

Independent auditor's report  
on the consolidated financial statements of  
***Public Joint Stock Company Rostelecom  
and its subsidiaries***  
for 2018

*March 2019*

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## Independent auditor's report

To the Shareholders and Board of directors  
Public Joint Stock Company 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 2018, 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 2018 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.

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
<p><b><i>Recognition and measurement of revenue from telecommunication services</i></b></p> <p>As disclosed in Notes 5 and 26, revenue amounted to RUB 320,239 billion in 2018. 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 IFRS 15 <i>Revenue from Contracts with Customers</i>.</p>	<p>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.</p> <p>We analysed the changes of Group's accounting policy due to implementation new IFRS 15 <i>Revenue from Contracts with Customers</i> 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 and performed substantive testing the effects of adopting IFRS 15. 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.</p>

## Key audit matter

## How our audit addressed the key audit matter

### ***Impairment testing of investments in associates***

As disclosed in Note 11, the carrying amount of the Group's investments in associates is RUB 69,982 billion as at 31 December 2018. 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.

### ***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 Note 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.

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.

Significant estimates and assumptions include the expected revenue growth, expected amount of capital expenditure, the operating profit and the discount rate used.

### ***Impairment of accounts receivable***

As disclosed in Notes 5 and 15, the carrying amount of accounts receivable is RUB 51,535 billion as at 31 December 2018. The assessment of an allowance for expected credit losses 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 expected credit losses is based on assumptions and estimates, in particular, on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors.

In the course of our audit procedures, we examined the changes in the Group's accounting policy due to implementation new IFRS 9 *Financial Instruments* 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.

### ***Emphasis of matter***

We draw attention to Note 1 to the consolidated financial statements which describes that on 29 June 2018 PJSC Rostelecom changed its name from Public Joint Stock Company Long-Distance and International Telecommunications Rostelecom to Public Joint Stock Company Rostelecom.

Our opinion is not modified in respect of this matter.

### ***Other information included in the Annual Report of PJSC Rostelecom 2018***

Other information consists of the information included in the Annual Report of PJSC Rostelecom for 2018, 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 2018 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.
- ▶ 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.



A.Y. Grebeniuk  
Partner  
Ernst & Young LLC

11 March 2019

**Details of the audited entity**

Name: Public Joint Stock Company 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 unless otherwise stated)

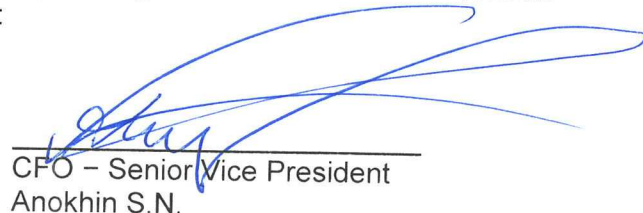
	Notes	31 December 2018	31 December 2017*
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	373,839	348,430
Investment properties		172	159
Goodwill and other intangible assets	8	66,246	59,820
Right of use assets	9	21,205	-
Trade and other accounts receivable	15	7,346	8,352
Investments in associates and joint ventures	11	69,982	65,879
Other financial assets	12	1,950	1,600
Other non-current assets	13	4,667	4,352
Deferred tax assets	25	863	647
Contract assets	16	501	-
Contract costs	17	12,323	-
<b>Total non-current assets</b>		<b>559,094</b>	<b>489,239</b>
<b>Current assets</b>			
Inventories	14	7,631	6,169
Contract assets	16	9,511	-
Trade and other accounts receivable	15	44,189	47,813
Prepayments		4,380	3,455
Prepaid income tax	25	984	159
Other financial assets	12	7,487	5,963
Other current assets	19	2,856	2,619
Cash and cash equivalents	18	10,080	3,815
Asset classified as held for sale	39	554	997
<b>Total current assets</b>		<b>87,672</b>	<b>70,990</b>
<b>Total assets</b>		<b>646,766</b>	<b>560,229</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the Group</b>			
Share capital	20	93	93
Additional paid-in capital		115	91
Treasury shares		(60,419)	(65,556)
Retained earnings and other reserves		307,234	311,494
<b>Total equity attributable to equity holders of the Group</b>		<b>247,023</b>	<b>246,122</b>
Non-controlling interests		3,930	3,242
<b>Total equity</b>		<b>250,953</b>	<b>249,364</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	174,371	166,660
Lease liabilities	5	16,855	-
Employee benefits	24	4,675	4,733
Deferred tax liabilities	25	38,411	35,681
Accounts payable, provisions and accrued expenses	22	3,090	2,233
Other non-current liabilities	23	21,142	6,383
<b>Total non-current liabilities</b>		<b>258,544</b>	<b>215,690</b>
<b>Current liabilities</b>			
Loans and borrowings	21	29,908	24,712
Lease liabilities	5	4,791	-
Accounts payable, provisions and accrued expenses	22	88,530	60,666
Income tax payable		644	1,162
Other current liabilities	23	13,396	8,635
<b>Total current liabilities</b>		<b>137,269</b>	<b>95,175</b>
<b>Total liabilities</b>		<b>395,813</b>	<b>310,865</b>
<b>Total equity and liabilities</b>		<b>646,766</b>	<b>560,229</b>

\* The Group initially adopted IFRS 15 and IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. The Group applied IFRS 9 from 1 January 2018 and has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

Consolidated financial statements were approved by management of PJSC Rostelecom on 11 March 2019 and were signed on its behalf by:



President  
Oseevskiy M.E.



CFO – Senior Vice President  
Anokhin S.N.

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 unless otherwise stated)

	Notes	Year ended 31 December	
		2018	2017*
<b>Revenue</b>	26	<b>320,239</b>	<b>305,329</b>
<b>Operating expenses</b>			
Wages, salaries, other benefits and payroll taxes	27	(97,350)	(93,381)
Depreciation, amortization and impairment losses	7,8,17	(60,329)	(56,628)
Interconnection charges		(58,293)	(52,762)
Materials, utilities, repairs and maintenance	28	(26,183)	(25,926)
Gain on disposal of property, plant and equipment and intangible assets		7,184	5,344
Impairment loss of financial assets measured at amortized cost	15	(4,057)	(2,776)
Other operating income	29	13,579	13,444
Other operating expenses	30	(58,990)	(54,759)
<b>Total operating expenses, net</b>		<b>(284,439)</b>	<b>(267,444)</b>
<b>Operating profit</b>		<b>35,800</b>	<b>37,885</b>
Share of net profit/(loss) of associates and joint ventures	11	(91)	(2,692)
Finance costs	31	(17,275)	(17,350)
Other investing and financial gain, net	32	1,602	941
Foreign exchange (loss)/gain, net		(597)	122
<b>Profit before income tax</b>		<b>19,439</b>	<b>18,906</b>
Income tax expense	25	(4,427)	(4,856)
<b>Profit for the year</b>		<b>15,012</b>	<b>14,050</b>
<b>Other comprehensive income/(loss)</b>			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</i>			
Share of other comprehensive income of associates		22	–
Exchange differences on translation of foreign operations		428	(110)
<b>Net other comprehensive loss to be reclassified to profit or income/(loss) in subsequent periods</b>		<b>450</b>	<b>(110)</b>
<i>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</i>			
Remeasurement of defined benefit pension plans	24	(180)	545
Income tax on remeasurement of defined benefit pension plans	25	36	(109)
<b>Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>(144)</b>	<b>436</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>306</b>	<b>326</b>
<b>Total comprehensive income for the year</b>		<b>15,318</b>	<b>14,376</b>
<b>Profit attributable to:</b>			
Equity holders of the Group		14,154	13,697
Non-controlling interests		858	353
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Group		14,491	14,017
Non-controlling interests		827	359
Earnings per share attributable to equity holders of the Group – basic (in roubles)	35	6.23	6.09
Earnings per share attributable to equity holders of the Group – diluted (in roubles)	35	6.09	5.99

\* The Group initially adopted IFRS 15 and IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. The Group applied IFRS 9 from 1 January 2018 and has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

PJSC Rostelecom

Consolidated statement of cash flows

(In millions of Russian roubles unless otherwise stated)

	Notes	Year ended 31 December	
		2018	2017
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>		<b>19,439</b>	<b>18,906</b>
<i>Adjustments to reconcile profit before tax to cash generated from operations</i>			
Depreciation, amortization and impairment losses	7, 8	60,329	56,628
Gain on disposal of property, plant and equipment and intangible assets		(7,184)	(5,344)
Impairment loss of financial assets measured at amortized cost	15	4,057	2,776
Loss from associates and joint ventures		91	2,692
Finance costs excluding finance costs on employee benefit obligations	31	17,180	17,026
Other investing and financial gain, net	32	(1,602)	(941)
Foreign exchange loss/(gain), net		597	(122)
Share-based motivation program		3,500	2,309
Increase in accounts receivable and contract assets		(8,634)	(5,078)
Decrease in employee benefits		(353)	(66)
(Increase)/(decrease) in inventories		(1,414)	232
Increase in accounts payable, provisions and accrued expenses		13,377	3,963
Decrease in other assets		(4,245)	(1,917)
Decrease in other liabilities		3,995	1,229
<b>Cash generated from operations</b>		<b>99,133</b>	<b>92,293</b>
Interest paid		(18,174)	(17,548)
Income tax refund		230	1,825
Income tax paid		(3,945)	(4,801)
<b>Net cash from operating activities</b>		<b>77,244</b>	<b>71,769</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(73,179)	(60,752)
Proceeds from sale of property, plant and equipment, intangible assets and assets held for sale		10,097	9,368
Acquisition of financial assets		(7,351)	(12,762)
Proceeds from disposals of financial assets		5,296	11,574
Interest received		589	637
Subsidy from Government	23	3,641	772
Dividends received		95	6
Purchase of subsidiaries and business, net of cash acquired	6	(4,064)	(218)
Proceeds from disposal of subsidiaries, net of cash disposed		80	347
Acquisition of equity accounted investees	11	(4,386)	(2,430)
<b>Net cash used in investing activities</b>		<b>(69,182)</b>	<b>(53,458)</b>
<b>Cash flows from financing activities</b>			
Sale of treasury shares		–	1
Purchase of treasury shares		–	(981)
Proceeds from bank and corporate loans	21	579,949	522,157
Repayment of bank and corporate loans	21	(564,785)	(519,403)
Proceeds from bonds	21	10,000	20,000
Repayment of bonds	21	(11,209)	(20,642)
Repayment of vendor financing payable		(15)	(9)
Repayment of other non-current financing liabilities		(1)	(7)
Options settlement repayments		–	(4,896)
Proceeds from non-controlling shareholders of subsidiaries		24	–
Repayment of lease liabilities		(4,034)	(118)
Acquisition of non-controlling interest	10	–	(2,318)
Dividends paid to shareholders of the Group	20	(11,547)	(12,195)
Dividends paid to non-controlling shareholders of subsidiaries		(226)	(190)
<b>Net cash used in financing activities</b>		<b>(1,844)</b>	<b>(18,601)</b>
Effect of exchange rate changes on cash and cash equivalents		47	(152)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,265</b>	<b>(442)</b>
Cash and cash equivalents at beginning of the year		3,815	4,257
<b>Cash and cash equivalents at the end of the year</b>		<b>10,080</b>	<b>3,815</b>

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

PJSC Rostelecom

Consolidated statement of changes in equity

(In millions of Russian roubles unless otherwise stated)

	Attributable to equity holders of the Group									Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Unrealized loss on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group		
<b>Balances at 1 January 2018</b>	93	91	(10)	806	(65,556)	2,710	6,286	301,702	246,122	3,242	249,364
Effect of application IFRS 9, 15, 16 (Note 5)	–	–	–	–	–	–	–	392	392	–	392
<b>Balances at 1 January 2018, amended on effect of application IFRS 9, 15, 16</b>	93	91	(10)	806	(65,556)	2,710	6,286	302,094	246,514	3,242	249,756
<b>Profit for the year</b>	–	–	–	–	–	–	–	14,154	14,154	858	15,012
Exchange differences on translation foreign operations	–	–	–	459	–	–	–	–	459	(31)	428
Share of other comprehensive income of associates	–	–	–	22	–	–	–	–	22	–	22
Actuarial losses (Note 24)	–	–	–	–	–	–	(180)	–	(180)	–	(180)
Income tax in respect of other comprehensive income items	–	–	–	–	–	–	36	–	36	–	36
<b>Total other comprehensive income/(loss), net of tax</b>	–	–	–	481	–	–	(144)	–	337	(31)	306
<b>Total comprehensive income for the year</b>	–	–	–	481	–	–	(144)	14,154	14,491	827	15,318
<b>Transactions with shareholders, recorded directly in equity</b>											
Dividends to shareholders of the Company (Note 20)	–	–	–	–	–	–	–	(17,268)	(17,268)	–	(17,268)
Dividends to non-controlling shareholders of subsidiaries (Note 10)	–	–	–	–	–	–	–	–	–	(226)	(226)
Acquisition of non-controlling interests	–	–	–	–	–	(98)	–	–	(98)	4	(94)
Disposal of non-controlling interests (Note 10)	–	–	–	–	–	–	–	(8)	(8)	8	–
Non-controlling interests in acquired subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	75	75
Employee benefits within share based employee motivation program (Note 34)	–	–	–	–	5,137	732	–	(2,369)	3,500	–	3,500
Other changes in equity	–	24	–	–	–	–	–	(132)	(108)	–	(108)
<b>Total transactions with shareholders</b>	–	24	–	–	5,137	634	–	(19,777)	(13,982)	(139)	(14,121)
<b>Balances at 31 December 2018</b>	93	115	(10)	1,287	(60,419)	3,344	6,142	296,471	247,023	3,930	250,953

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

PJSC Rostelecom

Consolidated statement 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	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
<b>Balances at 1 January 2017</b>	<b>93</b>	<b>90</b>	<b>(10)</b>	<b>922</b>	<b>(67,034)</b>	<b>2,020</b>	<b>5,850</b>	<b>302,385</b>	<b>244,316</b>	<b>4,317</b>	<b>248,633</b>
<b>Profit for the year</b>	–	–	–	–	–	–	–	<b>13,697</b>	<b>13,697</b>	<b>353</b>	<b>14,050</b>
<b>Other comprehensive income</b>											
Exchange differences on translation foreign operations	–	–	–	(116)	–	–	–	–	(116)	6	(110)
Actuarial gains (Note 24)	–	–	–	–	–	–	545	–	545	–	545
Income tax in respect of other comprehensive income items	–	–	–	–	–	–	(109)	–	(109)	–	(109)
<b>Total other comprehensive income/(loss), net of tax</b>	–	–	–	<b>(116)</b>	–	–	<b>436</b>	–	<b>320</b>	<b>6</b>	<b>326</b>
<b>Total comprehensive income/(loss)</b>	–	–	–	<b>(116)</b>	–	–	<b>436</b>	<b>13,697</b>	<b>14,017</b>	<b>359</b>	<b>14,376</b>
<b>Transactions with shareholders, recorded directly in equity</b>											
Dividends to shareholders of the Group (Note 20)	–	–	–	–	–	–	–	(12,195)	(12,195)	–	(12,195)
Dividends to non-controlling shareholders of subsidiaries (Note 10)	–	–	–	–	–	–	–	–	–	(190)	(190)
Purchase of treasury shares	–	–	–	–	(981)	–	–	–	(981)	–	(981)
Sale of treasury shares (Note 20)	–	–	–	–	1	–	–	–	1	–	1
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(995)	(995)	(1,260)	(2,255)
Disposal of non-controlling interests (Note 10)	–	–	–	–	–	–	–	(11)	(11)	11	–
Non-controlling interests in acquired subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	5	5
Employee benefits within share-based employee motivation program (Note 34)	–	–	–	–	2,458	695	–	(844)	2,309	–	2,309
Other changes in equity	–	1	–	–	–	(5)	–	(335)	(339)	–	(339)
<b>Total transactions with shareholders</b>	–	<b>1</b>	–	–	<b>1,478</b>	<b>690</b>	–	<b>(14,380)</b>	<b>(12,211)</b>	<b>(1,434)</b>	<b>(13,645)</b>
<b>Balances at 31 December 2017</b>	<b>93</b>	<b>91</b>	<b>(10)</b>	<b>806</b>	<b>(65,556)</b>	<b>2,710</b>	<b>6,286</b>	<b>301,702</b>	<b>246,122</b>	<b>3,242</b>	<b>249,364</b>

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

# PJSC Rostelecom

## Notes to the consolidated financial statements

For the year ended 31 December 2018

*(In millions of Russian roubles unless otherwise stated)*

### **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 2018, the Russian Federation, represented by the Federal Property Management Agency together with VEB.RF, controls the Company by holding of 53% of the Company’s voting ordinary shares (2017: 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 has changed its legal name from Public Joint Stock Company Long-Distance and International Telecommunications “Rostelecom” to Public Joint Stock Company Rostelecom. On 29 June 2018, an entry was made to the Uniform State Register of Legal Entities for the official registration of changes to Rostelecom’s legal incorporation documents.

The Company also operates socially important Government programs, including “E-Government”, “Unified communication service” and other.

### **2. Basis of preparation and consolidation**

#### **(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 11 March 2019.

#### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except for measurement of both debt and equity financial assets that have been measured at fair value and certain other items when IFRS requires accounting treatment other than historical cost accounting (refer to Note 4).

Notes to the consolidated financial statements (continued)

**2. Basis of preparation and consolidation (continued)**

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

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

***Revenue from sales of customer premises equipment (CPE) and installation services***

When the Group recognises revenue from sale of CPE and installation it considers whether the promised goods or services are distinct. In case they are not distinct the Group bundles them with relevant telecommunication services.

In considering whether CPE is distinct the Group analyses if the customer can benefit from using the equipment by its own. In case the customer can benefit from using CPE separately from telecommunication services provided by the Group that CPE considered distinct and revenue is recognised at a point in time when CPE is transferred to customer. The Group recognises revenue over the time of rendering relevant telecommunication services if CPE is not distinct.

The Group provides installation services that are mostly not distinct and therefore bundled together with telecommunication services provided by the Group. The installation fees are recognized over the time provided by the contract term if it does not consist sufficient right to prolong contract. Otherwise, revenue is recognized over time of rendering of services to the customer even though it extends the term of contract.

