

OJSC ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)
AND AUDITORS' REPORT

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Auditors' Report

To the Shareholders and Board of Directors

OJSC Rostelecom

We have audited the accompanying consolidated financial statements of OJSC Rostelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audits in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC Rostelecom

Registered by the Moscow Registration Chamber on 23 September 1993. Registration No. 021.833.

Entered in the Unified State Register of Legal Entities on 9 September 2002 by Department of Ministry of Taxes and Duties, Registration No. 1027700198767, Certificate series 77 No. 004891969.

15, Dostoevsky street, Saint-Petersburg, Russia, 191002

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.



Shvetsov A.V.

Director (power of attorney dated 1 July 2014 No. 35/14)

ZAO KPMG

11 March 2015

Moscow, Russian Federation

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In millions of Russian Roubles)

| | Notes | 31 December 2014 | 31 December 2013 |
|--------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 328,266 | 335,059 |
| Investment property | | 224 | 113 |
| Goodwill and other intangible assets | 6 | 58,420 | 64,346 |
| Investments in associates | 8 | 75,048 | 918 |
| Other investments | 9 | 110 | 520 |
| Deferred tax assets | 19 | 359 | 276 |
| Other non-current assets | 10 | 9,274 | 3,990 |
| Total non-current assets | | 471,701 | 405,222 |
| Current assets | | | |
| Inventories | 11 | 4,827 | 3,941 |
| Trade and other accounts receivable | 12 | 45,056 | 39,824 |
| Prepayments | | 4,363 | 3,508 |
| Prepaid income tax | | 2,241 | 4,894 |
| Other investments | 9 | 1,934 | 1,966 |
| Cash and cash equivalents | 13 | 16,945 | 7,960 |
| Other current assets | 14 | 988 | 609 |
| Total current assets | | 76,354 | 62,702 |
| Held for sale assets | 33 | 579 | 93,048 |
| Total assets | | 548,634 | 560,972 |

EQUITY AND LIABILITIES

Equity attributable to equity holders of the Group

| | | | |
|---|----|----------------|----------------|
| Share capital | 15 | 97 | 97 |
| Additional paid-in capital | | 819 | 1,658 |
| Treasury shares | | (82,023) | (68,325) |
| Retained earnings and other reserves | | 322,258 | 262,967 |
| Total equity attributable to equity holders of the Group | | 241,151 | 196,397 |
| Non-controlling interests | | 4,076 | 3,359 |
| Total equity | | 245,227 | 199,756 |

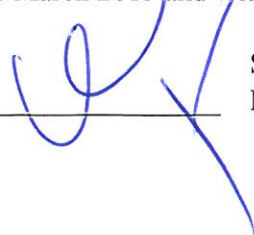
Non-current liabilities

| | | | |
|---|----|----------------|----------------|
| Loans and borrowings | 16 | 137,872 | 184,600 |
| Employee benefits | 18 | 5,965 | 9,774 |
| Deferred tax liabilities | 19 | 31,206 | 26,728 |
| Accounts payable, provisions and accrued expenses | 17 | 160 | 1,077 |
| Other non-current liabilities | | 4,960 | 5,127 |
| Total non-current liabilities | | 180,163 | 227,306 |

Current liabilities

| | | | |
|---|----|----------------|----------------|
| Loans and borrowings | 16 | 52,142 | 33,209 |
| Accounts payable, provisions and accrued expenses | 17 | 62,253 | 73,635 |
| Income tax payable | | 89 | 69 |
| Other current liabilities | | 8,760 | 9,350 |
| Total current liabilities | | 123,244 | 116,263 |
| Held for sale liabilities | 33 | - | 17,647 |
| Total liabilities | | 303,407 | 361,216 |
| Total equity and liabilities | | 548,634 | 560,972 |

These consolidated financial statements were approved by management of OJSC Rostelecom on 11 March 2015 and were signed on its behalf by:



S.B. Kalugin,
President



K.U. Mehlhorn, CFO -
Senior Vice President

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

OJSC Rostelecom**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

(In millions of Russian Roubles)

| | Year ended 31 December 2014 | | | |
|---|-----------------------------|-----------------------|------------------------------------|------------------|
| | Notes | Continuing operations | Discontinued operations Note 33 | Total |
| Revenue | 20 | 298,937 | 11,980 | 310,917 |
| Operating expenses | | | | |
| Wages, salaries, other benefits and payroll taxes | 21 | (89,929) | (1,763) | (91,692) |
| Depreciation, amortisation and impairment losses | 5,6 | (60,623) | (12) | (60,635) |
| Interconnection charges | | (47,429) | (3,126) | (50,555) |
| Materials, utilities, repairs and maintenance | 22 | (25,828) | (754) | (26,582) |
| Gain on disposal of property, plant and equipment and intangible assets | | 1,475 | (23) | 1,452 |
| Bad debt expense | 12 | (2,006) | (176) | (2,182) |
| Other operating income | 23 | 12,950 | 71 | 13,021 |
| Other operating expenses | 24 | (47,553) | (3,300) | (50,853) |
| Total operating expenses, net | | (258,943) | (9,083) | (268,026) |
| Operating profit | | 39,994 | 2,897 | 42,891 |
| Loss from associates | | (517) | - | (517) |
| Finance costs | 25 | (15,519) | (203) | (15,722) |
| Other investing and financial gain/(loss) | 26 | (3,793) | 24,712 | 20,919 |
| Foreign exchange gain/(loss), net | | 228 | (45) | 183 |
| Profit before income tax | | 20,393 | 27,361 | 47,754 |
| Income tax expense | 19 | (7,211) | (2,736) | (9,947) |
| Profit for the year | | 13,182 | 24,625 | 37,807 |
| Other comprehensive income/(loss) | | | | |
| Items that may be reclassified subsequently to profit and loss: | | | | |
| Exchange differences on translating foreign operations | | 853 | - | 853 |
| Items that will not be reclassified to profit and loss: | | | | |
| Remeasurement of defined benefit pension plans | | 3,789 | - | 3,789 |
| Income tax relating to items that will not be reclassified | | (758) | - | (758) |
| Other comprehensive income for the year, net of tax | | 3,884 | - | 3,884 |
| Total comprehensive income for the year | | 17,066 | 24,625 | 41,691 |
| Profit attributable to: | | | | |
| Equity holders of the Group | | 12,895 | 24,625 | 37,520 |
| Non-controlling interests | | 287 | - | 287 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Group | | 16,788 | 24,625 | 41,413 |
| Non-controlling interests | | 278 | - | 278 |
| Earnings per share attributable to equity holders of the Group – basic (in RUB) | 29 | 5.66 | 10.81 | 16.47 |
| Earnings per share attributable to equity holders of the Group –diluted (in RUB) | 29 | 5.63 | 10.74 | 16.37 |

