
ROSTELECOM REPORTS CONSOLIDATED IFRS FINANCIAL RESULTS
FOR THE THIRD QUARTER AND NINE MONTHS OF 2010

Moscow – December 13, 2010 – Rostelecom OJSC (“the Company”) (RTS, MICEX: RTKM, RTKMP; OTCQX: ROSYY), Russia’s national telecommunications operator, today announced its unaudited consolidated IFRS financial results for the third quarter and first nine months ended September 30, 2010.

THIRD QUARTER FINANCIAL HIGHLIGHTS

- Consolidated revenues of RUB 15.8 billion
- Revenues from new and value-added services up 16% year on year to RUB 5.8 billion, and accounted for 37% of the Company’s consolidated revenues compared to 32% for the corresponding period in 2009;
- Adjusted OIBDA¹ of RUB 3.2 billion (excluding RUB 461.0 million of non-cash accrual of stock based compensation for employees) with an adjusted OIBDA margin of 20.3%;
- Adjusted net income of RUB 1.4 billion;
- Capital expenditure of RUB 2.8 billion – representing 17.5% of consolidated revenues.

NINE MONTHS FINANCIAL HIGHLIGHTS

- Consolidated revenues of RUB 45.8 billion
- Revenues from new and value-added services up 10% year on year to RUB 16.5 billion, and accounted for 36% of the Company’s consolidated revenues compared to 31% for the corresponding period in 2009;
- Adjusted OIBDA of RUB 9.0 billion (excluding RUB 461.0 million of non-cash accrual of stock based compensation for employees) with an increased adjusted OIBDA margin of 19.7%;
- Adjusted net income of RUB 3.3 billion;
- Capital expenditure of RUB 7.7 billion – representing 16.9% of consolidated revenues.

KEY STRATEGIC DEVELOPMENTS

- Rostelecom acquired the 25%+1 share stake in the charter capital of Telecommunication Investment Joint Stock Company (“Svyazinvest”) from Comstar-UTS for RUB 26.0 billion. RUB 23.0 billion of the credit lines were opened by Sberbank at a weighted average interest rate of 7.89%, while RUB 3.0 billion came from the Company’s own funds.
- An Extraordinary General Meeting of Shareholders (“EGM”), held on November 10, 2010, approved the interim dividend payment for the first nine months of 2010: RUB 1.67 per class “A” preferred share; RUB 1.11 per ordinary share
- The EGM did not approve the proposed amendments to the Company’s Charter, related to the allocation of 10% of Rostelecom’s net income for the full year as dividend payment on outstanding class “A” preferred shares. Rostelecom’s management team and the Board of Directors will work together on the necessary amendments to the Charter, in order to ensure an appropriate balance between interests of the holders of the different types of Rostelecom’s securities.

¹See Attachment 1 for the reconciliation of OIBDA and Adjusted OIBDA, adjusted Operating Income and Adjusted Net Income.

FINANCIAL SUMMARY

RUB billion	3Q 2010	3Q 2009	% change, y-o-y	9m 2010	9m 2009	% change, y-o-y
Revenue	15.8	16.0	(1%)	45.8	48.8	(6%)
OIBDA	2.8	3.8	(27%)	8.6	9.5	(10%)
<i>OIBDA margin, %</i>	17.4%	23.5%	<i>n.a.</i>	18.7%	19.5%	<i>n.a.</i>
Adjusted OIBDA	3.2	3.8	(15%)	9.0	9.5	(5%)
<i>Adjusted OIBDA margin, %</i>	20.3%	23.5%	<i>n.a.</i>	19.7%	19.5%	<i>n.a.</i>
Operating income	0.8	2.0	(60%)	3.0	3.9	(25%)
<i>Operating margin, %</i>	4.9%	12.2%	<i>n.a.</i>	6.4%	8.1%	<i>n.a.</i>
Adjusted operating income	1.2	2.0	(37%)	3.4	3.9	(13%)
<i>Adjusted operating margin, %</i>	7.8%	12.2%	<i>n.a.</i>	7.5%	8.1%	<i>n.a.</i>
Net income	0.9	1.8	(50%)	2.8	3.3	(14%)
<i>Net margin, %</i>	5.8%	11.4%	<i>n.a.</i>	6.1%	6.7%	<i>n.a.</i>
Adjusted net income	1.4	1.8	(25%)	3.3	3.3	0%
<i>Adjusted net margin, %</i>	8.7%	11.4%	<i>n.a.</i>	7.1%	6.7%	<i>n.a.</i>
Total comprehensive income	1.0	2.0	(51%)	2.8	3.5	(21%)
Capital expenditures	2.8	2.2	24%	7.7	4.1	87%
<i>% of revenue</i>	17,5%	14,0%	<i>n.a.</i>	16,9%	8,5%	<i>n.a.</i>