***Consideration of significant financing component in a contract***

The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in advance considering the length of time between the customer's payment and the providing services to the customer, as well as the prevailing interest rates in the market.

In determining the interest to be applied to the amount of consideration, the Group concluded that the interest rate (8.65%) is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

Notes to the consolidated financial statements (continued)

**2. Basis of preparation and consolidation (continued)**

**(d) Use of estimates and judgements (continued)**

***Principal versus agent presentation***

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

***Cost to obtain a contracts with customers***

For obtaining the contracts with new customers the Group hires agents or uses its own specifically dedicated staff and recognizes as an assets related costs if it expects to recover them. The Group amortises the costs to obtain a contracts with customers on a systematic basis which is consistent with the timing of providing the services to the customers. The Group reassesses amortization if the timing expected to provide the services has changed.

***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.

***Defined benefit plan (pension 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.).

***Allowance for expected credit losses of trade receivables and contract assets***

The Group makes allowances for expected credit losses of trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by geography, customer type and rating, type of contacts). The provision matrix is based on the Group's historical observed default rates. The historical observed default rates are updated annually. The information about the ECLs on the Group's trade receivables and contact assets is disclosed in Note 15.



Notes to the consolidated financial statements (continued)

**2. Basis of preparation and consolidation (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.

**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 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.

Notes to the consolidated financial statements (continued)

**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 2017, except for the adoption of new standards and interpretations effective from 1 January 2018.

**(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 acquiree; less
- ▶ The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

***Combination of entities under common control***

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(a) Principles of consolidation (continued)**

***Acquisitions of non-controlling interests***

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

***Subsidiaries***

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

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

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

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

***Investments in associates (equity accounted investees)***

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

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

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

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

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(a) Principles of consolidation (continued)**

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 consolidated 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 net profit/(loss) of associates and joint ventures' in the statement of profit or loss.

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

***Non-controlling interest***

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

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(b) Goodwill**

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

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

- (a) The aggregate of:
  - ▶ The acquisition-date fair value of consideration transferred;
  - ▶ Non-controlling interest's proportionate share of the acquiree's identifiable net assets; and
  - ▶ In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree;
- (b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3.

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

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

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

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

- ▶ Reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;
- ▶ Recognizes in profit or loss any excess remaining after that reassessment immediately.

**(c) Property, plant and equipment**

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(c) Property, plant and equipment (continued)**

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 consolidated 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:

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

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

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

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

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

Cost of machinery and plant and other items of property, plant and equipment related to core activities of the Group, which have been gratuitously transferred to the Group beyond the privatisation framework, is capitalised in property, plant and equipment at fair value at the date of such transfer, if the Group controls them. 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 during the period of minimum of contract term (determined in contract or estimated) and equipment useful life.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(d) Leases**

The Group elected to early adopt IFRS 16 *Leases* effective 1 January 2018 concurrent with the adoption of the new standard on revenue recognition.

The Group has applied IFRS 16 using the modified retrospective approach and recognized the cumulative effect of the initial application of the standard as an adjustment to the retained earnings balance in the balance sheet as at 1 January 2018. The effect of initial application of IFRS 16 is further discussed in the Note 5.

The comparative information has not been restated and continues to be reported under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

*Policy applicable from 1 January 2018*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- ▶ The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct portion of a larger asset or represent substantially all of the capacity of a larger asset. If the supplier has a substantive substitution right, then the asset is not identified;
- ▶ The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- ▶ The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - ▶ The Group has the right to operate the asset; or
  - ▶ The Group designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose it will be used.

For leases of buildings, the Group applies practical expedient not to separate associated non-lease components from lease components and instead account them as a single lease component.

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

*Policy applicable before 1 January 2018*

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(d) Leases (continued)**

**The Group as a lessor**

*Policy applicable from 1 January 2018*

At the inception or on reassessment of the contract that contains a lease component and one or more additional lease or non-lease components the Group as a lessor allocates the consideration in the contract applying IFRS 15 *Revenue from Contracts with Customers*.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

*Policy applicable before 1 January 2018*

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset. The Group does not have subleases, so lessor accounting remains unchanged.

**The Group as a lessee**

*Policy applicable from 1 January 2018*

The Group recognizes a right of use assets and lease liabilities at the lease commencement date.

The right of use assets is initially measured at cost. The cost of the right-of-use asset comprises amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.



Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(d) Leases (continued)**

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is tested for impairment in accordance with IAS 36 *Impairment of Assets* and reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

At the commencement date, a lease liability is measured at the present value of the lease payments that had not been paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- ▶ Fixed payments, including in-substance fixed payments;
- ▶ Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- ▶ Amounts expected to be payable under a residual value guarantee; and
- ▶ The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

After the commencement date, the Group measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liabilities;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Remeasuring the carrying amount to reflect any reassessments or lease modifications.

The carrying amount of the lease liability is reassessed when:

- ▶ There is a change in future lease payments arising from a change in an index or rate;
- ▶ If there is a change in a Group's estimate of the amount expected to be payable under residual value guarantee; or
- ▶ If the Group reassess whether it will exercise a purchase, renewal or termination option.

The Group separately recognizes the interest expense on the lease liabilities and the depreciation expense on the right of use asset.

IFRS 16 includes two recognition exemptions for lessees – for leases of 'low-value' assets available on lease-by-lease basis and for short-term leases (i.e., leases with a lease term of 12 months or less) available by class of underlying asset to which right of use relates.

The Group has chosen to use only exemption for "low-value" assets. Short-term leases are included into the statement of financial position.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(d) Leases (continued)**

The Group considers underlying assets to be 'low-value' assets, if:

- ▶ Their market value, when they are new, do not exceed 0.3;
- ▶ The Group can benefit from use of underlying asset on its own or together with other resources that are readily available to the Group; and
- ▶ The underlying asset is not highly dependent on, or highly interrelated with, other assets.

The Group applies that exemption for any of such leases, except where the Group sublease, or expect to sublease an asset.

*Policy applicable before 1 January 2018*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of 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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(f) Intangible assets**

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

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

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

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

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

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

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

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

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

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

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

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

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

- ▶ Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- ▶ Is not larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*.

**(h) Inventory**

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

**(i) Accounts receivable**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method (for more details pls. see section (j) financial instruments).

**(j) Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

From 1 January 2018, all financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(j) Financial instruments (continued)**

Before 1 January 2018, the Group classifies all financial assets as loans and receivables (at amortised cost), FVPL, available-for-sale and held to maturity.

**Loan and receivables**

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Assets are classified as loan and receivables.

From 1 January 2018, the Group's financial assets at amortised cost include trade receivables, and loan to an associate included under other non-current financial assets.

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The details of these conditions are outlined below.

*Business model assessment*

The Group business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*The SPPI test*

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(j) Financial instruments (continued)**

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

**Available-for-sale financial assets**

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value through profit and loss.

**Impairment of financial assets**

Before 1 January 2018, the Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired.

The Group assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

The allowance is created based on the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

The carrying amount of the asset was reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When the trade receivables was uncollectible, it was written off against the allowance account. Subsequent recoveries of amount previously written off were credited against the allowance account. Changes in the carrying amount of the allowance account were recognized in the profit and loss.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for all debt instruments not held at fair value through profit and loss by replacing IAS 39 incurred loss approach with the forward-looking expected credit loss (ELC) approach.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(j) Financial instruments (continued)**

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's cash and cash equivalent have been assigned low credit risk based on external credit ratings of the respective banks and financial institutions.

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- ▶ the rights to receive cash flows from the asset have expired.
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(j) Financial instruments (continued)**

**Loans and borrowings**

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**(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.



Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(l) Foreign currency transactions (continued)**

As at 31 December 2018 and 2017, the rates of exchange used for translating foreign currency balances were (in Russian roubles for one unit of foreign currency):

	<u>2018</u>	<u>2017</u>
US dollar (USD)	69.4706	57.6002
Special Drawing Rights (XDR)	96.6190	81.8326
Euro (EUR)	79.4605	68.8668

*Source: the Central Bank of Russia*

**(m) Cash and cash equivalents**

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

**(n) Deferred income taxes**

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(n) Deferred income taxes (continued)**

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

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

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

**(o) Revenue and operating costs recognition**

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2 (d).

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either a distinct good or service or a series of distinct goods or services.

**Revenue from communication services**

Revenue from direct subscribers is recognized over time when the services were rendered based on data from the Group's billing system.

The Group bills all subscribers in Russia for outgoing telephone traffic based on the stipulated tariffs. The Group is billed by regional local operators for initiating and terminating a call. The Group also incurs agency fees in accordance with service contracts concluded with regional local operators that are not part of the Group.

The Group bills foreign network operators for incoming calls and other outgoing traffic outside Russia. Foreign operators charge the Group for completing international calls. Relevant revenues and costs are shown in the consolidated financial statements.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(o) Revenue and operating costs recognition (continued)**

*Loyalty points program*

The Group has a loyalty points program, which allows customers to accumulate points that can be redeemed for the following:

- ▶ Discounts from the Company (discounts for internet services, free minutes, etc);
- ▶ Discounts from affiliate programs (discounts from Ozon, Litres, etc);
- ▶ Seasonal lotteries and prize awards (New Year, etc).

The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

**Advance payments received from customers**

Generally, the Group receives short-term advances from its customers. They are presented as part of current contract liabilities.

The Group uses the practical expedient provided in IFRS 15, and does 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.

However, from time to time, the Group may receive long-term advances from customers. Certain such 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 is adjusted for the effects of time value of money using discount rate that is reflected in a separate financing transaction between the Group and its customer at contract inception.

The effect of the financing is presented as part of finance costs.

**Revenues from the sale of customer equipment and related expenses**

Customer premises equipment (hereinafter referred to CPE) – technical devices or equipment installed in the customer premises and designed to provide technical capability of subscriber's consumption of telecommunication services provided by the Company.

Based on the analysis of the current business operations the Group concludes that delivery of CPE, which cannot be used by the customer separately from Group's services, does not represent a performance obligation. Accordingly, costs of CPE are recognized as cost to fulfil contracts, fees received for delivery of CPE are deferred and recognized as revenue over time when the respective services are provided.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(o) Revenue and operating costs recognition (continued)**

Capitalised costs to fulfil contracts are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

Sale of other equipment, which can be use separately, represents a separate performance obligation. Accordingly, revenue is recognised at a point in time when control of the other equipment is transferred to the customer, generally upon delivery of the equipment.

**Revenues from installation services**

The following services are associated with the installation services: organisation of communication channels, connection of operators to networks.

Based on the analysis of the current business operations the Group concluded that installation services, which cannot be used by the client separately from Company's services does not represent a performance obligation. Accordingly, fees received for installation services are deferred and are recognized as contract liability as a part of other current or non-current liabilities in the consolidated statement of financial position. Contract liabilities are recognized as revenue over time when the Group provides telecommunication services.

*Incremental cost to obtain the contract*

The incremental cost of obtaining the contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises as costs to obtain the contract the following expenses:

- ▶ Dealer commissions for attracting new subscribers;
- ▶ Extra payments to Group's employees who are engaged in similar functions.

The Group presents costs of obtaining a contract as a part of contract costs in the consolidated statement of financial position. Costs to obtain the contract is amortised on a systematic basis that is consistent with the contractual relationship with customers to which the assets relates.

*Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounting policy as regard to Trade receivables is disclosed in Note 4 (i), 4 (j).

**(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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(p) Provisions (continued)**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(q) Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on systematic basis in the periods in which the expenses are recognised.

**(r) Pension and other post-employment 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.

Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)**

**(t) Dividends**

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognized as a liability at the reporting date in accordance with IAS 10 *Events after the Reporting Period*.

**(u) Treasury shares**

The cost of treasury shares purchased is debited to a separate category of equity. When treasury shares are sold or re-issued, the amount received for the instruments is credited to this category, and any surpluses or deficits on sales of treasury shares are shown as an adjustment to additional paid-in capital. The average cost method is used to determine the cost of treasury shares sold. However, if the entity is able to identify the specific items sold and their costs, the specific cost is applied.

**(v) Earnings per share**

IAS 33 requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a numerator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

**(w) Segment information**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker, Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

**(x) Pension contracts**

**Classification**

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affect the policyholders.

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk.

## Notes to the consolidated financial statements (continued)

**4. Significant accounting policies (continued)****(x) Pension contracts (continued)**

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 contracts with or without a discretionary participation feature (DPF). DPF provides the policyholder with a contractual right to receive, as a supplement to guaranteed benefits, significant additional benefits, which are based on investment returns on a specified pool of assets held by the insurer and which amounts or timing are contractually at the discretion of the insurer. Group exercises its discretion as to the amount and timing of distribution of the eligible surplus to contract holders subject to provision of the minimum level required by statutory regulations. The Group policy is to treat all DPF, including undistributed amounts, as a liability within investment or insurance contract liability as appropriate.

**Types of pension contracts**

The Group has the following types of pension contracts:

Contracts of non-state pension provision (NPP) issued under a voluntary pension system are executed in accordance with the existing Pension rules of non-state pension provision. These contracts contain a right of contract holders to receive additional investment income as a supplement to guaranteed benefits. The Group classifies NPP contracts as insurance or investment contracts with DPF according to IFRS 4 *Insurance Contracts*.

Contracts of mandatory pension insurance (MPI) are issued in accordance with the Federal Law No. 167-FZ of 15 December 2001, *About Mandatory Pension Insurance in the Russian Federation* to provide contract holders with a funded pension. The Group classified MPI contracts as insurance contracts with DPF according to IFRS 4 *Insurance Contracts*.

**Pension liabilities**

Obligations under non-state pension and mandatory pension insurance contracts are determined as accumulated contributions reduced by performed payments and increased by investment income earned on assets backing 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.

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.

# PJSC Rostelecom

## Notes to the consolidated financial statements (continued)

### 5. New standards, interpretations and amendments adopted by the Group

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.

The Group also discloses new accounting policies that were not included in the Group's annual consolidated financial statements for the year ended 31 December 2017.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue and Related Interpretations* and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective approach. The cumulative impact of the adoption recognised in retained earnings as of 1 January 2018 in the amount 917. The comparative information is not restated.

Cumulative effect of adopting IFRS 15 on the consolidated statement of financial positions on 1 January 2018 is, as follows:

<b>Balance line</b>	<b>Notes</b>	<b>1 January 2018</b>
Trade and other accounts receivable	f)	(4,142)
Contract assets	f)	4,142
Contract costs	a), b)	11,572
Retained earnings and other reserves	a), b), c), d), e)	917
Deferred tax liabilities		229
Other non-current liabilities	a), c), d), e)	6,379
Other current liabilities	a), c), d), e)	4,047

Cumulative impact in retained earnings 917 presented in separate line in the consolidated statement of changes in equity as Effect of application IFRS 9, 15, 16 at 1 January 2018.



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Notes to the consolidated financial statements (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

Impact on the consolidated statement of financial position at 31 December 2018 as follows:

	Notes below	As reported	Effect IFRS 15	Amounts without adoption of IFRS 15
Trade and other accounts receivable	f)	7,346	501	7,847
Contract assets	f)	501	(501)	–
Contract costs	a), b)	12,323	(12,323)	–
Other non-current assets		538,924	–	538,924
<b>Total non-current assets</b>		<b>559,094</b>	<b>(12,323)</b>	<b>546,771</b>
Contract assets	f)	9,511	(9,511)	–
Trade and other accounts receivable	f)	44,189	9,511	53,700
Other current assets		33,418	–	33,418
Asset classified as held for sale		554	–	554
<b>Total current assets</b>		<b>87,672</b>	<b>–</b>	<b>87,672</b>
<b>Total assets</b>		<b>646,766</b>	<b>(12,323)</b>	<b>634,443</b>
Retained earnings and other reserves	a), b), c), d), e)	307,234	(2,914)	304,320
<b>Total equity attributable to equity holders of the Group</b>		<b>247,023</b>	<b>(2,914)</b>	<b>244,109</b>
Non-controlling interests		3,930	(5)	3,925
Other non-current liabilities	a), c), d)	21,142	(4,836)	16,306
Deferred tax liabilities		38,411	(729)	37,682
<b>Total non-current liabilities</b>		<b>258,544</b>	<b>(5,565)</b>	<b>252,979</b>
Other current liabilities	a), d)	13,396	(3,839)	9,557
<b>Total current liabilities</b>		<b>137,269</b>	<b>(3,839)</b>	<b>133,430</b>
<b>Total equity and liabilities</b>		<b>646,766</b>	<b>(12,323)</b>	<b>634,443</b>

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Notes to the consolidated financial statements (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

Impact on the statement of profit or loss and other comprehensive income for year ended 31 December 2018 as follows:

	Notes below	As reported	Effect IFRS 15	Amounts without adoption of IFRS 15
<b>Revenue</b>	a), c), d)	<b>320,239</b>	<b>(1,907)</b>	<b>318,332</b>
Wages, salaries, other benefits and payroll taxes	b)	(97,350)	(2,243)	(99,593)
Depreciation, amortization and impairment losses	b)	(60,329)	1,869	(58,460)
Interconnection charges		(58,293)	–	(58,293)
Materials, utilities, repairs and maintenance		(26,183)	–	(26,183)
Gain on disposal of property, plant and equipment and intangible assets		7,184	–	7,184
Impairment loss of financial assets measured at amortized cost		(4,057)	–	(4,057)
Other operating income		13,579	–	13,579
Other operating expenses	a), b)	(58,990)	(377)	(59,367)
<b>Total operating expenses, net</b>		<b>(284,439)</b>	<b>(751)</b>	<b>(285,190)</b>
<b>Operating profit</b>		<b>35,800</b>	<b>(2,658)</b>	<b>33,142</b>
Loss from associates and joint ventures		(91)	–	(91)
Finance costs	c)	(17,275)	155	(17,120)
Other investing and financial gain, net		1,602	–	1,602
Foreign exchange (loss)/gain, net		(597)	–	(597)
<b>Profit before income tax</b>		<b>19,439</b>	<b>(2,503)</b>	<b>16,936</b>
Income tax expense		(4,427)	501	(3,926)
<b>Profit for the year</b>		<b>15,012</b>	<b>(2,002)</b>	<b>13,010</b>
<b>Attributable to:</b>	a), b), c), d)			
Equity holders of the Group		14,154	(1,997)	12,157
Non-controlling interests		858	(5)	853

The impact on basic and diluted EPS is, as follows:

Earnings per share attributable to equity holders of the Group – basic (in roubles)	0.88
Earnings per share attributable to equity holders of the Group – diluted (in roubles)	0.86

There is no material effect on the statement of cash flow.

