

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

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(In millions of Russian Roubles unless otherwise stated)

	Notes	30 June 2014 (unaudited)	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	4	323,050	335,059
Investment property		121	113
Goodwill and other intangible assets	5	59,489	64,346
Investments in associates		27,955	918
Other investments		254	520
Deferred tax assets		351	276
Other non-current assets		3,991	3,990
Total non-current assets		415,211	405,222
Current assets			
Inventories		4,614	3,941
Trade and other accounts receivable		43,489	39,824
Prepayments		3,454	3,508
Prepaid income tax		3,902	4,894
Other investments		504	1,966
Cash and cash equivalents		7,249	7,960
Other current assets		708	609
Total current assets		63,920	62,702
Held for sale assets	12	33,962	93,048
Total assets		513,093	560,972
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Group			
Share capital	6	97	97
Additional paid-in capital		1,622	1,658
Treasury shares		(81,382)	(68,325)
Retained earnings and other reserves		294,346	262,967
Total equity attributable to equity holders of the Group		214,683	196,397
Non-controlling interests		3,124	3,359
Total equity		217,807	199,756
Non-current liabilities			
Loans and borrowings	8	158,577	184,600
Employee benefits		9,882	9,774
Deferred tax liabilities		26,836	26,728
Accounts payable, provisions and accrued expenses		2,020	1,077
Other non-current liabilities		5,251	5,127
Total non-current liabilities		202,566	227,306
Current liabilities			
Loans and borrowings	8	26,883	33,209
Accounts payable, provisions and accrued expenses		49,856	73,635
Income tax payable		17	69
Other current liabilities		7,028	9,350
Total current liabilities		83,784	116,263
Held for sale liabilities	13	8,936	17,647
Total liabilities		295,286	361,216
Total equity and liabilities		513,093	560,972

These consolidated interim financial statements were approved by management of OJSC Rostelecom on 19 August 2014 and were signed on its behalf by President:

 S.B. Kalugin

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated financial statements.

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

(In millions of Russian Roubles unless otherwise stated)

	Notes	Six-month period ended 30 June 2014 (unaudited)		Total
		Continuing operations	Effect from discontinued operations Note 12	
Revenue	9	145,243	11,127	156,370
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(44,718)	(1,700)	(46,418)
Depreciation, amortization and impairment losses	4,5	(29,016)	(12)	(29,028)
Interconnection charges		(22,283)	(2,772)	(25,055)
Materials, utilities, repairs and maintenance		(12,783)	(726)	(13,509)
Gain/(loss) on disposal of property, plant and equipment and intangible assets		1,206	(23)	1,183
Bad debt expense		(1,576)	(156)	(1,732)
Other operating income		5,381	71	5,452
Other operating expenses		(19,871)	(3,064)	(22,935)
Total operating expenses, net		(123,660)	(8,382)	(132,042)
Operating profit		21,583	2,745	24,328
Income from associates		172	-	172
Finance costs		(7,961)	(203)	(8,164)
Other investing and financial (loss)/gain, net		(355)	2,659	2,304
Foreign exchange		(317)	90	(227)
Profit before income tax		13,122	5,291	18,413
Income tax expense		(2,946)	(392)	(3,338)
Profit for the period		10,176	4,899	15,075
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translating foreign operations		8	-	8
Other comprehensive income for the period, net of tax		8	-	8
Total comprehensive income for the period		10,184	4,899	15,083
Profit attributable to:				
Equity holders of the Group		10,074	4,899	14,973
Non-controlling interests		102	-	102
Total comprehensive income/(loss) attributable to:				
Equity holders of the Group		10,102	4,899	15,001
Non-controlling interests		82	-	82
Earnings per share attributable to equity holders of the Group – basic (in Roubles)		4.39	2.14	6.53
Earnings per share attributable to equity holders of the Group – diluted (in Roubles)		4.38	2.13	6.52

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

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

(In millions of Russian Roubles unless otherwise stated)