Rostelecom generated RUB 15.8 billion of revenues for the third quarter of 2010, compared to RUB 16.0 billion for the corresponding period of 2009. The performance reflected:

- Accelerating revenue growth from new and value-added services (including data services, INS, leased lines and customer equipment services);
- Gradual decrease in revenues from traditional voice domestic and international long-distance (DLD/ILD) services.

Revenue from new and value-added services grew by 16% year on year to RUB 5.8 billion in the third quarter of 2010, and accounted for 37% of the Company's consolidated revenues, compared to 32% for the corresponding period in 2009. The increase reflected the mixed effect of:

- 40% year on year increase in revenues from data transmission services (including Internet access services for operators ("wholesale Internet") and corporate clients, as well as VPN services) to RUB 3.3 billion;
- 3% year on year increase in revenues from intelligent network services (INS) to RUB 1.2 billion;
- 11% year on year decrease in revenues from leased line services to RUB 1.4 billion, primarily due to the construction of networks by other telecom operators.

Revenues from traditional voice domestic and international long-distance (DLD/ILD) services declined by 9% year on year to RUB 10.0 billion and accounted for 63% of the Company's consolidated revenue in the third quarter of 2010, compared to 68% in the corresponding period of 2009. The decrease in revenues from traditional services was mainly driven by the decrease in DLD and OILD traffic. The decline primarily reflected the growing competition in the long-distance market, as well as the continued migration of long-distance end-customer traffic from fixed-line to mobile networks.

Rostelecom's revenues for the year to date declined by 6% year on year to RUB 45.8 billion.

Operating expenses before depreciation, impairment of property, plant and equipment (PP&E) and gain on disposal of PP&E and the RUB 461.0 million non-cash accrual of stock based compensation for employees for the third quarter of 2010, increased by 3% year on year to RUB 12.6 billion, primarily due to the increase in administrative and other expenses related to the ongoing reorganization. The Company's total operating expenses for the third quarter of 2010 were up 7% year on year to RUB 15.0 billion.

Operating expenses before depreciation, impairment of property, plant and equipment (PP&E) and gain on disposal of PP&E and RUB 461.0 million of non-cash accrual of stock based compensation for employees for the year to date decreased by 6% year on year to RUB 36.8 billion. Total operating expenses for the year to date were down 4% year on year to RUB 42.8 billion.

Adjusted OIBDA in the third quarter of 2010 decreased by 15% year on year to RUB 3.2 billion in the third quarter of 2010 with OIBDA margin of 20.3%, compared to 23.5% in the corresponding period of 2009. Adjusted OIBDA was down 5% year on year to RUB 9.0 billion for the year to date a higher adjusted OIBDA margin of 9.7% compared to 19.5% in the same period of 2009.

Depreciation increased by 8% year on year to RUB 1.9 billion in the third quarter of 2010 and by 2% year on year to RUB 5.7 billion for the year to date. This reflected a 24% year on year increase in capital expenditures to RUB 2.8 billion in the third quarter of 2010 and 87% year on year increase to RUB 7.7 billion for the year to date.

