



PRESS RELEASE

ROSTELECOM ANNOUNCES ITS IFRS FINANCIAL AND OPERATING RESULTS FOR THE FOURTH QUARTER AND FULL YEAR OF 2016

Free Cash Flow rose to RUB 15.6 billion for the fourth quarter and revenue was RUB 297.4 billion for the full year

Moscow, Russia . March 6, 2017 - Rostelecom PJSC (MOEX: RTKM, RTKMP; OTCQX: ROSYY), Russia's national telecommunications operator, today announces its consolidated financial results for the fourth quarter and the full year of 2016 prepared in accordance with IFRS¹.

KEY ACHIEVEMENTS

- Revenue, OIBDA margin and CAPEX to revenue ratio are in-line with Management's guidance for 2016;
- Revenue grew by RUB 91 billion to RUB 297.4 billion in 2016;
- FCF grew by 72% to RUB 15.6 billion for the fourth quarter 2016, which resulted in RUB 13.3 billion FCF for the full year 2016;
- The digital segment's² contribution to total revenue reached 44%;
- Rostelecom accounted for around 50%³ of new connections in pay-TV market, and for more than 50%⁴ in the broadband market;
- Total fibre optic network coverage reached 32.2 million households by the end of 2016;
- Broadband of FTTx (+17%) and pay-TV subscribers (+24%) growth rates remain consistently high;
- The B2B/G segment grew by 2.5% in 2016.

FOURTH QUARTER 2016 FINANCIAL HIGHLIGHTS

- Revenue declined by 0.8% year-on-year to RUB 80.4 billion compared to the fourth quarter of 2015;
- OIBDA⁵ decreased by 5.6% to RUB 24.4 billion compared to the fourth quarter of 2015;
- OIBDA margin of 30.3% compared to 31.9% in the fourth quarter of 2015;
- Net profit decreased by 13% to RUB 3.6 billion compared to the fourth quarter of 2015;
- CAPEX⁶ decreased by 22% to RUB 15.1 billion (18.7% of revenue) from RUB 19.3 billion (23.9% of revenue) in the fourth quarter 2015;
- Free Cash Flow (FCF)⁷ increased by 72% to RUB 15.6 billion compared to the corresponding period of last year;

¹ International financial reporting standards

² The digital segment comprises broadband, pay-TV, VPN, VAS and cloud services

³ Company's data, estimates from the analytical agency TMT Consulting

⁴ Company's data, estimates from the analytical agency TMT Consulting

⁵ Here and below, please refer to Attachment 1 of this statement for a full definition of OIBDA

⁶ Here and below, capital expenditure (%CAPEX+) comprises cash spent on fixed assets and intangible assets

PRESS RELEASE

- Net debt⁸ increased by 2% since the beginning of 2016 and amounted to RUB 177.5 billion, resulting in a Net Debt / Annualised OIBDA ratio of 1.8x.

Key figures for the fourth quarter 2016

<i>RUB million</i>	4Q 2016	4Q 2015	% change, y-o-y
Revenue	80,407	81,019	(0.8%)
OIBDA	24,372	25,812	(6%)
<i>OIBDA margin %</i>	30.3%	31.9%	
Operating Income	11,248	9,258	21%
<i>Operating margin %</i>	14.0%	11.4%	
Net Income	3,586	4,117	(13%)
<i>% of revenue</i>	4.5%	5.1%	
Capital Expenditure	15,060	19,343	(22%)
<i>% of revenue</i>	18.7%	23.9%	
Net debt	177,481	173,670	2%
Net debt/ annualised OIBDA	1.8	1.7	
FCF	15,618	9,074	72%

FULL YEAR 2016 FINANCIAL HIGHLIGHTS

- Revenue increased by RUB 91 million to RUB 297.4 billion for the full year of 2016;
- OIBDA decreased by 4% to RUB 96.8 billion compared to the corresponding period of last year;
- OIBDA margin of 32.5% compared to 33.9% in 2015;
- Net profit decreased by 15% year-on-year to RUB 12.2 billion;
- CAPEX decreased by 1% to RUB 61.9 billion (20.8% of revenue) from RUB 62.7 billion (21.1% of revenue) in 2015;
- FCF amounted to RUB 13.3 billion compared to RUB 22.0 billion in 2015.

