

OPEN JOINT-STOCK COMPANY
NORTH-WEST TELECOM

CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS
ENDED ON SEPTEMBER 30, 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 9 months ended on September 30, 2010
prepared in compliance with international financial reporting standards (IFRS)

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Chief Executive Officer

V.A. Akulich

Chief Accountant M.M. Semchenko

Official seal

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

Open Joint-Stock Company North-West Telecom
Consolidated Interim Report on Financial Standing
as of September 30, 2010
(in RUR million)

	Note	September 30, 2010	December 31, 2009
ASSETS			
Non-current assets			
Fixed assets	8	40,969	41,787
Intangible assets	9	5,730	5,326
Long-term accounts receivable		4	6
Other long-term assets	10	563	715
Investment property	11	90	96
Investment in associated companies	12	89	88
Long-term financial assets	13	1,456	3,200
Total non-current assets		48,901	51,218
Current assets			
Inventory holdings	14	353	431
Trade and other accounts receivable	15	3,517	2,928
Prepaid income tax		55	415
Other current assets	16	249	270
Current financial assets	13	3,506	756
Cash and cash equivalents	17	131	574
		7,811	5,374
Assets held for sale	7	12	9
Total current assets		7,823	5,383
Total assets		56,724	56,601
CAPITAL AND LIABILITIES			
OJSC N.W. Telecom shareholders' capital			
Authorized capital	19	2,855	2,855
Own shares purchased from shareholders	19	(1,169)	(67)
Retained profit		31,866	28,658
TOTAL OJSC N.W. Telecom shareholders' capital		33,552	31,446
Share of non-controlling shareholders		2	1
Total capital		33,554	31,447
Long-term liabilities			
Long-term loan liabilities	20	4,944	8,108
Pension and long-term social liabilities	21	2,304	2,258
Long-term accounts payable		39	34
Other long-term liabilities	22	334	333
Deferred profit tax liability	35	1,306	1,061
Total long-term liabilities		8,927	11,794
Current liabilities			
Current loan liabilities	20	9,974	9,058
Accounts payable and charged liabilities	24	3,800	3,853
Accounts payable related to current profit tax		93	-
Other current liabilities	25	369	443
Current reserves	23	7	6
Total current liabilities		14,243	13,360
Total liabilities		23,170	25,154
Total capital and liabilities		56,724	56,601

Chief Executive Officer

V.A. Akulich

Chief Accountant M.M. Semchenko

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Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the period of 9 months ended on 30.09.10
(in RUR million)

		For 9 months expired on September, 30	
	Note	2010	2009
Operating activities			
Profit from on-going activity before taxes		5,095	2,863
Profit before taxes		5,095	2,863
Adjustments for:			
Wear and depreciation		5,055	5,049
Profit from withdrawal of fixed assets and other assets	31	(24)	(49)
Restoration of reserve for impairment of fixed assets, sites of construction-in-progress, intangible assets		(4)	-
Expenses to form the doubtful debt reserve	15	180	132
Profit from interest in associated companies		(1)	(1)
Financial expenses	33	1,021	1,079
Other income related to financial and investment activities	34	(600)	(275)
Losses due to exchange rate differences under currency revaluation		260	696
Operating profit after adjustment for non-cash transactions		10,982	9,494
Decrease in stocks of goods and inventories		78	1
Increase of trade and other accounts receivable		(773)	(743)
Increase/decrease of liabilities under pension and long-term social obligations		(135)	17
Decrease in accounts payable and accrued liabilities		(723)	(21)
Decrease in reserves		-	(6)
Decrease (increase) of other operating assets and liabilities		714	676
Cash from operating activities		10,143	9,418
Interest paid		(1,021)	(992)
Profit tax paid		(362)	(304)
Monetary funds from core business		8,760	8,122
Investment activities			
Acquisition of fixed assets, sites of construction in progress and investment property		(3,671)	(4,956)
Sales of fixed assets, sites of construction in progress and investment property		31	104
Acquisition of intangible assets		(947)	(516)
Acquisition of financial assets		(1,429)	(5,436)
Sales of financial assets		811	1,065
Interest received		53	53
Money used in investment activities		(5,152)	(9,686)

Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the period of 9 months ended on 30.09.10 (continued)
(in RUR million)

For 9 months expired on
September, 30

Note	2010	2009
Financial activities		
Purchase of own shares	(1,102)	-
Attraction of bank credits and loans of organizations	12,111	4,446
Repayment of bank credits and loans of organizations	(12,201)	(5,990)
Attraction of bonded loans	-	2,985
Repayment of bonded loans	(3,400)	-
Attraction of acceptance loans	3,300	-
Repayment of acceptance loans	(1,817)	(2)
Attraction (repayment) of other long-term liabilities	(8)	-
Repayment of finance lease obligations	(12)	(25)
Dividends paid to shareholders of OJSC N.W. Telecom	(528)	(683)
Money received from (spent in) in financial activities	(3,657)	731
Effect of currency exchange rate fluctuations on cash and cash equivalents	(393)	87
Net decreasing of cash and cash equivalents	(442)	(746)
Cash and cash equivalents as of the beginning of the period under report	573	1,001
Cash and cash equivalents as of the end of the period under report	131	255

Chief Executive Officer

V.A. Akulich

Chief Accountant M.M. Semchenko

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Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10
(in RUR million)

1. General information

Approval of the Statements for Issue

The consolidated financial statements of the Open Joint-Stock Company North-West Telecom (hereinafter the "Company" or OJSC N.W.Telecom) and its subsidiaries (hereinafter the "Group") for the period of 9 months ended on September 30, 2010 were authorized for issue by the order of the Chief Executive Officer and the Chief Accountant dated December 14, 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 September 30, 2010 OJSC Svyazinvest, controlled by the Government of the Russian Federation, holds 50.76 % of the common voting shares of the Company and is the parent company of OJSC N.W. Telecom.

Official address of the Company: Russia: 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 associates is presented in Note 1. All associates have been incorporated in compliance with the legislation of the Russian Federation, unless stated otherwise.

Re-organization of OJSC N.W. Telecom

On 19th June 2010, at the annual meeting of the shareholders, the shareholders of OJSC N.W.Telecom took a decision on reorganization of the Company in the form of affiliation with OJSC Rostelecom and approved the Agreement of Affiliation with OJSC Rostelecom with ratios of conversion of common and preferred shares of the Company into common shares of OJSC Rostelecom. According to the Agreement of Affiliation of OJSC N.W.Telecom with OJSC Rostelecom, the ratios of conversion of common and preferred shares of the Company into common shares of OJSC Rostelecom are 4.102 and 5.220 respectively, and the price of shares redemption from the Company's shareholders who do not agree with the reorganization is 21.01 roubles for a common and preferred share.

2. Financial Statements Presentation Basis

Declaration of Conformity

These consolidated interim financial statements have been prepared and presented in compliance with IAS 34 "Interim Financial Statements" as well as other International Accounting Standards (IAS) and the relevant interpretations approved by the Committee on International Accounting Standards (CIAS).

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

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10
(in RUR million)

Continuity of Activities

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.

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 financial statements are presented in RUR millions, all amounts being rounded to RUR million unless stated otherwise.

Evaluation Principles

The consolidated interim financial statements have been prepared in accordance with the historical cost valuation principle, except for the following items: fixed assets, for which the fair value was evaluated as of the date of the transition to the IFRS for determining their deemed initial cost; financial assets available for sale and valued 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 Aggregate Income Report as foreign exchange profit (loss). Nonmonetary items valued on the basis of the historical cost in a foreign currency are converted at the exchange rates effective as of the initial date of their origin. Nonmonetary items valued at fair value in a foreign currency are converted at the exchange rates effective as of the date of determining the fair value.

The exchange rates of the basic currencies as of September 30, 2010 and December 31, 2009 are given in the following Table:

	30 th September 2010	31 st December 2009
RUR for US Dollar	30.4030	30.2442
RUR for Euro	41.3481	43.3883

3. Basic Provisions of the Accounting Policy

Accounting policy applied when the consolidated interim financial statements for the 9 months of 2010 were being prepared corresponds to the accounting policy applied during preparation of consolidated financial statements for the year 2009.

4. Essential Accounting Judgments and Estimates

4.1 Judgements

The basic accounting judgments 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.

Open Joint-Stock Company North-West Telecom
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(in RUR million)

5. Information by Activity Segments

The Company identifies as operation segments the smallest business units whose financial performance figures are regularly analyzed by the supreme operational management body of the Company and are used when taking managerial decisions.

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

The smallest business units whose financial performance figures are regularly analyzed by the supreme operational management body of the Company and are used when taking managerial decisions are branches and subsidiaries.

Information of the statements is analyzed and managerial decisions are taken on the basis of the accounting data in compliance with the Russian accounting standards. The information presented in the Tables “Aggregated Information on Operation Segments and the General Directorate” and “Information on Operating Segments and the General Directorate” has been prepared in compliance with the said standards.

N.W.Telecom group mainly operates in one federal district.

The bulk of the borrowers' liabilities, finance lease, acquisition of financial assets, creation and subsequent financial and investment activities of the entire OJSC N.W.Telecom in the field of attracting, servicing and repaying operation of corporate assets, and centralized investment projects are concentrated in the general directorate. The respective amounts of income, expenses, assets and liabilities are included in the performance figures of the general directorate given in the Table “Information on Operating Segments and the General Directorate”. The general directorate is not an operation segment.

The “Subsidiaries – Wired Communication” aggregated unit includes OJSC Kolatelecom, CJSC Novgorod Datacom and CJSC Parma-Inform, which provide telecommunication services. Each of the above subsidiaries is a separate operation segment.

The “Parent Company – Wired Communication” aggregated unit includes the Arkhangelsk, Vologda, Kaliningrad, Karelian, Komi, Leningrad Oblast, Murmansk, Novgorod, Pskov and St. Petersburg branches, which provide telecommunication services, and the General Directorate. Each of the above branches, except for the General Directorate, is a separate operation segment. Starting from July 01, 2010 two branches were merged: the Leningrad Oblast branch and the Petersburg branch. Upon the merger the Petersburg United Branch was formed.

The “Subsidiaries – Others” aggregated unit includes CJSC AMT and CJSC RDPC Svyazist, which deal with investment in securities and organization of health-improving recreation. Each of the above subsidiaries is a separate operation segment.

