North-West Telecom

Financial Statements
As of December 31, 2001 and 2000

Together with Report of Independent Auditors

North-West Telecom

Financial Statements
As of December 31, 2001 and 2000

Contents

Report of Independent Auditors

To the Shareholders and Board of Directors
of OAO North-West Telecom:

We have audited the accompanying balance sheet of OAO North-West Telecom (referred to herein as the "Company"), formerly Petersburg Telephone Network, as of December 31, 2001, and the related statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2000 and 1999, were audited by other auditors who have ceased operations and whose report dated July 29, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 15, 2002

North-West Telecom
Balance Sheets as of December 31, 2001 and 2000
(Amounts stated in thousands of US dollars, except share data)

	Note	2001	2000
ASSETS			
Current Assets:			
Cash and cash equivalents		**3,581**	5,726
Accounts receivable, net	4	**13,655**	12,509
Inventories		**1,023**	1,955
Prepayments and other current assets	5	**6,467**	8,335
Deferred income taxes	5	**137**	866
Total current assets		**24,863**	29,391
Non-current Assets:			
Notes receivable	6	**-**	2,820
Property, plant and equipment	7	**340,815**	337,773
Intangible assets		**1,012**	1,682
Investments	8	**27,223**	26,842
Total non-current assets		**369,050**	369,117
TOTAL ASSETS		**393,913**	398,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	9	**1,659**	2,841
Accounts payable	10	**13,588**	7,623
Advances received		**2,993**	2,378
Dividends payable	13	**1,524**	1,615
Lease payables, current portion	7	**1,141**	1,530
Current portion of long-term debt	11	**10,377**	12,265
Other current liabilities	12	**10,259**	9,463
Total current liabilities		**41,541**	37,715
Non-current liabilities:			
Long-term debt, net of current portion	11	**24,505**	26,442
Lease payables, net of current portion	7	**963**	601
Accrued pension cost	20	**2,028**	1,799
Deferred income taxes	19	**11,914**	19,486
Total non-current liabilities		**39,410**	48,328
Commitments and contingencies	21	**-**	-
Shareholders' equity:			
Common stock: (473,056,966 shares with a par value of 1 ruble authorized, issued and outstanding as of December 31, 2001 and 2000)	13	**80,128**	80,128
Preferred stock: (114,440,851 shares with a par value of 1 ruble authorized, issued and outstanding as of December 31, 2001 and 2000)	13	**18,009**	18,009
Additional paid-in-capital	13	**45,537**	45,537
Retained earnings	13	**169,288**	168,791
Total shareholders' equity		**312,962**	312,465

The accompanying notes are an integral part of these financial statements.

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**393,913**	398,508

The accompanying notes are an integral part of these financial statements.

North-West Telecom
Statements of Operations
For the years ended December 31, 2001, 2000 and 1999

(Amounts stated in thousands of US dollars)

	Note	2001	2000	1999
Revenues	14	**136,808**	65,548	53,985
Cost of Services	15	**93,552**	53,082	46,987
Operating expenses				
General and administrative expenses	16	**15,982**	8,553	6,101
Operating taxes	17	**7,065**	1,701	3,831
Other operating expenses, net	18	**10,001**	13,278	3,213
Total operating expenses		**33,048**	23,532	13,145
Operating income (loss)		**10,208**	(11,066)	(6,147)
Equity in income (loss) from investments		**447**	(6,951)	93
Interest expense		**2,727**	3,210	4,166
Exchange rate loss		**221**	248	177
Income (loss) before provision for income taxes		**7,707**	(21,475)	(10,397)
Provision (benefit) for income taxes	19	**4,375**	379	(1,925)
Net income (loss)		**3,332**	(21,854)	(8,472)
Dividends on preferred stock	13	**941**	1,044	247
Net income (loss) attributable to common shareholders (subject to restrictions described in Note 13)		**2,391**	(22,898)	(8,719)
Basic and diluted net income (loss) per common share	13	**$0.005**	($0.048)	($0.023)
Weighted average number of common shares, basic and diluted		**473,056,966**	473,056,966	382,288,800

The accompanying notes are an integral part of these financial statements.

North-West Telecom
Statements of Cash Flows
For the years ended December 31, 2001, 2000 and 1999

(Amounts stated in thousands of US dollars)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (loss)	**3,332**	(21,854)	(8,472)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**26,674**	23,457	21,173
Provision for deferred taxes	**(6,843)**	(6,307)	(3,033)
Provision (reversal) for doubtful accounts	**4,556**	7,145	(223)
Pension expense in excess of funding	**230**	672	484
Equity in (income) loss from investments	**(447)**	6,951	(93)
Change in current assets and liabilities:			
(Increase) decrease in accounts receivable	**(5,702)**	(5,709)	4,867
Decrease in inventories	**932**	346	1,894
Decrease in prepayments and other current assets	**1,868**	2,306	205
Increase (decrease) in accounts payable	**5,965**	2,209	(2,988)
Increase in advances received	**615**	1,341	212
Increase (decrease) in other current liabilities	**796**	(115)	(2,186)
Net cash flows provided by operating activities	**31,976**	10,442	11,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	**(26,937)**	(1,215)	(1,337)
Decrease (increase) in investments	**66**	(456)	463
Payments received on notes receivable	**2,820**	2,330	3,518
Cash acquired at merger with MMT and SPT (see Note 3)	**-**	1,319	-
Cash flows provided by (used for) investing activities	**(24,051)**	1,978	2,644
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term debt	**(11,404)**	(6,850)	(10,746)
Borrowings on long-term debt	**7,579**	2,126	2,422
Decrease in short-term debt	**(1,182)**	(1,569)	(6,289)
Capital lease principal payments	**(1,874)**	(1,392)	-
Dividends paid	**(2,928)**	(263)	(66)
Cash flows used for financing activities	**(9,809)**	(7,948)	(14,679)
Effect of exchange rate changes on cash and cash equivalents	**(261)**	(222)	(281)
Net increase (decrease) in cash and cash equivalents	**(2,145)**	4,250	(476)
Cash and cash equivalents at beginning of the year	**5,726**	1,476	1,952
Cash and cash equivalents at end of the year	**3,581**	5,726	1,476
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	**3,050**	3,140	749
Cash paid during the year for income taxes	**10,237**	6,686	1,108
Non-cash additions to equipment (see Note 7)	**1,847**	3,523	494
Non-cash disposals of equipment (see Note 11 (2))	**-**	9,438	-
Non-cash reduction of long-term debt (see Note 11(2))	**-**	9,438	-

The accompanying notes are an integral part of these financial statements.

North-West Telecom
Statements of Shareholders' Equity
For the years ended December 31, 2001, 2000 and 1999

(Amounts stated in thousands of US dollars, except per share information)

	Common stock, par value 1 Ruble		Preferred stock, par value 1 Ruble		Additional paid in capital	Retained earnings	Total
	Shares	Amount	Shares	Amount			
Balance as of December 31, 1998	382,288,800	76,904	84,186,000	16,935	-	200,580	294,419
Net loss	-	-	-	-	-	8,472	8,472
Dividends on preferred stock	-	-	-	-	-	247	247
Balance as of December 31, 1999	382,288,800	76,904	84,186,000	16,935	-	191,861	285,700
Net loss	-	-	-	-	-	21,854	21,854
Shares issued for business combination	90,768,166	3,224	30,254,851	1,074	45,537	-	49,835
Dividends on common shares	-	-	-	-	-	172	172
Dividends on preferred stock	-	-	-	-	-	1,044	1,044
Balance as of December 31, 2000	473,056,966	80,128	114,440,851	18,009	45,537	168,791	312,465
Net income	-	-	-	-	-	**3,332**	**3,332**
Dividends on common shares	-	-	-	-	-	**1,894**	**1,894**
Dividends on preferred stock	-	-	-	-	-	**941**	**941**
Balance as of December 31, 2001	**473,056,966**	**80,128**	**114,440,851**	**18,009**	**45,537**	**169,288**	**312,962**

The accompanying notes are an integral part of these financial statements.

