

OPEN JOINT-STOCK COMPANY
NORTH-WEST TELECOM

CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS
ENDED ON 31st MARCH 2010
PREPARED IN COMPLIANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS (IFRS)

Open Joint-Stock Company North-West Telecom

Consolidated interim financial statements
for the period of 3 months ended on 31st March 2010
prepared in compliance with international financial reporting standards (IFRS)

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Open Joint-Stock Company North-West Telecom
Consolidated Interim Report on Financial Standing
as of March 31, 2010
(in RUR millions)

	Note	31st March 2010	31st December 2009
ASSETS			
Non-current assets			
Fixed Assets	8	40,674	41,787
Intangible assets	9	5,566	5,326
Long-term accounts receivable		5	6
Other long-term assets	10	930	715
Investment property	11	94	96
Investment in associated companies	12	92	88
Long-term financial assets	13	3,304	3,200
Total non-current assets		50,665	51,218
Current assets			
Inventory holdings	14	355	431
Trade and other accounts receivable	15	4,043	2,928
Prepaid income tax		416	415
Other current assets	16	338	270
Current financial assets	13	441	756
Cash and cash equivalents	17	150	574
Assets held for sale	7	9	9
Total current assets		5,752	5,383
Total assets		56,417	56,601
CAPITAL AND LIABILITIES			
OJSC NWT shareholders' capital			
Authorized capital	19	2,855	2,855
Own shares purchased from shareholders	19	(67)	(67)
Retained profit		30,109	28,658
Total OJSC NWT shareholders' capital		32,897	31,446
Share of non-controlling shareholders		2	1
Total capital		32,899	31,447
Long-term liabilities			
Long-term loan liabilities	20	6,219	8,108
Pension and long-term social liabilities	21	2,302	2,258
Long-term accounts payable		44	34
Other long-term liabilities	22	316	333
Deferred profit tax liability	35	1,239	1,061
Total long-term liabilities		10,120	11,794
Current liabilities			
Current loan liabilities	20	9,386	9,058
Accounts payable and charged liabilities	24	3,631	3,853
Other current liabilities	25	379	443
Current reserves	23	2	6
Total current liabilities		13,398	13,360
Total liabilities		23,518	25,154
Total capital and liabilities		56,417	56,601

General Manager _____ V.A. Akulich

Chief accountant _____ M.M. Semchenko

• June 2010

*The enclosed notes are the integral part
of these consolidated financial statements*

Open Joint-Stock Company North-West Telecom
Consolidated Interim Report on Aggregate Income
for the 3 months period ended 31st March 2010
(in RUR millions, except for profit per share)

	Note	For 3 months expired on 31 st March of	
		2010	2009
Receipts from sales	28	7,017	6,532
Personnel-related expenses	29	(1,971)	(2,006)
Wear and depreciation	8,9,11	(1,700)	(1,774)
Expenses related to services of communication operators		(441)	(518)
Materials, repairs and maintenance, utilities	30	(821)	(746)
Other operating income	31	834	780
Other operating expenses	32	(945)	(963)
Profit from operating activities		1,973	1,305
Profit from interest in associated companies	12	4	-
Financial expenses	33	(344)	(359)
Other income and expenses related to financial and investment activities	34	95	23
Profit (loss) due to exchange rate differences under currency revaluation		93	(1,112)
Profit (loss) before taxes		1,821	(143)
Profit tax	35	(369)	-
Profit (loss) for the period under report		1,452	(143)
Profit (loss) for the period under report		1,452	(143)
Aggregate profit for the period under report related to:			
OJSC NWT shareholders		1,451	(143)
Non-controlling shareholders of subsidiaries		1	-

General Manager _____ V.A. Akulich

Chief accountant _____ M.M. Semchenko

16 June 2010

*The enclosed notes are the integral part
of these consolidated financial statements*

Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the 3 months period ended 31st March 2010
(in RUR millions)

	Note	For 3 months expired on 31 st March of	
		2010	2009
Operating activities			
Profit (loss) before taxes		1,821	(143)
Adjustments for:			
Wear and depreciation		1,700	1,774
Profit from withdrawal of fixed assets and other assets	31	(4)	(8)
Expenses to form the doubtful debt reserve	15	49	47
Profit from interest in associated companies		(4)	-
Financial expenses	33	344	359
Other income related to financial and investment activities	34	(95)	(8)
Profit (loss) due to exchange rate differences under currency revaluation		(93)	1,090
Other non-monetary items		-	(16)
Operating profit after adjustment for non-cash transactions		3,718	3,095
Decrease in stocks of goods and inventories		76	-
Increase of trade and other accounts receivable		(1,165)	(978)
Decrease in other current assets		77	340
Decrease (increase) of liabilities under pension and long-term social obligations		(18)	8
Increase in accounts payable and accrued liabilities		6	359
Decrease in reserves		(4)	(4)
Increase of other operating assets and liabilities		(64)	(48)
Cash from operating activities		2,626	2,772
Interest paid		(314)	(376)
Profit tax paid		(193)	(89)
Monetary funds from core business		2,119	2,307
Investment activities			
Acquisition of fixed assets, sites of construction in progress and investment property		(949)	(1,827)
Sales of fixed assets, sites of construction in progress and investment property		6	21
Acquisition of intangible assets		(435)	(294)
Acquisition of financial assets		(9)	(2)
Sales of financial assets		335	-
Interest received		17	8
Dividend received		-	4
Money used in investment activities		(1,035)	(2,090)

Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the 3 months period ended 31st March 2010 (continued)
(in RUR millions)

	For 3 months expired on 31st March of		
	Note	2010	2009
Financial activities			
Attracted bank credits and loans from organizations		930	1,424
Repayment of bank credits and loans from organizations		(1,428)	(1,921)
Re-payment of bonded loans		(900)	-
Attracted acceptance loans		800	-
Repayment of acceptance loans		(800)	-
Re-payment of other long-term liabilities		(8)	-
Repayment of finance lease obligations		(5)	(9)
Dividends paid to shareholders of OJSC N.W. Telecom		(9)	(1)
Money used in financial activities		(1,420)	(507)
Effect of currency exchange rate fluctuations on cash and cash equivalents		(88)	23
Net decreasing of cash and cash equivalents		(424)	(267)
Cash and cash equivalents as of the beginning of the period under report		574	1,001
Cash and cash equivalents as of the end of the period under report		150	734

General Manager _____ V.A. Akulich

Chief accountant _____ M.M. Semchenko

16 June 2010

*The enclosed notes are the integral part
of these consolidated financial statements*

Open Joint-Stock Company North-West Telecom
Consolidated Interim Capital Changes Report
for the 3 months period ended 31st March 2010
(in RUR millions)

Note	OJSC NWT shareholders' capital						
	Authorized capital		Own shares purchased from shareholders	Retained profit	Total, OJSC NWT shareholders' capital	Share of non-controlling shareholders	Total capital
	Preferred shares	Common shares					
Balance as of 31 st December 2008	622	2,233	(67)	26,931	29,719	-	29,719
Loss for the period	-	-	-	(143)	(143)	-	(143)
Total aggregate loss for the period	-	-	-	(143)	(143)	-	(143)
Balance as of 31 st March 2009	622	2,233	(67)	26,788	29,576	-	29,576

Note	OJSC NWT shareholders' capital						
	Authorized capital		Own shares purchased from shareholders	Retained profit	Total, OJSC NWT shareholders' capital	Share of non-controlling shareholders	Total capital
	Preferred shares	Common shares					
Balance as of 31 st December 2009	622	2,233	(67)	28,658	31,446	1	31,447
Profit for the period	-	-	-	1,451	1,451	1	1,452
Total aggregate profit for the period	-	-	-	1,451	1,451	1	1,452
Balance as of 31 st March 2010	622	2,233	(67)	30,109	32,897	2	32,899

General Manager _____ V.A. Akulich

Chief accountant _____ M.M. Semchenko

16 June 2010

The enclosed notes are the integral part of these consolidated financial statements

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

1. General information

Approval of the statements for the issue

The consolidated interim financial statements of the Open Joint-Stock Company North-West Telecom (hereinafter the “Company” or OJSC N.W.Telecom) and its subsidiaries (hereinafter the “N.W.Telecom Group”) for the period of 3 months ended on 31st March 2010 (hereinafter – 3 months of 2010) were authorized for issue by the order of the General Manager and the Chief Accountant dated 16th June 2010.

Company

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

As of 31st March 2010 OJSC Svyazinvest, controlled by the Government of the Russian Federation, held 50.76% of the common voting shares of the Company and was the parent company of OJSC N.W. Telecom.

Official address of the Company: 14/26, ul. Gorokhovaya, St. Petersburg, Russia, 191186

N.W.Telecom Group's Activities

N.W.Telecom Group is providing telephone services (including local, and intra-zone communication), telegraph, data transmission services, lease of communication channels and wireless communication services on the territory of the North-West Region of the Russian Federation.

Information on the key subsidiaries is presented in Note 6. All subsidiaries have been incorporated in compliance with the legislation of the Russian Federation, unless stated otherwise.

Information on the key associated companies is presented in Note 12. All associated companies have been incorporated in compliance with the legislation of the Russian Federation, unless stated otherwise.

Rate regulation

By Order No. 256-s/1 of the RF Federal Rates Service dated 23rd October 2009, the Company’s charge rates for local telephone services were increased from 1st February 2010.

2. Financial Statements Presentation Basis

Statement of compliance

These consolidated interim financial statements have been prepared and presented in accordance with IAS 34 Interim Financial Reporting and other International Financial Reporting Standards (IFRS) and the respective interpretations approved by the International Accounting Standards Committee (IASC).

All information should be considered taking into account the Annual Consolidated Financial Statements of N.W.Telecom Group for the year ended 31st December 2009.

Going concern

The consolidated interim financial statements have been presented proceeding from an assumption that N.W.Telecom Group will continue its normal business in the foreseeable future, which implies the payback of the assets value and settlement of liabilities according to the established procedure.

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

Presenting financial statements

Consolidated interim financial statements have been prepared on the basis of the financial statements of OJSC North-West Telecom and its subsidiaries and affiliates and are based on unified accounting policy.

The consolidated interim financial statements are presented in millions of roubles of the Russian Federation and all amounts are rounded off to millions, unless specified otherwise.

Valuation Principle

The consolidated interim financial statements have been prepared in compliance with the historical cost valuation principle, except for the following items: fixed assets evaluated for fair value as of the date of switching over to the IFRS for establishing their deemed original cost; financial assets available for sale, evaluated at fair value.

Foreign Currency Transactions

The Russian rouble is the functional currency and the currency of Company's financial statements presentation. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All resulting differences are taken to the Profit and Loss report as foreign exchange profit (loss). Non-monetary items that are evaluated at historical cost in a foreign currency are recalculated at the exchange rates as of their initial date. Non-monetary items that are evaluated at fair value in a foreign currency are recalculated at the exchange rates as of the date of determining the fair value.

Basic currency exchange rates as of 31st March 2010 and 31st December 2009 are given in the table below:

	31st March 2010	31st December 2009
RUR for USD	29.3638	30.2442
RUR for EUR	39.7028	43.3883

3. Accounting Policy

The accounting policy used for preparing the consolidated interim financial statements for 3 months of 2010 corresponds to the accounting policy that was used for preparing the consolidated financial statements for 2009.

4. Material accounting judgements and estimates

The basic accounting judgements and assumptions in respect of future events, and other sources of estimates uncertainty as of the date of reporting, which imply a significant risk of the need of introducing significant adjustments to the book value of assets and liabilities during the next reporting year are similar to those disclosed in the consolidated financial statements of the N.W.Telecom Group for the year 2009.

5. Information by activity segments

The Company identifies as operating segments the smallest divisions of the Company, whose financial results are analyzed on a regular basis by the supreme operation management body of the Company and are used when managerial decisions are taken.

The Management Board is the supreme operational management body of the Company.

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

The smallest divisions of the Company, whose financial results are analyzed on a regular basis by the supreme operation management body of the Company and are used when managerial decisions are taken, are the branches and subsidiaries.

Reporting information is analyzed and managerial decisions are taken on the basis of the accounting data in compliance with the Russian accounting standards. The *Aggregated Information by Operation Segments and General Directorate* and *Information by Operation Segments and General Directorate* given in the tables is prepared in compliance with the said standards.

N.W.Telecom Group predominantly operates in the territory of the Northwestern Federal District of the Russian Federation.

The "MK - communication services" aggregated block includes Arkhangelsk, Vologda, Kaliningrad, Karelian, Komi, Leningrad Oblast, Murmansk, Novgorod, Pskov and St. Petersburg branches, providing communication services, and the General Directorate. Each of the above listed branches is a separate operating segment, except for the General Directorate.

The bulk of the financial and investment activities of the entire OJSC N.W.Telecom in the field of attracting, servicing and repaying loan obligations, financial lease, acquisition of financial assets, creation and further operation of corporate assets, and centralized investment projects are concentrated in the General Directorate. Respective amounts of income, expenses, assets and liabilities are included in the results of the General Directorate given in the *Information by Operation Segments and General Directorate* table. General Directorate is not an operation segment.

The "Subsidiaries - communication services" aggregated block includes OJSC Kolatelecom, CJSC Novgorod Deitacom, CJSC Parma-Inform, providing communication services. Each of the above listed subsidiaries is a separate operating segment.

The "Subsidiaries – Other" aggregated block includes CJSC AMT and CJSC RDPC “Svyazist” investing in securities and providing health-care recreational services. Each of the above listed subsidiaries is a separate operating segment.

