OJSC ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2011, 2012 and 2013
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)
AND AUDITORS' REPORT

CONTENT

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

OJSC Rostelecom

We have audited the accompanying consolidated financial statements of OJSC Rostelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013, 2012 and 2011, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, 2012 and 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC Rostelecom

Registered by the Moscow Registration Chamber on 23 September 1993. Registration No. 021.833.

Entered in the Unified State Register of Legal Entities on 9 September 2002 by Department of Ministry of Taxes and Duties, Registration No. 1027700198767, Certificate series 77 No. 004891969.

15, Dostoevsky street, Saint-Petersburg, Russia, 191002

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 2012 and 2011, and its financial performance and its cash flows for 2013, 2012 and 2011 in accordance with International Financial Reporting Standards.

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р.№011585
КПМГ
KPMG
МОСКВА

Shvetsov A.V.

General Director

ZAO KPMG

14 March 2014

Moscow, Russian Federation

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In millions of Russian Roubles)

	Notes	31 December 2013	31 December 2012	31 December 2011
ASSETS				
Non-current assets				
Property, plant and equipment	7	335,059	399,917	348,493
Investment property		113	274	259
Goodwill and other intangible assets	8	64,346	88,329	89,340
Investments in associates	10	918	775	773
Other investments	11	520	3,035	1,829
Deferred tax assets	21	276	2,722	1,220
Other non-current assets	12	3,990	5,469	13,841
Total non-current assets		**405,222**	**500,521**	**455,755**
Current assets				
Inventories	13	3,941	4,990	5,172
Trade and other accounts receivable	14	39,824	35,882	30,512
Prepayments		3,508	4,416	2,945
Prepaid income tax		4,894	2,951	3,384
Other investments	11	1,966	3,492	4,609
Cash and cash equivalents	15	7,960	13,629	9,634
Other current assets	16	609	908	1,109
Total current assets		**62,702**	**66,268**	**57,365**
Held for sale assets	35	93,048	401	261
Total assets		**560,972**	**567,190**	**513,381**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Group				
Share capital	17	97	97	97
Additional paid-in capital		1,658	4,344	4,743
Treasury shares		(68,325)	(34,822)	(18,388)
Retained earnings and other reserves		262,967	266,607	235,158
Total equity attributable to equity holders of the Group		**196,397**	**236,226**	**221,610**
Non-controlling interests		3,359	2,606	9,588
Total equity		**199,756**	**238,832**	**231,198**
Non-current liabilities				
Loans and borrowings	18	184,600	152,874	94,640
Employee benefits	20	9,774	10,861	11,046
Deferred tax liabilities	21	26,728	23,107	20,518
Accounts payable, provisions and accrued expenses	19	1,077	238	19,695
Other non-current liabilities		5,127	4,136	3,689
Total non-current liabilities		**227,306**	**191,216**	**149,588**
Current liabilities				
Loans and borrowings	18	33,209	65,016	82,453
Accounts payable, provisions and accrued expenses	19	73,635	61,839	41,279
Income tax payable		69	55	243
Other current liabilities		9,350	10,232	8,620
Total current liabilities		**116,263**	**137,142**	**132,595**
Held for sale liabilities	35	17,647	-	-
Total liabilities		**361,216**	**328,358**	**282,183**
Total equity and liabilities		**560,972**	**567,190**	**513,381**

(In millions of Russian Roubles unless otherwise stated)

		Year ended 31 December 2013		
	Notes	Continuing operations	Effect from Ddiscontinued operations Note 35	Total
Revenue	22	**290,736**	**34,968**	**325,704**
Operating expenses				
Wages, salaries, other benefits and payroll taxes	23	(85,798)	(5,204)	(91,002)
Depreciation, amortisation and impairment losses	7,8	(58,914)	(9,500)	(68,414)
Interconnection charges		(42,420)	(7,326)	(49,746)
Materials, utilities, repairs and maintenance	24	(26,260)	(2,235)	(28,495)
Gain/(loss) on disposal of property, plant and equipment and intangible assets		111	(455)	(344)
Bad debt expense	14	(2,094)	(46)	(2,140)
Other operating income	25	15,228	701	15,929
Other operating expenses	26	(45,355)	(11,269)	(56,624)
Total operating expenses, net		**(245,502)**	**(35,334)**	**(280,836)**
Operating profit		**45,234**	**(366)**	**44,868**
Income from associates		177	-	177
Finance costs	27	(14,853)	(947)	(15,800)
Other investing and financial gain	28	4,981	(1,533)	3,448
Foreign exchange loss, net		(483)	(91)	(574)
Profit before income tax		**35,056**	**(2,937)**	**32,119**
Income tax expense	21	(8,370)	382	(7,988)
Profit for the year		**26,686**	**(2,555)**	**24,131**
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translating foreign operations		41	-	41
Items that will not be reclassified to profit and loss:				
Remeasurement of defined benefit pension plans		1,853	-	1,853
Income tax relating to items that will not be reclassified		(371)	-	(371)
Other comprehensive income for the year, net of tax		**1,523**	**-**	**1,523**
Total comprehensive income for the year		**28,209**	**(2,555)**	**25,654**
Profit attributable to:				
Equity holders of the Group		26,429	(2,557)	23,872
Non-controlling interests		257	2	259
Total comprehensive income attributable to:				
Equity holders of the Group		27,948	(2,557)	25,391
Non-controlling interests		261	2	263
Earnings per share attributable to equity holders of the Group – basic (in RUB)	31	10.35	(1.00)	9.35
Earnings per share attributable to equity holders of the Group –diluted (in RUB)	31	10.35	(1.00)	9.35

(In millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2012 Continuing operations	Effect from discontinued operations Note 35	Total
Revenue	22	**295,341**	**37,094**	**332,435**
Operating expenses				
Wages, salaries, other benefits and payroll taxes	23	(83,095)	(5,720)	(88,815)
Depreciation, amortisation and impairment losses	7,8	(57,134)	(9,377)	(66,511)
Interconnection charges		(40,736)	(8,122)	(48,858)
Materials, utilities, repairs and maintenance	24	(25,980)	(2,503)	(28,483)
Loss on disposal of property, plant and equipment and intangible assets		(253)	(499)	(752)
Bad debt expense	14	(1,619)	230	(1,389)
Other operating income	25	14,302	447	14,749
Other operating expenses	26	(48,345)	(10,200)	(58,545)
Total operating expenses, net		**(242,860)**	**(35,744)**	**(278,604)**
Operating profit		**52,481**	**1,350**	**53,831**
Income from associates		53	-	53
Finance costs	27	(15,082)	(1,196)	(16,278)
Other investing and financial gain	28	6,695	(2,287)	4,408
Foreign exchange gain, net		432	57	489
Profit before income tax		**44,579**	**(2,076)**	**42,503**
Income tax expense	21	(11,002)	1,701	(9,301)
Profit for the year		**33,577**	**(375)**	**33,202**
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit and loss:				
Revaluation gain on available-for-sale investments		1	-	1
Revaluation gain on available-for-sale investments transferred to profit on sale		(740)	-	(740)
Exchange differences on translating foreign operations		(88)	-	(88)
Income tax relating to items that may be reclassified		146	-	146
Items that will not be reclassified to profit and loss:				
Remeasurement of defined benefit pension plans		330	-	330
Income tax relating to items that will not be reclassified		(66)	-	(66)
Other comprehensive income for the year, net of tax		**(417)**	**-**	**(417)**
Total comprehensive income for the year		**33,160**	**(375)**	**32,785**
Profit attributable to:				
Equity holders of the Group		33,060	(383)	32,677
Non-controlling interests		517	8	525
Total comprehensive income attributable to:				
Equity holders of the Group		32,649	(383)	32,266
Non-controlling interests		511	8	519
Earnings per share attributable to equity holders of the Group – basic (in RUB)	31	12.43	(0.14)	12.29
Earnings per share attributable to equity holders of the Group –diluted (in RUB)	31	12.34	(0.14)	12.20

(In millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2011 Continuing operations	Effect from discontinued operations Note 35	Total
Revenue	22	**276,774**	**35,556**	**312,330**
Operating expenses				
Wages, salaries, other benefits and payroll taxes	23	(74,346)	(6,455)	(80,801)
Depreciation, amortisation and impairment losses	7,8	(50,425)	(8,897)	(59,322)
Interconnection charges		(35,121)	(7,002)	(42,123)
Materials, utilities, repairs and maintenance	24	(26,132)	(2,872)	(29,004)
Loss on disposal of property, plant and equipment and intangible assets		(130)	(699)	(829)
Bad debt expense	14	(439)	(193)	(632)
Other operating income	25	15,309	394	15,703
Other operating expenses	26	(44,894)	(10,392)	(55,286)
Total operating expenses, net		**(216,178)**	**(36,116)**	**(252,294)**
Operating profit		**60,596**	**(560)**	**60,036**
Income from associates		198	-	198
Finance costs	27	(14,133)	(439)	(14,572)
Other investing and financial gain	28	3,851	(1,657)	2,194
Foreign exchange loss, net		(254)	(124)	(378)
Profit before income tax		**50,258**	**(2,780)**	**47,478**
Income tax expense	21	(10,689)	30	(10,659)
Profit for the year		**39,569**	**(2,750)**	**36,819**
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit and loss:				
Revaluation loss on available-for-sale investments		(257)	-	(257)
Share of other comprehensive gain recognized by associates		3	-	3
Income tax relating to items that may be reclassified		(4)	-	(4)
Items that will not be reclassified to profit and loss:				
Remeasurement of defined benefit pension plans		832	-	832
Income tax relating to items that will not be reclassified		(112)	-	(112)
Other comprehensive income for the year, net of tax		**462**	**-**	**462**
Total comprehensive income for the year		**40,031**	**(2,750)**	**37,281**
Profit attributable to:				
Equity holders of the Group		39,819	(2,753)	37,066
Non-controlling interests		(250)	3	(247)
Total comprehensive income attributable to:				
Equity holders of the Group		40,281	(2,753)	37,528
Non-controlling interests		(250)	3	(247)
Earnings per share attributable to equity holders of the Group – basic (in RUB)	31	14.46	(1.00)	13.46
Earnings per share attributable to equity holders of the Group –diluted (in RUB)	31	14.23	(0.98)	13.24

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian Roubles)

	Notes	Year ended 31 December 2013	2012	2011
Cash flows from operating activities				
Profit before income tax		32,119	42,503	47,478
Adjustments to reconcile profit before tax to cash generated from operations:				
Depreciation, amortization and impairment losses	7,8	68,414	66,511	59,322
Loss on sale of property, plant and equipment and intangible assets		344	752	829
Bad debt expense	14	2,140	1,389	632
Income from associates		(177)	(53)	(198)
Finance costs excluding finance costs on pension and other long-term social liabilities	27	15,031	15,332	13,547
Other investing and financial gain	28	(3,448)	(4,408)	(2,194)
Foreign exchange loss/(gain), net		574	(489)	378
Share-based payment expenses	30	-	18	588
Changes in net working capital:				
Increase in accounts receivable		(5,706)	(8,193)	(2,211)
(Decrease)/ increase in employee benefits		(1,087)	162	(4,692)
Decrease in inventories		986	192	158
Increase/ (decrease) in accounts payable, provisions and accrued expenses		378	4,431	(7,349)
(Decrease)/ increase in other assets and liabilities		(2,318)	2,080	271
Cash generated from operations		**107,250**	**120,227**	**106,559**
Interest paid		(17,083)	(16,292)	(12,461)
Income tax paid		(4,474)	(7,301)	(9,316)
Net cash provided by operating activities		**85,693**	**96,634**	**84,782**
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(68,487)	(93,665)	(87,905)
Proceeds from sale of property, plant and equipment and intangible assets		1,641	2,727	2,167
Acquisition of financial assets		(11,924)	(9,725)	(7,497)
Proceeds from disposals of financial assets		16,443	9,855	10,403
Government grant received	25	-	-	1,105
Interest received		441	382	1,048
Dividends received		11	8	11
Purchase of subsidiaries, net of cash acquired		(47)	(1,507)	(32,281)
Proceeds from disposals of subsidiaries, net of cash disposed		(6)	82	-
Acquisition of equity accounting investees		-	(20)	-
Net cash used in investing activities		**(61,928)**	**(91,863)**	**(112,949)**
Cash flows from financing activities				
Sale of treasury shares		22,306	5,830	1,782
Purchase of treasury shares		(58,376)	(22,126)	(4,507)
Proceeds from bank and corporate loans		509,685	532,983	298,626
Repayment of bank and corporate loans		(524,430)	(492,891)	(251,592)
Proceeds from bonds		30,000	10,000	-
Repayment of bonds		(1,613)	(7,285)	(13,932)
Proceeds from promissory notes		-	22,863	12,050
Repayment of promissory notes		(282)	(22,939)	(15,984)
Repayment of vendor financing payable		11	(163)	(368)
(Repayment of)/proceeds from other non-current financing liabilities		(11)	(13)	72
Repayment of finance lease liabilities		(629)	(1,824)	(3,150)
Acquisition of non-controlling interest		(20)	(15,796)	(366)
Dividends paid to shareholders of the Group		(5,828)	(9,169)	(686)
Dividends paid to non-controlling shareholders of subsidiaries		(247)	(230)	(370)
Net cash (used in)/provided by financing activities		**(29,434)**	**(760)**	**21,575**
Effect of exchange rate changes on cash and cash equivalents		-	(16)	(26)
Net (decrease)/increase in cash and cash equivalents		**(5,669)**	**3,995**	**(6,618)**
Cash and cash equivalents at beginning of year		**13,629**	**9,634**	**16,252**
Cash and cash equivalents at the end of year		**7,960**	**13,629**	**9,634**

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

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions of Russian Roubles)

	Attributable to equity holders of the Group										
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Treasury shares**	**Share option reserve**	**Remeasure-ments of defined benefit pension plans**	**Other reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2011	**91**	**4,721**	**787**	**(15,635)**	**4,361**	**1,040**	**(17,681)**	**209,205**	**186,889**	**1,952**	**188,841**
Profit for the year	-	-	-	-	-	-	-	37,066	**37,066**	(247)	**36,819**
Other comprehensive income											
Revaluation gain on available-for-sale investments	-	-	(258)	-	-	-	-	-	**(258)**	-	**(258)**
Share of other comprehensive income recognized by associates	-	-	3	-	-	-	-	-	**3**	-	**3**
Actuarial gains	-	-	-	-	-	832	-	-	**832**	-	**832**
Income tax in respect of other comprehensive income items	-	-	51	-	-	(166)	-	-	**(115)**	-	**(115)**
Total other comprehensive income, net of tax	**-**	**-**	**(204)**	**-**	**-**	**666**	**-**	**-**	**462**	**-**	**462**
Total comprehensive income	**-**	**-**	**(204)**	**-**	**-**	**666**	**-**	**37,066**	**37,528**	**(247)**	**37,281**
Transactions with shareholders, recorded directly in equity:											
Dividends to equity holders of the Group	-	-	-	-	-	**-**	**-**	**(575)**	**(575)**	-	**(575)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	**-**	(370)	**(370)**
Acquisition of treasury shares	-	-	-	(4,507)	-	-	-	-	**(4,507)**	-	**(4,507)**
Sale of treasury shares	-	28	-	1,754	-	-	-	-	**1,782**	-	**1,782**
Acquisition and disposal of non-controlling interest	-	-	-	-	-	-	-	(154)	**(154)**	(212)	**(366)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	-	-	**-**	8,465	**8,465**
Employee benefits within share-based employee motivation program	-	-	-	-	(80)	-	-	718	**638**	-	**638**
Issue of share capital	6	(6)	-	-	-	-	-	-	**-**	-	**-**
Other changes in equity	-	-	-	-	-	-	-	9	**9**	-	**9**
Total transactions with shareholders	6	**22**	-	**(2,753)**	**(80)**	**-**	**-**	**(2)**	**(2,807)**	**7,883**	**5,076**
Balances at 31 December 2011	**97**	**4,743**	**583**	**(18,388)**	**4,281**	**1,706**	**(17,681)**	**246,269**	**221,610**	**9,588**	**231,198**

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

(In millions of Russian Roubles)

	Attributable to equity holders of the Group											
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Transla-tion of foreign operations**	**Treasury shares**	**Share option reserve**	**Remeasure-ments of defined benefit pension plans**	**Other reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2012	**97**	**4,743**	**583**	**-**	**(18,388)**	**4,281**	**1,706**	**(17,681)**	**246,269**	**221,610**	**9,588**	**231,198**
Profit for the year	-	-	-	-	-	-	-	-	32,677	**32,677**	525	**33,202**
Other comprehensive income												
Revaluation gain on available-for-sale investments	-	-	1	-	-	-	-		-	**1**	-	**1**
Revaluation gain on available-for-sale investments transferred to profit on sale	-	-	(740)	-	-	-	-	-	-	**(740)**	-	**(740)**
Exchange differences on translating foreign operations	-	-	-	(83)	-	-	-	-	-	**(83)**	(6)	**(89)**
Share of other comprehensive income recognized by associates	-	-	-	1	-	-	-	-	-	**1**	-	**1**
Actuarial gains	-	-	-	-	-	-	330	-	-	**330**	-	**330**
Income tax in respect of other comprehensive income items	-	-	146	-	-	-	(66)	-	-	**80**	-	**80**
Total other comprehensive income, net of tax	**-**	**-**	**(593)**	**(82)**	**-**	**-**	**264**	**-**	**-**	**(411)**	**(6)**	**(417)**
Total comprehensive income/ (loss)	**-**	**-**	**(593)**	**(82)**	**-**	**-**	**264**	**-**	**32,677**	**32,266**	**519**	**32,785**

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

OJSC Rostelecom

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

(In millions of Russian Roubles)

	Attributable to equity holders of the Group											
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Transla-tion of foreign operations**	**Treasury shares**	**Share option reserve**	**Remeasure-ments of defined benefit pension plans**	**Other reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Transactions with shareholders, recorded directly in equity:												
Dividends to equity holders of the Group	-	-	-	-	-	-	**-**	**-**	**(10,210)**	**(10,210)**	-	**(10,210)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	**-**	(230)	**(230)**
Acquisition of treasury shares	-	-	-	-	(22,126)	-	-	-	-	**(22,126)**	**-**	**(22,126)**
Sale of treasury shares	-	138	-	-	5,692	-	-	-	-	**5,830**	**-**	**5,830**
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(8,303)	**(8,303)**	(7,325)	**(15,628)**
Non-controlling interest in acquired subsidiaries	-	-	-	-	-	-	-	-	-	**-**	54	**54**
Employee benefits within share-based employee motivation program	-	-	-	-	-	(1,084)	-	-	1,102	**18**	-	**18**
The share of changes recognized in retained earnings by associates	-	-	-	-	-	-	-	-	(2)	**(2)**	-	**(2)**
Other changes in equity	-	(538)	-	-	-	-	-	17,681	-	**17,143**	-	**17,143**
Total transactions with shareholders	**-**	**(400)**	**-**	**-**	**(16,434)**	**(1,084)**	**-**	**17,681**	**(17,413)**	**(17,650)**	**(7,501)**	**(25,151)**
Balances at 31 December 2012	**97**	**4,343**	**(10)**	**(82)**	**(34,822)**	**3,197**	**1,970**	**-**	**261,533**	**236,226**	**2,606**	**238,832**

(In millions of Russian Roubles)

	Attributable to equity holders of the Group											
	Share capital	**Additional paid-in capital**	**Unrealized gain/ (loss) on available-for-sale investments**	**Translation of foreign operations**	**Treasury shares**	**Share option reserve**	**Remeasurements of defined benefit pension plans**	**Stock redemption reserve**	**Retained earnings**	**Total equity attributable to shareholders of the Group**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2013	**97**	**4,343**	**(10)**	**(82)**	**(34,822)**	**3,197**	**1,970**	**-**	**261,533**	**236,226**	**2,606**	**238,832**
Profit for the year	-	-	-	-	-	-	**-**	**-**	**23,872**	**23,872**	259	**24,131**
Other comprehensive income												
Exchange differences on translating foreign operations	-	-	-	37	-	-	-	-	-	**37**	4	**41**
Actuarial gains	-	-	-	-	-	-	1,853	-	-	**1,853**	-	**1,853**
Income tax in respect of other comprehensive loss items	-	-	-	-	-	-	(371)	-	-	**(371)**	-	**(371)**
Total other comprehensive loss, net of tax	**-**	**-**	**-**	**37**	**-**	**-**	**1,482**	**-**	**-**	**1,519**	**4**	**1,523**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**37**	**-**	**-**	**1,482**	**-**	**23,872**	**25,391**	**263**	**25,654**
Transactions with shareholders, recorded directly in equity:												
Dividends to equity holders of the Group	-	-	-	-	-	-	**-**	**-**	**(5,828)**	**(5,828)**	-	**(5,828)**
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	**-**	(247)	**(247)**
Acquisition of treasury shares	-	-	-	-	(58,376)	-	-	-	-	**(58,376)**	-	**(58,376)**
Sale of treasury shares	-	(2,633)	-	-	24,873	-	-	-	-	**22,240**	-	**22,240**
Disposal of non-controlling interest in disposed subsidiaries	-	-	-	-	-	-	-	-	30	**30**	737	**767**
Employee benefits within share-based employee motivation program	-	-	-	-	-	(3,197)	-	-	3,197	**-**	-	**-**
Other changes in equity	-	(52)	-	-	-	-	-	(23,239)	5	**(23,286)**	-	**(23,286)**
Total transactions with shareholders	**-**	**(2,685)**	-	**-**	**(33,503)**	**(3,197)**	**-**	**(23,239)**	**(2,596)**	**(65,220)**	**490**	**(64,730)**
Balances at 31 December 2013	**97**	**1,658**	**(10)**	**(45)**	**(68,325)**	**-**	**3,452**	**(23,239)**	**282,809**	**196,397**	**3,359**	**199,756**

1. REPORTING ENTITY

The accompanying consolidated financial statements are of OJSC Rostelecom ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia").