(Amounts stated in thousands of US dollars, except per share data or unless otherwise noted)

1. General

Nature of business

North-West Telecom (formerly Petersburg Telephone Network, hereinafter referred to as "NWT" or the "Company"), a Russian open joint stock company, provides local telephone service in the city of St. Petersburg and since December 2000, both domestic and international long-distance communication services. In November 2001, the Company changed its name to North-West Telecom. NWT is the principal successor to the state-owned enterprise, originally the Leningrad City Telephone Network. The Company was privatized on May 6, 1993, assuming the assets and liabilities of the former state-owned enterprise. On December 28, 2000, St. Petersburg MMT (MMT) and St. Petersburg Telegraph (SPT), Russian open joint stock companies, merged into the Company. NWT is the primary telecommunications operator in the city and, since the merger with MMT and SPT, is the main provider of intercity and international services in St. Petersburg (see Note 3).

As of December 31, 2001 and 2000 the number of subscribers connected to NWT networks was approximately 1.8 million.

Operating licenses

NWT has been granted operating licenses to provide local telecommunications, intercity, international and telematic services in the St. Petersburg region as well as other telecommunication services in the city of St. Petersburg. These licenses expire at various times between 2002 and 2009. Management believes that all respective licenses will be renewed and there is no risk of business interruption.

Merger with eight telecommunication operators of North-West Region of Russia

On November 28, 2001 the shareholders of the Company approved the merger of NWT with eight North-West Federal District telecommunication operators (see table below) to establish a single fixed line telecommunication provider for the North-West Federal District. In connection with the merger, shareholders authorized the issuance of 262,896,773 common shares and 87,646,542 preferred shares type A. The shareholders of the merging companies also approved their merger with NWT.

As of November 28, 2001, the fair value of NWT shares to be issued for the merger was approximately $152 million based on an appraisal used to determine the share exchange ratios. Shareholders of the merging companies will exchange all their shares for the shares of NWT as follows:

	Common shares	Preferred shares
OAO "Artelecom" of Arkhangelsk region	55,000,200	18,338,460
OAO "Electrosvyaz" of Pskov region	15,611,715	5,206,324
OAO "Electosyaz" of Kaliningradskiy region	38,637,398	12,880,669
OAO "Electrosvyaz" of Republic of Karelia	35,779,574	11,927,338
OAO "Electrosvyaz" of Vologda region	16,661,708	5,554,954
OAO "Novgorodtelecom" of Novgorod region	23,483,244	7,828,083
OAO "Cherepovetselectrosvyaz" of Cherepovets region	15,495,670	5,165,720
OAO "Murmanelectrosvyaz" of Murmansk region	62,227,264	20,744,994
Total	**262,896,773**	**87,646,542**

1. General (continued)

Merger with eight telecommunication operators of North-West Region of Russia (continued)

The merger is expected to be completed by the end of 2002, when the merging companies will be liquidated as separate legal entities, and continued their operations as branches of NWT.

This merger will be accounted for using the purchase method of accounting for entities under common control, as NWT and the other merging companies are controlled by one parent company Svyazinvest. The portion of transferred assets and liabilities related to Svyazinvest will be accounted for at their historical costs. The acquisition cost related to the minority shareholders' equity interest in the merging companies will be determined based on the fair value of stock issued by NWT.

Russian environment and Economic Conditions

General

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation.

Management is unable to estimate what developments may occur or the resulting effect of any such developments on the Company's financial condition or future results of operations. NWT will continue to be affected, for the foreseeable future, by the country's unstable economy. The financial statements do not include any adjustment that may result from these uncertainties. Such adjustments, if any, will be reported in the Company's financial statements in the period when they become known and estimable.

Currency Exchange and Control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000 and 2001, the Ruble's value fluctuated between 26.9 and 30.3 to 1 US Dollar.

The Company's principal currency exchange rate risks are the ability to recover the investments in non-monetary assets, specifically property, plant and equipment, as well as exposure to currency exchange losses (see "Property, plant and equipment impairment" below) and the ability to repay its foreign currency denominated obligations (see Note 11).

The Company's principal future operating cash flows (revenues, personnel costs and other major operating expenses) will be generated in Russian rubles (see "Establishment of tariffs" below). In the event the ruble continues to decline against the US dollar, the Company could have difficulties in meeting its US dollar denominated obligations.

1. General (continued)

Russian environment and Economic Conditions (continued)

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles.

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the Year Ended December 31, --	Annual Inflation
2001	18.6%
2000	20.2%
1999	36.5%

The Company can experience inflation-driven increases in certain of its costs, which are sensitive to rises in the general price level in Russia.

While the Company could seek to raise its tariffs, governmental regulatory bodies may not permit increases that are sufficient to preserve operating margins (see "Establishment of tariffs" below). Additionally, high rates of inflation in Russia could adversely affect the Company's results of operations.

Interest Rates

The Company's principal interest rate risk relates to the long-term debt (See Note 11).

Management has not entered into transactions designed to hedge against these interest rate risks due to financial instruments typically used for hedging purposes being generally unavailable in the Russian financial markets and certain restrictions imposed by the Russian regulations on the use of hard currency-denominated financial instruments.

Property, plant and equipment impairment

As described further in Note 2, the Company has accounted for its investments in property, plant and equipment as of December 31, 1996, based on the estimated historical costs of acquisition in US dollar terms, net of impairment.

In general, values considered in the tariffing process (see "Establishment of tariffs" below) are based on the Company's Russian statutory financial data. In this regard, property, plant and equipment are recorded in historical rubles, subject to statutory inflation adjustments, if any.

As a result of significant devaluation of the ruble described above, the Company has assessed the recoverability of property, plant and equipment stated in US dollar terms. Management has considered several factors in its analysis, including the following factors:

1. General (continued)

Property, plant and equipment impairment (continued)

- Continued use of each facility,
- Implied value of property, plant and equipment stated at current exchange rates compared to historical exchange rates,
- Expected cash flows from operations,
- Investment needed to maintain the Company's current (and expected) operations, and
- Fair value as determined by an independent appraisal.

Based on this analysis, management believes that the carrying value of property, plant and equipment reflected in the accompanying financial statements as of December 31, 2001 and 2000 does not exceed their expected recoverable value.

However, management cannot predict what effect a continuation of the difficult economic conditions in Russia or changes in fiscal, political or tariffing policies may have on the Company's remaining investment or ability to make future investments in property, plant and equipment. Further, management cannot predict the potential for statutory revaluation of property, plant and equipment for taxation purposes nor its effect, if any, on the Company's ability to successfully negotiate increases in tariffs. The financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the financial statements, as they become known and estimable.

Liquidity and financial resources

As of December 31, 2001 and 2000, the Company's current liabilities exceeded its current assets by $16,678 and $8,324, respectively. As a result, uncertainties exist as to the Company's liquidity and future capital resources.

Since its privatization, the Company invested in expansion and modernization of its network in St. Petersburg. To a significant extent, the Company financed investment activities through current liabilities and vendor debt. The Company also requires access to debt and other long-term financing. Management cannot be assured, however, that financing will be available in the future at commercially acceptable rates. Further, in seeking additional financing, the Company may be limited to borrowing in hard currencies. Hard currency borrowings have an inherent risk (i.e. exchange rate movements) for which commercially viable hedging instruments are currently not available in Russia.

