

EXPLANATORY NOTE
to Accounts and Reports
of the Open Joint-Stock Company
North-West Telecom
for the year 2007

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2. The Company and Its Operation

The Open Joint-Stock Company North-West Telecom, abbreviated name OJSC N.W.Telecom, INN (tax-payer's identification No.) 7808020593, (hereinafter referred to as the Company) was registered on 06th May 2005 by the Registration Chamber of the St. Petersburg Administration under registration No. 1027809169849. The Company's personnel number as of 31st December 2007 was 23,451 (as of 31st December 2006 – 26,777). The Company is registered at the address: 14/26, ul. Gorokhovaya, St. Petersburg, 191186.

Data on Register Holder (Registrar):

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

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

Mailing address: POB 162, Moscow, 107078

No. of license: №10-000-1-00314

Date of license issue: 30th March 2004

Validity period: without limitation of the validity period

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

Data on the Auditor:

Name: Limited Liability Company "Ernst & Young"

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

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

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

E-mail: moscow@ru.ey.com

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

No. of license: E002138

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

The Company's Board of Directors consists of:

Chairperson of the Board of Directors:

Alexandr Nikolayevich Kiselev - General Manager, OJSC Svyazinvest

Deputy Chairperson of the Board of Directors:

Dmitry Vladimirovich Levkovsky, Head of the Moscow Representative Office, NCH Advisors, Inc.

Members of the Board of Directors:

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

Mikhail Alexeevich Alexeev, Representative of OJSC Svyazinvest

Sergey Anatolievich Bulancha, Deputy General Manager of CJSC Sinterra

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(in thousand roubles, unless specified otherwise)

Alexandr Alexandrovich Gogol - Rector, Prof. Bonch-Bruyevich Saint Petersburg State University of Telecommunications

Vladimir Borisovich Zhelonkin, Deputy General Manager, OJSC Svyazinvest

Ivan Alexandrovich Zolochovsky, OJSC MTS, Director of the Macro-Region North West Branch

Olga Grigorievna Koroleva, Chief Accountant of OJSC Svyazinvest

Alexandr Evgenievich Krupnov, Chairperson of the Union of Information and Communication Services Market Participants

Ivan Ivanovich Rodionov - Professor of the Corporate Economics and Finance Chair, The State University "Higher School of Economics"

The Company's Management Board consists of:

Chairman of the Management Board:

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

Members of the Management Board:

Nikolay Pavlovich Emelyanov, Regional Manager – Director of the Novgorod Branch of OJSC N.W.Telecom

Oleg Viktorovich Popov – Deputy General Manager, Commercial Manager of OJSC N.W.Telecom

Oleg Anatolyevich Semanov – Deputy General Manager, Technical Manager of OJSC N.W.Telecom

Maya Mikhailovna Semchenko – Chief Accountant of OJSC N.W.Telecom

Irina Vladimirovna Tambovskaya – Director of Human Resources Management Department of OJSC N.W.Telecom

Ella Ivanovna Tomilina, Deputy General Manager for corporate relations of OJSC N.W.Telecom

Leonid Zigmundovich Tufrin, Chairperson of Coordinating Council – Regional Manager – Director of the St.Petersburg Branch, OJSC N.W.Telecom

Venera Adykhmovna Khusnutdinova – Deputy General Manager, Economics and Finance Manager of OJSC N.W.Telecom

Grigory Borisovich Chernyak – Deputy General Manager in charge of property management and general issues of OJSC N.W.Telecom

Vladimir Ivanovich Shumeyko – First Deputy General Manager of OJSC N.W.Telecom

The Auditing Committee of the Company consists of:

Ruslan Kyarimovich Aksyaitov - Deputy Chief Accountant, Head of the Methodology Division, Accounting, Tax and Statistical Records Department, OJSC Svyazinvest

Natalya Yurievna Belyakova, Deputy Director of the Department of Economics and Finance, OJSC Svyazinvest

Svetlana Nikolayevna Bocharova, Head of the Tax Division of the Accounting, Tax and Statistical Records Department, OJSC Svyazinvest

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Natalya Sergeevna Vorobyeva, Head of the Division, Strategic Development Department, OJSC Svyazinvest

Sergey Ninelevich Kosarev, Head of the Division, Strategic Development Department, OJSC Svyazinvest

Alexandr Igorevich Tkachev, Chief Specialist of the Security Board, OJSC Svyazinvest

Kirill Viktorovich Frolov, Chief of the Internal Audit Board of OJSC Svyazinvest

Industry Legislation

Establishing New Rates according to Rate Plans

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

The following rates and rate plans for local telephone communication services have been established for the Company on the basis of the respective Orders of FST of Russia starting from 1st February 2007:

1. Provision of local telephone connections to a subscriber (user) of the fixed telephone communication network for the transmission of voice data, fax messages and data (except for payphones):

using the subscriber payment system where there is no technical possibility of the time-based billing of the duration of local telephone connections for citizens who are subscribers of the urban and rural communication – 110 roubles/month for the Northern branches group (Arkhangelsk, Murmansk and Komi), 85 roubles/month for the Central branches group (Vologda, Kaliningrad, Novgorod, Pskov and Leningrad-Oblast branches), 95 roubles/month for the St. Petersburg branch, 80 roubles/month for the Karelian branch, for legal entities who are subscribers of the urban and rural communication – 130 roubles/month for the Northern branches group and the Karelian branch, 100 roubles/month for the Central branches group, 140 roubles/month for the St. Petersburg branch,

using the subscriber payment system for an unlimited scope of local telephone connections where there is a technical possibility of the time-based billing of the duration of local telephone connections for citizens who are subscribers of the urban communication – 270 roubles/month for the Northern branches group and the Karelian branch, 225 roubles/month for the Central branches group, 240 roubles/month for the St. Petersburg branch,

with time-based billing system local telephone connections for citizens who are subscribers of the urban communication – 0.30 roubles/month for the Northern branches group and the Karelian branch, 0.25 roubles/month for the Central branches group and the St. Petersburg branch, for legal entities who are subscribers of the urban communication – 0.30 roubles/month for the Northern branches group and the Karelian branch, 0.25 roubles/month for the Central branches group and the St. Petersburg branch,

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telephone connections for citizens who are subscribers of the urban communication – 110 roubles/month for the Northern branches group, 85 roubles/month for the Central branches group, 95 roubles/month for the St. Petersburg branch, 80 roubles/month for the Karelian branch,

using the combined payment system in excess of the base volume of local telephone connections for citizens who are subscribers of the urban communication – 0.24 roubles/month for the Northern branches group and the Karelian branch, 0.20 roubles/month for the Central branches group and the St. Petersburg branch,

2. Provision of a subscriber line to subscriber for permanent use irrespective of its type for citizens who are subscribers of the urban and rural communication: – 130 roubles/month for the Northern branches group, the St. Petersburg and Karelian branches, 125 roubles/month for the Central branches group, for legal entities who are subscribers of the urban and rural communication – 160 roubles/month for the Northern branches group, the St. Petersburg and Karelian branches, 150 roubles/month for the Central branches group.

The rates for local telephone communication were established by the Federal Rates Service of Russia using the method of economically justified costs and proceeding from the gross proceeds required for compensation for the prime cost, a part of other expenses and the standard profit. Some elements of cross-subsidizing of the local telephone communication services were retained. According to the current legislation, cross-subsidizing is provided partially using the rates for intraareal telephone connections that are regulated by the state and the compensatory extra charge on the price of the services of local and area call initiation aimed at establishing an intraareal, long-distance and international telephone connection.

The Company provides interconnection and traffic transmission services to telecommunication operators in compliance with the Resolution of the Government of the Russian Federation of 28th March 2005 No. 161 "On Approving the Rules of Telecommunication Networks Interconnection and Interaction". In compliance with the Order of the Federal Service for Supervision in the Field of Communication No. 39 of 21st October 2005, the Company has been included in the Register of the Operators Holding an Essential Position in the Public Use Communication Network. Company's Prices of interconnection and traffic transmission services are subject to regulation by the government.

The following limit rates for intraareal telephone communication services have been established for the Company on the basis of the respective Orders of the Federal Rates Service of Russia for 2007:

- for providing intraareal telephone connection of a subscriber of fixed telephone communication to a mobile communication operator's network – 1.50 roubles per minute for all branches;
- for providing intraareal telephone connection between subscribers of fixed telephone communication – 2.50 roubles per minute for the Northern branches group (Arkhangelsk, Karelian, Murmansk and Komi) and 2.25 roubles per minute for the Central branches group (Vologda, Kaliningrad, Novgorod, Pskov and Leningrad-Oblast branches).

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The Company has established rates for the services of intraareal telephone communication:

- for providing intraareal telephone connection of a subscriber of fixed telephone communication to a mobile communication operator's network: – 1.50 roubles per minute for all branches;
- for providing intraareal telephone connection between subscribers of fixed telephone communication: – 2.50 roubles per minute for the Northern branches group (Arkhangelsk, Karelian, Murmansk and Komi) and 2.25 roubles per minute for the Central branches group (Vologda, Kaliningrad, Novgorod, Pskov and Leningrad-Oblast branches) during the peak load hours;
- for providing intraareal telephone connection between subscribers of fixed telephone communication: – 1.75 roubles per minute for the Northern branches group (Arkhangelsk, Karelian, and Murmansk), 2 roubles per minute for the Komi branch and 1.60 roubles per minute for the Central branches group (Vologda, Kaliningrad, Novgorod, Pskov and Leningrad-Oblast branches) during the time other than the peak load hours.

In compliance with the Order of the Federal Service for Supervision in the Field of Communication dated 19th June 2006 No. 51, the limit prices have been established to the Company for interconnection services, including the limit prices for arranging and servicing a point of interconnect, and for call initiation, termination and transit services. By its Order No. 266-pr of 30th June 2006 the Company established the prices for interconnection services and traffic transmission services in the public telephone communication network of OJSC N.W.Telecom at the maximum level.

In compliance with General Manager's Order of 10th July 2007 г. № 298-pr GD, amendments were introduced to the Economic Terms of Interconnection in respect of applying the minimum guaranteed volume of traffic, introducing integrated prices for services of call termination and initiation to/from OJSC N.W. Telecom's networks and differentiating the prices for traffic transmission services depending on the volume of services provided and the time of the day (night).

According to Resolution of the Government of the Russian Federation of 19th October 2005 No. 627 "On State Regulation of Prices for Interconnection and Traffic Transmission Services Provided by Operators Having an Important Position in the Public Use Telephone Communication Network", a compensation extra charge was established for operators for the period till 1st January 2008 on the price of the services of local and area initiation of a call aimed at establishing a long-distance and international telephone connection. The Order of the Federal Rates Service of Russia dated 20th December 2005 No. 732-s/b approved the compensation extra charge on the price of the services of local and area call initiation at the rate of 0.38 roubles per minute, and this compensation extra charge has been used by the Company starting from 1st January 2006.

Amendment of the Rates Calculation Rules (Order of the Federal Rates Service of Russia No. 140-c/1 of 3rd August 2007)

In compliance with the amendments adopted by the Federal Rates Service of Russia and introduced to the Procedure of Calculating the Rates and Rate Plans for local telephone communication services in the 3rd quarter of 2007, a decision was made to significantly reduce the rates for local telephone communication services for individual subscribers with the shared equipment connection method starting from 1st January 2007:

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- the rate for the provision of a subscriber line to a subscriber for permanent use irrespective of its type was reduced by 33% for OJSC N.W. Telecom on the average;
- the rate for the provision of local telephone connections (where there was no technical possibility of time-based billing of the duration of local telephone connections by the operator, with the combined and subscriber payment systems) was reduced by 50% for OJSC N.W. Telecom on the average.

Cancellation of the Fee for Telephone Connections with Access to Telematic Services and Data Transmission Communication Services

Resolution of the RF Government dated 25th July 2007 No. 477 introduced amendments to the Rules of Providing the Services of Local, Intraareal, Long-distance and International Telephone Communication: a provision was included stating that the tariffing of telephone connections did not take into account the duration of telephone connections in case of access to telematic services and data transmission communication services. The amendments took effect from 1st August 2007. Thus, the fact that no fee is exacted from a subscriber when access to telematic services and data transmission communication services is provided within the framework of payment for local telephone connections has been unambiguously expressed.

Introduction of Duration Rounding-off in the Tariffing of Local Connections to 30 Seconds

Resolution of the RF Government dated 25th July 2007 No. 477 introduced amendments to the Rules of Providing the Services of Local, Intraareal, Long-distance and International Telephone Communication concerning the procedure of rounding-off an incomplete unit of local telephone connection tariffing. When determining the cost of a local telephone connection (in case of time-based billing), an incomplete tariffing unit equal to a half or more than a half of a tariffing unit shall be taken into account as a complete tariffing unit, while an incomplete tariffing unit equal to less than a half of a tariffing unit shall be taken into account as a half of a tariffing unit. The new rounding-off rules took effect from 1st August 2007. Before the amendments were adopted, an incomplete tariffing unit equal to less than a half of a tariffing unit had been taken into account as a complete tariffing unit.

All-in-one Communication Services

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

The Company participated in competitions for the right of providing all-in-one communication services, including the provision of telephone communication services using payphones in its license areas. In 2007 the Company won 14 competitions (5 competitions in 2006) and made 88 contracts with the Federal Communications Agency concerning the terms of providing all-in-one telephone communication services using payphones (16 payphones in 2006).

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As of 31st December 2007 the total number of payphones that were to be installed by the Company within the framework of the obligations under the contracts was 12,777. In fact, 13,266 payphones were put into operation (connected to the CUT-01 payphone control system).

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

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

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

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

National Projects

In the period of 2006-2007 the Company took part in implementing the *Education* high-priority national project. In the framework of this project, 1,196 educational institutions of the Northwestern Federal District of the RF were connected by branches of the Company to the Internet in 2007 (1,646 in 2006).

In the framework of the contract with OJSC RTComm.RU the Company provided services of organizing virtual communication channels from educational institutions to access centres of OJSC RTComm.RU, round-the-clock provision for use and maintenance of arranged communication channels, installation and adjustment of terminal equipment in schools.

The overall costs of the Company for connecting educational institutions in 2007 amounted to 2,291,052 (415,613 in 2006).

Provisions on Expert Examination of Communication Networks Take Effect

According to the Federal Law No. 14-FZ of 9th February 2007 "On Introducing Amendments to the Federal Law "On Communications"", communication operators must have registered the telecommunication networks, the construction of which was completed before the day of this law taking effect, no later than the 1st of January 2010. For the registration, an operator must present a system project of the communication network and a conclusion obtained as a result of its expert examination as to the compliance of the system project with the established requirements in the field of communications (positive conclusion). The rules of mandatory development and expert examination of all system projects must ensure control of the requirement for the public communication network as a unified process system.

At the moment, the RF Ministry of Information Technologies and Communications is developing a number of standard documents concerning the system design and expert examination issues. Similar documents reflecting organizational aspects of developing system projects will be prepared by the Company. Development of system projects will be provided for in implementing investment programs; besides, the need of revising system projects will be assessed, if the rated values of network parameters exceed the established boundaries. In an expert examination of a system project, compliance of the telecommunication network with the services, for which licenses have been obtained, must be checked. Performing the above work will increase Company's capital outlays. At the same time, communication facilities commissioning will take more time.

Plans for Company's Networks Digitization

According to the results of 2007, the digitization level of the local telephone communication networks amounted to 61.5%. By putting into operation new electronic telephone exchanges and replacing quasi-electronic and analog exchanges by electronic ones, the Company improves the quality of services provided by it, expands their range and meets the requirements of the Order of the Ministry of Information Technologies and Communication of the Russian Federation of 17th November 2006 No. 142 "On Approving and Enforcing" the Russian Numbering System and Plan".