Rostelecom was established as an open joint stock company on 23 September 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated 27 August 1993. As at 31 December 2013, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank, controls the Company by holding of 51.03% of the Company's ordinary shares.

The Group provides communication services (including local, intra-zone, long-distance domestic and international fixed-line telephone services, mobile services), data transmission, Internet, Pay TV, VPN and data centers services, rent of communication channels and radio communication services in the territory of Russian Federation. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying voice and data traffic that originates in its own network and other national and international operators' networks to other national and international operators for termination.

The Company operates socially important Government programs, including "E-Government", "Unified communication service" and other.

On 1 April 2011, the Company completed the merger with OJSC North-West Telecom, OJSC Centrtelecom, OJSC South Telecommunications Company, OJSC VolgaTelecom, OJSC Uralsvyazinform, OJSC Sibirtelecom, OJSC Far East Telecom (collectively referred to as the Interregional Companies ("IRCs") and OJSC Dagsvyazinform ("Dagsvyazinform") with the IRCs and Dagsvyazinform ceasing to exist as separate legal entities and all of their assets (including licenses), rights and liabilities being transferred to the Company as the legal successor of the IRCs and Dagsvyazinform under Russian law. The purpose of the reorganization was to establish an integrated telecommunications operator, a market leader in each segment of the Russian telecommunications market, eliminate internal conflicts of interest, expand into new market segments and optimize costs and capital expenditures.

On 1 October 2013, the Company completed the second stage of the reorganization where OJSC Svyazinvest ("Svyazinvest"), as well as 20 other joint-stock companies, which are either directly or indirectly controlled by Rostelecom and/or Svyazinvest, have been merged with Company. As the result, the Company has assumed all rights and responsibilities of the merged companies. The purpose of the second stage of reorganization was to eliminate any cross-ownership and to simplify the shareholder structure of the Group.

On 12 December 2013 the Board of Directors of the Company approved contribution of the Group's mobile assets and liabilities into the share capital of T2 RUS Holding, newly created entity established by mobile operator Tele2 Russia Holding AB (Tele2 Russia). The Company will contribute substantially all of its mobile assets and licenses to T2 RUS Holding.

The contribution from Rostelecom will be effected in two stages. At the first stage the Company will contribute its standalone mobile subsidiaries and the Company's mobile fixed assets into T2 RUS Holding.

Subsidiaries to be transferred at the first stage are as follows:

- Akos CJSC
- Apeks OJSC
- Astarta CJSC
- Baikalwestcom CJSC
- BIT CJSC
- Delta telecom CJSC
- Kaliningradskie Mobilnie Seti OJSC
- Moscovskaya sotovaya svyaz OJSC

- MS-Direct CJSC
- NSS CJSC
- LLC Pilar
- Saratovskaya sistema sotovoy svyazy CJSC
- Skay-1800 CJSC
- Sky Link CJSC
- Uralvestcom CJSC
- Volgograd-GSM CJSC
- Yenisey telecom CJSC

At the end of the first stage, the Group will receive a 45% voting interest and a 26% of ordinary and preference shares in T2 RUS Holding.

During the second stage, the Company will spin off its integrated mobile businesses (which is a part of the Company), including licenses, into its new wholly owned subsidiary CJSC RT-Mobile. Upon completion of the spin-off, the Company will contribute its stake in CJSC RT-Mobile into T2 RUS Holding and thus increase its economic interest in T2 RUS Holding to 45%.

The Company's headquarters are located in the Russian Federation, Moscow at 1st Tverskaya-Yamskaya Street, 14, 125047.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for measurement of available-for-sale investments at fair value and certain other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of Group entities and the currency in which these consolidated financial statements are presented. The only Group entity with other functional currency is GNC-Alfa, incorporated in Armenia. The functional currency of this entity is Armenian Dram ("AMD"). All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Changes in Estimate of Useful Lives

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Share-based employee benefits

The Group measures cost of share-based employee benefit by reference to the fair value of equity instruments granted. This requires judgment in estimating future volatility of basis asset which is determined using historical data on market price of the shares. Future volatility may differ significantly from that estimated.

Employee Benefits

The Group uses actuarial valuation methods for measurement of the present value of defined employee benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Impairment of non-current assets

Each asset or cash generating unit is evaluated at the end of every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds the recoverable amount. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

This requires an estimation of the value in use of the cash-generating units. Estimating of value in use requires the Group to make significant judgement concerning expected future cash flows and discount rates applicable. Expected future cash flows of cash-generating unit are typically based on approved budgets for next financial years and strategic plan for the period from second till fifth years. Cash flows beyond five–year periods are extrapolated using industry growth rate. Discount rates are determined based on historical information of cost of debt and equity of a respective cash-generating unit. Any future changes in the aforementioned assumptions could have significant impact on value in use.

Litigation

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

3. OPERATING ENVIRONMENT OF THE GROUP

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks of the Russian Federation which displays characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group and its subsidiaries.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relations. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Costs related to the acquisitions other than those associated with issue of debt or equity securities, that the Group incurs in connection with business combination are expensed as incurred.

Combination of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses are allocated to the parent and to non-controlling interest based on their respective interests.

Investments in associates (equity accounted investees)

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20% and 50% of the voting ownership interest or by power to participate in the financial and operating policy decisions of associates. The Group’s share of the net income or losses of associates is included in profit or loss, the Group’s share of movement in reserves is recognized in equity and the Group's share of the net assets of associates is included in the consolidated statements of financial position.

An assessment of investments in associates for possible impairment or reversal of impairment recognized previously is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group’s share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group’s commitment to fund future losses. Unrealized profits and losses that arise from transactions between the Group and its associates are eliminated in the proportion to the Group’s share in such associates.

Non-controlling interest

Non-controlling interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders’ portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and their portion of movements in net assets since the date of the combination.

The losses applicable to non-controlling interest, including negative other comprehensive income, are charged to non-controlling interest even if it causes non-controlling interest to have a deficit balance.

(b) Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investment in associates.

The acquirer recognizes goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

- the acquisition-date fair value of consideration transferred;
- non-controlling interest's proportionate share of the acquiree's identifiable net assets; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized by allocating to other assets on pro rata basis, but not below their fair value.

Goodwill is not amortized. Instead, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

In case of excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination the Group:

- reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;
- recognizes in profit or loss any excess remaining after that reassessment immediately.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation. Any difference between the net disposal proceeds and carrying amount of the item is reported as a gain or loss on derecognition. The gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services	10 – 50
Cable and transmission devices:	
• Cable	10 – 40
• Radio and fixed link transmission equipment	8 – 20
• Telephone exchanges	15
• Other	5 – 10

The useful life of assets encompasses the entire time they are available for use, regardless of whether during that time they are in use or idle. Depreciation methods, useful lives and residual values are reviewed at each reporting date or more frequently if events occur that suggest a change is necessary and, if expectations differ from previous estimates, the changes are accounted for prospectively. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Advances given to suppliers of property, plant and equipment are included in other non-current assets.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the income statement on the same basis that the equipment is depreciated.

(d) Leases

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. Determining whether an arrangement contains a lease is determined based on the facts and circumstances of each arrangement to determine whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use that asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRU) leases represent the right to use a portion of asset granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

Leases, including IRU leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(e) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The Group applies cost model to its investments properties and subsequent to initial recognition investment properties are measured in accordance with IAS 16's requirements for that model.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Development expenditures are capitalised if they meet criteria for an assets recognition. Expenditure on research phase are expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment when there is an indication that the intangible asset may be impaired. Useful lives of intangible assets with finite lives are determined on individual basis.

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any indication that a finite lived intangible asset may be impaired at each reporting date. The Group also performs annual impairment tests for finite lived assets not yet placed in use. The amortization expense on intangible assets with finite lives is included in depreciation and amortization expenses in profit or loss.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently when indicators of impairment exist, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(g) Impairment of property, plant and equipment and intangible assets

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. In addition, annual impairment test is carried out for intangible assets with indefinite useful life or that are not yet available for use and goodwill. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as a loss. Any subsequent increase in the recoverable amount of the assets, except for goodwill, is reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit (further- CGU) to which the assets belong. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the CGUs or groups of CGUs expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with IFRS 8 Operating Segments.

(h) Inventory

Inventory principally consists of cable, spare parts for the network and other supplies. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost is calculated using weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(i) Accounts receivable

Trade and other accounts receivable are stated in the consolidated statement of financial position at original invoice amount less an allowance for any uncollectible amounts. The allowance is created based on the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

Bad debts are written off in the period in which they are identified.

(j) Financial instruments

Financial instruments carried in the consolidated statement of financial position include cash and cash equivalents, investments (other than in consolidated subsidiaries and equity method investees), non-hedge derivatives, accounts receivable, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item. The Group classifies financial assets and liabilities into the following categories: loans and receivables, financial assets and liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortized cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not originated with the intent to be sold immediately. Such assets are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets and liabilities at fair value through profit and loss are financial assets or liabilities, which are either classified as held for trading or derivatives or are designated by the Group as at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purposes of selling in the near term. Gains and losses on investments held for trading are recognized in profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

All other investments not classified in any of the three preceding categories are classified as available-for-sale. After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognized in other comprehensive income until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the determination of profit or loss.

All financial liabilities are carried at amortized cost using the effective interest method, except for derivative financial liabilities which are carried at their fair values.

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's investments may be impaired. The fair value of investments that are actively traded in organized markets is determined by reference to the quoted market bid price at the close of business at the reporting day. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, references to the current market value of other instruments which is substantially the same, discounted cash flow analysis or other valuation models.

Investing and financial gains comprise interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings (other than capitalised into the cost of qualifying assets), unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

(k) Borrowings

Borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. In subsequent periods, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

(In millions of Russian Roubles unless otherwise stated)

Borrowing costs are expensed, except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average rate of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, unless borrowings were made specifically for the purpose of obtaining the qualifying asset wherein that rate is used. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to profit or loss in the period over which the asset is depreciated.

(l) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Roubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Roubles at the exchange rate as of the reporting date. Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency exchange gains or losses in the period in which they arise. Foreign currency gains and losses are reported on a net basis depending on whether foreign currency movements are in a net gain or net loss position.

As at December 31, 2013, 2012 and 2011, the rates of exchange used for translating foreign currency balances were (in Russian Roubles for one unit of foreign currency):

	2013	2012	2011
US Dollar (USD)	32.73	30.37	32.20
Japanese Yen (100)	31.06	35.15	41.50
Special Drawing Rights (SDR)	50.57	46.82	49.27
EURO (EUR)	44.97	40.23	41.67

Source: the Central Bank of Russia

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

(n) Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies except for cases when two or more entities form the Consolidated Group of Taxpayers for the purposes of unified income tax declaration submission. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset except for the abovementioned Consolidated Group of Taxpayers formation.

(o) Revenue and operating costs recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be reliably measured. Revenues and expenses are reported net of respective value added tax.

Revenues from directly billed subscribers are recognized in the period where the services were provided based on the Group's billing system's data. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period. Revenues from subscribers billed via agents are recognized in the period where the services were provided based on agent reports.

The Group charges its subscribers throughout Russia for certain communication services based on pre-set tariffs regulated by the Ministry of Telecom and Mass Communications and Federal Tariff Service.

The Group charges amounts to interconnected operators for incoming traffic and is charged by operators for termination. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle liability simultaneously.

Revenues from the sale of transmission capacity on terrestrial and submarine cables, which relates to IRU under operating leases where the Group is a lessor, are recognized on a straight-line basis over the life of the contract.

(p) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is charged in profit or loss or capitalized in an asset if it is required by IFRS.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(q) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on systematic basis in the periods in which the expenses are recognised.

(r) Employee benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to a separately administered pension fund upon employees' dismissal. The pension fund is liable for payments to the retired employees.

The Group uses the Project Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

Actuarial gains and losses are recognized as other comprehensive income or expense immediately.

The Group also participates in a defined contribution plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred.

The Group accrues for the employees' compensated absences (vacations) as the additional amount that the Group expects to pay as a result of the unused vacation that has accumulated at the reporting date.

(s) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for options for shares of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(t) Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognized as a liability at the reporting date in accordance with IAS 10 Events After the Reporting Period.

(u) Treasury shares

The cost of treasury shares purchased is debited to a separate category of equity. When treasury shares are sold or re-issued, the amount received for the instruments is credited to this category, and any surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital. The average cost method is used to determine the cost of treasury shares sold. However, if the entity is able to identify the specific items sold and their costs, the specific cost is applied.

(v) Earnings per share

IAS 33 requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a numerator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

(w) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(x) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on 1 January 2013. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- IAS 1 "Financial statement presentation";
- IAS 19 "Employee Benefits" (comparative information was restated appropriately);
- IFRS 10 "Consolidated financial statement";
- IFRS 12 "Disclosure of Interests in Other Entities";
- IFRS 13 "Fair Value Measurement".

The adoption of amended Standards have no material impact on the Group's results of operations, financial position and cash flows.

(y) IFRSs and IFRIC interpretations not yet effective

The following new Standards, *amendments to Standards* and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and*

Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The new amendments will not have any impact on the Group's financial position or performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendments are likely to increase the Group's trade and other receivables from and trade and other payables to certain counterparties because it is unlikely that the Group will meet the criteria for offsetting. In particular, the current bankruptcy legislation in Russia does not allow offsetting if this has impact on the succession of settlements determined by the law. However, the impact has not yet been quantified.

- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The new amendments will not have any impact on the Group's financial position or performance.

- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted. The new amendments will not have any impact on the Group's financial position or performance.

- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted. The new amendments will not have any impact on the Group's financial position or performance.

(In millions of Russian Roubles unless otherwise stated)

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5. RESTATEMENT OF PREVIOUSLY REPORTED INFORMATION

On 1 October 2013, the Company completed the second stage of the reorganization by combining with OJSC Svyazinvest (refer to Note 1). In accordance with Group accounting policy all comparatives were revised as if the reorganization had occurred at the beginning of the earliest comparative period presented. The following tables illustrates the effects of reorganization on assets, liabilities, profit and loss for 2012 and 2011:

	Assets and liabilities of the Group as at		Consolidated assets and liabilities of the Group as previously reported		Assets and liabilities of merged companies and eliminations	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
ASSETS						
Non-current assets						
Property, plant and equipment	399,917	348,493	385,994	335,205	13,923	13,288
Investment property	274	259	274	259	-	-
Goodwill and other intangible assets	88,329	89,340	87,830	88,937	499	403
Investments in equity accounted investees	775	773	37,389	34,746	(36,614)	(33,973)
Other investments	3,035	1,829	2,498	3,635	537	(1,806)
Deferred tax asset	2,722	1,220	2,694	1,127	28	93
Other non-current assets	5,469	13,841	5,413	13,562	56	279
Total non-current assets	**500,521**	**455,755**	**522,092**	**477,471**	**(21,571)**	**(21,716)**
Current assets						
Inventories	4,990	5,172	4,534	4,763	456	409
Trade and other accounts receivable	35,882	30,512	33,992	28,790	1,890	1,722
Prepayments	4,416	2,945	3,912	2,706	504	239
Prepaid income tax	2,951	3,384	2,921	3,309	30	75
Other investments	3,492	4,609	952	3,926	2,540	683
Cash and cash equivalents	13,629	9,634	10,370	7,380	3,259	2,254
Other current assets	908	1,109	857	1,007	51	102
Total current assets	**66,268**	**57,365**	**57,538**	**51,881**	**8,730**	**5,484**
Assets held for sale	**401**	261	**401**	261	**-**	-
Total assets	**567,190**	**513,381**	**580,031**	**529,613**	**(12,841)**	**(16,232)**

(In millions of Russian Roubles unless otherwise stated)

EQUITY AND LIABILITIES						
Equity attributable to equity holders of the Group						
Share capital	97	97	106	106	(9)	(9)
Additional paid-in capital	4,344	4,743	34,839	34,739	(30,495)	(29,996)
Treasury shares	(34,822)	(18,388)	(36,615)	(17,164)	1,793	(1,224)
Retained earnings and other reserves	266,607	235,158	257,143	247,253	9,464	(12,095)
Total equity attributable to equity holders of the Group	**236,226**	**221,610**	**255,473**	**264,934**	**(19,247)**	**(43,324)**
Non-controlling interests	2,606	9,588	493	7,784	2,113	1,804
Total equity	**238,832**	**231,198**	**255,966**	**272,718**	**(17,134)**	**(41,520)**
Non-current liabilities						
Loans and borrowings	152,874	94,640	150,907	91,851	1,967	2,789
Employee benefits	10,861	11,046	12,130	11,752	(1,269)	(706)
Deferred tax liabilities	23,107	20,518	23,236	20,813	(129)	(295)
Accounts payable, provisions and accrued expenses	238	19,695	230	85	8	19,610
Other non-current liabilities	4,136	3,689	4,136	3,689	-	-
Total non-current liabilities	**191,216**	**149,588**	**190,639**	**128,190**	**577**	**21,398**
Current liabilities						
Loans and borrowings	65,016	82,453	63,499	80,972	1,517	1,481
Accounts payable, provisions and accrued expenses	61,839	41,279	59,889	39,196	1,950	2,083
Income tax payable	55	243	50	242	5	1
Other current liabilities	10,232	8,620	9,988	8,295	244	325
Total current liabilities	**137,142**	**132,595**	**133,426**	**128,705**	**3,716**	**3,890**
Total liabilities	**328,358**	**282,183**	**324,065**	**256,895**	**4,293**	**25,288**
Total equity and liabilities	**567,190**	**513,381**	**580,031**	**529,613**	**(12,841)**	**(16,232)**

(In millions of Russian Roubles unless otherwise stated)

	Profit and loss of the Group as at		Profit and loss of the Group as previously reported		Profit and loss of merged companies and eliminations	
	12 Months ended 31 December		12 Months ended 31 December		12 Months ended 31 December	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue	**332,435**	**312,330**	**321,251**	**301,494**	**11,184**	**10,836**
Operating expenses						
Wages, salaries, other benefits and payroll taxes	(88,815)	(80,801)	(84,308)	(76,252)	(4,507)	(4,549)
Depreciation, amortisation and impairment losses	(66,511)	(59,322)	(64,729)	(57,524)	(1,782)	(1,798)
Interconnection charges	(48,858)	(42,123)	(47,312)	(40,736)	(1,546)	(1,387)
Materials, utilities, repairs and maintenance	(28,483)	(29,004)	(27,358)	(27,507)	(1,125)	(1,497)
Gain/ (loss) on disposal of property, plant and equipment	(752)	(829)	(822)	(792)	70	(37)
Doubtful debt allowance	(1,389)	(632)	(1,318)	(572)	(71)	(60)
Other operating income	14,749	15,703	13,868	14,712	881	991
Other operating expenses	(58,545)	(55,286)	(55,447)	(52,634)	(3,098)	(2,652)
Total operating expenses, net	**(278,604)**	**(252,294)**	**(267,426)**	**(241,305)**	**(11,178)**	**(10,989)**
Operating profit	**53,831**	**60,036**	**53,825**	**60,189**	**6**	**(153)**
Share of profit (loss) in equity accounted investees	53	198	4,293	4,474	(4,240)	(4,276)
Finance costs	(16,278)	(14,572)	(16,005)	(13,069)	(273)	(1,503)
Other investing and financial gains	4,408	2,194	1,440	2,078	2,968	116
Foreign exchange loss, net	489	(378)	480	(377)	9	(1)
Profit before income tax	**42,503**	**47,478**	**44,033**	**53,295**	**(1,530)**	**(5,817)**
Income tax expense	(9,301)	(10,659)	(8,793)	(10,767)	(508)	108
Profit for the year	**33,202**	**36,819**	**35,240**	**42,528**	**(2,038)**	**(5,709)**

6. BUSINESS COMBINATIONS

2012 transactions

CJSC GNC-Alfa

In February 2012 the Group acquired 74.98% equity interest in CJSC GNC-Alfa from a third party Filor Ventures LTD. According to the share purchase agreement the purchase price consists of cash consideration amounted to USD 22.5 million (690) and a contingent consideration, that is the sum of Earn-OUT-Payments for the financial years 2012 - 2015. Earn-OUT-Payments shall be calculated in respect of each of Key Performance Indicators (KPIs) listed in the agreement in accordance with the specified formula. Fair value of Earn-OUT-Payments was calculated based on the assumption that actual KPIs will be equal to target KPIs. To take into account the time value of money the expected future payments were discounted using the discount rate, which represents the risk-free Russian government eurobonds rate, of 5.41%. Fair value of the contingent consideration at the date of acquisition amounted to USD 4.3 million (139).