In response to the unfavorable liquidity situation, management implemented the following measures:

- Strengthening of controls over cash disbursement and cash collection procedures,
- Concluding agreements to offset taxes payable against receivables from the government,
- Cost reduction measures,
- Development of per minute billing system (as of September 15, 2002 the implementation of per minute billing was not complete yet as it requires a specific permission by the Russian Ministry on Antimonopoly Policy, which is expected to be obtained in 2003), and
- Replacement of hard currency debts by Ruble denominated bonds. First placement of 300 million Rubles or approximately $10 million was done in February 2002 (see Note 11).

1. General (continued)

Liquidity and financial resources (continued)

Through 2002, the Company anticipates funding from a) existing cash, b) cash generated from operations, and c) financing from domestic and international lending institutions. Additionally, management has delayed payment for some operating costs to manage its working capital requirements. Management is of the opinion that the successful implementation of the above lines of action, together with the future successful results of the Company's business operations, will provide the Company with sufficient resources for its operations.

Allowance for doubtful accounts

The unstable Russian economy has significantly affected many organizations within Russia and their ability to meet their obligations.

As detailed in Note 4, the Company provides for doubtful accounts from governmental, corporate and residential customers principally based on specific review of accounts in addition to other allowances associated with the overall delinquency in customer payments.

While management believes that accounts receivable have been reduced to their approximate net realizable value, significant uncertainty exists as to the effect Russia's unstable economy may have upon its customers, including governmental organizations, and their ability to fund telecom services consumed. The financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the financial statements as they become known and estimable.

Establishment of tariffs

Telecommunications services provided by NWT are subject to tariff regulation by the Russian government. The Ministry on Antimonopoly Policy of Russian Federation approves tariffs for local and intercity services. OAO "Rostelecom" has been delegated the right to set international tariffs for regional operators.

Tariffs for telecommunications services are generally ruble-denominated, based on the cost of providing the services. The "rate making process" as known in the United States is not followed in Russia.

The government approved tariff increases on May 1 and November 1, 1999, January 1 and July 1, 2000, March 15, 2001 and January 1, 2002 with the latest approval of tariff increases on September 1, 2002. Tariffs on long-distance calls generally increased in 2001 with changes on January 1, March 1, July 15 and August 15, 2001 and January 1, 2002 with the latest change on September 1, 2002. As a result, during 2001, 2000 and 1999, tariffs for certain services were increased but not significantly.

2. Significant accounting policies

The principal accounting policies used in the preparation of the accompanying consolidated financial statements are set out below.

2. Significant accounting policies (continued)

Basis of presentation

The accounting records of the Company are maintained in Russian rubles in accordance with Russian law and its statutory accounts are prepared in accordance with the accounting requirements of Russian law and accounting practices. The accompanying financial statements have been prepared in order to present financial position and results of operations in accordance with generally accepted accounting principles in the United States (US GAAP) and are expressed in terms of US dollars (see paragraph "Translation Methodology" below).

Management estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation Methodology

Translation (remeasurement) of NWT ruble denominated financial statements into US dollars has been performed in accordance with the provisions of SFAS No. 52 "Foreign currency translation", as they relate to highly inflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in US dollars.

Ruble denominated cash, receivables, inventories, payables, loans and dividends payable are considered monetary assets and liabilities and have been translated using the exchange rate as of the balance sheet dates. Ruble denominated non-monetary assets and liabilities, including non-current assets and shareholders' equity, are stated at their actual dollar cost or are restated from their historic cost, by applying the historical exchange rate as at the date of the original transaction. Ruble denominated revenues, expenses and cash flows have been translated at quarterly average exchange rates. Items in the statement of cash flows are translated at exchange rates applicable at the dates of the transactions. Assets and liabilities that are denominated in US dollars are recorded in the accompanying financial statements at the original US dollar amounts.

Translation gains and losses arising from the use of these different rates in financial statements have been included in the accompanying statement of operations.

The Company's principal future operating cash flows (revenues, interconnection costs and personnel costs) will be generated in Russian rubles. As a result, future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Company's monetary assets and liabilities. Such changes may also affect the Company's ability to realize non-monetary assets as represented in terms of US dollars in the accompanying financial statements (see also Note 1).

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts. Cash equivalents represent short-term cash deposits placed with Russian banks with an original maturity of three months or less.

2. Significant accounting policies (continued)

Accounts receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including specific identification and delinquency of account balances.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined primarily using the specific identification method. Inventories as of December 31, 2001 and 2000 comprised mainly spare parts and fuel. Obsolescence reserves are provided based on specific monthly review of significant inventoried items and expensed as cost of services.

Value-Added Tax (VAT)

Generally in Russia, value-added taxes related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions, which are not currently reclaimable as of the balance sheet dates, are recognized in the balance sheets on a gross basis.

Property, plant and equipment

Property, plant and equipment are stated at estimated historic acquisition cost, determined by appraisal, less accumulated depreciation. Russian financial information is maintained in ruble terms. In years prior to 1992, exchange rates were fixed by government action and may not have represented market rates. In addition, certain purchases were effected through central purchasing authorities and values transferred to receiving organizations were determined by government action. Subsequent to 1992, certain mandatory inflation adjustments for property, plant and equipment have also been instituted by government action.

As a result, NWT was not able to determine from the statutory accounting records an appropriate carrying value of property, plant and equipment for US GAAP reporting purposes. Accordingly, an independent appraisal company was engaged to perform a historic cost valuation of property, plant and equipment as of December 31, 1996.

In performing a valuation of property, plant and equipment, the independent appraisal company employed appraisal techniques to determine both the historic cost and fair market value (in-use) for the appraised property in US dollar terms. The first step in estimating the historic cost and fair market value of the fixed assets entailed estimating the cost of reproduction new (CRN). The CRN reflects the cost to produce the existing property in like kind or using modern and equivalent materials. Cost data from both Russian and foreign providers of telecommunications services were taken into account. Cost data compiled from other producers within the Commonwealth of Independent States was given most consideration as most of the Company's historic fixed assets are of Russian origin.

To arrive at an appropriate estimate of original historic cost, the CRN was back-trended according to the actual age of the asset using historic western inflation adjustments. The historic cost of the assets was then depreciated on a straight-line basis using estimates of economic useful lives. The economic useful lives used by NWT, related to the local telephone network, are as follows:

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

	Average useful life, years
Buildings	35
Cable ducts, cable plant and land improvements	38 – 43
Switching equipment, transmission, power supply and other network	17 – 18
Transport, tools and other equipment	8

The results of this work have been used to determine the carrying values of NWT property, plant and equipment for US GAAP purposes as of December 31, 1996. Additions and disposals of property, plant and equipment occurring after December 31, 1996 were accounted at their historic costs of acquisition and translated at historic exchange rates.

Impairment losses, if any, are reflected as a component of income (loss) from operations. As a result of additional analysis of technological impairment, as of December 31, 1996, management recognized an impairment charge for technologically obsolete equipment in the amount of $150 million.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Management believes that the operating licenses will be renewed without significant cost, which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Capital Leases

The Company recognizes capital leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A capital lease gives rise to depreciation expense for the asset (included in depreciation expense) as well as a finance expense (included in financial income and expenses, net) for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

2. Significant accounting policies (continued)

Impairment of long-lived assets

NWT periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, NWT will compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. If the undiscounted cash flows are less than the carrying amounts of the assets, NWT will record an impairment charge to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets. During the years ended December 31, 2001, 2000 and 1999, management believes that no such impairments have occurred.

Investments

NWT holds interests in several Russian legal entities, engaged primarily in telecommunications and banking activities. The following principles have been applied:

Equity: Investments of between 20% and 50% are accounted for using the equity method. Under the equity method, the carrying value of the investment is adjusted to reflect NWT equity in the post-acquisition earnings/(losses) of the investee.

