	23 rd August 1956	The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communication", qualified as "electric communication engineer" - Institute of Management and Economics (Moscow), Ph.D. in Economics	- Chairperson of the board of guardians of the Foundation for the State Higher Education Support "Gradient" - Member of the Board of NPF "Telecom-Soyuz"

Remuneration to the General Manager

The labour conditions, guarantees and compensations to the General Manager during his/her term of office are established by the contract of employment to be approved by a decision of the Board of Directors of the Company.

The Company has the right to pay quarterly, annual and one-time bonuses to the General Manager for production results, high labor achievements, good-faith fulfillment of job duties. The quarterly bonus is paid for the good-faith fulfillment of job duties according to the quarterly budget implementation results in the amount of up to 40% of the quarterly salary payments. The annual bonus is paid for the good-faith fulfillment of job duties according to the results of fulfillment of the additional assignment in the amount of up to 80% of the annual salary payments.

The decisions on the payment of bonuses are made by the Board of Directors.

Management Board.

The Management Board of OJSC N.W.Telecom consists of 11 members. The members of the Management Board that operated as of the end of 2008 were approved by the Board of Directors of the Company on 23.06.08 and started discharging their duties from 01.07.08. The Management Board includes the General Manager of OJSC N.W.Telecom, his deputies in charge of operation areas and two regional directors – managers of branches.

Table 28. Namelist of the Management Board

	Full name, positions in OJSC N.W.Telecom	Date of birth	Education	Positions in other organizations
1.	Vladimir Alexandrovich Akulich , Chairman of the Management Board, General Manager of OJSC N.W.Telecom	23 rd August 1956	The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communication", qualified as Electric communication engineer - Institute of Management and Economics (Moscow), Ph.D. in Economics	- Chairperson of the board of guardians of the Foundation for the State Higher Education Support "Gradient" - Member of the Board of NPF "Telecom-Soyuz"
2.	Oleg Viktorovich Popov , Deputy General Manager – Commercial Manager of OJSC N.W.Telecom	24 th May 1968	- The Leningrad Higher Military Engineering School of Communications named after Lensoviet, speciality "Electric communication", qualified as Electric communication engineer	- Member of the Board of Directors of CJSC PTT

3.	Oleg Anatolyevich Semanov , Deputy General Manager, Technical Manager of OJSC N.W.Telecom	29 th May 1967	- The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality "Automated electric communication", qualified as Electric communication engineer	- Member of the Board of Directors of CJSC PTT
4.	Maya Mikhailovna Semchenko , Chief Accountant of OJSC N.W.Telecom	20 th July 1967	- The Leningrad Institute of Ship-Building awarded the Order of Lenin in the speciality "Economics and organization of engineering industry". Diplomas: of a professional manager, the Open University of Great Britain; ACCA in International Financial Reporting (in Russian); of the Department of Law of the St. Petersburg State University, certifying professional retraining according to the programme "School of Tax Attorneys"	-
5.	Vitaly Evgenievich Strizhkov , Regional Manager, Director of the Leningrad Oblast Branch of OJSC N.W.Telecom	17 th March 1950	- The Leningrad Institute of Aviation Instrumentation, speciality: Radio engineer - NMO ANO International Institute in Moscow, conferred the additional qualification "Master of Business Administration (MBA)"	-
6.	Irina Vladimirovna Tambovskaya , Director of Human Resources Management Department of OJSC N.W.Telecom	03 rd August 1970	- A.I. Herzen State Pedagogical University of Russia (St.Petersburg), speciality: Foreign languages, qualified as Secondary school teacher of the English and German languages	-
7.	Ella Ivanovna Tomilina , Deputy General Manager for corporate relations of OJSC N.W.Telecom	15 th December 1964	- F. Engels Leningrad Institute of Soviet Trade, majored in commodity research and organization of trade in nonfoods, qualification of a commodity expert of the highest qualification; - St. Petersburg Institute of Commerce and Economics, Candidate of Economic Sciences - Belgorod State Technological University named after V. G. Shukhov, Doctor of Economic Sciences; - a course at the IP3 Institute at the Academy of International Development of the US Government (Washington and New York) – "Principles of Corporate Finance".	- Senior lecturer of the Economics and Management Chair, St.Petersburg State Technical University
8.	Leonid Zigmundovich Tufurin , Regional Manager, Director of the St.Petersburg Branch of OJSC N.W.Telecom	26 th March 1947	- North-West Correspondence Polytechnic Institute (SZPI), speciality: Technology and equipment of welding industry, qualified as Mechanical engineer; – Fuqua School of Business, Duke University, the USA, qualified as a telecommunication manager.	- Chairman of the Board of Directors of CJSC PTT
9.	Venera Adykhmovna Khusnutdinova , Deputy General Manager, Economics and Finance Manager of OJSC N.W.Telecom	27 th August 1973	- Saint Petersburg University of Economics and Finance, speciality: Global economy, qualified as Economist - Paris Dauphine University (Paris),	-

			speciality: Economics and Finance, qualified as Manager; - Post-graduate course of Paris Dauphine University (Paris), International Economics and Finance	
10.	Grigory Borisovich Chernyak , Deputy General Manager in charge of property management and general issues, OJSC N.W.Telecom	20 th October 1949	- Byelorussian Institute of Railway Transport Engineers, speciality: Industrial and civil construction, qualified as Civil engineer; - The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality: Economica and Management at Communications Enterprise, qualified as Economist-manager	- Member of the Supervisory Board of Insurance CJSC Medexpress, - Member of the Board of Directors of CJSC Neva-Kabel, - a Chairman of the Board of Directors of CJSC RDPC Svyazist, - a member of the Management Board of the Russian Foundation of the History of Communications, Chairperson of the Management Board of the Nonprofit Partnership "Russian Club for Communicators", - Member of the Board of Promoters of the Traffic Safety Foundation OBDD-Neva, - Member of the Board of Directors of LLC Managing Company "IT-Park" - Member of the Board of Directors of OJSC The St. Petersburg Technopark
11.	Vladimir Ivanovich Shumeyko , First Deputy General Manager of OJSC N.W.Telecom	21 st January 1956	- The Leningrad Prof. M.A. Bonch-Bruyevich Electrical Engineering Institute of Communications, speciality: Automated electric communication, qualified as Electric communication engineer; - A.S. Griboyedov Moscow Institute of International Law and Economics, speciality: Jurisprudence, qualified as Lawyer.	-

Terms of reference of the Management Board

The Management Board is a collegiate executive body of OJSC N.W. Telecom, which organizes the fulfilment of decisions of the general meeting of the shareholders and the Board of Directors and manages the current activities of the Company.

For the purposes of efficient Company governance, the Management Board is guided by the following principles:

- promptly taking as objective decisions as possible in the interests of OJSC N.W. Telecom and its shareholders;
- bona fide, timely and efficient fulfilment of the decisions of the general meeting of the shareholders and the Board of Directors.

In 2008 the Board of Directors of the Company held 44 meetings, including 18 meetings with attending members and 26 meetings by correspondence.

In accordance with the Company's established practices, the Management Board considered the most strategically important matters at meetings held in the form of joint attendance.

Interaction between the Board of Directors and the Management Board

The interaction between the Board of Directors and the Management Board of the Company is one of the key elements of the corporate governance system of OJSC N.W.Telecom based on the principles of constructive dialogue and is a part of the system ensuring the observance of the balance of interests between the shareholders, the Board of Directors and the management.

At its meetings, the Management Board considers all strategically significant matters of the terms of reference of the Board of Directors and hands over respective materials for further consideration and a decision to be taken by the Board of Directors. Of all the matters considered at meetings by the Board of Directors in 2008, about 85% had been preliminarily prepared and considered by the Management Board. In 2008 all meetings of the Board of Directors that were held by actual attendance of its members also invited members of the Management Board. Such involvement of the collegiate executive body in working out the strategy ensures a transparency of the key tasks set by the Board of Directors and of the indicators of their performance.

Remuneration to Members of the Management Board

In compliance with the Provisions on the Management Board, approved by the decision of the Extraordinary General Meeting of the Shareholders of OJSC N.W.Telecom of 14th February 2003 (with amendments and additions No. 1 of 05.07.04), members of the Company's Management Board are reimbursed for expenses related to their discharge of the duties of the members of the Management Board, and a remuneration is paid to them.

The remuneration includes a constant and a variable part:

- the constant part is the monthly additional pay for an increased scope of work, established at a fixed rate;
- the variable part is the quarterly bonus for a bona fide discharge of the duties of a member of the Management Board.

The monthly additional pay for an increased scope of work is established for each member of the Management Board at the rate of 25,000 roubles and for the chairperson of the Management Board at the rate of 32,500 roubles. The quarterly bonus paid to each member of the Management Board may not exceed 175,000 roubles and that paid to the Chairperson of the Management Board may not exceed 227,500 roubles.

The total amount of quarterly bonus to members of the Management Board shall be established pursuant to the decision of the Board of Directors of OJSC N.W.Telecom, taking into consideration quality of the work of the Management Board. The issue of determining the amount of the quarterly bonus to all members of the Management Board according to the quarter's results shall be preliminarily considered at the meeting of the Appointments and Remunerations Committee of the Company's Board of Directors after the following issues are considered at the meeting of the Board of Directors:

- results of fulfilling the basic economic indicators of the Company's budget for the quarter;
- results of fulfilling earlier adopted decisions of the General Meeting of the Shareholders and the Board of Directors to be executed in the quarter that has expired.

In 2008 the total amount of the remuneration to the members of the Management Board, including the General Manager (Chairperson of the Management Board), made 8,757,500 roubles, including:

- 5,085,000 roubles to the members of the Management Board who worked before the general meeting of the shareholders of 23.06.08;
- 3,672,500 roubles to the members of the Management Board who worked after 23.06.08.

Auditing Committee

The Auditing Committee of the Company is elected annually at the annual general meeting of the shareholders, with 7 members, and is an independent control body of OJSC N.W.Telecom.

Table 29. The namelist of the Auditing Committee as of 31.12.2008

<u>Chairperson:</u> S.N. Bocharova	Head of the TaxDivision of the Accounting, Tax and Statistical Records Department, OJSC Svyazinvest
<u>Members of the Committee</u> V.V. Bekin	Deputy Chief of the Affiliates Division of the Corporate Management and Legal Support Department, OJSC Svyazinvest
E.S. Vinokurova	Head of the Division of the Economics and Finance Department, OJSC Svyazinvest
A.S. Lunina	Chief Specialist of the Legal Support Division, Corporate Management and Legal Support Department, OJSC Svyazinvest
P.E. Puchkov	Chief specialist of the team of the Strategic Development Department, OJSC Svyazinvest
I.V. Topolya	Deputy Chief Accountant of OJSC Svyazinvest
K.V. Frolov	Chief of the Internal Audit Board of OJSC Svyazinvest

The terms of reference of the Auditing Committee include:

- checking the reliability of the data contained in the reports and other financial documents of OJSC N.W.Telecom;
- revealing any facts of violation of the procedure for book-keeping and submission of financial reports, established by the legal acts of the Russian Federation;
- checking the observance of the legal standards in tax calculation and payment;
- revealing any facts of violation of the legal acts of the Russian Federation, in compliance with which the Company performs its financial and economic operations;
- evaluating the economic advisability of financial and economic operations of OJSC N.W.Telecom.

The Auditing Committee held 2 meetings in 2008 (in the period from 01.01.2008 till 22.06.2008) and 4 meetings in the period from 23.06.2008 till 31.12.2008 that considered the following issues:

- auditing the Company in 2007;
- approving the working plan of the Auditing Committee of OJSC N.W.Telecom for 2008-2009;
- holding the Audit of the Company for 9 months of 2008;
- electing the Chairperson and the Secretary of the Auditing Committee.

In the year under report the Auditing Committee worked in the following areas:

- observing the established procedure of book-keeping and submission of financial reports;
- auditing the legality of decisions and actions of the Company's executive bodies, including concluded contracts and made transactions;
- checking the observance of the legal acts in the performance of the financial and business operations in the core areas (capital construction, provision of the services of traffic connection and passage, provision of communication services);
- observance of the legislation on natural monopolies in the acquisition of financial services;
- analysis of the financial standing of the Company and evaluation of the efficiency of OJSC N.W. Telecom's financial investment management;
- analysis of the timeliness and correctness of settlements with partners, budgets of various levels, shareholders and other creditors of the Company;
- analysis of internal control organization;
- checking of the payment discipline; analysis of settlements with Company's debtors, including timeliness and completeness of measures taken by the executive bodies.

Remuneration to Members of the Auditing Committee

The amount and procedure of remuneration payment to the members of the Auditing Committee are set forth in the Provisions on the Auditing Committee of OJSC N.W. Telecom, approved by the general meeting of the shareholders on 23.06.08.

The members of the Auditing Committee shall be reimbursed for any expenses related to their performing their duties as members of the Auditing Committee and shall be paid a quarterly remuneration.

The quarterly remuneration to each member of the Auditing Committee shall be 250,000 roubles, The remuneration of the Chairperson of the Board of Directors shall have a factor of 1.3.

In case reelection of the Auditing Committee or withdrawal of individual members from the Auditing Committee took place in the quarter, the remuneration of a member of the Auditing Committee shall be paid in proportion to the time of his/her work in the quarter.

In 2008 the total remuneration to members of the Auditing Committee amounted to 5,987.6 thousand roubles.

Table 30. Data on Members of the Board of Directors and Management Board Holding Shares of OJSC N.W.Telecom

Shareholder	Common shares, pcs	Percentage of common shares	Preferred shares, pcs	Percentage of preferred shares	Shares, total, pcs	Percentage in the authorized capital
Board of Directors, Total, incl.:	80,546	0.00914	8,683	0.00347	89,229	0.0789
Olga Grigorievna Korolyova	21,000	0.00238	4,477	0.00179	25,477	0.00225
Viktor Iosifovich Koresh	59,546	0.00676	4,206	0.00168	63,752	0.00563
Management Board, incl.:	326,927	0.03711	110,675	0.04420	437,602	0.03868
Oleg Anatolyevich Semanov	19,466	0.00221	4,368	0.00174	23,834	0.00211
Leonid Zigmundovich Tufrin	52	0.00001	13,400	0.00535	13,452	0.00119
Grigory Borisovich Chernyak	306,190	0.03475	69,400	0.02772	375,590	0.03320
Vladimir Ivanovich Shumeyko	1,219	0.00014	0	0	1,219	0.00011
Vitaly Yevgenyevich Strizhkov		0	23,507	0.00939	23,507	0.00208
TOTAL:	407,473	0.04625	119,358	0.04767	526,831	0.04656

No transactions of acquisition or alienation of shares by the said members of the Board of Directors or of the Management Board were effected during the year under report. Other members of the Company's management bodies did not hold any shares as of 31st December 2008, no transactions of acquisition or alienation of shares having been effected by them during the period under report.

No members of Auditing Committee owned the Company's shares at the moment of election, no deals on purchasing or alienating the shares were executed by them within the year under report.

Internal Audit

To improve the internal control procedures, OJSC N.W. Telecom has set up a specialized division, the Internal Audit Department (IAD), which reports to the Board of Directors of the Company.

The Board of Directors approves annually a report on the work of the Department for a year and IAD's Work Plan for the year following the reporting year. In compliance with the Work Plan of the Internal Audit Department for the year 2008 approved by the Board of Directors OJSC N.W. Telecom (minutes of the meeting No. 19-01/27(07) of 15.11.2007), there were:

- 10 field inspections of the Company's branches;
- 12 specialized inspections in individual areas of the financial and business operations of OJSC N.W.Telecom;
- 10 inspections of the branches in certain areas, initiated by regional directors – managers of branches.

In the framework of the above measures, all divisions of OJSC N.W.Telecom were audited in the following areas:

- evaluation of the system for the internal control (SIC) of primary income formation;
- evaluation of the SIC of investment purchasing;
- evaluation of the SIC of operational purchasing;
- evaluation of the SIC of making up the reports;
- performance discipline;
- evaluation of the SIC of the use/safety of the Company's assets.

The results of the audits were brought to the notice of OJSC N.W. Telecom's management, and the IAD was given recommendations on rectifying the revealed violations (drawbacks). The management of the Company developed some measures for the control of rectifying the revealed violations, and a monitoring of the performance of the measures is being carried out on the constant basis.

The Internal Audit Department submits to the Audit Committee of the Board of Directors the results of the efficiency checks of the operating internal control procedures and, if necessary, proposals on their improvement prepared jointly with the executive bodies of OJSC N.W.Telecom.

External Audit

An independent audit of the financial reporting of OJSC N.W.Telecom is carried out by an external independent auditing organization, which is approved by the annual general meeting of the shareholders of the Company.

In 2008 the tender committee for selecting an independent auditor, which included five members of the Board of Directors OJSC N.W. Telecom, recognized as the winner of the tender the independent auditor organization Ernst and Young, which was later approved by the annual general meeting of the shareholders of OJSC N.W. Telecom of 23.06.08.

In 2008 the Company concluded the following contracts with Ernst & Young:




- contract of auditing 2008 accounting reports, auditing in accordance with international auditing standards in respect of financial reports prepared under the ISFR at 31.12.08;
- contract of certifying the offering circular of the sixth issue;
- contract of auditing the issue of exchange-traded bonds;
- contract of providing consulting services according to the DipIFR programme of the Association of Chartered Certified Accountants;
- contract of providing consulting services in the field of corporate social responsibility (CSR);
- contract of providing consulting services on the subject *New Developments in IFRS*.

The amount paid actually under these contracts during 2008 is equal to 18,059,513 roubles.
The amount of accounts payable to Ernst & Young as of 31st December 2008 was 9,135,645 roubles.