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

Aggregated information by operation segments and General Directorate as of 31st March 2010 and for 3 months of 2010	MK - communication services	Subsidiaries - communication services	Subsidiaries - other	Total
Receipts from sales				
Receipts from sales to third parties	6,947	66	1	7,014
Receipts from sales between segments	18	5	25	48
Total receipts from sales	6,965	71	26	7,062
Interest income	130	1	-	131
Interest expenses	(268)	-	(1)	(269)
Profit Tax	(346)	(3)	1	(348)
Profit for the period under report	1,424	10	55	1,489
Assets and liabilities				
Assets by activity segments	56,161	198	1,085	57,444
Including investments in associates	11	-	-	11
Liabilities of the segment	(20,962)	(81)	(62)	(21,105)
Other segment information:				
Capital expenses				
Fixed assets	277	10	-	287
Wear and depreciation	1,618	4	4	1,626
Doubtful debt reserves	(26)	-	-	(26)

Aggregated information by operation segments and General Directorate as of 31st March 2009 and for 3 months of 2009	MK - communication services	Subsidiaries - communicatio n services	Subsidiaries - other	Total
Receipts from sales				
Receipts from sales to third parties	6,318	192	16	6,526
Receipts from sales between segments	74	51	8	133
Total receipts from sales	6,392	243	24	6,659
Interest income	2	14	-	16
Interest expenses	(285)	-	-	(285)
Profit Tax	(56)	(3)	1	(58)
Profit (loss) for the period under report	90	(59)	(3)	28
Assets and liabilities				
Assets by activity segments	56,528	1,986	380	58,894
Including investments in associates	11	-	-	11
Liabilities of the segment	(22,753)	(310)	(80)	(23,143)
Other segment information:				
Capital expenses				
Fixed assets	1,080	18	4	1,102
Wear and depreciation	1,322	53	4	1,379
Doubtful debt reserves	(25)	-	-	(25)

Given below is a collation of the accounting data according to the Russian standards with the results included in the consolidated financial statements according to the IFRS:

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

Collation of the data by segments and the consolidated data as of 31st March 2010 and for the 3 months of 2010	Total	Transformation adjustments	Consolidation adjustments	Total, consolidated in the Group
Receipts from sales				
Receipts from sales to third parties	7,014	3	-	7,017
Receipts from sales between segments	48	-	(48)	-
Total receipts from sales	7,062	3	(48)	7,017
Profit from interest in associated companies	-	-	4	4
Interest income	131	(10)	-	121
Interest expenses	(269)	(11)	-	(280)
Profit Tax	(348)	(21)	-	(369)
Profit (loss) for the period under report	1,489	19	(56)	1,452
Assets and liabilities				
Assets by activity segments	57,444	(35)	(992)	56,417
Including investments in associates	11	81		92
Liabilities of the segment	(21,105)	(2,422)	9	(23,518)
Other segment information:				
Capital expenses				
Fixed assets	287	191	-	478
Intangible assets	-	354	-	354
Wear and depreciation	1,626	74	-	1,700
Doubtful debt reserves	(26)	(23)		(49)

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

Collation of the data by segments and the consolidated data as of 31st March 2009 and for the 3 months of 2009	Total	Transformation adjustments	Consolidation adjustments	Total, consolidated in the Group
Receipts from sales				
Receipts from sales to third parties	6,526	6	-	6,532
Receipts from sales between segments	133	-	(133)	-
Total receipts from sales	6,659	6	(133)	6,532
Profit (loss) from participation in associated companies	-	-	-	-
Interest income	16	(8)	-	8
Interest expenses	(285)	(11)	-	(296)
Profit Tax	(58)	58	-	-
Profit (loss) for the period under report	28	(109)	(62)	(143)
Assets and liabilities				
Assets by activity segments	58,894	(1,842)	(2,715)	54,337
Including investments in associates	11		73	84
Liabilities of the segment	(23,143)	(1,698)	80	(24,761)
Other segment information:				
Capital expenses				
Fixed assets	1,102	153	-	1,255
Intangible assets	-	133	-	133
Wear and depreciation	1,379	395	-	1,774
Doubtful debt reserves	(25)	(22)	.	(47)

As of 31st March 2010 and for the 3 months of 2010, the basic performance figures of the essential operation segments and General Directorate amounted to:

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

Information on operation segments and General Directorate	Receipts from sales	Profit (loss)	Assets	Liabilities	Capital expenses	Wear and depreciation
MK - communication services						
Arkhangelsk Branch	619	32	3,426	(275)	46	112
Vologda Branch	571	(7)	4,660	(213)	32	155
Kaliningrad Branch	382	28	2,518	(185)	23	81
Karelia Branch	326	(4)	2,285	(139)	7	70
Komi Branch	706	146	3,383	(283)	13	109
Leningrad Oblast Branch	558	(46)	4,206	(373)	19	141
Murmansk Branch	553	54	2,479	(221)	18	106
Novgorod Branch	268	(54)	2,210	(112)	43	85
Petersburg Branch	2,764	1,000	16,494	(574)	25	568
Pskov Branch	218	(84)	2,576	(113)	8	108
General Directorate	-	359	11,923	(18,474)	43	84
Subsidiaries - communication services						
Kolatelecom OJSC	17	1	51	(56)	2	2
Novgorod Datacom CJSC	40	9	117	(19)	7	1
OJSC ParmaInform	14	-	31	(6)	1	-
Other	26	55	1,085	(62)	-	4
Total	7,062	1489	57,444	(21,105)	287	1626

As of 31st March 2009 and for the 3 months of 2009, the basic performance figures of the essential operation segments and General Directorate amounted to:

Information on operation segments and General Directorate	Receipts from sales	Profit (loss)	Assets	Liabilities	Capital expenses	Wear and depreciation
MK - communication services						
Arkhangelsk Branch	563	9	3,407	(255)	106	107
Vologda Branch	505	(28)	4,725	(286)	40	145
Kaliningrad Branch	350	28	2,554	(210)	69	72
Karelia Branch	294	(32)	2,307	(164)	93	64
Komi Branch	645	149	3,445	(274)	90	96
Leningrad Oblast Branch	519	(16)	4,277	(426)	72	131
Murmansk Branch	489	25	2,492	(210)	57	92
Novgorod Branch	245	(48)	2,237	(123)	33	84
Petersburg Branch	2,585	1,124	16,464	(911)	51	357
Pskov Branch	198	(98)	2,662	(89)	36	109
General Directorate	-	(1,023)	11,959	(19,804)	432	67
Subsidiaries - communication services						
Kolatelecom OJSC	20	(5)	54	(57)	2	4
Novgorod Datacom CJSC	38	11	98	(19)	5	1
OJSC ParmaInform	15	2	29	(7)	-	-
Peterburg Transit Telecom CJSC	169	(67)	1,804	(228)	12	46
Other	24	(3)	380	(80)	4	4
Total	6,659	28	58,894	(23,143)	1,102	1,379

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

6. Subsidiaries

OJSC N.W.Telecom's controlled subsidiaries are:

Name	Area of activities	Share in the authorized capital and other rights of participation, %	
		31 st March 2010	31 st December 2009
AMT CJSC	Investment in securities	100.00	100.00
Kolatelecom OJSC	Communication services	50.00	50.00
Novgorod Datacom CJSC	Communication services	100.00	100.00
Parma Inform CJSC	Communication services	100.00	100.00
CJSC RDPC Svyazist	Health-improving services	100.00	100.00

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

The management's opinion is that N.W.Telecom Group controls OJSC Kolatelecom, as it has the majority (over 50%) of votes in the Board of Directors of the Company in voting on matters related to making operational and financial decisions. Respectively, OJSC Kolatelecom is considered as a subsidiary in the consolidated financial statements of N.W.Telecom Group.

7. Assets held for sale

As of 31st March 2010, N.W.Telecom Group showed the assets intended for sale in the amount of 9 (9 as of 31st December 2009) The said assets include buildings that N.W.Telecom Group intends to sell during 2010 within the framework of the Property Development Program approved by the Board of Directors. Under the Program, N.W.Telecom Group will be selling property that is not planned for use in the future operations. The management is expecting that the said property will be sold at prices exceeding its book value as of 31st March 2010.

8. Fixed assets

	Land, buildings and facilities	Switches and transmission devices	Transport facilities and other fixed assets	Capital investment in fixed assets	Total
Initial value as of 31st December 2008	26,750	29,058	5,079	2,333	63,220
Additions	-	-	-	1,255	1,255
Commissioned	264	305	225	(794)	-
Withdrawal	(1)	(22)	(25)	-	(48)
as of 31st March 2009	27,013	29,341	5,279	2,794	64,427
as of 31st December 2009	29,161	31,000	6,223	1,376	67,760
Additions	-	-	-	478	478
Commissioned	147	143	127	(417)	-
Withdrawal	(14)	(51)	(63)	-	(128)
as of 31st March 2010	29,294	31,092	6,287	1,437	68,110

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Financial Statements
for the 3 months period ended 31st March 2010
(in RUR millions, unless specified otherwise)

	Land, buildings and facilities	Switches and transmission devices	Transport facilities and other fixed assets	Capital investment in fixed assets	Total
Accumulated depreciation and accumulated impairment as of 31st December 2008	(6,951)	(9,861)	(3,201)	-	(20,013)
Depreciation charged for the period	(407)	(998)	(262)	-	(1,667)
Wear of withdrawn items	2	19	22	-	43
as of 31st March 2009	(7,356)	(10,840)	(3,441)	-	(21,637)
as of 31st December 2009	(8,495)	(13,116)	(4,336)	(26)	(25,973)
Depreciation charged for the period	(433)	(918)	(233)	-	(1,584)
Wear of withdrawn items	10	50	61	-	121
as of 31st March 2010	(8,918)	(13,984)	(4,508)	(26)	(27,436)
Residual value as of 31st December 2008	19,799	19,197	1,878	2,333	43,207
Residual value as of 31st March 2009	19,657	18,501	1,838	2,794	42,790
Residual value as of 31st December 2009	20,666	17,884	1,887	1,350	41,787
Residual value as of 31st March 2010	20,376	17,108	1,779	1,411	40,674

As of 31st March 2010 the balance value of vehicles received under the contracts of finance leasing amounted to 36 (38 as of 31st December 2009).

As of 31st March 2010 the initial value of the fully depreciated but being used fixed assets was 7,143 (7,061 as of 31st December 2009).

Receipt of fixed assets acquired under financial lease contracts for the 3 months of 2010 amounted to 0 (45 for the 3 months of 2009).

For the 3 months of 2010 N.W.Telecom Group increased the value of construction in progress by the amount of capitalized interest, 12 (51 for 3 months of 2009). The capitalization rate for 3 months of 2010 amounted to 7% (7% for 3 months of 2009).

As of 31st March 2010 the balance value of N.W.Telecom Group's fixed assets that were a security under the credit agreements and loan agreements amounted to 1,951 (1,990 as of 31st December 2009).

Deprecation of fixed assets

As of 31st March 2010, impairment of investment that had not been completed in due time during the implementation of investment projects amounted to 26 (26 as of 31st December 2009).

As of 31st March 2010, no deprecation of other categories of fixed assets was found.

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9. Intangible assets

	Goodwill	Licenses	Software	Subscriber base	Other	Total
Initial value as of 31st December 2008	958	31	4,826	248	225	6,288
Acquisition of assets	-	-	133	-	-	133
Withdrawal	-	-	(2)	-	-	(2)
as of 31st March 2009	958	31	4,957	248	225	6,419
as of 31st December 2009	958	174	5,022	249	231	6,634
Acquisition of assets	-	3	350	-	1	354
Withdrawal	-	-	(5)	-	-	(5)
as of 31st March 2010	958	177	5,367	249	232	6,983
	Goodwill	Licenses	Software	Subscriber base	Other	Total
Accumulated depreciation and impairment as of 31st December 2008	(16)	(18)	(916)	(12)	(119)	(1,081)
Depreciation accrued for the period	-	(1)	(104)	(1)	(1)	(107)
Depreciation of withdrawn items	-	-	2	-	-	2
as of 31st March 2009	(16)	(19)	(1,018)	(13)	(120)	(1,186)
as of 31st December 2009	(16)	(20)	(1,120)	(13)	(139)	(1,308)
Depreciation accrued for the period	-	(14)	(94)	(1)	(5)	(114)
Depreciation of withdrawn items	-	-	5	-	-	5
as of 31st March 2010	(16)	(34)	(1,209)	(14)	(144)	(1,417)
Residual value as of 31st December 2008	942	13	3,910	236	106	5,207
Residual value as of 31st March 2009	942	12	3,939	235	105	5,233
Residual value as of 31st December 2009	942	154	3,902	235	93	5,326
Residual value as of 31st March 2010	942	143	4,158	234	89	5,566

Oracle E-Business Suite software product

As of 31st March 2010, the software included the Oracle E-Business Suite software product, the book value of which was 858 (886 as of 31st December 2009).

Information on the change of the book value of the Oracle E-Business Suite software product for the 3 months of the years 2010 and 2009 is given below:

	2010	2009
As of 1st January	886	984
Implementation expenses incurred	11	7
Depreciation charged	(39)	(25)
As of 31st March	858	966

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Amdocs Billing Suite Software

As of 31st March 2010 software includes Amdocs Billing Suite software with residual value of 949 (942 as of 31st December 2009).

The capitalized interest expenses related to implementing Amdocs Billing Suite amounted to 5 for 3 months of 2010 (3 for 3 months of 2009). Capitalization rate was 4% (4% for 3 months of 2009).

This software is purchased for the purpose of unified automated settlements system implementation. The project of implementing the unified automated settlements system on the Amdocs Billing Suite platform is expected to take 4 or -5 years.

N.W.Telecom Group will start depreciating this asset from the moment of the start of software operation in proportion to the value of the implemented modules. Until then the Company will periodically test this software for impairment.

N.W.Telecom Group is planning to complete the implementation of the system before the year 2011.

HP Open View IUM Unified Pre-billing Software

As of 31st March 2010, the software data also showed the value of the HP Open View IUM unified pre-billing software, whose book value was 260 (240 as of 31st December 2009).

The software was acquired in December 2006 for the purpose of implementing the Amdocs Billing Suite unified automated settlement system. Unified centralized pre-billing is required for the centralization of settlements with interconnected operators and for transmitting information to Amdocs Billing Suite.

