

**OPEN JOINT-STOCK COMPANY
NORTH-WEST TELECOM**

CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE PERIOD OF 6 MONTHS
ENDED ON JUNE 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 6 months ended on June 30, 2010
prepared in compliance with international financial reporting standards (IFRS)

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

| | Note | June 30, 2010 | December 31, 2009 |
|--|------|------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Fixed assets | 8 | 40,445 | 41,787 |
| Intangible assets | 9 | 5,563 | 5,326 |
| Long-term accounts receivable | | 6 | 6 |
| Other long-term assets | 10 | 1,150 | 715 |
| Investment property | 11 | 91 | 96 |
| Investment in associated companies | 12 | 89 | 88 |
| Long-term financial assets | 13 | 1,349 | 3,200 |
| Total non-current assets | | 48,693 | 51,218 |
| Current assets | | | |
| Inventory holdings | 14 | 381 | 431 |
| Trade and other accounts receivable | 15 | 3,049 | 2,928 |
| Prepaid income tax | | 206 | 415 |
| Other current assets | 16 | 312 | 270 |
| Current financial assets | 13 | 3,401 | 756 |
| Cash and cash equivalents | 17 | 182 | 574 |
| | | 7,531 | 5,374 |
| Assets held for sale | 7 | 13 | 9 |
| Total current assets | | 7,544 | 5,383 |
| Total assets | | 56,237 | 56,601 |
| CAPITAL AND LIABILITIES | | | |
| OJSC N.W. Telecom shareholders' capital | | | |
| Authorized capital | 19 | 2,855 | 2,855 |
| Own shares purchased from shareholders | 19 | (67) | (67) |
| Retained profit | | 30,303 | 28,658 |
| TOTAL OJSC N.W. Telecom shareholders' capital | | 33,091 | 31,446 |
| Share of non-controlling shareholders | | 2 | 1 |
| Total capital | | 33,093 | 31,447 |
| Long-term liabilities | | | |
| Long-term loan liabilities | 20 | 8,207 | 8,108 |
| Liabilities under pension and long-term social obligations | 21 | 2,324 | 2,258 |
| Long-term accounts payable | | 40 | 34 |
| Other long-term liabilities | 22 | 315 | 333 |
| Deferred profit tax liability | 35 | 1,277 | 1,061 |
| Total long-term liabilities | | 12,163 | 11,794 |
| Current liabilities | | | |
| Current loan liabilities | 20 | 6,290 | 9,058 |

| | | | |
|--|----|---------------|---------------|
| Accounts payable and charged liabilities | 24 | 4,197 | 3,853 |
| Accounts payable related to current profit tax | | 45 | - |
| Other current liabilities | 25 | 401 | 443 |
| Current reserves | 23 | 48 | 6 |
| Total current liabilities | | <u>10,981</u> | <u>13,360</u> |
| Total liabilities | | <u>23,144</u> | <u>25,154</u> |
| Total capital and liabilities | | <u>56,237</u> | <u>56,601</u> |

Chief Executive Officer V.A. Akulich Chief Accountant M. M. Semchenko

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

Open Joint-Stock Company North-West Telecom
Consolidated Interim Report on Aggregate Income
for the period of 6 months ended on June 30, 2010
(in RUR million, except for profit per share)

| | Note | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|---|--------|--|---------|--|---------|
| | | 2010 | 2009 | 2010 | 2009 |
| Receipts from sales | 28 | 7,071 | 6,503 | 14,088 | 13,035 |
| Personnel-related expenses | 29 | (2,119) | (2,042) | (4,090) | (4,048) |
| Wear and depreciation | 8,9,11 | (1,647) | (1,592) | (3,347) | (3,366) |
| Expenses related to services of communication operators | | (518) | (448) | (959) | (966) |
| Materials, repairs and maintenance, utilities | 30 | (1,124) | (1,057) | (1,945) | (1,803) |
| Other operating income | 31 | 1,207 | 1,067 | 2,041 | 1,847 |
| Other operating expenses | 32 | (1,148) | (1,019) | (2,093) | (1,982) |
| Profit from operating activities | | 1,722 | 1,412 | 3,695 | 2,717 |
| Profit from interest in associated companies | 12 | (3) | 1 | 1 | 1 |
| Financial expenses | 33 | (341) | (347) | (685) | (706) |
| Other income and expenses related to financial and investment activities | 34 | 105 | 25 | 200 | 48 |
| Profit (loss) due to exchange rate differences under currency revaluation | | (171) | 654 | (78) | (458) |
| Profit before taxes | | 1,312 | 1,745 | 3,133 | 1,602 |
| Profit tax | 35 | (290) | (383) | (659) | (383) |
| Profit for the period under report | | 1,022 | 1,362 | 2,474 | 1,219 |
| Total aggregate income for the period under report | | 1,022 | 1,362 | 2,474 | 1,219 |
| Profit for the period under report related to: OJSC N.W.Telecom shareholders | | 1,023 | 1,362 | 2,474 | 1,219 |
| To non-controlling shareholders of subsidiaries | | 1 | (1) | - | (1) |

Chief Executive Officer V.A. Akulich Chief Accountant M. M. Semchenko
The enclosed notes are the integral part of these consolidated financial statements

Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the period of 6 months ended on June 30, 2010

(in RUR million)

| | Note | For 3 months expired on | | For 6 months expired on | |
|---|------|-------------------------|---------|-------------------------|---------|
| | | 30 th June | | 30 th June | |
| | | 2010 | 2009 | 2010 | 2009 |
| Operating activities | | | | | |
| Profit before taxes | | 1,312 | 1,745 | 3,133 | 1,602 |
| Adjustments for: | | | | | |
| Wear and depreciation | | 1,647 | 1,592 | 3,347 | 3,366 |
| Profit from withdrawal of fixed assets and other assets | 31 | (17) | (11) | (21) | (19) |
| Restoration of reserve for impairment of fixed assets, sites of construction-in-progress, intangible assets | | (4) | - | (4) | - |
| Expenses to form the doubtful debt reserve | 15 | 37 | 16 | 86 | 63 |
| Profit (loss) from participation in associate companies | | 3 | (1) | (1) | (1) |
| Financial expenses | 33 | 341 | 230 | 685 | 589 |
| Other income related to financial and investment activities | 34 | (105) | (22) | (200) | (30) |
| Profit (loss) due to exchange rate differences under currency revaluation | | 171 | (657) | 78 | 433 |
| Other non-monetary items | | - | 2 | - | (14) |
| Operating profit after adjustment for non-cash transactions | | 3,385 | 2,894 | 7,103 | 5,989 |
| Decrease (increase) in inventory holdings | | (26) | (47) | 50 | (47) |
| Increase (decrease) of trade and other accounts receivable | | 952 | 789 | (213) | (189) |
| Increase (decrease) of liabilities under pension and long-term social obligations | | (39) | 133 | (57) | 141 |
| Decrease in accounts payable and accrued liabilities | | (625) | (395) | (619) | (36) |
| Increase (decrease) of reserves | | 46 | (2) | 42 | (6) |
| Increase of other operating assets and liabilities | | 301 | 331 | 314 | 623 |
| Cash from operating activities | | 3,994 | 3,703 | 6,620 | 6,475 |
| Interest paid | | (298) | (314) | (612) | (690) |
| Profit tax paid | | - | (7) | (193) | (96) |
| Monetary funds from core business | | 3,696 | 3,382 | 5,815 | 5,689 |
| Investment activities | | | | | |
| Acquisition of fixed assets, sites of construction in progress and investment property | | (1,347) | (2,175) | (2,296) | (4,002) |
| Sales of fixed assets, sites of construction in progress and investment property | | 22 | 25 | 28 | 46 |
| Acquisition of intangible assets | | (159) | (113) | (594) | (407) |
| Acquisition of financial assets | | (1,315) | (766) | (1,324) | (768) |
| Sales of financial assets | | 401 | 304 | 736 | 304 |
| Interest received | | 34 | 17 | 51 | 29 |
| Money used in investment activities | | (2,364) | (2,708) | (3,399) | (4,798) |

Open Joint-Stock Company North-West Telecom
Consolidated Interim Cash Flow Report
for the period of 6 months ended on June 30, 2010 (continued)
(in RUR million)

| | Note | For 3 months expired on | | For 6 months expired on | |
|--|------|-------------------------|---------|-------------------------|---------|
| | | 30 th June | | 30 th June | |
| | | 2010 | 2009 | 2010 | 2009 |
| Financial activities | | | | | |
| Attraction of bank credits and loans of organizations | | 5,320 | 1,276 | 6,250 | 2,700 |
| Repayment of bank credits and loans of organizations | | (4,861) | (1,734) | (6,289) | (3,655) |
| Repayment of bonded loans | | (1,600) | (5) | (2,500) | (5) |
| Attraction of acceptance loans | | 1,017 | - | 1,817 | - |
| Repayment of acceptance loans | | (1,017) | (1) | (1,817) | (1) |
| Attraction (repayment) of other long-term liabilities | | 2 | - | (6) | - |
| Repayment of finance lease obligations | | (3) | (7) | (8) | (16) |
| Dividends paid to shareholders of OJSC N.W. Telecom | | (2) | (6) | (11) | (7) |
| Money used in financial activities | | (1,144) | (477) | (2,564) | (984) |
| Effect of currency exchange rate fluctuations on cash and cash equivalents | | (156) | 1 | (245) | 24 |
| Net decreasing of cash and cash equivalents | | 32 | 198 | (393) | (69) |
| Cash and cash equivalents as of the beginning of the period under report | | 150 | 734 | 575 | 1,001 |
| Cash and cash equivalents as of the end of the period under report | | 182 | 932 | 182 | 932 |

Chief Executive Officer V.A. Akulich Chief Accountant M. M. Semchenko
The enclosed notes are the integral part of these consolidated financial statements

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010
(in million roubles)