Ratings

The assessment of the corporate governance practices of OJSC N.W. Telecom by independent experts has remained at a high level for all the years of the Company's operation, and according to the year's results, corresponds to the best world standards by such components as "Financial Transparency, Disclosure and Audit" and "Rights of Shareholders and Relations with Financially Interested Parties".

Table 31. Corporate Governance Scores as of 31st December 2008

Rating agency	Score	Date of assigning/revision	Change
RID-Expert RA	corporate governance score «A»	4 th September 2008	
Standard & Poor's	corporate governance score according to the national scale «5.7»	9 th December 2008	
Standard & Poor's	corporate governance score according to the international scale «5+»	9 th December 2008	

The work carried out by the Company in corporate governance improvement resulted in the increase of the Standard & Poor's corporate governance score from 5.6 to 5.7 according to the Russian scale and in the confirmation of the rating at the level of 5+ according to the international scale in 2008. Besides, in the year under report the corporate governance score assigned by the Russian rating agency RID-Expert RA was confirmed at the "A" level.

Analysts of rating agencies have noted the following qualities among the strengths of OJSC N.W. Telecom's corporate governance practices in 2008:

- significant role of the Board of Directors and its Committees in the Company management;
- active role of independent directors in the management of OJSC N.W. Telecom;
- high level of transparency in the Company;
- availability of efficient procedures of preparing and holding shareholders' meetings;
- improvement in the time of preparing the reports according to the IFRS (the annual reports according to the IFRS for the year 2007 were prepared before the annual meeting of the shareholders);
- resorting to the services of an auditor having a good international reputation and selected in the course of an open tender.

At the end of 2008, the OJSC N.W. Telecom had the highest Standard & Poor's corporate governance score among the interregional communication companies in the Svyazinvest group and held the 3rd place in the overall list of corporate ratings assigned to Russian companies.

Cooperation with the Investment Community

In 2008 OJSC N.W. Telecom continued active interaction with the investment community, expanding the communication channels and improving the availability of information on OJSC N.W. Telecom for all parties concerned.

The interest of the investment community and finance and business mass media in the Company has been growing with each passing year and, in spite of the significant slackening of investors' business activity in the 3rd and 4th quarters, according to the results of the reporting year, the number of meetings with representatives of the investment community has significantly increased as compared to the year 2007. In 2008 the management took part in 60 meetings with representatives of the investment community, which is 36% more than in the previous

year; besides, 4 public conference calls were held, mainly with representatives of rating agencies for a more precise evaluation of OJSC N.W. Telecom's creditworthiness. The aggregate amount of the money managed by the participants of the meetings is more than 4 trillion US dollars.

In connection with the financial and economic situation that has become more complicated all over the world, starting from September 2008, the number of private telephone and e-mail consultations of investment banks' analysts providing the analytical coverage of OJSC N.W. Telecom with the workers of the investor department increased significantly.

In 2008 OJSC N.W. Telecom's management took part in three road shows (one in the USA and two in London), where they held all in all over 30 meetings with representatives of the investment community.

For the first time in its history, in 2008 OJSC N.W. Telecom arranged a deal road show to support a syndicated loan (a loan provided by several creditors to one borrower). In the course of the meetings with representatives of the banking community, explanations of the Company's strategy were given in order to attract additional underwriters for the syndicated loan. As a result, this made it possible to attract the syndicated loan on the pre-crisis terms.

OJSC N.W. Telecom considers participation in conferences organized by investment banks an equally important channel of cooperation with the investment community. Last year the Company took part in 2 such conferences: *Forum Russia* organized by Troika Dialog and the conference *To Prosperity through Partnership* organized by UBS. In the framework of the conferences, OJSC N.W. Telecom's management met more than 20 representatives of the investment community. At the UBS conference V. A. Akulich, the General Manager of the Company, was the only representative from fixed communication companies of Russia who delivered a report upon the invitation of the organizers, which confirmed the keen and special interest of the investment community in OJSC N.W. Telecom.

An integral area of the IR activities of OJSC N.W. Telecom is maintaining a high information transparency and ensuring prompt provision of information on Company's activities to all parties concerned. For the year 2008 OJSC N.W. Telecom published 136 press releases and information messages (131 in 2007).

For a wider audience coverage and for maintaining the liquidity of the securities in foreign markets, OJSC N.W. Telecom publishes English-language versions of press releases in Google News and on other publicly accessible international news portals of the Internet with subsequent storage in the archives of the major world mass media databases (LexisNexis, AcquireMedia, Comtex, Dialog, Factiva, etc.). Besides, information on OJSC N.W. Telecom is published in the form of a mini web site on the international RUSTOCKS.COM portal. Information releases of OJSC N.W. Telecom are mailed via this portal using the general mailing list of RUSTOCKS.COM (more than 3,500 subscribers).

The Company considers Internet conferences as one of the fastest and most targeted channels of communication with the investment community. OJSC N.W. Telecom regularly holds such conferences on its corporate web site (through the efforts of the IR and IT services, which significantly reduces the costs for organization and provides the possibility of a better control). Two Internet conferences were organized in 2008: on 18th January, *Preliminary Results of the Year 2007. Plans for the Year 2008*, and on 9th June, *Results of OJSC N.W. Telecom's Operations for the Year 2007 According to the International Financial Reporting Standards*.

Traditionally, analysts and mass media have been showing keen interest in the Internet conferences (all major investment banks take part in an Internet conference: Credit Suisse, JPMorgan, Goldman Sachs, Renaissance Capital, FK Uralsib, Deutsche Bank, etc.), however, 2008 has become the record year in this respect. In the January conference, for the first time more than 100 questions were asked, and the web site section *Investors and Shareholders*, in which the conference was held, was visited by more than 200 persons. More than 150 persons visited the conference on the IFRS results for the year 2007, notwithstanding the very specialized topic, and about 60 questions were asked (for comparison: the average number of questions and answers asked during Internet conferences organized by CBonds is about 20). Besides, for the first time in the history of OJSC N.W. Telecom, on-line translation of the Internet conference into English was provided, which ensured equal access to the information for both Russian and foreign investors.

For a more accurate identification of the Company's shareholders and for the analysis of investors, in 2008 OJSC N.W. Telecom used the Thomson One (IR-channel) database, which is a global database of investors. The base made it possible to form a circle of investors loyal to OJSC N.W. Telecom, to facilitate the search of potential

investors, to enhance the specialization of the work with investors, to attract new categories of investors and to carry out an analysis and subsequent segmentation.

It has been for several years that OJSC N.W. Telecom has taken part, jointly with counselors of Europe Investor Direct, in the Annual Report Promotion programme. The participation in the programme provides OJSC N.W. Telecom with another efficient tool for effective cooperation with the investment community, which has a positive effect on recognizability of the Company in the world and has brought long-term positive results to OJSC N.W. Telecom.

In 2008 the geography of the campaign was significantly expanded and included entire Europe, not only Scandinavia; besides, the campaign was launched in international mass media, due to which the geography of the report was expanded by including Asian countries. The results of the campaign show a stable growth of the interest in OJSC N.W. Telecom of both individual and institutional investors: in 2008 about 1,600 annual reports of the Company were requested.

The geographical distribution of the requests was as follows: Continental Europe – 74%, Great Britain – 8%, countries of the Asian region – 8%, other countries – 10%.

The average size of the portfolio of institutional investors who requested OJSC N.W. Telecom's annual report was 49 million euros, while the average portfolio of all investors made 23.1 million euros, which is much higher than the corresponding figure of most companies who had launched such a campaign (the average portfolio size for them was 17.5 million euros).

In 2008 OJSC N.W. Telecom made a number of topical and radical changes in the official web site of the Company. The changes were aimed at a higher quality of informing the shareholders of the Company on the value of their investment in OJSC N.W. Telecom's securities.

The following new elements were created in the framework of upgrading the Investor and Shareholder section:

- investor's calculator,
- interactive tool for monitoring the quotations of OJSC N.W. Telecom's stock,
- *Syndicated Loans* section,
- interactive analyst coverage map including consensus forecasts of investment banks on the market value of the shares and on the key financial and business indicators of OJSC N.W. Telecom.

The analyst coverage map is a unique product for Russia, developed by the Europe Investor Direct counselor especially for OJSC N.W. Telecom and useful for both external audiences and internal analysis.

Especially for the shareholders employed by the Company (today there are several thousand of them), interactive information on shares of OJSC N.W. Telecom, including on-line market quotations, dividend calculator, etc., has become accessible on the intra-corporate portal of OJSC N.W. Telecom.

Subsidiaries and Associate Companies

2008 saw the completion of the key task set by the OJSC N.W. Telecom's Board of Directors when the Model for Reorganization of the Subsidiary Business of OJSC N.W. Telecom developed by the Company's management was approved in 2004:

- structuring and optimizing the available portfolio of investment in the subsidiary and affiliate business according to the following principle: participation in each subsidiary and affiliate company must have a goal coinciding with the core activities of the Company as a participant of the communication services market.

In 2008 OJSC N.W. Telecom took a number of measures to:

- liquidate the participation interest in CJSC SPiC through voluntary liquidation of the company;
- sell the shares of:
 - primary companies: CJSC TD-Telecom (6.72 % of the Authorized Capital), CJSC St. Petersburg Teleport (1% of the Authorized Capital),
 - secondary companies: ICJSC Medexpress (25%+ 1 share of the Authorized Capital), OJSC Capital (4.72% of the Authorized Capital),
- terminate the participation in NP (Non-Profit Partnership) Centre for the Research of Telecommunications Development Problems, public organization Union of Industrialists and Entrepreneurs (Employers) of St. Petersburg, NP Union of Industrialists and Entrepreneurs

(Employers) of Murmansk Oblast, regional non-profit organization Union of Industrialists, Entrepreneurs and Employers of the Republic of Komi, and the public foundation Union of Industrialists and Entrepreneurs (Employers) of Novgorod Oblast.

These measures completed the performance by OJSC N.W. Telecom of the approved recommendations on the reorganization of the subsidiary business and the process of optimization of the Company's investment portfolio. The total obtained financial effect from the withdrawal of the financial investment in the subsidiary business for the reporting year amounted to 239.6 million roubles.

Table 32. Data on the Companies in which OJSC N.W.Telecom Participates as of 31.12.2008

Company		Area of activities	Share in the authorized capital, %
Primary companies			
1	CJSC PTT	Communication services	100
2	LLC Novgorod Datacom	Communication services	100
3	LLC Parma-Inform	Communication services	100
4	OJSC Kolatelecom	Communication services	50
5	WestBalt Telecom CJSC	Communication services	28
Auxiliary companies			
6	NWT-Finance LLC	Securing actions for issues of OJSC N.W. Telecom's securities	100
7	CJSC Rostelegraph	Agency services	11.76
8	OJSC Svyazintek	IT services	11
Secondary companies			
9	CJSC RDPC Svyazist	Organization of health care recreation for children and citizens	100
10	CJSC AMT	Investment in securities	100
11	OJSC JSCB Svyaz-Bank	Banking	0.23

In 2008 the work with CJSC RDPC Svyazist on the terms of asset management was terminated within the framework of the Programme for the Development of OJSC N.W.Telecom for the Years 2008 – 2012. Social assets owned by OJSC N.W. Telecom were contributed as an additional contribution to the authorized capital of the subsidiary, as a result of which the face value of the Company's participation in the authorized capital increased from 0.5 million roubles to 873 million roubles.

The method of cooperation between OJSC N.W. Telecom and CJSC RDPC Svyazist was changed in order to:

- improve the investment attractiveness and transparency of both the core and secondary businesses;
- concentrate the organizational resources on managing the core activities;
- reduce the expenses for the maintenance of the secondary business and increase the yield from it.

In 2008 the financial effect in the form of the sum total of the dividend obtained from the participation in the subsidiary and affiliate companies being a part of OJSC N.W. Telecom's subsidiary business amounted to 121.9 million roubles, including 88.7 million roubles from the participation in CJSC PTT, which is a strategically important company for OJSC N.W. Telecom. In 2009 the Company is planning to receive 210 million roubles of dividends.

OJSC N.W. Telecom's development strategy aimed at further expansion of the promising business areas and development of up-to-date competitive services implies acquiring new most significant primary companies. Thus, the investment portfolio may be replenished only through acquiring operators providing telecommunication services coinciding with the key competences of OJSC N.W.Telecom. First of all, this concerns broadband access to the Internet.

In the future, the Company sees the increase of the income level and the strengthening of OJSC N.W. Telecom's positions in the market of communication services and, as a consequence, the growth of the competitive capacity

and increase of the Company's market value, as the key goals of managing the available portfolio of investment in the subsidiary business.

The consolidated indicators of OJSC N.W.Telecom for 2008 taking into account the indicators of the primary subsidiary companies have been increased by 1,190 million roubles by income and by 320 million roubles by EBITDA.

Table 33. Data on participation of the Company in other organizations providing communication services (in whose authorized capital the share of the Company is at least 25%)

No.	Organization	Basic areas of business	Share in company's authorized capital, %	Contribution in the authorized capital, thousand roubles	Basic indices of the performance		
					Number of subscriber lines	Proceeds, thousand roubles	Net profit, thousand roubles
1	CJSC PTT	Interconnection services at the local and zonal levels; Local and zonal traffic transit; Data transmission and channels rent services; Internet access services; Local telephone services;	100	2 572 231	5 373	894 156	35 542
2	LLC Novgorod Datacom	Data transmission and channels rent services; Internet access services.	100	68 007	29 572*	132 640	34 242
3	LLC Parma-Inform	Data transmission and telematic services; Communication channels rent services; Communication services for cable broadcasting.	100	100	797*	65 429	13 612
4	OJSC Kolatelecom	Cable network telecasting services; Cable network data transmission services; Communication channels rent services.	50	75	14 102	80 402	- 8 482
		- Cable TV subscribers			из них 6 209		
		- Internet subscribers			7 893		
5	CJSC WBT	Provision of local, long-distance and international telephone communication services Data transmission services; Telematic services.	28	11 343	31 065	296 307	53 279

* *Internet users*

CJSC PTT (100% in the authorized capital)

CJSC PTT provides the full range of telecommunication services for communication operators and retail clients in St. Petersburg and Leningrad Oblast. The key area of CJSC PTT's activities is the organization of transit connections for stationary, cellular and other communication networks. Proceeds for the year 2008 amounted to 894,156,000 roubles, EBITDA to 205,597,000 roubles, and the EBITDA margin reached 23%. The net profit for 2008 amounted to 35,542,000 roubles.

LLC Novgorod Datacom (100% in the authorized capital)

LLC Novgorod Datacom provides data transmission services and dedicated Internet access services in Novgorod Oblast. There were 29,500 subscribers of the dedicated Internet access, and the absolute increase for 2008 amounted to about 10,400 clients. The company is a progressive and stable supplier of telecommunication

services in the region. The company's key financial indices of the year 2008 show a sustainable growth: the proceeds made 132,640,000 roubles, which is 37% higher than in 2007, EBITDA amounted to 48,267,000 roubles, and the EBITDA margin strengthened to 36.4%. The net profit was 34,242,000 roubles, which is 54% higher than in the previous year.

LLC Parma-Inform (100% in the authorized capital)

LLC Parma Inform is a data transmission network and telematic services node operator working in the Republic of Komi. The key clients are state organizations and big business. Starting from 2008 the company has been building "home networks" in the city of Syktyvkar (under the SKS Metro trade mark). Proceeds for the year 2008 amounted to 65,429,000 roubles, EBITDA to 20,195,000 roubles, and the EBITDA margin reached 31%. The net profit for 2008 amounted to 13,612,000 roubles.

OJSC Kolatelecom (50% in the authorized capital)

OJSC Kolatelecom provides the services of broadband cable TV and Internet access via Cable TV channels in Murmansk. There were 7,900 subscribers of the dedicated Internet access as of the end of 2008, and the absolute increase for 2008 amounted to about 1,600 clients. The proceeds made 80,402,000 roubles in 2008, which is 24% higher than in the previous year, the profit from sales amounted to 2,424,000 roubles, EBITDA 7,525,000 roubles and the EBITDA margin 9.3%. A serious foreign currency debt has not made it possible for the company to get a profit; because of the negative currency exchange differences, the loss amounted to 8,482,000 roubles.

CJSC WestBalt Telecom (28% in the authorized capital)

CJSC WestBalt Telecom provides the complete range of public network communication (local, long-distance and international) services in Kaliningrad, as well as Internet services (ByteCity trademark) and access to centres of data transmission services and telematic services. The bulk of the clientele are the population and small business. According to the results of 2008, the proceeds of the company amounted to 296,307,000 roubles, which was 2% more than in 2007, and the net profit made 53,279,000 roubles.

SECURITIES

Table 34. Basic information on OJSC N.W. Telecom's shares

	As of 31 st December 2008
Value of shares at MICEX (closing price, roubles)	
Common shares	6.239
Preferred shares	5.32
Trading volume at MICEX (per year, million pcs.)	
Common shares	136
Preferred shares	134
Market capitalization (million roubles)	6,828
Weight of shares in indices, the calculation of which includes OJSC N.W. Telecom's shares	
MICEX- Telecom Common shares	6.44
RTS-Telecom (RTStl) (%)	
Common shares	6.82
Preferred shares	3.88
RTS Common shares (%)	0.15
RTS – 2 (%)	
Common shares	1.41

Preferred shares	0.8
MSCI Russia Small Cap (%)	
Common shares	7
Preferred shares	7
Number of placed shares (pcs.)	
Common shares	881,045,433
Preferred shares	250,369,337
Face value of common and preferred shares	1 rouble
Amount of the authorized capital (roubles)	1,131,414,770
Number of declared shares (pcs.)	
Common shares	6,098
Preferred shares	32,486
Dividend per share (roubles)	
Common shares	0.207*
Preferred shares	1.291*
Volume of issued ADRs (thousand pcs.)	3,657

* The amount of the dividend recommended by the Board of Directors of the Company for approval at the annual general meeting of the shareholders

Table 35. Venues trading in shares of OJSC N.W. Telecom

Name of the securities	Common stock		Preferred stock		1 st level ADR for common shares	
Name of the Stock Exchange	MICEX	RTS	MICEX	RTS	Berlin and Frankfurt Stock Exchanges	USA off-exchange market
Quoting list level	A1	A2	A2	A2	Freiverkehr	-
Ticker tape	SPTL	SPTL / SPTLG	SPTLP	SPTLP / SPTLPG	SQ4.BE (Berlin) SQ4.F (Frankfurt)	NWTEY

Shareholders

The largest holder of OJSC N.W.Telecom's block of shares is the Open Joint-Stock Company "Investitsionnaya Kompaniya Svyazi" (Investment Communication Company). It owns a controlling block of voting shares in the Company amounting to 50.76% of the total number of common shares.