⁷ Here and below free cash flow is FCF is calculated as free cash flow from operating activity minus CAPEX, plus proceeds from selling fixed assets and intangible assets

⁸ Here and below, net debt is calculated as total debt less cash, cash equivalents and short-term investments (other financial assets)



PRESS RELEASE

Key figures for the full year of 2016

<i>RUB million</i>	FY 2016	FY 2015	% change, y-o-y
Revenue	297,446	297,355	0.03%
OIBDA	96,772	100,839	(4%)
<i>OIBDA margin, %</i>	32.5%	33.9%	
Operating income	39,836	38,586	3%
<i>Operating margin, %</i>	13.4%	13.0%	
Net income	12,249	14,391	(15%)
<i>% of revenue</i>	4.1%	4.8%	
Capital Expenditure	61,857	62,726	(1%)
<i>% of revenue</i>	20.8%	21.1%	
Net debt	177,481	173,670	2%
Net debt/ annualised OIBDA	1.8	1.7	
FCF	13,298	21,962	(39%)

The President of Rostelecom, Mikhail Oseevsky commented:

Rostelecom made good progress with the delivery of its strategy in 2016. We continue to successfully transform the business by growing the digital segment steadily. Revenue growth from our cloud and other digital services underpin this transformation, as does our ability to compete in the key broadband and pay TV markets. Our ARPU is growing and our share of new additions is 50%. It is mainly thanks to these achievements, which were delivered despite the on-going stagnation in traditional services, that Rostelecom's revenues increased slightly in 2016.

Rostelecom remains a backbone company for the country's entire telecoms industry, to the extent that it influences both the quality of people's lives and it drives the development of Russia's digital economy. Rostelecom has significantly restructured its business, transforming it into a provider of digital services, but there is still room for improvement.

Vladimir Kirienko, Senior Vice-President and Chief Operational Officer added:

We have expanded our market proposition in 2016, by introducing attractive new tariff options. In addition, based on the MVNO agreement with Tele2, we launched commercial mobile services under our own brand based on Tele2's vast network infrastructure. Rostelecom's mobile service is now accessible on the Tele2 Russia network countrywide, which provides us with further opportunities to increase client loyalty in the mass market segment and strengthen our competitive positions in the corporate and state consumer markets, which breaks new ground for the further promotion of M2M/IoT services.

I would also like to highlight our great success in the B2B space, following a breakthrough in our ability to enhance relations with large corporates as well as small and medium size businesses. This resulted in solid revenue growth of 2.5% year-on-year for the segment. Our success in this arena is due to our



PRESS RELEASE

intensified efforts in delivering a number of tailored digital solutions to our clients, based on a modernized fibre optic infrastructure and an improving customer experience.+

Kai-Uwe Mehlhorn, Senior Vice-President and Chief Financial Officer, added:

%In 2016, we started to apply new technology to improve operational efficiency and we are seeing tangible results. This has led to greater cost reduction in certain areas, and the optimization of personnel costs in particular. The Company's Management undertook the first practical step towards implementing a corporate real estate fund strategy late in 2016, through the creation of a sub-fund in a joint venture with Sberbank. This has been done as part of our initiative to monetize the Company's real estate portfolio. Our business processes and operations are becoming more and more optimized, helping to improve internal efficiency. One such initiative includes the introduction of lean manufacturing principles and the development of an advanced production system. Another prominent example of the type of innovations we are introducing include new automated statistical reporting functions, which has yielded RUB 100 million savings, as well as the introduction of a credit scoring system, which has driven a reduction in accounts receivable through a more focused approach in dealing with client groups using big data solutions and artificial intelligence.

%These achievements led to rapid growth in free cash flow generation in the fourth quarter, and by the end of 2016 we managed to ensure considerable FCF generation, which is integral to maintaining our dividend pay-out in line with current dividend policy.

%We have also delivered on our 2016 guidance. In 2017 we expect to see some macro improvements, we will continue to transform our business and we are accelerating our transition towards being an exemplary model of what a digital services provider should look like. Therefore, in 2017, we expect to generate revenue growth of around 1%, with OIBDA margin growth of up to 1%, and CAPEX to revenue ratio of 18.5%, excluding the implementation of the BDD project.+

PRESS RELEASE

KEY OPERATING HIGHLIGHTS

1. The number of broadband subscribers grew by 6% to 12.3 million in the fourth quarter of 2016, compared to the corresponding period of last year;
 - ✓ The B2C subscriber base grew by 6% to 11.6 million, whilst the number of subscribers connected by fibre optic increased by 16% year-on-year to 7.1 million (61% of the subscriber base).
2. The number of pay-TV subscribers grew by 8% to 9.3 million households in the fourth quarter of 2016, compared to the corresponding period of last year.
 - ✓ The number of IPTV subscribers increased by 24% to 4.2 million;
3. The number of local telephony subscribers decreased by 7% to 20.5 million.

