

**DELOITTE**

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October 18, 2006

OJSC North-West Telecom  
14/26 Gorokhovaya ul.,  
St. Petersburg, 191186

Mr. V.A. Akulich,  
Director General

**Results of market valuation of the share capital  
of CJSC “Petersburg Transit Telecom”**

Dear Mr. Akulich,

In accordance with Contract No. 16708/FS-06 of October 17, 2006 CJSC “Deloitte & Touche” (“Deloitte”, “Valuator”) has carried out the market valuation of 100% of the share capital of CJSC “Petersburg Transit Telecom” (“PTT” or “Company”). The valuation was carried out as of June 30, 2006 (“Valuation Date”).

Deloitte is engaged in valuation business on the basis of license No. 004646 issued by the RF Ministry of Property Relations on August 1, 2002 which is valid till August 1, 2007. Our professional activity is insured with the Ingosstrakh Company (Professional Indemnity Insurance Policy No. 433-015831/06 valid till May 31, 2007). Copies of our license and insurance policy are attached hereto.

***Company summary***

Closed Joint-Stock Company “Petersburg Transit Telecom” was established in 2000. The original purpose of establishing PTT was to remove overloads between nodes and exchanges in the city telephone network (“Petersburg Telephone Network”, or “PTN”), allocate necessary telephone numbers and channels to fixed and mobile communications operators, provide resources for building operators’ modem pools in St. Petersburg.

The principal activity of PTT is organizing transit connections for stationary, cellular and other communications networks. PTT provides:

- telephone services;
- data transmission and channel rent services;
- Internet access services.

Legal address of CJSC “Petersburg Transit Telecom”: 22 Bolshaya Morskaya ul., St. Petersburg, Russian Federation.

At the Valuation Date, PTT’s authorized capital was divided into 61,920 thousand shares with the par value of 250 rubles each; 100% of shares in the company are owned by OJSC “Telecominvest”.

### ***Brief analysis of the telecommunications market***

The telecommunications market of St. Petersburg and Leningrad Region where the Company operates is characterized by a moderate level of competition. In valuating the PTT shares we took into consideration the following trends and tendencies existing on the market:

- on the whole, the telecommunications market development is in keeping with European tendencies in the industry;
- at the same time, the telecommunications market growth rate currently tends to decrease on the whole;
- the mobile communications market is growing more slowly, as it approaches the saturation point and the market penetration of these services will soon reach 100%;
- different segments of the fixed communications market will show different growth rates;
- rapid growth of Internet access, IP-telephony, data transmission services;
- slow growth of fixed communications penetration and, accordingly, slow growth of local and long-distance service consumption;
- mobile and IP-telephony services are becoming more competitive on the long-distance communications market;
- the liberalization of the long-distance communications market is likely to increase competition on the part of alternative fixed communications operators, involving a fall in the market share of OJSC “Rostelecom”;
- the Communications Ministry’s resolutions effective as from mid-2006 identify three levels of operators (local, zonal and long-distance ones) as well as substantially change the rules of settlements between them. Such changes are aimed, among other things, at removing cross-subsidies in the industry: the long-distance tariffs will reduce (including in connection with a greater competition), while the local tariffs will rise;
- according to the new rules, the mobile operators are no longer able to rent direct numbers (e.g., from PTT) and have to seek new ways of work under the changed conditions;
- the new rules of settlements made it advantageous for large operators to get connected to PTT for a direct traffic exchange, which will have an effect on the future volumes of transit via the PTT network;
- the PTT and PTN networks are very closely related and the companies cannot give up their cooperation. This creates an additional risk that either party may almost unilaterally change the tariffs as of the valuation date (subject to the maximum tariffs fixed for PTN by the regulator). The traffic volumes (especially in the zonal segment of the PTT network) may also change substantially, depending on the actions of PTN and other communications operators, as well as on the success of marketing efforts of PTT itself.

### ***Methodology***

Except for several reservations specified below, the share capital of the Company was valuated in accordance with effective Russian legislation and International Valuation Standards.

The basic method of the Company valuation was the income approach whereby a financial model of the Company was built and projections of its cash flows were prepared for the years 2006-11 inclusive, based on the data provided by the PTT management.

We did not use the comparative approach as the results of the Company's past activity reflect the previous system of settlements between the operators and can determine neither the projected performance of the Company, nor its value. Nevertheless, we analyzed the results of valuation with the use of the income approach as of the end of 2008-2010 (after the new system of mutual settlements is launched) for comparability of calculating multipliers (EV/EBITDA) with the current and projected value data of Russian telecommunications companies.