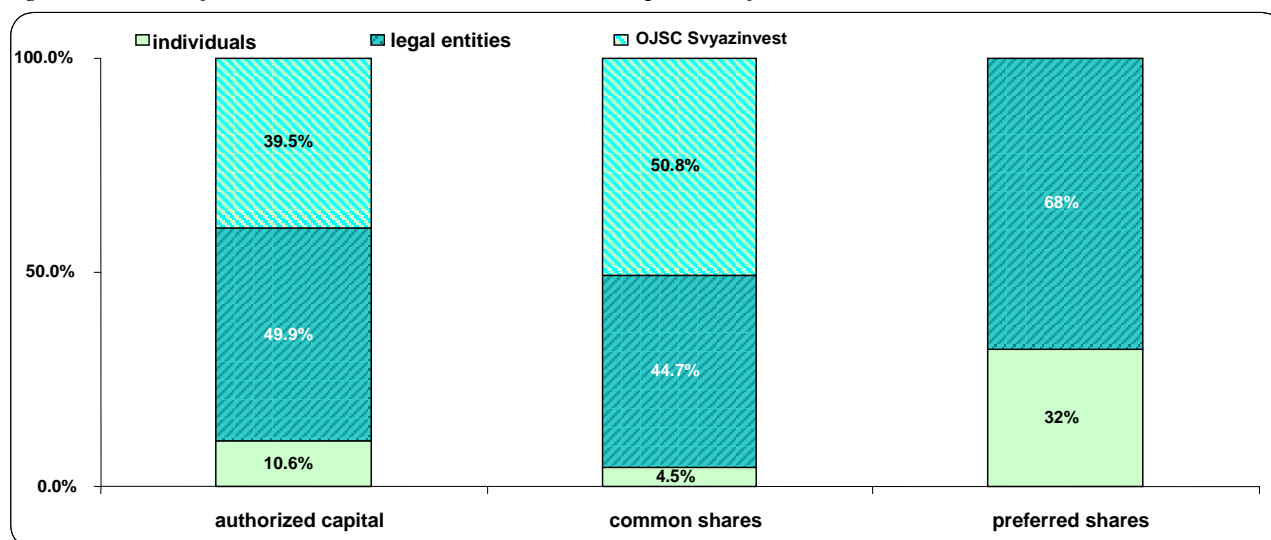
Large blocks of common shares of OJSC N.W.Telecom are nominally held by NP National Depositary Centre (14.23%), CJSC UBS Nominees (12.46%), CJSC Depositary Clearing Company (9.88%), CJSC ING Bank (Eurasia) (7.6%). Individuals hold mostly preferred shares (31.83% of the total number of preferred shares).

During the year the most significant changes in the structure of OJSC N.W. Telecom's authorized capital took place in the re-distribution of the preferred shares from all major nominal holders in NP (Non-Profit Partnership) National Depositary Centre (from 12.9% in 2007 the holding share increased to 29.57%). Most probably, this change is accounted for by the outflow of nonresidents' funds from the Russian stock market because of the world financial crisis.

Table 36. Distribution of shares as of 31.12.2008*

Shareholder	Status	Common shares, pcs.	Share in the total volume of common stock, %	Preferred shares, pcs.	Share in the total volume of preferred shares, %	Shares, pcs. total	Percentage of total number of shares
Legal entities (165 accounts), total:		841,193,124	95.477	170,688,439	68.175	1,011,881,563	89.435
<i>including those holding more than 1% of the authorized capital:</i>							
OJSC Investment Communication Company	owner	447,230,789	50.761	0	0	447,230,789	39.528
CJSC Depositary Clearing Company	nominal holder	87,071,066	9.883	67,446,470	26.939	154,517,536	13.657
CJSC UBS Nominees	nominal holder	109,815,278	12.464	22,665,854	9.053	132,481,132	11.709
CJSC ING BANK (EURASIA)	nominal holder	66,965,404	7.601	3,072,736	1.227	70,038,140	6.190
Nonprofit Partnership National Depositary Centre	nominal holder	125,369,491	14.230	74,031,836	29.569	199,401,327	17.624
Individuals (30,493 accounts):		39,852,309	4.523	79,680,898	31.825	119,533,207	10.565
TOTAL:		881,045,433	100	250,369,337	100	1,131,414,770	100

* according to OJSC «URC»

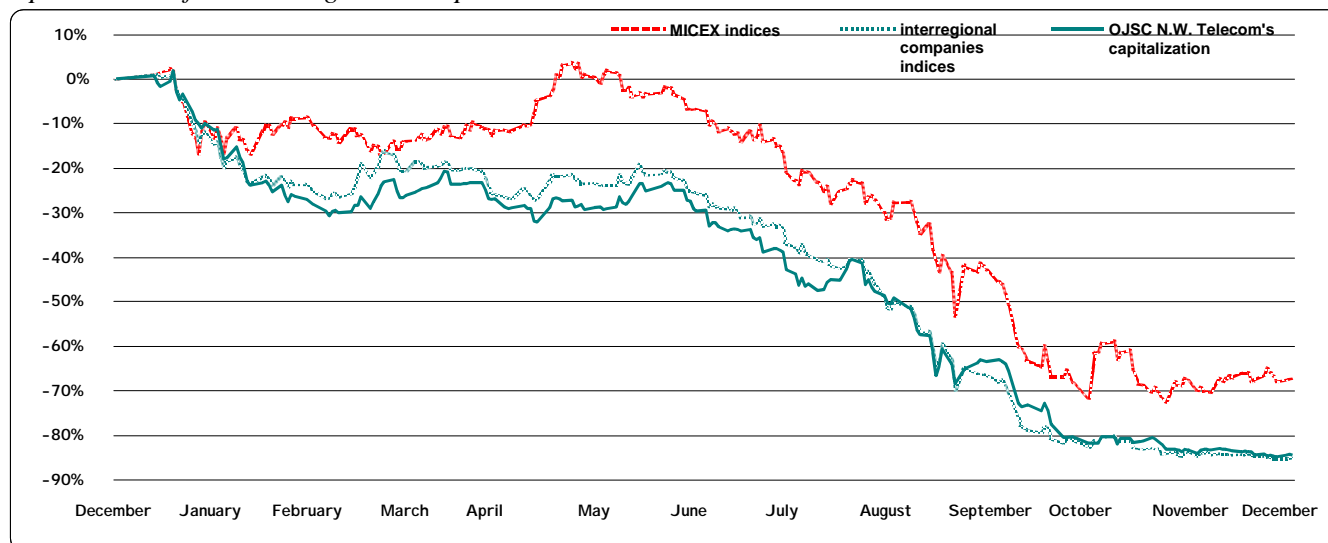
Fig.7. Structure of OJSC N.W. Telecom's Authorized Capital as of 31st December 2008

Company's Position in the Stock Market

The extremely negative environment was the determinative that affected the Russian stock market in 2008. For more than half of the year, OJSC N.W. Telecom's stock, as well as stock of other telecommunication companies, was under the pressure of the negative trends in the foreign stock venues connected with significant writing off of assets in the banking sector and series of bankruptcies all over the world, the full-scale mortgage crisis in the USA, the growth of unemployment, universal fall in the production volumes, the drop of stock-exchange prices of energy resources, and other manifestations of the recession in the world economy. Though many analysts predicted that Russia would be one of "quiet havens", the above factors resulted in a serious drop of Russia's stock market and a slow-down of the economic growth rate and the national currency exchange rate in the second half of 2008.

In such a situation, the good results of the financial and business activities and the confirmation of OJSC N.W. Telecom's credit ratings had only a short-term effect on Company's quotations and capitalization. As a result, common and preferred shares of OJSC N.W. Telecom, having reached the maximum values of 42.08 roubles and 30.3 respectively early in the year, fell down to 6.24 roubles and 5.32 roubles by the end of the year, while the capitalization of the Company decreased to 6.83 billion roubles. Similar trends were observed in the industry on the whole: according to the results of the year the aggregate capitalization of the interregional companies decreased by 84.8%, while OJSC N.W. Telecom's capitalization dropped by 84.4%.

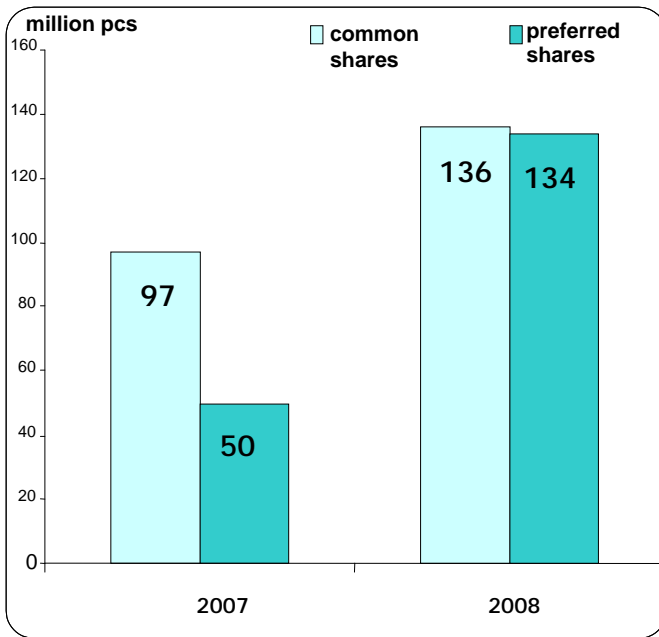
Fig. 8 Trends in OJSC N.W. Telecom's capitalization as compared to MICEX indices and the aggregate capitalization of the interregional companies.*



* according to CJSC MICEX

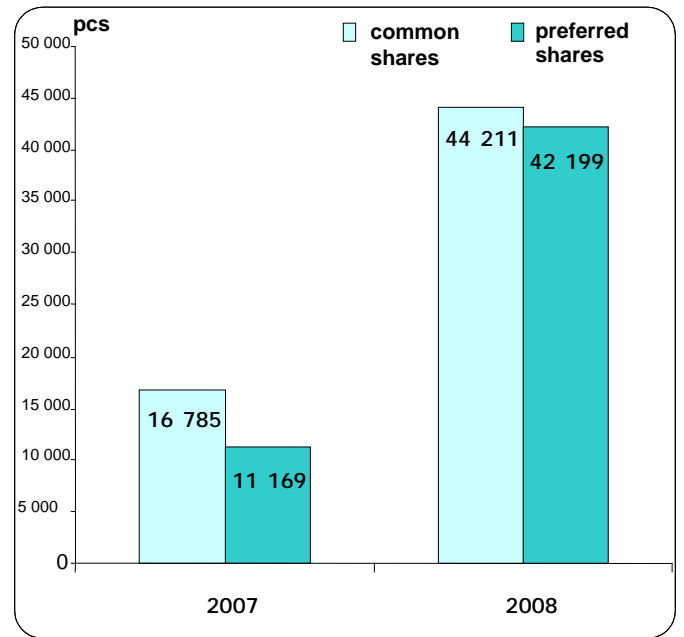
MICEX has been the main trading venue for Company's shares for several years. In 2008 the trade volume and the number of transactions with OJSC N.W. Telecom's shares at MICEX significantly increased as compared to the year 2007. The number of transactions with common shares increased 2.6 times and that with preferred shares increased 3.8 times. The trade volume for common shares increased 1.4 times and that for preferred shares almost 2.7 times, the turnover for preferred shares in fact having equalled that for common shares. This is largely accounted for by the predominance of speculative mood in the stock market and the expectation of a high dividend yield on the preferred shares of the Company based on the results of the year 2007.

Fig. 9. Trade volume at MICEX, million pcs.*



* according to CJSC MICEX

Fig. 10. Number of transactions at MICEX, pcs.*



* according to CJSC MICEX

Depository Receipts (ADRs)

The Company has implemented the level 1 ADR programme for common shares. As of the end of 2008, the number of issued ADRs was 3,657,670 for 36,576,700 common shares, which makes 4.15% of the total number of OJSC N.W. Telecom's common shares.

Before 31st July 2008 the conversion factor of 1 ADR = 50 OJSC N.W. Telecom's common shares was used. For the time of implementing the level 1 ADR programme since the year 2001, the prices of ADRs exceeded the range that was standard for this kind of securities in the Western stock markets, and the Company's ADRs started looking overestimated for investors.

To increase the liquidity of the ADRs, in 2008 OJSC N.W. Telecom took a number of measures to change the conversion factor: 1 ADR = 10 OJSC N.W. Telecom's common shares. After the conversion factor was changed, the price of one depository receipt automatically decreased 5 times. Taking into account the change in the conversion factor, the price of one ADR was 5 US dollars as of the end of 2008.

Table 37. Basic information on ADRs

Date of level 1 ADR programme registration	4 th September 2001
Name of the depository bank	JPMorgan Chase Bank
Custody bank	ING Bank (Eurasia) ZAO (CJSC ING Bank (Eurasia))
ADR rate	1 ADR = 10 common shares

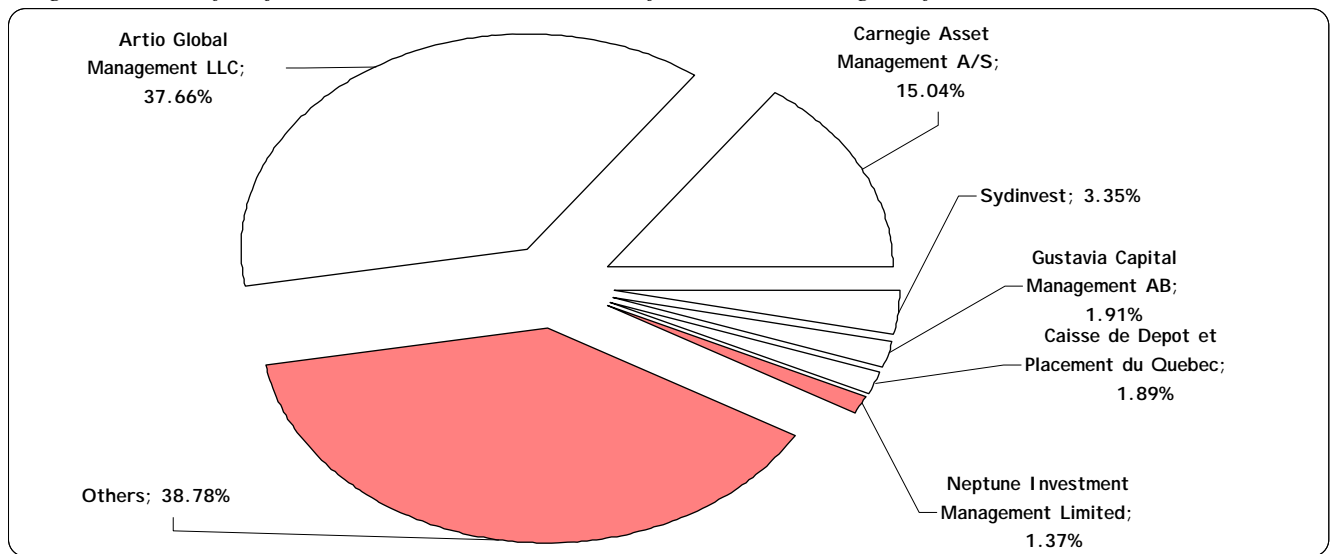
According to the results of the year 2008, the ratio of ADRs to OJSC N.W. Telecom's shares decreased by 32.6%.² The decrease of the number of ADRs is accounted for by the unfavourable economic situation in the world, due to which many foreign investors withdrew their funds from Russian assets.

Table 38. Basic sellers of ADRs for OJSC N.W. Telecom's shares in 2008

Company	Assets under management, million US dollars	Country	Number of ADRs of OJSC N.W. Telecom	
			for the beginning of the period	for the end of the period
Goldman Sachs Asset Management (US)	105,728	USA	93,838	–
Glitnir Asset Management (Finland)	1,661	Finland	34,343	–
Evli Securities AS	246	Estonia	32,000	–
Danske Capital	7,175	Denmark	20,000	–
Pohjola Asset Management Limited	3,147	Finland	10,310	–
Wellington Management Company, LLP	264,060	USA	3,600	–

As a result of the changes that took place in the holders structure, the Artio Global Management LLC company (37.66% of the total number of the circulating ADRs) and the Carnegie Asset Management Scandinavian foundation became the biggest holders of OJSC N.W. Telecom's ADRs as of the end of 2008.