Six-month period ended 30 June 2013 (restated)				
	Notes	Continuing operations	Effect from discontinued operations Note 12	Total
Revenue	9	141,564	17,853	159,417
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(42,312)	(2,646)	(44,958)
Depreciation, amortization and impairment losses		(29,576)	(4,559)	(34,135)
Interconnection charges		(18,894)	(4,016)	(22,910)
Materials, utilities, repairs and maintenance		(11,368)	(1,026)	(12,394)
Gain/(loss) on disposal of property, plant and equipment and intangible assets		87	(118)	(31)
Bad debt expense		(704)	(70)	(774)
Other operating income		5,634	39	5,673
Other operating expenses		(20,452)	(5,013)	(25,465)
Total operating expenses, net		(117,585)	(17,409)	(134,994)
Operating profit		23,979	444	24,423
Income from associates		36	-	36
Finance costs		(7,245)	(523)	(7,768)
Other investing and financial gain/(loss)		1,881	(686)	1,195
Foreign exchange loss, net		(450)	(86)	(536)
Profit/(loss) before income tax		18,201	(851)	17,350
Income tax (expense)/benefit		(3,781)	6	(3,775)
Profit/(loss) for the period		14,420	(845)	13,575
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translating foreign operations		48	-	48
Other comprehensive income for the period, net of tax		48	-	48
Total comprehensive income for the period		14,468	(845)	13,623
Profit/(loss) attributable to:				
Equity holders of the Group		14,369	(843)	13,526
Non-controlling interests		51	(2)	49
Total comprehensive income attributable to:				
Equity holders of the Group		14,413	(843)	13,570
Non-controlling interests		55	(2)	53
Earnings/(loss) per share attributable to equity holders of the Group – basic (in Roubles)		5.48	(0.32)	5.16
Earnings/(loss) per share attributable to equity holders of the Group – diluted (in Roubles)		5.48	(0.32)	5.16

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (continued)

(In millions of Russian Roubles unless otherwise stated)

	Notes	Six-month period ended 30 June	
		2014 (unaudited)	2013 (restated)
Cash flows from operating activities			
Profit before income tax		18,413	17,350
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>			
Depreciation, amortization and impairment losses		29,028	34,135
Gain/(loss) on disposal of property, plant and equipment and intangible assets		(1,183)	31
Bad debt expense		1,732	774
Income from associates		(172)	(36)
Finance costs excluding finance costs on pension and other long-term social liabilities		7,784	7,396
Other investing and financial gain		(2,304)	(1,195)
Foreign exchange loss, net		227	536
Share-based motivation program		750	-
<i>Changes in net working capital:</i>			
Increase in accounts receivable		(5,392)	(2,809)
Increase in employee benefits		109	85
(Increase)/decrease in inventories		(673)	429
(Decrease)/increase in accounts payable, provisions and accrued expenses		(201)	4,327
Change in other assets and liabilities		(2,121)	(899)
Cash generated from operations		45,997	60,124
Interest paid		(8,270)	(8,263)
Income tax paid		(2,214)	(4,644)
Net cash from operating activities		35,513	47,217
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(24,798)	(32,673)
Proceeds from sale of property, plant and equipment and intangible assets		1,714	667
Acquisition of financial assets		(321)	(3,718)
Proceeds from disposals of financial assets		25,583	5,671
Interest received		228	10
Special dividends from disposed former mobile subsidiaries		7,003	-
Dividends received		10	3
Purchase of subsidiaries, net of cash acquired		(29)	(21)
Net cash from/(used in) investing activities		9,390	(30,061)

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (continued)

(In millions of Russian Roubles unless otherwise stated)

	Notes	Six-month period ended 30 June	
		2014 (unaudited)	2013 (restated)
Cash flows from financing activities			
Sale of treasury shares		815	6,375
Purchase of treasury shares		(13,844)	(2,820)
Proceeds from bank and corporate loans		193,130	172,833
Repayment of bank and corporate loans		(223,233)	(219,914)
Proceeds from bonds		-	30,000
Repayment of bonds		(2,440)	(1,215)
Proceeds from promissory notes		12	-
Repayment of promissory notes		(12)	-
Repayment of vendor financing payable		(5)	15
Repayment of other non-current financing liabilities		(4)	(6)
Repayment of finance lease liabilities		(1)	(501)
Acquisition of non-controlling interest		-	(20)
Dividends paid to shareholders of the Group		(12)	(427)
Dividends paid to non-controlling shareholders of subsidiaries		-	(230)
Net cash used in financing activities		(45,594)	(15,910)
Net (decrease)/increase in cash and cash equivalents		(711)	1,262
Effect of exchange rate changes on cash and cash equivalents		(20)	16
Cash and cash equivalents at beginning of the period		7,960	13,629
Cash and cash equivalents at the end of the period		7,249	14,891