The project of implementing the HP Open View IUM unified pre-billing software is expected to take 3 or 4 years. The system implementation work was started in October 2006. The Company intends to complete the work for the project in 2010.

The company will start depreciating this asset from the moment of the start of its operation in proportion to the value of the implemented modules during their useful life which will be established by the moment of operation start. Prior to that the management is evaluating the asset for its depreciation from time to time.

Communication network service support systems (CNSSS)

As of 31st March 2010, the software also included the software product for the Communication Network Service Support System (CNSSS), the book value of which is 1,453 (1,167 as of 31st December 2009).

The project for implementing the CNSSC software is carried out for the purpose of automating the processes of network accounting and network and services management and is designed for 3 or 4 years. The system implementation work was started in May 2006.

The N.W.Telecom Group will start depreciating this asset from the moment of the start of its operation (April 2010) proceeding from the useful life of 20 years. Prior to that the management is evaluating the asset for its depreciation from time to time.

Information Service Support System software (ISSS)

As of 31st March 2010 the software included the product for setting up an information service support system with the book value of 305 (303 as of 31st December 2009). The product was acquired for the purpose of improving N.W.Telecom Group's competitive capacity in the market of telecommunication services and as a

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highly efficient tool of supporting the core business in the field of sales and client servicing and gaining extra income from providing information and reference services on a paid basis. The ISSS structure provides for building resource centers to be located on the branches' premises. The server and telecommunication equipment will be located on the St. Petersburg Branch premises.

In the 4th quarter of 2009 and the 1st quarter of 2010 ISSS was put into commercial operation in the St. Petersburg branch. Currently, Stage 2 of this project is being implemented: from December 2009 till December 2010 design and survey is being conducted, as well as the connection of the Kaliningrad, Leningrad Oblast and Pskov branches to ISSS.

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

Goodwill and intangible assets shown after companies merger

As of 31st March 2010 the intangible assets, identified in connection with the acquisition of CJSC Petersburg Transit Telecom in 2007 are the resources, from which the Group expected an inflow of economic benefits in the future:

1. clientele;
2. line capacity.

The clientele is an intangible asset with an unlimited useful life, these are contractual relations with clients of CJSC Petersburg Transit Telecom. The said asset is not depreciated, however, it is checked annually or even more frequently for depreciation, if there are any signs of possible depreciation of the intangible asset.

The number capacity is the volume of the telephone numbering resource of CJSC Petersburg Transit Telecom as of the moment of acquisition and is depreciated in proportion to the numbering resource that has not been used as of the end of the period under report.

The goodwill recognized on the basis of the results of the acquisition of CJSC Petersburg Transit Telecom is a part of the expected synergy effect and other advantages from the merger of the assets and the activities of CJSC Petersburg Transit Telecom and N.W.Telecom Group. In 2009, in connection with the approval of IFRS 8 Operating Segments, the Company revised the goodwill distribution and included it in the "Petersburg Branch" operating segment.

Depreciation analysis of intangible assets that are not ready for use

N.W.Telecom Group has carried out a depreciation analysis of intangible assets that are not ready for use and intangible assets with an indefinite useful life as of 31st March 2010. As a result of the analysis, no depreciation of the said intangible assets was found.

In 2006, N.W.Telecom Group showed the goodwill obtained as a result of the acquisition of LLC Novgorod Deitacom, which was reorganized later through a merger with another subsidiary of N.W.Telecom Group, LLC Novgorod Datacom, and transformation into CJSC Novgorod Deitacom. As of 31st March 2010, prior to depreciation testing, the book value of the goodwill distributed to CJSC Novgorod Deitacom less the depreciation recognized in the previous periods was 31 (31 as of 31st December 2009). The recoverable value of the goodwill was determined on the basis of a calculation of the value of use, applying future cash flow forecasts based on 5-year budget plans approved by the management. Calculations of cash flows for a period over 5 years are carried out using the extrapolation method. A discount rate of 24.7% (24.7% in 2009) reflecting the weighted average cost of the capital of the unit generating cash flows, calculated using the face value, was applied to the cash flow calculations. No additional depreciation was revealed as of 31st March 2010.

In 2007, N.W.Telecom Group showed the goodwill obtained as a result of the acquisition of CJSC Petersburg

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Transit Telecom in the amount of 911. The recoverable value of the said assets was determined on the basis of a calculation of the value of use, applying future cash flow forecasts based on 5-year budget plans approved by the management. Calculations of cash flows for a period over 5 years are carried out using the extrapolation method. A discount rate of 24.7% (24.7% in 2009) reflecting the weighted average cost of the capital of the unit generating cash flows, calculated using the face value, was applied to the cash flow calculations.

As a result of the analysis, no depreciation of the goodwill was found as of 31st March 2010.

10. Other long-term assets

	31st March 2010	31st December 2009
Advances issued for investment operation	900	685
Advances issued for core business activities	30	30
Total	930	715

11. Investment property

As of 31st March 2010, the investment property had the book value of 94 and the fair value of 765 (96 and 765 respectively as of 31st December 2009). The fair value of the investment property was determined by an independent valuer.

12. Investment in associated companies

		31st March 2010		
Name	Area of activities	Share in the authorized capital and other rights of participation, %	Percentage of voting shares and other rights of participation, %	Balance value
WestBalt Telecom CJSC	Communication services	28.00	28.00	92
Total				92

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Name	Area of activities	31 st December 2009		Balance value
		Share in the authorized capital and other rights of participation, %	Percentage of voting shares and other rights of participation, %	
WestBalt Telecom CJSC	Communication services	28.00	28.00	88
Total				88

Above company is a Russian legal entity registered in accordance with the legislation of the Russian Federation and has the same fiscal year as N.W.Telecom Group.

The change in the book value of the investment in associated companies for the 3 months of 2010 and 2009 is given below:

	2010	2009
Investments in associates as of January 1	88	84
Profit from interest in associated companies	4	-
Investments in associates as of March 31	92	84

Presented below is aggregated information on the associated company:

Associated company name	Share in the authorized capital and other rights of participation, %	Assets	Liabilities	Receipts from sales	Profit for the period under report
As of 31st March 2010 and for 3 months of 2010					
WestBalt Telecom CJSC	28.00	370	40	60	14
As of 31st December 2009 and for 3 months of 2009					
WestBalt Telecom CJSC	28.00	354	38	69	2

13. Financial assets

	31 st March 2010	31 st December 2009
Long-term financial assets available-for-sale	21	21
Long-term notes and deposits	3,268	3,161
Long-term loans issued	15	18
Total long-term financial assets	3,304	3,200
Current notes and deposits	428	743
Short-term loans issued	13	13
Total short-term financial assets	441	756
Total financial assets	3,745	3,956

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As of 31st March 2010 and 31st December 2009 the Company's financial assets available for sale included:

	31st March 2010		31st December 2009	
	Share in the authorized capital and other rights of participation, %	Fair value	Share in the authorized capital and other rights of participation, %	Fair value
OJSC Information Technologies of Communication	11.00	13	11.00	13
OJSC JSCB Svyaz-Bank	0.01	-	0.01	-
Other		8		8
Total		21		21

The Company is investing temporarily spare financial resources in circulating notes issued by various Russian companies. The Company uses notes as a financial instrument mainly for gaining financial income.

In August 2009 the Company entered into four contracts for the acquisition of the following long-term discounted bills to be paid in 2011. As of 31st March 2010, long-term notes receivable made 3,268 (3161 as of 31st December 2009), including the interest accrued at the effective rate of 268 (161 as of 31st December 2009).

In September and December 2009 the Company acquired short-term discounted bills of CJSC IK REGION. As of 31st March 2010, the above short-term notes receivable made 419 (407 as of 31st December 2009), including the interest accrued of 19 (7 as of 31st December 2009).

In June 2009 the Company entered into the contracts with OJSC AKB Svyaz-Bank for the acquisition of the currency interest-bearing note of the Bank. In January 2010 OJSC AKB Svyaz-Bank repaid the currency interest-bearing note. The Company received an amount of 332 under the note and an interest of 13.

In July 2009 the subsidiary of the Company CJSC AMT placed in OJSC MDM Bank the deposits of 3 nominated in Russian roubles with the repayment date 6 months and the interest rate of 14.6% per annum. In January 2010 the deposit was redeemed.

In February 2010 the subsidiary of the Company CJSC AMT placed in OJSC Moscow Industrial Bank the deposits of 9 nominated in Russian roubles with the repayment date 6 months and the interest rate of 11.25 % per annum.

As of 31st March 2010 and 31st December 2009, loans issued are shown at depreciable cost using the effective interest rate from 16% to 26%.

There were no finance assets burdened with pledge as of 31st March 2010 and as of 31st December 2009.

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14. Inventory holdings

	31st March 2010	31st December 2009
Spare parts	127	219
Cable	103	99
Finished products and goods for resale	20	18
Economic implements	19	15
Construction materials	16	8
Fuel	14	15
Other stock	56	57
Total	355	431

As of 31st March 2010 and 31st December 2009, the balance sheet of the Company did not contain any inventories that have become obsolete or fully or partially lost their initial quality or whose current market value has decreased. In this connection, the Company did not form a provision for devaluation of materials and capital equipment.

As of 31st March 2010 and 31st December 2009, Company's inventory holdings were not used as a pledge or liability collaterals.

15. Trade and other accounts receivable

	Total as of 31st March 2010	Allowance for doubtful accounts	Net as of 31st March 2010
Settlements with buyers in respect of core activities	1,839	(212)	1,627
Settlements with buyers in secondary areas of activity	292	(92)	200
Settlements with personnel	7	-	7
Settlements with other debtors	2,212	(3)	2,209
Total	4,350	(307)	4,043

	Total as of 31st December 2009	Allowance for doubtful accounts	Net as of 31st December 2009
Settlements with buyers in respect of core activities	1,539	(189)	1,350
Settlements with buyers in secondary areas of activity	222	(73)	149
Settlements with personnel	6	-	6
Settlements with other debtors	1,426	(3)	1,423
Total	3,193	(265)	2,928

As of 31st March 2010 and 31st December 2009, settlements in respect of reimbursement for the losses related to the provision of all-in-one communication services recorded within settlements with other debtors amounted to 2,131 and 1,325 respectively.

As of 31st March 2010 and 31st December 2009, settlements with buyers in respect of the basic areas of activities consisted of settlements with the following partners:

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	Total as of 31st March 2010	Allowance for doubtful accounts	Net as of 31st March 2010
Individuals	788	(114)	674
Corporate customers	443	(64)	379
Government customers	173	(9)	164
Communication operators	435	(25)	410
Total settlements with buyers in respect of core activities	1,839	(212)	1,627

	Total as of 31st December 2009	Allowance for doubtful accounts	Net as of 31st December 2009
Individuals	702	(102)	600
Corporate customers	330	(53)	277
Government customers	84	(8)	76
Communication operators	423	(26)	397
Total settlements with buyers in respect of core activities	1,539	(189)	1,350

As of 31st March 2010 debt of social security organizations with regard to compensation of expenses related to granting privileges to certain categories of subscribers amounted to 0.02% of total accounts receivable (0.02% as of 31st December 2009).

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

	2010	2009
Balance as of 1st January	(265)	(238)
Reserve charging	(49)	(47)
Writing off the accounts receivable	7	3
Balance as of 31st March	(307)	(282)

16. Other current assets

	Total as of 31st March 2010	Reserve	Net as of 31st March 2010
Prepayments and advance payments	187	-	187
VAT recoverable	29	-	29
Other prepaid taxes	26	-	26
Deferred expenses	82	-	82
Other current assets	15	(1)	14
Total	339	(1)	338

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	Total as of 31st December 2009	Reserve	Net as of 31st December 2009
Prepayments and advance payments	127	-	127
VAT recoverable	72	-	72
Other prepaid taxes	22	-	22
Deferred expenses	33	-	33
Other current assets	16	-	16
Total	270	-	270

Other current assets as of 31st March 2010 include settlements in respect of claims amounting to 13 (16 as of 31st December 2009) that are included in the “Other Financial Assets” line in Note 27.

17. Cash and cash equivalents

	31st March 2010	31st December 2009
Cash at bank and on hand	127	546
Short-term deposits and notes with original maturities of three months or less	23	28
Total	150	574

As of 31st March 2010 and 31st December 2009 N.W.Telecom Group had no restrictions for the use of cash.

Periods of short-term deposits vary from 30 days to 3 months depending on the current available cash requirement and yield an interest at the current deposit rates. The effective interest rate under the short-term deposits with the period up to three months varies from 5.5% to 12.5%.

18. Essential non-monetary operations

The Company had no essential non-monetary operations in the 1st quarter of the year 2010. In the 1st quarter of 2009 the Company received for leasing transport facilities under a contract of leasing with OJSC VTB-Leasing for an amount of 45.

19. Authorized capital

As of 31st March 2010 and 31st December 2009, the face value and the book value of common and preferred shares were:

Type of shares	Number of shares in circulation (thousand pcs.)	Face value of shares (RUR)	Total face value	Total balance value
Common	881,045	1	881	2,233
Preferred	250,369	1	250	622
Total	1,131,414		1,131	2,855

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The difference between the face value and the book value of the shares is caused by inflation during the periods preceding 1st January 2003.

All the issued stock was completely paid for.

Company's capital stock structure as of 31st March 2010 is presented below:

Shareholders	Share in the authorized capital	Common shares		Preferred shares	
		Number (thousand pcs.)	%	Number (thousand pcs.)	%
Legal entities, total	89.52	841,722	95.53	171,109	68.35
OJSC Svyazinvest	39.53	447,231	50.76	-	
Parties holding over 5% of authorized capital, including	49.03	389,442	44.20	165,259	66.01
NP National Depository Centre	19.18	122,708	13.93	94,252	37.65
CJSC Depository Clearing Company	13.11	110,120	12.50	38,229	15.27
CJSC UBS Nominees	11.71	109,815	12.46	22,666	9.05
ING Bank (Eurasia) CJSC	5.03	46,799	5.31	10,112	4.04
Other parties	0.96	5,049	0.57	5,850	2.34
Individuals, total	10.48	39,323	4.47	79,260	31.65
Total	100.00	881,045	100.00	250,369	100.00

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

Class A preferred shares entitle their holder to participation in general meetings of the shareholders without the right of vote, except for taking decisions on the issues of reorganization and liquidation of the Company and introducing amendments and additions to the Articles of Association of the Company, that could restrict the rights of the holders of preferred shares.