Fig.11. Shares of major holders in the total number of ADRs circulating as of 31.12.08.*



* according to ADR.com

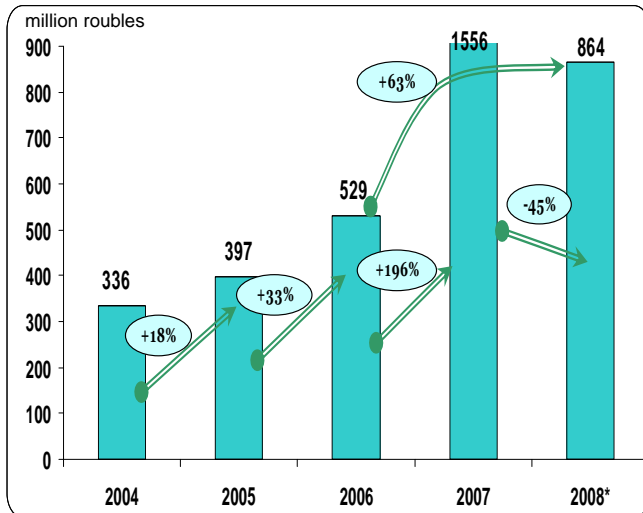
Dividend

The fundamental principle of the dividend policy of OJSC N.W. Telecom is the continuous balance of interests of the Company and its shareholders as well as increase in the market value and improvement in the investment attractiveness of OJSC N.W. Telecom.

In calculating and paying dividends, OJSC N.W. Telecom is guided by the requirements of the Federal Law On Joint-stock Companies and by the provisions of the Company's Articles of Association. According to the Articles of Association of OJSC N.W. Telecom, the total amount paid as dividend on each preferred share is established as 10 per cent of the net profit based on the results of the fiscal year, divided by the number of shares that make 25 per cent of the Company's Authorized Capital. The amount of dividend under common shares is approved by the general meeting of the shareholders based on the recommendations of the Company's Board of Directors.

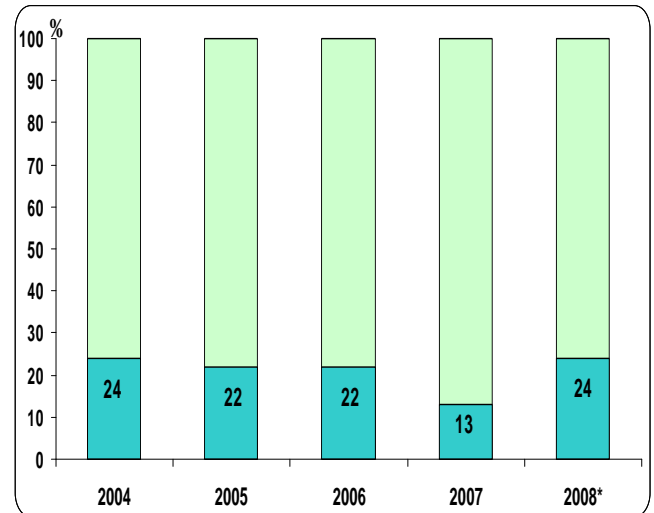
¹ For comparison, the data are given without taking into account the conversion factor

Fig.12. Amount of net profit allocated for dividends payment, million roubles



* The amount of net profit based on the amount of dividend recommended by the Board of Directors of the Company for approval at the annual general meeting of the shareholders

Fig.13. Percentage of net profit allocated for dividends payment

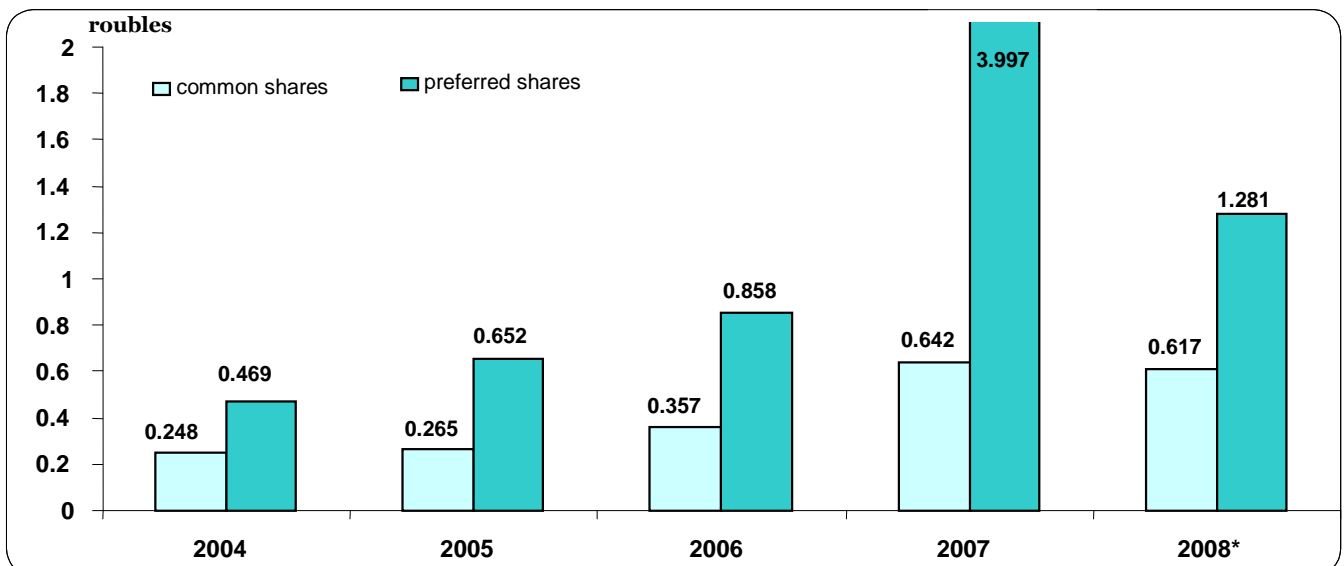


* The percentage of net profit based on the amount of dividend recommended by the Board of Directors of the Company for approval at the annual general meeting of the shareholders

Upon decision of the annual meeting of the shareholders of 23rd June 2008, 1,566 million roubles (13% of the net profit) were allocated for the dividend payment for 2007, which was 3 times higher than for 2006. The significant increase of the amount allocated to dividend payment in 2008 has been accounted for by the growth of the net profit in 2007, including the result from the sale of the share in OJSC Telecominvest. The amount of pays per preferred share increased by 365.3% and per common share by 79.8% as compared to the year 2007.

The dividends for the year 2007 were paid from 15.08.2008 till 15.12.2008. As of 31.03.09, the amount of the paid dividends made 554,946,020.47 roubles on common shares and 975,893,545.77 roubles on preferred shares. The ratio of the paid dividends to the total amount of the dividends to be paid made 98.12% for common shares and 97.52% for preferred shares. The payment of the dividend was not complete because of incomplete or incorrect details for transferring the dividends, that were stated in the list of the persons entitled to the yield on the Company's securities for the year 2007.

Fig.14. Dividend per OJSC N.W.Telecom's share, roubles



* The amount of the dividend recommended by the Board of Directors of the Company for approval at the annual general meeting of the shareholders.

According to the results of 2008, the Board of Directors recommended that the Annual Meeting of the Shareholders of OJSC N.W.Telecom approve the following amount of dividends: 1.281 roubles per one preferred share and 0.617 roubles per one common share.

Bonds

As of the end of 2008, three issues of OJSC N.W. Telecom's corporate bonds were in circulation. All issues of the OJSC N.W. Telecom's bonds were permitted for trading at MICEX Stock Exchange to be included in A1 Quoting List of the Stock Exchange and were also included in the pawn list of securities of the Central Bank of Russia, i.e. securities accepted to secure direct REPO deals.

Table 39. Basic information on the bond issues in circulation

No. of issue	State reg. No. of the issue	ISIN code	Volume of issue at face value, million roubles	Floatation end date	Number of coupons (coupon period)	Current coupon rates	Repayment date (The face value of bonds is retired in parts)
3	4-03-00119-A	RU000A0DZQM6	3000	03.03.2005	24 (91 st day)	From 1 to 12 – 9.25% per annum From 12 to 24 – 8.6% per annum	1) 25.02.2010 -30% of the Bonds face value; 2) 26.08.2010 -30% of the Bonds face value; 3) 24.02.2011 -40% of the Bonds face value
4	4-10-00119-A	RU000A0JNZB3	2000	14.12.2006	20 (91 st day)	From 1 to 20 – 8.1% per annum	1) 10.12.2009 -30% of the Bonds face value; 2) 09.12.2010 -25% of the Bonds face value; 3) 08.12.2011 -50% of the Bonds face value
5	4-05-00119-A	RU000A0JPS91	3000	27.05.2008	20 (91 st day)	MosPrime3M + 212 bp 1 st coupon 8.4% 2 nd coupon 9.73% 3 rd coupon 15%	1) 22.05.2012 -30% of the Bonds face value; 2) 20.11.2012 -30% of the Bonds face value; 3) 21.05.2013 -50% of the Bonds face value

Late in May of the reporting year, under the conditions of the world financial crisis, OJSC N.W. Telecom managed to float the 5th bonded loan at an unprecedentedly low rate for this season, 8.4% per year. According to the terms of the issue, the coupon rates of the bonds of the 5th issue are determined proceeding from the MosPrime3M rate value as of the date of establishing the rate of the current coupon and the premium that was determined during the floatation and amounted to 212 bp. In compliance with the Company's policy aimed at reducing external risks and with the Decision on the Bonds Issue, the limit coupon rate is provided for, which was established at the level of 15% per annum.

As a reliable borrower, OJSC N.W. Telecom timely and completely fulfills its obligations for the servicing of bond loans. Thus, in 2008, 4 coupons were paid for a total of 262.1 million roubles on the third issue, the amount allocated for the payment of 4 coupons on the fourth issue was equal to 161.5 million roubles and 135.6 million roubles were allocated for the payment of 2 coupons on the fifth issue.

Besides, according to the Decision on the Issue of the 3rd Issue Bonds, holders of the bonds could present the securities for acquisition in the period from 22nd February till 28th February 2008. 2,177,779 bonds were presented for retirement, which was about 73% of the total issue. The value of the bonds presented by their holders for redemption taking into account the accumulated coupon yield amounted to 2,181.3 million roubles. All obligations provided in the offer were fulfilled by the OJSC N.W. Telecom completely and on time.

In October 2007 the Federal Service for Financial Markets registered the 6th bonded loan of the Company with the total volume of 3 billion roubles, the decision on floating which will be taken depending on the market situation.

Late in 2008 the Company started preparing four issues of exchange-traded bonds. OJSC N.W. Telecom believes that under the conditions of the crisis investors will show keen interest in this tool of promptly attracting borrowed funds.

By borrowing funds, OJSC N.W. Telecom proceeds from minimizing the value and prolonging the borrowing period. The good public credit history, high financial and economic indicators, the stable position in the market of telecommunication services and transparency in the field of corporate governance will help the Company attract borrowed funds on beneficial terms even during the world financial crisis.

REFERENCE AND CONTACT INFORMATION

General Directorate and Branches**General Directorate (location of OJSC N.W.Telecom's executive body)**

Address	14/26 ul. Gorokhovaya, St. Petersburg, 191186 (26, ul. Bolshaya Morskaya)
Administrative office telephone No.	(812) 595-45-56
Fax	(812) 710-62-77
Web-site	http://www.nwtelecom.ru
E-mail	office@nwtelecom.ru

OJSC N.W.Telecom, Arkhangelsk Branch

Address	45, Troitsky prospekt, Arkhangelsk, 163000
Regional Director – Manager of the Branch	Vladimir Ivanovich Belokaminskiy
Telephone	(8182) 20-50-20
Fax	(8182) 65-40-96
Internet office	http://arkhangelsk.nwtelecom.ru
E-mail	info@artelecom.ru

OJSC N.W.Telecom, Vologda Branch

Address	4, Sovetsky pr., Vologda, 160000;
Regional Director – Manager of the Branch	Andrey Stepanovich Ganov
Telephone	(8172) 72-40-58
Fax	(8172) 72-61-23
Internet office	http://vologda.nwtelecom.ru
E-mail	32eu@svz.vologda.ru

OJSC N.W.Telecom, Kaliningrad Branch

Address	24, ul. Bolnichnaya, Kaliningrad, 236006
Regional Director – Manager of the Branch	Andrey Alexeyevich Kulazhenkov
Telephone	(4012) 45-18-20
Fax	(4012) 45-15-52
Internet office	http://kaliningrad.nwtelecom.ru/
E-mail	secretar@b24.baltnet.ru

OJSC N.W.Telecom, Karelia Branch

Address	4, ul. Gorkogo, Petrozavodsk, 185035
Regional Director – Manager of the Branch	Sergey Mikhaylovich Gavryushev
Telephone	(8142) 76-51-11
Fax	(8142) 76-61-44
Internet office	http://karelia.nwtelecom.ru
E-mail	ao@com.onego.ru

OJSC N.W.Telecom, Komi Branch

Address	60, ul. Lenina, Syktyvkar, 167981
Regional Director – Manager of the Branch	Vikentiy Alexandrovich Kozlov
Telephone	(8212) 29-98-05
Fax	(8212) 21-50-40
Internet office	http://komi.nwtelecom.ru
E-mail	komisvyaz@parma.ru

OJSC N.W.Telecom, Leningrad Oblast Branch

Address	15, ul. Pochtamtskaya, St. Petersburg, 190000
Regional Director – Manager of the Branch	Vitaly Yevgenyevich Strizhkov
Telephone	(812) 571-84-78
Fax	(812) 315-48-50
Internet office	http://lenobl.nwtelecom.ru
E-mail	secretary@spb.lsi.ru

OJSC N.W.Telecom, Murmansk Branch

Address	82-a, pr. Lenina, Murmansk, 183038
Regional Director – Manager of the Branch	Vitaly Stanislavovich Vitman
Telephone	(8152) 45-45-45
Fax	(8152) 45-00-45
Internet office	http://murmansk.nwtelecom.ru
E-mail	mels@mels.ru

OJSC N.W.Telecom, Novgorod Branch

Address	2, ul. Lyudogoscha, Veliky Novgorod, 173001
Regional Director – Manager of the Branch	Nikolay Pavlovich Emelyanov
Telephone	(8162) 78-25-10
Fax	(8162) 73-19-15
Internet office	http://novgorod.nwtelecom.ru
E-mail	sekretar@nt.novgorod.net

OJSC N.W.Telecom, Petersburg Branch

Address	24, ul. Bolshaya Morskaya, St. Petersburg, 191186
Regional Director – Manager of the Branch	Viktor Ivanovich Plyachenko
Telephone	(812) 710-68-38
Fax	(812) 595-45-95
Internet office	http://www.ptn.ru
E-mail	office@ptn.ru

OJSC N.W.Telecom, Pskov Branch

Address	45, Troitsky prospekt, Arkhangelsk, 163000
Regional Director – Manager of the Branch	Eduard Ivanovich Tumashevsky
Telephone	(8182) 20-50-20
Fax	(8182) 65-40-96
Internet office	http://arkhangelsk.nwtelecom.ru
E-mail	info@artelecom.ru

Auditor

Limited Liability Company "Ernst & Young"
 Location of the branch in St. Petersburg: 23A, ul. Malaya Morskaya, Business Center "White Nights", St. Petersburg, 190000
 Mailing address: 77, Sadovnicheskaya nab., building 1, Moscow, 115035
 Telephone: (812) 703-78-00
 Fax: (812) 703-78-10
 E-mail: moscow@ru.ey.com

Auditor's license:

No. of license: E002138

Date of issue: 30.09.2002.

Validity period: 5 years, prolonged till 30th September 2012 by the Order of RF Ministry of Finance No.573 dated 17th September 2007.

Authority issuing the license: RF Ministry of Finance

Bonds Depository

Nonprofit Partnership National Depository Centre
 Location: 1/13, Sredny Kislovsky per., building 4, Moscow
 Mailing address: 13, ul. Mashkova, building 1, Moscow, 105062
 Telephone: (495) 223-63-92
 Fax: (495) 956-09-38
 Email: info@ndc.ru

Section for Investor Relations

Tel: (812) 719-94-77

Fax: (812) 719-94-14

ir@nwtelecom.ru

Shareholders Department for Saint Petersburg and Leningrad Oblast

Tel: (812) 312-52-89

Tel: (812) 719-92-34 (for legal entities)

Fax: (812) 719-92-47

Official printed media for information disclosure

Izvestiya – St.Petersburg newspaper

Register holder

United Registration Company - Open Joint-Stock Company
 Location of the branch in St. Petersburg: 16, ul. Bolshaya Monetnaya, St. Petersburg, 197101
 Telephone: (812) 336-51-06
 Location: 15a, ul. Kalanchevskaya, Moscow, 113095
 Mailing address: POB 162, Moscow, 107078
 Telephone/ fax: (495) 504-28-86
 E-mail: ork@ork-reestr.ru

License for keeping a register:

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

Date of issue: 30.03.2004

Validity period: without limitation of the validity period

Authority issuing the license: Federal Service for Financial Markets

Depository bank for the ADR programme

JPMorgan Chase Bank
 60 Victoria Embankment
 London EC4Y 0JP
 Tel. + 44 (0) 207 325 6365
 Fax + 44 (0) 207 777 2989

Public Relations Section

Tel: (812) 719-93-45

Fax: (812) 719-93-50

pr@nwtelecom.ru

Reference telephone Nos. for shareholders in regional centers of North-Western Federal District

Arkhangelsk	tel.(8182) 20-50-90
Vologda	tel.(8172) 72-83-39
Kaliningrad	tel.(4012) 45-33-15
Petrozavodsk	tel.(8142) 79-43-60
Sykt'yvkar	tel.(8212) 29-92-88
Murmansk	tel.(8152) 48-51-85
Novgorod	tel.(8162) 73-92-88
Pskov	tel.(8112) 16-80-77

INFORMATION ON THE MOST IMPORTANT TRANSACTIONS MADE BY THE COMPANY IN 2008

In compliance with Article 81 of the Federal Law "On Joint-Stock Companies" (amended as of 30.12.08), the Company monitored related-party transactions during 2008. One important factor allowing to timely detect related-party transactions is the timely updating of the list of related parties on the Company web-site <http://www.nwtelecom.ru>, section "For investors and shareholders".