<i>Number of subscribers (million):</i>	4Q 2016	4Q 2015	% change, y-o-y	3Q 2016	% change, y-o-y
Broadband	12.3	11.6	6%	12.2	1%
Residential	11.6	10.9	6%	11.4	1%
Corporate clients	0.8	0.7	3%	0.7	1%
Pay TV	9.3	8.6	8%	9.2	2%
Including IPTV	4.2	3.4	24%	4.0	5%
Local telephony services	20.5	22.1	(7%)	20.9	(2%)

PRESS RELEASE

KEY EVENTS RELATING TO THE FULL YEAR OF 2016 AND AFTER THE END OF THE REPORTING PERIOD

Business News

- A growing range of services:
 - ✓ Introduced a new %Unlimited Russia+tariff plan . the first of its kind, offering calls to any fixed network across the country with no limits on the number of calls nor their duration;
 - ✓ In cooperation with the Wargaming company (founder of the online game %World of Tanks+) launched a special broadband tariff plan called "Gaming";
 - ✓ Increased the number of HD-channels to 70 in IPTV packages, introduced a new video content package type %ABC Studios Best TV Series+and updated the %our ideal HD+TV-package;
 - ✓ Launched an %Interactive TV+smartphone app and video portal itv.rt.ru;
 - ✓ Launched an %Interactive TV for hotels+service and the SAP SuccessFactors service on a cloud platform, as well as the %New Telephony+ service and %Operated Wi-Fi+ for corporate users;
 - ✓ Began providing mobile services under its own brand based on the Tele2 network under an MVNO agreement; now Rostelecom customers can access the Rostelecom mobile proposition through the Tele2 network across the country.
- Rostelecom remains a reliable partner to the state:
 - ✓ Successfully organised the video surveillance of the Unified State Exam in 2016;
 - ✓ Successfully organised the video surveillance of elections for the State Duma in 15 federal regions of Russia;
 - ✓ Signed an agreement for the creation of an integrated geo-information system for the Nenets Autonomous District;
 - ✓ Rostelecom won the tender to introduce the domestic %MyOffice Mailqproduct for the Moscow Department for Information Technology.
- Modernizing our networking infrastructure in order to provide high quality digital services:
 - ✓ Covered 32.2 million households with its fibre optic network;
 - ✓ Completed the construction of the sub-marine Kamchatka-Sakhalin-Magadan fibre optic network; almost 500 thousand people in the Kamchatka and Magadan region, who used to receive their service via satellite, can now benefit from unlimited high-speed Internet access.
- Rostelecom continued to secure a substantial share of new subscriptions. The Company has strengthened its competitive position in the broadband and pay-TV markets; Rostelecom

PRESS RELEASE

accounted for around 50%⁹ of new subscriptions in the pay-TV market and over 50%¹⁰ in the broadband market in 2016;

- In developing fast-growth segments to drive revenue, Rostelecom started broadcasting a teleshopping channel %BOOM-TV+, which was created under a JV with South Korean partners;
- To further expand its participation in the digital segment, Rostelecom signed a number of large contracts, including with the Judicial Department's information-analytics centre, Russian Postal Service, SAP and Pepsico, as well as deals on the implementation of %Smart City+ projects, VPN, etc.
- Rostelecom signed long-term contracts with MTS, Vimpelcom and Megafon for the lease of its network infrastructure, thereby monetising its leading position as the major telecoms infrastructure operator in the country.

Other News

- In order to optimise its debt portfolio, Rostelecom:
 - ✓ Placed bonds equal to RUB 15 billion at a record low coupon rate of 9.2% per annum;
 - ✓ Signed a non-revolving credit facility agreement with VTB Bank for RUB 35 billion, which will be used primarily to refinance existing commitments.
- To improve its competitiveness across its markets, Rostelecom acquired the telecommunications assets of Morton Group, AIST and Sibitex;
- The Company's Board of Directors approved the launch of a new long-term incentive programme and a new corporate pension provision system to further enhance personnel motivation. The Board of Directors also considered initiatives regarding the implementation of a Production System in the company. These steps will contribute to improving business efficiency and will accelerate Rostelecom's transition into a digital service provider;
- Noting improvements in the macroeconomic situation in Russia, both Fitch and S&P lifted its outlook on Rostelecom credit rating to %stable+;
- In order to identify new ideas and adopt innovative technologies, Rostelecom's Venture Fund closed a number of investment deals with software provider Brain4Net and Raidix, a leading Russian developer of network solutions for telecoms operators RDP.RU, as well as with Transportation Information Technologies (TransInfoTech), an e-Freight management operator engaged in the tracking of international cargo transportation.