Aggregated information on operation segments and General Directorate as of September 30, 2010 and for 9 months of 2010	Parent company – wired communication	Subsidiaries – wired communication	Subsidiaries – other	Total segments
Receipts from sales				
Receipts from sales of segments to third parties	20,805	197	42	21,044
	52	16	48	116
Total receipts from sales	20,857	213	90	21,160
Interest income	374	2	1	377
Interest expenses	(796)	-	(1)	(797)

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
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(in RUR million)

Profit tax	(922)	(7)	-	(929)
Profit for the period under report	3,725	23	58	3,806
				Assets and liabilities
Assets by activity segments	56,318	194	1,129	57,641
Including investment in associated companies	11	-	-	11
Liabilities of the segment	(20,749)	(96)	(104)	(20,949)
Other segment-related information				
Capital costs				
Fixed assets	3,518	41	-	3,559
Wear and depreciation	4,801	13	13	4,827
Charging the doubtful debt reserves	(78)	-	-	(78)

Aggregated information on operation segments and General Directorate as of September 30, 2009 and for 9 months of 2009	Parent company – wired communication	Subsidiaries – wired communication	Subsidiaries – other	Total segments
Receipts from sales				
Receipts from sales of segments to third parties	19,141	453	38	19,632
	259	141	50	450
Total receipts from sales	19,400	594	88	20,082
Interest income	92	46	-	138
Interest expenses	(864)	-	-	(864)
Profit tax	(808)	(15)	-	(823)
Profit (loss) for the period under report	3,145	(111)	(49)	2,985
				Assets and liabilities
Assets by activity segments	56,418	1,263	970	58,651
Including investment in associated companies	11	-	-	11
Liabilities of the segment	(22,970)	(255)	(41)	(23,266)
Other segment-related information				
Capital costs				
Fixed assets	3,497	29	26	3,552
Wear and depreciation	4,023	159	13	4,195
Charging the doubtful debt reserves	(58)	-	-	(58)

Given below is the reconciliation of the accounting data according to the Russian standards and the figures included in the consolidated financial statements according to the IFRS:

Reconciliation of data by segments and consolidated data as of September 30, 2010 and for 9 months of 2010	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for the Group
Receipts from sales				
Receipts from sales to third parties	21,044	21	-	21,065
Receipts from sales between segments	116	-	(116)	-

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10

(in RUR million)

Total receipts from sales	21,160	21	(116)	21,065
Profit from interest in associated companies	-	-	1	1
Interest income	377	(13)	-	364
Interest expenses	(797)	(39)	-	(836)
Profit tax	(929)	(129)	-	(1,058)
Profit (loss) for the period under report	3,806	329	(98)	4,037
Assets and liabilities				
Assets by activity segments	57,641	152	(1,069)	56,724
Including investment in associated companies	11	78	-	89
Liabilities of the segment	(20,949)	(2,297)	76	(23,170)
Other segment-related information				
Capital costs				
Fixed assets	3,559	-	344	3,903
Intangible assets	-	772	-	772
Wear and depreciation	4,827	228	-	5,055
Charging the doubtful debt reserves	(78)	(102)	-	(180)

As of September 30, 2010 and for 9 months ended on September 30, 2010, the basic figures of the essential operation segments and the General Directorate amounted to:

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
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(in RUR million)

Reconciliation of data by segments and consolidated data as of September 30, 2009 and for 9 months of 2009	Total segments	Transformation adjustments	Consolidation adjustments	Total consolidated for the Group
Receipts from sales				
Receipts from sales to third parties	19,632	18	-	19,650
Receipts from sales between segments	450	-	(450)	-
Total receipts from sales	20,082	18	(450)	19,650
Profit from interest in associated companies	-	-	1	1
Interest income	138	(11)	-	127
Interest expenses	(864)	(30)	-	(894)
Profit tax	(823)	175	-	(648)
Profit (loss) for the period under report	2,985	(576)	(194)	2,215
Assets and liabilities				
Assets by activity segments	58,651	1,058	(2,742)	56,967
Including investment in associated companies	11	-	73	84
Liabilities of the segment	(23,266)	(2,780)	151	(25,895)
Other segment-related information				
Capital costs				
Fixed assets	3,552	115	236	3,903
Intangible assets	-	323	-	323
Wear and depreciation	4,195	854	-	5,049
Charging the doubtful debt reserves	(58)	(74)	-	(132)

As of September 30, 2009 and for 9 months ended on September 30, 2009, the basic figures of the essential operation segments and the General Directorate amounted to:

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10
(in RUR million)

Information on operation segments and General Directorate	Receipts from sales	Profit (loss)	Assets	Liabilities	Capital costs	Wear and depreciation
Parent company – wired communication						
Arkhangelsk Branch	1,870	57	3,466	(303)	321	327
Vologda Branch	1,751	(219)	4,649	(226)	345	465
Kaliningrad Branch	1,173	101	2,557	(198)	211	237
Karelia Branch	977	(64)	2,217	(125)	96	207
Komi Branch	2,114	458	3,421	(264)	221	326
Leningrad Oblast Branch	1,114	(236)	-	-	101	282
Murmansk Branch	1,611	174	2,456	(191)	213	305
Novgorod Branch	811	(290)	2,117	(98)	123	257
Petersburg Branch	5,519	1,805	-	-	261	1,138
Pskov Branch	665	(454)	2,410	(131)	41	321
General Directorate	1	1,643	11,307	(18,263)	1,002	218
Petersburg United Branch	3,251	750	21,718	(949)	584	718
Subsidiaries – wired communication						
OJSC Kolatelecom	51	-	51	(56)	4	5
CJSC Novgorod Datacom	119	23	113	(22)	31	7
CJSC Parma-Inform	43	-	30	(18)	5	1
Other	90	58	1,129	(105)	-	13
Total	21,160	3,806	57,641	(20,949)	3,559	4,827

As of September 30, 2009 and for 9 months ended on September 30, 2009, the basic figures of the essential operation segments and the General Directorate amounted to:

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10
(in RUR million)

Information on operation segments and General Directorate	Receipts from sales	Profit (loss)	Assets	Liabilities	Capital costs	Wear and depreciation
Parent company – wired communication						
Arkhangelsk Branch	1,690	(71)	3,489	(228)	453	328
Vologda Branch	1,534	(285)	4,863	(185)	278	441
Kaliningrad Branch	1,058	(6)	2,567	(146)	272	218
Karelia Branch	885	(139)	2,338	(116)	185	195
Komi Branch	1,964	406	3,568	(209)	462	295
Leningrad Oblast Branch	1,571	(289)	4,266	(395)	245	389
Murmansk Branch	1,469	54	2,580	(196)	288	285
Novgorod Branch	743	(308)	2,252	(105)	163	255
Petersburg Branch	7,883	3,020	14,390	(607)	224	1,084
Pskov Branch	601	(481)	2,771	(98)	93	325
General Directorate	1	1,244	13,333	(20,684)	833	208
Petersburg United Branch	-	-	-	-	-	-
Subsidiaries – wired communication						
OJSC Kolatelecom	55	(4)	53	(60)	4	12
CJSC Novgorod Datacom	113	32	96	(18)	15	4
CJSC Parma-Inform	45	9	30	(10)	1	1
CJSC Peterburg Transit Telecom	381	(148)	1,085	(167)	10	142
Other	89	(49)	970	(42)	26	13
Total	20,082	2,985	58,651	(23,266)	3,552	4,195

6. Subsidiaries

Subsidiaries controlled by OJSC N.W. Telecom are:

Name	Area of activities	Share in the authorized capital and other interest, %		Share of voting stock and other interest, %	
		30 th September	31 st December	30 th September	31 st December
		2010	2009	2010	2009
CJSC Novgorod Datacom	Communication services	100.00	100.00	-	-
CJSC AMT	Consulting services	100.00	100.00	100.00	100.00
OJSC Kolatelecom	Communication services	50.00	50.00	50.00	50.00
CJSC Parma-Inform	Communication services	100.00	100.00	-	-
CJSC RDPC Svyazist	Health improvement 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 considers that N.W. Telecom Group controls OJSC Kolatelecom, as it has the majority (over 50%) of votes in the company's Board of Directors when voting on matters concerning operational and financial

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
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(in RUR million)

decision making. Respectively, OJSC Kolatelecom is considered in the consolidated financial statements of N.W.Telecom Group as a subsidiary.

7. Assets and Liabilities Held for Sale and Discontinued Operations

As of September 30, 2010 the N.W. Telecom Group recorded assets intended for sale in the amount of 12 (against 9 as of December 31, 2009). The said assets include buildings N.W.Telecom Group intends to sell during 2010 in the framework of the Property Complex Development Programme approved by the Board of Directors. According to the Programme, the N.W.Telecom Group will sell property that is not expected to be used in future operations. The management expects that the said property will be sold at prices exceeding its book value as of September 30, 2010.

Open Joint-Stock Company North-West Telecom
Notes to the Consolidated Interim Financial Statements
for the period of 9 months ended on 30.09.10
(in RUR million)

8. Fixed assets

	Land plots, buildings and facilities	Switches and transmission devices	Transport facilities and other fixed assets	Capital investment in fixed assets	Total
Initial value as of December 31, 2008	26,750	29,058	5,079	2,333	63,220
Additions	-	-	-	3,667	3,667
Commissioned	1,422	2,031	539	(3,992)	-
Withdrawal	(14)	(108)	(96)	(1)	(219)
As of September 30, 2009	28,158	30,981	5,522	2,007	66,668
As of December 31, 2009	29,161	31,000	6,223	1,376	67,760
Additions	-	-	-	3,903	3,903
Commissioned	612	1,058	444	(2,114)	-
Withdrawal	(48)	(132)	(274)	(9)	(463)
As of September 30, 2010	29,725	31,926	6,393	3,156	71,200
	Land plots, buildings and facilities	Switches and transmission devices	Transport facilities and other fixed assets	Capital investment in fixed assets	Total
Accumulated wear and accumulated impairment	(6,951)	(9,861)	(3,202)	-	(20,014)
Accumulated wear charged for the period	(1,207)	(2,786)	(717)	-	(4,710)
Wear of withdrawn items	25	117	91	-	233
As of September 30, 2009	(8,133)	(12,530)	(3,828)	-	(24,491)
As of December 31, 2009	(8,495)	(13,116)	(4,336)	(26)	(25,973)
Accumulated wear charged for the period	(1,305)	(2,730)	(650)	-	(4,685)
Wear of withdrawn items	35	116	272	-	423
Impairment restored	-	-	-	4	4
As of September 30, 2010	(9,765)	(15,730)	(4,714)	(22)	(30,231)
Residual value as of December 31, 2008	19,799	19,197	1,877	2,333	43,206
Residual value as of September 30, 2009	20,025	18,451	1,694	2,007	42,177
Residual value as of December 31, 2009	20,666	17,884	1,887	1,350	41,787
Residual value as of September 30, 2010	19,960	16,196	1,679	3,134	40,969

As of September 30, 2010 and December 31, 2009 the book value of the fixed assets received under the contracts of finance leasing is as follows:

	As of September 30, 2010	As of December 31, 2009
Transport facilities and other fixed assets	31	38
Total fixed assets received under the contracts of finance leasing, book value	31	38

As of September 30, 2010 the initial value of the fully depreciated fixed assets was 7,138 (against 5,935 as of December 31, 2009).

Receipt of fixed assets acquired under the terms of commercial loan and under the contracts of financial leasing for the 9 months of 2010 was 0 (against 45 for the 9 months of 2009).

During 9 months of 2010 N.W. Telecom Group increased the amount of construction in progress by 24 of capitalized interest (against 118 during 9 months of 2009). Capitalization rate for the 9 months of 2010 was 7 %

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(in RUR million)

(7% for the 9 months of 2009).