*a) 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.

Notes to the consolidated financial statements (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

Based on the analysis of the current business operations the Group concluded that CPE, which cannot be used by the client separately from Group's services, does not represent 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 cost of CPE also is recognised as an asset from the costs incurred to fulfil a contract and amortised in operational expense as over period when the respective services are provided.

Prior the adoption of IFRS 15, the Group recognised revenue from the sale of CPE and cost of CPE as expense at the point of time when control of the assets is transferred to the customer.

On 1 January 2018 the Group recognised cost to fulfill contract in the amount of 4,982, contract liabilities 8,524, including current portion 2,613, cumulative effect on retained earnings from CPE comprised (2,834) after income tax effect.

At the consolidated statement of financial positions as at 31 December 2018 total contract liabilities of CPE amounted to 6,742 including current portion amounted to 2,455 and contract cost amounted to 4,695.

The impact on the consolidated statement of profit or loss and other comprehensive income for period ended 31 December 2018 as follows: increase in revenue amounting to 1,782, increase in operational expenses amounting to 287.

*b) 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 costs are expected to be recoverable. The incremental cost of obtaining the contract are those costs 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 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.

Prior the adoption of IFRS 15, the Group recognised incremental costs of obtaining the contract in profit or loss at the point of time when expense incurred: dealer commissions were recognised as operational expenses, additional payments to employees were recognised as wages and salaries expenses.

The Group presents costs of obtaining a contract as contract cost in the consolidated statement of financial position. An asset under the contract is being amortised on a systematic basis that is consistent with the contractual relationship with customers to which the assets relates.

At 1 January 2018, the Group would recognise contract costs of obtaining the contract in the total amount of 6,590, cumulative effect in retained earnings from capitalisation of incremental cost comprised 5,272 after income tax effect.

Notes to the consolidated financial statements (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

At the consolidated statement of financial positions as at 31 December 2018 contract costs of obtaining the contract amounted to 7,628.

The Impact on the consolidated statement of profit or loss and other comprehensive income for period ended 31 December 2018 as follows: decrease in wages and salaries expenses to 2,243, decrease in other operating expenses to 664, increase in amortization expenses to 1,869.

*c) 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 consolidated statement of financial position.

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. The Group use the practical expedient provided in IFRS 15, and does 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 does 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 rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception.

Upon adoption of IFRS 15 the Group recognised contract liabilities for the interest on the advances received from customers with significant financing components amounting to 343, cumulative effect in retained earnings (274) after income tax effect.

At the consolidated statement of financial positions as at 31 December 2018 contract liabilities for the interest on the advances received from customers with significant financing components amounted to 467.

The Impact on the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 as follows: revenue increased by 31, finance cost increased by 155.

*d) Installation services*

The following services are associated with the installation services: organisation of communication channels, connection of operators to networks.

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.

Notes to the consolidated financial statements (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

Based on the analysis of the current business operations the Group concluded that installation services, which can't be used by the client separately from Company's services does not represents a performance obligation. Accordingly, fees received for installation services are deferred and recognized as revenue over period when the respective services are provided.

Upon adoption of IFRS 15 the Group recognised additional contract liabilities for installation services in the amount 1,562, including current portion 1,437, cumulative effect in retained earnings (1,250) after income tax effect.

At the consolidated statement of financial positions as at 31 December 2018 total contract liabilities for installation services amounted to 1,467, including current portion amounted to 1,384.

The impact on the consolidated statement of profit or loss and other comprehensive income for period ended 31 December 2018 as follows: increase in revenue amounting to 95.

*e) Loyalty programme*

The application of IFRS 15 for accounting of the loyalty program did not have a significant impact on the Group's financial statement and led to a reduction in the contractual obligation for bonuses by 3, the cumulative effect on retained earnings 3 on 1 January 2018.

*f) Contract assets*

Under IFRS 15, any earned consideration that is conditional should be recognised as a contract asset rather than receivable. Therefore, upon adoption of IFRS 15, the Group made reclassifications from Trade and other receivables to Contract assets.

*g) Presentation and disclosure requirements*

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors (refer Note 26).

Contract liabilities were included in the current and non-current liabilities of the consolidated statement of financial position.

*IFRS 9 Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9, with the initial application date of 1 January 2018 and has not adjusted the comparative information for the year 2017.

*a) Classification and measurement*

Applying the classification and measurement requirements of IFRS 9 does not have significant impact on balance sheet or equity of the Group.

The Group continue measuring all financial assets, which are currently measured at fair value, at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

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

*IFRS 9 Financial Instruments (continued)*

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.

The Group classified its unquoted equity instruments as equity instruments at FVPL (Fair value through profit and loss). Under IAS 39, the Group's unquoted equity instruments were classified as AFS (available for sale) financial assets.

*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 (Fair value through other comprehensive income), 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.

At 1 January 2018 the Group recognise additional loss allowance 656 for trade and other receivables and contract assets with cumulative effect in retained earnings 525 after income tax effect.

Balance line	31 December 2017	Adjustment IFRS 15	Adjustment IFRS 9	1 January 2018
<b>Non-current trade and other accounts receivable, net</b>	<b>8,352</b>	<b>(222)</b>	<b>(56)</b>	<b>8,074</b>
Allowance for expected credit loss	–	–	(56)	(56)
<b>Trade and other accounts receivable, net</b>	<b>47,813</b>	<b>(3,919)</b>	<b>(588)</b>	<b>43,306</b>
Trade and other accounts receivable, gross	57,973	(3,919)	–	54,054
Allowance for expected credit loss	(10,160)	–	(588)	(10,748)
<b>Non-current contract assets, net</b>	<b>–</b>	<b>222</b>	<b>–</b>	<b>222</b>
Contract assets, gross	–	222	–	222
Allowance for expected credit loss	–	–	–	–
<b>Contract assets, net</b>	<b>–</b>	<b>3,919</b>	<b>(12)</b>	<b>3,907</b>
Contract assets, gross	–	3,919	–	3,919
Allowance for expected credit loss	–	–	(12)	(12)
<b>Total</b>	<b>56,165</b>	<b>–</b>	<b>(656)</b>	<b>55,509</b>

Notes to the consolidated financial statements (continued)

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

*IFRS 9 Financial Instruments (continued)*

	Doubtful debt allowance as at 31 December 2017	Adjustment IFRS 9	Allowance for expected credit loss as at 1 January 2018
Amounts due from customers for operating and non-operating activities	(9,283)	(588)	(9,871)
Amounts due from commissioners and agents	(330)	–	(330)
Amounts due from personnel	–	–	–
Amounts due from lessees for financial lease	–	–	–
Amounts due from other debtors	(547)	–	(547)
<b>Total trade and other accounts receivable</b>	<b>(10,160)</b>	<b>(588)</b>	<b>(10,748)</b>

Cumulative impact in retained earnings (525) presented in separate line in consolidated statement of changes of equity as *Effect of application IFRS 9*.

Other financial assets at amortised cost include loans receivable, including loans to related parties. The Group apply general approach to providing for expected credit losses in relation to such financial assets.

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 1 January 2018 in connection with the adoption of the new impairment model under IFRS 9.

*IFRS 16 Leases*

IFRS 16 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 Group applies the standard for annual periods beginning on 1 January 2018 and adopts the standard retrospectively with the cumulative effect of initially applying IFRS 16 recognised as an adjustment to the opening balance of retained earnings. The comparative information was not restated.

At the date of initial application the Group applies IFRS 16 only to the contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

Notes to the consolidated financial statements (continued)

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

*IFRS 16 Leases (continued)*

*a) The Group as a lessor*

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors 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. However, new guidance was added for modification of the lessor's leases and there is a change in classification of subleases under IFRS 16 as comparing to IAS 17. The Group do not have subleases, so lessor accounting remained unchanged.

*b) The Group as a lessee*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease, the Group recognises a liability to make lease payments (i.e., the lease liabilities) and an asset representing the right of use the underlying asset during the lease term (i.e., right of use asset).

At the commencement date, a lease liabilities is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. At the commencement date, the Group measures the right of use assets at cost.

After the commencement date, the Group measures:

- ▶ The lease liabilities by:
  - (a) Increasing the carrying amount to reflect interest on the lease liabilities;
  - (b) Reducing the carrying amount to reflect the lease payments made; and
  - (c) Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.
- ▶ The right of use asset at cost less any accumulated depreciation determined in accordance with IAS 16 *Property, Plant and Equipment* requirements and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

The Group separately recognizes the interest expense on the lease liabilities and the depreciation expense on the right of use asset.

IFRS 16 includes two recognition exemptions for lessees – leases of 'low-value' assets available on lease by lease basis 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. Short-term leases are included into the consolidated statement of financial position. The Group considers underlying assets to be 'low-value' assets, if their initial market value, when they are new, do not exceed 0.3 and apply that exemption for any of such leases.



Notes to the consolidated financial statements (continued)

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

*IFRS 16 Leases (continued)*

At the date of initial application IFRS 16:

- ▶ For former IAS 17 operating leases for which the underlying asset is of 'low-value' asset no lease liability and right of use asset were not recognized in the consolidated statement of financial position.
- ▶ For all other former IAS 17 operating leases:
  - ▶ a lease liabilities is recognised at the amount of remaining lease payments, discounted, where material, using the lessee's incremental borrowing rate at the date of initial application; and
  - ▶ a lease assets (presented as right of use asset) is recognised at the amount equal to lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. IAS 36 *Impairment of Assets* was applied to right of use assets at the date of initial application. As a result no loss in respect of right of use assets was recognised.
- ▶ For former IAS 17 finance leases, the right of use assets and the lease liabilities at the date of initial application are recognised at the carrying amounts of the lease assets and the lease liabilities immediately before that date measured applying IAS 17.

At 1 January 2018 the Group recognised right of use assets 16,980, and lease liabilities in the amount 16,225. Cumulative effect of initial application of IFRS 16 on retained earnings was immaterial for disclosure.

In the consolidated statement of financial positions as at 31 December 2018 right of use assets amounted to 21,205, short and long term lease liabilities amounted to 4,791 and 16,855 accordingly. During the year ended 31 December 2018 additional capitalization of right of use assets is amounted to 9,622.

The impact on the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 as follows: increase in amortization amounting to 5,251, increase in finance cost amounting to 1,627.

Below is an explanation of the difference between operating lease commitments disclosed applying IAS 17 as at 31 December 2017, discounted using weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position at the date of initial application and lease liabilities recognised in the consolidated statement of financial position at 1 January 2018:

<b>Operating lease commitments at 31 December 2017</b>	<b>14,704</b>
Weighted average incremental borrowing rate of the Group as a lessee	8.07%
<b>Discounted operating lease commitments at 31 December 2017</b>	<b>9,205</b>
Less: commitment related to leases of low value assets which are not recognised in the consolidated statement of financial position	(336)
Add: lease obligations for leases previously classified as finance leases	1,249
Add: payments in optional renewal periods not presented at 31 December 2017	6,107
<b>Lease liabilities at 1 January 2018</b>	<b>16,225</b>

Notes to the consolidated financial statements (continued)

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

*Amendments to IAS 40 Transfers of Investment Property*

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. These amendments do not have any impact on the Group's consolidated financial statements.

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

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. This Interpretation does not have any impact on the Group's consolidated financial statements.

*Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

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 Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

*Amendments to 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. These amendments do not have any impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

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

*Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Group is in the process of assessment of the impact on its consolidated financial statements.

*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 in the process of assessment of the impact 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 has to 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 the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. 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.

Notes to the consolidated financial statements (continued)

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

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

*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.

*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- ▶ Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- ▶ Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Notes to the consolidated financial statements (continued)

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

*Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

***Annual Improvements 2015-2017 Cycle (issued in December 2017)***

These improvements include:

*IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

*IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

*IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

Notes to the consolidated financial statements (continued)

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

***Annual Improvements 2015-2017 Cycle (issued in December 2017) (continued)***

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

*IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

▶ *Definition of a Business – Amendments to IFRS 3*

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

▶ *Definition of Material – Amendments to IAS 1 and IAS 8*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

## Notes to the consolidated financial statements (continued)

**6. Business combinations****2018 transactions*****Acquisition of subsidiaries****LLC Servis telekommunikaciy*

On 12 January 2018 the Group acquired control over LLC Servis telekommunikaciy. The subsidiary of the Company PJSC Bashinformsvyaz has signed an agreement to acquire 100% of LLC Servis telekommunikaciy for 250. LLC Servis telekommunikaciy owns the frequency resource in the area of Saint Petersburg that will enable the Group to develop 5G technology and expand the trial network in 5G technology.

The effective share of the Group in LLC Servis telekommunikaciy as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of LLC Servis telekommunikaciy as at the date of acquisition were:

	<b>LLC Servis telecommuni- kaciy</b>
<b>Fair value of identifiable assets and liabilities</b>	
Intangible assets	270
Trade and other accounts receivable	2
Cash and cash equivalents	1
Accounts payable, provisions and accrued expenses	(2)
Deferred tax liabilities	(55)
<b>Total identifiable net assets at fair value</b>	<b>216</b>
Goodwill arising on acquisition	45
<b>Non-controlling interests</b>	<b>8</b>
<b>Purchase consideration transferred (paid in cash)</b>	<b>250</b>
<b>Deferred consideration</b>	<b>3</b>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1
Cash paid	(250)
<b>Net cash flow on acquisition</b>	<b>(249)</b>

The goodwill of 45 comprises the value of expected synergies and other benefits from combining the assets and activities of the LLC Servis telekommunikaciy 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 2018 LLC Servis telekommunikaciy has contributed (1) to net profit of the Group and 2 to revenue.

Notes to the consolidated financial statements (continued)

**6. Business combinations (continued)**

**2018 transactions (continued)**

*Solar Security*

On 21 May 2018 the Group obtained control over Solar Security. The subsidiaries of the Company, LLC Data Storage Centre and PJSC Bashinformsvyaz, have signed the agreements to acquire 70% and 30% of Solar Security respectively for 1,050 and 450. Solar Security is a technological leader in target monitoring and information security (IS) management.

Rostelecom's IS division will become part of Solar Security, thus forming an integrated cybersecurity competence centre. Solar Security will be responsible for further development and promotion of existing products and services, as well as the implementation of Rostelecom's corporate and public projects in the space of data protection.

The effective share of the Group in Solar Security as of 31 December 2018 is 98.90%.

The acquisition has been accounted using the acquisition method.

The fair value of the identifiable assets and liabilities of Solar Security as at the date of acquisition were:

	<u>Solar Security</u>
<b>Fair value of identifiable assets and liabilities</b>	
Property, plant and equipment	20
Intangible assets	290
Contract assets	29
Deferred tax assets	48
Trade and other accounts receivable	130
Cash and cash equivalents	41
Inventories	13
Contract liabilities	(29)
Accounts payable, provisions and accrued expenses	(133)
<b>Total identifiable net assets at fair value</b>	<u><b>409</b></u>
Goodwill arising on acquisition	1,095
<b>Non-controlling interests</b>	<u><b>4</b></u>
<b>Purchase consideration transferred (paid in cash)</b>	<u><b>1,417</b></u>
<b>Deferred consideration</b>	<u><b>83</b></u>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	41
Cash paid	(1,417)
<b>Net cash flow on acquisition</b>	<u><u><b>(1,376)</b></u></u>



Notes to the consolidated financial statements (continued)

**6. Business combinations (continued)**

**2018 transactions (continued)**

The goodwill of 1,095 comprises the value of expected synergies and other benefits from combining the assets and activities of Solar Security with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 1.10%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired

The fair value of the trade and other accounts receivable amounts to 130, 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.

From the date of acquisition until 31 December 2018 Solar Security has contributed (207) to net profit of the Group and 513 to revenue. If the combination had taken place at the beginning of 2018, net profit of the Group would have been 14,890 and revenue would have been 320,389. 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 2018.

*LLC Star2Com*

In December 2018 the Group obtained control over LLC Star2Com. The subsidiary of the Company, PJSC Bashinformsvyaz, has signed the agreement to acquire 99.92% of LLC Star2Com for 490. The remaining share 0.08% is included in net assets of the acquired company.

Star2Comm is one of the leading developers of telecommunications settlements and maintenance solutions. The company has its own proprietary billing software, which provides full settlement cycle to a considerable number of Rostelecom's broadband, IPTV and telephony subscribers.

The effective share of the Group in LLC Star2Com as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method. These consolidated financial statements include balances of LLC Star2Com as at 31 December 2018.

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

**6. Business combinations (continued)**

**2018 transactions (continued)**

The provisional value of the identifiable assets and liabilities of LLC Star2Com as at the date of acquisition were:

	<u>LLC Star2Com</u>
<b>Provisional value of identifiable assets and liabilities</b>	
Intangible assets	519
Property, plant and equipment	9
Contract assets	19
Trade and other accounts receivable	21
Inventories	22
Cash and cash equivalents	6
Short-term loans	(26)
Shareholders liability	(20)
Contract liabilities	(19)
Accounts payable, provisions and accrued expenses	(112)
Deferred tax liability	(106)
<b>Total identifiable net assets at provisional value</b>	<u><b>313</b></u>
Goodwill arising on acquisition	189
<b>Non-controlling interests</b>	<u><b>12</b></u>
<b>Purchase consideration transferred (paid in cash)</b>	<u><b>490</b></u>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	6
Cash paid	(490)
<b>Net cash flow on acquisition</b>	<u><u><b>(484)</b></u></u>

The goodwill of 189 comprises the value of expected synergies and other benefits from combining the assets and activities LLC Star2Com 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

*Netris*

On 25 December 2018 the Group obtained control over Netris. The subsidiary of the Company, PJSC Bashinformsvyaz has signed the agreement to acquire 100% of Netris for 1,712.

Netris is one of the leading developer of video monitoring systems software for government and corporate customers.

The effective share of the Group in Netris as of 31 December 2018 is 96.33%.