Table 40. List of related-party transactions approved by the Company's Board of Directors in 2008.

No.	Parties to contract	Data on the person(s) interested in the transaction	Minutes No., date	Subject of the contract	Price of contract
1	OJSC N.W.Telecom, OJSC "Information Technologies of Communication"	The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest) holding jointly with its affiliated parties - inter-regional companies (paragraph 2 of Article 83 of the Federal Law "On Joint-Stock Companies) more than 20 per cent of voting shares of the second party to the transaction (OJSC "Information Technologies of Communication"), holds more than 20 per cent of the Company's voting shares	No. 19-01/01(08) of 16.01.2008	development, implementation and support of "Remote Education System" software	41,280,660.89 roubles
			No.19-01/06(08) of 19.03.2008	development, standardization of business processes, integration of automated billing system	12,755,595.34 roubles
			No.19-01/13(08) of 06.06.2008	implementation of ERP in Svyazinvest group of companies	57,457,240.00 roubles
			No.19-01/17(08) of 29.07.2008	planning of upgrading the technical architecture of the ERP System	4,177,966.10 roubles
			No.19-01/19(08) of 01.09.2008	confidentiality agreement	-
			No.19-01/20(08) of 15.09.2008	supplementary agreement to the contract of development of the master system based on Amdocs modules	\$ 1 109 110
			No.19-01/20(08) of 15.09.2008	services of centralized control of the Unified Programme for Customers Billing and Relationship Management	11,927,100.00 roubles
			No.19-01/20(08) of 15.09.2008	implementation of the LAES information system	17,579,600.00 roubles
			No.19-01/21(08) of 30.09.2008	supplementary agreement to the contract of specification of support services related to Unified master system based on Oracle software	-
2	OJSC N.W.Telecom, OJSC Rostelecom	A.N. Kiselyov and M.A. Alexeev - members of the Board of Directors of OJSC N.W.Telecom and members of the Board of Directors of OJSC Rostelecom	No.19-01/02(08) of 11.02.2008	providing space for placing technological equipment	511,968.00 roubles
			No.19-01/08(08) of 14.04.2008	supplementary agreement to the contract of traffic handling	30,000 roubles
		The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest) holding more			

		than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (OJSC Rostelecom).	No.19-01/12(08) of 30.05.2008	supplementary agreement to the contract of equipment placement	92,400.00 roubles
			No.19-01/13(08) of 06.06.2008	granting the right of placing the mast on the roof of the building	242,000.00 roubles
			No.19-01/14(08) of 20.06.2008	provision of communication services	-
			No.19-01/14(08) of 20.06.2008	sale and purchase of communication line	4,080,071.59 roubles
		A.N. Kiselyov, V.B. Zhelonkin and M.A. Alexeev - members of the Board of Directors of OJSC N.W.Telecom and members of the Board of Directors of OJSC Rostelecom	No.19-01/19(08) of 01.09.2008	granting the right of placing technological equipment in nonresidential premises on a paid basis	35,200.00 roubles
		The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest) holding more than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (OJSC Rostelecom).	No.19-01/19(08) of 01.09.2008	granting the right of placing technological equipment in nonresidential premises on a paid basis	600,000.00 roubles
			No.19-01/19(08) of 01.09.2008	granting the right of placing technological equipment in nonresidential premises on a paid basis	27,500.00 roubles
			No.19-01/21(08) of 30.09.2008	equipment placement	93,750.66 roubles
			No.19-01/22(08) of 14.10.2008	supplementary agreement to the contract of providing space for placing equipment	28,000.00 roubles
			No.19-01/28(08) of 25.12.2008	OJSC N.W.Telecom's equipment operations support	282,636.00 roubles
			No.19-01/28(08) of 25.12.2008	placement of technological equipment	168,520.09 roubles
			No.19-01/28(08) of 25.12.2008	providing space for placing technological equipment	703,563.74 roubles
			No.19-01/28(08) of 25.12.2008	lease of non-residential premises	255,316.49 roubles
			No.19-01/28(08) of 25.12.2008	equipment placement	186,864.42 roubles
3	OJSC N.W.Telecom, CJSC RadioTel	M.A. Alexeev - Member of the Board of Directors of OJSC N.W.Telecom, Member of the Board of Directors of OJSC RadioTel	No.19-01/06(08) of 19.03.2008	supplementary agreement to the contract of real estate lease	429,493.56 roubles
4	OJSC N.W.Telecom, NPF Telecom-Soyuz	A.N. Kiselyov - Chairperson of the Board of Directors of OJSC N.W.Telecom and Chairperson of the Board of the Telecom-Soyuz Non-Governmental Pension Fund	No.19-01/06(08) of 19.03.2008	supplementary agreement to the contract of non-governmental pension insurance	158,971,000.00 roubles
			No.19-01/06(08) of 19.03.2008	supplementary agreement to the contract of non-governmental pension insurance	17,277,000.00 roubles
		A.N. Kiselyov - Chairperson of the Board of Directors of OJSC N.W.Telecom and Chairperson of the Board of the Telecom-Soyuz Non-Governmental Pension Fund	No.19-01/27(08) of 19.12.2008	supplementary agreement to the contract of non-governmental pension insurance	-

		V.A. Akulich - Member of the Board of Directors of OJSC N.W.Telecom and Member of the Board of the Telecom-Soyuz Non-Governmental Pension Fund			
5	OJSC N.W.Telecom, the Russian Foundation of the History of Communications	G.B. Chernyak - Member of the Management Board of OJSC N.W.Telecom and Chairperson of the Management Board of the Russian Foundation of the History of Communications	No.19-01/06(08) of 19.03.2008	charitable support	9,100,000.00 roubles
			No.19-01/14(08) of 20.06.2008	donation	20,000,000.00 roubles
6	OJSC N.W.Telecom, OJSC Novgorod Datacom	N.P. Emelyanov – Member of the Management Board of OJSC N.W.Telecom and Chairperson of the Board of Directors of LLC Novgorod Datacom	No.19-01/12(08) of 30.05.2008	supplementary agreement on termination of the contract on interconnection of telecommunication networks	-
		OJSC N.W.Telecom, being an affiliated party of OJSC Svyazinvest, which holds more than 20 per cent of the voting shares of OJSC N.W.Telecom, holds over 20 per cent of voting shares of the second party to the transaction (LLC Novgorod Datacom)			
		OJSC N.W.Telecom, being an affiliated party of OJSC Svyazinvest, which holds more than 20 per cent of the voting shares of OJSC N.W.Telecom, holds over 20 per cent of voting shares of the second party to the transaction (LLC Novgorod Datacom)	No.19-01/19(08) of 01.09.2008	supplementary agreement to the contract of interconnection of the communication networks	-
			No.19-01/19(08) of 01.09.2009	confidentiality agreement	-
			No.19-01/23(08) of 30.10.2008	provision of optical fibres for use	16,024.45 roubles
			No.19-01/23(08) of 30.10.2008	provision of optical fibres for use	1,313.00 roubles
7	OJSC N.W.Telecom, OJSC RTComm.RU	The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest), jointly with its affiliated party (OJSC Rostelecom), holds over 20 per cent of voting shares of the second party to the transaction (OJSC RTComm.RU).	No.19-01/12(08) of 30.05.2008	supplementary agreement on increase of remuneration under contract	53,400.00 roubles
			No.19-01/12(08) of 30.05.2008	supplementary agreement to the contract of general-education institutions connection	-
			No.19-01/20(08) of 15.09.2008	providing space for placing technological equipment	65,261.09 roubles
			No.19-01/25(08) of 27.11.2008	equipment placement	21,249.00 roubles
			No.19-01/28(08) of 25.12.2008	supplementary agreement to contract of channels rates	-
			No.19-01/28(08) of 25.12.2008	agency contract of interests representation services	-
8	OJSC N.W.Telecom, OJSC Kolatelecom	OJSC N.W.Telecom, being an affiliated party of OJSC Svyazinvest, which holds more than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (OJSC Kolatelecom)	No.19-01/12(08) of 30.05.2008	supplementary agreement to the contract of lease of nonresidential premises	1,162,705.29 roubles
			No.19-01/12(08) of 30.05.2008	supplementary agreement on termination of the contract of lease of nonresidential premises	-
			No.19-01/20(08) of 15.09.2008	provision of space in the cable ductwork for use	125,204.40 roubles
			No.19-01/28(08) of 25.12.2008	supplementary agreement to the contract of providing space for placing technological equipment	263,726.87 roubles

9	OJSC N.W.Telecom, CJSC TD-Telecom	V.I.Shumeyko - Member of the Management Board of OJSC N.W.Telecom and Member of the Board of Directors of CJSC TD-Telecom	No.19-01/12(08) of 30.05.2008	supplementary agreement on increase of remuneration under contract	80,760.00 roubles
10	OJSC N.W.Telecom, ICJSC Medexpress	G.B. Chernyak - Member of the Management Board of OJSC N.W.Telecom and Member of the Supervisory Board of ICJSC Medexpress	No.19-01/12(08) of 30.05.2008	supplementary agreement to the contract of lease of nonresidential premises	476,400.00 roubles
		OJSC N.W.Telecom, being an affiliated party of OJSC Svyazinvest, which holds more than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (ICJSC Medexpress)	No.19-01/14(08) of 20.06.2008	sale and purchase of nonresidential premises	31,352,338.14 roubles
		G.B. Chernyak - Member of the Management Board of OJSC N.W.Telecom and Member of the Supervisory Board of ICJSC Medexpress	No.19-01/16(08) of 18.07.2008	civil liability insurance of the companies operating hazardous industrial facilities	2,100.00 roubles
11	OJSC N.W.Telecom, the State Educational Institution of Higher Professional Education - M.A. Bonch-Bruyevich Saint Petersburg State University of Telecommunication	A.A. Gogol - Member of the Board of Directors of OJSC N.W.Telecom and One-person executive body (rector) of the State Educational Institution of Higher Professional Education - M.A. Bonch-Bruyevich Saint Petersburg State University of Telecommunications	No.19-01/13(08) of 06.06.2008	arranging and implementing practical training of the students of the University at OJSC N.W.Telecom on a gratuitous basis	-
			No.19-01/13(08) of 06.06.2008	lease of real estate	2,761,700.48 roubles
			No.19-01/16(08) of 18.07.2008	lease of real estate	90,000.00 roubles
			No.19-01/28(08) of 25.12.2008	arranging and implementing practical training of the students of the College of Communications at OJSC N.W.Telecom on a gratuitous basis	-
			No.19-01/28(08) of 25.12.2008	lease of real estate	3,120,491.22 roubles
12	OJSC N.W.Telecom, OJSC Giprosvyaz	The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest) holding more than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (OJSC Giprosvyaz).	No.19-01/16(08) of 18.07.2008	design work	150,483,008.00 roubles
			No.19-01/22(08) of 14.10.2008	design work	961,746.00 roubles
13	OJSC N.W.Telecom, CJSC Petersburg Transit Telecom	O.V. Popov, O.A. Semanov and L.Z. Tufrin - members of the Management Board of OJSC N.W.Telecom and members of the Board of Directors of CJSC Petersburg Transit Telecom	No.19-01/21(08) of 30.09.2008	supplementary agreement to the contract of interconnection of the Company's communication networks	14,793,000.00 roubles
		OJSC N.W.Telecom, being an affiliated party of OJSC Svyazinvest, which holds more than 20 per cent of the Company's voting shares, holds over 20 per cent of voting shares of the second party to the transaction (CJSC Petersburg Transit	No.19-01/21(08) of 30.09.2008	supplementary agreement to the contract of interconnection of the Company's communication networks related to exclusion of servicing of interconnect points	-
			No.19-01/21(08) of	supplementary agreement to	-

		Telecom)	30.09.2008	the contract of interconnection of the Company's communication networks related to amendment of traffic transmission rates	
			No.19-01/28(08) of 25.12.2008	provision of communication channels for use	8,850,000.00 roubles
			No.19-01/28(08) of 25.12.2008	lease of telecommunication equipment	6,632,900.00 roubles
			No.19-01/28(08) of 25.12.2008	lease of real estate	15,177,085.80 roubles
14	OJSC NWT, OJSC National Payphone Network	The shareholder of OJSC N.W.Telecom (OJSC Svyazinvest), jointly with its affiliated party (CJSC Mobile Telecommunications), holds over 20 per cent of voting shares of the second party to the transaction (OJSC "National Payphone Network").	No.19-01/22(08) of 14.10.2008	provision of space in the cable ductwork for temporary use	54,932.04 roubles
15	OJSC N.W.Telecom, LLC "RDPC Svyazist"	G.B. Chernyak - Member of the Management Board of OJSC N.W.Telecom and Chairperson of the Board of Directors of LLC "RDPC "Svyazist" OJSC N.W.Telecom is the only participant of the second party in the transaction (the interest is 100%).	No.19-01/28(08) of 25.12.2008	vouchers' purchase	67,457,700.00 roubles

Table 41. List of transactions which were approved by the Board of Directors in compliance with the Company's Articles of Association.

No.	Parties to contract	Transaction type	Minutes No., date	Subject of the contract	Price of contract
1	OJSC N.W.Telecom, CJSC Natexis Banque	over 1% of the assets book value	No.19-01/02(08) of 11.02.2008	interrelated contracts of credit	2,500,000,000 roubles
2	OJSC N.W.Telecom, CJSC Hybrid Printing Systems	over 1% of the assets book value	No.19-01/03(08) of 14.02.2008	purchase of common shares	415,350,000 roubles
3	OJSC N.W.Telecom, JSCB Savings Bank of RF	over 1% of the assets book value	No.19-01/08(08) of 14.04.2008	supplementary agreement for replacement of the pledged assets list	-
4	OJSC N.W.Telecom, JSCB Savings Bank of RF	over 1% of the assets book value	No.19-01/09(08) of 29.04.2008	interrelated contracts of credit	1,155,000,000 roubles
			No.19-01/28(08) of 25.12.2008	interrelated contracts of credit	1,155,000,000 roubles
5	OJSC N.W.Telecom, OJSC JSCB Svyaz-Bank	over 1% of the assets book value	No.19-01/11(08) of 26.05.2008	acquisition of the bank's notes	3,000,000,000 roubles

6	OJSC N.W.Telecom, OJSC VTB-Leasing	over 1% of the assets book value	No.19-01/21(08) of 30.09.2008	contract of leasing	534,360,231.08 roubles
7	OJSC N.W.Telecom, CJSC UniCredit Bank, ING Bank N.V., Natixis	over 1% of the assets book value	No.19-01/24(08) of 31.10.2008	syndicated fixed-term credit	\$ 150 000 000

No transactions deemed as major transactions according to Article 78 of the Federal Law On Joint-Stock Companies (in the version of 30.12.2008) were effected by the Company during the period under report.

**DATA ON THE COMPANY OBSERVING THE CORPORATE GOVERNANCE CODE AND THE
RECOMMENDATIONS OF THE CODE OF CORPORATE CONDUCT OF THE FEDERAL
COMMISSION FOR THE SECURITIES MARKET**

Adherence to the corporate governance principles is an integral constituent of Company's business and business relations ethics, one of the most important conditions of improving the capitalization of the Company and, consequently, of the growth of its shareholders and employees' income.

The Company shall have a good image and exercise a deserved respect among both the Russian and international community, which is impossible without a conscientious adherence to the corporate governance principles, which establish a balance of the interests for shareholders, managers, the working team, contractors, creditors and state authorities.

The Company aspires at observing the high standards of corporate governance, taking into account the international and Russian advanced practices. The Company understands the importance of the corporate governance level both for improving the goodwill and for strengthening the economic position.