Consolidated Interim Capital Changes Report
for the period of 6 months ended on June 30, 2010
(in RUR million)

| | Note | OJSC N.W. Telecom shareholders' capital | | | | TOTAL OJSC N.W. Telecom shareholders' capital | Share of non- controlling shareholders | Total capital |
|---|------|---|---------------|--|-----------------|--|--|------------------|
| | | Authorized capital | | Own shares purchased from shareholders | Retained profit | | | |
| | | Preferred shares | Common shares | | | | | |
| Balance as of December 31, 2008 | | 622 | 2,233 | (67) | 26,931 | 29,719 | - | 29,719 |
| | | - | - | - | - | - | - | - |
| Balance as of December 31, 2008 (adjusted) | | 622 | 2,233 | (67) | 26,931 | 29,719 | - | 29,719 |
| Profit for the period | | - | - | - | 1,220 | 1,220 | - | 1,220 |
| Total aggregate income for the period | | - | - | - | 1,220 | 1,220 | - | 1,220 |
| Transactions with shareholders reflected in the capital: | | | | | | | | |
| Dividends to the shareholders of OJSC N.W. Telecom | | - | - | - | (864) | (864) | - | (864) |
| Balance as of June 30, 2009 | | 622 | 2,233 | (67) | 27,287 | 30,075 | - | 30,075 |

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010
(in million roubles)

| | Note | OJSC N.W. Telecom shareholders' capital | | | TOTAL OJSC N.W. Telecom shareholders' capital | Share of non- controlling shareholders | Total capital | |
|---|------|---|--|-----------------|--|--|------------------|--------|
| | | Authorized capital | Own shares purchased from shareholder s | Retained profit | | | | |
| | | Preferre d shares | Commo n shares | | | | | |
| Balance as of December 31, 2009 | | 622 | 2,233 | (67) | 28,658 | 31,446 | 1 | 31,447 |
| Profit for the period | | - | - | - | 2,474 | 2,474 | - | 2,474 |
| Total aggregate income for the period | | - | - | - | 2,474 | 2,474 | - | 2,474 |
| Transactions with shareholders reflected in the capital: | | | | | | | | |
| Dividends to the shareholders of OJSC N.W. Telecom | | - | - | - | (829) | (829) | - | (829) |
| Other capital flow | | - | - | - | - | - | 1 | 1 |
| Balance as of June 30, 2010 | | 622 | 2,233 | (67) | 30,303 | 33,091 | 2 | 33,093 |

Chief Executive Officer V.A. Akulich Chief Accountant M. M. Semchenko
The enclosed notes are the integral part of these consolidated financial statements

Open Joint-Stock Company North-West Telecom
**Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010**
(in million roubles)

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 6 months ended on June 30, 2010 were authorized for issue by the order of the Chief Executive Officer and the Chief Accountant dated September 15, 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 June 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: 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 District 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 12. 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 31st December 2009.

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010
(in million roubles)

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 Profit and Loss 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 30th June 2010 and 31st December 2009 are given in the following Table:

| | 30th June 2010 | 31st December 2009 |
|-------------------|--------------------------------------|--|
| RUR for US Dollar | 31.1954 | 30.2442 |
| RUR for Euro | 38.1863 | 43.3883 |

3. Basic Provisions of the Accounting Policy

Accounting policy applied when the consolidated interim financial statements for the 6 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

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010

(in million roubles)

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.

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 the Northwestern region of the Russian Federation.

The bulk of the financial and investment activities of the entire OJSC N.W. Telecom in the field of attracting, servicing and repaying borrowers' liabilities, finance lease, acquisition of financial assets, creation and subsequent 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.

The “Subsidiaries – Others” aggregated unit includes CJSC AMT and CJSC RPK 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 June 30, 2010 and for 6 months of 2010 | Parent company – wired communication | Subsidiaries – wired communication | Subsidiaries - other | Total for segments |
|---|--------------------------------------|------------------------------------|----------------------|--------------------|
| Receipts from sales | | | | |
| Receipts from sales to third parties | 13,919 | 134 | 17 | 14,070 |
| Receipts from sales between segments | 35 | 9 | 30 | 74 |

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010

(in million roubles)

| | | | | |
|--|----------|-------|-------|----------|
| Total receipts from sales | 13,954 | 143 | 47 | 14,144 |
| Interest income | 256 | 1 | 1 | 258 |
| Interest expenses | (531) | - | (1) | (532) |
| Profit tax | (566) | (5) | 2 | (569) |
| Profit for the period under report | 2,306 | 17 | 45 | 2,368 |
| Assets and liabilities | | | | |
| Assets by activity segments | 55,863 | 201 | 1,225 | 57,289 |
| Including investment in associated companies | 11 | - | - | 11 |
| Liabilities of the segment | (20,610) | (110) | (212) | (20,932) |
| Other segment-related information | | | | |
| Capital costs | | | | |
| Fixed assets | 1,565 | 26 | - | 1,591 |
| Wear and depreciation | 3,221 | 8 | 8 | 3,237 |
| Charging the doubtful debt reserves | (52) | - | - | (52) |

| Aggregated information on operation segments and General Directorate as of June 30, 2009 and for 6 months of 2009 | Parent company – wired communication | Subsidiaries – wired communication | Subsidiaries - other | Total for segments |
|---|--------------------------------------|------------------------------------|----------------------|--------------------|
| Receipts from sales | | | | |
| Receipts from sales to third parties | 12,648 | 374 | 8 | 13,030 |
| Receipts from sales between segments | 142 | 110 | 40 | 291 |
| Total receipts from sales | 12,790 | 484 | 48 | 13,322 |
| Interest income | 6 | 29 | - | 35 |
| Interest expenses | (559) | - | - | (559) |
| Profit tax | (429) | (10) | (2) | (441) |
| Profit (loss) for the period under report | 1,606 | 36 | (12) | 1,630 |
| Assets and liabilities | | | | |
| Assets by activity segments | 53,278 | 1,335 | 1,084 | 55,697 |
| Including investment in associated companies | 11 | - | - | 11 |
| Liabilities of the segment | (21,369) | (180) | (118) | (21,667) |
| Other segment-related information | | | | |
| Capital costs | | | | |
| Fixed assets | 2,600 | 27 | 24 | 2,651 |
| Wear and depreciation | 2,653 | 107 | 8 | 2,768 |
| Restoration of doubtful debt reserve | 47 | - | - | 47 |

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 June 30, | Total segments | Transformation adjustments | Consolidation adjustments | Total consolidated |
|---|----------------|----------------------------|---------------------------|--------------------|
|---|----------------|----------------------------|---------------------------|--------------------|

Open Joint-Stock Company North-West Telecom
Notes to Consolidated Interim Financial Statements
for the Period of 6 Months Ended on June 30, 2010

(in million roubles)

| 2010 and for 6 months of 2010 | for the Group | | | |
|--|---------------|---------|---------|----------|
| Receipts from sales | | | | |
| Receipts from sales to third parties | 14,070 | 18 | - | 14,088 |
| Receipts from sales between segments | 74 | - | (74) | - |
| Total receipts from sales | 14,144 | 18 | (74) | 14,088 |
| Profit from interest in associated companies | - | - | 1 | 1 |
| Interest income | 258 | (12) | - | 246 |
| Interest expenses | (532) | (28) | - | (560) |
| Profit tax | (569) | (90) | - | (659) |
| Profit (loss) for the period under report | 2,368 | 198 | (92) | 2,474 |
| Assets and liabilities | | | | |
| Assets by activity segments | 57,289 | 98 | (1,150) | 56,237 |
| Including investment in associated companies | 11 | 78 | - | 89 |
| Liabilities of the segment | (20,932) | (2,375) | 163 | (23,144) |
| Other segment-related information | | | | |
| Capital costs | | | | |
| Fixed assets | 1,591 | 213 | - | 1,804 |
| Intangible assets | - | 469 | - | 469 |
| Wear and depreciation | 3,237 | 110 | - | 3,347 |
| Charging the doubtful debt reserves | (52) | (34) | - | (86) |

| Reconciliation of data by segments and consolidated data as of June 30, 2009 and for 6 months of 2009 | Total segments | Transformation adjustments | Consolidation adjustments | Total consolidated for the Group |
|---|----------------|----------------------------|---------------------------|----------------------------------|
| Receipts from sales | | | | |
| Receipts from sales to third parties | 13,030 | 5 | - | 13,035 |
| Receipts from sales between segments | 292 | - | (291) | 1 |
| Total receipts from sales | 13,322 | 5 | (291) | 13,036 |
| Profit from interest in associated companies | - | - | 1 | 1 |
| Interest income | 35 | (5) | - | 30 |
| Interest expenses | (559) | (16) | - | (575) |
| Profit tax | (441) | 58 | - | (383) |
| Profit (loss) for the period under report | 1,642 | (391) | (21) | 1,218 |
| Assets and liabilities | | | | |
| Assets by activity segments | 55,511 | 1,157 | (2,721) | 54,133 |
| Including investment in associated companies | 11 | - | 74 | 85 |
| Liabilities of the segment | (21,667) | (2,478) | 86 | (24,059) |
| Other segment-related information | | | | |
| Capital costs | | | | |
| Fixed assets | 2,651 | 117 | - | 2,768 |
| Intangible assets | - | 238 | - | 238 |
| Wear and depreciation | 2,768 | 598 | - | 3,366 |

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

| | | | | |
|--------------------------------------|----|----|---|----|
| Restoration of doubtful debt reserve | 47 | 16 | - | 63 |
|--------------------------------------|----|----|---|----|