⁹ Company data, estimates from the analytical agency TMT-consulting

¹⁰ Company data, estimates from the analytical agency TMT-consulting

PRESS RELEASE

OPERATING REVIEW

Revenue Analysis

Revenue structure by services

<i>RUB million</i>	4Q 2016	4Q 2015	% change, y-o-y	FY 2016	FY 2015	% change, y-o-y
Broadband	17,270	16,495	5%	66,770	63,880	5%
TV services	6,287	5,170	22%	23,599	19,368	22%
Fixed telephony	21,201	23,998	(12%)	87,314	99,105	(12%)
Wholesale services	21,912	22,721	(4%)	79,010	78,266	1%
<i>Rent of channels</i>	2,482	2,913	(15%)	10,538	11,714	(10%)
<i>Interconnection and traffic transit services</i>	10,856	11,582	(6%)	35,102	34,717	1%
<i>VPN</i>	5,331	5,301	1%	20,823	19,711	6%
<i>Rent and maintenance of telecommunications infrastructure</i>	3,243	2,925	11%	12,546	12,124	3%
VAS and cloud services	6,400	5,909	8%	18,245	14,224	28%
Other telecommunications services	4,941	4,125	20%	14,741	14,499	2%
Other non-telecommunications services	2,397	2,601	(8%)	7,767	8,014	(3%)
Total	80,407	81,019	(0.8%)	297,446	297,355	0.03%

Revenue structure by management units

<i>RUB million</i>	4Q 2016	4Q 2015	% change, y-o-y	FY 2016	FY 2015	% change, y-o-y
Residential customers	34,696	34,204	1%	135,269	136,764	(1%)
Corporate customers/ Governmental customers	28,406	28,403	0%	100,763	98,319	2,5%
Operators	16,238	17,247	(6%)	57,008	57,143	(0,2%)
Other	1,067	1,164	(8%)	4,407	5,129	(14%)
Total	80,407	81,019	(0.8%)	297,446	297,355	0.03%

In the fourth quarter of 2016, revenue decreased by 0.8% year-on-year to RUB 80.4 billion. Revenue dynamics in the fourth quarter of 2016 were largely influenced by the following key factors:

- a 22% increase in revenue from pay-TV services due to the growth of the IPTV subscriber base, and a rise in the consumption of VoD services as well as in NPVR and higher ARPU;
- 5% growth in revenue from broadband services due to an increased number of subscribers as well as increased APRU of FTTx;
- an 8% increase in revenue from VAS and cloud services mainly due to the development of the "Smart City" projects;



PRESS RELEASE

- a 12% reduction in revenue from fixed-line telephony services.

For the full year of 2016, revenue increased by 0.03% year-on-year to RUB 297.4 billion. Revenue dynamics in 2016 were influenced by the following factors:

- a 22% increase in revenue from pay-TV services due to the growth of the IPTV subscriber base, and a rise in the consumption of VoD services and higher ARPU;
- a 28% increase in revenue from VAS and cloud services due to an increase in revenue from cloud services, data centre services and the development of the "Smart City" projects;
- 5% growth in revenue from broadband services due to an increased number of subscribers as well as to an increased APRU of FTTx;
- a 12% decrease in revenue from fixed-line telephony services.

PRESS RELEASE

Operating Income Analysis

Operating expenses structure¹¹

<i>RUB million</i>	4Q 2016	4Q 2015	% change, y-o-y	FY 2016	FY 2015	% change, y-o-y
Personnel costs	(21,866)	(22,570)	(3%)	(90,340)	(91,081)	(1%)
Interconnection charges	(15,457)	(15,430)	0%	(52,161)	(49,825)	5%
Materials, repairs and maintenance, Utilities	(7,613)	(7,742)	(2%)	(24,917)	(25,125)	(1%)
Gain on the disposal of PPE and intangible assets	3,193	1,409	127%	4,556	2,133	114%
Reserves for bad debt expenses	(100)	1,095	-	(2,775)	(882)	231%
Other operating income	2,682	3,833	(30%)	12,948	14,630	(11%)
Other operating expenses	(16,656)	(16,218)	3%	(49,332)	(48,020)	3%
Total operating expenses	(55,817)	(55,623)	0.3%	(201,021)	(198,169)	2%