Cost: Investments of less than 20%, and other investments over 20%, which are insignificant in amount (the aggregate of which is less than 2% of total assets, revenue or net income with regard to the consolidated financial statements), are accounted for using the cost method.

Management periodically evaluates the recoverability of investments carried at cost. Investments that have accumulated losses since the date of their acquisition are written down to recognize permanent impairment in their value.

Revenues recognition

The Company categorizes the revenue sources in eight major categories (see Note 14):

1. Monthly subscription fees for local services: (a) residential, (b) corporate, (c) government
2. Installation fees;
3. Long distance services;
4. Telegraph services;
5. Internet services;
6. Network services;
7. Rent of premises;
8. Other services.

Monthly subscription fees for local services

The Company recognizes revenues related to the monthly network fees for local services in the month that the service is provided to the subscriber.

Installation fees

The Company recognizes non-refundable installation fees for indefinite contracts with its subscribers as revenues when the installation is complete.

2. Significant accounting policies (continued)

Revenues recognition (continued)

Long distance services

Revenues from long distance services are based on time used by the caller, the destination of the call and the services utilized. The Company charges long distance fees on a per-minutes. The Company recognizes revenues related to the long distance services in the period when the services are rendered.

Telegraph services

Revenues from telegraph services comprise fees for cable transmissions and other wire line data transmission services. The Company recognizes revenues related to telegraph services in the period when the services are rendered.

Internet services

The Company recognizes revenues related to the Internet services in the period when the services are rendered.

Network services

The Company provides other telecommunication operators in St. Petersburg with assess to its network. The Company recognizes revenues related to network services in the period when the services were rendered.

Rent of premises

The Company leases its premises to other businesses under annual contracts. Renewal options are available on the majority of leases. These contracts are accounted for as operating leases and related rental revenues are recognized over the lease term.

Other services

The Company rents telecommunication channels, provides technical support and other supporting services to the other telecommunication operators in St. Petersburg and corporate customers. The Company recognizes revenues related to such services in the period when the services were rendered.

Retirement benefit obligations

The Company is legally obliged to make defined contributions (included in the social security contributions) to the National Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). As such, the Company has no legal or constructive obligation to pay future benefits. Its only obligation is to pay the contributions as they are due. If the Company ceases to employ members of the Russian State Social Security plan, it will have no obligation to pay the benefits earned by its own employees in previous years.

The Company's contributions relating to defined contribution plans are expensed in the year to which they relate. In 2000 the Company's pension scheme contribution amounted to 28% of employees' gross salaries.

2. Significant accounting policies (continued)

Retirement benefit obligations (continued)

Starting from 1 January 2001, all social contributions (including contributions to the Pension fund) were substituted with a unified social tax ("UST") calculated by the Company by the application of a regressive rate from 35.6% (applied to the part of the annual gross salary below 100 thousand rubles or $3 translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001) to 5% (applied to the part of the annual gross salary above 600 thousand rubles or $20 translated at the exchange rate of the ruble to 1 U.S. dollar at December 31, 2001) to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (including the Pension fund), where the rate of contributions to the Pension fund vary from 28% to 5%, respectively, depending on the annual gross salary of each.

In addition to the state pension scheme, NWT has noncontributory defined benefit retirement plans covering most of its employees. NWT accounts for such noncontributory defined benefit retirement plans in accordance with provisions of SFAS No. 87 "Employers' Accounting for Pensions".

Income taxes

Provision is made in the financial statements for taxation of profits in accordance with Russian legislation currently in force. The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Company does not recognize deferred tax liabilities or assets for those differences relating to assets and liabilities that, under SFAS No. 52 "Foreign Currency Translation", are re-measured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax purposes.

Fair value of financial instruments

The estimated fair values of the Company's financial instruments are as follows:

	2001		2000	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	3,581	3,581	5,726	5,726
Current receivables	20,122	20,122	20,844	20,844
Non-current receivables	-	-	2,820	2,820
Financial liabilities:				
Current payables	29,505	29,505	22,609	22,609
Short-term debt	1,659	1,659	2,841	2,841
Long-term debt	34,882	34,252	38,707	38,077

2. Significant accounting policies (continued)

Fair value of financial instruments (continued)

The carrying amount of cash equivalents, short-term investments, accounts receivable and payable and short-term debt approximates their fair value because of short maturity of these items.

The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

As discussed in Note 8, the Company has investments in certain Russian companies carried at cost. There are no quoted market prices for these instruments and a reasonable estimate of fair value could not be made without incurring excessive costs. Management believes that carrying value is a reasonable approximation of fair value.

Comprehensive income (loss)

Comprehensive income (loss) is defined as net income plus all other changes in net assets from non-owner sources. For the years ended 31 December 2001, 2000 and 1999, comprehensive income (loss) equaled net income (loss).

Comparative information

Certain prior year amounts and disclosures have been reclassified to conform to the 2001 presentation.

New accounting pronouncements

Business Combinations and Goodwill and Other Intangible Assets

In July 2001, FASB issued SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001.

SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No.16 “Business Combinations”, although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower.

Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to tested for impairment in accordance with APB Opinion No. 18 “The Equity Method of Accounting for Investments in Common Stock”. Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower of cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

2. Significant accounting policies (continued)

New accounting pronouncements (continued)

SFAS Nos. 141 and 142 are effective for fiscal years beginning after December 15, 2001. This pronouncement will be applied to the merger of North-West Telecom with North-West Federal District fixed line operators (see Note 1) and other future business combinations. The Company does not anticipate any impact on historical acquisitions or investments in the Company's financial statements upon adoption of these pronouncements.

Accounting for the Impairment or Disposal of Long-Lived Assets

In October 2001, the FASB issued SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Under SFAS No. 144, there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there are a range of cash flows that may be generated by the asset being tested for impairment. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 with early application encouraged. The provisions of the Statement are generally to be applied prospectively. Management does not anticipate that adoption of SFAS No. 144 will have any impact on its results of operations or its financial position.

3. Merger with MMT and SPT

In March 2000, the shareholders of NWT, St. Petersburg MMT (MMT) and St. Petersburg Telegraph (SPT), Russian open joint stock companies, approved a merger of MMT and SPT into NWT. The share exchange ratio (both common and preferred) was as follows:

1.721214 of NWT shares for one MMT share,
0.219081 of NWT shares for one SPT share.

NWT issued 90,768,166 common shares and 30,254,851 preferred shares, which were exchanged for the shares of MMT and SPT (Note 13). The merger was completed on December 28, 2000, when MMT and SPT were officially liquidated as separate legal entities, and continued their operations as new branches of NWT.

A number of minority shareholders of MMT believe that the ratios for exchange of shares during the merger were not calculated correctly. Based on that claim, several lawsuits had been filed to contest the merger (see Note 21).

The merger with MMT and SPT was accounted for using the purchase method for combination of enterprises under common control as NWT, MMT and SPT are controlled by one parent company, Svyazinvest. The portion of transferred assets and liabilities related to Svyazinvest were accounted at their historical costs. The acquisition cost related to the minority shareholders' equity interest in MMT and SPT was determined based on the fair value of stock consideration issued by NWT in exchange for their shares of MMT and SPT, and was valued based on an appraiser engaged by the three merged companies to estimate the share exchange ratios.

3. Merger with MMT and SPT (continued)

The appraisal alternative was used due to the fact that the market of NWT, MMT and SPT equity securities being traded primarily in Russian Trading System (RTS) is undeveloped and was not considered representative of the fair value of the stock issued. The appraisal took into consideration discounted cash flows, fair values of comparative telecommunication companies located in other countries, net assets and registered in RTS equity securities trades. The portion of assets and liabilities related to minority shareholding and transferred from MMT and SPT as a result of the merger were accounted for at fair value net of negative goodwill, which was allocated proportionally to reduce the values assigned to non-current assets other than assets with unequivocal values, such as marketable securities.