As of 30th June 2010 and for 6 months ended in 2010, the basic figures of the essential operation segments and the General Directorate amounted to:

| 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 | 1,234 | 52 | 3,375 | (206) | 98 | 221 |
| Vologda Branch | 1,164 | (41) | 4,695 | (220) | 200 | 309 |
| Kaliningrad Branch | 779 | 81 | 2,538 | (133) | 83 | 160 |
| Karelia Branch | 653 | (59) | 2,220 | (135) | 56 | 138 |
| Komi Branch | 1,410 | 293 | 3,348 | (225) | 69 | 218 |
| Leningrad Oblast Branch | 1,114 | (236) | 4,123 | (304) | 101 | 282 |
| Murmansk Branch | 1,097 | 110 | 2,473 | (201) | 128 | 205 |
| Novgorod Branch | 540 | (179) | 2,156 | (121) | 98 | 171 |
| Petersburg Branch | 5,519 | 1,805 | 16,383 | (544) | 261 | 1,138 |
| Pskov Branch | 442 | (247) | 2,490 | (95) | 30 | 214 |
| General Directorate | 1 | 728 | 12,063 | (18,427) | 440 | 165 |
| Subsidiaries – wired communication | | | | | | |
| Kolatelecom OJSC | 35 | - | 51 | (57) | 4 | 3 |
| Novgorod Datacom CJSC | 80 | 16 | 120 | (35) | 20 | 4 |
| CJSC Parma-Inform | 29 | - | 30 | (17) | 3 | 1 |
| Other | 47 | 45 | 1,224 | (212) | - | 8 |
| Total | 14,144 | 2,368 | 57,289 | (20,932) | 1,591 | 3,237 |

| 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 | 1,124 | 9 | 3,519 | (287) | 353 | 217 |
| Vologda Branch | 1,010 | (78) | 4,951 | (217) | 216 | 292 |
| Kaliningrad Branch | 693 | 22 | 2,565 | (155) | 161 | 143 |
| Karelia Branch | 588 | (65) | 2,390 | (130) | 130 | 128 |
| Komi Branch | 1,299 | 293 | 3,508 | (251) | 281 | 194 |
| Leningrad Oblast Branch | 1,039 | (84) | 4,335 | (372) | 178 | 258 |
| Murmansk Branch | 979 | 65 | 2,592 | (211) | 184 | 184 |
| Novgorod Branch | 490 | (147) | 2,336 | (118) | 113 | 169 |
| Petersburg Branch | 5,171 | 2,265 | 14,161 | (663) | 131 | 717 |
| Pskov Branch | 396 | (271) | 2,892 | (160) | 89 | 217 |
| General Directorate | 1 | (404) | 10,029 | (18,804) | 763 | 135 |
| Subsidiaries – wired communication | | | | | | |

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

| | | | | | | |
|--------------------------------|---------------|--------------|---------------|-----------------|--------------|--------------|
| Kolatelecom OJSC | 38 | (1) | 56 | (63) | 3 | 8 |
| Novgorod Datacom CJSC | 75 | 23 | 83 | (16) | 10 | 2 |
| CJSC Parma-Inform | 30 | 6 | 31 | (15) | 1 | 1 |
| CJSC Peterburg Transit Telecom | 341 | 14 | 1,165 | (86) | 14 | 95 |
| Other | 48 | (12) | 1,084 | (118) | 24 | 8 |
| Total | 13,322 | 1,635 | 55,691 | (21,666) | 2,650 | 2,769 |

6. Subsidiaries

Subsidiaries controlled by OJSC N.W. Telecom are:

| Name | Area of activities | Share in the authorized capital and other interest, % | |
|-----------------------|-----------------------------|---|-------------------|
| | | June 30, 2010 | December 31, 2009 |
| CJSC Novgorod Datacom | Communication services | 100.00 | 100.00 |
| CJSC AMT | Consulting services | 100.00 | 100.00 |
| OJSC Kolatelecom | Communication services | 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 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 June 30, 2010 the N.W. Telecom Group recorded assets intended for sale in the amount of 13 (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 30th June 2010.

8. Fixed Assets

| | Land plots, buildings and | Switches and transmission devices | Transport facilities and other fixed assets | Capital investment in fixed assets | Total |
|--|---------------------------|-----------------------------------|---|------------------------------------|-------|
| | | | | | |

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

| | facilities | | | | |
|---------------------------------------|------------|--------|-------|---------|--------|
| Initial value as of December 31, 2008 | 26,750 | 29,058 | 5,079 | 2,333 | 63,220 |
| Additions | - | - | - | 2,767 | 2,767 |
| Commissioned | 936 | 1,201 | 370 | (2,507) | - |
| Withdrawal | (25) | (83) | (75) | -- | (183) |
| as of June 30, 2009 | 27,661 | 30,176 | 5,374 | 2,593 | 65,804 |
| as of December 31, 2009 | 29,161 | 31,000 | 6,223 | 1,376 | 67,760 |
| Additions | - | - | - | 1,804 | 1,804 |
| Commissioned | 361 | 632 | 256 | (1,249) | - |
| Withdrawal | (43) | (126) | (221) | (8) | (398) |
| as of June 30, 2010 | 29,479 | 31,506 | 6,258 | 1,923 | 69,166 |

| | 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) | (3,201) | - | (20,013) |
| Accumulated wear charged for the period | (800) | (1,858) | (483) | - | (3,141) |
| Wear of withdrawn items | 18 | 73 | 73 | - | 164 |
| as of June 30, 2009 | (7,733) | (11,646) | (3,611) | - | (22,990) |
| as of December 31, 2009 | (8,495) | (13,116) | (4,336) | (26) | (25,973) |
| Accumulated wear charged for the period | (866) | (1,818) | (428) | - | (3,112) |
| Wear of withdrawn items | 29 | 112 | 218 | 4 | 363 |
| as of June 30, 2010 | (9,332) | (14,822) | (4,546) | (22) | (28,722) |
| Residual value as of 31 st December 2008 | 19,799 | 19,197 | 1,878 | 2,333 | 43,207 |
| Residual value as of 31 st December 2009 | 19,928 | 18,530 | 1,763 | 2,593 | 42,814 |
| Residual value as of 31 st December 2009 | 20,666 | 17,884 | 1,887 | 1,350 | 41,787 |
| Residual value as of 31 st December 2010 | 20,147 | 16,684 | 1,712 | 1,901 | 40,444 |

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

| | June 30, 2010 | December 31, 2009 |
|---|---------------|-------------------|
| Transport facilities and other fixed assets | 34 | 38 |
| Total fixed assets received under the contracts of finance leasing, balance value | 34 | 38 |

As of June 30, 2010 the initial value of the fully depreciated fixed assets was 7,043 (against 5,935 as of December 31, 2009).

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Receipt of fixed assets acquired under the terms of commercial loan and under the contracts of financial leasing for the 6 months of 2010 was 0 (against 45 for the 6 months of 2009).

During 6 months of 2010 N.W. Telecom Group increased the amount of construction in progress by 20 of capitalized interest (against 85 during 6 months of 2009). Capitalization rate for the 6 months of 2010 was 7.00% (7.00% for the 6 months of 2009).

As of June 30, 2010 book value of the N.W. Telecom Group's fixed assets securing the credit risks and contracts of loan made 2,171 (against 2,892 as of December 31, 2009).

Impairment of Fixed Assets

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

As of 31st March 2010, no impairment of other categories of fixed assets was revealed.

9. Intangible Assets

| | Goodwill | License | Software | Subscribe | Other | Total |
|---------------------------------------|----------|---------|----------|-----------|-------|-------|
| | s | | | | | |
| | r base | | | | | |
| Initial value as of December 31, 2008 | 958 | 31 | 4,826 | 248 | 225 | 6,288 |
| Acquisition of assets | - | 14 | 224 | - | - | 238 |
| Withdrawal | - | (6) | (21) | - | - | (27) |
| as of June 30, 2009 | 958 | 39 | 5,029 | 248 | 225 | 6,499 |
| as of December 31, 2009 | 958 | 174 | 5,022 | 249 | 231 | 6,634 |
| Acquisition of assets | - | 15 | 453 | - | 1 | 469 |
| Withdrawal | - | (1) | (54) | - | - | (55) |
| as of June 30, 2010 | 958 | 188 | 5,421 | 249 | 232 | 7,048 |

| | Goodwill | License | Software | Subscribe | Other | Total |
|---|----------|---------|----------|-----------|-------|---------|
| | s | | | | | |
| | r base | | | | | |
| Accumulated depreciation and impairment as of December 31, 2008 | (16) | (18) | (916) | (12) | (119) | (1,081) |
| Depreciation accrued for the period | - | (3) | (218) | (1) | (3) | (225) |
| Depreciation of withdrawn items | - | 6 | 17 | - | - | 23 |
| as of June 30, 2009 | (16) | (15) | (1,118) | (13) | (121) | (1,283) |
| as of December 31, 2009 | (16) | (20) | (1,120) | (13) | (139) | (1,308) |
| Depreciation accrued for the period | - | (2) | (208) | - | (20) | (230) |
| Depreciation of withdrawn items | - | 1 | 52 | - | - | 53 |
| as of June 30, 2010 | (16) | (21) | (1,276) | (13) | (159) | (1,485) |
| Residual value as of 31 st | 942 | 13 | 3,910 | 236 | 106 | 5,207 |

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(in million roubles)

| | | | | | | |
|--|-----|-----|-------|-----|-----|-------|
| December 2008 | | | | | | |
| Residual value as of 31 st December 2009 | 942 | 24 | 3,911 | 235 | 104 | 5,216 |
| Residual value as of 31 st December 2009 | 942 | 154 | 3,902 | 236 | 92 | 5,326 |
| Residual value as of 31 st December 2010 | 942 | 167 | 4,145 | 236 | 73 | 5,563 |

Oracle E-Business Suite Software

As of June 30, 2010 software included Oracle E-Business Suite package with the book value of 843 (against 886 as of December 31, 2009).

Information on the changes of the book value of the Oracle E-Business Suite software product for 6 months of 2010 and 2009 is given below:

| | For 6 months of 2010 | For 6 months of 2009 |
|----------------------------------|-------------------------|----------------------------|
| As of January 1 | 886 | 984 |
| Implementation expenses incurred | 21 | 8 |
| Depreciation charged | (64) | (51) |
| As of June 30 | 843 | 941 |

Amdocs Billing Suite Software

As of June 30, 2010 software included Amdocs Billing Suite package with the book value of 950 (against 942 as of December 31, 2009).