A guaranteed dividend amounting to the greater of the following two amounts is paid on each preferred share: 10% of the Company's net profit shown in the accounts prepared according to the Russian legislation, divided by the number of preferred shares, or the amount of the dividend due per common share. If holders of preferred shares get dividends in an amount lesser than 10% of the net profit shown in the accounts prepared according to the Russian legislation, dividends are not paid to holders of common shares. Holders of preferred shares are entitled to participate in annual general meetings of the shareholders and to vote on all matters of the terms of reference of such meetings, starting from the meeting following the annual general meeting of the shareholders, which takes a decision on non-payment of dividends or on incomplete payment of dividends under the preferred shares.

In September 2001 OJSC NWT had an issue of 1st level American Depositary Receipts (ADR) registered. Each depositary receipt corresponds to 10 common shares of the OJSC NWT. As of 31st March 2010, the number of ADRs was 2,612,295 (2,812,420 as of 31st December 2009), against which 26,122,950 common shares were deposited in the J.P.Morgan depositary bank (28,124,200 as of 31st December 2009), which made 2.96% (3.19% as of 31st December 2009) of the total number of the issued common shares.

The following table shows the flow of the registered ADRs for the 3 months of 2010 and 2009:

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	ADRs (number)	Equivalent number of common shares	Common shares	Authorized capital
31st December 2008	3,657,670	36,576,700	4.15	3.23
Increase (decrease) for the 3 months of 2009	(13,630)	(136,300)	-0.02	-0.01
31st March 2009	3,644,040	36,440,400	4.13	3.22
31st December 2009	2,812,420	28,124,200	3.19	2.49
Increase (decrease) for the 3 months of 2010	(200,125)	(2,001,250)	-0.23	-0.19
31st March 2010	2,612,295	26,122,950	2.96	2.30

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

Name of the venue	CUSIP (WKN)	ADR ticker	ISIN
US over-the-counter market (OTC)	663 316 107	NWTEY	US6633161079
Frankfurt Stock Exchange	A0BLXU	SQ4	US6633161079
Berlin Stock Exchange	A0BLXU	SQ4	US6633161079

As of 31st March 2010 and 31st December 2009, the book value of own common and preferred shares purchased from the shareholders amounted to 28 and 29 (3005 and 3225 thousand pcs. respectively). There has been no flow for the 3 months of 2010 and 2009.

20. Loan Liabilities

	31 st March 2010	31 st December 2009
Long-term loan liabilities		
Bank credits and loans of organizations	5,413	6,075
Bonded loans	9,586	10,484
Note loans	-	2
Liabilities under financial lease	28	32
Interest debt	11	10
Other long-term loan liabilities	23	23
Less share of long-term loan liabilities to be repaid within the year	(8,842)	(8,518)
Total long-term loan liabilities	6,219	8,108
Short-term loan liabilities		
Interest debt	131	146
Derivatives	413	394
Total short-term loan liabilities	544	540
Share of long-term loan liabilities to be repaid within the year	8,842	8,518
Total current loan liabilities	9,386	9,058
Total loan liabilities	15,605	17,166

As of 31st March 2010, bank credits of the Company were secured by the pledge of fixed assets with the total book value of 1,951 (1,990 as of 31st December 2009).

Credit lines

To replenish the working capital and to reduce the cash deficiencies, the Company entered into contracts of opening the following revolving lines of credit:

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Revolving lines of credit granted to the Company in 2009 and for 3 months of 2010:

Name of bank	OJSC JSCB North-West Bank of the Savings Bank of Russia			OJSC AKB Svyaz-Bank
Date of making up contract	14.01.2009	27.01.2009	09.02.2009	25.01.2010
Expiry date of contract	13.07.2010	26.07.2010	06.08.2010	24.01.2013
No. of contract	0103-100409	0103-101109	0103-101709	002/2010
Credit line limit	380	385	390	1,000
%	13.75% (the rate of 10.75% has been established starting from 26.01.10)	13.75% (the rate of 10.75% has been established starting from 26.01.10)	13.75% (the rate of 10.75% has been established starting from 26.01.10)	Range (by the period of loan): from 9.7% to 10.45%*
Collateral	pledge of telecommunication equipment	pledge of telecommunication equipment	pledge of telecommunication equipment	Without security
Used for 3 months of 2010	0	0	0	930
Repaid for 3 months of 2010	0	0	0	600
Interest accrued for 3 months of 2010	0	0	0	1
Debt as of 31.03.2010	0	0	0	330
Amount of unused balance as of 31.03.2010	380	385	390	670
Limitations	monthly receipt of proceeds to bank account: at least 1,100	monthly receipt of proceeds to bank account: at least 1,100	monthly receipt of proceeds to bank account: at least 1,100	monthly receipt of proceeds to NWB SB RF account: at least 1,100

* a range of rates (by the periods of loan) has been established from 7.65% to 8.3% starting from 1st May 2010

Long-term loan liabilities

Bank credits and loans of organizations

Presented below is aggregated information on the most significant long-term bank credits and loans of organizations as of 31st March 2010 and 31st December 2009:

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Partner	Interest rate under the contract	31 st March 2010		31 st December 2009		Currency of contract	Repayment date	Availability and type of security
		Long-term part	Short-term part	Long-term part	Short-term part			
ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch)	3.1123-2.99875	1,449	1,982	1,999	2,041	USD	Quarterly, from February 2010 till November 2011	Without security
Bank Austria Creditanstalt AG and CJSC UniCredit Bank	Tranche A: 1.23406-1.20125 Tranche B: 1.50125-1.53406	671	870	807	1,111	USD	Tranche A – quarterly, from January 2009 till October 2010 Tranche B – quarterly, from July 2009 till July 2012	Without security
OJSC AKB Svyaz-Bank	9.7 - 10.45	-	330	-	-	RUR	January 2013	Without security
RF Ministry of Finance	3	54	44	57	47	EUR	December 2011	Pledge of telecommunication equipment
OJSC Savings Bank of Russia	10.75	-	-	-	-	RUR	July, August 2010	Pledge of telecommunication equipment
CJSC St. Petersburg Payphones	12	13		13	-	RUR	December 2011	Without security
Total		2,187	3,226	2,876	3,199			

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

In 2008 the Company attracted a syndicated loan of 150 MIO US dollars, in which Bayerische Hypo- und Vereinsbank AG, London Branch acted as the Agent, and ING Bank N.V, Natixis, CJSC UniCredit Bank and WestLB AG, London Branch acted as the Original Mandated Lead Arrangers.

The loan is structured into two tranches: tranche A – 135 million US dollars, and tranche B – 15 million US dollars.

Complete disbursement was carried out under tranche A on 14th November 2008. Repayment will be effected in equal parts on a quarterly basis starting from 9th February 2010 till 7th November 2011.

There was no disbursement under tranche B (because there is no need for this funding in connection with the reduction of the investment programme for the year 2009).

The interest rate under the loan is the aggregate of the Margin making 2.75% per annum, a three months' London Interbank Offered Rate (LIBOR) and the Obligatory Markup (if any). Interest on the agreement is accrued and paid on the quarterly basis.

The costs under the transaction amounted to 2 million US dollars (commission for loan organization amounting to 2 million US dollars).

As of 31st March 2010 the loan debt was 3,431 and the short-term debt was 1,982, including the amount of the accrued interest of 15 (4040, 2041 and 16 respectively as of 31st December 2009).

CJSC UniCredit Bank

In 2007 the Company attracted a syndicated loan of 100 MIO US dollars, in which CJSC UniCredit Bank (the name "CJSC International Moscow Bank" was changed to CJSC UniCredit Bank starting from 25th December 2007) and Bank Austria Creditanstalt AG acted as the Mandated Lead Arrangers, Bank Austria Creditanstalt AG as the Agent, and the CJSC UniCredit Bank as the original creditor. Starting from 15th January 2009, Bayerische Hypo- und Vereinsbank AG was appointed the Agent in compliance with clause 24.11(a) of the Agreement.

The loan was granted in two equal tranches.

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

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

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

The costs related to the transaction amounted to 1 million US dollars.

The loan has been borrowed in order to refinance the current accounts payable and to fund investment projects. As of 31st March 2010 the debt under the syndicated loan was 1,541 (1,918 as of 31st December 2009), including the short-term part of 870 (1,111 as of 31st December 2009), the accrued interest amounted to 4 (5 as of 31st December 2009). The credit is not secured by a pledge of fixed assets.

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RF Ministry of Finance

In 1995-1996 the Ministry of Finance of the Russian Federation provided long-term funding to the Company for the purpose of purchasing telecommunication equipment from various foreign suppliers. Vneshekonombank acted as the agent crediting the Company on behalf of the Ministry. Euro is the currency of the contract and the agreement that was made later. As of 31st March 2010 the total amount of the debt to the Ministry of Finance of the Russian Federation (Vneshekonombank acting as the agent) was 98 (104 as of 31st December 2009), including the short-term part of 44 (47 as of 31st December 2009) and the interest rate to be written off on the conditions of the agreement in 2011, 11 (11 as of 31st December 2009). The said debt is to be repaid until 2011 and was reflected in the financial statements at depreciated cost using the effective rate of 7%. This credit is secured with a pledge of fixed assets with the book value of 191 (196 as of 31st December 2009).

OJSC Savings Bank of Russia

As of 31st March 2010 the debt of the Company to OJSC Savings Bank of Russia was represented by the debt under the following agreements of opening of an open-end credit line:

agreement of 14th January 2009 to the total amount of 380, with the disbursement in tranches. The expiry date of the agreement is 13th July 2010. Interest on the agreement is accrued and paid on the monthly basis. The interest rate is 10.75%.

agreement of 27th January 2009 to the total amount of 385, with the disbursement in tranches. The expiry date of the agreement is 26th July 2010. Interest on the agreement is accrued and paid on the monthly basis. The interest rate is 10.75%.

agreement of 9th February 2009 to the total amount of 390, with the disbursement in tranches. The expiry date of the agreement is 6th August 2010. Interest on the agreement is accrued and paid on the monthly basis. The interest rate is 10.75%.

As of 31st March 2010 and 31st December 2009 the Company had no debt to OJSC Savings Bank of Russia.

OJSC JSCB Svyaz-Bank

As of 31st March 2010 the debt of the Company to OJSC AKB Svyaz-Bank was represented by the debt under the agreement of opening of an open-end credit line:

agreement of 25th January 2010 to the total amount of 1000, with the disbursement in tranches. The expiry date of the agreement is 24th January 2013. Interest on the agreement is accrued and paid on the monthly basis. The interest rate is 9.7-10.45% (starting from 1st May 2010 the rate under the agreement has been 7.65-8.3%)

As of 31st March 2010 the debt under the principal amount was 330 (0 as of 31st December 2009) and was shown within the short-term loan obligations.

Restrictions Related to Received Credits and Loans

The terms of the current agreements of loan provide for the following restrictions for the activities of the Company:

Reservations that may result in early repayment of the debt:

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

In compliance with the agreements of fixed-term syndicated lending of 19th July 2007 for 100 million US dollars and of 6th November 2008 for 150 million US dollars, under which Bayerische Hypo- und Vereinsbank AG London Branch acts as the Agent, the Company undertakes to maintain the following financial indicators (calculated on the basis of the financial statements for each 1st half of the year and on the basis of the result of

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the year made up according to the International Financial Reporting Standards):
the ratio of the total amount of borrowed funds to EBIDTA must not exceed 3:1;
the ratio of EBIDTA to expenses for interest payment must not exceed 4:1;
the net amount of borrowed funds to net capitalization must not exceed 1.

EBITDA is calculated as follows: total consolidated profit for the current year + financial expenses + profit tax + profit (loss) from interest in associated companies, except for dividends received in the monetary form + extraordinary and exceptional expenses - profit for the current year belonging to minority shareholders of subsidiaries + wear and depreciation.

Credit agreements with OJSC Savings Bank of Russia:

The amount of monthly receipts on the settlement account – not less than 1,100;

The Company is declared insolvent (bankrupt), or a procedure of Company's bankruptcy is initiated by a third party;

A decision is taken on re-organizing or winding up the Company;

Security is lost;

Legal actions or property claims against the Company for amounts over USD 5 million.

Liabilities to RF Ministry of Finance

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

Restrictions on transactions:

Agreements of syndicated fixed-term lending of 19th July 2007 for 100 million US dollars and of 6th November 2008 for 150 million US dollars, under which Bayerische Hypo- und Vereinsbank AG London Branch acts as the Agent:

Sum total of assets sale transactions for a year < 10.00% of assets value for a year;

issued loans, sureties and guarantees < 10 million EUR;

Dividend for a year < 100.00% of the year net profit;

Newly created pledges or other kinds of liabilities security < 150 million USD.

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

As of 31st March 2010, the Company observed all the above terms.

