

OJSC ROSTELECOM
UNAUDITED MANAGEMENT CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2014
PREPARED IN ACCORDANCE WITH GROUP ACCOUNTING POLICY
BASED ON
INTERNATIONAL FINANCIAL
REPORTING STANDARDS

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

30 September 2014 (unaudited) 31 December 2013

ASSETS		
Non-current assets		
Property, plant and equipment	321,580	335,059
Investment property	122	113
Goodwill and other intangible assets	59,269	64,346
Investments in associates	73,854	918
Other investments	215	520
Deferred tax assets	423	276
Other non-current assets	4,943	3,990
Total non-current assets	460,406	405,222
Current assets		
Inventories	4,714	3,941
Trade and other accounts receivable	52,333	39,824
Prepayments	4,863	3,508
Prepaid income tax	4,369	4,894
Other investments	175	1,966
Cash and cash equivalents	3,724	7,960
Other current assets	750	609
Total current assets	70,928	62,702
Held for sale assets	614	93,048
Total assets	531,948	560,972
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Group		
Share capital	97	97
Additional paid-in capital	1,622	1,658
Treasury shares	(81,957)	(68,325)
Retained earnings and other reserves	319,797	262,967
Total equity attributable to equity holders of the Group	239,559	196,397
Non-controlling interests	3,240	3,359
Total equity	242,799	199,756
Non-current liabilities		
Loans and borrowings	152,935	184,600
Employee benefits	9,928	9,774
Deferred tax liabilities	31,518	26,728
Accounts payable, provisions and accrued expenses	2,154	1,077
Other non-current liabilities	5,089	5,127
Total non-current liabilities	201,624	227,306
Current liabilities		
Loans and borrowings	32,881	33,209
Accounts payable, provisions and accrued expenses	47,631	73,635
Income tax payable	76	69
Other current liabilities	6,910	9,350
Total current liabilities	87,498	116,263
Held for sale liabilities	27	17,647
Total liabilities	289,149	361,216
Total equity and liabilities	531,948	560,972

These consolidated interim financial statements were approved by management of OJSC Rostelecom on 14 November 2014 and were signed on its behalf by:

President

Kalugin S.B.

CFO – Senior Vice President

Mehlhorn K.-U.

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In millions of Russian Roubles unless otherwise stated)

	Notes	Nine-month period ended 30 September 2014 (unaudited)		Total
		Continuing operations	Effect from discontinued operations Note 2	
Revenue	1	220,007	11,863	231,870
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(66,820)	(1,796)	(68,616)
Depreciation, amortization and impairment losses		(43,740)	(17)	(43,757)
Interconnection charges		(34,778)	(3,129)	(37,907)
Materials, utilities, repairs and maintenance		(18,646)	(759)	(19,405)
Gain / (loss) on disposal of property, plant and equipment and intangible assets		1,057	(23)	1,034
Bad debt expense		(2,491)	(175)	(2,666)
Other operating income		8,985	72	9,057
Other operating expenses		(31,192)	(3,353)	(34,545)
Total operating expenses, net		(187,625)	(9,180)	(196,805)
Operating profit		32,382	2,683	35,065
Loss from associates		(229)	-	(229)
Finance costs		(11,689)	(203)	(11,892)
Other investing and financial gain/(loss)		(279)	24,710	24,431
Foreign exchange loss, net		(6)	(45)	(51)
Profit/(loss) before income tax		20,179	27,145	47,324
Income tax expense		(5,032)	(2,736)	(7,768)
Profit/(loss) for the period		15,147	24,409	39,556
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translating foreign operations		169	(12)	157
Other comprehensive income for the period, net of tax		169	(12)	157
Total comprehensive income/(loss) for the period		15,316	24,397	39,713
Profit/(loss) attributable to:				
Equity holders of the Group		14,925	24,409	39,334
Non-controlling interests		222	-	222
Total comprehensive income/(loss) attributable to:				
Equity holders of the Group		15,106	24,397	39,503
Non-controlling interests		210	-	210
Earnings per share attributable to equity holders of the Group – basic (in Roubles)				
		6.54	10.69	17.22
Earnings per share attributable to equity holders of the Group – diluted (in Roubles)				
		6.51	10.65	17.16

**CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

(In millions of Russian Roubles unless otherwise stated)

	Nine-month period ended 30 September 2013 (restated)			
	Notes	Continuing operations	Effect from discontinued operations Note 2	Total
Revenue	1	213,810	26,566	240,376
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(62,788)	(3,930)	(66,718)
Depreciation, amortization and impairment losses		(44,086)	(6,865)	(50,951)
Interconnection charges		(29,596)	(6,034)	(35,630)
Materials, utilities, repairs and maintenance		(18,799)	(1,589)	(20,388)
Gain / (loss) on disposal of property, plant and equipment and intangible assets		46	(194)	(148)
Bad debt expense		(1,652)	(75)	(1,727)
Other operating income		11,038	401	11,439
Other operating expenses		(31,500)	(7,584)	(39,084)
Total operating expenses, net		(177,337)	(25,870)	(203,207)
Operating profit		36,473	696	37,169
Income from associates		61	-	61
Finance costs		(10,889)	(766)	(11,655)
Other investing and financial gain/(loss)		4,969	(823)	4,146
Foreign exchange loss, net		(444)	(76)	(520)
Profit before income tax		30,170	(969)	29,201
Income tax (expense)/benefit		(6,227)	126	(6,101)
Profit for the period		23,943	(843)	23,100
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translating foreign operations		39	-	39
Other comprehensive income for the period, net of tax		39	-	39
Total comprehensive income/(loss) for the period		23,982	(843)	23,139
Profit/(loss) attributable to:				
Equity holders of the Group		23,817	(845)	22,972
Non-controlling interests		126	2	128
Total comprehensive income/(loss) attributable to:				
Equity holders of the Group		23,852	(845)	23,007
Non-controlling interests		130	2	132
Earnings per share attributable to equity holders of the Group – basic (in Roubles)				
		8.57	0.31	8.87
Earnings per share attributable to equity holders of the Group – diluted (in Roubles)				
		8.57	0.31	8.87

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(In millions of Russian Roubles)

	<u>Nine-month period ended 30 September</u>		
	Notes	2014 (unaudited)	2013 (restated)
Cash flows from operating activities			
Profit before income tax		47,324	29,201
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>			
Depreciation, amortization and impairment losses		43,757	50,951
Loss on disposal of property, plant and equipment and intangible assets		(1,034)	148
Bad debt expense		2,666	1,727
Expense / (income) from associates		229	(61)
Finance costs excluding finance costs on pension and other long-term social liabilities		11,326	11,102
Other investing and financial gain		(24,431)	(4,146)
Foreign exchange loss, net		51	520
Share-based motivation program		1,388	-
<i>Changes in net working capital:</i>			
Increase in accounts receivable		(15,174)	(8,494)
Increase in employee benefits		155	58
(Increase)/decrease in inventories		(779)	693
Increase in accounts payable, provisions and accrued expenses		3,511	3,357
Decrease in other assets and liabilities		(3,471)	(3,738)
Cash generated from operations		65,518	81,318
Interest paid		(12,326)	(12,639)
Income tax paid		(2,884)	(4,896)
Net cash provided by operating activities		50,308	63,783
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(36,157)	(47,101)
Proceeds from sale of property, plant and equipment and intangible assets		2,019	920
Acquisition of financial assets		(321)	(11,244)
Proceeds from disposals of financial assets		25,805	6,963
Interest received		347	262
Special dividends from disposed former mobile subsidiaries		7,003	-
Dividends received		13	2
Purchase of subsidiaries, net of cash acquired		(29)	(21)
Sale of subsidiaries, net of cash disposed		-	(6)
Net cash used in investing activities		(1,320)	(50,225)

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(In millions of Russian Roubles)