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(In millions of Russian Roubles unless otherwise stated)

	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 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)	-	-	-	-	-	-	-	-	13,526	13,526	49	13,575		
Exchange differences on translating foreign operations (unaudited)	-	-	-	44	-	-	-	-	-	44	4	48		
Total other comprehensive income, net of tax (unaudited)	-	-	-	44	-	-	-	-	-	44	4	48		
Total comprehensive income for the period (unaudited)	-	-	-	44	-	-	-	-	13,526	13,570	53	13,623		
Transactions with shareholders, recorded directly in equity (unaudited)														
Dividends to shareholders of the Company	-	-	-	-	-	-	-	-	(6,590)	(6,590)	-	(6,590)		
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(230)	(230)		
Acquisition of treasury shares (unaudited)	-	-	-	-	(2,820)	-	-	-	-	(2,820)	-	(2,820)		
Sale of treasury shares (unaudited)	-	(73)	-	-	6,448	-	-	-	-	6,375	-	6,375		
Employee benefits within share-based employee motivation program (unaudited)	-	-	-	-	-	(2,689)	-	-	2,689	-	-	-		
Other changes in equity (unaudited)	-	49	-	-	-	-	-	(30,253)	-	(30,204)	-	(30,204)		
Total transactions with shareholders (unaudited)	-	(24)	-	-	3,628	(2,689)	-	(30,253)	(3,901)	(33,239)	(230)	(33,469)		
Balances at 30 June 2013 (restated)	97	4,320	(10)	(38)	(31,194)	508	1,970	(30,253)	271,157	216,557	2,429	218,986		

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)

(In millions of Russian Rubles unless otherwise stated)

Equity attributable to shareholders of the Group												
	Unrealized			Remeasure					ments of			
	Share capital	Additional paid-in capital	gain on available-for-sale investments	Translation of foreign operations	Treasury shares	Share options reserve	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)	-	-	-	-	-	-	-	-	14,973	14,973	102	15,075
Exchange differences on translating foreign operations (unaudited)	-	-	-	28	-	-	-	-	-	28	(20)	8
Total other comprehensive income, net of tax (unaudited)	-	-	-	28	-	-	-	-	-	28	(20)	8
Total comprehensive income for the period (unaudited)	-	-	-	28	-	-	-	-	14,973	15,001	82	15,083
Transactions with shareholders, recorded directly in equity (unaudited)												
Dividends to shareholders of the Company	-	-	-	-	-	-	-	-	(7,455)	(7,455)	-	(7,455)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(293)	(293)
Acquisition of treasury shares	-	-	-	-	(13,844)	-	-	23,169	-	9,325	-	9,325
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	-	-	-	-	-	600	-	-	-	600	-	600
Other change in equity	-	(64)	-	-	-	-	-	-	64	-	-	-
Total transactions with shareholders (unaudited)	-	(36)	-	-	(13,057)	600	-	23,169	(7,391)	3,285	(317)	2,968
Balances at 30 June 2014(unaudited)	97	1,622	(10)	(17)	(81,382)	600	3,452	(70)	290,391	214,683	3,124	217,807

The accompanying notes on pages 9 – 25 form an integral part of the unaudited consolidated interim financial statements.

1. REPORTING ENTITY

The accompanying consolidated interim 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 30 June 2014, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank, controls the Company by holding of 54.5% of the Company’s voting 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 2014, the Company completed the first stage of the reorganization of its mobile operators. At the first stage the Company contributed its standalone mobile subsidiaries and the Company’s mobile fixed assets into the share capital of T2 RTK Holding.

Subsidiaries 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 received a 45% voting interest and a 26% of ordinary and preference shares in T2 RTK Holding.

During the second stage, the Company spun 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 contributed its stake in CJSC RT-Mobile into T2 RUS Holding and thus increase its economic interest in T2 RUS Holding to 45%.

The second stage of the deal was completed in August 2014 (refer Note 15).

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

2. BASIS OF PRESENTATION

These consolidated interim financial statements have been prepared in accordance with and comply with International Financial Reporting Standard IAS 34, "Interim Financial Reporting", as published by the International Accounting Standards Board ("IASB"). The accounting policies and methods of computation used to prepare these consolidated interim financial statements are the same that were used to prepare consolidated financial statements as of and for the year ended December 31, 2013, except for the new IFRSs and IFRIC Interpretations as disclosed below.