For the 6 months of 2010 the amount of capitalized interest costs related to implementation of Amdocs Billing Suite package was 5 (5 for the 6 months of 2009). Capitalization rate was 3% (against 4.5% for the 6 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 June 30, 2010 the cost of the HP Open View IUM unified pre-billing software is included in the software, and its book value is 260 (against 240 as of December 31, 2009).

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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.

N.W. Telecom Group will amortize this asset starting from its commissioning, in proportion to the cost of the implemented modules during their useful life period which will be determined by the moment of operation start. Until then the management will periodically test this software for impairment.

Communication Network Service Support System (CNSSS)

As of June 30, 2010 software included communication network service support system (CNSSS) with the book value of 1,473 (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 and is expected to take 3 or 4 years. 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. Until then the management will periodically test this software for impairment.

Information Service Support System software (ISSS)

As of 30th June 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 will be placed in the spaces of the St. Petersburg branch.

In the 4th quarter 2009 and in the 1st six months, 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, Arkhangelsk, Vologda, Karelia and Komi branches to ISSS.

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

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

As of 30th June 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:

- subscriber 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.

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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 30th June 2010 of intangible assets that are not ready for use and intangible assets with an indefinite useful life. As a result of the analysis, no impairment of the intangible assets was revealed.

10. Other Long-term Assets

| | June 30, 2010 | December 31, 2009 |
|--|------------------|----------------------|
| Advances issued under investment operation | 1,120 | 685 |
| Long-term advances issued under core operation | 30 | 30 |
| Total | 1,150 | 715 |

11. Investment Property

As of June 30, 2010 the book value of investment property items is 91 and the fair value is 765 (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

| Name | Area of activities | June 30, 2010 | | |
|-----------------------|------------------------|---|---|------------|
| | | 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 |

| Name | Area of activities | December 31, 2009 | | |
|------|--------------------|---|---|------------|
| | | Share in the authorized capital and other interest, % | Share of voting stock and other interest, % | Book value |
| | | | | |

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(in million roubles)

| | | interest, % | | |
|-----------------------|------------------------|-------------|-------|----|
| 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.

Changes of the book value of the investment in associated companies for the 6 months of 2010 and 2009 are given below:

| | 2010 | 2009 |
|---|------|------|
| Investments in associated companies as of January 1 | 88 | 84 |
| Profit from interest in associated companies | 1 | 1 |
| Investments in associated companies as of June 30 | 89 | 85 |

Presented below is aggregated information on associates:

| Associate company name | Share in the authorized capital and other interest, % | Assets | Liabilities | Receipts from sales | Profit for the period under report |
|---|---|--------|-------------|---------------------|------------------------------------|
| As of June 30, 2010 and for 6 months ended on June 30, 2010 | | | | | |
| CJSC WestBalt Telecom | 28 | 357 | 39 | 120 | 2 |
| As of December 31, 2009 and for 6 months ended on June 30, 2009 | | | | | |
| CJSC WestBalt Telecom | 28 | 354 | 38 | 138 | 3 |

13. Finance Assets

| | June 30, 2010 | December 31, 2009 |
|--|---------------|-------------------|
| Long-term finance assets available-for-sale | 1,336 | 21 |
| Long-term investments, held-to-maturity | - | 3,161 |
| Long-term loans issued | 13 | 18 |
| Total long-term finance assets | 1,349 | 3,200 |
| Short-term finance assets available-for-sale | 1 | - |
| Short-term investments, held-to-maturity | 3,389 | 743 |
| Short-term loans issued | 11 | 13 |
| Total short-term finance assets | 3,401 | 756 |
| Total finance assets | 4,750 | 3,956 |

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

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| | June 30, 2010 | | 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 |
| OJSC JSCB Svyaz-Bank | 0.01 | - | 0.01 | - |
| CUIF Gazprombank – Telecommunications under the control of CJSC Gazprombank – Assets Management | 13.15 | 1,315 | 0.00 | - |
| Other | | 8 | | 8 |
| Total | | 1,336 | | 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.

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 June 30, 2010 the above bills receivable made 3,380 (against 3,161 as of December 31, 2009) including accrued interest in the amount of 380 (against 161 as of December 31, 2009).

In September and December 2009 the Company acquired the following short-term discounted bills of CJSC IK REGION. On 21st June 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 11th January 2010 OJSC AKB 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.

On 24th February 2010 CJSC AMT, a subsidiary of the Company, placed in OJSC Moscow Industrial Bank deposits denominated in Russian roubles worth of 9 with the repayment period of 6 months and the interest rate of 11.25 % per annum.

As of 30th June 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 June 30, 2010 and as of December 31, 2009.

14. Inventory Holdings

| | June 30, 2010 | December 31, 2009 |
|--|---------------|-------------------|
| | | |

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(in million roubles)

| | | |
|--|------------|------------|
| Spare parts | 151 | 219 |
| Cable | 109 | 99 |
| Finished products and goods for resale | 23 | 18 |
| Economic implements | 20 | 15 |
| Construction materials | 14 | 8 |
| Fuel | 9 | 15 |
| Other stock | 55 | 57 |
| Total | 381 | 431 |

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

15. Trade and Other Accounts Receivable

| | Total, June 30, 2010 | Doubtful debt reserve | Net, June 30, 2010 |
|--|-------------------------|--------------------------|-----------------------|
| Settlements with buyers in respect of core activities | 1,720 | (220) | 1,500 |
| Settlements with buyers in secondary areas of activity | 329 | (113) | 216 |
| Settlements with personnel | 20 | - | 20 |
| Settlements with other debtors | 1,318 | (5) | 1,313 |
| Total | 3,387 | (338) | 3,049 |

| | 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 June 30, 2010 and as of December 31, 2009 consist of the settlements with the following partners:

| | Total, June 30, 2010 | Doubtful debt reserve | Net, June 30, 2010 |
|-------------------------|-------------------------|--------------------------|-----------------------|
| Individuals | 763 | (120) | 643 |
| Corporate customers | 387 | (63) | 324 |
| Budgetary organizations | 164 | (11) | 153 |
| Communication operators | 406 | (26) | 380 |

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(in million roubles)

| | | | |
|---|-------|-------|-------|
| Total settlements with buyers in respect of core activities | 1,720 | (220) | 1,500 |
|---|-------|-------|-------|

| | 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 June 30, 2010 and as of December 31, 2009 reported within settlements with other debtors made 1,247 and 1,325, respectively.

As of June 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%).

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

| | 2010 | 2009 |
|-------------------------------------|-------|-------|
| Balance as of January 1 | (265) | (239) |
| Charging the reserve | (86) | (63) |
| Writing off the accounts receivable | 13 | 9 |
| Balance as of June 30 | (338) | (293) |

16. Other Current Assets

| | Total, June 30, 2010 | Reserve | Net, June 30, 2010 |
|----------------------------------|-------------------------|---------|-----------------------|
| Prepayments and advance payments | 189 | (1) | 188 |
| Deferred expenses | 65 | - | 65 |
| VAT recoverable | 26 | - | 26 |
| Other prepaid taxes | 19 | - | 19 |
| Other current assets | 15 | (1) | 14 |
| Total | 314 | (2) | 312 |

| | Total, December 31, 2009 | Reserve | Net, December 31, 2009 |
|----------------------------------|--------------------------------|---------|---------------------------|
| Prepayments and advance payments | 127 | - | 127 |
| VAT recoverable | 72 | - | 72 |
| Deferred expenses | 33 | - | 33 |

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(in million roubles)

| | | | |
|----------------------|------------|----------|------------|
| Other prepaid taxes | 22 | - | 22 |
| Other current assets | 16 | - | 16 |
| Total | 270 | - | 270 |

Other current assets as of June 30, 2010 include claim settlements in the amount of 14 (against 16 as of December 31, 2009) reported within the line "Other finance assets" in Note 27.

17. Cash and Cash Equivalents

| | June 30, 2010 | December 31, 2009 |
|--|------------------|----------------------|
| Cash at bank and on hand | 155 | 546 |
| Short-term deposits and notes with original maturities of three months or less | 27 | 28 |
| Total | 182 | 574 |

As of June 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 8.90% to 10.25%.

18. Essential Non-cash Transactions

During the 1st six months of 2010 the Company had no essential non-cash transactions. In the 1st six 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 June 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 | 881,045 | 1 | 881 | 2,233 |
| Preferred | 250,369 | 1 | 250 | 622 |
| Total | 1,131,414 | | 1,131 | 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 June 30, 2010 is presented below:

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| Shareholders | Share in the Issuer's authorized capital. % | Common shares | | Preferred | |
|---|---|----------------|------------|----------------------|------------|
| | | (thosand pcs) | % | Number (thosand pcs) | % |
| Legal entities, total | 89.55 | 841,857 | 95.55 | 171,329 | 68.43 |
| OJSC Svyazinvest | 39.53 | 447,231 | 50.76 | - | |
| Parties holding over 5 % of authorized capital including: | 44.28 | 340,549 | 38.65 | 160,431 | 64.08 |
| NP National Depositary Centre | 21.82 | 144,224 | 16.37 | 102,698 | 41.02 |
| CJSC Depositary Clearing Company | 10.75 | 86,510 | 9.82 | 35,067 | 14.01 |
| CJSC UBS Nominees | 11.71 | 109,815 | 12.46 | 22,666 | 9.05 |
| Other parties | 5.74 | 54,077 | 6.14 | 10 898 | 4.35 |
| Individuals, total | 10.45 | 39,188 | 4.45 | 79,040 | 31.57 |
| Total | 100 | 881,045 | 100 | 250,369 | 100 |

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.