Adjusted operating income decreased by 37% year on year to RUB 1.2 billion in the third quarter of 2010, with an adjusted operating margin of 7.8% and by 13% year on year to RUB 3.4 billion for the year to date, with an adjusted operating margin of 7.5%

Other income increased by 25% year on year to RUB 394 million in the third quarter of 2010 and doubled year on year to RUB 723.0 million for the year to date primarily due to the decrease in foreign exchange losses.

Rostelecom's adjusted net income declined by 25% to RUB 1.4 billion in the third quarter and represented 8.7% of consolidated revenues. Adjusted net income remained stable year on year at RUB 3.3 billion for the year to date and accounted for 7.1% of consolidated revenues. The EGM on November 10, 2010, voted to approve the dividend payment of RUB 1.2 billion for the period 1 January to 30 September 2010, with 10% of net income under Russian Accounting Standards to be paid to preferred shareholders and 20% to be paid to ordinary shareholders.

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Attachments:

1. Reconciliation of OIBDA, Adjusted OIBDA, Adjusted Operating Income and Adjusted Net Income;
2. Condensed consolidated interim statement of comprehensive income
3. Condensed consolidated interim statement of cash flows
4. Condensed consolidated interim balance sheet

Attachment 1

RECONCILIATION OF OIBDA, ADJUSTED OIBDA, ADJUSTED OPERATING INCOME AND ADJUSTED NET INCOME

OIBDA is a non-U.S. GAAP and non-IFRS financial measure, which the Company defines as operating income before depreciation, amortization, loss from impairment of PP&E, goodwill and other intangible assets as well as loss on disposal of PP&E. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. OIBDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP or IFRS.

RUB million	3Q2010	3Q2009	Growth, %	9m2010	9m2009	Growth, %
Operating income	778	1,953	(60%)	2,953	3,930	(25%)
Add: Depreciation and amortization	1,939	1,797	8%	5,692	5,583	2%
Add: Impairment of property, plant and equipment	-	-	-	2	0	-
Add: Loss/Less (gain) on sale and disposal of property, plant and equipment	34	10	240%	(87)	(18)	383%
OIBDA reported	2,751	3,760	(27%)	8,560	9,495	(10%)
OIBDA margin reported	17.4%	23.5%		18.7%	19.5%	
Add: Non-cash stock bonus accruals	461	-	-	461	-	-
OIBDA adjusted	3,212	3,760	(15%)	9,021	9,495	(5%)
Adjusted OIBDA margin	20.3%	23.5%		19.7%	19.5%	

RECONCILIATION OF ADJUSTED OPERATING INCOME

RUB million	3Q2010	3Q2009	Growth, %	9m2010	9m2009	Growth, %
Operating income reported	778	1,953	(60%)	2,953	3,930	(25%)
Add: Non-cash stock bonus accruals	461	-	-	461	-	-
Adjusted Operating Income	1,239	1,953	(37%)	3,414	3,930	(13%)
Adjusted Operating margin	7.8%	12.2%		7.5%	8.1%	

RECONCILIATION OF ADJUSTED NET INCOME

RUB million	3Q2010	3Q2009	Growth, %	9m2010	9m2009	Growth, %
Net income, reported	919	1,830	(50%)	2,794	3,261	(14%)
Add: Non-cash stock bonus accruals	461	-	-	461	-	-
Adjusted Net Income	1,380	1,830	(25%)	3,255	3,261	0%
Adjusted net margin	8.7%	11.4%		7.1%	6.7%	