The consolidated interim financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2013. The management of the Group believes that the notes to the consolidated interim financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the changes in financial position and performance of the Group since year end. In the opinion of the Group's management, the business is not subject to material seasonal fluctuations.

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 2014. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- IFRS 10 "Consolidated Financial Statements";
- IFRS 12 "Disclosure of Interests in Other Entities";
- IAS 27 "Consolidated and Separate Financial Statements";
- IAS 32 "Financial Instruments: Presentation";
- IAS 36 "Impairment of Assets";
- IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRIC 21 "Levies".

The adoption of new/ revised Standards and Interpretations did not have material impact on the Group's results of operations, financial position and cash flows.

The functional currency of the Group and the reporting currency for the accompanying consolidated interim financial statements is the Russian Rubles.

The preparation of financial statements requires management to make 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. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, fair values of assets and liabilities acquired in business combinations, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(In millions of Russian Roubles unless otherwise stated)

3. RESTATEMENT OF PREVIOUSLY REPORTED INFORMATION

On 1 October 2013, the Company completed the second stage of the reorganization by combining with OJSC Svyazinvest. 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 illustrates the effects of the reorganization on profit and loss for six months ended 30 June 2013:

	Profit and loss of the Group	Profit and loss of the Group as previously reported	Profit and loss of merged companies and eliminations
Revenue	159,417	154,097	5,320
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(44,958)	(42,496)	(2,462)
Depreciation, amortisation and impairment losses	(34,135)	(33,403)	(732)
Interconnection charges	(22,910)	(22,305)	(605)
Materials, utilities, repairs and maintenance	(12,394)	(11,903)	(491)
Gain/ (loss) on disposal of property, plant and equipment	(31)	40	(71)
Doubtful debt allowance	(774)	(804)	30
Other operating income	5,673	5,242	431
Other operating expenses	(25,465)	(24,204)	(1,261)
Total operating expenses, net	(134,994)	(129,833)	(5,161)
Operating profit	24,423	24,264	159
Share of profit (loss) in equity accounted investees	36	316	(280)
Finance costs	(7,768)	(7,653)	(115)
Other investing and financial gains	1,195	855	340
Foreign exchange loss, net	(536)	(543)	7
Profit before income tax	17,350	17,239	111
Income tax expense	(3,775)	(3,551)	(224)
Profit for the period	13,575	13,688	(113)

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(In millions of Russian Roubles unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost/deemed cost					
At 1 January 2014	146,240	472,910	101,116	34,745	755,011
Additions	23	693	367	15,345	16,428
Reclassification from investment property and assets held for sale	191	-	13	-	204
Acquisition through business combination	-	-	-	-	-
Reclassification to assets held for sale	(428)	13	(211)	(1,516)	(2,142)
Reclassification to intangible assets	-	-	(464)	(495)	(959)
Transfer	914	13,206	2,657	(16,777)	-
Disposals	(236)	(2,019)	(632)	(88)	(2,975)
Foreign exchange	-	13	1	2	16
Reclassification	(18,753)	18,598	183	(14)	14
At 30 June 2014	127,951	503,414	103,030	31,202	765,597
Accumulated amortization and impairment losses					
At 1 January 2014	(75,839)	(267,112)	(75,923)	(1,078)	(419,952)
Depreciation expense	(1,653)	(19,408)	(4,559)	-	(25,620)
Reclassification from investment property and assets held for sale	(136)	-	(11)	-	(147)
Reclassification to assets held for sale	193	322	126	-	641
Impairment losses	4	(18)	12	(76)	(78)
Disposals	169	1,808	619	28	2,624
Foreign exchange	-	(1)	-	-	(1)
Reclassification	10,354	(9,654)	(711)	(3)	(14)
At 30 June 2014	(66,908)	(294,063)	(80,447)	(1,129)	(442,547)
Net book value					
At 1 January 2014	70,401	205,798	25,193	33,667	335,059
At 30 June 2014	61,043	209,351	22,583	30,073	323,050

Interest amounting to 743 and 1,499 was capitalized in property, plant and equipment for the six months ended 30 June 2014 and 2013, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 8.18% and 8.40%, respectively.