Table 42. Meeting the provisions of the Corporate Governance Code of OJSC N.W.Telecom

№	Provision of Corporate Governance Code of OJSC N.W.Telecom	Level of execution
Part I. Adherence to the Corporate Governance Principles		
1. Definition and Principles		
<i>The Company's corporate governance is based on the following principles:</i>		
1	Reporting: The Code provides for the accountability of the Company's Board of Directors to its shareholders and shall serve as guidelines for the Board of Directors in developing a strategy and in exercising the management and supervision of the activities of the Company's executive bodies.	Executed (The Code was unanimously approved by the Board of Directors (Minutes No.33-04 of 22.09.2004), in other words its provisions are shared by all the Board Members)
2	Equality: The Company undertakes to protect shareholders' rights and to ensure equal attitude towards all shareholders. The Board of Directors shall enable all shareholders to get efficient protection in case of any infringement of their rights.	Executed (no violations of the shareholders rights identified during the reported period, clauses 7.1, 8.1. of the Articles of Association)
3	Transparency The Company shall ensure a timely and reliable disclosure of information on all essential facts concerning Company's activities, including its financial position, results of the operation, structure of the ownership and management of the Company, as well as free access to such information for all interested parties.	Executed (disclosed in accordance with clauses 2.3 and 2.4. Information policy provisions of the Company may be found on the Company Website WWW.nwtelecom.ru .)
4	Liability The Company shall acknowledge the rights of other interested parties under the requirements of the laws.	Executed (no violations of the interested persons' rights identified during the reported period)
5	Ethical Conduct: The Company undertakes to observe the generally accepted standards of business ethics in the corporate governance and business activities.	Executed

6	The Company, its officials and all employees shall be guided in their activities by the requirements of the active law and by the ethic principles adopted in the business community.	Executed (The Corporate Governance Code approved by the Board of Directors on behalf of the Company, hence its provisions are binding for all the Company executives and employees)
2. Company's Bylaws		
7	The structures, processes and practice of corporate governance shall be regulated by the Articles of Association and the bylaws of the Company, including: Provisions on the General Meeting of the Shareholders; Provisions on the Board of Directors; Provisions on the Auditing Committee; Provisions on the Management Board; Provisions on Dividends on Shares; Provisions on Committees of the Board of Directors; Provisions on the procedure of large transactions, related party transactions, and transactions requiring approval by the Board of Directors according to the Articles of Association of the Company; Provisions on the procedure of issue of documents to shareholders.	Executed (all the listed documents have been approved and are binding in the Company)
8	The bylaws of the Company listed in clause 7 have been prepared in compliance with the provisions of the active law and taking into account the basic provisions of the Code of the Federal Commission for the Securities Market and the corporate governance principles recognized in the international practice. All the above listed bylaws can be freely accessed on the Company's Internet site www.nwtelecom.ru .	Executed (Provisions on Information Policy, clause 1.10.)
3. General Structure of Corporate Governance and Control		
9	<p>The general structure of Company's corporate governance and control includes:</p> <p>General Meeting of Shareholders – the supreme controlling body of the Company ensuring participation of shareholders in management of the Company and in its profit distribution.</p> <p>Board of Directors – the Company's controlling body responsible for development of the Company's strategy and providing supervision and control over the executive bodies' activities. The Company's Board of Directors shall form Committees implementing the functions of corporate governance, strategic development, reporting, auditing, remuneration, etc.</p> <p>General Manager and Management Board – the Company's executive bodies responsible for management of the Company's routine operation and implementation of the strategy formulated by the Board of Directors.</p> <p>Auditing Committee – the Company's inspecting body monitoring the Company's business and reporting directly to the General Meeting of Shareholders.</p> <p>Corporate secretary – the Company's executive ensuring compliance by the controlling bodies with the requirements of internal provisions and external regulation, promoting efficient information exchange between the controlling bodies and executive bodies, and performing consultant functions for members of the Board of Directors and the top management. The Company's Articles of Association provide for the position of the Corporate Secretary.</p> <p>Internal Audit Department – the Company's division responsible for development and verification of efficiency of the Company's internal business control systems. The Department reports to the General Manager, and submits reports on audit results to the General Manager, Auditing Committee, and Board of Directors of the Company. The Provisions on the Internal Audit Department shall be approved by the Board of Directors; the Board of Directors shall also approve the appointment of its head.</p>	Executed (Corporate Governance Code of OJSC N.W.Telecom, Part 1, clause 3)
4. Observing the Standards and Adhering to the Principles of Corporate Governance		
10	Development, control over the observance and periodic revision of the corporate governance policy and practice shall be ensured by the respective Committee of the Company's Board of Directors.	Executed (Provision on the Corporate Governance Committee, clause 2.2.3.)
Part II. Proper Practice of the Operation of the Board of Directors and Executive Bodies		
1. Board of Directors		

11	a. Authority. The terms of reference of the Board of Directors shall be defined in the Company's Articles of Association in compliance with the active law and the recommendations of the Code of the Federal Commission for the Securities Market. The issues included in the terms of reference of the Board of Directors cannot be handed over to the collective or one-person executive body of the Company.	Executed (clauses 13.4 and 13.5 of the Articles of Association)
12	b. Number of the Members The number of the members of the Board of Directors is established by the Company's Articles of Association. The number of the members may be changed, if appropriate changes are made in the Articles of Association.	Executed (Clause 13.2 of the Articles of Association)
13	c. Membership Criteria. In accordance with the principles recognized in the corporate governance practice, the Board of Directors shall develop, approve and then revise annually a list of Board member qualification requirements (upon recommendation of the respective Committee of the Board of Directors).	Analysis is under way of the best practices of the corporate governance and the activities of other companies
14	d. Election, Term of Office and Termination of Powers. Members of the Board of Directors shall be elected by the annual general meeting of the shareholders by cumulative voting for a period of one year.	Executed (Clause 13.2 of the Articles of Association)
15	The general meeting of the shareholders may terminate the powers of only the entire Board of Directors.	Executed (Clause 13.3 of the Articles of Association)
16	e. Composition and Independence. The composition of the Board of Directors shall ensure representation of various groups of shareholders, including minority shareholders.	Executed (the Board of Directors has representatives of the minority shareholders and the State)
17	The skills, experience and personal qualities of the members of the Board of Directors shall ensure the proper discharge of the duties by the Board in exercising control and developing the basic areas of the Company's activities and strategy. Each member of the Board of Directors shall have the necessary experience, knowledge, skills and a stainless reputation required to discharge the duties of a member of the Board and to organize efficient work of the entire Board in the interests of the Company and its shareholders. The composition of the Board shall ensure the representation of a wide range of knowledge and experience in the field of the Company's basic activities, the industry and the geographic regions of the activities.	Executed
18	The Company considers that the Board of Directors shall be managed by a director who is not an executive.	Executed
19	The Board of Directors shall include no more than 20% of chief executives.	Executed
20	To ensure objectivity of decisions taken and to keep the balance of the interests of different groups of shareholders, the Board of Directors shall include several independent directors. The Code of the Federal Commission for the Securities Market shall serve as the basis for establishing independence of a director.	Executed
21	f. Committees. The Company shall form Committees of the Board of Directors to implement the functions of corporate governance, strategic development, reporting, auditing, remuneration, etc.	Executed (4 committees started)
22	The activities of each Committee shall be governed by the respective Provisions on such a Committee, to be approved by the Board of Directors.	Executed (Provisions on the Audit Committee, Provisions on the Corporate Governance Committee, Provisions of the Appointments and Remunerations Committee, Provisions on the Strategic Development Committee)
23	Each Committee shall present preliminary recommendations on the most important issues in the terms of reference of the Board of Directors. After each meeting, the Committees shall present minutes of the meeting to the secretariat of the Board of Directors.	Executed (in practice and as per the Code on Committees, clause 2.1. and clause 5.13.)
24	g. Work Procedure. The Board of Directors shall hold meetings in compliance with the established work plan to be adopted at the start of the new Board's term of office, which shall ensure that its duties will be properly discharged. The Board of Directors shall hold meetings at least 12 times a year without restricting the maximum number of meetings.	Executed (drafting the operations plan is envisaged by clause 6.2. of the Provisions on the Board of Directors, number of meetings exceeds 12 annually)

25	Meetings of the Company's Board of Directors may be held in the form of joint attendance or correspondence voting. The form of holding a meeting shall be determined taking into account the importance of the issues of the agenda to be considered. Issues requiring a detailed discussion, such as approving the budget, approving the annual report on the preliminary basis, approving the priority areas of operation and strategies of the Company, the issues of convoking the general meeting of the shareholders, electing or re-electing the chairperson of the Board of Directors and a number of other issues shall be decided at meetings to be held in the form of joint attendance.	Executed (in practice and as per the Provisions on the Board of Directors, clause 6.1.)
26	The procedure of convoking and holding meetings of the Board of Directors shall be governed by the Provisions on the Board of Directors. The Secretary of the Board of Directors shall see to it that all directors get exhaustive information in due time simultaneously with receiving a notice that a meeting of the Board of Directors is going to be held, however, 14 days before holding each meeting at the latest. The said period shall be reduced, if the law provides for shorter periods of holding a meeting of the Board of Directors. Such a period may also be reduced, if it is necessary to urgently solve any issues, provided neither member of the Board of Directors objects. The appropriate set of documents shall include the agenda proposed by the chairperson of the Board of Directors, detailed materials on each issue of the agenda required to take a grounded decision, as well as clear recommendations in respect of the necessary actions.	Executed (Provisions on the Board of Directors, clauses 6.3, 6.4, 6.5, 6.9)
27	The Board of Directors shall keep minutes of its meetings, properly recording there the discussion of all issues; the minutes shall be signed by the chairperson of the Board and by the Secretary of the Board of Directors and shall include the results of voting for each name. The Company shall store all minutes of the meetings of the Board of Directors.	Executed (Provisions on the Board of Directors, clause 6.14)
28	h. Self-appraisal. The Board of Directors emphasizes the appraisal of its work and will do its best to carry out such an appraisal on the annual basis. In the course of the appraisal, both the work of the Board on the whole and the contribution of each individual member of the Board of Directors shall be evaluated, as well as the influence of such work on the results of the Company's activities. The appraisal process shall be organized by the respective Committee of the Board of Directors, while its results are to be discussed at a meeting of the Board of Directors. The Board of Directors may invite independent counsellors to render assistance in carrying out such an appraisal.	Executed The self-appraisal procedure for the Board of Directors was developed by the Appointments and Remunerations Committee jointly with the Corporate Governance Committee.
29	i. Installing and Inviting Counsellors. The Company shall offer to newly elected members of the Board of Directors a program of installing them in order to enable them to get familiarized with the Company's activities, areas of its business, etc., so that it could help new members of the Board of Directors in discharging the duties vested in them. The Board of Directors and its Committees shall have resources to engage independent consultants in legal, financial, etc. matters advising the Board as necessary.	Executed (the newly elected members of the Board of Directors are provided with the materials necessary to enter the position) The Provisions on the Committees of the Board of Directors provide for the right to invite counsellors.
30	j. Remuneration. The remuneration of the members of the Board of Directors depends on personal participation of each member in the work of the Board of Directors and on the long-term development of the Company, and the remuneration mechanism shall not infringe upon the independence of directors. Upon recommendation of the respective Committee of the Board of Directors, the Board of Directors shall put forward for consideration by the general meeting of the shareholders the issue of the amount of remuneration to be paid to directors. All members of the Board of Directors shall have a contract with the Company. The Company shall disclose information on the remuneration of each member of the Board of Directors to the public.	Executed partially: contracts with members of the Board of Directors are in development stage
31	The Company shall not give any loans, grants or credits to members of the Board of Directors.	Executed
32	k. Obligations and Liability. Members of the Board of Directors undertake to abstain from any actions that will or may cause a conflict between the interests of such a member of the Board of Directors and the Company. If such a conflict takes place, the member of the Board of Directors undertakes to disclose the information on the conflict of interests to other members of the Board and to abstain from voting on such issues.	Executed (The Code was approved by the Board of Directors, Minutes No.33-04 of 22.09.2004)
33	Members of the Board of Directors shall be provided with all necessary information on issues proposed for discussion by them. Any extra information shall be provided to members of the Board of Directors upon request within the shortest time possible.	Executed (Provisions on the Board of Directors, clauses 3.1.1, 3.4)
2. Executive Bodies		

34	a. Authority. The General Manager and the Management Board shall manage the current activities of the Company aimed at fulfilling the goals and tasks of the Company and implementing the strategy adopted by the Board of Directors, in compliance with the provisions of the Company's bylaws.	Executed (clause 14.4., 15.1., 15.2., 15.4 of the Articles of Association, Company Agreement with the General Manager)
35	b. Number of the Members The number and personalities of the members of the Management Board shall be established by the decision of the Company's Board of Directors upon proposal of the General Manager and members of the Board of Directors. The Board of Directors shall be responsible to shareholders for an adequate choice of candidatures of the members of the Management Board.	Executed (Clause 14.2 of the Articles of Association)
36	c. Membership Criteria. All members of the Management Board shall have the following qualities: confidence of the Company's shareholders, members of the Board of Directors, and other executives and employees of the Company; ability to consider interests of all shareholders and to make measured decisions; professional experience and qualification required for an efficient manager; knowledge of national features and trends, and knowledge of the market, services provided, and the company's competitors; ability to use experience and knowledge in decision-making related to the Company's business;	Executed
37	d. Election, Term of Office and Termination of Powers. The Board of Directors shall elect the General Manager. The General Manager and members of the Board of Directors shall propose candidatures of members of the Management Board for approval by the Board of Directors.	Executed (clauses 13.4.25., 14.2., 14.3. of the Articles of Association)
38	The General Manager shall be appointed for a period determined by the Company's Board of Directors. The Management Board shall be elected for a period determined by the Company's Board of Directors when its members are appointed.	Executed (clauses 13.4.25., 13.4.27, 14.3., 15.1. of the Articles of Association)
39	Upon decision of the Company's Board of Directors, the powers of any member (all members) of the Company's Management Board may be terminated earlier than planned. In case of early termination of the powers of individual Members of the Management Board, the powers of newly appointed members shall have a duration limited by the period, for which the Company's Management Board has been formed.	Executed (Clause 14.3 of the Articles of Association)
40	e. Composition of the Management Board. The composition of the Management Board (the skills, experience and personal qualities) shall ensure an efficient management of the Company's current activities. Each Member of the Management Board, including the General Manager, shall have the experience, knowledge and skills required for efficiently discharging the duties of a member of the Management Board.	Executed
41	f. Management Board Work Procedure The Management Board shall hold regular meetings, the members of the Management Board must receive information on the issues of the meeting's agenda in advance. The Management Board's work procedure shall comply with the Provisions on the Company's Management Board.	Executed (Provisions on the Board, clauses 5.2., 5.4.)
42	g. Succession Planning. The Management Board shall adopt a list of reserve candidates in case temporary absent or retired top managers of the Company are to be replaced. To ensure the process, the General Manager shall submit to the Board of Directors a list of persons, most suitable to fill the vacancies of retired Company's managers, including the position of the General Manager.	Executed (List of Reserves for Managerial Positions of OJSC N.W.Telecom)
43	h. Remuneration. During their term of office the members of the Company's Management Board shall be paid a remuneration and shall be reimbursed for any expenses related to their performing their duties as members of the Management Board. Members of the Management Board shall be entitled to participate in option programmes implemented by the Company. The amount of remuneration to members of the Management Board shall be determined by a decision of the Board of Directors.	Executed (Part 6, Provisions on the Management Board)
44	i. Obligations and Liability. The General Manager and the members of the Management Board shall act conscientiously and in the interests of the Company.	Executed (Provisions on the Management Board clause 2.2., General Manager acting as the Chairperson of the Management Board (Articles of Association, clause 15.3))

45	<p>The General Manager and the members of the Management Board undertake to abstain from any actions that will or may cause a conflict between the interests of such a member of the Management Board and the Company. If such a conflict takes place, the General Manager and the members of the Management Board undertake to disclose the information on the conflict of interests to the Board of Directors.</p>	<p>Executed (Responsibilities specified in the Provisions on the Management Board, clause 2.2., the Agreement with Member of the Management Board, clause 3.1.4. and the Corporate Governance Code)</p>
46	<p>3. Interaction between the Board of Directors, General Manager and Management Board. The role of the Corporate Secretary.</p> <p>Proper corporate governance implies the possibility of an open dialogue between the Board of Directors and the executive bodies of the Company. The Board of Directors shall maintain constant contacts with the executive bodies and officials of the Company in order to get the most complete and reliable information and to ensure an efficient interaction of the Company management bodies and officials. The Corporate Secretary shall play the key role in organizing this process.</p>	<p>Executed (interaction between management bodies and executives is regulated by the Articles of Association, Provisions on the Board of Directors, Provisions on the Management Board, Provisions on the Corporate Secretary and the Staff of the Corporate Secretary)</p>
47	<p>The Corporate Secretary shall be appointed by the Board of Directors. The task of the Corporate Secretary is to ensure that the Company's bodies and officials observe the procedural requirements guaranteeing the exercise of rights and the protection of the interests of the Company's shareholders. The Corporate Secretary shall have sufficient powers and knowledge required to discharge the duties vested in him/her and shall enjoy the confidence of shareholders and members of the Board of Directors.</p>	<p>Executed</p> <ol style="list-style-type: none"> 1. Clause 16.1 of the Articles of Association 2. Authority and the prerequisites on the Corporate Secretary are included in the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (approved by the Board of Directors, Minutes No.19-01/08(06) of 30.03.2006) <p>Amendments and additions No.1 to the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (introduced by the Board of Directors, Minutes No.19-01/12(08) of 30.05.2008)</p>
48	<p>The Corporate Secretary shall be accountable and subordinated to the Board of Directors. The Corporate Secretary shall be appointed and the terms of the contract made with him/her, including the amount of the remuneration, shall be within the terms of reference of the Board of Directors.</p>	<p>Executed</p> <ol style="list-style-type: none"> 1. Articles of Association, clauses 13.4.31. and 13.4.32 2. Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (approved by the Board of Directors, Minutes No.19-01/08(06) of 30.03.2006) <p>Amendments and additions No.1 to the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (introduced by the Board of Directors, Minutes No.19-01/12(08) of 30.05.2008)</p>