The acquisition has been accounted using the acquisition method. These consolidated financial statements include balances of Netris as at 31 December 2018.

## PJSC Rostelecom

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

#### 6. Business combinations (continued)

##### 2018 transactions (continued)

The provisional value of the identifiable assets and liabilities of Netris as at the date of acquisition were:

	<b>Netris</b>
<b>Provisional value of identifiable assets and liabilities</b>	
Intangible assets	1,348
Property, plant and equipment	9
Trade and other accounts receivable	100
Inventories	34
Cash and cash equivalents	347
Accounts payable, provisions and accrued expenses	(152)
Deferred tax liabilities	(269)
<b>Total identifiable net assets at provisional value</b>	<b>1,417</b>
Goodwill arising on acquisition	347
<b>Non-controlling interests</b>	<b>52</b>
<b>Purchase consideration transferred (paid in cash)</b>	<b>1,712</b>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	347
Cash paid	(1,712)
<b>Net cash flow on acquisition</b>	<b>(1,365)</b>

The goodwill of 347 comprises the value of expected synergies and other benefits from combining the assets and activities Netris 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 100, 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.

During 2018 the Group acquired the business which are individually immaterial (LLC Sputnik Telecom, LLC TelecomSistemy, LLC Evraziya Telecom, LLC Udostoverayayuschiy centr Internet). Total amount of purchase consideration transferred and paid by cash is 270. Property, plant and equipment in the amount 109 and intangible assets in the amount 154 were purchased as part of business combination. No goodwill arose on acquisition.

##### 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.

## PJSC Rostelecom

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

#### 6. Business combinations (continued)

##### 2017 transactions (continued)

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 investment 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 fair value of the identifiable assets and liabilities of Tvingo telecom LLC as at the date of acquisition were:

	<b>LLC Tvingo telecom*</b>
<b>Fair value of identifiable assets and liabilities</b>	
Property, plant and equipment	259
Intangible assets	87
Trade and other accounts receivable	4
Cash and cash equivalents	3
Inventories	41
Long-term and short-term loans	(55)
Accounts payable, provisions and accrued expenses	(50)
Deferred tax liabilities	(26)
<b>Total identifiable net assets at fair value</b>	<b>263</b>
Goodwill arising on acquisition	145
<b>Non-controlling interest</b>	<b>10</b>
<b>Purchase consideration transferred (paid in January 2018)</b>	<b>298</b>
<b>Deferred consideration paid in December 2018</b>	<b>30</b>
<b>Deferred consideration to be paid</b>	<b>70</b>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3
Cash paid in 2018	328
<b>Net cash flow on acquisition</b>	<b>(325)</b>

\* Certain amounts do not correspond to the amounts disclosed in the notes to the consolidated financial statements of the Group as of 31 December 2017 and reflect measurement period adjustments made to the provisional amounts of the Tvingo Telecom as the accounting for the business combination had been completed at the acquisition date.

The goodwill of 145 comprises the value of expected synergies and other benefits from combining the assets and activities Tvingo telecom LLC with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest is 3.67%. The Group has elected to measure the non-controlling interest at the proportionate share of the value of net identifiable assets acquired.

During year 2017 the Group acquired the business of LLC Evraziya Telecom, SC Tolyatti Telecom, LLC RoylCom, which are individually immaterial. Total amount of purchase consideration transferred and paid by cash is 138. Property, plant and equipment in the amount 92 and intangible assets in the amount 55 were purchased as part of business combination. No goodwill arise.

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

7. Property, plant and equipment

The net book value of property, plant and equipment as at 31 December 2018 and 2017 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
<b>Cost / deemed cost</b>					
<b>At 1 January 2017</b>	<b>104,542</b>	<b>619,691</b>	<b>127,033</b>	<b>28,073</b>	<b>879,339</b>
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
<b>At 31 December 2017</b>	<b>101,013</b>	<b>657,049</b>	<b>129,613</b>	<b>28,563</b>	<b>916,238</b>
<b>At 1 January 2018</b>	<b>101,013</b>	<b>657,049</b>	<b>129,613</b>	<b>28,563</b>	<b>916,238</b>
Reclassification financial leasing to rights in use assets a at 1 January 2018	(322)	(1,152)	(220)	–	(1,694)
Additions	23	6,114	3,294	63,009	72,440
Assets of acquired subsidiaries	2	114*	28*	47	191
Reclassification from investment property and assets held for sale	3,595	42	68	–	3,705
Reclassification to assets held for sale	(4,814)	(40)	(161)	–	(5,015)
Reclassification to intangible assets	–	–	–	(379)	(379)
Transfer	1,718	49,793	7,866	(59,377)	–
Disposals	(1,904)	(7,303)	(5,495)	(182)	(14,884)
Foreign exchange	1	403	23	16	443
Reclassification	9	(39)	2	4	(24)
<b>At 31 December 2018</b>	<b>99,321</b>	<b>704,981</b>	<b>135,018</b>	<b>31,701</b>	<b>971,021</b>
<b>Accumulated amortisation and impairment losses</b>					
<b>At 1 January 2017</b>	<b>(62,548)</b>	<b>(372,702)</b>	<b>(98,719)</b>	<b>(1,703)</b>	<b>(535,672)</b>
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)
<b>At 31 December 2017</b>	<b>(61,568)</b>	<b>(404,466)</b>	<b>(100,938)</b>	<b>(836)</b>	<b>(567,808)</b>
<b>At 1 January 2018</b>	<b>(61,568)</b>	<b>(404,466)</b>	<b>(100,938)</b>	<b>(836)</b>	<b>(567,808)</b>
Reclassification financial leasing to rights in use assets a at 1 January 2018	39	127	34	–	200
Depreciation expense	(2,437)	(33,145)	(7,264)	–	(42,846)
Reclassification from investment property and assets held for sale	(2,515)	(37)	(59)	–	(2,611)
Reclassification to assets held for sale	3,173	34	117	–	3,324
Accruals of impairment losses	(12)	(817)	(110)	(150)	(1,089)
Disposals	1,454	7,057	5,246	80	13,837
Foreign exchange	–	(203)	(18)	–	(221)
Reclassification	(8)	48	(10)	2	32
<b>At 31 December 2018</b>	<b>(61,874)</b>	<b>(431,402)</b>	<b>(103,002)</b>	<b>(904)</b>	<b>(597,182)</b>
<b>Net book value</b>					
<b>At 31 December 2017</b>	<b>39,445</b>	<b>252,583</b>	<b>28,675</b>	<b>27,727</b>	<b>348,430</b>
<b>At 31 December 2018</b>	<b>37,447</b>	<b>273,579</b>	<b>32,016</b>	<b>30,797</b>	<b>373,839</b>

\* Certain amounts reflects measurement period adjustments made to the provisional amounts of the Twingo Telecom if the accounting for the business combination had been completed at the acquisition date.

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

**7. Property, plant and equipment (continued)**

At 31 December 2018 and 2017 cost of fully depreciated property, plant and equipment was 220,965 and 225,082 respectively.

As required by IFRS 16, fixed assets fully under operational leases are disclosed below:

	Buildings and site services	Cable and transmission devices	Other	Total
<b>Cost / deemed cost</b>				
<b>At 1 January 2018</b>	<b>3,799</b>	<b>18,464</b>	<b>942</b>	<b>23,205</b>
Transferring to operational lease	647	3,478	336	<b>4,461</b>
Disposals	(713)	(1,119)	(13)	<b>(1,845)</b>
Return from operational lease	(438)	(5)	(291)	<b>(734)</b>
<b>At 31 December 2018</b>	<b>3,295</b>	<b>20,818</b>	<b>974</b>	<b>25,087</b>
<b>Accumulated amortisation and impairment losses</b>				
<b>At 1 January 2018</b>	<b>(2,287)</b>	<b>(7,288)</b>	<b>(546)</b>	<b>(10,121)</b>
Depreciation	(34)	(3,002)	(57)	<b>(3,093)</b>
Transferring to operational lease	(345)	(142)	(91)	<b>(578)</b>
Disposals	537	1,119	13	<b>1,669</b>
Return from operational lease	250	2	151	<b>403</b>
<b>At 31 December 2018</b>	<b>(1,879)</b>	<b>(9,311)</b>	<b>(530)</b>	<b>(11,720)</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>1,512</b>	<b>11,176</b>	<b>396</b>	<b>13,084</b>
<b>At 31 December 2018</b>	<b>1,416</b>	<b>11,507</b>	<b>444</b>	<b>13,367</b>

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.

Maturity analysis as at 31 December 2018 represented below shows undiscounted cash flows from fixed assets under operational lease:

	<b>Operational lease cash flow, 31 December 2018</b>
Current portion (less than 1 year)	2,723
More than 1 to 5 years	1,632
Over 5 years	974
<b>Total</b>	<b>5,329</b>

As usual, the Group leased land, buildings, transport and other assets if the purchase of them have no economic feasibility because of short term of use. The future cash outflows to which the Group is potentially exposed, including extension and termination options, are absent. The Group has no restriction or covenants imposed by lease.

In 2018, management revised certain useful lives of cable and transmission devices from 11 years to 16 years, buildings and site services from 16 years to 26 years and other equipment from 7 years to 14 years in accordance with IAS 8, effective 1 January 2018.

# PJSC Rostelecom

## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment (continued)

The change in estimate resulted in a decrease in the depreciation expense for the current year is disclosed below:

	<b>Depreciation expense decreasing for 2018</b>
Buildings and site services	352
Cable and transmission devices	5,926
Other	3,104
<b>Total effect as for 2018</b>	<b>9,382</b>

At the end of 2018, management revised certain useful lives of cable and transmission devices from 11 years to 18 years, buildings and site services from 18 years to 28 years and other equipment from 7 years to 14 years in accordance with IAS 8, effective 1 January 2019.

The change in estimate resulted in a decrease in the depreciation expense for 2019 is disclosed below:

	<b>Depreciation expense decreasing, expected as for 2019</b>
Buildings and site services	142
Cable and transmission devices	1,799
Other	1,055
<b>Total effect for 2019</b>	<b>2,996</b>

In December 2018 and 2017 the Group sold to Telecom-5 buildings with the carrying value of 178 and 594 respectively, for details see Note 35.

### Interest capitalization

Interest amounting to 1,254 and 1,696 was capitalized in property, plant and equipment for the years ended 31 December 2018 and 2017 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 7.94% and 8.88% for the years ended 31 December 2018 and 2017 respectively.

### Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 179 and 184 was pledged under the loan agreements entered into by the Group as at 31 December 2018 and 2017 respectively.

### Impairment of property, plant and equipment

As of 31 December 2018 and 2017, 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 2018 and 2017 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).

Notes to the consolidated financial statements (continued)

**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 12.68% to 19.99% per CGU;
- ▶ OIBDA margin is based on historical actual results and varies from 4.65% to 60.9% 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 and intangible assets for which the Group has no intention to complete and use or sell them the impairment loss 998 and 343 was recognised as at 31 December 2018 and 2017 respectively.

***2018 impairment testing***

As a result of impairment testing of property, plant and equipment the Group recognized an impairment loss of 91 related to Globus Telecom.

***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.



PJSC Rostelecom

Notes to the consolidated financial statements (continued)

**8. Goodwill and other intangible assets**

The net book value of goodwill and other intangible assets as at 31 December 2018 and 2017 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
<b>Cost</b>								
<b>At 1 January 2017</b>	<b>28,218</b>	<b>833</b>	<b>746</b>	<b>51,513</b>	<b>15,714</b>	<b>1,274</b>	<b>2,389</b>	<b>100,687</b>
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)
<b>At 31 December 2017</b>	<b>28,439</b>	<b>897</b>	<b>747</b>	<b>56,061</b>	<b>15,854</b>	<b>1,159</b>	<b>3,270</b>	<b>106,427</b>
<b>At 1 January 2018</b>	<b>28,439</b>	<b>897</b>	<b>747</b>	<b>56,061</b>	<b>15,854</b>	<b>1,159</b>	<b>3,270</b>	<b>106,427</b>
Additions	–	131	1	8,647	57	648	1,266	10,750
Intangible assets of acquired subsidiaries	1,575*	–	13*	2,411	238*	–	5	4,242
Disposals	–	–	–	(2,849)	(4)	(32)	(133)	(3,018)
Reclassification from PPE	–	–	–	379	–	–	–	379
Reclassification	–	–	–	178	10	(9)	(179)	–
Foreign exchange	98	–	–	18	5	12	3	136
<b>At 31 December 2018</b>	<b>30,112</b>	<b>1,028</b>	<b>761</b>	<b>64,845</b>	<b>16,160</b>	<b>1,778</b>	<b>4,232</b>	<b>118,916</b>
<b>Accumulated amortisation and impairment losses</b>								
<b>At 1 January 2017</b>	<b>(3,579)</b>	<b>(23)</b>	<b>(669)</b>	<b>(27,818)</b>	<b>(5,914)</b>	<b>(546)</b>	<b>(929)</b>	<b>(39,478)</b>
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
<b>At 31 December 2017</b>	<b>(3,778)</b>	<b>(24)</b>	<b>(678)</b>	<b>(33,897)</b>	<b>(6,653)</b>	<b>(555)</b>	<b>(1,022)</b>	<b>(46,607)</b>
<b>At 1 January 2018</b>	<b>(3,778)</b>	<b>(24)</b>	<b>(678)</b>	<b>(33,897)</b>	<b>(6,653)</b>	<b>(555)</b>	<b>(1,022)</b>	<b>(46,607)</b>
Amortisation expense	–	3	(13)	(6,761)	(453)	(454)	(753)	(8,431)
Disposals	–	–	–	2,849	4	32	133	3,018
Impairment losses	(178)	–	–	(520)	–	–	–	(698)
Reversal of impairment losses	–	–	–	69	–	–	–	69
Reclassification	–	–	–	1	(1)	–	–	–
Foreign exchange	–	–	–	(7)	(3)	(9)	(2)	(21)
<b>At 31 December 2018</b>	<b>(3,956)</b>	<b>(21)</b>	<b>(691)</b>	<b>(38,266)</b>	<b>(7,106)</b>	<b>(986)</b>	<b>(1,644)</b>	<b>(52,670)</b>
<b>Net book value</b>								
<b>At 31 December 2017</b>	<b>24,661</b>	<b>873</b>	<b>69</b>	<b>22,164</b>	<b>9,201</b>	<b>604</b>	<b>2,248</b>	<b>59,820</b>
<b>At 31 December 2018</b>	<b>26,156</b>	<b>1,007</b>	<b>70</b>	<b>26,579</b>	<b>9,054</b>	<b>792</b>	<b>2,588</b>	<b>66,246</b>

\* Certain amounts reflects measurement period adjustments made to the provisional amounts of the Twingo Telecom if the accounting for the business combination had been completed at the acquisition date..

Interest amounting to 350 and 345 was capitalized in intangible assets for the years ended 31 December 2018 and 2017 respectively.

**Intangible assets with indefinite useful lives and goodwill**

The owned number capacities with a carrying amount of 1,007 (2017: 849) are intangible assets with indefinite useful lives and are not amortised. These assets have no legal restrictions on the term of their use and the Group can derive economic benefits from their use indefinitely. These assets are tested for impairment annually or more frequently if there is an indication that the intangible assets may be impaired.

No research and development expenditure was recognized in 2018 and 2017.

# PJSC Rostelecom

## Notes to the consolidated financial statements (continued)

### 8. Goodwill and other intangible assets (continued)

#### Intangible assets with indefinite useful lives and goodwill (continued)

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 33.

Carrying amounts of goodwill and intangible assets with indefinite useful lives are presented in the table below:

CGU	31 December 2018		31 December 2017	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
PJSC Rostelecom	19,470	580	19,470	420
Macomnet	646	50	646	50
Globus Telecom	–	359	–	359
GNC Alfa	577	–	479	–
RTComm.RU	606	–	606	–
Severen telecom	432	1	432	1
SafeData Group	885	–	885	–
Global-Tel	442	–	442	–
FreshTel Group	–	–	178	–
IQ'Men	316	–	316	–
Aist	750	–	750	–
Morton Group	101	–	99	–
Twingo Telecom	145*	–	246	–
Solar	1,095	–	–	–
Start2Com	189	–	–	–
Netrix	347	–	–	–
Other	155	17	112	19
<b>Total</b>	<b>26,156</b>	<b>1,007</b>	<b>24,661</b>	<b>849</b>

\* Including goodwill reassessment of Twingo Telecom for 2017, which was made in 2018.

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. Nominal rates for discounting varies from 12.68% to 19.99% per CGU;
- ▶ OIBDA margin is based on historical actual results and varies from 4.64% to 60.9% 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.

Notes to the consolidated financial statements (continued)

**8. Goodwill and other intangible assets (continued)**

**Intangible assets with indefinite useful lives and goodwill (continued)**

**2018 impairment testing**

As a result of impairment testing Group recognized an impairment loss of goodwill in the amount of 178 related to FreshTel Group.

**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.

Impairment loss was recognized in the line Depreciation, amortisation and impairment losses in the consolidated 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 2018:

<b>CGU</b>	<b>Decrease of OIBDA margin</b>	<b>Impairment loss</b>	<b>Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount</b>
SC Restrım	5%	(19)	4.93%
GNC Alfa	5%	(64)	4.12%
SC Severen-Telecom	5%	(159)	3.87%
LLC Morton Telecom	5%	(44)	3.66%
LLC Rostelecom Roznichnye sistemy	5%	(1,411)	3.22%
SC OK Orbita	5%	(68)	3.01%
LLC Sibitex	5%	(14)	1.83%
SC MTs NTT	5%	(414)	0.33%
SC RPK Svyazist	5%	(91)	0.01%

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:

<b>CGU</b>	<b>Decrease of OIBDA margin</b>	<b>Impairment loss</b>	<b>Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount</b>
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%
Restrım	5%	(157)	3.40%

## Notes to the consolidated financial statements (continued)

**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:

<b>CGU</b>	<b>Decrease of discounts rates</b>	<b>Impairment loss</b>
LLC Sputnik	0.50%	(456)
Globus Telecom	0.50%	(98)
SC RPK Svyazist	0.50%	(11)
SC OK Orbita	1.50%	(1)
LLC Sibitex	1.00%	(2)

**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 520 and 134 was recognised as at 31 December 2018 and 2017 respectively.