In the fourth quarter of 2016, operating expenses excluding depreciation and amortisation remained flat compared to the corresponding period of 2015 and amounted to RUB 55.8 billion. This trend was influenced by the following factors:

- a 30% decrease (by RUB 1.2 billion) in other operating income, mainly due to the impact of the Bridging the Digital Divide project;
- a significant recovery of reserves that had been held for bad debt expenses in the fourth quarter of 2015;
- a 127% increase (by RUB 1.8 billion) in gain on the disposal of property assets, mainly due to the completion of a transaction following the creation of a real estate sub-fund within a JV with Sberbank;
- a 3% decrease (by RUB 0.7 billion) in personnel costs.

In 2016, operating expenses excluding amortisation increased by 2%, compared to the corresponding period of 2015, and amounted to RUB 202.0 billion. The following factors influenced this dynamic:

- a 5% increase (by RUB 2.3 billion) in interconnection charges due to an increase in content costs as a result of a larger pay-TV subscriber base;
- an 11% increase (by RUB 1.7 billion) in other operating income, mainly in relation to the BDD project; a 94% increase of other operating income excluding compensation by the government for the BDD project;
- a more than doubling of the gain on the disposal of property assets (by RUB 2.4 billion), mainly due to the completion of a transaction to create a real estate sub-fund within a JV with Sberbank;

¹¹ Excluding depreciation and amortisation

PRESS RELEASE

- significant recovery of reserves that had been held for bad debt expenses in the fourth quarter of 2015;
- a 1% decrease (by RUB 0.7 billion) in personnel costs, mainly due to headcount optimisation.

Depreciation and amortisation expenses fell by 17% year-on-year in the fourth quarter, and by 8% in the full year of 2016 to RUB 13.3 billion and RUB 55.6 billion, respectively. This largely reflects the revaluation of the terms of useful life of PPE.

Operating profit grew by 21% year-on-year to RUB 11.2 billion in the fourth quarter of 2016 compared to the corresponding period of 2015. In the full year of 2016, operating profit increased by 3% year-on-year to RUB 39.8 billion.

OIBDA for the fourth quarter of 2016 decreased by 6% and fell by 4% for the full year of 2016 year-on-year to RUB 24.4 billion and RUB 96.8 billion, respectively. The OIBDA margin was 30.3% in the fourth quarter of 2016, compared to 31.9% in the corresponding period of 2015. The OIBDA margin for the full year of 2016 was 32.5% compared to 33.9% in 2015.

Net Income Analysis

In the fourth quarter of 2016, profit before tax increased by 94% year-on-year to RUB 4.9 billion. Profit before tax for the full year of 2016 increased by 1% to RUB 16.9 billion.

The following factors influenced this dynamic in the fourth quarter of 2016:

- a higher level of operating income;
- a higher comparable base of losses for the fourth quarter of 2015 from the revaluation of financial instruments;
- lower foreign exchange losses in the reporting period;
- the consolidation of losses from affiliated companies, mainly the financial results of the JV with Tele2 Russia.

Profit before income tax in the full year of 2016 was mainly influenced by the consolidation of losses from affiliated companies, the financial results of the JV with Tele2 Russia, an improvement in financial results from the revaluation of financial instruments, as well as foreign currency gains.

In the fourth quarter 2016, income tax amounted to RUB 1.3 billion compared to a reversal of deferred income tax of RUB 1.6 billion in the corresponding quarter of 2015. In 2016, income tax expenses increased by 93% year-on-year and totalled RUB 4.7 billion, largely reflecting the revaluation of tax obligations related to the JV with Tele2 Russia transaction in 2015.



PRESS RELEASE

The effective income tax rate was 27% in the fourth quarter of 2016 and 28% for the full year of 2016, compared to the 20% rate specified by the Tax Code. The higher effective tax rate was due to the presence of expenses that are non-deductible for tax purposes.

Net profit in the fourth quarter of 2016 decreased by 13% to RUB 3.6 billion. Net profit for the full year of 2016 decreased by 15% to RUB 12.2 billion, which is due in large part to Tele2 Russia's losses reflected in Rostelecom's financial results in the amount of RUB 1.9 billion in the fourth quarter of 2016 and RUB 6.7 billion in for the full year of 2016.