Nor did we use the expense approach, as it does not allow to take account of substantial intangible assets (unique market position and interdependence between the Company and PTN) existing in the PTT business.

### *Scope of works*

In accordance with our understanding of the objectives and tasks of this study and our experience in similar projects, the valuation of the PTT share capital under the income approach included the following procedures:

- holding meetings and negotiations with the Company managers and professionals to gather and analyze necessary information;
- analyzing the industry, economic conditions and competition environment in which the Company operates;
- discussing with the Company managers and professionals the historical financial and operating results as well as business projections and assumptions on which these projections are based;
- discussing with the Company professionals the information provided on the specificity of their business and assets;
- analyzing risks relating to PTT's current activity;
- calculating the discounting rate;
- analyzing collateral and off-balance sheet assets as well as obligations of the Company;
- analyzing financial and economic models of the Company and carrying out the valuation under the cash flow discounting method;
- seeking similar companies and verifying the income approach results;
- preparing a valuation report.

The PTT management is responsible for the trustworthiness of projections, including the initial assumptions on which they were based. In case of substantial unjustified deviation of projected data from the average industry or historical data, we adjusted them as appropriate.

In valuating the share capital of the Company we took account of the cash flows from its principal activity only.

In valuating the share capital of the Company under the cash flow discounting method we used the following standard assumptions:

- the Company is an operating enterprise and will continue as such in the foreseeable future;
- the responsible attitude of its owners and the competent management of its operating activity will continue in the future;

- the Company will comply with all applicable provisions of laws and normative acts;
- the Company has, will obtain or renew all necessary permits and licenses of relevant federal and regional bodies and organizations on the decisions of which the results of our valuation are based;
- all cash flow on the operating activity of subsidiary companies takes place during the same year to which the relevant incomes received and expenses incurred relate;
- all cash flow takes place in the middle of the year.

In addition, we prepared projections of the PTT business based on the following specific assumptions:

- In mid-2006, as a number of changes and additions to legislative regulations applicable to the activity of telecommunications companies in Russia come into effect, the PTT business will undergo substantial changes (the changes will apply mostly to the system of tariffs and settlements between operators as well as to the regulation of some activities). The response of end consumers and competitors to the potential change in tariffs cannot be projected exactly. Accordingly, there is a certain risk that the performance results expected by the PTT management will not be achieved. So, we took account of an additional premium when determining the discounting rate reflecting these risks (1%).
- From mid-2006, as the direct rent of telephone number capacity to mobile communications operators is prohibited, PTT will have to revise its relations with them. PTT is examining several options, so this problem may well be resolved in the future. However, the Company management supposes that it will be more advantageous for mobile communications operators to build their own nodes of connection to PTN and that the relevant traffic will be substantially reduced in the future.
- From mid-2006, PTT will re-balance the tariffs for the traffic transit between PTN's network and those of other fixed network operators. At the valuation date, the Company reached a new tariff agreement with PTN, but the new tariffs may be changed in the future almost unilaterally (as the operators are actually unable not to use each other's services). In the negotiations with PTN, the Company was much oriented to expected business profitability: in case of adverse changes in the PTN tariffs the Company may also change the traffic tariffs for its network to compensate the increased costs. Thus, we did not adjust the Company management's projections for tariffs and analyzed them from the standpoint of the Company profitability.
- From 2007, the Company plans to begin providing traffic services for the zonal section of the network in the 812 code. The projected traffic volumes depend much on the behavior of major competitors on this market (including PTN) as well as on the marketing efforts of the companies themselves (it is necessary to persuade end customers and long-distance communications operators to use their zonal network for the traffic transit). So, in valuating the Company we considered the range of possible market share of the Company in this segment of services.
- The projected capital expenses of PTT in the long-term period were adjusted, based on an analysis of projected performances of similar companies. We took into consideration the range of possible expenses as the projections of the Company cannot be verified based on its previous performance.

Taking into consideration all of the country, industry and other general risk factors as well as the risk factors directly relating to the Company, we used in our calculations the discounting rate of 18% nominally.

### *Valuation results*

Based on the adopted methodology as well as taking into account all of the assumptions outlined in this section, we believe that the market value of 100% of the share capital of CJSC “Petersburg Transit Telecom” as of June 30, 2006 is approximately:

**between 116 (one hundred sixteen) million USD  
and 139 (one hundred thirty-nine) million USD**

As the point valuation of the share capital of the Company, we considered the arithmetic mean of above range: 128 million USD or 3.47 billion rubles at the Central Bank rate at the Valuation Date (1 USD = 27.0789 rubles).

