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OAO ROSTELECOM

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

AS OF SEPTEMBER 30, 2010 AND FOR THE NINE-MONTH PERIOD THEN ENDED

CONTENT

These condensed consolidated interim financial statements are approved on December___,2010

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President

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OAO ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(In millions of Russian Rubles)

	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**

OAO ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(In millions of Russian Rubles except for earnings per share)

	Nine-month periods ended	
	September 30, 2010 (unaudited)	**September 30, 2009 (unaudited)**
Revenue		
Telephone traffic	29,251	33,684
Rent of channels	4,298	5,092
Data transmission services	8,760	6,757
Other revenue	3,478	3,231
Total revenue	**45,787**	**48,764**
Operating expenses		
Wages, salaries, other benefits and payroll taxes	(7,536)	(7,569)
Depreciation and amortization	(5,692)	(5,583)
Impairment of property, plant and equipment	(2)	-
Charges by network operators – international	(6,004)	(7,367)
Charges by network operators – national	(17,624)	(18,509)
Administration and other costs	(4,987)	(4,680)
Taxes other than on income	(517)	(485)
Repairs and maintenance	(572)	(590)
Bad debt recovery/ (expense)	13	(69)
Gain on sale and disposal of property, plant and equipment	87	18
Total operating expenses	**(42,834)**	**(44,834)**
Operating profit	**2,953**	**3,930**
Gain from associates	35	10
Interest expense	(186)	(177)
Interest income	1,109	1,344
Loss on sale of financial assets	-	(87)
Other non-operating income	21	42
Foreign exchange loss, net	(221)	(856)
Profit before tax	**3,711**	**4,206**
Current tax charge	(636)	(924)
Deferred tax charge	(281)	(21)
Income tax expense	**(917)**	**(945)**
Profit for the period	**2,794**	**3,261**
Other comprehensive income, net of tax		
Valuation gain on available-for-sale financial assets	4	306
Income tax relating to valuation gain on available-for-sale financial assets	(1)	(28)
Other comprehensive income for the period, net of tax	**3**	**278**
Total comprehensive income for the period	**2,797**	**3,539**
Profit attributable to :		
Equity holders of the Company	2,900	3,442
Non-controlling interest	(106)	(181)
Total comprehensive income attributable to :		
Equity holders of the Company	2,903	3,720
Non-controlling interest	(106)	(181)
Earnings per share attributable to equity holders of the Company – basic and diluted (in Russian Rubles)	2.99	3.54

OAO ROSTELECOM
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	Nine-month periods ended	
	September 30,2010 (unaudited)	September 30, 2009 (unaudited)
Cash flows from operating activities		
Profit before income tax	3,711	4,206
Adjustments to reconcile net income before tax to cash generated from operating activities:		
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	-
Changes in net working capital:		
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**
Non-monetary transactions:		
Non-cash additions to property, plant and equipment	115	26
Non-cash disposals of property, plant and equipment	7	
Non-cash addition of financial assets other than available-for-sale investments		388
Non-cash proceeds from sale of investment other than available-for-sale		388

(In millions of Russian Rubles)

	Attributable to equity holders of the Company								Non-controlling interest	Total equity
	Share capital	Unrealized gain/ on available-for-sale financial assets	Asset revaluation surplus on acquisitions	Treasury shares	Share redemption reserve	Reserve related to share-based payment transaction	Retained earnings	Total		
Balances at December 31, 2008	**100**	**95**	**258**	**-**	**-**	**-**	**58,932**	**59,385**	**40**	**59,425**
Valuation gain on available-for-sale financial assets, net of tax (unaudited)	-	278	-	-	-	-	-	278	-	278
Total other comprehensive income, net of tax (unaudited)	**-**	**278**	**-**	**-**	**-**	**-**	**-**	**278**	**-**	**278**
Profit for the period (unaudited)	-	-	-	-	-		3,442	3,442	(181)	3,261
Total comprehensive income (unaudited)	**-**	**278**	**-**	**-**	**-**	**-**	**3,442**	**3,720**	**(181)**	**3,539**
Dividends (unaudited)	-	-	-	-	-	-	(2,122)	(2,122)	-	(2,122)
Balances at September 30, 2009 (unaudited)	**100**	**373**	**258**	**-**	**-**	**-**	**60,252**	**60,983**	**(141)**	**60,842**
Balances at December 31, 2009	**100**	**533**	**258**	**-**	**-**	**-**	**60,483**	**61,374**	**(177)**	**61,197**
Valuation gain on available-for-sale financial assets, net of tax (unaudited)	-	3	-	-	-	-	-	3	-	3
Total other comprehensive income, net of tax (unaudited)	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Profit for the period (unaudited)	-	-	-	-	-	-	2,900	2,900	(106)	2,794
Total comprehensive income (unaudited)	**-**	**3**	**-**	**-**	**-**	**-**	**2,900**	**2,903**	**(106)**	**2,797**
Dividends (unaudited)	-	-	-	-	-	-	(1,530)	(1,530)	-	(1,530)
Redemption of shares (unaudited)	-	-	-	(5,895)	(156)	-	-	(6,051)	-	(6,051)
Decrease of value of the contribution to the motivation programme fund on initial recognition(unaudited)	-	-	-	-	-	(372)	-	(372)	-	(372)
Share options reserve (unaudited)	-	-	-	-	-	461	-	461	-	461
Balances at September 30, 2010 (unaudited)	**100**	**536**	**258**	**(5,895)**	**(156)**	**89**	**61,853**	**56,785**	**(283)**	**56,502**