Providing the Possibility of Connecting Local and Mobile Networks

Resolution of the Government of the Russian Federation of 12 October 2007 No. 666 introduced amendments to "The Rules of Telecommunication Networks Interconnection and Interaction" approved by Resolution of the Government of the Russian Federation of 28th March 2005 No. 161.

Operators of mobile radio telephone communication have been provided with an opportunity to render interconnection services to local communication operators, and local communication operators, in their turn, can connect operators of all area communication operators, not just fixed networks as before. Thus, direct connection between mobile communication and local communication networks is permitted.

According to clause 22 of the new version of the Rules of Interconnection, a local telephone communication operator providing the interconnection service must ensure the possibility of traffic transmission between area telephone communication networks functioning within the territory of a subject of the Russian Federation and local telephone communication networks functioning within the territory of a municipal entity.

A differentiation of the service of area termination of a call to a communication operator's network has been introduced to the List of Traffic Transmission Services. This differentiation depends on the particular area-operator, to whose network the termination is provided: to the network of an operator of fixed communication, mobile radio communication, mobile radio telephone communication or mobile satellite communication. Thus, for connections from Company's subscribers to a mobile communication network, the service has now the official name of "the service of area termination of a call to a mobile radio telephone communication operator's network".

In July 2007 amendments were introduced to the Order of the Ministry of Information Technologies and Communication of the Russian Federation of 8th August 2005 No. 98, providing for traffic transmission from local telephone communication networks to mobile radio telephone communication operators' networks.

Implementation of the Resolution of the Government of the Russian Federation of 12 October 2007 No. 666 and the Order of the Ministry of Information Technologies and Communication of the Russian Federation of 8th August 2005 No. 98 did not entail any changes in the procedure of Company's interaction with mobile radio telephone communication operators and did not have any material influence on Company's business operations.

A Change in the Numbering Plan

By its Order of 17th November 2006 No. 142, the Ministry of Information Technologies and Communication of the Russian Federation approved and enforced "The Russian Numbering System and Plan". It is expected that the Russian Numbering System and Plan will be put into operation on a stage-by-stage basis.

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

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

The second stage (2008) provides for:

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

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

The third stage provides for a transition to using a closed numbering plan in establishing local telephone connections. For this purpose, electronic exchanges of old software versions, quasi-electronic and analog exchanges must be replaced by digital switching equipment. The switching capacity of such exchanges is about 47%.

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The Company expects that significant investment will be required to achieve the 100% digitalization of communication networks.

Financial and Economic Operations in 2007

The Company provides the following services:

- intraareal telephone communication services;

- local telephone communication services:

 - including all-in-one communication services;

- interconnection and traffic transmission services;

- services accompanying the provision of long-distance and international communication services

 - by long-distance and international communication operators;

- mobile radio communication, wired radio, broadcasting and television services;

- mobile radio telephone communication services;

- telegraph communication, data transmission and telematic communication services;

- other services of the basic activities;

- leasing out property;

- other services of auxiliary activities.

Intraareal Telephone Communication Services

Intraareal telephone communication services include the provision to users of:

- telephone connections between users connected to a local telephone communication network within the territory of an entity of the Russian Federation;

- telephone connections between user (terminal) equipment connected to a local telephone communication network and user (terminal) equipment connected to a mobile communication network when subscriber numbers of the calling and called subscriber and (or) user are within the numbering resource of the respectively geographically determined and geographically non-determined numbering zones assigned to the same entity of the Russian Federation;

- intraareal telephone connections from payphones;

- provision of intraareal communication channels for use.

Local Telephone Communication Services

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

Interconnection and Traffic Transmission Services

Interconnection services include the services of arranging a point of interconnect and the services of servicing a point of interconnect provided to interconnected operators.

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Traffic transmission services consist of:

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

Services Related to Rendering Long-distance and International Communication Services by Long-distance and International Communication Operators (Assistance and Agency Services)

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

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

Liquidity and Financial Resources

At the moment the world economy is facing the consequences of the world financial crisis in the mortgage crediting market and the subsequent liquidity crisis. In connection with the current unfavourable situation, there are short-term risks related to the growth of interest rates under loans taken and to the very possibility of receiving them.

In 2007, the Company borrowed funds both on the short-term and on long-term basis to fund the development of its communication networks. The funding was predominantly in the form of bank loans. The Company fully repaid all its liabilities in due time in 2007.

As of 31st December 2007, Company's solvency could be described by the following figures:

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Indices	Shows	Calculation formula (using lines of Form No. 1 of the balance sheet)	Recommended standard limits	Value of the index	
				31.12.2006	31.12.2007
Absolute liquidity ratio	Shows what part of the short-term liability may be immediately repaid through cash and short-term securities	(line 250 + line 260)/ line 690	0.2 -0.7	0.04	. 0.55
Quick assets (acid test) ratio	Describes the ability of the enterprise to repay short-term liabilities on condition that there will be timely settlements with debtors	(line 240 + line 250)/ line 690	0.7 -0.8	0.40	0.73
Current liquidity ratio	Shows what part of the current liabilities under loans and settlements can be repaid by mobilizing all current assets	line 290 / line 690	1 – 1.5	0.63	0.80
Capital (equity) ratio	Shows what part of the current operation is funded from own sources	(line 490 – line 190) / line 290	> 0.1	(3.22)	(0.93)
Net current liabilities, million roubles		(line 690 – line 290)		1,913	2,392

In 2008 the Company is expecting to receive funds from the following sources: receipts from its basic operations, floatation of rouble bonds in the Russian market, seeking for financial resources of domestic and foreign lending institutions. *** Besides, the management of the Company believes that the availability of significant free bank credit limits, as well as the funds floated in short-term liquid financial investments, will make it possible to fund all the current operations of the Company in due time and to the full amount in compliance with the contractual obligations.

Thus, the management of the Company does not expect that the current situation in the market of loanable funds will significantly affect the Company's capacity to get outside funding in 2008.

Nevertheless, the management of the Company believes that, if this is necessary, the implementation timing of some projects may be postponed to a later time or their scale may be reduced according to the requirements of current activities funding.

3. Accounting Policy

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

Basic approaches towards preparing annual accounts and reports

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

The Company's accounts and reports for the year 2007 have been prepared proceeding from an assumption that the Company will continue its operations in the foreseeable future, and it had no intention or need of liquidating or essentially reducing the operations, and, therefore, the obligations would be repaid in time according to the established order.

Assets and Liabilities in Foreign Currency

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

Currency	31st December 2007	31st December 2006
US dollars	24.5462	26.3311
Euros	35.9332	34.6965

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

In the cash flow report the rouble equivalent of the currency balance as of the start of the year and the flow of foreign currency during the year were calculated according to the official currency exchange rate that was used as of 31st December 2007, and, respectively, the comparable data were calculated according to the official currency exchange rate that was used as of 31st December 2006.

Short-Term and Long-Term Assets and Liabilities

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

Intangible Assets

Intangible assets include exclusive rights to intellectual property (exclusive right to trademarks).

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

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

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

Fixed Assets

Fixed assets were accepted for accounting at the initial value.

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

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

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

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

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Explanatory Note to Accounts and Reports for the Year 2007

Accounting Policy

Starting from 2007 the Company has changed the useful life for the fixed assets put into operation after 1st January 2007. Depreciation of fixed assets is calculated by the linear method according to the standard adopted useful life time:

	Useful life for commissioned items (years)	
	prior to 01.01.2007	after 01.01.2007
Buildings	from 5 to 70 years	from 7 to 70 years
Facilities and transmission devices	from 10 to 30 years	from 7 to 30 years
Communication equipment	from 3 to 20 years	from 3 to 10 years
Transport facilities	from 3 to 15 years	from 3 to 10 years
Computing and office facilities	from 3 to 5 years	from 2 to 6 years
Other items	from 3 to 7 years	from 1 to 7 years

The change in the useful life for communication equipment has been caused by the fast replacement of telecommunication technologies and communication equipment. The enforcement of new legislative standards has led to an increase in investments for the purpose of bringing the networks into line with the requirements of the regulatory acts. The Company has been actively introducing and implementing the services and technologies of broadband Internet access and actively working on accelerating the upgrading of the fixed communication infrastructure by implementing the package documentation technologies.

Depreciation is not charged for land plots.

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

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

The interest on credits and loans received for the funding of the acquisition (construction) of such facilities, calculated before the fixed asset units were accepted for accounting, is included in their initial cost. The interest calculated after the fixed asset units were accepted for accounting, is recorded in the profit and loss report within operating expenses.

The useful life of fixed assets shall be determined by the fixed assets acceptance commission and approved by the Company's General Manager.

Depreciation for fixed assets received prior to 2005 under financial lease (leasing) contracts and taken into account within fixed assets of the Company was charged by the linear method proceeding from the type of fixed assets and their useful life determined as equal to the validity period of leasing contract.

Depreciation for fixed assets received starting from 2005 under financial lease (leasing) contracts and recorded within the Company's fixed assets is charged by the linear method proceeding from the useful life established on the basis of the technical and economic indices of the facilities and used for the fixed assets units owned by Company.

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Explanatory Note to Accounts and Reports for the Year 2007

Accounting Policy

Finance Investment

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

Initial value of financial investment:

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

Financial investments, for which a stable and significant decrease of value was recognized as of the end of 2007, are shown in the balance sheet less the created reserve against devaluation of financial investment. The amount of the reserve is taken into account as the increase of other expenses. If an increase in the value of the financial investment is revealed according to the results of the check of the financial investment for devaluation as of the end of 2007 as compared to the end of 2006, the reserve against devaluation of financial investment is adjusted towards a lesser figure and the adjustment value is included in other expenses.

Financial investments, for which the organizer of trade in the securities market determined the market price in compliance with the established procedure, are shown in the accounts and reports according to the current market value as of 31st December 2007 by adjustment of their evaluation. The amount of the adjustment has been recorded as part of the increase in the other income (loss).

For sale and other withdrawal of securities, for which the current market value is not determined, evaluation of retiring issued securities was carried out by the method of the value of the first securities that were acquired (FIFO), while evaluation of retiring non-issued securities was carried out according to the actual value of each paper.

Inventories

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

- when inventories are acquired on a paid basis – the amount of actual costs of acquisition, including the costs of bringing the inventories to the state, in which they are fit for use, except for the value added tax and other refundable taxes;
- when inventories are made by the Company itself – the total of actual costs related to their production;
- when inventories are contributed as investment in the authorized capital of the Company – the monetary evaluation agreed upon by the founders of the Company taking into account the requirements of the Law "On Joint-Stock Companies";
- when inventories are received by the organization under a contract of donation or on a gratuitous basis or remain from retirement of fixed assets and other property - the current market value as of the date of accepting for accounting;

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when inventories are received under contracts providing for execution of obligations (payment) in non-monetary funds – the value of assets transferred or to be transferred by the Company.

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

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

The assets acquired starting from 2006, in respect of which the terms provided for in clause 4 of PBU (Accounting Rules) 6/2001 "Fixed Assets Accounting" are fulfilled, with the value not exceeding 10,000 roubles per unit, are recorded within the inventories.

Retiring inventories (except for precious metals) are evaluated at the moving-average prime cost.

Precious metals shall be retired at the prime cost of each unit.

Deferred expenses

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

Deferred expenses to be written-off in over than 12 months after the reporting date shall be reported in the balance sheet within other non-circulating assets.

Indebtedness of Buyers and Customers

Buyers' and customers' debts shall be recorded in the accounts and reports, taking into account the VAT paid to the budget and shall be determined proceeding from the prices established by contracts between the Company and the buyers (customers) taking into account all discounts (extra charges) provided by the Company. Debts unlikely to be exacted were written off from the balance sheet as they were recognized as such.

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

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

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

Debts of the social security organizations in respect of reimbursement for the expenses connected with the provision of privileges for communication services are reserved according to the results of the inventory of debts under contracts (agreements) with social security organizations taking into account the probability of debt repayment.

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

Accounts Receivable in Respect of Issued Advances and Other Accounts Receivable

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

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

Expenses for creating the reserve are included in other expenses.

Added and Reserve Capital

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

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

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

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

Profit Tax Settlements

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

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

Deferred tax assets are the part of the deferred profit tax, that must result in a reduction of the profit

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tax to be paid to the budget in the period that follows the period under report or in subsequent periods under report. They are determined by applying the profit tax rate established by the legislation of the Russian Federation on taxes and fees to the deducted temporary differences that have been formed in the period under report.

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

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

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

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

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

Credits and Loans Received

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

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

The interest to be paid on received loans and credits directly used to acquire or construct investment assets are included in the increase of the value of such investment assets until they are put into operation.

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

- providing legal and consulting services to the Company;
- providing agency services to the Company in floating acceptance and bonded loans;

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Explanatory Note to Accounts and Reports for the Year 2007

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conducting expert examinations;
consumption of communication services;
other expenses immediately connected with receiving loans in the monetary form.

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

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

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

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

Recognizing the Income

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

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

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

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

Reimbursement for losses caused by the provision of all-in-one communication services is recognized as other income.

Recognizing the Expenses

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

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2007

Accounting Policy

Reserves for Forthcoming Costs

The Company shall create the following reserves for forthcoming costs:

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

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

Expenses for Pension Insurance

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

Besides, the Company takes part in the pension programme in the framework of non-governmental provision of pensions. The amounts of the dues to be paid are determined on the annual basis and are included in expenses as they arise. (See explanation 9 of this Explanatory Note).

Changes in the Accounting Policy for the Year 2007

Accounting policy changes of the year 2007 were adopted in order to bring the Company's accounting policy into line with the changes and innovations in the standard accounting regulation system in the Russian Federation.

In 2007, in compliance with the new version of the Provisions on Accounting "Accounting of Assets and Liabilities Expressed in a Foreign Currency" (PBU 3/2006) approved by the Order of the Ministry of Finance of the Russian Federation of 27th November 2006 No. 154n, the procedure of accounting for assets and liabilities, the value of which is expressed in a foreign currency and which are to be paid in roubles, has been changed. According to the new rules, for the purposes of making up accounts and reports, the funds in settlements, the value of which is expressed in a foreign currency and which are to be paid in roubles, must be converted into roubles according to the official exchange rate of the foreign currency established by the Central Bank of the Russian Federation as of the reporting date or according to a different, contractual, exchange rate. These changes have not affected the financial reporting of the Company, as the Company used the above rules in preparing its reports for the year 2006.

Starting from 2007 the Company has changed the useful life for the fixed assets put into operation after 1st January 2007. Detailed information on the changes is given above, in the "Fixed Assets" Clause of Part 3, "Accounting Policy".

As to the rest, the accounting policy applied in 2007 corresponded to the one that had been used in the previous fiscal year.

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Changes in the Accounting Policy for the Year 2008

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

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

No other changes capable of seriously influencing the financial reporting are introduced into the accounting policy for the year 2008.

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Comparative Data

(in thousand roubles, unless specified otherwise)

4. Comparative Data

Comparative data in the Company's accounts and reports for the year 2007 have been formed by the adjustment of the data of accounts and reports for the year 2006 in order to bring them in line with the the accounting and reporting indices for the year 2007.