Attachment 2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

RUB million	3Q 2010	3Q 2009	9m 2010	9m 2009
Revenue from telephone traffic transmission:				
DLD	6,027	6,494	18,167	20 173
Outgoing ILD	2,387	2,893	6,783	8 584
Incoming ILD (termination and transit)	1,561	1,563	4,301	4 927
Revenue from leased line services	1 407	1,573	4,298	5,092
Revenue from data transmission services	3 259	2,321	8,760	6,757
Other revenue	1 183	1,146	3,478	3,231
Total revenue	15 824	15,990	45,787	48,764
Payments to Russian operators	(6,184)	(6,013)	(17,624)	(18 509)
Payments to international operators	(2,255)	(2,401)	(6,004)	(7 367)
Wages, salaries, other benefits and payroll taxes excl. non-cash accrual of stock based compensation for employees	(2,182)	(2,164)	(7,075)	(7 569)
Taxes other than on income	(173)	(167)	(517)	(485)
Bad debt expense / (recovery)	(9)	(14)	13	(69)
Other operating expenses	(1,809)	(1,471)	(5,559)	(5 270)
Operating expenses before depreciation, impairment of property, plant and equipment (PP&E) and gain on disposal of PP&E and non-cash accrual of stock based compensation for employees	(12 612)	(12,230)	(36,766)	(39,269)
Non-cash accrual of stock based compensation for employees	(461)	-	(461)	-
Depreciation	(1,939)	(1,797)	(5,692)	(5 583)
Impairment of property, plant and equipment (Loss)/gain on disposal of property, plant and equipment	(34)	(10)	87	18,0
Total operating expenses	(15 046)	(14,037)	(42,834)	(44,834)
Operating income	778	1,953	2,953	3,930
Gain from associates	18	15	35	10
Other income / (loss)				
Interest expense	(76)	(56)	(186)	(177)
Interest income	388	607	1,109	1 345
(Loss) on sale of investments	-	(5)	-	(87)
Foreign exchange loss, net	69	(237)	(221)	(856)
Other non-operating income, net	14	7	21	42
Income before tax	1 190	2,284	3,711	4,206
Current tax charge	(326)	(350)	(636)	(924)
Deferred tax benefit / (charge)	55	(104)	(281)	(21)
Income tax expense	(271)	(454)	(917)	(945)
Net income	919	1,830	2,794	3,261
Attributable to equity holders of the parent	941	1,804	2,900	3 442
Attributable to non-controlling interests	(22)	26	(106)	(181)
Other comprehensive (loss) / income, net of tax, incl.				
Valuation gain on available-for-sale investments	74	160	4	306
Income tax relating to the components of other comprehensive income	(15)	1	(1)	(28)
Total comprehensive income	978	1,991	2,797	3,539

Attachment 3

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

RUB million

Nine-month periods ended

	September 30, 2010 (unaudited)	September 30, 2009 (unaudited)
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	September 30, 2010 (unaudited)	September 30, 2009 (unaudited)
Cash flows from operating activities		
Profit before income tax	3,711	4,206
<i>Adjustments to reconcile net income before tax to cash generated from operating activities:</i>		
Depreciation and amortization	5,692	5,583
Impairment of property, plant and equipment	2	-
Bad debt (recovery)/ expense	(13)	69
Gain from associates	(35)	(10)
Gain on sale of property, plant and equipment	(87)	(18)
Loss on sale of financial assets	-	87
Net interest income	(923)	(1,167)
Other non-operating income	(21)	(42)
Foreign exchange loss, net	221	856
Share-based payment transactions expenses	461	-
<i>Changes in net working capital:</i>		
Increase in accounts receivable	(900)	(149)
Decrease in inventories	78	9
Decrease in payables and accruals	(1,430)	(736)
Cash generated from operations	6,756	8,688
Interest paid	(124)	(81)
Interest received	1,291	785
Income tax paid	(321)	(575)
Net cash provided by operating activities	7,602	8,817
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(6,255)	(4,498)
Proceeds from sale of property, plant and equipment	136	81
Purchase of financial assets, other than available-for-sale	(1,600)	(19,508)
Proceeds from sale of financial assets, other than available-for-sale, net of direct costs	13,874	12,197
Purchase of available-for-sale investments	(2,180)	-
Dividends received from associates	9	14
Purchase of associates	(26,000)	-
Purchase of subsidiaries, net of cash acquired	-	2
Net cash used in investing activities	(22,016)	(11,712)
Cash flows from financing activities		
Proceeds from interest bearing loans	23,299	240
Repayment of interest bearing loans and loan facilities	(401)	(293)
Repayment of lease obligations	(30)	(42)
Redemption of treasury shares	(6,051)	-
Dividends paid	(1,021)	(1,498)
Net cash received from/ (used in) financing activities	15,796	(1,593)
Effect of exchange rate changes on cash and cash equivalents	67	57
Net increase/ (decrease) in cash and cash equivalents	1,449	(4,431)
Cash and cash equivalents at the beginning of period	6,996	11,992
Cash and cash equivalents at the end of period	8,445	7,561

