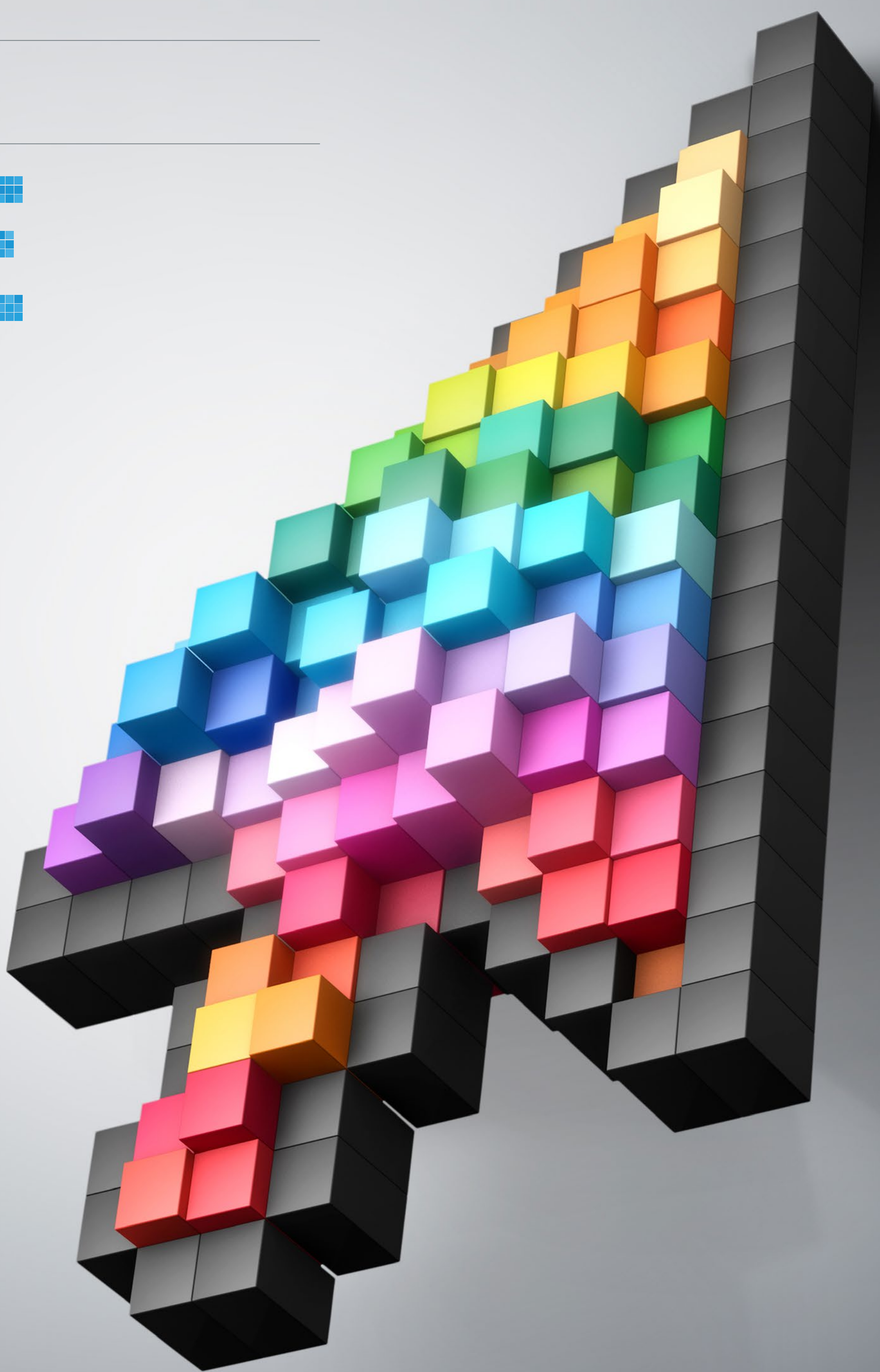
Rostelecom

Annual Report
2017

WE BUILD DIGITAL RUSSIA



About this Report

This Report has been prepared by PJSC Rostelecom ("Rostelecom" or the "Company") and its subsidiaries (jointly, the "Group"), in line with Note 9 Subsidiaries to the Company's consolidated financial statements prepared under the International Financial Reporting Standards ("IFRS") for the year ended 31 December 2017.

Disclaimer

This Report contains certain "forward-looking statements regarding future events", as defined by the US federal securities laws, which are, therefore, regulated by these laws, which provide for no liability for any act done or omitted in good faith. Such forward-looking statements regarding future events include (but are not limited to) the following:

- estimates of future operational and financial performance of the Company and projected effects on the current value of future cash flows
- the Company's plans to have equity interests in other businesses
- the Company's plans for network construction and upgrades, as well as capital expenditures
- changes in demand for the Company's services, the Company's plans to enhance the existing and develop new services, and price forecasts
- plans to improve the Company's corporate governance practices
- the Company's future position in the telecommunications market and the outlook for the market segments in which the Company operates
- economic outlook and industry trends
- potential regulatory changes and assessments of the impact any laws or regulations may have on the Company's business
- assessment of the risks affecting the Company's financial and business operations, and risk mitigation plans
- other Company's plans and forecasts regarding future events.

The above forward-looking statements regarding future events are subject to risks, uncertainties and other factors that may cause the actual results to differ from those discussed in the statements. These risks, uncertainties, and other factors include:

- risks associated with changes in the political, economic, and social environment in Russia and macroeconomic changes
- risks associated with Russian laws, legislative reforms, and taxation, including laws, regulations, decrees, and resolutions governing the Russian telecommunications industry, activities related to placement and public circulation of securities, and foreign exchange control requirements to Russian companies, including the statutory interpretation of such regulations by the regulatory bodies
- risks associated with the Company's business, including performance against targets and set profitability and growth rates; ability to create and meet demand for the Company's services, including their promotion; the Company's ability to maintain its competitive edge in the Russian liberalised telecommunications market
- technology risks associated with the operation and development of the communications infrastructure, technology-driven innovations, and convergence of technologies
- other risks and uncertainties.

More details on these factors are available in the Company's public disclosures. Most of the above factors are beyond the Company's control or can not be predicted by the Company. In view of the above, the Company does not recommend to rely on the statements regarding future events presented in this Report without proper guidance. The Company assumes no obligation to publicly revise its statements – neither to reflect events or circumstances after the date of this Report, nor to report on any unanticipated events, except where required by the applicable law.

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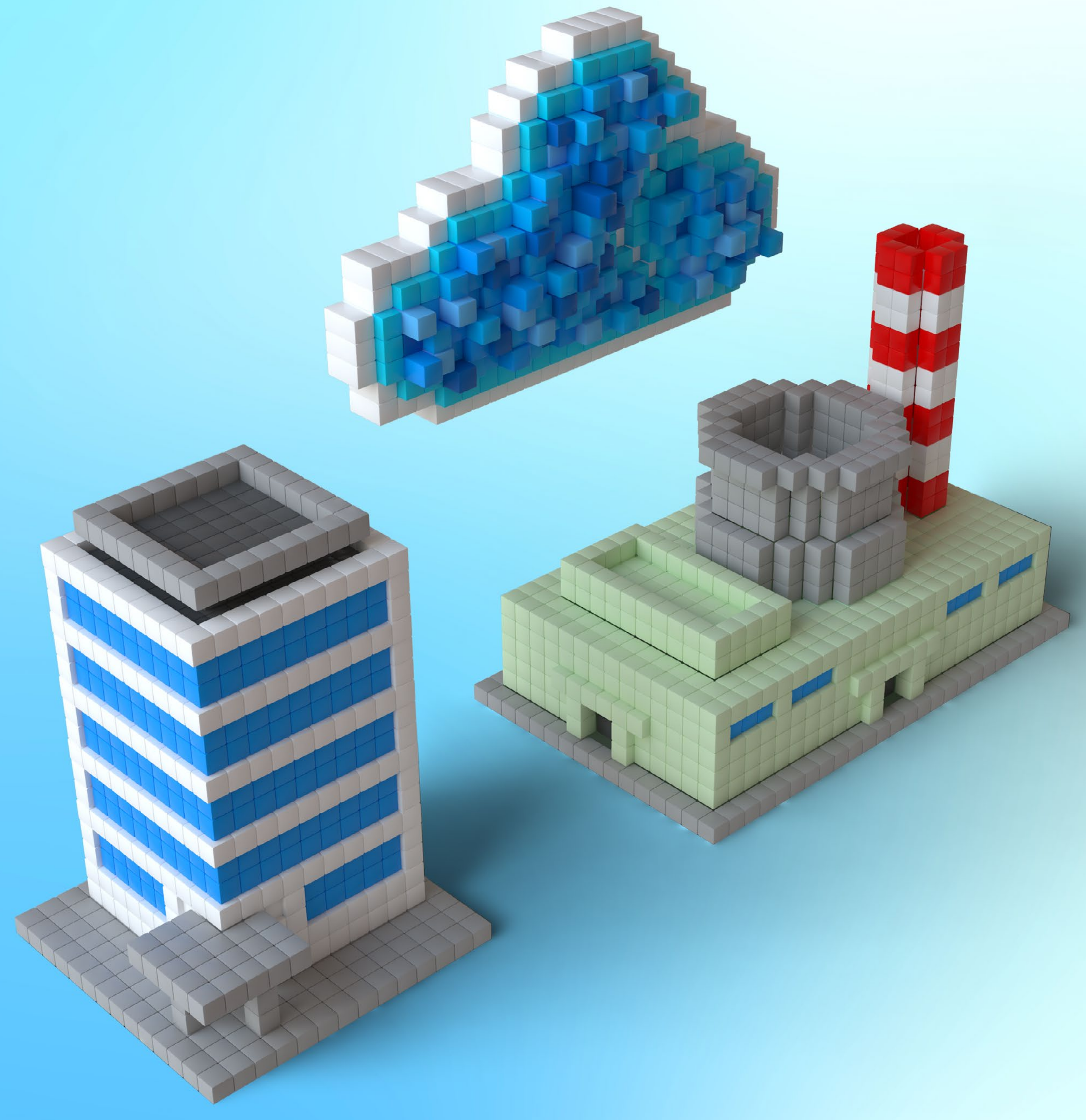
Advances in the Industrial Internet of Things (IIoT) create new markets for transmission and processing of big data – the most valuable asset for the future digital economy. Rostelecom already pursues IIoT projects across a wide range of industries aiming to ensure sustainable long-term growth.



Rostelecom Today

Rostelecom has a rich history, unique infrastructure, and a sustainable business model aimed at providing high-quality and advanced digital services to households, businesses, the government, and other operators.
We have leadership in markets with significant growth potential.

Rostelecom is currently the only Russian company capable of providing nationwide quad play services allowing subscribers to benefit from a comprehensive offering while saving time and money.

around 70%

Sales of bundled offers (two or more services)

2017 Highlights

Revenue
305.3
RUB billion

Revenue from content and digital services
47%

+26.3 %
Revenue from VAS and content services vs 2016

33 million
households connected to fibre

Data centre racks
5,268

OIBDA
96.9
RUB billion

15.5
Tbps
capacity of backbone network

FCF
20.4
RUB billion

Chairman's Statement

Dear Shareholders and Investors,

Through staying ahead of the curve, rapidly adapting to new economic trends, and quickly adopting innovative solutions, Rostelecom is an undisputed leader in the Russian telecoms market.

However, we need to regularly adjust our growth strategy to objectively reflect the current market environment and develop realistic plans for the future. At the same time, our key goal has remained the same, as reflected in the recently approved corporate Strategy 2022: to transform into a digital partner for retail, business, and government customers, offering a wide range of high-demand products and services.

Rostelecom's new dividend policy balances the interests of both the Company and its shareholders while strictly respecting their rights, thereby further improving our investment appeal and increasing market capitalisation.

As regards our operating and financial performance, I would like to highlight that last year we confidently passed an important landmark of RUB 300 billion in gross revenue by bringing the share of content and digital services up to 47%.

Successfully certified to intergovernmental standards, our risk management framework has remained strong.

We have also seen some notable progress in our corporate governance practices, and according to the Russian Government Expert Council, Rostelecom has outperformed on this measure all other Russian government-owned companies.

The Company's performance has generally been quite strong, and I have ample reasons to be optimistic about its outlook that offers us new opportunities for comprehensive growth.

Dear colleagues, I thank you on behalf of the Board for your positive contribution to achieving our goals, and I look forward to our continued rewarding cooperation.

Sergei Ivanov
Chairman of the Board, PJSC Rostelecom

Letter from the President

Dear Shareholders, Partners, and Colleagues,

In 2017, Rostelecom continued its transformation into a digital partner for retail, business, and government customers. The Company has increased both its revenue and net profit. Our free cash flow, which is used to calculate dividend payments to our shareholders, has also grown by 50%. Our new business model relies on content and digital services which have been consistently growing at double-digit rates and are driving Rostelecom's strategic transformation.

Our retail business showed strong performance in 2017, with 33 million households passed by fibre, 12 million broadband users, 5 million Pay TV subscribers, and 830 thousand MVNO subscribers.

Rostelecom's B2B business has 763 thousand broadband subscribers, including 45% fibre-connected. The Company is leading in the Russian data centre market, with a total of 5,300 racks as at the end of 2017, comprising over 14% of the market.

The government remains our major customer. In-depth expertise and a vast pool of experience have ensured Rostelecom's lead under the IT Infrastructure section of the Digital Economy of the Russian Federation programme. More than half of Russian regions use our digital healthcare, security, and emergency response solutions. Drawing on the government's financial support, Rostelecom has been extending its digital network to remote areas of the country while consistently refining its internal business processes to make the customer experience as smooth as possible. As at the end of 2017, over 6,000 settlements were connected to fibre under the government-sponsored Bridging the Digital Divide (BDD) programme, while 64 million people are now using the e-government website.

Rostelecom successfully maintains relations with other operators. In 2017, our market share in traffic transmission was 56%, with over 1 Tbps of our capacity contracted for carrying transit traffic between Europe and Asia. Our communications networks have been upgraded and rapidly expanding, with their combined length already totalling 500,000 km. In 2017, the Company completed its Kamchatka–Sakhalin–Magadan FOCL and proceeded to connect the Kuril Islands to its network. During the year, the throughput of our backbone network rose to 15.5 Tbps.

In the reporting period, Rostelecom continued improving its operational efficiency, rightsizing its workforce and streamlining its organisational structure, while divesting non-core assets. The combined effect from our efficiency improvement programme totalled RUB 17 billion over the past several years.

The Company places a particular emphasis on fostering its corporate culture by encouraging all level employees to engage in creating customer value. In 2017, the Board of Directors approved the new long-term management incentive programme, which directly motivates key employees to boost the Company's value.
The programme will contribute to the Company's sustainable growth and delivery of business priorities within its transformation into a digital service provider. As of 2018, we are using NPS as a key performance indicator to assess customer satisfaction.

In 2018, the Company launched its new development strategy through to 2022. The strategy involves using our existing experience and expertise, but also building new capabilities. In today's fast-paced environment, the Company is continuously seeking and embedding solutions to enhance relations with all stakeholders and drive a more sustainable growth. With its excellent track record and business standing, Rostelecom looks forward with confidence as we continue to develop new high value-added segments such as cyber security, biometrics, virtualisation, IIoT, education, and more.

We will continue in the current direction of boosting the share of digital services and solutions, as we are confident that our new strategy fully addresses both the current needs of the market and emerging challenges. We are planning to maintain our leadership by building ecosystems of competitive digital products that cater to the needs of our customers.

I would like to recognise the positive contribution that our employees, shareholders, and partners have shown during 2017.

Mikhail Oseevskiy
President of PJSC Rostelecom

Key Events

Key Events of 2017

January 2017

- Rostelecom's venture capital fund invested in Transportation Information Technologies (TransInfoTech)

February 2017

- Rostelecom signed a strategic partnership agreement with Gazprom Neft to foster innovation and the Industrial Internet of Things (IIoT)
- Rostelecom signed an agreement to provide services to the State Automated System "Justice"

March 2017

- Mikhail Oseevskiy was appointed President of Rostelecom
- Rostelecom consolidated 100% of SafeData Group

April 2017

- Rostelecom placed bonds for RUB 10 billion at 8.65% p.a.
- Rostelecom commenced offshore FEED for SFOCL construction on the Kuril Islands

June 2017

- Rostelecom's Annual General Shareholders' Meeting was held; the dividend per share was determined at RUB 5.39; the new Board of Directors and Audit Commission were elected; the auditor was approved

July 2017

- Rostelecom approved a new share option plan for senior and middle management
- Rostelecom was assigned AA(RU) credit rating by ACRA, with a stable outlook

September 2017

- Rostelecom successfully completed the first multi-vendor compatibility test of a transport software-defined network (SDN) in Russia
- Rostelecom provided video surveillance on the election day

October 2017

- Rostelecom presented a new bundle for small and medium-sized businesses – "Byt v plyuse " ("Plus Account"")
- Rostelecom launched a new "Smart Home. Video Surveillance" service for households

November 2017

- Rostelecom's data centres secured 5,268 telco racks (No. 1 player in the Russian data centre market)
- Rostelecom was ranked first in the rating of full compliance with priority recommendations of the Corporate Governance Code
- Rostelecom placed bonds for RUB 10 billion at 7.7% p.a.

December 2017

- Rostelecom acquired 100% in the provider Tvingo Telecom
- Sberbank and Rostelecom signed an agreement on a parity basis to increase the capital of the commercial real estate sub-fund in the form of a joint venture to RUB 8.8 billion.

Key Events After the Reporting Period

January 2018

- Rostelecom created the Geodata Information System (GIS) for the Arkhangelsk Region
- Rostelecom signed an agreement with the Moscow Government on telemetry transmission from special vehicles

February 2018

- Rostelecom signed an agreement with TechnoServ Cloud on traffic monitoring and DDoS protection services
- Rostelecom introduced the first beta version of the Unified Biometric System
- Rostelecom introduced a cloud solution to protect online resources from a wide range of attacks
- Fitch affirmed Rostelecom's investment grade rating of BBB-

March 2018

- Rostelecom invested in Sailfish, a mobile operating system developer
- Rostelecom placed bonds for RUB 10 billion at 7.15% p.a.
- Rostelecom announced its updated Strategy 2022 and the new Dividend Policy for 2018–2020
- Rostelecom, Nokia, and the Skolkovo Foundation launched the first open pilot zone for the next-generation 5G network in Russia
- Rostelecom provided video surveillance at Russia's Presidential election

History Milestones

7 March 1876 Alexander Bell patented the telephone

1 June 1880 The world's first payphone introduced

15 January 1880 The first domestic long-distance telephone network launched in Russia

1882 Commercial telephony launched in Russia for the first time ever, with 338 users in Saint Petersburg and 224 users in Moscow signed up for the new communication service during the first year of operation

24 December 1906 The world's first broadcast of a radio programme

9 May 1911 Boris Rosing patented a method of electrical transmission of images over a distance and became the first in the world to transmit and receive TV images

1929 First automatic telephone station (ATS) put into operation in the USSR. Wide-scale communications networks development commenced by the People's Commissariat for Communications of the USSR, and later on – by the Ministry of Communications of the USSR

30 December 1957 The world's first vision of fibre-optic communications introduced in the USSR's Telecommunications Research Institute

1 November 1964 The world's first multichannel optical data transmission system launched with a 10 km range of coverage

29 October 1969 ARPANET packet switching network (the prototype for the Internet) launched

3 April 1973 The world's first call from a handheld mobile phone made

22 May 1973 Ethernet developed

1990 The Ministry of Communications of the USSR established Joint-Stock Company Sovtelecom responsible for operation and enhancement of the long-distance and international telecommunications network

1991 Sovtelecom transformed into Intertelecom, an international joint-stock company, and, one year on, was renamed to Rostelecom

6 August 1991 The world's first website published

3 December 1992 The first SMS text sent

1995 Svyazinvest, a state-owned holding company, established to run 85 regional telecoms operators

23 July 1996 First broadcast of digital high definition signals made

2002 Seven interregional companies (IRCs) established through merging regional telecoms operators

2011 Stage 1 of the government-initiated reform to consolidate state communications assets completed, as IRCs joined Rostelecom

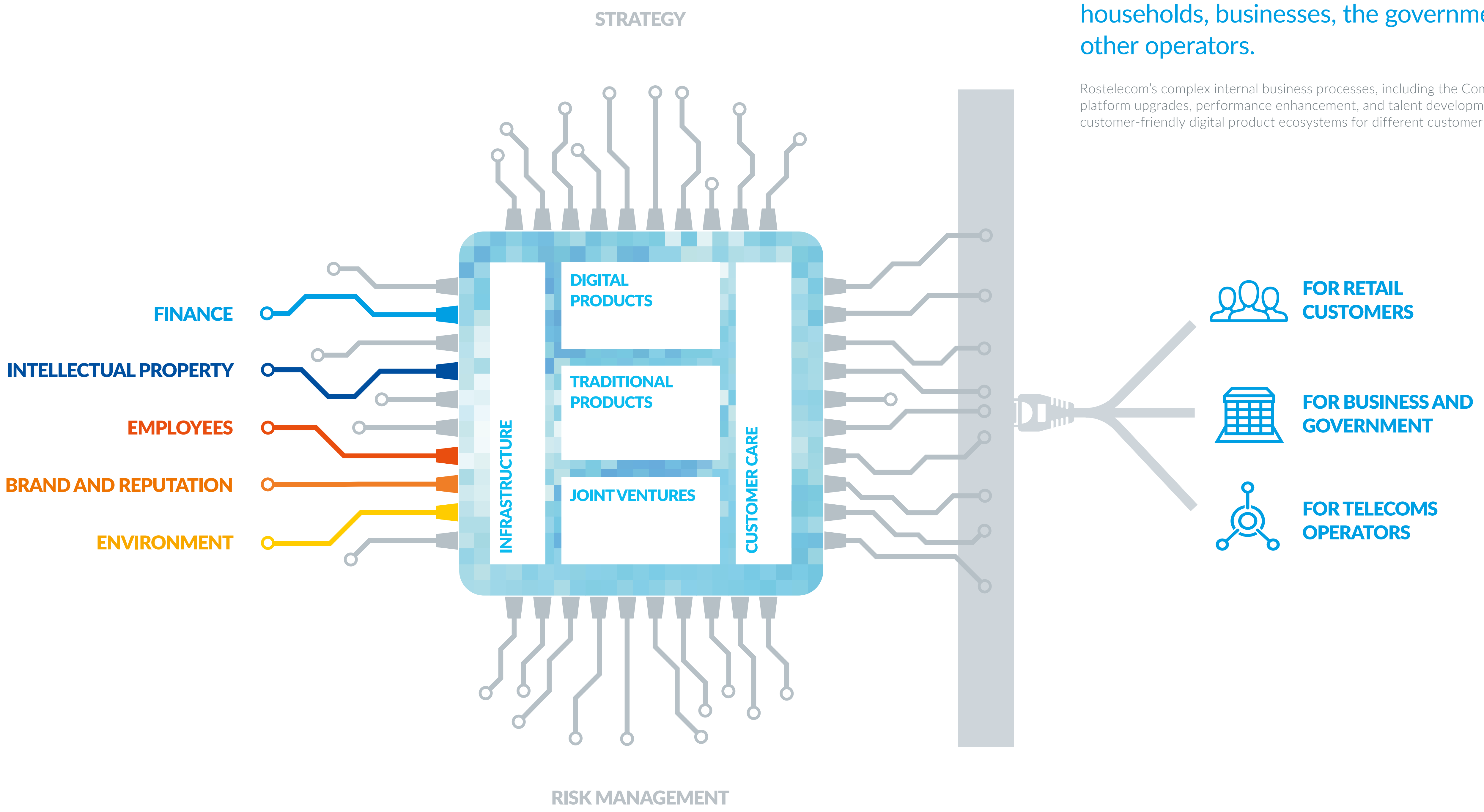
2013 Stage 2 of Rostelecom transformation completed, as Svyazinvest and 20 subsidiaries merged to form a new company, Rostelecom

2014 Joint venture with Tele2 Russia established to develop the mobile business

Business Model

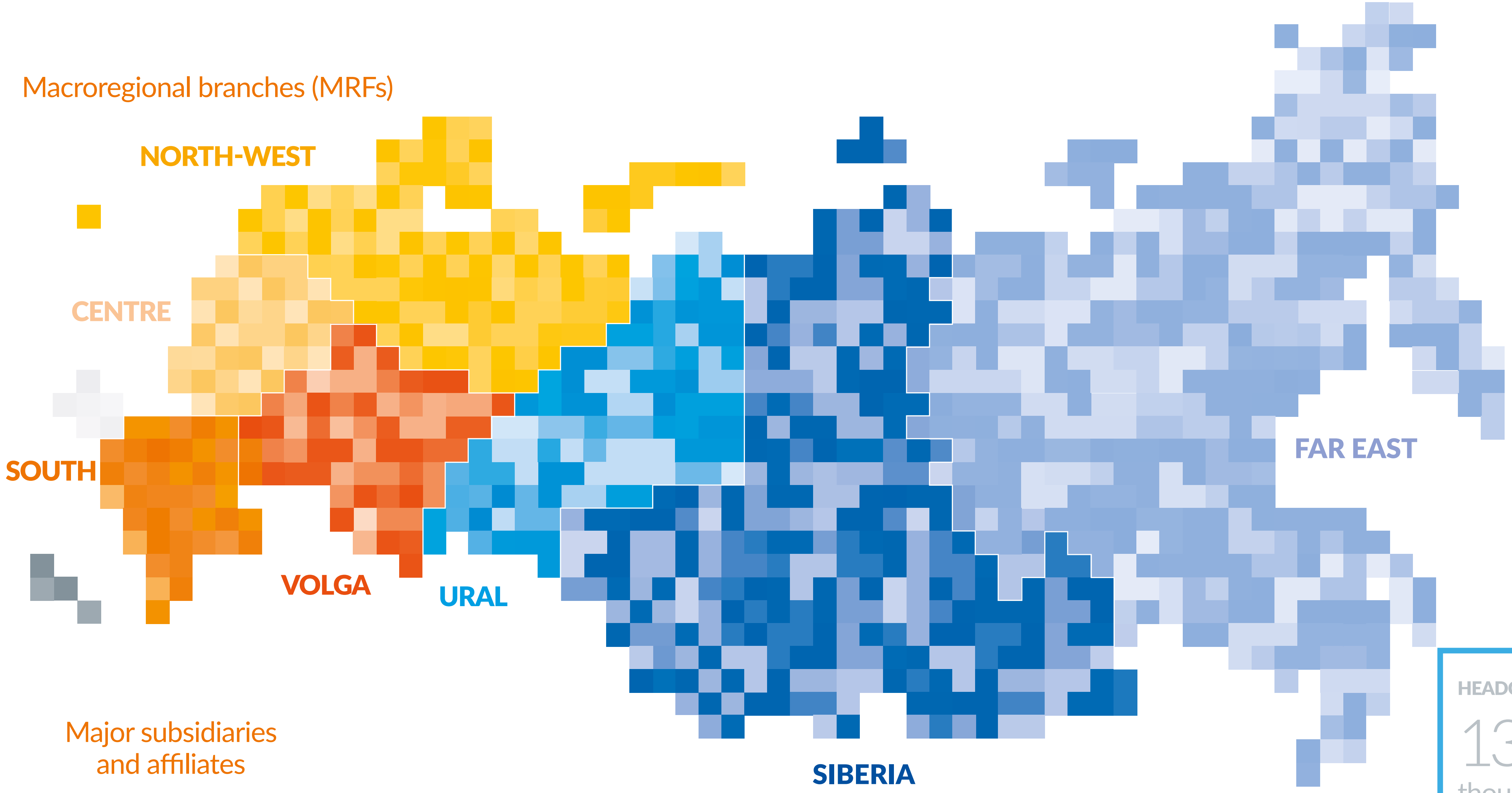
In line with the updated Rostelecom's strategy, its business model is aimed at providing advanced and top quality digital services to households, businesses, the government, and other operators.

Rostelecom's complex internal business processes, including the Company's technology platform upgrades, performance enhancement, and talent development, enable to create customer-friendly digital product ecosystems for different customer segments.



Company Structure

Macroregional branches (MRFs)



Major subsidiaries and affiliates

- PJSC Bashinformsvyaz
- PJSC Central Telegraph
- LLC Data Storage Centre (SafeData)
- LLC Centre Technology Virtualization
- JSC Interaction Computer Network Centre "MCK-IX"
- CJSC Macomnet
- JSC Severen-Telecom
- PJSC Giprosvyaz
- CJSC GNC-ALFA

Joint ventures

http://www.ru.tele2.ru

http://digitalrussia.tv

Consolidated highlights

REVENUE FROM CONTENT AND DIGITAL SERVICES
47%

BACKBONE NETWORK CAPACITY
15.5 Tbps

REVENUE
305.3
RUB billion

HEADCOUNT
133.7
thousand people

OIBDA
96.9
RUB billion

Investment Hotspot

Investment Highlights

The following points underpin Rostelecom's investment case:

» leadership and the largest customer base in the markets with significant growth potential (broadband, Pay TV, data centres, cloud solutions, Safe City, cyber security, and other digital services), and presence in the growing mobile data market through its 45% share in the joint venture with Tele2 Russia

» unique expertise in all market segments and an ambitious strategy aimed at capturing new revenue pools from digital solutions and services

» a network infrastructure unique for its coverage and capacity, covering 33 million households with fibre-to-the-home (FTTH) and comprising backbone lines with a capacity exceeding 15 Tbps

» a potential to further enhance operational efficiency (real estate, personnel, network infrastructure optimisation) to provide cost savings

» incentivised management focused on achieving the Strategy targets, including through the Long-Term Incentive Programme tied to the share value

» an attractive dividend policy (at least 75% of free cash flow, and at least RUB 5 per ordinary share for three years).

Securities

Shares

PJSC Rostelecom ordinary and preference shares (tickers RTKM and RTKMP) are admitted to the A1 quotation list (A1) of the Moscow Exchange and to the non-quotation section of PJSC Saint Petersburg Stock Exchange's list.

PJSC Rostelecom shares are also included in the FTSE Emerging Markets and MVIS indices

Free float

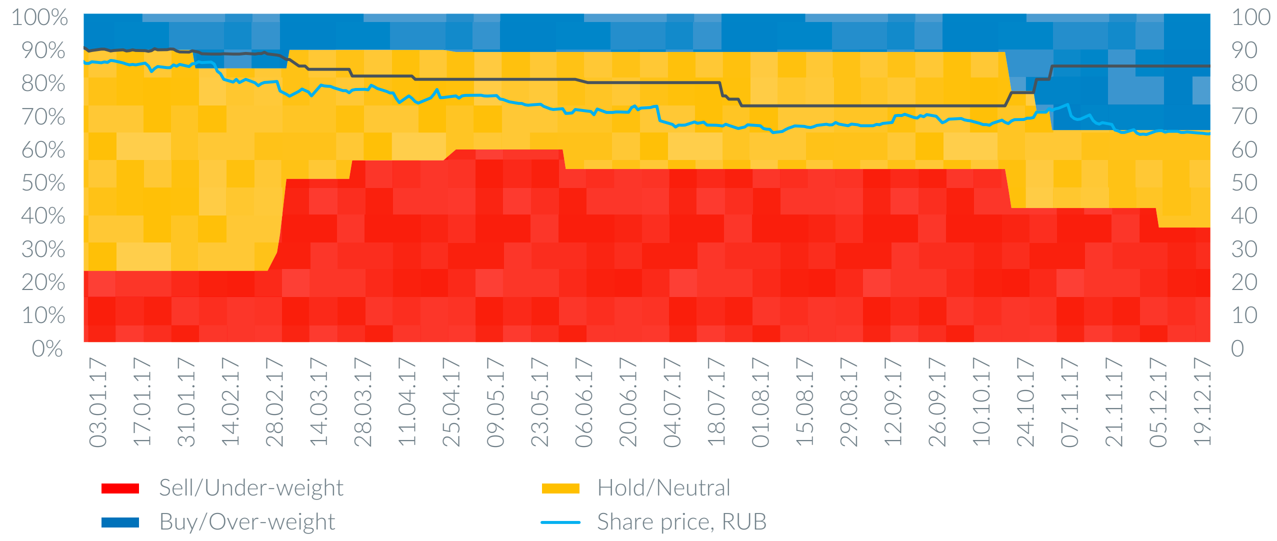
Item	Share in charter capital, %	Ordinary shares, %	Preference shares, %
Free float	38.98	36.52	69.21

Key performance highlights of PJSC Rostelecom shares on the Moscow Exchange

Item	Ordinary shares, RUB	Preference shares, RUB
Price as at 30 December 2016	84.00	62.80
Annual low (2017)	63.36	50.22
Annual high (2017)	85.70	65.95
Price as at 29 December 2017	63.90	55.95

Ordinary and preference share trading volume totalled RUB 53,091 million and RUB 5,595 million, respectively, in 2017. The bulk of trade in PJSC Rostelecom shares is concentrated on the Moscow Exchange.

Analyst recommendations for ordinary shares of PJSC Rostelecom



Source: Bloomberg, analyst reports

Depositary receipts

PJSC Rostelecom launched a Level One American Depositary Receipt (ADR) programme for its ordinary shares in February 1998[1]. One (1) ADR stands for six (6) ordinary shares. Currently, the ADRs are traded on the OTCQX trading platform, as well as on London, Frankfurt, and other foreign stock exchanges under unlisted trading privileges. As at 31 December 2017, 2.6% of PJSC Rostelecom ordinary shares were traded as ADRs outside the Russian Federation.

Bonds

In 2017 and early 2018, Rostelecom issued 10-year exchange-traded bonds for a total of RUB 30 billion, including:

» on 26 April 2017 – RUB 10 billion with a five-year put option, Series 001P-02R, at 8.65% p.a.

» on 21 November 2017 – RUB 10 billion with a five-year put option, Series 001P-03R, at 7.70% p.a.

» on 16 March 2018 – RUB 10 billion with a six-year put option, Series 001P-04R, at 7.15% p.a.

The proceeds were used to refinance the Company's existing debt and did not change its overall leverage.

As at 31 December 2017, the total value of the Company's outstanding bonds amounted to RUB 47.1 billion, or 24.61% of its debt portfolio.

(1) For more details on the depositary and custodian see Appendix 11 Additional Information on PJSC Rostelecom to this Annual Report.

Outstanding bonds as at 31 December 2017

Series	Placement date	Issue size, RUB	Number of outstanding bonds	Maturity date
Corporate bonds				
15	30.01.2013	5,000,000,000	5,000,000	50% on 26.07.2017 50% on 24.01.2018
16	13.06.2013	5,000,000,000	152,309	50% on 07.12.2017 50% on 07.06.2018
18	30.01.2013	10,000,000,000	10,000,000	50% on 26.07.2017 50% on 24.01.2018
19	12.03.2013	10,000,000,000	7,265,722	50% on 05.09.2017 50% on 06.03.2018
Bonds				
БО-01	29.05.2015	5,000,000,000	862,810	16.05.2025
001P-01R	22.09.2016	15,000,000,000	15,000,000	10.09.2026
001P-02R	26.04.2017	10,000,000,000	10,000,000	14.04.2027
001P-03R	21.11.2017	10,000,000,000	10,000,000	09.11.2027

Dividends

The Regulations on the Dividend Policy of PJSC Rostelecom[2] state that the Company should aim to allocate to dividend payouts (on ordinary and preference shares in total) at least 75% of its free cash flow[3] in 2016, 2017, and 2018 (i.e. for FY2015, FY2016, and FY2017, respectively), for each fiscal year, but not less than RUB 45 billion in total for these three years.

Total dividends on each Class A preference share[4] are set to be 10% of the Company's net profit as per RAS and divided by the number of shares making up 25% of Rostelecom's charter capital. If dividends payable on each ordinary share in a certain year exceed dividends payable on each Class A preference share, the latter dividends are increased to the amount of dividends payable on ordinary shares.

Rostelecom complies with its Charter and the principles described in its Dividend Policy. By resolution of the Annual General Shareholders' Meeting[5], the total amount of dividends on Rostelecom shares was RUB 15 billion for FY2016, while dividends on Class A preference shares and ordinary shares amounted to RUB 5.387002045593 per share. To distribute this amount as dividend, the Annual General Shareholders' Meeting made a decision to use both the entire RAS net profit for 2016 and RUB 4,097,798 thousand of retained earnings of past years.

Total dividends on Class A preference shares amounted to 10.41% of the RAS net profit and to 9.22% of the IFRS net profit for 2016. Dividends on ordinary shares amounted to 127.90% of the RAS net profit and to 113.24% of the IFRS net profit for 2016.

RUB 6,756,322 thousand out of net profit generated in 2016 were paid to the federal budget. The Company has no outstanding dividends payable to the federal budget.

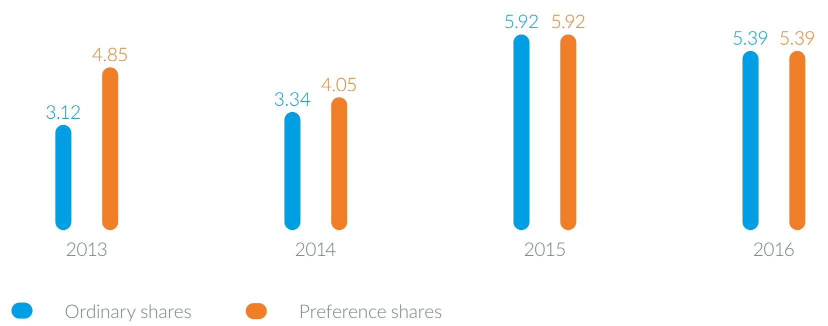
By the end of 12M 2017, the consolidated cash flow from investing activities in non-current assets decreased by 2% to RUB 60.8 billion, while having increased by 1% to RUB 57.3 billion (18.8% of revenue) net of the BDD project. Therefore, 683% of the RAS net profit and 423% of the IFRS net profit for FY2017 were allocated to investment projects (programmes).

(2) Approved by PJSC Rostelecom's Board of Directors on 4 December 2015; Minutes No. 13 dated 4 December 2015.
(3) Free cash flow (FCF) means the net cash from operating activities, (1) net of cash paid for purchased property, plant, and equipment and intangible assets, (2) plus proceeds from disposals of property, plant, and equipment and intangible assets. FCF is calculated on the basis of the consolidated statement of cash flows of the Company's consolidated financial statements prepared under the International Financial Reporting Standards (IFRS).
(4) According to paragraph 10.3 of PJSC Rostelecom's Charter (version No. 16) and paragraph 5.6 of the Regulations on the Dividend Policy of PJSC Rostelecom (version No. 3).
(5) The meeting was held on 19 June 2017.

Dividend payout for 2017

Year	Type of shares	Total accrued, RUB thousand	Total paid during 2017, RUB thousand	Total paid prior to 2017, RUB thousand	Total paid as at 31 December 2017, %
2016	Ordinary shares	13,871,072	13,762,659	–	99.22
	Preference shares	1,128,928	1,112,546	–	98.55
2015	Ordinary shares	15,231,824	12,217	15,112,350	99.30
	Preference shares	1,239,676	1,604	1,222,695	98.76
2014	Ordinary shares	8,602,904	3,232	8,543,223	99.34
	Preference shares	848,730	616	838,467	98.86
2013	Ordinary shares	7,808,157	1,350	7,755,397	99.34
	Preference shares	1,016,323	281	1,004,982	98.91

Dividend per share at year-end, RUB



In March 2018, the Board of Directors approved the Company's new Dividend Policy for 2018–2020[6] whereby the Company will aim to:

» allocate to dividend payouts (on ordinary and preference shares in total) at least 75% of its free cash flow in 2019, 2020, and 2021 (i.e. for FY2018, FY2019, and FY2020, respectively), for each reporting year
» pay dividends for each reporting year in the amount of at least RUB 5 per ordinary share
» ensure that the amount of dividend payouts (on ordinary and preference shares in total) does not exceed 100% of the IFRS net profit for the reporting year, but in no case be less than the amount recommended by Rosimushchestvo and the Government of the Russian Federation for partially government-owned companies if such requirement is applicable to the Company.

In specific cases where the Company's operating results in the reporting year were significantly affected by certain one-off items, the FCF intended for dividend payout may be adjusted by the cash flow associated with such non-recurring expenses.

The Board of Directors may resolve to change the size or renounce dividend payouts if the Company's performance is significantly affected by certain events such as: significant capital expenditures related to meeting legal requirements; major and material M&A transactions; transactions that will lead to a more than 2.5x increase in the Net debt/OIBDA per year; other activities that have a significant impact on Rostelecom's performance.

(6) Approved by PJSC Rostelecom's Board of Directors on 14 March 2018; Minutes No. 17 dated 14 March 2018.

Shareholder and Investor Relations

The Company strives to strengthen its relations with the investment community. Rostelecom maintains ongoing dialogue with analysts and holds regular meetings with existing shareholders and potential investors in the Company's securities.

At the Annual Report Competition organised by the Moscow Exchange, the Company was praised for its successful investor relations and named the best among telecommunications companies.

In 2017, Rostelecom took part in eight investment conferences and involved its senior management and IR team in approximately 90 one-on-one meetings and conference calls with 150 investors.

In March 2018, the Company held an Investor Day in Moscow to present its updated Strategy 2022.

IR Calendar

Date	Event	Format
9 February 2017	Raiffeisen Russian Day, Stockholm, Sweden	One-on-one and small group meetings with management
6 March 2017	Announcement of Q4 2016 and FY2016 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
5 April 2017 – 7 April 2017	Exchange Forum 2017, Moscow, Russia	One-on-one and small group meetings with management
17 May 2017	Announcement of Q1 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
19 June 2017	AGM	Management presentation to shareholders
19 June 2017 – 21 June 2017	Renaissance Capital's 21st Annual Russia Investor Conference, Moscow, Russia	One-on-one and small group meetings with management
20 June 2017 – 21 June 2017	VTB Capital Investment Forum RUSSIA CALLING, London, UK	One-on-one and small group meetings with management
3 August 2017	Announcement of Q2 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
24 October 2017 – 26 October 2017	VTB Capital's RUSSIA CALLING! Investment Forum 2017, Moscow, Russia	One-on-one and small group meetings with management
2 November 2017	Announcement of Q3 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
13 November 2017 – 14 November 2017	Goldman Sachs CEEMEA One-on-One Conference, London, UK	One-on-one and small group meetings with management
15 November 2017 – 17 November 2017	Morgan Stanley European TMT Conference, Barcelona, Spain	One-on-one and small group meetings with management
6 December 2017	WOOD's Emerging Europe Conference, Prague, Czech Republic	One-on-one and small group meetings with management

Analysts

Bank	Analyst
ATON	Victor Dima
Bank of America-Merrill Lynch	Haim Israel
BCS	Igor Goncharov
Citi	Dilya Ibragimova
Credit Suisse	Olga Bystrova
Deutsche Bank	Masha Kahn
Gazprombank	Anton Fokin
Goldman Sachs	Vyacheslav Degtyarev
HSBC	Herve Drouet
JPMorgan	Alexei Gogolev
Morgan Stanley	Madhvendra Singh
SOVA Capital	Александр Венгранович
Alexander Vengranovich	Алекс Казбеги
Renaissance Capital	Alex Kazbegi
Raiffeisen Bank	Sergey Libin
Sberbank CIB	Svetlana Sukhanova
UBS	Ulyana Lenvalskaya
Uralsib	Konstantin Chernyshov

Credit rating agencies

Agency	Analyst
Fitch Ratings	Slava Bunkov
Standard & Poor's	Svetlana Oshchepkova
ACRA	Alexander Gushchin

In 2017, Rostelecom took part in eight investment conferences and involved its senior management and IR team in approximately 90 one-on-one meetings and conference calls with 150 investors.

Strategic Report

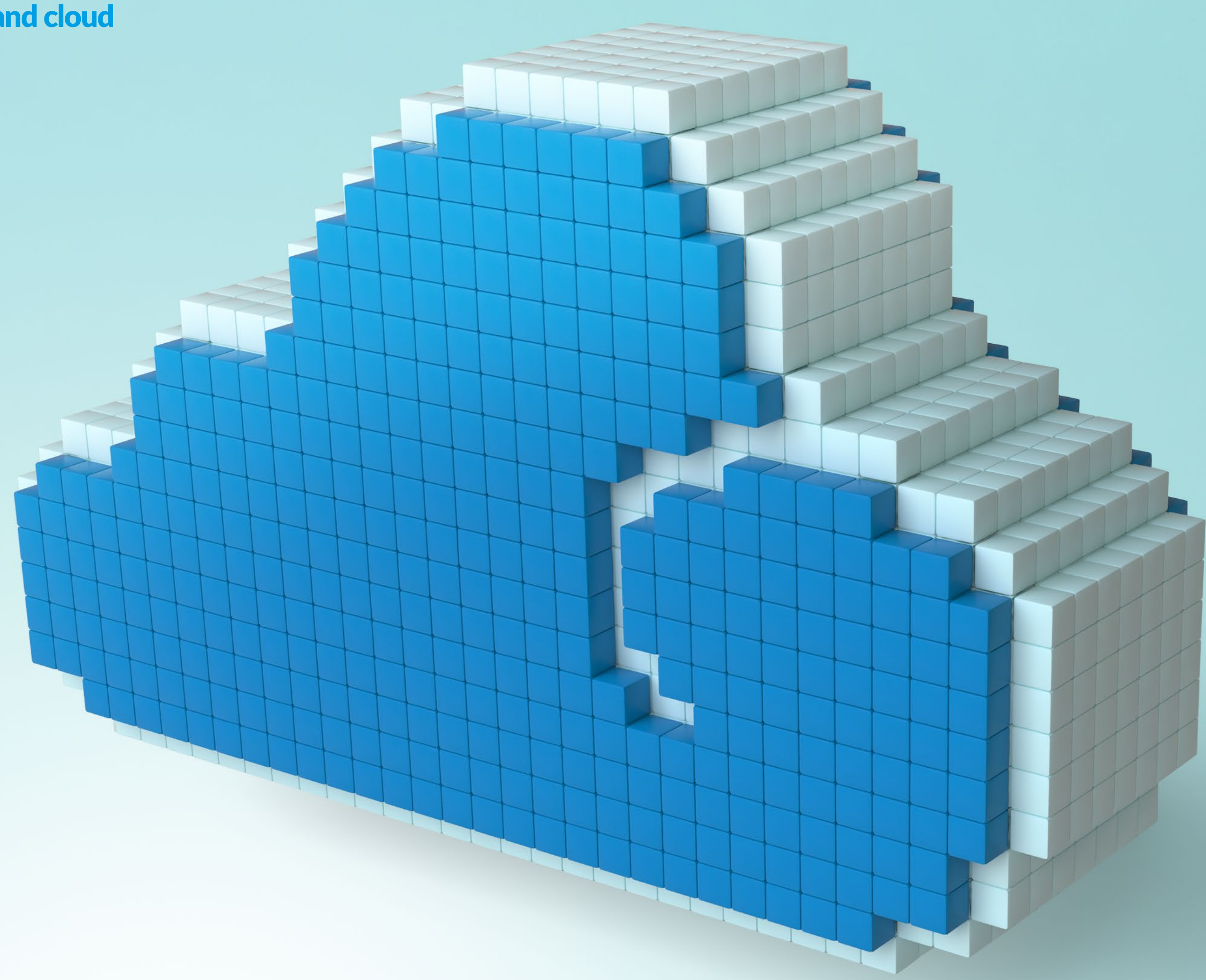
Rostelecom's updated strategy meets the challenges of the modern age and is aimed at developing ecosystems, technological modernisation, human capital development, and operational excellence.
We are transforming into a digital partner for retail, business, and government customers.

Rostelecom owns the largest data centre network in Russia.

Rostelecom's data centre network enables the Company to offer advanced cloud-based solutions and high value-added services.