As of September 30, 2010 book value of the N.W. Telecom Group's fixed assets securing the credit risks and contracts of loan made 173 (against 1,990 as of December 31, 2009).

Impairment of Fixed Assets

As of June 30, 2010, impairment of investment that had not been completed in due time during the implementation of investment projects amounted to 22 (against 26 as of December 31, 2009).

As of September 30, 2010, no impairment of other categories of fixed assets was revealed.

9. **Intangible assets**

	Goodwill	Licenses	Software	Subscriber base	Other	Total
Initial value as of December 31, 2008	958	31	4,826	248	225	6,288
Acquisition of assets	-	16	297	-	10	323
Withdrawal	-	(2)	(47)	-	(1)	(50)
As of September 30, 2009	958	45	5,076	248	234	6,561
As of December 31, 2009	958	174	5,022	249	231	6,634
Acquisition of assets	-	10	694	-	68	772
Withdrawal	-	-	(90)	-	-	(90)
As of September 30, 2010	958	184	5,626	249	299	7,316

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	Goodwill	Licenses	Software	Subscriber base	Other	Total
Accumulated wear and impairment as of December 31, 2008	(16)	(18)	(916)	(12)	(119)	(1,081)
Depreciation accrued for the period	-	(5)	(328)	(1)	(5)	(339)
Depreciation of withdrawn items	-	3	38	-	-	41
As of September 30, 2009	(16)	(20)	(1,206)	(13)	(124)	(1,379)
As of December 31, 2009	(16)	(20)	(1,120)	(13)	(139)	(1,308)
Depreciation accrued for the period	-	(1)	(271)	-	(91)	(363)
Accrued depreciation of intangible assets belonging to acquired subsidiaries	-	-	-	-	(1)	(1)
Depreciation of withdrawn items	-	-	86	-	-	86
As of September 30, 2010	(16)	(21)	(1,305)	(13)	(231)	(1,586)
Residual value as of December 31, 2008	942	13	3,910	236	106	5,207
Residual value as of September 30, 2009	942	25	3,870	235	110	5,182
Residual value as of December 31, 2009	942	154	3,902	236	92	5,326
Residual value as of September 30, 2010	942	163	4,321	236	68	5,730

Oracle E-Business Suite Software

As of September 30, 2010 software included Oracle E-Business Suite package with the book value of 797 (against 886 as of December 31, 2009).

Information on the changes of the book value of the Oracle E-Business Suite software product for 9 months of 2010 and 2009 is given below:

	For 9 months of 2010	For 9 months of 2009
As of January 1	886	984
Implementation expenses incurred	29	9
Depreciation charged	(118)	(72)
As of September 30	797	921

Amdocs Billing Suite Software

As of September 30, 2010 software included Amdocs Billing Suite package with the book value of 951 (against 942 as of December 31, 2009).

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For the 9 months of 2010 the amount of capitalized interest costs related to implementation of Amdocs Billing Suite package was 4 (5 for the 9 months of 2009). Capitalization rate was 4% (against 4.5% for the 9 months of 2009).

This software was 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 amortizing this asset after the software commissioning in proportion to the cost of the implemented modules. Until then the Company will periodically test this software for impairment.

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

HP Open View IUM Unified Pre-billing Software

As of September 30, 2010 the cost of the HP Open View IUM unified pre-billing software is included in the software, and its book value is 240 (against 240 as of December 31, 2009).

The software was purchased in December 2006 for the purpose of unified automated settlements system implementation. 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 amortize this asset starting from its commissioning in the 4th quarter of 2010, in proportion to the cost of the implemented modules during their useful life period which will be determined by the moment of operation start.

Communication Network Service Support System (CNSSS)

As of September 30, 2010 software included communication network service support system (CNSSS) with the book value of 1,616 (against 1,167 as of December 31, 2009).

The project of implementing the CNSSS software is undertaken for the purpose of automating the network accounting processes and network and services management. The system implementation work was started in May 2006.

N.W. Telecom Group began amortizing this asset from the moment its operation started (April 2010) proceeding from its useful life of 20 years.

Information on the changes of the software book value for 9 months of 2010 and 2009 is given below:

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	For 9 months of 2010	For 9 months of 2009
As of January 1	1167	1012
Implementation expenses incurred	449	24
Depreciation accrued	(21)	
As of September 30	1595	1036

Information Service Support System software (ISSS)

As of September 30, 2010 the software included the product for setting up an information service support system with the book value of 324 (against 303 as of December 31, 2009). The product was acquired for the purpose of improving the competitive capacity of N.W.Telecom Group in the market of telecommunication services and as a highly efficient tool of supporting the core business in the field of sales and client service and gaining more income from providing information and reference services on the paid basis. The ISSS structure provides for building resource centers to be located on the branches' premises. The server and telecommunication equipment is located in the premises of the St. Petersburg United Branch.

In the 4th quarter 2009 and in 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 Branch, Petersburg United Branch and Pskov Branch 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 – 2011.

Goodwill and Intangible Assets Shown Based on the Results of the Companies Merger

As of September 30, 2010, intangible assets identified in connection with the acquisition of CJSC Petersburg Transit Telecom in 2007 were the resources, for which N.W.Telecom Group expected an inflow of economic benefits in the future:

- client base;
- number capacity.

The client base is an intangible asset with an unlimited useful life, i.e. contractual relations with clients of CJSC Petersburg Transit Telecom.

The said asset is not depreciated, however, it is checked annually or more often for impairment, if there are any signs of possible impairment 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 had not been used as of the end of the period under report.

Goodwill recognized according to the results of the acquisition of CJSC Petersburg Transit Telecom is a part of the expected synergy effect and other advantages of the merger of the assets and activities of CJSC Petersburg Transit Telecom and N.W.Telecom Group. In 2009, in connection with the approval of IFRS 8 Operation Segments, the Company revised the goodwill distribution and included it in the "St. Petersburg Branch" operation segment.

Analysis for Impairment of Intangible Assets that are not Ready for Use

N.W.Telecom Group has carried out an analysis for impairment as of September 30, 2010 of intangible assets that are not ready for use. As a result of the analysis, no impairment of the intangible assets was revealed.

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10. Other Long-term Assets

	As of September 30, 2010	As of December 31, 2009
Long-term advances issued under investment operation	533	685
Long-term advances issued under core operation	30	30
Total	563	715

11. Investment Property

As of September 30, 2010 the book value of investment property items is 90 and the fair value is 766 (against 96 and 765 accordingly as of December 31, 2009). The fair value of investment property was determined with the participation of an independent appraiser.

12. Investment in Associated Companies

		As of September 30, 2010		
Name	Area of activities	Share in the authorized capital and other interest, %	Share of voting stock and other interest, %	Book value
CJSC WestBalt Telecom	Communication services	28.00	28.00	89
Total				89

		As of December 31, 2009		
Name	Area of activities	Share in the authorized capital and other interest, %	Share of voting stock and other interest, %	Book value
CJSC WestBalt Telecom	Communication services	28.00	28.00	88
Total				88

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

Presented below is aggregated information on the most significant associates:

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Associate company name	Share in the authorized capital and other interest, %	Assets	Liabilities	Receipts from sales	Profit for the period under report
As of September 30, 2010 and for 9 months ended on September 30, 2010					
CJSC WestBalt Telecom	28.00	357.00	39.00	178.00	2.00
As of December 31, 2009 and for 9 months ended on September 30, 2009					
CJSC WestBalt Telecom	28.00	354.00	38.00	202.00	2.00

13. Finance Assets

Long-term finance assets available-for-sale

	As of September 30, 2010	As of December 31, 2009
Long-term investments, held-to-maturity	-	3,161
Long-term loans issued	10	18
Total long-term finance assets	1,456	3,200
Short-term investments, held-to-maturity	3,496	743
Short-term loans issued	10	13
Total short-term finance assets	3,506	756
Total finance assets	4,962	3,956

As of September 30, 2010 and December 31, 2009 the finance investments available for sale included:

	As of September 30, 2010		As of December 31, 2009	
	Share in the authorized capital and other interest, %	Fair value	Share in the authorized capital and other interest, %	Fair value
OJSC Information Technologies of Communication	11.00	13	11.00	13
CUIF Gazprombank – Telecommunications under the control of CJSC Gazprombank – Assets Management	13.15	1,426	0.00	-
Other		8		8
Total		1,447		21

The company places temporarily free financial resources in notes issued by various Russian companies. The company uses notes as a financial instrument mainly for gaining financial income.

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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 September 30, 2010 the above bills receivable made 3,497 (against 3,161 as of December 31, 2009) including accrued interest in the amount of 497 (against 161 as of December 31, 2009).

In September and December 2009 the Company acquired the following short-term discounted bills of CJSC IC REGION. On June 31, 2010 CJSC IC REGION repaid short-term interest-bearing notes ahead of time in accordance with the respective application of the Company. The price of pre-term redemption of each bill was determined proceeding from the actual bill circulation period and calculated according to the established contractual terms. A principal amount of 427 was received.

On January 11, 2010 OJSC JSCB Svyaz-Bank paid the currency interest-bearing note. A principal amount of 332 (11,000,000 US dollars) and an interest of 13 (424,000 US dollars) were received.

In July 2009 CJSC AMT, a subsidiary of the Company, placed in OJSC MDM Bank deposits denominated in Russian roubles worth of 3 with the repayment period of 6 months and the interest rate of 14.6% per annum. On 9th January 2010 the deposit was repaid.

As of September 30, 2010 and 2009, issued loans were shown at the depreciated initial value using the effective interest rate from 16 to 26%.

There were no finance assets burdened with pledge as of September 30, 2010 and as of December 31, 2009.

14. Inventory holdings

	As of September 30, 2010	As of December 31, 2009
Spare parts	111	219
Cable	100	99
Finished products and goods for resale	18	18
Economic implements	18	15
Fuel	13	15
Construction materials	10	8
Other stock	83	57
Total	353	431

As of September 30, 2010 and as of December 31, 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 September 30, 2010 and December 31, 2009 Company's inventory holdings were not used as a pledge or liability collaterals.

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15. Trade and Other Accounts Receivable

	Total, as of September 30, 2010	Doubtful debt reserve	Net, as of September 30, 2010
Settlements with buyers in respect of core activities	2,205	(291)	1,914
Settlements with buyers in secondary areas of activity	326	(129)	197
Settlements with personnel	19	-	19
Settlements with other debtors	1,391	(4)	1,387
Total	3,941	(424)	3,517
	Total, December 31, 2009	Doubtful debt reserve	Net, December 31, 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

Settlements with buyers in respect of core activities as of September 30, 2010 and as of December 31, 2009 consist of the settlements with the following partners:

	Total, as of September 30, 2010	Doubtful debt reserve	Net, as of September 30, 2010
Individuals	1,192	(162)	1,030
Corporate customers	425	(81)	344
Budgetary organizations	165	(17)	148
Communication operators	423	(31)	392
Total settlements with buyers in respect of core activities	2,205	(291)	1,914
	Total, December 31, 2009	Doubtful debt reserve	Net, December 31, 2009
Individuals	702	(102)	600
Corporate customers	330	(53)	277
Budgetary organizations	84	(8)	76
Communication operators	423	(26)	397
Total settlements with buyers in respect of core activities	1,539	(189)	1,350

Settlements in respect of indemnification for losses related to all-in-one communication services provision as of September 30, 2010 and as of December 31, 2009 reported within settlements with other debtors made 1,272 and 1,325, respectively.