The amount paid as dividend on each type A preferred share is 10% of the Company's net profit divided into the number of the shares corresponding to 25% of the authorized capital, the net profit to be determined according to the results of the latest fiscal year. If the total amount of dividend paid by the Company on each common share in a certain year exceeds the amount to be paid as dividend on each preferred type A share, then the amount of dividend paid on preferred type A shares must be increased to the amount of dividend paid on common shares. The owners of type A preferred shares are entitled to participate in the general meeting of the shareholders with the right of vote on all issues of the agenda of the meeting in the case when the meeting of shareholders, irrespective of the reasons, did not take a decision on dividend payment or took a decision on incomplete payment of the dividend under A type preferred shares. The owners of type A preferred shares will acquire this right starting from the meeting next to the annual general meeting of shareholders that did not pass a resolution on payment of the dividend, and shall lose this right from the moment of the first payment of dividend on such shares in full.

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, 2,612,295 ADRs were issued under 26,122,950 deposited shares, which made 2.96 % of all issued common shares.

The following table shows the flow of registered ADRs during 6 months of 2010 and in 2009.

| | ADRs (number) | Equivalent number of common shares | Common stock, % | Authorized capital, % |
|-------------------------------|---------------|------------------------------------|-----------------|-----------------------|
| December 31, 2008 | 3,657,670 | 36,577,000 | 4.15 | 3.23 |
| Decrease for 6 months of 2009 | (227,990) | (2,280,000) | -0.26 | -0.20 |

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(in million roubles)

| | | | | |
|-------------------------------|-----------|-------------|-------|-------|
| June 30, 2009 | 3,429,680 | 34,297,000 | 3.89 | 3.03 |
| December 31, 2009 | 2,812,420 | 28,124,200 | 3.19 | 2.49 |
| Decrease for 6 months of 2010 | (200,125) | (2,001,250) | -0.23 | -0.19 |
| June 30, 2010 | 2,612,295 | 26,122,950 | 2.96 | 2.30 |

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

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

Information on changes of the number and book value of own common and preferred shares redeemed from the shareholders for the 6 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 | 28 | 3,225 | 39 |
| June 30, 2009 | 3,005 | 28 | 3,225 | 39 |
| December 31, 2009 | 3,005 | 28 | 3,225 | 39 |
| June 30, 2010 | 3,005 | 28 | 3,225 | 39 |

20. Loan Liabilities

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| Long-term loan liabilities | | |
| Bank credits and loans of organizations | 6,130 | 6,075 |
| Bonded loans | 7,988 | 10,484 |
| Note loans | 1 | 2 |
| Liabilities under financial lease | 24 | 32 |
| Debt in respect of interest | 11 | 10 |
| Other long-term loan liabilities | 23 | 23 |
| Less share of the long-term loan liabilities to be repaid within the year | (5,970) | (8,518) |
| Total long-term loan liabilities | 8,207 | 8,108 |
| Short-term loan liabilities | | |
| Debt in respect of interest | 120 | 147 |
| Other short-term loan liabilities | 199 | 394 |
| Total short-term loan liabilities | 319 | 541 |
| Share of long-term loan liabilities to be repaid within the year | 5,971 | 8,517 |
| Total current loan liabilities | 6,290 | 9,058 |
| Total loan liabilities | 14,497 | 17,166 |

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As of June 30, 2010 and as of December 31, 2009 the loan liabilities of N.W. Telecom Group were collateralized with fixed assets with the total book value of 2,171 and 1,990, respectively.

Credit Lines

Revolving lines of credit granted to the Company in 2009 and during 6 months of 2010:

| Name of bank | OJSC JSCB North-West Bank of the Savings Bank of Russia | | | OJSC AKB Svyaz-Bank |
|--|---|---|---|--|
| Date of making up contract | 14.01.2009 | 27.01.2009 | 09.02.2009 | 25.01.2010 |
| Expiry date of contract | 13.07.2010 | 26.07.2010 | 06.08.2010 | 24.01.2013 |
| No. of contract | 0103-100409 | 0103-101109 | 0103-101709 | 002/2010 |
| Credit line limit | 380 | 385 | 390 | 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 9.7% to 10.45%* |
| Collateral | pledge of telecommunication equipment | pledge of telecommunication equipment | pledge of telecommunication equipment | Without a security |
| Spent during 6 months of 2010 | 0 | 0 | 0 | 3,750 |
| Retired during 6 months of 2010 | 0 | 0 | 0 | 3,250 |
| Amount of interest accrued during 6 months of 2010 | 0 | 0 | 0 | 7.07 |
| Debt as of 30.06.2010 | 0 | 0 | 0 | 500 |
| Amount of unused balance as of 30.06.2010 | 380 | 385 | 390 | 500 |
| Limitations | monthly receipt of proceeds to bank account: at least 1,100 | monthly receipt of proceeds to bank account: at least 1,100 | monthly receipt of proceeds to bank account: at least 1,100 | monthly receipt of proceeds to North-West Bank of the Savings Bank of Russia account: at least 1,100 |

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

| Name of bank | OJSC JSB Russia | OJSC Alfa Bank | OJSC TransCreditBank |
|----------------------------|--|--|--|
| 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 0201LZ/D000 |
| 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 |

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(in million roubles)

| | | | |
|--|-------|----------------------------|-------|
| Spent during 6 months of 2010 | 1,000 | 500 | 1,100 |
| Retired during 6 months of 2010 | 900 | 500 | 100 |
| Amount of interest accrued during 6 months of 2010 | 2.69 | Less than 1 million | 7.88 |
| Debt as of 30.06.2010 | 100 | 0 | 1,000 |
| Amount of unused balance as of 30.06.2010 | 900 | 1,000 | 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 |
|--------------------|---|---|---|

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

Long-term Loan Liabilities

Bank Credits and Loans of Organizations

Presented below is aggregated information on the most significant long-term bank credits and loans of organizations as of June 30, 2010:

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| Partner | Interest rate under the contract | June 30, 2010 | | | December 31, 2009 | | | Currency of contract | Repayment date | Availability and type of security |
|---|---|-------------------|--------------------|------------------|-------------------|--------------------|------------------|----------------------|--|---------------------------------------|
| | | 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) | 3.1123-3.11016 | 1,021 | 2,106 | 15 | 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: 1.7600-1.55531 | 594 | 702 | 4 | 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 AKB Svyaz-Bank | 7.65 – 8.3 | - | 500 | - | - | - | - | RUR | January 2013 | Without a security |
| RF Ministry of Finance | 3 | 52 | 43 | 7 | 57 | 47 | 11 | Euro | December 2011 | Pledge of telecommunication equipment |
| Savings Bank of Russia | 10.75 | - | - | - | - | - | - | RUR | July, August 2010 | Pledge of telecommunication equipment |
| OJSC TransCreditBank | 7.885-8.715 | 1,000 | - | - | - | - | - | RUR | December 2012 | Without a security |
| OJSC JSB Russia | 7.933-8.768 | 100 | - | - | - | - | - | RUR | December 2011 | Without a security |
| OJSC Alfa Bank | 7.933-8.768 | - | - | - | - | - | - | RUR | May 2013 | Without a security |
| CJSC St. Petersburg Payphones | 12 | 13 | - | - | 13 | - | - | RUR | December 2011 | Without a security |
| Total | | 2,780 | 3,351 | | 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 June 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 June 30, 2010 and December 31, 2009:

| Loan ID (name, No.) | Effective rate | June 30, 2010 | | | December 31, 2009 | | | Repayment date | Repayment procedure |
|-----------------------------------|-----------------|-------------------|--------------------|------------------|-------------------|--------------------|------------------|----------------|---|
| | | 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 | - | 2,100 | 17 | 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% |
| 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% |
| 4-05-00119-A (series 05 Bonds) | 6.49% per annum | 1,397 | - | 9 | - | 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% |
| 4-06-00119-A (series 06 Bonds) | 11.7% per annum | 2,993 | - | 54 | 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% - 25.07.2018 30% - 24.07.2019 40% |
| Total | | 5,389 | 2,599 | | 5,189 | 5,295 | | | |

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

For the 6 months of 2010 the Company fully fulfilled the obligation of coupon yield payment under the 13th and 14th coupons at the rate of 8.1% per annum in the amount of 30. The amount of the coupon yield charged per bond under the 13th and 14th coupons was 15.15 roubles per 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 6 months of 2010 the Company fully fulfilled the obligation of coupon yield payment under the 7th and 8th coupons at the rate of 9.65% and 7.78% per annum respectively in the total amounts of 72 and 58. The amount of the coupon yield charged per bond under the 7th and 8th coupons was 24.06 roubles and 19.40 roubles 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.

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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.

During 6 months of 2010 the Company fully executed its liability to pay coupon yield for coupons 2 and 3 established as 11.7% per annum in the amount of 87 each. The amount of the coupon yield charged per bond under the 2nd and 3rd coupons was 29.17 roubles.

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 30th June 2010 and as of 31st December 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 20th July 2011.

Liabilities under Financial Lease

| | June 30, 2010 | | 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 | 16 |
| Over 1 year and up to 5 years | 10 | 9 | 18 | 16 |
| Total | 28 | 24 | 38 | 32 |

As of 30th June 2010 and as of 31st December 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 30th June 2010 amounted to 28, including the principal debt (24) and the interest payable (4) (38, 32 and 6 respectively as of 31st December 2009).

21. Pension and Long-term Social Liabilities

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

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 30th June 2010, N.W.Telecom Group had 13,181 participants of the pension plan with fixed contributions (12,845 as of 31st December 2009).