+26.3%

Revenue growth from VAS and cloud services compared to 2016



Growth in pay TV revenue for the year

10.5%

Size of the Russian telecommunications market in 2017

1.62 RUB tn

Growth in fixed-line Internet traffic over the year

21%

Broadband penetration rate

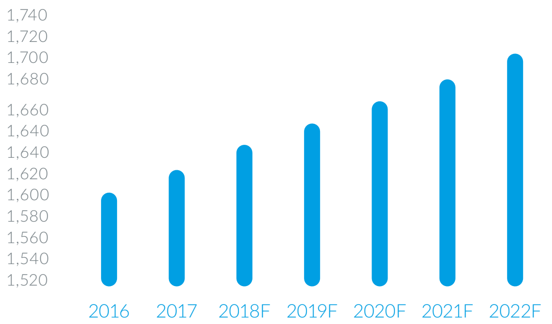
58%

Industry Overview and Competitive Analysis

Russian Telecommunications Market

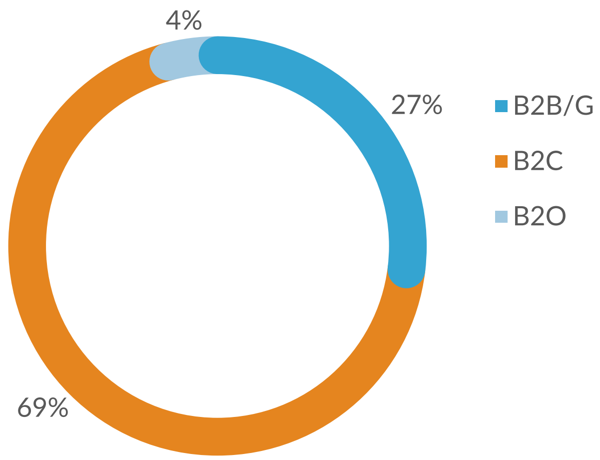
The Russian telecoms market grew by 1.3% in 2017 to RUB 1.62 trillion, as major players ceased to compete on price.

Revenue in the Russian telecoms market, RUB bn



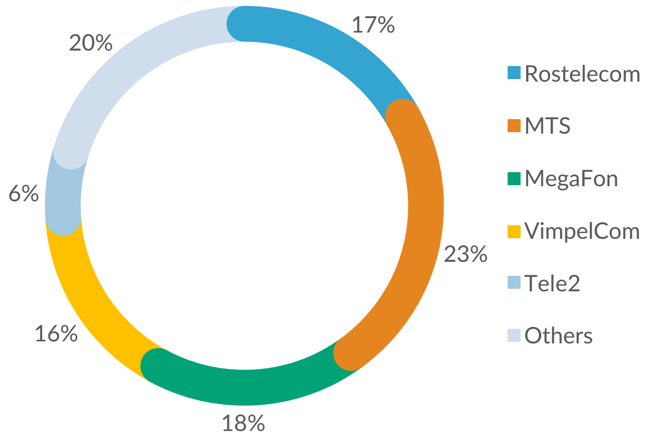
Source: TMT Consulting, 2017.

Russian telecoms market breakdown by segment, %



Source: TMT Consulting, 2017.

Russian telecoms market breakdown by operator, 2017E, %



Source: TMT Consulting, 2017.

The retail segment continues to dominate the Russian telecommunications market. The size of the B2C market was virtually flat year-on-year, while the corporate sector recovered from stagnation, growing by 6%, and the wholesale telecoms market was down 7%.

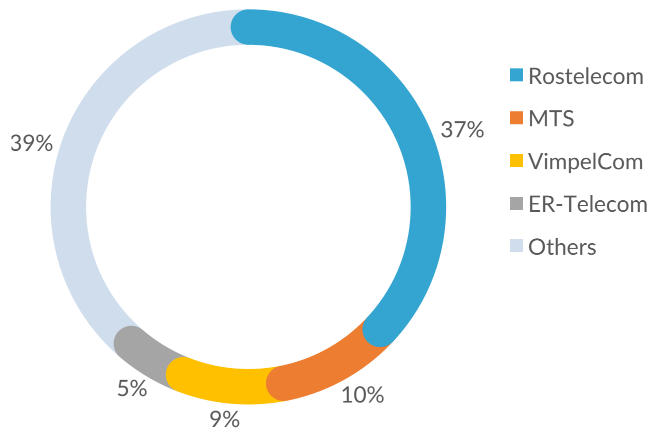
Broadband Services

The Russian broadband market was RUB 187.3 billion in 2017, of which 71% were attributable to the B2C segment.

The aggregate number of broadband users totalled 34 million, of which 1.5 million were legal entities and 32.5 million households.

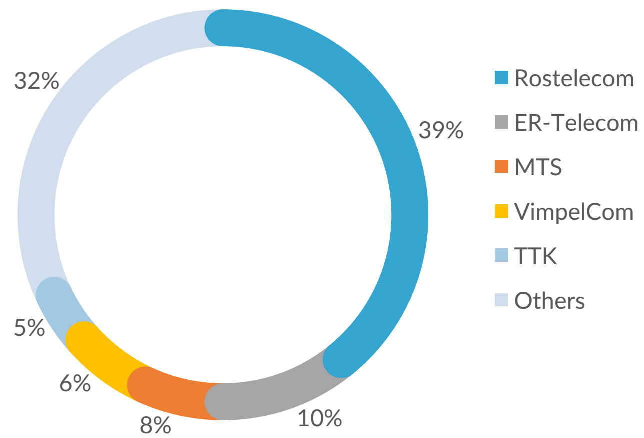
In 2017, ARPU in the B2C segment was RUB 346, while in the B2B segment ARPU varies significantly between regions, averaging at RUB 2,998.

Breakdown of the broadband market's B2B segment by operator revenue, 2017E, %



Source: TMT Consulting, 2017.

Breakdown of the broadband market's B2C segment by operator revenue, 2017E, %



Source: TMT Consulting, 2017.

The steady 4% growth in the broadband market was driven mostly by new build and small town connections. ARPU increased by 0.7% over the year due to subscribers trading up to higher data speeds.

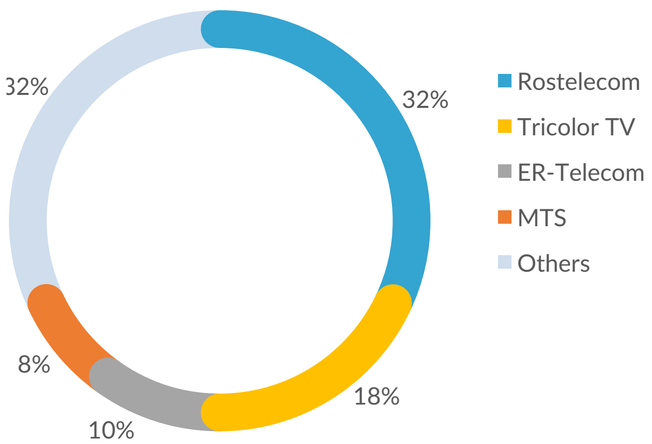
Consumption of fixed-line traffic in Russia was up by over 20% year-on-year.

Pay TV Services

The pay TV market was up 10.5% year-on-year with the subscriber base reaching 42.6 million. The service penetration rate exceeded 75% for the year.

ARPU in B2C was up 7% year-on-year to RUB 167 driven mostly by value-added services. The B2B segment showed strong performance, growing by 32% year-on-year. ARPU for the segment was RUB 1,550.

Breakdown of the pay-TV market by operator revenue, 2017, %

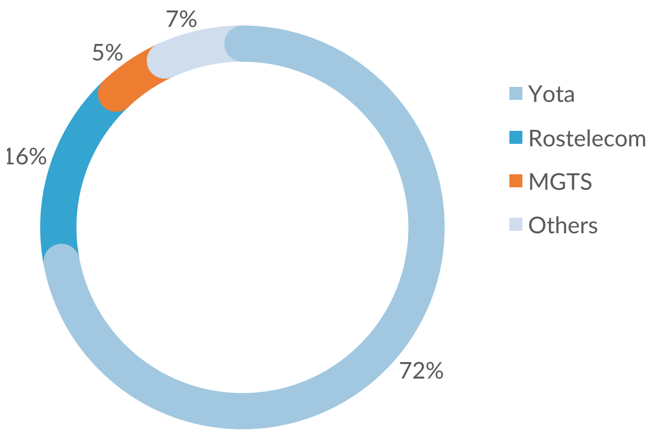


Source: TMT Consulting, 2017.

MVNO Services

The share of MVNO customers in the total mobile base reached 2% in 2017, with the MVNO base growing by 58% year-on-year. Mobile ARPU was RUB 290 for 2017.

Russian MVNO market breakdown by revenue, 2017E, %



Source: TMT Consulting, 2017.

Fixed-Line Services

The fixed-line telephony market continued its downward trend, falling by 9% year-on-year. Rostelecom retains its leadership in all segments of the fixed-line market.

The fixed-line telephony ARPU was RUB 257 in the B2C segment and RUB 685 in the B2B segment.

Updated Development Strategy

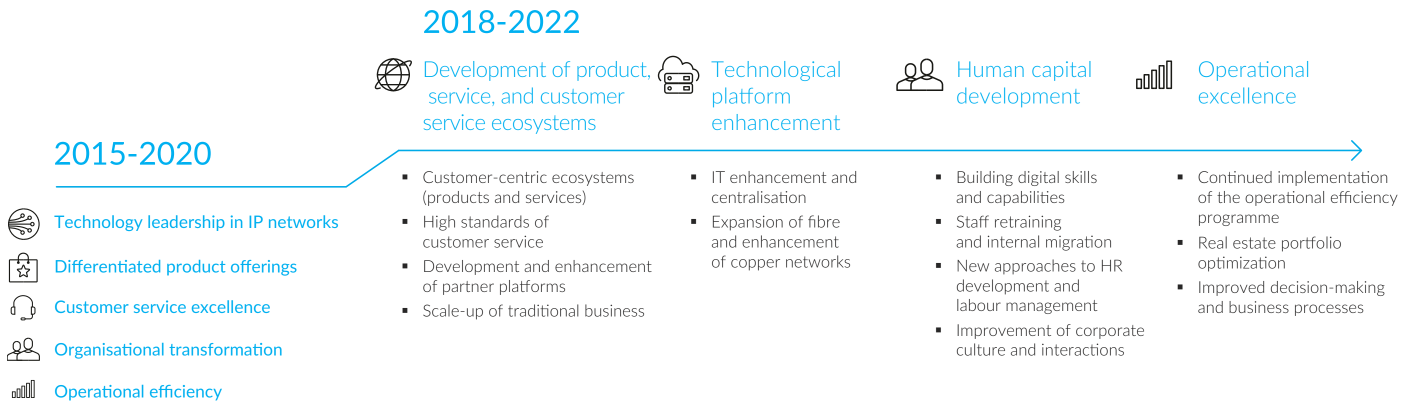
Strategic Foundation

Our mission: Rostelecom is a digital partner for retail, business, and government customers.

Rostelecom's strategy approved in 2015 needed an update to reflect the current operating environment and the Company's expansion into high-growth digital markets.

The new strategy[7] spans a period until 2022, and seamlessly continues and builds upon the previous strategy.

Evolution of strategic vision and priorities



New Strategy Drivers

Consumer trends

As consumer behaviours evolve, the Company has to change the way it develops communications services and tools.

Changes in consumer trends indicated:

» higher engagement

» higher importance of emotional intelligence

» changes in communication patterns.

Consumers prefer seamless mobile integration solutions and are willing to use self-service functionality.

(7) Approved by the Board of Directors on 29 December 2017. Minutes No. 13 dated 29 December 2017.

Updated Development Strategy

Sergei Anokhin,
Senior Vice President and CFO

New consumer behaviour trends

Choice

Personalisation and co-development of services
Involvement at the design phase and creation of unique features

New experiences
Search for novelty in routine emotions. "I am what I experience rather than what I possess."

Gamification
Using game-design elements for emotional engagement

Communication

Drastic simplification
Minimised time and mental effort required to use a product

Online socialisation
Ubiquitous social networking, shared consumer experiences

Visual communication channels
Shift from text and voice-based formats to "faster" media – images and videos

Customer experience

Mobile-first approach
All products and services accessible via mobile applications

Omni-channel approach
Seamless migration between communication or consumption channels, deep integration between offline and online

Self-service
Development of self-service tools (virtual assistants, web interfaces, etc.)

Impact on Rostelecom

- Need to design new user interfaces and develop self-service channels
- Need to develop new entertainment services and ensure their accessibility from mobile devices
- Need to personalise services to match specific customer needs, and develop accurate, customer-specific insights

Technology trends

The fast-paced technological advances are another driver behind our effort to review strategic goals and initiatives. Technologies like IoT, artificial intelligence and Big Data provide new growth opportunities to Rostelecom.

Major technological trends

Internet of Things

Increasing number of connected devices for household and industrial applications

- Smart home
- Smart devices
- Smart clothing
- Digital healthcare
- Industrial Internet of Things
- Drones

Artificial intelligence

Advanced training and robotics solutions available in all interfaces

- Machine learning
- Predictive analytics
- Voice interfaces
- Robotics

Big Data Era

Increasing volumes of available information. A new phase in improving data gathering, analysis and storage methods

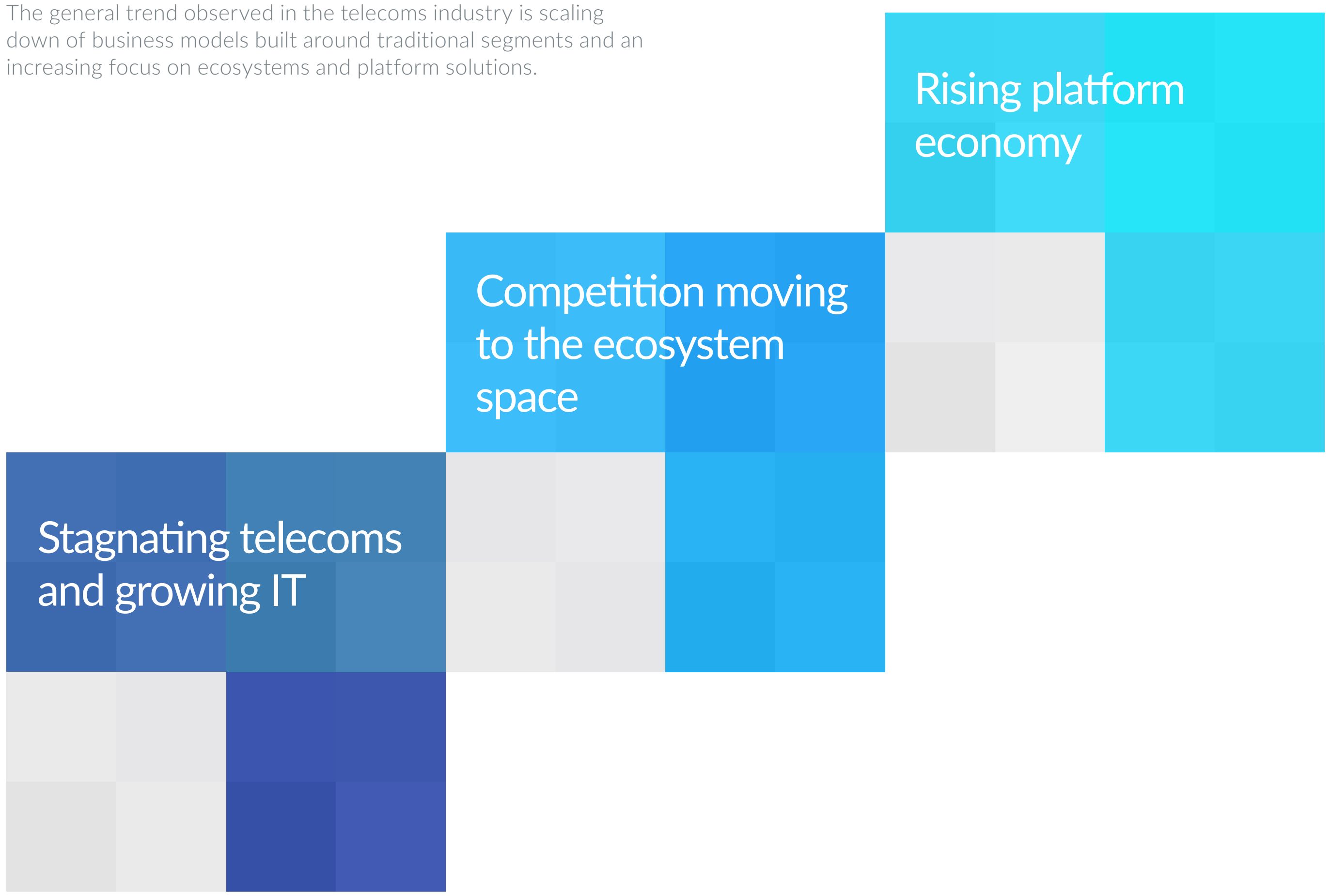
- Quantum computing
- Digital twins
- Blockchain
- Open data and API
- Cyber security
- Cloud computing

Impact on Rostelecom

- Availability of platforms enabling integration of any device
- Partnerships with leading IT and internet companies for new product co-development
- Development of tools and products for cloud computing and Big Data

Industry trends

The general trend observed in the telecoms industry is scaling down of business models built around traditional segments and an increasing focus on ecosystems and platform solutions.



While the compound annual growth rate (CAGR) in the Russian telecoms market is approximately 1%, the market for IT services has been growing at 11% per year. An ecosystem-oriented approach will enable continued growth beyond the "core product", thus increasing sales and reducing churn.

The platform economy has established itself and is driving successful expansion of many innovative businesses, enabling matching of customers and partners via application programming interface (API).

Government-sponsored programmes

Government-sponsored programmes and initiatives have become a major driver behind our decision to update Rostelecom's strategy. A key objective the Company has achieved through its strategy update was its alignment with the Digital Economy of the Russian Federation programme[8] (the "Programme"), in which Rostelecom plays a major role. Rostelecom is the government's key partner in implementing infrastructure initiatives under the Programme, and developing state-of-the-art Russian digital services and platforms for the benefit of private citizens and businesses.

Rostelecom – the enabler for delivering the Government's digital agenda

DIGITAL ECONOMY PROGRAMME

Core focus areas
- Information infrastructure
- Information security
- HR and education

Applied areas
- Smart city
- Public administration
- Healthcare
- Digitalisation of key industries of the economy: energy, transport, agriculture, etc

ROSTELECOM'S KEY INITIATIVES

- Internet access (connectivity) services for retail, healthcare, and government customers
- Development and launch of the Russian Internet information system
- E-government
- Smart City unified national cloud platform: safe roads, video surveillance, emergency management systems, energy sector, and public address systems
- Development of public spatial data information systems
- Digital transformation of healthcare providers
- Education

According to expert estimates, building infrastructure to support 5G rollout will require 5 to 10 times as much investment as for previous generation networks due to a much greater density of base stations to be deployed and a much more extensive fibre network required to connect them. Rostelecom has accumulated vast capabilities and resources to build and operate a complex ICT infrastructure, which will ensure the successful rollout and management of the underlying infrastructure to support 5G wireless networks which could be shared with other telecoms operators. This approach will help the entire industry to cut costs of transition to next generation telecoms networks.

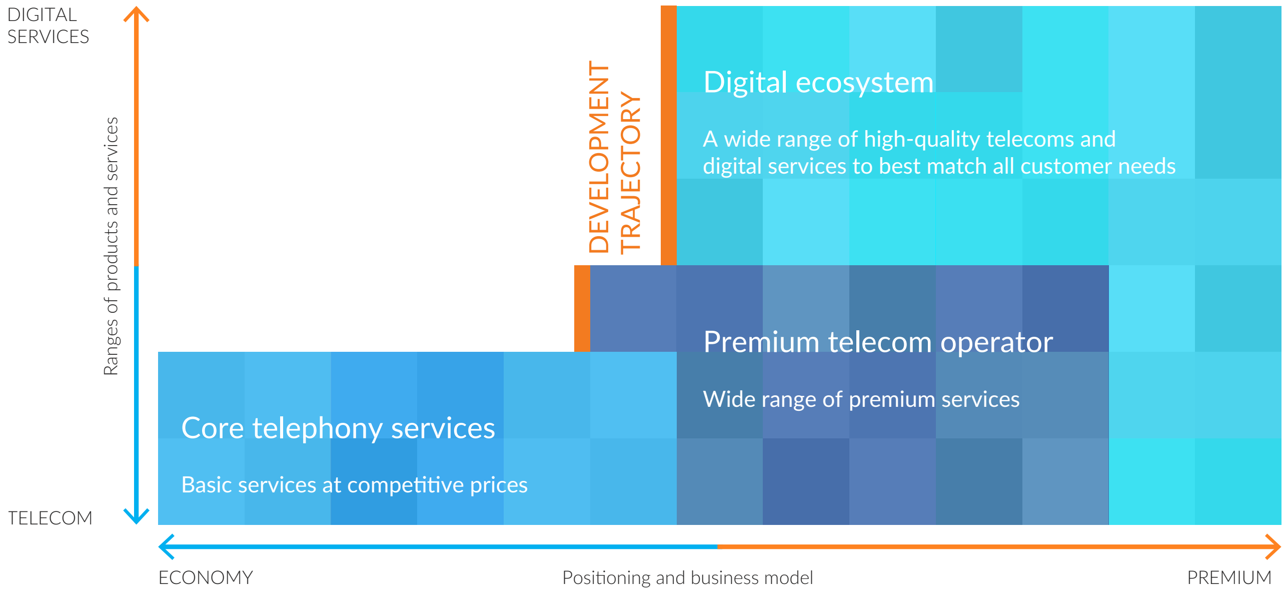
The rise of data economy will inevitably require transformation of data storage and processing. Rostelecom's capex programme provides for a major geographic expansion of the distributed data centre network to ensure we are present in every federal district. This effort will transform Rostelecom into the anchor company for data storage and processing projects under the Programme to accommodate growing data volumes.

Another important challenge for Rostelecom is to design a unified cloud platform for government authorities and migrate the bulk of federal-level information resources to such platform by the end of 2020. The future distributed system is expected to provide government authorities with data storage and processing services. The platform will be available to all data centre market players meeting the requirements of a standard to be developed and adopted for this purpose, and having their computing resources connected to the shared infrastructure. Rostelecom will assume operatorship of the new platform and invest up to RUB 200 million in the co-development of such platform with the government between 2018 and 2020.

(8) Approved by Decree of the Russian Government No. 1632-r dated 28 July 2017.

Rostelecom's Strategic Priorities until 2022

Strategic growth focus – a digital partner for retail, business, and government customers



Strategic priorities of the updated strategy

Development of product, service, and customer service ecosystems
- Development of product and service ecosystems around customers
- Ensuring high standards of customer service
- Development and enhancement of partner platforms
- Scale-up of traditional business

Technological platform enhancement
- IT landscape enhancement and centralisation
- Expansion of fibre and enhancement of copper networks

Human capital development
- Building digital skills and capabilities
- Staff retraining and internal migration
- Adaptation of approaches to staff development and corporate culture improvements to meet digital company requirements

Operational excellence
- Continued implementation of the operational efficiency programme
- Real estate portfolio optimisation
- Improved decision-making and business processes

Rostelecom's ecosystems

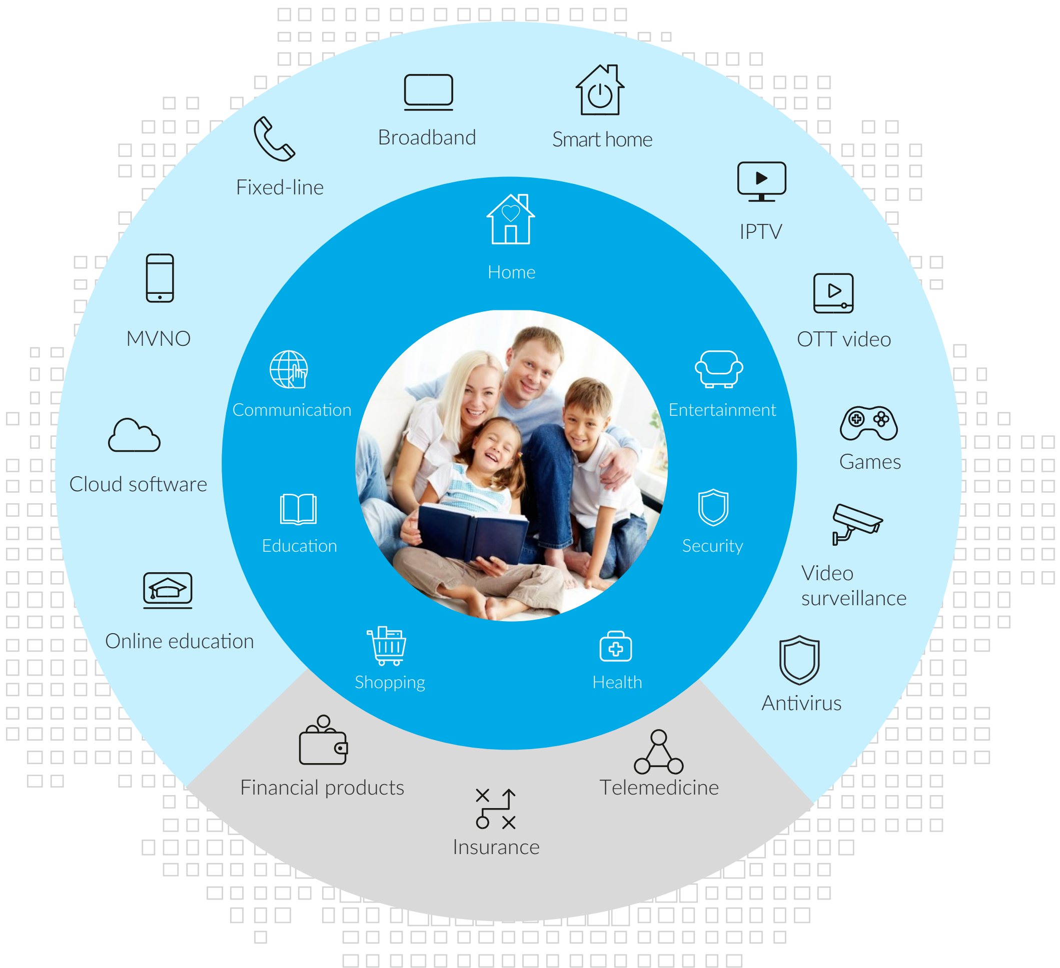
Rostelecom's strong position across all segments and its unique wealth of expertise make it well-positioned for building a digital ecosystem:

- Leadership in high-opportunity markets by market share and customer acquisition rate
- Secure, fault-tolerant, high-speed IP network with wide geography, covering over 33 million households
- The benefit of having government as a reliable customer, including under long-term nationwide initiatives

A relevant ecosystem will be built around each of our customer segments to meet both current and future customer needs.

Residential customers

Rostelecom's ecosystem around retail customers will be based on such anchor products as broadband, IPTV, and telephony.

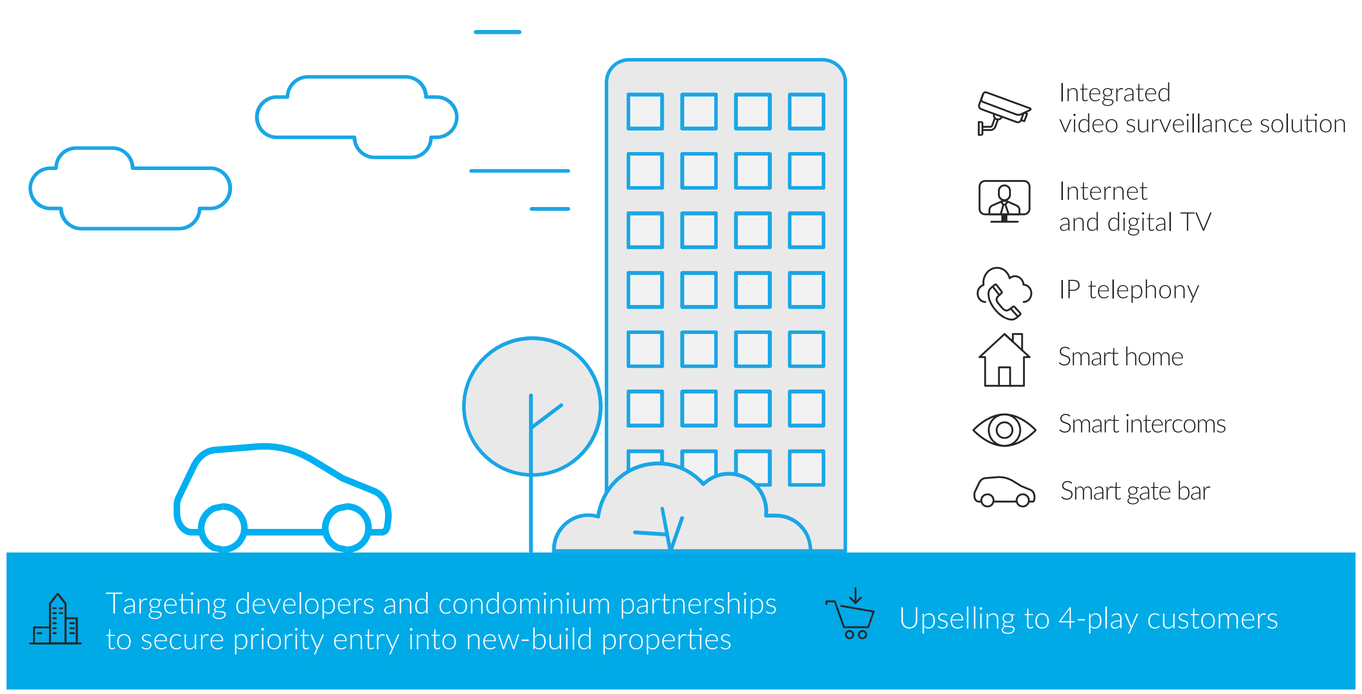


Strategic objectives in B2C until 2022:

- Bring connectivity to new-build properties at the construction phase, thereby securing high service penetration rates and creating potential for partnerships with other operators in promoting Smart City initiatives
- Promoting OTT video and consolidating market position in this segment
- Increase profitability through anchor products
- Expand the mobile base by selling converged bundles
- Develop new product ecosystem: Smart Home, Game Streaming, and Online Education solutions
- Improve customer satisfaction, quality of services, and customer service

Capturing the new build market initiative is a priority project expected to bring significant incremental increases in the retail revenue base. Rostelecom will seek agreements with developers and housing cooperatives to deploy network infrastructures required for the entire range of digital services. The Company will be able to offer the full range of Smart Home services and provide both core (TV and broadband) and new digital services as early as at the move-in stage: video surveillance, security alarm, smart intercoms, smart gate bar, etc. Rostelecom will also benefit from significantly increased penetration rates for its services compared to the traditional demand-driven sales model.

Integrated solution for new-build properties

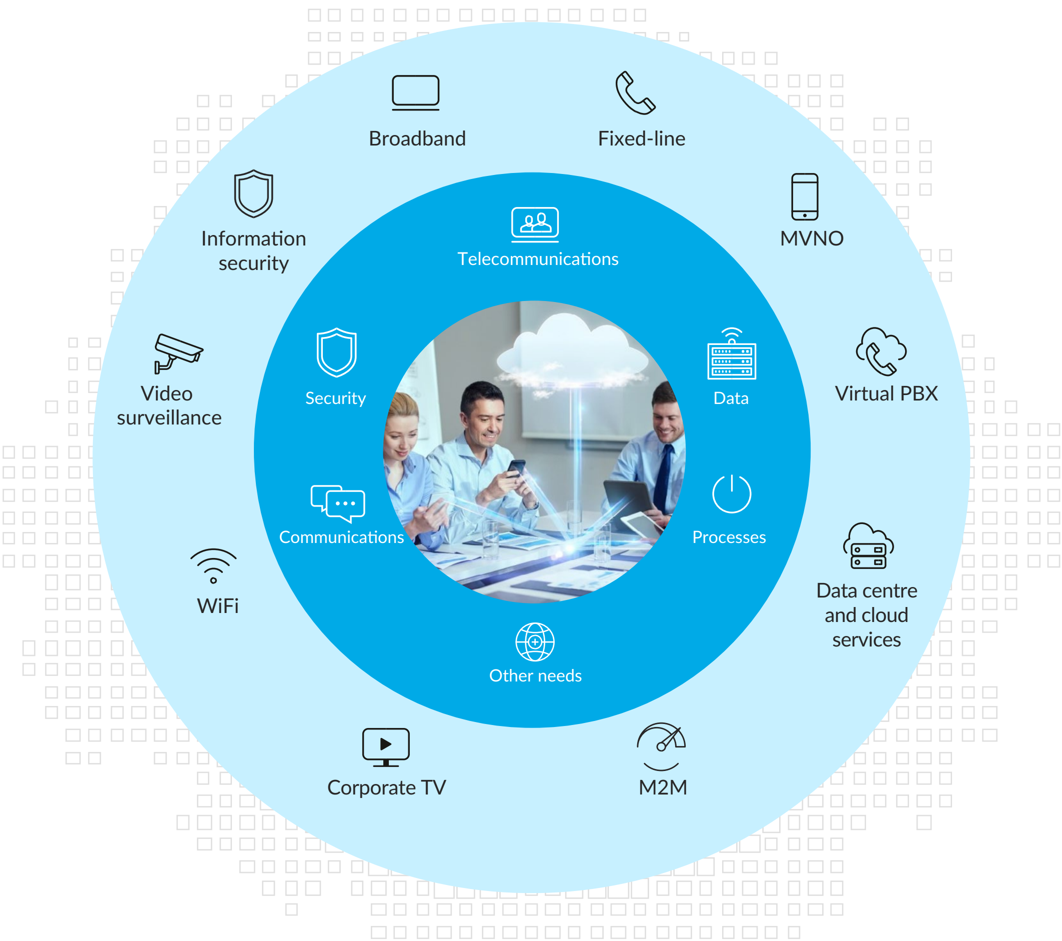


Corporate and government customers

Rostelecom's ecosystem targeting corporate customers is based on such anchor products as broadband, different types of telephony services, as well as virtual PBX, data centre, and cloud services.

Strategic objectives in B2B until 2022:

- Strengthen technology leadership in traditional markets, switch to fibre, and SDN network development
- Focus on major customers (acquiring federal-level customers and Top 100 customers in every region), improve margins by customising product offers and transforming technical support
- Leadership in the SME market through best-in-class bundled solutions and enhanced customer touchpoints
- Aggressive growth in new and adjacent markets



Rostelecom will remain a key partner for the government in addressing its digitalisation and ICT agendas. The ecosystem for government customers will be based on such anchor products as e-government solutions, broadband, and all types of telephony services, as well as services for the public education and healthcare systems.

Strategic objectives in B2G until 2022:

- Develop application services: E-Government, Education, Healthcare, Geodata, Energy, and Security
- Grow the existing Smart City (Area) business: Safe Roads, Video Surveillance, Emergency Management Systems, Energy Sector, and Public Address Systems
- Contribute to the optimisation of national ICT infrastructure: Smart City unified national cloud platform, and other initiatives
- Provide support to other government initiatives: Bridging the Digital Divide (BDD) programme, programme to connect public healthcare providers

As part of establishing a user-friendly ecosystem of digital products and services in the B2B/G segment, the Company will prioritise the development of the following solutions and products.

Data centres

The Company intends to further consolidate its dominant position in the data centre market, aiming to expand the aggregate capacity of its data centre fleet to over 10 thousand racks by 2022. This will absorb the growing demand for XaaS cloud-based services.

Leadership in data centre and cloud services

2022 strategic target

>10 thousand racks

+70 % market growth in 2018–2022

№1 in the data centre market

Smart cities
Rostelecom is the leader in Smart City solutions, and plans to further develop this segment. The Company has the required expertise, experience, and financial resources to provide Smart City solutions based on a service model. The Company projects the revenue growth potential for its Smart City segment to exceed 50% by 2022.

Building smart cities

+50%

growth in revenue from Smart City projects by 2022

Information security
Information security services are becoming increasingly important for both businesses and government, offering a significant growth potential for Rostelecom's customer base and revenue.

Information security as a service

- SOC – 24/7 monitoring and response
- Threat assessment and penetration testing
- Complex approach to Information Security
- Investing in a customer's security

Operator with an infrastructure advantage

2022 strategic target

- Provide turnkey infrastructure solutions
- Develop the 020 project
- Expand transit backbone infrastructure

Services for operators

In its relations with customers from the telecoms industry, Rostelecom views itself a single infrastructure operator, with offering based on anchor products of voice and IP transit, line leases, and IP VPN services.

Strategic objectives in B2O until 2022:

- Develop the 020 project: provide infrastructure maintenance services for mobile and fixed-line operators, enable infrastructure for 5G
- Standardise Rostelecom's infrastructure services: development of a single catalogue of products and services, eliminating gaps in infrastructure accounting
- Develop and optimise backbone network infrastructure: TEA project to improve connectivity between Russia and Europe, and Central Asia, with speeds between 2 Tbps and 4 Tbps
- Increase international market shares: revenue retention in the existing Central Asia and CIS markets, boost direct sales and enter new markets

Technological platform enhancement

The Company aims to sharpen its technology leadership by enhancing its network infrastructure and IT systems.

This objective involves the following strategic priorities:

- Expanding the backbone network to prepare it for heavy content delivery and meeting new speed requirements
- Optimise the access network to improve quality, reduce outages, and provide connectivity for IoT/SmartHome/SmartCity devices
- Adopt NFV/SDN to enable better network control and reduce operation costs
- Enhance service platform to streamline the development and customisation of product offers
- Migrate to a target IT architecture to improve control of product launches and marketing activities
- Transform the IT landscape to automate sales, connection, customer service, and maintenance processes

The best network

2022 strategic targets

Expand the backbone IP network
to provide higher speeds and ensure heavy content delivery

1/10 Gbps
speed for retail customers / businesses (for new subscriptions)

Optimise the access network
to improve quality, reduce outages, and provide connectivity for IoT/SmartHome/SmartCity devices

x2
reduction in time required to set up services for a customer

Adopt NFV/SDN
to enable better network control and reduce operation costs

40%
the proportion of regional data transmission networks featuring NFV/SDN solutions

Convenient IT to open up vast business opportunities

2022 strategic targets

> 30%
reduction in the number of systems operated

1 to 5 months
time-2-market for new or developed products

KEY ELEMENTS

- Streamlining of IT landscape
- Ensuring transparency and flexibility
- Develop information environment and analytics to enable better understanding of clients' need

Human capital development

The Company is focused on human capital development, seeing employees as central to its business development, as people are the main asset and the key driver of Rostelecom's digital transformation.

The key objectives in human capital development are as follows:

- Help employees fully unlock their potential
- Improve employee performance
- Transform employees into change agents in the Company while maintaining their engagement levels

Rostelecom will mostly focus on fostering an environment conducive to talent development, teamwork, and commitment to excellence. Customisation of all processes and services in the Company to better reflect employee interests and needs will be central to this transformation effort. Workplace and work schedule, compensations, benefits, support processes and applications will be personalised to match the role-specific needs of specialists. Employees are to feel comfortable in their working environment, from their very first minute with the Company. Workflows will be customisable while the support base will be improved on a daily basis – from provision of a mobile app to guide them through the induction process to offering company-sponsored training opportunities.

A priority is to integrate Generation Z[9] talent into the Company's business for it to make up 20% to 25% of its total workforce by 2022. The distinctive features of Gen Z employees include higher mobility and flexibility, prioritisation of interesting work, and awareness of the importance of a result-oriented approach and feedback. The Company is introducing a new, digital language within Rostelecom to increase engagement levels among young Gen Z specialists. The Company plans to actively target younger generations to foster sustained visibility among young people, boost its profile and brand recognition among Gen Z.

Rostelecom is consistently building its HR brand to become a Top 5 employer in the IT industry.

Rostelecom will continue the implementation of its labour productivity programme. The Company aims to increase its labour productivity by 40% by 2022 while reducing the share of labour costs in its revenue by 2%. The total headcount will be reduced by 10% to 15%. The company's personnel structure will also change significantly. The percentage of specialists with digital and analytics skills will reach 25%, while the proportion of employees working through protocols or responsible for routine operations will steadily decline due to process automation and optimisation, and as a result of a flatter organisational structure.

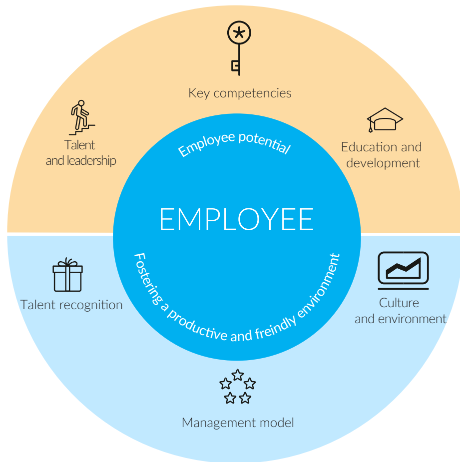
Employees are central to the Company's business development

Up to 20%
automation of the workplaces by > 80%

20% to 25%
the proportion of Gen Z employees by 2022

Growing percentage of employees with digital skills and competencies

Demand for digital professions



Rostelecom's initiatives to ensure progress towards these goals cover multiple areas:

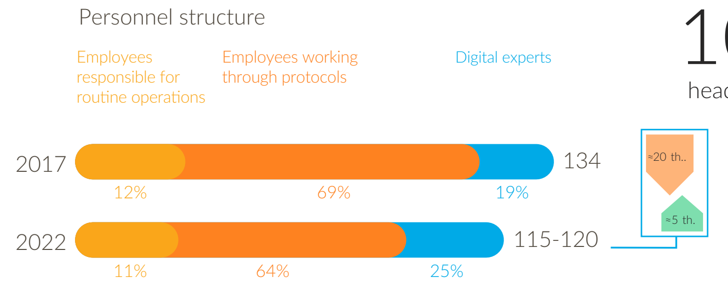
- organisational transformation
- optimisation of business processes and Rostelecom's Production System
- automation and robotisation.

Focus on labour productivity and performance

2022 strategic targets

+40 %
increase in labour productivity

-2 pp
decrease in payroll share of revenue



10%-15%
headcount optimisation

(9) Generations of people born approximately after 1995 according to the Generational theory by William Strauss and Neil Howe.

Human capital development

Sergei Anokhin,
Senior Vice President and CFO

Operational excellence

Internal efficiency improvement will remain the Company's top priority throughout 2022. The key areas to drive efficiencies will include real estate portfolio optimisation, continued implementation of the operational efficiency programme, and improved decision making.

The economic benefit from continued operational efficiency improvements will total additional RUB 20 billion for a period until 2022.

Following the real estate portfolio optimisation, the total area of company-owned properties is expected to decrease by 20% to 7 million square metres by 2022, with additional revenue from real estate monetisation exceeding RUB 30 billion. The programme implementation will also significantly reduce operating expenses and generate over RUB 3 billion in aggregate savings between 2018 and 2022.

Improving efficiency to support margins

2022 strategic targets

Operational efficiency improvements

up to 20

RUB billion savings between 2018 and 2022

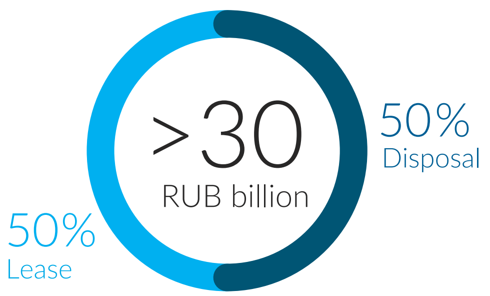
Real estate management

>30

RUB billion revenue from real estate operations between 2018 and 2022

Optimised real estate portfolio drives OIBDA

Revenue from real estate operations between 2018 and 2022



Opex savings due to reduced portfolio

+3

RUB billion total savings between 2018 and 2022

>1

RUB billion annual savings starting from 2022

Long-Term Development Programme

In December 2017, the Board of Directors approved Rostelecom Group's Long-Term Development Programme for 2017–2021[10], developed in accordance with the Governmental directives and guidelines of the Russian Ministry of Economic Development.

Along with the Long-Term Development Programme, the Board of Directors also approved Key Performance Indicators (KPIs) for 2017–2021[11].

The scope of the Long-Term Programme covers all activities of Rostelecom in consolidating its market position, driving infrastructure development, supporting innovation-driven growth, and improving business performance.

Adequate investment, HR and management resources were allocated to support the activities set out in the Long-Term Programme. These activities are well balanced to reflect financing capabilities of the Company.

Tele2 Russia Strategy

Tele2 Russia, 45% owned by Rostelecom, is fully independent in pursuing its own strategy in the mobile market. At the same time, Tele2 Russia and Rostelecom team up for the implementation of a number of projects to derive synergies from joint delivery of services and joint procurement, shared network infrastructure, etc.

The Development Strategy until 2021 approved by Tele2 Russia in late 2016 places a special focus on the customer's emotional and rational choice of operator and emphasises Value for Money.

Tele2 Russia plans to become a key player of a new digital ecosystem through partnerships with other companies. The company sees its role as providing a convenient, attractive platform to market new products and services while maintaining its fundamental principles of operating with transparency and integrity.

Tele2 Russia

Our new vision:

We will become the preferred mobile operator of choice for those who are not willing to overpay.

Mission:

We provide an alternative to existing market practices by offering new life experience to mobile consumers: honest, transparent, and attractive offers, along with high-quality partner programmes and services.

The Company's goals:

- to be the service provider of choice
- to ensure the best ROI
- to remain the employer of choice.

Strategic focus areas:

- completely unique, attractive, simple and honest offers
- leadership in efficiency
- loyalty programme and digital partner services
- faster time to market for new products and services.

(10) Approved by the Board of Directors on 29 December 2017. Minutes No. 13.
(11) Actual performance against the KPI targets set in the 2017 Long-Term Development Programme is detailed in paragraph 7 of Appendix 4 Actual Results of Compliance with Instructions and Directives of the President of the Russian Federation and Instructions of the Government of the Russian Federation to this Annual Report.

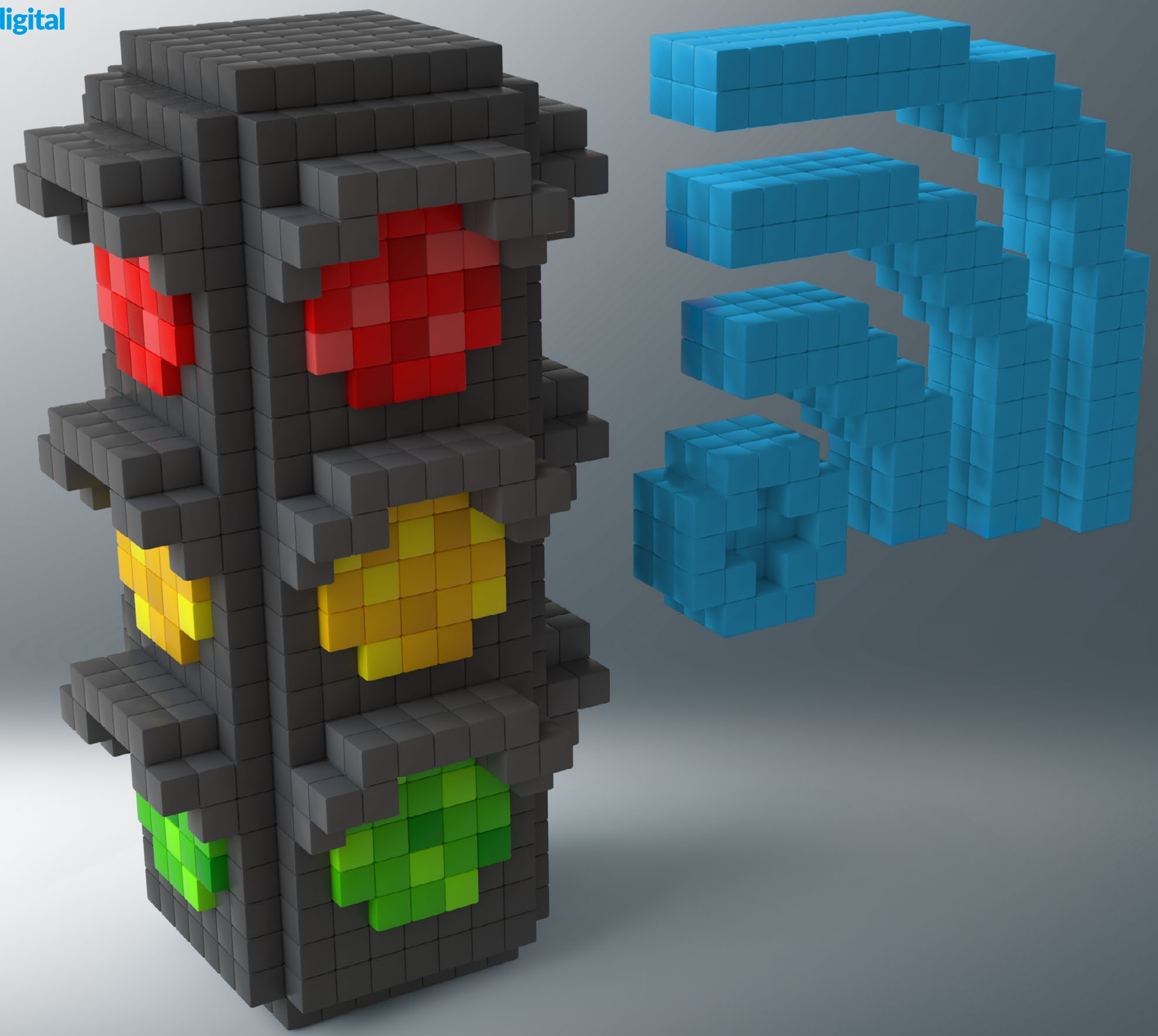
Corporate Governance

Rostelecom ensures equal rights for all shareholders and continuously improves upon its corporate governance framework. In 2017, Rostelecom was recognised as the most successful partially government-owned joint-stock company in implementing the Code's recommendations to the fullest extent.
We comply with the best Russian and international corporate governance principles.