	Notes	Nine-month period ended 30 September	
		2014 (unaudited)	2013 (restated)
Cash flows from financing activities			
Sale of treasury shares		815	9,372
Purchase of treasury shares		(14,419)	(33,121)
Proceeds from bank and corporate loans		316,224	327,254
Repayment of bank and corporate loans		(345,842)	(344,991)
Proceeds from bonds		-	30,000
Repayment of bonds		(2,440)	(1,613)
Proceeds from promissory notes		12	-
Repayment of promissory notes		(12)	-
Repayment of vendor financing payable		(7)	13
Repayment of other non-current financing liabilities		(5)	(8)
Repayment of finance lease liabilities		(2)	(571)
Acquisition of non-controlling interest		-	(20)
Dividends paid to shareholders of the Group		(7,294)	(5,828)
Dividends paid to non-controlling shareholders of subsidiaries		(305)	(247)
Net cash used in financing activities		(53,275)	(19,760)
Effect of exchange rate changes on cash and cash equivalents		51	(11)
Net decrease in cash and cash equivalents		(4,236)	(6,213)
Cash and cash equivalents at beginning of the period		7,960	13,629
Cash and cash equivalents at the end of the period		3,724	7,416

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(In millions of Russian Rubles)

	Equity attributable to shareholders of the Group											
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale investments	Translation of foreign operations	Treasury shares	Share options reserve	Remeasurements of defined benefit pension plans	Stock redemption reserve	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
Balances at 1 January 2013 (restated)	97	4,344	(10)	(82)	(34,822)	3,197	1,970	-	261,532	236,226	2,606	238,832
Profit for the period (unaudited)	-	-	-	-	-	-	-	-	22,972	22,972	128	23,100
Exchange differences on translating foreign operations (unaudited)	-	-	-	35	-	-	-	-	-	35	4	39
Total other comprehensive loss, net of tax (unaudited)	-	-	-	35	-	-	-	-	-	35	4	39
Total comprehensive income for the period (unaudited)	-	-	-	35	-	-	-	-	22,972	23,007	132	23,139
Transactions with shareholders, recorded directly in equity (unaudited)												
Dividends to shareholders of Combined entity	-	-	-	-	-	-	-	-	(5,828)	(5,828)	-	(5,828)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(247)	(247)
Acquisition of treasury shares (unaudited)	-	-	-	-	(33,121)	-	-	-	-	(33,121)	-	(33,121)
Sale of treasury shares (unaudited)	-	261	-	-	9,045	-	-	-	-	9,306	-	9,306
Disposal of non-controlling interest in disposed subsidiaries	-	-	-	-	-	-	-	-	-	-	711	711
Employee benefits within share-based employee motivation program (unaudited)	-	-	-	-	-	(2,689)	-	-	2,689	-	-	-
Other changes in equity (unaudited)	-	(25)	-	-	-	-	-	-	-	(25)	-	(25)
Total transactions with shareholders (unaudited)	-	236	-	-	(24,076)	(2,689)	-	-	(3,139)	(29,668)	464	(29,204)
Balances at 30 September 2013 (restated)	97	4,580	(10)	(47)	(58,898)	508	1,970	-	281,365	229,565	3,202	232,767

OJSC Rostelecom
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)
(In millions of Russian Rubles)

	Equity attributable to shareholders of the Group											
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale investments	Translation of foreign operations	Treasury shares	Share options reserve	Remeasurements of defined benefit pension plans	Stock redemption reserve	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
Balances at 1 January 2014	97	1,658	(10)	(45)	(68,325)	-	3,452	(23,239)	282,809	196,397	3,359	199,756
Profit for the period (unaudited)	-	-	-	-	-	-	-	-	39,334	39,334	222	39,556
Exchange differences on translating foreign operations (unaudited)	-	-	-	169	-	-	-	-	-	169	(12)	157
Total other comprehensive income, net of tax (unaudited)	-	-	-	169	-	-	-	-	-	169	(12)	157
Total comprehensive income for the period (unaudited)	-	-	-	169	-	-	-	-	39,334	39,503	210	39,713
Transactions with shareholders, recorded directly in equity (unaudited)												
Dividends to shareholders of Combined entity	-	-	-	-	-	-	-	-	(7,294)	(7,294)	-	(7,294)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(305)	(305)
Acquisition of treasury shares	-	-	-	-	(14,419)	-	-	23,169	-	8,750	-	8,750
Sale of treasury shares	-	28	-	-	787	-	-	-	-	815	-	815
Disposal of non-controlling interest in disposed subsidiaries	-	-	-	-	-	-	-	-	-	-	(24)	(24)
Employee benefits within share-based employee motivation program (unaudited)	-	-	-	-	-	1,388	-	-	-	1,388	-	1,388
Other change in equity	-	(64)	-	-	-	-	-	64	-	-	-	-
Total transactions with shareholders (unaudited)	-	(36)	-	-	(13,632)	1,388	-	23,169	(7,230)	3,659	(329)	3,330
Balances at 30 September 2014 (unaudited)	97	1,622	(10)	124	(81,957)	1,388	3,452	(70)	314,913	239,559	3,240	242,799

