Independent auditor's report
on the consolidated financial statements of
Public Joint Stock Company Long-Distance and International Telecommunications Rostelecom and its subsidiaries
for 2017

March 2018

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International Telecommunications Rostelecom
and its subsidiaries

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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.

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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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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.

PJSC Rostelecom

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**
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

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

PJSC Rostelecom

Consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles)

	Notes	Year ended 31 December 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**
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

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

PJSC Rostelecom

Consolidated statement of cash flows

(In millions of Russian roubles)

	Notes	Year ended 31 December 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)
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**

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

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**	**Remeasure-ments 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 (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 statements of changes in equity (continued)

	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**	**Remeasure-ments 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.

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.

2. Basis of preparation (continued)

(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.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

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.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

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.

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

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.

4. Significant accounting policies (continued)

(b) Goodwill (continued)

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

4. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

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.

4. Significant accounting policies (continued)

(d) Leases (continued)

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.

4. Significant accounting policies (continued)

(f) Intangible assets (continued)

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*.

4. Significant accounting policies (continued)

(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.

4. Significant accounting policies (continued)

(j) Financial instruments (continued)

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).

4. Significant accounting policies (continued)

(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.

4. Significant accounting policies (continued)

(n) Deferred income taxes (continued)

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.

4. Significant accounting policies (continued)

(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.

4. Significant accounting policies (continued)

(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.

4. Significant accounting policies (continued)

(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.

4. Significant accounting policies (continued)

(x) Pension contracts (continued)

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).

5. New standards, interpretations and amendments adopted by the Group (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

- *Incremental 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*.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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.

5. New standards, interpretations and amendments adopted by the Group (continued)

Standards issued but not yet effective (continued)

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
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.

6. Business combinations (continued)

2017 transactions (continued)

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.*

6. Business combinations (continued)

2016 transactions (continued)

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)**

6. Business combinations (continued)

2016 transactions (continued)

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)**

6. Business combinations (continued)

2016 transactions (continued)

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)**

6. Business combinations (continued)

2016 transactions (continued)

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.

6. Business combinations (continued)

2016 transactions (continued)

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 services	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)**
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**

7. Property, plant and equipment (continued)

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).

7. Property, plant and equipment (continued)

Impairment of property, plant and equipment (continued)

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**
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.

8. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill (continued)

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.

8. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill (continued)

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%

8. Goodwill and other intangible assets (continued)

Intangible assets with indefinite useful lives and goodwill (continued)

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:

Subsidiary	Main activity	Effective share of the Group as at 31 December 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%*
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.*

9. Subsidiaries (continued)

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**

9. Subsidiaries (continued)

Summarised statements of profit or loss and other comprehensive income

	PJSC Tsentralny Telegraph	
	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

Summarised cash flows

	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)

10. Investments in associates and joint ventures (continued)

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	996	188	71	96	519	(27)
	2016	1,019	178	75	70	714	93
T2 RTK Holding LLC	2017	193,666	9,842	106,676	58,962	123,025	(5,515)
	2016	200,669	10,162	123,354	44,028	105,873	(15,597)
OJSC Tsifrovoe televidenie	2017	2,360	2,414	104	578	2,963	74
	2016	2,082	2,931	199	797	2,497	(67)
LLC Telecom-5	2017	8,783	963	–	957	519	163
	2016	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.

10. Investments in associates and joint ventures (continued)

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)**
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)**

14. Trade and other accounts receivable (continued)

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)	621	347
More than 1 to 5 years	1,385	829
Over 5 years	795	508
Total	**2,801**	**1,684**

	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**

17. Equity (continued)

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**

In 2017, 2016 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 18,322,439 and 12,855,030 shares respectively.

During 2017, 2016 the Group purchased 14,800,000 and 3,844,020 ordinary shares, for 981 and 314 respectively. Also during 2017, 2016 the Group sold 4,820 and 1,858,082 ordinary treasury shares for 1 and 224 respectively.

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.

17. Equity (continued)

Dividends (continued)

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.

18. Borrowings (continued)

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.*

19. Accounts payable, provisions and accrued expenses (continued)

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:

	2017	**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.

21. Employee benefits (continued)

Defined benefit plans and other long-term employee benefits (continued)

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

21. Employee benefits (continued)

Defined benefit plans and other long-term employee benefits (continued)

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)**

22. Income taxes (continued)

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.

22. Income taxes (continued)

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 combina-tions**	**Equity**	**Other compre-hensive income**	**Profit/(loss) for the year**	**Disposal through business combina-tions**	**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)**

22. Income taxes (continued)

		Movement during 2016 recognized in					
	Balance as at 1 January 2016	Acquisition through business combina-tions	Equity	Other compre-hensive income	Profit/(loss) for the year	Disposal through business combina-tions	Balance as at 31 December 2016
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)**

22. Income taxes (continued)

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
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.

30. Segment information (continued)

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**

31. Share-based payments (continued)

Share-based program started in 2017 (ordinary shares) (continued)

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year in accordance with new program:

	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.

32. Earnings per share (continued)

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**
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.

33. Financial instruments (continued)

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		
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.

33. Financial instruments (continued)

Financial instruments at fair value through profit or loss (continued)

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.

33. Financial instruments (continued)

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)**

33. Financial instruments (continued)

Income and expenses on financial instruments (continued)

		Finance costs	Other investing and financing gains and losses							OCI	
2016	**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	–	–	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)**

33. Financial instruments (continued)

(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)).

33. Financial instruments (continued)

(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	2019	2020	2021	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	2019	2020	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.

33. Financial instruments (continued)

(c) Market risks (continued)

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)**
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

33. Financial instruments (continued)

(c) Market risks (continued)

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.

33. Financial instruments (continued)

(c) Market risks (continued)

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.

33. Financial instruments (continued)

(f) Insurance risk (continued)

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.

34. Commitments and contingencies (continued)

(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.

34. Commitments and contingencies (continued)

(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.

35. Related party transactions (continued)

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs. In addition to the regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Associates 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.*

35. Related party transactions (continued)

(c) Associates and joint ventures (continued)

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.

35. Related party transactions (continued)

(d) Transactions with other government-related entities (continued)

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).

35. Related party transactions (continued)

(d) Transactions with other government-related entities (continued)

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.

On 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.