NWT acquired all assets and liabilities of MMT and SPT in exchange for 90,768,166 shares of newly issued common stock and 30,254,851 shares of newly issued preferred stock of NWT representing 20.6% of the issued and outstanding shares of NWT.

The purchase price was recorded at $49,835 and allocated at the purchase date as follows with a corresponding increase to shareholders' equity:

Current assets	19,311
Property, plant and equipment	32,120
Other non-current assets	10,025
Current liabilities	(10,211)
Long-term liabilities	(554)
Deferred taxes	(856)
Total	49,835
Purchase price	
Common and preferred stock	4,298
Additional Paid-In Capital	45,537
Total	49,835

The excess of fair value of acquired net assets over the purchase price of $23,532 was recorded as a reduction in property, plant and equipment.

4. Accounts receivable

Accounts receivable as of December 31, 2001 and 2000 are comprised of the following:

	2001	2000
Trade receivables		
Government customers	1,205	1,510
Corporate customers	2,693	3,110
Residential customers	22,004	19,286
Total trade receivables	25,902	23,906
Other receivables	5,431	3,630
Less allowance for doubtful accounts	17,678	15,027
Total	13,655	12,509

Other receivables include settlements related to the Company's non-core activities.

4. Accounts receivable (continued)

The Company invoices its governmental and corporate customers in rubles on a monthly basis. For residential customers, NWT sends monthly payment requests and substantially relies upon these customers to remit those payments. All customer payments are based upon tariffs, denominated in rubles, in effect at the time of calls made. Accordingly, in terms of US dollars, the Company is subject to the economic risk of currency movements between the time a call is made and the receipt of payment. In limited circumstances, the Company has billed and collected penalties, associated with delays in payment and has been able to obtain certain payments through the Arbitrage Court.

Management has provided allowances on accounts receivable based on specific review of doubtful balances due from corporate customers. In addition, an allowance was provided for balances receivable from governmental customers, which were identified as uncollectable or doubtful. An additional allowance was made for balances outstanding from residential customers and based on the aging of such balances. Further, an allowance associated with the overall delinquency in customer payments was provided.

5. Prepayments and other current assets

Prepayments and other current assets as at December 31, 2001 and 2000 are comprised of the following:

	2001	**2000**
Advances to suppliers	1,597	3,188
VAT receivable	4,771	2,673
Other	99	2,474
Total	6,467	8,335

6. Notes receivable

In 1996, NWT entered into a purchase agreement with a Dutch subsidiary of Lucent Technologies, an international manufacturer of telecommunications equipment, to purchase telecommunications switching equipment. At the same time, NWT entered into a sale agreement with Peterstar to sell the equipment at the same price.

Peterstar is an operator of an overlaying digital telephone network in the city of St. Petersburg. Telecominvest, a company in which NWT owns a 15% interest as of December 31, 2001, owns 29% of Peterstar's stock. The amounts due from Peterstar are included in notes receivable and the amounts payable to Lucent Technologies are included in long-term debt.

The note receivable is denominated in Dutch guilders, bears interest of 9% per annum, and is secured by an escrow account. The purchase agreement grants NWT a deferral of payment on the same terms as the sale agreement. The interest rate associated with the purchase agreement is 8% per annum.

In March 2001, Peterstar fully repaid notes outstanding as of December 31, 2000.

7. Property, plant and equipment

Property, plant and equipment as at December 31, 2001 and 2000 are comprised the following:

	Buildings, cable ducts, cable plant and land improvements	Switching and other network equipment, transmission, power supply	Transport, tools and other equipment	Construction in progress	Total
Cost:					
At December 31, 1999	401,385	444,247	2,538	42,856	891,026
Transfers from MMT and SPT	11,454	16,363	1,967	2,336	32,120
Additions	-	-	3,523	766	4,289
Transfers	1,537	9,541	214	(11,292)	-
Disposals	4,303	810	176	9,438	14,727
At December 31, 2000	410,073	469,341	8,066	25,228	912,708
Additions	-	-	1,847	26,614	28,461
Transfers	14,462	13,627	328	(28,417)	-
Disposals	673	11,840	1,047	-	13,560
At December 31, 2001	423,862	471,128	9,194	23,425	927,609
Accumulated depreciation:					
At December 31, 1999	235,242	321,790	260	-	557,292
Charge	8,531	13,026	1,375	-	22,932
Disposals	4,303	810	176	-	5,289
At December 31, 2000	239,470	334,006	1,459	-	574,935
Charge	9,043	14,579	1,797	-	25,419
Disposals	673	11,840	1,047	-	13,560
At December 31, 2001	247,840	336,745	2,209	-	586,794
Net book value at December 31, 2001	176,022	134,383	6,985	23,425	340,815
Net book value at December 31, 2000	170,603	135,335	6,607	25,228	337,773

In 2000, the Company entered into four lease agreements for transport vehicles and computers with ZAO Leasing Telecom for the periods ranging from 2.5 to 3.9 years. The total cost of assets covered by these leases is $5,370. The title of ownership for the leased property would be transferred to the Company at the end of the lease term. The lease payables are denominated in U.S. dollars. These leases were accounted for under SFAS 13 “Accounting for leases” and classified as capital leases in the accompanying balance sheet as of December 31, 2001 and 2000.

Following is an analysis of assets under capital leases as of December 31, of:

Transport, tools and other equipment	**2001**	**2000**
Cost	5,370	3,523
Accumulated depreciation	2,187	1,022
Net book value	3,183	2,501

7. Property, plant and equipment (continued)

Following is a summary of the total future minimum lease payments under capital leases:

Year	December 31, 2001
2002	1,195
2003	540
2004	428
2005	10
Total minimum lease payments	2,173
Less amount representing interest	69
Present value of minimum capitalized lease payments	2,104
Less current portion	1,141
Long-term capitalized lease obligations	963

8. Investments

Investments as of December 31, 2001 and 2000 are comprised of the following:

	2001		2000	
	Ownership	**Amount**	**Ownership**	**Amount**
Delta Telecom (1)	43.1%	7,146	43.1%	6,699
Telecominvest (2)	15.0%	17,723	15.0%	17,723
Other investments, carried at cost (Note 2)	1% to 90%	2,354	1% to 90%	2,420
Total		27,223		26,842

(1) Delta Telecom

Delta operates a cellular telecommunications network in St. Petersburg operating on the NMT-450 standard.

Balance sheets as of

	December 31, 2001	December 31, 2000
Current assets	10,492	11,497
Non-current assets	12,650	10,814
Total assets	23,142	22,311
Current liabilities	9,804	8,674
Non-current liabilities	-	921
Total liabilities	9,804	9,595
Shareholders' equity:		
Charter capital	15,524	15,524
Accumulated deficit	2,186	2,808
Total liabilities and shareholders' equity	23,142	22,311

8. Investments (continued)

(1) Delta Telecom (continued)

Statements of operations for the years ended

	December 31, 2001	December 31, 2000	December 31, 1999
Revenues	23,906	22,887	22,854
Expenses	21,472	25,216	23,332
Impairment loss	-	16,487	-
Income/(loss) before provision for income taxes	2,434	(18,816)	(478)
Provision for income taxes	1,400	1,508	1,987
Net income/(loss)	1,034	(20,324)	(2,465)

NWT interest in the underlying net assets of Delta at the time of the acquisition exceeded the cost paid for the investment by $5,352. The resulting negative goodwill was amortized to income over 10 years.