**2018 impairment testing**

As at 31 December 2018 no material impairment loss in respect of other intangible assets was recognised.

**2017 impairment testing**

As at 31 December 2017 the Group recognized impairment loss in the amount 421 in respect of intangible assets.

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

**9. Rights of use assets and lease liabilities**

The net book value of right of use assets as at 1 January 2018 and 31 December 2018 was as follows:

	<b>Buildings and site services</b>	<b>Cable and transmission devices</b>	<b>Other</b>	<b>Total</b>
<b>Cost / deemed cost</b>				
<b>At 1 January 2018</b>	<b>14,099</b>	<b>824</b>	<b>563</b>	<b>15,486</b>
<b>Reclassification financial leasing to rights in use assets as at 1 January 2018</b>	<b>322</b>	<b>1,152</b>	<b>220</b>	<b>1,694</b>
Additions	8,132	1,256	234	<b>9,622</b>
Disposals	(519)	(20)	(67)	<b>(606)</b>
<b>At 31 December 2018</b>	<b>22,034</b>	<b>3,212</b>	<b>950</b>	<b>26,196</b>
<b>Accumulated amortisation and impairment losses</b>				
<b>Reclassification financial leasing to rights in use assets as at 1 January 2018</b>	<b>(39)</b>	<b>(127)</b>	<b>(34)</b>	<b>(200)</b>
Depreciation expense	(4,402)	(495)	(354)	<b>(5,251)</b>
Disposals	433	4	23	<b>460</b>
<b>At 31 December 2018</b>	<b>(4,008)</b>	<b>(618)</b>	<b>(365)</b>	<b>(4,991)</b>
<b>Net book value</b>				
<b>At 1 January 2018</b>	<b>14,382</b>	<b>1,849</b>	<b>749</b>	<b>16,980</b>
<b>At 31 December 2018</b>	<b>18,026</b>	<b>2,594</b>	<b>585</b>	<b>21,205</b>

Interest expense on lease liabilities for the period 2018 amounted to 1,637.

In 2018 the profit from sale of assets with leaseback is 2,319, loss from leaseback operations is 180.

# PJSC Rostelecom

## Notes to the consolidated financial statements (continued)

### 10. 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	
		2018	2017
SC MTs NTT	Communication services	100%	100%
CJSC Westelcom	Leasing of equipment	100%	100%
CJSC Zebra Telecom	Communication services	100%	100%
OJSC RTCComm.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%
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%
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%
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%
JSC Restrim	IT consulting	100%	100%
LLC Rostelecom Roznichnye sistemy	Retail services	100%	100%
LLC Rostelecom Integraciya	IT consulting	100%	100%
LLC Data Storage Centre	Data storage services	100%	100%
LLC RTK-DC	Data storage services	100%	100%
LLC Center Technology Virtualization	Data storage services	66.44%	66.44%
LLC Interaction Network Center	Data storage services	100%	100%
SC Interaction Computer Network Center "MCK-IX"	Data storage services	51%	51%
LLC Advanced Network Technology	Data storage services	50.10%	50.10%
LLC Tioniks	Data storage services	75%	75%
SC Vostoktelecom	Communication services	100%	100%
CJSC Globaltel	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	Communication services	96.33%	96.33%
LLC Morton-Telecom	Communication services	96.33%	96.33%
LLC Morton-Telecom-Zapad	Communication services	96.33%	96.33%
LLC NTK	Communication services	96.33%	96.33%
LLC National Data Centers**	Data storage services	–	100%
JSC Non-state Pension Fund Alliance	Pension Fund	51%	51%
LLC RADO	Maintenance services	100%	90%
LLC RusGIS Technologii	IT consulting	51%	51%
LLC Sibitex	Communication services	96.33%	96.33%
Soyuz operatorov svyazi "Centr issledovaniya kommunikaciy"	Consulting services in Telecommunication sector	100%	100%
LLC Tvingo Telecom (Note 6)	Communication services	96.33%	96.33%
LLC SET (Note 6)	Communication services	96.33%	–
LLC Solar Security (Note 6)	IT consulting	98.90%	–
LLC Udostoveriyayuschiy centr Internet (Note 6)	Communication services	100%	–
LLC Star2Com (Note 6)	IT consulting	96.33%	–
JSC Netris (Note 6)	IT consulting	96.33%	–
LLC Netris Group (Note 6)	Retail services	96.33%	–

\* The Group lost control under these subsidiaries during 2018.

\*\* LLC National Data Centers joined to LLC Data Storage Centre during 2018.

# PJSC Rostelecom

## Notes to the consolidated financial statements (continued)

### 10. 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 interests

During 2018 the Group acquired an additional 10% shares in LLC Rado increasing its stake up to 100%. Cash consideration two thousand rubles was paid to the non-controlling shareholders.

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)
<b>Difference recognised in retained earnings</b>	<b>1,260</b>

The summarised financial information of subsidiaries that has non-controlling interests that are material to the Group is provided below. This information is based on amounts before inter-company eliminations.

#### Summarised statements of financial position

	<b>PJSC Tsentralny Telegraph</b>	
	<b>As at 31 December 2018</b>	<b>As at 31 December 2017</b>
Current assets	2,601	345
Current liabilities	(1,300)	(563)
<b>Total current net assets/(liabilities)</b>	<b>1,301</b>	<b>(218)</b>
Non-current assets	1,506	2,300
Non-current liabilities	(214)	(198)
<b>Total non-current net assets</b>	<b>1,292</b>	<b>2,102</b>
<b>Net assets</b>	<b>2,593</b>	<b>1,884</b>
<b>NCI</b>	<b>1,051</b>	<b>733</b>
	<b>CJSC Makomnet</b>	
	<b>As at 31 December 2018</b>	<b>As at 31 December 2017</b>
Current assets	560	579
Current liabilities	(373)	(356)
<b>Total current net assets/(liabilities)</b>	<b>187</b>	<b>223</b>
Non-current assets	1,558	1,681
Non-current liabilities	(288)	(434)
<b>Total non-current net assets</b>	<b>1,270</b>	<b>1,247</b>
<b>Net assets</b>	<b>1,457</b>	<b>1,470</b>
<b>NCI</b>	<b>726</b>	<b>709</b>

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

10. Subsidiaries (continued)

Summarised statements of profit or loss and other comprehensive income

	<b>PJSC Tsentralny Telegraph</b>	
	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Revenue	2,513	2,747
Profit before income tax	995	(303)
Income tax	(188)	62
<b>Total comprehensive income</b>	<b>807</b>	<b>(241)</b>
Total comprehensive income allocated to non-controlling interests	320	(96)
Dividends paid to non-controlling interests	3	1

	<b>CJSC Makomnet</b>	
	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Revenue	1,926	1,396
Profit before income tax	327	297
Income tax	(62)	(63)
<b>Total comprehensive income</b>	<b>265</b>	<b>234</b>
Total comprehensive income allocated to non-controlling interests	130	115
Dividends paid to non-controlling interests	136	124

Summarised cash flows

	<b>PJSC Tsentralny Telegraph</b>	
	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Cash generated from operations	721	404
Income tax paid	(10)	(8)
<b>Net cash generated from operating activities</b>	<b>711</b>	<b>396</b>
<b>Net cash used in investing activities</b>	<b>1,381</b>	<b>(145)</b>
<b>Net cash used in financing activities</b>	<b>(89)</b>	<b>(268)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,003</b>	<b>(17)</b>
Cash and cash equivalents at beginning of year	2	19
<b>Cash and cash equivalents at end of year</b>	<b>2,005</b>	<b>2</b>



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Notes to the consolidated financial statements (continued)

**10. Subsidiaries (continued)**

**Summarised cash flows (continued)**

	<b>CJSC Makomnet</b>	
	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Cash generated from operations	595	479
Income tax paid	(84)	(68)
<b>Net cash generated from operating activities</b>	<b>511</b>	<b>411</b>
<b>Net cash used in investing activities</b>	<b>(31)</b>	<b>(79)</b>
<b>Net cash used in financing activities</b>	<b>(464)</b>	<b>(299)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>16</b>	<b>34</b>
Exchange gains/(losses) on cash and cash equivalents	8	–
Cash and cash equivalents at beginning of year	204	170
<b>Cash and cash equivalents at end of year</b>	<b>228</b>	<b>204</b>

**11. Investments in associates and joint ventures**

Investments in associates and joint ventures as at 31 December 2018 and 2017 were as follows:

<b>Name</b>	<b>Main activity</b>	<b>Type</b>	<b>Voting share capital as at 31 December 2018, %</b>	<b>Voting share capital as at 31 December 2017, %</b>	<b>2018 Carrying amount</b>	<b>2017 Carrying amount</b>
LLC T2 RTK Holding	Communication services	JV	45	45	60,975	59,755
SC Tsifrovoe televidenie	TV services	JV	41.29	41.29	3,460	3,384
Sailfish group	Software development	JV	75	–	1,911	–
LLC Telecom-5	Rental services	JV	50	50	1,511	735
OJSC KGTS	Communication services	Associate	37.29	37.29	341	379
LLC Bum	TV services	JV	60	60	–	217
B4N Group Limited	Network management systems development	Associate	26.08	–	175	–
Other	Various		Various	Various	1,609	1,409
<b>Total investments in associates and joint ventures</b>					<b>69,982</b>	<b>65,879</b>

In 2018 the Group acquired 75% of LLC OMP and 75% LLC Votron (Sailfish group) for the cash consideration of 3,377, including 2,800 to refinance the debt. The Group obtained joint control according shareholder agreement.

At the end 2018 the Company conducted an impairment test at the year end and recognized the impairment loss of investments Sailfish group 1,178 in the line Share of net profit (loss) of associates and joint ventures as a result of reconsideration of Sailfish group's projects terms. The recoverable amount of the Sailfish group has been determined based on a 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 Sailfish group.

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## Notes to the consolidated financial statements (continued)

### 11. Investments in associates and joint ventures (continued)

During 2018 investments in the LLC Bum has been impaired due to the closure of the project.

In December 2018, the Group and Sberbank agreed to increase the share capital by 803 each. The Group retained 50 percent of interest in Telecom-5.

On 15 May 2018 the Group acquired additional issue of B4N Group Limited shares for the cash consideration 95. As a result the Group share in B4N Group Limited increased from 18.04% to 26.08%.

In 2018 the Group received dividends from its investments in equity accounted investees and joint ventures in the amount of 95 (2017: 5).

Associated companies and joint ventures are incorporated in Russia, Finland, Cyprus and Hong Kong.

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 2018 and 2017 and for the years then ended of associates and joint ventures is presented below:

<b>Aggregate amounts</b>	<b>2018</b>	<b>2017</b>
Assets	247,772	221,940
Liabilities	191,440	170,340
Revenue	149,611	128,158
Net income	3,068	(5,722)

Summarized financial information for significant associates and joint ventures as at 31 December 2018 and 2017 and for the years then ended is presented below:

<b>Associate/JV</b>	<b>Year</b>	<b>Non-current assets</b>	<b>Current assets</b>	<b>Non-current liabilities</b>	<b>Current liabilities</b>	<b>Revenue</b>	<b>Net income/ (loss)</b>
OJSC KGTS	2018	916	130	49	83	515	(40)
	2017	996	188	71	96	519	(27)
T2 RTK Holding LLC	2018	215,094	9,950	118,674	65,790	143,218	2,710
	2017	193,666	9,842	106,676	58,962	123,025	(5,515)
Sailfish group	2018	2,476	382	2,210	333	38	(416)
	2017	–	–	–	–	–	–
OJSC Tsifrovoe televidenie	2018	3,164	2,687	108	1,467	3,642	44
	2017	2,360	2,414	104	578	2,963	74
LLC Telecom-5	2018	9,180	1,717	44	161	1,113	704
	2017	8,783	963	–	957	519	163

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Notes to the consolidated financial statements (continued)

**11. Investments in associates and joint ventures (continued)**

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	Sailfish group	OJSC KGTS	LLC Telecom-5
<b>Net assets at 31 December 2018</b>	<b>40,580</b>	<b>4,277</b>	<b>315</b>	<b>914</b>	<b>10,692</b>
Group interest, %	45.00	41.29	75	37.29	50
Goodwill	42,714	1,694	2,853	–	–
Impairment of investment	–	–	(1,178)	–	–
Unrealised gain	–	–	–	–	3,869
Effect of disproportional allocation of profits	–	–	–	–	(34)
<b>Carrying value at 31 December 2018</b>	<b>60,975</b>	<b>3,460</b>	<b>1,911</b>	<b>341</b>	<b>1,511</b>

**Investment in T2 RTK Holding LLC**

	2018	2017
<b>At 1 January</b>	<b>59,755</b>	<b>62,265</b>
Share of income/(loss)	1,220	(2,510)
<b>At 31 December</b>	<b>60,975</b>	<b>59,755</b>

Investment in T2 RTK Holding LLC was recognised as a result of the deal with the mobile operator Tele 2 Russia. There is no quoted market price available for its shares.

**Summarised financial information for T2 RTK Holding LLC**

Set out below is the summarised financial information for T2 RTK Holding LLC which is accounted for using the equity method.

**Summarised statement of financial position**

	31 December 2018	31 December 2017
<b>Current assets</b>		
Cash and cash equivalents	412	1,117
Other current assets (excluding cash)	9,538	8,725
<b>Total current assets</b>	<b>9,950</b>	<b>9,842</b>
Financial liabilities (excluding trade payables)	34,843	34,329
Other current liabilities (including trade payables)	30,947	24,633
<b>Total current liabilities</b>	<b>65,790</b>	<b>58,962</b>
<b>Non-current assets</b>		
Lease assets	11,161	–
Other non-current assets	203,933	193,666
<b>Total non-current assets</b>	<b>215,094</b>	<b>193,666</b>
Financial liabilities	101,687	101,498
Lease liabilities	10,894	–
Other liabilities	6,093	5,178
<b>Total non-current liabilities</b>	<b>118,674</b>	<b>106,676</b>
<b>Net assets</b>	<b>40,580</b>	<b>37,870</b>

Notes to the consolidated financial statements (continued)

**11. Investments in associates and joint ventures (continued)**

**Summarised financial information for T2 RTK Holding LLC (continued)**

**Summarised statement of profit or loss and other comprehensive income**

	<b>2018</b>	<b>2017</b>
Revenue	143,218	123,025
Depreciation and amortisation	(33,349)	(23,218)
Interest income	196	74
Interest expense	(14,270)	(14,577)
<b>Pre-tax profit or loss from continuing operations</b>	<b>3,765</b>	<b>(7,197)</b>
Income tax expense	(1,055)	1,682
<b>Post-tax profit from continuing operations</b>	<b>2,710</b>	<b>(5,515)</b>
Other changes in net assets	–	(63)
<b>Total changes in net assets</b>	<b>2,710</b>	<b>(5,578)</b>

**Reconciliation of summarised financial information to the carrying value of the investment**

<b>Summarised financial information</b>	<b>2018</b>	<b>2017</b>
<b>Opening net assets</b>	<b>37,870</b>	<b>43,448</b>
Profit/(loss) for the period	2,710	(5,515)
Other changes in net assets	–	(63)
<b>Closing net assets</b>	<b>40,580</b>	<b>37,870</b>
Interest 45%	18,261	17,041
Goodwill	42,714	42,714
<b>Carrying value</b>	<b>60,975</b>	<b>59,755</b>

**12. Other financial assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current financial assets</b>		
Financial assets at fair value through profit or loss <sup>1</sup>	258	353
Loans and receivables	1,692	1,247
<b>Total other non-current financial assets</b>	<b>1,950</b>	<b>1,600</b>
<b>Current financial assets</b>		
Loans and receivables	1,904	1,218
Financial assets at fair value through profit or loss	5,583	4,745
<b>Total other current financial assets</b>	<b>7,487</b>	<b>5,963</b>
<b>Total other financial assets</b>	<b>9,437</b>	<b>7,563</b>

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.

<sup>1</sup> As of 31 December 2017: available-for-sale financial assets according to IFRS 39.

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Notes to the consolidated financial statements (continued)

**13. Other non-current assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Non-current advances for investing activities	3,097	2,989
Non-current advances for operating activities	1,812	1,571
Other assets	19	40
Less: allowance for impairment	(261)	(248)
<b>Total other non-current assets</b>	<b>4,667</b>	<b>4,352</b>

**14. Inventories**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Finished goods and goods for resale (at lower of cost or NRV)	4,676	3,954
Cable (at lower of cost or NRV)	498	409
Spare parts (at lower of cost or NRV)	356	369
Tools and accessories (at lower of cost or NRV)	96	81
Construction materials (at lower of cost or NRV)	49	37
Fuel (at lower of cost or NRV)	128	101
Other inventory (at lower of cost or NRV)	1,828	1,218
<b>Total inventories</b>	<b>7,631</b>	<b>6,169</b>

During 2018, 214 (2017: 223) was recognised as an expense for inventories carried at net realisable value. This is recognised in other operating expenses in these consolidated statements of comprehensive income.