49	For the Corporate Secretary to be able to discharge his/her duties efficiently, a staff of the Corporate Secretary should be formed, the composition, number, structure and duties of whose employees must be determined in the Provisions “On the Corporate Secretary and the Staff of the Corporate Secretary”.	Executed Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (approved by the Board of Directors, Minutes No.19-01/08(06) of 30.03.2006) Amendments and additions No.1 to the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (introduced by the Board of Directors, Minutes No.19-01/12(08) of 30.05.2008)
50	The Corporate Secretary and his/her staff shall ensure the discharge of the following duties as concerns corporate governance: observance of the procedure of preparing and holding general meetings of the shareholders; organizing interaction between the Company and shareholders; organizing the preparation and the holding of meetings of the Board of Directors and its Committees; ensuring the disclosure and provision of information on the Company according to the requirements of the active law, and storage of Company's documents; rendering assistance to members of the Board of Directors in their discharge of their duties; control over the observance of the requirements of this Code and its compliance with the active law.	Executed
Part III. Rights of Shareholders		
1. General Meeting of the Shareholders		
51	The Company has adopted Provisions on the General Meeting of the Shareholders, containing a detailed description of the procedure for preparing, holding of and decision-taking by the general meeting of the shareholders.	Executed (Provisions on the General Meeting of the Shareholders, Minutes of the General Meeting of the Shareholders No.01-05 of 04.07.2005)
52	a. Preparation. Shareholders shall be entitled to take part in and vote on issues of the agenda of the general meeting of the shareholders, to receive in advance a notification, the agenda and reliable, objective and latest information sufficient for taking reasonable decisions on the issues of the agenda. The executive bodies of the Company and the Corporate Secretary shall be in charge of ensuring this process.	Executed (clauses 7.2.1., 8.3., 8.4., 12.13. of the Articles of Association; Provisions on the Corporate Secretary and the Staff of the Corporate Secretary, Section 3; Amendments and additions No.1 to the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (introduced by the Board of Directors, Minutes No.19-01/12(08) of 30.05.2008))
53	When getting prepared for holding a general meeting of the shareholders, the Company undertakes to provide shareholders within the scope and time established by the Russian legislation with the following information making it possible to for shareholders to take well-grounded decisions: materials, and draft resolutions on each agenda item, biographical data of each nominee for the Board of Directors and the Auditing Committee.	Executed (Clause 12.13 of the Articles of Association)
54	The Company shall make it possible for shareholders to apply to the Corporate Secretary for getting information on the meeting and materials to it, and for interaction of shareholders with the Board of Directors and the executive bodies of the Company.	Executed
55	To realize their right of participation at the General meetings of the shareholders, the shareholders in the Company organize checkpoints at residing places of the Company branches where the shareholders can receive the information on the order of participation in such General meetings of the shareholders and get acquainted with the data needed for	Executed in practice

	their well-founded decisions on the items on the agenda of the General meetings of the shareholders.	
56	b. Holding a General Meeting of the Shareholders. The Company shall take all required measures to ensure the participation of shareholders in a general meeting and active voting on issues of the agenda.	Executed (clauses 12.12., 12.13. of the Articles of Association)
57	The venue of holding the general meeting shall be chosen so as to take into account its accessibility for the majority of shareholders. The registration procedure shall be convenient for participants and shall ensure a quick and unhindered access to the venue where the meeting is to be held.	Executed (general meetings of shareholders are conducted in Saint Petersburg, as most of the shareholders dwell here, participants are registered at the place of conducting the meeting)
58	The Company shall ensure the presence of the members of the Board of Directors, executive bodies, Auditing Committee and a representative of the external auditor at the general meeting of the shareholders so that they could answer shareholders' questions. Each shareholder shall be entitled to speak on the issues of the agenda, to put forward respective motions and to ask questions. The chairperson of the general meeting shall ensure a quick and efficient work of the meeting.	Executed (in practice the nominees to elected positions are always present at the meeting, temporary regulations on the speeches are indicated in clause 8.8. of the Provisions on the General Meeting of the Shareholders of OJSC N.W.Telecom, clauses 7.2.1., 8.3., 8.4. of the Article of Association, Provisions on the General Meeting of the Shareholders, clause 7.3.)
59	Voting shall be held using voting ballots. The procedure of counting the votes at a general meeting shall be transparent for shareholders and shall preclude any possible manipulation of the voting results. A representative of an independent registrar acting as the returning board shall ensure the observance of the proper procedure of holding the general meeting.	Executed (Clause 11.4. of the Articles of Association, Provisions on the General Meeting of the Shareholders, clause 7.6., 9.1.)
60	c. Results. The results of voting shall be brought to the notice of shareholders according to the procedure and within the time stipulated by the appropriate acts of legislation and shall be published on the Company's Internet site www.nwtelecom.ru and in mass media.	Executed (Provisions on the General Meeting of Shareholders, clause 8.12., Provisions on the Information Policy, clause 2.7.; Amendments and additions No.1 to the Provisions on Information Policy, clause 1.1 (introduced by the Board of the Directors, Minutes No.19-01/27(08) of 19.12.2008)
2. Protection of the Rights of Minority Shareholders		
61	The Company shall do its best to organize such a system of taking strategic and other decisions important for the Company that would take into account the interests of minority shareholders as much as possible. Among other things, a number of bylaws have been prepared by the Company for that purpose, such as the Provisions on Making Documents Available to Shareholders, the Provisions on the Procedure of Making Big Transactions, Related-Party Transactions and Transactions, the Approval of which is included by the Company's Articles of Association in the terms of reference of the Board of Directors. The Company applies a system of registering shareholders' applications and efficiently regulating corporate disputes.	Executed (the system of registering and ruling on the corporate disputes is implemented via the Corporate Management Committee)
62	a. Representation in the Board of Directors. Minority shareholders shall have representatives of their interests in the Board of Directors, which shall be ensured by the procedure of cumulative voting.	Executed (Clause 12.2.4. of the Articles of Association)
63	b. Independent Registrar. The register of Company's shareholders shall be kept by an independent registrar. The choice and appointment of an independent registrar having	Executed (clauses 11.2., 11.3. of the Articles of

	all required technical facilities and an impeccable reputation will make it possible for the Company to ensure a reliable and efficient registration of the title to shares and other securities of the Company. Jointly with the independent registrar, the Company shall ensure reliable and efficient methods of accounting and re-registration of the title to shares.	Association)
3. Related-Party Transactions and Big Transactions		
64	The Company shall disclose on the Internet site www.nwtelecom.ru and publish in mass media and in the annual report information on its affiliated parties and shall disclose detailed information on related-party transactions and big transactions.	Executed (Provisions on Information Policy, clauses 2.3., 2.4.5., 2.6., 6.1. etc.)
65	Company's procedures in respect of big transactions and related-party transactions are set forth in the Provisions on OJSC N.W.Telecom's Procedure of Making Big Transactions, Related-Party Transactions and Transactions, the Approval of which is included by the Company's Articles of Association in the terms of reference of the Board of Directors.	Executed
4. Dividend Policy		
66	The Company's dividend policy is based on the Provisions on Dividend on OJSC N.W.Telecom's Shares, approved by the Board of Directors, and on decisions of general meeting of the shareholders on dividend payment published in compliance with the law, among other editions, on the Company's Internet site www.nwtelecom.ru .	Executed (Provisions on Information Policy, clauses 2.3., 6.2.)
67	The procedure of determining the amount of dividend on preferred shares shall not infringe upon rights of other shareholders.	Executed (clause 8.2. of the Articles of Association the share of profit for paying out the dividends on the preferred shares is fixed)
68	The Company's dividend policy: establishing a transparent, clear, and predictable mechanism of dividend accounting and payment, providing a dividend payment procedure that would be the most convenient and easiest for shareholders, providing for actions preventing incomplete or delayed payment of declared dividends.	Executed (clause 8.2. of the Articles of Association, Provisions on Share Dividends, clause 2.1 and Section 9)
5. ADR Holders' Interests Protection		
69	The Company shall take all necessary measures to provide equal conditions for ADR holders in respect of access to information on the Company. Among other things, however, not limited to this, the Company shall prepare and publish on its Internet site www.nwtelecom.ru information and documents for shareholders and investors in English.	Executed (Provisions on Information Policy, OJSC N.W.Telecom, clause 1.10.)
70	To ensure the rights and lawful interests of shareholders holding American Depositary receipts (ADR), including the right of participation in Company management, the Company undertakes to observe the terms and conditions of the active depositary agreement in respect of providing possibility for such shareholders to express their will in respect of any issues of the agenda of the general meeting of the shareholders.	Executed
71	Besides, the Company shall take all necessary measures to provide equal conditions for ADR holders in respect of access to information on the Company. Among other things, however, not limited to this, the Company shall prepare and publish on its Internet site www.nwtelecom.ru information and documents for shareholders and investors in English.	Executed (Provisions on Information Policy, OJSC N.W.Telecom, clause 1.10.)
Part IV. Information Disclosure and Transparency		
72	The Company shall ensure an easy access to the information on all important facts, including such information as the financial position, results of operation, ownership and management structure. On the other hand, the Company shall aspire at ensuring a reasonable balance between openness and protecting the commercial interests of the Company. The Provisions on making available documents to Company's shareholders, regulating the issues of information disclosure, prepared and approved by the Board of Directors, is published on the Company's Internet site www.nwtelecom.ru .	Executed (Provisions on Information Policy, OJSC N.W.Telecom, clause 1.10.)
73	The Company undertakes to give detailed answers to all inquiries within the time provided for by the law. When answering inquiries, the Company shall reserve the right of keeping commercial secrets.	Executed (Provisions on Information Policy, clause 7.2.)
1. Information Disclosure Policy and Practice		
74	In compliance with the requirements of the Russian law and the Provisions on Making Available Documents to OJSC N.W.Telecom's Shareholders, the Company shall provide information (documents) upon requests of shareholders. The Company shall publish a detailed annual report including a section on corporate governance and shall prepare other important documents such as securities offering circulars, issuer's quarterly reports, information on important facts, as well as data that may have a serious impact on the	Executed (Provisions on Information Policy, clause 1.6., 1.10., 2.3., 2.4., 2.6., 7.2.)

	value of Company's securities. The Company shall disclose information on its corporate governance practice and publish essential information in due time on its Internet site www.nwtelecom.ru .	
75	The Company shall ensure the disclosure of information on the ownership structure, including the Company's available information on shareholders holding 5 and more per cent of Company's shares. The information on ADR holders and on shareholders represented by nominal holders shall be disclosed based on the data provided by ADR depositary bank and the respective nominal holders. Any corporate relations in the framework of the group of companies shall be also clearly stated in the information disclosed by the Company.	Executed (according to Resolution by the Federal Committee on the Securities Market of 02.07.03, No.03-32/ps)
76	The Company shall take measures to protect confidential information. No information received by employees of the Company or members of its management bodies can be used by them for any personal purposes.	Executed (Provisions on Information Policy, clause 1.5., Section 8)
2. Financial Reporting		
77	The Company shall keep books and prepare a complete set of financial reporting in compliance with the Russian standards of accounting and financial reporting. Besides, the Company shall prepare accounts and reports according to the International Financial Reporting Standards (IFRS) and shall publish such reports both in the annual report and on the Internet site of the Company www.nwtelecom.ru .	Executed (Provisions on Information Policy, clause 2.3., clause 2.4., 2.6. and Provisions on the Accounting Policy in Accounting)
78	Financial reports shall be accompanied by detailed comments making it possible for a reader of such reports to interpret correctly the data on the financial results of the Company. Financial information shall be supplemented by an analysis and comments of the management, as well as by a conclusion of an external auditor and the Auditing Committee.	Executed (according to the Federal Law "On Accounting" and clause 12.13. of the Articles of Association)
3. Internal Control and Audit		
79	a. Auditing Committee. The Company's Auditing Committee shall hold meetings at least 4 times a year to discharge its duties in compliance with Company's bylaws. The Auditing Committee shall consist of experienced specialists in the field of finance.	Executed (Provisions on the Auditing Committee, clause 5.2.)
80	The Auditing Committee shall check the legality of decisions and actions taken by executive bodies of the Company, check the compliance of transactions made by the Company with the conditions of transactions made under comparable conditions, shall conduct an analysis of the Company's financial position and other control over the financial and economic operation of the Company within its terms of reference.	Executed (clause 17.2. of the Articles of Association, Provisions on the Auditing Committee, clause 2.2.)
81	b. Internal Audit. The Company has an Internal Audit Department, which shall be responsible for the current internal control over the economic and financial operation of the Company. The Internal Audit Department shall consist of employees with impeccable reputation and shall be administratively subordinated to the General Manager, shall submit reports on the results of checks to the General Manager, Auditing Committee and to the Board of Directors of the Company. The powers, composition, work procedure and other issues of the activities of the Internal Audit Department shall be regulated by the bylaws of the Company.	Executed (Articles of Association clause 17.3., Provisions on the Department of Internal Audit, Provisions on the Procedures (the System) of Internal Control, Provisions on Checking the Financial and Economic Operation of the OJSC N.W.Telecom's Structural Unit, Provisions on Comprehensive Checks of the OJSC N.W.Telecom's Structural Units, Provisions on the Risk Management of OJSC N.W.Telecom))
82	c. Committee of the Board of Directors. A Committee shall concentrate on various aspects of the Company's activities, including, but not limited to, the three key aspects: financial and managerial reporting, risk management, internal and external audit. Such a Committee shall be headed by an independent director and shall consist of independent and non-executive directors, each of whom shall have the sufficient knowledge of financial issues. The powers of the Committee, its composition and other issues shall be governed by the Provisions on the respective Committee of the Board of Directors.	Executed (Articles of Association clause 13.4.30), Provisions on the Audit Committee of the Board of Directors, clause 2.1.)

4. External Audit		
83	An external auditor shall audit the Company's financial reports. A recognized independent auditing company shall act as the external auditor. Independence means independence of the auditor on the Company, its management and big shareholders. The auditing company shall carry out the audit in compliance with the International Auditing Standards. The Company shall ensure a periodic rotation of its external auditor. The external auditor shall be appointed by the general meeting of the shareholders taking into account recommendations of the respective Committee of the Board of Directors.	Executed (Articles of Association clause 12.2.12), clauses 17.1. and 17.4., Provisions on the Committee on Internal Audit, clause 2.1. and clause 2.2.2.a)

Table 43. Data on the Observance of the Recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market.

№	Provisions of the Corporate Governance Code	Observed / Non-Observed	Note
General Meeting of the Shareholders			
1	Notifying the shareholders on the fact of holding the general meeting of the shareholders at least 30 days before the date on which it is to be held irrespective of the issues included in its agenda, unless the law provides for a longer period.	Observed partially	Clause 12.12 of the Articles of Association Observed to the exclusion of cases of repeated and extraordinary meetings, convened on demand by the Auditing Commission, the Company Auditor, shareholders in possession of at least 10% of the voting stock.
2	The shareholders may get familiarized with the list of those entitled to participation in the general meeting of the shareholders starting from the day of notification on the fact of holding the general meeting of the shareholders till the closure of the general meeting of the shareholders held with attendance of participants, or till the date on which acceptance of voting ballots is over in case of absentee general meeting of the shareholders.	Observed partially	Clause 7.5. of the Articles of Association
3	The shareholders may get familiarized with the information (materials) to be provided during the preparation for the general meeting of the shareholders, through electronic communication facilities, including Internet.	Observed	Web-site www.nwtelecom.ru
4	A shareholder may put forward an issue to be included in the agenda of the general meeting of the shareholders or request convoking a general meeting of the shareholders without presenting an excerpt from the register of shareholders, if his/her/its rights to shares are recorded in the system of keeping a register of shareholders; if his/her/its rights to shares are recorded on a custody account, then a statement of the custody account is sufficient for exercising the said rights.	Observed	Clause 12.6. of the Articles of Association and Provisions on the General Meeting of the Shareholders, clause 2. 6.
5	The Articles of Association or the bylaws of the joint-stock company contain a requirement of the obligatory attendance of the general meeting of the shareholders by the General Manager, Members of the Management Board, Members of the Board of Directors, Members of the Auditing Committee and the auditor of the joint-stock company.	Observed	Corporate Governance Code, Part 3, clause 16
6	Obligatory attendance by candidates when the general meeting of the shareholders considers the issues of electing Members of the Board of Directors, General Manager, Members of the Management Board, Members of the Auditing Committee and the issue of approving the auditor of the joint-stock company	Observed	The Company ensures the possibility of attendance by all candidates for election to the said bodies
7	Bylaws of the joint-stock company provide for a procedure of registration of the participants of the general meeting of the shareholders	Observed partially	Registration is carried out according to the rules of a registrar. Provisions on the

			General Meeting of the Shareholders, clauses 8. 1. and 8. 2.
Board of Directors			
8	The Articles of Association of the joint-stock company provide for the power of the Board of Directors to approve annually the financial and business plan of the joint-stock company	Observed	Clause 13.4.1 of the Articles of Association (The Board of Directors approves the budget)
9	The joint-stock company has a risk management procedure approved by the Board of Directors.	Observed	Provisions of the Risk Management of OJSC N.W.Telecom (approved by the Board of Directors, Minutes No.19-01/34(06) of 15.12.2006)
10	The Articles of Association of the joint-stock company provide for the right of the Board of Directors to take a decision on suspending the powers of the General Manager appointed by the general meeting of the shareholders.	Not observed	In accordance with clause 13. 4.25 and Article 15 of the Company's Articles of Association appointing the General Manager and suspending the powers or releasing the General Manager from his/her powers is within the competence of the Board of Directors.
11	The Articles of Association of the joint-stock company provide for the right of the Board of Directors to establish requirements for the skills and amount of remuneration of the General Manager, Members of the Management Board and managers of the basic structural divisions of the joint-stock company	Observed	Articles of Association, clause 13.4.32. Contracts of employment with the said officials are approved by the Board of Directors
12	The Articles of Association of the joint-stock company provide for the right of the Board of Directors to approve terms and conditions of contracts with the General Manager and Members of the Management Board	Observed	Clause 13.4.32 of the Articles of Association
13	The Articles of Association or the bylaws of the joint-stock company contain a requirement that when terms and conditions of contracts with the General Manager (managing organization, manager) and Members of the Management Board are approved, votes of the Members of the Board of Directors who are the General Manager and Members of the Management Board are not counted	Not observed	
14	The Board of Directors of the joint-stock company has at least 3 independent directors meeting the requirements of the Corporate Governance Code	Observed	
15	The Board of Directors of the joint-stock company does not include any persons who were recognized guilty of committing crime in the field of economic activities or crime against the state authorities, the interests of state service or service in local government bodies or to whom administrative punishment was applied for offence in the field of entrepreneurship or in the field of finance, taxes and fees, or securities market	Observed	
16	The Board of Directors of the joint-stock company does not include any persons who are participants, General Managers (managers), members of managing bodies or employees of a corporation competing with the joint-stock company	Observed	
17	The Articles of Association of the joint-stock company contain a requirement of electing the Board of Directors by cumulative voting	Observed	Clause 12.2.4. of the Articles of Association
18	The bylaws of the joint-stock company provide for the obligation of Members of the Board of Directors to refrain from actions that will result or may potentially result in a conflict between their interests and the interests of the joint-stock company; and in case of such a conflict, the obligation must be provided for to disclose information on such a conflict to the Board of Directors	Observed	Corporate Governance Code, Part II, clause 1k

