



**SVYAZNOY N.V.**

Unaudited interim condensed  
consolidated financial statements

*30 June 2011*

# SVYAZNOY N.V.

## Interim condensed consolidated financial statements

30 June 2011

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to the shareholders of SVYAZNOY N.V

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## Review report

To: the Management and Supervisory Board of Svyaznoy N.V.

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial information of Svyaznoy N.V., Amsterdam, which comprises the interim consolidated statement of financial position as at 30 June 2011, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six month period ended 30 June 2011, and the notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on the interim condensed consolidated financial information based on our review.

### *Scope*

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Basis for qualified conclusion*

The accompanying interim condensed consolidated financial information does not include comparative figures for the interim consolidated statements of comprehensive income, changes in equity and cash flows and the related explanatory notes, as required by IAS 34.

### *Conclusion*

Based on our review, and except for the matter as described above in 'Basis for qualified conclusion', nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

*Emphasis of matter*

Without qualifying our conclusion, we draw attention to Note 9 to the interim condensed consolidated financial information which discloses a significant concentration of operating and financing transactions of the group with related parties.

Amsterdam, 21 October 2011

Ernst & Young Accountants LLP

A large, stylized handwritten signature in black ink, consisting of a large initial 'W' followed by several loops and a long horizontal stroke at the end.

W.C. van Hoeven

SVYAZNOY N.V.

Interim consolidated statement of financial position

as at 30 June 2011

		RUB'000	
	Reference to Notes	30 June 2011 unaudited	31 December 2010 audited
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	7	2,405,968	2,254,195
Intangible assets		415,091	343,739
Long-term investments	9	4,556,892	3,531,550
Long-term receivables		1,083,111	163,390
Deferred tax asset		76,846	185,455
<b>Total non-current assets</b>		<b>8,537,908</b>	<b>6,478,329</b>
Current assets			
Inventories	8	8,092,452	10,437,528
Trade and other receivables		6,888,076	7,866,596
Income tax prepayment		187,213	89,619
Investments		4,078	113,136
Cash and short-term deposits		1,753,603	3,179,591
<b>Total current assets</b>		<b>16,925,422</b>	<b>21,686,470</b>
<b>Total assets</b>		<b>25,463,330</b>	<b>28,164,799</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	10	17,957,135	1,100,000
Other reserves	10	(16,853,067)	–
Retained earnings		596,238	50,243
Translation reserve		(2,133)	–
<b>Equity attributable to equity holders of the parent</b>		<b>1,698,173</b>	<b>1,150,243</b>
Non-controlling interest	11	1,519	435,517
<b>Total equity</b>		<b>1,699,692</b>	<b>1,585,760</b>
<b>Liabilities</b>			
Non-current liabilities			
Long-term loans and borrowings		3,000,000	3,000,000
Long-term trade and other payables		–	543,503
Deferred tax liability		753	9,696
<b>Total non-current liabilities</b>		<b>3,000,753</b>	<b>3,553,199</b>
Current liabilities			
Short-term loans and borrowings		7,431,057	6,213,929
Trade and other payables		12,857,437	15,896,325
Income tax payable		–	472,036
Deferred revenue		422,902	374,635
Provisions for future expenses		51,489	68,915
<b>Total current liabilities</b>		<b>20,762,885</b>	<b>23,025,840</b>
<b>Total liabilities</b>		<b>23,763,638</b>	<b>26,579,039</b>
<b>Total shareholders' equity and liabilities</b>		<b>25,463,330</b>	<b>28,164,799</b>

SVYAZNOY N.V.