Property, plant and equipment with a carrying value of 390 and 2,072 were pledged in relation to loan agreements entered into by the Group as of 30 June 2014 and 31 December 2013, respectively.

Assets of mobile business with a carrying value of 1,454 are included into reclassification to assets held for sale for the six months ended 30 June 2014.

Additions of property, plant and equipment for the six months ended 30 June 2013 amounted to 23,739. Property, plant and equipment with a carrying value of 643 were disposed for the six months ended 30 June 2013.

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(In millions of Russian Roubles unless otherwise stated)

5. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2014	25,368	1,085	773	39,622	15,050	671	5,168	87,737
Additions	-	-	6	1,341	-	217	139	1,703
Disposals	(23)	(3)	-	(668)	-	(3)	(8)	(705)
Disposals through business combination	-	-	-	(30)	-	-	-	(30)
Reclassification to assets held for sale of mobile business	(216)	-	-	(4,004)	-	(100)	-	(4,320)
Reclassification from Property, plant and equipment	-	-	-	959	-	-	-	959
Reclassification	-	-	-	(79)	9	81	(11)	-
Foreign exchange	22	-	-	1	-	-	-	23
At 30 June 2014	25,151	1,082	779	37,142	15,059	866	5,288	85,367
Accumulated amortization and impairment losses								
At 1 January 2014	(1,914)	(376)	(606)	(13,776)	(3,483)	(410)	(2,826)	(23,391)
Amortization expense	-	(7)	(28)	(2,268)	(852)	(173)	(68)	(3,396)
Disposals	-	2	-	643	-	1	8	654
Disposals through business combination	-	-	-	30	-	-	-	30
Reversal of impairment losses	-	-	-	79	-	-	-	79
Reclassification to assets held for sale of mobile business	6	-	-	114	-	26	-	146
Reclassification	-	-	(18)	6	-	(6)	18	-
At 30 June 2014	(1,908)	(381)	(652)	(15,172)	(4,335)	(562)	(2,868)	(25,878)
Net book value								
At 1 January 2014	23,454	709	167	25,846	11,567	261	2,342	64,346
At 30 June 2014	23,243	701	127	21,970	10,724	304	2,420	59,489

Interest amounting to 70 and 53 was capitalized in intangible assets for the six months ended 30 June 2014 and 2013, respectively.

Additions of intangible assets for the six months ended 30 June 2013 was 1,592. Intangible assets with a carrying value of 285 were disposed for the six months ended 30 June 2013.

6. SHAREHOLDERS' EQUITY**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

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as reported under IFRS.

In July 2014 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2013 in the amount of 3.11596 roubles per ordinary share (2013: 2.4369 roubles per ordinary share) and 4.84856 roubles per preference share (2013: 4.1022 roubles per preference share).

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2013			
Preference shares	209,613,653	4.84856	1,016
Ordinary shares	2,505,859,384	3.11596	7,808
Total	2,715,473,037		8,824

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.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE

In October 2013 the Group bought call option on 36,093,684 Company's ordinary shares and sold put option on 72,187,366 Company's ordinary shares. These options were classified as financial instruments of 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). Fair values of options were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average Rostelecom ordinary share price volatility.

Data of the model	Call	Put
Grant date share price, USD	3.2842	3.2842
Exercise price, USD	4.2695	3.3934
Expected volatility	35.56%	35.56%
Remaining option life, years	1.44	1.44
Dividend yield	1.8%	1.8%
Risk-free interest rate	7.9%	7.9%
Fair value at 30 June 2014 (asset / (liability))	134	(1,886)

For the six-months period, ended 30 June 2014, the Group recognised loss at the amount of 1,275 due to the changes of fair value of options in Other investing and financial gain (six-months period ended 30 June 2013: nil).

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8. BORROWINGS

As of 30 June 2014 and 31 December 2013, interest bearing loans are denominated in the following foreign currencies:

	30 June 2014 (unaudited)	31 December 2013
US Dollars (USD)	605	604
EURO	60	220
Other	18	32
Foreign currency denominated loans	683	856
Russian Rubles denominated loans	184,777	216,953
Total borrowings	185,460	217,809