Attachment 4

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

RUB million	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Non-current assets		
Property, plant and equipment	42,137	40,249
Goodwill and other intangible assets	3,514	3,743
Investments in associates	26,175	152
Long-term financial assets	2,711	1,037
Other non-current assets	115	117
Total non-current assets	74,652	45,298
Current assets		
Inventories	354	432
Accounts receivable	9,724	8,751
Prepaid income tax	51	321
Short-term financial assets	2,322	14,947
Cash and cash equivalents	8,445	6,996
Total current assets	20,896	31,447
Total assets	95,548	76,745
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	100	100
Treasury shares	(5,895)	-
Retained earnings and other reserves	62,580	61,274
Total equity attributable to equity holders of the Company	56,785	61,374
Non-controlling interest	(283)	(177)
Total equity	56,502	61,197
Non-current liabilities		
Borrowings, net of current portion	23,160	-
Finance lease payable	111	436
Accounts payable, provisions and accrued expenses	234	213
Deferred tax liability	1,891	1,609
Total non-current liabilities	25,396	2,258
Current liabilities		
Accounts payable, provisions and accrued expenses	8,586	8,603
Finance lease payable	49	95
Taxes payable	1,249	692
Vendor financing payable	1,882	1,780
Current portion of long-term borrowings	1,884	1,980
Short-term borrowings	-	140
Total current liabilities	13,650	13,290
Total liabilities	39,046	15,548
Total equity and liabilities	95,548	76,745

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Rostelecom (www.rt.ru/en) is Russia's national telecommunications operator. The Company owns and operates a nationwide network (about 160,000 km in length), enabling Rostelecom to handle the majority of long-distance and international voice traffic transmission as well as TV and radio broadcasting channels in Russia. The Company is a major provider of telecommunications services to state organizations and governmental agencies. Additionally, Rostelecom is the domestic market leader in the wholesale Internet services segment.

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Certain statements in this press release are forward-looking statements within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbors created thereby.

Those forward-looking statements include, but are not limited to:

- *Management's assessment of the Company's future operating and financial results as well as forecasts of the present value of future cash flows and related factors;*
- *the Company's anticipated capital expenditures and plans to construct and modernize its network;*
- *the Company's expectations as to the growth in demand for its services, plans relating to the expansion of the range of its services and their pricing;*
- *the Company's plans with respect to improving its corporate governance practices;*
- *the Company's expectations as to its position in the telecommunications market and the development of the market segments within which the Company operates;*
- *economic outlook and industry trends;*
- *the Company's expectations as to the regulation of the Russian telecommunications industry and assessment of impact of regulatory initiatives on the Company's activity;*
- *other statements regarding matters that are not historical facts.*

Such forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include:

- *risks relating to changes in political, economic and social conditions in Russia as well as changes in global economic conditions;*
- *risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian telecommunications industry, securities industry as well as currency and exchange controls relating to Russian entities and their official interpretation by regulatory bodies;*
- *risks relating to the Company, including the achievement of the anticipated results, levels of profitability and growth, ability to create and meet demand for the Company's services including their promotions, and the ability of the Company to remain competitive in a liberalized telecommunications market;*
- *technological risks associated with the functioning and development of the telecommunications infrastructure, technological innovations as well as the convergence of technologies;*
- *other risks and uncertainties. For a more detailed discussion of these and other factors, see the Company's Annual Report and the Company's other public filings.*

Many of these factors are beyond the Company's ability to control or predict. Given these and other uncertainties, readers are cautioned not to place undue reliance on any of the forward-looking statements contained herein or otherwise. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.