Bonded loans

Presented below is aggregated information on the bonded loans as of 31st March 2010 and 31st December 2009:

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Loan ID (<i>name / No.</i>)	Effective interest rate	31 st March 2010		31 st December 2009		Repayment date	Retirement procedure	Offer day	Coupon interest rate
		Long-term part	Short-term part	Long-term part	Short-term part				
4-03-00119-A (series 03 bonds)	8.6% per annum	-	2,100	1,200	1,800	24.02.2011	The face value of the bonds is retired in piece-meal on the following dates: -25.02.2010 30% -26.08.2010 30% -24.02.2011 40%	-	8.6% per annum
4-10-00119-A (series 04 bonds)	8.6% per annum	999	499	999	499	08.12.2011	The face value of the bonds is retired in piece-meal on the following dates: -10.12.2009 25% -09.12.2010 25% -08.12.2011 50%	-	8.1% per annum
4-05-00119-A (series 05 bonds)	9.18% per annum	-	2,996	-	2,996	21.05.2013	The face value of the bonds is retired in piece-meal on the following dates: - 22.05.2012 25%; - 20.11.2012 25% - 21.05.2013 50%	01.06.2010	3M MOSPRIME + 2.12% per annum, however, not higher than the limit rate of 15% per annum
4-06-00119-A (series 06 bonds)	12.47% per annum	2,992	-	2,990	-	24.07.2019	The face value of the bonds is retired in piece-meal on the following dates: - 26.07.2017 30% - 25.07.2018 30% - 24.07.2019 40%	09.08.2011	11.7% per annum
Total		3,991	5,595	5,189	5,295				

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The change of the debt under bonds is presented below:

Bonds as of 31st December 2009	10,484
Repaid under the 3 rd bonded loan	(900)
Depreciation of the expenses for organization and floatation	2
Bonds as of 31st March 2010	9,586

In the 1st quarter of 2010 the bonds of the 3rd, 4th, 5th and 6th loans were in circulation.

Loan ID	Market value of bonded loans according to MICEX as of 31 st March 2010
4-03-00119-A (series 03 bonds)	100.46%
4-10-00119-A (series 04 bonds)	100.75%
4-05-00119-A (series 05 bonds)	100.23%
4-06-00119-A (series 06 bonds)	107.76%

In December 2004 the Company had registered the 3rd issue of 3,000,000 documentary coupon bonds with the face value of RUR 1,000 each with 24 interest-bearing coupons, with payment every 91 days, starting from the 91st day from the day of the start of bonds floatation. The interest rate for the coupons from 1 through 12 has been established in the amount of 9.25% per annum. The interest rates for coupons from 13 through 24 have been established by the decision of the Company's Board of Directors on 11th February 2008 in the amount of 8.6% per annum. The bonds' maturity date is scheduled for February 2011, 2184 days after the floatation start date. The face value of the bonds is retired by piece-meal on the following dates: 30% of the face value - on 25th February 2010, 30% of the face value – on 26th August 2010, 40% of the face value – on 24th February 2011.

For the 3 months of 2010 the Company fully executed its liability to pay coupon yield for 20 coupon established as 8.6% per annum in the amount of 64 and partially repaid the bonds face value in the amount of 900. The amount of the coupon yield charged per bond for the 20th coupon amounted to RUR 21.44. The obligations were fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

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

As of 31st March 2010, the outstanding balance of the loan was 2,100 and was shown within the short-term loan obligations, the accrued interest amounted to 17 (3,000, 1,800 and 25 respectively as of 31st December 2009).

In October 2006 the Company had registered an 4th issue of 2,000,000 interest-bearing documentary bonds with the face value of RUR 1,000 each with 20 coupons, with payment every 91 days, starting from the 91st day from the day of the start of bonds floatation. The coupon interest rate has been established in the amount of 8.1% per annum. The face value of the bonds is retired by piece-meal on the following dates: 25% of the face value – on 10th December 2009, 25% of the face value – on 9th December 2010, 50% of the face value – on 8th December 2011.

The issued bonds do not provide for offers, which would allow the bond holders to present them to the Company on appointed dates, within 12 months from the reporting date. According to the Decision on Issue and the Offering Circular, Bonds may be retired ahead of schedule, if the Company wishes so, on the 728th day from the starting date of floatation (11th December 2008), and the amount of bonus to be paid in case of early retirement

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will be RUR 20 per bond. The Company did not use this possibility.

For the 3 months of 2010 the Company fully executed its liability to pay coupon yield for 13 coupon established as 8.1% per annum in the amount of 30. The size of coupon return on one bond was RUR 15.15 for Coupon 13. The obligation was fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

As of 31st March 2010, the outstanding balance of the loan was 1,498, including the short-term part of 499, the accrued interest amounted to 7 (1,498, 499 and 7 respectively as of 31st December 2009).

In October 2007 the Company had registered an 5th issue of 3,000,000 interest-bearing documentary bonds with the face value of RUR 1,000 each with 20 coupons, with payment every 91 days, starting from the 91st day from the day of the start of bonds floatation. According to the terms of the loan, bond holders may present the bonds for early retirement in June 2010 at face value. The first coupon interest rate was defined as the sum of two components: the MosPrime Rate for three months set on the last business day before the issue floatation starting date, and the premium on the MosPrime Rate for three months, making 8.4% per annum. The Coupon 2 to 20 rate will be the MosPrime Rate value for three months plus the Premium, but not to exceed the Limit Rate, which is 15%.

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

According to the terms of the loan, bonds may be retired ahead of schedule, if the Company wishes so, on any of the coupon payment dates within the period from the 728th till the 1729th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be RUR 2.5 per bond. The issued bonds provide for an offer, which will make it possible for the bond holders to present them to the Company within 12 months from the date of these reports – from 18th May till 25th May 2010. The acquisition date falls on 1st June 2010.

For the 3 months of 2010 the Company fully executed its liability to pay coupon yield for 7 coupon established as 9.65% per annum in total amount of 72. The size of coupon return on one bond was RUR 24.06 for Coupon 7.

As of 31st March 2010, the outstanding balance of the loan was 2,996 and was shown within the short-term loan obligations, the accrued interest amounted to 23 (2,996, 2,996 and 29 respectively as of 31st December 2009).

In October 2008 the Company had registered the 6th issue of 3,000,000 series 06 documentary interest-bearing bonds payable to bearer, with the face value of RUR 1,000 (one thousand) each. The Bonds have 40 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds floatation start, and other coupon payments are effected on each 91st day. The coupon interest rate has been established in the amount of 11.7% per annum. The face value of the bonds is retired by piece-meal on the following dates: 30% of the face value – on 26th December 2017, 30% of the face value – on 25th July 2018, 40% of the face value is to be retired on 24th July 2019. The bonds' maturity date is scheduled for July 2019, 3640 days after the floatation start date. The funds gained from Bonds' issue were mainly used for refunding of existing credit portfolio and to fund Company's business and investment programme.

According to the terms of the loan, bonds may be retired ahead of schedule, if the Company wishes so, on any of the coupon payment dates within the period from the 1092nd till the 2184th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be RUR 2.5 per bond.

For the 3 months of 2010 the Company fully executed its liability to pay coupon yield for 2 coupon established as 11.7% per annum in the amount of 87. The size of coupon return on one bond was RUR 29.17.

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

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As of 31st March 2010, the outstanding balance of the loan was 2,992 and was shown within the long-term loan obligations, the accrued interest amounted to 54 (2990 and 55 respectively as of 31st December 2009).

In March 2009 the Board of Directors approved the decision on flotation through public subscription of the 4,000,000 series 01, 02, 03, 04 interest-bearing documentary non-convertible exchange-traded bonds payable to bearer with the obligatory centralized care, with the face value of RUR 1,000 each, with the total face value of RUR 4,000.

The flotation price of one exchange-traded bond is set equal to the face value and makes RUR 1,000. The exchange-traded Bonds have 12 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds flotation start, and other coupon payments are effected on each 91st day. Exchange-traded bonds shall be retired on the 1092nd day from the flotation starting date. If so decided by the Company, premature retirement or partial premature retirement may be provided. Exchange-traded bonds may be prematurely retired by request of their owners if the Company's shares and bonds of all categories and types are deleted from the list of securities admitted for trading at all stock exchanges that admitted exchange-traded bonds for trading (except for cases of bond delisting due to expiry of their flotation period or due to their retirement.)

In May 2009 MICEX Stock Exchange CJSC took a decision to admit the exchange-traded bonds flotation. The decision on bonds flotation was not taken.

Note loans

In the period from 2000 to 2003 the Company issued promissory notes for the purpose of funding the current activities and restructuring the liabilities. The issued promissory notes are recorded at depreciated value.

Commercial loans

In April 2002 the Company entered into a contract of technical equipment delivery with LLC Kvant-Intercom. The currency of the contract is the US dollar. As of 31st March 2010 and 31st December 2009 the long-term debt under the contract was less than 1. No interest is provided for or accrues under the Contract. The debt is repaid according to the schedule, the final debt repayment date being 20th July 2011.

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Liabilities under financial lease

	31 st March 2010		31 st December 2009	
	Minimum rent payments	Discounted value of minimum rent payments	Minimum rent payments	Discounted value of minimum rent payments
Current part (less than 1 year)	19	15	20	16
Over 1 year and up to 5 years	14	13	18	16
Total	33	28	38	32

As of 31st March 2010 and 31st December 2009 the Company's main lessor was OJSC VTB-Leasing. The effective interest rate under the said liabilities was 19.46% per annum.

The transport facilities acquired under the contract of leasing with OJSC VTB-Leasing are used for providing the all-in-one communication service. Future minimum lease payments under the contracts with OJSC VTB-Leasing as of 31st March 2010 were 33, including the principal debt amount of 28 and the interest payable of 5 (38, 32 and 6 respectively as of 31st December 2009).

21. Pension and long-term social liabilities

In compliance with the collective agreement, N.W.Telecom Group provides a non-government pension to the employees and makes other social payments to the current and former employees of N.W.Telecom Group.

Pension plans with fixed fees

The activities related to non-government provision of pensions to the Company's employees according to pension plans with fixed pays are dealt with by the Telecom-Soyuz non-government pension fund.

As of 31st March 2010 N.W.Telecom Group had 13,181 participants of the pension plan with fixed fees (12,845 as of 31st December 2009).

For 3 months of 2010 the expenses of N.W.Telecom Group for contributions to the pension fund in respect of the pension plans with fixed fees amounted to 77 (56 for 3 months of 2009).

Pension plans with fixed pays and long-term social liabilities

Pension plans with fixed pays are used for most of the participants. A pension plan with fixed pays provides for retirement and disability pension provision. The conditions for getting the base non-governmental old-age pension is achieving the age entitling a person to the governmental old-age pension, which at the moment is 55 years of age for women and 60 years of age for men, and the record of work for at least 15 years (for ordinary employees) and 4 years (for top managers). The amount of the base pension depends on a number of factors, including the position of the employee as of the moment of retirement.

The activities related to non-government provision of pensions according to pension plans with fixed fees are dealt with by the Telecom-Soyuz non-government pension fund, which is a related-party of the Company (Note 39).

Apart from that, the Company has a number of long-term social liabilities related to pays to employees, including lumpsum retirement pays, jubilee pays, death benefits to the current and former employees and other benefits to former employees.

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As of 31st March 2010 N.W.Telecom Group had 13,181 working participants of the pension plan with fixed pays and 16,984 pensioners entitled to remuneration upon completion of their labour activities and to a pension benefit (12,845 and 15,621 respectively as of 31st December 2009).

The expenses under plans with fixed pays, except for the amounts of interest income and expenses were included in the line "Staff Costs" of the consolidated report on aggregate income. The amounts of interest income and expenses were included respectively in the lines "Other Financial and Investment Operation Income and Expenses" and "Financial Expenses" of the consolidated report on aggregate income.

22. Other long-term liabilities

	31st March 2010	31st December 2009
Deferred income	276	285
Long-term advances received	40	48
Total	316	333

23. Reserves

The personnel number optimization

N.W.Telecom Group created a reserve for paying compensations (in the amount of 6) to the employees who had been notified as of 31st December 2009 on the forthcoming reduction of the staff. The part of the reserve used in 3 months of 2010 amounted to 6. As of 31st March 2010 the unused balance of the reserve was 2.

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24. Accounts payable and charged liabilities

	31st March 2010	31st December 2009
Settlements with suppliers and contractors in respect of acquisition and construction of fixed assets	154	349
Settlements with suppliers and contractors in respect of acquisition of software	30	54
Settlements with communication operators	164	193
Settlements with suppliers and contractors in respect of current activities	436	770
Settlements in respect of taxes, fees and social security contributions	1,358	877
Settlements with personnel	806	885
Dividend payments	58	66
Settlements with brokers and principals	335	384
Settlements with other creditors	290	275
Total	3,631	3,853

The settlements in respect of taxes, duties and social security contributions as of 31st March 2010 and 31st December 2009 include the following:

	31st March 2010	31st December 2009
Value added tax	696	362
Property tax	320	208
Tax on income of individuals	79	64
Social security contributions	259	238
Other taxes	4	5
Total	1358	877

Settlements with other creditors include the all-in-one service reserve deduction debt, insurance settlements, settlements with the trade union, and settlements with operators under contracts of assistance.

Accounts payable and accrued liabilities as of 31st March 2010 include a non-financial debt of 1,384 (910 as of 31st December 2009).

25. Other current liabilities

	31st March 2010	31st December 2009
Deferred income	19	11
Advances received for primary business	332	407
Advances received for secondary activities	27	25
Total	378	443

26. Contingent Liabilities and Operating Risks

Operating Environment of N.W.Telecom Group

The development of political, legal, economic, financial, social, informational and other conditions for the successful functioning of companies continues in Russia.

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Taxation

As of 31st December 2010, N.W.Telecom Group's management believes that its interpretation of the relevant legislation is appropriate on the whole and that it is most likely that N.W.Telecom Group's tax, currency and customs positions will be sustained.

Legal Proceeding and Determination of Consequences

In March 2009 the Inter-regional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers No. 7 completed its in-house tax audit of the Company on the basis of the adjusted value added tax return for January 2006 and, based on its results, took a Decision on Refusal to Provide Partial Compensation for the Value Added Tax Amount requested under the tax return for January 2006 (88).

In September 2009 the Company disputed the Decision of the Tax Authority at the Court of Arbitration of Moscow for the amount of 88.

In January 2010 the Decision of the Court of Arbitration of Moscow recognized as invalid the Decision of the Inter-regional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers No. 7 in respect of the refusal to provide partial compensation for the value added tax amount (88).