**15. Trade and other accounts receivable**

Trade and other accounts receivable included in non-current assets as at 31 December 2018 and 2017 comprised of the following:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Non-current amounts due from customers for operating and non-operating activities	5,157	6,776
Non-current amounts due from lessees for financial lease	2,212	1,346
Non-current amounts due from sales of property, plant and equipment	106	216
Non-current amounts due from other debtors	1	14
Allowance for expected credit loss	(130)	–
<b>Total non-current trade and other accounts receivable</b>	<b>7,346</b>	<b>8,352</b>

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Notes to the consolidated financial statements (continued)

**15. Trade and other accounts receivable (continued)**

Trade and other accounts receivable included in current assets as at 31 December 2018 and 2017 comprised of the following:

	<b>Gross, 31 December 2018</b>	<b>Allowance for expected credit loss</b>	<b>Net, 31 December 2018</b>
Amounts due from customers for operating and non-operating activities	51,974	(11,704)	40,270
Amounts due from commissioners and agents	1,122	(485)	637
Amounts due from personnel	232	–	232
Amounts due from lessees for financial lease	1,298	–	1,298
Amounts due from other debtors	2,166	(414)	1,752
<b>Total trade and other accounts receivable</b>	<b>56,792</b>	<b>(12,603)</b>	<b>44,189</b>

	<b>Gross, 31 December 2017</b>	<b>Doubtful debt allowance</b>	<b>Net, 31 December 2017</b>
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
<b>Total trade and other accounts receivable</b>	<b>57,973</b>	<b>(10,160)</b>	<b>47,813</b>

The table below represents the credit rating exposure on the Group's trade and other receivables and contract assets using a provision matrix:

	<b>Contract assets 31 December 2018</b>	<b>Trade receivables 31 December 2018</b>						<b>Total</b>
		<b>Current</b>	<b>Past due</b>					
		<b>&lt;1 month</b>	<b>&lt;2 months</b>	<b>&lt;3 months</b>	<b>&lt;4 months</b>	<b>&gt;4months</b>		
Expected credit loss rate	<b>0.23%</b>	1.24%	4.53%	9.36%	15.03%	21.32%	74.12%	
Estimated total gross carrying amount at default	<b>10,035</b>	38,174	2,935	1,827	1,224	680	15,686	<b>60,526</b>
Expected credit loss	<b>(23)</b>	(474)	(133)	(171)	(184)	(145)	(11,626)	<b>(12,733)</b>

As at 31 December 2017, the ageing analysis of trade receivables is, as follows:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				
			<b>&lt;1 month</b>	<b>&lt;2 months</b>	<b>&lt;3 months</b>	<b>&lt;4 months</b>	<b>&gt;4months</b>
2017	<b>47,293</b>	37,538	2,357	1,243	749	1,301	4,105

## Notes to the consolidated financial statements (continued)

**15. Trade and other accounts receivable (continued)**

The following table summarizes the changes in the allowance for expected credit losses of accounts receivables and contract assets for the year ended 31 December 2018:

	<b>Total</b>
<b>At 31 December 2017</b>	<b>(10,160)</b>
Effect of application IFRS 9 at 1 January 2018 (Note 5)	(656)
Allowance for expected credit loss	(3,950)
Accounts receivable written-off	2,010
<b>At 31 December 2018</b>	<b>(12,756)</b>

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 2018 and 2017 amounted to 229 and 278 respectively, and is included in other investing and financial gain in these consolidated statements of comprehensive income (Note 32).

The table below represents the maturity analysis of undiscounted lease payments to be received and reconciliation of undiscounted lease payments to the net investment in the lease as at 31 December 2018:

	<b>31 December 2018</b>
Current portion (less than 1 year)	1,588
More than 1 to 5 years	2,373
Over 5 years	699
<b>Total undiscounted lease payments</b>	<b>4,660</b>
<b>Net investment in lease</b>	<b>3,510</b>
<b>Unearned finance income relating to the lease payments</b>	<b>1,132</b>
<b>Discounted unguaranteed residual value</b>	<b>18</b>

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2017 are as follows:

	<b>31 December 2017</b>	
	<b>Gross investments in lease</b>	<b>Present value of minimum lease payments</b>
Current portion (less than 1 year)	621	347
More than 1 to 5 years	1,385	829
Over 5 years	795	508
<b>Total</b>	<b>2,801</b>	<b>1,684</b>

## Notes to the consolidated financial statements (continued)

**16. Contract assets**

As at December 2018 the Group has non-current contract assets of 501 with allowance for expected credit losses of 6.

As at December 2018 the Group has current contract assets of 9,511 with allowance for expected credit losses of 17.

**17. Contract cost**

	Costs to obtain contract*	Costs to fulfill contract**	Total
<b>Contract cost at 1 January 2018</b>	<b>6,590</b>	<b>4,982</b>	<b>11,572</b>
Capitalised during the year	2,907	1,513	<b>4,420</b>
Amortisation for the year	(1,869)	–	<b>(1,869)</b>
Expenses incurred for the year	–	(1,800)	<b>(1,800)</b>
<b>Contract cost at 31 December 2018</b>	<b>7,628</b>	<b>4,695</b>	<b>12,323</b>

\* Cost to obtain contract: Incremental cost of obtaining the contract (SAC) (refer Note 5b).

\*\* Cost to fulfill contract: the cost of customer-premises equipment (CPE) (refer Note 5a).

Cost to obtain contracts represent incremental commission fees paid to agent as a result of obtaining contracts with customers and additional payments to employees who are engaged in functions of obtaining contracts. In 2018 there was no impairment loss related to the costs capitalized.

The Group recognised an asset in relation to costs incurred in related to customer premises equipment that is used to fulfil contracts for Broadband Internet and TV services.

In 2018 there was no impairment loss related to the costs capitalized.

Expenses incurred for the reporting period are included in other operating expenses as cost of sales of customer-premises equipment (Note 30).

**18. Cash and cash equivalents**

Cash and cash equivalents as at 31 December 2018 and 2017 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 2018	31 December 2017
Cash in bank and in-hand	3,445	1,196
Cash in the accounts of the Federal Treasury	3,265	1,822
Short-term deposits and promissory notes up to 3 months	2,976	711
Other cash and cash equivalents	394	86
<b>Total cash and cash equivalents</b>	<b>10,080</b>	<b>3,815</b>



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## Notes to the consolidated financial statements (continued)

### 19. Other current assets

	31 December 2018	31 December 2017
Input VAT	2,867	2,644
Other current assets	150	93
Less: provision for impairment loss	(161)	(118)
<b>Total other current assets</b>	<b>2,856</b>	<b>2,619</b>

### 20. 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 2018 amounted to 6,961,200 nominal (uninflated) RUB (2017: 6,961,200).

The authorized share capital of the Company as at 31 December 2018 comprised 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares (2017: 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 2018 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
<b>Total</b>	<b>2,784,480,101</b>	<b>6.961</b>	<b>93</b>

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
<b>Total</b>	<b>2,784,480,101</b>	<b>6.961</b>	<b>93</b>

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 35).

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Notes to the consolidated financial statements (continued)

**20. Equity (continued)**

**Treasury shares**

As at 31 December 2018 and 2017 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2018	31 December 2017
Ordinary shares	431,544,362	470,990,049
Preferred shares	64,519,345	64,519,345
<b>Total</b>	<b>496,063,707</b>	<b>535,509,394</b>

In 2018, 2017 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 39,445,687 and 18,322,439 shares respectively.

During 2018, 2017 the Group purchased nil and 14,800,000 ordinary shares, for nil and 981 respectively. Also during 2018, 2017 the Group sold nil and 4,820 ordinary treasury shares for nil and 1 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.

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 2018 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2017 in the amount of 5.045825249373 roubles per ordinary share (2017: 5.387002045593 roubles per ordinary share) and 5.045825249373 roubles per preference share (2017: 5.387002045593 roubles per preference share).

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
<b>Declared and approved for 2017 (paid in 2018)</b>			
Preference shares	209,565,147	5.045825249373	1,057
Ordinary shares	2,574,914,954	5.045825249373	12,993
<b>Total</b>	<b>2,784,480,101</b>		<b>14,050</b>

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
<b>Declared and approved for 2016 (paid in 2017)</b>			
Preference shares	209,565,147	5.387002045593	1,129
Ordinary shares	2,574,914,954	5.387002045593	13,871
<b>Total</b>	<b>2,784,480,101</b>		<b>15,000</b>

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Notes to the consolidated financial statements (continued)

**20. Equity (continued)**

**Dividends (continued)**

In December 2018 the General Meeting of Shareholders approved the dividends for 9 month 2018 in the amount of 2.50 roubles per ordinary share and 2.50 roubles per preference share.

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
<b>Declared and approved for 9 months 2018</b>			
Preference shares	209,565,147	2.50	524
Ordinary shares	2,574,914,954	2.50	6,437
<b>Total</b>	<b>2,784,480,101</b>		<b>6,961</b>

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.

**21. Borrowings**

Borrowings as at 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
<b>Long-term borrowings</b>		
<i>Non-current portion of long-term borrowings</i>		
Bank and corporate loans	143,483	129,920
Bonds	30,863	35,863
Promissory notes	9	9
Vendor financing	16	26
Finance lease liabilities	–	842
<b>Total non-current portion of long-term borrowings</b>	<b>174,371</b>	<b>166,660</b>
<i>Current portion of long-term borrowings</i>		
Bank and corporate loans	2,007	10,202
Bonds	15,852	12,231
Vendor financing	11	12
Finance lease liabilities	–	374
Restructured customer payments	85	86
<b>Total current portion of long-term borrowings</b>	<b>17,955</b>	<b>22,905</b>
<b>Total long-term borrowings</b>	<b>192,326</b>	<b>189,565</b>
<b>Short-term borrowings</b>		
Bank and corporate loans	11,953	1,774
Finance lease liabilities	–	33
<b>Total short-term borrowings</b>	<b>11,953</b>	<b>1,807</b>
Current portion of long-term borrowings	17,955	22,905
<b>Total current borrowings</b>	<b>29,908</b>	<b>24,712</b>
<b>Total borrowings</b>	<b>204,279</b>	<b>191,372</b>

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Notes to the consolidated financial statements (continued)

**21. Borrowings (continued)**

Management believes that the fair value of its financial assets and liabilities at 31 December 2018 and 2017 approximates their carrying amounts except for the following borrowings:

	31 December 2018		
	Fair value	Book value	Difference
Traded bonds	45,907	46,715	(808)
Bank loans	132,125	136,989	(4,864)
<b>Total</b>	<b>178,033</b>	<b>183,705</b>	<b>(5,672)</b>

	31 December 2017		
	Fair value	Book value	Difference
Traded bonds	48,951	47,072	1,879
Bank loans	118,773	121,970	(3,197)
<b>Total</b>	<b>167,724</b>	<b>169,042</b>	<b>(1,318)</b>

The fair value of the Group's quoted rouble bonds was determined based on Moscow Exchange quotes. The fair value of the Group's non-quoted bank loans was determined based on Central Bank's interest rate statistics. The fair value of the Group's bank loans and non-traded bonds was determined using rates currently available for debts on similar terms, credit risk and remaining maturities.

**Changes in liabilities arising from financing activities**

	1 January 2018	Reclassification to lease liabilities IFRS 16	Cash flows	Foreign exchange movement	Other	31 December 2018
Bank and corporate loans	141,889	–	15,190	(10)	374	157,443
Bonds	48,093	–	(1,209)	–	(169)	46,715
Promissory notes	9	–	–	–	–	9
Vendor financing	45	–	(15)	–	(3)	27
Finance lease liabilities	1,249	(1,249)	–	–	–	–
Dividends payable	354	–	(11,773)	–	17,500	6,081
Other	87	–	(1)	–	(1)	85
<b>Total liabilities from financing activities</b>	<b>191,726</b>	<b>(1,249)</b>	<b>2,192</b>	<b>(10)</b>	<b>17,701</b>	<b>210,360</b>

	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
<b>Total liabilities from financing activities</b>	<b>191,133</b>	<b>(15,303)</b>	<b>(26)</b>	<b>55</b>	<b>1,407</b>	<b>14,460</b>	<b>191,726</b>

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Notes to the consolidated financial statements (continued)

**22. Accounts payable, provisions and accrued expenses**

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2018 and 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Payables for purchases and construction of property, plant and equipment	24,038	15,176
Payable to personnel	13,356	11,270
Payable for operating activities	22,837	14,886
Other taxes payable	7,170	8,662
Payable to interconnected operators	2,590	1,801
Payable for purchases of software	2,635	1,386
Dividends payable	6,081	354
Current provisions	1,864	1,385
Other accounts payable	7,959	5,746
<b>Current accounts payable, provisions and accrued expenses</b>	<b>88,530</b>	<b>60,666</b>
Non-current payables	479	313
Non-current provisions	2,611	1,920
<b>Non-current accounts payable, provisions and accrued expenses</b>	<b>3,090</b>	<b>2,233</b>
<b>Total accounts payable, provisions and accrued expenses</b>	<b>91,620</b>	<b>62,899</b>

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The amount payable by the Group are offset against receivables from the operators in the amount of 628 and presents net in the balance sheet.

At 31 December 2018 and 2017 non-current provisions includes the obligations of Non-state Pension Fund Alliance under the pension plans:

	<b>31 December 2018</b>	<b>31 December 2017</b>
The non-state obligations under the contracts of mandatory pension insurance	636	497
The obligations under the contracts of non-state pension provision, classified as an investment, with a discretionary participation feature benefits	1,953	1,401
The obligations under the contracts of non-state pension provision, classified as an insurance, with a discretionary participation feature benefits	22	17
<b>Total non-current provisions</b>	<b>2,611</b>	<b>1,915</b>

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Notes to the consolidated financial statements (continued)

**23. Other non-current and current liabilities**

Other non-current liabilities consisted of the following as at 31 December 2018, 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Contract liabilities</b>		
for installation services, CPE and other advances received	11,065	–
Deferred revenue	5,519	5,006
Government grants	470	563
	4,088	814
<b>Total other non-current liabilities</b>	<b>21,142</b>	<b>6,383</b>

Subsidies from government have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

The following table summarizes the changes of Subsidy from government for the years ended 31 December 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>At 1 January</b>	<b>814</b>	<b>61</b>
Received during the year	3,641	772
Released during the year	(367)	(19)
<b>At 31 December</b>	<b>4,088</b>	<b>814</b>

Other current liabilities consisted of the following as at 31 December 2018 and 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Contract liabilities</b>		
for installation services, CPE and other advances received from operating activities	5,667	–
Advances received from non-operating activities	6,209	6,644
Advances received from various debtors	451	1,110
Advances received for disposed PPE	419	349
Advances received for disposal of other assets	265	154
Deferred revenue	13	7
	372	371
<b>Total other current liabilities</b>	<b>13,396</b>	<b>8,635</b>

Contract liabilities transactions for the reporting period set out below:

	<b>CPE</b>	<b>Installation services</b>	<b>Total</b>
<b>Contract liabilities at 1 January 2018</b>	<b>8,524</b>	<b>2,731</b>	<b>11,255</b>
Deferred during the year	945	10,524	11,469
Revenue included in contract liabilities at the beginning of the year	(2,613)	(1,679)	(4,292)
Revenue from contract liabilities recognised during the year	(114)	(1,586)	(1,700)
<b>Contract liabilities at 31 December 2018</b>	<b>6,742</b>	<b>9,990</b>	<b>16,732</b>
Current	2,455	3,212	5,667
Non-current	4,287	6,778	11,065

Notes to the consolidated financial statements (continued)

**23. Other non-current and current liabilities (continued)**

The transaction price allocated to the remaining contract liabilities as at 31 December 2018 are as follows:

	<b>2018</b>
Within one year	5,667
After one year but not more than three years	7,051
More than three years	4,014
	<b>16,732</b>

**24. 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 2018 the employee benefits liability includes the defined contribution plans (DCP) liability of 2,934 and defined benefit plan (DBP) liability of 1,741 (2017: 2,020 and 2,713).

**Defined contribution plans**

The non-state pension fund Alliance maintain the defined contribution plan of Group in 2017-2018. In 2018 the Group expensed 980 (2017: 594) in relation to defined contribution plans and nil (2017: 717) in relation to the restructuring 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 and fulfill certain minimum seniority requirements.

As at 31 December 2018, the Group employed 10,357 participants of defined benefit plan (2017: 111,713) and supported 4,814 pensioners eligible for post-employment benefits (2017: 34,402).

As at 31 December 2018 and 2017 net defined benefit plan liability comprised the following:

	<b>2018</b>	<b>2017</b>
Present value of obligations on defined benefit plans	1,741	2,721
Fair value of plan assets	–	(8)
<b>Present value of unfunded obligations</b>	<b>1,741</b>	<b>2,713</b>

Net expenses/gains for the defined benefit plan recognized in 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
Current service cost	49	85
Interest cost	95	324
Expected return on plan assets	–	(1)
Past service cost	(1,227)	(1,618)
<b>Net (income) for the defined benefit plan</b>	<b>(1,083)</b>	<b>(1,210)</b>

## Notes to the consolidated financial statements (continued)

**24. Employee benefits (continued)****Defined benefit plans and other long-term employee benefits (continued)**

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 reduction of social obligations of the Group in 2018. Past service cost in the table above is a result of transfer of part of DBP obligations into DCP obligations in 2017.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>Present value of defined benefit obligations as at 1 January</b>	<b>2,721</b>	<b>4,580</b>
Interest cost	95	324
Current service cost	49	85
Past service cost	(1,227)	(1,618)
Benefits paid	(69)	(105)
Remeasurement (gains)/losses in OCI:	172	(545)
- actuarial gains and losses arising from changes in demographic assumptions	(8)	-
- actuarial gains and losses arising from changes in financial assumptions	(48)	49
- experience adjustments	228	(594)
<b>Present value of defined benefit obligations as at 31 December</b>	<b>1,741</b>	<b>2,721</b>

The following table summarizes movements in the fair value of defined benefit plan assets in 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>Fair value of plan assets as at 1 January</b>	<b>8</b>	<b>8</b>
Expected return on plan assets	-	1
Actuarial losses	(8)	(1)
Benefits paid	(69)	(105)
Contributions by the employer	69	105
<b>Fair value of plan assets as at 31 December</b>	<b>-</b>	<b>8</b>

As at 31 December 2018 and 2017 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	<b>2018</b>	<b>2017</b>
Discount rate	8.6%	7.6%
Increase in financial support benefits	4.0%	4.4%
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)	Russia 2016	1985/86 moved for 3 years for females



Notes to the consolidated financial statements (continued)

**24. 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.

<b>DBO sensitivity analyses</b>	<b>Change, %</b>
Discount rate -1%	4%
Inflation +1%	4%
Mortality 10% less	5%
Disability 10% less	0%
Employee turnover 10% for all ages below 50	(10%)

The Group expects to contribute 208 to its non-state pension funds in 2019 in respect of defined benefit plans.