Financial Review

Consolidated net operating cash flow totaled RUB 24.8 billion in the fourth quarter of 2016, compared to RUB 26.2 billion in the corresponding period of 2015. Consolidated net operating cash flow in the full year of 2016 amounted to RUB 67.2 billion compared to RUB 80.9 billion in the corresponding period of 2015.

A decrease in consolidated net operating cash flow in the fourth quarter of 2016 was partly caused by changes in working capital. This was driven by a smaller decrease in accounts receivable, compared to the fourth quarter of 2015, as well as an increase in inventories, caused by a transfer of CPE from PPE to inventories. The decrease in consolidated net operating cash flow in 2016 is due to growth of concession agreements assets, increase in accounts receivable of state-funded organizations and increase in inventories, also caused by a transfer of CPE from PPE to inventories. Significant profit tax refunds in the fourth quarter of 2016 and in the full year of 2016 had a positive effect on the cash flow.

Consolidated free cash flow amounted to RUB 15.6 billion in the fourth quarter of 2016 compared to RUB 9.1 billion in the corresponding period of last year. Consolidated free cash flow for the full year 2016 was RUB 13.3 billion compared to RUB 22.0 billion in 2015. The consolidated free cash flow dynamics were primarily driven by a lower consolidated net operating cash flow, as well as an increase in proceeds generated from the sale of property and income tax refunds.

CAPEX for investments in fixed assets decreased by 22% year-on-year to RUB 15.1 billion in the fourth quarter of 2016; this figure decreased by 1.0% year-on-year to RUB 61.9 billion for the full year of 2016. In the fourth quarter of 2016 this was due to CAPEX being unevenly distributed across the calendar year. In 2016, the volume of investments is weighted to the first half of year. In the full year of 2016, consolidated cash outflow for investments in fixed assets decreased by 1%. Excluding the "Bridging the Digital Divide" project it decreased by 5% to RUB 56.6 billion (19% of revenue) mainly reflecting the fulfilment of a substantial bulk of the modernisation project and the installation of Rostelecom's fibre optic network to 33 million households.

At the end of 2016, the Group's total debt remained at a similar level compared to the beginning of the year, and amounted to RUB 187.1 billion. More than 99% of the Group's total debt was rouble-denominated as at December 31, 2016.



PRESS RELEASE

As at December 31, 2016, the Group's net debt amounted to RUB 177.5 billion with a net debt /OIBDA ratio of 1.8x.

OTHER INFORMATION: CONFERENCE CALL

Rostelecom's management will hold a conference call and webcast today at 6.00PM (Moscow), 4.00PM (CET), 3.00 PM (UK) and 10.00 AM (NYT). To participate in the conference call, please dial:

Russia: + 7 495 213 1767

UK/ International: + 44 (0) 330 336 9105

USA: + 1 719 457 1036

Access code: 9912862

A webcast of the conference call will be available at <http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4247>

A replay of the conference call will be available on the Company's website: http://www.rostelecom.ru/en/ir/results_and_presentations/financials/IFRS/2016/4/ in due course.

* * *

APPENDICES

1. Reconciliation of OIBDA;
2. Statement of Comprehensive Income for the full year of 2016;
3. Statement of Cash Flows for the full year of 2016;
4. Statement of Financial Position for the full year of 2016.

APPENDIX 1: RECONCILIATION OF OIBDA

OIBDA is a non-U.S. GAAP and non-IFRS financial measure, which the Company defines as operating income before depreciation and amortisation as well as non-cash expenses. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt.

Non-cash expenses related to the long-term management incentive programme, implying accruals in personnel costs line starting from Q2, 2014, are not taken into account in the calculation of OIBDA.

<i>RUB million</i>	4Q 2016	4Q 2015	% change, y-o-y	FY 2016	FY 2015	% change, y-o-y
Operating income from continuing operations	11,248	9,258	21%	39,836	38,586	3%
Plus depreciation and amortisation from continuing operations	13,342	16,138	(17%)	55,589	60,599	(8%)
Plus non-cash expenses related to the long-term management incentive programme	(218)	417	-	1,347	1,654	(19%)
OIBDA	24,372	25,812	(6%)	96,772	100,839	(4%)
OIBDA margin, %	30.3%	31.9%		32.5%	33.9%	