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As of September 30, 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 (as of December 31, 2010 – 0.02%).

As of September 30, 2010 debt of social security organizations with regard to compensation of expenses related to granting privileges to certain categories of subscribers amounted to 0.01% of total accounts receivable (as of December 31, 2010 – 0.02%).

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

	2010	2009
Balance as of January 1	(265)	(239)
Charging the reserve	(180)	(132)
Writing off the accounts receivable	21	17
Balance as of September 30	(424)	(354)

16. Other Current Assets

	Total, as of September 30, 2010	Reserve	Net, as of September 30, 2010
Prepayments and advance payments	103	(1)	102
Deferred expenses	63	-	63
VAT recoverable	46	-	46
Other prepaid taxes	24	-	24
Other current assets	15	(1)	14
Total	251	(2)	249
Prepayments and advance payments	127	(1)	126
VAT recoverable	72	-	72
Deferred expenses	33	-	33
Other prepaid taxes	22	-	22
Other current assets	17	-	17
Total	271	(1)	270

17. Cash and cash equivalents

	As of September 30, 2010	As of December 31, 2009
Cash at bank and on hand	131	546
Short-term deposits and notes with original maturities of three months or less	-	28
Total	131	574

As of September 30, 2010 and December 31, 2009 N.W. Telecom Group had no restrictions for the use of cash.

Short-term deposits are varied by periods from 30 days to 3 months depending on the current need for cash and bear an interest yield at the current deposit rates. The effective interest rate for short-term deposits with a period up to 3 months varies from 5.5% to 12.5%.

18. Essential Non-cash Transactions

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During the 9 months of 2010 the Company had no essential non-cash transactions. During 9 months of 2009 the Company received transport facilities for leasing under a contract of leasing with OJSC VTB-Leasing worth of 45.

19. Authorized Capital

As of September 30, 2010 the face and the book value of common and preferred stock made the following:

Stock type	Number of shares in circulation (thousand pcs.)	Face value of a share (RUR)	Total face value	Total book value
Common	875,608	1	876	2,233
Preferred	203,388	1	203	622
Total	1,078,996		1,079	2,855

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

All the issued stock was completely paid for.

Company's capital stock structure as of September 30, 2010 is presented below:

Shareholders	Share in the Issuer's authorized capital, %	Common shares		Preferred shares	
		Number (thosand pcs)	%	Number (thosand pcs)	%
Legal entities, total	90.19	840,606	96.03	127,428	69.66
OJSC Svyazinvest	39.53	447,794	50.76	-	
Parties holding over 5 % of authorized capital including:	46.95	364,739	41.40	121,537	66.54
NP National Depository Centre	20.91	160,040	18.17	29,612	30.59
CJSC Depository Clearing Company	10.05	89,446	10.15	22,278	9.70
CJSC UBS Nominees	11.71	109,815	12.46	22,666	9.05
Shares repurchased based on Article 75, clause 1, of the Federal Law "On Joint-Stock companies"	4.28	5,438	0.62	46,981	17.20
Other parties	3.71	28,073	3.87	5,891	3.12
Individuals, total	9.81	35,002	3.97	75,960	30.34
Total	100.00	875,608	100.00	203,388	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.

Each preferred share bears a guaranteed dividend equal to the greater of the following amounts: 10% of the Company's net profit reflected in the accounting reports under Russian legislation, divided by the number of preferred shares, or the dividend per common share. In case the preferred share holders receive dividends in the

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amount less than 10% of the Company's net profit reflected in the accounting reports under Russian legislation, no dividend is paid to common share holders. The preferred share holders are entitled to participate in annual general meetings of the shareholders and to vote on all issues within terms of reference of these meetings, starting from the meeting following the annual general meeting of the shareholders, which took a decision on non-payment or only partial payment of dividend under the preferred shares.

In September 2001 OJSC N.W.Telecom had registered an issue of Level 1 American Depositary Receipts (ADRs). Each depositary receipt corresponds to 10 common shares of OJSC N.W.Telecom. As of June 30, 2010, 3 ADRs were issued under 26 deposited shares, which made 2.96 % of all issued common shares.

Information on changes of the number and book value of own common and preferred shares redeemed from the shareholders for the 9 months of 2010 and 2009 is given below:

	Common shares		Preferred shares	
	Number (thosand pcs)	Book value	Number (thosand pcs)	Book value
December 31, 2008	3,005	<i>27</i>	3,225	39
Repurchased		-		-
Sold		-		-
As of September 30, 2009	3,005	<i>27</i>	3,225	39
As of December 31, 2009	3,005	28	3,225	39
Repurchased	5,438	115	46,981	987
As of September 30, 2010	8,443	143	50,206	1,026

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20. Loan Liabilities

	30th September 2010	31st December 2009
Long-term loan liabilities		
Bank credits and loans of organizations	5,135	6,075
Bonded loans	7,090	10,484
Note loans	1	2
Liabilities under financial lease	21	32
Debt in respect of interest	11	10
Other long-term loan liabilities	21	23
Less share of the long-term loan liabilities to be repaid within the year	(7,335)	(8,518)
Total long-term loan liabilities	4,944	8,108
Short-term loan liabilities		
Bank credits and loans of organizations	900	-
Note loans	1,523	-
Debt in respect of interest	114	147
Other short-term loan liabilities	102	394
Total short-term loan liabilities	2,639	541
Share of long-term loan liabilities to be repaid within the year	7,335	8,517
Total current loan liabilities	9,974	9,058
Total loan liabilities	14,918	17,166

As of September 30, 2010 the bank credits of the Company were collateralized with fixed assets with the total balance value of 173 (against 1,990 as of December 31, 2009).

Credit Lines

Revolving lines of credit granted to the Company in 2009 and during 9 months of 2010:

Name of bank	OJSC JSCB North-West Bank of the Savings Bank of Russia			OJSC JSCB 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	1000
%	13.75%* (starting from 26.01.2010 established rate is 10.75%)	13.75%* (starting from 26.01.2010 established rate is 10.75%)	13.75%* (starting from 26.01.2010 established rate is 10.75%)	Range (by loan period) from 7.65% to 8.3%
Collateral	pledge of telecommunication equipment	pledge of telecommunication equipment	pledge of telecommunication equipment	Without a security
Spent during 9 months of 2010	0	0	0	6,510
Retired during 9 months of 2010	0	0	0	5,960
Amount of interest accrued during 9 months of 2010	0	0	0	18.2
Debt as of 30.09.2010	0	0	0	550
Amount of unused balance as of 30.09.2010	0	0	0	450
Limitations	<i>monthly receipt of proceeds to bank account:</i>	<i>monthly receipt of proceeds to bank account:</i>	<i>monthly receipt of proceeds to bank account:</i>	<i>monthly receipt of proceeds to North-West</i>

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Name of bank	OJSC JSB Russia	OJSC Alfa Bank	OJSC TransCreditBank
	<i>at least 1,100</i>	<i>at least 1,100</i>	<i>at least 1,100</i>
			Bank of the Savings Bank of Russia account: at least 1,100
Date of making up contract	18.05.2009	18.05.2009	18.05.2009
Expiry date of contract	17.05.2013	17.05.2013	17.05.2013
No. of contract	2-1/063/2010	00BX6L	K2600/10 0201Л3/Л000
Credit line limit	1,000	1,000	1,000
%	From 7.933 to 8.768 (depending on crediting period)	From 7.933 to 8.768 (depending on crediting period)	From 7.885 to 8.715 (depending on crediting period)
Collateral	Without a security	Without a security	Without a security
Spent during 9 months of 2010	2,900	1,700	1,100
Retired during 9 months of 2010	2,900	800	100
Amount of interest accrued during 9 months of 2010	9.4	10.5	29.8
Debt as of 30.09.2010	0	900	1,000
Amount of unused balance as of 30.09.2010	1,000	100	0
Limitations	monthly receipt of proceeds to account with RF SB (to enable writing off without acceptance): at least 1,100	monthly receipt of proceeds to account with RF SB (to enable writing off without acceptance): at least 1,100	monthly receipt of proceeds to account with RF SB (to enable writing off without acceptance): at least 1,100

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 September 30, 2010:

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Partner	Interest rate under the contract	As of September 30, 2010			As of December 31, 2009			Currency of contract	Repayment date	Availability and type of collateral
		Long-term portion	Short-term portion	Accrued interest	Long-term portion	Short-term portion	Accrued interest			
ING Bank N.V, Natixis, CJSC UniCredit Bank, WestLB AG (London Branch)	2.99875- 3.03563	487	2,052	12	1,999	2,041	16	US dollars	November 2011	Without a security
Bank Austria Creditanstalt AG and CJSC UniCredit Bank	Tranche A: 1.23406- 1.25531 Tranche B: 1.50125- 1.77125	462	468	3	807	1,111	5	US dollars	Tranche A – on a quarterly basis from January 2009 till October 2010 Tranche B – on a quarterly basis from July 2009 till July 2012	Without a security
OJSC JSCB Svyaz-Bank	7.65 - 8,3	500	50	1,3	-	-	-	RUR	January 2013	Without a security
RF Ministry of Finance	3	56	47	8,7	57	47	11	Euro	December 2011	Pledge of telecommunication equipment
Savings Bank of Russia		-	-	-	-	-	-	RUR	July, August 2010	Pledge of telecommunication equipment
OJSC TransCreditBank	7.885-8.715	1000	-	2,3	-	-	-	RUR	December 2012	Without a security
OJSC JSB Russia	7.933-8.768	0	-	-	-	-	-	RUR	December 2011	Without a security
OJSC Alfa Bank	7.933-8.768	-	900	1,6	-	-	-	RUR	May 2013	Without a security
CJSC St. Petersburg Payphones	12	13	-	-	13	-	-	RUR	December 2011	Without a security
Total		2,518	3,517		2,876	3,199				

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Restrictions Related to Received Credits and Loans

The terms and conditions of the current agreements of loans provided for the following restrictions for the activities of the Company:

Reservations that may lead to pre-term debt repayment:

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

In accordance with the agreements of syndicated fixed-term loans of 19th July 2007 for 100 million US dollars and 6th November 2008 for 150 million US dollars, under which Bayerische Hypo- und Vereinsbank AG London Branch is the Agent, the Company undertakes to maintain the following financial performance figures (calculated using the financial reporting data for each 1st six months and the results of each fiscal year made up in compliance with 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 shall be calculated as follows: Total consolidated profit for the current year + financial expenses + profit tax + profit (loss) from participation in associated companies, except for dividends received in the monetary form + extraordinary and exclusive expenses - profit for the current year belonging to minority shareholders of subsidiaries + wear and depreciation.

Credit agreements with OJSC Sberbank of Russia:

- the amount of monthly receipts on the Company's settlement account – not less than 1,100;
- Legal actions or property claims against the Company for amounts over USD 5 million.