Smart City projects pursued by the Company facilitate a brand new seamless digital environment in urban areas.

>50

Regions using Rostelecom's Health-care, Safe City, and Hotline 112 digital solutions



Corporate Governance Practice

Corporate Governance Framework

Rostelecom's corporate governance is built in line with best practices and complies both with Russian laws and the Rules of the Moscow Exchange.

Corporate governance principles	Corporate governance priorities	Corporate governance enhancement focus
Balance between the interests of shareholders, management and stakeholders	Focus on stakeholder interests and relations	Effective internal controls and audit
Equal treatment of all shareholders and protection of their rights	Compliance with business conduct and ethics	Continuous improvement of the corporate governance practice
Accountability of the Board of Directors, the President, and the Management Board to shareholders	Timely and accurate information disclosure	Electronic voting at General Shareholders' Meetings
Informational and financial transparency	Corporate social responsibility	Introduction of an IT system to automate the Management Board's and its Committees' processes

In accordance with the Charter, Rostelecom is governed by:

- the General Shareholders' Meeting
- the Board of Directors elected by the General Shareholders' Meeting to guide the Company's strategic management
- the President (CEO) and the Management Board, appointed by the Board of Directors to manage the Company's day-to-day operations.

Key Improvements in 2017

- The Charter was amended to enable electronic voting via the Internet (e-voting) at shareholders' meetings.
- Rostelecom, the National Settlement Depository, and JSC Noviy Registrator tested the e-voting system using which Rostelecom's shareholders will be able to vote at shareholders' meetings by signing in to the online account on the public services portal of the Russian Federation.
- The Regulations on the Board of Directors' Performance Assessment were approved.[12]
- The Regulations on the General Shareholders' Meeting reflect the Company's readiness to broadcast shareholders' meetings live and receive shareholders' proposals on nominees to the governing bodies and agenda items via its e-mail rtkm@rt.ru, provided that the documents are signed with a qualified digital signature.

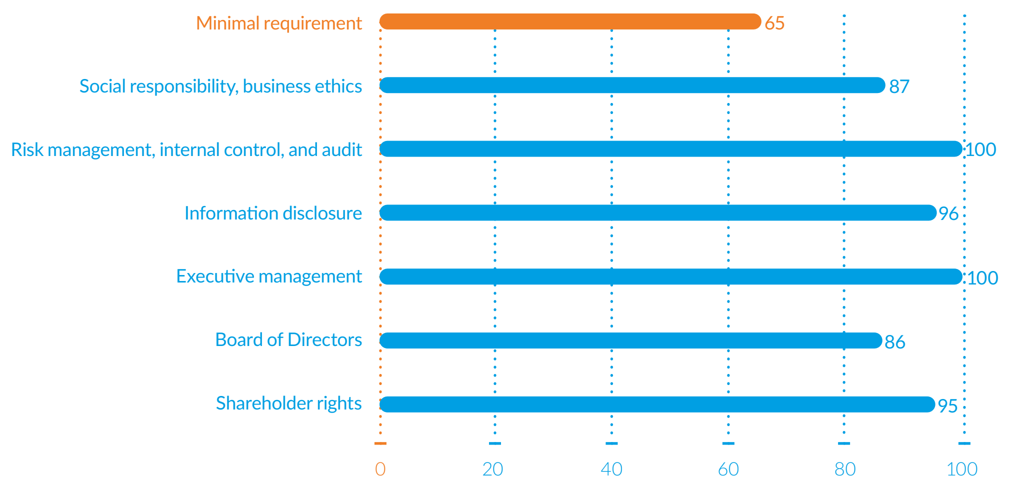
(12) Board of Directors' Minutes No. 6 dated 27 October 2017.

- The Regulations on the President determine that the President is elected by a majority of all elected Directors.
- The Regulations on the Management Board state that members of the Management Board may hold positions in management bodies of other entities with the Board of Directors' prior consent.
- The development of the IT system to automate the Management Board's and its Committees' processes, including remote discussion and e-voting (the Management Board portal), was completed.

Corporate Governance Self-Assessment Results

Since 2015, Rostelecom has been self-assessing its corporate governance through benchmarking the effective corporate governance[13] standards against the key provisions of the Corporate Governance Code[14]. As at the end of 2017, the assessment scored[15] our corporate governance at 92%, much higher than the minimum 65% requirement[16].

Corporate governance level, %



(13) For more details see Appendix 1 Report on Compliance with the Corporate Governance Code Recommended by the Bank of Russia to this Annual Report.
(14) The Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014
(15) The benchmark used the Guidelines for Corporate Governance Self-Assessment for Partially Government-Owned Companies developed by the Federal Agency for State Property Management (Rosimushchestvo).
(16) Recommended by Rosimushchestvo.

Corporate Governance Rating

Corporate governance rating assigned by the Russian Institute of Directors (RID)[17]

7++

Advanced corporate governance practice

Compliance with Russian laws

Low risks of shareholder losses due to governance quality

Adherence to a substantial number of recommendations set out in the Russian Corporate Governance Code

In 2017, the Expert Council of the Russian Government and the International Financial Centre in Moscow (MIFC) assessed[18] the Code[19] implementation progress monitoring for the last three years at twelve partially government-owned joint-stock companies. Rostelecom was named as a leader in implementing the Code's recommendations to the fullest extent and was ranked first in the corporate governance rating.

Plans to Improve Corporate Governance

- Starting from 2018, shareholders may use the e-voting option at shareholders' meetings, including through signing in to the public services portal of the Russian Federation.
- In 2018, the Management Board portal will be launched to enable remote discussion and e-voting at the meetings of the Management Board and its Committees.
- In 2018, Rostelecom's registrar will arrange shareholder access to their online accounts where they can monitor their personal data and vote at Rostelecom's AGM.

(17) Rating was assigned in March 2018.
(18) For more information see: open.gov.ru/events/5516467/?sphrase_id=191663
(19) The Corporate Governance Code approved by the Board of Directors of the Bank of Russia in 2014.

Governing Bodies

General Shareholders' Meeting

The General Shareholders' Meeting is the Company's supreme governing body.

In 2017, Rostelecom's General Shareholders' Meeting[20] was held on 19 June[21].

Board of Directors

The Board of Directors is a collective governing body responsible for the Company's growth strategy and general management, except for matters reserved exclusively for the General Shareholders' Meeting. The powers of the Board are detailed in the Charter[22] and the Regulations on the Board of Directors.[23]

Assessment of the Board of Directors' performance

In May 2018, the Board of Directors self-assessed its 2017 performance.[24] The assessment of the Board of Directors' performance comprised the overall assessment of the Board of Directors, the assessment of its Committees and each member of the Board, including the Chairman.[25]

Induction of Board members

New members of the Board of Directors get familiar with all of the Company's internal documents regulating the proceedings of the Board of Directors, and hold meetings with members of the Management Board and internal and external auditors.

Key functions and tasks of the Board of Directors

- Set up and advance business and operational objectives of the Company
- Protect the rights and legitimate interests of shareholders
- Ensure integrity, reliability, and fairness of public information about the Company

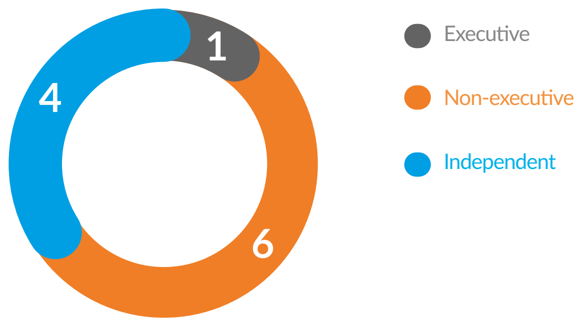
(20) Minutes No. 1 dated 22 June 2017.
(21) For more details on key resolutions passed by the General Shareholders' Meeting see Appendix 2 Governing and Control Bodies to this Annual Report.
(22) Version No. 17 was approved by the Company's AGM on 19 June 2017. Minutes No. 1 dated 22 June 2017. The new version is available at: https://www.rostelecom.ru/en/ir/corporate_governance/docs/Charter_ver17_eng.pdf.
(23) Version No. 15 was approved by the Company's AGM on 19 June 2017. Minutes No. 1 dated 22 June 2017. The new version is available at: https://www.rostelecom.ru/en/ir/corporate_governance/docs/Regulations_BoD_ver15_eng.pdf.
(24) In line with the Regulations on the Board of Directors' Performance Assessment approved in October 2017.
(25) For more details see Appendix 2 Governing and Control Bodies to this Annual Report.

Key principles of the Board of Directors

- Contribute to the Company's and its employee development and competitive business edge
- Make decisions based on reliable information on the Company's operations
- Ensure the Company's adherence to long-term interests of its shareholders and receipt by shareholders of all relevant information on the Company's operations
- Balance the interests of various groups of the shareholders and make most objective and well-balanced decisions for the benefit of all shareholders
- Interpret ambiguities in the rules of any laws and regulations in favour of enhancement of the rights and legitimate interests of the shareholders

Annually elected	Average age of Directors	Average tenure of the Company's directors
11 directors	51 years	4,3 years

Director independence[26]



(26) At its meeting on 7 July 2017, the Board of Directors reviewed the compliance of the Board members with the independence criteria of the Corporate Governance Code approved by the Bank of Russia on 21 March 2014 and the Listing Rules of the Moscow Exchange and determined Ruben A. Aganbegyan, Alexander A. Auzan, Vadim V. Semenov and Alexei A. Yakovitskiy as independent directors.

Membership of the Board of Directors[27]

SERGEI B. IVANOV

Special Presidential Representative for Nature Protection, the Environment and Transport

member of the Board of Directors since 2015 (three years)

Ch

ALEXANDER A. AUZAN

Dean of the Department of Economics of Lomonosov Moscow State University

member of the Board of Directors since 2015 (three years)

SID AC NRC SC IC

Ch	Chairman of the Board of Directors[28]
SID	Senior Independent Director
ID	Independent Director
AC	Audit Committee
CGC	Corporate Governance Committee
NRC	Nomination and Remuneration Committee
SC	Strategy Committee
IC	Investment Committee
Sh	Shareholding

SERGEI B. KALUGIN

Deputy Minister of Telecom and Mass Communications of the Russian Federation

member of the Board of Directors since 2013 (five years)

CGC Sh

MIKHAIL E. OSEEVSKIY

President of PJSC Rostelecom

member of the Board of Directors since 2017 (one year)

SC CGC

MIKHAIL I. POLUBOYARINOV

First Deputy Chairman of Vnesheconombank

member of the Board of Directors in 2010–2011 and since 2014 (five years)

RUBEN A. AGANBEGYAN

Advisor to the CEO of VEB Capital LLC

member of the Board of Directors since 2013 (five years)

ID AC NRC SC

KIRILL A. DMITRIEV

General Director of JSC RDIF Management Company

member of the Board of Directors since 2014 (four years)

ANTON A. ZLATOPOLSKY

General Director of Rossiya TV Channel

member of the Board of Directors since 2011 (seven years)

CGC

ALEXANDER A. PCHELINTSEV

member of the Board of Directors in 2013–2014 and since 2015 (four years)

IC CGC

VADIM V. SEMENOV

Chairman of the Supervisory Board of State Company Russian Highways (Avtodor)

member of the Board of Directors since 2011 (seven years)

ID AC NRC CGC

ALEXEI A. YAKOVITSKIY

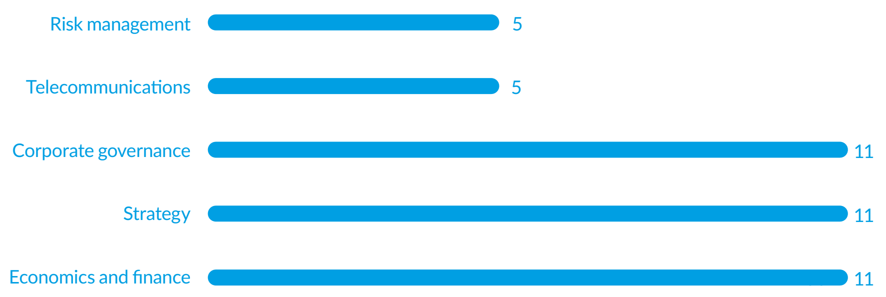
General Director of JSC VTB Capital

member of the Board of Directors since 2017 (one year)

ID SC NRC

(27) For detailed biographies of all members of the Board of Directors in 2017, as well as their shares in the Company stock, see Appendix 2 Governing and Control Bodies to this Annual Report.
(28) The Chairman of Rostelecom's Board of Directors is elected by members of the Board of Directors from among its members and may be re-elected at any time.

Role of the Board of Directors



The liability of the Company's Directors was insured for EUR 150 million, with the additional insurance coverage of EUR 920 thousand for Independent Directors.[29]

No conflicts of interest involving members of the Board of Directors were identified in 2017.

(29) For more details see Appendix 2 Governing and Control Bodies to this Annual Report.

Board of Directors' and its Committees' Performance Report for 2017[30]

Meetings of the Board of Directors

24 — 4 in person, 20 in absentia

Matters were discussed

278

Governing bodies and key workstreams	Matters discussed and resolutions passed
Board of Directors	
» creates the environment to maintain the Company's consistent performance and growth prospects » boosts the investment case » ensures effective control over asset management, including non-core assets, and over investment, financial, and business activities » improves management performance and transparency » improves internal controls and secures shareholder rights.	» A number of resolutions were passed to increase Rostelecom's market share, accelerate revenue growth in new segments, and increase market capitalisation » The Company's new Management Board was elected » The Regulations on Assessment of the Board of Directors' Performance were approved; the Board of Directors self-assessed its performance in May 2018 » The progress on Rostelecom's key strategic projects was continuously monitored » A number of M&A matters were discussed, including the increase of the stake in SAFEDATA LLC through acquiring SafeData Invest LLC and further consolidation of the DC assets of the Company using the facilities of RTC-DC LLC. » The terms of reference for auditing the progress of the Long-Term Development Programme and the KPI progress report were approved » A new Programme for Disposal of Non-Core Assets and the Register of Non-Core Assets were approved » A number of deals to develop the joint venture with Sberbank Investments LLC were endorsed » PJSC Rostelecom's Long-Term Development Programme for 2017–2021 was approved » The results of PJSC Rostelecom's Innovative Development Programme were reviewed » Risk management and internal control matters were discussed on a regular basis » The Company's Strategy 2022 and Dividend Policy for 2018–2020 were approved

(30) For more details on voting of members of the Board of Directors and its Committees at the 2017 meetings held in person / in absentia, as well as on the matters discussed at the meetings of the Board of Directors and its Committees see Appendix 7 Information on Meetings of the Board of Directors and Its Committees to this Annual Report.

Governing bodies and key workstreams	Matters discussed and resolutions passed
Audit Committee[31]	
» develops recommendations for and supports the Board of Directors in reviewing the financial statements and other related documents » monitors and improves the performance of the internal control and risk management system » assesses internal and external audit, accounting and financial reporting.	In 2017, the Committee was particularly focused on adjusting the risk management programme and further improving the quality of internal audit. In March 2018, following a meeting with the Company's external auditor, the Audit Committee positively assessed the external audit of the Company's annual RAS accounting statements and IFRS consolidated financial statements for 2017. In April 2018, based on the Company's internal audit report, the Committee gave a positive assessment of the 2017 internal audit.
Nomination and Remuneration Committee[32]	
» develops recommendations on remuneration of the Company's President and top management » sets and assesses top management and employee targets » assesses the HR management performance.	In 2017, the Nomination and Remuneration Committee reviewed nominees to the Board of Directors and the Audit Commission proposed for election at the General Shareholders' Meeting, including their independence. The Committee also discussed the progress against KPIs and made decision on bonus payments to the President and the Corporate Secretary.
Strategy Committee[33]	
» develops recommendations on drafting business plans for budget planning and asset acquisitions » facilitates constructive dialogue on long-term financial and strategic planning between top managers and the Board of Directors.	In 2017, the Strategy Committee focused on monitoring the strategy performance, particularly, when developing recommendations for the Board of Directors on M&As, net profit distribution, and the size of dividends. The Committee discussed PJSC Rostelecom's budget for 2018, the stake in RTC-DC LLC, and updated innovation KPIs.
Corporate Governance Committee[34]	
» resolves corporate conflicts, enhances corporate governance, and helps improve the performance of the Company's Board of Directors.	The Committee reviewed the report on compliance with Rostelecom's Information Disclosure Policy, which supported the high quality of the corporate information disclosure.

(31) Version No. 3 of the Regulations on the Audit Committee was approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(32) Version No. 3 of the Regulations on the Nomination and Remuneration Committee was approved by the Board of Directors on 10 November 2016. Minutes No. 7 dated 10 November 2016.
(33) Version No. 3 of the Regulations on the Strategy Committee was approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(34) Version No. 4 of the Regulations on the Corporate Governance Committee was approved by the Board of Directors on 10 November 2016. Minutes No. 7 dated 10 November 2016.

Governing bodies and key workstreams	Matters discussed and resolutions passed
Investment Committee[35]	
» improves the Company's business performance through integrating consumer opinions into the investment policy » ensures transparent decision-making on public telecommunications tariffs, and approving investment projects and programmes regulated under the Federal Law On Natural Monopolies	No meetings of the Committee were held in 2017.

Corporate Secretary

To comply with the procedures designed to secure the rights and legitimate interests of shareholders, Rostelecom introduced the role of Corporate Secretary.

The Corporate Secretary facilitates the coordination between the Company, the Board of Directors, and its Committees, and assists the Company's governing bodies in corporate governance.

The Corporate Secretary reports to the Board of Directors and is elected by a simple majority of votes cast by its members.

The Company has stringent requirements for the person elected to this position. The Corporate Secretary should have the knowledge sufficient to perform their duties and an impeccable reputation.

Ekaterina S. Mironova has been the Company's Corporate Secretary since 2011[36].

(35) The Regulations on the Investment Committee were approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(36) For more details on the Corporate Secretary see Appendix 2 Governing and Control Bodies to this Annual Report.

President and Management Board

Management Board	Average age of the Management Board	Meetings of the Management Board	Average tenure of the Management Board
9 members	44 years	30 (23 in person, 7 in absentia)	4,9 years

Management Board's performance report

Key agenda items

Operational excellence	» Enhancement of the corporate project management. » Implementation status and key priorities of Rostelecom's Production System. » Procurement optimisation. » Decommissioning of analogue network equipment. » Changes in the organisation of the Company's branches.
The Company's growth	Strategy 2022, target IT architecture development, and transformational solutions for telecoms networks.
Risk management	Progress of the Risk Management Programme.
Enhancement of corporate governance standards	Development and approval of the Risk Management Programme. Internal control development concept.
Preparation of materials and matters referred to the Board of Directors	Preview of related party transactions
Operations	Reports on budget performance and drafting the budget for 2018.
Social responsibility	Charity and sponsorship initiatives.

Membership of the Management Board

MIKHAIL E. OSEEVSKIY

Chairman of the Management Board and President of Rostelecom, joined the Company in 2017

ALEXANDER E. ABRAMKOV

Vice President and Director of the Centre Macroregional Branch, joined the Company in 2013

SERGEI N. ANOKHIN

Senior Vice President and CFO, joined the Company in 2017

VLADIMIR S. KIRIENKO

First Vice President, joined the Company in 2016

KAI-UWE MEHLHORN

Advisor to the President, joined the Company in 2013

DMITRY V. PROSKURA

Vice President and Director of the Volga Macroregional Branch, joined the Company in 2011

GALINA V. RYSAKOVA

Senior Vice President for Organisational Development and Human Resources, joined the Company in 2001

ALEXEI V. SAPUNOV

Senior Vice President for Technical Infrastructure, joined the Company in 2013

ANNA V. SHUMEYKO

Senior Vice President, Chief of Staff of Rostelecom's President, joined the Company in 2017

No conflicts of interest involving members of the Management Board were identified in 2017.

Committees of the Management Board

To improve the performance of the Management Board, the Company has in place four committees[37].

- Budget and Investment Committee
- Compensation Committee
- Risk Management Committee
- Charity Committee

(37) For more details on the Committees of the Management Board see Appendix 2 Governing and Control Bodies to this Annual Report.

Control Bodies[38]

Internal Audit Unit

- Supports the Board of Directors and executive bodies of the Company in increasing the effectiveness of management and improving the financial and business performance;
- Conducts independent objective reviews and develops recommendations to improve the Company's performance;
- Ensures a holistic and consistent approach to evaluating and improving internal controls, risk management, and corporate governance;
- Performs reasonable assessment of the feasibility of Company's objectives

Risk Management Unit

- Identifies and assesses the Company's risks to ensure that risks are monitored continuously and risk management activities are complete and effective;
- Coordinates information sharing on risk management across the Company's business units and governing bodies under the Risk Management Programme and through quarterly risk management reports;
- Develops documents based on the international best practices to regulate the guidelines and procedure for routine coordination of the Company's business units within risk management processes;
- Reports on risk management and submits reports for review, agreement, and approval by the Management Board, the Board of Directors, and their Committees

Internal Control Unit

- Facilitates protection of the interests of shareholders, investors, and customers; prevents and resolves conflicts of interest; maintains strong corporate governance; supports the most effective Company management and achievement of its targets, including adjustment to the changing internal and external environment;
- Encourages the Company's compliance with the applicable laws and internal regulations;
- Creates a supportive environment for timely preparation and presentation of reliable financial, accounting, statistical, management, and other reporting data for external and internal users;
- Contributes to protection of the Company's assets and sustainable use of the Company's resources and growth potential

Audit Commission

- Controls the financial and business operations between General Shareholders' Meetings

Independent Auditor

- Confirms the reliability of the financial statements at the General Shareholders' Meeting

Ernst & Young LLC was selected as PJSC Rostelecom's auditor of both IFRS and RAS financial statements for 2H 2017 and 1H 2018.

(38) For more details on control bodies' activities see Appendix 2 Governing and Control Bodies to this Annual Report.

Remuneration

Board of Directors

Board of Directors' remuneration policy[39]

Fixed annual remuneration payable to each member of the Board of Directors

4 RUB million

Annual remuneration payable to members of the Audit Committee of the Board of Directors

440,000 RUB

Annual remuneration payable to members of other Committees of the Board of Directors

320,000 RUB

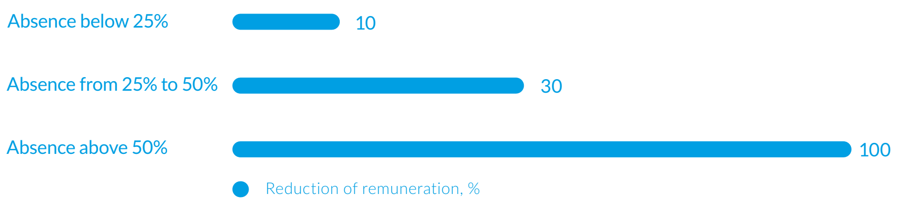
Factor applied to the Chairman of the Board of Directors

1.5

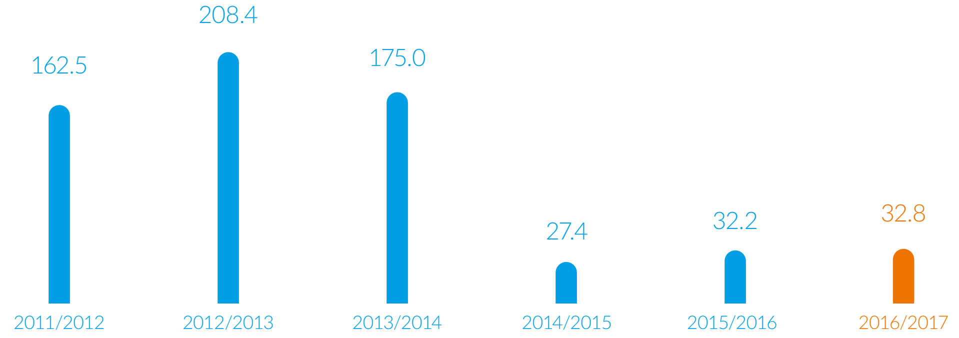
Factor applied to the Board of Directors' Committee Chairmen

1.25

Reduction of remuneration due to absence from meetings held in person or in absentia, %



Remuneration paid to the Board of Directors in 2012–2017[40], RUB million



No reimbursement of expenses or other payments were made to members of the Board of Directors in 2017, no loans (credit facilities) were granted.

In 2017, non-employee members of the Board of Directors did not participate in the long-term incentive programme for the Company's management.

Individual payments to members of the Board of Directors, RUB

Name	Remuneration for serving on the Board of Directors	Remuneration for serving on the Audit Committee	Remuneration for serving on the Strategy Committee	Remuneration for serving on the Nomination and Remuneration Committee	Remuneration for serving on the Corporate Governance Committee
RUBEN A. AGANBEGYAN	3,600,000.00	0.00	320,000.00	400,000.00	0.00
ALEXANDER A. AUZAN	4,000,000.00	400,000.00	320,000.00	0.00	0.00
KIRILL A. DMITRIEV	4,000,000.00	0.00	0.00	0.00	320,000.00
ANTON A. ZLATOPOLSKY	0.00	0.00	0.00	0.00	0.00
SERGEI B. IVANOV*	0.00	0.00	0.00	0.00	0.00
MIKHAIL P. IRZHEVSKY	0.00	0.00	0.00	0.00	0.00
SERGEY B. KALUGIN**	428,571.43	0.00	34,285.71	0.00	34,285.71
ANATOLY A. MILYUKOV	4,000,000.00	400,000.00	400,000.00	320,000.00	0.00
MIKHAIL I. POLUBOYARINOV	4,000,000.00	0.00	0.00	0.00	0.00
ALEXANDER A. PCHELINTSEV	4,000,000.00	0.00	320,000.00	0.00	400,000.00
VADIM V. SEMENOV	4,000,000.00	500,000.00	320,000.00	320,000.00	0.00
TOTAL, BY TYPE OF PAYMENT	28,028,571.43	1,300,000.00	1,714,285.71	1,040,000.00	754,285.71
GRAND TOTAL	32,837,142.86				

* Chairman of the Board of Directors.
** Employed by the Company prior to 3 March 2017 (inclusive), public officer since 12 April 2017.
Note: The specified remuneration amount was paid based on the performance of the Board of Directors effective from 21 June 2016 until 19 June 2017.

No annual remuneration is paid to the members of the Board of Directors holding public offices, as well as the members who renounced their remuneration.

(39) Outlined in Version No. 15 of the Regulations on the Board of Directors approved by the Annual General Shareholders' Meeting on 19 June 2017, Minutes No. 1 dated 22 June 2017.

(40) Remuneration for the year of X/Y was paid for the Board of Directors' performance during the period from the date of the Annual General Shareholders' Meeting in the year of X to the same in the year of Y. The much lower remuneration of the Board of Directors in 2015–2017 is attributable to the amendments in the remuneration system approved by the 2014 AGM.

President and Management Board

The President's compensation package is determined in his contract approved by the Board of Directors. Furthermore, in line with the Board of Directors' resolution, the President's pay may include an annual bonus for good-faith performance of his duties and performance against budget targets.

No remuneration is payable to members of the Management Board following the resolution of the Board of Directors dated 8 October 2015 to deem invalid the Regulations on Remuneration of Members of the Management Board.

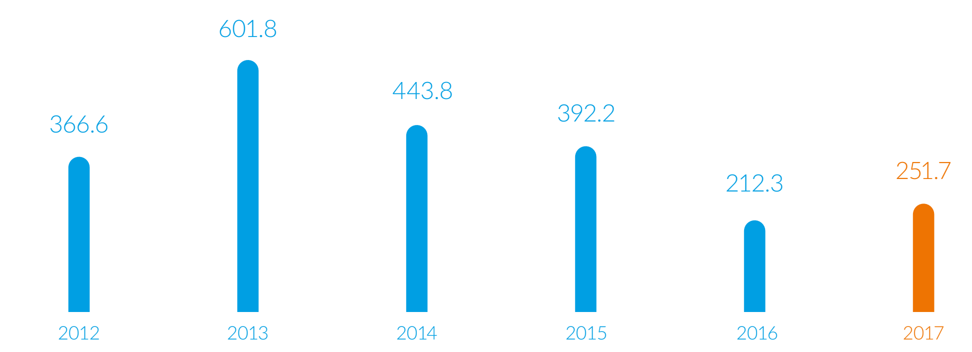
In line with the requirements of the Labour Code of the Russian Federation, the severance pay payable to Rostelecom's managers including members of the Management Board, if their employment is terminated by the Company or results from the change of ownership of the Company, does not exceed triple average monthly earnings of the relevant employee.

Payments to the Management Board and the highest paid members of the executive bodies in 2017, RUB

Payment type	Payments to Management Board members	Payments to Top 5 highest paid members of the executive bodies (key executives)
Salary	177,050,730.72	114,341,874.79
Bonuses	397,551,034.55	302,593,963.15
including cash used to purchase the Company ordinary shares	322,872,045.29	224,834,349.62
Fees	0.00	0.00
Benefits	0.00	0.00
Reimbursement of expenses	0.00	0.00
Other	0.00	0.00
GRAND TOTAL	574,601,765.27	416,935,837.94

No loans (credit facilities) were granted by the Company to members of the Management Board.

Remuneration paid to the Management Board, excluding the long-term incentive programme, RUB million



Note: The higher remuneration paid to the Management Board in 2017 was driven by the increase of the Board's size from six to nine people.

Audit Commission

Audit Commission's remuneration policy[41]

Anual remuneration payable to the members of the Audit Commission

800,000 RUB

Factor applied to the Chairman of the Audit Commission

1.3

Factor applied to the Secretary of the Audit Commission

1.1

Payments to members of the Audit Commission in 2017, RUB

Name	Remuneration for serving on the Audit Commission	Salary
Alexander S. Vasilchenko	0.00	0.00
Valentina F. Veremyanina	800,000.00	755,576.70
Vasily V. Garshin	0.00	0.00
Ilya I. Karpov	0.00	0.00
Mikhail P. Krasnov	880,000.00	0.00
Alexander S. Ponkin	0.00	0.00
Alexander V. Shevchouk	1,040,000.00	0.00
GRAND TOTAL	2,720,000.00	755,576.70

Note: No annual remuneration is paid to the members of the Audit Commission holding public offices.

(41) Outlined in Version No. 4 of the Regulations on the Audit Commission approved by the Annual General Shareholders' Meeting on 15 June 2015, Minutes No. 1 dated 17 June 2015.

Incentive Programmes

Rostelecom abides by the uniform standard Payroll Policy, a framework for local Payroll Policies. Local Payroll Policies apply to all employees of the Company. Rostelecom also has in place the uniform Regulations on the Monetary Incentives for Employees Based on Project Performance which apply to all employees. Rostelecom's subsidiaries and affiliates adopted local incentive systems currently adjusted to match Rostelecom's incentive system.

Targeted incentive systems have been adopted for certain categories of employees of technical and commercial units.

Payment and financial incentives for Rostelecom's management are on par with the labour market. The Company is regularly involved in reviewing salaries and HR policies.

The Management Board is responsible for approval of the internal regulations governing the overall remuneration and incentive framework. Targeted incentives are approved either by the President or by authorised persons acting under a power of attorney.

Rostelecom does not use non-cash incentives except for the Long-Term Incentive Programme.

Severance may be paid to the Company's employees upon retirement by mutual agreement of the parties.[42] The severance pay may not exceed triple average monthly earnings of the relevant employee.

Long-term incentives

Long-Term Incentive Programme for 2014–2016

On 31 March 2014, the Board of Directors approved the Regulations on the Long-Term Bonus Programme for Employees and the Regulations on the Long-Term Share Purchase Programme (Share Option Programme) constituting the Long-Term Incentive Programme for PJSC Rostelecom's management (Programme), which provided for setting up an option plan for ordinary shares to be purchased by the Programme participants at a fixed price through an annual bonus payable against achievement of such long-term Key Performance Indicators (KPIs) as free cash flow (FCF), net profit, and return on invested capital (ROIC)[43].

The Programme was scheduled for three years and was completed in 2016; final payments were made in 2017. The Programme integrated about 200 participants – top and middle managers including regional branch directors.

Shares representing a percentage of the total target package were sold to each participant annually and were adjusted depending on the KPI performance: 30% in 2014, 30% in 2015, and 40% in 2016.

RTC-Development, a closed-end unit investment fund managed by JSC VTB Capital Asset Management, was set up to implement the option plan.

Rights to shares exercised under the share option programme

Item	2015	2016	2017	Total for three years
Number of ordinary shares	6,818,718	12,855,030	18,322,439	37,996,187
% of the total number of ordinary shares	0.265	0.499	0.712	1.476

(42) Clause 1, Part 1, Article 77 of the Labour Code of the Russian Federation.
(43) Net profit is based on the Statement of Profit or Loss prepared in accordance with IFRS, while FCF for the Programme is calculated as the difference between OIBDA and CAPEX (on an accrual basis); ROIC is calculated as the ratio of the net operating profit after tax (NOPAT) to invested capital.

Long-Term Incentive Programme for 2017–2019

In July 2017, the Board of Directors approved a new Long-Term Incentive Programme for Rostelecom's management (the New Programme). The New Programme is based on a share matching plan and provides for purchasing a relevant number of shares using part of regular bonuses (monthly, quarterly, and/or annual) (participant contribution) and an extra bonus (Company contribution).

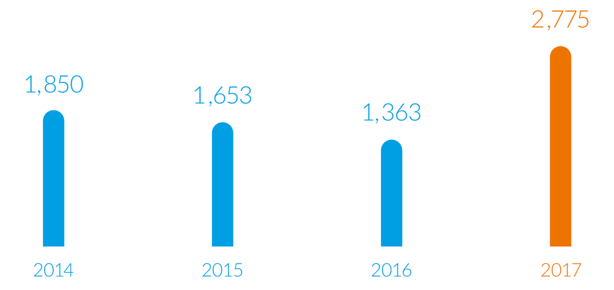
The new Long-Term Incentive Programme has three implementation phases: Phase 1 – 2017 and the first eleven months of 2018; Phase 2 – 2018 and the first eleven months of 2019; Phase 3 – 2019 and the first eleven months of 2020.

The maximum aggregate package of all participants of the New Long-Term Incentive Programme includes the Company shares and does not exceed 6% of the charter capital; the share package size for each phase may not exceed 2% of the charter capital.

The New Programme is guided by such KPIs as free cash flow (FCF), net profit, and return on invested capital (ROIC).

To implement this Long-Term Incentive Programme, the Company continues to use RTC-Development, a closed-end unit investment fund.

Expenses on the Long-Term Management Incentive Programme within the Statement of Profit or Loss, RUB million[44]



Short-term incentives

In 2017, Rostelecom continued improving its employee motivation scheme to achieve its strategic goals.

An incentive scheme providing for annual bonus payments (without quarterly payments), which was introduced for top managers in 2016, was expanded to cover middle management in 2017.

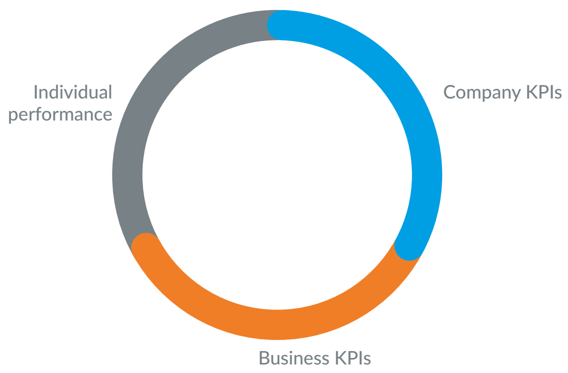
These changes are aimed at strengthening motivation to boost the overall achievement of the Company KPIs in the reporting year. Rostelecom developed tailored incentive schemes for B2C and B2B business units and product teams, which strengthen the employee motivation to achieve the Company's tactical and strategic goals such as increasing the market share in key segments and reducing the time-to-market for new products.

In 2017, the Company launched assessments of its in-house services. In 2017, the Company launched assessments of its in-house services by integrating the relevant KPI into the incentive system as a Business KPI for support functions (HR, finance and accounting, legal support, etc.). Availability of a service assessment tool for in-house customers harmonises the support functions' KPIs. The assessed functions actively follow up on the customer survey results. The assessment tool also contributes to building a feedback culture within the Company.

(44) Salary expenses, other payments, and social charges, including personal income tax and social charges.

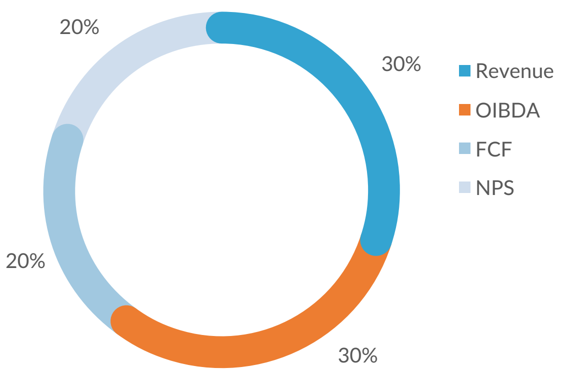
System of KPIs[45]

The Company has in place a KPI system whereby employee bonuses depend on the progress against three groups of targets: Company, business, and individual. The share of each group and group KPIs vary by position and scope of responsibility.[46]

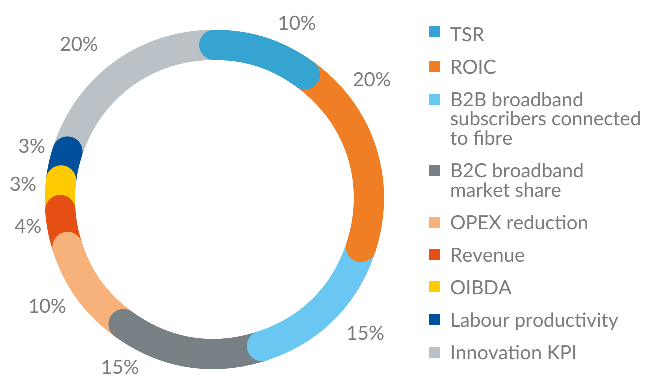


Company and business KPI system for top management since 2018

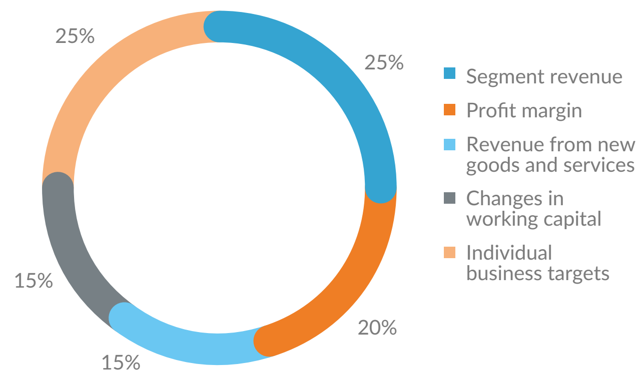
Company KPIs



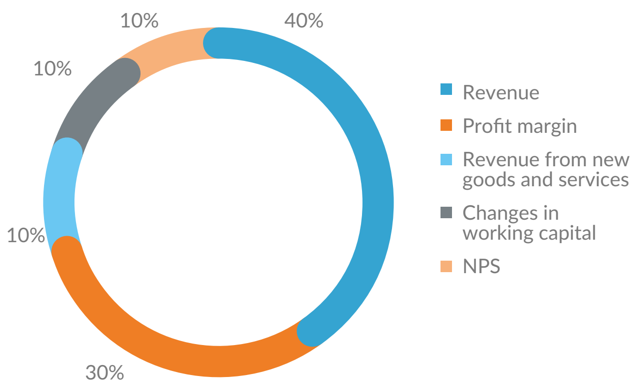
Business KPIs: President and members of the Management Board



Business KPIs: managers of key business segments (B2C, B2B/B2G, B2O)

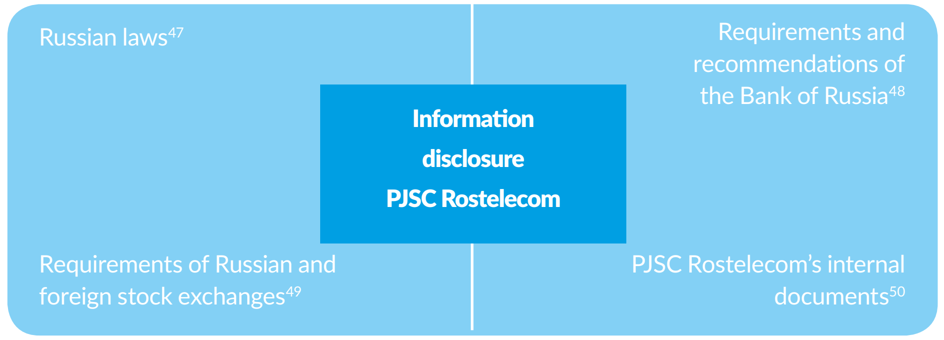


Business KPIs: Vice Presidents – directors of macroregional branches



(45) Approved by the Board of Directors on 29 December 2017, Minutes No. 13 dated 29 December 2017.
(46) The KPI system for top managers includes only Company and business KPIs.

Information Disclosure



The Board of Directors establishes the rules of, and approaches to, disclosures by approving relevant internal documents.

Key objectives of the Regulations on the Information Disclosure Policy:

- enhance openness and build trust
- improve transparency
- determine the Company's disclosure framework.

The primary source of Company information disclosure is its official website:
www.rostelecom.ru

Information is also available in the e-disclosure system at:
www.e-disclosure.ru

Key principles of the information policy:

- timely, consistent, and prompt provision of the information
- accessibility, objectivity, completeness, accuracy, and comparability of disclosed information
- equal rights of all stakeholders to obtain information in compliance with all applicable laws, standards, and regulations
- information disclosure regardless of specific individual or group interests
- reasonable balance between the Company's transparency and protection of its business interests
- confidentiality of information that constitutes a state secret or a trade secret in accordance with the Company's internal documents
- control over the use of insider information.

(47) Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995 and Federal Law No. 39-FZ On Securities Market dated 22 April 1996.
(48) Regulations On Information Disclosure by Securities Issuers; Corporate Governance Code.
(49) Regulations on the Information Disclosure Policy approved by the Board of Directors, Minutes No. 8 dated 30 September 2015.
(50) Policy of Access to Insider Information, Rules of its Protection and Control over Compliance with Applicable Insider Information Law Requirements approved by the Board of Directors, Minutes No. 11 dated 28 November 2015.

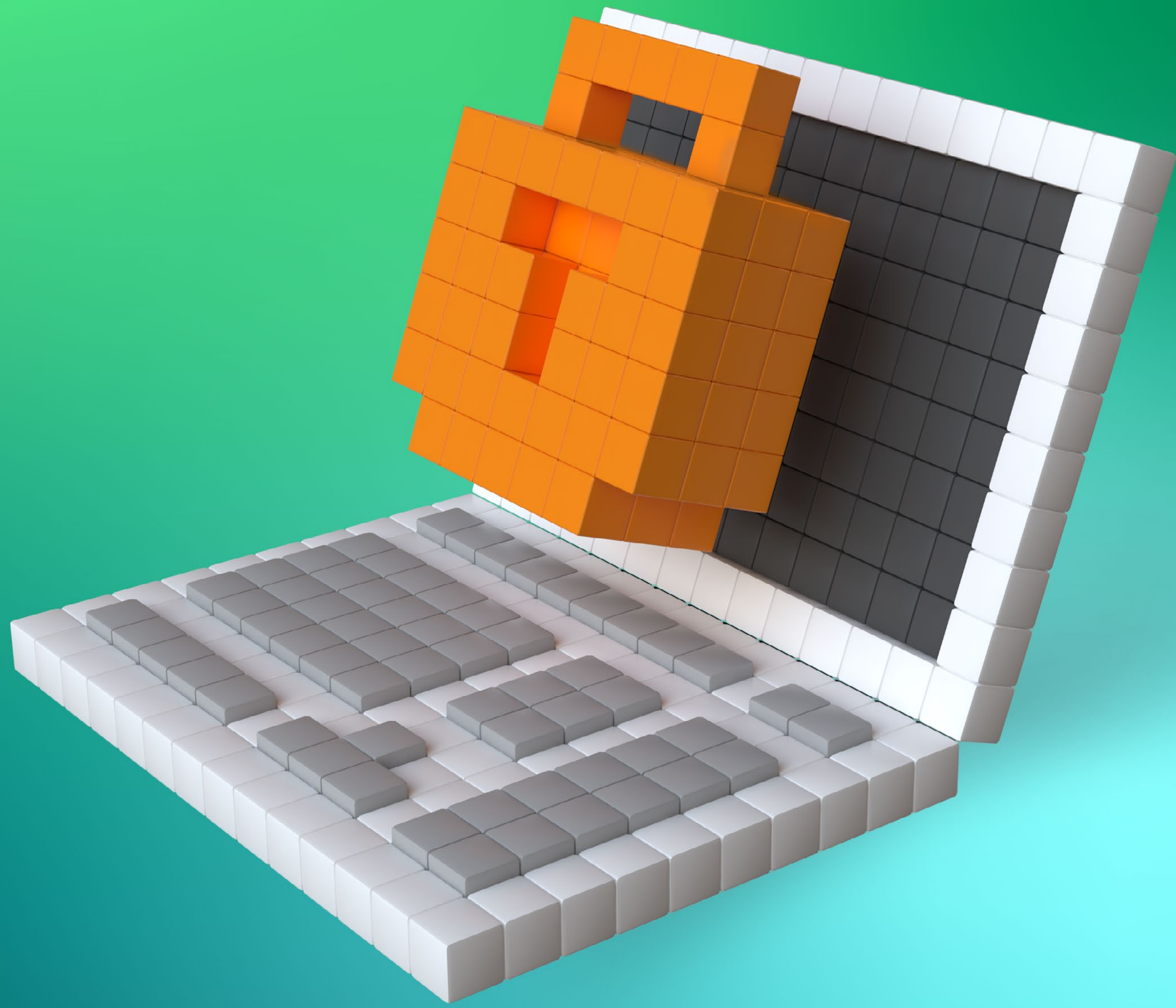
Rostelecom’s peformance

Rostelecom’s prudent balance between capital investments and dividend payments ensures strong financial performance and comfortable leverage. The Company’s focus on sustainable growth enables quick adaptation to the changing environment and consistent development of new products. We set ambitious goals and take pride in our leading position in key markets

The criticality of cyber security across all industries is growing as digital technologies are deeply integrated into business processes. Rostelecom’s SOC promptly identifies and responds to emerging threats.