Changes in the Initial Balance Sheet as of 1st January 2007:

		As of 31.12.2006	Adjustments for:	As of 01.01.2007
I. NON-CIRCULATING ASSETS				
Intangible Assets	110	59		59
Fixed Assets	120	23,440,852		23,440,852
Capital investments	130	1,569,981		1,569,981
Profitable investment in stocks of materials and capital equipment	135	-		-
Long-term financial investments	140	221,220		221,220
investment in subsidiaries	141	130,916		130,916
investment in associate companies	142	45,470		45,470
Investment in other companies	143	39,571		39,571
other long-term finance investment	144	5,263		5,263
Deferred tax assets	145	192,044		192,044
Other non-circulating assets	150	3,305,352		3,305,352
Total for section I	190	28,731,508		28,731,508
II. CURRENT ASSETS				
Resources	210	439,258		439,258
raw materials, components and other similar values	211	334,216	1,285	335,501
expenditures in work-in-process (turnover costs)	213	19		19
finished products and goods for resale	214	7,041		7,041
shipped goods	215	-		-
deferred expenses	216	97,982	(1,285)	96,697
other stock and expenses	217	-		-
Value added tax on acquired values	220	689,187		689,187
to be repaid in over 12 months after the reporting date	221	27,510		27,510
to be repaid within 12 months after the reporting date	222	661,677		661,677
Accounts receivable (payments are expected in over 12 months after the reporting date)	230	56,677		56,677
buyers and customers	231	11,645	8,954	20,599
advances distributed	232	-		-
other debtors	233	45,032	(8,954)	36,078
Accounts receivable (payments are expected within 12 months after the reporting date)	240	1,852,172	29,432	1,881,604
buyers and customers	241	1,404,226	1,576	1,405,802
advances distributed	242	72,621		72,621
other debtors	243	375,325	27,856	403,181
Short-term financial investments	250	-		-
Monetary funds	260	221,507		221,507
Other current assets	270	585		585
Total for section II	290	3,259,386	29,432	3,288,818
ASSETS	300	31,990,894	29,432	32,020,326

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		As of 31.12.2006	Adjustments for:	As of 01.01.2007
III. CAPITAL AND RESERVES				
Authorized capital	410	1,131,415		1,131,415
Additional capital	420	7,922,007		7,922,007
Capital reserves	430	56,571	2,426,248	
Own shares purchased from shareholders	440	-	-	-
Retained profit (uncovered loss) of previous years	460	6,598,589	(2,426,248)	9,024,837
Retained profit (loss) of the year under report	470	2,426,248		-
Total for section III	480	18,134,830		18,134,830
IV. LONG-TERM LIABILITIES				
Credits and loans	510	7,580,761		7,580,761
credits	511	2,422,106		2,422,106
loans	512	5,158,655		5,158,655
Deferred tax liabilities	515	892,179		892,179
Other long-term liabilities	520	210,586		210,586
Total for section IV	590	8,683,526		8,683,526
V. SHORT-TERM LIABILITIES				
Credits and loans	610	1,946,371		1,946,371
credits	611	817,660		817,660
loans	612	1,128,711		1,128,711
Accounts payable	620	2,661,823	29,432	2,691,255
suppliers and contractors	621	1,456,506		1,456,506
advances received	622	371,130		371,130
wage arrears	623	105,687		105,687
indebtedness to state off-budget funds	624	47,399		47,399
debt in respect of taxes and fees	625	139,114	3,578	142,692
other creditors	626	541,987	25,854	567,841
Indebtedness to participants (promoters) in respect of income payment	630	17,322		17,322
Deferred income	640	63,621		63,621
Reserves for forthcoming costs	650	483,401		483,401
Other short-term liabilities	660	-		-
Total for section V	690	5,172,538	29,432	5,201,970
LIABILITIES	700	31,990,894	29,432	32,020,326

Retained profit of the year 2006 amounting to 2,426,248 has been transferred from the item "Retained Profit (Loss) of the Year under Report" to the item "Retained Profit (Loss) of Past Years".

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

- as the accounting procedure has been changed, the value of card payment for communication services amounting to 1,285 has been excluded from item 216 "Deferred Expenses" and transferred to item 211 "Raw Materials and Other Similar Values";
- as the employees' debt under contracts of apartment sale and purchase has been carried over, the amount of 8,954 has been excluded from item 233 "Other Debtors" and transferred to item 231

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(in thousand roubles, unless specified otherwise)

"Buyers and Customers – Accounts Receivable (payments of which are expected in over 12 months after the reporting date)";

- as the employees' debt under contracts of apartment sale and purchase has been carried over, the amount of 1,576 has been excluded from item 243 "Other Debtors" and transferred to item 241 "Buyers and Customers – Accounts Receivable (payments of which are expected within 12 months after the reporting date)";

- the increase in items 243 "Other Debtors – Accounts Receivable (payments of which are expected within 12 months after the reporting date)" and 625 "Accounts Payable – Debt in Respect of Taxes and Fees" by 3,578 is connected with the placement of the state property lease VAT;

- as the debt of principals under agency agreements was separated in 2007, items 243 "Other Debtors – Accounts Receivable (payments of which are expected within 12 months after the reporting date)" and 626 "Accounts Payable – Other Creditors" increased by 25,854.

As leased land plots were shown in the initial balance, line 901 "Leased Fixed Assets" increased by 1,411,101.

The said changes in the initial balance do not result in an adjustment of the comparative indices of the Profit and Loss Report for 2006.

Changes in the Comparative Information for the year 2006 in the Profit and Loss Report:

		Before adjustment	Adjustments for:	After adjustment
I. Income from and expenses for normal activities				
Returns from sales of goods, products, works, services	110	20,473,103	(4,575)	20,468,528
including those from the sales of: communication services	111	18,802,645	(4,575)	18,798,070
Prime cost of sold goods, products, works and services:	120	(15,498,679)	(14,539)	(15,513,218)
Including that from communication services	121	(14,617,513)	(14,539)	(14,632,052)
Sale profit	150	4,974,424	(19,114)	4,955,310
II. Other income and expenses				
Interest receivable	060	69,691		69,691
Interest payable	070	(698,393)		(698,393)
Income from participation in other organizations	080	6,736		6,736
Other income	090	668,558	3,888	668,558
Other expenses	100	(1,513,195)	15,226	(1,513,195)
Profit before profit tax	140	3,507,821		3,507,821
Profit Tax Expenses	150	1,081,573		1,081,573
<i>including:</i>				
deferred tax liabilities	151	(277,994)		(277,994)
deferred tax assets	152	(19,458)		(19,458)
current profit tax	153	(784,121)		(784,121)
PROFIT FOR THE PERIOD UNDER REPORT	190	2,426,248		2,426,248

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As the procedure for reporting the subscriber fee charged for the time of telephone switching off has changed, the amount of 4,575 has been excluded from item 110 "Proceeds from Sales of Goods" and has been carried over to item 090 "Other Income".

As the method of civil defense expenses accounting has changed, the expenses amounting to 13,937 have been excluded from item 100 "Other Expenses" and have been carried over to item 120 "Prime Cost".

As the method of modems gratuitous transfer expenses accounting has changed, the expenses amounting to 602 have been excluded from item 100 "Other Expenses" and have been carried over to item 120 "Prime Cost".

As presentation of exchange rates has changed, items 090 "Other Income" and 100 "Other Expenses" have decreased by 687.

Changes in the Comparative Information for the year 2006 in the Capital Changes Report:

As the procedure for reporting the contingent liabilities provision has changed, the amount of the reserve for 2006 (21,612) has been excluded from item 611 "Future Expenses Provisions" and transferred to item 613 "Contingent Liabilities Provisions".

Changes in the Comparative Information for the year 2006 in the Cash Flow Report:

As the methodological instructions have changed, settlements in correspondence with account "Settlements with Advance Holders in Roubles" amounting to 25,907 have been excluded from item 036 "Cash for Other Expenses" and transferred to item 031 "Cash for Payment for Acquired Goods, Works, Services, Raw Materials and Other Current Assets".

As there has been an adjustment in the settlements of 2006 under agency contracts, the amount of 52,287 has been excluded from item 035 "Cash for Settlements under Agency Contracts" and transferred to item 036 "Cash for Other Expenses".

Changes in Comparative Data for the Year 2006 related to Appendix to the Accounting Balance Sheet:

As land plots and buildings were included in the leased fixed assets, item 260 "Fixed Assets Items Received on the Lease Basis – Total" increased by 1,411,101

As there was an adjustment in the settlements of 2006, the amount under item 622 "Change in the Balance of Deferred Expenses" was changed. The adjusted value under this item has amounted to 18,544.

5. Explanations to Essential Items of the Balance Sheet**5.1. Fixed Assets (line 120 of Balance sheet)**

As of 1st January 2007, the Company did not re-value the fixed assets.

Change in the value of fixed assets:

	2007	2006
Initial value as of the start of the year	39,881,532	36,519,408
Increase in the value, total	9,399,200	4,234,649
<i>including that through:</i>		
acquisition of new facilities	1,942,224	816,632
construction, updating and renovation of the operating facilities	7,368,640	3,344,708
free receipt	3,425	5,281
other receipts (including those recorded as leased in the off-balance account)	84,911	68,028
Reduction (retirement) in the value, total	(570,143)	(872,525)
<i>including that through:</i>		
sales	(168,679)	(295,437)
writing-off (partial liquidation)	(394,369)	(567,508)
other kinds of withdrawal	(7,095)	(9,580)
Initial value as of the end of the year	48,710,589	39,881,532
Accumulated depreciation as of the start of the year	(16,438,680)	(14,536,169)
Depreciation accrued for the period	(3,013,160)	(2,508,281)
Adjustment of depreciation accrued in previous years	(5,636)	(7,814)
Increase of depreciation for leased facilities	(80,108)	(66,758)
Depreciation of withdrawn items		
for sold items	111,508	198,001
for written off items	319,871	480,058
for other kinds of facilities withdrawal	1,127	2,283
Accumulated depreciation as of the end of the year	(19,105,078)	(16,438,680)
Residual value as of the start of the year	23,442,852	21,983,239
Residual value as of the end of the year	29,605,511	23,442,852

The bulk of the acquired fixed assets are transmission devices and other network equipment – 55.12%, and computing and office facilities – 26.37%. The bulk of the constructed fixed assets are transmission devices and other network equipment – 71%.

The initial value of the fixed assets, for which 100% depreciation has been charged (completely worn fixed assets) and which, however, continue to be operated, was 5,167,854 as of 31st December 2007 (4,463,147 as of 31st December 2006).

The residual value of the fixed assets pledged by the Company as security for liabilities and payments was 966,712 (1,517,075 as of 31st December 2006).

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

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Fixed Assets Received under Contracts of Leasing

As of 31st December 2007 the Company had 27 effective contracts of financial (lease) leasing for the lease of transport facilities, computer facilities, switchboards and other telecommunication equipment. The lease periods are up to 60 months.

Value of fixed assets acquired under leasing contracts:

	As of 01.01.2007	as of 31.12.2007
Fixed assets on the balance sheet of the Company:		
-initial value	1,313,101	1,037,395
-accumulated depreciation	(815,900)	(797,435)
-residual (book) value	497,201	239,960
Fixed assets on the balance sheet of the lessor:		
-contractual value	119,506	39,514

Amounts of impending leasing payments:

Payment timing	Amounts to be paid, total	Including:	
		those for fixed assets (recorded within liabilities in items 520 and 620 of the Balance Sheet)	those for fixed assets (not recorded within liabilities)
2008	177,533	173,062	4,471
years 2009-2013	15,198	12,956	2,242
Total	192,731	186,018	6,713

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

	As of 01.01.2007	As of 31.12.2007
Investment in non-circulating assets, total:	1,383,815	1,876,158
<i>including:</i>		
construction, updating and renovation of fixed assets objects	1,344,204	1,859,579
capital investment in leased fixed assets objects	-	-
acquisition of fixed assets	39,547	16,538
acquisition of fixed assets under contracts of leasing	-	-
research and design work in progress	-	-
other	64	41
Equipment to be installed	186,166	110,335
Total	1,569,981	1,986,493

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Change in the value of in non-circulating assets investment in progress		
	2007	2006
Investment within the period under report, total	9,820,479	5,022,593
<i>including:</i>		
acquisition of new facilities	1,600,915	363,839
Construction, updating and renovation of the operating facilities	8,216,139 4	652,163
received free of charge	3,425	5,282
other receipts	-	1,309
Disposal of investment within the period under report, total	(9,328,136)	(4,189,255)
<i>including:</i>		
commissioned items	(9,311,663)	(4,166,622)
sold items	(660)	(321)
written off items	(4,267)	(734)
other kinds of withdrawal	(11,546)	(21,578)
Investment in non-circulating assets as of the end of the year	1,876,158	1,383,815

The Company is building and renovating the following telecommunication facilities:

Of the total amount of the investment of the year 2007 in the construction, upgrading and renovation of fixed assets, an investment of 657,631 was made to bring Company's networks in line with the requirements of the standards and legal acts concerning the construction of telecommunication networks and traffic transmission.

In 2007 the Company did not capitalize interest on borrowed funds in the cost of construction-in-progress.

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2007**

Explanations to Essential Items of the Balance Sheet

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

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

Company	Area of activities	Investments value	Share in the authorize d capital, %	Percentage of voting shares
As of 01.01.2007				
Subsidiaries				
LLC Novgorod Datacom	Communication services	68,008	100	-
LLC Artelecom Service	The Company was being liquidated	62,053	77	-
CJSC AMT	Central Bank transactions	11,600	100	100
CJSC IC Svyaz	The Company was being under reorganization in the form of merger with CJSC AMT	7,972	100	100
CJSC SPIC	Information and reference services	2,712	60	60
Other	-	1,187	-	-
Reserve against depreciation		(22,616)		
Total for subsidiaries (item 141):		130,916		
Affiliates				
CJSC WBT	Communication services	11,344	28	28
Insurance CJSC Medexpress	Insurance business	34,092	25	25
Other	-	40	-	-
Reserve against depreciation		(6)		
Total for affiliates (item 142):		45,470	-	-
Other companies				
OJSC Telecominvest	Telecommunications Holding	24,500	15	15
OJSC Svyazintek	Information technologies	12,591	11	11
CJSC Russian Industrial Bank	Banking	2,071	8.82	8.82
Other		417	-	-
Reserve against depreciation		(8)		
Total for other companies (item 143):		39,571	-	-
Total as of 01.01.2007:		215,957		

OJSC North-West Telecom

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Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Company	Area of activities	Investments value	Share in the authorize d capital, %	Percentage of voting shares
As of 31.12.2007				
Subsidiaries				
CJSC PTT	Communication services	2,572,231	100	100
LLC Novgorod Datacom	Communication services	68,008	100	-
CJSC AMT	Central Bank transactions	19,572	100	100
CJSC SPIC	The Company is being liquidated	-	-	-
Other		685		
Reserve against depreciation	-	(2,712)		
Total for subsidiaries (item 141):		2,660,496	-	-
Affiliates				
CJSC WBT	CJSC WBT	11,344	28	28
Insurance CJSC Medexpress	Insurance CJSC Medexpress	34,092	25	25
Total for affiliates (item 142):		45,436	-	-
Other companies				
OJSC Svyazintek	Information technologies	12,591	11	11
CJSC Russian Industrial Bank	On 29 th January 2008 the Company was excluded from the Unified State Register of Legal Entities upon completion of reorganization procedures in the form of affiliation of AKB Svyaz-Bank to OJSC	2,071	8.82	8.82
Other		409	-	-
Total for other companies (item 143):		15,071	-	-
Total as of 31.12.2007:		2,721,003	-	-

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

	Reserve as of 01.01.2007	Reserve formed	Reserved spent	Reserve restored	Reserve as of 31.12.2007
Reserve for subsidiaries <i>including:</i>	22,616	2,712	(9,613)	(13,003)	2,712
-LLC Artelecom Service	22,614	-	(9,611)	(13,003)	-
-CJSC SPIC	-	2,712	-	-	2,712
- other	2	-	(2)	-	-
Reserve for affiliates	6	-	(6)	-	-
Reserve for other companies	8	-	(8)	-	-
Total	22,630	2,712	(9,627)	(13,003)	2,712

An audit of share investments for devaluation has revealed a decrease in the value of investment in the stock of CJSC SPIC. There was a slow-down of Company's business activity during 2007. At the end of the period under report, CJSC SPIC stopped providing reference and information services upon transferring the assets to the Company as repayment of the debt under loan agreements, which shows that its operation has been terminated. The extraordinary general meeting of the shareholders held on 24th December 2007 took a decision on voluntary liquidation of CJSC SPIC, and on 9th January 2008 an entry was made in Unified State Register of Legal Entities on starting the liquidation procedures. As a result, in 2007 the Company created a reserve against devaluation of the financial investment in the stock of CJSC SPIC, amounting to 2,712.