### *Valuation certificate*

Based on all available information relating to this value analysis, it is certified that:

- the data stated herein are true and accurate;
- the findings and conclusions provided herein are fully and solely based on the assumptions specified herein and on the Valuator’s own analytic procedures;
- the Valuator has no commercial interest in the Company business and treats the parties concerned without any bias or prejudice;
- the Valuator’s fee does not depend on the amount of valuation, achievement of any specified result or occurrence of any event after the Valuation Date.

### *Limitations*

This letter may be available only to the management bodies of OJSC “North-West Telecom” (including the Board of Directors and the Board); the letter may not be disclosed to any other parties without our prior written consent (except as provided by Russian laws).

The information, facts and conclusions contained in the letter may be used only for the purposes specified in the letter.

We suppose that when making decisions on the shares in the Company OJSC “North-West Telecom” will not rely exclusively on the results of our work and will use them only as part of a general analysis. Thus, our work will not replace other studies, analytic procedures and estimates that must be carried out in the process of business decision-making in respect of the Company in question.

We do not bear liability for the buyer or seller setting the purchase-sale price of the block of shares on the basis of our valuation.

The management bodies and officers of OJSC “North-West Telecom” and the Company may not without our prior written consent refer to this letter or its content, or quote from it in any registration documents, prospectuses of issue, securities placement offers, credit or other agreements or documentation provided to third parties.

*Closing comments*

In the process of value analysis we proceeded from the assumption of correctness, completeness and trustworthiness of information provided to us by the Company managers and employees on the structure, operating and investment activity as well as financial results of CJSC “Petersburg Transit Telecom”.

The projected data are based on the circumstances existing at the Valuation Date and on the opinion of the management of subsidiary companies on the most probable economic conditions of their operation and may be affected by unforeseeable events and, consequently, differ from the actual results. Such events may have a substantial effect on the current projects of monetary receipts and, accordingly, on the value analysis results.

We were very pleased to have the opportunity to provide business valuation and value analysis services to OJSC “North-West Telecom”. If you have any questions or need additional information, please contact me at: +7 (495) 787-0600.

Sincerely yours,

Anton Shulga  
Partner,  
Corporate Finance Department

## ATTACHMENT. COMPANY VALUATION SUMMARY (THOUSANDS OF USD)

Metrics	Total	2 <sup>nd</sup> half 2006	2007	2008	2009	2010	2011
Proceeds		28 370	80 439	82 219	90 527	98 485	103 817
Prime cost		(12 937)	(46 232)	(45 842)	(50 464)	(53 635)	(55 483)
<b>Gross margin</b>		<b>15 434</b>	<b>34 207</b>	<b>36 377</b>	<b>40 362</b>	<b>44 850</b>	<b>48 335</b>
Operating expenses		(8 521)	(9 891)	(11 294)	(12 276)	(13 504)	(14 379)
<b>EBITDA</b>		<b>6 913</b>	<b>24 316</b>	<b>25 083</b>	<b>28 086</b>	<b>31 346</b>	<b>33 955</b>
<i>EBIRDA margin (%)</i>		<i>24%</i>	<i>30%</i>	<i>31%</i>	<i>31%</i>	<i>32%</i>	<i>33%</i>
Amortization		(4 119)	(8 964)	(9 678)	(7 124)	(4 022)	(5 085)
<b>Before-tax profit</b>		<b>2 793</b>	<b>15 352</b>	<b>15 405</b>	<b>20 962</b>	<b>27 324</b>	<b>28 870</b>
Profit tax		(670)	(3 684)	(3 697)	(5 031)	(6 558)	(6 929)
<b>Net profit</b>		<b>2 123</b>	<b>11 667</b>	<b>11 707</b>	<b>15 931</b>	<b>20 767</b>	<b>21 941</b>
(+) Amortization		4 119	8 964	9 678	7 124	4 022	5 085
(-) Change in the circulating capital		171	(1 587)	266	(328)	(199)	111
<b>Cash flow from operating activity</b>		<b>6 413</b>	<b>19 045</b>	<b>21 652</b>	<b>22 727</b>	<b>24 589</b>	<b>27 138</b>
(-) Capital investments		(3 031)	(7 675)	(7 467)	(7 604)	(7 768)	(7 921)
<b>Net cash flow on the debtless basis</b>		<b>3 383</b>	<b>11 370</b>	<b>14 185</b>	<b>15 123</b>	<b>16 821</b>	<b>19 217</b>
Discounting period, years		0.25	1.00	2.00	3.00	4.00	5.00
Discounting factor		0.96	0.85	0.72	0.61	0.51	0.43
Discounted cash flow	49 216	3 245	9 626	10 168	9 177	8 642	8 359
Discounted value in the post-projection period	54 360						
<b>Invested capital value</b>	<b>103 576</b>						
(+) Cash balance	7 964						
(-) Debt	-						
(+) Other assets*	16 401						
<b>Value of 100% of the share capital</b>	<b>127 941</b>						

\* including the indebtedness of CJSC "Sinterra" for the equipment sold.

