

OJSC ROSTELECOM

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARD IAS 34

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(In millions of Russian Roubles)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Non-current assets		
Property, plant and equipment	311,077	301,068
Investment property	333	356
Goodwill and other intangible assets	62,833	30,209
Investments in associates	32,759	27,517
Other investments	14,034	10,589
Deferred tax assets	901	530
Other non-current assets	4,647	3,645
Total non-current assets	426,584	373,914
Current assets		
Inventories	5,954	4,156
Trade and other accounts receivable	31,378	25,284
Prepayments	2,210	1,993
Prepaid income tax	1,312	1,745
Other investments	1,455	5,580
Cash and cash equivalents	6,051	12,627
Other current assets	1,102	1,512
Total current assets	49,462	52,897
Total assets	476,046	426,811
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Group		
Share capital	106	100
Additional paid-in capital	33,424	33,424
Treasury shares	(25,416)	(25,410)
Retained earnings and other reserves	234,828	204,981
Total equity attributable to equity holders of the Group	242,942	213,095
Non-controlling interests	7,804	12
Total equity	250,746	213,107
Non-current liabilities		
Loans and borrowings	78,341	87,941
Employee benefits	17,226	16,197
Deferred tax liabilities	16,487	12,281
Accounts payable, provisions and accrued expenses	104	202
Other non-current liabilities	2,245	1,574
Total non-current liabilities	114,403	118,195
Current liabilities		
Loans and borrowings	67,234	50,096
Accounts payable, provisions and accrued expenses	36,990	38,935
Income tax payable	58	45
Other current liabilities	6,615	6,433
Total current liabilities	110,897	95,509
Total liabilities	225,300	213,704
Total equity and liabilities	476,046	426,811

The accompanying notes on page 8 are an integral part of these condensed consolidated interim financial statements.

OJSC Rostelecom
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
INCOME

(In millions of Russian Roubles unless otherwise stated)

	Notes	Nine-month periods ended	
		September 30, 2011 (unaudited)	September 30, 2010 (unaudited)
Revenue	1	217,458	203,287
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(58,265)	(53,426)
Depreciation, amortization and impairment losses		(41,417)	(37,483)
Interconnection charges		(29,441)	(28,306)
Materials, utilities, repairs and maintenance		(21,112)	(18,950)
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(308)	33
Bad debt expense		(391)	(749)
Other operating income		10,034	10,530
Other operating expenses		(32,458)	(30,894)
Total operating expenses, net		(173,358)	(159,245)
Operating profit		44,100	44,042
Income from associates		2,531	157
Finance costs		(9,778)	(8,612)
Other investing and financial gain		1,551	2,174
Foreign exchange loss		(323)	(387)
Profit before income tax		38,081	37,374
Income tax expense		(8,684)	(8,489)
Profit for the period		29,397	28,885
Other comprehensive (loss) income			
Revaluation (loss)/ gain on available-for-sale investments		(174)	7
Income tax in respect of other comprehensive loss/ (gain) income items		35	(2)
Other comprehensive (loss)/ income for the period, net of tax		(139)	5
Total comprehensive income for the period		29,258	28,890
Profit attributable to:			
Equity holders of the Group		29,551	28,992
Non-controlling interests		(154)	(107)
Total comprehensive income attributable to:			
Equity holders of the Group		29,412	28,997
Non-controlling interests		(154)	(107)
Earnings per share attributable to equity holders of the Group – basic (in Roubles)		10.11	9.18
Earnings per share attributable to equity holders of the Group – diluted (in Roubles)		9.93	9.13

The accompanying notes on page 8 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(In millions of Russian Roubles)

	Nine-month periods ended	
	September 30, 2011	September 30, 2010
Cash flows from operating activities		
Profit before income tax	38,081	37,374
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>		
Depreciation, amortization and impairment losses	41,417	37,483
Loss/(gain) on disposal of property, plant and equipment and intangible assets	308	(33)
Bad debt expense	391	749
Income from associates	(2,531)	(157)
Finance costs excluding finance costs on pension and other long-term social liabilities	8,776	8,159
Other investing and financing gain	(1,551)	(2,174)
Share based payment expenses	513	2,774
Foreign exchange loss	323	387
<i>Changes in net working capital:</i>		
Increase in accounts receivable	(4,469)	(4,574)
Increase in employee benefits	1,029	812
Increase in inventories	(1,521)	(627)
Decrease in accounts payable, provisions and accrued expenses	(4,720)	(1,418)
Increase/(decrease) in other assets and liabilities	2,626	(20)
Cash generated from operations	78,672	78,735
Interest paid	(9,212)	(8,525)
Income tax paid	(8,981)	(6,910)
Net cash provided by operating activities	60,479	63,300
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(40,940)	(35,128)
Proceeds from sale of property, plant and equipment and intangible assets	751	402
Acquisition of financial assets	(5,455)	(2,165)
Proceeds from disposals of financial assets	8,041	20,255
Interest received	1,472	1,650
Dividends received from associates	193	175
Purchase of subsidiaries, net of cash acquired	(32,285)	(3,687)
Acquisition of associates	(3,640)	(26,000)
Net cash used in investing activities	(71,863)	(44,498)