	RUB	USD	EUR	Other	Carrying amount
Balance at 1 January 2014	216,953	604	220	32	217,809
New Issues					
Bank and corporate loans	193,022	7	-	109	193,138
Promissory notes	12	-	-	-	12
Finance lease liabilities	6	-	-	-	6
Interest payable	8,287	14	2	2	8,305
Foreign exchange loss	-	17	10	1	28
Repayments					
Bank and corporate loans	(222,916)	(23)	(170)	(124)	(223,233)
Bonds	(2,440)	-	-	-	(2,440)
Promissory notes	(12)	-	-	-	(12)
Vendor financing	(5)	-	-	-	(5)
Interest payable	(8,243)	(14)	(2)	(2)	(8,261)
Restructured customer payments	(4)	-	-	-	(4)
Other movements					
Loans refer to a discontinued operations	112	-	-	-	112
other	5	-	-	-	5
Balance at 30 June 2014	184,777	605	60	18	185,460

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9. REVENUE

Revenue comprised the following for the six months ended 30 June 2014 and 2013:

	Six-month period ended 30 June	
	2014 (unaudited)	2013 (restated)
Local telephone services	41,076	44,133
Intra-zone telephone services	7,446	8,415
Domestic long-distance/International long-distance telephone services	7,578	8,943
Interconnection and traffic transit services (excluding Internet)	13,369	11,308
Mobile communication services	12,822	19,442
Rent of channels	5,408	6,625
Broadband Internet	29,802	27,007
Pay TV	6,959	5,488
Data services (VPN, data centres, wholesale Internet sales)	11,472	10,965
Cloud computing services	913	1,240
Other	19,525	15,851
Total revenue	156,370	159,417

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

Customer Groups	Six-month period ended 30 June	
	2014 (unaudited)	2013 (restated)
Residential customers	78,168	83,392
Corporate customers	36,167	36,096
Governmental customers	21,571	20,668
Interconnected operators	20,464	19,261
Total revenue	156,370	159,417

10. 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 30 June 2014 and 30 June 2013.

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The following table illustrates information about reportable segment revenue and EBITDA for the six months ended 30 June 2014:

6m2014	Corp. Center	IRC West	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	12,638	17,635	17,635	17,596	14,956	17,124	19,015	15,762	10,405	15,008	588	17,384	158,111	(1,741)	156,370
Revenue from other segments	1,589	121	121	75	115	324	173	328	79	149	1,195	3,688	7,836	(7,836)	-
Total revenue	14,227	17,756	17,756	17,671	15,071	17,448	19,188	16,090	10,484	15,157	1,783	21,072	165,947	(9,577)	156,370
EBITDA	(12,677)	8,532	8,532	7,815	7,214	10,961	7,489	10,238	4,098	6,791	(175)	2,898	53,184	117	53,301

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The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the six months ended 30 June 2014:

EBITDA of reportable segments	50,286
EBITDA of other segments	2,898
<i>Adjustments</i>	
Depreciation, amortization and impairment losses	(26,472)
Finance costs and other investing and financial gain	(5,860)
Net gain for defined benefit plan	272
The charge of sponsorship contribution the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014	(606)
Income from associates	172
Share-based remuneration	(153)
Intragroup dividends	(7,197)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	48
Reversal of income from revaluation of subsidiaries and other investments recognized in statutory books	4,193
Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS	372
Reversal of expenses recognized in statutory books and capitalized in intangible assets under IFRS	159
Other adjustments	301
Profit before income tax	18,413

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The following table illustrates information about reportable segment revenue and EBITDA for the six months ended 30 June 2013:

6m2013	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	13,741	15,761	16,674	13,719	16,111	22,581	15,048	10,012	8,963	1,612	27,255	161,477	(2,060)	159,417
Revenue from other segments	1,266	204	90	186	378	80	531	104	493	806	5,454	9,592	(9,592)	-
Total revenue	15,007	15,965	16,764	13,905	16,489	22,661	15,579	10,116	9,456	2,418	32,709	171,069	(11,652)	159,417
EBITDA	(6,670)	7,470	7,097	5,706	8,010	9,978	6,660	3,885	3,819	(682)	11,485	56,758	1,300	58,058

The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the six months ended 30 June 2013:

EBITDA of reportable segments	45,273
EBITDA of other segments	11,485
<i>Adjustments</i>	
Depreciation, amortization and impairment losses	(30,232)
Finance costs and other investing and financial gain	(7,210)
Net gain for defined benefit plan	(84)
The charge of sponsorship contribution the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014	(312)
Income from associates	36
Share-based remuneration	-
Adjustments of revaluation of intragroup sales of shares	(1,963)
Intragroup dividends	(4,051)
Adjustments to loss on disposal of property, plant and equipment and intangible assets	141
Reversal of income from revaluation of associates and available-for-sale investments recognized in statutory books	2,516
Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS	268
Other adjustments	846
Profit before income tax	16,713

11. 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 54.5 % 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.