The Ninth Court of Arbitration and Appeal left without changes the Award of the CA of Moscow dated 18.01.2010 in re Case No. A40-122662/09-108-929, the appeal of the Interdistrict Inspectorate of the Federal Tax Service of Russia for KN No.7 having been left without satisfaction (the Operative Part of the Resolution was announced on 17.05.2010).

Insurance

The N.W.Telecom Group is working on risk management, including the field of insurance. For the 3 months of 2010 the N.W.Telecom Group insured equipment, motor vehicles, real estate and other property, personnel, directors' and management bodies' liability, and dangerous industrial sites. The N.W.Telecom Group is a natural monopoly entity and, in compliance with the Federal Law "On Protection of Competition" No. 135-FZ of 26th July 2006, must select financial organizations for providing insurance services on the basis of results of an open tender or an open auction.

27. Financial instruments and risk management

The basic financial instruments of N.W.Telecom Group include bank credits, bonded loans, acceptance loans, financial lease (leasing), cash and cash equivalents. The main purpose of these instruments is to attract funding of Company's operations. Besides, short-term deposits are actively used as a financial instrument for placing free monetary funds. N.W.Telecom Group has other financial assets and liabilities, such as the trade accounts receivable and accounts payable, which arise directly in the course of its operating activities.

Policy in the field of capital management

The main goals of N.W.Telecom Group's capital management policy are to improve the level of the credit rating, to improve the ratios of financial independence and liquidity, to improve the structure of accounts payable and to reduce the cost of borrowed capital servicing.

The basic methods of managing the capital structure are profit maximization, investment programme management, loan capital value management, debt portfolio restructuring, and the use of various borrowing tools.

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N.W.Telecom Group monitors and manages the borrowed capital using the financial independence ratios and the indicators "net debt / equity capital" and "net debt / EBITDA".

The financial independence ratio is calculated as the ratio of equity to total assets as of the end of the period. The "net debt / equity capital" indicator is calculated as the ratio of the net debt to the equity as of the end of the period. The "net debt / EBITDA" indicator is calculated as the ratio of the net debt as of the end of the period to the EBITDA indicator for the past period. The indicators used in capital management are determined on the basis of the accounting data made up according to the Russian Accounting Standards.

The Company's policy consists in maintaining the financial independence ratio in the range not lower than 0.55; the "net debt / equity capital" indicator not higher than 1; the "net debt / EBITDA" indicator not higher than 1.80.

As of 31st March 2010 and 31st December 2009 the values of the indicators used in the capital management amounted to:

	31st March 2010	31st December 2009
Financial independence ratio	0.63	0.60
"Net debt / equity capital"	0.42	0.49
"Net debt / EBITDA"	1.18	1.52

On 15th March 2010 the Standard&Poor's international rating agency confirmed the Company's long-term international credit rating at the level of "BB-", "Stable" forecast. The national rating of the Company was confirmed at the previous level of "ruAA-".

Income and expenses related to financial instruments

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Profits and Losses Report

	Other operating expenses	Financial expenses	Other income and expenses related to financial and investment activities		Profit / loss due to exchange rate differences	Total
	Creating of doubtful debt reserve	Interest expenses	Interest income	Other		
For 3 months of 2010						
Cash and cash equivalents			3		89	92
Accounts receivable	(49)	-	-	-	-	(49)
Notes and deposits	-	-	118	-	1	119
Total financial assets	(49)	-	121	-	90	162
Bank credits and loans of organizations		(101)			(4)	(105)
Bonded loans	-	(180)	-	-	-	(180)
Derivatives	-	-	-	(25)	7	(18)
Liabilities under financial lease	-	(1)	-	-	-	(1)
Total financial liabilities	-	(282)	-	(25)	3	(304)

	Creating of doubtful debt reserve	Interest expenses	Interest income	Other	Profit / loss due to exchange rate differences	Total
	For 3 months of 2009					
Cash and cash equivalents			8		23	31
Accounts receivable	(47)	-	-	-	-	(47)
Total financial assets	(47)	-	8	-	23	(16)
Bank credits and loans of organizations		(185)			(1,134)	(1,319)
Bonded loans	-	(114)	-	-	-	(114)
Liabilities under financial lease	-	(2)	-	-	-	(2)
Accounts Payable	-	-	-	15	(1)	14
Total financial liabilities	-	(301)	-	15	(1,135)	(1,421)

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Currency risk

Currency risk is the risk of an effect of a change in the currency exchange rate on the financial result and the cash flows of N.W.Telecom Group. As a consequence, such changes will be reflected in respective items of the profit and loss report, balance sheet and/or cash flow report. Assets and liabilities expressed in a foreign currency show that there is a potential currency risk.

The financial assets and liabilities of N.W.Telecom Group are distributed by the following types of currencies:

31 st March 2010	RUR	USD	EUR	Total
Cash and cash equivalents	150	-	-	150
Accounts receivable	4,048	-	-	4,048
Financial assets available for sale.	21	-	-	21
Notes and deposits	3,696	-	-	3,696
Issued loans	28	-	-	28
Other current assets	13	-	-	13
Total financial assets	7,956	-	-	7,956
Bank credits and loans of organizations	(343)	(4,971)	(99)	(5,413)
Bonded loans	(9,586)	-	-	(9,586)
Derivatives	-	(413)	-	(413)
Liabilities under financial lease	(28)	-	-	(28)
Interest debt	(111)	(19)	(12)	(142)
Other financial liabilities	(23)	-	-	(23)
Accounts Payable	(2,246)	(1)	-	(2,247)
Total financial liabilities	(12,337)	(5,404)	(111)	(17,852)
31 st December 2009	RUR	USD	EUR	Total
Cash and cash equivalents	574	-	-	574
Accounts receivable	2,934	-	-	2,934
Financial assets available for sale.	21	-	-	21
Notes and deposits	3,571	333	-	3,904
Issued loans	31	-	-	31
Other current assets	16	-	-	16
Total financial assets	7,147	333	-	7,480
Bank credits and loans of organizations	(14)	(5,960)	(101)	(6,075)
Bonded loans	(10,484)	-	-	(10,484)
Note loans	(2)	-	-	(2)
Derivatives	-	(394)	-	(394)
Liabilities under financial lease	(32)	-	-	(32)
Interest debt	(128)	(21)	(6)	(155)
Other financial liabilities	(24)	-	-	(24)
Accounts Payable	(2,942)	(1)	-	(2,943)
Total financial liabilities	(13,626)	(6,376)	(107)	(20,109)

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For the period from 1st January 2010 till 31st March 2010 the RUR /USD exchange rate increased by 2.76 % and the RUR to EUR rate increased by 8.66%.

An analysis of the sensitivity of profit before taxes to the currency risk is presented in the following table:

	USD			EUR		
	Change of the exchange rate, %	Influence on profit before taxes		Change of the exchange rate, %	Influence on profit before taxes	
		RUR millions	%		RUR millions	%
31st March 2010	18.60	(1,005)	-55.23	16.90	(19)	-1.03
	(12.80)	692	38.01	(7.50)	8	0.46
31st December 2009	18.60	(1,124)	-38.36	16.90	(18)	-0.62
	(12.80)	774	26.40	(7.50)	8	0.27

A sensitivity analysis has been carried out for the change step of USD by 18.6% and (12.8%) and EUR by 16.9% and (7.5%) in connection with the high fluctuation of the currencies-to-RUR exchange rates.

As an instrument used for partial management of the currency risk, the Company uses forward contracts (see the "Hedging" clause).

Risk of interest rate changes

The risk of a change in interest rates is the risk that a change in the level of interest rates of financial instruments used by N.W.Telecom Group will influence the financial result and the cash flows of the Group.

N.W.Telecom Group's financial assets and liabilities are distributed by the nature of the interest rates related to them:

31 st March 2010	Fixed rate	Floating rate	Without rate	Total
Cash and cash equivalents	22	-	128	150
Accounts receivable	-	-	4,048	4,048
Financial assets available for sale.	-	-	21	21
Notes and deposits	3,696	-	-	3,696
Issued loans	-	-	28	28
Other current assets	-	-	13	13
Total financial assets	3,718	-	4,238	7,956
Bank credits and loans of organizations	(442)	(4,971)	-	(5,413)
Bonded loans	(6,590)	(2,996)	-	(9,586)
Note loans	-	-	-	-
Derivatives	-	-	(413)	(413)
Liabilities under financial lease	(28)	-	-	(28)
Interest debt	-	-	(142)	(142)
Other financial liabilities	(23)	-	-	(23)
Accounts Payable	-	-	(2,247)	(2,247)
Total financial liabilities	(7,083)	(7,967)	(2,802)	(17,852)

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31 st December 2009	Fixed rate	Floating rate	Without rate	Total
Cash and cash equivalents	28	-	546	574
Accounts receivable	-	-	2,934	2,934
Financial assets available for sale.	-	-	21	21
Notes and deposits	3,904	-	-	3,904
Issued loans	-	-	31	31
Other current assets	-	-	16	16
Total financial assets	3,932	-	3,548	7,480
Bank credits and loans of organizations	(117)	(5,958)	-	(6,075)
Bonded loans	(7,488)	(2,996)	-	(10,484)
Note loans	(2)	-	-	(2)
Derivatives	-	-	(394)	(394)
Liabilities under financial lease	(32)	-	-	(32)
Interest debt	-	-	(156)	(156)
Other financial liabilities	(23)	-	-	(23)
Accounts Payable	-	-	(2,943)	(2,943)
Total financial liabilities	(7,662)	(8,954)	(3,493)	(20,109)

An analysis of the sensitivity of profit before taxes to the interest rate risk is presented in the following table:

	LIBOR			MosprimeRZBM		
	Rate change, percentage points	Influence on profit before taxes		Rate change, percentage points	Influence on profit before taxes	
		RUR millions	%		RUR millions	%
31st March 2010	6	(3)	-0.16	186	(56)	-3.06
	(6)	3	0.16	(186)	56	3.06
31st December 2009	6	(4)	-0.12	186	(56)	-1.90
	(6)	4	0.12	(186)	56	1.90

A sensitivity analysis has been carried out for the step of change of LIBOR by 6 percentage points and MosPrime RZBM by 186 percentage points.

For LIBOR, the change of the floating rates of the world banks (decrease) has been taken into account, which, in its turn, is connected with the set of anti-crisis measures taken by banks of different countries.

For MosPrime RZBM (which is based on the rates of the ten major banks of Russia), the decrease of the rate has been taken into account, which is accounted for by a significant state support of banks (for the purpose of reviving the domestic lending market) and by the stabilization of the economy to the pre-crisis level. Besides, there has been an effect of the decrease in the LIBOR rates in connection with the operating opened lines of credit of foreign banks for Russian lending agencies.

Bank credits and loans of organizations implying dependence of the interest rate on the LIBOR rate are represented by borrowings in US dollars, those on the Mosprime RZBM rate in Russian roubles.

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Liquidity risk

The N.W.Telecom Group manages the risk related to the lack of monetary funds by current ratio planning. N.W.Telecom Group aspires at maintaining a balance between the continuity and flexibility of funding by using bank overdrafts, bank credits, bonds, financial lease and issue of own notes.

The performance timing for the financial assets and liabilities of N.W.Telecom Group are given in the table below:

	2010	2011	2012	2013	2014 and later	Total
Cash and cash equivalents	150					150
Accounts receivable	4,043	5	-	-	-	4,048
Financial assets available for sale.	21					21
Notes and deposits	428	3,291	-	-	-	3,719
Issued loans	13	11	10	6	5	45
Other current assets	13	-	-	-	-	13
Total financial assets	4,668	3,307	10	6	5	7,996
Bank credits and loans of organizations	(3,360)	(1,882)	(342)	-	-	(5,584)
Bonded loans	(6,244)	(4,369)	-	-	-	(10,613)
Derivatives	(413)	-	-	-	-	(413)
Liabilities under financial lease	(20)	(16)	(2)	-	-	(38)
Other financial liabilities	(2)	(3)	(3)	(3)	-	(11)
Accounts Payable	(2,247)	-	-	-	-	(2,247)
Total financial liabilities	(12,286)	(6,270)	(347)	(3)	-	(18,906)

The data given in the table include payment of the interest that has already accrued or will accrue in the future periods.

Credit risk

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

Financial assets, in respect of which N.W.Telecom Group has a potential credit risk, are mainly accounts receivable of buyers and customers, money in banks, bank deposits and other debt financial assets.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk (Note 15).

N.W.Telecom Group has no significant concentrations of credit risk due to significance and diversification of the client base and regular monitoring procedures over customers' and other debtors' solvency. Part of N.W.Telecom Group's accounts receivable is represented by state and non-profit organizations.

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Outstanding accounts receivable that have not been depreciated are presented below by the periods of delay:

31 st March 2010	Periods of delay, days						
	TOTAL	<31	31-60	61-90	91-180	181-360	>360
Corporate customers	63	47	12	3	1	-	-
Individuals	70	48	12	6	4	-	-
Government customers	27	18	8	1	-	-	-
Communication operators	17	15	2	-	-	-	-
Total	177	128	34	10	5	-	-

31 st December 2009	Periods of delay, days						
	TOTAL	<31	31-60	61-90	91-180	181-360	>360
Corporate customers	31	21	6	3	1	-	-
Individuals	63	42	12	6	3	-	-
Government customers	9	6	2	1	-	-	-
Communication operators	18	15	2	1	-	-	-
Total	121	84	22	11	4	-	-

The above accounts receivable were not depreciated taking into account the established practice of their payment.

Hedging

As a result of attracting syndicated loans, the Company assumed the risk of increased payments in RUR under these liabilities caused by the growth of the EUR and USD/RUR exchange rate. To check and minimize the possible adverse effect of the falling RUR exchange rate relative to the EUR and USD, in which the Company's syndicated loans are denominated, the Company took a decision on hedging the variability of the current exchange rate of the RUR to the foreign currency for the cash flows of the forecasted repayments of the permanent part of interest payments and/or the principal amount of the loan.