The following net pension liabilities were in consolidated statements of financial position in 2018 and 2017:

	2018	2017
<b>Net defined benefit obligations as at 1 January</b>	<b>2,713</b>	<b>4,572</b>
Total defined benefit plan expenses, net	(1,083)	(1,209)
Contributions by the employer	(69)	(105)
Remeasurement of pension liabilities	180	(545)
<b>Net defined benefit obligations as at 31 December</b>	<b>1,741</b>	<b>2,713</b>

Remeasurement of pension liabilities in OCI consists of:

	2018	2017
Actuarial (gains)/losses on liabilities	172	(546)
Actuarial losses on assets	8	1
<b>Remeasurement of pension liabilities</b>	<b>180</b>	<b>(545)</b>

**25. Income taxes**

The components of income tax expense for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
<b>Current income tax expense</b>	<b>(2,378)</b>	<b>(5,494)</b>
Income tax for the year	(4,936)	(7,077)
Adjustments of the current income tax for previous years	2,558	1,583
<b>Total current income tax for the year</b>	<b>(2,378)</b>	<b>(5,494)</b>
<b>Deferred tax (benefit)/expense</b>	<b>(2,049)</b>	<b>638</b>
Origination and reversal of temporary differences	(1,990)	639
Changes in unused tax losses	(59)	(1)
<b>Total deferred income tax</b>	<b>(2,049)</b>	<b>638</b>
<b>Total income tax expense for the year</b>	<b>(4,427)</b>	<b>(4,856)</b>

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Notes to the consolidated financial statements (continued)

**25. Income taxes (continued)**

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	<b>2018</b>	<b>2017</b>
<b>Profit before tax</b>	<b>19,439</b>	<b>18,906</b>
Statutory income tax rate (20%)	20%	20%
<b>Theoretical tax charge at statutory income tax rate</b>	<b>(3,888)</b>	<b>(3,781)</b>
Non-deductible expenses and non-taxable income, net	154	115
Tax on intragroup dividend income	(372)	(305)
Effect of 13% dividend tax rate applied to investments in associates and JVs	85	(176)
Effect of sale property to Telecom-5	(257)	(423)
Changes in unrecognized deferred tax assets	(149)	(286)
<b>Total actual income tax for the year</b>	<b>(4,427)</b>	<b>(4,856)</b>
<b>Effective tax rate, %</b>	<b>22.77%</b>	<b>25.68%</b>

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Effect of other employee benefits	(124)	(131)
Non-hedge derivatives	–	(167)
Accrual of impairment loss	–	(40)
Accounts receivable	415	628
Other	(137)	(175)
<b>Total non-deductible expenses and non-taxable income</b>	<b>154</b>	<b>115</b>

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.

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Notes to the consolidated financial statements (continued)

**25. Income taxes (continued)**

The components of net deferred tax assets and liabilities as at 31 December 2018 and 2017, and the respective movements during 2018 and 2017 were as follows:

	Balance as at 1 January 2018	Adjustment IFRS 15,16 as at 1 January 2018	Movement during 2018 recognized in				Balance as at 31 December 2018	
			Acquisition through business combinations	Equity	Other comprehensive income	Profit/(loss) for the year		Disposal through business combinations
<b>Tax effects of future tax deductible items</b>								
Property, plant and equipment	268	–	2	–	–	142	(4)	408
Intangible assets	45	–	24	–	–	(25)	–	44
Right of use assets	–	–	–	–	–	(22)	–	(22)
Unused tax losses	4	–	26	–	–	43	–	73
Trade and other accounts receivable	108	131	–	–	–	(159)	–	80
Inventories	(12)	–	1	–	–	114	–	103
Investments in associates and JVs	756	–	–	–	–	705	–	1,461
Contract cost	–	–	–	–	–	–	–	–
Employee benefits	329	–	–	–	36	(164)	–	201
Accounts payable, provisions and accrued expenses	5,195	69	9	–	–	(447)	–	4,826
Lease liabilities	–	–	10	–	–	427	–	437
Other non-current liabilities and current liabilities	–	2,017	–	–	–	1,340	–	3,357
Other	445	–	–	–	–	(181)	4	268
<b>Gross deferred tax asset</b>	<b>7,138</b>	<b>2,217</b>	<b>72</b>	<b>–</b>	<b>36</b>	<b>1,773</b>	<b>–</b>	<b>11,236</b>
<b>Tax effects of future taxable items</b>								
Property, plant and equipment	(38,424)	–	(38)*	–	–	(2,172)	–	(40,634)
Intangible assets	(2,804)	–	(435)	–	–	378	–	(2,861)
Right of use assets	–	–	(4)	–	–	(177)	–	(181)
Investments in associates and JVs	(108)	–	–	3	–	(402)	–	(507)
Accounts payable, provisions and accrued expenses	(91)	–	–	–	–	(234)	–	(325)
Contract cost	–	(2,314)	–	–	–	(150)	–	(2,464)
Employee benefits	–	–	–	–	–	–	–	–
Trade and other accounts receivable	(693)	–	–	–	–	(485)	–	(1,178)
Inventories	(5)	–	(1)	–	–	(159)	–	(165)
Loans and borrowings	(53)	–	–	–	–	(277)	–	(330)
Lease liabilities	–	–	–	–	–	21	–	21
Other non-current liabilities and current liabilities	–	–	–	–	–	3	–	3
Other	6	–	(2)	–	–	(168)	–	(164)
<b>Gross deferred tax liability</b>	<b>(42,172)</b>	<b>(2,314)</b>	<b>(480)</b>	<b>3</b>	<b>–</b>	<b>(3,822)</b>	<b>–</b>	<b>(48,785)</b>
<b>Net deferred tax liability</b>	<b>(35,034)</b>	<b>(97)</b>	<b>(408)</b>	<b>3</b>	<b>36</b>	<b>(2,049)</b>	<b>–</b>	<b>(37,549)</b>

\* Certain amounts reflects measurement period adjustments made to the provisional amounts of the Twingo Telecom if the accounting for the business combination had been completed at the acquisition date. (Note 6).

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Notes to the consolidated financial statements (continued)

25. Income taxes (continued)

	Balance as at 1 January 2017	Movement during 2017 recognized in				Disposal through business combinations	Balance as at 31 December 2017
		Acquisition through business combinations	Equity	Other comprehensive income	Profit/(loss) for the year		
<b>Tax effects of future tax deductible items</b>							
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
<b>Gross deferred tax asset</b>	<b>6,847</b>	<b>–</b>	<b>–</b>	<b>(109)</b>	<b>404</b>	<b>(4)</b>	<b>7,138</b>
<b>Tax effects of future taxable items</b>							
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
<b>Gross deferred tax liability</b>	<b>(42,406)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>234</b>	<b>–</b>	<b>(42,172)</b>
<b>Net deferred tax liability</b>	<b>(35,559)</b>	<b>–</b>	<b>–</b>	<b>(109)</b>	<b>638</b>	<b>(4)</b>	<b>(35,034)</b>

	Consolidated statement of financial position	
	2018	2017
Deferred tax assets	862	647
Deferred tax liabilities	(38,411)	(35,681)
<b>Deferred tax liabilities, net</b>	<b>(37,549)</b>	<b>(35,034)</b>

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 2018 and 2017 amounted to 14,139 and 10,102 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 2018 and 2017 amounted to 7,227 and 10,531 respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 amounted to 10,345 and 11,088, 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 2017 onwards cannot reduce the tax base for income tax for the current reporting period calculated net of prior year losses more than 50 percent.

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## Notes to the consolidated financial statements (continued)

### 25. Income taxes (continued)

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 2018 and 2017 includes tax expense in respect of following items of other comprehensive income:

	<u>2018</u>	<u>2017</u>
Actuarial gains and losses (Note 24)	36	(109)

### 26. Revenue

Revenue comprised the following for the years ended 31 December 2018 and 2017:

	<u>2018</u>	<u>2017*</u>
Fixed Telephony	69,983	78,445
Broadband Internet	80,042	70,785
TV services	34,464	27,348
Wholesale Services	79,593	77,525
VAS & Clouds	36,902	26,013
Other telecommunication services	12,076	16,854
Other non-telecommunication services	7,179	8,359
<b>Total revenue</b>	<b><u>320,239</u></b>	<b><u>305,329</u></b>

\* The comparative information is not restated. Includes reclassification between Broadband Internet, Wholesale services, Other telecommunication, Other non-telecommunication services and VAS&Clouds. These are no impact on the consolidated statement of profit or loss and other comprehensive income.

Revenue from VAS&Clouds includes revenue from VAS projects with governmental customers from contracts which were structured as finance leases in total amount 1,314 and 475 for the year ended 31 December 2018 and 31 December 2017 respectively.

Revenue from other telecommunication services includes sales of other equipment 3,836 and 6,998 for the year ended 31 December 2018 and 31 December 2017 respectively.

Revenue from VAS&Clouds includes rental income in amount 67 and 115 for the year ended 31 December 2018 and 31 December 2017 respectively.

Revenue from other non-telecommunication services includes rental income 3,566 and 3,467 for the year ended 31 December 2018 and 31 December 2017 respectively.

For the year ended 31 December 2018 and 2017 the Group generated revenue by the following major customer groups:

<u>Customer Groups</u>	<u>2018</u>	<u>2017</u>
Residential customers	137,745	136,304
Corporate/governmental customers	121,509	109,209
Interconnected operators	56,389	55,061
Other	4,596	4,755
<b>Total revenue</b>	<b><u>320,239</u></b>	<b><u>305,329</u></b>

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Notes to the consolidated financial statements (continued)

**26. Revenue (continued)**

Set out below is the disaggregation of the Group's revenue from contracts with customers for the period ended 31 December 2018:

<b>2018</b>	<b>PJSC Rostelecom</b>	<b>Other operations and reconciliation</b>	<b>Adjustments and eliminations</b>	<b>Total segments</b>
Fixed Telephony	67,350	2,685	(52)	<b>69,983</b>
Broadband Internet	74,086	6,065	(109)	<b>80,042</b>
TV services	33,385	1,491	(412)	<b>34,464</b>
Wholesale Services	77,187	8,868	(6,462)	<b>79,593</b>
VAS & Clouds	31,851	14,944	(9,893)	<b>36,902</b>
Other telecommunication services	9,353	6,843	(4,120)	<b>12,076</b>
Other non-telecommunication services	8,034	10,394	(11,249)	<b>7,179</b>
<b>Total revenue from contracts with customers</b>	<b>301,246</b>	<b>51,290</b>	<b>(32,297)</b>	<b>320,239</b>
At a point in time	4,717	3,656	(1,141)	<b>7,232</b>
Over time	296,529	47,634	(31,156)	<b>313,007</b>
<b>Total revenue from contracts with customers</b>	<b>301,246</b>	<b>51,290</b>	<b>(32,297)</b>	<b>320,239</b>

**27. Wages, salaries, other benefits and payroll taxes**

	<b>2018</b>	<b>2017</b>
Salary expenses	69,812	67,238
Share-based remuneration	3,162	2,016
Social taxes	19,866	19,287
Income from pension plans	(198)	(223)
Other personnel costs	4,708	5,063
<b>Total wages, salaries, other benefits and payroll taxes</b>	<b>97,350</b>	<b>93,381</b>

**28. Materials, utilities, repairs and maintenance**

	<b>2018</b>	<b>2017</b>
Utilities	11,316	11,127
Repairs and maintenance	8,945	8,667
Materials	5,922	6,132
<b>Total materials, utilities, repairs and maintenance</b>	<b>26,183</b>	<b>25,926</b>

**29. Other operating income**

	<b>2018</b>	<b>2017</b>
Universal communication services	10,873	11,456
Fines and penalties	1,482	990
Reimbursement of other losses incurred	130	129
Gain/(loss) on disposals of other assets	87	19
Other income	1,007	850
<b>Total other operating income</b>	<b>13,579</b>	<b>13,444</b>

PJSC Rostelecom

Notes to the consolidated financial statements (continued)

**30. Other operating expenses**

	<b>2018</b>	<b>2017</b>
E-Government contract expenses	10,024	7,480
Cost of sales of customer-premises equipment	6,765	6,480
Advertising expenses	6,446	4,388
Taxes, other than income tax	5,747	4,661
Rent	4,446	8,022
Agency fees	4,404	4,387
Fire and other security services	3,148	2,993
Contributions to universal communication services fund	2,588	2,565
Support and maintenance of software and databases	2,019	2,005
Third party services and expenses related to administration	2,005	1,567
Billing expenses	1,933	1,543
Transportation and postal services	1,557	2,083
Member fees, charity contribution, payments to labour units	767	697
Audit and consulting fees	749	927
Fines and penalties	481	240
Asset insurance	122	121
Other	5,789	4,600
<b>Total other operating expenses</b>	<b>58,990</b>	<b>54,759</b>

**31. Finance costs**

	<b>2018</b>	<b>2017</b>
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	15,073	16,847
Interest expense of defined benefit plans	95	324
Interest expense on finance lease liabilities	1,637	64
Borrowing servicing expense	470	115
<b>Total finance costs</b>	<b>17,275</b>	<b>17,350</b>

**32. Other investing and financial gain/(loss), net**

	<b>2018</b>	<b>2017</b>
Interest income from finance assets	1,769	1,611
Dividend income	7	23
Expenses related to subsidiaries' acquisition	(37)	(4)
Gain/loss on disposal of subsidiaries	10	325
Loss on change in fair value of financial assets/liabilities through profit and loss	(224)	(842)
Impairment of financial assets	(86)	-
Other loss/gains	163	(172)
<b>Total other investing and financial gain/(loss), net</b>	<b>1,602</b>	<b>941</b>

## PJSC Rostelecom

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

#### 33. Segment information

The Management Board of Rostelecom has been determined as the Group's Chief Operating Decision-Maker (CODM).

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. Starting from 3d quarter of 2018 the Group changed approach to OIBDA measurement: non-state pension fund program expenses were excluded. A measure of segment profit or loss reported to the management of the company is operating income before depreciation, amortization, long-term employee motivation program expenses (OIBDA) and non-state pension fund program.

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 2018 and 2017. Comparative segment information for the year ended 31 December 2017 was restated in these consolidated financial statements to conform the current year presentation.

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2018:

2018	PJSC Rostelecom	Other operations and reconciliation	Adjustments and eliminations	Total segments
<b>Revenue</b>				
Third party revenue	301,246	51,290	(32,297)	<b>320,239</b>
Inter-segment revenue	4,905	27,392	–	<b>32,297</b>
<b>OIBDA</b>	<b>90,278</b>	<b>10,622</b>	–	<b>100,900</b>

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2018:

<b>OIBDA of reportable segments</b>	<b>90,278</b>
<b>OIBDA of other segments</b>	<b>10,622</b>
<i>Adjustments</i>	
Depreciation, amortisation and impairment losses	(60,329)
Share of profit (loss) in equity accounted investees	(91)
Finance costs and other investing and financial gain	(15,673)
Foreign exchange loss, net	(597)
Share-based remuneration and non-state pension fund program	(4,756)
Other adjustments	(15)
<b>Profit before income tax</b>	<b>19,439</b>



## PJSC Rostelecom

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

#### 33. 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	Adjustments and eliminations	Total segments
<b>Revenue</b>				
Third party revenue	288,717	42,309	(25,784)	<b>305,242</b>
Inter-segment revenue	3,416	22,368	–	<b>25,784</b>
<b>OIBDA</b>	<b>91,408</b>	<b>5,280</b>	–	<b>96,688</b>

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2017:

<b>OIBDA of reportable segments</b>	<b>91,408</b>
<b>OIBDA of other segments</b>	<b>5,280</b>
<i>Adjustments</i>	
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 and non-state pension fund program	(2,174)
Other adjustments	(1)
<b>Profit before income tax</b>	<b>18,906</b>

#### 34. 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.

Notes to the consolidated financial statements (continued)

**34. Share-based payments (continued)**

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

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 3,637 and 2,344 (including related social and personal income taxes gross-up in the amount of 839 and 560 correspondently) 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 2018 and 31 December 2017 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:

	2018		2017	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
<b>Balance at beginning of year</b>	<b>206,190</b>	<b>87.01</b>	<b>17,353,842</b>	<b>87.37</b>
Conversion	–	–	1,174,787	n/d
Granted during the period	–	–	–	–
Forfeited during the period	–	–	–	–
Exercised during the year	–	–	(18,322,439)	88.13
<b>Balance at end of year</b>	<b>206,190</b>	<b>87.01</b>	<b>206,190</b>	<b>87.01</b>

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

	2018		2017	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
<b>Balance at beginning of year</b>	<b>38,323,651</b>	<b>70.19</b>	–	–
Conversion	1,122,036	70.19	–	–
Granted during the period	53,458,556*	64.02	38,323,651*	70.19
Forfeited during the period	–	–	–	–
Exercised during the year	(39,445,687)	70.19	–	–
<b>Balance at end of year</b>	<b>53,458,556</b>	<b>87.01</b>	<b>38,323,651</b>	<b>70.19</b>

\* Including Contribution of the participant for the year ended 31 December 2018 – 11,679,499, for the year ended 31 December 2017 – 8,490,673.

Notes to the consolidated financial statements (continued)

**34. Share-based payments (continued)**

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

During the year period ended 31 December 2018 the new program participants exercised their rights for the 39,445,687 shares at a price 70.19 per share.

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

**35. Earnings per share**

	2018	2017
<b>Profit attributable to equity holders of the Group</b>	<b>14,154</b>	<b>13,697</b>
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,271,351,164	2,249,603,873
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,325,015,922	2,288,133,714
<b>Earnings per share attributable to equity holders of the Group during the year, in RUB</b>		
Basic earnings per share	6.23	6.09
Diluted earnings per share	6.09	5.99

Weighted average number of shares outstanding for the years ended 31 December 2018 and 2017 is adjusted for the weighted average number of treasury shares of the Group, which included to 431,544,362 (2017: 470,356,883) ordinary and 64,519,345 (2017: 64,519,345) preferred shares of the Company.