Due to rapid changes in technology, the NMT-450 standard is less competitive in comparison with digital standards such as the GSM-900/1800 standard. Consequently Delta lost market share during 2000 and 1999. In 2000 management of Delta reassessed the realizable values of property, plant and equipment and recognized an impairment loss of $16,487. NWT recognized the related effects by offsetting its portion of impairment loss of $6,899 against remaining negative goodwill as follows:

	December 31, 2000
Negative goodwill (initial)	5,352
Accumulated amortization as of December 31, 2000	(4,542)
Remaining negative goodwill before effect of impairment	810
Effect of impairment	(810)
Remaining negative goodwill after effect of impairment	-

NWT recorded $447 of equity in income and $7,838 and $658 of equity in losses of Delta in 2001, 2000 and 1999, respectively.

(2) Telecominvest

Telecominvest is an open joint stock company that holds interests principally in the telecommunications and media industry, primarily in the Northwest region of Russia.

In 2000, Telecominvest issued additional shares such that NWT's ownership decreased from 25% to 12.7% as of June 30, 2000 and 7.6% as of December 28, 2000. Also, MMT had ownership of 7.4% in Telecominvest as of the date of merger. As a result, as of December 31, 2000, NWT combined ownership in Telecominvest was 15%. Due to the decrease of NWT's equity interest, Telecominvest ceased to qualify for accounting under the equity method as of June 30, 2000. Consequently, effective July 1, 2000, NWT began accounting for Telecominvest under the cost method.

NWT recorded $887 and $751 of equity in income of Telecominvest in 2000 and 1999, respectively.

9. Short-term debt

As of December 31, 2001 and 2000 short-term loans are comprised of the following:

	2001	2000
Industry and Construction Bank (1)	-	2,841
Bank Vozrozhdenie (2)	995	-
Telecombank (3)	664	-
Total	1,659	2,841

(1) Industry and Construction Bank

In October 2000, the Company received a Ruble denominated loan for $2,841 at 23% p.a. Interest was paid monthly. Maturity date was April 4, 2001. The Company pledged property, plant and equipment of MMT as collateral for this loan.

(2) Bank Vozrozhdenie

In August 2001, the Company received a Ruble denominated loan at 20% p.a. Interest is paid monthly. Maturity date is February 20, 2002. The Company pledged property, plant and equipment with a book value of $1,207 as collateral for this loan. In February 2002, NWT repaid the loan.

(3) Telecombank

In December 2001, the Company received a Ruble denominated loan at 21% p.a. Interest is paid monthly. Maturity date is December 19, 2002. The Company pledged property, plant and equipment with a book value of $984 as collateral for this loan.

10. Accounts payable

Accounts payable as of December 31, 2001 and 2000 are comprised of the following:

	2001	2000
Rostelecom (see Note 22)	2,986	1,763
Taxes payable	3,332	2,568
Other payables	7,270	3,292
Total	13,588	7,623

Accounts payable to Rostelecom relate to settlements for long distance traffic. Taxes payable mainly relate to profit tax, property tax and VAT. Other payables comprise mainly liabilities for services and telecommunication equipment.

11. Long-term debt

Long -term debt primarily consists of long-term financing arrangements with international equipment vendors. As of December 31, 2001 and 2000 the Company's long-term debt is as follows:

	2001	2000
Consortium comprising of Mitsui, Sumitomo and NEC Corporation (1)	24,505	33,245
Lucent Technologies (2)	701	2,339
Svyazinvest (3)	2,000	2,000
Nokia (4)	-	1,018
ELSYS (5)	7,579	-
Lensvyaz (6)	97	105
Total	34,882	38,707
Less current portion	10,377	12,265
Non-current portion	24,505	26,442

Loan repayments over the five-year period beginning on January 1, 2002 are as follows:

	2002	2003	2004	2005	Total
Consortium comprising of Mitsui, Sumitomo and NEC Corporation	5,791	8,102	10,612	-	24,505
Lucent Technologies	701	-	-	-	701
ELSYS	1,885	5,694	-	-	7,579
Svyazinvest	2,000	-	-	-	2,000
Lensvyaz	-	-	-	97	97
Total	10,377	13,796	10,612	97	34,882

The presentation of long-term debt reflects the negotiated rescheduling of debt payments as discussed below:

(1) Mitsui, Sumitomo and NEC

The loans from Mitsui represent vendor credits and are denominated in US dollars. The interest rates range from 1.75% to 2% over the London inter-bank rate (LIBOR).

On March 21, 2000, NWT entered into a debt restructuring agreement with a consortium comprising of Mitsui, Sumitomo and NEC Corporation. Pursuant to these agreements, (1) repayment terms of NWT's debt under the original equipment purchase agreement, including interest, were amended; (2) NWT is to provide additional security in the form of guarantees by Svyazinvest. Interest and principal payments are made monthly. The maturity date is in December 2004.

(2) Lucent Technologies

In November 1999, NWT, Telecominvest and Lucent Technologies entered into two "back-to-back" agreements in connection with NWT's debt restructuring. Under these agreements, Telecominvest received switching equipment from Lucent Technologies and NEC and assumed the liabilities for this equipment from the Company. Due to cash flow problems of the Company resulting from the Russian financial crisis in 1998, NWT was unable to fulfill its obligations under the contracts with Lucent Technologies and NEC.

11. Long-term debt (continued)

In accordance with the agreements, the rights and obligations of NWT under its equipment purchase contracts with Lucent Technologies were assigned to Telecominvest and the payment terms were restructured. Under both contracts NWT guaranteed repayment of the full amount payable by Telecominvest. Pursuant to these agreements (1) NWT's debt under the original equipment purchase agreement, including all interest, was re-assigned to Telecominvest; (2) Telecominvest received title to the switching equipment delivered under the original purchase agreement; (3) Telecominvest reimbursed NWT for any expenses, including customs duties, incurred in connection with the original equipment purchase agreement; (4) in connection with re-assigning the debt to Telecominvest, NWT issued a financial guarantee to Lucent Technologies in the amount of approximately $11 million.

The restructuring was completed in 2000. Liabilities and title for the equipment received under the original purchase agreement with Lucent Technologies were transferred to Telecominvest.

The amount of debt outstanding to Lucent Technologies as of December 31, 2001, is for equipment that was received by NWT and forwarded to Peterstar in accordance with the Purchase-Delivery agreement signed between NWT and Peterstar on December 10, 1996 (see Note 6). This debt is for equipment received in 1996 and is unrelated to the other Lucent Technologies debt discussed above. In June 2002, NWT repaid the loan.

(3) Svyazinvest

In April 2000, the Company received a Ruble denominated interest free loan to finance its rural telecommunications network development. Original maturity date was February 19, 2002. Currently, management is in process of negotiations to reschedule debt repayment to 2003. The loan is not secured by any collateral. As described in Note 13, Svyazinvest is a majority shareholder of NWT.

(4) Nokia

The loan from Nokia Networks Oy represent vendor financing and were denominated in US Dollars. The interest is 8% p.a. payable quarterly.

(5) ELSYS

In January 2001, the Company entered into an agreement with ELSYS for the purchase of telecommunication equipment. The total amount of vendor financing is $8,684 at 8.42% p.a. The loan is denominated in US Dollars. Interest is paid quarterly. In April 2002, NWT repaid the loan.

(6) Lensvyaz

In May 2000, the Company received an interest free loan of 2,953,650 Rubles. The loan should be repaid in full amount by May 18, 2005. Earlier extinguishment of the debt is prohibited under the loan agreement. As described in Note 13 Svyazinvest is the majority shareholder of Lensvyaz.