*Source: Deloitte's calculations*

**ATTACHMENT B. LICENSES AND CERTIFICATES**

THE RUSSIAN FEDERATION

**THE RUSSIAN FEDERATION MINISTRY OF PROPERTY RELATIONS**

**LICENSE  
for valuation business**

Date of issue: August 1, 2002

License No. 004646

By Order of the Russian Ministry of Property Relations No. 174 of July 29, 2002, it was decided to grant the license for valuation business on the Russian Federation territory to:

**CLOSED JOINT-STOCK COMPANY "DELOITTE & TOUCHE CIS"**  
(full name of the legal entity or individual entrepreneur)

INN 7703097990

Building 1, 16/2 Tverskaya ul., Moscow, 103009  
(address; identity document details)

This License is valid from August 1, 2002 till August 1, 2007.

Head of the Economics and Valuation  
Business Department

G.A. Koryashkin

This License is extended till \_\_\_\_

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*not valid without the attachment*

*Seal: The Russian Federation Ministry of Property Relations*

*The license requirements and conditions for valuation business are as follows:*

- a) the licensee must comply with the requirements of legislative and other normative legal acts of the Russian Federation regarding the valuation business;
- b) the staff of the legal entity must include at least one employee for whom this legal entity is the principal place of employment, having the appropriate qualification in the valuation business received in accordance with professional educational programs agreed with the body authorized by the Russian Federation Government to supervise the valuation business in the Russian Federation, and confirmed by the education document;
- c) the individual entrepreneur must have the appropriate qualification in the valuation business received in accordance with professional educational programs agreed with the body authorized by the Russian Federation Government to supervise the valuation business in the Russian Federation, and confirmed by the education document;
- d) the legal entity's employee(s) and individual entrepreneur must receive advanced training in the valuation business at least once in three years;
- e) the licensee's civil liability must be insured by concluding an insurance contract for the specific kind of valuation business (depending on the subject of valuation) or for a specific contract for the valuation of the subject of valuation;
- f) the licensee must provide documents and information on the request of the licensing body as necessary to supervise compliance with the license requirements and conditions.

**1-page Attachment to Valuation Business License**

**No. 004646 of August 1, 2002**

Name of the individual entrepreneur / staff employee	Educational institution, series, number and date of issue of the professional education document
Georgy Vyacheslavovich Popov	Inter-Industry Institute for Advanced Training and Retraining of Managing Staff and Specialists, G.V. Plekhanov Russian Economic Academy, professional retraining diploma PP No. 328465 issued on June 30, 2001

Head of the Economics and Valuation  
Business Department

G.A. Koryashkin

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*Seal: The Russian Federation Ministry of Property Relations*

Moscow, Russian Federation

The fourteenth of September, year two thousand and two

I, Alexey Leonovich Kovalsky, a notary of the city of Moscow, certify this to be a true copy of the original document. The latter is free from erasures, additions, struck-through words and other unspecified corrections or any particularities.

Registered in the register under No. K-12697

Collected at the tariff: 10 rubles.

Notary

Seal: Notary A.L. Kovalsky, Moscow

**CERTIFICATE TO POLICY No. 433-015831/06  
OF PROFESSIONAL INDEMNITY INSURANCE**

**(extract)**

**INSURED:  
ZAO "Deloitte & Touche CIS"**

**INSURER:  
Insurance Company Ltd. "INGOSSTRAKH"**

**INSURANCE PERIOD:  
From June 01<sup>st</sup>, 2006 till May 31<sup>st</sup>, 2007 (both dates inclusive)**

**INSURED BUSINESS:**

Professional activity connected with property and vested interests evaluation including evaluation of tangible and intangible assets in accordance with the Russian legislation.

**INSURANCE EVENT:**

Insurance event is a fact of the duty of the Insured owing to the civil legislation to indemnify a damage to the person that has suffered loss as a result of mistakes, unintentionally caused by the Insured's specialist in the process of performing the professional duties.

**LIMITS OF LIABILITY:  
USD 1,100,000,- per each and every claim**

**DEDUCTIBLE:  
In the amount of USD 10,000,- per each occurrence**

**INSURER:** signed

*Seal: Insurance Company Ltd. "Ingosstrakh"*