1. REVENUE

Revenue comprised the following for the nine months ended 30 September 2014 and 2013:

	Nine-month period ended 30 September	
	2014 (unaudited)	2013 (unaudited)
Local telephone services	60,849	65,792
Intra-zone telephone services	11,048	12,900
Domestic long-distance/International long-distance telephone services	11,031	13,045
Interconnection and traffic transit services (excluding Internet)	21,151	18,162
Mobile communication services	13,976	29,384
Rent of channels	8,163	8,031
Broadband Internet	44,709	41,369
Pay TV	10,571	8,660
Data services (VPN, data centres, wholesale Internet sales)	17,577	16,368
Other	32,795	26,665
Total revenue	231,870	240,376

During nine months ended 30 September 2014 and 2013 the Group generated revenue by the following major customer groups:

Customer Groups	Nine-month period ended 30 September	
	2014 (unaudited)	2013 (unaudited)
Residential customers	112,525	124,347
Corporate customers	54,756	55,573
Governmental customers	34,005	31,549
Interconnected operators	30,584	28,907
Total revenue	231,870	240,376

2. DISCONTINUED OPERATIONS

The following table illustrates information about consolidated income statement of a discontinued operations for the year ended 30 September 2014 and 2013:

	Nine-month period ended 30 September 2014 (unaudited)		
	Discontinued operations	Intragroup transactions	Total
Revenue	16,524	(4,661)	11,863
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(1,796)	-	(1,796)
Depreciation, amortisation and impairment losses	(17)	-	(17)
Interconnection charges	(6,603)	3,474	(3,129)
Materials, utilities, repairs and maintenance	(769)	10	(759)
Loss on disposal of property, plant and equipment	(22)	(1)	(23)
Doubtful debt allowance	(175)	-	(175)
Other operating income	72	-	72
Other operating (expenses)/income	(4,531)	1,178	(3,353)
Total operating (expenses)/income, net	(13,841)	4,661	(9,180)
Operating profit/(loss)	2,683	-	2,683
Finance (costs)/income	(779)	576	(203)
Other investing and financial losses	32,259	(7,549)	24,710
Foreign exchange loss, net	(45)		(45)
Profit/(loss) before income tax	34,118	(6,973)	27,145
Income tax expense	(2,736)	-	(2,736)
Profit/(loss) for the period	31,382	(6,973)	24,409

	Nine-month period ended 30 September 2013 (restated)		
	Discontinued operations	Intragroup transactions	Total
Revenue	32,715	(6,149)	26,566
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(3,930)	-	(3,930)
Depreciation, amortisation and impairment losses	(6,869)	4	(6,865)
Interconnection charges	(10,963)	4,929	(6,034)
Materials, utilities, repairs and maintenance	(1,596)	7	(1,589)
Loss on disposal of property, plant and equipment	(194)	-	(194)
Reversal of doubtful debt allowance	(75)	-	(75)
Other operating income	399	2	401
Other operating (expenses)/income	(8,799)	1,215	(7,584)
Total operating (expenses)/income, net	(32,027)	6,157	(25,870)
Operating profit	688	8	696
Finance (costs)/income	(2,212)	1,446	(766)
Other investing and financial gains/(losses)	1,157	(1,980)	(823)
Foreign exchange (loss)/income, net	(76)	-	(76)
Profit/(loss) before income tax	(443)	(526)	(969)
Income tax benefit	126	-	126
Profit/(loss) for the period	(317)	(526)	(843)