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

Repaid debt hedging

For the syndicated loan (with Citibank N.A. as the agent)

The hedged item is the amount borrowed under the agreement of syndicated loan (with Citibank N.A. as the agent). The loan was repaid in several installments on each date of repayment in the amounts that reduced the loan debt by the amount equal to 1/9 of the original loan amount. A repayment date was the date coming 15, 18, 21, 24, 27, 30, 33 and 36 months after the first date of utilization. Payments are the sum total of the permanent part of the interest payments at the rate of 2% per annum and 60% of the principal debt amount, which, under the terms of the agreement of syndicated loan, are to be paid according to the following schedule:

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Under the General Agreement on FX and Deposit Transactions with CJSC CB Citibank for the years 2008 and 2009:

Date of payment	Hedging amount, EUR thousands
27.03.2008	1,252
27.06.2008	1,223
29.09.2008	1,196
29.12.2008	1,167
23.01.2009	1,121
TOTAL:	5,959

For the syndicated loans (with Bayerische Hypo-und Vereinsbank AG as the agent)

The hedged item is the amount borrowed under the two agreements of syndicated loan (with Bayerische Hypo-und Vereinsbank AG as the agent). The loan is repaid in several installments on each date of repayment in the amounts that reduced the loan debt by the following amounts:

- equal to 1/8 of the original loan amount under agreement of 06.11.2008 (135 million USD).
- equal to 1/7 of the original loan amount for tranche A (50 million USD) and equal to 1/13 of the original loan amount for tranche B (50 million USD) under agreement of 19.07.2007 (100 million USD).

The payments have been determined in accordance with the terms of syndicated loan agreements and the confirmation of the deliverable foreign exchange transaction dated 09.07.2009 and 21.07.2009

Under the General Agreement No. 542 on foreign exchange operations with OJSC Gazprombank for the years 2008 and 2009:

Date of payment	Hedging amount, EUR thousands
27.03.2008	2,222
27.06.2008	2,222
29.09.2008	2,222
29.12.2008	2,222
23.01.2009	2,222
TOTAL:	11,110

Calculation of the hedging effect is based on comparing the obtained financial result of implementing the delivery currency forward for the exchange rate difference for the hedged item, calculated for the entire period of the loan. The positive effect amounted to 39.

Under the General Agreement on FX and Deposit Transactions with CJSC CB Citibank for the 3 months of 2010:

Date of payment	Hedging amount, USD thousands
01.02.2010	16,875

Calculation of the hedging effect is based on comparing the obtained financial result of implementing the delivery currency forward for the exchange rate difference for the hedged item, calculated for the entire period of the loan. The **negative** effect amounted to 119.

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Outstanding debt hedging

The first stage of currency risk insurance (hedging) implemented in 2009 included the hedging transaction made with CJSC CB Citibank on 09.07.09 (under the General Agreement on FX Transactions). The said transaction provides for the hedging of the part of the principal debt under the syndicated loans, expected to be repaid in the 1st half of the year 2010, and implies the delivery of the currency (US dollars) at the single forward rate according to the following schedule:

Value date	Delivery forward rate, RUR/USD	UniCredit Bank Austria AG, syndicated loan; Tranche A, USD thousand	UniCredit Bank Austria AG, syndicated loan; Tranche B, USD thousand	Bayerische Hypo-und Vereinsbank AG, USD thousands	Total: (amount to be paid by Citibank) Hedging amount, USD thousands	Amount to be paid by the Company, RUR thousands
01.02.2010	34.64	-	-	16,875	16,875	584,550
09.04.2010	34.64	7,143	3,846	-	10,989	380,659
29.04.2010	34.64	-	-	16,875	16,875	584,550
TOTAL:	-	-	-	-	44,739	1,549,759

The second stage of currency risk insurance (hedging) implemented in 2009 included the hedging transaction made with CJSC CB Citibank on 21.07.09 (under the General Agreement on FX Transactions). The said transaction provides for the hedging of the part of the principal debt under the syndicated loans, expected to be repaid in the second half of the year 2010, and implies the delivery of the currency (US dollars) at the single forward rate according to the following schedule:

Value date	Delivery forward rate, RUR/USD	UniCredit Bank Austria AG, syndicated loan; Tranche A, USD thousands	UniCredit Bank Austria AG, syndicated loan; Tranche B, USD thousands	Bayerische Hypo-und Vereinsbank AG, USD thousands	Total: (amount to be paid by Citibank) Hedging amount, USD thousands	Amount to be paid by the Company, RUR thousands
09.07.2010	35.41	7,143	3,846	-	10,989	389,121
30.07.2010	35.41	-	-	16,875	16,875	597,544
08.10.2010	35.41	-	3,846	-	3,846	136,192
01.11.2010	35.41	-	-	16,875	16,875	597,544
TOTAL:	-	-	-	-	48,585	1,720,401

2009

The N.W.Telecom Group assesses the efficiency of the hedging operation in the framework of the General Agreement on FX and Deposit Transactions with CJSC CB Citibank at the level of:

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

The fair value of the forward contract defined as hedging amounted to the liability of 394 as of 31st December 2009 (the asset of 4 as of 31st December 2008), including the inefficient part of hedging in the amount of 54 (15 as of 31st December 2008) and the efficient part of hedging in the amount of 448 (19 as of 31st December 2008). The said amounts are shown within the items "Other Income and Expenses in Financial and Investment Activities" of the consolidated profit and loss report: "Inefficient Part of Hedging Operations" and the "Net Profit (Loss) from Exchange Rate Differences in Re-valuation of Currencies" as the compensation for the respective negative exchange rate difference for the outstanding loan respectively.

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2010

The N.W.Telecom Group assesses the efficiency of the hedging operation in the framework of the General Agreement on FX and Deposit Transactions with CJSC CB Citibank at the level of:

- 97.8 % for UniCredit Bank Austria AG, syndicated loan, Tranche A;
- 97.9 % for UniCredit Bank Austria AG, syndicated loan, Tranche B;
- 98.2 % for Bayerische Hypo-und Vereinsbank AG

The fair value of the forward contract defined as hedging amounted to the liability of 413 as of 31st March 2010, including the inefficient part of hedging in the amount of 28 and the efficient part of hedging in the amount of 441 (395, 53 and 447 respectively as of 31st December 2009). The said amounts are shown within the items “Other Income and Expenses in Financial and Investment Activities” of the consolidated profit and loss report: “Inefficient Part of Hedging Operations” and the “Net Profit (Loss) from Exchange Rate Differences in Re-valuation of Currencies” as the compensation for the respective negative exchange rate difference for the outstanding loan respectively.

Fair value of financial instruments

The financial instruments used by N.W.Telecom Group belong to one of the following categories:

- Investments held-to-maturity (IHM);
- Financial assets available-for-sale (FAS);
- Financial assets evaluated at fair value (FAFV);
- Loans and accounts receivable (LAR);
- Liabilities shown at depreciated value (LDV);
- Liabilities shown at fair value (LFV).

As of 31st March 2010 and 31st December 2009 the fair and book value of N.W.Telecom Group's financial instruments did not differ considerably, except for the following:

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Category	31 st March 2010		31 st December 2009		
	Balance value	Fair value	Balance value	Fair value	
Cash and cash equivalents	LAR	150	150	574	574
Accounts receivable	LAR	4,048	4,048	2,934	2,934
Financial assets available for sale.	FAS	21	21	21	21
Notes and deposits	LAR	3,696	3,566	3,904	3,882
Issued loans	LAR	28	28	31	31
Other financial assets	FAS	13	13	16	16
Total financial assets		7,956	7,826	7,480	7,458
Bank credits and loans of organizations	LDV	(5,413)	(5,401)	(6,075)	(6,063)
Bonded loans	LDV	(9,586)	(9,861)	(10,484)	(10,453)
Note loans	LDV	-	-	(2)	(2)
Derivatives	LFV	(413)	(413)	(394)	(394)
Liabilities under financial lease	LDV	(28)	(28)	(32)	(32)
Interest debt	LDV	(142)	(142)	(156)	(156)
Other financial liabilities	LDV	(23)	(23)	(23)	(23)
Accounts Payable	LDV	(2,247)	(2,247)	(2,943)	(2,943)
Total financial liabilities		(17,852)	(18,115)	(20,109)	(20,066)

The discounted (present) value taking into account future payments, including the interest component, proceeding from the average weighted interest rates for deposits of non-financial organizations (RF Central Bank, Bulletin of Bank Statistics No.4 (203) for 2010), as of 31st March 2010, has been taken as the fair value of bills and notes.

The market value as of 31st March 2010 at MICEX stock exchange has been taken as the fair value of the bonded loans.

The discounted (present) value taking into account future payments, including the interest component, proceeding from the average weighted value of credits to non-financial organizations, provided by commercial banks (RF Central Bank, Bulletin of Bank Statistics No.4 (203) for 2010), stating the rates as of 31st March 2010, has been taken as the fair value of bank credits and loans with the fixed interest rate.

28. Receipts from sales

	For 3 months expired on 31 st March of	
	2010	2009
Local telephone communication services	3,561	3316
Telegraph network services, data transmission networks and telematic services (Internet)	1,538	1304
Intrazone telephone communication services	646	634
Connection and traffic passage services	636	688
Assistance and agency services	169	170
Mobile radio communication services, wired radio services, broadcasting and television services	83	101
Receipts from other sales	384	319
Total	7,017	6,532

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Receipts from local and intrazone telephone communication services include receipts from provision of communication channels of 205 and 35 respectively (165 and 51 in 3 months of 2009).

Receipts from telegraph network services, data transmission networks and telematic services (Internet) include receipts from data transmission networks and telematic services (Internet) of 1,481 (1,255 in 3 months of 2009).

Income from other sales includes receipts from leasing out the Company's assets of 109 (257 for the 3 months of 2009), including receipts from leasing out the investment property of 5 (0 for the 3 months of 2009).

N.W.Telecom Group identifies receipts from sales by the following major customer groups:

	For 3 months expired on 31 st March of	
	2010	2009
By customer groups		
Individuals	3,871	3,459
Corporate customers	1,801	1656
Government customers	553	563
Communication operators	792	854
Total	7,017	6,532

29. Personnel-related expenses

	For 3 months expired on 31 st March of	
	2010	2009
Expenses for wages	1,478	1,495
Single social tax	383	393
Expences for pension and long-term social liabilities	59	64
Other expenses for the personnel	51	54
Total	1971	2,006

Other expenses for the personnel mainly include expenses for voluntary medical and other insurance in favour of employees, expenses under the collective agreement and employment contracts.

30. Materials, repairs and maintenance, utilities

	For 3 months expired on 31 st March of	
	2010	2009
Expences for repairs and maintenance	362	277
Expenses for public utilities	285	265
Expences for materials	174	204
Total	821	746

Expenses for investment property for the 3 months of 2010 have amounted to 3 (0 for the 3 months of 2009) for the parts of the property that yielded income in the period under report and 2 (0 for the 3 months of 2009) for the parts of the property that did not yield income in the period under report.

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31. Other operating income

	For 3 months expired on 31 st March of	
	2010	2009
Indemnification for losses related to universal communication services provision	806	712
Fines, penalties, forfeits	1	1
Profit from sale of fixed assets and other assets	-	8
Other income	27	59
Total	834	780

Other income mainly includes the value of the property found after stock-taking, accounts payable and accounts receivable with the expired limitation period.

32. Other operating expenses

	For 3 months expired on 31 st March of	
	2010	2009
Taxes other than profit tax	230	228
Expenses for the agent's fee	155	143
Services of outside organizations and expenses related to management	112	105
Expenses for security and fire protection services	108	107
Deductions to all-in-one servicing reserve	68	62
Transportation and post services	63	64
Allowance for doubtful accounts	49	47
Expenses for property leasing	44	44
Expenses for property leasing (except for premises)	20	29
Expenses for audit and consulting services	17	34
Expenses for advertising	15	39
Membership fees, charity and funds transferred to trade union organizations	13	12
Expenses related to servicing of crediting organization	10	14
Loss from withdrawal of fixed assets and other assets	6	-
Property insurance	5	5
Expenses related to re-organization	5	-
Other expenses	25	30
Total	945	963

Other expenses mainly include expenses for social needs, as well as other operating expenses.

33. Financial expenses

	For 3 months expired on 31 st March of	
	2010	2009
Interest expenses under bank credits and loans of organizations, bonded loans, acceptance loans and commercial credits	279	294
Interest expenses for pension and long-term social liabilities	62	58
Expenses for financial liabilities servicing	2	5
Expenses under finance lease	1	2
Total	344	359

The capitalized interest for 3 months of 2010 and 2009 amounted to:

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	For 3 months expired on 31 st March of	
	2010	2009
Interest capitalized to the value of fixed assets	12	51
Interest capitalized to the value of intangible assets	5	5
Total	17	56

34. Other income and expenses related to financial and investment activities

	For 3 months expired on 31 st March of	
	2010	2009
Interest income on financial assets	121	8
Inefficient part of hedging operation	(25)	-
Other	-	15
Total	95	23

35. Profit Tax

	For 3 months expired on 31 st March of	
	2010	2009
Current income tax expense	191	8
Deferred expenses (income) in respect of the income tax	178	(8)
Total income tax expense	369	-

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

	For 3 months expired on 31 st March of	
	2010	2009
Profit (loss) before taxes	1821	(143)
Statutory income tax rate	20.00%	20.00%
Theoretical income tax charge	(364)	29
Expenses not deductible for tax purposes	(27)	(27)
Total actual profit tax	(369)	-
Effective tax rate %	20.26%	0.00%
Profit Tax	(369)	-

An explanation of the amounts of recognized deferred tax assets and liabilities as of 31st March 2010 and 31st December 2009, as well as their flow for the 3 months of 2010 and 2009, is presented below:

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	31 st December 2008	Origination and decrease of differences for the 3 months of 2009	31 st March 2009	31 st December 2009	Origination and decrease of differences for the 3 months of 2010	31 st March 2010
Tax effect of deferred tax assets:						
Accounts payable and charged liabilities	102	(51)	51	202	(49)	153
Accounts receivable	20	7	27	13	4	17
Pension obligations	253	(37)	216	312	1	313
Finance leases	14	5	19	6	(1)	5
Total deferred tax assets	389	(76)	313	533	(45)	488
Tax effect of deferred tax liabilities:						
Fixed Assets	(1,210)	52	(1,158)	(1,273)	(138)	(1411)
Inventory holdings	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-
Intangible assets	(246)	30	(216)	(321)	5	(316)
Finance investment	(7)	2	(5)	-	-	-
Dividend from subsidiaries	(5)	-	(5)	-	-	-
Total deferred tax liabilities	(1,468)	84	(1,384)	(1,594)	(133)	(1727)
Total net deferred tax liabilities	(1,079)	8	(1,071)	(1,061)	(178)	(1239)

36. Profit (loss) per share

N.W.Telecom Group has no financial instruments convertible into common shares, respectively, the diluted profit per share is equal to the base profit per share.