GNC- Alfa is the largest independent Internet and data provider in Armenia. It operates a modern fibre-optic network, which passes through 70% of the territory of the Republic of Armenia.

The acquisition of GNC- Alfa is part of the Group's international expansion policy. The acquisition of a control stake in GNC- Alfa provides the Group with access to a well-developed infrastructure for broadband and pay-TV services in the Armenian telecommunications market, which has a significant growth potential.

The Group accounted for the acquisition of GNC-Alfa by applying the acquisition method, in accordance with provisions of IFRS 3 *Business combinations*. The results of operations and financial position of CJSC GNC-Alfa were consolidated by the Group starting from 1 February 2012.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

The functional currency of GNC-Alfa is the Armenian Dram (AMD), national currency of the Republic of Armenia. For the purpose of consolidated financial statements of the Group the results and financial position of the company are translated in the presentation currency of the Group (RUB) applying the rules of IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

From the date of acquisition until 31 December 2012, GNC-Alfa has contributed 37 to the increase of net profit of the Group and 204 to the increase of revenue for 2012. If the combination had taken place at the beginning of 2012, the profit of the Group would have been 33,219 and revenue would have been 332,459. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

LLC Enter

In February 2012 the Group acquired 100% interest in LLC Enter, a broadband Internet services provider to individual subscribers in Barnaul, Novokuznetsk and Tyumen, for 305.

The acquisition of LLC Enter reflects the Group's strategy to increase its subscriber base and modernise its network infrastructure. The deal also serves as an alternative to capital expenditure in LLC Enter's regions.

LLC Enter's network infrastructure was built in 2010 and it is among the most modern networks in the three cities it serves.

The Group accounted for the acquisition of LLC Enter by applying the acquisition method, in accordance with provisions of IFRS 3 *Business combinations*. The results of operations and financial position of LLC Enter were consolidated by the Group starting from 1 April 2012.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

From the date of acquisition until 31 December 2012, LLC Enter has contributed 54 to the decrease of net profit of the Group and 9 to the increase of revenue for 2012. If the combination had taken place at the beginning of 2012, the profit of the Group would have been 33,184 and revenue would have been 332,456. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

LLC KM Media

In June 2012 the Group acquired 74.99% interest in LLC KM Media, a software design company, for amount of USD 5.75 million. The acquisition of LLC KM Media reflects the Group's strategy to diversify its business. The Group accounted for the acquisition of LLC KM Media by applying the acquisition method, in accordance with provisions of IFRS 3 *Business combinations*. The results of operations and financial position of LLC KM Media were consolidated by the Group starting from 30 June 2012.

The goodwill is attributable mainly to the diversification of the activities of the Group.

From the date of acquisition until 31 December 2012, LLC KM Media has contributed 30 to the increase of net profit of the Group and 142 to the increase of revenue for 2012. If the combination had taken place at the beginning of 2012, the profit of the Group would have been 33,185 and revenue would not change. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

LLC Chita-on-Line

In August 2012 the Group acquired 100% interest in LLC Chita-on-Line from private investors.

Purchase price consists of a cash consideration amounted to 119 and contingent consideration (adjustment payment) amounted to 21. The adjustment payment was calculated on the settlement date of 6 February 2013 according with the formula specified in the agreement and was taken into account in the calculation of goodwill at the acquisition date.

LLC Chita-on-Line is one of the largest alternative operators in Chita. It provides FTTB and ETTH broadband access and pay TV services, along with other telecom services. The Group intends to take up a leading role on the IPTV market through this acquisition.

The Group accounted for the acquisition of LLC Chita-on-Line by applying the acquisition method, in accordance with the provisions of IFRS 3 *Business combinations*. The results of operations and financial position of Chita-on-Line were consolidated by the Group starting from 1 August 2012.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

From the date of acquisition until 31 December 2012, Chita-on-Line has contributed 3 to the decrease of net profit of the Group and 33 to the increase of revenue for 2012. If the combination had taken place at the beginning of 2012, the profit of the Group would have been 33,201 and revenue would have been 332,471. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

LLC Bashtelecomservis

In September 2012 the Group acquired 100% interest in LLC Bashtelecomservis from a private investor. Purchase price consists of a cash consideration amounted to 210.

The Group accounted for the acquisition of LLC Bashtelecomservis by applying the acquisition method, in accordance with the provisions of IFRS 3 *Business combinations*. The results of operations and financial position of LLC Bashtelecomservis were consolidated by the Group starting from 1 October 2012.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

From the date of acquisition until 31 December 2012, Bashtelecomservis has contributed 1 to the increase of net profit of the Group and 18 to the increase of revenue for 2012. If the combination had taken place at the beginning of 2012, the profit of the Group would have been 33,203 and revenue would have been 332,453. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

(In millions of Russian Roubles unless otherwise stated)

The following table summarizes the fair values of identifiable net assets of LLC Enter, LLC KM Media, LLC Chita-on-Line, LLC Bashtelecomservis and CJSC GNC-Alfa as of the acquisition dates:

	LLC Enter	LLC Bashtelecom-servis	LLC KM Media	LLC Chita-on- Line	CJSC GNC-Alfa
Consideration					
Paid in cash	305	210	189	119	684
Contingent consideration	-	-	-	21	139
Total consideration transferred	**305**	**210**	**189**	**140**	**823**
NCI	**-**	**-**	**(3)**	**-**	**56**
Fair value of identifiable assets and liabilities:					
Property, plant and equipment	152	31	7	28	314
Intangible assets	30	-	-	18	28
Deferred tax assets	9	-	-	-	-
Other non- current asset	-	-	-	3	-
Trade and other accounts receivable	9	61	-	2	38
Cash and cash equivalents	1	-	-	4	2
Inventories	6	1	-	1	4
Other current assets	14	9	37	-	-
Current loans and borrowing	(51)	-	(41)	-	(16)
Accounts payable, provisions and accrued expenses	(34)	(67)	(16)	(10)	(72)
Deferred tax liabilities	(14)	-	-	-	(53)
Other current liabilities	-	-	-	-	(20)
Total net assets	**122**	**35**	**(13)**	**46**	**225**
Goodwill	**183**	**175**	**199**	**94**	**654**
Costs directly attributable to acquisition	2	-	6	2	10

Acquisition of non-controlling interests

In March 2012 the Group acquired an additional 28.23% interest in OJSC National Telecommunications from OJSC Gazprombank for 13,826, increasing its ownership to 100%. The Group recognised a decrease in non-controlling interests of 4,206 and a decrease in retained earnings of 9,620.

In June 2012 the Group acquired an additional 26% interest in OJSC Mosteleset, a subsidiary of OJSC National Telecommunications, from the government of Moscow for 1,800 in cash, increasing its ownership from 74% to 100%. The Group recognised a decrease in non-controlling interests of 3,117 and an increase in retained earnings of 1,317.

The acquisition-related costs of 134 were included in other investing and financial gain in this consolidated statement of comprehensive income for the year ended 31 December 2012.

2011 transactions

Acquisitions of subsidiaries

OJSC National Telecommunications

In February 2011 the Group acquired 71.8% equity interest in OJSC National Telecommunications from CJSC National Media Group, OJSC Surgutneftegas and Raybrook Limited. The purchase price amounted to USD 951 million. Further, the Group purchased promissory notes issued by OJSC National Telecommunications for USD 126 million from Shepton Holdings Limited. The acquisition-related costs of 206 were included in other investing and financial gain in this consolidated statement of comprehensive income for the year ended 31 December 2011.

As at the acquisition date OJSC National Telecommunications was a holding structure consisting of 42 companies. The primary activity of the entity mainly focused on IP-television and data transmission services. The Group intends to take up a leading role on the IPTV market through this acquisition. The Group accounted for the acquisition of OJSC National Telecommunications by applying the acquisition method, in accordance with provisions of IFRS 3 Business combinations.

The results of operations and financial position of OJSC National Telecommunications were consolidated by the Group starting from 1 February 1, 2011.

The goodwill is attributable mainly to the diversification of the activities of the Group and to the extension into new markets.

From the date of acquisition until 31 December 2011, OJSC National Telecommunications has contributed 0.2 to the increase of net profit of the Group and 9,170 to the increase of revenue for 2011. If the combination had taken place at the beginning of 2011, the profit of the Group would have been 37,551 and revenue would have been 313,089. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

CJCS Volgograd-GSM

In August 2011, the Group acquired an additional interest of 50% in CJCS Volgograd-GSM thus obtaining control of 100%. The shares were acquired from SMARTS Group for cash payment of 2,322. CJCS Volgograd-GSM primarily provides mobile communication services.

The Group accounted for the acquisition of Volgograd-GSM by applying the acquisition method, in accordance with the provisions of IFRS 3 Business combinations.

The goodwill is attributable mainly to the diversification of activities of the Group.

The remeasurement to fair value of the Group’s existing interest of 50% in CJCS Volgograd-GSM resulted in a gain of 1,505 which has been recognised in other investing and financial gains in this consolidated statement of comprehensive income for the year ended 31 December 2011.

From the date of acquisition until 31 December 2011, CJCS Volgograd-GSM has contributed 132 to the increase of net profit of the Group and 584 to the increase of revenue for 2011. If the combination had taken place at the beginning of 2011, the profit of the Group would have been 37,625 and revenue would have been 313,502. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

(In millions of Russian Roubles unless otherwise stated)

The following table summarizes the fair values of identifiable net assets of OJSC NTC and CJSC Volgograd - GSM as of the acquisition dates:

	OJSC NTC	CJSC Volgograd-GSM	Total
Consideration			
Paid in cash	27,907	2,322	30,229
Promissory notes	3,688	-	3,688
Total consideration transferred	**31,595**	**2,322**	**33,917**
NCI	**8,465**	**-**	**8,465**
Deferred consideration	**-**	**23**	**23**
Investment in associate before the acquisition	**-**	**817**	**817**
Fair value revaluation of previously acquired share	**-**	**1,505**	**1,505**
Fair value of identifiable assets and liabilities:			
Property, plant and equipment	7,959	2,817	10,776
Intangible assets	16,867	1,250	18,117
Deferred tax assets	451	7	458
Other non-current assets	99	-	99
Non-current financial assets	1	4	5
Trade and other accounts receivable	2,368	147	2,515
Cash and cash equivalents	1,628	8	1,636
Current investments	1,808	-	1,808
Inventories	208	43	251
Non-current loans and borrowings	(2)	(131)	(133)
Current loans and borrowings	(2,471)	(90)	(2,561)
Accounts payable, provisions and accrued expenses	(1,899)	(190)	(2,089)
Deferred tax liabilities	(3,912)	(479)	(4,391)
Total net assets	**23,105**	**3,386**	**26,491**
Goodwill	**16,955**	**1,281**	**18,236**
Costs directly attributable to acquisition	206	3	209

Acquisition of non-controlling interests

In September 2011 the Group acquired an additional 49% interest in CJCS Orenburg-GSM from SMARTS Group for USD 4 million (116) in cash, increasing its ownership from 51% to 100%. The Group recognised a decrease in non-controlling interests of 32 and a decrease in retained earnings of 84.

In April 2011 the Group acquired an additional 49% interest in CJCS STS from MELVOND HOLDINGS LIMITED for cash payment of 250, increasing its ownership from 51% to 100%. The Group recognised a decrease in non-controlling interests of 180 and a decrease in retained earnings of 70.

(In millions of Russian Roubles unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as at 31 December 2013, 2012 and 2011 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost/deemed cost					
At 1 January 2011	225,125	322,397	81,949	19,542	649,013
Additions	622	2,176	3,349	68,320	74,467
Reclassification from investment property and other non-current assets	262	121	-	-	383
Acquisition through business combination	1,270	8,079	525	902	10,776
Reclassification to assets held for sale	(944)	(1)	(33)	(58)	(1,036)
Transfer	17,786	38,925	7,228	(63,939)	-
Disposals	(3,803)	(7,989)	(5,153)	(801)	(17,746)
Reclassification	(12,117)	20,044	(8,639)	712	-
At 31 December 2011	228,201	383,752	79,226	24,678	715,857
At 1 January 2012	228,201	383,752	79,226	24,678	715,857
Additions	78	5,925	2,447	102,995	111,445
Reclassification from investment property and other non-current assets	1,465	(7)	45	58	1,561
Acquisition through business combination	8	465	49	10	532
Reclassification to assets held for sale	(2,223)	(111)	(100)	-	(2,434)
Transfer	13,389	40,553	8,943	(62,885)	-
Disposals	(2,237)	(6,302)	(1,330)	(974)	(10,843)
Foreign exchange	-	(43)	(2)	(4)	(49)
Reclassification	(62,416)	55,713	6,669	29	(5)
At 31 December 2012	176,265	479,945	95,947	63,907	816,064
At 1 January 2013	176,265	479,945	95,947	63,907	816,064
Additions	87	2,980	1,650	54,471	59,188
Reclassification from investment property and assets held for sale	473	-	13	-	486
Reclassification to assets held for sale	(11,077)	(71,536)	(6,696)	(15,216)	(104,525)
Transfer	5,566	53,867	8,499	(67,932)	-
Disposals	(972)	(9,498)	(4,773)	(586)	(15,829)
Foreign exchange	-	39	3	10	52
Reclassification	(24,102)	17,113	6,473	91	(425)
At 31 December 2013	146,240	472,910	101,116	34,745	755,011

(In millions of Russian Roubles unless otherwise stated)

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Accumulated amortization and impairment losses					
At 1 January 2011	(95,795)	(173,844)	(57,829)	(182)	(327,650)
Depreciation expense	(10,052)	(33,716)	(10,451)	-	(54,219)
Reclassification from investment property and assets held for sale	(119)	(61)	-	-	(180)
Reclassification to assets held for sale	579	1	25	-	605
Impairment losses	(1)	(111)	(1)	(153)	(266)
Disposals	2,423	6,886	5,037	-	14,346
Reclassification	(9,324)	3,351	5,970	3	-
At 31 December 2011	(112,289)	(197,494)	(57,249)	(332)	(367,364)
At 1 January 2012	(112,289)	(197,494)	(57,249)	(332)	(367,364)
Depreciation expense	(9,142)	(37,024)	(10,211)	-	(56,377)
Reclassification from investment property and assets held for sale	(1,086)	20	(38)	-	(1,104)
Reclassification to assets held for sale	1,730	86	94	-	1,910
Impairment losses	(57)	96	(40)	(1,391)	(1,392)
Disposals	1,763	5,314	1,068	30	8,175
Foreign exchange	-	1	-	-	1
Reclassification	32,937	(29,017)	(3,915)	(1)	4
At 31 December 2012	(86,144)	(258,018)	(70,291)	(1,694)	(416,147)
At 1 January 2013	(86,144)	(258,018)	(70,291)	(1,694)	(416,147)
Depreciation expense	(4,900)	(44,268)	(9,811)	-	(58,979)
Reclassification from investment property and assets held for sale	(262)	-	(13)	-	(275)
Reclassification to assets held for sale	2,933	34,920	3,622	189	41,664
Reversal of impairment losses	(21)	(70)	(48)	262	123
Disposals	677	7,762	4,638	165	13,242
Foreign exchange	-	(5)	-	-	(5)
Reclassification	11,878	(7,433)	(4,020)	-	425
At 31 December 2013	(75,839)	(267,112)	(75,923)	(1,078)	(419,952)
Net book value					
At 31 December 2011	**115,912**	**186,258**	**21,977**	**24,346**	**348,493**
At 31 December 2012	**90,121**	**221,927**	**25,656**	**62,213**	**399,917**
At 31 December 2013	**70,401**	**205,798**	**25,193**	**33,667**	**335,059**

For the purposes of consistent classification of similar item of property, plant and equipment the Group made reclassification of certain items from investment property to property, plant and equipment as at 31 December 2012 and 2011. Furthermore assets related to mobile business were classified as assets held for sale as at 31 December 2013.

Assets of mobile business with a carrying value of 62,609 are included into reclassification to assets held for sale for the year ended 31 December 2013.

At 31 December 2013, 2012 and 2011 cost of fully depreciated property, plant and equipment was 181,117, 155,986 and 135,287 respectively.

Interest capitalization

Interest amounting to 2,780, 1,462 and 948 was capitalized in property, plant and equipment for the years ended 31 December 2013, 2012 and 2011 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 8.37%, 7.88% and 7.50% for the years ended 31 December 2013, 2012 and 2011 respectively.

(In millions of Russian Roubles unless otherwise stated)

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 2,072, 1,872 and 3,414 was pledged in relation to loan agreements entered into by the Group as at 31 December 2013, 2012 and 2011 respectively.

Leased property, plant and equipment

As at 31 December 2013, 2012 and 2011 net book value of leased property, plant and equipment comprised:

	31 December 2013	31 December 2012	31 December 2011
Buildings and constructions	1	518	1,107
Switches and transmission devices	415	2,265	3,533
Vehicles and other property, plant and equipment	539	888	657
Construction in progress	87	87	13
Total net book value of leased property, plant and equipment	**1,042**	**3,758**	**5,310**

Impairment of property, plant and equipment

As at 31 December 2013, 2012 and 2011 the Group conducted impairment testing of its property, plant, equipment, to identify possible irrecoverability of the assets. The Group assessed the recoverable amount of the assets for which estimation on individual basis is impossible within respective CGU. The Group defines CGUs as regional branches (in case of Rostelecom), legal entities or group of legal entities (in case of subsidiaries).