(c) Associates

On 1 April 2014 the Group obtained significant influence over T2 RTK Holding as a result of the reorganization (refer to Note 1). Transactions with companies of T2 RTK Holding during the 2nd Quarter 2014 were as follows:

	2nd Quarter 2014 (unaudited)
Revenue	1,661
Interest income	129
Purchase of telecommunication services	(1,382)

The amounts of receivables and payables due from companies of T2 RTK Holding were as follows:

	30 June 2014 (unaudited)
Accounts receivable	1,475
Accounts payable and accrued expenses	(220)
Borrowings	(90)

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

	Six-month period ended 30 June	
	2014 (unaudited)	2013 (restated)
Revenue	66	66
Purchase of telecommunication services	(50)	(56)
Purchase of other services	(29)	(16)

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

	30 June 2014 (unaudited)	31 December 2013
Accounts receivable	28	20
Allowance for doubtful receivables	(4)	(3)
Accounts payable and accrued expenses	(16)	(16)

(d) Transactions with other government-related entities

In January 2009, OJSC Rostelecom in partnership with mobile operator OJSC 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 amounted to USD 260 million and should be contributed by each sponsor in the amount of USD 130 million. Half of this amount must be paid in cash and the other half must be contributed in free services. In return, each partner obtained 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 six months ended 30 June 2014 amounted to 606 (six months ended 30 June 2013: 312).

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 were

on the Oversight Board of this Organisation.

The Group received loans from government-related banks OJSC Sberbank, OJSC Bank VTB, OJSC Sviaz-bank and others. The outstanding balances from these banks amounted to 142,530 as at 30 June 2014 (31 December 2013: 161,730). During six months ended 30 June 2014 the Group obtained loans from these banks in amount of 133,229 (six months ended 30 June 2013: 133,945), made repayments in amount of 158,889 (six months ended 30 June 2013: 178,403). Interest expense accrued on those loans during six months ended 30 June 2014 amounted to 6,461 (six months ended 30 June 2013: 6,735).

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.

The amount of funds placed on deposits with government-related banks for the six months ended 30 June 2014 is 121 (six months ended 30 June 2013: 117) with related income recognised in profit and loss of 4 and 34 accordingly. Amounts repaid back to the Company's account of 332 (six months ended 30 June 2013: 175).

(e) 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 six-months period ended 30 June 2014 amounted to 297. 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 six-months period ended 30 June 2013 amounted to 388.

Also in March 2014 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 six months ended 30 June 2014 is 682 (refer to Note 14).

The remuneration amounts are stated exclusive of social taxes.

12. DISCONTINUED OPERATIONS

The following table illustrates information about assets and liabilities held for sale for the 30 June 2014 and 31 December 2013.

	30 June 2014	31 December 2013
ASSETS		
Property, plant and equipment	26,004	63,140
Goodwill	-	12,805
Intangible assets	4,327	10,413
Investments in associates	-	24
Deferred tax asset	-	3,153
Inventories	283	567
Trade and other receivables	1,368	1,071
Prepayments	305	701
Prepaid income tax	-	167
Other investments	-	1
Cash and cash equivalents	1,548	864
Other assets	127	142
Total assets held for sale	33,962	93,048
LIABILITIES		
Deferred tax liability	1,239	1,795
Loans and borrowings	-	10,291
Trade and other payables	5,907	3,897
Income tax payable	482	19
Provisions	716	538
Other liabilities	592	1,107
Total liabilities directly attributable to assets held for sale	8,936	17,647

The following table illustrates information about consolidated income statement of a discontinued operations for the six months ended 30 June 2014, 30 June 2013.