(7) Bonds issue in April 2002

In April 2002, NWT issued 300,000 non-convertible bonds with a face value of 1,000 Rubles each for a total amount of 300 million Rubles or approximately $9,626 (at the exchange rate as of April 10, 2002). Bonds were placed on the Moscow Interbank Foreign Exchange and St.-Petersburg Foreign Exchange in equal amounts of 150 million Rubles. Bonds were sold with a discount of 3.5%. The maturity date of the bonds is April 10, 2004. Interest is payable on July 10, 2002 at 20% p.a., October

9, 2002 at 19% p.a., April 10, 2003 at 18% p.a., October 9, 2003 at 16% p.a. and April 9, 2004 at 16% p.a.

12. Other current liabilities

Other current liabilities as of December 31, 2001 and 2000 are comprised of the following:

	2001	2000
VAT payable	2,519	-
Social contributions	2,528	1,413
Accrual for unused vacation	1,945	1,945
Other accrued liabilities	3,267	6,105
Total	10,259	9,463

13. Shareholders' equity

As of December 31, 2001, NWT shareholders and their respective percentage interests were as follows:

	Common shares	Preferred shares
Svyazinvest	50.9%	- %
Brunswick UBS Warburg Nominees	21.6%	12.2%
Credit Swiss First Boston Nominees	8.6%	12.6%
Other shareholders	18.9%	75.2%
Total	100.0%	100.0%

The common shareholders are allowed one vote per share. Preferred shares type A are non-voting. All common shares and preferred shares type A are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations, denominated in rubles. Preferred shares type A are guaranteed an annual payment of dividends in the amount equal to 10% of statutory income available for dividends. Each preferred share type A is also guaranteed an annual dividend distribution that is not less than the distribution for each common share for the same year. Shareholders of preferred shares type A have a preferred right to recover the face value of preferred shares in liquidation.

In accordance with Russian statutory accounting regulations, earnings available for dividends are limited to profits, denominated in rubles, after certain deductions, Approximately $941 and $1,044 were accrued as dividends for 2001 and 2000, respectively, to the owners of preferred shares type A.

The accompanying financial statements differ from the financial statements prepared for statutory purposes in the Russian Federation in that they reflect certain adjustments, not recorded in the Company's accounting books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments are related to (1) timing of expense recognition; (2) foreign currency translation; (3) valuation of property, plant and equipment; (4) valuation of accounts receivable and (5) deferred income taxes.

14. Revenues

Revenues for the years ended December 31, 2001, 2000 and 1999 are comprised of:

	2001	2000	1999
Residential subscription fees – local	35,534	31,708	27,071
Corporate subscription fees – local	13,260	8,784	7,499
Government subscription fees – local	4,177	6,902	5,892
Long distance commission from MMT	-	5,697	4,540
Long distance revenues	61,826	652	-
Connection fees	3,677	2,736	3,080
Telegraph services	1,812	-	-
Internet services	2,035	-	-
Network services	3,304	2,111	-
Rent of premises	2,700	1,753	-
Other revenues	8,483	5,205	5,903
Total	136,808	65,548	53,985

Before the merger with NWT, MMT, the long distance provider in St. Petersburg, billed long distance charges directly to NWT customers. NWT earned a commission on incoming and outgoing long distance traffic from MMT. As MMT was merged with NWT on December 28, 2000, no long distance commissions were recorded after that date and the long distance revenues were recorded as revenues of NWT. Long distance revenues in 2000 represent former MMT revenues for 4 days (December 28 through 31, 2000).

15. Cost of services

Cost of sales for the years ended December 31, 2001, 2000 and 1999 are comprised of:

	2001	2000	1999
Depreciation	26,674	23,457	21,173
Rostelecom interconnection charges	29,062	-	-
Salaries	15,070	7,823	5,985
Social charges	6,603	3,574	2,993
Materials and spare parts	3,118	5,145	7,273
Repair and maintenance	5,339	7,129	5,564
Electricity	2,096	1,109	994
Transportation	1,790	2,137	641
Other	3,800	2,708	2,364
Total	93,552	53,082	46,987

Rostelecom interconnection charges relate to the long distance traffic. Prior to the merger with MMT on December 28, 2000, NWT did not provide long distance services to its customers.

16. General and administrative expenses

General and administrative expenses for the years ended December 31, 2001, 2000 and 1999 are comprised of:

	2001	2000	1999
Salaries	5,591	3,025	1,469
Social charges	1,721	595	574
Heating	1,035	478	580
Rent of land and premises	1,521	1,072	1,032
Other	6,114	3,383	2,446
Total	15,982	8,553	6,101

17. Operating taxes

Operating taxes for the years ended December 31, 2001, 2000 and 1999 are comprised of:

	2001	2000	1999
Property tax	3,449	-	2,432
Road users tax (revenue based tax)	1,297	1,650	1,390
Non-recoverable VAT	1,988	-	-
Other taxes	331	51	9
Total	7,065	1,701	3,831

In 2000, the Company was exempt from property tax.

18. Other operating expenses

Other operating expenses for the year ended December 31, 2001, 2000 and 1999 are comprised of:

	2001	2000	1999
Bad debt expense (recovery)	4,556	7,415	(223)
Social expenditure	3,830	1,856	2,185
Bank charges	1,474	897	425
Other	141	3,110	826
Total	10,001	13,278	3,213

NWT incurs expenses related to maintenance and renovation of local social assets and provision of employees' benefits, including contributions to the construction, development and maintenance of housing and recreation facilities. These costs, including capital expenditures, are expensed as incurred.

19. Income taxes

NWT provision (benefit) for income taxes for the years ended December 31, 2001, 2000 and 1999 is as follows:

	2001	2000	1999
Current income tax	11,218	6,686	1,108
Deferred income tax benefit	(6,843)	(6,307)	(3,033)
Total provision (benefit)	4,375	379	(1,925)

The profits from the Company's primary activities, as calculated in accordance with Russian legislation were subject to income tax at a rate of 29% in 2001 and 30% in 2000 and 1999. The Company's statutory income tax rate for equity in income of associated companies in 2000 was 15%. From August 2001, the Company's statutory income tax rate for equity in income of associated companies was 6% as a result of changes in Russian legislation. Also from January 1, 2002 the Company's statutory income tax rate will be 24%. The reduction in statutory income tax rate and statutory income tax for equity in income of associate companies resulted in the recognition of a deferred tax benefit of $3,210 and $802 in 2001 and 2000, respectively. A reconciliation of effective profit tax rates to the statutory rates is as follows:

	2001	2000	1999
Income (loss) before income taxes	7,707	(21,475)	(10,397)
Statutory income tax rate	29%	30%	30%
"Expected" income tax provision (benefit)	2,235	(6,442)	(3,119)
Add tax effect of:			
Change in allowance for deferred tax asset	(150)	2,260	(67)
Equity in income (loss) of investments	(103)	973	(14)
Change in statutory tax rate effect	(3,210)	(802)	-
Loss carry forward tax credit	-	-	(1,011)
Depreciation (Ruble devaluation)	798	515	424
Non-deductible expenses	3,842	3,991	1,938
Translation effects and other	963	(116)	(76)
Provision (benefit) for income taxes	4,375	379	(1,925)

Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred tax assets and liabilities as of December 31, 2001 and 2000:

	2001	2000
Deferred tax asset:		
Allowance for doubtful accounts	4,243	4,393
Accruals	647	866
Other	1,082	740
	5,972	5,999
Valuation allowance for deferred tax asset	4,243	4,393
Total deferred tax asset	1,729	1,606

19. Income taxes (continued)

	2001	2000
Deferred tax liability:		
Difference in property, plant and equipment	11,556	18,384
Equity in income (loss) of associates	1,440	1,842
Other	510	-
Total deferred tax liability	13,506	20,226
Net deferred tax liability	11,777	18,620

There is significant doubt about the Company's ability to realize the deferred tax asset related to allowance for doubtful accounts. Therefore management provided a valuation allowance against the deferred tax asset related to the provision for doubtful debts as of 31 December 2001 and 2000.