Interim consolidated statement of comprehensive income  
for the six months ended 30 June 2011

	Reference to Notes	Six month 2011 unaudited
Revenue		29,334,803
Cost of sales		(19,042,070)
<b>Gross profit</b>		<b>10,292,733</b>
Selling and distribution costs		(7,717,449)
Administrative expenses		(1,761,316)
Other expenses		(429,661)
<b>Operating profit</b>		<b>384,307</b>
Finance income		344,039
Finance costs		(445,518)
<b>Profit before tax</b>		<b>282,828</b>
Income tax expense		(141,344)
<b>Profit for the period</b>		<b>141,484</b>
<b>Other comprehensive income (Translation reserve)</b>		<b>(2,133)</b>
<b>Total comprehensive income for the reporting period, net of tax</b>		<b>139,351</b>
<b>Profit for the period</b>		
<b>Attributable to:</b>		
Equity holders of the parent		139,965
Non-controlling interest		1,519
<b>Earnings per share</b>		
Basic and diluted earnings per share for the year	6	0.0003
<b>Total comprehensive income for the reporting period, net of tax</b>		
<b>Attributable to:</b>		
Equity holders of the parent		137,832
Non-controlling interest		1,519
<b>Earnings per share</b>		
Basic and diluted earnings per share for the year		0.0003

SVYAZNOY N.V.

Interim consolidated statement of changes in equity  
for the six months ended 30 June 2011

RUB'000

	Attributable to the equity holders of the parent				Total	Non- controlling interest	Total equity
	Issued shares	Other reserves	Retained earnings	Translation reserve			
<b>At 31 December 2010</b>	<b>1,100,000</b>	–	<b>50,243</b>	–	<b>1,150,243</b>	<b>435,517</b>	<b>1,585,760</b>
Profit for the year	–	–	139,965	–	139,965	1,519	141,484
Other comprehensive income	–	–	–	(2,133)	(2,133)	–	(2,133)
<b>Total comprehensive income</b>	–	–	<b>139,965</b>	<b>(2,133)</b>	<b>137,832</b>	<b>1,519</b>	<b>139,351</b>
Contribution to share capital (Note 2, 10)	16,857,135	(16,853,067)	–	–	4,068	–	4,068
Contribution from shareholder (note 9)	–	–	50,398	–	50,398	–	50,398
Acquisition of non- controlling interest (Note 11)	–	–	355,632	–	355,632	(435,517)	(79,885)
<b>At 30 June 2011 (unaudited)</b>	<b>17,957,135</b>	<b>(16,853,067)</b>	<b>596,238</b>	<b>(2,133)</b>	<b>1,698,173</b>	<b>1,519</b>	<b>1,699,692</b>

SVYAZNOY N.V.

Interim consolidated statement of cash flows  
for the six months ended 30 June 2011

	RUB'000
	<b>2011</b>
	<b>unaudited</b>
	<u>3,179,591</u>
<b>Cash and cash equivalents at 1 January</b>	
<b>Operating activities</b>	
Cash proceeds from customers	114,005,772
Cash paid to suppliers	(107,689,561)
Payroll and social charges	(4,398,025)
Income tax paid	(614,702)
Other tax expenses	(1,175,918)
<b>Net cash flows from operating activities</b>	<u>127,566</u>
<b>Investing activities</b>	
Purchase of property, equipment and intangible assets	(1,017,893)
Proceeds from sale of property, plant and equipment	45,072
Loans issued	(1,468,223)
Repayment of loans issued	178,115
Interest received	28,557
<b>Net cash flows used in investing activities</b>	<u>(2,234,372)</u>
<b>Financing activities</b>	
Proceeds from borrowings	14,628,001
Repayment of borrowings	(13,414,688)
Interest paid	(435,829)
Acquisition of non-controlling interests	(45,006)
Contributions to charter capital	4,064
Dividends paid to holders of preferred shares	(24,373)
<b>Net cash flows from financing activities</b>	<u>712,169</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(1,394,637)</u>
<b>Net foreign exchange difference</b>	<u>(31,351)</u>
<b>Cash and cash equivalents at 30 June</b>	<u><u>1,753,603</u></u>



# SVYAZNOY N.V.

## Notes to the condensed consolidated financial statements

for the six months ended 30 June 2011

### 1. Corporate information

This interim condensed consolidated financial statements for the six months ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 14 October, 2011. This interim condensed consolidated financial information does not constitute statutory financial information.