Reconciliation of weighted average number of shares used in calculation of basic and diluted earnings per shares:

	2018	2017
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,271,351,164	2,249,603,873
Dilutive effect of employee motivation program vested shares	53,664,746	38,529,841
<b>Weighted average number of shares outstanding used in calculation of diluted earning per shares</b>	<b>2,325,015,910</b>	<b>2,288,133,714</b>

Notes to the consolidated financial statements (continued)

**36. 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 2018 and 2017 under IFRS 9:

<b>Classes</b>	<b>Measurement categories</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and cash equivalents	Assets at amortized cost	10,080	3,815
Trade and other receivables	Assets at amortized cost	51,535	56,165
Investments in equity instruments	Financial assets at fair value through profit and loss	258	353
Loans	Assets at amortized cost	3,596	2,464
Debt trading securities	Financial assets at fair value through profit and loss	5,583	4,745
<b>Total financial assets</b>		<b>71,052</b>	<b>67,542</b>
Bank and corporate loans	Liabilities at amortized cost	157,443	142,921
Bonds	Liabilities at amortized cost	46,715	47,072
Promissory notes	Liabilities at amortized cost	9	9
Vendor financing	Liabilities at amortized cost	27	38
Lease liabilities	Liabilities at amortized cost	21,646	1,249
Other borrowings	Liabilities at amortized cost	85	83
Trade and other payables	Liabilities at amortized cost	75,144	51,353
<b>Total financial liabilities</b>		<b>301,069</b>	<b>242,725</b>

The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2017 under IAS 39:

<b>Classes</b>	<b>Categories</b>	<b>31 December 2017</b>
Cash and cash equivalents	Loans and receivables	3,815
Trade and other receivables	Loans and receivables	56,165
Available-for-sale financial assets	Available-for-sale	353
Loans	Loans and receivables	2,464
Debt trading securities	Financial assets at fair value through profit and loss	4,745
<b>Total financial assets</b>		<b>67,542</b>
Bank and corporate loans	Liabilities at amortized cost	142,921
Bonds	Liabilities at amortized cost	47,072
Promissory notes	Liabilities at amortized cost	9
Vendor financing	Liabilities at amortized cost	38
Finance lease liabilities	Liabilities at amortized cost	1,249
Other borrowings	Liabilities at amortized cost	83
Trade and other payables	Liabilities at amortized cost	51,353
<b>Total financial liabilities</b>		<b>242,725</b>

## Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)**

The fair value of cash and cash equivalents, current trade and other receivables, trade and other accounts 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 non-current trade and other receivables approximate their discounted carrying amount due to similar market and discounting rates.

The fair value of long-term debt investments 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.

The table below represents book and fair value of financial instruments:

<b>Classes</b>	<b>Level</b>	<b>Book value 31 December 2018</b>	<b>Fair value 31 December 2018</b>	<b>Book value 31 December 2017</b>	<b>Fair value 31 December 2017</b>
<b>Assets for which fair values are disclosed:</b>					
Trade and other receivables	Level 3	51,535	51,535	56,165	56,165
Loans	Level 3	3,596	3,596	2,464	2,464
<b>Assets measured at fair value:</b>					
Investments in equity instruments	Level 3	258	258	353	353
Debt trading securities	Level 1	5,583	5,583	4,745	4,745
<b>Total financial assets</b>		<b>60,972</b>	<b>60,972</b>	<b>63,727</b>	<b>63,727</b>
<b>Liabilities for which fair values are disclosed:</b>					
Bank and corporate loans	Level 3	157,443	152,579	142,921	139,724
Bonds	Level 1	46,715	45,907	47,072	48,951
Promissory notes	Level 3	9	9	9	9
Vendor financing	Level 3	27	27	38	38
Lease liabilities	Level 3	21,646	21,646	1,249	1,249
Other borrowings	Level 3	85	85	83	83
Trade and other payables	Level 3	75,144	75,144	51,353	51,353
<b>Total financial liabilities</b>		<b>301,069</b>	<b>295,397</b>	<b>242,725</b>	<b>241,407</b>

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).

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 2018 and 31 December 2017.

Level 1 financial assets include quoted on MOEX debt trading securities of NPF Alliance.

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Notes to the consolidated financial statements (continued)

36. Financial instruments (continued)

Income and expenses on financial instruments

	Impairment loss of finan- cial assets measured at amortized cost	Finance costs  Interest expense	Other investing and financing gains and losses						Foreign exchange gains/ (losses)	OCI  Fair value change	Total
			Interest income	Dividend income	Gains/ (losses) on asset disposal	Fair value change	Impairment loss (reversal of impairment)	Other			
<b>2018</b>											
Cash and cash equivalents	–	–	161	–	–	–	–	–	47	–	<b>208</b>
Trade and other receivables	(4,057)	–	1,330	–	–	–	–	–	330	–	<b>(2,397)</b>
Investments in equity instruments	–	–	–	5	(24)	–	3	–	–	–	<b>(16)</b>
Debt trading securities	–	–	399	–	(144)	–	–	–	–	–	<b>255</b>
Loans	–	(51)	108	2	(56)	–	(89)	–	5	–	<b>(81)</b>
<b>Total financial assets</b>	<b>(4,057)</b>	<b>(51)</b>	<b>1,998</b>	<b>7</b>	<b>(224)</b>	<b>–</b>	<b>(86)</b>	<b>–</b>	<b>382</b>	<b>–</b>	<b>(2,031)</b>
Bank and corporate loans	–	(11,620)	–	–	–	–	–	–	10	–	<b>(11,610)</b>
Bonds	–	(3,402)	–	–	–	–	–	–	–	–	<b>(3,402)</b>
Vendor financing	–	–	–	–	–	–	–	–	–	–	<b>–</b>
Lease liabilities	–	(1,637)	–	–	–	–	–	–	–	–	<b>(1,637)</b>
Trade and other payables and non-hedge derivatives	–	–	–	–	–	–	–	–	(989)	–	<b>(989)</b>
<b>Total financial liabilities</b>	<b>–</b>	<b>(16,659)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(979)</b>	<b>–</b>	<b>(17,638)</b>

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Notes to the consolidated financial statements (continued)

36. Financial instruments (continued)

Income and expenses on financial instruments (continued)

	Bad debt income/ (expense)	Finance costs		Other investing and financing gains and losses					OCI		Total
		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	
<b>2017</b>											
Cash and cash equivalents	–	–	228	–	–	–	–	–	(152)	–	76
Trade and other receivables	(2,776)	–	1,173	–	–	–	–	–	(40)	–	(1,643)
Investments in equity instruments	–	–	–	22	(7)	–	–	–	–	–	15
Debt trading securities	–	–	370	–	–	–	–	–	–	–	370
Loans	–	(54)	118	1	–	–	–	–	50	–	115
<b>Total financial assets</b>	<b>(2,776)</b>	<b>(54)</b>	<b>1,889</b>	<b>23</b>	<b>(7)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(142)</b>	<b>–</b>	<b>(1,067)</b>
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)
<b>Total financial liabilities</b>	<b>–</b>	<b>(16,857)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(835)</b>	<b>–</b>	<b>–</b>	<b>264</b>	<b>–</b>	<b>(17,428)</b>

Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)**

**(a) Credit risk**

Each class of financial assets represented in the Group's consolidated 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 and contract assets 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 2018 and 2017.

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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on months past due for grouping of various customer segments with similar loss patterns (Note 15).



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Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)**

**(a) Credit risk (continued)**

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 36 (e)).

**(b) Liquidity risk**

The Group monitors its risk of a shortage of funds by preparing and monitoring compliance with cash flow budgets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, etc. Cash flow budgets consider the maturity of both cash inflows and outflows from the Group's operations. Based on projected cash flows the decision is taken on either investment of free cash or attracting financing required. Realization of liquidity risk management policy provides the Group with sufficient cash to discharge its obligation on a timely basis. Financing was provided within the Group introducing the need for certain companies to raise financing from the Group parent company (PJSC Rostelecom) via cash-pooling.

Issued guarantees are disclosed in Note 36(e).

Maturity analysis as at 31 December 2018 and 2017 represented below shows undiscounted cash flows, including estimated interest payments:

	2019	2020	2021	2022	2023 and later	Total
<b>31 December 2018</b>						
Bank and corporate loans	24,887	12,354	25,428	51,174	91,548	205,391
Bonds	18,787	2,409	2,408	21,995	12,095	57,694
Promissory notes	–	–	–	1	8	9
Vendor financing	11	5	7	3	2	28
Lease liabilities	5,814	2,850	2,339	2,187	25,884	39,074
Other borrowings	86	–	–	–	–	86
Trade and other payables	74,663	205	50	50	175	75,143
<b>Total financial liabilities</b>	<b>124,248</b>	<b>17,823</b>	<b>30,232</b>	<b>75,410</b>	<b>129,712</b>	<b>377,425</b>
	2018	2019	2020	2021	2022 and later	Total
<b>31 December 2017</b>						
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	86	–	–	–	–	86
Trade and other payables and non-hedge derivatives	51,039	97	64	44	109	51,353
<b>Total financial liabilities</b>	<b>90,049</b>	<b>31,244</b>	<b>14,793</b>	<b>38,617</b>	<b>134,018</b>	<b>308,721</b>

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Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)**

**(c) Market risks**

Significant market risk exposures are interest rate risk, exchange rate risk and other price risk. Exposure to other price risk arises from available for sale investments quoted on active markets.

***Interest rate risk***

Interest rate risk mainly relates to floating rate debt primary denominated in US dollars, Russian roubles and euros and financial instruments denominated in Russian roubles. Other borrowings do not materially influence the exposure to interest risk.

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Fixed rate instruments</b>		
Financial assets	22,769	12,718
Financial liabilities	(220,353)	(191,090)
	<b>(197,584)</b>	<b>(178,372)</b>
<b>Variable rate instruments</b>		
Financial assets	–	–
Financial liabilities	(5,572)	(282)
	<b>(5,572)</b>	<b>(282)</b>

*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.

	<b>2018</b>
MosPrime (+0.75%)	(1)
MosPrime (-1%)	2
CB rate (+1%)	(123)
CB rate (-1%)	123
	<b>2017</b>
MosPrime (+0.5%)	(1)
MosPrime (-1.5%)	2
CB rate (+1%)	(1)
CB rate (-1%)	1

***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.

## Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)****(c) Market risks (continued)**

Financial assets and liabilities of the Group presented by currency as at 31 December 2018 and 2017 were as follows:

	31 December 2018		31 December 2017	
	USD	EUR	USD	EUR
Cash and cash equivalents	905	653	822	34
Trade receivables	908	376	919	198
Loans and receivables	1	–	–	–
Trade and other payables and non-hedge derivatives	(8,110)	(118)	(5,182)	(82)
<b>Net exposure</b>	<b>(6,296)</b>	<b>911</b>	<b>(3,441)</b>	<b>150</b>

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 2018	
	USD	EUR
Strengthening of the currency (USD +14%, EUR +14%)	(881)	127
Weakening of the currency (USD -14%, EUR -14%)	881	(127)

	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)

The analysis was applied to monetary items denominated in relevant currencies at the reporting date.

**Other price risk**

As at 31 December 2018, the Group's assets don't include investments in quoted securities subject to other price risk.

**(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 2017-2018.

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.

Notes to the consolidated financial statements (continued)

**36. Financial instruments (continued)**

**(e) Guarantee**

The Group guaranteed repayment of debts of Infrastruktunie investitsii-4 LLC at the amount of 13,822 to its creditors. The Group received a loan from the company to finance elimination of digital divide.

**(f) Insurance risk**

Insurance contracts of the Group are subject to the following main risks:

- ▶ Risk of longevity – risk of losses due to pensioners living longer than expected;
- ▶ Investment return risk – risk of losses arising from actual returns being different than expected;
- ▶ Contract holder decision risk – risk of losses arising due to contract holder experiences (surrenders) being different than expected;
- ▶ Expense risk – risk of losses due to excess of expected expenses.

NPP contracts issued by the Group in accordance with the existing Pension rules of non-state pension provision are classified for the most part as investment contracts with DPF. Accordingly, the risk of longevity is mainly related to mandatory pension insurance contracts.

The Group had obligations under mandatory pension insurance contracts as of 31 December 2018 at the amount of 636 (31 December 2017: 497).

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.

**37. 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.

Notes to the consolidated financial statements (continued)

**37. 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.

From 2019 VAT rate is increased from 18% to 20%. Foreign suppliers of electronic services must register in Russian tax authorities to pay VAT.

In 2017 the concept of unjustified 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 2018 and 2017. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

Notes to the consolidated financial statements (continued)

**37. 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 2019 up to 2024.

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 2018, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 21,983 (2017: 14,340).

**38. Related party transactions**

**(a) The Government as a shareholder**

As indicated in Note 1, the Government of the Russian Federation controls the Company by indirect holding of 53% of the Company's ordinary shares through Vnesheconombank and Federal Agency of State properties management. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

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

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 communication services 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:

	<u>2018</u>	<u>2017</u>
Revenue	15,197	12,030
Interest income	176	223
Purchase of telecommunication services	(7,583)	(5,777)
Purchase of other services	(143)	–

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Notes to the consolidated financial statements (continued)

**38. Related party transactions (continued)**

**(c) Associates and joint ventures (continued)**

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounts receivable	2,571	3,180
Allowance for doubtful receivables	(16)	(7)
Accounts payable and accrued expenses	(480)	(884)
Loans and borrowings	–	–

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

	<b>2018</b>	<b>2017</b>
Revenue	333	338
Gain/(loss) on disposal of property, plant and equipment*	1,084	2,697
Interest income	222	184
Purchase of telecommunication services	(577)	(301)
Rent*	–	(517)
Purchase of other services	(653)	(250)
Purchase of property, plant and equipment and intangible assets	(3,935)	(1,959)
Cost of sales of customer-premises equipment	(222)	–
Amortisation*	(1,074)	–
Finance costs*	(49)	–

\* *JV Telecom-5.*

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounts receivable	413	353
Financial assets	2,229	1,665
Right of use assets*	940	–
Allowance for doubtful receivables	(22)	(6)
Accounts payable and accrued expenses	(3,724)	(958)
Lease liabilities*	(1,094)	–
Loans and borrowings	(247)	(148)

\* *JV Telecom-5.*

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.

Notes to the consolidated financial statements (continued)

**38. Related party transactions (continued)**

**(c) Associates and joint ventures (continued)**

25 December 2018, the Group and Sberbank agreed to increase the share capital by 803 each. The Group retained 50 percent of interest in 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.

In December 2018 the Group sold buildings with the carrying value of 178 to its joint venture Telecom-5 for cash consideration of 1,607 resulting in a profit of 1,292, including leaseback of (137). As a result of this transaction, the Group eliminated its share of unrealised profit of 646 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 2011-2020". 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 in a significant amount by implementing standard solutions for e-government in the regions under Saas. Services based on cloud computing will enjoy both government agencies and commercial customers.

- (c) The development of institutions of electronic signature in Russia. The system of certification centers create a common space of trust, in which every citizen of Russia will be able to obtain an electronic signature and electronic signature can be identified in any region of Russia.

During 2018 the Group recognised revenue related to a significant project with the Ministry of Digital Development, Communications and Mass Media of the Russian Federation, under the contract to operate the infrastructure of e-government in the amount of 2,822 (2017: 1,936). For other individually immaterial contracts Group's revenue in 2018 amounted to 63,123 (2017: 55,891).

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 2018 the Group received revenue under the contract concluded with the Ministry of Communications and Mass Communications of the Russian Federation, to connect hospitals to the internet, in the amount of 1,558 (2017: 470).



Notes to the consolidated financial statements (continued)

**38. Related party transactions (continued)**

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

In accordance with Federal Law *On Communication* PJSC Rostelecom as a single universal service provider for the entire territory of the Russian Federation shall 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) 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 2018 amounted to: 10,873 (2017: 11,456).

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 2018 the cost of agency contracts amounted to 568. During 2017 corresponding expenses amounted to 721. 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 2018 revenue under this contract amounted to 1,580 (2017: 1,475).

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 150,577 as at 31 December 2018 (31 December 2017: 110,118). Interest rate of these loans varies from 6.25% to 10.50%. During 2018 the Group obtained loans from these banks in the amount of 399,536 (2017: 437,659), made repayments in amount of 369,678 (2017: 468,025). Interest expense accrued on those loans during year ended 31 December 2018 amounted to 10,609 (2017: 11,130).

In 2014, the Company received a borrowing from the state-related special project company (Infrastructure investment-4 LLC) for implementation of the investment project “Bridging the Digital Divide in the sparsely populated areas of Russia”. The balance of the borrowing 31 December 2018: 5,265 (31 December 2017: 6,480). During year ended 31 December 2018 the Group made repayments in amount of 1,899 (2017: 2,162). Interest expense accrued on this borrowing year ended 31 December 2018 amounted to 684 (2017: 947).

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.

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## Notes to the consolidated financial statements (continued)

### 38. Related party transactions (continued)

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

The amount of funds placed on deposits with government-controlled banks for the year ended 31 December 2018 is 743 (2017: 4,516) with related income recognised in profit and loss of 20 (2017: 27) and amounts repaid back to the Company's account of amounted to 311 (2017: 6,879).

The amount of the Group's cash and cash equivalents kept on the accounts opened with the government-controlled banks on 31 December 2018 is 5,937 (31 December 2017: 1,586). As of 31 December 2018 the Company's account with the Federal Treasury had the balance of 3,265 (31 December 2017: 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 2018 amounted to 852 (2017: 749). Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

In 2017 the Board of Directors of the Company approved a new long-term motivation program for the period 2017-2019 (Note 34). The amount of expenses related to the key management personnel for 12 months 2018 is 1,093 (2017: 1,047).

In 2018 the Group made a contribution of 17 to the non-state pension fund (2017:8) for its key management personnel.

The remuneration amounts are stated exclusive of social taxes.

### 39. Assets held for sale

The following table illustrates information on assets held for sale for the year ended 31 December 2018 and 2017.

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Assets</b>		
Property, plant and equipment (note 7)	554	997
<b>Total assets held for sale</b>	<b>554</b>	<b>997</b>

Before the classification of property, plant and equipment as held for resale, the recoverable amount was estimated for certain items and impairment loss was identified for the years ended 31 December 2018 and 2017 amounted to 218 and 74 respectively, and is included in depreciation, amortization and impairment losses in the consolidated statements of profit or loss and other comprehensive income.

Notes to the consolidated financial statements (continued)

**40. Subsequent events**

In January 2019, the Group attracted funds under short-term loan agreements with credit institutions in the amount of 50,000. At the same time on short-term loans the Group repaid principal debt amount of 34,350.

In February 2019 the Group acquired 50% of LLC "Digital for business" for the cash consideration of 150 from SC "MF Digital".

In March 2019 the Group acquired from individuals 100% of LLC "Infolink" for the cash consideration 104 and 100% of LLC "Svyazstroy-21" for the cash consideration of 244.

The dividends for 9 month 2018 (Note 20) were paid to shareholders.