In 2013 as a result of reorganization (refer to Note 8) a number of legal entities were merged with the Company which caused the change in composition CGU. Assets including goodwill previously allocated to legal entities were reallocated to regional branches to which former entities have been merged.In addition, due to planned disposal of mobile assets in 2014 (refer to Note 35), all assets including goodwill of subsidiaries providing mobile services were classified as assets held for sale as at 31 December 2013. Since, the following CGU ceased to exist for the purpose of impairment testing:

- Akos
- Baikalvestcom
- BIT
- Nizhegorodskaya sotovaya sviaz
- Skylink
- Volgograd GSM
- Yenisey telecom

The recoverable amount of each CGU is determined by estimating its value in use. Value in use calculation uses cash-flow projections based on actual and budgeted financial information approved by management and a discount rate which reflects time value of money and risks associated with each individual CGU. Key assumptions used by management for three reporting dates in the calculation of value in use are as follows:

- discount rates are estimated in nominal terms as the weighted average cost of capital on pre tax basis and varys from 15.56% to 22.38% per CGU;
- OIBDA margin are based on historical actual results and varies from 7.66% to 53.00% per CGU;
- for all CGUs cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2% for each CGU.

For individual items of construction in progress for which the Group has no intention to complete and use or sell them impairment loss was recognised in the amount of their carrying value.

(In millions of Russian Roubles unless otherwise stated)

2013 impairment testing

As a result of impairment testing no loss in respect of property, plant and equipment was recognised.

2012 impairment testing

As a result of impairment testing a loss of 715 was recognised in respect of corporate assets included in construction in progress. The impairment loss are included in the line *Depreciation, amortisation and impairment losses* in the statement of comprehensive income.

2011 impairment testing

Impairment loss of property, plant and equipment in the amount of 113 (CGU regional branch Ural) and construction in progress of 153 were recognised as a result of impairment testing. Impairment losses are included in the line *Depreciation, amortisation and impairment losses* in the statement of comprehensive income.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The net book value of goodwill and other intangible assets as at 31 December 2013, 2012 and 2011 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2011	18,834	1,000	762	38,526	3,454	11,402	1,608	75,586
Additions	-	7	26	4,969	16	225	579	5,822
Acquisition through business combination	18,236	310	263	124	13,157	217	4,046	36,353
Disposals	(84)	(20)	(24)	(4,007)	(4)	(373)	(229)	(4,741)
Reclassification	49	-	(114)	381	105	(83)	(362)	(24)
At 31 December 2011	37,035	1,297	913	39,993	16,728	11,388	5,642	112,996
At 1 January 2012	37,035	1,297	913	39,993	16,728	11,388	5,642	112,996
Additions	-	-	-	4,955	-	216	1,523	6,694
Additions from internal development	-	-	-	921	-	-	-	921
Acquisition through business combination	1,305	-	2	1	64	-	9	1,381
Disposals	(1)	(2)	(3)	(5,146)	-	(197)	(89)	(5,438)
Reclassification	-	-	(80)	11	-	(160)	229	-
Foreign exchange	(65)	-	-	-	(3)	-	-	(68)
At 31 December 2012	38,274	1,295	832	40,735	16,789	11,247	7,314	116,486
At 1 January 2013	38,274	1,295	832	40,735	16,789	11,247	7,314	116,486
Additions	-	-	-	8,610	-	421	67	9,098
Disposals	-	(2)	-	(6,532)	-	(237)	(518)	(7,289)
Disposals through business combination	-	-	-	(44)	-	-	(2)	(46)
Reclassification to assets held for sale of mobile business	(12,940)	(208)	(59)	(3,018)	(1,741)	(11,594)	(1,004)	(30,564)
Reclassification	-	-	-	(133)	-	833	(700)	-
Foreign exchange	34	-	-	4	2	1	11	52
At 31 December 2013	25,368	1,085	773	39,622	15,050	671	5,168	87,737

(In millions of Russian Roubles unless otherwise stated)

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Accumulated amortization and impairment losses								
At 1 January 2011	(1,577)	(463)	(255)	(18,634)	(499)	(1,095)	(586)	(23,109)
Amortization expense	-	(63)	(153)	(4,796)	(1,150)	(1,158)	(772)	(8,092)
Disposals	84	16	2	3,634	-	209	223	4,168
Impairment losses	(197)	-	-	(11)	-	-	(5)	(213)
Reversal of impairment losses	-	-	-	3,566	-	-	-	3,566
Reclassification	-	1	(8)	(59)	31	64	(5)	24
At 31 December 2011	(1,690)	(509)	(414)	(16,300)	(1,618)	(1,980)	(1,145)	(23,656)
At 1 January 2012	(1,690)	(509)	(414)	(16,300)	(1,618)	(1,980)	(1,145)	(23,656)
Amortization expense	-	(31)	(145)	(4,587)	(1,260)	(1,129)	(1,318)	(8,470)
Disposals	-	3	-	3,987	-	176	22	4,188
Impairment losses	-	-	-	(274)	-	-	(5)	(279)
Reversal of impairment losses	-	-	-	60	-	-	-	60
Foreign exchange	-	-	34	(15)	4	(107)	84	-
At 31 December 2012	(1,690)	(537)	(525)	(17,129)	(2,874)	(3,040)	(2,362)	(28,157)
At 1 January 2013	(1,690)	(537)	(525)	(17,129)	(2,874)	(3,040)	(2,362)	(28,157)
Amortization expense	-	(24)	(140)	(5,212)	(1,249)	(1,468)	(1,187)	(9,280)
Disposals	-	2	-	6,325	-	211	414	6,952
Disposals through business combination	-	-	-	44	-	-	2	46
Impairment losses	(359)	-	-	(273)	-	-	(1)	(633)
Reversal of impairment losses	-	-	-	338	-	-	-	338
Reclassification to assets held for sale of mobile business	135	183	59	2,142	641	3,970	216	7,346
Reclassification	-	-	-	(10)	-	(83)	93	-
Foreign exchange	-	-	-	(1)	(1)	-	(1)	(3)
At 31 December 2013	(1,914)	(376)	(606)	(13,776)	(3,483)	(410)	(2,826)	(23,391)
Net book value								
At 31 December 2011	**35,345**	**788**	**499**	**23,693**	**15,110**	**9,408**	**4,497**	**89,340**
At 31 December 2012	**36,584**	**758**	**307**	**23,606**	**13,915**	**8,207**	**4,952**	**88,329**
At 31 December 2013	**23,454**	**709**	**167**	**25,846**	**11,567**	**261**	**2,342**	**64,346**

Interest amounting to 105, 130 and 172 was capitalized in intangible assets for the years ended 31 December 2013, 2012 and 2011 respectively.

Intangible assets with indefinite useful lives and Goodwill

The owned number capacity with a carrying amount of 706 (2012: 727, 2011: 730) is intangible assets with indefinite useful lives and is not amortized. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

During 2013 the Group concluded contracts under the investment programme subject of which was research and development. Main area of research and development are software, hardware, clouds models, which may be used as a standard solution on promotion of the services provided by the Group to government and private customers.

(In millions of Russian Roubles unless otherwise stated)

The aggregate amount of research and development expenditure recognized as an expense is 0 (2012:0; 2011: 71).

The Group, on an annual basis, performs testing for impairment of goodwill and intangible assets with indefinite lives.

At each reporting date the Group performs impairment testing of goodwill allocated to CGUs that were acquired upon business combinations. Principal approaches which were used to determine value in use of cash-generating units, to which goodwill has been allocated, are disclosed in Note 6.

Carrying amount of goodwill and intangible assets with indefinite useful lives are represented in the table below:

	31 December 2013		31 December 2012		31 December 2011	
CGU	**Goodwill before impairment loss**	**Intangible assets with indefinite useful lives before impairment loss**	**Goodwill before impairment loss**	**Intangible assets with indefinite useful lives before impairment loss**	**Goodwill before impairment loss**	**Intangible assets with indefinite useful lives before impairment loss**
Natsionalnye telecommunikatsii	-	-	16,955	290	16,955	290
Skylink	-	-	10,653	-	10,653	-
Volgograd GSM	-	-	1,280	20	1,280	20
Nizchegorodskaya sotovaya sviaz	-	-	1,076	-	1,076	-
MRF Moskva*	11,513	228				
Rostelecom International (former Teleset Networks Public Company Limited)	-	-	934	-	1,680	-
MRF Severo-Zapad*	4,198	12	911		911	
MRF Volga	1,971	-	811	-	210	-
Macomnet	1,210	50				
MRF Dalniy Vostok	1,068	-	1,068	-	973	-
MRF Ural	660	-				
Globus Telecom	636	359	636	359	636	359
GNC Alfa	625	-	589	-	-	-
RTComm.RU	596	-	596	-	596	-
Severen telecom	432	-	432	-	432	-
MRF Sibir	271		183	-	-	-
Other	633	28	460	28	140	28
Total	**23,813**	**677**	**36,584**	**697**	**35,542**	**697**

Key assumptions used by management in impairment testing are as follows (disclosed only for material CGUs*):

- Discount rates are estimated in nominal terms as the weighted average cost of capital on pre tax basis and is 12,18%;
- OIBDA margin are based on historical actual results and are 30,4% for MRF Moskva and 40,2% for MRF Severo-Zapad;
- Cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2%;

(In millions of Russian Roubles unless otherwise stated)

Discount rate and operating income before amortization and depreciation (OIBDA) margin are the key assumptions to which calculations of value in use of CGUs with goodwill and indefinite useful life intangible assets allocated to are the most sensitive. Management approach to gross margin projection is based on historical actual results and growth rate forecasts which correlates to industry growth rate.

The table below demonstrates the sensitivity analysis of impairment, the effect of a reasonably possible change in key assumptions on which determination of CGU recoverable amount is based in case such change resulted in impairment loss as at 31 December 2013:

CGU	Increase in discount rate	Impairment loss	Increase in discount rate which resulted in equality of recoverable and carrying amount	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted of recoverable amount is equal to carrying amount
GNC Alfa	0.50%	(37)	0.40%	3%	(104)	0.40%
RTComm.RU	n/a	n/a	n/a	3%	(148)	2.47%
Other	0.50%-1.50%	(40)	0.5%	3%	(169)	0.90%

Impairment Testing of Other Intangible Assets

At each reporting date the Group performs impairment testing of intangible assets not yet available for use and intangible assets with indefinite useful lives. Principal approaches and assumptions which were used to determine value in use of cash-generating units, to which these intangible assets belong, are disclosed in Note 6.

2013 impairment testing

As at 31 December 2013 no impairment loss in respect of other intangible assets were recognised.

2012 impairment testing

As at 31 December 2012 no impairment loss in respect of other intangible assets were recognised.

2011 impairment testing

As at 31 December 2010 impairment loss on billing system Amdocs was recognized due to the absence of intentions to implement and use it. However, in 2011 management approved the decision to implement customer relations management system (further – CRM) on Amdocs platform. According to the agreement with vendor of software billing system licenses were converted into CRM licenses. As a result, previously recognized loss in respect of licenses amounting to 3,419 was reversed in the statement of comprehensive income for 2011 and recognised in the line *Depreciation, amortisation and impairment losses.*

(In millions of Russian Roubles unless otherwise stated)

9. SUBSIDIARIES

These consolidated financial statements include the assets, liabilities and results of operations of the following significant subsidiaries:

		Effective share of the Group as at 31 December		
Subsidiary	**Main activity**	**2013**	**2012**	**2011**
CJSC MTs NTT	Communication services (fixed line)	100%	100%	100%
CJSC Westelcom	Leasing of equipment	100%	100%	100%
OJSC Infoteks-Teganrog Telecom	Communication services	99.99%	99.99%	99.99%
CJSC Zebra Telecom	Communication services	100%	100%	100%
OJSC RTComm.RU	Communication services (internet)	100%	100%	100%
CJSC RTComm-Sibir	Communication services (internet)	100%	100%	100%
LLC RTComm-Volga-Ural	Communication services (internet)	51%	51%	51%
LLC RTComm-Ug	Communication services (internet)	100%	100%	100%
OJSC RTS*	Communication services	-	100%	100%
CJSC NSS	Communication services (mobile)	100%	100%	100%
LLC Uzhno-Uralskaya telefonnaya compania	Communication services	100%	100%	100%
CJSC Baikalwestcom	Communication services (mobile)	100%	100%	100%
CJSC Yenisey telecom	Communication services (mobile)	100%	100%	100%
CJSC Akos	Communication services (mobile)	94.56%	94.56%	94.56%
CJSC Globus-Telecom	Communication services	94.92%	94.92%	94.92%
CJSC GlobalTel***	Communication services	-	51%	51%
OJSC National Telecommunications*	Communication services (pay TV)	-	100%	71.8%
CJSC Makomnet*	Communication services	51%	51%	51%
OJSC Mosteleset*	Communication services (pay TV)	-	100%	74%
LLC ArtMedia Group*	Radio and TV	-	100%	100%
LLC ArtMedia*	Movie rental	-	100%	100%
CJSC Natsionalnoe media agentstvo*	TV services	-	100%	100%
LLC Televisionnaya kompaniya Novy Vybor	Radio and TV	100%	100%	100%
LLC NKS Media	Other	100%	100%	100%
LLC Oberon-media*	Radio and TV	-	100%	100%
LLC Telekanal Mat I ditya*	Movie rental	-	100%	100%
LLC Telekanal Oykumena*	Movie rental	-	100%	100%
CJSC TKT-stroy	R&D services	100%	100%	100%
LLC Art Madia Markt*	Other	-	100%	100%
LLC Mobitel	Investment company	100%	100%	100%
OJSC RT Labs	Communication services	100%	100%	100%
CJSC AMT	Investment company	100%	100%	100%
LLC Intmashservis	Repair services	100%	100%	100%
OJSC Mobiltelecom	Communication services	91.75%	91.75%	91.75%
OJSC Regionalnie informatsionnie seti	R&D services	100%	100%	100%
CJSC NTC Komset	R&D services	55.45%	55.45%	55.45%
LLC Set Stolitsa	Maintenance services	100%	100%	100%
CJSC Sankt Peterburgskie taksofoni	Communication services	100%	100%	100%
NP Telecomcentr**	R&D services	100%	100%	100%
CJSC Volgograd-GSM	Communication services (mobile)	100%	100%	100%
CJSC Orenburg-GSM	Communication services (mobile)	-	-	100%
CJSC Severen-Telecom	Communication services	100%	100%	100%
CJSC GNC Alfa	Communication services	74.98%	74.98%	-
OJSC Kolatelecom	Communication services	50%	50%	

(In millions of Russian Roubles unless otherwise stated)

Subsidiary	Main activity	Effective share of the Group as at 31 December 2013	2012	2011
CJSC Chita-Online	Communication services (internet)	100%	100%	-
CJSC Sky Link	Communication services (mobile)	100%	100%	100%
CJSC MS-Direct	Communication services (mobile)	100%	100%	100%
CJSC Delta telecom	Communication services (mobile)	100%	100%	100%
OJSC Moscovskaya sotovaya svyaz	Communication services (mobile)	100%	100%	100%
OJSC Kaliningradskie Mobilnie Seti	Communication services (mobile)	100%	100%	100%
LLC Pilar	Communication services (mobile)	100%	100%	100%
CJSC Skay-1800	Communication services (mobile)	100%	100%	100%
CJSC Uralvestcom	Communication services (mobile)	100%	100%	100%
CJSC Astarta	Communication services (mobile)	100%	100%	100%
CJSC Saratovskaya sistema sotovoy svyazy	Communication services (mobile)	100%	100%	100%
OJSC Apeks	Communication services (mobile)	93.5%	93.5%	93.5%
OJSC Tsentralny Telegraph**	Communication services (telegraph)	80%	60.15%	60.15%
CJSC Otkritie telecommunikatsii**	Communication services	80%	60.15%	60.15%
OJSC Giprosvyaz**	Engineering design	80%	56.25%	56.25%
OJSC Ingushelectrosvyaz**	Communication services	-	100%	100%
OJSC Chukotkasvyazinform**	Communication services	100%	75%	75%
OJSC Bashinformsvyaz**	Communication services	70.78%	69.42%	68.16%
LLC Bashtelecomservis**	Communication services	70.78%	69.42%	-
LLC Bashtelecomleasing**	Leasing	70.78%	69.42%	68.16%
LLC Bashlelecominvest**	Investment company	70.77%	69.34%	68.08%
LLC Sterlitamakstroyservis**	Communication services (internet)	70.78%	69.42%	68.16%
OJSC Sotovaya svyaz Bashkortostana**	Communication services (mobile)	70.78%	69.42%	68.16%
OJSC Ufimsky zavod promsvyaz**	Communication equipment manufacturing	70.74%	69.38%	68.12%
CJSC Rosmedia	Communication services	100%	100%	100%
OJSC MMTS-9**	Communication services	99.81%	99.81%	99.81%
OJSC OK Orbita	Recreational services	100%	100%	100%
CJSC RPK Svyazist	Recreational services	100%	100%	100%
CJSC BIT	Communication services (mobile)	100%	100%	100%
Rostelecom International Limited (former Teleset Networks Public Company)	Communication services	100%	100%	100%
LLC Enter*	Communication services (internet)	-	100%	-
LLC KM Media	IT consulting	74.99	74.99	-
OJSC Svyazintek	IT consulting	100%	100%	100%

All the above entities have the same reporting date as the Group.

All significant subsidiaries, except for Rostelecom International and GNC Alfa, are incorporated in Russia. Rostelecom International is incorporated in Cyprus, GNC Alfa is incorporated in Armenia.

*In October 2013 OJSC Rostelecom was merged with OJSC Svyazinvest and the following 100% owned subsidiaries: CJSC National Telecommunications, OJSC Natsonalnie kabelnie seti, OJSC Rossiyskaya telecommunicatsionnays set, CJSC Elkatel, OJSC Mosteleset, OJSC Mostelecom, CJSC Eltelekor, CJSC Enter, OJSC Telekompania Sankt Peterburgskoe kabelnoe televidenie, CJSC Parma inform, CJSC Novgorod Deytacom, OJSC TNPKO, CJSC Svyazinvest, CJSC Teleset, CJSC Teleset invest, CJSC Simbirsk telecommunications systems, OJSC NKS EurAzia, CJSC Teleset-servis, CJSC Novosibirskoe Antenno-Kabelnoe televisionnoe veschanie, OJSC Ingushelectrosvyaz. In December 2013 LLC NKS Media was meged with LLC ArtMedia Group, LLC ArtMedia, CJSC Natsionalnoe media agentstvo, LLC Oberon-media, LLC Telekanal Mat I ditya, LLC Telekanal Oykumena, LLC Art Madia Markt.

**After merge of OJSC Rostelecom and OJSC Svyazinvest the following former subsidiaries of OJSC

(In millions of Russian Roubles unless otherwise stated)

Svyazinvest became subsidiaries of OJSC Rostelecom: NP Telecomcentr, OJSC Tsentralny Telegraph, CJSC Otkritie telecommunikatsii, OJSC Giprosvyaz, OJSC Ingushelectrosvyaz, OJSC Chukotkasvyazinform, OJSC Bashinformsvyaz, LLL Bashtelecomservis, LLC Bashtelecomleasing, LLC Bashlelecominvest, LLC Sterlitamakstroyservis, OJSC Sotovaya svyaz Bashkortostana, OJSC Ufimsky zavod promsvyaz, OJSC MMTS-9.

***In 2013 arbitrage of Moscow initiated external control procedure in CJSC GlobalTel as part of its bankruptcy. The Group has lost control over CJSC GlobalTel from 1 July 2013. As a result the Group recognized gain of 2,831 in other investing and financing gain as entity had negative net assets.

In 2012 CJSC Orenburg-GSM was merged with CJSC NSS. In 2011 the Group increased its share in CJSC Orenburg-GSM from 51% to 100%. Additional shares were bought for cash payment of 116 from OJSC Srednevolzhskaya mezhregionalnaya assotsiatsia radiotelecommunicatsionnih system.

In 2012 the Group increased its share in OJSC Mosteleset from 74% to 100%. Additional shares were bought for cash payment of 1,800 from government of Moscow.

In March 2012 the Group increased its share in OJSC National Telecommunications from 71.8% to 100%. Additional shares were bought for cash payment of 13,826 from OJSC Gazprombank. In February 2011 the Group acquired 71.8% equity interest in OJSC National Telecommunications from CJSC National Media Group, OJSC Surgutneftegaz and Raybrook Limited. The purchase price amounted to USD 951 million.