Deferred taxes are presented in the accompanying consolidated balance sheets as follows:

	2001	2000
Current deferred tax asset	137	866
Non-current deferred tax liability	11,914	19,486
Net deferred tax liability	11,777	18,620

20. Retirement benefits

The Company sponsors pension plans for its employees. The pension plans cover most of the Company's employees and provide for monthly pension payments to eligible employees upon retirement. Benefit obligation, plan assets, funded status, and net liability information is summarized as follows:

	2001	2000	1999
Benefit obligation at December 31	9,297	9,008	6,382
Fair value of plan assets at December 31	2,471	1,685	410
Funded status	(6,826)	(7,323)	(5,972)
Accrued benefit cost recognized in the balance sheet	2,028	1,799	1,127
Weighted-average assumptions as of December 31			
Discount rate	10%	10%	10%
Expected return on plan assets	15%	15%	15%
Rate of compensation increase	10%	10%	10%
Benefit cost	914	799	845
Employer contribution	554	202	146
Benefits paid	130	38	24

20. Retirement benefits (continued)

The Company acquired all assets and liabilities of MMT and SPT on December 28, 2000, thus increasing the pension benefit obligation by $ 2,184 and pension plan assets by $786 as of December 31, 2000 (see also Note 3).

21. Contingencies

Russian taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Service and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of NWT tax declarations have been inspected without significant penalties, these do not eliminate the possibility of re-inspection. Accordingly, as of December 31, 2001, substantially all of the tax declarations of NWT are open to further review.

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes and, thus, the overall tax burden on businesses, and to simplify the tax laws.

Management has identified possible tax assessments related to interpretations of the Company's tax positions in the amount of approximately $1 million. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Debt restructuring

In accordance with debt restructuring agreement of March 21, 2000 (see Note 11) with Mitsui, Sumitomo and NEC, NWT arranged for a guarantee letter from MMT. As a result of the merger, this guaranty letter became void. Therefore NWT is required to provide the Japanese consortium with another guaranty suitable for them. In addition, NWT has to provide guarantee from Svyazinvest. As of the date of this report no such guarantees have been provided. Management believes that absence of the guarantees will not result in technical default and negative financial consequences for NWT.

21. Contingencies (continued)

Insurance coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2001, 2000 and 1999, NWT does not maintain insurance coverage on a significant part of their property, plant and equipment asset bases, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

22. Related-party transactions

In connection with providing network services, the Company has entered into certain contracts with its subsidiaries and affiliates.

(1) The Russian Federation and State-owned telecommunications companies

As discussed in Note 13, the Government of the Russian Federation, through 75% owned holding company Svyazinvest, has effective voting control over NWT. The Ministry also provides the regulatory and tariff framework for the Company's operations.

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of Svyazinvest and its subsidiary companies.

The Government's influence is not confined to its share holdings in Svyazinvest. It has general authority to regulate tariffs and does regulate domestic long distance tariffs to a limited extent. In addition, the Ministry of Communications and Informatization of the Russian Federation has control over the licensing of providers of telecommunications services.

In addition, Svyazinvest effectively controls other recently privatized telecommunications companies, which have business relationships with the Company.

During 2001 and 2000, the Company entered into transactions with such State-controlled and regulated companies that included provision of long-distance interconnection, establishment of joint telecommunications projects and others. NWT has a loan of $2,000 outstanding to Svyazinvest as of December 2001 and 2000 (see Note 11). Other transactions with State-controlled and regulated telecommunications companies, except for Rostelecom, were not material in 2001, 2000 and 1999.

Note 11 details loan received by the Company from Lensvyaz. Svyazinvest has a controlling equity interest in Lensvyaz.

22. Related-party transactions (continued)

(2) Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The Company has negotiated interconnection agreements with Rostelecom. The annual expense associated with traffic carried and terminated outside of the Company's network is shown separately as Rostelecom interconnection charges in Note 15. Amounts due to Rostelecom are shown separately as accounts payables to Rostelecom in Note 10.

(3) Transactions with State organizations

State organisations are a significant element in the Company's customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. Certain entities financed by the Government budget, including the Ministry of Defense, are users of the Company's network. These entities are generally charged lower tariffs as approved by Ministry of Antimonopoly Policies and Entrepreneurship Support than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

The annual revenues from services provided to Government subscribers are shown separately in Note 14. Amounts outstanding from Government subscribers as of December 31, 2001 and 2000 are shown separately in Note 4.

(4) Telecominvest

During the years ended December 31, 2001, 2000 and 1999, Telecominvest sold marketing services and received loans from NWT. Accordingly, as of December 31, 2001 and 2000, NWT had accounts payable and notes receivable with Telecominvest. The overall effect of these transactions on the financial position of NWT is not material. As discussed in Note 11, in 2000 NWT's debt to Lucent Technologies was re-assigned to Telecominvest, together with the title of property for equipment, received by NWT under the purchase contract with Lucent Technologies.

(5) Telecommunications companies - investee companies of Telecominvest

Before the dilution of NWT's ownership interest in 2000, through its direct ownership in Delta Telecom and Telecominvest, NWT had voting rights and the ability to otherwise influence the decisions by St. Petersburg's operators of value-added telecommunications networks. The most significant operators of value-added services in terms of revenues and build-out of their networks include Delta Telecom, Peterstar, Petersburg Transit Telecom and North-West GSM. As the dominant provider of access to the common use network in St. Petersburg, NWT also provides the tariff framework for the interconnection of such operators into the common use network.

During the years ended December 31, 2001, 2000 and 1999, NWT entered into transactions with such operators that included provision of interconnection into the common use network, rent of premises for technological and office use, provision of management services, delivery of invoices, and provision of loans.

22. Related-party transactions (continued)

(5) Telecommunications companies - investee companies of Telecominvest (continued)

The annual revenues from network and other services provided in 2001, 2000 and 1999 to the investee companies of Telecominvest are as follows:

	2001	2000	1999
Delta Telecom	338	634	15
North-West GSM	55	-	-
Petersburg Transit Telecom	1,114	-	-
Peterstar	445	307	361
St. Petersburg Taxophones	163	196	-
Web Plus	71	27	-

Delta Telecom

In 2001 NWT provided to Delta Telecom interconnection services as well as rented out office spaces and provided other technical support services. NWT also purchased phones and related cellular services from Delta Telecom for the total amount of $169 in 2001. Accounts payable and receivable to Delta as at December 31, 2001 amounted to $93 and $847, respectively.

Telecombank

Note 9 details the loan received by the Company from Telecombank. Telecominvest has 9.98% equity interest in Telecombank (see Note 8).

23. Subsequent events

On April 2002, NWT issued 300,000 non-convertible bonds with par value 1,000 Rubles each for the total amount of 300 million Rubles or approximately $9,626 (at the exchange rate as of April 10, 2002). See Note 11 for details on bonds issuance.

In June 2002 and in preparation for the regional merger (see Note 1), the Company submitted Prospectus for additional issue of 262,896,773 common shares and 87,646,542 preferred shares at par value of 1 Rubles each. The merger is expected to be completed by the end of 2002, when the merging companies will be officially liquidated as separate legal entities and continued their operations as the new branches of NWT (see Note 1).

In June 2002, shareholders of NWT approved dividends declared by the Board of Directors for 2001 on common stock of $902 ($0.002 per share) and preferred stock type A of $1,157 ($0.01 per share).

September 15, 2002

General Director

Chief Accountant