	Six-month period ended 30 June 2014		
	Discontinued operations	Intragroup transactions	Total
Revenue	15,108	(3,981)	11,127
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(1,700)	-	(1,700)
Depreciation, amortisation and impairment losses	(12)	-	(12)
Interconnection charges	(5,941)	3,169	(2,772)
Materials, utilities, repairs and maintenance	(729)	3	(726)
Loss on disposal of property, plant and equipment	(23)	-	(23)
Bad debt expense	(156)	-	(156)
Other operating income	71	-	71
Other operating (expenses)/income	(3,873)	809	(3,064)
Total operating (expenses)/income, net	(12,363)	3,981	(8,382)
Operating profit/(loss)	2,745	-	2,745
Finance (costs)/income	(776)	573	(203)

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	Six-month period ended 30 June 2014		
	Discontinued operations	Intragroup transactions	Total
Other investing and financial gain/(losses)	10,205	(7,546)	2,659
Foreign exchange gain	90	-	90
Profit/(loss) before income tax	12,264	(6,973)	5,291
Income tax expense	(392)	-	(392)
Profit/(loss) for the period	11,872	(6,973)	4,899

	Six-month period ended 30 June 2013		
	Discontinued operations	Intragroup transactions	Total
Revenue	21,077	(3,224)	17,853
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(2,646)	-	(2,646)
Depreciation, amortisation and impairment losses	(4,559)	-	(4,559)
Interconnection charges	(6,512)	2,496	(4,016)
Materials, utilities, repairs and maintenance	(1,041)	15	(1,026)
Loss on disposal of property, plant and equipment	(118)	-	(118)
Bad debt expense	(70)	-	(70)
Other operating income	38	1	39
Other operating (expenses)/income	(5,728)	715	(5,013)
Total operating (expenses)/income, net	(20,636)	3,227	(17,409)
Operating profit	441	3	444
Finance (costs)/income	(1,462)	939	(523)
Other investing and financial gains/(loss)	665	(1,351)	(686)
Foreign exchange (loss)/gain, net	(95)	9	(86)
Profit/(loss) before income tax	(451)	(400)	(851)
Income tax benefit	6	-	6
Profit/(loss) for the period	(445)	(400)	(845)

The following table illustrates information about cash flows attributable to the operating, investing, and financing activities of a discontinued operation for 6 months ended 30 June 2014, 30 June 2013.

	2014	2013
Operating cash flows	3,526	14,805
Investing cash flows	(779)	(19,253)
Financing cash flows	(1,462)	3,764
Total cash flows	1,285	(684)

13. COMMITMENTS AND CONTINGENCIES

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. There were no changes in contingencies since the date of issuance of the consolidated financial statements of the Group as of and for the year ended December 31, 2013.

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 Company or the Group.

As of 30 June 2014 and of 31 December 2013, contractual commitments of the Group for the

acquisition of property, plant and equipment amounted to 24,365 and 15,131 respectively.

14. SHARE-BASED PAYMENTS

In March 2014 the Board of Directors approved employee motivation program. The program provides option plan for ordinary shares which are purchased by program participants at fixed price, using proceeds from the annual bonus, which is paid depending on achievement of the KPI, based on FCF, net profit and ROIC.

Duration of the program is three years, starting from 2014. About 200 people are expected to take part in the program - senior and middle managers, including directors of regional branches.

The total target package of all participants of the option program consists of ordinary shares equivalent to 1.5% of the share capital of the Company. The maximum size of the package depends on meeting the KPI requirements and is limited to the 200% of the target shares in the event of a significant overperformance. In the event of a significant non-compliance with the KPI, program participants lose the right to the option in part attributable to the reporting period.

Shares are granted to participants in stages: 2014 – 30%, 2015 – 30%, 2016 – 40% whereas target package is adjusted to reflect achieved level of KPIs. Annual vesting also occurs in stages: 50% on the year end and 50% 12 months later.

To facilitate the program, the Company will establish a closed fund managed by a professional operator. Treasury shares amounting to 3% of the share capital will be invested to the fund by the Company.

Total amount of 750 was recognized as an expense in wages, salaries, other benefits and payroll taxes in this Consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014 in relation to the program.

15. SUBSEQUENT EVENTS

On 6 August 2014 Rostelecom OJSC completed the second and final stage of the deal with mobile operator Tele 2 Russia to create a new national mobile operator (hereinafter “JV”).

Rostelecom has transferred 100% of its shares in its subsidiary CJSC RT-Mobile to the JV. As part of the deal, Rostelecom spun off its integrated mobile assets into RT-Mobile and had its licenses reissued to this entity. After incorporating the relevant amendments into the JV’s charter, Rostelecom will have a 45% stake in the JV’s share capital.