The income obtained in the form of dividend from financial investment in authorized capitals of subsidiaries, associate and other companies is shown in item "Income from Participation in Other Organizations" in the profit and loss report, to the amount of 84,150 (6,736 in 2002).

In compliance with the respective decision of the Board of Directors, in January 2007 the Company acquired 100% of common voting shares of CJSC P.P.T. for 2,571,227. The expenses for the acquisition of the block of shares amounted to 1,004. The shares were acquired for expanding the scale of Company's operations and improving the quality and comparative capacity of the provided services in the telecommunications market. The entry in the shareholders register evidencing the passage of the title to the said securities was made on 22nd January 2007.

In July 2007 the Company and LLC AF Telecom Holding made a contract of sale and purchase of OJSC Telecominvest's shares held by the Company. The price of the withdrawn shares amounting to 24,500, as well as Company's additional expenses for the sale of the shares amounting to 3,086, were included in other expenses and were reported in item 100 of the profit and loss report. Income from the sale amounted to 10,243,522 and were reported in item 090 of the profit and loss report.

In December 2007 the Company and CJSC TELECOM MTK made a contract of sale and purchase of the 100% share of the Company in the authorized capital of LLC RSU-Telecom. The price of the share amounting to 500, as well as Company's additional expenses for the sale of the share amounting to 59, were included in other expenses and were reported in item 100 of the profit and loss report. Income from the sale amounted to 3,300 and were reported in item 090 of the profit and loss report.

In compliance with the Order of the General Manager of OJSC N.W.Telecom, financial investments in the following non-operating organizations were written off in 2007: LLC BONA, SPb CTJSC Dancell, CTJSC Commercial Television and Radio, CJSC Octagon Technologies, CTJSC KIT, LLP RON. The loss from writing off the investments in the organizations that stopped their operations amounted to 16.

In July 2007 the procedures of voluntary liquidation of CJSC Parma Telecom were completed, and the price of the withdrawn shares amounting to 34 was included in other expenses and reported in item 100 of the profit and loss report.

In compliance with the respective decision of the Board of Directors, in April 2007 the corporate procedures of the reorganization of OJSC N.W. Telecom's 100% subsidiaries - CJSC AMT and CJSC IK Svyaz – in the form of affiliation of CJSC IK Svyaz with CJSC AMT – were completed.

Explanatory Note to Accounts and Reports for the Year 2007

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In December 2007 the procedures of voluntary liquidation of LLC Artelecom Service were completed. The difference between the value of the share in the authorized capital of the liquidated company amounting to 62,053 and the market value of the property received by the Company as a result of liquidation amounting to 52,376 (including equipment - 45,619 and cash - 6,548) was included in other expenses of the profit and loss report. The reserve for devaluation of the financial investment in the authorized capital of LLC Artelecom Service amounting to 22,614 was restored in 2007.

In 2007 debt instruments held by the Company were not quoted in the securities market, and, as a result, the Company did not make any adjustment of the value of long-term financial investment.

5.4. Other long-term and short-term financial investments (items 144 and 250 of the Balance Sheet)

Other long-term financial investments of the Company (item 144) amounting to 5,263 as of 31st December 2006 were presented by the debt of CJSC SPIC, acquired by the Company in 2006 by cession of the right of claim. In 2007 CJSC SPIC transferred the assets to the Company as repayment of the debt.

Other short-term financial investments of the Company (item 250) make 6,312,290 as of 31st December 2007 (0 as of 31st December 2006) and include:

Organization	Type of financial investment	Value as of the date under report	Annual interest rate	Repayment date
OJSC JSCB "Svyaz-Bank"	notes	1,800,000	7.5%	Upon presentation, however, not earlier than 12.12.2007
OJSC JSCB "Svyaz-Bank"	notes	2,600,000	8.5%	Upon presentation, however, not earlier than 12.03.2008
OJSC JSCB "Svyaz-Bank"	notes	1,800,000	8.5%	Upon presentation, however, not earlier than 12.04.2008
Accrued interest on notes		112,290		
Total		6,312,290		

In October 2007 the Company acquired 40 interest-bearing short-term notes of AKB Svyaz-Bank at face value for the total amount of 8,000,000. In December 2007 nine notes with the total face value of 1,800,000 were retired, and the total amount of the received interest made 23,485. The amount of the interest accrued on the notes as of 31st December 2007 (112,290) has been taken into account within financial investment and presented in line 250.

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

Deferred tax assets flow in 2007:

	2007	2006
Balance as of the start of the year	192,044	215,805
Deferred tax assets flow in the period under report	82,166	(23,761)
Balance as of the end of the year	274,210	192,044

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

	As of 01.01.2007	As of 31.12.2007
Deferred expenses for software acquisition	2,680,488	3,146,226
Advances paid as settlement for acquisition and formation of non-current assets	624,864	217,275
Total	3,305,352	3,363,501

Oracle E-Business Suite Software

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

	2006	2007
Oracle E-Business licenses and implementation expenses		
-as of the start of the year	673,469	618,899
- implementation expenses incurred	227,849	123,018
--written off to normal operation expenses	(94,033)	(68,448)
-as of the end of the year	807,285	673,469

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

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

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Amdocs Billing Suite Software

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

	As of 01.01.2007	As of 31.12.2007
Cost of Amdocs Billing Suite licenses	542,159	542,159
Implementation expenses	288,354	341,810
Total	830,513	883,969

The project of implementing the unified automated settlements system on the Amdocs Billing Suite platform is expected to take 4 or 5 years.

The system implementation work was started in May 2006.

The costs of acquiring and implementing the Amdocs Billing Suite software will be written off to Company's current expenses from the moment its operation starts. It is expected that the costs will be written off in proportion to the cost of the implemented modules during their useful life period which will be determined by the moment of operation start.

HP Open View IUM software

As of 31st December 2006 and 2007, deferrals contained the cost of the licenses (worth of 208,470) for the acquisition of the HP Open View IUM pre-billing software for the purpose of implementing the Amdocs Billing Suite unified authorized settlements system. Unified centralized pre-billing is required for the centralization of settlements with interconnected operators and for transmitting information to Amdocs Billing Suite.

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

The HP Open View IUM software was delivered in December 2006 by LLC Paladin Invent. CJSC ISG (Integrated Services Group) is dealing with the preparation of the requirements specification and implementation. In 2007 the costs of implementing the software amounted to 6,362 and were included in the deferrals (there were none in 2006).

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

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Company's Software of the Communication Network Service Support System (CNSSC)

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

	As of 01.01.2007	As of 31.12.2007
Software cost	123,897	211,364
Implementation expenses	298,198	436,259
Total	422,095	647,623

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

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

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

Services of Company's Information Systems Development

Deferrals for the acquisition of software products and databases include the following expenses of the Company:

	As of 01.01.2007	As of 31.12.2007
Developing the program for network control and operation processes optimization	74,576	62,778
Developing the concept of replacing the telematic services management and accounting systems	27,119	-
Developing the concept of information systems transformation	28,215	33,490
Developing the program for billing transformation	61,341	30,792
Total	191,251	127,060

The development of the program for network control and operation processes optimization was completed in May 2007. The total costs for this project for the years 2006-2007 amounted to 83,705. At the same time, in May 2007 the implementation of the program started, and the Company is expecting that this process will be over by September 2009. The costs of the development of the program for network control and operation processes optimization are written off by the Company to expenses related to normal activities during the program implementation period.

The concept of replacing the telematic services management and accounting systems implied developing the optimum ways of replacing the operating systems with a single system, alleviating the effects of possible risks and solving the problem of transition to a unified system. In 2007 the Company worked on implementing this concept, so the complete amount of the costs (30,190) for the development of the concept was written off to the expenses related to the normal operations.

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The concept of transforming OJSC N.W. Telecom's information systems comprises forming a model of a Company's integration solution, pilot introduction of the integration solution at one of the branches, developing user documentation for pilot implementation of the Company's integration solution for further deployment.

The Company expects that the expenses will be written off in the period established as the useful life for Amdocs Billing Suite.

The costs of developing the program for billing transformation are written off to expenses related to normal activities starting from 2005 during the program implementation period, which, as Company expects, must be over by September 2010.

5.7. Inventories

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

	As of 01.01.2007	As of 31.12.2007
Spare parts and other basic materials	103,715	94,183
Inventories worth less than 10,000 roubles	31,408	72,855
Cable	86,844	70,699
Construction materials	11,174	49,102
Economic implements	25,857	21,514
Fuel	16 197	17,033
Other	60 306	51,799
Total	335,501	377,185

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

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

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

The reduction of the VAT by 514,831 is accounted for mainly by the decrease of the VAT on capital construction facilities and sites, software and leasing liabilities.

5.9. Long-term Buyers' and Customers' Accounts Receivable (line 231 of the Balance Sheet)

The long-term accounts receivable under settlements with buyers in respect of sold assets amounted to 14,951 as of 31st December 2007 (20,599 as of 31st December 2006).

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Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

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

	Total debt	Doubtful debt reserve	Indebtedness less doubtful debt reserve
As of 01.01.2007			
Settlements with buyers in basic areas of activity:			
with individuals	569,171	(50,185)	518,986
with budgetary organizations	89,082	(6,210)	82,872
with commercial organizations	204,721	(19,123)	185,598
with communication operators	488,708	(18,785)	469,923
with social security authorities in respect of settlements related to provision of privileges to certain categories of subscribers	189,773	(189,773)	-
Settlements with buyers in secondary areas of activity	87,526	(10,517)	77,009
Settlements with buyers in respect of realized assets	73,967	(2,553)	71,414
Total as of 01.01.2007	1,702,948	(297,146)	1,405,802
As of 31.12.2007			
Settlements with buyers in basic areas of activity:			
with individuals	644,172	(69,135)	575,037
with budgetary organizations	79,140	(5,708)	73,432
with commercial organizations	264,053	(24,501)	239,552
with communication operators	557,229	(104,024)	453,205
with social security authorities in respect of settlements related to provision of privileges to certain categories of subscribers	8,617	(8,617)	-
Settlements with buyers in secondary areas of activity	91,791	(16,722)	75,069
Settlements with buyers in respect of realized assets	21,549	(1,014)	20,535
Total as of 31.12.2007	1,666,551	(229,721)	1,436,830

Comparative data in the table as of 1st January 2007 have been formed by the adjustment of the data of final accounts and reports as of 31st December 2006 in order to bring them in line with the the accounting and reporting indices for the year 2007.

Line in table	Balance as of 31.12.2006	Balance as of 01.01.2007	Discrepancies	Comments
Settlements with buyers in basic areas of activity:				
with commercial organizations	182,133	204,721	22,588	As the Card of Accounts changed, the accounts receivable under contracts with communications operators, the subject-matter of which was not related to operators' services, were carried over to the accounts receivable of commercial organizations
with communication operators	511,296	488,708	(22,588)	

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The debt of the social security agencies in settlements related to the provision of privileges to certain categories of subscribers made 0.5% of the total amount of the buyers' accounts receivable as of 31st December 2007 (11.3% as of 1st January 2007). These accounts receivable arose during the period before January 2005, when article 47 of Federal Law No. 126-FZ of 7th July 2003 "On Communications" took effect, according to which the procedure of providing privileges to individuals in the provision of services to them by communication organizations was changed. Before January 2005 users of communication services entitled to privileges paid 50% of the price of such services themselves, while the other 50% were to be made up for from the federal budget.

In 2007 the Company recovered 181,301 from the federal budget through the court as repayment of the said debt and expects to recover 5,000 in 2008.

Flow of doubtful debt reserve in respect of buyers' and customers' accounts receivable in 2007:

	Reserve as of 01.01.2007	Reserve formed	Reserved spent	Reserve restored	Reserve as of 31.12.2007
Total reserve	297,146	152,919	(7,778)	(212,566)	229,721

5.11. Other accounts receivable (expected within 12 months after the reporting date) (line 243 of the Balance sheet)

	As of 01.01.2007	as of 31.12.2007
Settlements in respect of taxes and fees	268,630	329,266
Settlements with attorneys (brokers, agents)	15,630	27,514
Settlements with the personnel under other transactions	19,275	23,520
Settlements in respect of social insurance and security	16,172	12,003
Claim settlements	5,829	8,169
Settlements in property insurance and personal insurance	88	4,035
Settlements in respect of due income	546	997
Other settlements	77,011	275,968
Total	403,181	681,472

As of 31st December 2007 the "Other Settlements" item reflected the debt of the Federal Communications Agency to the Company in respect of reimbursement for the losses related to the provision of all-in-one communication services for the 4th quarter 2007 to the amount of 221,934 (there was none as of 31st December 2006).

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

Flow of doubtful debt reserve in respect of other accounts receivable in 2007:

	Reserve as of 01.01.2007	Reserve formed	Reserved spent	Reserve restored	Reserve as of 31.12.2007
Total reserve	24,426	120	(26)	(1,119)	23,401

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

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

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

The following parties were the Company's key shareholders as of 31st December 2007:

Shareholders	Interest in the authorized capital	Common shares		Preferred shares	
		Number thous. pcs.	%	Number thous. pcs.	%
Legal entities, total:	89.4%	841,455	95.5%	170,372	68.1%
including:					
- OJSC Svyazinvest.	39.5%	447,231	50.8%	-	-
-parties holding over 5% of authorized capital including:					
1. CJSC DKK	14.4%	96,123	10.9%	66,456	26.5%
2. UBS Nominees Pty Ltd	11.7%	109,815	12.5%	22,776	9.1%
3. ING Bank (Eurasia) CJSC	10.7%	81,757	9.3%	39,377	15.7%
6. NP NDC	10.9%	90,663	10.3%	32,276	12.9%
-other parties	2.2%	15,866	1.7%	9,487	3.9%
Individuals, total:	10.6%	39,590	4.5%	79,997	31.9%
Total	100.0%	881,045	100.0%	250,369	100.0%

As of 31st December 2007, the authorized capital of the Company was completely paid up. Preferred shares do not grant the right of vote. They cannot be converted into common shares, however, they give the right of getting an annual fixed dividend, except for the cases provided for by the Company's Articles of Association. The total amount paid as dividend on each preferred type A share is established as 10 per cent of the Company's net profit based on the results of the last fiscal year, divided by the number of shares that make 25 per cent of the Company's Authorized Capital. If the total amount of the dividend paid by the Company on each common share in a certain year exceeds the amount to be paid on each type A preferred share, then the amount of the dividend paid on preferred shares must be increased to the amount of the dividend paid on common shares. According to the Order of the Federal Executive Authority for the Securities Market of 11th August 2001 No. 701/r and of 3rd January 2002 No. 1590/r, the Company was given the permission for circulation of Company's common shares outside the Russian Federation in the form of American Depositary Receipts (ADR) - 536,718,855 Receipts. Each depositary receipt corresponds to 50 common shares of the Company. As of 31st December 2007, 1,084,818 ADRs were issued (1,082,726 as of 31st December 2006), against which 54,240,900 common shares were deposited in the J.P.Morgan depositary bank (54,136,300 as of 31st December 2006), which made 6.16% (6.14% as of 31st December 2006) of the total number of the issued common shares.