Credit agreements with OJSC JSCB Svyaz-Bank, OJSC JSB Russia, OJSC TransCreditBank, OJSC Alfa Bank:

- the amount of monthly receipts on the Company's settlement account with OJSC Sberbank of Russia – 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;
- Legal actions or property claims against the Company for amounts over USD 5 million.

Restrictions for transactions:

Agreements of syndicated fixed-term loans of 19th July 2007 for 100 million US dollars and 6th November 2008 for 150 million US dollars, under which Bayerische Hypo- und Vereinsbank AG London Branch is 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 euros;
- dividends for a year < 100.00% of the year net profit;
- newly created pledges or other kinds of liabilities security < 150 million US dollars.

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

As of September 30, 2010 the Company observed all the aforementioned conditions.

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Bonded loans

Presented below is aggregated information on the bonded loans as of September 30, 2010 and December 31, 2009:

Loan ID (name, No.)	Effective rate	As of September 30, 2010			As of December 31, 2009			Repayment date	Repayment procedure	Offer date	Coupon interest
		Long-term portion	Short-term portion	Accrued interest	Long-term portion	Short-term portion	Accrued interest				
4-03-00119-A (series 03 Bonds)	8.6% per annum	-	1,200	9,9	1,200	1,800	25	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)	8.1% per annum	999	499	7	999	499	7	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)	6.49% per annum	1,397	-	8	-	2,996	29	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 MOSPRI ME + 2.12% per annum but not higher than the limit rate of 15% per annum

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4-06-00119-A	11.7% per annum	5	3,000	55	2,990	-	55	24.07.2019	The face value of the bonds is retired in piece-meal on the following dates:		
									- 26.07.2017 30%		
(series 06 Bonds)									- 25.07.2018 30%		
									- 24.07.2019 40%		
Total		2,401	4,699		5,189	5,295					
									09.08.2011		11.7% per annum

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In December 2004 the Company 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 bonds floatation start.

During 9 months of 2010 the Company fully executed its liability to pay coupon yield for coupons 20, 21 and 22 established as 8.6% per annum in the amount of 64, 45 and 45, respectively. The coupon yield charged on a bond under coupon 20 is RUR 21.44, under coupon 21 – RUR 15.01, and under coupon 22 – RUR 15.01. 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.

In October 2006 the Company registered the 4th issue of 2,000,000 documentary coupon 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 bonds floatation start.

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

During 9 months of 2010 the Company fully executed its liability to pay coupon yield for coupons 13, 14 and 15 established as 8.1% per annum in the amount of 30 each. The amount of the coupon yield charged per bond for the coupons 13, 14, and 15 amounted to RUR 15.15 for each coupon. The obligation was fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

In October 2007 the Company registered the 5th issue of 3,000,000 documentary coupon bonds with the face value of RUR 1000 each with 20 coupons, with payment every 91 days, starting from the 91st day from the day of the bonds floatation start. According to the terms of the loan, bond holders are entitled to declare their bonds as due to the retirement in June 2010 at the face value.

According to the terms of the loan, Bonds may be retired ahead of schedule 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 – starting from May 18 till May 25, 2010. The acquisition date falls on June 01, 2010. As a result of the offer, the Company redeemed 1,599,563 bonds at the face value of 1,600, and the paid accrued coupon yield for the period from 25th May till 1st June 2010 amounted to 2.

For the 9 months of 2010 the Company fully fulfilled the obligation of coupon yield payment under the 7th, 8th and 9th coupons at the rate of 9.65%, 7.78% and 6.49% per annum respectively in the total amounts of 72, 58 and 23. The amount of the coupon yield charged per bond under the 7th, 8th and 9th coupons was RUR 24.06, RUR 9.40 and RUR 16.18 respectively.

In October 2008 the Company 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 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 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 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.

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During 9 months of 2010 the Company fully executed its liability to pay coupon yield for coupons 2, 3 and 4 established as 11.7% per annum in the amount of 87 each. The amount of the coupon yield charged per bond for the 2nd, 3rd and 4th coupons amounted to 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.

Commercial Credits

In April 2002 the Company made a contract of equipment delivery with CJSC Kvant-Intercom. The currency of the contract is US dollars. As of September 30, 2010 and as of December 31, 2009, the long-term debt under the contract was less than 1. No interest is provided for or is accrued under the contract. The debt is repaid according to the schedule, the debt repayment deadline being July 20, 2011.

Liabilities under financial lease

	As of September 30, 2010		As of December 31, 2009	
	Minimum rent payments	Discounted value of minimum rent payments	Minimum rent payments	Discounted value of minimum rent payments
Current portion (less than 1 year)	18	15	20	15
Over 1 year and up to 5 years	6	6	18	16
Total	24	21	38	31

As of September 30, 2010 and as of December 31, 2009, OJSC VTB-Leasing was the lessor of the Company. The effective interest rate for these liabilities was 19.46% per annum.

The transport facilities acquired under the contract of leasing with OJSC VTB-Leasing are used for the provision of the all-in-one communication service. Future minimum lease payments under the contracts with OJSC VTB-Leasing as of September 30, 2010 amounted to 24, including the principal debt (21) and the interest payable (3) (38, 32 and 6 respectively as of December 31, 2009).

21. Pension and Long-term Social Liabilities

In compliance with the collective agreement, N.W.Telecom Group guarantees non-governmental pension to its employees and effects other social payments to the current and former employees of N.W.Telecom Group.

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Pension Plans with Fixed Contributions

The activities related to non-governmental pension provision to employees of the Company under pension plans with fixed contributions are dealt with by the *Telecom-Soyuz* non-governmental pension fund.

As of September 30, 2010, N.W.Telecom Group had 12,031 participants of the pension plan with fixed contributions (against 12,845 as of December 31, 2009).

For the 9 months of 2010 the expenses of N.W.Telecom Group related to contributions to the pension fund in connection with the pension plans with fixed contributions amounted to 310 (147 for the 9 months of 2009).

Pension Plans with Fixed Pays and Long-term Social Obligations

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 of the retirement pension provision are reaching the age, which entitles a person to a state retirement pension - at the moment it is 55 years of age for women and 60 years for men, as well as the required length of service (at least 15 years for ordinary employees and 4 years for top managers). The amount of basic benefit depends on a number of parameters, including the position of the employee as of the moment of his retirement.

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

The Company also provides several long-term employee benefits such as lump-sum payments upon retirement, incentives for anniversary dates, death-in-service benefits to current and former employees and other benefits to former employees.

As of September 30, 2010 the N.W. Telecom Group had 12,031 working participants of the pension plan with fixed pays and 17,526 pensioners entitled to remuneration upon completion of their labour activities and to a pension benefit (12,845 and 15,621 respectively as of December 31, 2009).

The amount of net expense for pension plans with fixed pays, except for the amounts of interest income and expenses, is included in the consolidated Aggregate Income Report line “Personnel-related expenses”. The amount of interest income and expenses are shown in the consolidated Aggregate Income Report lines “Other income and expenses related to financial and investment activities” and “Financial expenses” respectively.

22. Other long-term liabilities

	As of September 30, 2010	As of December 31, 2009
Deferred income	294	285
Long-term advances received	40	48
Total	334	333

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23. **Reserves**

	Employees number optimization programme	Total
Balance as of December 31, 2008	7	7
Used	(6)	(6)
Balance as of September 30, 2009	1	1
Balance as of December 31, 2009	6	6
Charged	7	7
Used	(6)	(6)
Balance as of September 30, 2010	7	7

The amount of interest expenses is shown in the “Financial expenses” line of consolidated Profit and Loss Report.

Out of the total reserves amount	Employees number optimization programme	Total
Long-term	-	-
Short-term	6	6
Total, reserves as of December 31, 2009	6	6
Long-term	-	-
Short-term	7	7
Total, reserves as of September 30, 2010	7	7

Optimization of the Staff Number

The Company has created a reserve for compensation payment to the employees who had been notified of being made redundant as of September 30, 2010. Expenses for creating the reserve amounted to 7 and were included in the line “Personnel-related expenses”.

For the 9 months of 2010 the Company made redundant 1,422 positions in the manning table. 44 employees were notified of forthcoming staff reduction as of September 30, 2010. Expenses related to making the personnel of the Company redundant for the 9 months of 2010 amounted to 115. As to other positions in the manning table to be made redundant after September 30, 2010, N.W.Telecom Group cannot estimate the forthcoming payments with sufficient grounds.

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24. Accounts payable and charged liabilities

	As of September 30, 2010	As of December 31, 2009
Settlements in respect of taxes, fees and social insurance fees	760	877
Settlements with suppliers and contractors in respect of acquisition and construction of fixed assets	741	349
Settlements with suppliers and contractors in respect of current activities	643	770
Settlements with personnel	476	885
Settlements in respect of dividends	365	66
Settlements with brokers and principals	296	384
Settlements with communication operators	231	193
Settlements with suppliers and contractors in respect of acquisition of software	28	54
Settlements with other creditors	260	275
Total	3,800	3,853

The settlements in respect of taxes, duties and social insurance fees as of September 30, 2010 and December 31, 2009 include the following:

	As of September 30, 2010	As of December 31, 2009
Value added tax	339	362
Property tax	214	208
Social insurance fees	145	238
Tax on income of individuals	58	64
Other taxes	4	5
Total	760	877

Settlements with other creditors include the debt related to deductions to the all-in-one servicing reserve, settlements on insurance payments, settlements with the trade union, settlements with operators under assistance contracts.

25. Other Current Liabilities

	As of September 30, 2010	As of December 31, 2009
Deferred income	10	9
Advances received under core operation	339	407
Advances received under secondary areas of activity	20	25
Total	369	441

26. Contingent Liabilities and Operating Risks

Conditions of N.W.Telecom Group's Operation

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 September 30, 2010, the 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 the N.W. Telecom Group's tax, currency and customs positions will be sustained.

Legal Proceedings and Determination of Consequences

During 9 months of 2010, the N.W. Telecom Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the N.W. Telecom Group management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

On 25.12.09 OJSC N.W.Telecom submitted an application to the Court of Arbitration of the city of Moscow for recognizing as illegal the Resolution of the Federal Antimonopoly Service of Russia of 25.11.2009 on imposing an administrative fine of 26 on the basis of Article 14.31 of the RF Administrative Offences Code. The **consideration** of the case was suspended until the award of the Court of Arbitration of the city of Moscow on recognizing as illegal the decision and order of the FAS of Russia of 08.06.2009. The appeal of OJSC N.W.Telecom as to recognizing as illegal the decision and order of the FAS of Russia was considered in the Ninth Court of Arbitration and Appeal on 10.08.10.

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 in the amount of 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 in the amount of 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 Major Tax-payers No.7 having been left without satisfaction.