In September 2012 the Group acquired 100% share in LLC Bashtelecomservis, the regional telecommunication operator, from a private person. The purchase price amounted to 210.

In August 2011 the Group increased its share in CJSC Volgograd-GSM from 50% to 100%. Additional shares were bought for cash payment of 2,322 from Bolaro Holdings ltd, CJSC Info-Telecom and OJSC SMARTS.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised statements of financial position

	CJSC Makomnet			**Bashinformsvyaz Group**		
	As at 31 December			**As at 31 December**		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Current assets	504	496	465	2,837	1,962	2,806
Current liabilities	(103)	(116)	(141)	(2,884)	(1,759)	(1,658)
Total current net assets / (liabilities)	**401**	**380**	**324**	**(47)**	**203**	**1,148**
Non-current assets	1,612	1,704	907	15,154	9,595	8,778
Nob-current liabilities	(224)	(235)	(75)	(2,946)	(1,028)	(2,025)
Total non-current net assets	**1,388**	**1,469**	**832**	**12,208**	**8,567**	**6,753**
Net assets	**1,789**	**1,849**	**1,156**	**12,161**	**8,770**	**7,901**
NCI	**912**	**943**	**590**	**3,553**	**2,682**	**2,516**

Summarised statements of profit or loss and other comprehensive income

	CJSC Makomnet			**Bashinformsvyaz Group**		
	Year ended 31 December			**Year ended 31 December**		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Revenue	1,340	1,301	1,137	7,586	6,302	6,080
Profit before income tax	429	459	426	1,233	1,117	656
Income tax	(90)	(93)	(104)	(316)	(258)	(799)
Total comprehensive income	**339**	**366**	**322**	**917**	**859**	**(143)**
Total comprehensive income allocated to non-controlling interests	166	179	158	268	263	(45)
Dividends paid to non-controlling interests	196	190	195	47	20	16

(In millions of Russian Roubles unless otherwise stated)

Summarised cash flows

	CJSC Makomnet	Bashinformsvyaz Group
	For the year ended 31 December	
	2013	2013
Cash generated from operations	618	3,262
Interest paid	-	(103)
Income tax paid	(101)	(674)
Net cash generated from operating activities	517	2,485
Net cash used in investing activities	(122)	(638)
Net cash used in financing activities	(401)	(1,121)
Net (decrease)/increase in cash and cash equivalents	**(6)**	**726**
Cash and cash equivalents at beginning of year	345	236
Cash and cash equivalents at end of year	339	962

10. INVESTMENTS IN ASSOCIATES

Investments in associates as at 31 December 2013, 2012 and 2011 were as follows:

Associate	Main activity	Voting share capital, %	2013 Carrying amount	2012 Carrying amount	2011 Carrying amount
OJSC KGTS	Communication services	37.29	383	234	206
CJSC Samara Telecom	Communication services	27.78	163	159	147
OJSC WestBalt Telecom	Communication services	38.00	131	131	127
CJSC IKC Express	Communication services	37.90	83	81	78
OJSC Vostoktelecom	Communication services	25.00	81	77	75
Other	Various		77	93	140
Total investments in associates			**918**	**775**	**773**

Summarized financial information as at 31 December 2013, 2012 and 2013 and for the years then ended of the associates is presented below:

Aggregate amounts	2013	2012	2011
Assets	3,143	2,833	2,458
Liabilities	407	455	362
Revenue	1,968	1,758	1,556
Net income	195	184	191

In 2013 the Group received dividends from its investments in equity accounted investees in the amount of 8 (2012: 5, 2011: 4).

All associated companies are incorporated in Russia.

There are no contingent liabilities relating to the Group's interest in the associates.

(In millions of Russian Roubles unless otherwise stated)

Summarized financial information for substantial associates as at 31 December 2013, 2012 and 2013 and for the years then ended is presented below:

Associate	Year	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net income/(loss)
OJSC KGTS	2013	966	158	11	86	742	104
	2012	924	90	151	86	714	113
	2011	807	95	122	96	661	122
CJSC Samara Telecom	2013	310	396	21	100	201	15
	2012	351	265	21	32	165	25
	2011	321	257	15	27	254	27
OJSC WestBalt Telecom	2013	128	253	-	36	150	(1)
	2012	140	241	-	35	214	11
	2011	128	243	-	36	221	25
CJSC IKC Express	2013	13	213	-	8	72	6
	2012	17	205	-	6	76	6
	2011	19	195	-	2	51	(7)
OJSC Vostoktelecom	2013	102	287	5	59	595	31
	2012	357	15	5	53	587	32
	2011	324	16	4	55	365	27

Reconciliation of the summarised financial information presented to the carrying amount of the interest in associates:

Summarised financial information	OJSC KGTS	CJSC Samara Telecom	OJSC WestBalt Telecom	CJSC IKC Express	OJSC Vostoktelecom
Net assets at December 31, 2013	1,027	585	345	218	325
Interest in associates, %	37,29	27,78	38	37,9	25
Carrying value at December 31, 2013	383	163	131	83	81

11. OTHER INVESTMENTS

	31 December 2013	31 December 2012	31 December 2011
Non-current investments			
Available-for-sale financial assets	83	2,917	812
Financial assets at fair value through profit or loss	401	-	-
Loans and receivables	36	118	1,017
Total other non-current investments	**520**	**3,035**	**1,829**
Current investments			
Available-for-sale financial assets	6	6	-
Loans and receivables	1,960	3,486	4,609
Total other current investments	**1,966**	**3,492**	**4,609**
Total other investments	**2,486**	**6,527**	**6,438**

The Group's exposure to credit, currency and interest rate risks and fair value information related to other investments is disclosed in Note 31.

(In millions of Russian Roubles unless otherwise stated)

12. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012	31 December 2011
Non-current advances, given for investing activities	1,872	4,502	12,611
Non-current advances, given for operating activities	956	398	258
Non-current receivables	1,264	659	865
Other non-current assets	-	2	234
Less: doubtful debt allowance	(102)	(92)	(127)
Total other non-current assets	**3,990**	**5,469**	**13,841**

13. INVENTORIES

	31 December 2013	31 December 2012	31 December 2011
Cable	781	850	869
Finished goods and goods for resale	556	608	799
Spare parts	1,076	1,001	1,126
Tools and accessories	165	213	195
Construction materials	72	88	81
Fuel	142	157	166
Other inventory	1,149	2,073	1,936
Total inventories	**3,941**	**4,990**	**5,172**

14. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2013 and 2012, 2011 comprised of the following:

	Gross, 31 December 2013	Doubtful debt allowance	Net, 31 December 2013
Amounts due from customers for operating activities	37,304	(4,670)	32,634
Amounts due from customers for non-operating activities	6,246	(1,658)	4,588
Amounts due from commissioners and agents	1,536	-	1,536
Amounts due from personnel	191	-	191
Amounts due from other debtors	1,335	(460)	875
Total trade and other accounts receivable	**46,612**	**(6,788)**	**39,824**

	Gross, 31 December 2012	Doubtful debt allowance	Net, 31 December 2012
Amounts due from customers for operating activities	34,558	(5,036)	29,522
Amounts due from customers for non-operating activities	3,668	(781)	2,887
Amounts due from commissioners and agents	2,021	-	2,021
Amounts due from personnel	149	-	149
Amounts due from other debtors	1,787	(504)	1,283
Total trade and other accounts receivable	**42,183**	**(6,321)**	**35,862**

(In millions of Russian Roubles unless otherwise stated)

	Gross, 31 December 2011	Doubtful debt allowance	Net, 31 December 2011
Amounts due from customers for operating activities	29,495	(4,798)	24,697
Amounts due from customers for non-operating activities	2,869	(765)	2,104
Amounts due from commissioners and agents	1,620	-	1,620
Amounts due from personnel	91	-	91
Amounts due from other debtors	2,449	(449)	2,000
Total trade and other accounts receivable	**36,524**	**(6,012)**	**30,512**

As at 31 December 2013, 2012 and 2011 settlements with customers for operating activities included settlements with the following counterparties:

	31 December 2013	31 December 2012	31 December 2011
Residential customers	12,201	13,121	13,411
Corporate customers	5,006	5,653	5,729
Governmental customers	12,931	9,387	5,388
Interconnected operators – domestic	5,005	4,663	3,526
Interconnected operators – international	2,161	1,713	1,420
Social security bodies	-	21	21
Less: doubtful debt allowance	(4,670)	(5,036)	(4,798)
Total accounts receivable due from customers for operating activities	**32,634**	**29,522**	**24,697**

Based on historic default rates, management believes that trade and other receivables are adequately provided.

As at 31 December 2013, 2012 and 2011 the share of accounts receivable that are past due but not impaired amounted to approximately nil.

The following table summarizes the changes in the allowance for doubtful accounts receivable, advances and other assets for the years ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
Balance, beginning of year	(6,552)	(6,260)	(6,918)
Bad debt expense	(2,140)	(1,389)	(632)
Acquisition through business combinations	-	-	(299)
Accounts receivable written-off	1,643	1,097	1,589
Balance, end of year	**(7,049)**	**(6,552)**	**(6,260)**

As at 31 December 2013, 2012 and 2011 amounts due from other debtors include finance lease receivables of 180, 183 and 195 respectively.

Finance income for the years ended 31 December 2013, 2012 and 2011 amounted to 46, 49 and 47 respectively, and are included in other investing and financial gain in these consolidated statements of comprehensive income.

(In millions of Russian Roubles unless otherwise stated)

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2013, 2012 and 2011 are as follows:

	31 December 2013	
	Gross investments in lease	**Present value of minimum lease payments**
Current portion (less than 1 year)	50	6
More than 1 to 5 years	191	27
Over 5 years	321	147
Total	**562**	**180**

	31 December 2012	
	Gross investments in lease	**Present value of minimum lease payments**
Current portion (less than 1 year)	51	6
More than 1 to 5 years	192	22
Over 5 years	370	155
Total	**613**	**183**

	31 December 2011	
	Gross investments in lease	**Present value of minimum lease payments**
Current portion (less than 1 year)	55	10
More than 1 to 5 years	199	23
Over 5 years	415	162
Total	**669**	**195**

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2013, 2012 and 2011 included cash in bank, cash in-hand, short-term deposits and bills of exchange with original maturities of less than three months as follows:

	31 December 2013	**31 December 2012**	**31 December 2011**
Cash in bank and in-hand	7,636	12,565	5,665
Short-term deposits and promissory notes up to 3 months	249	974	3,777
Other cash and cash equivalents	75	90	192
Total cash and cash equivalents	**7,960**	**13,629**	**9,634**

16. OTHER CURRENT ASSETS

	31 December 2013	**31 December 2012**	**31 December 2011**
Deferred expenses	-	9	99
VAT recoverable	584	781	709
Other current assets	35	149	357
Less: doubtful debt allowance	(10)	(31)	(56)
Total other current assets	**609**	**908**	**1,109**

(In millions of Russian Roubles unless otherwise stated)

17. EQUITY

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through 31 December 2002. The share capital of the Company in the Russian statutory accounts at 31 December 2013 amounted to 7,280,089 nominal (uninflated) RUB (2012 and 2011: 7,280,089).

The authorized share capital of the Company as at 31 December 2013, 2012 and 2011 comprised 6,354,642,352 ordinary shares and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

During the reorganisation the number of outstanding ordinary shares resulted from the conversion of Svyazinvest ordinary shares into additional 1,071,502,300 Rostelecom ordinary shares, and the cancellation of 1,345,556,268 Rostelecom ordinary shares, which previously owned by Svyazinvest, on 1 October 2013.

As at 31 December 2013 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary Shares, RUB 0.0025 par value	2,669,204,301	6.673	72
Preferred Shares, RUB 0.0025 par value	242,831,469	0.607	25
Total	**2,912,035,770**	**7.280**	**97**

As at 31 December 2012 and 31 December 2011 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary Shares, RUB 0.0025 par value	2,669,204,301	6.673	72
Preferred Shares, RUB 0.0025 par value	242,831,469	0.607	25
Total	**2,912,035,770**	**7.280**	**97**

Data for comparative periods were revised as if the reorganization had occurred at the beginning of the earliest comparative period.

Ordinary shares carry voting rights with no guarantee of dividends. Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization, changes to dividend levels of preferred shares, or the issuance of additional preferred shares. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders' general meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

In case of liquidation, the residual assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Accordingly, the preferred shares of the Company are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 30).

As a result of the reorganization approved by shareholders' meeting as at December 30, 2013 dissenting minor shareholders obtained the right to sell their shares. For this purpose stock redemption reserve was accrued in the financial statements as at December 31, 2013. The reserve is classified as current payables, refer to note 19.

(In millions of Russian Roubles unless otherwise stated)

Treasury shares

As at 31 December 2013, 2012and 2011 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2013	31 December 2012	31 December 2011
Ordinary Shares	465,757,157	229,568,655	184,725,611
Preferred Shares	72,987,143	69,432,721	70,042,234
Total	**538,744,300**	**299,001,376**	**254,767,845**

In October 2011 the Board of Directors of the Company approved decision on shares buy back up to the amount of USD 500 million.

During 2011 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 18,122,013. During 2012 the Group realized 83,635,424 ordinary shares, including 25,389,645 shares realized as an exercise of the options under the management motivation program and 56,287,425 shares transferred in exchange of acquisition of a 50% stake in Sky Link from OJSC Svyazinvest (refer to Note 5). During 2012 total number of preferred shares realized as an exercise of the options under the management motivation program constituted 952,074.

In 2013 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 66,610,190 shares. During 2013, 2012 and 2011 the Group purchased 221,575,350, 166,693,203 and 31,383,885 ordinary shares, respectively, for 28,067, 25,636 and 4,506 respectively.

Dividends

According to the charter of the Company a preferred share carries dividend amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by 25% of total number of shares and the dividend paid on one ordinary share.

Total amount of dividend paid on ordinary shares should be not less than 20% of net profit of the Group as reported under IFRS.

In June 2013 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2012 in the amount of 2.4369 roubles per ordinary share (2011: 4.6959 roubles per ordinary share) and 4.1022 roubles per preference share (2011: 4.6959 roubles per preference share).

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, roubles
Declared and approved for 2012			
Preference shares	242,831,469	4.1022	996,143,252
Ordinary shares	2,943,258,269	2.4369	7,172,426,076
Total	**3,186,089,738**		**8,168,569,328**

The difference between the dividends declared and the dividends presented in the statement of changes in equity is explained by the treasury shares, held by the subsidiaries of the Company.

(In millions of Russian Roubles unless otherwise stated)

18. BORROWINGS

Borrowings as at 31 December 2013, 2012 and 2011 were as follows:

	31 December 2013	31 December 2012	31 December 2011
Long-term Borrowings			
Non-current portion of long-term borrowings			
Bank and corporate loans	149,393	142,623	89,188
Bonds	35,000	10,000	4,604
Promissory notes	9	9	48
Vendor financing	55	65	69
Finance lease liabilities	107	129	690
Interest payable	15	14	13
Restructured customer payments	21	34	28
Total non-current portion of long-term borrowings	**184,600**	**152,874**	**94,640**
Current portion of long-term borrowings			
Bank and corporate loans	1,133	44,173	45,319
Bonds	5,000	1,613	4,285
Promissory notes	-	659	682
Vendor financing	9	2,665	2,717
Finance lease liabilities	61	750	1,971
Restructured customer payments	75	70	77
Total current portion of long-term borrowings	**6,278**	**49,930**	**55,051**
Total long-term borrowings	**190,878**	**202,804**	**149,691**
Short-term Borrowings			
Bank and corporate loans	25,399	14,319	26,588
Promissory notes	377	151	149
Interest payable	1,155	616	665
Total short-term borrowings	**26,931**	**15,086**	**27,402**
Current portion of long-term borrowings	6,278	49,930	55,051
Total current borrowings	**33,209**	**65,016**	**82,453**
Total borrowings	**217,809**	**217,890**	**177,093**

As a result of the reorganization approved on the shareholders' meeting at December 30, 2013 creditors obtained the right to claim earlier repayment of long-term loans. As at the reporting date, the Company received waivers from all significant creditors, stating that they had no intention to claim earlier repayment. As at the date of issuance of the financial statements, the period of claims determined by the Russian law had expired and no claims were actually received by the Company. Therefore, liabilities were classified as long-term in accordance with contracted maturity.

Finance lease liabilities

In April 2005, the Group entered into a finance lease agreement for use of terrestrial optical fiber cables. The lease agreement is non-cancellable for the period of 15 years, which approximates the remaining useful life of the optical fibers. Effective interest rate of the lease is 7.21% p.a. Lease payments are denominated in US Dollars.

(In millions of Russian Roubles unless otherwise stated)

Also, the Group is involved in a finance lease agreement for use of a digital telecommunication station over its estimated remaining useful life of 7 years. Effective interest rate of the lease is 11.7% p.a. Lease payments are denominated in Russian Roubles.

The Group has two lease tranches of optical fibers with OJSC FSK EES until year 2030. The effective interest rates of these leases are 15% and 17% p.a. Lease payments are denominated in Russian Roubles.

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2013, 2012 and 2011 are as follows:

	31 December 2013		31 December 2012		31 December 2011	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Current portion (less than 1 year)	78	61	836	750	2,242	1,971
More than 1 to 5 years	75	14	113	36	720	590
Over 5 years	182	93	182	93	218	100
Total	**335**	**168**	**1,131**	**879**	**3,180**	**2,661**

Depreciation of property, plant and equipment under the finance lease contracts for 2013, 2012 and 2011 amounted to 236, 1,090 and 1,636 respectively. Finance charges for the year ended 31 December 2013, 2012 and 2011 amounted to 49, 371 and 565 respectively, and are included in finance costs in these consolidated statements of comprehensive income.

Vendor financing

Vendor financing payable includes the following as at 31 December 2013, 2012 and 2011:

	31 December 2013	31 December 2012	31 December 2011
Government of Dagestan Republic	53	62	69
Other	2	3	-
Vendor financing payable – long-term	**55**	**65**	**69**
Globalstar L.P.	-	2,162	2,159
Metrosvyaz Ltd	-	99	99
Cisko Capital CIS	-	-	47
Huawei Technologies Co. Ltd.	-	391	389
Government of Dagestan Republic	9	9	10
Other	-	4	13
Vendor financing payable – current portion	**9**	**2,665**	**2,717**
Total vendor financing payable	**64**	**2,730**	**2,786**

Decrease in vendor financing payable was due to the following:

As at 31 December 2012, the Group had 2,162 payable by CJSC GlobalTel to Globalstar L.P., which was the non-controlling shareholder of CJSC GlobalTel, for the purchase of three gateways and associated equipment and services. Globalstar L.P. had a lien over this equipment until the liability is fully paid. CJSC GlobalTel was in default in respect of payments in 2004 - 2012 and has not obtained a waiver from Globalstar L.P. As a result, the entire balance of 1,248 at 31 December 2012 (2011: 1,323) was classified as current in the consolidated statements of financial position as at 31 December 2012 and 2011. Penalty interest in the amount of 914 and 836, accrued for each day of delay at the rate of 10% p.a., was included in the vendor financing payable in the consolidated statements of financial position as at 31 December 2012 and 2011 respectively. In July 2013 the Group has lost control over CJSC GlobalTel (refer to Note 8), so payable by CJSC GlobalTel to Globalstar L.P was not included in the consolidated statements of financial position as at 31December 2013.

(In millions of Russian Roubles unless otherwise stated)

19. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2013, 2012 and 2011:

	31 December 2013	31 December 2012	31 December 2011
Stock redemption reserve	23,161	-	-
Payables for purchases and construction of property, plant and equipment	13,903	28,821	11,509
Other taxes payable	6,412	5,783	6,820
Payable to personnel	9,800	9,998	8,589
Payable for operating activities	7,632	6,399	3,960
Payable to interconnected operators	2,471	3,142	3,650
Dividends payable	356	826	389
Payable for purchases of software	4,633	1,552	395
Current provisions	341	480	475
Other accounts payable	4,926	4,838	5,492
Current accounts payable, provisions and accrued expenses	**73,635**	**61,839**	**41,279**
Financial liabilities at fair value through profit and loss	878	-	-
Non-current payables	25	27	19,652
Non-current provisions	174	211	43
Non-current accounts payable, provisions and accrued expenses	**1,077**	**238**	**19,695**
Total accounts payable, provisions and accrued expenses	**74,712**	**62,077**	**60,974**

20. EMPLOYEE BENEFITS

According to staff agreements, the Group contributes to pension plans and also provides additional benefits for its active and retired employees.