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For the 6 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 117 (147 for the 6 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 June 30, 2010 the N.W. Telecom Group had 12,425 working participants of the pension plan with fixed pays and 17,247 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

| | June 30, 2010 | December 31, 2009 |
|-----------------------------|------------------|----------------------|
| Deferred income | 273 | 285 |
| Long-term advances received | 42 | 48 |
| Total | 315 | 333 |

23. Reserves

| | Employees number optimization programme | Total |
|---------------------------------|--|-------|
| Balance as of December 31, 2008 | 7 | 7 |
| Used | (6) | (6) |

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| | | |
|---------------------------------|-----|-----|
| Balance as of June 30, 2009 | 1 | 1 |
| Balance as of December 31, 2009 | 6 | 6 |
| Charged | 48 | 48 |
| Used | (6) | (6) |
| Balance as of June 30, 2010 | 48 | 48 |

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 June 30, 2010. The amount of expenses to form the reserve made 48 for 6 months of 2010 and is included in line "Personnel-related expenses" (against 0 for 6 months of 2009).

For the 1st 6 months of 2010 the Company made redundant 470 positions in the manning table. 966 employees were notified of forthcoming staff reduction as of 30th June 2010. Expenses related to making the personnel of the Company redundant for the 6 months of 2010 amounted to 82. As to other positions in the manning table to be made redundant after 30th June 2010, N.W.Telecom Group cannot estimate the forthcoming payments with sufficient grounds.

24. Accounts Payable and Charged Liabilities

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| Settlements in respect of taxes, fees and social insurance fees | 990 | 877 |
| Settlements in respect of dividends | 907 | 66 |
| Settlements with personnel | 608 | 885 |
| Settlements with suppliers and contractors in respect of acquisition and construction of fixed assets | 536 | 349 |
| Settlements with suppliers and contractors in respect of current activities | 371 | 770 |
| Settlements with brokers and principals | 330 | 384 |
| Settlements with communication operators | 201 | 193 |
| Settlements with suppliers and contractors in respect of acquisition of software | 12 | 54 |
| Settlements with other creditors | 265 | 275 |
| Total | 4,220 | 3,853 |

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

| | June 30, 2010 | December 31, 2009 |
|------------------------------|------------------|----------------------|
| Value added tax | 529 | 362 |
| Property tax | 212 | 208 |
| Social insurance fees | 182 | 238 |
| Tax on income of individuals | 62 | 64 |
| Other taxes | 5 | 5 |

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(in million roubles)

| | | |
|-------|-----|-----|
| Total | 990 | 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.

Accounts payable and charged liabilities as of June 30, 2010 include non-financial indebtedness in the amount of 2,311 (against 910 as of December 31, 2009).

25. Other Current Liabilities

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| Deferred income | 25 | 11 |
| Advances received under core operation | 339 | 407 |
| Advances received under secondary areas of activity | 38 | 25 |
| Total | 402 | 443 |

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.

Taxation

As of June 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 6 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 took effect. The appeal of OJSC N.W.Telecom as to recognizing as illegal the decision and order of the FAS of Russia will be 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

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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 KN No.7 having been left without satisfaction (the Operative Part of the Resolution was announced on 17.05.2010).

At the moment the Federal Court of Arbitration of the Moscow District (cassation instance) is considering the appeal of the Interdistrict Inspectorate of the Federal Tax Service of Russia for KN No.7 in re Case No. A40-122662/09-108-929. The court sitting was appointed for 27.09.10.

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 operations 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 trade accounts receivable and payable that arise directly in the course of its operating activities.

Policy in the Field of Capital Management

The main goals of N.W.Telecom Group's capital management policy are 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.

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(in million roubles)

As of 30th June 2010 and 31st December 2009 the values of the indicators used in capital management amounted to:

| | June 30, 2010 | December 31, 2009 |
|------------------------------|----------------------|------------------------------|
| Financial independence ratio | 0.63 | 0.60 |
| Net debt / equity capital | 0.31 | 0.49 |
| Net debt / EBITDA | 0.92 | 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-", "Stable" forecast. The national rating of the Company was confirmed at the previous level of "ru AA-". Today these are the highest ratings with the "Stable" forecast among the companies of OJSC Svyazinvest.

In March 2010 the Standard&Poor's 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)".

Open Joint-Stock Company North-West Telecom
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Income and Expenses on Financial Instruments

| For 6 months ended on June 30, 2010 | Aggregate Income Report | | | | | Total | |
|---|--|--|-----------------------|---|--|--------------|--------------|
| | Other operating income | Other operating expenses | Financial expenses | Other income and expenses related to financial and investment activities | Profit / loss due to exchange rate difference s | | |
| | Restoration of doubtful debt reserve | Creation of doubtful debt reserves | Interest expenses | Interest income | Other | | |
| Cash and cash equivalents | - | - | - | 3 | - | 244 | 247 |
| Accounts receivable | - | (86) | - | - | - | - | (86) |
| Promissory notes and deposits | - | - | - | 243 | - | 1 | 244 |
| Total finance assets | - | (86) | - | 246 | - | 245 | 405 |
| Bank credits and loans of organizations | - | - | (209) | - | - | (566) | (775) |
| Bonded loans | - | - | (350) | - | - | - | (350) |
| Derivative financial instruments | - | - | - | (48) | - | 243 | 195 |
| Liabilities under financial lease | - | - | (3) | - | - | - | (3) |
| Total finance liabilities | - | - | (562) | (48) | - | (323) | (933) |

| For 6 months ended on June 30, 2009 | Aggregate Income Report | | | | | Total | |
|---|--|--|-----------------------|---|--|-----------|------------|
| | Other operating income | Other operating expenses | Financial expenses | Other income and expenses related to financial and investment activities | Profit / loss due to exchange rate difference s | | |
| | Restoration of doubtful debt reserve | Creation of doubtful debt reserves | Interest expenses | Interest income | Other | | |
| Cash and cash equivalents | - | - | - | 29 | - | 24 | 53 |
| Accounts receivable | (63) | - | - | - | - | - | (63) |
| Promissory notes and deposits | - | - | - | 1 | - | - | 1 |
| Total finance assets | (63) | - | - | 30 | - | 24 | (9) |
| Bank credits and loans of organizations | - | - | (343) | - | 1 | (477) | (819) |
| Bonded loans | - | - | (232) | - | - | - | (232) |
| Liabilities under financial lease | - | - | (5) | - | - | - | (5) |

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| | | | | | | | |
|---------------------------|---|---|-------|---|----|-------|---------|
| Accounts payable | - | - | - | - | 13 | (5) | 8 |
| Total finance liabilities | - | - | (580) | - | 14 | (482) | (1 048) |

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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:

| June 30, 2010 | RUR | USD | Euros | Total |
|---|-----------------|----------------|--------------|-----------------|
| Cash and cash equivalents | 182 | - | - | 182 |
| Accounts receivable | 3,054 | - | - | 3,054 |
| Finance assets available-for-sale | 1,336 | - | - | 1,336 |
| Promissory notes and deposits | 3,389 | - | - | 3,389 |
| Issued loans | 24 | - | - | 24 |
| Other current assets | 14 | - | - | 14 |
| Total finance assets | 7,999 | - | - | 7,999 |
| Bank credits and loans of organizations | (1,612) | (4,423) | (95) | (6,130) |
| Bonded loans | (7,988) | - | - | (7,988) |
| Note loans | (1) | - | - | (1) |
| Derivative financial instruments | - | (200) | - | (200) |
| Liabilities under financial lease | (24) | - | - | (24) |
| Debt in respect of interest | (105) | (19) | (7) | (131) |
| Other finance liabilities | (23) | - | - | (23) |
| Accounts payable | (3,178) | (1) | - | (3,179) |
| Total finance liabilities | (12,931) | (4 643) | (102) | (17,676) |

| December 31, 2009 | RUR | USD | 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 | (23) | - | - | (23) |
| Accounts payable | (2,942) | (1) | - | (2,943) |
| Total finance liabilities | (13,626) | (6,376) | (107) | (20,109) |

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For the period from January 1, 2010 to June 30, 2010 exchange rate of the Russian Rouble to US Dollar increased by 3.15 % and exchange rate of the Russian rouble to Euro decreased by 11.99%.

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 RUR million | % | Exchange rate change, % | impact on profit before RUR million | % |
| June 30, 2010 | 18.60 | (863) | (27.56) | 16.90 | (17.30) | (0.55) |
| | (12.80) | 594 | 18.97 | (7.50) | 7.68 | 0.25 |
| December 31, 2009 | 18.60 | (1,124) | (38.36) | 16.90 | (18.08) | (0.62) |
| | (12.80) | 774 | 26.40 | (7.50) | 8.03 | 0.27 |

The sensitivity analysis was carried out for the pitch of US dollar change by 18.6 % and (12.8 %) and euro by 16.9 % and (7.5%) 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.

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

| June 30, 2010 | Fixed rate | Floating rate | No rate | Total |
|---|----------------|----------------|----------------|-----------------|
| Cash and cash equivalents | 27 | - | 155 | 182 |
| Accounts receivable | - | - | 3,054 | 3,054 |
| Finance assets available-for-sale | - | - | 1,336 | 1,336 |
| Promissory notes and deposits | 3,389 | - | - | 3,389 |
| Issued loans | - | - | 24 | 24 |
| Other current assets | - | - | 14 | 14 |
| Total finance assets | 3,416 | - | 4,583 | 7,999 |
| Bank credits and loans of organizations | (1,708) | (4,422) | - | (6,130) |
| Bonded loans | (6,591) | (1,397) | - | (7,988) |
| Note loans | (1) | - | - | (1) |
| Derivative financial instruments | - | - | (200) | (200) |
| Liabilities under financial lease | (24) | - | - | (24) |
| Debt in respect of interest | - | - | (131) | (131) |
| Other finance liabilities | (23) | - | - | (23) |
| Accounts payable | - | - | (3,179) | (3,179) |
| Total finance liabilities | (8,347) | (5,819) | (3,510) | (17,676) |

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| 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 | (23) | - | - | (23) |
| Accounts payable | - | - | (2,943) | (2,943) |
| Total finance liabilities | (7,662) | (8,954) | (3,493) | (20,109) |

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 | % |
| June 30, 2010 | 6 | (3) | (0.08) | 186 | (26) | (0.83) |
| | (6) | 3 | 0.08 | (186) | 26 | 0.83 |
| 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 | 182 | - | - | - | - | 182 |
| Accounts receivable | 3,049 | 5 | - | - | - | 3,054 |
| Finance assets available-for-sale | 1,336 | - | - | - | - | 1,336 |
| Promissory notes and deposits | 3,415 | - | - | - | - | 3,415 |
| Issued loans | 8 | 11 | 10 | 6 | 5 | 40 |
| Other current assets | 14 | - | - | - | - | 14 |
| Total finance assets | 8,004 | 16 | 10 | 6 | 5 | 8,041 |
| Bank credits and loans of organizations | (3,477) | (1,450) | (1,363) | - | - | (6,290) |
| Bonded loans | (3,374) | (4,509) | (822) | (735) | - | (9,440) |
| Derivative financial instruments | (200) | - | - | - | - | (200) |
| Liabilities under financial lease | (20) | (16) | (2) | - | - | (38) |
| Other finance liabilities | (2) | (3) | (3) | (3) | - | (11) |
| Accounts payable | (3,178) | - | - | - | - | (3,178) |
| Total finance liabilities | (10,251) | (5,978) | (2,190) | (738) | - | (19,157) |

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

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.