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(In millions of Russian Roubles)

	Nine-month periods ended	
	September 30, 2011	September 30, 2010
Cash flows from financing activities		
Purchase of treasury shares	(6)	(25,156)
Proceeds from bank and corporate loans	163,848	87,811
Repayment of bank and corporate loans	(146,902)	(57,731)
Proceeds from bonds	12	1,359
Repayment of bonds	(8,398)	(9,767)
Proceeds from promissory notes	13,490	3,820
Repayment of promissory notes	(14,095)	(3,042)
Repayment of vendor financing payable	(323)	(762)
Proceed from /(Repayment of) other non-current financing liabilities	54	(24)
Repayment of finance lease liabilities	(2,075)	(3,086)
Dividends paid to shareholders of the Group	(113)	(4,756)
Acquisition of non-controlling interest	(366)	(71)
Dividends paid to non-controlling shareholders of subsidiaries	(303)	-
Net cash provided by/(used in) financing activities	4,823	(11,405)
Effect of exchange rate changes on cash and cash equivalents	(15)	(336)
Net (decrease)/increase in cash and cash equivalents	(6,576)	(7,061)
Cash and cash equivalents at beginning of the period	12,627	13,620
Cash and cash equivalents at the end of the period	6,051	20,681

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(In millions of Russian Roubles)

	Equity attributable to shareholders of the Group								
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale investments	Treasury shares	Share options reserve	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interest	Total equity
Balance at January 1, 2011	100	33,424	787	(25,410)	4,186	200,008	213,095	12	213,107
Profit for the period	-	-	-	-	-	29,551	29,551	(154)	29,397
Changes in fair value of available-for-sale financial assets	-	-	(139)	-	-	-	(139)	-	(139)
Total comprehensive income	-	-	(139)	-	-	29,551	29,412	(154)	29,258
Dividends to shareholders of the Group	-	-	-	-	-	(5)	(5)	-	(5)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	(308)	(308)
Acquisition of non-controlling interest	-	-	-	-	-	(155)	(155)	(211)	(366)
Non-controlling interests in acquired subsidiaries	-	-	-	-	-	-	-	8,465	8,465
Employee benefits within share based employee motivation program	-	-	-	-	563	-	563	-	563
Issue of share capital	6	-	-	-	-	-	6	-	6
Acquisition of treasury shares	-	-	-	(6)	-	-	(6)	-	(6)
Other changes in equity	-	-	-	-	-	32	32	-	32
Balance at September 30, 2011	106	33,424	648	(25,416)	4,749	229,431	242,942	7,804	250,746

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)

(In millions of Russian Roubles)

	Equity attributable to shareholders of the Group									
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale financial assets	Treasury shares	Stock redempti on reserve	Share options reserve	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
Balance at January 1, 2010	100	33,424	630	(67)	-	-	183,396	217,483	(72)	217,411
Profit for the period	-	-	-	-	-	-	28,992	28,992	(107)	28,885
Changes in fair value of available-for-sale financial assets	-	-	7	-	-	-	-	7	-	7
Income tax in respect of other comprehensive income(loss) items	-	-	(2)	-	-	-	-	(2)	-	(2)
Total comprehensive income	-	-	5	-	-	-	28,992	28,997	(107)	28,890
Dividends to shareholders of the Group	-	-	-	-	-	-	(7,289)	(7,289)	-	(7,289)
Acquisition of treasury shares	-	-	-	(25,156)	(156)	-	-	(25,312)	-	(25,312)
Acquisition of non-controlling interest	-	-	-	-	-	-	(30)	(30)	(41)	(71)
Employee benefits within share based employee motivation program	-	-	-	-	-	2,774	-	2,774	-	2,774
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	-	-	213	213
Other changes in equity	-	-	-	-	-	-	(21)	(21)	-	(21)
Balance at September 30, 2010	100	33,424	635	(25,223)	(156)	2,774	205,048	216,602	(7)	216,595

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1. REVENUE

Revenue comprised the following for the nine months ended 30 September 2011 and 2010:

	2011	2010
Local telephone services	66,112	63,798
Intra-zone telephone services	16,264	17,917
DLD/ILD (including ILD traffic transit) telephone services	17,782	21,059
Interconnection and traffic transit services	16,399	15,902
Mobile communication services	25,094	23,855
Rent of channels	7,128	6,701
Broadband Internet	34,740	28,635
Pay TV	5,036	804
Data services (VPN, data centres, wholesale Internet sales)	13,653	12,172
Other	15,250	12,444
Total revenue	217,458	203,287

During nine months ended September 30, 2011 and 2010 the Group generated revenue by the following major customer groups:

Customer Groups	2011	2010
Residential customers	120,066	114,794
Corporate customers	51,896	47,739
Governmental customers	22,981	19,408
Interconnected operators	22,515	21,346
Total	217,458	203,287