Defined contribution plans

The non-state pension fund NPF Telecom-Soyuz maintains the defined contribution plan of Group. In 2013 the Group expensed 124 (2012: 193; 2011: 205) in relation to defined contribution plans.

Defined benefit plans and other long-term employee benefits

To become eligible for benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men and fulfil certain minimum seniority requirements.

As at 31 December 2013, the Group employed 160,219 participants of defined benefit plan (2012: 163,532; 2011: 173,878) and supported 47,378 pensioners eligible for post-employment benefit(2012: 53.421; 2011: 59,410).

As at 31 December 2013, management estimated that employees' average remaining working period was 10 years (2012 – 10 years; 2011 – 9 years)

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2013, 2012 and 2011 net defined benefit plan liability comprised the following:

	2013	2012	2011
Present value of obligations on defined benefit plans	9,783	10,870	11,050
Fair value of plan assets	(9)	(9)	(4)
Present value of unfunded obligations	**9,774**	**10,861**	**11,046**

Net expenses/ gains for the defined benefit plan recognized in 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Current service cost	495	516	605
Interest cost	769	946	1,025
Expected return on plan assets	(1)	(1)	-
Other expenses	600	-	-
Curtailment effect	-	(241)	(4,868)
Net expense/(gain) for the defined benefit plan	**1,863**	**1,220**	**(3,238)**

Net expense/ gain for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated statement of comprehensive income in the line “Wages, salaries, other benefits and payroll taxes”. Return on plan assets and interest cost are recognized in “Other investing and financing gain” and “Finance costs” line items of these consolidated statements of comprehensive income.

Curtailment effect occurred due to introduction of the new collective labour agreement in December 2011. The agreement abolished certain social benefits in regard of the former Company’s employees and other miscellaneous social payments.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2013, 2012 and 2011:

	2013	2012	2011
Present value of defined benefit obligations as at 1 January	**10,870**	**11,050**	**16,592**
Curtailment of liabilities	-	(241)	(4,868)
Interest cost	769	946	1,025
Current service cost	495	516	605
Other expenses	600	-	-
Benefits paid	(1,097)	(1,071)	(1,472)
Actuarial (gains)/losses	(1,854)	(330)	(832)
Present value of defined benefit obligations as at 31 December	**9,783**	**10,870**	**11,050**

The following table summarizes movements in the fair value of defined benefit plan assets in 2013, 2012 and 2011:

	2013	2012	2011
Fair value of plan assets as at 1 January	**9**	**4**	**1**
Expected return on plan assets	1	1	-
Actuarial (gains)/losses	(1)	(1)	-
Benefits paid	(1,097)	(1,071)	(1,472)
Contributions by the employer	1,097	1,076	1,475
Fair value of plan assets as at 31 December	**9**	**9**	**4**

(In millions of Russian Roubles unless otherwise stated)

As at 31 December 2013, 2012 and 2011 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2013	2012	2011
Discount rate	8.00%	7.00%	8.50%
Future salary increases	9.20%	9.20%	9.72%
Rate used for calculation of annuity value	4.00%	4.00%	4.00%
Increase in financial support benefits	5.00%	5.00%	5.50%
Staff turnover	5% for aged 50 and below 0% for aged above 50	5% for aged 50 and below 0% for aged above 50	5% for aged 50 and below 0% for aged above 50
Mortality tables (source of information)	1985/86	1985/86	1985/86

The amounts of experience adjustments and present value of defined benefit obligation and defined benefit assets for the current annual period and previous two annual periods are as follows:

	2013	2012	2011
Defined benefit obligations	9,783	10,870	11,050
Defined benefit assets	(9)	(9)	(4)
Plan deficit	9,774	10,861	11,046
Experience adjustments on defined benefit plan liabilities	(1,084)	(1,038)	(613)
Experience adjustments on defined benefit plan assets	(1)	(1)	-

The Group expects to contribute 1,318 to its non-state pension funds in 2014 in respect of defined benefit plans.

The following net pension liabilities are in consolidated statements of financial position in 2013, 2012 and 2011:

	2013	2012	2011
Net defined benefit obligations as at 1 January	**10,861**	**11,046**	**16,591**
Total defined benefit plan expenses, net	1,863	1,221	(3,239)
Contributions by the employer	(1,097)	(1,076)	(1,474)
Remeasurement of pension liabilities	(1,853)	(330)	(832)
Net defined benefit obligations as at 31 December	**9,774**	**10,861**	**11,046**

Remeasurement of pension liabilities consists of:

	2013	2012	2011
Actuarial (gains)/losses on liabilities	(1,854)	(331)	(832)
Actuarial (gains)/losses on assets	1	1	-
Remeasurement of pension liabilities	**(1,853)**	**(330)**	**(832)**

(In millions of Russian Roubles unless otherwise stated)

21. INCOME TAXES

The components of income tax expense for the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Current income tax expense			
Income tax for the year	(3,752)	(7,705)	(9,331)
Adjustments of the current income tax for previous years	101	201	(41)
Total current income tax for the year	**(3,651)**	**(7,504)**	**(9,372)**
Deferred tax expense			
Origination and reversal of temporary differences	(5,988)	(5,219)	(1,021)
Changes in unused tax losses	1,651	3,422	(266)
Total deferred income tax	**(4,337)**	**(1,797)**	**(1,287)**
Total income tax expense for the year	**(7,988)**	**(9,301)**	**(10,659)**

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

	2013	2012	2011
Profit before tax	32,119	42,503	47 478
Statutory income tax rate	20%	20%	20%
Theoretical tax charge at statutory income tax rate	(6,424)	(8,501)	(9,496)
Adjustments of the current income tax for previous years	101	201	(41)
Non-deductible expenses and non-taxable income	(2,299)	(1,838)	(208)
Tax on intragroup dividend income	(379)	(634)	(44)
Changes in unrecognized deferred tax assets	1,013	1,415	(1,000)
Tax exemptions	-	56	57
Other	-	-	73
Total actual income tax	**(7,988)**	**(9,301)**	**(10,659)**
Effective tax rate, %	24,87%	21,88%	22,45%

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
Effect of employee benefits curtailment	-	-	1,023
Effect of business combination achieved in several stages	-	-	388
Reversal/ (accrual) of impairment loss	-	-	665
Other	(2,299)	(1,838)	(2,284)
Total non-deductible expenses and non-taxable income	**(2,299)**	**(1,838)**	**(208)**

Other non-deductible expenses and non-taxable income include income connected with depreciation of certain property, plant and equipment, expenses within share-based employee motivation program, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances, other expenses and value added tax accrued on free-of-charge services.

(In millions of Russian Roubles unless otherwise stated)

The components of net deferred tax assets and liabilities as at 31 December 2013, 2012 and 2011, and the respective movements during 2013, 2012 and 2011 were as follows:

		Movement during 2013 recognized in					
	Balance as at 1 January 2013	**Acquisition through business combinations**	**Equity**	**Other comprehensive income**	**Profit / or loss for the year**	**Reclassification to assets held for sale of mobile**	**Balance as at 31 December 2013**
Tax effects of future tax deductible items							
Property, plant and equipment	464	-	-	-	(5)	(450)	9
Intangible assets	-	-	-	-	74	-	74
Unused tax losses	3,087	-	-	-	1,651	(3,124)	1,614
Trade and other accounts receivable	169	-	-	-	(124)	(6)	39
Inventories	227	-	-	-	624	(44)	807
Investments	1,481	-	-	-	(1,051)	(1)	429
Employee benefits	1,708	-	-	(371)	608	-	1,945
Loans and borrowings	5	-	-	-	-	(5)	-
Other non-current liabilities	110	-	-	-	(110)	-	-
Accounts payable, provisions and accrued expenses	2,817	-	-	-	1,787	(153)	4,451
Other	639	-	1	-	130	(296)	474
Gross deferred tax asset	**10,707**	**-**	**1**	**(371)**	**3,584**	**(4,079)**	**9,842**
Tax effects of future taxable items:							
Property, plant and equipment	(22,888)	-	(1)	-	(8,151)	854	(30,186)
Intangible assets	(5,158)	-	-	-	265	1,807	(3,086)
Investments	(855)	-	-	-	220	-	(635)
Accounts payable, provisions and accrued expenses	(152)	-	-	-	106	28	(18)
Trade and other accounts receivable	(1,544)	-	-	-	(387)	24	(1,907)
Loans and borrowings	(222)	-	-	-	(54)	2	(274)
Other	(273)	-	(2)	-	80	7	(188)
Gross deferred tax liability	**(31,092)**	**-**	**(3)**	**-**	**(7,921)**	**2,722**	**(36,294)**
Net deferred tax liability	**(20,385)**	**-**	**(2)**	**(371)**	**(4,337)**	**(1,357)**	**(26,452)**

(In millions of Russian Roubles unless otherwise stated)

		Movement during 2012 recognized in				
	Balance as at 1 January 2012	**Acquisition through business combinations**	**Equity**	**Other comprehensive income**	**Profit / or loss for the year**	**Balance as at 31 December 2012**
Tax effects of future tax deductible items						
Property, plant and equipment	535	-	-	-	(71)	464
Unused tax losses	384	-	-	-	2,703	3,087
Trade and other accounts receivable	246	5	-	-	(82)	169
Inventories	65	-	-	-	162	227
Investments	1,315	-	-	-	166	1,481
Employee benefits	1,793	-	-	(66)	(19)	1,708
Loans and borrowings	384	-	-	-	(379)	5
Other non-current liabilities	556	-	-	-	(446)	110
Accounts payable, provisions and accrued expenses	1,301	-	-	-	1,516	2,817
Other	363	9	-	-	267	639
Gross deferred tax asset	**6,942**	**14**	**-**	**(66)**	**3,817**	**10,707**
Tax effects of future taxable items:						
Property, plant and equipment	(18,212)	(36)	2	-	(4,642)	(22,888)
Intangible assets	(6 395)	(5)	-	-	1,242	(5,158)
Investments	(323)	-	683	146	(1,361)	(855)
Accounts payable, provisions and accrued expenses	(247)	(31)	3	-	123	(152)
Trade and other accounts receivable	(788)	-	-	-	(756)	(1,544)
Loans and borrowings	(4)	-	-	-	(218)	(222)
Other	(271)	-	-	-	(2)	(273)
Gross deferred tax liability	**(26,240)**	**(72)**	**688**	**146**	**(5,614)**	**(31,092)**
Net deferred tax liability	**(19,298)**	**(58)**	**688**	**80**	**(1,797)**	**(20,385)**

(In millions of Russian Roubles unless otherwise stated)

		Movement during 2011 recognized in				
	Balance as at 1 January 2011	**Acquisition through business combinations**	**Equity**	**Other comprehensive income**	**Profit / or loss for the year**	**Balance as at 31 December 2011**
Tax effects of future tax deductible items						
Property, plant and equipment	254	9	-	-	272	535
Unused tax losses	174	476	-	-	(266)	384
Trade and other accounts receivable	204	4	-	-	38	246
Inventories	5	1	-	-	59	65
Investments	786	1	-	-	528	1,315
Employee benefits	1,910	-	-	(166)	49	1,793
Loans and borrowings	1,311	-	-	-	(927)	384
Other non-current liabilities	86	-	-	-	470	556
Accounts payable, provisions and accrued expenses	870	19	-	-	412	1,301
Other	792	30	-	-	(459)	363
Gross deferred tax asset	**6,392**	**540**	**-**	**(166)**	**176**	**6,942**
Tax effects of future taxable items:						
Property, plant and equipment	(15,171)	(788)	-	-	(2,253)	(18,212)
Intangible assets	(3,497)	(3,621)			723	(6,395)
Investments	(628)		14	51	240	(323)
Accounts payable, provisions and accrued expenses	(522)	(55)	-	-	330	(247)
Trade and other accounts receivable	(409)	(3)	-	-	(376)	(788)
Loans and borrowings	(13)		-	-	9	(4)
Other	(129)	(6)	-	-	(136)	(271)
Gross deferred tax liability	**(20,369)**	**(4,473)**	**14**	**51**	**(1,463)**	**(26,240)**
Net deferred tax liability	**(13,977)**	**(3,933)**	**14**	**(115)**	**(1,287)**	**(19,298)**

In 2013 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognised. Accordingly the tax value of property, plant and equipment was decreased, which resulted in an increase of deferred tax liabilities.

(In millions of Russian Roubles unless otherwise stated)

Taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as at 31 December 2013, 2012 and 2011 amounted to 4,902, 19,293 and 24,933, respectively. Deductible temporary differences associated with investments in subsidiaries for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2013, 2012 and 2011 amounted to 2,759, 3,606 and 12,987, respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2013, 2012 and 2011 amounted to 1,836, 9,022 and 16,095, respectively, of which unused tax losses with expiry date from 2014 to 2022 amounted to 190, 6,480 and 14,847 for 2013, 2012 and 2011, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

The consolidated statement of comprehensive income for 2013, 2012 and 2011 includes tax expense in respect of following items of other comprehensive income:

	2013	**2012**	**2011**
Change in fair value of available-for-sale financial assets	-	(66)	51
Actuarial gains and losses	(371)	146	(166)

22. REVENUE

Revenue comprised the following for the years ended 31 December 2013, 2012 and 2011:

	2013	**2012**	**2011**
Local telephone services	87,436	89,504	91,526
Intra-zone telephone services	17,171	19,634	22,439
Domestic long-distance/International long-distance telephone services	17,101	20,562	24,236
Interconnection and traffic transit services (excluding Internet)	24,864	21,991	20,444
Mobile communication services	38,902	41,161	40,660
Rent of channels	9,486	11,433	10,782
Broadband Internet	55,938	51,619	47,984
Pay TV	11,906	9,208	6,748
Data services (VPN, data centres, wholesale Internet sales)	23,025	20,872	19,227
Cloud computing services	5,422	6,004	2,764
Other	34,453	40,447	25,520
Total revenue	**325,704**	**332,435**	**312,330**

In 2013, 2012 and 2011 the Group generated revenue by the following major customer groups:

Customer Groups	**2013**	**2012**	**2011**
Residential customers	165,884	167,330	170,373
Corporate customers	73,827	70,794	72,437
Governmental customers	45,604	54,159	35,212
Interconnected operators	40,389	40,152	34,308
Total	**325,704**	**332,435**	**312,330**

(In millions of Russian Roubles unless otherwise stated)

23. WAGES, SALARIES, OTHER BENEFITS AND PAYROLL TAXES

	2013	2012	2011
Salary expenses	67,454	67,310	63,716
Share-based remuneration	-	10	588
Social taxes	18,026	17,652	17,836
Loss/(gain) for pension plans	1,218	396	(4,349)
Other personnel costs	4,304	3,447	3,010
Total wages, salaries, other benefits and payroll taxes	**91,002**	**88,815**	**80,801**

Gain on pension plans in 2011 and 2012 occurred due to curtailments effects of some of the Group's defined benefits schemes (refer to Note 19).

24. MATERIALS, UTILITIES, REPAIRS AND MAINTENANCE

	2013	2012	2011
Repairs and maintenance	11,654	11,508	12,873
Utilities	10,374	9,414	8,290
Materials	6,467	7,561	7,841
Total materials, utilities, repairs and maintenance	**28,495**	**28,483**	**29,004**

25. OTHER OPERATING INCOME

	2013	2012	2011
Reimbursement of losses incurred from universal services fund	12,392	12,623	12,352
Gain on disposals of other assets	210	8	132
Reimbursement of other losses incurred	233	232	257
Fines and penalties	360	648	539
Income on Government grants	-	-	11
Other income	2,734	1,238	2,412
Total other operating income	**15,929**	**14,749**	**15,703**

(In millions of Russian Roubles unless otherwise stated)

26. OTHER OPERATING EXPENSES

	2013	2012	2011
Agency fees	7,700	8,103	8,048
Taxes, other than income tax	7,513	7,671	7,095
Rent	7,156	5,920	5,673
Advertising expenses	5,644	6,371	5,272
E-Government contract expenses	4,651	4,960	2,188
Fire and other security services	3,323	3,515	3,246
Contributions to universal service fund	3,082	3,147	3,064
Transportation and postal services	2,221	2,673	3,571
Third party services and expenses related to administration	2,003	1,734	5,942
Audit and consulting fees	871	1,005	2,290
Member fees, charity contribution, payments to labour units	703	910	678
Fines and penalties	141	312	61
Asset insurance	169	171	205
Reorganization expenses	-	-	395
Other	11,447	12,053	7,558
Total other operating expenses	**56,624**	**58,545**	**55,286**

27. FINANCE COSTS

	2013	2012	2011
Interest expense of defined benefit plans	769	946	1,025
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	14,845	14,766	12,842
Interest expense on finance lease liabilities	48	371	566
Borrowing servicing expense	138	195	139
Total finance costs	**15,800**	**16,278**	**14,572**

28. OTHER INVESTING AND FINANCIAL GAIN

	2013	2012	2011
Interest income from finance assets	1,194	1,392	1,051
Dividend income	20	37	31
(Expenses)/ income related to business combinations	(2)	(156)	(485)
Loss on disposal of subsidiaries	-	-	(120)
Gain on disposal of other financial assets	96	982	25
Gain on change of fair value of financial assets/liabilities through profit and loss	(492)	20	85
Fair value revaluation of previously acquired associate	-	-	1,505
Reversal of impairment of financial assets	(17)	171	30
Other gains/(losses)	2,649	1,962	72
Total other investing and financial gain	**3,448**	**4,408**	**2,194**

Other investing and financial gain for 2013 include income received as a result of GlobalTel deconsolidation in the amount of 3,308.

Other investing and financial gain for 2011 include fair value revaluation of previously acquired share in CJCS Volgograd- GSM at the date of obtaining control in the amount of 1,505 (refer to Note 5).

29. SEGMENT INFORMATION

Rostelecom Management Body which is the chief operating decision maker started to analyze operating results of OJSC Rostelecom by macroregional branches. The results of subsidiaries are analyzed on standalone basis. Consequently, the Group has determined its macroregional branches and subsidiaries as operating segments. However, subsidiaries with the exception of Skylink do not meet quantitative threshold defined by IFRS 8 and financial information of these operating segments are combined and presented under the heading Other. Currently Group has eleven reportable segments, which are the Group's strategic business units. While differentiated geographically, the strategic business units offer mainly the same services to the customers.

Management of the Group assesses the performance of the operating segments based on the accounting data that is prepared using Russian statutory accounting principles on unconsolidated basis. A measure of segment profit or loss reported to the management of the company is earnings before interest, taxes, depreciation and amortization (EBITDA).

The tables below illustrate financial information of reportable segment required for disclosure by IFRS 8 for the year ended 31 December 2013, 2012 and 2011.