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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.

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

| June 30, 2010 | Delay (days) | | | | | | |
|-------------------------|--------------|------------|-----------|-----------|----------|----------|----------|
| | TOTAL | < 31 | 31-60 | 61-90 | 91-180 | 181-360 | > 360 |
| Corporate customers | 34 | 25 | 6 | 2 | 1 | - | - |
| Individuals | 76 | 54 | 13 | 5 | 4 | - | - |
| Budgetary organizations | 17 | 11 | 4 | 1 | 1 | - | - |
| Communication operators | 33 | 26 | 4 | 2 | 1 | - | - |
| Total | 160 | 116 | 27 | 10 | 7 | - | - |

| December 31, 2009 | Delay (days) | | | | | | |
|-------------------------|--------------|-----------|-----------|-----------|----------|----------|----------|
| | TOTAL | < 31 | 31-60 | 61-90 | 91-180 | 181-360 | > 360 |
| Corporate customers | 30 | 21 | 5 | 3 | 1 | - | - |
| Individuals | 63 | 42 | 12 | 6 | 3 | - | - |
| Budgetary organizations | 9 | 6 | 2 | 1 | - | - | - |
| Communication operators | 18 | 15 | 2 | 1 | - | - | - |
| Total | 120 | 84 | 21 | 11 | 4 | - | - |

The above accounts receivable were not depreciated, because the established practices of their payment were taken into account.

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)

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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)

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 6 months of the year 2010:

| Payment date | Amount of hedging, thousand USD |
|--------------|---------------------------------|
| 01.02.2010 | 16,875 |
| 09.04.2010 | 10,989 |
| 29.04.2010 | 16,875 |

Outstanding Debt Hedging

2009

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

| Value date | Delivery forward rate, rouble/US dollar | UniCredit Bank Austria AG, syndicated loan; Tranche A, thousand US dollars | UniCredit Bank Austria AG, syndicated loan; Tranche B, thousand US dollars | Bayerische Hypo-und Vereinsbank AG, thousand US dollars | Total: (amount to be paid by Citibank) Hedging amount, thousand US dollars | Amount to be paid by the Company, thousand roubles. |
|---------------|---|--|--|---|--|---|
| 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, rouble/US dollar | UniCredit Bank Austria AG, syndicated loan; Tranche A, thousand US dollars | UniCredit Bank Austria AG, syndicated loan; Tranche B, thousand US dollars | Bayerische Hypo-und Vereinsbank AG, thousand US dollars | Total: (amount to be paid by Citibank) Hedging amount, thousand US dollars | Amount to be paid by the Company, thousand roubles. |
|---------------|---|--|--|---|--|---|
| 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;
- and
- 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 31st December 2009 (the asset of 4 as of 31st December 2008), including the inefficient part of hedging in the amount of 54 (15 as of 31st December 2008) and the efficient part of hedging in the amount of 448 (19 as of 31st December 2008). The said amounts are shown within the items "Other Income and Expenses in Financial and Investment Activities" of the consolidated profit and loss report: 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

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(in million roubles)

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;
- 101.9% 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 200 as of 30th June 2010, including the inefficient part of hedging in the amount of 5 and the efficient part of hedging in the amount of 205 (394, 54 and 448 respectively as of 31st December 2009). The said amounts are shown within the items "Other Income and Expenses in Financial and Investment Activities" of the consolidated profit and loss report: 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 the following categories:

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

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

| Financial instrument | Category | June 30, 2010 | | December 31, 2009 | |
|---|----------|-----------------|-----------------|-------------------|-----------------|
| | | Book value | Fair value | Book value | Fair value |
| Cash and cash equivalents | LAR | 182 | 182 | 574 | 574 |
| Accounts receivable | LAR | 3,054 | 3,054 | 2,934 | 2,934 |
| Finance assets available-for-sale | FAAS | 1,336 | 1,336 | 21 | 21 |
| Promissory notes and deposits | LAR | 3,389 | 3,224 | 3,904 | 3,882 |
| Issued loans | LAR | 24 | 24 | 31 | 31 |
| Other current assets | FAAS | 14 | 14 | 16 | 16 |
| Total finance assets | | 7,999 | 7,834 | 7,480 | 7,458 |
| Bank credits and loans of organizations | LAV | (6,130) | (6,124) | (6,075) | (6,063) |
| Bonded loans | LAV | (7,988) | (8,252) | (10,484) | (10,453) |
| Note loans | LAV | (1) | - | (2) | (2) |
| Derivative financial instruments | LFV | (200) | (200) | (394) | (394) |
| Liabilities under financial lease | LAV | (24) | (24) | (32) | (32) |
| Debt in respect of interest | LAV | (131) | (131) | (155) | (155) |
| Other finance liabilities | LAV | (23) | (23) | (24) | (24) |
| Accounts payable | LAV | (3,179) | (3,179) | (2,943) | (2,943) |
| Total finance liabilities | | (17,676) | (17,933) | (20,109) | (20,066) |

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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. 7 ((206) for 2010) as of 30th June 2010, was taken as the fair value of the notes.

The market value as of 30th June 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. 7 ((206) for 2010), stating the rates as of 30th June 2010, was taken as the fair value of bank credits and loans with the fixed interest rate.

28. Receipts from Sales

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|---|---|--------------|---|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Local telephone communication services | 3,558 | 3,341 | 7,119 | 6,657 |
| Telegraph network communication, data transmission network and telematic services (Internet) | 1,548 | 1,330 | 3,086 | 2,634 |
| Intrazone telephone communication services | 657 | 636 | 1,303 | 1,270 |
| Interconnection services | 641 | 625 | 1,277 | 1,313 |
| Assistance and agency services | 153 | 166 | 322 | 336 |
| Mobile radio communication services, wired radio services, broadcasting and television services | 74 | 98 | 157 | 199 |
| Receipts from other sales | 440 | 307 | 824 | 626 |
| Total | 7,071 | 6,503 | 14,088 | 13,035 |

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

The proceeds gained from intra-zone and local telephone communication services include the proceeds from provision of communication channels for use, in the amount of 405 and 71 respectively (against 330 and 102 for 6 months of 2009).

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The proceeds gained from local telephone communication services include the proceeds from provision of all-in-one communication services, in the amount of 0.398 (against 0.354 for 6 months of 2009).

The proceeds gained from the telegraph network communication, data transmission network and telematic services (Internet) include the proceeds from data transmission network and telematic services (Internet), in the amount of 2,967 (against 2,535 for 6 months 2009).

Proceeds from other sales include the proceeds from leasing out assets worth of 212 (494 for the 6 months of 2009), including the proceeds from leasing out investment property in the amount of 9.

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

| By customer groups | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|-------------------------|--|--------------|--|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Individuals | 3,878 | 3,485 | 7,749 | 6,944 |
| Corporate customers | 1,832 | 1,672 | 3,633 | 3,328 |
| Budgetary organizations | 573 | 574 | 1,126 | 1,137 |
| Communication operators | 788 | 772 | 1,580 | 1,626 |
| Total | 7,071 | 6,503 | 14,088 | 13,035 |

29. Personnel-Related Expenses

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|--|--|--------------|--|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Expenses for wages | 1,519 | 1,461 | 2,997 | 2,956 |
| Social insurance fees | 353 | 370 | 736 | 763 |
| Other personnel-related expenses | 181 | 118 | 240 | 182 |
| Expenses related to pension and long-term social liabilities | 66 | 93 | 117 | 147 |
| Total | 2,119 | 2,042 | 4,090 | 4,048 |

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 June | | For 6 months expired on 30 th June | |
|--------------------------------------|---|--------------|--|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Expenses for repairs and maintenance | 692 | 605 | 1,054 | 882 |
| Expenses for utilities | 230 | 191 | 515 | 456 |
| Material expenses | 202 | 261 | 376 | 465 |
| Total | 1,124 | 1,057 | 1,945 | 1,803 |

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Expenses for investment property for the 6 months of 2010 amounted to 5 (0 for the 6 months of 2009) for the parts of the property that yielded income in the period under report and 4 (0 for the 6 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 June | | For 6 months expired on 30 th June | |
|--|--|--------------|--|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Indemnification for losses related to the provision of all-in-one communication services | 1,171 | 1,039 | 1,977 | 1,751 |
| Fines, penalties and forfeits | 4 | 1 | 5 | 2 |
| Reversal of losses from impairment in the value of fixed assets, sites of construction-in-progress, intangible assets and other assets | 4 | - | 4 | - |
| Profit from sales of fixed assets and other assets | - | - | - | 8 |
| Other income | 28 | 27 | 55 | 86 |
| Total | 1,207 | 1,067 | 2,041 | 1,847 |