19	The bylaws of the joint-stock company provide for the obligation of Members of the Board of Directors to notify the Board of Directors in writing on any intention to make a transaction with any securities of the joint-stock company, of whose Board of Directors they are Members, or of its affiliates (subsidiaries), and to disclose information on any transactions made by them with any such securities	Observed	Clauses 3.2.9, 3.2.10 of the Provisions on the Board of Directors
20	The bylaws of the joint-stock company contain a requirement of holding meetings of the Board of Directors at least once in six weeks	Observed	Corporate Governance Code, Part II, clause 1g
21	Holding meetings of the Board of Directors of the joint-stock company during the year, for which the annual report of the joint-stock company is made up, at an interval of at least once in every six weeks	Observed	
22	The bylaws of the joint-stock company provide for a procedure of holding meetings of the Board of Directors	Observed	Provisions on the Board of Directors, Article 6.
23	The bylaws of the joint-stock company contain a provision that the Board of Directors must approve of joint-stock company's transactions for amounts of 10 or more per cent of the value of the company's assets, except for transactions made in the course of normal economic operation	Observed	Clause 13.4.19. of the Articles of Association.
24	The bylaws of the joint-stock company provide for the right of Members of the Board of Directors to get from executive bodies and managers of basic structural divisions of the joint-stock company any information required to perform their duties, and for responsibility for failure to present such information	Observed	Clauses 3.1.1, 3.2.7 of the Provisions on the Board of Directors
25	There is a committee of the Board of Directors in charge of strategic planning, or the functions of such a committee are vested in another committee (except for the audit committee and the personnel and remunerations committee)	Observed	Strategic Development committee (approved by the decision of the Board of Directors of 23.08.2004, Minutes No.29-04)
26	There is a committee of the Board of Directors (the audit committee), which recommends an auditor of the joint-stock company to the Board of Directors and interacts with it and with the Auditing Committee of the joint-stock company	Observed	Audit Committee (approved by the decision of the Board of Directors of 23.08.2004, Minutes No.29-04).
27	The audit committee includes only independent and non-executive directors	Observed	Provisions on the Audit Committee of the Board of Directors, clause 3.2. Amendments and additions No.5, clause 1.1. (introduced by the Resolution of the Board of Directors, Minutes No.19-01/27(08) of 19.12.2008)
28	The management of the audit committee is the responsibility of an independent director	Observed	Provisions on the Audit Committee of the Board of Directors, clause 3.2. Amendments and additions No.5 to the Provisions on the Audit Committee, clause 1.1. (introduced by the Resolution of the Board of Directors, Minutes No.19-01/27(08) of 19.12.2008)
29	The bylaws of the joint-stock company provide for the right of access for all members of the audit committee to any documents and information of the joint-stock company, provided they do not disclose confidential information	Observed	Clauses 3.1.1, 3.2.4, 3.4 of the Provisions on the Board of Directors
30	Creating a committee of the Board of Directors (the committee for personnel and remunerations), the function of which is to determine the criteria of selecting candidates to Members of the Board of Directors and to develop a policy of the joint-stock company in the	Observed	Provisions on Appointments and Remunerations Committee, clause 2.3

	field of remuneration		
31	The management of the committee for personnel and remunerations is the responsibility of an independent director	Observed	Provisions on Appointments and Remunerations Committee, clause 3.4.
32	The committee for personnel and remunerations does not include any officials of the joint-stock company	Observed	Provisions on Appointments and Remunerations Committee, clause 3.2 Amendments and additions No.6 to the Provisions on the Appointments and Remunerations Committee, clause 1.1. (introduced by the Resolution of the Board of Directors, Minutes No.19-01/27(08) of 19.12.2008)
33	Creating a committee of the Board of Directors for risks or vesting the functions of such a committee in another committee (except for the audit committee and the committee for personnel and remunerations)	Observed partially	These functions are vested in the Audit Committee
34	Creating a committee of the Board of Directors for settling corporate conflicts or vesting the functions of such a committee in another committee (except for the audit committee and the committee for personnel and remunerations)	Observed	Corporate Management Committee (approved by the Board of Directors on 23.08.2004, Minutes No.29-04)
35	The committee for settling corporate conflicts does not include any officials of the joint-stock company	Not observed	Presence of a Company's representative in the committee is advisable for promptly settling corporate conflicts. The Corporate Secretary of the Company is a Member of the Committee.
36	The management of the committee for settling corporate conflicts is the responsibility of an independent director	Not observed	
37	There are bylaws of the joint-stock company approved by the Board of Directors providing for the procedure of forming and work of the committees of the Board of Directors	Observed	Provisions on the Committees of the Board of Directors (references to the Provisions see above)
38	The Articles of Association of the joint-stock company provide for the procedure for determining the quorum of the Board of Directors allowing to ensure obligatory participation of independent directors in meetings of the Board of Directors	Observed partially	In compliance with the Provisions on the Board of Directors all the Members of the Board of Directors are informed without fail of the meetings of the Board of Directors, and may take part in them either in person or expressing their opinion in writing.
Executive Bodies			
39	The joint-stock company has a collective executive body (Management Board)	Observed	Article 14 of the Articles of Association
40	The Articles of Association or the bylaws of the joint-stock company contain a provision that the Management Board must approve of transactions with real estate or transactions of receiving loans by the joint-stock company, unless said transactions are classified as big transactions and unless they are a part of the normal economic activities of the joint-stock company	Observed partially	Clauses 13.4.19., 14.4.5. of the Articles of Association
41	The bylaws of the joint-stock company provide for a procedure of agreeing upon operations that are beyond the financial and economic plan of the joint-stock company	Observed	Provisions on the Budget of OJSC N.W.Telecom Section 6.

42	The executive bodies do not include any persons who are participants, General Managers (managers), members of managing bodies or employees of a corporation competing with the joint-stock company	Observed	
43	The executive bodies of the joint-stock company do not include any persons who were recognized guilty of committing crime in the field of economic activities or crime against the state authorities, the interests of state service or service in local government bodies or to whom administrative punishment was applied for offence in the field of entrepreneurship or in the field of finance, taxes and fees, or securities market. If the duties of the sole executive body are discharged by a managing organization or a manager, the general manager and the members of the management board of the managing organization or manager must meet the requirements for the General Manager and Members of the Management Board of the joint-stock company	Observed	
44	The Articles of Association or bylaws of the joint-stock company provide for a prohibition for the managing organization (manager) to discharge the same functions in a competing company or to be in any other privity with the joint-stock company, besides providing the services of the managing organization (manager)	Not observed	
45	The bylaws of the joint-stock company provide for the obligation of the executive bodies to refrain from actions that will result or may potentially result in a conflict between their interests and the interests of the joint-stock company; and in case of such a conflict, the obligation must be provided for to disclose information on such a conflict to the Board of Directors	Observed	Corporate Governance Code , Part II, clause 2.
46	The Articles of Association or bylaws of the joint-stock company provide for criteria of selecting a managing organization (manager)	Not observed	
47	The executive bodies of the joint-stock company present monthly reports on their work to the Board of Directors	Observed	Meetings of the Board of Directors are held 2 or 3 times a month. Various issues of the Company's activities are put forward for their consideration according to the plan on behalf of the Management Board. Meetings of the Board of Directors regularly consider the issues of fulfilling decisions of the general meeting of the shareholders and of the Board of Directors, and information on Company budget execution is considered on a quarterly basis.
48	Contracts concluded by the joint-stock company with the General Manager (managing organization or manager) and the Members of the Management Board set forth a liability for breaking any Provisions on the use of confidential or housekeeping information	Observed	The commitment of non-disclosure of commercial secrets or any other confidential information is included in the employment contract of these parties
Secretary of the Company			
49	The joint-stock company has a special official (secretary of the company), whose task is to ensure the observance by the bodies and officials of the joint-stock company of the procedural requirements guaranteeing the rights and legal interests of the company's shareholders	Observed	Article 16 of the Articles of Association
50	The Articles of Association or bylaws of the joint-stock company provide for a procedure of appointing (electing) the company secretary and set forth the duties of the company secretary	Observed	Corporate Governance Code, Part II, Section 3.

51	The Articles of Association of the joint-stock company provide for requirements for the candidature of the company secretary	Not observed	The requirements are set in the Provisions on the Corporate Secretary and the Staff of the Corporate Secretary (approved by the Board of Directors, Minutes No.19-01/07(06) of 30.03.2006)
Important Corporate Actions			
52	The Articles of Association or bylaws of the joint-stock company provide for a requirement of approving a big transaction before it is made	Observed	The Provisions on Closing Major Deals in OJSC N.W.Telecom, in which there is an expressed interest, and of the deals which need approval by the Board of Directors as per the Company's Articles of Association, Section 5.
53	An independent appraiser must be invited to evaluate the market value of assets being the subject of a big transaction	Observed	In compliance with best practices of corporate governance
54	The Articles of Association of the joint-stock company provides for a prohibition of taking, in case of acquiring big blocks of shares of the joint-stock company (merger), any actions aimed at protecting the interests of the executive bodies (members of such bodies) and Members of the Board of Directors of the joint-stock company or deteriorating the position of the shareholders as compared to the current position (among other things, a prohibition for the Board of Directors to take, before the expected period of shares acquisition is over, a decision on issuing extra shares, on issuing securities convertible into shares or securities entitling their holders to acquisition of company's shares, even if the right of taking such a decision is granted to it by the Articles of Association)	Not observed	
55	The Articles of Association of the joint-stock company provide for a requirement that an independent appraiser must be invited to evaluate the current market value of shares and possible changes in their market value as a result of merger	Not observed	
56	The Articles of Association of the joint-stock company do not absolve the acquirer from the obligation to make an offer that the shareholders sell common shares of the company held by them (issued securities convertible into common shares) in case of merger	Observed	
57	The Articles of Association or bylaws of the joint-stock company provide for a requirement that an independent appraiser must be invited to determine the shares conversion ratio in case of reorganization	Observed	The Federal Law "On Joint-Stock Companies", clause 3, Article 34 "When paying with non-currency means for the stock an independent valuating entity has to be brought in."
Disclosure of Information			
58	There is a bylaw approved by the Board of Directors and setting forth the rules and approaches of the joint-stock company towards information disclosure (Provisions on Information Policy)	Observed	Provisions on Information Policy (approved by the Board of Directors, Minutes No.38-04 of 29.10.2004)
59	The bylaws of the joint-stock company contain a requirement of disclosing information on the goals of shares floatation, on the parties intending to acquire shares to be floated, including a big block of shares, and on whether the top officials of the joint-stock company are going to participate in acquiring the floated shares of the company	Not observed	The Information is disclosed pursuant to the Federal Law "On the Securities market" and the Order of the Federal Service for Financial Markets, No.06-117/pz-n.
60	The bylaws of the joint-stock company contain a list of information, documents and materials to be provided to shareholders for taking decisions on the issues discussed at the general meeting of the shareholders	Observed	Clause 12.13. of the Articles of Association and the Provisions on Providing the Documents to the Shareholders of OJSC N.W.Telecom (approved by

			the decision of the Management Board, Minutes No.248-02(26) of 13.08.2002)
61	The joint-stock company has an Internet site and regularly discloses information on the joint-stock company on that Internet site.	Observed	http://www.nwtelecom.ru/
62	The bylaws of the joint-stock company contain a requirement of disclosing information on transactions of the joint-stock company with the parties, who, under the Articles of Association, are considered the top officials of the joint-stock company, as well as on transactions of the joint-stock company with organizations, in which top officials of the joint-stock company directly or directly own 20 or more per cent of the authorized capital of the joint-stock company or which such officials may otherwise significantly influence.	Observed	Corporate Governance Code, Part IV, clause 1 (disclosed during the annual report as a piece of significant information in accordance with the Federal Law "On the Securities Market").
63	The bylaws of the joint-stock company contain a requirement of disclosing information on all transactions that may influence the market value of joint-stock company's shares	Observed	Corporate Governance Code, Part IV, clause 1.
64	There is a bylaw approved by the Board of Directors on using important information on the activities of the joint-stock company, on shares and other securities of the Company and on transactions with them, which is not accessible to the general public and the disclosure of which may have a significant influence on the market value of shares and other securities of the joint-stock company	Observed	Provisions on Information Policy (approved by the Board of Directors, Minutes No.38-04 of 29.10.2004)
Control over Financial and Economic Operation			
65	There are procedures of internal control over the financial and economic operation of the joint-stock company, approved by the Board of Directors	Observed	Provisions on Checking the Financial and Economic Operation of the OJSC N.W.Telecom's Structural Unit (approved by the Board of Directors, Minutes No.19-01/13(06) of 17.05.2006), Provisions on Comprehensive Checks of the OJSC N.W.Telecom's Structural Units (approved by the Board of Directors, Minutes No.19-01/27(07) of 15.11.2007), Provisions on the Risk Management of OJSC N.W.Telecom (approved by the Board of Directors, Minutes No.19-01/34(06) of 15.12.2006)
66	There is a special division of the joint-stock company ensuring the observance of internal control procedures (control and audit service)	Observed	The Department of Internal Audit
67	The bylaws of the joint-stock company contain a requirement of determining the structure and composition of the control and audit service of the joint-stock company by the Board of Directors	Observed partially	Structure of the Department of Internal Audit (DIA) is defined by the Board of Directors. The candidacy of the Director of the Department of Internal Audit is agreed with the Board of Directors (clauses 1.2, 1.3 of the Provisions on the Department of Internal Audit). The team of the Department of Internal Audit (to the exclusion of its Director) is approved by the General Manager (clause 1.4. of the Provisions on DIA)

68	The control and audit service does not include any persons who were recognized guilty of committing crime in the field of economic activities or crime against the state authorities, the interests of state service or service in local government bodies or to whom administrative punishment was applied for offence in the field of entrepreneurship or in the field of finance, taxes and fees, or securities market	Observed	
69	The control and audit service does not include any persons being members of executive bodies of the joint-stock company or persons who are participants, General Managers (managers), members of managing bodies or employees of a corporation competing with the joint-stock company	Observed	
70	The bylaws of the joint-stock company provide for a fixed period of submitting to the control and audit service documents and materials for evaluation of a transacted financial or economic operation, as well as a liability of officials and employees of the joint-stock company for failure to submit them within the established time	Observed	Specified by separate orders for each separate audit.
71	Internal documents of a shareholding Company need to commit the controlling and auditing service to report the identified violations to the Audit Committee, and in case it is absent – to the Board of Directors of the joint-stock company	Observed	Provisions on DIA, clause 4, DIA Plan of Activities for 2008.
72	The Articles of Association of the joint-stock company contain a requirement of a preliminary evaluation by the control and audit service of the expediency of transacting operations that are not provided for by the financial and economic plan of the joint-stock company (non-standard operations)	Not observed	Such deals have to be preliminarily approved by the Board of Directors that goes by the previous consultation with the internal services of the Company and can bring in independent consultants (clause 13.4.2. of the Articles of Association)
73	The bylaws of the joint-stock company provide for a procedure of agreeing upon a non-standard operation with the Board of Directors	Observed	Provisions on Budgeting the OJSC N.W.Telecom, Part 6 (the adjusted budget is approved by the Board of Directors)
74	There is a bylaw approved by the Board of Directors, that determines the procedure of carrying out audits of the financial and economic activities of the joint-stock company by the Auditing Committee	Observed	Provisions on Auditing Committee (approved by the General Meeting of the Shareholders, Minutes No.01-08 of 26.06.2008)
75	The audit committee evaluates the auditors' report prior to presenting it to shareholders at the general meeting of the shareholders	Observed	Provisions on the Audit Committee, clause 2.2.2.g).
Dividend			
76	There is a bylaw approved by the Board of Directors, used as guidelines by the Board of Directors when recommendations on the amount of dividend are taken (Provisions on the Dividend Policy)	Observed	Provisions on Dividend on Shares (approved by the Board of Directors, Minutes No.34-02(05)) on 30.08.2002.
77	The Provisions on the Dividend Policy provide for a procedure of determining the minimum share of the net profit of the joint-stock company, allocated for the payment of dividend, and the conditions, under which there is no payment or there is an incomplete payment of dividend on the preferred shares, the amount of dividend on which is determined in the Articles of Association of the joint-stock company	Observed	Provisions on dividend on Shares of OJSC N.W.Telecom, clause 2.1. 3.1, Section 5.
78	Publishing information on the dividend policy of the joint-stock company and on any changes introduced into such policy in a periodical provided for by the Articles of Association of the joint-stock company for publishing notifications on holding general meetings of the shareholders, and placing such information on the Internet site of the joint-stock company	Observed	Corporate Governance Code, Part III, clause 4.

Since the shares of the OJSC N.W.Telecom are admitted for trading at stock exchanges and are included on the rating list of the exchanges of A2 level, the Company has to adhere to the regulations on corporate behavior, such adherence being a prerequisite for including and maintaining its shares on the respective quoting list of the exchanges.

OJSC N.W.Telecom drafts quarterly and forwards the Report on adhering to the regulations on the corporate behavior to the respective stock exchanges so as to maintain its shares on the A2 quoting list of those exchanges. Currently the Company fully meets all the prerequisites on the Issuer with respect to adhering to the norms of the corporate behavior that apply to such Issuers their shares being on the A2 quoting list for the exchanges.