SVYAZNOY N.V. (referred to as "SVYAZNOY" or "the Company") is a public limited liability company (naamloze vennootschap) incorporated under the Laws of the Netherlands on 17 December 2010, having its official seat in Amsterdam, the Netherlands, and its office address at Locatellikade 1 Parnassus Toren, 1076 AZ Amsterdam, The Netherlands and registered with the trade register of the Chamber of Commerce of Amsterdam under number 51485397. The principal activities of the company and its subsidiaries (the "Group") are described in Note 5.

The parent of SVYAZNOY N.V. is Trellas Enterprises Limited (Cyprus). Trellas Enterprises Limited (Cyprus) is under the control of Mr M. Nogotkov.

### 2. Basis of preparation and changes to the Group`s accounting policies

#### ***Basis of preparation***

In 2011, SVYAZNOY N.V. was inserted at the top of the existing group, Closed Joint Stock Company SVYAZNOY Group. In 2011, SVYAZNOY N.V. issued shares to the existing shareholders of Closed Joint Stock Company SVYAZNOY Group in exchange for the shares already held in that entity (note 10). Effectively SVYAZNOY N.V. is a continuation of the existing CJSC SVYAZNOY Group and the interim condensed consolidated financial statements have been prepared on that basis. The difference between the share capital of SVYAZNOY N.V. and CJSC SVYAZNOY was reflected as an adjustment to equity.

The consolidated financial statements of the Group at 31 December 2010 comprised the financial statements of CJSC SVYAZNOY Group and its subsidiaries.

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the CJSC Svyaznoy Group`s annual consolidated financial statements as at 31 December 2010.

## Notes to the condensed consolidated financial statements (continued)

**2. Basis of preparation and changes to the Group`s accounting policies (continued)*****New standards, interpretations and amendments thereof, adopted by the Group***

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

- ▶ ***IAS 24 Related Party Transactions (Amendment)***  
The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.
- ▶ ***IAS 32 Financial Instruments: Presentation (Amendment)***  
The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.
- ▶ ***IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)***  
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment to the interpretation has had no effect on the financial position or performance of the Group.
- ▶ ***Improvements to IFRSs (issued May 2010)***  
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.
  - ▶ ***IFRS 3 Business Combinations:*** The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
  - ▶ ***IFRS 7 Financial Instruments — Disclosures:*** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
  - ▶ ***IAS 1 Presentation of Financial Statements:*** The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.
  - ▶ ***IAS 34 Interim Financial Statements:*** The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities interim condensed financial statements.

# SVYAZNOY N.V.

## Notes to the condensed consolidated financial statements (continued)

### 2. Basis of preparation and changes to the Group`s accounting policies (continued)

#### ***New standards, interpretations and amendments thereof, adopted by the Group***

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- ▶ IFRS 3 *Business Combinations* — Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- ▶ IFRS 3 *Business Combinations* — Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- ▶ IAS 27 *Consolidated and Separate Financial Statements* — applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards
- ▶ IFRIC 13 *Customer Loyalty Programmes* — in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### 3. Basis of consolidation

#### ***Basis of consolidation***

The condensed consolidated interim financial statements of SVYAZNOY N.V. comprise the financial statements of the Company and its subsidiaries as at 30 June 2011.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

This condensed consolidated interim financial statements include assets, liabilities and results of operations of 16 subsidiaries.

Below is the list of entities directly controlled by the Company:

- ▶ CJSC Svyaznoy Group of Companies
- ▶ CJSC SVYAZNOY Logistics
- ▶ CJSC SVYAZNOY Zagruzka
- ▶ CJSC SVYAZNOY MR
- ▶ JSC SVYAZNOY CR
- ▶ JSC SVYAZNOY Kzn
- ▶ JSC SVYAZNOY Yug
- ▶ JSC SVYAZNOY SPB
- ▶ JSC SVYAZNOY Siberia
- ▶ JSC SVYAZNOY NN
- ▶ JSC SVYAZNOY Ural
- ▶ LLC SVYAZNOY 3
- ▶ CJSC Explay
- ▶ LLC MT-Service
- ▶ CJSC S-Club
- ▶ Foreign LLC Belaya Vezha

# SVYAZNOY N.V.

## Notes to the condensed consolidated financial statements (continued)

### 3. Basis of consolidation (continued)

#### *Basis of consolidation (continued)*

All of the above companies, except for FLLC Belaya Vezha, are legal entities organized under the laws of the Russian Federation, while Foreign LLC Belaya Vezha is a legal entity organized under the laws of the Republic of Belarus.