Other income mainly include 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 June | | For 6 months expired on 30 th June | |
|--|--|------|--|------|
| | 2010 | 2009 | 2010 | 2009 |
| Taxes other than profit tax | 230 | 216 | 460 | 444 |
| Expenses for the agent's fee | 185 | 147 | 340 | 290 |
| Services of outside organizations and expenses related to management | 184 | 141 | 296 | 246 |
| Expenses for security and fire protection services | 111 | 109 | 219 | 216 |
| Deductions to all-in-one servicing reserve | 68 | 63 | 136 | 125 |
| Transportation and post services | 68 | 72 | 131 | 136 |
| Expenses for property leasing | 57 | 45 | 101 | 89 |
| Doubtful debt reserve | 37 | 16 | 86 | 63 |
| Expenses for audit and consulting services | 32 | 57 | 49 | 91 |
| Expenses for advertising | 31 | 40 | 46 | 79 |
| Expenses for property leasing (except for premises) | 24 | 24 | 44 | 53 |
| Membership fees, charity and funds | 29 | 25 | 42 | 37 |

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| | | | | |
|---|--------------|--------------|--------------|--------------|
| transferred to trade union organizations | | | | |
| Expenses related to servicing of crediting organization | 12 | 14 | 22 | 28 |
| Loss from withdrawal of fixed assets and other assets | 13 | - | 19 | - |
| Property and liability insurance | 5 | 4 | 10 | 9 |
| Expenses related to re-organization | - | - | 5 | - |
| Fines, penalties and forfeits | 2 | 1 | 2 | 1 |
| Other expenses | 60 | 44 | 85 | 74 |
| Total | 1,148 | 1,018 | 2,093 | 1,981 |

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

33. Financial Expenses

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|---|---|------------|---|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Expenses related to interest under bank credits and loans of organizations, bonded and acceptance loans, commercial credits | 279 | 281 | 558 | 575 |
| Expenses related to interest under pension and long-term social liabilities | 60 | 58 | 122 | 116 |
| Expenses related to interest under finance leasing | 2 | 3 | 3 | 5 |
| Expenses related to servicing of financial liabilities | - | 5 | 2 | 10 |
| Total | 341 | 347 | 685 | 706 |

The amount of capitalized interest for 6 months of 2010 and for the year 2009 was as follows:

| | |
|--|-----------------------------|
| | <u>For 6 months expired</u> |
|--|-----------------------------|

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| | on 30 th June | |
|--|--------------------------|------|
| | 2010 | 2009 |
| Interest capitalized into value of fixed assets | 20 | 85 |
| Interest capitalized into value of intangible assets | 4 | 5 |
| Total | 24 | 90 |

34. Other Income and Expenses Related to Financial and Investment Activities

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|---|--|---------|--|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest income from financial assets | 125 | 22 | 246 | 30 |
| Income for assets of pension plan | - | 3 | - | 3 |
| Profit from sales of other finance assets: hedging | 1 (23) | - 15 | 1 (48) | - 15 |
| | - | (15) | - | - |
| Total | 105 | 25 | 200 | 48 |

35. Profit Tax

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|-----------------------------|--|-------|--|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Current income tax expense | (636) | (151) | (445) | (143) |
| Deferred income tax benefit | (392) | (232) | (214) | (240) |
| Total income tax expense | (1,028) | (383) | (659) | (383) |

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

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|--|--|--------|--|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Profit before taxes | 1,312 | 1,745 | 3,133 | 1,602 |
| Statutory income tax rate | 20.00% | 20.00% | 20.00% | 20.00% |
| Theoretical income tax charge | (263) | (349) | (627) | (320) |
| Increase (decrease) resulting from the effect of: | | | | |
| Expenses not deductible for tax purposes | (27) | (34) | (32) | (63) |

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(in million roubles)

| | | | | |
|-------------------------|--------|--------|--------|--------|
| Total actual profit tax | (290) | (383) | (659) | (383) |
| Effective tax rate, % | 22.10% | 21.94% | 21.03% | 23.93% |

The composition of recognized deferred tax assets and liabilities as of June 30, 2010 and December 31, 2009 and their flow during 6 months of 2010 and during 2009 was as follows:

| | December 31, 2008 | Origination and decrease of differences | June 30, 2009 | December 31, 2009 | Origination and decrease of differences | June 30, 2010 |
|--|-------------------|---|---------------|-------------------|---|---------------|
| Tax effect of deferred tax assets: | | | | | | |
| Accounts payable and charged liabilities | 102 | (63) | 39 | 202 | (105) | 97 |
| Accounts receivable | 20 | 2 | 22 | 13 | 5 | 18 |
| Pension liabilities | 253 | (1) | 252 | 312 | 1 | 313 |
| Finance leases | 14 | 4 | 18 | 6 | (1) | 5 |
| Total deferred tax assets | 389 | (58) | 331 | 533 | (100) | 433 |
| Tax effect of deferred tax liabilities: | | | | | | |
| Fixed assets | (1,210) | (189) | (1,399) | (1,273) | (124) | (1,400) |
| Inventory holdings | - | - | - | - | 2 | 2 |
| Intangible assets | (246) | - | (246) | (321) | 9 | (312) |
| Finance investment | (7) | 1 | (6) | - | - | - |
| Dividends from subsidiaries | (5) | 5 | - | - | - | - |
| Total deferred tax liabilities | (1,468) | (183) | (1,651) | (1,594) | (113) | (1,710) |
| Total net deferred tax liabilities | (1,079) | (241) | (1,320) | (1,061) | (213) | (1,277) |

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.

| | For 3 months expired on 30 th June | | For 6 months expired on 30 th June | |
|--|---|--------|---|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Profit for the period under report related to shareholders of OJSC N.W. Telecom | 1,023 | 1,363 | 2,474 | 1,220 |
| Profit for the period under report related to holders of preferred shares | 102 | 136 | 247 | 122 |
| Profit for the period under report related to holders of common shares and other equity instruments contributing to profit | 921 | 1,227 | 2,227 | 1,098 |
| Weighted average of circulating common shares and other equity instruments contributing to profit | 1,125 | 1,125 | 1,125 | 1,125 |
| Basic and diluted profit per share (in | 0.8184 | 1.0904 | 1.9792 | 0.976 |

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| |
|--|
| RUR) for the period under report, related to holders of common shares and other equity instruments contributing to profit |
|--|

37. Operational Lease

As of 30th June 2010 and 31st December 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:

| | June 30, 2010 | December 31, 2009 |
|------------------------------------|------------------|----------------------|
| Current portion (less than 1 year) | 276 | 436 |
| Over 1 year and up to 5 years | 552 | 458 |
| Over 5 years | 1,658 | 1,245 |
| Total | 2,486 | 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 284 for the 6 months of 2010 (274 for the 6 months of 2009).

As of 30th June 2010 and 31st December 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:

| | June 30, 2010 | December 31, 2009 |
|------------------------------------|------------------|----------------------|
| Current portion (less than 1 year) | 257 | 316 |
| Over 1 year and up to 5 years | 103 | 109 |
| Over 5 years | 158 | 163 |
| Total | 518 | 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 316 for the 6 months of 2010 (559 for the 6 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 June 30, 2010 and December 31, 2009 N.W. Telecom Group has commitments of 1,032 and 204 respectively, for capital investments into modernization and expansion of its network.

As of June 30, 2010 and December 31, 2009 N.W. Telecom Group has commitments of 77 and 4 respectively, for fixed assets acquisition.

39. Balances and Transactions with Related Parties

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For the 6 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 31st December 2009.

OJSC Svyazinvest

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

As of 30th June 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, OJSC Rostelecom, OJSC Central Telegraph, OJSC Dagsvyazinform 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.

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

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

For the 6 months of 2010 the expenses of OJSC N.W.Telecom group for the services of OJSC Svyazintek amounted to 14 (30 for the 6 months of 2009), including 9 (26 for the 6 months of 2009) shown directly in the report on aggregate income and 6 (3 for the 6 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 6 months of 2010 the total amount of the contributions paid by N.W. Telecom Group for non-governmental pension provision was 175 (against 120 during 3 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, totaling 22 persons as of June 30, 2010 and as of December 31, 2009.

Remuneration to the key management staff for the 6 months of 2010 includes salaries, bonuses, as well as remuneration for participation in the management bodies of the Company and amounts to 78 (67 for the 6

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months of 2009), including salaries, bonuses, and remuneration of the Company's employees participating in the management bodies, which amounts to 62 (55 for the 6 months of 2009).

40. Events after the Reporting Date

Provision of All-in-One Communication Services

The amount of actual compensation received by N.W.Telecom Group from the all-in-one service fund after 30th June 2010 for the services provided in the second quarter of 2010 amounted to 1,451.

Change in the Composition of Other Unit Investments

On 13.07.10 N.W.Telecom Group acquired investment units of the closed unit investment fund of shares of Gazprom – Telecommunications under the supervision of CJSC Gazprombank – Assets Management (113.69460 pcs.). The amount of the transaction was 111.

Bank Loans

In July and August 2010 N.W.Telecom Group attracted monetary funds under three of the four performing lines of credit with:

- OJSC JSCB Svyaz-Bank;
- OJSC JSB Russia;
- OJSC Alfa Bank

All in all, 5,210 were attracted for the period and 4,560 were repaid.

In compliance with the schedules, planned repayments of syndicated loans were effected: 11 million US dollars in July and 17 million US dollars in August.

Note-backed Lending

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

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

Optimization of the Staff Number

In the framework of improving the efficiency of its activities, N.W.Telecom Group adopted an Employees Number Optimization Programme. In accordance with the Programme, in the period from 1st July 2010 till the date of signing these financial statements 27 employees were notified of being made redundant and 193 employees were discharged. The expenses related to making redundant the staff of N.W.Telecom Group from 1st July 2010 till the date of signing the statements amounted to 1.