50

SOC specialists monitoring the network 24/7 for cyber threats



Vladimir Kirienko,
First Vice President:

Operational Highlights

Key Product and Segment Highlights

Key achievements in 2017

Revenue growth in VAS and cloud services

+26%

Share of revenue from content and digital services

47%

Y-o-y improvement in blended ARPU

7%

MVNO subscribers as at the year-end 2017

830,000

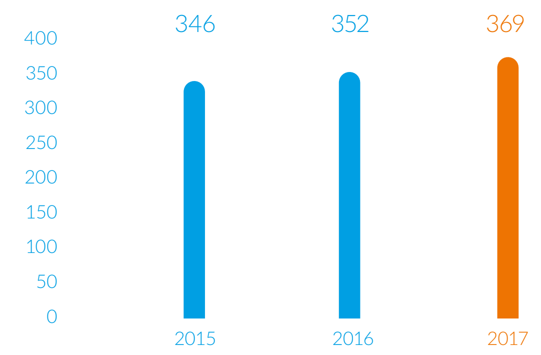
Data centre racks

5,268

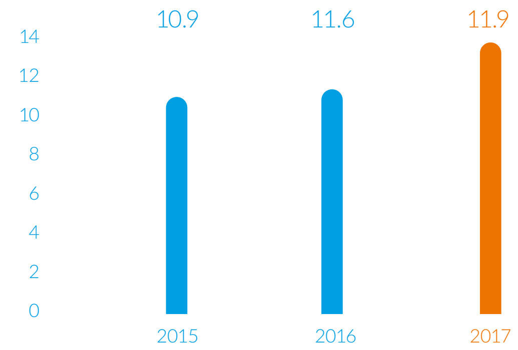
Rostelecom is the operator of the national Unified Biometric System

Rostelecom is a leading contributor to the national Digital Economy programme

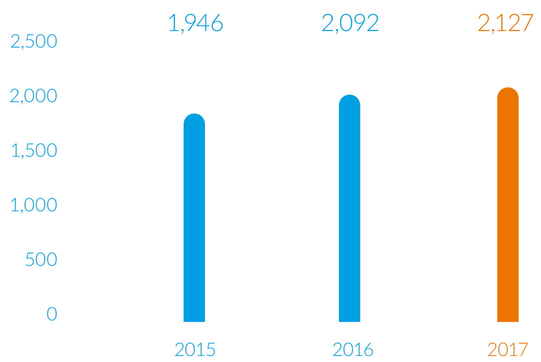
B2C broadband ARPU, RUB



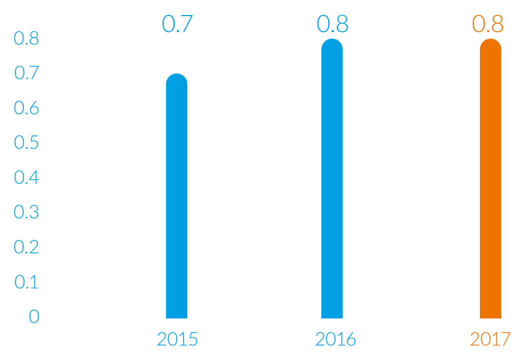
B2C broadband base, million subscribers



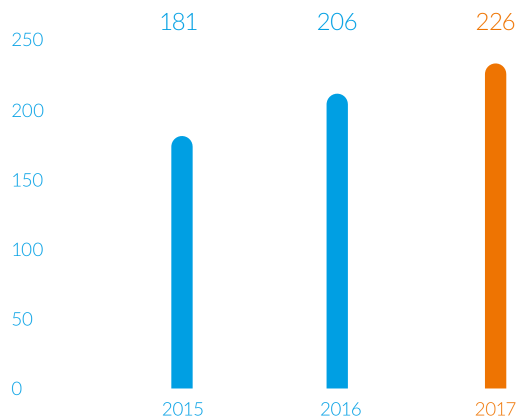
B2B/G broadband ARPU, RUB



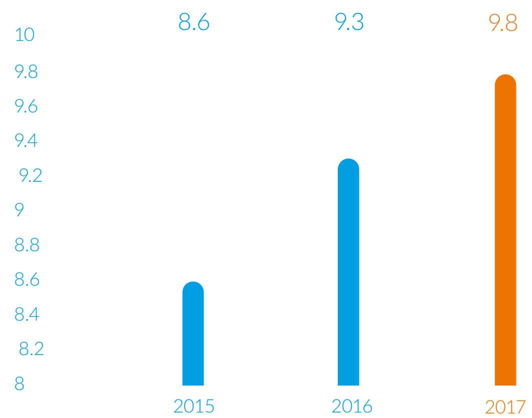
B2B/G broadband base, million subscribers



Pay TV ARPU, RUB



Pay TV base, million



B2C

Rostelecom – an undisputed leader across key markets

Households

12 million
broadband subscribers

+14% over 3 years

5 million
IPTV subscribers

+79% over 3 years

830 th.
MVNO subscribers

33 million
households

+26% over 3 years

Approximately half of Rostelecom's revenue is generated by the retail segment, thus being a major driver of the Company's overall performance. In 2017, the segment grew in terms of both subscriber base and ARPU.

Vladimir Kirienko, First Vice President:

The year 2017 has revolutionised the mass market. Before 2017, new services such as broadband and IPTV did not generate enough revenue to offset the declines in revenue from fixed-line. Last year we succeeded in fully offsetting this fall for the first time, achieving an overall growth for the mass-market segment.

B2B/G

Rostelecom – an undisputed leader across key markets

Business

45 %
subscribers connected to fibre

763 th.
broadband subscribers

5,3 th.
racks in data centres

+88% over 3 years

Rostelecom – a reliable partner to the state

State

>6 th.
communities connected under the BDD programme

64 million
public services (e-government) portal users

>50 regions
using Rostelecom's Healthcare, Safe City, and 112 digital solutions

Growth in fibre broadband base	Growth in revenue from Smart City projects	Growth in revenue from Virtual Data Centre service
26 %	27 %	x3

In 2017, we sustained positive momentum in B2B/G, securing a growth in revenue, with 93% of this growth coming from such products as New Telephony (cloud PBX), the 8-800 service, information security services, managed communications services, Wi-Fi access, Virtual Data Centre, video surveillance, the Call Centres service, and mobile MVNO services.

Vladimir Kirienko, First Vice President:

In 2017 we gave more focus to our corporate customer needs. Top 100 customers with the highest potential revenue opportunity were identified in every region in which we operate. These customers were assigned dedicated managers who offer comprehensive turnkey solutions to match their specific needs.

We are evolving towards a product bundling model in the SME segment. E.g. in Q4 2017, we launched "Byt v plyuse" ("Stay in Positive Territory") bundle which is rapidly gaining popularity and is already in high demand. Customers pay one price for broadband access bundled with another service – Virtual PBX with no answer call forwarding for mobile devices, video surveillance, Wi-Fi Hotspot, or IPTV with HD channels and content for SMEs.

B2O

During its first year, the Operator for Operators project launched by Rostelecom in 2017 generated over RUB 360 million in revenue.

In 2017, Tele2 Russia migrated 100% of its traffic to Rostelecom's communications channels.

Rostelecom – an Operator for Operators

Operators

56 % market share in traffic transmission

>1 Tbps capacity contracted in the Transit Europe – Asia project

020 network maintenance services for telecoms operators

Vladimir Kirienko, First Vice President:

Rostelecom made an important strategic decision in the B2O segment when faced with a choice between optimisation and developing in-house capabilities. In 2017, we launched the Operator for Operators project to enter the market for third-party network maintenance services. The project posted good results in the very first year, with the Volga Macroregional Branch winning all tenders for network maintenance services floated for the "big four" Russian operators' networks in the Volga Federal District.

Infrastructure and Telecoms Networks

Rostelecom – a technology leader

The Kamchatka – Magadan – Sakhalin cable put into operation

+46 % increase in the backbone network capacity over 3 years

100 % back-up of backbone lines

1798 km total length

400 Gbps capacity

Rostelecom provides transmission services for any data format via cable, radio relay, or satellite links. The Company's digital network is based on dense wavelength division multiplexing (DWDM) technology and covers virtually all of Russia.

Boris Glazkov, Vice President:

The government-sponsored Digital Economy programme requires strong underlying infrastructure: telecoms networks, data centres, digital platforms, and cyber security systems. In many of these areas, Rostelecom is the leader or co-leader in the Russian market. We act as a digital transformation agent in the public administration, healthcare, education, city management, energy, transport, and industry sectors.

Building a 5G infrastructure requires significant investment in installing base stations and laying fibre to them. Rostelecom has the most extensive FOCL network in Russia, and advocates a 5G consortium to bring together operators who seek to be early adopters of the technology.

Backhaul network

The Company's backbone network is based on FOCLs between Moscow and Novorossiysk, Moscow and Saint Petersburg, and Moscow and Khabarovsk. These FOCLs have a design capacity of 80 fibre-optic lines, 100 Gbps each.

Our regional backhaul network comprises communications lines connecting large communities and is linked to the backbone network. Customers can lease Nx64 Kbps digital lines using flexible access multiplexers.

The Company's international FOCLs provide connections to Azerbaijan, Belarus, Georgia, Kazakhstan, China, Latvia, Lithuania, Mongolia, Poland, Ukraine, Finland, Sweden, Estonia, and Japan. International points of presence (POPs) are located in Stockholm, Frankfurt, and Hong Kong. A high-speed transit route is maintained to provide connectivity between Europe and Asia through Russia.

Reliability and quality of services are achieved by:

- redundancy of communications equipment and lines
- route separation
- setting up cross-border passages and gateways for several independent foreign operators in each relevant international market.

245,744 km of lines upgraded since 2001

This approach helps minimise traffic loss risk and consequences of outages.

In 2017, Rostelecom launched a unified backhaul resource management system to plan, build, and manage backbone and regional backhaul networks.

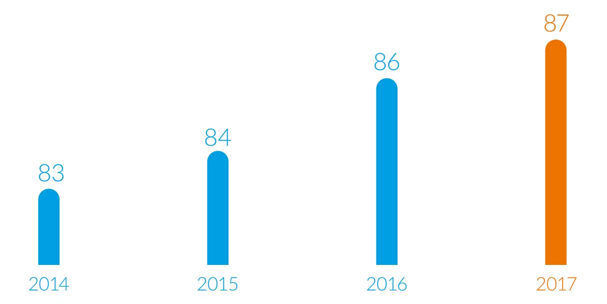
Voice/infocommunications (ICT) network

A voice infocommunications network supports telephony and traffic transmission at the local, intra-zone, domestic, and international levels.

Voice/ICT network segments

Segment	Capacity	Digitalisation, %
International telephone network	212,100 lines	100
Domestic long-distance telephone network	951,000 lines	100
Intra-zone telephone network	1,418,200 lines	100
Local telephone network	32,877,700 subscriber lines	87

Local telephone network digitalisation, %

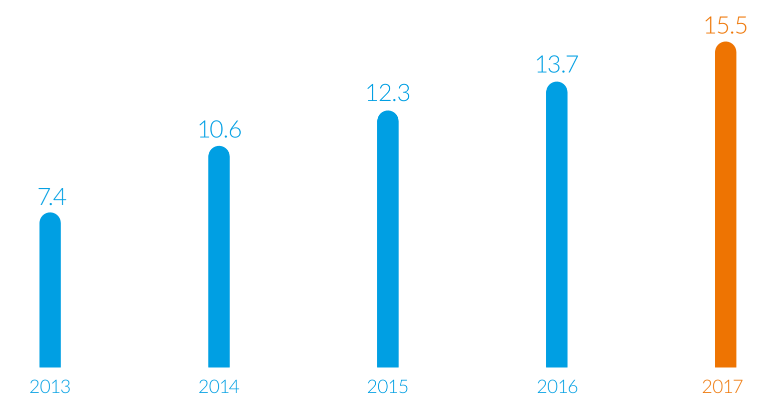


Data network

Rostelecom's IP/MPLS data network comprises backbone and regional data networks, and provides a range of services including:

- broadband access, IPTV, TV content management
- interconnection and internet traffic transit
- virtual private networks (VPN), including L2 VPN, L3 VPN, VPLS, and interconnection VPN
- data centre services.

IP/MPLS backbone network capacity, Tbps



Submarine cables

Submarine cables provide additional connectivity between Russia and other markets to expand and upgrade Rostelecom's international telecommunications capacity.

Rostelecom holds stakes or indefeasible rights of use (IRUs) in the following global projects: Fibre-Optic Link Around the Globe (UK – Middle East – Japan), and South-East Asia – Middle East – Western Europe cable systems.

Rostelecom owns core capacity and holds stakes in international submarine fibre-optic cable systems:

- Georgia – Russia (67%)
- Russia – Japan (50%).

In 2017, the Company launched design activities for the Yuzhno-Sakhalinsk – Kurilsk – Yuzhno-Kurilsk – Krabozavodskoye SFOCL with a total length of ca. 780 km and capacity of 100 Gbps. The project construction will commence in 2018 across the main islands of the Kuril archipelago.

Satellite communications

Rostelecom's backbone satellite network complements its land digital network by connecting hard-to-reach locations or serving as a backup for land FOCLs.

Rostelecom's united Satellite Communications Network (SCN) relies on 157 satellite earth stations with four core stations located in Khabarovsk, Yuzhno-Sakhalinsk, Yakutsk, and Petropavlovsk-Kamchatsky.

Mobile networks

Rostelecom partners with Russian operators of terrestrial mobile networks to expand the range of its high-quality network services. As at the end of 2017, the Company was routing international calls for 754 mobile networks in 203 countries.

Last-mile connectivity

In 2017, Rostelecom completed a project to upgrade its last-mile infrastructure, bringing fibre connectivity and advanced digital services to 33 million households across Russia.

National programmes

Bridging the Digital Divide initiative

Being Russia's only designated universal service provider, Rostelecom is involved in the Bridging the Digital Divide (BDD) nationwide programme. The BDD initiative aims to bring high-speed internet access to consumers in Russia's rural areas by connecting local communities to fibre.

Under a 10-year agreement for the BDD programme between Rostelecom and the Federal Communications Agency (Rossvyaz), Rostelecom will connect to fibre communities with a population of between 250 and 500, which will take ca. 160,000 km of new fibre-optic communications lines to be installed. Customers will get access to the Internet at a speed of 10 Mbps.

In 2017, federal authorities provided RUB 11.5 billion of funding towards the BDD programme implementation.

Through the BDD projects, Rostelecom will:

- contribute to government plans to expand infrastructure, and provide internet connections to public administration, education, and healthcare institutions listed in the Digital Economy national programme
- facilitate the implementation of public administration and social infrastructure informatisation projects pursued by regional governments across Russia
- have an opportunity to cross-sell home internet and TV services in rural communities
- streamline network operating expenses in rural areas through infrastructure upgrades.

As at the end of 2017, 6,100 new access points (44% of the total) were made available and ca. 47 thousand km of FOCLs built within the BDD programme, as scheduled under the agreement with Rossvyaz.

To make universal service more affordable, we cancelled Wi-Fi access charges at access points in August 2017, and scrapped charges for local calls from public payphones in early 2018.

All fibre cabling, materials, and access point equipment used by the Company in its BDD projects are of Russian origin. About 80% of subcontractors we involve under the programme are small and medium-sized businesses.

Hospitals

By the Russian Government's Decree[51] Rostelecom has been designated as the only provider of services to connect government and municipal healthcare systems to the Internet. A total 3,134 healthcare facilities were provided with a high-speed internet connection in 2017. All facilities were connected to fibre at speeds of at least 10 Mbps.

A powerful infrastructure has been built to support roll-outs of telemedicine solutions, and enhance the use of computerised medical equipment and quality of healthcare services, including in remote and hard-to-access areas.

The total cost of the project was RUB 1.93 bn.

(51) Decree of the Russian Government No. 2094 dated 29 September 2017.

Digital Services

Broadband

2017 saw a continued growth in our retail broadband base, which totalled 12 million subscribers as at the year-end. We also delivered strong performance in fibre connections, growing our subscriber base by 8% over the year to 7.7 million households. In 2017, our B2C business posted continued steady increases in ARPU and the number of subscribers to the Gaming tariff plan which offers high-speed internet access, as well as exclusive options and premium content in seven popular online multiplayer games at no extra charge.

The introduction of the special Gaming tariff plan has sparked much interest from fans of popular online games such as World of Tanks, Warface, and a number of others, since, in addition to a reliable, high-speed data service, gamers get access to exclusive military hardware and other bonuses that are not available to other players in the game.

Rostelecom has been continuously bundling more content with its tariff plans. Since December 2017, the Gaming tariff plan offers access to a new option in Warface, a popular online shooter: players receive powerful weapons to perform combat missions of any complexity, as well as in-game currency.

> Vladimir Kirienko, First Vice President:
>
> **Bringing connectivity to new-build properties is becoming a priority market for us in 2018. We have designed a comprehensive approach to offer our customers an ecosystem of services from video surveillance and the smart home bundle to insurance services. Our target is to capture at least 50% of the new-build market.**

In B2B/G, Rostelecom has further strengthened its leadership through increasing its customer base by 1.1% to 763 thousand subscribers.

Over the year, the number of subscribers connected to fibre rose by 30% to 340 thousand while total revenue from broadband and VPN services was up by 3% year-on-year to RUB 37.1 billion.

Pay TV

Most of our retail customers taking up Rostelecom's basic broadband service also buy the interactive TV service as a bundled package. We have leveraged this trend to formulate a new business model for offering bundled services. Moreover, the Interactive TV product is often a driver that prompts Rostelecom's customers to switch to premium broadband plans, as streaming films or TV series requires higher connection speeds for best viewing experience.

The Company is strengthening its market position by attracting up to 80% of gross adds in the IPTV market. As a result, our Pay TV subscriber base grew in Q4 2017 by 5% year-on-year to 9.8 million households. The growth was primarily driven by a 14% increase in the IPTV subscriber base to 4.8 million subscribers. In 2018, Rostelecom is planning to start offering Android-based TV set-top boxes, which will form the core of our ecosystem of home services.

As at the end of 2017, Pay TV ARPU was RUB 230, up by 8% year-on-year, with IPTV ARPU at RUB 300.

In 2017, our total B2B/G Pay TV subscriber base rose by 20%, with a 27% increase in IPTV subscribers and IPTV ARPU up 20%. Our Corporate TV product was re-launched on a new platform, leading to sales of over 3,500 new service packages to HoReCa customers.

> Vladimir Kirienko, First Vice President:
>
> **We control a considerable share of the interactive TV market – up to 80% of gross adds in the market are attributable to Rostelecom. Approximately 60% of our existing customers take up the Interactive TV service, which leads to a considerable increase in ARPU. Consumption of video VAS services such as VoD has been on the rise, and we are consistently improving our VAS offering. In 2018, we will start offering Android-based TV set-top boxes, which will form the core of our ecosystem of home services.**

Innovative Products

Data centres

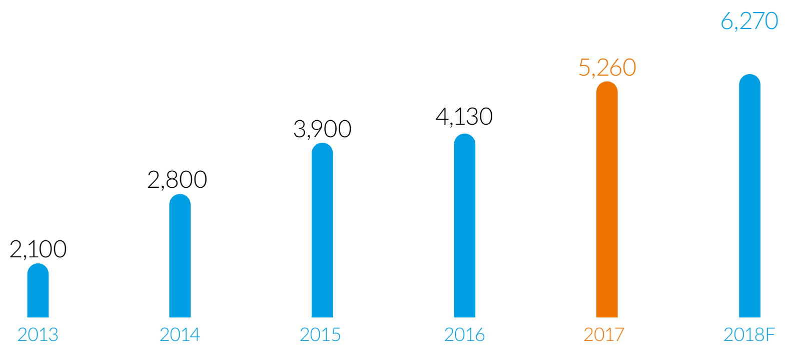
Rostelecom continues expanding its disaster-proof network of data centres and advanced cloud-based services. A new data centre, Moscow III, was commissioned in December 2017. Measuring 3,500 square metres, this facility, built in partnership with NRC Kurchatov Institute, is second only to M9 by floor space, ahead of all other Rostelecom's data centres. The total capacity of Rostelecom's data centres operated by RTC–DC LLC has reached 5,268 racks. This makes Rostelecom the largest player in the Russian market among commercial data centre operators.

Vladimir Kirienko, First Vice President:

Our data centre services have been consistently evolving: we have started with colocation services and are moving up the value chain. Today, we are offering IaaS solutions, virtualisation, and an import-independent VDI service. All services are backed by enhanced SLAs, support and backup services. Our data centres are certified to Tier 2 or Tier 3 standards. All relevant expertise has been concentrated within RTC–DC LLC, our subsidiary.

Rostelecom and iKS-Consulting estimate the total size of the Russian data centre market in 2017 at 38 thousand racks. Accordingly, the Company's market share is approximately 14%.

Number of racks at Rostelecom's data centres

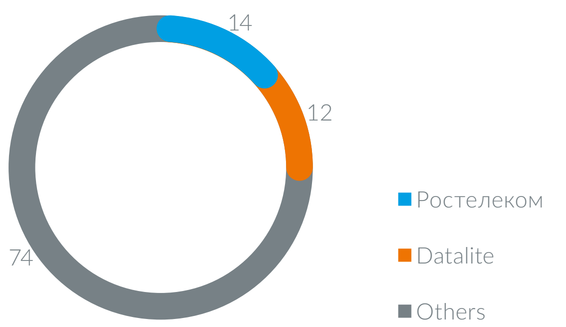


Source: CNews, iKS-Consulting, Company estimates.

In 2017, the Company began designing data centres for Yekaterinburg, Novosibirsk, and St Petersburg.

In 2018, we are planning to commission Russia's largest and one of Europe's biggest data centres, the 4,800-rack Mendeleev Data Centre at Udomlya in the Tver Region. The Mendeleev Data Centre will become a key component of the nationwide e-government technological infrastructure.

Markets shares by number of racks in the data centre market, %



Source: Company estimates, iKS-Consulting

By the end of 2017, the total capacity utilisation of data centres operated by RTC–DC LLC exceeded 80%, the best performance among major operators in the market. The rack space of Moscow III, our new data centre, was booked long before it went online.

As a key participant in the Digital Economy of the Russian Federation programme, Rostelecom is responsible for building and expanding relevant IT infrastructure, including for creating a distributed network of data centres.

Cloud services

Boris Glazkov, Vice President:

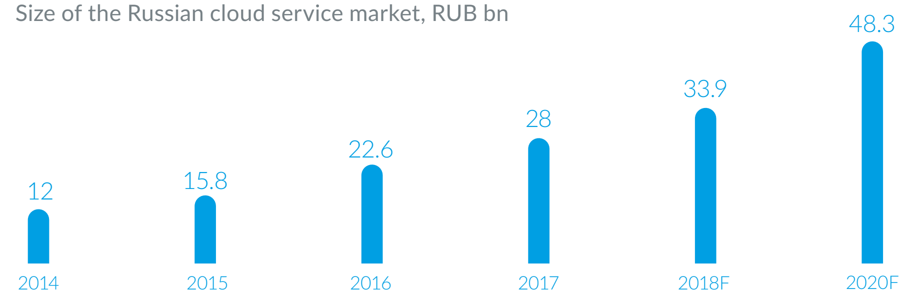
Rostelecom will build up its in-house skills at the interfaces between IT and real economy sectors and expand its network of partnerships to source such skills in the market. One of Rostelecom's strategic objectives for the coming years is to leverage these skills to get an understanding of how exactly information technologies and Rostelecom's infrastructure capabilities can create value for our customers' businesses. And this challenge should be addressed not at the level of a customer's IT infrastructure, but by delivering a real positive impact for its business.

Rostelecom rents out computing capacity of its National Cloud Platform (NCP) to customers who need to have their information systems hosted remotely. NCP's capacity is certified to data security standards, including to Class 1, and are compliant with ISO/IEC 27001:2013. Also, the NCP offers cloud-based backup services and disaster recovery solutions (DRS) on existing virtualisation platforms.

Services provided by Rostelecom through TIONIX Cloud Platform solutions include:

- cloud-based infrastructure and hardware control
- design and deployment of operator-hosted virtual data centres (VDC)
- Virtual Desktop Infrastructure (VDI) services.

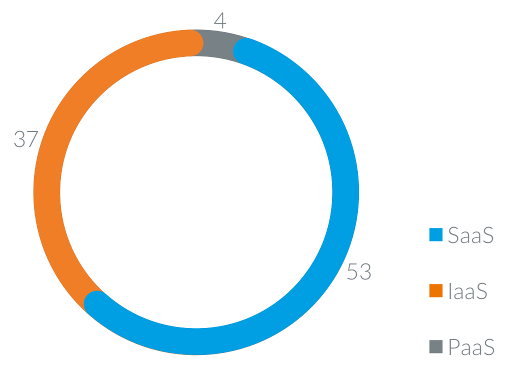
Size of the Russian cloud service market, RUB bn



Source: SAP, Forrester Research, February 2017.

Rostelecom provides Content Delivery Network (CDN) services through solutions designed by NGENIX (part of RTC–DC LLC, Rostelecom's centre of competence). In 2017, the volume of traffic carried in NGENIX's content delivery network grew by 30%, with Rostelecom's Interactive TV traffic up by 80%. To take advantage of this high-growth opportunity, Rostelecom has made capital investment in channel expansion, upgrade of existing and installation of new hardware, as well as software development, increasing the network's capacity by over 50%. The Company has also designed a solution to insert targeted ads into interactive TV video streams.

Structure of the cloud service market, %



Source: SAP, Forrester Research, February 2017.

Rostelecom has rolled out a service to safeguard customer resources not connected to the operator's network against DDoS attacks. Customers are also offered cloud-based protection against a wide range of cyber threats (Web Application Firewall) using solutions of leading Russian vendors.

Significant progress has also been made by MSK-IX, which operates the largest internet exchange network in Russia and CIS countries and is part of RTC-DC LLC centre of competence. In 2017, MSK-IX launched an access node in Latvia. Over 500 members are connected to MSK-IX's network, including operators based in Russia, CIS states, and Baltic countries, content providers, research and educational networks, financial institutions, and government organisations.

In 2017, customers of MSK-IX were offered an opportunity to have a DNS hosting service built into external applications and services. The DNS network was expanded to 21 nodes, with a new node launched in Oakland (USA), and nodes upgraded in Moscow, St Petersburg, Amsterdam, Prague, and Hong Kong.

MSK-IX is the only Russian company to have been accredited, in 2017, by ICANN to provide backup data storage services to domain name registrars and Data Escrow (Registrar Data Escrow Third Party Provider) services, for Russian top-level domain name registrars to comply with the law on personal data.

In 2017, Rostelecom actively enhanced its Medialogistics project to deliver TV signal from TV channels to telecoms operators and OTT providers.

The Virtual PBX service was launched in 110 cities to cover every macroregional branch. 13,287 new customers were connected to the service over the year.

The Company piloted a Call Centres product, with Sberbank and SME Bank currently among its users, and Virtual Services for Small Businesses.

Cyber security

In 2017, Rostelecom started a promotion campaign to market its offering of information security as a service (ISaaS) solutions. The Company finalised a tariff line for services of a specialised Security Operations Centre (SOC), and brought together a 50-strong team to provide 24/7 security monitoring. With Rostelecom operating Russia's largest network, our SOC team can detect abnormal activity pointing to e. g. an emerging DDoS attack before it even hits customers' servers. The SOC team collects, records, and tracks all information security events on a 24/7 basis, and responds to all incidents or attacks.

Vladimir Kirienko, First Vice President:

We have gone a long way in providing information security services, and we see a growing market demand for VPN services and secure communications channels. Rostelecom operates Russia's largest SOC with a 50-strong team monitoring the network 24/7. We offer a host of cyber security services, including an advanced penetration testing service. With Rostelecom operating Russia's largest backbone network, we can actually see how threats are emerging at the backbone level, and offer better protection against DDoS and other attacks than many other operators or integrators.

Rostelecom's offering of information security services

SOC	UTM	WAF
Monitoring, detecting, and responding to information security incidents	Preventing network threats, providing URL filtration services, and detecting botnets	Protecting web applications against complex web-based security threats
AntiDDoS	**EMM**	**Email Security**
Detecting and preventing web-based DDoS attacks	Monitoring and protecting company and personal mobile devices used by employees	Protecting corporate email through Rostelecom's specialist solution that checks messages for viruses and other known threats

Workflow of Rostelecom's SOC

Event collection → Event analysis → Responses to detected incidents

Rostelecom first started providing its cyber security services to customers in the public sector, and following its successful handling of the widely-publicised WannaCry virus attack, the Company has proceeded to promoting the service offering across Russian regions. We are running pilots for large businesses, primarily in the banking sector, with solutions for small and medium-sized businesses currently under development. Our ISaaS solutions allow customers to avoid significant capital expenditures by offering the opportunity to replace capex with opex, which makes cyber security arrangements more affordable and generates more leads for the Company.

Operating highlights in this segment include:

- establishment of RT SOC, within which teams were subsequently set up to monitor, analyse, respond to, and investigate information security incidents, and detect emerging information security threats. Its target for 2018 is to challenge the top one Russian commercial SOCs
- agreements signed with key players in the Russian information security market such as AO Positive Technologies, OOO Digital Security, ANO TsRKI, BI.ZONE, Kaspersky Lab, and Group-IB
- the RedTeam unit established to provide information security audit and penetration testing services
- a compliance unit set up to provide certification services for the Russian standards to IT facilities
- a new Penetration Testing service launched, with 9 projects completed for internal customers, and 2 projects for commercial customers
- five new services prepared for launch scheduled for Q1 2018: Certification to Information Security Standards, Cyber Security Culture Platform, Information Security Audit, Enterprise Mobility Management, and Compliance Platform
- PCI DSS (Payment Card Industry Data Security Standard) certificate obtained
- involvement in the drafting of information security regulations by federal executive authorities
- execution of external assignments from the Russian Government.

An eight-fold year-on-year increase in sales revenue from information security services was a logical financial outcome of our efforts in this segment.

Biometric platform

In February 2018, Rostelecom presented the first working version of the Unified Biometric System, a digital platform developed by the Company at request by the Russian Ministry of Telecom and Mass Communications and the Bank of Russia. The system features all the core elements required to implement the basic human recognition functionality and is ready for integration with bank information systems.

Two parameters are used simultaneously to improve identification accuracy: the voice profile and a photo image. The platform has an open architecture for easy integration of vendor solutions and use of optimal recognition algorithms.

The digital platform is hosted on Rostelecom's secure infrastructure accessed through dedicated communications channels of the Unified System of Interdepartmental Electronic Cooperation (USIEC) protected with cryptographic algorithms designed in Russia. The Company is designing a special mobile application with built-in cryptographic data protection.

The Unified Biometric System is slated for commercial launch on 1 July 2018.

The system can be applied across a wide range of sectors, including finance, healthcare, education, retail, and e-commerce, for access to public and municipal services. The use of the Unified Biometric System will bring accessibility to a range of services and products, which will improve the quality of life for people in remote areas and mobility impaired people, as well as for residents of large cities, who will benefit from any time access to these services which were previously only available during office hours of relevant institutions.

Geodata

In 2017, Rostelecom continued expanding its expertise in geoinformatics and spatial data, promoting RusGIS, its own proprietary geoanalytical platform.

Rostelecom developed a concept for two public information systems: the Federal Portal of Spatial Data and a GIS for the Uniform Electronic Cartography Base management commissioned by the Federal Service for State Registration, Cadastre, and Cartography, carrying out initial design for both systems.

Rostelecom contributed significantly to the Development of National Digital Geospatial Intelligence Systems section and is involved in a number of activities as a competencies centre responsible for Information Infrastructure as part of the Digital Economy of the Russian Federation programme development.

In 2017, Rostelecom developed a section of infrastructure for the National Navigation Service Provider under a government contract. The project was aimed at creating an environment for small unmanned aerial vehicles (UAV) operators with monitoring and control options, as well as establishing a technological and legal framework for the development of UAV-based commercial services. The spatial data storage and management subsystem of the National Navigation Service Provider is based on Rostelecom's RusGIS platform.

Seven applied projects were developed on the RusGIS platform in 2017, three of which were deployed on Rostelecom's National Cloud Platform. The implemented projects include:

- Zemlya regional GIS (Geodata Information System) to support state and municipal property management
- a geoportal for the Ministry of Land and Property Relations of the Republic of Kalmykia
- an interactive traffic accident map for the Transport Prosecutor's Office of the Volga Transport District
- a geoportal of the Vladimir Region.

Rostelecom launched the first project integrating its RusGIS platform with a partner's agricultural solution in the Altai Territory, which demonstrated the platform's effectiveness as an instrument to ensure intradepartmental cooperation and establish a unified information environment within the region.Rostelecom pioneered the launch of services based on the analysis of data obtained by its own UAVs: the mapping of farmlands, roads, and utilities, and detecting land use violations.

Key projects completed in 2017 as part of promoting the RusGIS platform:

- Over ten new functions were developed: API, geocoding, import/export functions, object versioning, analysis layers, heat maps, accessibility zone modelling, routing, working with temporary layers, monitoring moving objects, and video surveillance
- The system was integrated with external information systems and services including Integrated Identification and Authentication System, 2GIS, Planet Labs, and Roscosmos services
- The RusGIS mobile app was developed

Industrial Internet of Things (IIoT)

Rostelecom promotes the IIoT at the institutional level through forming roadmaps, participating in international industry organisations, and launching pilot projects in various industries.

Priorities for the Industrial Internet project office:

- Providing IIoT services in the power industry
- Launching pilot products together with partners
- Engaging with regulators and participating in IIoT organisations and consortiums

Rostelecom's pilot projects in power engineering, oil production, and public utilities are implemented in line with the approach applied by the Industrial Internet Consortium (IIC). In particular, the Company is developing a cloud data storage and transmission solution with PJSC ROSSETI as part of rolling out Rosseti Group's unified computing system for automated accounting of power consumption.

Video surveillance

Rostelecom's expertise and know-how in implementing online and offline video streaming projects of any complexity is unique for Russia. In 2017, the Company organised video surveillance at locations where the Unified State Exam (USE) was held, which involved connecting 62,200 classrooms. The footage totalled 3.6 million hours, 208 thousand text messages were sent out, and the number of portal visitors exceeded 358 thousand people.

Rostelecom also provided video surveillance at the Russian Presidential Elections in March 2018. The Company's staff installed cameras in 46 thousand district polling stations and at the premises of precinct election commissions. The surveillance system recorded over 2.5 petabytes of video data to its databases.

For the B2C market, Rostelecom launched the first phase of Smart Home. Video Surveillance in autumn 2017. The service enables subscribers to monitor their home from anywhere in the world. The market responded favourably to the new service, and the Company believes smart home technology has strong outlooks in Russia and considers it a potential driver of business growth over the next three to five years.

Healthcare

The RT.Medicine project comprises the Regional System of Medical Information (RMIS) and the Central Archive of Medical Images (CAMI). Teleradiology.

The Regional System of Medical Information (RMIS) has been in development since 2011 and includes over 40 modules to automate key medical business processes, from basic modules (electronic health records, registration office, out-patient clinic) to specifically targeted ones. The service is successfully operating in 18 Russian regions as a regional segment of the Unified State Healthcare Information System. RMIS is utilised in over 1,500 medical institutions, over 60 thousand active users are registered in the system, and over 50 million medical cases were processed via the system.

RMIS ensures information exchange between regional and nationwide data sources and is one of the key elements in the IT development of healthcare in Russian regions.

The Central Archive of Medical Images (CAMI. Teleradiology) automates radiology and diagnostic imaging departments in medical institutions. It enables specialists to store, share diagnostic materials, and consult patients locally or remotely within a unified data and diagnostic environment. CAMI is used in nine Russian regions, and is currently in the trial stage in five other regions.

In several Russian regions, CAMI. Teleradiology serves as a basis for both regional medical imaging archives and remote interpretation services for CT, MRI, and other radiological scans.

The Unified Radiologist project was launched in the Republic of Tatarstan. All X-ray scans for life-threatening conditions are examined by a qualified radiologist as necessary, regardless of when and where the scanning took place.

Voice recognition technology for vocal reporting of head, abdominal, and thoracic CT scans was tested in the Murmansk Region. This technology reduces time spent on reporting by over 30%, cuts the number of errors, and recognises up to 95% of professional medical speech.

E-Government

Vladimir Kirienko, First Vice President:

As strong believers in the service model, we request IT project plans from government institutions and authorities to jointly develop them and identify their demands for the next three to four years. Rostelecom invests in the timely establishment of infrastructure and offers its clients transparent pricing and a practical, scalable solution.

Boris Glazkov, Vice President:

Close cooperation with the government is Rostelecom's strong point. We have been engaged in automating public administration for nine years, and we have launched numerous successful projects – E-Government is one of the most significant. We are the largest IT player in this field and we leverage our expertise in, and deep understanding of, public administration processes to develop our skills in adjacent areas, such as city management, healthcare, and others.
Rostelecom aptly manages large-scale IT system construction projects, has experience in selecting appropriate partners and counterparties, and is ready to take a project's responsibilities to the state.

In order to increase the efficiency of public authorities under the Electronic Russia programme and the Information Society state programme, Rostelecom completed a number of nationwide projects:

- Development of the Unified Public Services Portal and the Integrated Identification and Authentication System public information systems:
  - The number of citizens registered in the Integrated Identification and Authentication System grew from 3.5 million in January 2013 to 64 million in late 2017
  - The number of daily visits increased from 5.5 million in 2013 to 48 million in 2017
- Development of mechanisms enabling mobile access to e-Government services
- Development of the Interdepartmental Electronic Interaction System. The number of transactions within the system grew from 1.8 billion in 2013 to 16 billion in 2017
- Twelve e-Government information systems are in operation
- Information support of users and development of the Unified Public Services Portal and the sales portal.

Education

Rostelecom developed software solutions to automate education processes:

- School library and information centres
- Educational content players for main platforms
- E-learning authoring tools
- Distance training platform

Each solution focused on general education programmes. The library catalogue includes over 2,000 fiction books, 800 digital textbooks, and 319 e-learning materials.

As at the end of 2017, Rostelecom's systems were rolled out in nine regions of the Russian Federation:

- the Novosibirsk Region
- the Trans-Baikal Territory
- the Altai Territory
- the Arkhangelsk Region
- the Samara Region
- the Vladimir Region
- the Khabarovsk Territory
- the Krasnodar Territory
- the Moscow Region.

A total of 2,705 schools and over 1 million students and academic professionals have access to the educational content hosted by Rostelecom.

Traditional Services

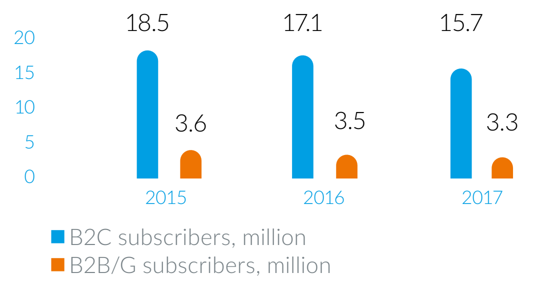
Fixed-line telephony

Despite the ongoing decline in revenue from fixed-line services, Rostelecom mitigated the negative impact through promoting IP telephony and New Telephony (cloud PBX) services as well as various bundled offers.

The gradual decline in fixed-line revenue gives way to digital service revenue, marking Rostelecom's transformation into a digital services and platforms provider. The telephony base shrunk in 2017 amid a modest ARPU growth, with New Telephony revenue growth totalling 143% year-on-year.

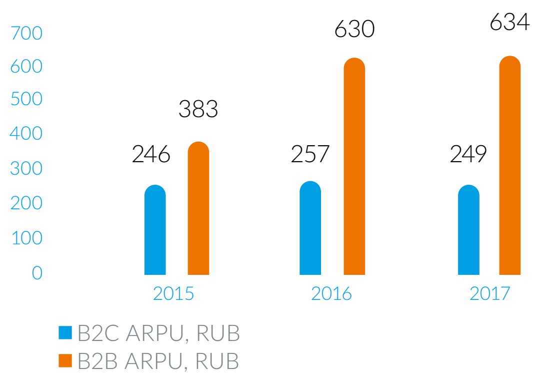
In order to maintain the appeal of its fixed-line services, Rostelecom offers various options and plans. For example, over 0.25 million subscribers have taken up the Unlimited Russia plan and the Unlimited Kazakhstan option. My Favourite DLD, Call International, and a number of other options are also in high demand.

Fixed-line base, million subscribers, million



Source: CNews, iKS-Consulting, Company estimates.

Fixed-line ARPU, RUB



Source: CNews, iKS-Consulting, Company estimates.

Mobile services

MVNO

Rostelecom retained leadership among MVNO providers by subscriber base growth rate as at late December 2017. In 2017, the Company launched a corporate mobile network, where all company telephone accounts of all employees were transferred. The Company also launched a number of new plans and specialised programmes and products, created a unified billing system and an integrated interface for customer service and service management.

Customers as at the end of 2017

830,000

customers using mobile Internet

58 %

The share of Rostelecom's subscribers using mobile data services reached 58% of the total subscriber base as at the end of 2017.

The high quality of fixed-line based services enabled the Company to provide to its customers premium call quality for calls to CIS countries and international calls. Customers were also offered traditional value-added services:

- Direct dial-in
- Static IP address
- Mobile VPN
- A2P aggregation
- SMS marketing

A geographically distributed Project Office and a Centre of Competence and MVNO Support were established within the Company, which enabled the development of mobile service competencies. The proprietary customer and internal user support system was created with high availability as per the Service Level Agreement (SLA). MVNO voice call channels are backed up through Rostelecom's and Tele2 Russia's networks.

A project installing base stations for corporate clients who use mobile services was initiated in 2017, through which seven stations have been installed.

Rostelecom intends to continue developing its fixed-mobile converged services through expanding remote service management and self-service options, streamlining procedures, and reducing incident resolution times.

Key MVNO development priorities

B2B	M2M, IoT services. Development of telemetry, surveillance, and products for smart devices
	Customer NPS: Improving support quality for LTE and 3G customers
	Smart SIM for Business Integrating FMC, SIP, and cloud PBX functionality into ordinary SIMs
B2C	Marketing to fixed-line subscribers
	Development of own retail chain
	Maintaining bundled plan sales at a minimum 80%
	Developing various converged multi-play offers
	Value-Added Services Mobile commerce services, bill to account, content services, televoting

The network optimisation will involve fine-tuning Rostelecom's network monitoring and management processes to provide for MVNO customer traffic transmission.

Tele2 Russia

As at the end of 2017, Tele2 Russia retained its leadership in the mobile market by efficiency:

- The Company's headcount totalled 6,736 employees, down by 8.3% year-on-year
- Revenue per employee increased by 21.4% while subscribers per employee grew by 13.7%
- Tele2 Russia's employee engagement index (measured by the Hay Group method) was 80% in 2017, up 7 percentage points from 2015. Measurements are taken every two years.

Tele2 subscriber base

40.6 million subscribers

revenue per employee growth year-on-year

26.8 %

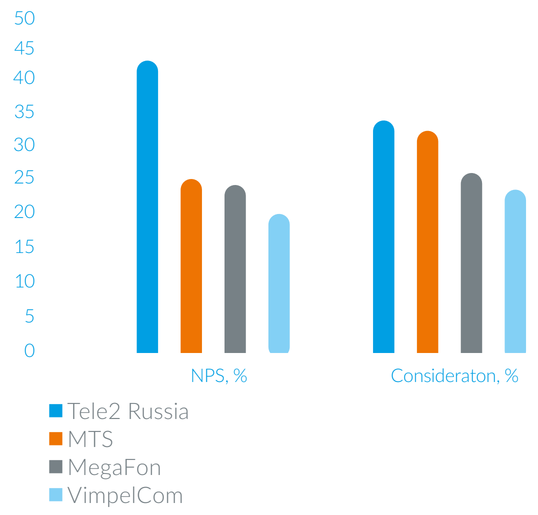
customers per employee growth year-on-year

13.7 %

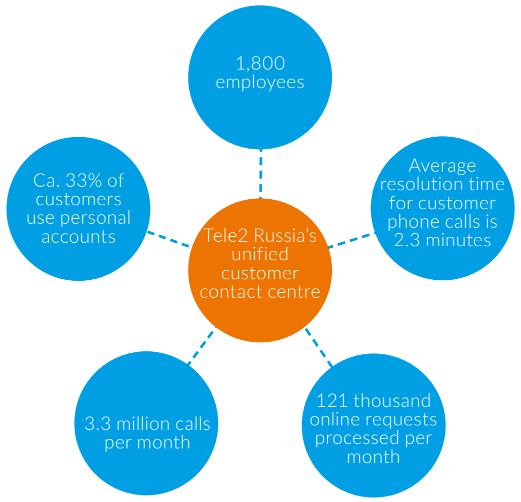
Tele2's subscriber base was 40.6 million subscribers as at the end of 2017[52]. Tele2 Russia maintains its perceived uniqueness, demonstrating the highest NPS (Net Promoter Score) and Consideration levels on the market.

(52) Excluding MVNO subscribers.

Customer perceptions of operators, %



Source: Tele2 Russia, 2017.



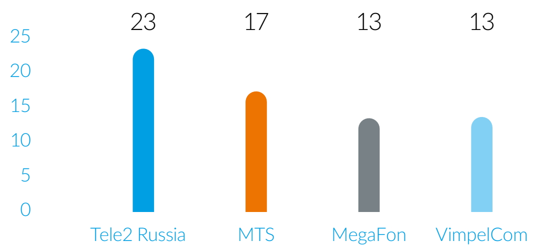
Percentage of customers who gave positive scores for the performance of the remote customer support centre

95 %

Percentage of customers using mobile Internet

44 %

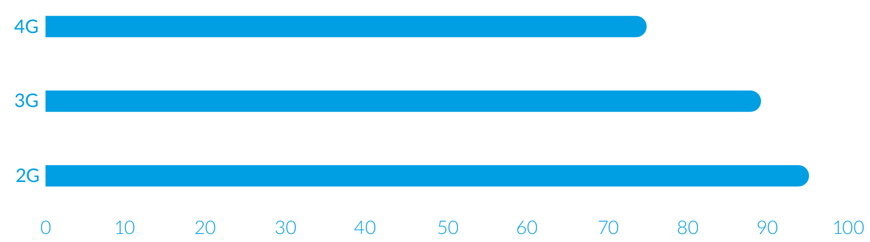
Value for money, %



Source: Tele2 Russia, 2017.

The number of Tele2 Russia's monobrand stores and kiosks was approximately 3,300 in 2017, and Tele2 SIMs are sold in 114 thousand partner-operated points of sale.

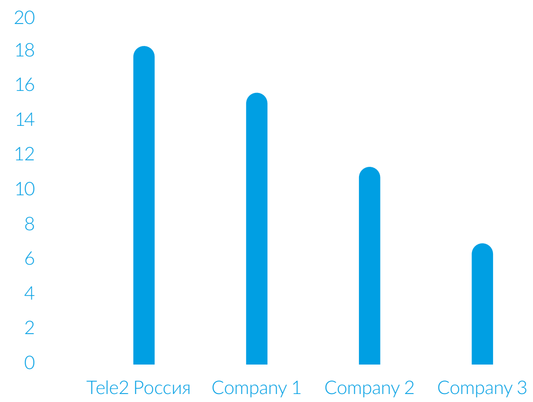
Tele2 Russia mobile network penetration, % of the population



Source: Tele2 Russia, 2017.

The number of Tele2 Russia's base stations exceeded 122 thousand in December 2017, increasing the gap in base stations between Tele2 Russia and VimpelCom to 9,000. Tele2 Russia leads the industry by new base station installations.

New base station installations, %



Source: Tele2 Russia, 2017.

The Company holds second place by the total number of 4G base stations commissioned in 2017, increasing the total by 103.3% over the year. As at the beginning of 2018, high-speed mobile internet service was available in 61 Tele2 Russia's regions of operation, with the 4G network available in 50 Russian regions.

As at the end of 2017, Tele2 Russia's portfolio included 15 MVNO projects, with the MVNO base totalling about 1 million. Apart from Rostelecom, Tele2 Russia implements major projects with Sberbank, Rostelecom, and MTT.

Optimising Performance

Market segmentation and customer service

Customer service excellence is a major priority within Rostelecom's updated strategy. Service commoditisation and market saturation are putting to the forefront non-material aspects of the Company's perception such as customer satisfaction, net promoter score, and the Company's reputation.

Net Promoter Score (NPS) has been included in the Company's employee motivation scheme in 2018. In 2017, Rostelecom's NPS grew twofold.

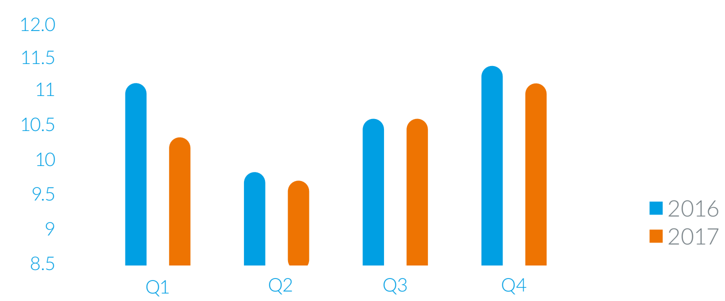
The number of payments made by the Company's customers using a bank card on the Rostelecom website increased throughout 2017, both through online customer accounts and Interactive TV interfaces. 23 million customers paid for services on Rostelecom's web displays.

A year-on-year decrease in contact rate[53] was also recorded at the Company's call centre in 2017.

The Company adopted the OmniChat proprietary customer service platform in 2017. Eighty five percent of the customers who assessed chat service quality gave it high scores: from 4 to 5 on a five-point scale. The number of inquiries via the chat increased by 25% year-on-year. Over 100 thousand customer inquiries were processed through social media in 2017.

The number of services registered in the Bonus loyalty programme increased by 31% in 2017, with the participant activity growing by 20% over the year.

Contact rate 2016–2017, %



Transformation and production system (RPS)

Rostelecom keeps improving its production system (RPS). In 2017, the RPS scope was significantly widened; the number of lean laboratories increased to 22 in 17 regions.