	For 3 months expired on 31 st March of	
	2010	2009
Profit (loss) from continuing operations for the period under report, having to do with OJSC N.W.Telecom's shareholders	1451	(143)
Profit (loss) from continuing operations for the period under report, having to do with holders of preferred shares	145	(14)
Profit (loss) for the period under report related to holders of common shares and other equity instruments participating in the profit	1306	(129)
Weighted average number of common shares and other equity instruments participating in the profit, in circulation	1,125	1,125
Base and watered profit/(loss) per share related to holders of common shares and other equity instruments participating in the profit for the period under report (in RUR)	1.1608	(0.1144)

37. Operation Lease

As of 31st March 2010 and 31st December 2009 the minimum rent payments under contracts of operating lease where the Company is the lessee were distributed by the years of payment as follows:

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	<u>31st March 2010</u>	<u>31st December 2009</u>
Current part (less than 1 year)	308	436
Over 1 year and up to 5 years	366	458
Over 5 years	1,593	1,245
Total	<u>2,267</u>	<u>2,139</u>

The amount of N.W.Telecom Group's expenses related to operating lease and recorded in the line "Other operating expenses" and the line "Expenses related to services of communication operators" of the consolidated profit and loss report amounted to 118 for the 3 months of 2010 (138 for the 3 months of 2009).

As of 31st March 2010 and 31st December 2009 the minimum rent payments under contracts of operating lease where N.W.Telecom Group is the lessee were distributed by the years of payment as follows:

	<u>31st March 2010</u>	<u>31st December 2009</u>
Current part (less than 1 year)	324	316
Over 1 year and up to 5 years	101	109
Over 5 years	161	164
Total	<u>586</u>	<u>589</u>

The amount of N.W.Telecom Group's proceeds related to operating lease and recorded in the line "Proceeds from sales" of the consolidated report on aggregate income amounted to 160 for the 3 months of 2010 (285 for the 3 months of 2009).

The principal operating lease contracts are the contracts of the lease of land plots and premises and provision of communication channels for use.

38. Commitments

As of 31st March 2010 and 31st December 2009 contractual liabilities of N.W.Telecom Group under investments in upgrading and expansion of the network amounted to 794 and 205 respectively.

As of 31st March 2010 and 31st December 2009 contractual liabilities of N.W.Telecom Group related to the acquisition of fixed assets amounted to 52 and 4 respectively.

As of 31st March 2010 and 31st December 2009 contractual liabilities of N.W.Telecom Group related to the acquisition of intangible assets amounted to 6 and 6 respectively.

39. Balances and Transactions with Related Parties

For 3 months of 2010 no significant changes in the structure of related parties of N.W.Telecom Group as compared to the structure of related parties as of 31st December 2009 took place.

OJSC Svyazinvest

OJSC Svyazinvest is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

As of 31st March 2010 the Russian Federation represented by the Federal Agency for State Property Management held a block of common shares of OJSC Svyazinvest, viz. 75% less 1 share.

The Svyazinvest Group includes 7 inter-regional communication companies, OJSC Rostelecom, OJSC Central Telegraph, OJSC Dagsvyazinform and other communication operator subsidiaries.

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The communication operators comprising the Svyazinvest Group are public communication network operators providing the services of local, intraareal, long-distance and international telephone communication, the services of communication in the data transmission network, telematic services, telegraph communication services, wired broadcasting services, communication services for cable and on-air broadcasting, mobile radio telephone and radio communication services, communication services of providing communication channels in compliance with the licenses issued by the Ministry of Telecommunication and Mass Communications of the Russian Federation.

Subsidiaries

N.W.Telecom Group effects operations with subsidiaries within the framework of the current activities. The financial results and balance of mutual settlements under operations with subsidiaries have been excluded from the consolidated financial statements of N.W.Telecom Group in compliance with the requirements of IFRS.

N.W.Telecom Group effects transactions with subsidiaries on market terms. Rates for the subsidiaries are established by the regulator and are at the same level as the similar rates for other partners. Subsidiaries do not have effect on operations of N.W.Telecom Group with other partners. The nature of the relationships between N.W.Telecom Group and its subsidiaries is disclosed in greater detail in Note 6.

OJSC Rostelecom

OJSC “Rostelecom”, a majority owned subsidiary of OJSC Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation.

Income from OJSC Rostelecom include income from the services of area initiation / termination of a call to / from N.W.Telecom Group's networks and to / from networks of interconnected operators, as well as income under the contract of assistance.

Expenses related to OJSC Rostelecom are formed in the amounts of payments for the services of call termination to networks of other communication operators in case call initiation is performed from a mobile radio telephone communication network, expenses for the payment for interconnection services, as well as expenses for the payment for the services of long-distance and international communication provided to N.W.Telecom Group.

Operations with organizations controlled by the state

In the process of its activities, the N.W.Telecom Group effects a wide range of operations with companies controlled by the state.

Organizations controlled by the state are a significant part of N.W.Telecom Group's clientele.

Proceeds and accounts receivable from budgetary organizations (that are the bulk of the companies controlled by the state) are disclosed in the notes “Proceeds from Sales” and “Trade Receivables and Other Receivables” respectively. Operations with profit-making organizations controlled by the state are effected on market conditions.

Expenses for public utility services that are largely provided by state-run companies are disclosed in the note “Materials, Repairs, Maintenance and Public Utility Services”.

Operations with companies controlled by the state and related to receiving or repaying credits and loans, as well as the security and interest income/expenses related to them are disclosed in the note “Borrowed Liabilities”.

Organizations controlled by the state do not have effect on operations of N.W.Telecom Group with other companies.

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OJSC Svyazintek

OJSC Svyazintek was founded by subsidiaries of OJSC Svyazinvest collectively holding 100% of its authorized capital for introducing and then supporting the functioning of the information systems, as well as for coordinating, managing and implementing centralized specialized programmes for information technologies in the companies of the Svyazinvest Group. OJSC Svyazintek provided the services of introducing and then supporting the functioning of information systems, including Oracle E-Business Suite software and Amdocs Billing Suite to N.W.Telecom Group.

For the 3 months of 2010 the expenses of the OJSC N.W.Telecom Group for the services of OJSC N.W. Svyazintek amounted to 9 (21 for the 3 months of 2009), including 8 (0 for the 3 months of 2009) shown directly in the report on aggregate income and 1 (21 for the 3 months of 2009) included in the intangible assets.

NPF “Telecom-Soyuz”

N.W.Telecom Group made a contract of non-governmental pension insurance with NPF Telecom-Soyuz (Note 21), and in addition to statutory pension benefits the Company also provides benefits for most of its employees by using post-employment benefit plans which include defined contribution plans and defined benefit plans.

The total amount of the contributions for non-governmental pension provision paid by N.W.Telecom Group for the 3 months of 2010 was 77 (56 for the 3 months of 2009) and was completely included in the line "Staff Costs" of the profit and loss report. The Fund deducts 3% of the amount of each pension contribution of N.W.Telecom Group for the support of its own activities according to the charter and to cover its administrative expenses.

Compensation to key management personnel

The key management staff consists of the members of the Management Board and Board of Directors, whose number as of 31st March 2010 and as of 31st December 2009 was 22.

Remuneration to the key management staff for the 3 months of 2010 includes salaries, bonuses, as well as remuneration for participation in the management bodies of the Company and amounts to 27 (34 for the 3 months of 2009), including salaries, bonuses, and remuneration of the Company's employees participating in the management bodies, i.e. 36 (30 for the 3 months of 2009). The amounts of the remuneration are stated without the unified social tax.

40. Events after the Reporting Date

Provision of all-in-one communication services

The amount of actual indemnification received by N.W.Telecom Group from the all-in-one service fund after 31st March 2010 for the services provided in 2009 and for the 3 months of 2010 was 2,055.

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Dividend

In May 2010 the Board of Directors proposed dividends for the year 2009 in the amount of RUR 1.228 per preferred share and RUR 0.591 per common share. The total amount of the announced dividends was 307 and 521 for preferred shares and common shares respectively. The dividends for the year expiring on 31st December 2009 are to be paid in 2010.

The amount of dividend to be paid amounted to:

Shares	Number of shares (pcs.)	Dividend per share (RUR)	Total amount of dividend (RUR)
For the year 2009			
Preferred shares	250,369,337	1.228	307,453,546
Common shares	881,045,433	0.591	521,020,388
Total	1,131,414,770		828,473,934

Bank loans

On 18th May 2010 the Company signed a contract for open-end credit line with JSCB TransCreditBank to the amount of 1,000. The maturity date is 17th May 2013. The Company pays to the Bank an interest for the use of the credit, the rate range being from 7.885% to 8.715 % per annum (depending on the period of using the tranche from 180 to 910 days). The loan is granted without a security in the form of property.

On 18th May 2010 the Company signed a contract for open-end credit line with OJSC Alfa Bank to the amount of 1,000. The maturity date is 17th May 2013. The Company pays to the Bank an interest for the use of the credit, the rate range being from 7.933% to 8.768% per annum (depending on the period of using the tranche from 180 to 910 days). The loan is granted without a security in the form of property.

On 18th May 2010 the Company signed a contract for open-end credit line with OJSC CB Russia to the amount of 1,000. The maturity date is 17th May 2013. The Company pays to the Bank an interest for the use of the credit, the rate range being from 7.933% to 8.768% per annum (depending on the period of using the tranche from 180 to 910 days). The loan is granted without a security in the form of property.

In April 2010 the Company used short-term borrowed funds by selling own notes:

Note purchaser	Series	No.	Date of making up	Payment time and place	Note discount	Value of note
OJSC Bank VTB Northwest	-	3686102	08.04.2010	upon presentation, but not earlier than 08.06.2010	2	200
OJSC MDM-Bank	-	20100408_1	08.04.2010	upon presentation, but not earlier than 08.06.2010	2	400
OJSC First United Bank (Pervy Obyedinyonny Bank)	-	20100408	08.04.2010	upon presentation, but not earlier than 08.06.2010	2	200
OJSC TransCreditBank	-	20100412	15.04.2010	upon presentation, but not earlier than 15.06.2010	2	200

Offer of Bonds

In compliance with the terms of the Offer of Bonds Acquisition approved by the Board of Directors of the Company in May 2008, OJSC N.W.Telecom redeemed 1,599,563 series 05 bonds at face value in June 2010. The price of the acquisition amounted to 1,600; besides, OJSC N.W.Telecom paid the accumulated coupon yield

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in the amount of 2. LLC KIT Finance was appointed the bonds acquisition agent. As of 8th June 2010 there were 1,400 series 05 bonds in circulation.

Making the staff redundant

In the framework of implementing the projects for optimizing the number of the Company's employees, in the period from 31st March 2010 till the date of signing the statements, 160 employees were discharged; they received compensations worth of 5.

Reorganization of OJSC N.W.Telecom

In May 2010, the Board of Directors of OJSC N.W.Telecom took a decision to include in the agenda of the annual general meeting of the shareholders to be held in June 2010 the subject of reorganization of OJSC N.W.Telecom in the form of affiliation of OJSC N.W.Telecom with OJSC Rostelecom.

According to the Agreement of Affiliation of OJSC N.W.Telecom with OJSC Rostelecom, which Agreement will be approved by the shareholders while deciding the matter of the reorganization, the ratios of conversion of OJSC N.W.Telecom's shares into OJSC Rostelecom's shares will be:

- 4.102 common registered nondocumentary shares of OJSC N.W.Telecom are converted into one common registered nondocumentary share of OJSC Rostelecom;
- 5.220 preferred registered nondocumentary shares of OJSC N.W.Telecom are converted into one common registered nondocumentary share of OJSC Rostelecom.

Besides, the Board of Directors approved the redemption price of OJSC N.W.Telecom's shares that may be claimed for redemption in case of the reorganization of OJSC N.W.Telecom. The redemption price of the common and preferred shares of the Company is equal and will amount to RUR 21.01 per share.

The market value of the shares of OJSC N.W.Telecom was assessed by an independent valuer who used the following approaches for the assessment:

- the method of cash flow discounting in the framework of the income approach;
- the method of stock-exchange quotations and the method of peer companies in the framework of the comparative approach.

Programme of long-term incentives for employees of OJSC N.W.Telecom

In May 2010 the Board of Directors of the Company approved the basic provisions of the Programme of Long-term Incentives for Employees of OJSC N.W.Telecom (hereinafter referred to as "Programme"), under which the transfer of cash amounting to 1,426 for trust management to CJSC Gazprombank – Assets Management was approved. The period of the Programme will be 2.5 years.

Under the Programme, the Company acquires investment shares in ZPIF Gazprombank – Telecommunications. On 31st May 2010 the first contribution of 1,315 was transferred as payment for the investment shares. In June 2010 the Company acquired ZPIF investment interest in the shares of Gazprombank – Telecommunications (1315 investment shares).