Insurance

N.W.Telecom Group is **working on risk management, including in the field of insurance**. For the 6 months of 2010 N.W.Telecom Group insured equipment, motor vehicles, real estate and other property, personnel, directors' and management bodies' liability (**D&O**), and dangerous industrial sites. 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 and bill loans, finance lease (leasing), cash and cash equivalents. The main purpose of such instruments is attracting funds for operation funding. Besides, short-term deposits are actively used as a financial instrument for the purpose of placing spare cash. N.W.Telecom Group has other financial assets and liabilities, such as accounts receivable and payable that arise directly in the course of its operating activities.

Policy in the Field of Capital Management

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The main goals of N.W.Telecom Group's capital management policy are increasing the credit rating level, improving the equity to total assets and current ratios, optimizing the debt ratios, improving the structure of accounts payable and reducing the debt capital service cost.

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.

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

The equity ratio is calculated as the ratio of equity capital 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 indicator to equity capital as of the end of the period. The "net debt / EBITDA" indicator is calculated as the ratio of the net debt indicator as of the end of the period to the EBITDA indicator for the period that has expired. The indicators used in capital management are determined on the basis of the data of accounting statements made up according to the Russian accounting standards.

The policy of the Company consists in maintaining the equity ratio within the range above or equal to 0.55, the "net debt / equity capital" indicator within the range not exceeding 1 and the "net debt / EBITDA" indicator within the range not exceeding 1.80.

As of September 30, 2010 and December 31, 2009 the values of the indicators used in capital management amounted to:

	As of September 30, 2010	As of December 31, 2009
Financial independence ratio	0.63	0,6
Net debt / equity capital	0.32	0.49
Net debt / EBITDA	0.95	1.52

In June 2010 the Standard&Poor's international rating agency confirmed the Company's long-term international credit rating at the level of "BB-", the forecast being set to "Watch". The national rating of the Company was confirmed at the previous level of "ru AA-". As of the reporting date these are the highest ratings with the "Stable" forecast among the companies of OJSC Svyazinvest.

In August 2010 the Fitch Ratings rating agency improved the Company's long-term international credit rating from "BB-" to "BB" level, "Stable" forecast. National credit rating of the Company was improved from "A+ (rus)" to "AA- (rus)".

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Income and Expenses on Financial Instruments

For 9 months ended on September 30, 2010	Aggregate Income Report						Total
	Other operating expenses	Financial expenses	Other income and expenses related to financial and investment activities				
	Creation of doubtful debt reserves	Interest expenses	Interest income	Financial result from asset disposal	Other	Profit / loss due to exchange rate differences	
Cash and cash equivalents	-	-	3	-	-	393	396
Accounts receivable	(180)	-	-	-	-	-	(180)
Finance assets available-for-sale	-	-	-	37	-	-	37
Investments held to maturity	-	-	361	-	-	1	362
Total finance assets	(180)	-	364	37	-	394	615
Bank credits and loans of organizations	-	(324)	-	-	-	(747)	(1,071)
Bonded loans	-	(507)	-	-	-	-	(507)
Commercial credits	-	-	-	-	199	93	292
Liabilities under financial lease	-	(5)	-	-	-	-	(5)
Total finance liabilities	-	(836)	-	-	199	(654)	(1,291)

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For 9 months ended on September 30, 2009	Aggregate Income Report						Total
	Other operating expenses	Financial expenses	Other income and expenses related to financial and investment activities				
	Creation of doubtful debt reserves	Interest expenses	Interest income	Financial result from asset disposal	Other	Profit / loss due to exchange rate differences	
Cash and cash equivalents	-	-	-	-	-	86	86
Accounts receivable	(132)	-	-	-	-	-	(132)
Investments held to maturity	-	-	127	-	-	(29)	98
Total finance assets	(132)	-	127	-	-	57	52
Bank credits and loans of organizations	-	(484)	-	-	135	(761)	(1,110)
Bonded loans	-	(402)	-	-	-	-	(402)
Liabilities under financial lease	-	(8)	-	-	-	-	(8)
Accounts payable	-	-	-	-	13	7	20
Total finance liabilities	-	(894)	-	-	148	(754)	(1,500)

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Currency Risk

The currency risk is the risk that a change in the exchange rate of the currency will affect the financial result and 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 signify the presence of a potential currency risk.

Finance assets and liabilities of the N.W. Telecom Group are distributed among the following currencies:

As of September 30, 2010	RUR	USA	Euros	Total
Cash and cash equivalents	131	-	-	131
Accounts receivable	3,521	-	-	3,521
Finance assets available-for-sale	1,447	-	-	1,447
Promissory notes and deposits	3,497	-	-	3,497
Issued loans	20	-	-	20
Other current assets	14	-	-	14
Total finance assets	8,630	-	-	8,630
Bank credits and loans of organizations	(2,463)	(3,469)	(103)	(6,035)
Bonded loans	(7,090)	-	-	(7,090)
Note loans	(1,524)	-	-	(1,524)
Derivative financial instruments	-	(102)	-	(102)
Liabilities under financial lease	(21)	-	-	(21)
Debt in respect of interest	(101)	(15)	(9)	(125)
Other finance liabilities	(21)	-	-	(21)
Accounts payable	(2,778)	(1)	(1)	(2,780)
Total finance liabilities	(13,998)	(3,587)	(113)	(17,698)

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As of December 31, 2009	RUR	USA	Euros	Total
Cash and cash equivalents	574	-	-	574
Accounts receivable	2,934	-	-	2,934
Finance assets available-for-sale	21	-	-	21
Promissory notes and deposits	3,571	333	-	3,904
Issued loans	31	-	-	31
Other current assets	16	-	-	16
Total finance 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)
Derivative financial instruments	-	(394)	-	(394)
Liabilities under financial lease	(32)	-	-	(32)
Debt in respect of interest	(129)	(21)	(6)	(156)
Other finance liabilities	(24)	-	-	(24)
Accounts payable	(2,942)	(1)	-	(2,943)
Total finance liabilities	(13,627)	(6,376)	(107)	(20,110)

For the period from January 1, 2010 to September 30, 2010 exchange rate of the Russian Rouble to US Dollar decreased by 0.53 % and exchange rate of the Russian rouble to Euro increased by 4.7%.

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

	USD				Euros			
	Exchange rate change, %	impact on profit before taxes		Exchange rate change, %	impact on profit before taxes			
		RUR million	%		RUR million	%		
As of September 30, 2010	19	(667)	(13.09)	17	(19)	(0.37)		
	(13)	459	9.01	(8)	8	0.17		
As of December 31, 2009	19	(1,124)	(38.36)	17	(18)	(0.62)		
	(13)	774	26.40	(8)	8	0.27		

The sensitivity analysis was carried out for the pitch of US dollar change by 19 % and (13 %) and euro by 17 % and (8%) in connection with a high fluctuation of the currencies-to-rouble exchange rates.

The Company uses forward contracts as an instrument for partial currency risk management (see the “Hedging” clause).

Risk of Interest Rate Changes

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

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

As of September 30, 2010	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	-	-	131	131
Accounts receivable	-	-	3,521	3,521
Finance assets available-for-sale	-	-	1,447	1,447
Promissory notes and deposits	3,497	-	-	3,497
Issued loans	-	-	20	20
Other current assets	-	-	14	14
Total finance assets	3,497	-	5,133	8,630
Bank credits and loans of organizations	(1,677)	(4,358)	-	(6,035)
Bonded loans	(5,692)	(1,398)	-	(7,090)
Note loans	(1,524)	-	-	(1,524)
Derivative financial instruments	-	-	(102)	(102)
Liabilities under financial lease	(21)	-	-	(21)
Debt in respect of interest	-	-	(125)	(125)
Other finance liabilities	(21)	-	-	(21)
Accounts payable	-	-	(2,780)	(2,780)
Total finance liabilities	(8,935)	(5,756)	(3,007)	(17,698)
As of December 31, 2009	Fixed rate	Floating rate	No rate	Total
Cash and cash equivalents	28	-	546	574
Accounts receivable	-	-	2,934	2,934
Finance assets available-for-sale	-	-	21	21
Promissory notes and deposits	3,904	-	-	3,904
Issued loans	-	-	31	31
Other current assets	-	-	16	16
Total finance 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)
Derivative financial instruments	-	-	(394)	(394)
Liabilities under financial lease	(32)	-	-	(32)
Debt in respect of interest	-	-	(156)	(156)
Other finance liabilities	(24)	-	-	(24)
Accounts payable	-	-	(2,943)	(2,943)
Total finance liabilities	(7,663)	(8,954)	(3,493)	(20,110)

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

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	LIBOR			MosprimeRZBM		
	rate change, % points	impact on profit before taxes		rate change, % points	impact on profit before taxes	
		RUR million	%		RUR million	%
As of September 30, 2010	6	(2)	(0.04)	186	(26)	(0.51)
	(6)	2	0.04	(186)	26	0.51
As of December 31, 2009	6	(4)	(0.12)	186	(56)	(1.90)
	(6)	4	0.12	(186)	56	1.90

Liquidity Risk

N.W.Telecom Group manages the risk related to the lack of monetary funds by current ratio planning. N.W.Telecom Group does it best to maintain a balance between continuity and flexibility of funding by using bank overdrafts, bank credits, bonds, finance lease and issue of own notes.

The execution timing for 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	131	-	-	-	-	131
Accounts receivable	3,517	4	-	-	-	3,521
Finance assets available-for-sale	1,447	-	-	-	-	1,447
Promissory notes and deposits	3,522	-	-	-	-	3,522
Issued loans	3	7	4	10	15	39
Other current assets	14	-	-	-	-	14
Total finance assets	8,634	11	4	10	15	8,674
Bank credits and loans of organizations	(2,765)	(687)	(1,854)	-	-	(5,306)
Bonded loans	(5,324)	(1,369)	(700)	(700)	-	(8,093)
Note loans	(1,524)	-	-	-	-	(1,524)
Derivative financial instruments	(102)	-	-	-	-	(102)
Liabilities under financial lease	(20)	(16)	(2)	-	-	(38)
Other finance liabilities	(5)	(3)	(3)	(3)	-	(14)
Accounts payable	(2,780)	-	-	-	-	(2,780)
Total finance liabilities	(12,520)	(2,075)	(2,559)	(703)	-	(17,857)

The data given in the Table include payment of interest accrued or to be accrued in the future periods.

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Credit Risk

The credit risk means that a partner may fail to fulfil its obligations to N.W.Telecom Group in time, which will result in financial losses.

Financial assets, which potentially subject N.W. Telecom Group entities to credit risk, consist principally of accounts receivable of buyers and customers, cash with banks, bank deposits and other financial assets of debt nature.

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

The N.W. Telecom Group has no significant concentrations of credit risk due to significance and diversity 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.

Hedging

As a result of attracting syndicated loans, the Company assumed the risk of increased payments in roubles under these liabilities caused by the growth of the euro and USD/RUR exchange rate. To check and minimize the possible adverse effect of the falling rouble exchange rate relative to the euro and US dollar, 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 rouble 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 (US dollars, euros) to the Company within the time set forth in the agreement or to execute an alternative monetary obligation, while the Company undertakes to accept and pay for such an underlying asset at the price (forward price) and on the conditions agreed upon between the parties at the moment of making the transaction.