The Company continues its efforts to improve Orion[54] and RPS in RRS projects. The RPS in Call Centre project was launched in February 2017 and three more centralised RPS projects were launched in H1 2017: RPS in IT, RPS in B2B, and RPS in Single Settlement and Service Centres. Apart from the six centralised projects, over 20 local projects are underway in macroregions as at the end of 2017.

Eight lean laboratories continued operation in 2017 and developed over 200 local solutions. The benefits achieved through the implemented solutions totalled RUB 250 million (including soft benefits). In October 2017, 15 solutions were rolled out nationwide.

(53) Contact rate is the ratio of calls received by the call centre operator to the total subscriber base (for in-bound service enquiries, excluding sales).
(54) The Orion project, launched in July 2016, aims to reduce customer technical support costs and improve customer service quality.

Examples of completed RPS tasks

Task	Issue	Solution	Impact
Introduction of a dispatch system for Layer 3 Technical Support (TS) technicians (Vladivostok)	Inefficient logistics in route planning for Layer 3 TS technicians Increased FTE idle time due to unbalanced work loads No time tracking or result visualisation to enable on-site live monitoring No option for online communication of new ticket related details to a technician	Online management of Layer 3 TS technicians' routes and troubleshooting sequences. A Layer 3 TS technician accepts and closes tickets online through a smartphone and sees the optimal route on its display	Number of Layer 3 TS technician dispatches reduced by 25%, generating total soft benefits of ca. RUB 40 million
Systemic approach to group/global tickets (Nizhny Novgorod, Novosibirsk)	Lack of systemic approach to group/global tickets (GT); lack of online updates on GT resolution, misleading information fed to a customer	Uniform requirements and business unit cooperation criteria developed for GT opening, description, and closing A uniform approach developed to GT views in different systems Arrangements were put in place for continuous monitoring of GT opening and closing procedures	Savings generated through reduced repeat calls and calls to Layer 2 Tech Support from customers within the GT area totalled RUB 20 million

RPS in RRS

The RPS in RRS project was launched in August 2016 and aims to:

» improve service quality and customer satisfaction

» reduce the average service time on maintenance services by 20%

» increase sales.

Two new lean laboratories were involved in the project to run diagnostics on the current service and sales processes. In October 2017, a package of five standards was developed for subsequent rollout.

The total soft benefits were RUB 70.7 million.

Examples of completed RPS in RSS tasks

Task	Issue	Solution	Impact
Rollout of a solution to abandon paper-based applications	Customers have to fill in numerous paper-based applications (to change the plan, block services, etc.), which increases the service time and results in high expenses for paper, printouts, and archiving	Roll out a lean laboratory piloted solution to abandon paper-based applications in nationwide operations, expand the list of operation types to 16	Cost savings on paper, print cartridges, and service centre FTE time totalled RUB 60.3 million on an annualised basis

RPS in Call Centres

The RPS in Call Centres project was launched in February 2017 to improve first call resolution rate to 80%.

Lean laboratories focused on streamlining business processes related to customer calls to technical support, customer helpdesks, and settlement and service centres.

In October 2017, the first package comprising three standards was developed and approved for rollout, service processes and customer focus were improved, with the soft financial benefits totalling RUB 51 million.

Examples of completed RPS in Call Centres tasks

Task	Issue	Solution	Impact
Simplification of the customer identification procedure	Identification was done based on one mandatory parameter and two or three additional parameters depending on the inquiry type. Moreover, the customer had to go through a repeat identification procedure in case of a call transfer	The identification procedure streamlined through a shift from a multi-level system to identification by any two parameters from the customer profile displayed in the CRM	Customer identification time reduced by over 20% The soft financial benefits totalled RUB 15.3 million over five months
Reduced revenue losses in remote customer service channels at the call centre level	Existing customers make calls to have their plans changed or existing options cancelled or services blocked. Such calls lead to reduced revenue and ARPU for the Company	A targeted retention scenario was developed with a range of improved product offers to be used by call centre operators in particular situations. Basic principles were formulated for sustaining ARPU levels without compromising customer loyalty levels, and included in checklists and training materials	Loss reduction totalled RUB 28 million over six months

In 2018, the Company's lean laboratories will continue identification and selection of best practices in the following areas

» improving the first call resolution rates

» enhancing the self-service system (IVR)

» increasing automation of self-service processes

» reducing operator workload (CR) and call centre costs.

«

Vladimir Kirienko, First Vice President:

With 5,000 employees, Rostelecom's call centre is among the largest in Russia. In addition to using it for our own internal needs and servicing our long-term contracts, we also offer the call centre's capabilities as a service, thus monetising this asset.

RPS in IT

The RPS in IT project was launched in July 2017. The project aims to standardise the OSS systems incremental development process, reduce improvement times for inventory management systems, and introduce continuous IT process improvements with maximised focus on performance.

RPS in B2B

The RPS in B2B project was launched in September 2017. The project aims to improve the quality of technical support and reduce connection times without compromising on the quality of services provided to a customer or inflating the staff. The first wave of the technical support part of the project covered Siberia, Volga, North-West macroregional branches, while the connections part of the project was implemented in the Far East and South macroregional branches.

RPS in Single Settlement and Service Centres

The RPS in Single Settlement and Service Centres project was launched in December 2017. The project aims to increase the volume of operations handled by Single Settlement and Service Centres in 2018 without inflating the staff or compromising on the quality of services provided to a customer. The increased volume of operations was due to the partial transfer of service operations load from Level 1 RRS to Rostelecom's back office. The project focuses on the processes of pending operations and settlements. The first wave of the RPS in Single Settlement and Service Centres project covered the Siberia and North-West macroregional branches; the project's scope is expected to be widened in Q1 2018.

RPS development

Over 1,000 Rostelecom's specialists and managers were trained to use RPS tools. A new educational project, RPS Academy, was launched in the Company in September 2017. Its strategic goal is to foster continuous improvement culture, while its tactical goal is to train RPS teams at all management levels.

Ideas Portal

As part of the RPS, the Company has been running for two years now the Ideas Portal project providing a platform where any employee may publish an idea or undertake the implementation of an idea proposed by other employees. A total 1,444 ideas were submitted during 2017, of which 146 were implemented. The total economic benefit of the project was RUB 60 million.

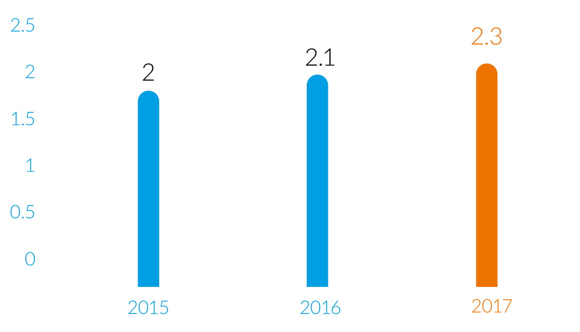
Operational excellence

Rostelecom places a particular emphasis on operational excellence, continuously growing its revenue per employee, reaching RUB 2.3 million in 2017.

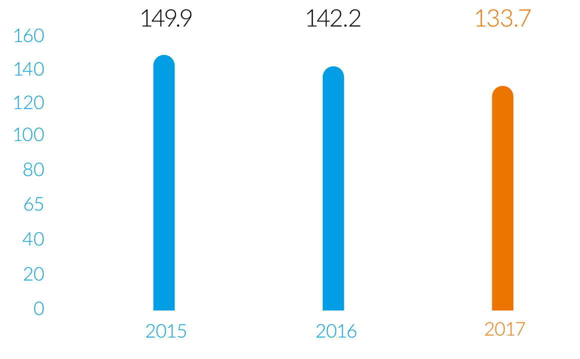
As the Company proceeds on its transformation journey, its personnel structure gets improved and the headcount optimised – in 2017, the total headcount was cut by 16% to 133,700 employees.

The Company continues the optimisation of its non-core asset portfolio and corporate real estate disposals. The total benefits of operational excellence programmes exceeded RUB 17 billion over the past few years.

Revenue per employee, RUB million



Headcount, thousand employees



Capital Investment

In December 2017, the Board of Directors approved the Company's budget for 2018,[55] including the capital investment programme for 2018[56].

Capital investment areas	2017	2018F	Major projects
Expansion of the existing business, %	72	65	Network construction for residential and business customers, installations and CPE, last mile and IP/MPLS network projects
Efficiency improvement projects, %	17	20	IT development and deployments, IT hardware replacements, transition from copper to fibre, real estate portfolio optimisation
New products, %	10	15	Data centres and cloud services, industry-specific services, e-services for state agencies, cyber security solutions
Actual/planned capital investment (CAPEX) excluding government-sponsored programmes, RUB million (according to the cash flow statement)	57,322	60,000 – 65,000	

M&A Activities

Rostelecom takes advantage of market opportunities to acquire expertise and high-quality assets, which will enhance the Company's market positions.

Major transactions in 2017:[57]

» consolidated a 100% stake in LLC Data Storage Centre, one of Russia's largest commercial data centre, Internet exchange point, and content delivery services provider

» acquired[58] a 100% stake in Tvingo Telecom LLC, a leading provider of broadband services with ca. 30 thousand retail customers and ca. 1,000 corporate customers in Vladikavkaz

» acquired[59] a 100% stake in OOO SET, which holds a licence for 3.5 GHz–3.6 GHz band in St Petersburg

» acquired a 75% stake in Open Mobile Platform LLC and a 75% stake in Votron Ltd., securing control over the developer of Sailfish OS and Sailfish Mobile OS RUS mobile operating systems.

(55) Approved by the Board of Directors on 8 December 2017. Minutes No. 9 dated 9 October 2015.
(56) Information on the most significant projects within the capital investment programme for 2017–2018 is available in Appendix 11 Additional Information on PJSC Rostelecom to this Annual Report.
(57) The full list of completed transactions is available in Appendix 9 Acquisition and Disposal of Interests in Other Companies to this Annual Report.
(58) Through PJSC Bashinformsvyaz, Rostelecom's subsidiary.
(59) Through PJSC Bashinformsvyaz, Rostelecom's subsidiary.

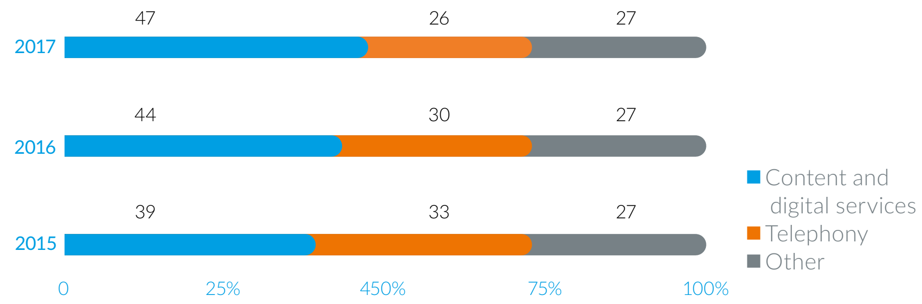
Financial Performance

Key Financial Highlights

In 2017, Rostelecom's revenue grew by 3%, or RUB 7.9 billion, to RUB 305.3 billion.

Digital services accounted for 47% of the Company's revenue for 2017.

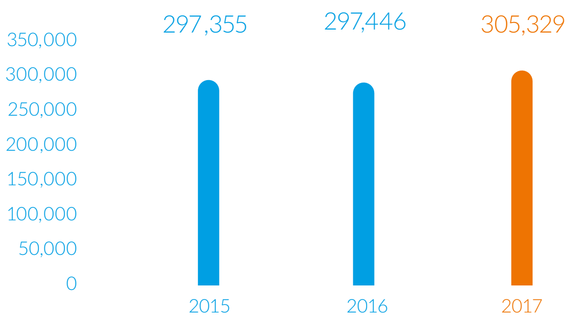
Revenue breakdown in 2015–2017, %



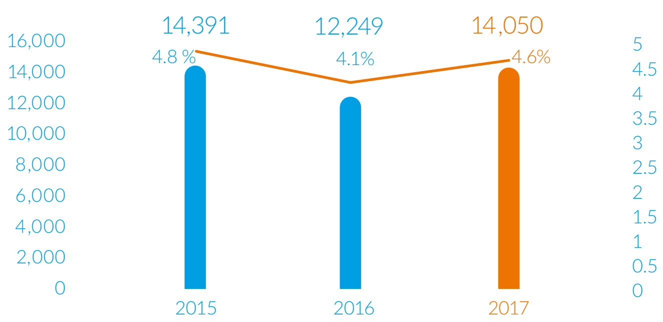
Item	2015	2016	2017	2017 vs 2016, %
Revenue, RUB m	297,355	297,446	305,329	+ 3
OIBDA, RUB m	100,839	96,772	96,857	+ 0.1
% of revenue	33.9	32.5	31.7	
Operating profit, RUB m	38,586	39,836	37,885	– 5
% of revenue	13.0	13.4	12.4	
Net profit, RUB m	14,391	12,249	14,050	+ 15
% of revenue	4.8	4.1	4.6	
CAPEX, RUB m	62,726	61,857	60,752	– 2
% of revenue	21.1	20.8	19.9	
Net debt	173,670	177,481	181,594	+ 2
Net debt / OIBDA	1.7	1.8	1.9	
FCF, RUB m	21,962	13,298	20,385	+ 53

Mikhail Oseevskiy,
President PJSC SRostelecom

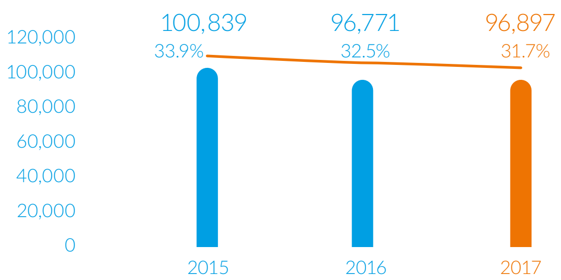
Revenue in 2015–2017, RUB million



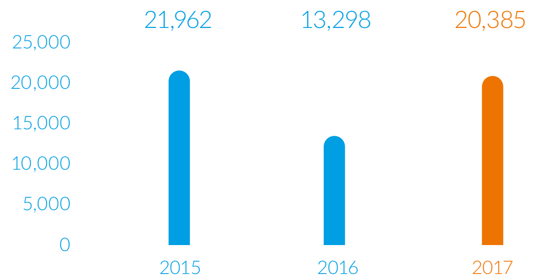
Net income and net income margin in 2015–2017



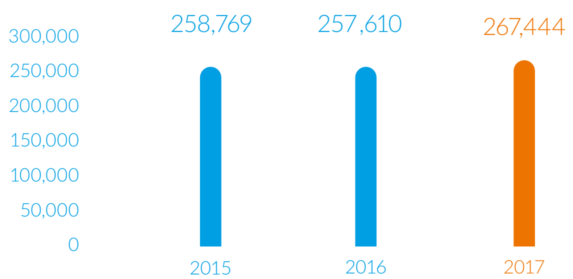
OIBDA and OIBDA margin in 2015–2017



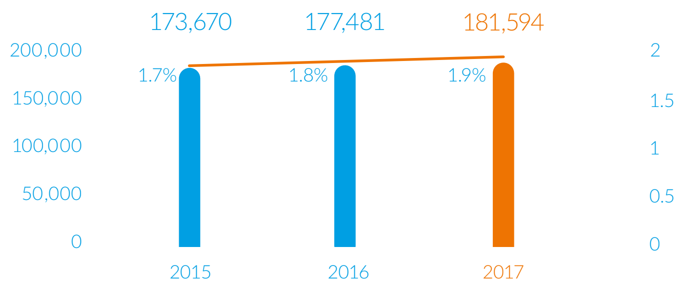
Free cash flow (FCF) in 2015–2017, RUB million



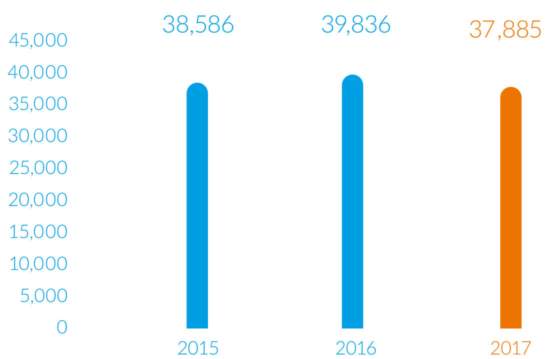
Operating expenses in 2015–2017, RUB million



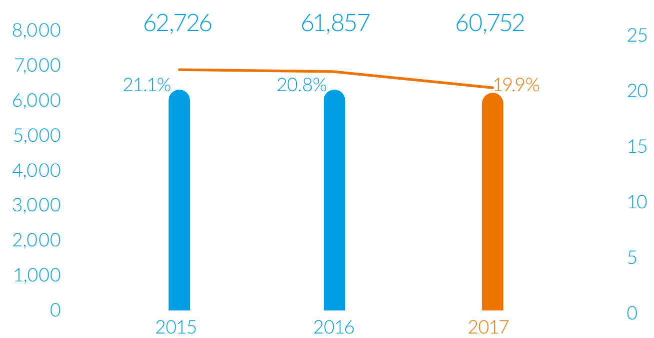
Net debt and net debt / OIBDA in 2015–2017



Operating profit in 2015–2017, RUB million



CAPEX in 2015–2017, RUB m and % of revenue



Revenue Breakdown

Revenue by segment in 2015–2017, RUB million

Segment	2015	2016	2017	2017 vs 2016, %
B2C	136,764	133,917	136,304	+ 2
B2B/G	98,319	102,195	108,739	+ 6
B2O	57,143	56,851	55,060	– 3
Other revenue	5,129	4,483	5,226	+ 17

Revenue by type of service in 2015–2017, RUB million

Type of service	2015	2016	2017	2017 vs 2016, %
Broadband	63,880	66,771	70,869	– 6
TV services	19,368	23,599	27,348	+ 16
Fixed-line telephony	99,105	87,813	78,445	– 11
Wholesale services, including:	78,266	79,010	77,800	– 2
lease of channels	11,714	10,538	9,437	+ 10
interconnection and traffic transfer	34,717	35,102	33,253	+ 5
VPN	19,711	20,823	22,243	+ 7
lease and maintenance of telecommunications infrastructure	12,124	12,546	12,867	+ 3
VAS and cloud services	14,224	18,245	23,041	+ 26
Other telecommunications services	14,499	14,242	18,658	+ 31
Other non-telecommunications services	8,014	7,767	9,167	+ 18

Revenue from VAS and cloud services, such as the Smart City project, cloud services, and data centre services was up 26% year-on-year.

A 31% increase in revenue from other telecommunications services was due to higher revenue from sales of equipment and MVNO services.

An increase in revenue from broadband and Pay TV was driven by the growing subscriber base and higher ARPU.

Operating Expenses

Breakdown of operating expenses in 2015–2017, RUB million

Operating expenses	2015	2016	2017	2017 vs 2016, %
Personnel costs	(91,081)	(90,340)	(93,381)	+ 3
Depreciation, amortisation, and impairment losses	(60,599)	(55,589)	(56,628)	+ 2
Interconnection charges	(49,825)	(52,161)	(52,762)	+ 1
Materials, repairs and maintenance, utilities	(25,125)	(24,917)	(25,926)	+ 4
Gain on disposals of PPE and intangible assets	2,133	4,556	5,344	+ 17
Bad debt expense	(882)	(2,775)	(2,776)	0
Other operating income	14,630	12,948	13,444	+ 4
Other operating expenses	(48,020)	(49,332)	(54,759)	+ 11
Total	(258,769)	(257,610)	(267,444)	+ 4

Rostelecom's operating expenses increased by 4% to RUB 267.4 billion in 2017. An 11% increase in other operating expenses resulted from higher expenses on user equipment and participation in the Smart City project. A 3% increase in personnel costs was mainly due to the long-term incentive programme, migration to a new pension scheme, and payroll increase following changes in the personnel structure.

OIBDA

OIBDA breakdown in 2015–2017, RUB billion

Item	2015	2016	2017	2017 vs 2016, %
Operating profit	38,586	39,836	37,885	– 5
Add: depreciation	60,599	55,589	56,628	+ 2
Add: non-cash expense under the long-term incentive programme	1,654	1,347	2,344	+ 74
OIBDA[60]	100,839	96,772	96,857	+ 0.1
OIBDA/Revenue, %	33.9	32.5	31.7	

Debt

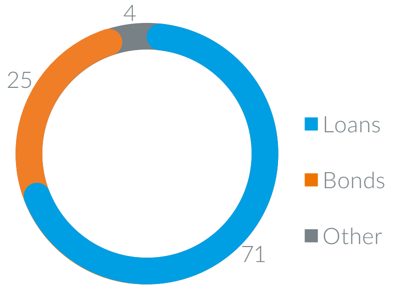
As at the end of 2017, total debt of Rostelecom increased by 2.3% to RUB 191.4 billion. Rouble-denominated payables account for 100% of the Company's debt.

As at 31 December 2017, consolidated net debt of Rostelecom totalled RUB 181.6 billion, while the consolidated net debt to OIBDA ratio stood at 1.9.

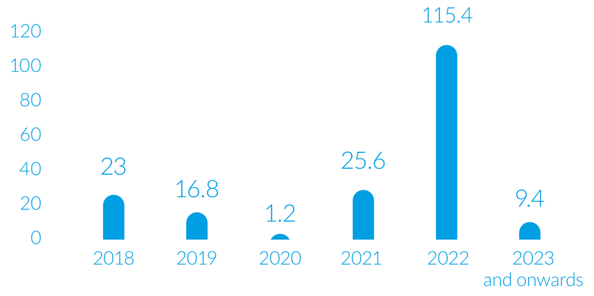
Key metrics in 2015–2017

Metric	2015	2016	2017	2017 vs 2016, %
Total debt, RUB m	186,554	187,105	191,372	+ 2.3
Net debt, RUB m	173,670	177,481	181,594	+ 2.3
Net debt / OIBDA LTM, %	1.7	1.8	1.9	

Debt breakdown by instrument, excluding interest, %



Debt maturity, excluding interest, RUB billion



(60) OIBDA is not an indicator calculated under US GAAP or IFRS. The Company calculates OIBDA as operating profit before depreciation and non-cash expenses.

Sustainability

Rostelecom's contribution to society[61]

Stakeholders	Engagement	2014	2015	2016	2017
Shareholders	Dividends, RUB million	9,452	16,472	15,000	14,050[62]
Employees	Total headcount, thousand people	158.9	149.9	142.5	133.7
	Payroll expenses, RUB million	65,862	67,184	66,018	67,238
	Investment in training, RUB million	347.2	353.6	452.6	463.57
	Contributions to Telecom-Soyuz and Alliance private pension funds, RUB million	1,096	959	703.6	163.54
	H&S costs, RUB million	773.5	623.2	550.6	640.8
Government	Income tax, RUB bn	7,211	2,436	4,692	4,856
	Other taxes, RUB million	6,107	5,560	5,079	4,661
Society	Membership dues, payments to trade unions, charitable programmes, RUB million	791	854	660	697,
Environmental groups	Environmental expenditure, RUB million	130.6	129.7	128.8	104.6

Sustainability Strategy

A long standing strategic priority of Rostelecom, Russia's largest provider of digital services and solutions, is to contribute to the sustainable development of Russian society. The Company is committed to make its high performance a strong foundation for the success of society as a whole by improving the life quality for millions of Russian people through its products, services, and sustainability strategy.

In addition to providing its customers with quality digital services and adding value for all stakeholders, Rostelecom contributes to the well-being of society by creating conditions and new opportunities for development, as well as helping in dealing with vital issues.

Russian digital economy development is one of Rostelecom's focus areas.

Rostelecom is focused on promoting sophisticated digital technology, a driving force behind societal development, which is made accessible, understandable, and safe for all Russian people, wherever they live.

Rostelecom believes that Russia-wide digitalisation is crucial for improving the quality of life across all areas – the economy, social initiatives, public administration, etc., in particular, by:

» creating new opportunities

» providing access to knowledge

» raising awareness and digital literacy

» ensuring information security

» improving accessibility and quality of public services

» facilitating the development of small and medium-sized enterprises.

Rostelecom has what it takes to succeed in shaping digital Russia: strong infrastructure, up-to-date digital platforms, and many years of professional expertise.

(61) The data in the table are presented in accordance with the 2017 IFRS consolidated financial statements. For more details see Rostelecom's Sustainability Report 2017.
(62) Recommendations of PJSC Rostelecom's Board of Directors for the AGM (Annual General Shareholders' Meeting).

In 2017, Rostelecom became the centre of capability for the Information Infrastructure.

Consistent and regular engagement are essential for high performance and effectiveness of sustainability involving all stakeholders. To support this format, Rostelecom defined its strategic sustainability objectives in 2017.

Rostelecom has become one of the first digital service companies to define its strategic sustainability objectives, thereby setting the ground for its consistent sustainability efforts.

Sustainability Focus

Rostelecom's sustainability priorities:

» Business ethics and anti-corruption efforts. Openness and transparency in relations with customers, partners, and shareholders

» Services. Developing and adopting innovations which boost the quality of Rostelecom's services and enhance the customer experience. Improving accessibility to the Company's services for small population centres

» Society. Social, volunteer, and charitable programmes improving the quality of life for Russian citizens and contributing to sustainable development of society.

» Employees. Providing attractive working conditions. Professional development of employees, care for their health and safety

» Environment. Minimising the Company's environmental footprint, improving energy efficiency, and fostering the environmental culture in society.

Rostelecom believes that its focus on excellent services and better life quality for millions of Russian people is pivotal for its mission

Rostelecom provides universal service[63], creating opportunities for small and medium-sized businesses and ensuring access to knowledge, information, services, and quality products for all citizens irrespective of their place of residence.

Business ethics

Transparency, customer and partner confidence, reputation of an open and reliable company rendering high quality and accessible services are key elements of Rostelecom's Code of Ethics[64] underpinned by its corporate values such as expertise, responsibility, innovation, openness, and continuity.

Rostelecom's Code of Ethics is based on:

» legality

» integrity

» transparency

» privacy

» engagement.

Rostelecom's Code of Ethics defines the framework for decision-making by the Company's employees.

Any employee can report violations of the Code of Ethics to a dedicated e-mail address: ethics@rostelecom.ru.

In 2014, the Company introduced its Anti-Corruption Policy[65] which sets forth the basic principles and rules to be complied with by employees of any grade or authority.

The Anti-Corruption Policy and the Regulations on the Conflict of Interest Management were updated in 2017. The Company also developed a set of standard anti-corruption documents for subsidiaries and affiliates, and commenced the adoption of anti-corruption programmes and business ethics improvements at its subsidiaries. The Compliance Day attended by the President of Rostelecom was held for the Company's employees, including those from regional offices, in June 2017.

(63) The universal service concept was introduced by the Federal Law On Communications adopted in 2003.
(64) For more details on Rostelecom's Code of Ethics see the Company's website at www.rostelecom.ru.
(65) For more details on Rostelecom's Anti-Corruption Policy see the Company's website at www.rostelecom.ru.

Society

Rostelecom's track record and expertise help the Company improve people's lives in the remotest parts of Russia and prepare young talent for realisation of their potential.

Rostelecom contributes to the societal development through using various programmes and tools, including:

» Rostelecom's social programmes developed and rolled out either independently or in collaboration with partners, with the Digital Equality being one example

» partnership-based programmes rolled out jointly with non-profit and non-governmental organisations, state-owned and private companies

» volunteer activities involving the Company's employees in social projects

» charity – financial assistance for acute problem solving

» sponsorships – financial support for causes and initiatives in culture, sports, and preservation of cultural heritage.

Digital Equality

A nationwide programme helping the Company bring positive changes to people's lives by covering a growing number of Russian regions, eliminating barriers, and providing millions of Russians with access to the latest telecommunications technologies. Digital Equality comprises seven social projects:[66]

» ABC of the Internet

» IT Growth

» Learn the Internet – Manage It!

» Social Impact Award

» Internet for Libraries

» Computerisation of Orphanages

» Distance Learning for Disabled Children

The Digital Equality programme won the Ethical Dimensions of the Information Society category and became a winner of WSIS Prizes 2018[67].

senior citizens have been trained under the ABC of the Internet programme since it was launched

160 thousand

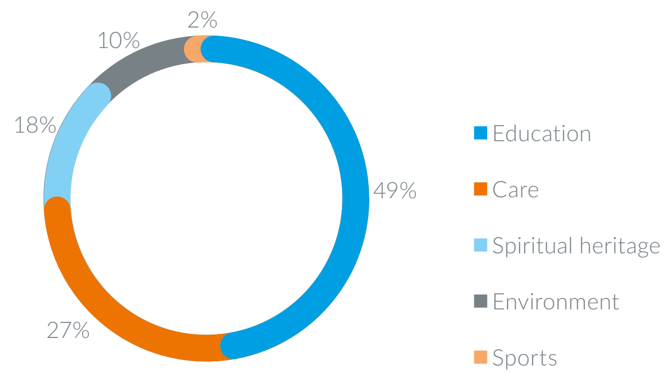
school students competed in a championship organised as part of the Learn the Internet – Manage It! project in 2017

14 thousand

(66) For more details on the Digital Equality programme initiatives see Rostelecom's Sustainability Report 2017 or go to the Company's website at www.rostelecom.ru.
(67) WSIS is a forum of the World Summit on the Information Society. For more details see https://www.rostelecom.ru/press/news/d443248/

Charity

Rostelecom continues to support charity projects in education, spiritual heritage, sports, environment, etc. The company joined efforts of charitable organisations to support, inter alia, additional training of school children under long-term hospital treatment; targeted aid for children and fulfilment of their creative and intellectual potential.



Volunteer activities

Rostelecom's commitment to volunteering projects is increasing with every year, aiming to improve the lives of those most in need and those involved in such improvements, the Company's employees. Volunteering is a critical component of the Company's sustainability, which constitutes an important activity we need to learn and improve year after year.

A dedicated section, Social Projects, was developed for Rostelecom's portal in 2017 to help the employees involved in volunteer activities share their experiences and invite their colleagues to charity projects.

over 300 volunteering projects

ca. 4,000 Rostelecom's employees involved in volunteering projects on a regular basis

Employees

PJSC Rostelecom is one of Russia's largest employers with a headcount of 133,685 staff in 2017. The Company continues to create a fully enabling environment for upgrading professional skills, development, and self-fulfilment of its employees. One of its key sustainability priorities is the development of a professional team capable of both achieving personal targets and ensuring successful teamwork in the long run.

Rostelecom maintains its focus on the Long-Term Personnel Transformation Programme spanning the period until 2019. The purpose of the Programme is to attract and retain best talent, create career opportunities, provide decent remuneration, recognise achievements, foster dialogue with management, and develop leadership skills in people. All these initiatives boost Rostelecom's profile as the employer of choice, supporting its longer-term development goals.

A priority of Rostelecom's HR policy is the cooperation with educational institutions to shape the training of its future talent.

A new pension scheme of the subsidiary pension fund Alliance, launched in December 2016, is gaining more popularity among the Company's employees, with 43% of staff joining the scheme in 2017.

Corporate University

Employee training and upgrading professional skills are an important task for Rostelecom, involving external experts, the Corporate University (CU), and the corporate distance training platform.

The Corporate University is a framework combining a set of resources and consisting of skill centres, corporate training divisions, classrooms, premises, and equipment. The CU develops and implements a uniform approach to training standards and programmes, employee testing and certification, determines and follows personnel training and development strategies, and is a single communication channel for personnel training and development.

Corporate employee pension scheme

The pension scheme is designed for all employee categories: both long-time employees thinking about their retirement options, and Rostelecom newcomers.

43 % of Rostelecom employees joined the corporate pension scheme in 2017

Environmental protection and energy efficiency

Rostelecom's sustainability priority is the sustainable use of natural resources and mitigation of its environmental impact. The Company fosters the environmentally friendly culture in society, supports programmes and initiatives to adopt technology know-hows and energy efficient technologies which lead to creating a healthier environment.

Rostelecom promotes the environmental culture in society, actively supports local community initiatives aimed at increasing environmental responsibility.

Environmental Policy

In defining the framework of, and approaches to, managing and implementing its environmental activities, the Rostelecom follows the Environmental Policy adopted in 2015[68], which also forms the planning and implementation framework for Rostelecom's environmental initiatives. The key environmental initiatives in 2017:

» improving the environmental management and recertification for ISO 14001

» continuing long-term projects having a positive environmental effect:

» boiler upgrades (conversion from coal and diesel fuel to gas)

» standby diesel generator upgrades (replacements with higher performance equipment)

» replacing water cooling with air cooling

» replacing fluorescent lamps with LEDs

» optimising the use of artesian water supply wells

» optimising the fuel and energy management (energy saving and heat loss reduction).

Environmental safety

When planning such large-scale projects as capital construction, equipment installation and upgrades, and building fibre-optic communications networks, Rostelecom assesses its environmental risks and verifies the compliance of these projects with environmental legislation. Environmental risks are a part of the Company's general Risk Matrix. Rostelecom has been conducting annual environmental risk assessments since 2016 as part of its risk management framework. In addition, the Company arranges public consultations involving the locals residing in project implementation areas, public organisations, and local authorities. Proposals and comments made during such consultations are at all times taken into account for project finalisation.

Energy efficiency

Rostelecom has in place an energy efficiency programme which replaces energy-intensive equipment and rolls out automated lighting and heating control systems in the Company's offices. Rostelecom also uses green energy (solar panels, wind plants, hybrid wind and solar power systems, and microturbines).

As part of its advanced technology implementation, the Company prepared its second report on greenhouse gas emissions and climatic impact. PJSC Rostelecom also introduced its Energy Policy in 2017.

Green Office

A segregated waste collection initiative was launched at the Company's offices in 2017 as part of implementation of the Green Office concept. During the year, paper waste sorting was arranged at 43 branches and 171 offices. A total of 346 tonnes of paper waste were collected and transferred to recycling facilities, potentially saving ca. 3,400 trees.

As part of Green Offices of Russia 2017, a contest conducted by Ecobureau GREENS, two Rostelecom's offices in Moscow received a four-star rating (out of five).

Plans for 2018

Rostelecom's strategic priority is to facilitate social, environmental, and economic sustainability. While providing high quality and affordable telecommunications services, the Company continues to contribute to resolving pressing social issues, improving Russia's environmental conditions, and developing its employees. Rostelecom's contribution to the sustainable development of society is a strong foundation for both business and country growth.

In 2018, Rostelecom will consistently work on its social projects for the benefit of the people residing in the Company's regions of operation.

Risk Management

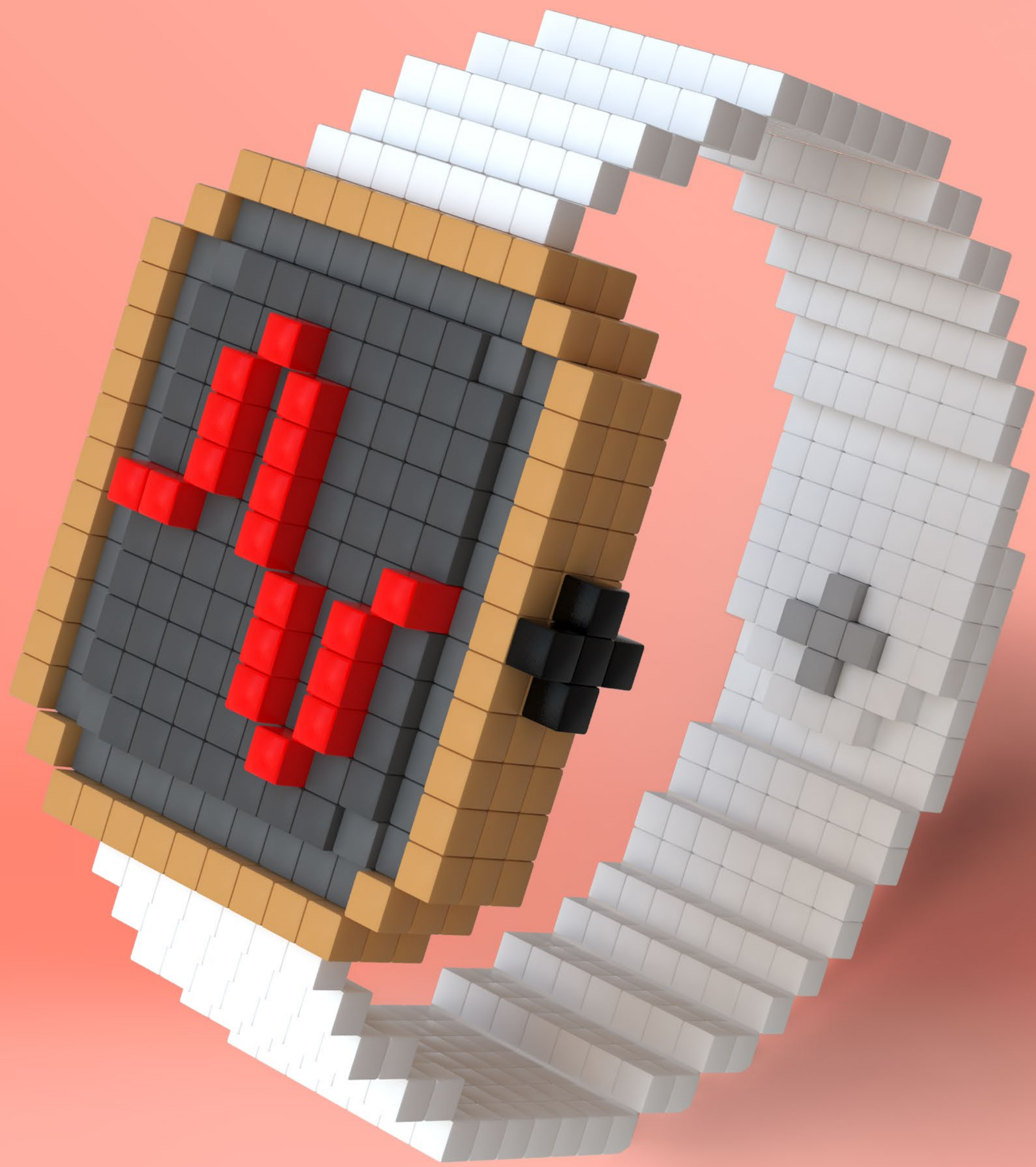
Rostelecom's risk management framework is deeply integrated into the Company's business processes and operates in full compliance with the requirements and guidelines of international and national regulatory bodies and agencies.

We promptly identify key risks and mitigate them and their potential effects.

Rostelecom assists the digital transformation of healthcare providers, contributing improvement opportunities in the quality and accessibility of their services.

3,134

Healthcare providers using our high-speed internet services in 2017



Risk Management Framework

Rostelecom takes a risk-focused approach to business decision-making both at a strategic and operational level.

Strategic risks are covered by the Risk Management Programme[69], which includes:

- a list of strategic lists, and strategic risk scenarios
- key strategic risk indicators and thresholds
- strategic risk management activities.

Operational risks are considered throughout our day-to-day operations, when developing new products and services, and in other Company projects. These risks are reflected in our project documents, standard risk registers, and scoring models for various business lines while also recorded in current reporting on business processes.

The Company's risk management framework has been designed and operates in full compliance with the requirements and recommendations of international and national risk management standards, and the guidelines issued by regulatory bodies and agencies[70] are additionally taken into consideration.

Rostelecom's key internal documents regulating risk management:

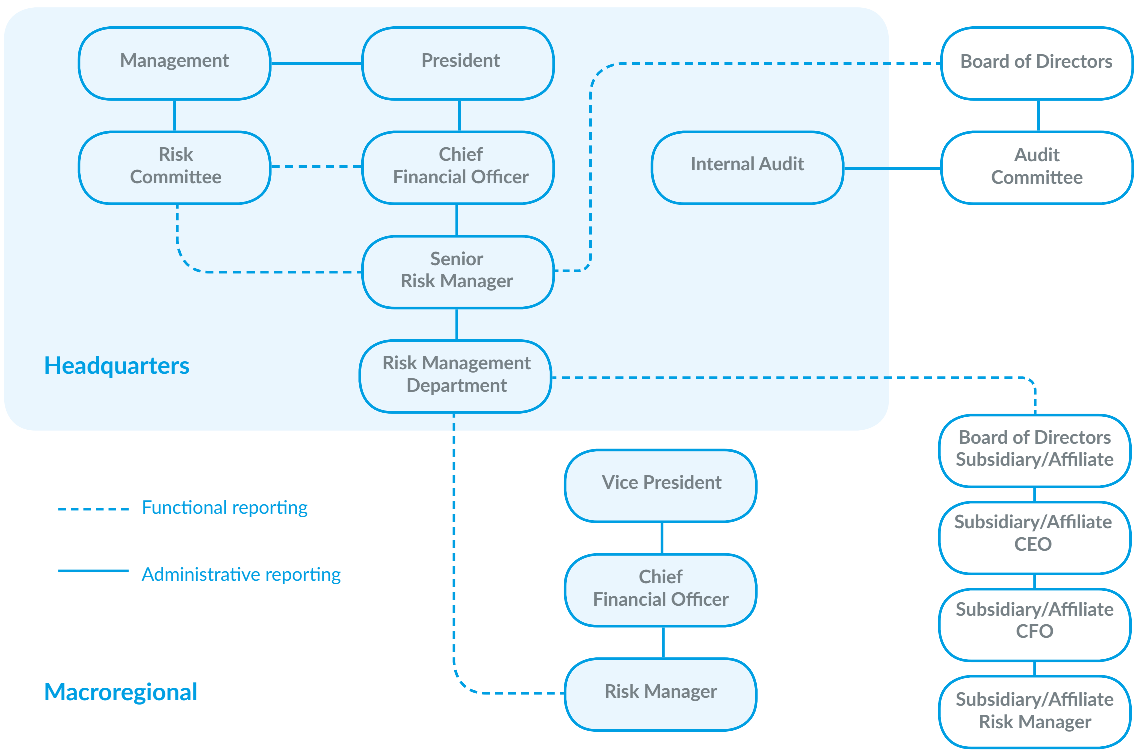
- Charter
- Risk Management Policy
- Regulations on the Board of Directors and Regulations on the Audit Committee of the Board of Directors
- Regulations on the Integrated Risk Management System
- Regulations on the Risk Management Committee of the Management Board
- Risk Management Procedure.

(69) Approved by the Board of Directors.
(70) GOST R ISO 31000:2010 Risk Management. Principles and Guidelines, Corporate Governance Code of the Bank of Russia, Guidelines for the Risk Management System Regulations issued by the Federal Agency for State Property Management, etc.

Risk Management Actors

Actor	Roles and responsibilities
Board of Directors	Defines the operating principles and improvement areas of the risk management framework; overall monitoring of risk management performance
Audit Committee	Supervises the operation of, and identifies gaps in, the risk management framework; makes recommendations to the Board of Directors
The Company's management	Manages key risks and regularly monitors the risk management framework
Internal Audit and Internal Control units	Assess risk management performance and advise on improvements
Senior Risk Manager and Risk Management	Build, monitor, and maintain the risk management framework[71]
Business units and employees	Manage risks within their areas of responsibility

Risk management interactions in Rostelecom Group



(71) For more details see the Corporate Governance section.

Risk Management in 2017

Rostelecom's risk management activities in 2017 were implemented as planned, allowing realised risks to be contained within the approved risk appetite and tolerance limits.

The Risk Management Committees held in-person meetings quarterly in 2017 at the Headquarters and macroregional branches to ensure effective risk management and improve risk management culture, and training in risk management was provided by Headquarters, macroregional branches, and our subsidiaries and affiliates.

In improving risk management performance, Rostelecom:

» devised a new method to calculate risk appetite and assess budget risks by simulating key financial metrics based on variance statistics for key contributing factors

» applied a new risk taxonomy based on seven common risk sources: market (customers and competitors), finance, legislation, IT, HR, technology, and counterparties

» implemented a key risk indicator model to identify and record variance and causes of variance in achieving monitored targets.

» updated its internal regulations governing the operation of the risk management framework, whereby revisions were made to the Regulations on the Risk Management Framework and the Risk Management Procedure

» introduced a top-down approach to preparing the Risk Management Programme – the 2018 programme was developed in the checklist format covering the risk scenarios identified based on the risk realisation trends for the Company during 2017 and relevant risks for 2018 in the telecommunications industry according to international experts.

In 2017, Rostelecom's risk management framework was certified to GOST R ISO 9001-2015 Quality Management Systems. Requirements.[72]

(72) Certificate of Compliance Reg. No. ROSS RU.IS79.K00122 dated 22 December 2017

Key Risks

Rostelecom's five biggest risks during 2017

2017 ranking	Risk	Risk description and potential impacts	Mitigation	Manageability in 2017
1	Lack of resources to ensure compliance with new legal requirements	The Company has to act pro-actively, accumulating funds in advance to ensure future compliance with the regulations coming into force in 2017–2018 (the Yarovaya Package, the Law On Security of Critical Information Infrastructure). Due to the lack of clearly specified requirements and required cost assessment, such pre-emptive response involves a significant risk.	» Assessing the size of investment required to ensure compliance with legal requirements » Monitoring regulatory changes » Collaborating with market partners; participating in industry working groups	Low
2	Unfavourable regulatory changes or breach of applicable legislation	The Company's activities are substantially regulated by government authorities; therefore any unfavourable changes in laws or other documents regulating certain services or business activities within the telecoms industry is a key legal risk	» Monitoring regulatory changes in the Russian Federation » Interacting with regulators » Developing mitigating measures	Low
3	Failure to realise expected benefits from lease or disposal of the Company's real estate assets	The Company owns multiple real estate assets, and the maintenance of some properties may cause losses. Contraction of the real estate lease/sale market may result in an unused surplus property vacated after the optimisation.	» Auditing service spaces » Pursuing flexible pricing policies » Vacating spaces in accordance with the access network upgrade programme	Medium
4	Unavailability or lack of demand for new products or services	Product launch delays or a misplaced focus when developing innovative products and services such as cloud-based services, IIoT solutions, geodata, IP VPN, TV, and MVNO may result in unmet targets for new services and projected revenues.	» Implementing new service development strategy » Using service development offices » Optimising our business process for new product development and roll-out	High
5	Accelerated decline rates in revenue from the MS service in the B2C segment due to mobile and IP substitution	Rostelecom continues to face increasing competition in the B2C segment of the Russian fixed-line services market, which may prevent the Company from retaining or growing its market share and customer base while potentially reducing its operating profit. The natural decline trend in the market for these services is due to subscribers changing their behaviours and moving towards new digital technologies.	» Upgrading telephony infrastructures » Implementing a set of measures to retain customers	Medium

Risk Management Plans

Rostelecom plans to further enhance its risk management framework in 2018 by:

- expanding the list of key risk indicators through joint effort with business process owners to regularly update the Risk Management Programme and monitor risks related to operations
- developing risk management skills and capabilities within the business
- fostering a risk management culture
- building effective risk management communications with the business, including between macroregional branches.

The risks that will remain relevant to Rostelecom into 2018:

- Underfinanced compliance
- Lower revenues from fixed-line
- Failure to meet launch deadlines for new products and services

Rostelecom Group's 2018 Risk Management Programme[73] also covers IT, cyber security and data integrity risks, which are the most significant risks for telecoms in coming years.

The principal risks for 2018 have been identified based on Rostelecom's updated strategy, risk event analysis covering 2017, and the forecasts by top international experts for key telecoms risks in 2018.

Key risks in 2018

Risk group	Change vs 2017	Risk (source)	Scenario	Manageability in 2017	Mitigation
Market risks	=	1. Slowed market recovery in terms of prices; price wars in some regions (customers) 2. Stronger trend in MS telephony revenue decline (customers, competitors) 3. Market capture by competitors (competitors)	1. B2C: Standstill of market recovery processes 2. B2C: MS revenue decline rate exceeding projections 3. B2C, B2B/G: Loss of competitive edge in new products due to longer time-to-market resulting from time-consuming procedures for new product integration into the current IT landscape	Medium	Customer loyalty building practices and integrated bundle offers Development of new services through product development offices
Financial risks	▼	4. Resource allocation in an environment of future TMT sector uncertainties	4. Lower project profitability due to unanticipated emergence of new entrants in the market during the project delivery period 5. Unmet project delivery schedules due to delayed approvals from external customers, vendors, or contractors 6. B2G: Higher receivables turnover due to late acceptance by public customers	Medium	Prioritising projects depending on applicable risk factors by project type Centralising claim management skills Focusing on risk criteria in project planning models Regular audits Improving approval, procurement, and project delivery control processes
Legal risks	=	5. Unfavourable regulatory changes and breach of law	7. Insufficient funds to finance compliance with law requirements coming into force in 2018 (Law On Security of Critical Information Infrastructure, the Yarovaya Package)	Low	Monitoring regulatory changes Collaborating with market partners; participating in industry working groups
IT	▲	6. Compromised data integrity or reliability (IT)	8. Increased cyber security incidents within Rostelecom's technical infrastructure 9. Higher volumes of data processing, data protection, data migration to cloud, or data management in various systems outstripping the pace of Rostelecom's internal IT systems integration	High	Implementing projects for cyber security and information protection of the network and internal services Prioritising internal IT systems development in line with target architecture implementation Acknowledging risks related to the criticality of internal and external services provided by the Company when running planning procedures

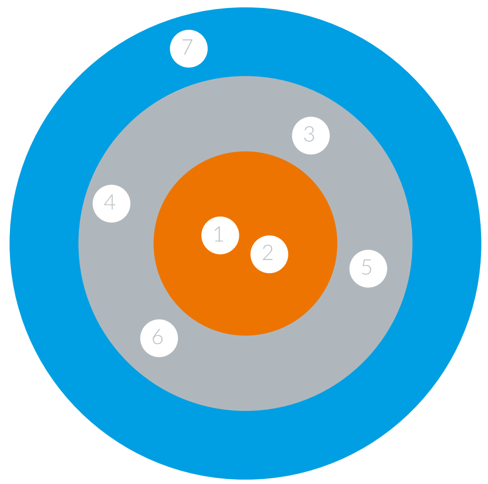
(73) Board of Directors' Minutes No. 12 dated 25 December 2017.