### 4. Seasonality of operations

Due to the seasonal nature of activity, higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. Higher sales during the period July to December are mainly attributed to the increased demand from private customers.

### 5. Segment information

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2011.

Six months ended 30 June 2011	RUB'000					IFRS data
	Sale of goods	Services of cellular operators	Other segments	Management accounts data, total	Adjustments and eliminations	
<b>Revenue</b>						
Sales to external customers	20,665,507	4,175,081	4,489,962	29,330,550	4,252	29,334,803
<b>Total revenue</b>	<b>20,665,507</b>	<b>4,175,081</b>	<b>4,489,962</b>	<b>29,330,550</b>	<b>4,252</b>	<b>29,334,803</b>
<b>Profit for the year</b>	<b>161,123</b>	<b>32,552</b>	<b>35,007</b>	<b>228,682</b>	<b>(87,198)</b>	<b>141,484</b>
Interest paid				268,744	7,009	275,753
Income tax				(2,251)	143,595	141,344
Other expenses not included in calculation of EBITDA (exchange differences)				338,828	24,659	363,487
<b>EBIT (earnings before interest and tax)</b>				<b>834,003</b>	<b>88,065</b>	<b>922,068</b>
Depreciation and amortization charges on non-current assets				483,925	(37,831)	446,094
<b>EBITDA (earnings before interest, taxes, depreciation and amortization)</b>				<b>1,317,929</b>	<b>50,233</b>	<b>1,368,162</b>
Capital expenditures	567,592	114,671	123,320	805,583	–	805,583

# SVYAZNOY N.V.

## Notes to the condensed consolidated financial statements (continued)

### 6. Earnings per share

	RUB'000
	<b>Six months ended 30 June 2011</b>
Profit for the year	141,484
Non-controlling interest	(1,519)
<b>Profit attributable to ordinary equity holders</b>	<b>139,965</b>
Weighted average number of ordinary shares	440,000,000
<b>Basic and diluted earnings per ordinary share</b>	<b>0.0003</b>
	<b>Six months ended 30 June 2011</b>
Total comprehensive income for the reporting period, net of tax	141,484
Non-controlling interest	(1,519)
<b>Profit attributable to ordinary equity holders</b>	<b>139,965</b>
Weighted average number of ordinary shares	440,000,000
<b>Basic and diluted earnings per ordinary share</b>	<b>0.0003</b>

### 7. Property, plant and equipment. Intangible assets

#### *Acquisitions and disposals*

During the six months ended 30 June 2011, the Group acquired property, plant and equipment with a cost of RUB 682,775 thousand and Intangible assets with a cost of RUB 122,808 thousand.

Assets with a net book value of RUB 107,901 thousand were disposed of by the Group during the six months ended 30 June 2011, resulting in a net loss on disposal of RUB 66,174 thousand.

### 8. Inventories

At 30 June 2011 and 31 December 2010 provision amounted to RUB 414 million and RUB 362 million, respectively. The change in the provision of RUB 52 million in the six months of 2011 was recognized in the statement of comprehensive income in cost of sales.

SVYAZNOY N.V.