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Flow of the registered ADRs for the years 2006-2007:

	ADRs (number)	Equivalent number of common shares	Common stock, %	Authorized capital, %
As of 1st January 2006	942,619	47,130,950	5.4%	4.2%
Increase for the year 2006	140,107	7,005,350		
As of 1st January 2007	1,082,726	54,136,300	6.1%	4.8%
Increase for the year 2007	2,092	104,600		
As of 31st December 2007	1,084,818	54,240,900	6.2%	4.8%

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

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

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

As of 31st December 2007 the Company had no redeemed own shares.

5.14. Dividend

In 2007, pursuant to the decision of the General meeting of shareholders, payment of dividend for the year that ended on 31st December 2006 was stated to the amount of 0.357 roubles per common share and 0.858 roubles per preferred share.

The amount of dividend to be paid amounted to 529,350,111 roubles.

Shares	Number of shares(pcs.)	Dividend per share (roubles)	Total amount of dividend (roubles)
For 2005			
Type A preferred shares	250,369,337	0.652	163,240,808
Common shares	881,045,433	0.265	233,477,040
Total	1,131,414,770	-	396,717,848
For 2006			
Type A preferred shares	250,369,337	0.858	214,816,891
Common shares	881,045,433	0.357	314,533,220
Total	1,131,414,770	-	529,350,111

The enclosed financial reports show a reduction of the retained profit in the amount of dividends for the year 2006. The dividends for 2007 are not shown. It will be shown as the use of the retained profit during the year expiring on 31st December 2008, after it is approved by the annual general meeting of the shareholders of the Company.

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

Long-term debts	As of 01.01.2007	as of 31.12.2007
Bank credits		
bank credits (roubles)	1,458,314	885,003
bank credits (US Dollars)	-	2,454,620
bank credits (euros)	963,792	199,629
Total credits (line 511)	2,422,106	3,539,252
Loans		
Bonded loans (roubles)	5,000,000	2,000,000
Other loans (euros)	158,655	133,638
Total loans (line 512)	5,158,655	2,133,638
Total long-term debt in respect of credits and loans (line 510)	7,580,761	5,672,890
Short-term debts		
Bank credits		
bank credits (roubles)	45,525	1,185,327
bank credits (US Dollars)	-	22,641
bank credits (euros)	772,135	799,267
Total credits (line 611)	817,660	2,007,235
Loans		
Bonded loans (roubles)	1,100,110	3,032,310
Note loans (roubles)	4,440	-
Other loans (euros)	24,161	30,698
Total loans (line 612)	1,128,711	3,063,008
Total short term debt in respect of credits and loans (line 610)	1,946,371	243
Of which short-term portion of long-term credits and loans	1,899,552	5,002,499

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Key creditors

Name	Long-term debts		Short-term debts		interest rate
	01.01.2007	31.12.2007	01.01.2007	31.12.2007	
Bank credits					
Closed-end credit lines of the North-West Bank of the RF Savings Bank (loan debt: 758,314, repayment period: 2008-2009, security -904,122)	758,314	177,860	43,162	582,230	7.75%-10.5%
Open-end credit lines of the North-West Bank of the RF Savings Bank (loan debt: 0, without security)					6.3%
Long-term credits: CJSC Kommerzbank (Eurasia) (repaid ahead of schedule during reporting year, without security); CJSC Raiffeisenbank (loan debt: 800,000, repayment period: 2008-2009, without security); CJSC ING Bank (Eurasia) (loan debt: 500,000, repayment period: 2008-2009, without security)	700,000	707,143	2,363	603,097	Mosprime 3M+margin (2.3-2.4%%): Actual rate: 7.10 –9.65%%
Syndicated loan organized by Citibank N. A. for 50 MIO euros (repayment period: 2007-2009, without security)	963,792	199,629	772,135	799,267	EURIBOR 3M+ margin (2%) Actual rate: 5.72%-6.77% :
Syndicated loan organized by Bank Austria Creditanstalt AG and CJSC MMB for 100 MIO US dollars (repayment period: 2009 - 2012, without security)	-	2,454,620	-	22,641	Tranche A: \$50 MIO: 3 months LIBOR+ 0.95% Actual rate: 5.96%-6.46% : Tranche B: \$50 MIO: 3 months LIBOR+ 1.25% Actual rate: 6.14%-7.00% :
Other borrowings					
Bonded loan No. 2 (loan debt repaid during reporting year)	-	-	1,068,990	-	loan repaid
Bonded loan No. 3 (loan debt: 3,000,000, repayment period: 2010-2011, without security)	3,000,000	-	23,580	3,024,330	9.25%
Bonded loan No. 4 (loan debt: 2,000,000, repayment period: 2009-2011, without security)	2,000,000	2,000,000	7,540	7,980	8.10%
RF Ministry of Finance (loan debt: 4,573,000 euros, repayment period: according to schedule till 2011 incl.; security: equipment pledge for 380,912)	158,655	133,638	24,161	30,698	3.00%

The Company has no overdue liabilities in respect of credits or loans as of the date of signing the accounts and reports.

The costs incurred by the Company in connection with obtaining and using credits and loans are included in other expenses (863,269 in 2007 and 698,393 in 2006).

Loan Liabilities to RF Ministry of Finance

In 1995-1996 the Company (the assignee of OJSC SVYAZ of the Komi Republic) obtained state credits from the RF budget to pay for deliveries of imported telecommunication equipment to the Republic of Komi. The Bank for Foreign Economic Activities of the USSR (Vnesheconombank) was the agent for Company's crediting who acted in the name and on behalf of the RF Government (RF Ministry of Finance). Company's liabilities to the RF Government were made out in the form of two debt instruments:

No. 52-1-1-27 of 2nd December 2002 and

No. 150-1-1-27 of 21st March 1995.

Euro is the currency of the agreement.

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

As of 31st December 2007, the total amount of the debt to the RF Ministry of Finance was 164,336 (4,573,000 euros), including the short-term part of 30,698 (854,000 euros), and the amount of penalty interest to be written off on the terms of the Agreement in the year 2011 was 5,498 (153,000 Euros). Current interest under the Agreement is charged at the rate of 3% per annum. Company's liabilities under the Agreement are secured by the pledge of fixed assets in compliance with the contract of pledge at the total pledge value of 380,912.

Credits

In 2007 the Company made 3 contracts of opening open-end credit lines with the North-West Bank of the RF Savings Bank for 930,000 with the validity period up to 120 days each, within the framework of which 2,456,952 were borrowed and repaid. The last of the contracts expired on 26th October 2007. The interest rate under the contracts was 6.3%. The credits were provided without a security.

In 2007 the Company borrowed all in all 1,200,000 under contracts of long-term crediting made with CJSC Raiffeisenbank (700,000) and CJSC ING Bank (Eurasia) (500 000) in 2006. The credits will be completely repaid in 2009.

In 2007 the Company entered into the following agreements of loan, under which no borrowings were taken in 2007:

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Name of bank	Subject of the contract	Total amount of the contract/credit line limit	No. of contract	Date of making up contract	Expiry date of contract	Currency of contract	interest rate
JSCB SB of RF	Renewable credit line opening agreement	315,000	5503-117007	31.10.2007	27.02.2008	RUR	6.30%
JSCB SB of RF	Renewable credit line opening agreement	310,000	5503-119407	30.11.2007	28.03.2008	RUR	6.30%
JSCB SB of RF	Renewable credit line opening agreement	305,000	5503-121207	29.12.2007	25.04.2008	RUR	6.30%

Syndicated loan (50,000,000 Euros)

In 2005 the Company took a syndicated loan of 50,000,000 euros for 37 months from the date of receiving it. The loan was received on 23rd December 2005. Citibank N.A. is the Organizer of the syndicated loan, and Citibank International PLC is the Agent. Repayment is effected in nine equal quarterly instalments, starting from 23rd March 2007. The final payment will be effected on 23rd January 2009. The contractual terms provide for the payment of obligatory costs, should such be incurred.

The interest rate under the loan is the aggregate of the Euribor rate + a margin of 2%. During 2008 the Euribor rate varied from 3.72% to 4.77%.

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

The credit was provided without a security.

The sum total of the interest charged on the loan for the year 2007 made 89,126 (2,547,148 euros). The amount of the principal debt repaid in 2007 made 22,222,222 euros, and the balance of the principal debt was 998,144 (27,777,778 euros).

As a result of having the syndicated loan in a foreign currency (euros), the Company assumes the risk of an increase of the amount of payments in roubles under this liability with the growth of the euro-to-rouble exchange rate (opens a short position for this currency). To check and minimize the possible adverse effect from a fall in the rouble-to-euro exchange rate (with the syndicated loan being nominated in euros), the Company took a decision on hedging (insuring) the currency risks.

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

The first stage of insurance (hedging) of currency risks was carried out in 2006 according to the

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following schedule:

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

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

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

In March, June, September and December 2007 the Company completely fulfilled the liability of buying the currency (euros) under the hedging transactions that had been made.

For the purposes of information disclosure as of the reporting date, the bank's debt in currency delivery was shown in balance sheet line 910 "Conversion Transaction Requirements", and in line 911 "Conversion Transaction Liabilities" the Company showed the debt in the payment of this currency (595,521).

Syndicated Loan (100,000,000 US Dollars)

In 2007 the Company took a syndicated loan of 100,000,000 US dollars. CJSC International Moscow Bank (whose name was changed to CJSC UniCredit Bank starting from 25th December 2007) acted as an authorized leading Organizer and the initial Creditor; and Bank Austria Creditanstalt AG acted as an authorized leading Organizer and Agent. The Agreement was signed on 19th July 2007.

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

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

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

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

In 2007 the respective London Interbank Offered Rate (LIBOR) was from 5.36% to 5.75%.

The interest accrual and payment period is three months.

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

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

There was no pre-schedule repayment of the principal debt during 2007.

32,254 (1,298,165 US dollars) of interest accrued under Tranche A and 27,847 (1,127,658 US dollars) under Tranche B in 2007.

Restrictions Related to Received Credits and Loans

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

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

Credit agreements with CJSC ING Bank (Eurasia), Citibank N.A. and Bank Austria Creditanstalt AG and CJSC UniCredit Bank (the former CJSC MMB):

- 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 be lower than 4:1;
- the net amount of borrowed funds to net capitalization must not exceed 1.

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

Credit agreement with CJSC Raiffeisenbank:

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

Credit agreement with ING Bank (Eurasia) CJSC:

- all or a significant part (over 15% of the total volume) of the property, liabilities or assets of the Company are subject to a penalty or seizure, or a party, in whose favour an incumbrance has been created, takes possession of them;
- the Company takes a decision (or other measures are taken or court proceedings are initiated) to dissolve or liquidate it, to introduce trusteeship or examinership, or to compromise with its creditors or to appoint a liquidator, external administrator, interim receiver or a similar official for the Company.

Credit agreements with JSCB RF Savings Bank (Sberbank):

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

Liabilities to Ministry of Finance of RF:

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

According to the terms of the agreement of loan with Citibank N.A., restrictions are introduced for operations:

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

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

According to the terms of the agreement of loan with Bank Austria Creditanstalt AG and CJSC UniCredit Bank (the former CJSC MMB), restrictions are introduced for operations:

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

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

According to the terms of the agreement of loan with CJSC ING Bank (Eurasia), restrictions are introduced for operations:

- dividend for a year < 100% of the year's net profit;
- issued loans, sureties and guarantees < 10,000,000 euros;
- consolidation, take-over or merger with any other party < 100,000,000 euros;
- sum total of assets sale transactions for a year < 10% of assets value for a year.

The Company fulfilled the above terms in 2007.

Bonded Loans

In July 2003 the Company registered the issue of 1,500,000 documentary interest-bearing coupon bonds (the state registration No. 4-02-00119-A of 08th July 2003) with the face value of 1,000 roubles each, and the floatation took place on 8th October 2003.

The Bonds had 16 coupons. Payments for the 1st coupon were effected on the 91st day from the day of the Bonds floatation start, and other coupon payments were effected on each 91st day. The interest rate for 13-16 coupons has been fixed as 7.5% per annum. The funds gained from Bonds' issue were used to fund Company's investment projects and for refunding of existing credit portfolio.

In 2007 the Company fully executed its liability to pay coupon yield for 13-16 coupons established as 7.5% per annum in the amount of 61,710. The coupon yield for 13-14 coupons charged on a bond is 19.09 roubles. The coupon yield for 15-16 coupons charged on a bond is 7.48 roubles. The obligation was fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

In 2007 the face value of the bonds was retired by piece-meal on the following dates: 30% of the face value – on 4th April 2007; 40% of the face value – on 3rd October 2007.

The Bonds were fully repaid as of 31st December 2007.

In December 2004 the Company registered the issue of 3,000,000 documentary interest-bearing coupon bonds (the state registration No. 4-03-00119-A of 28th December 2004) with the face value of 1,000 roubles each, and the floatation took place on 3rd March 2005. The Bonds have 24 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 interest rate for the coupons from 1 through 12 has been established in the amount of 9.25% per annum. The interest rates for coupons from 13 through 24 have been established by the decision of the Company's Board of Directors on 11th February 2008 in the amount of 8.6% per annum. The funds gained from Bonds' issue were used to fund Company's investment projects and for refunding of existing credit portfolio.

The issued bonds provide for an offer, which allows the bond holders to present them to the Company on the appointed date, within 12 months from the date of these reports, the date of the offer being 6th March 2008, on the basis of which the debt of 3,000,000 has been classified as a short-term debt.

In 2007 the Company fully executed its liability to pay coupon yield for 8-11 coupons established as 9.25% per annum in the amount of 276,720. The coupon yield charged on a bond is 23.06 roubles. The obligation was fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

The face value of the bonds is retired by piece-meal on the following dates: 30% of the face value – on 25th February 2010, 30% of the face value – on 26th August 2010, 40% of the face value is to be

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retired on 24th February 2011.

As of 31st December 2007, the outstanding balance of the loan was 3,000,000.

In October 2006 the Company registered the issue of 2,000,000 documentary interest-bearing coupon bonds (the state registration No. 4-04-00119-A of 31st October 2006) with the face value of 1,000 roubles each, and the floatation took place on 14th December 2006. The Bonds have 20 coupons. Payments for the 1st coupon are effected on the 91st day from the day of the Bonds floatation start, and other coupon payments are effected on each 91st day. The coupon interest rate has been established in the amount of 8.1% per annum. The funds gained from Bonds' issue were used to fund Company's investment projects and for refunding of existing credit portfolio.

The face value of the bonds is retired by piece-meal on the following dates: 25% of the face value – on 10th December 2009, 25% of the face value – on 09th December 2010, 50% of the face value is to be retired on 08th December 2011.

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.

According to the Decision on Issue and the Offering Circular, Bonds may be retired ahead of schedule, if the Company wishes so, on the 728th day from the starting date of floatation, and the amount of bonus to be paid in case of early retirement will be 20 roubles per bond.

In 2007 the Company fully executed its liability to pay coupon yield for 1-4 coupons established as 8.1% per annum in the amount of 161,520. The coupon yield charged on a bond is 20.19 roubles. The obligation was fully executed within the time provided for by the Decision on Securities Issue and the Offering Circular.

As of 31st December 2007, the outstanding balance of the loan was 2,000,000.

Acceptance Loans

The Company did not issue any promissory notes of its own in 2007.