Key risks in 2018 (continued)

Risk group	Change vs 2017	Risk (source)	Scenario	Manageability in 2017	Mitigation
HR risks	▼	7. Insufficient key personnel (HR) 8. Personnel misconduct (HR)	10. Requirements of talented digital specialists and sales force in the B2B and B2G segments unmet by the workplace environment 11. Delays in project team staffing due to lack of personnel, unappealing vacancies, or inefficient recruitment 12. Personnel lacking in digital skills 13. Increased inquiries from supervisory and regulatory authorities due to Russia hosting major international events	High	Hosting events to improve brand perception Using modern talent search and recruitment tools Developing and using talent retaining tools Introducing new digital talent training tools
Technology risks	▼	9. Business interruptions due to key infrastructure outages (technology)	14. Outages in Rostelecom's networks reduced at a slower rate than the growth of infrastructure costs	High	Access network upgrade projects to reduce maintenance costs and outages; developing network outage monitoring systems Import substitution programme
Counterparty risks	▲	10. Market partners hijacking our M&A projects (counterparty)	15. Growing market competition for the highest-quality assets	Medium	Structuring the M&A process to optimise and speed up decision making on transactions

The risk scenario relevance was assessed through Monte Carlo simulations based on the Company's actual performance evolution in 2016–2017. The simulation captured the 44 most relevant factors affecting revenue and OIBDA by segment; the total variance is RUB 6.2 bn and RUB 4.5 bn respectively.

Rostelecom's risk radar 2018



Critical risks
1. Market
2. Finance and planning

Significant risks
3. HR
4. Technology
5. Legal
6. IT

Moderate risks
7. Counterparty

Critical (market and financial) risks may result in failure to achieve KPI targets set in our Strategy and Long-Term Development Programme, as well as extended business interruptions, failure to meet obligations, significant downgrade of credit or corporate ratings, or negative publicity in national or international media.

Significant (legal, IT, HR, technology) risks may result in significant variance in key performance indicators, short-term business interruptions, downgrade of credit or corporate ratings, or negative publicity for the Company in regional or local media.

Moderate (counterparty) risks do not have a material impact on our financial and business performance; however they need to be monitored to ensure timely detection of their potential growth in materiality.

Additional Information

Rostelecom fully complies with instructions of the President and the Government of the Russian Federation, as well as with regulatory requirements and guidelines for business activities and related disclosures.

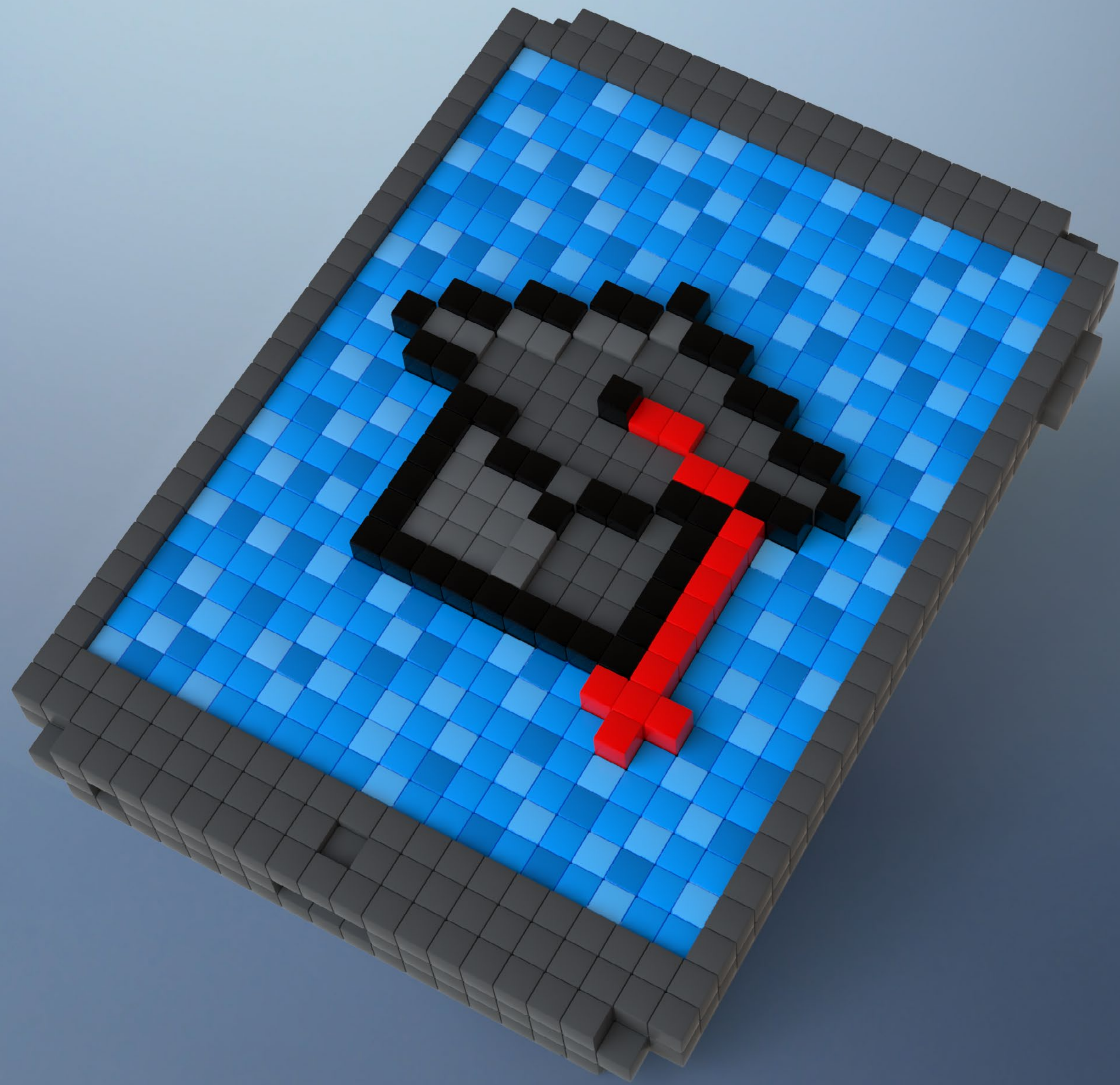
We are integral to the government's core infrastructure.

Rostelecom supplies Russian schools and universities with technology solutions, from distance learning software to support services for the Unified State Exam.

2,705 schools

> 1 million

Students and academic professionals accessing educational content hosted by Rostelecom



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Independent auditor's report

To the Shareholders and Board of directors
Public Joint Stock Company Long-Distance and
International Telecommunications Rostelecom (PJSC Rostelecom)

Opinion

We have audited the consolidated financial statements of PJSC Rostelecom and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition and measurement of revenue from telecommunication services	
As disclosed in Note 23, revenue amounted to RUB 305,329 billion in 2017. Recognition and measurement of revenue from telecommunication services was one of the most significant matters identified in our audit due to the Company's using complex automated accounting systems ("AAS") to calculate revenue. There are different tariff plans, multiple-element customer agreements, one-off and recurrent service payment schemes as well as recognizing revenue from cloud services required from Group management significant judgement in applying IAS 18 *Revenue*.	Our audit procedures in respect of revenue included testing calculations made by AASs, including verifying calculation algorithms used by AASs to calculate revenue, accounts receivable and advances received. We performed testing of automated and semi-automated controls with respect to AASs. Our audit procedures also included testing of data obtained from AAS. We analysed the Group's accounting policy as related to the recognition and accounting of certain types of revenue, examined the Group's agreements and analysed the impact on revenue recognition criteria of probability that the economic benefits associated with customers will flow to the Group. We analysed tariff plans and conditions of agreements with counterparties and checked the accounting treatment of respective transactions. We examined respective disclosures in the consolidated financial statements.
Impairment testing of investments in associates	
As disclosed in Note 10, the carrying amount of the Group's investments in associates is RUB 65,879 billion as at 31 December 2017. The Group performed an impairment testing of investments in associates, as required by its accounting policy. This matter was one of the most significant for our audit as the management assessment of the recoverable amount of investments required significant judgments in respect of the approaches of calculation of the recoverable value, and as well due to the fact that the impairment testing relied on various assertions and assumptions. Specifically, those assertions included the discount rate used, the amount of operating income before amortization and the amount of capital expenditure.	In the course of our audit procedures, we analysed assumptions and assertions used to calculate the recoverable amount of assets, as well as tested calculations of the recoverable amount involving our valuation specialists. In addition, we performed the budget-to-actual analysis of the operating indicators of associates. We also analysed the management assessment of the impairment testing sensitivity to underlying assertions and assumptions. In addition, we examined respective disclosures in the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Impairment testing of fixed and other non-current assets, including goodwill and intangible assets with indefinite useful lives, at the level of cash-generating units	
As described in Notes 7 and 8, impairment testing at the level of cash-generating units ("CGU") requires management to make significant estimates and assumptions. Due to this fact as well as due to the significant carrying amount of fixed and other non-current assets and highly sensitive value-in-use of the Group's CGUs to a variety of assertions and assumptions, this matter was one of the most significant for our audit. Significant estimates and assumptions include the expected revenue growth, expected amount of capital expenditure, the operating profit and the discount rate used.	In the course of our audit procedures, we analysed assumptions and assertions used to calculate the value-in-use of the Group's significant CGUs, as well as tested calculations of the value-in-use of the Group's CGUs involving our valuation specialists. For this purpose, we analysed the industry growth forecasts and performed the budget-to-actual analysis of the Group's operating indicators. We also analysed the management assessment of the impairment testing sensitivity to underlying assertions and assumptions. In addition, we examined respective disclosures in the consolidated financial statements.
Impairment of accounts receivable	
As disclosed in Note 14, the carrying amount of accounts receivable is RUB 56,165 billion as at 31 December 2017. The assessment of potential impairment of accounts receivable significantly impacts the amount of the impairment loss and, thus, the carrying amount of the accounts receivable. Therefore, this matter is one of the most significant for our audit. The management assessment of the recoverability of accounts receivable is based on assumptions and estimates, in particular, on the expected ability of the Group's customers to pay for services provided.	In the course of our audit procedures, we examined the Group's accounting policy as related to creating provision for impairment loss, checked information underlying the Group's calculations of the impairment loss, including historical data on the repayment of amounts due and their aging analysis. We analysed the assessment of the recoverability of trade accounts receivable and applied rates for impairment loss calculation. We examined respective disclosures in the consolidated financial statements.

Other information included in the Annual Report of PJSC Rostelecom for 2017

Other information consists of the information included in the Annual Report of PJSC Rostelecom for 2017, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of PJSC Rostelecom for 2017 is expected to be made available to us after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management, Board of Directors and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors and Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Board of Directors and Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Board of Directors and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.Y. Grebeniuk.

D.E. Lobachev
Partner, General Director
Ernst & Young LLC

5 March 2018

Details of the audited entity

Name: Public Joint Stock Company Long-Distance and International Telecommunications Rostelecom
Record made in the State Register of Legal Entities on 9 September 2002, State Registration Number 1027700198767.
Address: Russia 191002, Saint-Petersburg, Dostoevsky street, 15.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Consolidated statement of financial position

(In millions of Russian roubles)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	7	348,430	343,667
Investment property		159	181
Goodwill and other intangible assets	8	59,820	61,209
Trade and other accounts receivable	14, 2	8,352	7,053
Investments in associates and joint venture	10	65,879	68,352
Other financial assets	11	1,600	797
Deferred tax assets	22	647	606
Other non-current assets	12	4,352	4,945
Total non-current assets		**489,239**	**486,810**
Current assets			
Inventories	13	6,169	6,444
Trade and other accounts receivable	14	47,813	45,884
Prepayments		3,455	2,166
Prepaid income tax		159	1,957
Other financial assets	11	5,963	5,367
Other current assets	16	2,619	2,151
Cash and cash equivalents	15	3,815	4,257
Total current assets		**69,993**	**68,226**
Assets held for sale	36	997	646
TOTAL ASSETS		**560,229**	**555,682**

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Group			
Share capital	17	93	93
Additional paid-in capital		91	90
Treasury shares		(65,556)	(67,034)
Retained earnings and other reserves		311,494	311,167
Total equity attributable to equity holders of the Group		**246,122**	**244,316**
Non-controlling interests		3,242	4,317
Total equity		**249,364**	**248,633**
Non-current liabilities			
Loans and borrowings	18	166,660	124,510
Employee benefits	21	4,733	5,217
Deferred tax liabilities	22	35,681	36,165
Accounts payable, provisions and accrued expenses	19	2,233	1,095
Other non-current liabilities	20	6,383	6,002
Total non-current liabilities		**215,690**	**172,989**
Current liabilities			
Loans and borrowings	18	24,712	62,595
Accounts payable, provisions and accrued expenses	19	60,666	64,072
Income tax payable		1,162	146
Other current liabilities	20	8,635	7,247
Total current liabilities		**95,175**	**134,060**
Total liabilities		**310,865**	**307,049**
TOTAL EQUITY AND LIABILITIES		**560,229**	**555,682**

These consolidated financial statements were approved by management of PJSC Rostelecom on 5 March 2018 and were signed on its behalf by:

Oseevskiy M.E.,
President

K.U. Mehlhorn,
CFO – Senior Vice President

Consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles)

		Year ended 31 December	
	Notes	2017	2016
REVENUE	**23**	**305,329**	**297,446**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	24	(93,381)	(90,340)
Depreciation, amortisation and impairment	7, 8	(56,628)	(55,589)
Interconnection charges		(52,762)	(52,161)
Materials, utilities, repairs and maintenance	25	(25,926)	(24,917)
Gain on disposal of property, plant and equipment and intangible assets		5,344	4,556
Bad debt expense	14	(2,776)	(2,775)
Other operating income	26	13,444	12,948
Other operating expenses	27	(54,759)	(49,332)
Total operating expenses, net		**(267,444)**	**(257,610)**
Operating profit		**37,885**	**39,836**
Loss from associates and joint ventures	10	(2,692)	(7,296)
Finance costs	28	(17,350)	(17,175)
Other investing and financial gain/(loss), net	29	941	1,061
Foreign exchange gain, net		122	515
Profit before income tax		18,906	16,941
Income tax expense	22	(4,856)	(4,692)
PROFIT FOR THE YEAR		**14,050**	**12,249**

The accompanying notes are an integral part of these consolidated financial statements.

		Year ended 31 December	
	Notes	2017	2016
Other comprehensive income/(loss)			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		(110)	(453)
Net other comprehensive loss to be reclassified to profit or lossin subsequent periods		**(110)**	**(453)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of defined benefit pension plans	21	545	(379)
Income tax on remeasurement of defined benefit pension plans	22	(109)	76
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**436**	**(303)**
Other comprehensive income/(loss) for the year, net of tax		**326**	**(756)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**14,376**	**11,493**
Profit attributable to:			
Equity holders of the Group		13,697	11,751
Non-controlling interests		353	498
Total comprehensive income attributable to:			
Equity holders of the Group		14,017	10,985
Non-controlling interests		359	508
Earnings per share attributable to equity holders of the Group – basic (in roubles)	32	6.09	5.24
Earnings per share attributable to equity holders of the Group – diluted (in roubles)	32	5.99	5.20

Consolidated statement of financial position

(In millions of Russian roubles)

		Year ended 31 December	
	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**18,906**	**16,941**
Adjustments to reconcile profit before tax to cash generated from operations			
Depreciation, amortisation and impairment losses	7, 8	56,628	55,589
Gain on disposal of property, plant and equipment and intangible assets		(5,344)	(4,556)
Bad debt expense	14	2,776	2,775
Loss from associates and joint ventures		2,692	7,296
Finance costs excluding finance costs on pension and other long-term social liabilities	28	17,026	16,699
Other investing and financial (gain)/loss, net	29	(941)	(1,061)
Foreign exchange (gain)/loss, net		(122)	(515)
Share-based motivation program		2,309	1,019
Decrease in employee benefits		(66)	(561)
Changes in net working capital			
(Increase) in accounts receivable		(5,078)	(3,941)
(Increase)/decrease in inventories		232	(2,351)
Increase in accounts payable, provisions and accrued expenses		3,963	1,376
Increase in other assets and liabilities		(688)	(3,131)
Cash generated from operations		**92,293**	**85,579**
Interest paid		(17,548)	(18,410)
Income tax refund		1,825	4,391
Income tax paid		(4,801)	(4,383)
Net cash provided by operating activities		**71,769**	**67,177**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(60,752)	(61,857)
Proceeds from sale of property, plant and equipment and intangible assets		9,368	7,978
Acquisition of financial assets		(12,762)	(9,736)

The accompanying notes are an integral part of these consolidated financial statements.

		Year ended 31 December	
	Notes	2017	2016
Proceeds from disposals of financial assets		11,574	10,831
Interest received		637	1,029
Subsidy from Government	20	772	–
Dividends received		6	22
Purchase of subsidiaries and business, net of cash acquired	6	(218)	(2,438)
Proceeds from disposals of subsidiaries, net of cash disposed	9	347	(1)
Acquisition of equity accounted investees	35	(2,430)	(2,778)
Net cash used in investing activities		**(53,458)**	**(56,950)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Sale of treasury shares		1	157
Purchase of treasury shares		(981)	(314)
Proceeds from bank and corporate loans		522,157	655,190
Repayment of bank and corporate loans		(519,403)	(665,936)
Proceeds from bonds		20,000	15,000
Repayment of bonds		(20,642)	(2,734)
Repayment of vendor financing payable		(9)	(9)
Repayment of other non-current financing liabilities		(7)	(1)
Options settlement repayments	33	(4,896)	(319)
Repayment of finance lease liabilities		(118)	(160)
Acquisition of non-controlling interest	9	(2,318)	–
Dividends paid to shareholders of the Group	17	(12,195)	(13,295)
Dividends paid to non-controlling shareholders of subsidiaries		(190)	(258)
Net cash used in financing activities		**(18,601)**	**(12,679)**
Effect of exchange rate changes on cash and cash equivalents		(152)	(456)
Net (decrease) in cash and cash equivalents		**(442)**	**(2,908)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,257**	**7,165**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**3,815**	**4,257**

Consolidated statement of changes in equity

(In millions of Russian roubles)

	Attributable to equity holders of the Group										
	Share capital	Additional paid-in capital	Unrealized loss on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
BALANCES AT 1 JANUARY 2017	**93**	**90**	**(10)**	**922**	**(67,034)**	**2,020**	**5,850**	**302,385**	**244,316**	**4,317**	**248,633**
Profit for the year	–	–	–	–	–	–	–	13,697	13,697	353	14,050
Other comprehensive income											
Exchange differences on translating foreign operations	–	–	–	(116)	–	–	–	–	(116)	6	(110)
Actuarial gains (Note 21)	–	–	–	–	–	–	545	–	545	–	545
Income tax in respect of other comprehensive income items	–	–	–	–	–	–	(109)	–	(109)	–	(109)
Total other comprehensive income/(loss), net of tax	**–**	**–**	**–**	**(116)**	**–**	**–**	**436**	**–**	**320**	**6**	**326**
Total comprehensive income/(loss)	**–**	**–**	**–**	**(116)**	**–**	**–**	**436**	**13,697**	**14,017**	**359**	**14,376**
Transactions with shareholders, recorded directly in equity											
Dividends to shareholders of the Group (Note 17)	–	–	–	–	–	–	–	(12,195)	(12,195)	–	(12,195)
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(190)	(190)
(Note 9)	–	–	–	–	–	–	–	–	–	(190)	(190)
Purchase of treasury shares (Note 17)	–	–	–	–	(981)	–	–	–	(981)	–	(981)
Sale of treasury shares	–	–	–	–	1	–	–	–	1	–	1
Acquisition of non-controlling interest (Note 9)	–	–	–	–	–	–	–	(995)	(995)	(1,260)	(2,255)
Disposal of non-controlling interest	–	–	–	–	–	–	–	(11)	(11)	11	–
Non-controlling interest in acquired subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	5	5
Employee benefits within share-based employee motivation program	–	–	–	–	2,458	695	–	(844)	2,309	–	2,309
Other changes in equity	**–**	**1**	**–**	**–**	**–**	**(5)**	**–**	**(335)**	**(339)**	**–**	**(339)**
TOTAL TRANSACTIONS WITH SHAREHOLDERS	**–**	**1**	**–**	**–**	**1,478**	**690**	**–**	**(14,380)**	**(12,211)**	**(1,434)**	**(13,645)**
BALANCES AT 31 DECEMBER 2017	**93**	**91**	**(10)**	**806**	**(65,556)**	**2,710**	**6,286**	**301,702**	**246,122**	**3,242**	**249,364**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

(In millions of Russian roubles)

	Attributable to equity holders of the Group										
	Share capital	Additional paid-in capital	Unrealized loss on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
BALANCES AT 1 JANUARY 2016	**93**	**87**	**(10)**	**1,385**	**(68,669)**	**2,120**	**6,153**	**304,589**	**245,748**	**3,916**	**249,664**
Profit for the year	–	–	–	–	–	–	–	11,751	11,751	498	12,249
Other comprehensive income											
Exchange differences on translating foreign operations	–	–	–	(463)	–	–	–	–	(463)	10	(453)
Actuarial losses (Note 21)	–	–	–	–	–	–	(379)	–	(379)	–	(379)
Income tax in respect of other comprehensive income items	–	–	–	–	–	–	76	–	76	–	76
Total other comprehensive income/(loss), net of tax	**–**	**–**	**–**	**(463)**	**–**	**–**	**(303)**	**–**	**(766)**	**10**	**(756)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**(463)**	**–**	**–**	**(303)**	**11,751**	**10,985**	**508**	**11,493**
Transactions with shareholders, recorded directly in equity											
Dividends to shareholders of the Group (Note 17)	–	–	–	–	–	–	–	(13,295)	(13,295)	–	(13,295)
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(246)	(246)
Purchase of treasury shares	–	–	–	–	(314)	–	–	–	(314)	–	(314)
Sale of treasury shares	–	–	–	–	224	–	–	(67)	157	–	157
Acquisition of non-controlling interest (Note 9)	–	–	–	–		–	–	–	–	32	32
Disposal of non-controlling interest	–	–	–	–	–	–	–	9	9	(72)	(63)
Non-controlling interest in acquired subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	179	179
Employee benefits within share-based employee motivation program	–	–	–	–	1,725	(107)	–	(599)	1,019	–	1,019
Other changes in equity	–	3	–	–	–	7	–	(3)	7	–	7
Total transactions with shareholders	**–**	**3**	**–**	**–**	**1,635**	**(100)**	**–**	**(13,955)**	**(12,417)**	**(107)**	**(12,524)**
BALANCES AT 31 DECEMBER 2016	**93**	**90**	**(10)**	**922**	**(67,034)**	**2,020**	**5,850**	**302,385**	**244,316**	**4,317**	**248,633**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements for the year ended 31 December 2017

(In millions of Russian roubles)

1. Reporting entity

The accompanying consolidated financial statements are of PJSC Rostelecom ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia").

The registered address of the Company is Russian Federation, St. Petersburg, Dostoevsky street, 15. Since February 2016 the headquarters are located in the Russian Federation, Moscow at Goncharnaya street, 30.

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 31 December 2017, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank, controls the Company by holding of 53% of the Company's voting ordinary shares (2016: 53%).

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 centres 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 also operates socially important Government programs, including "E-Government", "Unified communication service" and other.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements were authorised for issue by the Company's President and chief financial officer ("CFO") – Senior Vice President on 5 March 2018.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for measurement of available-for-sale investments at fair value and certain other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the functional currency of Group entities and the currency in which these consolidated financial statements are presented. The Group entities with other functional currency are: GNC-Alfa, incorporated in Armenia, the functional currency of this entity is Armenian dram ("AMD"), Rostelecom International, incorporated in Cyprus, the functional currency of this entity is United States dollars ("USD"). All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Changes in estimate of useful lives

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Fair values of associates

The Group is required to recognize the fair value of associates at the acquisition date, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgement in forecasting future cash flows and developing other assumptions.

Share-based employee benefits

The Group measures cost of share-based employee benefit by reference to the fair value of equity instruments granted. This requires judgment in estimating future volatility of basis asset which is determined using historical data on market price of the shares. Future volatility may differ significantly from that estimated.

Employee benefits

The Group uses actuarial valuation methods for measurement of the present value of defined employee benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Impairment of non-current assets

Each asset or cash generating unit is evaluated at the end of every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds the recoverable amount. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

This requires an estimation of the value in use of the cash-generating units. Estimating of value in use requires the Group to make significant judgement concerning expected future cash flows and discount rates applicable. Expected future cash flows of cash-generating unit are typically based on approved budgets for next financial years and strategic plan for the period from second till fifth years. Cash flows beyond five-year periods are extrapolated using industry growth rate. Discount rates are determined based on historical information of cost of debt and equity of a respective cash-generating unit. Any future changes in the aforementioned assumptions could have significant impact on value in use.

Litigation
The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

(e) Change in classification

In the consolidated financial statements of the Group for the year 2016, long-term accounts receivable were included in the line "Other non-current assets". For the purposes of preparing the consolidated financial statements of the Group, long-term receivables were presented in separate line in the statement of financial position as at 31 December 2016. The table below shows the adjustments made:

	31 December 2016 (before reclassification)	31 December 2016 (after reclassification)
Trade and other receivables	–	7,053
Other non-current assets	11,998	4,945

Described above has no effect on the consolidated statement of profit or loss and comprehensive income, the consolidated cash flow statement and consolidated statement of changes in equity.

3. Operating environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment

4. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective from 1 January 2017.

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group and its subsidiaries.

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

» The fair value of the consideration transferred; plus

» The recognised amount of any non-controlling interests in the acquiree; plus

» If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less

» The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Combination of entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

Acquisitions of non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Acquisitions of non controlling interests that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries
Subsidiaries are entities that are directly or indirectly controlled by the Group. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses are allocated to the parent and to non-controlling interest based on their respective interests.

Investments in associates (equity accounted investees)
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Non-controlling interest
Non-controlling interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and their portion of movements in net assets since the date of the combination.

The losses applicable to non-controlling interest, including negative other comprehensive income, are charged to non-controlling interest even if it causes non-controlling interest to have a deficit balance.

(b) Goodwill
Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investment in associates.

The acquirer recognizes goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) The aggregate of:

» The acquisition-date fair value of consideration transferred;

» Non-controlling interest's proportionate share of the acquiree's identifiable net assets; and

» In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized by allocating to other assets on pro rata basis, but not below their fair value.

Goodwill is not amortised. Instead, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

In case of excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination the Group:

» Reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;

» Recognizes in profit or loss any excess remaining after that reassessment immediately.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation. Any difference between the net disposal proceeds and carrying amount of the item is reported as a gain or loss on derecognition. The gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services	10-50
Cable and transmission devices:	
Cable	10-40
Radio and fixed link transmission equipment	8-20
Telephone exchanges	15
Other	5-10

The useful life of assets encompasses the entire time they are available for use, regardless of whether during that time they are in use or idle. Depreciation methods, useful lives and residual values are reviewed at each reporting date or more frequently if events occur that suggest a change is necessary and, if expectations differ from previous estimates, the changes are accounted for prospectively. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Advances given to suppliers of property, plant and equipment are included in other non-current assets.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer. Such transfers of property, plant and equipment primarily relate to future provision of services by the Group to entities, which have transferred property, plant and equipment. In such instances, the Group records deferred income in the amount of the fair value of the received property, plant and equipment and recognises income in the profit or loss on the same basis that the equipment is depreciated.

(d) Leases

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. Determining whether an arrangement contains a lease is determined based on the facts and circumstances of each arrangement to determine whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use that asset. Contracts meeting these criteria are then evaluated to determine whether they are either an operating lease or finance lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Capitalized leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Group will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Indefeasible Rights of Use (IRU) leases represent the right to use a portion of asset granted for a fixed period. IRUs are recognized as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. Such assets are included in property, plant and equipment in the consolidated statement of financial position. They are depreciated over the shorter of the expected period of use and the life of the contract.

Leases, including IRU leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(e) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The Group applies cost model to its investments properties and subsequent to initial recognition investment properties are measured in accordance with IAS 16's requirements for that model.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Development expenditures are capitalised if they meet criteria for an assets recognition. Expenditure on research phase are expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment when there is an indication that the intangible asset may be impaired. Useful lives of intangible assets with finite lives are determined on individual basis.

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The Group assesses whether there is any indication that a finite lived intangible asset may be impaired at each reporting date. The Group also performs annual impairment tests for finite lived assets not yet placed in use. The amortisation expense on intangible assets with finite lives is included in depreciation and amortisation expenses in profit or loss.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually or more frequently when indicators of impairment exist, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(g) Impairment of property, plant and equipment and intangible assets

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. In addition, annual impairment test is carried out for intangible assets with indefinite useful life or that are not yet available for use and goodwill. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as a loss. Any subsequent increase in the recoverable amount of the assets, except for goodwill, is reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit (further – CGU) to which the assets belong. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the CGUs or groups of CGUs expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which goodwill is so allocated:

» Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

» Is not larger than an operating segment determined in accordance with IFRS 8 Operating Segments.

(h) Inventory

Inventory principally consists of cable, spare parts for the network and other supplies. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost is calculated using weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(i) Accounts receivable

Trade and other accounts receivable are stated in the consolidated statement of financial position at original invoice amount less an allowance for any uncollectible amounts. The allowance is created based on the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

Bad debts are written off in the period in which they are identified.

(j) Financial instruments

Financial instruments carried in the consolidated statement of financial position include cash and cash equivalents, investments (other than in consolidated subsidiaries and equity method investees), non-hedge derivatives, accounts receivable, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item. The Group classifies financial assets and liabilities into the following categories: loans and receivables, financial assets and liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortised cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not originated with the intent to be sold immediately. Such assets are carried at amortised cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Financial assets and liabilities at fair value through profit and loss are financial assets or liabilities, which are either classified as held for trading or derivatives or are designated by the Group as at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purposes of selling in the near term. Gains and losses on investments held for trading are recognized in profit or loss.

For investments to be designated as at FVPL, the following criteria must be met:

» The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis

Or

» The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, they are remeasured at fair value

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

All other investments not classified in any of the three preceding categories are classified as available-for-sale. After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognized in other comprehensive income until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is included in the determination of profit or loss.

All financial liabilities are carried at amortised cost using the effective interest method, except for derivative financial liabilities which are carried at their fair values.

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

At each reporting date or more frequently if events occur that suggest a change is necessary, an assessment is made as to whether there is any indication that the Group's investments may be impaired.

Investing and financial gains comprise interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings (other than capitalised into the cost of qualifying assets), unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

(k) Borrowings

Borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortisation process.

Borrowing costs are expensed, except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average rate of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, unless borrowings were made specifically for the purpose of obtaining the qualifying asset wherein that rate is used. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to profit or loss in the period over which the asset is depreciated.

(l) Foreign currency transactions

Transactions denominated in foreign currencies are translated into roubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into roubles at the exchange rate as of the reporting date. Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency exchange gains or losses in the period in which they arise. Foreign currency gains and losses are reported on a net basis depending on whether foreign currency movements are in a net gain or net loss position.

As at 31 December 2017 and 2016, the rates of exchange used for translating foreign currency balances were (in Russian roubles for one unit of foreign currency):

	2017	2016
US dollar (USD)	57.6002	60.6569
Special Drawing Rights (XDR)	81.8326	81.2857
Euro (EUR)	68.8668	63.8111

Source: the Central Bank of Russia

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

(n) Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies except for cases when two or more entities form the Consolidated Group of Taxpayers for the purposes of unified income tax declaration submission. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset except for the abovementioned Consolidated Group of Taxpayers formation.

(o) Revenue and operating costs recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be reliably measured. Revenues and expenses are reported net of respective value added tax.

Revenues from directly billed subscribers are recognized in the period where the services were provided based on the Group's billing system's data. Revenue from time calls and data transfer is measured primarily by the volume of traffic processed for the period. Revenues from subscribers billed via agents are recognized in the period where the services were provided based on agent reports.

The Group charges its subscribers throughout Russia for certain communication services based on pre-set tariffs regulated by the Ministry of Telecom and Mass Communications and Federal Tariff Service.

The Group charges amounts to interconnected operators for incoming traffic and is charged by operators for termination. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle liability simultaneously.

Revenues from the sale of transmission capacity on terrestrial and submarine cables, which relates to IRU (indefeasible right of use of the capacity of an international cable) under operating leases where the Group is a lessor, are recognized on a straight-line basis over the life of the contract.

(p) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is charged in profit or loss or capitalized in an asset if it is required by IFRS.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(q) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on systematic basis in the periods in which the expenses are recognised.

(r) Employee benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to an own pension fund upon employees' dismissal. The Group is liable for payments to the retired employees.

The Group uses the Project Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

Actuarial gains and losses are recognized as other comprehensive income or expense immediately.

The Group also participates in a defined contribution plan. Contributions made by the Group on defined contribution plans are charged to expenses when incurred.

The Group accrues for the employees' compensated absences (vacations) as the additional amount that the Group expects to pay as a result of the unused vacation that has accumulated at the reporting date.

(s) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for options for shares of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(t) Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognized as a liability at the reporting date in accordance with IAS 10 Events after the Reporting Period.

(u) Treasury shares

The cost of treasury shares purchased is debited to a separate category of equity. When treasury shares are sold or re-issued, the amount received for the instruments is credited to this category, and any surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital. The average cost method is used to determine the cost of treasury shares sold. However, if the entity is able to identify the specific items sold and their costs, the specific cost is applied.

(v) Earnings per share

IAS 33 requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a numerator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

(w) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker, Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(x) Pension contracts

Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affect the policyholders.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Discretionary participation feature (DPF)
Insurance and investment contracts are classified as contacts with or without a discretionary participation feature (DPF). DPF provides the policyholder with a contractual right to receive, as a supplement to guaranteed benefits, significant additional benefits, which are based on investment returns on a specified pool of assets held by the insurer and which amounts or timing are contractually at the discretion of the insurer. Group exercises its discretion as to the amount and timing of distribution of the eligible surplus to contract holders subject to provision of the minimum level required by statutory regulations. The Group policy is to treat all DPF, including undistributed amounts, as a liability within investment or insurance contract liability as appropriate.

Types of pension contracts
The Group has the following types of pension contracts:

Contracts of non-state pension provision (NPP) issued under a voluntary pension system are executed in accordance with the existing Pension rules of non-state pension provision. These contracts contain a right of contract holders to receive additional investment income as a supplement to guaranteed benefits. The Group classifies NPP contracts as insurance or investment contracts with DPF according to IFRS 4 Insurance Contracts.

Contracts of mandatory pension insurance (MPI) are issued in accordance with the Federal Law No. 167-FZ of 15 December 2001, About mandatory Pension Insurance in the Russian Federation to provide contract holders with a funded pension. The Group classified MPI contracts as insurance contracts with DPF according to IFRS 4 Insurance Contracts.

Pension liabilities
Obligations under non-state pension and mandatory pension insurance contracts are determined as accumulated contributions reduced by performed payments and increased by investment income earned on assets baking such liabilities. At each reporting date, an assessment is made of whether the recognized liabilities are adequate by using the liability adequacy test. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows are used. Any inadequacy is recorded in the consolidated statement of comprehensive income by creating an additional liability for the remaining loss.

Revenue recognition for pension contracts. Pension contributions are recognized as revenue upon incurrence of contractual liability. In accordance with the terms of the existing pension schemes, incurrence of contractual liability occurs when the initial pension contribution is received from the Pension Fund of the Russian Federation, another non-state pension fund or a contract holder. Subsequent contributions are recognized as part of the revenue in those periods when they are due in accordance with the terms of the contract.

5. New standards, interpretations and amendments adopted by the Group

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group discloses additional information in its annual consolidated financial statements for the year ended 31 December 2017 (Note 18).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual improvements 2012-2014 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The Group does not expect any effect on its consolidated financial statements.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the required effective date and due to the exemption in IFRS 9 relating to transition for classification and measurement and impairment will not restate comparative periods in the year of initial application. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in opening retained earnings.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed the impact of IFRS 9 to the Group consolidated financial statements as follows:

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. The Group expects to continue measuring all financial assets, which are currently measured at fair value, at fair value through profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables.

The Group has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables. To measure the expected credit losses, the trade receivables have been grouped based by nature and the days past due.

Other financial assets at amortised cost include loans receivable, including loans to related parties. The Group will apply general approach to providing for expected credit losses in relation to such financial assets.

Based on the assessments undertaken to the date, the Group has determined that the estimated range of loss allowance up 600 to 1,000 with corresponding related decrease in the deferred tax liability of 125.

The Group's cash and cash equivalents have low credit risk based on the external credit ratings of banks and financial institutions. Therefore, the Group determined that no additional allowances are required at 31 December 2017 in connection with the adoption of the new impairment model under IFRS 9.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

» Delivery of customer-premises equipment (CPE)

Customer premises equipment – technical devices or equipment installed in the customer premises and designed to provide technical capability of subscriber's consumption of services provided by the Company. In accordance with IFRS 15.22, at the time of the conclusion of the contract, the Group must evaluate the goods or services promised under the contract with the buyer and divide them into distinct performance obligation.

Based on the analysis of the current business operations the Group concluded that CPE, which can't be used by the client separately from Company's services does not represents a performance obligation. Accordingly, fees received for delivery of CPE are deferred and recognized as revenue over period when the respective services are provided.

The Group concluded that, when it adopts IFRS 15 in respect of CPE, which are not distinct performance obligation, the Group would recognise the amount of 5,303 as Contract assets and 8,240 Contract liabilities as at 1 January 2018.

» ncremental cost of obtaining the contract

According IFRS 15.91 the entity recognises the incremental costs of obtaining the contract with customer as an asset if those cost are expected to be recoverable. The incremental cost of obtaining the contract are those cost that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

Based on the analysis of the business practices and the requirements of IFRS 15, the Group plans recognise as an assets dealer commission to connection new subscribers in the business to customers segment, and additional payments to employees who are engaged in similar functions.

The Group presents costs of obtaining a contract as a separate class of intangible assets in the statement of financial position and its amortisation in the same line item as amortisation of intangible assets within the scope of IAS 38 Intangible Assets.

An asset under the contract would be amortised on a systematic basis that is consistent with the average contractual relationship with customers to which the assets relates.

The Group would recognise a separate class of Intangible assets in the total amount 7,025 as at 1 January 2018.

» Advances received from customers

Generally, the Group receives short-term advances from its customers. They are presented as part of current liabilities. However, from time to time, the Group may receive long-term advances from customers. Under the current accounting policy, the Group presents such advances as other non current liabilities heading in the statement of financial position. No interest was accrued on the long-term advances received under the current accounting policy.

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group provide of a promised service to a customer and when the customer pays for that service will be one year or less. Therefore, for short term advances, the Group will not account for a financing component even if it is significant.

However, certain contracts concluded between the Group and its customers contain a significant financing component because of the length of time between when the customer pays for the services and when the Group provides services to the customer. The transaction price for such contracts will be adjusted for the effects of time value of money using discount rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception.

When IFRS 15 is adopted, adjustments to the current reporting period are expected such that advances received would increase by 343 reflecting the adjustment of the promised amount of consideration by the interest.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group has chosen to use only exemption for "low-value" assets.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group has chosen early application of standard for annual periods beginning on 1 January 2018 and intends to adopt the standard retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earnings.

The Group's assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 16.

The Group will apply this Standard to the contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

The Group will recognise the right-of-use assets, short and long term lease liabilities in the amount from the range 12,000 to 14,000 as of 1 January 2018.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

» A specific adaptation for contracts with direct participation features (the variable fee approach);

» A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently assessing the impact of this standard.

Transfers of Investment Property – Amendments to IAS 40
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

2014-2016 cycle (issued in December 2016)
These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters
Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures
Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice

The amendments clarify that:

» An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss;

» If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4
The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The amendments apply to annual periods beginning on or after 1 January 2018.

An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendments apply to annual periods beginning on or after 1 January 2018. The Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

» Whether an entity considers uncertain tax treatments separately;

» The assumptions an entity makes about the examination of tax treatments by taxation authorities;

» How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;

» How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply

interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis. the Group does not expect any effect on its consolidated financial statements.

The IASB has issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. The amendments affect four standards:

» IFRS 3 ***Business Combinations***;

» IFRS 11 ***Joint Arrangements***;

» IAS 12 ***Income Taxes and IAS 23 Borrowing Costs***.

The amendments are effective for annual periods beginning on or after 1 January 2019. The Group is assessing the impact.

6. Business combinations

2017 transactions

Acquisition of subsidiaries

Tvingo telecom
On 20 December 2017 the Group obtained control over Tvingo telecom LLC. The subsidiary of the Company, PJSC Bashinformsvyaz, acquired 100% of shares of Tvingo telecom LLC, a major internet provider in Vladikavkaz for a consideration of 398. The purchase consideration comprised the transfer of cash and cash equivalents of 298 and 100 as deferred consideration measured at fair value and payable in 2018-2020.

Tvingo telecom provides broadband, IPTV and IP telephony services for households and corporate clients. The company operates its own fibre-optic network covering almost all multi-storey buildings (using the FTTx technology) and low-rise buildings (with the GPON technology) in Vladikavkaz city and its suburbs. The operator holds a half of B2C broadband market and a third of B2B broadband market with a subscriber base of 1,000 corporate and 30,000 residential clients. The reason for investement in Tvingo telecom was to boost market share of Rostelecom and get the leading positions in the broadband market of the area.

The effective share of the Tvingo telecom LLC is 96.33%.

The acquisition has been accounted using the acquisition method. These consolidated financial statements include balances of Tvingo telecom LLC as at 31 December 2017.

The provisional value of the identifiable assets and liabilities of Tvingo telecom LLC as at the date of acquisition were:

	LLC Tvingo telecom
Provisional value of identifiable assets and liabilities	
Property, plant and equipment	216
Trade and other accounts receivable	10
Cash and cash equivalents	3
Inventories	42

	LLC Tvingo telecom
Long-term and short-term loans	(55)
Accounts payable, provisions and accrued expenses	(69)
Total identifiable net assets at fair value	**147**
Goodwill arising on acquisition	246
Non-controlling interest	**5**
Purchase consideration transferred (paid in January 2018)	**298**
Deferred consideration	**100**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3
Cash paid	–
Net cash flow on acquisition	**3**

The goodwill of 246 comprises the value of expected synergies and other benefits from combining the assets and activities Tvingo telecom LLC with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

During year 2017 the Group acquired the business of LLC Evraziya Telecom, SC Tolyatti Telecom, LLC RoylCom, which are individually immaterial. Total amount of purchase consideration transferred and paid by cash is 138. Property, plant and equipment in the amount 92 and intangible assets in the amount 55 were purchased as part of business combination. No goodwill arise.

2016 transactions

Acquisition of subsidiaries

Telecommunication business of Morton group

On 5 April 2016 Group obtained control over certain subsidiaries of Morton Group involved in the telecommunication business (further, the “Telecommunication business”). The subsidiary of the Group, PJSC Bashinformsvyaz, acquired 100% of the respective subsidiaries of Morton Group for 633.

The Telecommunication business of Morton Group includes three companies, which provide broadband, digital pay-TV and telephony services. The companies serve more than 40,000 residential and 2,000 corporate customers residing in new housing developments in Moscow and the Moscow region.

The acquisition is in line with Group’s strategy to build a competitive position in the broadband and pay-TV market. The deal will allow Group to enter a new housing development sector, where, historically, the Group’s services have been under-represented.

The acquisition has been accounted using the acquisition method.

The effective share of the Group in Telecommunication business of Morton Group is 96.33%.

The fair value of the identifiable assets and liabilities of the Telecommunication business of Morton Group as at the date of acquisition were:

	The Telecommunication business of Morton Group*
Fair value of identifiable assets and liabilities	
Property, plant and equipment	387
Intangible assets	111
Trade and other accounts receivable	163
Cash and cash equivalents	5
Inventories	18
Other current and non-current assets	9
Accounts payable, provisions and accrued expenses	(95)
Deferred tax liabilities	(44)
Total identifiable net assets at provisional value	**554**
Goodwill arising on acquisition	99
Non-controlling interest	**20**
Purchase consideration transferred (paid in cash)	**633**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	5
Cash paid	(633)
Net cash flow on acquisition	**(628)**

** Certain amounts do not correspond to the amounts disclosed in the notes to the consolidated financial statements of the Group as of 31 December 2016 and reflect measurement period adjustments made to the provisional amounts of the Morton Group if the accounting for the business combination had been completed at the acquisition date.*

The goodwill of 99 comprises the value of expected synergies and other benefits from combining the assets and activities of the Telecommunication business of Morton Group with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2016, the Telecommunication business of Morton Group has contributed 43 to net profit of the Group and 309 to revenue. If the combination had taken place at the beginning of 2016, net profit of the Group would have been 12,258 and revenue would have been 297,554. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

JSC AIST

On 20 June 2016 the Group obtained control over JSC AIST. The subsidiary of the Company, PJSC Bashinformsvyaz, acquired 100% of shares of JSC AIST, a leading broadband and telephony provider in the Samara region, for 1,420.

AIST serves approximately 130,000 broadband and telephony clients, including more than 10,000 corporate customers. This acquisition will enhance the Group’s market position in the Samara region’s broadband market.

The effective share of the Group as of 31 December 2016 in JSC AIST is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair values of the identifiable assets and liabilities of JSC AIST as at the date of acquisition were:

	JSC AIST
Fair value of identifiable assets and liabilities	
Property, plant and equipment	634
Intangible assets	125
Other current and non-current assets	20
Trade and other accounts receivable	44
Cash and cash equivalents	8
Inventories	27
Accounts payable, provisions and accrued expenses	(85)
Deferred tax liabilities	(77)
Total identifiable net assets at fair value	**696**
Goodwill arising on acquisition	750
Non-controlling interest	**26**
Purchase consideration transferred (paid in cash)	**1,420**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8
Cash paid	(1,420)
Net cash flow on acquisition	**(1,412)**

The goodwill of 750 comprises the value of expected synergies and other benefits from combining the assets and activities of JSC AIST with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the trade and other accounts receivable amounts to 44, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivables has been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

From the date of acquisition until 31 December 2016 JSC AIST has contributed 16 to net profit of the Group and 321 to revenue. If the combination had taken place at the beginning of 2016, net profit of the Group would have been 12,286 and revenue would have been 297,788. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

Non-state Pension Fund Alliance (the "Fund") JSC

On 23 June 2016 Group acquired control over Non-state Pension Fund Alliance. The subsidiary of the Group, CJSC Westelcom, acquired 51% of shares of Private Pension Fund Alliance for 184. The deal on acquisition will enable the Group to increase the control over the pension plan.

The acquisition has been accounted using the acquisition method

The fair values of the identifiable assets and liabilities the Fund as at the date of acquisition were:

	Non-state Pension Fund Alliance
Fair value of identifiable assets and liabilities	
Property, plant and equipment	2
Intangible assets	2
Deferred tax assets	6
Trade and other accounts receivable	6
Cash and cash equivalents	45
Other current financial assets	1,570
Employee benefits	(373)
Non-current accounts payable, provisions and accrued expenses	(937)
Current accounts payable, provisions and accrued expenses	(13)
Total identifiable net assets at fair value	**308**
Goodwill arising on acquisition	27
Non-controlling interest	**151**
Purchase consideration transferred (paid in cash)	**184**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	45
Cash paid	(184)
Net cash flow on acquisition	**(139)**

Non-current accounts payable, provisions and accrued expenses of the Fund are mostly represented by the obligations under the pension agreements not related to the Group's employees. Obligations of the Fund to the employees of Rostelecom under the corresponding pension agreements are included in the Employee benefits, non-current liabilities, of the Group's consolidated statement of financial position as of 31 December 2016.