Notes to the condensed consolidated financial statements (continued)

9. Related parties disclosures

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending 30 June 2011 as well as balances with related parties as of 30 June 2011 and 31 December 2010:

	RUB'000					
Balances and transactions at 30 June 2011	Key management personnel	Shareholder	Ultimate parent	Other related parties under common control	Other related parties	Total
<b>Balance sheet items</b>						
Long-term receivables	–	–	–	547,382	–	547,382
Short-term receivables	2,899	–	–	2,253,999	11,151	2,268,050
Short-term loans issued	–	–	–	–	755	755
Long-term loans issued	–	–	297,185	4,281,768	–	4,578,953
Provision for impairment of loans issued	–	–	–	(22,063)	–	(22,063)
Short-term borrowings received	–	–	–	–	8,500	8,500
Accounts payable	–	–	3,651	454,284	35,923	493,858

	RUB'000					
Balances and transactions at 31 December 2010	Key management personnel	Shareholder	Ultimate parent	Other related parties under common control	Other related parties	Total
<b>Balance sheet items</b>						
Short-term receivables	–	–	–	2,322,177	–	2,322,177
Short-term loans issued	–	–	–	91,124	42,743	133,867
Long-term loans issued	–	910,626	178,061	2,003,425	439,438	3,531,550
Short-term borrowings received	–	–	–	80,815	21,750	102,565
Accounts payable	–	–	–	176,014	–	176,014

	RUB'000					
Six months ended 30 June 2011	Key management personnel	Shareholder	Ultimate parent	Other related parties under common control	Other related parties	Total
<b>Items of income and expenses</b>						
Sales revenue (sales of services)	–	–	–	31,692	–	31,692
Administrative expenses (personnel expenses)	48,788	–	–	–	–	48,788
Finance income	–	–	9,184	328,962	414	338,560
Other income	–	–	–	–	–	–
Other expenses	–	–	–	194,994	–	194,994
Purchases of goods	–	–	–	25,944	–	25,944

In January, 2011, the Company sold to its shareholder loans due from other related parties with carrying amount of RUB 496,984 thousand for a consideration received of RUB 547,382 thousand. The RUB 50,398 thousand excess of the consideration received over the carrying amount of the loans was recorded in equity as a contribution from the shareholder.

In June, 2011 the Group entered into an agreement to guarantee a loan received by related party (entity under common control with the Company) with carrying amount of RUB 3 billion.

# SVYAZNOY N.V.

## Notes to the condensed consolidated financial statements (continued)

This guarantee will come into effect upon the occurrence of certain events, none of which had occurred at the date of issuance of these financial statements.

### 10. Share capital

Svyaznoy N.V. was established by Trellas Enterprises Limited (the Shareholder of the Company) in December 2010. As at 31 December 2010 the issued share capital was 100,000 ordinary shares of nominal value EUR 1 each that amounts to kRUB 4,068. In December 2010 the issued share capital was fully paid in cash.

In April 2011, the Company issued 439,900,000 ordinary shares with nominal value EUR 1 each in exchange of shares of CJSC Svyaznoy Group contributed in the amount of RUB 16,853,067 thousand. Since the interim condensed consolidated financial statements have been prepared as a continuation of the existing CJSC Svyaznoy Group, the difference between the nominal value of shares issued and nominal value of the CJSC Svyaznoy shares was recorded as other reserves that amounts to RUB (16,853,067) thousand.

### 11. Acquisition of non-controlling interest

During the six months of 2011 the Company acquired non-controlling interest as follows:

- ▶ 100% of the entire share capital of CJSC Explay consisting of 100 shares, with a nominal value of 100 RUB each;
- ▶ 100% of participation interest in LLC Mobile Telecom Service with a nominal value of 10,000 RUB;
- ▶ 10,000 premium shares in Svyaznoy NN, 10,000 premium shares in Svyaznoy Tsr, 10,000 premium shares in Svyaznoy Kzn and 5,000 premium shares in Svyaznoy Spb.

The excess of the carrying values non-controlling interests over the amounts of consideration of acquired amounting to RUB 355,632 thousand was charged to accumulated profits.

### 12. Events after reporting date

In July 2011 the Company obtained from a third party a loan of RUB 3 billion to refinance a short-term loan into long-term loan which improved the liquidity position.