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2013:

2013	Corp. Center	IRC North-West	IRC Center	IRC South	IRC Volga	IRC Ural	IRC Sibir	IRC Far East	IRC Moscow	Sky Link	Other operations and reconciliation	Total segments	Adjustment and eliminations	Total
Revenue														
Third party revenue	31,319	33,054	33,928	27,931	32,872	45,740	30,299	19,976	21,298	3,097	50,028	**329,542**	**(3,838)**	**325,704**
Revenue from other segments	2,950	430	111	383	942	191	1,103	232	924	3,062	11,107	**21,435**	**(21,435)**	**-**
Total revenue	**34,269**	**33,484**	**34,039**	**28,314**	**33,814**	**45,931**	**31,402**	**20,208**	**22,222**	**6,159**	**61,135**	**350,977**	**(25,273)**	**325,704**
EBITDA	**(8,437)**	**15,390**	**14,748**	**11,819**	**16,030**	**19,195**	**13,301**	**7,846**	**9,081**	**(566)**	**(9,724)**	**88,683**	**24,202**	**112,885**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2013:

EBITDA of reportable segments	**98,407**
EBITDA of other segments	**(9,724)**
Adjustments	
Depreciation, amortization and impairment losses	(61,396)
Finance costs and other investing and financial gain	(12,352)
Net gain for defined benefit plan	(1,863)
Net gain for defined contribution plan	(124)
Income from associates	177
Share-based remuneration	-
Intragroup dividends	(5,013)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	318
Reversal of income from revaluation of subsidiaries recognized in statutory books	(910)
Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS	888
Treasure shares revaluation at OJSC Svyazinvest	24,730
Other adjustments	(1,019)
Profit before income tax	**32,119**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2012:

2012	**Corp. Center**	**IRC North-West**	**IRC Center**	**IRC South**	**IRC Volga**	**IRC Ural**	**IRC Sibir**	**IRC Far East**	**IRC Moscow**	**Sky Link**	**Other operations and reconciliation**	**Total segments**	**Adjustment and eliminations**	**Total**
Revenue														
Third party revenue	26,146	33,420	35,857	29,118	35,390	46,673	32,824	20,672	18,498	4,349	53,303	336,250	(3,815)	332,435
Revenue from other segments	936	389	145	326	559	152	988	160	372	204	7,090	11,321	(11,321)	-
Total revenue	**27,082**	**33,809**	**36,002**	**29,444**	**35,949**	**46,825**	**33,812**	**20,832**	**18,870**	**4,553**	**60,393**	**347,571**	**(15,136)**	**332,435**
EBITDA	**(18,343)**	**16,240**	**14,882**	**12,043**	**17,401**	**20,032**	**14,523**	**7,790**	**9,010**	**(1,576)**	**22,216**	**114,218**	**6,667**	**120,885**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2012:

EBITDA of reportable segments	**92,002**
EBITDA of other segments	**22,216**
Adjustments	
Depreciation, amortization and impairment losses	(58,945)
Finance costs and other investing and financial gain	(11,852)
Net gain for defined benefit plan	(166)
Income from associates	53
Share-based remuneration	(18)
Intragroup dividends	(6,152)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	57
Reversal of income from revaluation of associates and available-for-sale investments recognized in statutory books	1,148
Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS	3,203
Other adjustments	957
Profit before income tax	**42,503**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2011:

2011	Corp. Center	IRC North-West	IRC Center	IRC South	IRC Volga	IRC Ural	IRC Sibir	IRC Far East	IRC Moscow	Skylink	Other operations and reconciliation	Total segments	Adjustment and eliminations	Total
Revenue														
Third party revenue	21,439	31,507	33,471	26,538	32,702	45,571	31,425	20,215	16,439	6,538	46,274	312,119	211	312,330
Revenue from other segments	1,724	937	1,031	998	1,060	823	1,398	355	704	159	5,495	14,684	(14,684)	-
Total revenue	**23,163**	**32,444**	**34,502**	**27,536**	**33,762**	**46,394**	**32,823**	**20,570**	**17,143**	**6,697**	**51,769**	**326,803**	**(14,473)**	**312,330**
EBITDA	**303**	**14,833**	**13,544**	**11,363**	**14,163**	**20,636**	**12,769**	**6,413**	**8,312**	**(1,793)**	**11,836**	**112,379**	**6,799**	**119,178**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2011:

EBITDA of reportable segments	**100,543**
EBITDA of other segments	**11,836**
Adjustments	
Depreciation, amortization and impairment losses	(55,550)
Finance costs and other investing and financial gain	(12,378)
Net gain for defined benefit plan	4,589
Income from associates	198
Share-based remuneration	(589)
Intragroup dividends	(381)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	(1,227)
Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS	1,814
Reversal of income from revaluation of associates of available-for-sale investments recognized in statutory books	(760)
Other adjustments	(617)
Profit before income tax	**47,478**

30. SHARE-BASED PAYMENTS

Share-based program started in 2011 (preferred shares)

In June 2011, the Board of Directors of the Company approved changes to the employee long-term incentive program by launching an additional share option scheme. Members of the Board of Directors and senior employees were granted options to buy preferred shares of the Company at an exercise price 87.6 RUB per share. Total funds allocating to the scheme amounted to 3,500. To operate the program, the Company established fund "Gazpombank – Telecommunication Plus" under management of ZAO "Gazprombank – Upravlenie aktivami". To execute the program fund "Gazpombank – Telecommunication Plus" purchased shares from the Company's subsidiary LLC Mobitel. The contracts with part of employees were signed on 29 June 2011. Another part of employees signed the contracts on 31 March 2012.

The scheme is classified as equity-settled share-based payment plan. The Group receives services from its executives and senior employees and grants its own equity instruments as consideration. The share-based transaction is settled by the Fund, which is a SPE controlled by the Group and, therefore, is consolidated in the consolidated financial statements.

Options are exercisable in two tranches: not more than 50% are exercisable after 14 June 2012 and the rest after 14 June 2013. Options may be exercised within a six-month period after exercise date. Unclaimed options of the first tranche may also be exercised within the six-month exercise period attributed to the second tranche.

The following share-based payment arrangements were in existence during 2011-2013:

Options series	Number of options granted	Grant date	Exercise date	Exercise price, RUB	Share price at grant date, RUB
(1) Granted on 29 June 2011	13,036,504	29 June 2011	14 June 2012	87.60	86.30
(2) Granted on 29 June 2011	13,036,504	29 June 2011	14 June 2013	87.60	86.30
(3) Granted on 31 March 2012	5,606,579	31 March 2012	14 June 2012	87.60	88.67
(4) Granted on 31 March 2012	5,606,579	31 March 2012	14 June 2013	87.60	88.67

(In millions of Russian Roubles unless otherwise stated)

All options vested during the year ended 31 December 2013 and were outstanding with weighted average remaining contractual life of nil days for options (1) and (3) and nil days for options (2) and (4) (2012: 0 and 257, 2011: 257 and 622 days).

The weighted average fair value of the share options as of the grant date is 16.83 RUB for options (1) and (2) and 14.91 for options (3) and (4). Total amount of nil was recognized as an expense in wages, salaries, other benefits and payroll taxes in this consolidated statement of comprehensive income for the year ended 31 December 2013 (2012: 18, 2011: 588).

Fair values of options were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average industry share price volatility over the option lives for respective series.

Inputs into the model	**Series 1 and 2**	**Series 3 and 4**
Grant date share price, RUB	86.30	88.67
Exercise price, RUB	87.60	87.60
Expected volatility	39.8%	30.8%
Option life	1.75 year	1.75 year
Dividend yield	4.4%	4.4%
Risk-free interest rate	5.58%	6.32%

The following table reconciles the share options on preferred shares outstanding at the beginning and end of the year:

	2013		**2012**		**2011**	
	Number of options	**Weighted average exercise price, RUB**	**Number of options**	**Weighted average exercise price, RUB**	**Number of options**	**Weighted average exercise price, RUB**
Balance at beginning of year	31,539,995	87.6	37,286,164	87.6	-	-
Granted during the year	-	-	-	-	37,286,164	87.6
Opted out during the year	31,539,995	87.6	5,136,987	87.6	-	-
Exercised during the year	-	87.6	609,182	87.6	-	-
Balance at end of year	**-**	**87.6**	**31,539,995**	**87.6**	**37,286,164**	**87.6**

In 2013 employees exercised nil options (2012: 609,182). The weighted average share price at date of exercise for share options exercised in 2012 was 96.94 RUB.

Share-based program started in 2010 (ordinary shares)

The Group introduced a share option scheme for executives and senior employees of the Group in August 2010. In accordance with the terms of the scheme, executives and senior employees which were in service with the Svyazinvest Group during the vesting period from 28 May 2010 until 1 December 2010 were granted options to purchase ordinary shares of OJSC Rostelecom at an exercise price of 96.8 RUB per share. The contracts with employees were signed on 17 August 2010. To operate the program, the Group established a fund under management of ZAO “Gazprombank – Upravlenie aktivami” (the “Fund”), which is also a party of the option agreements.

In addition to executives and senior employees of the Group, certain Board members, who are also executives and senior employees of Svyazinvest, were granted options as part of the scheme. The Group recorded a full share of their share-based remuneration.

The scheme is classified as equity-settled share-based payment plan. The Group received services from its executives and senior employees and granted its own equity instruments as consideration. The share-based transaction is settled by the Fund, which is a SPE controlled by the Group and, therefore, is consolidated in the consolidated financial statements. The Fund purchased shares of the companies comprising the Group on open market using cash contributions from the Group of 10,850.

(In millions of Russian Roubles unless otherwise stated)

Options were exercisable in two tranches: not more than 60% are exercisable after 1 December 2011 and the rest after 1 December 2012. Options may be exercised within a six-month period after exercise date. Unclaimed options of the first tranche may also be exercised within the six-month exercise period attributed to the second tranche.

The following share-based payment arrangements were introduced during 2010:

Options series	Number of options granted	Grant date	Exercise date	Exercise price, RUB	Share price at grant date, RUB
(1) Granted on 17 August 2010	66,073,109	17 August 2010	1 December 2011	96.80	109.17
(2) Granted on 17 August 2010	44,048,739	17 August 2010	1 December 2012	96.80	109.17

All options vested during the year ended 31 December 2010. The weighted average fair value of the share options granted as of the grant date is 39.61 RUB. As at 31 December 2013 weighted average remaining contractual life of options comprised nil and nil for options (1) and (2) respectively (2012: 0 and 60, 2011: 60 and 425).

For the year ended 31 December 2013 the Group recognized nil (2012: nil, 2011: nil) as an expense in wages, salaries, other benefits and payroll taxes with the regard of those options.

Fair values of options on grant date were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average industry share price volatility over the option lives for respective series.

Inputs into the model	Series 1	Series 2
Grant date share price, RUB	109.17	109.17
Exercise price, RUB	96.80	96.80
Expected volatility	43.46%	47.88%
Option life	1.54 year	2.54 year
Dividend yield	0.27%	0.27%
Risk-free interest rate	4.99%	6.18%

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year:

	2013		2012		2011	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
Balance at beginning of year	66,610,190	96.8	91,999,835	96.8	110,121,848	96.8
Exercised during the year	66,610,190	96.8	25,389,645	96.8	18,122,013	96.8
Balance at end of year	**-**	**96.8**	**66,610,190**	**96.8**	**91,999,835**	**96.8**

In 2013 employees exercised 66,610,190 options (2012: 25,389,645, 2011: 18,122,013). The weighted average share price at date of exercise for share options exercised in 2013 was 115.14 RUB (2012: 142.09, 2011: 149.7).

(In millions of Russian Roubles unless otherwise stated)

31. EARNINGS PER SHARE

	2013	2012	2011
Profit from continuing operations attributable to equity holders of the Group	26,429	33,060	39,819
Loss from discontinued operations attributable to equity holders of the Group	(2,557)	(383)	(2,753)
Total	**23,872**	**32,677**	**37,066**
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,553,708,075	2,658,762,442	2,753,034,498
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,553,708,075	2,679,094,616	2,799,041,803
Earnings per share from continuing and discontinued operations attributable to equity holders of the Group during the year, in RUB			
Basic earnings per share	**9.35**	**12.29**	**13.46**
From continuing operations	**10.35**	**12.43**	**14.46**
From discontinued operations	**(1.00)**	**(0.14)**	**(1.00)**
Diluted earnings per share	**9.35**	**12.20**	**13.25**
From continuing operations	**10.35**	**12.34**	**14.23**
From discontinued operations	**(1.00)**	**(0.14)**	**(0.98)**

Weighted average number of shares outstanding for the years ended 31 December 2013 is adjusted for the weighted average number of treasury shares of the Group, which amounted to 280,811,796 (2012: 183,535,851, 2011: 110,265,404) ordinary and 77,515,899 (2012: 69,737,478, 2011: 57,494,364) preferred shares of the Company.

Reconciliation of weighted average number of shares used in calculation of basic and diluted earnings per shares:

	2013	2012	2011
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,553,708,075	2,658,762,442	2,753,034,498
Dilutive effect of call options	-	20,332,174	46,007,304
Weighted average number of shares outstanding used in calculation of diluted earning per shares	**2,553,708,075**	**2,679,094,616**	**2,799,041,802**

(In millions of Russian Roubles unless otherwise stated)

32. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and cash equivalents, investments, bank loans, bonds and promissory notes issued and finance leases liabilities. These instruments serve to finance the Group's operations and capital expenditures; its corporate financial transactions such as share repurchase and acquisition strategy; place available funds in course of cash management. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations. The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2013, 2012 and 2011:

Classes	Categories	31 December 2013	31 December 2012	31 December 2011
Cash and cash equivalents	Loans and receivables	7,960	13,629	9,634
Trade and other receivables	Loans and receivables	40,986	36,449	31,250
Available-for-sale financial assets at cost	Available-for-sale	83	102	36
Available-for-sale financial assets at fair value	Available-for-sale	6	2,821	776
Loans	Loans and receivables	1,996	3,604	5,626
Non-hedge derivative	Financial assets at fair value through profit or loss	401	-	-
Total financial assets		**51,432**	**56,605**	**47,322**
Bank and corporate loans	Liabilities at amortized cost	175,925	201,115	161,095
Bonds	Liabilities at amortized cost	40,000	11,613	8,889
Promissory notes	Liabilities at amortized cost	386	819	879
Vendor financing	Liabilities at amortized cost	64	2,730	2,786
Finance lease liabilities	Liabilities at amortized cost	168	878	2,661
Interest payable	Liabilities at amortized cost	1,170	630	678
Other borrowings	Liabilities at amortized cost	96	105	105
Trade and other payables	Liabilities at amortized cost	43,045	54,666	53,001
Non-hedge derivative	Financial liabilities at fair value through profit and loss	878	-	24
Total financial liabilities		**261,732**	**272,556**	**230,118**

The fair value of cash and cash equivalents, current receivables, trade payables, other current financial assets and liabilities approximate their carrying amount largely due to the short-term maturity of these instruments.

The fair value of long-term debt investments, long-term accounts receivable and non-current accounts payable correspond to the present values of the payments related to the assets and liabilities, taking into account the current interest rate parameters that reflect market-based changes to terms and conditions and expectations. Fair value of financial liabilities approximate their carrying amount.

Available for sale investments accounted for at cost include unquoted equity investments whose value cannot be measured reliably. Quoted prices are not available for these investments due to the absence of an active market. It is also impracticable to derive fair value using the similar transaction method. The discounting cash flow method cannot be applied to such investments as there are no reliably determinable cash flows related to them.

(In millions of Russian Roubles unless otherwise stated)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	2013	**2012**	**2011**
Available-for-sale financial assets			
Long-term investments at fair value			
Level 1	6	2,821	776
Level 2	-	-	-
Level 3	-	-	-
Total long-term equity investments at fair value	**6**	**2,821**	**776**
Financial assets at fair value through profit and loss			
Non-hedge derivatives			
Level 1	-	-	-
Level 2	401	-	-
Level 3	-	-	-
Total non-hedge derivatives	**401**	**-**	**-**
Financial liabilities at fair value through profit and loss			
Non-hedge derivatives			
Level 1	-	-	-
Level 2	878	-	24
Level 3	-	-	-
Total non-hedge derivatives	**878**	**-**	**24**

(In millions of Russian Roubles unless otherwise stated)

Income and expenses on financial instruments

		Finance costs	Other investing and financing gains and losses							Equity	
2013	**Bad debt income/ (expense)**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / (losses) on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains / (losses)**	**Fair value change**	**Total**
Cash and cash equivalents	-	-	676	-	-	-	-	-	19	-	695
Trade and other receivables	(2,140)	-	45	-	-	-	-	-	295	-	(1,800)
Available for sale financial instruments	-	-	9	20	41	386	-	-	-	-	456
Loans	-	-	509	-	-	-	(17)	-	23	-	515
Total financial assets	**(2,140)**	**-**	**1,239**	**20**	**41**	**386**	**(17)**	**-**	**337**	**-**	**(134)**
Bank and corporate loans	-	(11,893)	-	-	-	-	-	-	(170)	-	(12,063)
Bonds	-	(2,889)	-	-	-	-	-	-	-	-	(2,889)
Promissory notes	-	-	-	-	-	-	-	-	(12)	-	(12)
Vendor financing	-	(63)	-	-	-	-	-	-	(178)	-	(241)
Finance lease liabilities	-	(48)	-	-	-	-	-	-	-	-	(48)
Trade and other payables and non-hedge derivatives	-	-	-	-	-	(878)	-	-	(551)	-	(1,429)
Total financial liabilities	**-**	**(14,893)**	**-**	**-**	**-**	**(878)**	**-**	**-**	**(911)**	**-**	**(16,682)**

(In millions of Russian Roubles unless otherwise stated)

Income and expenses on financial instruments

		Finance costs	Other investing and financing gains and losses							Equity		
2012	Bad debt income/ (expense)	Interest expense	Interest income	Dividend income	Gains / (losses) on asset disposal	Fair value change	Impairment loss (reversal of impairment)	Other	Foreign exchange gains / (losses)	Fair value reclassification	Fair value change	Total
Cash and cash equivalents	-	-	343	-	-	-	-	-	(16)	-	-	327
Trade and other receivables	(1,389)	10	603	-	-	-	-	-	5	-	-	(771)
Available for sale financial instruments	-	-	-	37	804	(9)	145	-	-	(740)	1	238
Loans	-	-	446	-	34	-	-	-	(11)	-	-	469
Total financial assets	**(1,389)**	**10**	**1,392**	**37**	**838**	**(9)**	**145**	**-**	**(22)**	**(740)**	**1**	**263**
Bank and corporate loans	-	(14,005)	-	-	-	-	-	-	215	-	-	(13,790)
Bonds	-	(531)	-	-	-	-	-	-	-	-	-	(531)
Promissory notes	-	(115)	-	-	-	-	-	-	9	-	-	(106)
Vendor financing	-	(125)	-	-	-	-	-	-	70	-	-	(55)
Finance lease liabilities	-	(371)	-	-	-	-	-	-	-	-	-	(371)
Trade and other payables and non-hedge derivatives	-	-	-	-	-	24	-	-	211	-	-	235
Total financial liabilities	**-**	**(15,147)**	**-**	**-**	**-**	**24**	**-**	**-**	**505**	-	-	**(14,618)**

(In millions of Russian Roubles unless otherwise stated)

Income and expenses on financial instruments

	Finance costs		Other investing and financing gains and losses							Equity	
2011	**Bad debt income/ (expense)**	**Interest expense**	**Interest income**	**Dividend income**	**Gains / (losses) on asset disposal**	**Fair value change**	**Impairment loss (reversal of impairment)**	**Other**	**Foreign exchange gains / (losses)**	**Fair value change**	**Total**
Cash and cash equivalents	-	-	357	-	-	-	-	-	(152)	-	205
Trade and other receivables	(632)	21	77	-	-	-	-	-	141	-	(393)
Available for sale financial instruments	-	-	-	31	-	-	-	-	-	(257)	(226)
Loans	-	-	617	-	25	-	76	-	(88)	-	630
Total financial assets	**(632)**	**21**	**1,051**	**31**	**25**	**-**	**76**	**-**	**(99)**	**(257)**	**216**
Bank and corporate loans	-	(9,780)	-	-	-	-	-	-	(32)	-	(9,812)
Bonds	-	(1,589)	-	-	-	-	-	-	-	-	(1,589)
Promissory notes	-	(74)	-	-	-	-	-	-	-	-	(74)
Vendor financing	-	(148)	-	-	-	-	-	-	(125)	-	(273)
Finance lease liabilities	-	(565)	-	-	-	-	-	-	(2)	-	(567)
Interest payable	-	(10)	-	-	-	-	-	-	(7)	-	(17)
Trade and other payables and non-hedge derivatives	-	(1,263)	-	-	-	51	-	(1)	(113)	-	(1,326)
Total financial liabilities	**-**	**(13,429)**	**-**	**-**	**-**	**51**	**-**	**(1)**	**(279)**	**-**	**(13,658)**

(a) Credit risk

Each class of financial assets represented in the Group's statement of financial position to some extent is exposed to credit risk. Management develops and implements policies and procedures aiming to minimize the exposure and impact on the Group's financial position in case of risk realization.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2013, 2012 and 2011.