From the date of acquisition until 31 December 2016 the Fund has contributed 68 to net profit of the Group. If the combination had taken place at the beginning of 2016, net profit of the Group would have been 12,331 and revenue would remain the same. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

National Data Centers LLC

On 16 June 2016 the Group acquired control over National Data Centers LLC ("NDC") by increasing of its stake in NDC from 50% to 100%. The subsidiary of the Company, RTK DC LLC, acquired 50% of NDC for five thousand Russian roubles.

The effective share of the Group as of 31 December 2016 in NDC is 75%.

Total consideration for acquisition of NDC includes the effective settlement of the pre-existing relations between the Company's subsidiary, Westelcom, and NDC, represented by the loan and interest payable by NDC to Westelcom in the amount 72. The previously held interest in NDC of 50% was accounted by the Group using the equity method. The carrying value of the investment in NDC immediately before the acquisition of additional interest was nil and the Group estimated that the fair value of the previously held interest approximated zero.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of National Data Centers LLC as at the date of acquisition were:

	LLC National Data Centers
Fair value of identifiable assets and liabilities	
Property, plant and equipment	3
Intangible assets	17
Deferred tax assets	12
Trade and other accounts receivable	4
Inventories	8
Other current assets	3
Accounts payable, provisions and accrued expenses	(22)
Total identifiable net assets at fair value	**25**
Goodwill arising on acquisition	35
Non-controlling interest	**(12)**
Purchase consideration transferred	**72**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	–
Cash paid	–
Effective settlement of the pre-existing relationships	**(72)**

The goodwill of 35 comprises the value of expected synergies and other benefits from combining the assets and activities National Data Centers LLC with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2016 National Data Centers LLC has contributed 16 to decrease of the net profit of the Group and 2 increase of the revenue. If the combination had taken place at the beginning of 2016, net profit of the Group would have been 12,215 and revenue would remain the same. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

Sibitex LLC

On 29 December 2016 the Group acquired a control over Sibitex LLC. The subsidiary of the Group, PJSC Bashinformsvyaz, acquired 100% of Sibitex LLC, one of two leading independent internet and telephone providers in Tyumen, for 83.

Sibitex LLC provides access to internet, telephone and TV services for legal entities and individuals but historically has specialised in providing services to corporate clients.

The acquisition of Sibitex LLC is part of business development strategy of the Group for the B2B segment. This deal will strengthen Rostelecom's position in the internet access market in Tyumen, providing opportunities to realise a number of synergies relating to the upselling of convergent services and the optimisation of operational costs.

The effective share of the Group in Sibitex LLC as of 31 December 2016 is 96.33%.

The acquisition has been accounted using the acquisition method. Present consolidated financial statements include balances of Sibitex LLC as at 31 December 2016.

The fair value of the identifiable assets and liabilities of Sibitex LLC as at the date of acquisition were:

	LLC Sibitex
Fair value of identifiable assets and liabilities	
Property, plant and equipment	21
Trade and other accounts receivable	5
Cash and cash equivalents	4
Inventories	1
Accounts payable, provisions and accrued expenses	(9)
Total identifiable net assets at provisional value	**22**
Goodwill arising on acquisition	62
Non-controlling interest	**1**
Purchase consideration (paid in 2017)	**83**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	4
Cash paid	–
Net cash flow on acquisition	**4**

The goodwill of 62 comprises the value of expected synergies and other benefits from combining the assets and activities Sibitex LLC with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition of associates

During the period ended 31 December 2016 the Group paid an additional contribution to the share capital of Big Universal Mall LLC ("BUM" LLC) in the amount of 577.5 that did not change the Group's share in BUM LLC and acquired non-controlling interests in certain other associated companies for total consideration of 200.5.

The Group made a cash contribution into Telecom-5 in the amounts 2,400 and 2,000 in December 2017 and 2016 respectively (Note 35).

7. Property, plant and equipment

The net book value of property, plant and equipment as at 31 December 2017 and 2016 was as follows:

	Buildings and site servic	Cable and transmission devices	Other	Construction in progress	Total
Cost / deemed cost					
At 1 January 2016	**101,076**	**582,468**	**121,349**	**31,162**	**836,055**
Additions	55	6,881	1,703	44,534	53,173
Assets of acquired subsidiaries	75	919	36	7	1,037
Reclassification from investment property and assets held for sale	5,598	9	139	–	5,746
Reclassification to assets held for sale	(3,249)	(14)	(108)	–	(3,371)
Reclassification to intangible assets	–	–	–	(39)	(39)
Transfer	2,223	37,498	7,441	(47,162)	–
Disposals	(2,489)	(6,561)	(3,226)	(389)	(12,665)
Disposals of subsidiaries	(48)	(47)	(12)	(3)	(110)
Foreign exchange	(1)	(384)	(24)	(36)	(445)
Reclassification	1,302	(1,078)	(265)	(1)	(42)
At 31 December 2016	104,542	619,691	127,033	28,073	879,339
At 1 January 2017	**104,542**	**619,691**	**127,033**	**28,073**	**879,339**
Additions	114	4,624	2,427	47,741	54,906
Assets of acquired subsidiaries	–	213	2	93	308
Reclassification from investment property and assets held for sale	2,334	10	46	–	2,390
Reclassification to assets held for sale	(4,681)	(62)	(103)	–	(4,846)
Transfer	1,969	37,743	6,356	(46,068)	–
Disposals	(3,255)	(4,762)	(6,137)	(1,273)	(15,427)
Disposals of subsidiaries	(10)	(342)	(18)	–	(370)
Foreign exchange	–	(66)	(4)	(7)	(77)
Reclassification	–	–	11	4	15
At 31 December 2017	101,013	657,049	129,613	28,563	916,238
Accumulated amortisation and impairment losses					
At 1 January 2016	**(58,304)**	**(343,793)**	**(94,347)**	**(912)**	**(497,356)**
Depreciation expense	(2,956)	(35,289)	(7,888)	–	(46,133)
Reclassification from investment property and assets held for sale	(3,939)	(9)	(122)	–	(4,070)
Reclassification to assets held for sale	1,947	3	95	–	2,045
Accruals of impairment losses	41	(207)	(8)	(989)	(1,163)

	Buildings and site servic	Cable and transmission devices	Other	Construction in progress	Total
Disposals	1,341	6,042	3,140	197	10,720
Disposals of subsidiaries	41	43	10	–	94
Foreign exchange	–	136	13	–	149
Reclassification	(719)	372	388	1	42
At 31 December 2016	(62,548)	(372,702)	(98,719)	(1,703)	(535,672)
At 1 January 2017	**(62,548)**	**(372,702)**	**(98,719)**	**(1,703)**	**(535,672)**
Depreciation expense	(2,807)	(36,197)	(8,289)	–	(47,293)
Reclassification from investment property and assets held for sale	(1,793)	(10)	(42)	–	(1,845)
Reclassification to assets held for sale	3,449	57	96	–	3,602
Accruals of impairment losses	(36)	(319)	(48)	(204)	(607)
Disposals	2,157	4,424	6,055	1,075	13,711
Disposals of subsidiaries	10	258	18	–	286
Foreign exchange	–	23	2	–	25
Reclassification	–	–	(11)	(4)	(15)
At 31 December 2017	(61,568)	(404,466)	(100,938)	(836)	(567,808)
Net book value					
At 31 December 2016	41,994	246,989	28,314	26,370	343,667
At 31 December 2017	39,445	252,583	28,675	27,727	348,430

At 31 December 2017 and 2016 cost of fully depreciated property, plant and equipment was 225,420 and 232,524 respectively.

As required by IAS 16, the Group reassessed the useful lives of its property, plant and equipment. The Group determined that certain asset categories generally had longer useful lives than was being used for depreciation purposes. The standard requires the useful life of an asset to be estimated on a realistic basis and reviewed at least at the end of each financial year.

In 2017 as a result of Company's assessment no changes are required.

In 2016, management revised certain useful lives of cable and transmission devices from 4 years to 7 years, buildings and site services from 11 years to 26 years and other equipment from 5 years to 7 years in accordance with IAS 8, effective 1 July 2016.

The change in estimate resulted in a decrease in the depreciation expense for 2016 is disclosed below:

	Depreciation expense decreasing as for 2016
Buildings and site services	121
Cable and transmission devices	2,637
Other	1,293
Total effect	**4,051**

In December 2017 and 2016 the Group sold to Telecom-5 buildings with the carrying value of 593 and 926 respectively, for details see Note 35.

Interest capitalization

Interest amounting to 1,696 and 2,762 was capitalized in property, plant and equipment for the years ended 31 December 2017 and 2016 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 8.88% and 9.72% for the years ended 31 December 2017 and 2016 respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 184 and 199 was pledged under the loan agreements entered into by the Group as at 31 December 2017 and 2016 respectively.

Impairment of property, plant and equipment

As of 31 December 2017 and 2016, decline in demand for fixed line telephony services led to decrease in fixed telephony revenue, indicating a potential impairment of property, plant and equipment of Rostelecom CGU. Consequently, as at 31 December 2017 and 2016 the Group performed impairment test of its property, plant, equipment.

The Group assessed the recoverable amount of the assets for which estimation on individual basis is impracticable within respective CGU. The Group defines CGUs as PJSC Rostelecom and legal entities or group of legal entities (in case of subsidiaries).

The recoverable amount of each CGU is determined by estimating its value in use. Value in use calculation uses cash-flow projections based on actual and budgeted financial information approved by management and discount rate which reflects time value of money and risks associated with each individual CGU. Key assumptions used by management for the reporting dates in the calculation of value in use are as follows:

» Discount rates are estimated in nominal terms as the weighted average adjusted for risk specifics to CGU cost of capital on pre tax basis. Nominal rates for discounting varies from 12.81% to 22.56% per CGU;

» OIBDA margin is based on historical actual results and varies from 6.70% to 64.49% per CGU;

» For CGU cash flow projections cover the period of five years, cash flows beyond five year period are extrapolated using growth rate of 2% for each CGU.

Future cash flows were adjusted using consistent assumptions about price increases attributable to general inflation.

For individual items of construction in progress for which the Group has no intention to complete and use or sell them the impairment loss 343 and 1,163 was recognised as at 31 December 2017 and 2016 respectively.

2017 impairment testing

As a result of impairment testing of property, plant and equipment the Group recognized an impairment loss of 4 related to Sputnik and 260 related to Tsentralny Telegraph.

2016 impairment testing

As a result of impairment testing no loss in respect of property, plant and equipment was recognised.

8. Goodwill and other intangible assets

The net book value of goodwill and other intangible assets as at 31 December 2017 and 2016 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2016	**27,518**	**728**	**694**	**45,000**	**15,611**	**1,170**	**5,530**	**96,251**
Additions	–	–	–	7,120	32	594	298	8,044
Intangible assets of acquired subsidiaries	977	105	61	18	77	–	–	1,238
Disposals	(175)	–	(9)	(662)	–	(445)	(3,360)	(4,651)
Reclassification from PPE	–	–	–	–	–	–	(53)	(53)
Reclassification	–	–	–	54	–	(32)	(22)	–
Foreign exchange	(102)	–		(17)	(6)	(13)	(4)	(142)
At 31 December 2016	**28,218**	**833**	**746**	**51,513**	**15,714**	**1,274**	**2,389**	**100,687**
At 1 January 2017	**28,218**	**833**	**746**	**51,513**	**15,714**	**1,274**	**2,389**	**100,687**
Additions	–	169	3	5,461	(10)	427	1,096	7,146
Intangible assets of acquired subsidiaries	246	–	–	–	55	–	–	301
Disposals	–	–	(2)	(903)	(28)	(495)	(247)	(1,675)
Reclassification	–	(105)	–	(7)	124	(45)	33	–
Foreign exchange	(25)	–	–	(3)	(1)	(2)	(1)	(32)
At 31 December 2017	**28,439**	**897**	**747**	**56,061**	**15,854**	**1,159**	**3,270**	**106,427**
Accumulated amortisation and impairment losses								
At 1 January 2016	**(3,215)**	**(23)**	**(670)**	**(21,865)**	**(5,558)**	**(423)**	**(3,742)**	**(35,496)**
Amortisation expense	–	–	(8)	(6,446)	(358)	(582)	(331)	(7,725)
Disposals	–	–	9	485	–	440	3,360	4,294
Impairment losses	(364)	–	–	(55)	–	–	(217)	(636)
Reversal of impairment losses	–	–	–	72	–	–	–	72
Reclassification	–	–	–	(13)	–	13	–	–
Foreign exchange	–	–	–	4	2	6	1	13
At 31 December 2016	**(3,579)**	**(23)**	**(669)**	**(27,818)**	**(5,914)**	**(546)**	**(929)**	**(39,478)**
At 1 January 2017	**(3,579)**	**(23)**	**(669)**	**(27,818)**	**(5,914)**	**(546)**	**(929)**	**(39,478)**
Amortisation expense	–	(1)	(11)	(6,523)	(759)	(504)	(315)	(8,113)
Disposals	–	–	2	898	28	493	222	1,643
Impairment losses	(199)	–	–	(547)	–	(8)	–	(754)
Reversal of impairment losses	–	–	–	93	–	–	–	93

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Reclassification	–	–	–	(1)	(8)	9	–	–
Foreign exchange	–	–	–	1	–	1	–	2
At 31 December 2017	**(3,778)**	**(24)**	**(678)**	**(33,897)**	**(6,653)**	**(555)**	**(1,022)**	**(46,607)**
Net book value								
At 31 December 2016	**24,639**	**810**	**77**	**23,695**	**9,800**	**728**	**1,460**	**61,209**
At 31 December 2017	**24,661**	**873**	**69**	**22,164**	**9,201**	**604**	**2,248**	**59,820**

Interest amounting to 345 and 273 was capitalized in intangible assets for the years ended 31 December 2017 and 2016 respectively.

Intangible assets with indefinite useful lives and goodwill

The owned number capacities with a carrying amount of 849 (2016: 705) are intangible assets with indefinite useful lives and are not amortised. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

No research and development expenditure was recognized in 2017 and 2016.

At each reporting date the Group performs impairment testing of goodwill allocated to CGUs that were acquired upon business combinations.

The Group determines the following reportable operating segments: PJSC Rostelecom and other operations which presented by subsidiaries of the Group. In identifying the cash-generating units, the Group proceeded from the requirement of IAS 36 in 2016, under which cash-generating units to goodwill is allocated. Cash generating units cannot be larger than the operating segments in accordance with IFRS 8. As a result of the regional branches were integrated into one CGU of PJSC "Rostelecom" in 2017. Changes of the segmented disclosure, see Note 30.

Carrying amounts of goodwill and intangible assets with indefinite useful lives are presented in the table below:

	31 December 2017		31 December 2016	
CGU	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
PJSC Rostelecom	19,470	420	19,470	240
Macomnet	646	50	646	50
Globus Telecom	–	359	–	359
GNC Alfa	479	–	504	–
RTComm.RU	606	–	606	–
Severen telecom	432	1	432	–
SafeData Group	885	–	885	–
Global-Tel	442	–	442	–
FreshTel Group	178	–	178	–
IQ'Men	316	–	316	–
Aist	750	–	750	–
Morton Group	99	–	103	–
Twingo Telecom	246	–	–	–
Other	112	19	307	56
Total	**24,661**	**849**	**24,639**	**705**

Key assumptions used by management in impairment testing are as follows:

- discount rates are estimated in nominal terms as the weighted average adjusted for risk specifics to CGU cost of capital on pre tax basis is 14.19%;
- OIBDA margin is based on historical actual results and varies from 6.70% to 64.49% per CGU;
- cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2%.

Future cash flows were adjusted using consistent assumptions about price increases attributable to general inflation.

2017 impairment testing
As a result of impairment testing Group recognized an impairment loss of goodwill in the amount of 199 related to Other CGU.

2016 impairment testing
As a result of impairment testing of goodwill the Group recognized an impairment loss of 364 related to FreshTel Group.

Impairment loss was recognized in the line Depreciation, amortisation and impairment losses in the statement of profit or loss and other comprehensive income.

Discount rate and operating income before amortisation and depreciation (OIBDA) margin are the key assumptions to which calculations of value in use of CGUs with goodwill and indefinite useful life intangible assets allocated to are the most sensitive. Management approach to OIBDA projection is based on historical actual results and growth rate forecasts.

The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2017:

CGU	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount
RTKomm Group	5%	(1,886)	0.38%
Rostelecom Roznichnye sistemy	5%	(514)	2.10%
FreshTel Group	5%	(447)	0.11%
MTs NTT	5%	(261)	1.72%
Globus Telecom	5%	(237)	1.76%
Restrim	5%	(157)	3.40%

The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2016:

CGU	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount
MTs NTT	5%	(130)	4.35%
Tsentralny Telegraph	5%	(1,046)	0.36%
RTKomm Group	5%	(1,589)	1.37%
OK Orbita	5%	(61)	2.62%
GNC-Alfa	5%	(370)	0.48%

For CGUs listed below following possible change in discount rate would result in impairment:

CGU	Decrease of discounts rates	Impairment loss
RTKomm Group	1%	(56)
Freshtel Group	1%	(167)

Impairment testing of other intangible assets

At each reporting date the Group performs impairment testing of intangible assets not yet available for use and intangible assets with indefinite useful lives.

For individual items of intangible assets for which the Group has no intention to complete and use or sell them the impairment loss 134 and 0 was recognised as at 31 December 2017 and 2016 respectively.

2017 impairment testing
As at 31 December 2017 the Group recognized impairment loss in the amount 421 in respect of intangible assets.

2016 impairment testing
As at 31 December 2016 the Group recognized impairment loss 272 in respect of other intangible assets

9. Subsidiaries

These consolidated financial statements include the assets, liabilities and results of operations of the following significant subsidiaries:

		Effective share of the Group as at 31 December	
Subsidiary	Main activity	2017	2016
SC MTs NTT	Communication services	100%	100%
CJSC Westelcom	Leasing of equipment	100%	100%
CJSC Zebra Telecom	Communication services	100%	100%
OJSC RTComm.RU	Communication services (internet)	100%	100%
SC RTComm-Sibir	Communication services (internet)	100%	100%
LLC RTComm-Ug	Communication services (internet)	100%	100%
CJSC Globus-Telecom	Communication services	94.92%	94.92%
CJSC Makomnet	Communication services	51%	51%
LLC Televisionnaya kompaniya Novy Vybor	Radio and TV	–**	100%
SC TKT-stroy	R&D services	100%	100%
LLC Mobitel	Investment company	100%	100%
SC RT Labs	Communication services	100%	100%
CJSC AMT	Investment company	100%	100%
LLC Intmashservis	Repair services	100%	100%
SC Regionalnie informatsionnie seti	R&D services	100%	100%
CJSC NTC Komset	R&D services	–**	55.45%
LLC Set Stolitsa	Maintenance services	100%	100%
SC Services Projects Technologies (former CJSC Sankt Peterburgskie taksofoni)	Communication services	100%	100%
SC Severen-Telecom	Communication services	100%	100%
CJSC GNC Alfa	Communication services	74.98%	74.98%
PJSC Tsentralny Telegraph	Communication services (telegraph)	60.03%	60.03%
PJSC Giprosvyaz	Engineering design	63.37%	63.37%
PJSC Bashinformsvyaz	Communication services	96.33%	96.33%
LLC Bashtelecomleasing	Leasing	96.33%	96.33%
LLC Bashlelecominvest	Investment company	96.33%	96.33%
OJSC Sotovaya svyaz Bashkortostana	Communication services (mobile)	–***	96.33%
OJSC Ufimsky zavod promsvyaz	Communication equipment manufacturing	96.27%	96.27%
SC MMTS-9	Communication services	88.29%	88.29%
SC OK Orbita	Recreational services	100%	100%
SC RPK Svyazist	Recreational services	100%	100%
Rostelecom International Limited	Communication services	100%	100%
LLC Sputnik	IT consulting	74.99%	74.99%
JSC Restrim	IT consulting	100%	100%
CJSC Incom	Communication services	–***	100%
LLC Rostelecom Roznichnye sistemy	Retail services	100%	100%
LLC Rostelecom Integraciya	IT consulting	100%	100%
LLC Data Storage Centre	Data storage services	100%	50.1%
LLC RTK-DC	Data storage services	100%*	50.1%*
LLC Center Technology Virtualization	Data storage services	66.44%*	33.29%*
LLC Interaction Network Center	Data storage services	100%*	50.1%*

		Effective share of the Group as at 31 December	
Subsidiary	Main activity	2017	2016
SC Interaction Computer Network Center "MCK-IX"	Data storage services	51%*	25.55%*
LLC Advanced Network Technology	Data storage services	50.10%*	25.10%*
LLC Tioniks	Data storage services	75%*	37.58%*
SC Vostoktelecom	Communication services	100%	100%
CJSC Globaltel (Note 6)	Communication services	100%	100%
LLC Search Website Sputnik	IT consulting	100%	100%
LLC Interproekt	Communication services	100%	100%
LLC Orion	Communication services	100%	100%
LLC Progress	Communication services	100%	100%
LLC Stolitsa	Communication services	100%	100%
LLC BUM SP	Investment company	80%	80%
LLC BUM TV	Telecommunication services	80%	80%
LLC Magalyascom	Communication services	100%	100%
IQmen – Business Intelligence	Data services	75%	75%
LLC KommIT Capital	Communication services	100%	100%
JSC AIST (Note 6)	Communication services	96.33%	96.33%
LLC Morton-Telecom (Note 6)	Communication services	96.33%	96.33%
LLC Morton-Telecom-Zapad (Note 6)	Communication services	96.33%	96.33%
LLC NTK (Note 6)	Communication services	96.33%	96.33%
LLC National Data Centers (Note 6)	Data storage services	100%	75%
JSC Non-state Pension Fund Alliance (Note 6)	Pension Fund	51%	51%
LLC RADO	Maintenance services	90%	90%
LLC RusGIS Technologii	IT consulting	51%	51%
LLC Sibitex (Note 6)	Communication services	96.33%	96.33%
Soyuz operatorov svyazi "Centr issledovaniya communicaciy"	Consulting services in Telecommunication sector	100%	100%
LLC Tvingo Telecom (Note 6)	Communication services	96.33%	–

** This is effective share of the Group. The Company consolidates this entities through its subsidiary LLC Data Storage Centre. During 2017 the Group acquired an additional 49.9% shares in LLC Data Storage Centre increasing its stake up to 100%.*

*** The Group lost control under these subsidiaries during 2017.*

**** OJSC Sotovaya svyaz Bashkortostana was sold in July 2017 for cash consideration 293 (including deffered payment 80). Net assets of the subsidiary at the date of disposal were 78. CJSC Incom was sold in June 2017 for cash consideration 140. Net assets of the subsidiary at the date of disposal were 30.*

All the above entities have the same reporting date as the Company.

All significant subsidiaries, except for Rostelecom International Limited and GNC Alfa, are incorporated in Russia. Rostelecom International Limited is incorporated in Cyprus, GNC Alfa is incorporated in Armenia.

Acquisition of non-controlling interest

During 2017 the Group acquired an additional 49.9% shares in LLC Data Storage Centre increasing its stake up to 100%. Cash consideration of 2,255 was paid to the non-controlling shareholders. Following is a schedule of additional interest acquired in LLC Data Storage Centre.

Cash consideration paid to non-controlling shareholders	2,255
Carrying value of the additional interest	(995)
Difference recognised in retained earnings	**1,260**

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised statements of financial position

	PJSC Tsentralny Telegraph	
	As at 31 December 2017	As at 31 December 2016
Current assets	345	397
Current liabilities	(563)	(876)
Total current net assets/(liabilities)	**(218)**	**(479)**
Non-current assets	2,300	2,860
Non-current liabilities	(198)	(248)
Total non-current net assets	**2,102**	**2,612**
Net assets	**1,884**	**2,133**
NCI	**733**	**826**

	CJSC Makomnet	
	As at 31 December 2017	As at 31 December 2016
Current assets	579	543
Current liabilities	(356)	(156)
Total current net assets/(liabilities)	**223**	**387**
Non-current assets	1,681	1,300
Non-current liabilities	(434)	(200)
Total non-current net assets	**1,247**	**1,100**
Net assets	**1,470**	**1,487**
NCI	**709**	**718**

Summarised statements of profit or loss and other comprehensive income

ПАО «Центральный телеграф»		
	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	2,747	3,009
Profit before income tax	(303)	84
Income tax	62	(42)
Total comprehensive income	**(241)**	**42**
Total comprehensive income allocated to non-controlling interests	(96)	17
Dividends paid to non-controlling interests	1	1

CJSC Makomnet		
	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	1,396	1,248
Profit before income tax	297	237
Income tax	(63)	(47)
Total comprehensive income	**234**	**190**
Total comprehensive income allocated to non-controlling interests	115	93
Dividends paid to non-controlling interests	124	134

	PJSC Tsentralny Telegraph	CJSC Makomnet
	For the year ended 31 December 2017	
Cash generated from operations	404	479
Income tax paid	(8)	(68)
Net cash generated from operating activities	**396**	**411**
Net cash used in investing activities	**(145)**	**(79)**
Net cash used in financing activities	**(268)**	**(299)**
Net increase/(decrease) in cash and cash equivalents	**(17)**	**34**
Cash and cash equivalents at beginning of year	19	170
Cash and cash equivalents at end of year	**2**	**204**

10. Investments in associates and joint ventures

Investments in associates and joint ventures as at 31 December 2017 and 2016 were as follows:

Name	Main activity	Type	Voting share capital as at 31 December 2017, %	Voting share capital as at 31 December 2016, %	2017 Carrying amount	2016 Carrying amount
LLC T2 RTK Holding	Communication services	JV	45	45	59,755	62,265
SC Tsifrovoe televidenie	TV services	JV	41.29	41.29	3,384	3,353
OJSC KGTS	Communication services	Associate	37.29	37.29	379	392
LLC Telecom-5	Rental services	JV	50	50	735	439
LLC Bum	TV services	JV	60	60	217	413
Other	Various		Various	Various	1,409	1,490
Total investments in associates and joint ventures					**65,879**	**68,352**

On 28 December 2016 the Group lost control over Telecom-5 and since that date accounts for Telecom-5 as an investment in joint venture, for details see Note 35.

In November 2015 the Group acquired additional issue of JV SC Tsifrovoe televidenie shares for the cash consideration of 2,000. As a result the Group share in SC Tsifrovoe Televidenie increased from 25.33% to 41.29%. The determination of fair values of identifiable assets and liabilities of SC Tsifrovoe Televidenie has been completed as of 31 December 2016.

In 2017 the Group received dividends from its investments in equity accounted investees and joint ventures in the amount of 5 (2016: 19).

All associated companies and joint ventures are incorporated in Russia.

There are no contingent liabilities relating to the Group's interest in the associates and the joint ventures.

Summarized financial information as at 31 December 2017 and 2016 and for the years then ended of associates and joint ventures is presented below:

Aggregate amounts	2017	2016
Assets	221,940	224,616
Liabilities	170,340	171,686
Revenue	128,158	109,638
Net income	(5,722)	(15,990)

Summarized financial information for significant associates and joint ventures as at 31 December 2017 and 2016 and for the years then ended is presented below:

Associate/JV	Year	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net income/ (loss)
OJSC KGTS	2017						
	2016	996	188	71	96	519	(27)
T2 RTK Holding LLC	2017	1,019	178	75	70	714	93
	2016	193,666	9,842	106,676	58,962	123,025	(5,515)
OJSC Tsifrovoe televidenie	2017	200,669	10,162	123,354	44,028	105,873	(15,597)
	2016	2,360	2,414	104	578	2,963	74
LLC Telecom-5	2017	2,082	2,931	199	797	2,497	(67)
		8,783	963	–	957	519	163
		4,049	648	–	699	–	–

Reconciliation of the summarised financial information presented to the carrying amount of the interest in associates and joint ventures:

Summarised financial information	LLC T2 RTK Holding	SC Tsifrovoe televidenie	OJSC KGTS	LLC Telecom-5
Net assets at 31 December 2017	**37,870**	**4,092**	**1,017**	**8,789**
Group interest, %	45.00	41.29	37.29	50
Goodwill	42,714	1,694	–	–
Unrealised gain	–	–	–	3,659
Carrying value at 31 December 2017	**59,755**	**3,384**	**379**	**735**

Investment in T2 RTK Holding LLC

	2017	2016
At 1 January	**62,265**	**69,320**
Share of loss	(2,510)	(7,055)
At 31 December	**59,755**	**62,265**

Investment in T2 RTK Holding LLC was recognised as a result of the deal with the mobile operator Tele 2 Russia. There is no quoted market price available for its shares.

Summarised financial information for T2 RTK Holding LLC

Set out below is the summarised financial information for T2 RTK Holding LLC which is accounted for using the equity method.

Summarised statement of financial position

	31 December 2017	31 December 2016
Current		
Cash and cash equivalents	1,117	952
Other current assets (excluding cash)	8,725	9,287
Total current assets	**9,842**	**10,239**
Financial liabilities (excluding trade payables)	34,329	22,251
Other current liabilities (including trade payables)	24,633	21,778
Total current liabilities	**58,962**	**44,029**
Non-current		
Assets	**193,666**	**200,592**
Financial liabilities	101,498	118,004
Other liabilities	5,178	5,350
Total non-current liabilities	**106,676**	**123,354**
Net assets	**37,870**	**43,448**

Summarised statement of profit or loss and other comprehensive income

	2017	2016
Revenue	123,025	105,873
Depreciation and amortisation	(23,218)	(21,531)
Interest income	74	70
Interest expense	(14,577)	(13,801)
Pre-tax profit or loss from continuing operations	**(7,197)**	**(18,674)**
Income tax expense	1,682	3,077
Post-tax profit from continuing operations	**(5,515)**	**(15,597)**
Other changes in net assets	(63)	37
Total changes in net assets	**(5,578)**	**(15,560)**

Reconciliation of summarised financial information to the carrying value of the investment

Summarised financial information	2017	2016
Opening net assets	**43,448**	**59,124**
Profit/(loss) for the period	(5,515)	(15,713)
Other changes in net assets	(63)	37
Closing net assets	**37,870**	**43,448**
Interest 45%	17,041	19,551
Goodwill	42,714	42,714
Carrying value	**59,755**	**62,265**

11. Other financial assets

	31 December 2017	31 December 2016
Non-current financial assets		
Available-for-sale financial assets	353	263
Loans and receivables	1,247	534
Total other non-current financial assets	**1,600**	**797**
Current financial assets		
Loans and receivables	1,218	3,558
Financial assets at fair value through profit or loss	4,745	1,809
Total other current financial assets	**5,963**	**5,367**
Total other financial assets	**7,563**	**6,164**

The Group's exposure to credit, currency and interest rate risks and fair value information related to other financial assets is disclosed in Note 33.

12. Other non-current assets

	31 December 2017	31 December 2016
Non-current advances for investing activities	2,989	3,754
Non-current advances for operating activities	1,571	1,450
Other assets	40	8
Less: allowance for impairment	(248)	(267)
Total other non-current assets	**4,352**	**4,945**

13. Inventories

	31 December 2017	31 December 2016
Finished goods and goods for resale	3,954	4,262
Cable	409	360
Spare parts	369	294
Tools and accessories	81	84
Construction materials	37	53
Fuel	101	110
Other inventory	1,218	1,281
Total inventories	**6,169**	**6,444**

14. Trade and other accounts receivable

Trade and other accounts receivable included in non-current assets as at 31 December 2017 and 2016 comprised of the following:

	31 December 2017	31 December 2016
Non-current amounts due from customers for operating and non operating activities	6,776	4,499
Non-current amounts due from lessees for financial lease	1,346	1,947
Non-current amounts due from sales of property, plant and equipment	216	594
Non-current amounts due from other debtors	14	13
Total non-current trade and other accounts receivable	**8,352**	**7,053**

Trade and other accounts receivable included in current assets as at 31 December 2017 and 2016 comprised of the following:

	Gross, 31 December 2017	Doubtful debt allowance	Net, 31 December 2017
Amounts due from customers for operating and non-operating activities	**53,616**	**(9,283)**	**44,333**
Amounts due from commissioners and agents	1,367	(330)	1,037
Amounts due from personnel	173	–	173
Amounts due from lessees for financial lease	347	–	347
Amounts due from other debtors	2,470	(547)	1,923
Total trade and other accounts receivable	**57,973**	**(10,160)**	**47,813**

	Gross, 31 December 2016	Doubtful debt allowance	Net, 31 December 2016
Amounts due from customers for operating and non-operating activities	**51,228**	**(7,701)**	**43,527**
Amounts due from commissioners and agents	1,188	(320)	868
Amounts due from personnel	166	–	166
Amounts due from lessees for financial lease	373	–	373
Amounts due from other debtors	1,490	(540)	950
Total trade and other accounts receivable	54,445	(8,561)	45,884

Based on historic default rates and collection statistics, management believes that trade and other receivables are adequately provided.

The following table summarizes the changes in the allowance for doubtful accounts receivable, advances and other assets for the years ended 31 December 2017 and 2016:

	Individually impaired	Collectively impaired	Total
At 1 January 2016	**(1,000)**	**(6,360)**	**(7,360)**
Bad debt expense	(510)	(2,265)	(2,775)
Accounts receivable written-off	60	1,141	1,201
At 31 December 2016	**(1,450)**	**(7,484)**	**(8,934)**

	Individually impaired	Collectively impaired	Total
Bad debt expense	(1,548)	(1,228)	(2,776)
Accounts receivable written-off	52	1,083	1,135
At 31 December 2017	**(2,946)**	**(7,629)**	**(10,575)**

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			30	30-60	61-90	91-120	>120
2017	**47,293**	37,538	2,357	1,243	749	1,301	4,105
2016	**45,346**	37,543	2,404	992	722	386	3,299

As at 31 December 2017 and 2016 amounts due from other debtors include short-term portion of finance lease receivables of 347 and 373 respectively. Long-term portion of finance lease receivables of 1,346 and 1,947 as at 31 December 2017 and 2016 respectively is included into non-current receivables.

The finance lease receivables originated as a result of transfer to companies of the group T2 RTK Holding terrestrial optical fiber cables under finance lease in April 2014. The lease agreement is non-cancellable for the period from 5 years till 18 years, which differs in each macroregional branches. Leasing period equals approximately the remaining useful life of the optical fibers. Effective interest rate of the lease is 13% p.a. Lease payments are denominated in roubles.

Finance income for the years ended 31 December 2017 and 2016 amounted to 278 and 353 respectively, and is included in other investing and financial gain in these consolidated statements of comprehensive income (Note 29).

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2017 and 2016 are as follows:

	31 December 2017	
	Gross investments in lease	Present value of minimum lease payments
Current portion (less than 1 year)	677	372
More than 1 to 5 years	2,041	1,317
Over 5 years	929	630
Total	**3,647**	**2,319**

	31 December 2016	
	Gross investments in lease	Present value of minimum lease payments
Current portion (less than 1 year)	677	372
More than 1 to 5 years	2,041	1,317
Over 5 years	929	630
Total	**3,647**	**2,319**

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2017 and 2016 included cash in banks, cash in hand, short-term deposits, bills of exchange with original maturities of less than three months and cash in the accounts of the Federal Treasury as follows:

	31 December 2017	31 December 2016
Cash in bank and in-hand	1,196	2,394
Cash in the accounts of the Federal Treasury	1,822	–
Short-term deposits and promissory notes up to 3 months	711	1,732
Other cash and cash equivalents	86	131
Total cash and cash equivalents	**3,815**	**4,257**

16. Other current assets

	31 December 2017	31 December 2016
Input VAT	2,644	2,146
Other current assets	93	68
Less: doubtful debt allowance	(118)	(63)
Total other current assets	**2,619**	**2,151**

17. Equity

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through 31 December 2002. The share capital of the Company in the Russian statutory accounts at 31 December 2017 amounted to 6,961,200 nominal (uninflated) RUB (2016: 6,961,200).

The authorized share capital of the Company as at 31 December 2017 comprised 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares (2016: 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares). The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

As at 31 December 2017 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary shares, RUB 0.0025 par value	2,574,914,954	6.437	69
Preferred shares, RUB 0.0025 par value	209,565,147	0.524	24
Total	**2,784,480,101**	**6.961**	**93**

As at 31 December 2016 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary shares, RUB 0.0025 par value	2,574,914,954	6.437	69
Preferred shares, RUB 0.0025 par value	209,565,147	0.524	24
Total	**2,784,480,101**	**6.961**	**93**

Ordinary shares carry voting rights with no guarantee of dividends. Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization, changes to dividend levels of preferred shares, or the issuance of additional preferred shares. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders' general meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

In case of liquidation, the residual assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Accordingly, the preferred shares of the Company are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 32).

Treasury shares

As at 31 December 2017 and 2016 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2017	31 December 2016
Ordinary shares	470,990,049	474,517,308
Preferred shares	64,519,345	64,519,345
Total	**535,509,394**	**539,036,653**

В 2017 и 2016 годах общее количество обыкновенных акций, реализованных в рамках исполнения опциона по программе мотивации руководства, составило 18 322 439 и 12 855 030 акций соответственно.

В течение 2017 и 2016 годов Группа приобрела 14 800 000 и 3 844 020 обыкновенных акций за 981 и 314 соответственно. В течение 2017 и 2016 годов Группа продала 4 820 и 1 858 082 собственных обыкновенных акций за 1 и 224 соответственно.

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.

On 4 December 2015 the Board of Directors approved a new dividend policy of the Company according to which the Company pays dividends as a percentage of Free Cash Flow (hereinafter FCF, net cash from operating activities, reduced by the cash paid for acquisition of fixed assets and intangible assets, and increased by the proceeds from the sale of fixed assets and intangible assets). The payable dividend amount shall not be less than the level recommended by Rosimuschestvo for companies with state ownership interest.

In June 2017 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2016 in the amount of 5.387002045593 roubles per ordinary share (2015: 5.915466946266 roubles per ordinary share) and 5.387002045593 roubles per preference share (2015: 5.915466946266 roubles per preference share).

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2016 (paid in 2017)			
Preference shares	209,565,147	5.387002045593	1,129
Ordinary shares	2,574,914,954	5.387002045593	13,871
Total	**2,784,480,101**		**15,000**

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2015 (paid in 2016)			
Preference shares	209,565,147	5.915466946266	1,240
Ordinary shares	2,574,914,954	5.915466946266	15,232
Total	**2,784,480,101**		**16,472**

The difference between the dividends declared and the dividends presented in the consolidated statement of changes in equity is for the account of dividends on treasury shares held by the subsidiaries of the Company.

18. Borrowings

Borrowings as at 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
Long-term borrowings		
Non-current portion of long-term borrowings		
Bank and corporate loans	129,920	98,007
Bonds	35,863	26,209
Promissory notes	9	9
Vendor financing	26	36
Finance lease liabilities	842	249
Total non-current portion of long-term borrowings	**166,660**	**124,510**
Current portion of long-term borrowings		
Bank and corporate loans	10,202	39,538
Bonds	12,231	22,770
Vendor financing	12	14
Finance lease liabilities	374	127
Restructured customer payments	86	93
Total current portion of long-term borrowings	**22,905**	**62,542**
Total long-term borrowings	**189,565**	**187,052**
Short-term borrowings		
Bank and corporate loans	1,774	17
Finance lease liabilities	33	36
Total short-term borrowings	**1,807**	**53**
Current portion of long-term borrowings	22,905	62,542
Total current borrowings	**24,712**	**62,595**
Total borrowings	**191,372**	**187,105**

Management believes that the fair value of its financial assets and liabilities at 31 December 2017 and 2016 approximates their carrying amounts except for the following borrowings:

	31 December 2017		
	Fair value	Book value	Difference
Traded bonds	48,951	47,072	1,879
Bank loans	118,773	121,970	(3,197)
Total	**167,724**	**169,042**	**(1,318)**

	31 December 2016		
	Fair value	Book value	Difference
Traded bonds	42,948	42,714	234
Bank loans	109,016	112,548	(3,532)
Total	**151,964**	**155,262**	**(3,298)**

The fair value of the Group's quoted rouble bonds was determined based on Moscow Exchange quotes. The fair value of the Group's non-quoted bank loans was determined based on Central Bank's interest rate statistics. The fair value of the Group's bank loans and non-traded bonds was determined using rates currently available for debts on similar terms, credit risk and remaining maturities.

Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Foreign exchange movement	Acquisition from new subsidiaries	New leases	Other	31 December 2017
Bank and corporate loans	137,562	2,754	(26)	49	–	1,550	141,889
Bonds	48,978	(642)	–	–	–	(243)	48,093
Promissory notes	9	–	–	–	–	–	9
Vendor financing	50	(9)	–	6	–	(2)	45
Finance lease liabilities	412	(118)	–	–	1,407	(452)	1,249
Dividends payable	302	(12,385)	–	–	–	12,437	354
Non-hedge derivative	3,726	(4,896)	–	–	–	1,170	–
Other	94	(7)	–	–	–	–	87
Total liabilities from financing activities	**191,133**	**(15,303)**	**(26)**	**55**	**1,407**	**14,460**	**191,726**

19. Accounts payable, provisions and accrued expenses

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Payables for purchases and construction of property, plant and equipment	15,176	17,612
Payable to personnel	11,270	10,082
Payable for operating activities	14,886	11,760*
Other taxes payable	8,662	7,385
Payable to interconnected operators	1,801	2,846
Payable for purchases of software	1,386	2,500
Dividends payable	354	302
Current provisions	1,385	1,648
Other accounts payable	5,746	9,937*
Current accounts payable, provisions and accrued expenses	**60,666**	**64,072**
Financial liabilities at fair value through profit and loss		
Non-current payables	313	14
Non-current provisions	1,920	1,081
Non-current accounts payable, provisions and accrued expenses	**2,233**	**1,095**
Total accounts payable, provisions and accrued expenses	**62,899**	**65,167**

** Incudes reclassification between Payable for operating activities and Other accounts payable. These is no impact on the statement of financial position.*

Non-current provisions includes the obligations of Non-state Pension Fund Alliance (Note 6) under the pension plans:

	31 December 2017	31 December 2016
The non-state obligations under the contracts of mandatory pension insurance	497	118
The obligations under the contracts of non-state pension provision, classified as an investment, with a discretionary participation feature benefits	1,401	942
The obligations under the contracts of non-state pension provision, classified as an insurance, with a discretionary participation feature benefits	17	11
Total non-current provisions	**1,915**	**1,071**

20. Other non-current and current liabilities

Other non-current liabilities consisted of the following as at 31 December 2017, 2016:

	31 December 2017	31 December 2016
Advances received	5,006	5,240
Government grants	814	61
Deferred revenue	563	701
Total other non-current liabilities	**6,383**	**6,002**

Other current liabilities consisted of the following as at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Advances received from operating activities	6,644	5,800
Deferred revenue	371	384
Advances received from non-operating activities	1,110	602
Advances received from various debtors	349	381
Advances received for disposed PPE	154	71
Advances received for disposal of other assets	7	9
Total other current liabilities	**8,635**	**7,247**

The Group implements underwater and land faberoptic cabel links to connect Yuzhno-Sakhalinsk (Sakhalin Island) – Kurilsk (Iturup Island) – Yuzhno-Kurilsk (Kunashir Island) – Krabozavodskoye (Shikotan Island) within the frameworkof a social economic development project by Kuril Island government. The Group received government grant at the amount of 772 in 2017 and expect to receive 2,213 during 2018 to 2019.The grant use to purchase and install equipment in order to increase communication channel capacity between Sakhalin, Iturup and Kunashir Islands. The Group expect to complete the project in 2019.

21. Employee benefits

According to staff agreements, the Group contributes to pension plans and also provides additional benefits for its active and retired employees.

As at December 2017 the employee benefits liability includes the defined contribution plans (DCP) liability of 2,020 and defined benefit plan (DBP) liability of 2,713. (2016: 645 and 4,572).

On 23 June 2016 the Group acquired control over Non-state Pension Fund Alliance (Note 6). The Group restructured its DBP obligations into DCP obligations in the Fund.

Defined contribution plans

The non-state pension fund Alliance maintain the defined contribution plan of Group in 2016-2017. In 2017 the Group expensed 594 (2016: 24) in relation to defined contribution plans and 717 (2016: 645) in relation to the rectructuring of its DBP obligations into DCP obligations.

Defined benefit plans and other long-term employee benefits

To become eligible for benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men and fulfill certain minimum seniority requirements.

As at 31 December 2017, the Group employed 111,713 participants of defined benefit plan (2016: 126,980) and supported 34,402 pensioners eligible for post-employment benefits (2016: 37,674).

As at 31 December 2017 and 2016 net defined benefit plan liability comprised the following:

	2017	2016
Present value of obligations on defined benefit plans	2,721	4,580
Fair value of plan assets	(8)	(8)
Present value of unfunded obligations	**2,713**	**4,572**

Net expenses/gains for the defined benefit plan recognized in 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
Current service cost	85	99
Interest cost	324	476
Expected return on plan assets	(1)	(1)
Past service cost	(1,618)	(1,313)
Net (income)/expense for the defined benefit plan	**(1,210)**	**(739)**

Net income/expense for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated statement of comprehensive income in the line "Wages, salaries, other benefits and payroll taxes". Return on plan assets and interest cost are recognized respectively in "Other investing and finance gain" and "Finance costs" line items of these consolidated statements of comprehensive income.

Past service cost in the table above is a result of transfer of part of DBP obligations into DCP obligations.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2017 and 2016:

	2017	2016
Present value of defined benefit obligations as at 1 January	**4,580**	**5,028**
Interest cost	324	476
Current service cost	85	99
Past service cost	(1,618)	(1,313)
Benefits paid	(105)	(89)
Remeasurement (gains)/losses in OCI:	(545)	379
- actuarial gains and losses arising from changes in demographic assumptions	–	229
- actuarial gains and losses arising from changes in financial assumptions	49	238
- experience adjustments	(594)	(88)
Present value of defined benefit obligations as at 31 December	**2,721**	**4,580**

The following table summarizes movements in the fair value of defined benefit plan assets in 2017 and 2016:

	2017	2016
Fair value of plan assets as at 1 January	**8**	**7**
Expected return on plan assets	1	1
Actuarial losses	(1)	–
Benefits paid	(105)	(89)
Contributions by the employer	105	89
Fair value of plan assets as at 31 December	**8**	**8**

As at 31 December 2017 and 2016 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2017	2016
Discount rate	7.60%	8.50%
Future salary increases	6.60%	7.12%
Annuity rate	4.00%	4.00%
Increase in financial support benefits	4.40%	5.00%
Staff turnover	5% for aged 50 and below; 0% for aged above 50	5% for aged 50 and below; 0% for aged above 50
Mortality tables (source of information)	1985/86 moved for 3 years for females	1985/86 moved for 3 years for females

The sensitivity analyses below are based on a change in a significant assumption, keeping all other assumptions constant.

DBO sensitivity analyses	Change, %
Discount rate -1%	10%
Real wages growth 3%	2%
Inflation +1%	7%
Mortality 10% less	5%
Disability 10% less	0%
Employee turnover 10% for all ages below 50	(6%)

The Group expects to contribute 274 to its non-state pension funds in 2018 in respect of defined benefit plans.

The following net pension liabilities were in consolidated statements of financial position in 2017 and 2016:

	2017	2016
Net defined benefit obligations as at 1 January	**4,572**	**5,021**
Total defined benefit plan expenses, net	(1,209)	(739)
Contributions by the employer	(105)	(89)
Remeasurement of pension liabilities	(545)	379
Net defined benefit obligations as at 31 December	**2,713**	**4,572**

Remeasurement of pension liabilities consists of:

	2017	2016
Actuarial (gains)/losses on liabilities	(546)	379
Actuarial losses on assets	1	–
Remeasurement of pension liabilities	**(545)**	**379**

22. Income taxes

The components of income tax expense for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Current income tax expense	**(5,494)**	**1,178**
Income tax for the year	(7,077)	(4,360)
Adjustments of the current income tax for previous years	1,583	5,538
Total current income tax for the year	**(5,494)**	**1,178**
Deferred tax expense	**638**	**(5,870)**
Origination and reversal of temporary differences	639	(5,879)
Changes in unused tax losses	(1)	9
Total deferred income tax	**638**	**(5,870)**
Total income tax expense for the year	(4,856)	(4,692)

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2017	2016
Profit before tax	**18,906**	**16,941**
Statutory income tax rate (20%)	20%	20%
Theoretical tax charge at statutory income tax rate	**(3,781)**	**(3,388)**
Non-deductible expenses and non-taxable income, net	115	(265)
Tax on intragroup dividend income	(305)	(383)
Effect of 13% dividend tax rate applied to investments in associates and JVs	(176)	(472)
Effect of sale property to Telecom-5	(423)	(412)
Changes in unrecognized deferred tax assets	(286)	228
Total actual income tax for the year	**(4,856)**	**(4,692)**
Effective tax rate, %	**25.68%**	**27.70%**

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2017 and 2016:

	2017	2016
Effect of other employee benefits	(131)	(153)
Non-hedge derivatives	(167)	(38)
Accrual of impairment loss	(40)	(73)
Accounts receivable	628	236
Other	(175)	(237)
Total non-deductible expenses and non-taxable income	**115**	**(265)**

Other non-deductible expenses and non-taxable income include income connected with depreciation of certain property, plant and equipment, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances.