Notes issued by OJSC Lensvyaz before reorganization:

Note series and No.	Date and location of making up the note	Amount of note	Currency	Maturity	Place of payment under the note
No.11	30.12.2003 г., St.Petersburg	22,640	US dollars	30.12.2006	14/26 ul. Gorokhovaya (26 ul. Bolshaya Morskaya) St. Petersburg, 191186
No.12	30.12.2003 г., St.Petersburg	120,240	US dollars	30.12.2006	14/26 ul. Gorokhovaya (26 ul. Bolshaya Morskaya) St. Petersburg, 191186

The notes were completely repaid on 9th January 2007.

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Long-Term Credits and Loans Repayment Schedule as of 31st December 2007

	Credits and loans	Bonded loans	Total
during 2009	2,011,575	500,000	2,511,575
during 2010	946,110	500,000	1,446,110
during 2011	431,980	1,000,000	1,431,980
during 2012	283,225	-	283,225
Total	3,672,890	2,000,000	5,672,890

5.16. Deferred tax liabilities (line 515 of the Balance Sheet)

Flow of deferred tax liabilities in 2007

	2007	2006
Balance as of the start of the year	892,179	626,024
Deferred tax liabilities flow in the period under report	57,353	266,155
Balance as of the end of the year	949,532	892,179

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

	As of 01.01.2007	As of 31.12.2007
Settlements with suppliers and contractors	30,244	15,664
Settlements in respect of leasing payments	180,342	12,956
Total	210,586	28,620

As compared to the previous year, the long-term accounts payable decreased by 181,966, which is mainly accounted for by transferring from the long-term part to the short-term part the long-term debt under contracts of financial lease (leasing) with OJSC RTK-Leasing and OJSC Leasing-Telecom according to the terms of the current contracts and under contracts of equipment delivery with deferred payment.

5.18. Accounts Payable

Settlements with suppliers and contractors (line 621 of the Balance Sheet):

	As of 01.01.2007	As of 31.12.2007
Settlements with suppliers and contractors in respect of acquisition and construction of fixed assets	583,646	1,585,325
Settlements with suppliers and contractors in respect of current activities	269,784	345,059
Settlements with communication operators	198,684	173,571
Settlements under current leasing payments	251,789	173,062
Settlements with suppliers and contractors in respect of acquisition and implementation of software	152,603	152,352
Total	1,456,506	2,429,369

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Settlements in respect of received advances (line 622 of the Balance Sheet):

	As of 01.01.2007	As of 31.12.2007
Settlements in respect of advances received for primary business:		
-advances from commercial organizations	136,774	161,781
-advances from individuals	141,140	155,211
-advances from budgetary organizations	75,759	91,601
- advances from the sale of card means of payment for communication services	4,269	4,816
-advances from communication operators	5,008	2,665
Settlements in respect of advances received in secondary areas of activity	8,180	18,720
Total	371,130	434,794

Settlements with budget in respect of taxes and fees (line 652 of the Balance sheet)

	As of 01.01.2007	As of 31.12.2007
Profit tax settlements	147	2,151,566
Settlements in respect of the property tax	100,768	137,866
Settlements in respect of the income tax of individuals	33,338	32,564
Settlements in respect of value added tax	5,804	1,849
Settlements in respect of other taxes	2,635	2,486
Total	142,692	2,326,331

The increase of the profit tax liabilities is accounted for by the increase in the taxable profit as compared to 2006 in connection with the fact that the income from the sale of the Company's share in OJSC Telecominvest was shown in the 4th quarter of 2007.

12% of the Company's liabilities in respect of taxes and fees were repaid in 2007 by non-monetary settlements (0.04% in 2006).

Other accounts payable (line 626 of the Balance sheet)

	As of 01.01.2007	As of 31.12.2007
Settlements with constituents (clients, principals)	440,529	380,188
Settlements in property insurance and personal insurance	9,973	110,604
Settlements related to Universal services reserve	48,143	51,821
Settlements in respect of deferred value added tax	27,205	8,420
Other settlements	41,991	51,530
Total	567,841	602,563

As compared to the year 2006, the property insurance and personal insurance debt increased by 100,631, which is mainly connected with making new contracts of voluntary medical insurance with ICJSC Medexpress. The reduction of the debt related to settlements with constituents by 60,341 is accounted for by the decrease of the volume of long-distance calls.

5.19. Deferred Income (Line 640 of the Balance Sheet)

	As of 01.01.2007	As of 31.12.2007
Deferred income, total	63,621	54,373
<i>including:</i>		
- gratuitous receipts	49,116	48,729
- other deferred income	14,505	5,644
Total	63,621	54,373

5.20. Reserves for forthcoming costs (line 650 of the Balance Sheet)

	As of 01.01.2007	Charged	Used	As of 31.12.2007
Reserve for forthcoming payment for leaves to the employees	258,051	631,913	(642,840)	247,124
Reserve for payment of bonuses for the year business results and for payment of annual remuneration to members of the Company's Board of Directors	68,246	62,791	(57,063)	73,974
Reserve for payment of bonuses for the 4 th quarter business results and for payment of quarterly remuneration to the Company's managerial officials	103,054	549,582	(101,802)	550,834
Reserve for payment of bonuses for the business results in December	54,050	66,151	(53,598)	66,603
Total	483,401	1,310,437	(855,303)	938,535

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

	2007	2006
Normal operation expenses	1,310,332	905,882
Other expenses	105	147
Total	1,310,437	906,029

5.21. Other short-term liabilities (line 660 of the Balance Sheet)

As new organizational structures approved by the Management Board of OJSC N.W.Telecom were introduced starting from 1st January 2008, a certain number of employees were made redundant in 2007.

In December 2007 the Company created a reserve for paying compensations to the employees who were notified as of 31st December 2007 on the forthcoming reduction of the staff (according to the procedure established by article 180 of the Labour Code of the Russian Federation). The reserve amounted to 30,044 as of 31st December 2007 (it was 0 as of 31st December 2006). Company's expenses for creating the reserves of contingent liabilities are included in the normal operation expenses.

6. Explanations to Important Items of the Profit and Loss Report**6.1. Normal Operation Income**

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

	2007	2006
Local telephone communication services	12,548,658	10,905,951
Connection and traffic passage services	3,518,311	3,585,684
Telegraph services, data transmission services and telematic communication services	3,065,779	2,025,382
Intrazone telephone communication services	2,195,414	1,772,768
Assistance and agency services	773,732	897,689
Income from leasing out the Company's assets	649,300	470,962
Mobile radio communication services, wired radio services, broadcasting and television services	371,998	347,908
Other services related to primary activities	229,828	160,378
Other services related to secondary activities	290,418	301,806
Total	23,643,438	20,468,528

Local telephone communication services

The income from local telephone connections and provision of a subscriber line for use to individual subscribers amounted in 2007 to 8,657,318 (7,454,993 in 2006), of which:

1. Income from local telephone connections:
 - with the rate plan based on the subscriber billing system - 3,540,001;
 - with the rate plan using the time-based billing system - 287,397;
 - with the rate plan using the combined billing system - 476,143.
2. Income from the provision of a subscriber line to a subscriber for permanent use irrespective of its type amounted to 4,353,777.

Income from local telephone connections and provision of a subscriber line for use to subscribers – legal entities amounted in 2007 to 2,507,276 (1,857,042 in 2006), of which:

1. Income from local telephone connections:
 - with the rate plan using the time-based billing system - 124,476;
 - with the extra rate plan - 1,406,070.
2. Income from the provision of a subscriber line to a subscriber for permanent use irrespective of its type amounted to 976,730.

Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Interconnection and traffic transmission services

Company's income from interconnection services amounted to 201,737 in 2007 (415,205 in 2006), including:

- payments for organizing a point of interconnect – 6,781 (6,595 in 2006);
- payments for servicing a point of interconnect – 194,956 (408,610 in 2006).

Company's income from providing traffic transmission services in 2007 amounted to 3,316,574, including the amounts received from the extra charge - 459,961 (3,170,479 and 494,253 respectively in 2006).

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

The Company's income in 2007 for assistance and agency services under the contract with OJSC Rostelecom amounted to 752,516 (883,712 in 2006).

Telegraph services, data transmission services and telematic communication services

The Company's income for provision of telegraph communication services, data transmission services and telematic communication services amounted in 2007 to 3,065,779 (2,052,382 in 2006) of which:

- data transmission services and Internet access services made 2,898,139 (1,869,608 in 2006);
- telegraph communication services made 167,640 (155,774 in 2006).

Comparative data on income for 2006

In 2007 the Company changed the format of providing information on received income:

Data for 2006 prior the adjustment		Data for 2006 after the adjustment	
Name	Amount	Amount	Name
Intrazone telephone communication	1,772,768	1,772,768	Intrazone telephone communication services
City and rural telephone communication	10,910 514	10,905,951	Local telephone communication services (taking into account information given in the explanation 4)
Universal communication services	12	12	including universal communication services
Mobile radio communication, broadcasting, television, satellite communication	89,298	347,908	Mobile radio communication services, wired radio services, broadcasting and television services
Wired radio	256,610		

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Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Data for 2006 prior the adjustment		Data for 2006 after the adjustment	
Name	Amount	Amount	Name
Mobile radiotelephony (cellular communication)	1,017	1,017	Mobile radiotelephony (cellular communication) services
Documentary telecommunication	2,025,382	2,025,382	Telegraph services, data transmission services and telematic communication services
Connection and traffic passage services	3,585,684	3,585,684	Connection and traffic passage services
Services related to rendering long-distance and international communication services by long-distance and international communication operators	897,689	897,689	Assistance and agency services
Other communication services (primary activities)	159,361	159,361	Other services related to primary activities
Income from other sales (secondary activities)	772,768	470,962	Income from leasing out the Company's assets
		301,806	Income from other services related to secondary activities

In its accounts and reports for 2006 the Company showed the income from providing all-in-one communication services separately from local communication services. In 2007 the income from all-in-one communication services were included in the income from local telephone communication services, as all-in-one communication services in fact are local telephone communication services, the special terms of providing which are specified in the contracts of providing all-in-one communication services.

The income from wired radio services in 2007 were included in the income from mobile radio communication, wired radio, broadcasting and television services.

In the reports for 2006 the "Document Telecommunication" article included the income from telegraph communication, data transmission, telematic services, Internet access and IP-telephony services. In 2007 the Company changed the name of that item of income to "Telegraph Communication, Data Transmission and Telematic Communication Services"

In 2007 the income from leasing out assets were shown in a separate line. In 2006 this income was recorded in the Income from Other Sales item.

Settlements in non-monetary funds

In 2007 a part of Company's proceeds from providing services, performing work, selling goods and products was received on the terms of the contracts providing for fulfilling commitments (payment) in non-monetary funds:

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Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

	2007	2006
Total number of organizations, settlements with whom were effected otherwise than in monetary funds	42	324
Proceeds from such transactions – total		
<i>including:</i>	101,880	4,185,721
JSCB Savings Bank of Russia	68,999	57,936
FSE "Popov Central Museum of Communications"	6,389	-
CJSC Peterstar	6,114	51,236
CJSC Petroelectrosbyt	5,917	34,920
OJSC Pskov City Telephone Network	5,408	30,909
FSUE Pochta Rossii (Postal Service of Russia)	3,471	31,138
CJSC Rostelegraph	317	35,419
OJSC Rostelecom	40	3,571,432
CJSC Petersburg Transit Telecom	-	206,134
OJSC Inter-regional Transit Telecom	-	38,668
CJSC WestBaltTelecom	-	24,327
Other	5,225	103,602
Proceeds under contracts providing for payment in non-monetary funds – total in % of the total proceeds	0.4	20
Proceeds under contracts providing for payment in non-monetary funds with affiliated parties – total in % of the total proceeds for the year under report	0	17

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

6.2. Normal Operation Expenses

Expenses for sales of products, goods, services and jobs

	2007	2006
Expenses for wages	5,758,439	5,296,464
Deductions for social insurance	1,257,603	1,170,878
Depreciation of fixed assets	3,008,144	2,495,462
Services of outside organizations	1,933,460	1,826,018
Services of communication operators (except for OJSC Rostelecom)	1,849,670	1,328,989
Material costs including electrical power	1,558,655	1,505,964
Expenses related to services of outside organizations (contracts of commission, of agency)	439,610	327,228
Expenses for software and databases	270,534	226,100
Expenses for advertising	267,029	150,763
Deductions for non-government pensions in favour of employees	257,759	89,762
Rental	242,388	243,713
Deductions to Universal services reserve	214,538	181,917
Services of OJSC Rostelecom	118,211	133,443
Voluntary medical insurance and other insurance in favour of employees	112,442	111,317
Taxes and fees included in the expenses for normal activities	16,484	15,856
Other expenses related to normal operation	383,916	409,344
Total	17,688,882	15,513,218

Comparative data on expenses for 2006

The comparative data on expenses for 2006 were changed to bring them in line with the indices of the accounts and reports for 2007:

the expenses for premises maintenance (15,290) were carried over from line "Material Costs, Including Power" to the "Outsourcing" line;
in 2006 leasing payments (26,508) were shown in the "Other" line, while in 2007 they were included in the "Rental" line.

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

The "Expenses for Wages" item includes the expenses for creating a reserve for paying compensations to the employees made redundant (30,044) (explanation 5.21).

Expenses related to services of communication operators

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

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

Company's expenses for the payment for traffic transmission and call initiation and termination services amounted to 1,186,444 in 2007 (767,954 in 2006).

Company's expenses for the payment for interconnection services amounted to 102,042 in 2007 (50,733 in 2006).

Company's expenses for the services of leasing out network resources and for lease of channels amounted to 559,069 in 2007 (382,624 in 2006).

Expenses related to services of OJSC Rostelecom

Expenses related to the services of OJSC Rostelecom in 2007 were mainly connected with the interconnection services of OJSC Rostelecom - 58,402 (56,213 in 2006) and with the services for the provision of communication channels for use - 43,318 (57,555 in 2006). The expenses related to long-distance and international communication services provided to the Company amounted to 9,242 in 2007 (15,478 in 2006).

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Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Expenses related to the provision of all-in-one communication services

Company's expenses assumed for the calculation of the compensation for all-in-one communication services amounted to 369,010 in 2007 (5,537 in 2006). They included:

normal operation expenses:

- expenses for wages of the personnel amounted to 21% (37% in 2006);
- expenses for fixed assets depreciation - 16% (22% in 2006);
- expenses for material costs - 19% (4% in 2006);
- expenses for payment for goods, works or services of outside organizations - 15% (11% in 2006);
- other expenses related to the normal areas of activities - 21% (19% in 2006);

other expenses:

- other expenses recorded on account 91 "Other Income and Expenses" - 8% (3% in 2006).

Losses from the provision of all-in-one communication services using payphones amounted to 368,852 in 2007, including 55226 of the losses of the 1st half of 2007 and 91,692 of the losses of the 3rd quarter of 2007 (5,526 in 2006).

6.3. Other income and expenses

Other income	2007	2006
Income from sale and other retirement of other assets	10,266,537	38,567
Indemnification for losses related to universal communication services provision	374,378	-
Exchange rate differences related to assets and liabilities to be paid in foreign currency	101,753	60,223
Income from sale and other retirement of fixed assets	89,836	188,276
Exchange rate differences related to assets and liabilities to be paid in roubles	78,025	21,883
Income from restoration of doubtful debt reserve	61,004	208,213
Receipts for indemnification for losses inflicted	31,851	28,813
Profit of past years, revealed in the year under report	26,440	42,366
Fines, penalties and forfeits for breaking contractual terms, receipts for indemnification for losses inflicted	23,836	20,323
Income from restoration of securities depreciation reserve	22,630	-
Income from writing off accounts payable	8,611	2,069
Other income, including:	24,892	61,713
Restoration of contingent liabilities reserve	-	25,796
Total	11,109,793	672,446

The income from the sale of the shares of OJSC Telecominvest held by the Company amounting to 10,243,522 (explanation 5.3) is recorded within the income from the sale and other withdrawal of other assets.

Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

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

In 2007 in compliance with the terms of the contracts of the terms of providing all-in-one communication services with the Federal Communications Agency, the Company received from the All-in-one Communication Servicing Reserve a compensation for losses inflicted by the provision of all-in-one communication services to the following amounts:

- 5,526 for services provided in 2006;
- 55,226 for services provided in the 1st half of 2007;
- 91,692 for services provided in the 3rd quarter of 2007.

Compensation for the losses for 2006 was received on the basis of the respective resolution of the Federal Communications Agency of 28th May 2007 No. AB-P33-5045 and amounted to 100% of the losses incurred.

Compensation for the losses for the 1st half of 2007 was received on the basis of the respective resolution of the Federal Communications Agency of 14th September 2007 No. SM-P33-10352 and amounted to 100% of the losses incurred for the 1st half of 2007, being the compensation for losses for the intermediate period.

Compensation for the losses for the 3rd quarter of 2007 was received on the basis of the respective resolution of the Federal Communications Agency of 29th December 2007 No. SM-P33-14816 and amounted to 99.9% of the losses incurred for the 3rd quarter of 2007, being the compensation for losses for the intermediate period.

The loss for 2007 from all-in-one communication services amounted to 368,852 and was confirmed by the independent auditing organization CJSC MCD (license of 6th November 2002 No. 002484). The difference between the loss for 2007 and the amount of the received compensation for the losses for 9 months of 2007 will be reimbursed according to the established procedure (explanation 11).

Other expenses	2007	2006
Expenses for taxes and fees	582,142	498,576
Membership fees to associations and non-profit partnerships	150,058	132,419
Expenses related to sale and other kinds of fixed assets retirement	135,378	193,099
Losses of past years, revealed in the year under report	115,431	64,483
Expenses related to charity activities, cultural events and other similar events	95,632	128,959
Expenses related to social needs and trade unions	73,313	61,582
Expenses related to sale and other kinds of assets retirement	63,454	43,251
Expenses for paying for services of credit organizations	61,686	58,330
Payment to personnel not included in the expenses for normal activities	52,665	46,269
Exchange rate differences related to assets and liabilities to be paid in foreign currency	42,694	83,424
Writing-off of deferred tax assets in respect of withdrawn items	52,206	-
Extra expenses related to credits and loans	30,236	3,882
Expenses for mobilization training and civil defense	27,070	25,285
Exchange rate differences related to assets and liabilities to be paid in roubles	13,168	15,210
Expenses arising as consequences of emergency circumstances	15,261	1,726
Expenses related to participation in authorized capitals of other organizations;	9,677	297
Other	94,720	141,177
Total	1,614,791	1,497,969

OJSC North-West Telecom

Explanatory Note to Accounts and Reports for the Year 2007

Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

6.4. Profit Tax Expenses

In 2007 the Company determined the following constituents of the profit tax:

Indices	Amount	Rate	Amount	Constituent of the profit tax
Accounting profit	14,826,863	24%	3,558,447	Profit tax conventional expenditures (income)
Taxable temporary differences	(238,971)	24%	(57,353)	Deferred tax liabilities
Deductible temporary differences	559,883	24%	134,372	Deferred tax assets
Constant taxable differences	1,112,821	24%	267,077	Constant tax liability
	1,139,646	24%	273,515	for 2007
	(26,825)	24%	(6,438)	on the basis of adjusted tax returns for the previous reported periods
Constant deductible differences	(1,263,579)	24%	(303,259)	Constant tax assets
	(1,070,700)	24%	(256,968)	for 2007
	(192,879)	24%	(46,291)	on the basis of adjusted tax returns for the previous reported periods
Taxation base as per tax return for 2007	10,488,958	24%	2,517,350	Current tax
Taxation base as per tax return for 2007	5,782,565	20%	1,156,513	Current tax
Taxation base as per tax return for 2006	(103,633)	24%	(24,872)	Current tax
Taxation base as per tax return for 2006	(1,116,650)	4%	(44,666)	Current tax
Taxation base as per tax return for 2005, 2004 and 2003	(21,004)	24%	(5,041)	Current tax

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

The Company's profit tax expenses for the year 2007 amounted to:

Total	(3,522,265)
<i>including:</i>	
profit tax conventional expenditure	(3,558,447)
constant tax liabilities	(267,077)
constant tax assets	303,259

In the Profit and Loss Report, the Company's profit tax expenses for the year 2007 are shown as the aggregate of the following amounts:

Total	(3,522,265)
<i>including:</i>	
current tax	(3,599,284)
deferred tax liabilities	(57,353)
deferred tax assets	134,372

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Explanations to Essential Items of the Balance Sheet

(in thousand roubles, unless specified otherwise)

Constant taxable differences that have led to an adjustment of the conventional profit tax, total	1,112,821
Payments to personnel not recognized in tax accounting	440,199
Expenses related to the Nonprofit Partnership	148,000
Value of property transferred free of charge	73,447
Expenses for entertainment events	70,290
Other taxes and fees not established by federal legislation or by legislation of RF entities	61,628
Writing-off of the outstanding deferred tax asset in respect of the doubtful debt reserve	52,206
Other expenses in favour of employees and their family members	51,334
Income in the form of gratuitous use of property	30,760
Charitable contributions and membership fees	23,709
Deductions to the trade union 0.3%	22,120
Housing-related losses	15,209
Expenses related to operation of servicing production units and facilities	13,499
Differences arising as a result of writing off other non-circulating assets	13,439
Expenses for activities transferred to the payment of the single tax on imputed earnings	12,704
Other taxable constant differences	84,277
Constant deductible differences that have led to an adjustment of the conventional profit tax, total	1,263,579
<i>including:</i>	
Privilege for the profit tax	1,149,870
Income excluded from taxation base for the profit tax (amount of received dividend)	83,699
Income from restoration of reserve against depreciation of investment in securities	22,630
Other constant deductible differences	7,380
Temporary taxable differences that have led to an adjustment of the conventional profit tax, total	238,971
<i>including:</i>	
Expenses for capital investment, 10% of the fixed assets value	583,769
Payments under leasing contracts (property accounted in the lessee's records)	69,184
Depreciation	(326,476)
Expenses for software	(76,473)
Other time taxable differences	(11,033)
Time deductible differences that have led to an adjustment of the conventional profit tax, total:	559,883
<i>including:</i>	
Reserve for payments to employees	1,340,229
Allowance for doubtful accounts	86,868
Payment to personnel from reserve	(856,960)
Other temporary deductible differences	(10,254)

6.5. Net Profit of the Period under Report

The “Net Profit (Loss) of the Period under Report” index has been determined according to the accounting data proceeding from the fact that the profit tax expenditure to be deducted from the sum total of the profit before taxes was formed as the aggregate of the amounts shown in items “Deferred Tax Assets”, “Deferred Tax Liabilities” and “Current Profit Tax”.

6.6. Profit per Share

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

The base profit for the year under report is equal to the net profit (item 190 of the Profit and Loss Report) less the dividend on preferred shares for the year 2007 to the amount proposed by the Board of Directors, however, not approved as of the date of signing the accounts and reports for the year 2007.

When the average weighted number of common shares in circulation during the year under report was calculated, the Company's shares acquired from shareholders were deducted. The rated value of the base profit is stated as the base profit for 2007, because as of the moment of making up the Explanatory Note the Board of Directors of the Company had not approved the amount of profit allocated for the payment of dividends.

	2007	2006
Base profit for the year under report, thousand roubles	10,303,872	2,211,431
Average weighted number of common shares in circulation during the year under report, thousand shares	881,045	881,045
Base profit per share, in roubles	11.70	2.51

In 2007 the Company did not issue any extra common shares. Besides, the Company had no securities, the conditions of the issue of which would provide for their conversion to an extra number of common shares; neither was there any event related to an increase in the number of common shares. Therefore, the Company does not prepare any analyses of watered profit per share.

7. Affiliated Parties

In the Explanatory Note the Company discloses the most essential information on affiliated parties. The complete list of affiliated parties of the Company is given in Appendix No. 1 to this Explanatory Note.

Parent Company

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

Individual shareholders – 4.5%;

Legal entity shareholders – 44.7%

OJSC North-West Telecom**Explanatory Note to Accounts and Reports for the Year 2007**

Affiliated Parties

(in thousand roubles, unless otherwise specified)

Transactions with affiliated parties in the period under report

Name	OJSC Svyazinvest	Subsidiaries of OJSC "Svyazinvest"	Subsidiari es of the Company	Affiliates of the Company	Other
2006					
Sale of communication services, interconnection services and traffic transmission services	-	2,884,154	393,265	1,812	282,547
Sale of assistance and agency services	-	418,460	109	-	31,012
Income from leasing out the Company's assets	-	11,564	21,476	2,555	72,800
Sale of other services, goods and products	-	2,263	3,610	434	6,061
Acquisition of communication services, interconnection services and traffic transmission services	-	132,007	448,966	26,986	151,327
Acquisition of other services	-	14,642	21,298	79,763	452,688
Acquisition of goods and other assets	-	17,155	-	500	277,212
Interest payable under loans	-	-	-	-	1,774
Dividends receivable	-	-	1,409	645	1,066
Dividends payable	108,186	7	449	-	16
Investment in the authorized capitals	-	-	2,712	12,731	-
Issued loans	-	-	-	-	5,870
2007					
Sale of communication services, interconnection services and traffic transmission services	-	2,468,943	422,612	41,417	563,141
Sale of assistance and agency services	-	347,010	129	-	20,461
Income from leasing out the Company's assets	-	11,231	28,808	3,711	125,714
Sale of other services, goods and products	-	1,752	2,174	2	36,051
Sale of fixed assets and other assets	-	-	-	-	26,847
Acquisition of communication services, interconnection services and traffic transmission services	-	84,402	357,278	27,957	441,829
Acquisition of other services	-	84,262	115,239	217,504	811,328
Acquisition of goods and other assets	-	47,373	5,370	-	176,344
Interest on financial investment	-	-	-	-	136,441
Interest payable under loans	-	-	-	-	1,550
Dividends receivable	-	-	81,272	-	1,460
Dividends payable	145,910	9	3,509	-	-
Investment in the authorized capitals	-	-	2,572,231	-	-
Finance investment	-	-	-	-	6,209,578

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Explanatory Note to Accounts and Reports for the Year 2007

Affiliated Parties

(in thousand roubles, unless otherwise specified)

In 2007 the prices for operations with affiliated parties were established on the normal commercial terms.

During 2007 the Company acquired notes of OJSC AKB Svyaz-Bank, which, as of 31st December 2007, were recorded within the financial investments to the amount of 6,200,000 (explanation 5.4).

In 2007 the Company made an investment in the authorized capital of CJSC Peterburg Transit Telecom (explanation 5.3).

Operations with affiliated parties as of the reporting date

Name	OJSC Svyazinvest	Subsidiaries of OJSC "Svyazinvest"	Subsidiari es of the Company	Affiliates of the Company	Other
As of 01.01.2007	-				
Accounts receivable	-	292,710	5,816	9,669	157,461
Accounts payable	-	429,597	11,439	3,284	172,298
As of 31.12.2007					
Accounts receivable	-	304,466	7,965	9,170	42,975
Accounts payable	-	380,915	8,019	112,925	68,714
Financial investment (taking into account interest)	-				6,312,956

Essential Transactions with Affiliated Parties

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.

	2007	2006
Income from OJSC Rostelecom	2,824,144	3,311,837
Expenses related to OJSC Rostelecom	94,907	139,850
	As of 01.01.2007	As of 31.12.2007
Accounts receivable for services, provided by OJSC Rostelecom	291,552	296,301
Accounts payable related to services of OJSC Rostelecom	421,028	348,499
Accounts payable under agreement of assistance	384,321	337,251

Income from OJSC Rostelecom include income from the services of area initiation / termination of a call to / from Company's networks and to / from networks of interconnected operators, as well as income under the contract of assistance (shown in the table in the lines "Sale of Communication Services and Interconnection and Traffic Transmission Services" and "Sale of Assistance and Agency Services).

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Expenses related to OJSC Rostelecom are formed in the amounts of payments for the services of call termination to networks of other communication operators in case call initiation is performed from a mobile radio telephone communication network, expenses for the payment for interconnection services, services of providing communication channels for use, as well as expenses for the payment for the services of long-distance and international communication provided to the Company (explanation 6.2) (shown in the table in the line "Acquisition of Communication, Interconnection and Traffic Transmission Services").

The accounts payable to OJSC Rostelecom consists of the debt related to the services provided to the Company and the debt under the contract if assistance in the amount of the subscriber's payments collected by the Company for the long-distance and international communication services provided to them by OJSC Rostelecom.

OJSC Svyazintek

OJSC Svyazintek was founded by subsidiaries of OJSC Svyazinvest holding 100% of its authorized capital for introducing and then supporting the functioning of the information systems, as well as for coordinating, managing and implementing centralized specialized programs for information technologies in the companies of the Svyazinvest Group. In 2007 OJSC Svyazintek provided to the Company the services of introducing and then supporting the functioning of information systems, including Oracle E-Business Suite and Amdocs Billing Suite software. Company's expenses connected with OJSC Svyazintek's services amounted to 172,957 in 2007 (247,509 in 2006). The expenses amounting to 126,792 (247,509 in 2006) are included in deferred expenses for the acquisition of software products (shown in the line "Acquisition of Goods and Other Assets" in the table "Operations with Affiliated Parties for the Reporting Period"); and the expenses amounting to 46,165 (0 in 2006) are included in the expenses of the current period. Advances issued to OJSC Svyazintek amounted to 9,096 as of 31st December 2007 (0 as of 31st December 2006), and the Company's accounts payable to OJSC Svyazintek were 37,411 (101,825 as of 31st December 2006).

NPF Telecomsoyuz

The Company made a contract of retirement insurance with NPF Telecomsoyuz, among whose promoters was OJSC Svyazinvest. The total amount of contributions to this fund was 257,666 in 2007 (85,386 in 2006) (explanation 9). In the table "Operations with Affiliated Parties for the Reporting Period" the amount of the contributions is shown in the line "Acquisition of Other Services".

Non-Profit Partnership "Centre for the Research of Telecommunications Development Problems"

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

The amount of Company's contributions to the Partnership was 149,000 in 2007 (131,000 in 2006).

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Besides, the Partnership acted as the agent of the Company for the services of development and introduction of Oracle E-Business Suite. Company's expenses for reimbursing Partnership's expenses incurred by it under contracts with contractors amounted to 90595 in 2007 (27,314 in 2006).

There were no accounts receivable of the Company with the Partnership as of 31st December 2007 (they were 106,367 as of 31st December 2006).

CJSC Petersburg Transit Telecom

In 2006 CJSC Petersburg Transit Telecom was a party affiliated with the Company, as it was a member of the Telecominvest Group. In 2007 the Company acquired 100% of CJSC Petersburg Transit Telecom's stock and now is in control of its operations (explanation 5.3).

CJSC Petersburg Transit Telecom provides telecommunication services, mainly for communication operators in St. Petersburg, including services of interconnection and traffic transmission.