To reduce risk of exposure on receivables from businesses and individuals the Group implements a range of procedures. Credit risk is determined based on a summary of probabilities of occurrences and possible impact of events negatively influencing the customer's ability to discharge its obligation. A credit rating is attributed to a customer on initial stage of cooperation and, then, reassessed periodically based on credit history. As a part of its credit risk management policy, the Group arranges preventive procedures which are represented by but not limited to advance payments, request for collaterals and banks and third parties guarantees. For collection of receivables, which are past due, the Group takes a variety of actions from suspension of rendering of services to taking legal action.

The Group deposits excess cash available with several Russian banks and makes investments in bills of exchange. To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the creditworthiness of the banks. To facilitate this assessment, deposits are mainly placed with banks where the Group has already had current settlement account and can easily monitor activity of such banks. Prior to investing in bills of exchange, management of the Group performs an analysis of financial position of the issuer and monitors its creditworthiness over periods up to maturity.

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets. Such exposure is mitigated by collaterals held by the Group.

(b) Liquidity risk

The Group monitors its risk of a shortage of funds by preparing and monitoring compliance with cash flow budgets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases. Cash flow budgets consider the maturity of both cash inflows and outflows from the Group's operations. Based on projected cash flows the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis. However, since the companies comprising the Group were managed on individual basis in 2011-2013 no financing was provided within the Group introducing the need for certain companies to raise financing from third parties rather than from fellow subsidiaries with excess liquidity.

(In millions of Russian Roubles unless otherwise stated)

Maturity analysis as at 31 December 2013, 2012 and 2011 represented below shows undiscounted cash flows, including estimated interest payments:

	2014	2015	2016	2017	2018 and later	Total
31 December 2013						
Bank and corporate loans	40,583	33,563	69,541	43,175	32,423	**219,285**
Bonds	8,981	2,778	1,396	11,230	25,081	**49,466**
Promissory notes	377	1	-	-	8	**386**
Vendor financing	9	9	9	9	28	**64**
Finance lease liabilities	78	20	19	18	200	**335**
Other borrowings and hedge derivatives	80	20	2	-	-	**102**
Trade and other payables	43,045	90	-	-	1	**43,136**
Stock redemption reserve	23,161	-	-	-	-	**23,161**
Total financial liabilities	**116,314**	**36,481**	**70,967**	**54,432**	**57,741**	**335,935**

	2013	2014	2015	2016	2017 and later	Total
31 December 2012						
Bank and corporate loans	75,458	48,130	61,344	48,430	8,193	**241,555**
Bonds	2,680	855	855	855	10,731	**15,976**
Promissory notes	810	33	5	11	-	**859**
Vendor financing	2,665	9	9	9	38	**2,730**
Finance lease liabilities	903	46	18	18	218	**1,203**
Other borrowings and hedge derivatives	71	30	1	4	-	**106**
Trade and other payables	54,666	-	-	-	1	**54,667**
Total financial liabilities	**137,253**	**49,103**	**62,232**	**49,327**	**19,181**	**317,096**

	2012	2013	2014	2015	2016 and later	Total
31 December 2011						
Bank and corporate loans	82,429	52,373	14,084	16,362	15,756	**181,004**
Bonds	5,085	2,022	351	351	4,250	**12,059**
Promissory notes	844	30	17	-	8	**899**
Vendor financing	2,780	8	8	8	47	**2,851**
Finance lease liabilities	2,205	847	44	18	218	**3,332**
Other borrowings and hedge derivatives	77	13	10	9	12	**121**
Trade and other payables and non-hedge derivatives	52,896	43	1	1	1	**52,942**
Total financial liabilities	**146,316**	**55,336**	**14,515**	**16,749**	**20,292**	**253,208**

(c) Market risks

Significant market risk exposures are interest rate risk, exchange rate risk and other price risk. Exposure to other price risk arises from available for sale investments quoted on active markets.

Interest rate risk

Interest rate risk mainly relates to floating rate debt primary denominated in US dollars, Russian Roubles and euros and financial instruments denominated in Russian Roubles. To manage this risk, the Group entered into interest rate swaps to hedge significant amounts of its floating rate debt. Other borrowings do not materially influence the exposure to interest risk.

(In millions of Russian Roubles unless otherwise stated)

	31 December 2013	31 December 2012	31 December 2011
Fixed rate instruments			
Financial assets	9,962	20,054	15,900
Financial liabilities	(176,437)	(170,419)	(170,731)
	(166,475)	**(150,365)**	**(154,831)**
Variable rate instruments			
Financial assets	401	-	135
Financial liabilities	(42,250)	(47,471)	(6,362)
	(41,849)	**(47,471)**	**(6,227)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	2013	2012	2011
LIBOR (+1%)	-	(60)	(100)
LIBOR (-1%)	-	60	100
Euribor (+1%)	-	-	(10)
Euribor (-1%)	-	-	10
MosPrime (+1%)	(1,090)	(20)	(90)
MosPrime (-1%)	1,090	20	90
Federal loan bonds rate (+1%)	90	-	-
Federal loan bonds rate (-1%)	(90)	-	-
CB refinancing (+1%)	-	-	(30)
CB refinancing (-1%)	-	-	30

Foreign exchange risk

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's consolidated statement of comprehensive income, statement of financial position and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies, mostly from accounts receivable and payable from operations with international telecom operators, accounts payable for equipment, borrowings issued in foreign currencies. The Group does not have formal procedures to reduce its currency risks.

(In millions of Russian Roubles unless otherwise stated)

Financial assets and liabilities of the Group presented by currency as at 31 December 2013, 2012 and 2011 were as follows:

	31 December 2013		31 December 2012		31 December 2011	
	USD	EUR	USD	EUR	USD	EUR
Cash and cash equivalents	327	62	821	17	274	32
Trade receivables	1,497	879	1,252	670	1,283	310
Loans and receivables	79	-	477	-	259	-
Bank and corporate loans	(604)	(220)	(2,232)	(487)	(4,364)	(770)
Vendor financing	-	-	(2,553)	-	(2,204)	-
Promissory notes	-	-	(151)		-	-
Trade and other payables and non-hedge derivatives	(3,173)	(2,150)	(4,514)	(249)	(2,352)	(243)
Net exposure	**(1,874)**	**(1,429)**	**(6,900)**	**(49)**	**(7,104)**	**(671)**

The table below demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax:

	31 December 2013		31 December 2012		31 December 2011	
	USD	EUR	USD	EUR	USD	EUR
Strengthening of the currency (+20%)	(374)	(286)	(1,380)	(10)	(1,420)	(134)
Weakening of the currency (-20%)	374	286	1,380	10	1,420	134

The analysis was applied to monetary items denominated in relevant currencies at the reporting date.

Other price risk

As at 31 December 2013, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyzes market securities trends and makes a decision to sell a security, when necessary.

The table below demonstrates the sensitivity to a reasonably possible change in market indexes for securities, with all other variables held constant, of the Group in terms of the result of fair value revaluation recognized in other comprehensive income.

	Increase/decrease in percentage point	Effect on revaluation result recognized in other comprehensive income
2013		
MICEX	+ 30.0%	1,191
MICEX	- 30.0%	(1,496)
2012		
MICEX	+ 30.0%	-
MICEX	- 30.0%	-
2011		
MICEX	+ 30.0%	231
MICEX	- 30.0%	(231)

(d) Capital management policy

Capital management policy of the companies comprising the Group is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings. Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings. In addition, the companies of the Group are subject to externally imposed capital requirements, which are used for capital monitoring. There were no changes in the objectives, policies and processes of capital management during 2011-2013.

The Boards of directors of the companies comprising the Group review their performance and establish a variety of key performance indicators which are based on Russian statutory accounts. The companies comprising the Group monitor and manage their debt using financial independence ratio and net debt/equity, net debt/OIBDA ratios.

33. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business (refer to (b) below). Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Group.

(b) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and interest, which can be significant. The Group's tax returns are open for review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year in which the decision on the conduct of the tax audit was adopted. Under certain circumstances, reviews may cover longer periods.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained upon examination. Management of the Group believes that it has adequately provided for tax liabilities in the consolidated statements of financial position as at 31 December 2013, 2012 and 2011. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

(In millions of Russian Roubles unless otherwise stated)

(c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years from 2014 up to 2022.

The Group has renewed all other licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Group's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

(d) Capital commitments

As at 31 December 2013, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 15,131 (2012: 45,271; 2011: 57,381).

(e) Operating leases

As at 31 December 2013, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as at 31 December 2013, 2012 and 2011 were as follows:

	31 December 2013	31 December 2012	31 December 2011
As lessee			
Current portion	129	149	173
Between one to five years	320	273	428
Over five years	1,267	1,041	2,146
Total minimum rental payables	**1,716**	**1,463**	**2,747**
As lessor			
Current portion	109	151	100
Between one to five years	125	207	281
Over five years	25	2	94
Total minimum rental receivables	**259**	**360**	**475**

34. RELATED PARTY TRANSACTIONS

(a) The Government as a shareholder

As indicated in Note 1, the Government of the Russian Federation controls the Company by indirect holding of 51.03% of the Company's ordinary shares through "Vnesheconombank" and Federal Agency of State properties management. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs. In addition to the regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(In millions of Russian Roubles unless otherwise stated)

(c) Associates

The Group is also involved in various telecommunication services with entities in which it has investments, including associates over which it exerts significant influence. A summary of these transactions is as follows:

	2013	2012	2011
Revenue	141	167	160
Purchase of telecommunication services	(103)	(105)	(136)
Purchase of other services	-	(47)	(85)

The amounts of receivables and payables due from these entities were as follows:

	2013	2012	2011
Accounts receivable	20	72	24
Allowance for doubtful receivables	(3)	(9)	(2)
Accounts payable and accrued expenses	(16)	(19)	(19)

(d) Non-state pension fund “Telecom-Soyuz”

The Group has centralized pension agreements with a non-state pension fund “Telecom-Soyuz” (refer to Note 19). In addition to the state pension, the Company provides the employees with a non-state pension and other employee benefits through defined benefit and defined contribution plans.

The total amount of contributions to non-state pension fund paid by the Group in 2013 amounted to 1,226 (2012: 1,269; 2011: 1,680). The fund retains 3% of every pension contribution to cover its administrative costs.

(e) Transactions with other government-related entities

In January 2009, OJSC Rostelecom in partnership with mobile operator OAO Megafon won a tender for sponsorship of the XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi in a category “Telecommunications”. According to the agreement with the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi the sponsorship contribution amounts to USD 260 million and should be contributed by each sponsor in the amount of USD 130 million. Half of this amount shall be paid in cash and the other half shall be contributed in free services. In return, each partner will obtain exclusive rights to use the Olympic logo in its advertising and other activity. There is a joint responsibility of the Group and Megafon in respect of non-cash contributions. The total charge of sponsorship contribution to profit and loss for the year ended 31 December 2013 amounted to 993 (2012: 609, 2011: 463).

The Group considers this transaction as a transaction with a related party because the Group treats the Organisation committee as a government-related entity. The reason for this is that the federal government was one of the founders of the Organisation committee and government executives are on the Oversight Board of this Organisation.

The Group received loans from government-related banks OJSC Sberbank, OJSC Bank VTB, OJSC Sviaz-bank, OJSC Gazprombank and others. The outstanding balances from these banks amounted to 161,730 as at 31 December 2013 (2012: 176,868; 2011: 127,096). Interest rate of these loans veries from 7,01% to 10,75%. Maturity of these loans veries from 1 to 5 years.

During year ended 31 December 2013 the Group obtained loans from these banks in amount of 380,360 (2012: 449,094; 2011: 218,733, made repayments in amount of 408,473 (2012: 412,286, 2011: 183,399). Interest expense accrued on those loans during year ended 31 December 2013 amounted to 12,975 (2012: 12,964, 2011: 8,011).

The Group has collectively but not individually significant transactions with other government-related entities including but not limited to providing telecommunication services, consuming services having both production and miscellaneous nature, depositing and borrowing money. All these transactions are carried out in the course of normal day-to-day business operations on the terms comparable to those with other entities which are not government-related. Management assesses these transactions as not particular material except for placing deposits and purchase and sales of investments in promissory notes of government-related banks.

Proceeds from sales of government-related banks promissory notes for the year ended 31 December 2013 amounted to nil (2012: 1,044; 2011: 1,766), purchases of the same kind of investments comprised nil (2012: 1,000; 2011: 712). Related income recognized in profit and loss in respect of government-related banks promissory notes amounted to nil for the year ended 31 December 2013 (2012: 44, 2011: 66).

The amount of funds placed on deposits with government-related banks for the year ended 31 December 2013 is 1,405 (2012: 2,748; 2011: 3,018) with related income recognised in profit and loss of 52 (2012: 101; 2011: 30) and amounts repaid back to the Company's account of 2,061 (2012: 3,132; 2011: 1,270).

(f) Remuneration of key management personnel

The key management personnel for the purpose of these consolidated financial statements comprises Management Board's members, the Board of Directors' members and Vice-Presidents.

Remuneration to the key management personnel for the year ended 31 December 2013 amounted to 750. Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

Short-term benefits accrued to the key management personnel for the year ended 31 December 2012 amounted to 522 (2011: 432).

The remuneration amounts are stated exclusive of social taxes.

Also in June 2011 the Company introduced a long-term motivation programme for executives and senior employees of the Company. The amount of employee benefits related to the programme and attributed to the Management Board's members, the Board of Directors' members and Vice-Presidents for the year ended 31 December 2013 is nil (2012: nil; 2011: 467).

In 2013 the Group made a contribution of 1,117 to the non-state pension fund (2012: 1,967; 2011: nil) for its key management personnel. The plans provide for payment of retirement benefits starting date employee complies with terms of acting non-state pension program.

35. HELD FOR SALE ASSETS AND LIABILITIES

As a result of the decision to transfer mobile assets into share capital of T2RUS Holding (refer to Note1) all assets and liabilities of the mobile communication subsidiaries as well as integrated assets and liabilities of the Company to be disposed were reclassified as held for sale in the statement of financial position at 31 December 2013 and related operations presented as discontinued in the statement of comprehensive income for the years ended 31 December 2013, 2012 and 2011.

The Group's investment in the new entity will be accounted for at equity method. As at the date of the issue of this financial statements the Group didn't complete its assessment of the fair value of these investments.

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about assets and liabilities held for sale for the year ended 31 December 2013, 2012 and 2011.

	31 December 2013	31 December 2012	31 December 2011
ASSETS			
Property, plant and equipment	63,140	401	261
Goodwill	12,805	-	-
Intangible assets	10,413	-	-
Investments in associates	24	-	-
Deferred tax asset	3,153	-	-
Inventories	567	-	-
Trade and other receivables	1,071	-	-
Prepayments	701	-	-
Prepaid income tax	167	-	-
Other investments	1	-	-
Cash and cash equivalents	864	-	-
Other assets	142	-	-
Total assets held for sale	**93,048**	**401**	**261**
LIABILITIES			
Employee benefits			
Deferred tax liability	1,795	-	-
Loans and borrowings	10,291	-	-
Trade and other payables	3,897	-	-
Income tax payable	19	-	-
Provisions	538	-	-
Other liabilities	1,107	-	-
Total liabilities directly attributable to assets held for sale	**17,647**	-	-

The following table illustrates information about consolidated income statement of a discontinued operations for the year ended 31 December 2013, 2012, 2011.

	Year ended 31 December 2013		
	Discontinued operations	**Intragroup transactions**	**Total**
Revenue	**44,229**	**(9,261)**	**34,968**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(5,204)	-	(5,204)
Depreciation, amortisation and impairment losses	(9,504)	4	(9,500)
Interconnection charges	(14,725)	7,399	(7,326)
Materials, utilities, repairs and maintenance	(2,243)	8	(2,235)
Gain/ (loss) on disposal of property, plant and equipment	(456)	1	(455)
Doubtful debt allowance	(46)	-	(46)
Other operating income	701	-	701
Other operating expenses	(13,122)	1,853	(11,269)
Total operating expenses, net	**(44,599)**	**9,265**	**(35,334)**
Operating profit	**(370)**	**4**	**(366)**
Finance costs	(2,916)	1,969	(947)
Other investing and financial gains	991	(2,524)	(1,533)
Foreign exchange loss, net	(89)	(2)	(91)
Profit before income tax	**(2,384)**	**(553)**	**(2,937)**
Income tax expense	382	-	382
Profit for the year	**(2,002)**	**(553)**	**(2,555)**

(In millions of Russian Roubles unless otherwise stated)

	Year ended 31 December 2012		
	Discontinued operations	**Intragroup transactions**	**Total**
Revenue	**40,876**	**(3,782)**	**37,094**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(5,720)	-	(5,720)
Depreciation, amortisation and impairment losses	(9,377)	-	(9,377)
Interconnection charges	(11,448)	3,326	(8,122)
Materials, utilities, repairs and maintenance	(2,555)	52	(2,503)
Gain/ (loss) on disposal of property, plant and equipment	(361)	(138)	(499)
Doubtful debt allowance	230	-	230
Other operating income	342	105	447
Other operating expenses	(10,711)	511	(10,200)
Total operating expenses, net	**(39,600)**	**3,856**	**(35,744)**
Operating profit	**1,276**	**74**	**1,350**
Finance costs	(3,541)	2,345	(1,196)
Other investing and financial gains	641	(2,928)	(2,287)
Foreign exchange loss, net	57	-	57
Profit before income tax	**(1,567)**	**(509)**	**(2,076)**
Income tax expense	1,701	-	1,701
Profit for the year	**134**	**(509)**	**(375)**

	Year ended 31 December 2011		
	Discontinued operations	**Intragroup transactions**	**Total**
Revenue	**38,542**	**(2,986)**	**35,556**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(6,455)	-	(6,455)
Depreciation, amortisation and impairment losses	(8,907)	10	(8,897)
Interconnection charges	(9,367)	2,365	(7,002)
Materials, utilities, repairs and maintenance	(2,909)	37	(2,872)
Gain/ (loss) on disposal of property, plant and equipment	(813)	114	(699)
Doubtful debt allowance	(193)	-	(193)
Other operating income	400	(6)	394
Other operating expenses	(11,012)	620	(10,392)
Total operating expenses, net	**(39,256)**	**3,140**	**(36,116)**
Operating profit	**(714)**	**154**	**(560)**
Finance costs	(2,587)	2,148	(439)
Other investing and financial gains	778	(2,435)	(1,657)
Foreign exchange loss, net	(139)	15	(124)
Profit before income tax	**(2,662)**	**(118)**	**(2,780)**
Income tax expense	30	-	30
Profit for the year	**(2,632)**	**(118)**	**(2,750)**

(In millions of Russian Roubles unless otherwise stated)

The following table illustrates information about cash flows attributable to the operating, investing, and financing activities of a discontinued operation for the years ended 31 December 2013, 2012 and 2011.

	2013	2012	2011
Operating cash flow	9,771	13,274	6,277
Investing cash flow	(25,255)	(21,025)	(6,230)
Financing cash flow	15,409	7,975	(437)
Total cash flows	**(75)**	**224**	**(390)**

36. SUBSEQUENT EVENTS

On 6 February 2014 Rostelecom signed a framework agreement with mobile operator Tele2 Russia to that will lead to the integrateion of their mobile assets ("framework agreement") (refer to Note 1). The framework agreement, which was previously approved by Rostelecom's Board of Directors, outlines the terms and conditions ofsurrounding the contribution of Rostelecom's mobile subsidiaries and its integrated mobile assets into the share capital of T2 Rus Holding.

In accordance with the framework agreement, the first stage of the deal is expected to be closed in spring 2014. In addition, the two parties will enter into mobile virtual network operator agreements, licensing agreements regarding the two companies' brands, as well as a range of agreements for the transitional period. According to these agreements, the Group will provide services for the T2 Rus Holding during a certain period of time after the first stage has been completed. The first stage will also involve signing a participation agreement on various defining matters which including the T2 Rus Holding's corporate governance system.

The second phase of the transaction will be completed within one year.