The components of net deferred tax assets and liabilities as at 31 December 2017 and 2016, and the respective movements during 2017 and 2016 were as follows:

		Movement during 2017 recognized in					
	Balance as at 1 January 2017	Acquisition through business combinations	Equity	Other compre-hensive income	Profit/(loss) for the year	Disposal through business combinations	Balance as at 31 December 2017
Tax effects of future tax deductible items							
Property, plant and equipment	281	–	–	–	(13)	–	268
Intangible assets	32	–	–	–	13	–	45
Unused tax losses	8	–	–	–	–	(4)	4
Trade and other accounts receivable	208	–	–	–	(100)	–	108
Inventories	182	–	–	–	(194)	–	(12)
Investments in associates and JVs	570	–	–	–	186	–	756
Employee benefits	897	–	–	(109)	(459)	–	329
Accounts payable, provisions and accrued expenses	4,391	–	–	–	804	–	5,195
Other	278	–	–	–	167	–	445
Gross deferred tax asset	**6,847**	**–**	**–**	**(109)**	**404**	**(4)**	**7,138**
Tax effects of future taxable items							
Property, plant and equipment	(37,705)	–	–	–	(719)	–	(38,424)
Intangible assets	(3,027)	–	–	–	223	–	(2,804)
Investments in associates and JVs	(179)	–	–	–	71	–	(108)
Accounts payable, provisions and accrued expenses	(5)	–	–	–	(86)	–	(91)
Employee benefits	–	–	–	–	–	–	–
Trade and other accounts receivable	(959)	–	–	–	266	–	(693)
Inventories	–	–	–	–	(5)	–	(5)
Loans and borrowings	(396)	–	–	–	343	–	(53)
Other	(135)	–	–	–	141	–	6
Gross deferred tax liability	**(42,406)**	**–**	**–**	**–**	**234**	**–**	**(42,172)**
Net deferred tax liability	**(35,559)**	**–**	**–**	**(109)**	**638**	**(4)**	**(35,034)**

		Movement during 2016 recognized in					
	Balance as at 1 January 2017	Acquisition through business combinations	Equity	Other compre-hensive income	Profit/(loss) for the year	Disposal through business combinations	Balance as at 31 December 2017
Tax effects of future tax deductible items							
Property, plant and equipment	131	10	–	–	148	(8)	281
Intangible assets	35	–	–	–	(3)	–	32
Unused tax losses	14	–	–	–	(6)	–	8
Trade and other accounts receivable	53	–	–	–	155	–	208
Inventories	508	–	–	–	(326)	–	182
Investments in associates and JVs	1	–	–	–	569	–	570
Employee benefits	988	–	–	76	(167)	–	897
Accounts payable, provisions and accrued expenses	4,121	1	–	–	269	–	4,391
Other	185	7	–	–	86	–	278
Gross deferred tax asset	**6,036**	**18**	**–**	**76**	**725**	**(8)**	**6,847**
Tax effects of future taxable items							
Property, plant and equipment	(30,918)	(117)	–	–	(6,675)	5	(37,705)
Intangible assets	(2,801)	(49)	–	–	(177)	–	(3,027)
Investments in associates and JVs	(197)	–	–	–	18	–	(179)
Accounts payable, provisions and accrued expenses	(2)	–	–	–	(3)	–	(5)
Trade and other accounts receivable	(1,175)	–	–	–	216	–	(959)
Inventories	–	–	–	–	–	–	–
Loans and borrowings	(127)	–	–	–	(269)	–	(396)
Other	(427)	(2)	–	–	295	(1)	(135)
Gross deferred tax liability	**(35,647)**	**(168)**	**–**	**–**	**(6,595)**	**4**	**(42,406)**
Net deferred tax liability	**(29,611)**	**(150)**	**–**	**76**	**(5,870)**	**(4)**	**(35,559)**

	Consolidated statement of financial position	
	2017	2016
Deferred tax assets	647	606
Deferred tax liabilities	(35,681)	(36,165)
Deferred tax liabilities, net	**(35,034)**	**(35,559)**

Taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities were recognized in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 amounted to 10,102 and 7,094 respectively. Deductible temporary differences associated with investments in subsidiaries for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 amounted to 10,531 and 8,408 respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 amounted to 11,088 and 9,658, respectively.

Deductible temporary differences on prior year losses are available indefinitely for offsetting against future taxable profits of companies, but in the reporting period from 1 January 2017 to 31 December 2020, prior year losses made from 1 January 2007 onwards cannot reduce the tax base for income tax for the current reporting period calculated net of prior year losses more than 50 percent.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

The consolidated statement of comprehensive income for 2017 and 2016 includes tax expense in respect of following items of other comprehensive income:

	2017	2016
Actuarial gains and losses (Note 21)	(109)	76

23. Revenue

Revenue comprised the following for the years ended 31 December 2017 and 2016:

	2017	2016
Fixed Telephony**	78,445	87,813
Broadband Internet	70,869	66,771
TV services	27,348	23,599
Wholesale Services	77,800	79,010
VAS & Clouds	23,041	18,245
Other telecommunication services*	18,658	14,241
Other non-telecommunication services	9,168	7,767
Total revenue	**305,329**	**297,446**

** Revenue from other telecommunication services includes sales of customer-premices equipment 8,180 and 5,581 for the year ended 31 December 2017 and 31 December 2016 respectively.*

*** Incudes reclassification between other telecommunication services and fixed telephony. These is no impact on the statement of profit or loss and other comprehensive income.*

24. Wages, salaries, other benefits and payroll taxes

	2017	2016
Salary expenses	67,238	66,018
Share-based remuneration	2,016	1,186
Social taxes	19,287	18,987
(Income) loss from pension plans	(223)	(546)
Other personnel costs	5,063	4,695
Total wages, salaries, other benefits and payroll taxes	**93,381**	**90,340**

25. Materials, utilities, repairs and maintenance

	2017	2016
Utilities	11,127	11,007
Repairs and maintenance	8,667	8,109
Materials	6,132	5,801
Total materials, utilities, repairs and maintenance	**25,926**	**24,917**

26. Other operating income

	2017	2016
Reimbursement of losses incurred from universal services fund	11,456	10,401
Fines and penalties	990	493
Reimbursement of other losses incurred	129	134
Gain/(loss) on disposals of other assets	19	(10)
Other income	850	1,930
Total other operating income	**13,444**	**12,948**

27. Other operating expenses

	2017	2016
Rent	8,022	7,032
E-Government contract expenses	7,480	6,189
Cost of sales of customer-premices equipment	6,480	3,608
Taxes, other than income tax	4,661	5,079
Advertising expenses	4,388	3,934
Agency fees	4,387	4,844
Fire and other security services	2,993	3,033
Contributions to universal service fund	2,565	2,608
Transportation and postal services	2,083	2,092

	2017	2016
Support and maintenance of software and databases	2,005	1,830
Third party services and expenses related to administration	1,567	1,387
Billing expenses	1,543	1,530
Audit and consulting fees	927	747
Member fees, charity contribution, payments to labour units	697	660
Fines and penalties	240	236
Asset insurance	121	117
Other	4,600	4,406
Total other operating expenses	**54,759**	**49,332**

28. Finance costs

	2017	2016
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	16,847	16,516
Interest expense of defined benefit plans	324	476
Interest expense on finance lease liabilities	64	58
Borrowing servicing expense	115	125
Total finance costs	**17,350**	**17,175**

29. Other investing and financial gain/(loss), net

	2017	2016
Interest income from finance assets	1,611	1,354
Dividend income	23	14
Expenses related to subsidiaries' acquisition	(4)	(14)
Gain/loss on disposal of subsidiaries	325	(129)
Loss/gain on disposal of other financial assets	(7)	15
Loss on change of fair value of financial assets/liabilities through profit and loss	(835)	(175)
Impairment of financial assets	–	(61)
Other loss/gains	(172)	57
Total other investing and financial gain/(loss), net	**941**	**1,061**

30. Segment information

The Management Board of Rostelecom has been determined as the Group's Chief Operating Decision-Maker (CODM). Starting from 1 January 2017, the internal management reporting system is mainly focused on the analysis of information relating to revenues and operations of PJSC Rostelecom (jointly on the level of all branches of the Company), however information relating to other activities (represented by separate legal entities of the Group`s all other business) is also regularly reviewed by the CODM.

Consequently, the Group determines the following reportable operating segments: PJSC Rostelecom and other operations which presented by subsidiaries of the Group.

Management of the Group assesses the performance of the operating segments based on the IFRS data on consolidated basis. A measure of segment profit or loss reported to the management of the company is operating income before depreciation, amortisation and long-term employee motivation program expenses (OIBDA).

Total assets are not allocated to operating segments and are not analysed by the CODM.

The tables below illustrate financial information of the reportable segments reviewed by management for the year ended 31 December 2017 and 2016. Comparative segment information for the year ended 31 December 2016 was restated in these consolidated financial statements to conform the current year presentation.

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2017:

2017	PJSC Rostelecom	Other operations and reconciliation	Total segments
Revenue			
Third party revenue	288,717	16,525	305,242
Inter-segment revenue	3,416	22,368	25,784
OIBDA	**91,617**	**5,280**	**96,897**

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2017:

OIBDA of reportable segments	**91,617**
OIBDA of other segments	**5,280**
Adjustments	
Depreciation, amortisation and impairment losses	(56,628)
Share of profit (loss) in equity accounted investees	(2,692)
Finance costs and other investing and financial gain	(16,409)
Foreign exchange loss, net	122
Share-based remuneration	(2,344)
Other adjustments	(40)
Profit before income tax	**18,906**

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2016:

2016	PJSC Rostelecom	Other operations and reconciliation	Total segments
Revenue			
Third party revenue	281,968	15,478	297,446
Inter-segment revenue	3,360	21,007	24,367
OIBDA	**90,280**	**6,491**	**96,771**

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2016:

OIBDA of reportable segments	**90,280**
OIBDA of other segments	**6,491**
Adjustments	
Depreciation, amortisation and impairment losses	(55,589)
Share of profit (loss) in equity accounted investees	(7,296)
Finance costs and other investing and financial gain	(16,114)
Foreign exchange loss, net	515
Share-based remuneration	(1,363)
Other adjustments	17
Profit before income tax	**16,941**

31. Share-based payments

Share-based program started in 2014 (ordinary shares)

In March 2014 the Board of Directors approved the employee motivation program. The program established a plan under which the participants were granted a right to purchase at a fixed price ordinary shares of the Company using proceeds from the annual bonus, which is paid depending on achievement of the KPI's, based on Free Cash Flow (FCF), net profit and Return on Invested Capital (ROIC).

The duration of the program was three years, starting from 2014. This program has expired in 2016.

The rights to purchase shares were granted to participants in 2014 and have gradual vesting for the tranches as follows: 30% tranche were vested by the end of 2014, the second 30% tranche were vested by the end of 2015, the third 40% tranche were vested by the end of 2016.

Share-based program started in 2017 (ordinary shares)

In July 2017 the Board of Directors approved the new employee motivation program. The program based on the principle of co-financing and established a plan under which the participants were granted a right to purchase of the corresponding number of shares as a part of the regular bonus payments (monthly, quarterly and/or annual) – contribution of the participant, as well as the acquisition of shares of an additional premium – the Company's contribution.

The duration of the program is 3 cycles: 1 cycle – 2017 and the first 11 months of 2018, 2 cycle – 2018 and the first 11 months of 2019, 3 cycle – 2019 and the first 11 months of 2020.

The total target package for all participants of the program consists of ordinary shares equivalent to 6% of the share capital of the Company, the total target package for all participants of the program for each of the cycles equivalent to 2% of the share capital of the Company.

The program uses the following key performance indicators: Free Cash Flow (FCF), net profit and Return on Invested Capital (ROIC).

To facilitate this new program, the Company also used a closed unit shares investment fund (RTK Razvitie).

Total amounts 2,775 and 1,363 (including related social and personal income taxes gross-up in the amount of 681 and 344 correspodently) related to the Company's contribution per new and old motivation program were recognized as an expense in wages, salaries, other benefits and payroll taxes in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and 31 December 2016 respectively.

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year in accordance with old program:

	2017		2016	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
Balance at beginning of year	**17,353,842**	**87.37**	**30,056,068**	**87.42**
Conversion	1,174,787	n/d	–	–
Granted during the period	–	–	1,455,836	83.26
Forfeited during the period	–	–	(1,303,032)	87.01
Exercised during the year	(18,322,439)	88.13	(12,855,030)	87.61
Balance at end of year	**206,190**	**87.01**	**17,353,842**	**87.37**

	2017	
	Number of options	Weighted average exercise price, RUB
Balance at beginning of year	–	–
Granted during the period	38,323,651*	70,19
Forfeited during the period	–	–
Exercised during the year	–	–
Balance at end of year	**38,323,651**	**70,19**

** including Contribution of the participant – 8,490,673.*

During the year ended 31 December 2017 the old program participants exercised their rights for 18,322,439 shares. The share prices at the date of exercise were:

Number of shares	Exercise price, RUB
778,956	84.01
14,624,123	87.01
17,246	93.59
2,902,114	94.59

32. Earnings per share

	2017	2016
Profit attributable to equity holders of the Group	**13,697**	**11,751**
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,249,603,873	2,241,337,126
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,288,133,714	2,258,690,969
Earnings per share attributable to equity holders of the Group during the year, in RUB		
Basic earnings per share	6.09	5.24
Diluted earnings per share	5.99	5.20

Weighted average number of shares outstanding for the years ended 31 December 2017 and 2016 is adjusted for the weighted average number of treasury shares of the Group, which included to 470,356,883 (2016: 478,620,505) ordinary and 64,519,345 (2016: 64,522,470) preferred shares of the Company.

Reconciliation of weighted average number of shares used in calculation of basic and diluted earnings per shares:

	2017	2016
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,249,603,873	2,241,337,126
Dilutive effect of employee motivation program vested shares	38,529,841	17,353,843
Weighted average number of shares outstanding used in calculation of diluted earning per shares	**2,288,133,714**	**2,258,690,969**

33. Financial instruments

The Group's principal financial instruments comprise cash and cash equivalents, investments, bank loans, bonds and promissory notes issued and finance leases liabilities. These instruments serve to finance the Group's operations and capital expenditures; its corporate financial transactions such as share repurchase and acquisition strategy; place available funds in course of cash management. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations. The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2017 and 2016:

Classes	Categories	31 December 2017	31 December 2016
Cash and cash equivalents	Loans and receivables	3,815	4,257
Trade and other receivables	Loans and receivables	56,165	52,937
Available-for-sale financial assets at cost	Available-for-sale	353	263
Loans	Loans and receivables	2,464	4,092
Debt trading securities	Financial assets at fair value through profit and loss	4,745	1,809
Total financial assets		**67,542**	**63,358**

Classes	Categories	31 December 2017	31 December 2016
Bank and corporate loans	Liabilities at amortized cost	142,921	138,830
Bonds	Liabilities at amortized cost	47,072	47,714
Promissory notes	Liabilities at amortized cost	9	9
Vendor financing	Liabilities at amortized cost	38	50
Finance lease liabilities	Liabilities at amortized cost	1,249	412
Other borrowings	Liabilities at amortized cost	83	90
Trade and other payables	Liabilities at amortized cost	51,353	52,067
Non-hedge derivative	Financial liabilities at fair value through profit and loss	–	3,726
Total financial liabilities		**242,725**	**242,898**

The fair value of cash and cash equivalents, current receivables, trade payables, other current financial assets and liabilities approximate their carrying amount largely due to the short-term maturity of these instruments.

The fair value of long-term debt investments, long-term accounts receivable and non-current accounts payable correspond to the present values of the payments related to the assets and liabilities, taking into account the current interest rate parameters that reflect market-based changes to terms and conditions and expectations. Fair value of financial liabilities approximate their carrying amount.

Available for sale investments accounted for at cost include unquoted equity investments whose value cannot be measured reliably. Quoted prices are not available for these investments due to the absence of an active market. It is also impracticable to derive fair value using the similar transaction method. The discounting cash flow method cannot be applied to such investments as there are no reliably determinable cash flows related to them. Management believe the cost values are near the fair value at the reporting date for such investments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

» Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

» 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).

» Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017	2016
Financial assets at fair value through profit and loss		
Non-hedge derivatives		
Level 1	4,745	1,809
Level 2	–	–
Level 3	–	–
Total non-hedge derivatives	**4,745**	**1,809**
Financial liabilities at fair value through profit and loss		

	2017	2016
Non-hedge derivatives		
Level 1	–	–
Level 2	–	3,726
Level 3	–	–
Total non-hedge derivatives	**–**	**3,726**

Management of the Group believes that the fair values of accounts receivable and accounts payable shown in the balance sheet approximate their carrying amounts.

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the twelve-month periods ended 31 December 2017 and 31 December 2016.

Level 1 financial assets include quoted on MOEX debt trading securities of NPF Alliance.

Financial instruments at fair value through profit or loss

In October 2013 the Group entered into agreement with Deutsche bank A.G. London branch and RDIF Investment management LLC for the purchase a call option on 36,093,684 Company's ordinary shares and sale a put option on 72,187,366 Company's ordinary shares. These options were classified as financial instruments at fair value through profit or loss, and included in Level 2 of the fair value measurement hierarchy (refer to the above tables). Fair values of options were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average Company's ordinary share price volatility.

The table below summarizes the most significant inputs to the options pricing models:

Data of the model	2017	2016
Grant date share price, USD	–	3.2842
Exercise price, USD	–	3.2842
Expected volatility	–	18.61%
Remaining option life, years	–	0.92
Dividend yield	–	5.3%
Risk-free interest rate	–	9.1%
Fair value as at 31 December (asset/(liability))	–	(3,726)

In August 2015 the Group extended agreement with Deutsche bank A.G. London branch to 1 December 2017.

In October 2015 the Group finalized settlement with RDIF Investment management LLC in two stages: at the first stage the Group acquired 32,082,543 of the Company's ordinary shares in the amount of 2,853 (the transfer of ownership was completed on 30 September 2015), during the second stage the Group made an additional payment in line with the option agreement in the amount of 73,332 thousand US dollars (4,812 at the US dollars to RUB exchange rate as of date of payment).

In December 2017 a settlement payment to Deutsche bank was in the amount of 4,561. The contract was terminated and all commitments were met.

Income and expenses on financial instruments

		Finance costs	Other investing and financing gains and losses							OCI	
2017	Bad debt income/ (expense)	Interest expense	Interest income	Dividend income	Gains/ (losses) on asset disposal	Fair value change	Impairment loss (reversal of impairment)	Other	Foreign exchange gains/ (losses)	Fair value change	Total
Cash and cash equivalents	–	–	228	–	–	–	–	–	(152)	–	76
Trade and other receivables	(2,776)	–	1,173	–	–	–	–	–	(40)	–	(1,643)
Available for sale financial instruments	–	–	–	22	(7)	–	–	–	–	–	15
Financial assets at fair value through profit and loss	–	–	370	–	–	–	–	–	–	–	370
Loans	–	(54)	118	1	–	–	–	–	50	–	115
Total financial assets	**(2,776)**	**(54)**	**1,889**	**23**	**(7)**	**–**	**–**	**–**	**(142)**	**–**	**(1,067)**
Bank and corporate loans	–	(13,034)	–	–	–	–	–	–	26	–	(13,008)
Bonds	–	(3,759)	–	–	–	–	–	–	–	–	(3,759)
Vendor financing	–	–	–	–	–	–	–	–	–	–	–
Finance lease liabilities	–	(64)	–	–	–	–	–	–	–	–	(64)
Trade and other payables and non-hedge derivatives	–	–	–	–	–	(835)	–	–	238	–	(597)
Total financial liabilities	**–**	**(16,857)**	**–**	**–**	**–**	**(835)**	**–**	**–**	**264**	**–**	**(17,428)**
Cash and cash equivalents	–	–	510	–	–	–	–	–	(456)	–	54
Trade and other receivables	(2,775)	(87)	738	–	–	–	–	–	(523)	–	(2,647)
Available for sale financial instruments	–	–	–	11	15	13	(6)	–	–	–	33
Financial assets at fair value through profit and loss	–	–	81	–	–	(5)	–	–	–	–	76
Loans	–	(98)	379	3	–	–	–	–	(343)	–	(59)
Total financial assets	**(2,775)**	**(185)**	**1,708**	**14**	**15**	**8**	**(6)**	**–**	**(1,322)**	**–**	**(2,543)**
Bank and corporate loans	–	(13,286)	–	–	–	–	–	–	8	–	(13,278)
Bonds	–	(3,045)	–	–	–	–	–	–	–	–	(3,045)
Vendor financing	–	–	–	–	–	–	–	–	–	–	–
Finance lease liabilities	–	(58)	–	–	–	–	–	–	–	–	(58)
Trade and other payables and non-hedge derivatives	–	–	–	–	–	(183)	–	–	1,829	–	1,646
Total financial liabilities	**–**	**(16,389)**	**–**	**–**	**–**	**(183)**	**–**	**–**	**1,837**	**–**	**(14,735)**

(a) Credit risk

Each class of financial assets represented in the Group's statement of financial position to some extent is exposed to credit risk. Management develops and implements policies and procedures aiming to minimize the exposure and impact on the Group's financial position in case of risk realization.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and on-going procedures to monitor the credit worthiness of customers and other debtors.

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2017 and 2016.

To reduce risk of exposure on receivables from businesses and individuals the Group implements a range of procedures. Credit risk is determined based on a summary of probabilities of occurrences and possible impact of events negatively influencing the customer's ability to discharge its obligation. A credit rating is attributed to a customer on initial stage of cooperation and, then, reassessed periodically based on credit history. As a part of its credit risk management policy, the Group arranges preventive procedures which are represented by but not limited to advance payments, request for collaterals and banks and third parties guarantees. For collection of receivables, which are past due, the Group takes a variety of actions from suspension of rendering of services to taking legal action.

According to the financial policy of the Group, the Group deposits excess cash available with several largest Russian banks (with high credit ratings). To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the creditworthiness of the banks. To facilitate this assessment, deposits are mainly placed with banks where the Group has already had comparable credit obligations, current settlement account and can easily monitor activity of such banks.

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets, except for guarantee (see Note 33 (e)).

(b) Liquidity risk

The Group monitors its risk of a shortage of funds by preparing and monitoring compliance with cash flow budgets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, etc. Cash flow budgets consider the maturity of both cash inflows and outflows from the Group's operations. Based on projected cash flows the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis. Financing was provided within the Group introducing the need for certain companies to raise financing from the Group parent company (PJSC Rostelecom) via cash-pooling.

Issued guarantees are disclosed in Note 33(e).

Maturity analysis as at 31 December 2017 and 2016 represented below shows undiscounted cash flows, including estimated interest payments:

	2018 г.	2019 г.	2020 г.	2021 г.	2022 and later	Total
31 December 2017						
Bank and corporate loans	23,668	12,704	12,724	36,725	111,034	196,855
Bonds	14,770	18,074	1,696	1,695	22,297	58,532
Promissory notes	–	–	–	1	8	9
Vendor financing	12	11	9	3	4	39
Finance lease liabilities	474	358	300	149	566	1,847
Other borrowings and hedge derivatives	86	–	–	–	–	86
Trade and other payables and non-hedge derivatives	51,039	97	64	44	109	51,353
Total financial liabilities	**90,049**	**31,244**	**14,793**	**38,617**	**134,018**	**308,721**

	2017	2018 г.	2019 г.	2020 г.	2021 and later	Total
31 December 2016						
Bank and corporate loans	50,253	39,499	23,926	16,037	46,889	176,604
Bonds	25,491	13,086	16,376	–	–	54,953
Promissory notes	–	–	–	–	9	9
Vendor financing	17	14	11	6	6	54
Finance lease liabilities	188	69	62	47	333	699
Other borrowings and hedge derivatives	93	–	–	–	–	93
Trade and other payables and non-hedge derivatives	52,067	–	–	–	–	52,067
Total financial liabilities	**128,109**	**52,668**	**40,375**	**16,090**	**47,237**	**284,479**

(c) Market risks

Significant market risk exposures are interest rate risk, exchange rate risk and other price risk. Exposure to other price risk arises from available for sale investments quoted on active markets.

Interest rate risk

Interest rate risk mainly relates to floating rate debt primary denominated in US dollars, Russian roubles and euros and financial instruments denominated in Russian roubles. Other borrowings do not materially influence the exposure to interest risk.

	31 December 2017	31 December 2016
Fixed rate instruments		
Financial assets	12,718	12,477
Financial liabilities	(191,090)	(155,992)
	(178,372)	**(143,515)**

	31 December 2017	31 December 2016
Variable rate instruments		
Financial assets	–	–
Financial liabilities	(282)	(34,839)
	(282)	**(34,839)**

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial instruments as fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments
The tables below demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	2017
MosPrime (+0.5%)	(1)
MosPrime (-1.5%)	2
CB rate (+1%)	(1)
CB rate (-1%)	1

	2016
Federal loan bonds rate (+1%)	60
Federal loan bonds rate (-1%)	(61)
CB rate (+1%)	(270)
CB rate (-1%)	270

Foreign exchange risk
Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's consolidated statement of comprehensive income, statement of financial position and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies, mostly from accounts receivable and payable from operations with international telecom operators, accounts payable for equipment, borrowings issued in foreign currencies. The Group does not have formal procedures to reduce its currency risks.

Financial assets and liabilities of the Group presented by currency as at 31 December 2017 and 2016 were as follows:

	31 December 2017		31 December 2016	
	USD	EUR	USD	EUR
Cash and cash equivalents	822	34	1,592	93
Trade receivables	919	198	1,422	238
Loans and receivables	–	–	2,123	–
Bank and corporate loans	–	–	(546)	–
Trade and other payables and non-hedge derivatives	(5,182)	(82)	(12,114)	(83)
Net exposure	**(3,441)**	**150**	**(7,523)**	**248**

The tables below demonstrate the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax:

	31 December 2017	
	USD	EUR
Strengthening of the currency (USD +11%, EUR +12.5%)	(378)	19
Weakening of the currency (USD -11%, EUR -12.5%)	378	(19)

	31 December 2016	
	USD	EUR
Strengthening of the currency (USD +20%, EUR +20%)	(2,082)	50
Weakening of the currency (USD -20%, EUR -20%)	2,082	(50)

The analysis was applied to monetary items denominated in relevant currencies at the reporting date.

Other price risk
As at 31 December 2016, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyses market securities trends and makes a decision to sell a security, when necessary.

The table below demonstrates the sensitivity to a reasonably possible change in market indexes for securities, with all other variables held constant, of the Group in terms of the result of fair value revaluation recognized in other comprehensive income.

	Increase/decrease in percentage point	Effect on revaluation result recognized in profit or loss
2017		
MICEX	+15.0%	–
MICEX	-15.0%	–
2016		
MICEX	+24.0%	693
MICEX	-10.0%	(289)

(d) Capital management policy
Capital management policy of the companies comprising the Group is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving the structure of payables, and reducing cost of borrowings. Among the main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt, debt portfolio management and restructuring, use of different classes of borrowings. In addition, the companies of the Group are subject to externally imposed capital requirements, which are used for capital monitoring. There were no changes in the objectives, policies and processes of capital management during 2016-2017.

The Boards of directors of the companies comprising the Group review their performance and establish a variety of key performance indicators which are based on Russian statutory accounts. The companies comprising the Group monitor and manage their debt using financial independence ratio and net debt/equity, net debt/OIBDA ratios.

(e) Guarantee

The Group guaranteed repayment of debts of Infrastruktunie investitsii-4 LLC at the amount of 13,822 to its creditors. The Group received a loan from the company to finance elimination of digital divide.

(f) Insurance risk

Insurance contracts of the Group are subject to the following main risks:

- Risk of longevity – risk of losses due to pensioners living longer than expected;
- Investment return risk – risk of losses arising from actual returns being different than expected;
- Contract holder decision risk – risk of losses arising due to contract holder experiences (surrenders) being different than expected;
- Expense risk – risk of losses due to excess of expected expenses.

NPP contracts issued by the Group in accordance with the existing Pension rules of non-state pension provision are classified for the most part as investment contracts with DPF. Accordingly, the risk of longevity is mainly related to mandatory pension insurance contracts.

The table below shows the sex and age structure of the obligations under mandatory pension insurance contracts as of 31 December 2017.

	Men	Women
Under 30 years old	8	15
30-39	103	93
40-49	103	119
50-59	21	21
60-69	10	3
70-79	1	–
Over 80 years old	–	–
Total	**246**	**251**

In accordance with current legislation, the Group has an obligation to ensure a return of at least 0% p.a. on assets that cover pension contributions received from the Pension Fund of the Russian Federation, other non-government pension funds and contributors to schemes of non-state pension provision. From 1 January 2015, financial responsibility under mandatory pension insurance contracts includes ensuring a non-negative result of investing pension savings for each five-year period of the contract.

Insurance contracts are also subject to contract holder decision risk and expense risk. Contract holder decision risk (risk of termination of the contract) under mandatory pension insurance contracts is mitigated by the terms of guaranteeing the result of investing the funds of pension savings within five-year periods. Expense risk is reduced through expenses control and regular cost analysis.

The pension obligations are not sensitive to changes in actuarial assumptions due to the fact that reasonably possible changes in the actuarial assumptions do not lead to the formation of a deficit as a result of the liability adequacy test.

34. Commitments and contingencies

(a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business (refer to (b) below). 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 Group.

(b) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. The management's interpretation of the provisions of the law as applied to the operations and activities of the Group may be challenged by the relevant regional or federal authorities.

In 2017 the concept of tax benefit was legislatively established for all taxes levied on the territory of the Russian Federation with a focus on the presence of a business purpose in the conduct of business operations, as well as confirmation of the fulfillment of obligations under the agreements concluded by the parties to the contract, or by the person to whom these obligations were transferred to contract or law. This change significantly modifies the concept of recognizing the fact that taxpayers receive unjustified tax benefits, which will have a significant impact on the prevailing judicial practice. At the same time, the practical mechanism for applying this rule has not yet been fully established, and judicial practice on the changes introduced is not formed.

These changes, as well as the latest trends in the application and interpretation of certain provisions of Russian tax legislation, indicate that the tax authorities can take a more assertive position in interpreting legislation and verifying tax calculations. As a consequence, tax authorities may file claims for those transactions and accounting methods for which they did not make claims before. As a result, significant taxes, penalties and fines may be assessed. Determining the amount of claims for possible but not presented claims, as well as assessing the likelihood of an unfavorable outcome, is not possible. Tax inspections can cover three calendar years of activity, immediately preceding the year of verification. Under certain conditions, earlier tax periods may be subject to verification.

Transfer pricing legislation effective in the Russian Federation from 1 January 2012 allows to tax authorities to control prices set up in transactions between related parties and impose additional tax liabilities to in case transfer price deviates from market level.

The transfer pricing rules specify an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold of RUB 1 billion.

Since practice of applying the new transfer pricing rules by the tax authorities and courts is not widely developed, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained upon examination. Management of the Group believes that it has adequately provided for tax liabilities in the consolidated statements of financial position as at 31 December 2017 and 2016. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

(c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years from 2018 up to 2023.

The Group has renewed all other licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Group's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

(d) Capital commitments

As at 31 December 2017, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 14,340 (2016: 17,554).

(e) Operating leases

As at 31 December 2017, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Since March 2015 the Group was involved in operating leasing agreement of office accommodations "Rumyantsevo" for 15 years, under which the Group should pay significant penalty for breaking agreement.

Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as at 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
As lessee		
Current portion	1,160	1,112
Between one to five years	4,532	4,490
Over five years	9,012	9,837
Total minimum rental payables	**14,704**	**15,439**

35. 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 53% 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

Эффективные телекоммуникации и передача данных имеют первостепенное значение для России по ряду причин, в том числе экономических, социальных, стратегических и связанных с национальной безопасностью. Государство оказывает и, как ожидается, будет оказывать значительное влияние на деятельность отрасли телекоммуникаций в целом и Группы в частности. Действуя через Федеральную службу по тарифам и Федеральное агентство по телекоммуникациям, государство обладает общим правом регулирования внутренних тарифов. Помимо регулирования тарифов, законодательство по телекоммуникациям требует от Группы и других операторов перечисления определенных взносов, в зависимости от выручки, в Фонд универсальной услуги связи, контролируемый Федеральным агентством по телекоммуникациям. Более того, Министерство связи и массовых коммуникаций Российской Федерации осуществляет контроль над выдачей лицензий провайдерам телекоммуникационных услуг.

(c) Associates and joint ventures

On 1 April 2014 the Group obtained significant influence over T2 RTK Holding as a result of the reorganization. Transactions with companies of T2 RTK Holding were as follows:

	2017	2016
Revenue	12,030	10,729
Interest income	223	298
Purchase of telecommunication services	(5,777)	(4,271)
Purchase of other services	–	(3)

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

	31 December 2017	31 December 2016
Accounts receivable	3,180	3,421
Allowance for doubtful receivables	(7)	(1)
Accounts payable and accrued expenses	(884)	(584)
Loans and borrowings	–	–

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

	2017	2016
Revenue	338	94
Gain/(loss) on disposal of property, plant and equipment*	2,697	1,561
Interest income	184	34
Purchase of telecommunication services	(301)	(199)
Rent *	(517)	–
Purchase of other services	(250)	(12)

* JV Telecom-5.

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

	31 December 2017	31 December 2016
Accounts receivable	353	108
Financial assets	1,665	1,030
Allowance for doubtful receivables	(6)	(2)
Accounts payable and accrued expenses	(958)	(552)
Loans and borrowings	(148)	–

28 December 2016, the Group and LLC Sberbank Investicii ("Sberbank") entered into the agreement to increase the share capital of LLC Telecom-5 ("Telecom-5"), the Group's subsidiary. Sberbank and the Group made a cash contribution into Telecom-5 in amount of 2,000 each. As a result, on 28 December 2016 the Group lost control over Telecom-5. At the date of disposal the carrying value of net assets of Telecom-5 and result of its disposal was nil. Starting from that date the Group ceased consolidation of Telecom-5 and began its further accounting as an investment in joint venture. The Group retained 50 percent of interest in Telecom-5 which was recognized at its fair value of 2,000 as at 28 December 2016.

25 December 2017, the Group and Sberbank agreed to increase the share capital by 2,400 each. The Group retained 50 percent of interest in Telecom-5.

In December 2016 the Group sold buildings with the carrying value of 926 to its joint venture Telecom-5 for cash consideration of 4,696 resulting in a profit of 3,122. As a result of this transaction, the Group eliminated its share of unrealised profit of 1,561 to the extent of the Group's interest in joint venture Telecom-5.

In December 2017 the Group sold buildings with the carrying value of 594 to its joint venture Telecom-5 for cash consideration of 4,800 resulting in a profit of 4,206. As a result of this transaction, the Group eliminated its share of unrealised profit of 2,103 to the extent of the Group's interest in joint venture Telecom-5.

(d) Transactions with other government-related entities

Decree of the Government of the Russian Federation No. 453-r dated 21 March 2011 PJSC Rostelecom appointed sole executor of works as part of the state program of the Russian Federation "Information Society 2011-2018". PJSC Rostelecom shall provide the following tasks:

(a) Creation of a common infrastructure to support the decisions of state tasks, ensuring the provision of services for various branches of the public sector.

(b) Create a national platform of distributed computing to provide solutions as services to federal, regional and municipal authorities. This task the operator has already performed a significant amount by implementing standard solutions for e-government in the regions under Saas. Services based on cloud computing will enjoy both government agencies and commercial customers.

(c) The development of institutions of electronic signature in Russia. The system of certification centers create a common space of trust, in which every citizen of Russia will be able to obtain an electronic signature and electronic signature can be identified in any region of Russia.

During 2017 the Group recognised revenue related to a significant project with the Ministry of Communications and Mass Communications of the Russian Federation, under the contract to operate the infrastructure of e-government in the amount of 1,936 (2016: 2,091). For other individually immaterial contracts Group's revenue in 2017 amounted to 9,566 (2016: 6,392).

Under The Decree of the Government of the Russian Federation No. 437-r dated 26 March 2014 Rostelecom has the responsibility for the provision of universal communication services starting from 1 April 2014. In May of 2014 the Federal Communications Agency and Rostelecom signed a contract for the provision of universal communication services for 10 years and the total amount of financial support of RUB 163 billion.

In accordance with Federal Law On Communication PJSC Rostelecom as a single universal service provider for the entire territory of the Russian Federation shell ensure the functioning of:

(a) Telephone services using payphones, multifunction devices, information kiosks (informants) and similar devices;

(b) Data services and provide access to the "Internet" information and telecommunication network using multiple access means;

(c) Before the end of 2018 it is planned to provide data services and provide access to the "Internet" information and telecommunications network with access points.

The total volume of income recognized by the Company under this contract for 2017 amounted to: 11,456 (2016: 10,401).

To provide universal telecommunication services Rostelecom contracted FSUE (Federal State Unitary Enterprise) "Russian Post" as an agent facilitating data services and providing access to the Internet information and telecommunication network using multiple (public) access points without a use of an end-user equipment. FSUE Russian Post is a Russian state company, operations of which are individually significant for disclosure purposes. For 2017 the cost of agency contracts amounted to 721. During 2016 corresponding expenses amounted to 1,045. In 2016 with the Federal State Unitary Enterprise "Russian Post" concluded a contract for the provision of integrated communication services for a period of 5 years for a total amount of 8,500. For 2017 revenue under this contract amounted to 1,475 (2016: 1,493).

The Group received loans from government-controlled banks PJSC Sberbank, PJSC Bank VTB, PJSC Sviaz-bank and others. The outstanding balances from these banks amounted to 110,118 as at 31 December 2017 (31 December 2016: 129,315). Interest rate of these loans varies from 7.90% to 9.42%. During 2017 the Group obtained loans from these banks in the amount of 437,659 (2016: 533,458), made repayments in amount of 468,025 (2016: 550,826). Interest expense accrued on those loans during year ended 31 December 2017 amounted to 11,130 (2016: 13,865).

In 2014, the Company received a borrowing from the state-related special project company (Infrastructure investment-4 LLC) for 4 years for implementation of the investment project "Bridging the Digital Divide in the sparsely populated areas of Russia". The balance of the borrowing 31 December 2017: 6,480 (31 December 2016: 7,695). During year ended 31 December 2017 the Group made repayments in amount of 2,162 (2016: 2,420). Interest expense accrued on this borrowing year ended 31 December 2017 amounted to 947 (2016: 1,205).

The Group has in aggregate 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 individually insignificant, except government-related banking deposits.

The amount of funds placed on deposits with government-controlled banks for the year ended 31 December 2017 is 4,516 (2016: 7,414) with related income recognised in profit and loss of 27 (2016: 254) and amounts repaid back to the Company's account of amounted to 6,879 (2016: 9,276).

The amount of the Group's cash and cash equivalents kept on the accounts opened with the government-controlled banks on 31 December 2017 is 1,586 (31 December 2016: 3,592). As of 31 December 2017 the Company's account with the Federal Treasury had the balance of 1,822.

(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 year ended 31 December 2017 amounted to 749 (2016: 678). Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

In 2014 the Company introduced a long-term motivation program for executives and senior employees of the Company (Note 31). The amount of employee benefits expense related to the program and attributed to the Management Board's members, the Board of Directors' members and Vice-Presidents for the year ended 31 December 2017 is nil (2016: 352).

In 2017 the Board of Directors of the Company approved a new long-term motivation program for the period 2017-2019. The amount of expenses related to the key management personnel for 12 months 2017 is 1,047.

In 2017 the Group made a contribution of 8 to the non-state pension fund (2016: nil) for its key management personnel.

The remuneration amounts are stated exclusive of social taxes.

36. Assets held for sale

The following table illustrates information on assets held for sale for the year ended 31 December 2017 and 2016.

	31 December 2017	31 December 2016
Assets		
Property, plant and equipment	997	646
Total assets held for sale	**997**	**646**

37. Subsequent events

In January 2018, the Company attracted funds under short-term loan agreements with credit institutions in the amount of 53.8 billion roubles. At the same time on short-term loans the Group repaid principal debt amount of 30.6 billion roubles. Also, under the long-term loan agreement with PJSC "Bank VTB", the Company repaid ahead of schedule the principal debt in the amount of 8.75 billion roubles.

In January 2018 the Company repaid documentary interest-bearing non-convertible bearer bonds with mandatory centralized custody:

» Series 15, registration number 4-67-00124-A of 28 June 2012 in the amount of 2.5 million units, with a nominal value of 1,000 roubles each, the volume at a nominal value of 2.5 billion roubles;

» Series 18, registration number 4-65-00124-A of 28 June 2012 in the amount of 5 million units, with a nominal value of 1,000 roubles each, the volume at a nominal value of 5 billion roubles.

n 1 March 2018 PJSC Rostelecom signed purchase agreements on the acquisition of controlling stakes in LLC Open Mobile Platform (75%) and LLC Votron (75%), the developers of mobile operating system Sailfish OS and Sailfish Mobile OS RUS. The purchase of the operating system Sailfish Mobile OS RUS will expand the capabilities of Rostelecom in promoting complex solutions for various customers. At the date of approval of the consolidated financial statements, the Group did not complete the initial accounting for the business combination.

Glossary

2G – second generation mobile communications technology.

3G – third generation mobile communications technology, which combines high-speed mobile internet and a radio communication technology establishing a communications channel.

4G – fourth generation mobile communications technology, which enables data transfer at speeds of over 100 Mbps and 1 Gbps for mobile and fixed-line customers, respectively.

5G – advanced fifth generation mobile communications technology.

A2P (application to person) – the process of sending mobile messages from an application to a mobile user.

AGM – Annual General Meeting.

API – application programming interface.

ARPU (average revenue per user) – average monthly revenue per user.

B2B (business-to-business) – commercial relationships between a company and other companies.

B2C (business-to-consumer) – commercial relationships between a company and an individual who is a private end consumer.

B2G (business-to-government) – commercial relationships between a company and government agencies, as well as other public agencies.

B2O (business-to-operator) – commercial relationships among telecoms operators.

Bank of Russia – Central Bank of the Russian Federation.

BDD – Bridging the Digital Divide programme.

CAGR – compound annual growth rate.

CAPEX – capital expenditure.

CDN – content delivery network, which is a geographically distributed network infrastructure ensuring streamlined delivery and distribution of content to end users over the Internet.

CR – conversion rate.

CRM (customer relationship management) – customer relationship management system, which is an application software designed to drive sales growth, optimise marketing activity, and enhance customer experience by saving customer data and customer relationship history, introducing and improving business processes followed by analysis of results.

DLDTN – domestic long-distance transit node.

DDoS (distributed denial of service) – hacker attack compromising a computer system to cause its failure: the flood of incoming requests is sent to a target system, which fails to process them.

DWDM (dense wavelength-division multiplexing) – technology which multiplexes outputs from multiple data channels and sends them over a single optical fibre.

EMM – enterprise mobility management.

FAS of Russia – Federal Antimonopoly Service of the Russian Federation.

FCF (free cash flow) – free cash flow is calculated based on the statement of cash flows as the net cash from operating activities, net of CAPEX, plus proceeds from disposals of property, plant and equipment and intangible assets (under IFRS).

FMC (fixed mobile convergence) – solution that enables building a single network of fixed-line and mobile phones with a single short code plan.

FOCL – fibre-optic communications line.

FTS of Russia – Federal Tariff Service of the of Russian Federation (now FAS of Russia).

Geodata – spatial database deployed on a platform hosting specialist software which enables storing, accumulating and processing (including spatial analysis) all elements of spatial data collected into a logically uniform database.

HD (high definition) – a set of high-definition television standards.

HQ – headquarters.

IaaS (infrastructure as a service) – cloud-based capability provided to a customer which gives access to processing, storage, networks and other fundamental computing resources, where the customer is able to deploy and run arbitrary software, which can include operating systems, platform software, and applications.

IAU – Internal Audit Unit.

ICS – Internal Control System.

IFRS – International Financial Reporting Standards.

IIC (Industrial Internet Consortium) – global programme to drive the development of the IIoT technology.

ILDTN – international long-distance transit node.

IoT – the internet of things.

IIoT – the industrial internet of things.

IP (internet protocol) – network routing protocol.

IP/MPLS (multiprotocol label switching) – technology that enables fast packet switching in multiprotocol networks through labeling.

Industrial Internet of Things (IIoT) – concept representing a network of physical objects ("things"), which contain embedded technology to interact with each other or the external environment.

IPTV (internet protocol television) – technology that delivers digital TV using signals carried over the internet protocol (IP), i.e. delivery of TV channels to a user over the internet (interactive TV).

IR – Investor Relations.

IRCs – interregional companies.

IT – Information Technology.

IZTN – inter-zone transit node.

JV – joint venture.

KPIs – key performance indicators.

Last mile – channel connecting the end customer's equipment with the access point of a provider (communications operator).

L2 VPN – Layer 2 virtual private network.

L3 VPN – Layer 3 virtual private network.

LTS – line of technical support.

M&A – mergers and acquisitions.

M2M – machine-to-machine communications.

MIFC – International Financial Centre in Moscow.

MPLS – multiprotocol label switching.

MRB – Macroregional Branch.

MS – main station.

MVNO – mobile virtual network operator.

NFV (network function virtualisation) – concept of network architecture virtualisation at the network node level.

NPS – net promoter score.

O2O (operator-to-operator) – commercial relationships among telecoms operators.

OCA – online customer account.

OIBDA – operating income before depreciation and amortisation.

OTT (over the top) – delivery of video signals from a content provider directly to the user's device over the Internet bypassing an operator.

OSS (operation support system) – information system to support operations.

PaaS (platform as a service) – cloud computing model whereby a service provider makes resources hosted at their premises like IT platforms, including operating systems, database management systems, middleware, software and testing tools, available to a user over the Internet.

PBX – private branch exchange.

PEC – Precinct Election Commission.

PJSC – public joint stock company.

RAS – Russian Accounting Standards.

ROIC – return on invested capital.

RPS – Rostelecom's production system.

SaaS (software as a service) – form of cloud computing (a software delivery model) that gives subscribers access to ready-available application software fully maintained by a provider.

SAS – state automated system.

SDN (software-defined network) – data network where the network control plane is separated from the forwarding plane and is directly programmable.

SFOCL – submarine fibre-optic communications line.

SIF – Social Insurance Fund of the Russian Federation.

SIP, SIP-I, SIP-T (session initiation protocol) – communications protocols for signalling used for IP telephony, videoconferencing, and other online services.

SLA (service level agreement) – official agreement to provide an e-service between a customer and the relevant provider, specifying the service, rights and obligations of the parties and the agreed service quality level.

SME – small and medium enterprises.

SMS (short message service) – technology used for text messaging via a mobile operator.

SOC (security operations centre) – information security operations centre.

TV – television.

URL (uniform resource locator) – web address.

USE – Unified State Exam.

UTM – unified threat management.

VAS – value-added services.

VDC – virtual data centre.

VDI – virtual desktop infrastructure.

VoD (video on demand) – technology that allows delivering TV programmes and films to a specific subscriber according to their request.

VPLS (virtual private LAN service) – technology that enables geographically separated virtual Local Area Network (LAN) segments to be interconnected.

VPN (virtual private network) – technology that enables establishing one or more network connections (a logical network) over another network, such as the Internet.

WAF (web application firewall) – solution to protect web applications from network security threats.

XaaS (anything as a service) – general term to refer to anything as a service. Used to describe cloud-based services.

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Abbreviated name
PJSC Rostelecom

State registration certificate number and date
Initial state registration details: Certificate number 021.833 dated 23 September 1993

Legal entity registration details
Certificate of entry into the Unified State Register of Legal Entities of an entity registered before 1 July 2002 (OGRN 1027700198767) series 77 No. 004891969 dated 9 September 2002

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