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 instalments 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:

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

Payment date	Amount of hedging, thousand euros
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)

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

- under the agreement of 06.11.2008 (135 million US dollars) – 1/8 of the initial amount of the loan;
- under the agreement of 19.07.2007 (100 million US dollars) under tranche A (50 million US dollars) – 1/7, and under tranche B (50 million US dollars) – 1/13 of the initial amount of the loan.

The payments have been determined in accordance with the terms of the 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:

Payment date	Amount of hedging, thousand euros
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

Under the General Agreement on FX and Deposit Transactions with CJSC CB Citibank for 9 months of the year 2010:

Payment date	Hedging amount, thousand USD
01.02.2010	16,875
09.04.2010	10,989
29.04.2010	16,875
09.07.2010	10,989
30.07.2010	16,875

Outstanding Debt Hedging

2009

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, 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:

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Value date	Delivery forward rate, RUR/USD	UniCredit Bank Austria AG, syndicated loan; Tranche A, thousand USD	UniCredit Bank Austria AG, syndicated loan; Tranche B, thousand USD	Bayerische Hypo-und Vereinsbank AG, thousand USD	Total: (amount to be paid by Citibank) Hedging amount, thousand USD	Amount to be paid by the Company, thousand RUR.
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, thousand USD	UniCredit Bank Austria AG, syndicated loan; Tranche B, thousand USD	Bayerische Hypo-und Vereinsbank AG, thousand USD	Total: (amount to be paid by Citibank) Hedging amount, thousand USD	Amount to be paid by the Company, thousand RUR.
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

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;
- 101.7% for Bayerische Hypo-und Vereinsbank AG.

The fair value of the forward contract defined as hedging amounted to the liability of 394 as of December 31, 2009 (the asset of 4 as of December 31, 2008), including the inefficient part of hedging in the amount of 54 (15 as of December 31, 2008) and the efficient part of hedging in the amount of 448 (19 as of December 31, 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: the "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.

2010

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:

- 94.4% for UniCredit Bank Austria AG, syndicated loan, Tranche A;
- 94.2% for UniCredit Bank Austria AG, syndicated loan, Tranche B;
- 107.6% for Bayerische Hypo-und Vereinsbank AG.

The fair value of the forward contract defined as hedging amounted to the liability of -102.5 as of September 30, 2010, including the inefficient part of hedging in the amount of 251 and the efficient part of hedging in the amount of 354 (394, 54 and 448 respectively as of December 31, 2009). The said amounts are shown within the items "Other Income and Expenses in Financial and Investment Activities" of the consolidated profit and loss

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report: the “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

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

- Finance assets available-for-sale (FAAS);
- Liabilities shown at fair value (LFV);
- Loans and Accounts Receivable (LAR);
- Liabilities shown at amortized value (LAV).

As of September 30, 2010 and December 31, 2009 the fair value and book value of N.W.Telecom Group’s instruments did not differ significantly, except for the following:

	Category	As of September 30, 2010		As of December 31, 2009	
		Book value	Fair value	Book value	Fair value
Cash and cash equivalents	LAR	131	131	574	574
Accounts receivable	LAR	3,521	3,521	2,934	2,934
Finance assets available-for-sale	FAAS	1,447	1,447	21	21
Promissory notes and deposits	LAR	3,497	3,239	3,904	3,882
Issued loans	LAR	20	19	31	31
Other current assets	FAAS	14	14	16	16
Total finance assets		8,630	8,371	7,480	7,458
Bank credits and loans of organizations	LAV	(6,035)	(6,029)	(6,075)	(6,063)
Bonded loans	LAV	(7,090)	(7,376)	(10,484)	(10,453)
Note loans	LAV	(1,524)	(1,524)	(2)	(2)
Derivative financial instruments	LFV	(102)	(102)	(394)	(394)
Liabilities under financial lease	LAV	(21)	(21)	(32)	(32)
Debt in respect of interest	LAV	(125)	(125)	(156)	(156)
Other finance liabilities	LAV	(21)	(21)	(24)	(24)
Accounts payable	LAV	(2,780)	(2,780)	(2,943)	(2,943)
Total finance liabilities		(17,698)	(17,978)	(20,110)	(20,067)

The discounted (present) value of bills and notes, taking into account future payments, including the interest component, proceeding from the average weighted interest rates under deposits of non-financial organizations (RF Central Bank, Bulletin of Bank Statistics No. 10 ((209) for 2010) as of September 30, 2010, was taken as the fair value of the notes.

The market value as of September 30, 2010 at MICEX was 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. 10 ((209) for 2010), stating the rates as of September 30, 2010, was taken as the fair value of bank credits and loans with the fixed interest rate.

28. Receipts from sales

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	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Local telephone communication services	3,497	3,337	10,617	9,994
Telegraph network communication, data transmission network and telematic services (Internet)	1,558	1,390	4,644	4,024
Intrazone telephone communication services	654	626	1,957	1,896
Interconnection services	578	621	1,854	1,934
Assistance and agency services	135	149	457	485
Mobile radio communication services, wired radio services, broadcasting and television services	93	98	250	297
Receipts from other sales	462	394	1,286	1,020
Total	6,977	6,615	21,065	19,650

The proceeds gained from intra-zone and local telephone communication services during 9 months ended on September 30, 2010 include the proceeds from provision of communication channels for use, in the amount of 1,957 and 624 respectively (against 1,896 and 501 for 9 months of 2009).

The proceeds gained from the telegraph network communication, data transmission network and telematic services (Internet) during 9 months ended on September 30, 2010 include the proceeds from data transmission network and telematic services (Internet), in the amount of 4467 (against 3876 for 9 months 2009).

Proceeds from other sales during 9 months ended on September 30, 2010 include the proceeds from leasing out assets worth of 322 (317 for the 9 months of 2009), including the proceeds from leasing out investment property in the amount of 15 (against 0 for the 9 months of 2009).

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

By customer groups	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Individuals	3,800	3,571	11,549	10,516
Corporate customers	1,896	1,489	5,529	4,816
Budgetary organizations	575	580	1,701	1,717
Communication operators	706	975	2,286	2,601
Total	6,977	6,615	21,065	19,650

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29. Personnel-related expenses

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Expenses for wages	1,235	1,317	4,231	4,273
Social insurance fees	292	303	1,029	1,065
Expenses related to pension and long-term social liabilities	56	47	173	194
Other personnel-related expenses	99	110	339	293
Total	1,682	1,777	5,772	5,825

Other personnel-related expenses mainly include expenses for voluntary medical insurance and other insurance in favour of the employees, expenses in accordance with the collective agreement and labor contracts.

30. Materials, repairs and maintenance, utilities

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Expenses for repairs and maintenance	1,056	770	2,110	1,652
Expenses for utilities	149	156	664	612
Material expenses	197	319	573	784
Total	1,402	1,245	3,347	3,048

Expenses for investment property for the 9 months of 2010 ended on September 30, 2010 amounted to 5 (0 for the 9 months of 2009) for the parts of the property that yielded income in the period under report and 4 (0 for the 9 months of 2009) for the parts of the property that did not yield income in the period under report.

31. Other Operating Income

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Indemnification for losses related to the provision of all-in-one communication services	1,495	1,244	3,473	2,995
Fines, penalties and forfeits	4	1	8	3
Reversal of losses from impairment in the value of fixed assets, sites of construction-in-progress, intangible assets and other assets	-	-	4	-
Profit from sales of fixed assets and other assets	-	41	-	49
Other income	7	(6)	63	81
Total	1,506	1,280	3,548	3,128

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Other income mainly includes value of property revealed after stock-taking, accounts payable and depositor debts, for which the limitation period has expired.

32. Other operating expenses

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Taxes other than profit tax	223	223	683	666
Expenses for the agent's fee	170	156	510	446
Services of outside organizations and expenses related to management	190	138	484	384
Expenses for security and fire protection services	108	108	328	325
Deductions to all-in-one servicing reserve	68	63	204	189
Transportation and post services	65	73	196	209
Doubtful debt reserve	94	69	180	132
Expenses for property leasing	48	69	150	158
Expenses for audit and consulting services	36	55	85	146
Expenses for advertising	27	20	72	98
Expenses for property leasing (except for premises)// Rent	23	27	67	81
Membership fees, charity and funds transferred to trade union organizations	12	16	54	53
Expenses related to servicing of crediting organization	10	13	32	41
Loss from withdrawal of fixed assets and other assets	(3)	-	17	-
Property and liability insurance	4	4	15	13
Expenses related to re-organization	-	-	5	-
Fines, penalties and forfeits	-	2	3	2
Other expenses	55	50	138	125
Total	1,130	1,086	3,223	3,068

Other expenses mainly include expenses related to social needs and other operational expenses.

33. Financial expenses

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Expenses related to interest under bank credits and loans of organizations, bonded and acceptance loans, commercial credits	274	312	831	886
Expenses related to interest under pension and long-term social liabilities	59	58	182	174
Expenses related to interest under finance leasing	2	2	5	8
Expenses related to servicing of financial liabilities	1	1	3	11
Total	336	373	1,021	1,079

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The amount of capitalized interest for the 3 and 9 months ended on September 30, 2010 and September 30, 2009 was as follows:

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Interest capitalized into value of fixed assets	5	35	24	119
Interest capitalized into value of intangible assets	(1)	-	5	5
Total	4	35	29	124

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

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Interest income from financial assets	118	97	364	127
Income for assets of pension plan	-	-	-	2
Profit from sales of other finance assets	36	-	37	-
Inefficient part of hedging operations	246	135	199	135
Other	-	(2)	-	13
Total	400	230	600	277

35. Profit tax

	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Current income tax expense	368	238	813	381
Deferred income from profit tax	30	27	244	267
Total income tax expense	398	265	1,057	648
Profit tax expenses - current portion	369	238	814	381
Total current income tax expense	369	238	814	381
Deferred tax income related to temporary differences	29	27	244	267
Total deferred income from profit tax	29	27	244	267
Total income tax expense for the year	398	265	1,058	648

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

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	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Profit before taxes, from on-going activity	1,962	1,262	5,095	2,864
Statutory income tax rate	20.00%	20.00%	20.00%	20.00%
Theoretical income tax charge	(392)	(252)	(1,019)	(573)
Expenses not deductible for tax purposes	(19)	(56)	(63)	(115)
Other factors	13	43	24	40
Total actual profit tax	(398)	(265)	(1,058)	(648)
Effective tax rate, %	20.33%	20.95%	20.76%	22.63%
Profit tax related to on-going activity	(399)	(264)	(1,058)	(648)

The composition of recognized deferred tax assets and liabilities as of September 30, 2010 and December 31, 2009 and their flow during 9 months of 2010 and 2009 was as follows:

	As of December 31, 2008	Origination and decrease of differences	As of September 30, 2009	As of December 31, 2009	Origination and decrease of differences	As of September 30, 2010
Accounts payable and charged liabilities	102	(29)	73	202	(159)	43
Accounts receivable	20	9	29	13	22	35
Pension liabilities	253	(1)	252	312	1	313
Finance leases	14	5	19	6	(2)	4
Total deferred tax assets	389	(16)	373	533	(138)	395
Fixed assets	(1,210)	(195)	(1,405)	(1,273)	(120)	(1,393)
Intangible assets	(246)	(68)	(314)	(321)	17	(304)
Finance investment	(7)	7	-	-	(3)	(3)
Dividends from subsidiaries	(5)	5	-	-	-	-
Total deferred tax liabilities	(1,468)	(251)	(1,719)	(1,594)	(106)	(1,700)
Total net deferred tax liabilities	(1,079)	(267)	(1,346)	(1,061)	(244)	(1,305)

36. Profit (Loss) per Share

The N.W. Telecom Group has no financial instruments to be converted to common stock; therefore diluted profit per share equals to basic profit per share.