PRESS RELEASE
APPENDIX 2: Statement of Comprehensive Income for 12M 2016

	Year ended 31 December	
	2016	2015
Revenue	297,446	297,355
Operating expenses		
Wages, salaries, other benefits and payroll taxes	(90,340)	(91,081)
Depreciation, amortisation and impairment losses	(55,589)	(60,599)
Interconnection charges	(52,161)	(49,825)
Materials, utilities, repairs and maintenance	(24,917)	(25,125)
Gain on disposal of property, plant and equipment and intangible assets	4,556	2,133
Bad debt expense	(2,775)	(882)
Other operating income	12,948	14,630
Other operating expenses	(49,332)	(48,020)
Total operating expenses, net	(257,610)	(258,769)
Operating profit	39,836	38,586
Loss from associates and joint ventures	(7,296)	(3,583)
Finance costs	(17,175)	(16,311)
Other investing and financial gain/(loss), net	1,061	(434)
Foreign exchange gain/(loss), net	515	(1,431)
Profit before income tax	16,941	16,827
Income tax expense	(4,692)	(2,436)
Profit for the year	12,249	14,391
Other comprehensive (loss)/ income		
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translating foreign operations	(453)	584
Items that will not be reclassified to profit and loss:		
Remeasurement of defined benefit pension plans	(379)	(412)
Income tax relating to items that will not be reclassified	76	82
Other comprehensive (loss)/ income for the year, net of tax	(756)	254
Total comprehensive income for the year	11,493	14,645
Profit attributable to:		
Equity holders of the Group	11,751	13,944
Non-controlling interests	498	447
Total comprehensive income attributable to:		
Equity holders of the Group	10,985	14,182
Non-controlling interests	508	463
Earnings per share attributable to equity holders of the Group basic (in roubles)	5.24	6.20
Earnings per share attributable to equity holders of the Group diluted (in roubles)	5.20	6.11

PRESS RELEASE
APPENDIX 3: Statement of Cash Flows for 12M 2016

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
Profit before tax	16,941	16,827
<i>Adjustments to reconcile profit before tax to cash generated from operations</i>		
Depreciation, amortisation and impairment losses	55,589	60,599
Gain on disposal of property, plant and equipment and intangible assets	(4,556)	(2,133)
Bad debt expense	2,775	882
Loss from associates and joint ventures	7,296	3,583
Finance costs excluding finance costs on pension and other long-term social liabilities	16,699	15,560
Other investing and financial (gain)/loss, net	(1,061)	434
Foreign exchange (gain)/loss, net	(515)	1,431
Share-based motivation program	1,019	1,251
<i>Changes in net working capital</i>		
(Increase)/decrease in accounts receivable	(3,941)	1,629
Decrease in employee benefits	(561)	(1,356)
(Increase)/decrease in inventories	(2,351)	892
Increase in accounts payable, provisions and accrued expenses	1,376	268
Increase in other assets and liabilities	(3,131)	(25)
Cash generated from operations	85,579	99,842
Interest paid	(18,410)	(17,082)
Income tax refund	4,391	2,559
Income tax paid	(4,383)	(4,469)
Net cash provided by operating activities	67,177	80,850
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(61,857)	(62,726)
Proceeds from sale of property, plant and equipment and intangible assets	7,978	3,838
Acquisition of financial assets	(9,736)	(15,943)
Proceeds from disposals of financial assets	10,831	10,442
Interest received	1,029	1,495
Dividends received	22	7
Purchase of subsidiaries, net of cash acquired	(2,438)	(1,145)
Proceeds from equity accounted investees		322
Proceeds from disposal of equity accounted investees		240
Proceeds from disposals of subsidiaries, net of cash disposed	(1)	
Acquisition of equity accounted investees	(2,778)	(2,098)
Net cash used in investing activities	(56,950)	(65,568)
Cash flows from financing activities		
Sale of treasury shares	157	
Purchase of treasury shares	(314)	(2,867)
Proceeds from bank and corporate loans	655,190	546,080
Repayment of bank and corporate loans	(665,936)	(550,410)
Proceeds from bonds	15,000	10,000
Repayment of bonds	(2,734)	(12,112)
Repayment of vendor financing payable	(9)	(48)
Repayment of other non-current financing liabilities	(1)	(4)
Options settlement repayments	(319)	(5,361)
Repayment of finance lease liabilities	(160)	(57)
Acquisition of non-controlling interest		(2,349)
Dividends paid to shareholders of the Group	(13,295)	(7,676)
Dividends paid to non-controlling shareholders of subsidiaries	(258)	(308)
Net cash used in financing activities	(12,679)	(25,112)
Effect of exchange rate changes on cash and cash equivalents	(456)	50
Net (decrease) in cash and cash equivalents	(2,908)	(9,780)
Cash and cash equivalents at beginning of the year	7,165	16,945
Cash and cash equivalents at the end of the year	4,257	7,165