In 2007 Company's expenses for acquiring services of CJSC Petersburg Transit Telecom amounted to 326,522 (406,584 in 2006) (shown in the line "Acquisition of Communication Services and Interconnection and Traffic Transmission Services" in the table "Operations with Affiliated Parties for the Reporting Period"). Company's income from providing services in 2007 amounted to 423,934 (387,501 in 2006) (shown in the line "Sale of Communication Services and Interconnection and Traffic Transmission Services" in the table "Operations with Affiliated Parties for the Reporting Period"). The accounts receivable of CJSC Petersburg Transit Telecom as of 31st December 2007 were 2,997 (2,681 as of 31st December 2006).

ICJSC Medexpress

The Company holds 25% of shares of ICJSC Medexpress (explanation 5.3).

In 2007 ICJSC Medexpress provided services of various types of insurance to the Company. Company's expenses for the acquisition of insurance services in 2007 amounted to 217,504 (79,763 in 2006) (in the table "Operations with Affiliated Parties for the Reporting Period" shown in the line "Acquisition of Other Services"). Company's accounts payable to ICJSC Medexpress were 110,368 as of 31st December 2007 (125 as of 31st December 2006).

Telecominvest Group of Companies

In 2006 the Company held 15% of OJSC Telecominvest's shares. The member companies of the Telecominvest holding were considered as affiliated with the Company. In October 2007 the Company completed the transaction of sale of OJSC Telecominvest's shares held by the Company (explanation 5.3), and as of 31st December 2007 the companies of the Telecominvest holding were not affiliated with the Company. Operations with companies of the Telecominvest group for 2007 are shown in the table "Operations with Affiliated Parties for the Reporting Period" in the lines "Sale of Communication Services and Interconnection and Traffic Transmission Services", "Income from Assets Leasing out", "Acquisition of Communication Services and Interconnection and Traffic Transmission Services" and "Acquisition of Other Services".

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Operations with CJSC Petersburg Transit Telecom which was a company of the Telecominvest holding before 2007 are disclosed separately and are not included in this disclosure of the information on settlements with companies of the Telecominvest group.

The Telecominvest group of companies includes OJSC Leasing-Telecom (which provides leasing services), OJSC St. Petersburg Payphones (which provides payphone communication services), CJSC PETER-SERVICE (which provides the services of development, implementation and support of software products), CJSC Web Plus (Internet provider in St. Petersburg), OJSC Megafon (mobile communication operator).

Company's expenses for acquiring the services of the member companies of the Telecominvest holding in 2007 amounted to 336,361 (235,943 in 2006) (shown in the lines "Sale of Communication Services and Interconnection and Traffic Transmission Services" and "Income from Assets Leasing out" in the table "Operations with Affiliated Parties for the Reporting Period"). Company's income from providing services to the member companies of the Telecominvest holding in 2007 amounted to 468,091 (328,429 in 2006) (shown in the lines "Acquisition of Communication Services and Interconnection and Traffic Transmission Services" and "Acquisition of Other Services" in the table "Operations with Affiliated Parties for the Reporting Period"). Accounts receivable of the member companies of the Telecominvest holding as of 31st December 2006 were 47,885. Company's accounts payable to the member companies of the Telecominvest holding as of 31st December 2006 were 64,872.

Remuneration to Directors

Remuneration to the members of the Board of Directors and Management Board of the Company for 2007 includes the salaries, bonuses, compensations and remuneration for the participation in the work of Company's management bodies and amounts to 95,877 (87,699 in 2006), including the salaries, bonuses, compensations and remuneration of Company's employees participating in the work of the management bodies – 85,320 (64,816 in 2006). The amounts of remuneration are given without the unified social tax. The list of the Members of the Board of Directors and of the Company's Management Board is given in Explanation 2 of this Explanatory Note.

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

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

8. Segment Reporting

The management believes that the Company is operating within one geographic segment - in the territory of the Northwestern region of the Russian Federation and within one operating segment – provision of fixed communication services. The volume of services provided in 2007 for industry segments other than the provision of fixed (wire) communication services is 3.98% (3.79% in 2006) of the total volume of proceeds. In this connection no information is provided by types of geographic or operating segments.

9. Non-Governmental Retirement Insurance

In addition to statutory pension benefits the Company also provides benefits for most of its employees by using post-employment benefit plans which include defined contribution plans and defined benefit plans. Non-governmental pensions are provided to employees of the Company by the Telecom-Soyuz non-government pension fund, which is an affiliated party of the Company (explanation 7).

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

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

In 2007 the total amount of the contributions paid by the Company for non-governmental pension provision was 257,666 (85,386 in 2006), and it was completely included in the normal operation expenses as other expenses. The Fund deducts 3% of the amount of each pension contribution of the Company for the support of its own activities according to the charter and to cover its administrative expenses.

10. Terminated Operation

In 2007 the Company did not terminate any areas of operation.

11. Conventional assets and liabilities

Operating Environment of the Company

Along with the improving economic situation, among other things, the growing gross domestic product and the decreasing inflation rate, the economic reform is going on in Russia, as well as the development of the legal, taxation and administration systems that would meet the requirements of the market economy. Stability of Russia's economy will be largely dependent on the progress of the reform in the said areas and on the efficiency of the measures taken by the Government in the field of economics and monetary and credit policy.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The developments that have taken place in the Russian Federation show that tax authorities may take a tougher stand in interpreting the tax legislation and tax settlements. The interpretation of this law by the Company management as applied to Company's operations and activities can be disputed by respective federal authorities. As a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain conditions, earlier periods may be reviewed, too.

As of December 31, 2007, the Company's management believes that its interpretation of the relevant legislation is appropriate on the whole and that it is most likely that the Company's tax, currency and customs positions will be sustained. At the same time, based on the results of the tax audits of the Company and other companies of the OJSC Svyazinvest group that have been carried out recently, the management of the Company assumes that there is a risk of tax authorities lodging significant tax claims against the Company in respect of issues for which the tax legislation may be interpreted in different ways, among other things, the issues of determining the proceeds under contracts of interconnection and traffic transmission. It does not seem possible to determine the amounts of claims for possible risks that, however, have not been presented, or to evaluate the probability of an adverse outcome.

The accounts and reports as of 31st December 2007 do not contain any adjustments, the need in which might result from such uncertainties and positions taken by the Company.

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

Losses of the Company from the provision of all-in-one communication services using payphones amounted to 368,852 in 2007, including 146,918 that were made up for during 2007 (explanation 6.3).

The final settlement in respect of reimbursement for the loss for 2007 will take place in 2008 in compliance with the Resolution of the Government of the Russian Federation of 21st April 2005 No. 246 after the Federal Communications Agency takes a decision on reimbursement for the loss based on the value of the loss confirmed by the independent auditing organization CJSC MCD (license of 6th November 2002 No. 002484) and the amount made up for during 2007.

Guarantees issued

As of 31st December 2007 the Company acted as a guarantor for third parties for the total amount of 96452 (268,315 as of 31st December 2006). Besides, Company's liabilities under the conversion transaction (hedging) (explanation 5.14) amount to 595,521 (390,359 as of 31st December 2006). The hypothecation value of the assets pledged by the Company as security for liabilities and payments was 1,285,034 (1,656,404 as of 31st December 2006). The Company's management does not expect that any essential liabilities will arise in connection with the said guarantees.

Litigations

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

2008 saw the end of the trial held in the Court of Arbitration of Moscow during 2007 upon Company's claim of recognizing as invalid the Decision of the Interregional Inspectorate of the Federal Tax Service for Major Tax-payers on tax liability of a tax-payer (payer of a fee/fiscal agent) for a tax violation of 08.12.2006.

The disputed decision was taken by the Interregional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers on the basis of the results of a field tax inspection that checked the correctness of calculation and payment of taxes by the Company for the period of 2003-2004. The total amount of taxes, penalties and fines charged on the basis of the results of the inspection was 584,732 (taxes - 437,222, penalties - 77,345 and fines - 70,165).

On 11th March 2008 the Federal Court of Arbitration of the Moscow Circuit refused to satisfy the appeal of the Interregional Inspectorate of the Federal Tax Service of Russia for Major Tax-payers concerning the tax claims against the Company for the years 2003-2004 for the entire amount.

Licenses

The Resolution of the Government of the Russian Federation dated 18th February 2005, No.87, "On Approving the List of Names of Communication Services, Entered in Licenses, and the Lists of License Conditions" (in the version of Resolution of the RF Government dated 29th December 2005, No.837) established the list of names of communication services to be entered in licenses, and the appropriate lists of licensing terms.

The licensing terms set in earlier issued licenses shall be applied in the part that does not contradict the regulatory legal acts in effect.

In 2007 the following new licenses were obtained:

	Name of document	Document No.	Date of registration	Period
1	Licenses for telematic services (North-Western Federal District, Nenets Autonomous Area)	49842	11.07.2007	11.07.2012
2	Licenses for leasing out communication channels (North-Western Federal District, Nenets Autonomous Area)	49841	01.08.2007	01.08.2012
3	License for data transmission services, except for voice information transmission communication services (North-Western Federal District, Nenets Autonomous Area)	49898	11.07.2007	11.07.2012

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Name of document	Document No.	Date of registration	Period
4 License for provision of communication services for cable broadcasting (North-Western Federal District, Nenets Autonomous Area)	49398	09.03.2007	09.03.2012
5 License for local telephone communication using payphones (Nenets Autonomous Area)	47657	09.02.2007	09.02.2012
6 License for provision of local telephone communication services using multi-access capabilities (North-Western Federal District, Nenets Autonomous Area)	48202	05.03.2007	05.03.2012
7 Licenses for telegraph communication services (North-Western Federal District, Nenets Autonomous Area)	54088	14.11.2007	14.11.2012

The Company is working on obtaining the following new licenses:

License No.	Service	Status	Request No.
24658	Broadcasting of sound programmes over the wired radio network (North-Western Federal District)	In progress	No. 01-15/530 of 30.10.2007 Returned application. Refiling: No. 01-15/128 of 13.03.2008
-	Provision of communication services for on-air broadcasting (Arkhangelsk Oblast, Nenets Autonomous Area)	In progress	No.01-19/1866 of 07.08.2007
-	Provision of communication services for on-air broadcasting (Murmansk Oblast)	In progress	No.01-19/1869 of 07.08.2007
24459	Provision of mobile radio telephone communication services (Veliky Novgorod, St.Petersburg)	In progress	No.01-15/531 of 15.10.2007

12. Events after the Reporting Date

Dividend

The amount of the year's dividend per share will be approved by the General Meeting of the Shareholders of the Company in June 2008.

Rate regulation

The Order of the Federal Rates Service of Russia No. 357-s/3 of 23rd November 2007 changed the Company's rates for local telephone communication services starting from 1st February 2008.

Rates for the Provision of Local Telephone Connections

For individual subscribers:

- the base volume of local telephone connections with the rate plan providing for the combined system of billing in the territory of St. Petersburg is increased from 400 to 450 minutes;
- the limit rate levels for the provision of local telephone connections per minute with the time-based billing system have been rounded off to an even value;
- starting from 1st February 2008 the limit rate levels for local telephone connections with the subscriber billing system for unlimited volume of local telephone connections have been reduced by 22% for the Northern branches group and the Karelian branch from 270 to 210 roubles; by 20% for the Central branches group from 225 to 180 roubles; by 16.7% for the St. Petersburg branch from 240 to 200 roubles.

For corporate subscribers:

- limit rate level for the base volume of providing local telephone connections with the combined billing system has been established – 130 roubles for the Northern branches group and the Karelian branch, 100 roubles for the Central branches group, 140 roubles for the St. Petersburg branch;
- limit rate levels per minute of local telephone connections in excess of the base volume with the combined billing system have been established at the level of the respective rates for individuals – 0.24 roubles for the Northern branches group and the Karelian branch, 0.20 roubles for the Central branches group and the St. Petersburg branch;
- limit rate levels for the provision of local telephone connections with the subscriber billing system for unlimited volume of local telephone connections have been established – 340 roubles for the Northern branches group and the Karelian branch, 250 roubles for the Central branches group, 290 roubles for the St. Petersburg branch;
- the limit rate levels for the provision of local telephone connections per minute with the time-based billing system have been rounded off to an even value.

Interconnection and Traffic Transmission Services

According to Resolution of the Government of 19th October 2005 No. 627, the compensation extra charge on the price of the services of local and area call initiation was canceled for the Company starting from 1st January 2008.

Resolution of the Government of the Russian Federation of 12 October 2007 No. 666 "On Introducing Amendments to Certain Acts of the RF Government in Respect of Communication Issues" excluded the service of maintenance of communication facilities forming a point of interconnect from the interconnection service starting from 1st March 2008. In connection with this, in 2008 the Company expects a reduction of the income from providing the interconnection services to communication operators in respect of servicing a point of interconnect and a reduction of expenses for payment for similar services provided to the Company by interconnected operators.

Resolution of the Government of the Russian Federation of 14th November 2007 No. 776 "On Introducing Amendments to Resolution of the Government of the Russian Federation of 19th October

2005 No. 627 ruled that starting from 1st March 2008 an operator is entitled to establish the volume of traffic transmission services (however, not more than 1000 minutes per month per point of interconnect providing the possibility of establishing one connection at a time) subject to guaranteed payment by a consumer of the traffic transmission services, if the volume of provided services in the settlement period is less than the established value.

Capital investments

In 2008 the Company is planning to make capital investments to the amount of 2,282,777 for the purposes of bringing its networks in line with the requirements of the standard documents on telecommunication networks construction and traffic transmission, and to the amount of 4,148,145 in connection with fulfilling the obligations under the contracts if all-in-one communication services provision and with participation in other national projects.

Purchase of shares of CJSC Hybrid Printing Systems

In February 2008 the Board of Directors of the Company took a decision to acquire 4,153,500 common registered shares (6.39% of the authorized capital) of CJSC Hybrid Printing Systems for 415,350.

The shares will be acquired for the purpose of creating an efficient system of printing and delivery of bills, receipts and notices to subscribers.

Credits and loans

In February 2008 the Company made a general agreement of loans with CJSC Natexis Banques with the limit of one-time indebtedness of 350,000. 30th June 2009 is the repayment date of all loans. The interest rate for the use of the loans is the aggregate of the margin (2% per annum for loans issued for a period from four to six months, 1.75% per annum for loans issued for a period equal to or less than four months) and the MOSPRIME rate. The credits under the general agreement are provided without a security.

Presenting bonds for retirement

According to the Decision on the Securities Issue and the Offering Circular, holders of the bonds could present the series 03 bonds for retirement in the period from 22nd February till 28th February 2008. OJSC AKB Svyaz-Bank acted the agent for bonds acquisition – it was selected on the basis of the results of the open tender held by the Company in January 2008.

2,177,779 bonds were presented for redemption, which made 73% of the total volume of the issue. The value of the bonds presented by their holders for redemption taking into account the accumulated coupon yield amounted to 2,181,372. On 6th March 2008 the Company completed fulfilling the obligation of acquiring the series 03 bonds. All applications were satisfied for its own account by the Company's agent for bonds redemption - OJSC AKB Svyaz-Bank.

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Finance Investment

In the 1st quarter of 2008 the Company paid 22 notes of OJSC AKB Svyaz-Bank with the total face value of 4,400,000. The total amount of the received interest was 145,553.

Other

In compliance with a decision of the Board of Directors, on 31st January 2008 the Company contributed property with the market value of 872,787 as non-monetary extra contribution to the authorized capital of LLC RPK Svyazist (including: a land plot - 74,474, buildings - 745,180, movable property and inventory holdings - 53,133). The balance value of the property transferred as of 31st January 2008 was 243,402 (including the land plot – 113, buildings - 211,147, movable property and inventory holdings - 32,142).

General Manager

_____/V.A. Akulich/

Chief Accountant

_____/M.M. Semchenko/