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	For 3 months expired on 30 th September		For 9 months expired on 30 th September	
	2010	2009	2010	2009
Profit from on-going activity for the period under report related to shareholders of OJSC "Inter-Regional Company"	1,555	996	4,029	2,216
Profit from on-going activity for the period under report related to holders of preferred stock	156	100	4 03	2 22
Profit for the period under report related to holders of common stock and other equity instruments contributing to profit	1,400	897	3,626	1,994
Weighted average of circulating common shares and other equity instruments contributing to profit	1,079	1,125	1,079	1,125
Basic and diluted profit per share (in RUR) from on-going activity, for the period under report	1.29706	0.79692	3.36047	1.77243
Basic and diluted profit per share (in RUR) for the period under report, related to holders of common shares and other equity instruments contributing to profit	1.29706	0.79692	3.36047	1.77243

37. Operational Lease

As of September 30, 2010 and December 31, 2009 the minimum lease payments under the contracts of operating lease where the Company was the lessee were distributed by the years of payment as follows:

	As of September 30, 2010	As of December 31, 2009
Current portion (less than 1 year)	329	436
Over 1 year and up to 5 years	295	458
Over 5 years	1,956	1,245
Total	2,580	2,139

N.W.Telecom Group's expenses related to operating lease shown in line "Other Operating Expenses" of the consolidated Profit and Loss Report amounted to 439 for the 9 months of 2010 (against 431 for the 9 months of 2009).

As of September 30, 2010 and December 31, 2009 the minimum lease payments under the contracts of operating lease where N.W.Telecom Group was the lessor were distributed by the years of payment as follows:

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	As of September 30, 2010	As of December 31, 2009
Current portion (less than 1 year)	224	315
Over 1 year and up to 5 years	43	109
Over 5 years	80	164
Total	347	588

N.W.Telecom Group's proceeds related to operating lease shown in line "Proceeds from Sale" of the consolidated Report on Aggregate Income amounted to 462 for the 9 months of 2010 (against 536 for the 9 months of 2009).

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

38. Commitments

As of September 30, 2010 and December 31, 2009 N.W. Telecom Group has commitments of 783 and 204 respectively, for capital investments into modernization and expansion of its network.

As of September 30, 2010 and December 31, 2009 N.W. Telecom Group has commitments of 39 and 4 respectively, for fixed assets acquisition.

39. Balances and Transactions with Related Parties

For the 9 months of 2010 there were no serious changes in the structure of N.W.Telecom Group's related parties as compared to the structure of related parties as of December 31, 2009.

OJSC Svyazinvest

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

As of September 30, 2010 the Russian Federation represented by the Federal Agency for State Property Management owned a block of common shares of OJSC Svyazinvest amounting to 75% less 1 share.

Svyazinvest Group includes 7 interregional telecommunication companies (N.W. Telecom), OJSC Rostelecom, OJSC Central Telegraph, OJSC Dagsvyzinform and other telecommunication operator subsidiaries.

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

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Subsidiaries

N.W.Telecom Group effects operations with subsidiaries in the framework of its current activities. The financial results and the balance of mutual settlements related to operations with subsidiaries are not included in the consolidated financial statements of N.W.Telecom Group in compliance with the requirements of the IFRS.

N.W.Telecom Group makes transactions with subsidiaries on the market conditions. The rates for subsidiaries are established by the regulator and are at the same level as the similar rates for other partners. Subsidiaries do not influence operations of N.W.Telecom Group with other partners. A more detailed description of the nature of the relationship between N.W.Telecom Group and its subsidiaries is given 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 is formed in the amounts of income from the services of zone call initiation / termination to / from N.W.Telecom Group's networks and to / from networks of associated operators, as well as income under the agreement of assistance.

Expenses for OJSC Rostelecom are formed in the amounts of payments for the services of call termination to networks of other communication operators and, if call initiation is from a network of a mobile radio-telephone communication network, expenses for the payment for interconnect 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, N.W.Telecom group effects a wide range of operations with companies controlled by the state.

Organizations controlled by the state make a considerable part of N.W.Telecom Group's client base. 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" 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 related to receiving or repaying credits or loans, as well as the security and interest income/expenses related to them, are disclosed in the note "Loan Liabilities".

Operations with companies controlled by the state related to acquisition and sale of financial assets are disclosed in the notes "Subsidiaries", "Investment in Associated Companies" and "Financial Assets".

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

OJSC Svyazintek

OJSC Svyazintek was founded by subsidiaries of OJSC Svyazinvest jointly 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 provides to N.W. Telecom Group the services of

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introducing and then supporting the functioning of information systems, including Oracle E-Business Suite and Amdocs Billing Suite software.

For the 9 months of 2010 the expenses of OJSC N.W.Telecom group for the services of OJSC Svyazintek amounted to 21 (59 for the 9 months of 2009), including 13 (55 for the 9 months of 2009) shown directly in the report on aggregate income and 8 (3 for the 9 months of 2009) included in the intangible assets.

NPF Telecom-Soyuz

N.W. Telecom Group made a contract of non-governmental retirement insurance No. 2707/2004 of 08.10.2004 (version of 23.12.2005) with NPF Telecom – Soyuz (Note 21), and in addition to statutory pension benefits the Group also provides benefits for most of its employees by using post-employment benefit plans which include defined contribution plans and defined benefit plans.

During 9 months of 2010 the total amount of the contributions paid by N.W. Telecom Group for non-governmental pension provision was 310 (against 174 during 9 months of 2009), and it was completely included in the line "Personnel-related expenses" of 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

Key management personnel comprise members of Management Board and Board of Directors of the Company, totaling 22 persons as of September 30, 2010 and 22 persons as of December 31, 2009.

Remuneration to the key management staff for the 9 months of 2010 includes salaries, bonuses, as well as remuneration for participation in the management bodies of the Company and amounts to 166 (118 for the 9 months of 2009), including salaries, bonuses, and remuneration of the Company's employees participating in the management bodies, which amounts to 84 (77 for the 9 months of 2009). The amount of remuneration is shown not taking into consideration the single social tax.

40. Events after the Reporting Date

Note-backed Lending:

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

<i>Promissory note purchaser</i>	<i>Series</i>	<i>No.</i>	<i>Date of making up</i>	<i>Payment time and place</i>	<i>Amount of note</i>	<i>Value of note</i>
<i>OJSC Khanty-Mansiysk Bank</i>	-	<i>20101027</i>	<i>27.10.2010</i>	<i>Upon presentation, however, not earlier than 26.11.2010</i>	<i>251</i>	<i>250</i>
<i>OJSC TransCreditBank</i>	-	<i>20101027/1</i>	<i>27.10.2010</i>	<i>Upon presentation, however, not earlier than 26.11.2010</i>	<i>251</i>	<i>250</i>

In November 2010 the Company repaid all short-term borrowed funds received by selling own notes:

<i>Promissory note purchaser</i>	<i>Series</i>	<i>No.</i>	<i>Date of making up</i>	<i>Payment time and place</i>	<i>Amount of note</i>	<i>Value of note</i>
<i>OJSC Bank St. Petersburg</i>	-	<i>20100812/1</i>	<i>12.08.2010</i>	<i>Upon presentation, however, not earlier than 10.11.2010</i>	<i>507</i>	<i>500</i>
<i>OJSC TransCreditBank</i>	-	<i>20100812</i>	<i>12.08.2010</i>	<i>Upon presentation, however, not earlier than 11.11.2010</i>	<i>508</i>	<i>500</i>
<i>OJSC TransCreditBank</i>	-	<i>20100826</i>	<i>26.08.2010</i>	<i>Upon presentation, however, not earlier than 25.11.2010</i>	<i>305</i>	<i>300</i>
<i>OJSC Bank Alexandrovsky</i>	-	<i>20100826/1</i>	<i>26.08.2010</i>	<i>Upon presentation, however, not earlier than 26.11.2010</i>	<i>203</i>	<i>200</i>
<i>OJSC Khanty-Mansiysk</i>	-	<i>20101027</i>	<i>27.10.2010</i>	<i>Upon presentation, however, not</i>	<i>251</i>	<i>250</i>

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<i>Bank</i>				<i>earlier than 26.11.2010</i>		
<i>OJSC TransCreditBank</i>	-	<i>20101027/1</i>	<i>27.10.2010</i>	<i>Upon presentation, however, not earlier than 26.11.2010</i>	<i>251</i>	<i>250</i>

Bank Loans

In October and November 2010 N.W.Telecom Group attracted monetary funds under eight of the nine performing lines of credit with:

- OJSC JSCB Svyaz-Bank;
- OJSC JSB Russia;
- OJSC Alfa Bank;
- OJSC Sberbank RF.

In November 2010 the Company entered into 5 revolving credit line contracts with Sberbank, each for 1 billion roubles.

All in all, within the period starting from October 01, 2010 till the date of signing these statements, attracted amount was 7,400 (300 of which being long-term), and repaid was 5,010.

In compliance with the schedules, established by these contracts, planned repayments of syndicated loans were effected: USD 3,846,153.85 in October.

Legal controversies

The Ninth Court of Arbitration and Appeal left without changes the Award of the Court of Arbitration 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 Major Taxpayers No.7 having been left without satisfaction (the Resolution was produced in full on May 24, 2010). The Resolution of Federal Court of Arbitration of the Moscow District (cassation instance) left without changes the Decision of the Court of Arbitration of Moscow dated 18.01.2010 and the Resolution of Ninth Court of Arbitration and Appeal dated 24.05.2010 in re Case No. A40-122662/09-108-929, the appeal of the Interdistrict Inspectorate of the Federal Tax Service of Russia for Major Taxpayers No.7 having been left without satisfaction. As a result, on October 21, 2010 Inter-regional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers No. 7 provided compensation for the value added tax requested under the tax return for January 2006 in the amount of 88.

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Dividend

On November 03, 2010 an Extraordinary General Meeting of the Company's Shareholders in the form of absentee voting took place (acceptance of ballots sent to shareholders approved by the Board of Directors). On the issue of dividend payment by the Company based on the results of the 9 months of the fiscal year 2010 was decided as follows:

- The dividend based on the results of the 9 months of the fiscal year 2010 shall be paid in the following amount:

0.0000000353539666% of the Company's net profit based on the results of the 9 months of the fiscal year 2010 per one type A preferred share,

0.0000000171309612% of the Company's net profit based on the results of the 9 months of the fiscal year 2010 per one common share,