PRESS RELEASE

APPENDIX 4: Statement of Financial Position for 12M 2016

	31 December 2016	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	343,667	338,699
Investment property	181	107
Goodwill and other intangible assets	61,209	60,755
Investments in associates and joint venture	68,352	74,474
Other financial assets	797	621
Deferred tax assets	606	627
Other non-current assets	11,998	8,241
Total non-current assets	486,810	483,524
Current assets		
Inventories	6,444	4,060
Trade and other accounts receivable	45,884	43,152
Prepayments	2,166	2,822
Prepaid income tax	1,957	927
Other financial assets	5,367	5,719
Cash and cash equivalents	4,257	7,165
Other current assets	2,151	2,600
Total current assets	68,226	66,445
Held for sale assets	646	1,351
Total assets	555,682	551,320
Equity and liabilities		
Equity attributable to equity holders of the Group		
Share capital	93	93
Additional paid-in capital	90	87
Treasury shares	(67,034)	(68,669)
Retained earnings and other reserves	311,167	314,237
Total equity attributable to equity holders of the Group	244,316	245,748
Non-controlling interests	4,317	3,916
Total equity	248,633	249,664
Non-current liabilities		
Loans and borrowings	124,510	126,620
Employee benefits	5,217	5,021
Deferred tax liabilities	36,165	30,238
Accounts payable, provisions and accrued expenses	1,095	3,545
Other non-current liabilities	6,002	5,543
Total non-current liabilities	172,989	170,967
Current liabilities		
Loans and borrowings	62,595	59,934
Accounts payable, provisions and accrued expenses	64,072	62,268
Income tax payable	146	215
Other current liabilities	7,247	8,272
Total current liabilities	134,060	130,689
Total liabilities	307,049	301,656
Total equity and liabilities	555,682	551,320



PRESS RELEASE

Rostelecom (www.rostelecom.ru) is one of the largest national telecommunications operators in Russia and Europe. The Group operates in all segments of the telecommunications market and covers millions of households in Russia.

Rostelecom is an undisputable leader of the broadband and pay-TV markets in Russia with over 12.3 million fixed-line broadband subscribers and over 9.3 million pay-TV subscribers, over 4.2 million of which are subscribed to Rostelecom's IPTV services.

The Group generated RUB 297.4 billion of consolidated revenues, RUB 96.8 billion of OIBDA (32.5% of revenue) and RUB 12.2 billion of net income in 2016.

The Group is a market leader in providing telecommunications services to government bodies and corporates of all levels. It is also an important innovator that provides solutions in the field of medicine, E-Government, cloud computing, education, security and housing & utility services.

Stable financial position of Rostelecom is confirmed by international credit ratings by Fitch Ratings at **BBB-** and Standard & Poor's at **BB+** respectively.

* * *

Certain statements in this press release are forward-looking statements within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbors created thereby.

Those forward-looking statements include, but are not limited to:

- Management's assessment of the Company's future operating and financial results as well as forecasts of the present value of future cash flows and related factors;
- the Company's anticipated capital expenditures and plans to construct and modernize its network;
- the Company's expectations as to the growth in demand for its services, plans relating to the expansion of the range of its services and their pricing;
- the Company's plans with respect to improving its corporate governance practices;
- the Company's expectations as to its position in the telecommunications market and the development of the market segments within which the Company operates;
- economic outlook and industry trends;
- the Company's expectations as to the regulation of the Russian telecommunications industry and assessment of impact of regulatory initiatives on the Company's activity;
- other statements regarding matters that are not historical facts.

Such forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include:

- risks relating to changes in political, economic and social conditions in Russia as well as changes in global economic conditions;
- risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian telecommunications industry, securities industry as well as currency and exchange controls relating to Russian entities and their official interpretation by regulatory bodies;
- risks relating to the Company, including the achievement of the anticipated results, levels of profitability and growth, ability to create and meet demand for the Company's services including their promotions, and the ability of the Company to remain competitive in a liberalized telecommunications market;
- technological risks associated with the functioning and development of the telecommunications infrastructure, technological innovations as well as the convergence of technologies;
- other risks and uncertainties. For a more detailed discussion of these and other factors, see the Company's Annual Report and the Company's other public filings.



PRESS RELEASE

Many of these factors are beyond the Company's ability to control or predict. Given these and other uncertainties, readers are cautioned not to place undue reliance on any of the forward-looking statements contained herein or otherwise. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.