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

OJSC Rostelecom**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

(In millions of Russian Roubles)

| | Notes | Year ended 31 December 2013 | | Total |
|---|-------|-----------------------------|------------------------------------|------------------|
| | | Continuing operations | Discontinued operations Note 33 | |
| Revenue | 20 | 290,736 | 34,968 | 325,704 |
| Operating expenses | | | | |
| Wages, salaries, other benefits and payroll taxes | 21 | (85,798) | (5,204) | (91,002) |
| Depreciation, amortisation and impairment losses | 5,6 | (58,914) | (9,500) | (68,414) |
| Interconnection charges | | (42,420) | (7,326) | (49,746) |
| Materials, utilities, repairs and maintenance | 22 | (26,260) | (2,235) | (28,495) |
| Loss on disposal of property, plant and equipment and intangible assets | | 111 | (455) | (344) |
| Bad debt expense | 12 | (2,094) | (46) | (2,140) |
| Other operating income | 23 | 15,228 | 701 | 15,929 |
| Other operating expenses | 24 | (45,355) | (11,269) | (56,624) |
| Total operating expenses, net | | (245,502) | (35,334) | (280,836) |
| Operating profit | | 45,234 | (366) | 44,868 |
| Income from associates | | 177 | - | 177 |
| Finance costs | 25 | (14,853) | (947) | (15,800) |
| Other investing and financial gain/(loss) | 26 | 4,981 | (1,533) | 3,448 |
| Foreign exchange loss, net | | (483) | (91) | (574) |
| Profit before income tax | | 35,056 | (2,937) | 32,119 |
| Income tax expense | 19 | (8,370) | 382 | (7,988) |
| Profit for the year | | 26,686 | (2,555) | 24,131 |
| Other comprehensive income/(loss) | | | | |
| Items that may be reclassified subsequently to profit and loss: | | | | |
| Exchange differences on translating foreign operations | | 41 | - | 41 |
| Items that will not be reclassified to profit and loss: | | | | |
| Remeasurement of defined benefit pension plans | | 1,853 | - | 1,853 |
| Income tax relating to items that will not be reclassified | | (371) | - | (371) |
| Other comprehensive income for the year, net of tax | | 1,523 | - | 1,523 |
| Total comprehensive income for the year | | 28,209 | (2,555) | 25,654 |
| Profit attributable to: | | | | |
| Equity holders of the Group | | 26,429 | (2,557) | 23,872 |
| Non-controlling interests | | 257 | 2 | 259 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Group | | 27,948 | (2,557) | 25,391 |
| Non-controlling interests | | 261 | 2 | 263 |
| Earnings per share attributable to equity holders of the Group – basic (in RUB) | 29 | 10.35 | (1.00) | 9.35 |
| Earnings per share attributable to equity holders of the Group –diluted (in RUB) | 29 | 10.35 | (1.00) | 9.35 |

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

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian Roubles)

| | Notes | Year ended 31 December | |
|---|-------|------------------------|-----------------|
| | | 2014 | 2013 |
| Cash flows from operating activities | | | |
| Profit before income tax | | 47,754 | 32,119 |
| <i>Adjustments to reconcile profit before tax to cash generated from operations:</i> | | | |
| Depreciation, amortization and impairment losses | 5,6 | 60,635 | 68,414 |
| (Gain)/loss on sale of property, plant and equipment and intangible assets | | (1,452) | 344 |
| Bad debt expense | 12 | 2,182 | 2,140 |
| Loss/(income) from associates | | 517 | (177) |
| Finance costs excluding finance costs on pension and other long-term social liabilities | 25 | 14,939 | 15,031 |
| Other investing and financial gain | 26 | (20,919) | (3,448) |
| Foreign exchange (gain)/loss, net | | (183) | 574 |
| Share-based payment expenses | 28 | 1,850 | - |
| <i>Changes in net working capital:</i> | | | |
| Increase in accounts receivable | | (5,303) | (5,706) |
| Decrease in employee benefits | | (3,808) | (1,087) |
| (Increase)/decrease in inventories | | (907) | 986 |
| Increase in accounts payable, provisions and accrued expenses | | 5,877 | 378 |
| Decrease in other assets and liabilities | | (2,115) | (2,318) |
| Cash generated from operations | | 99,067 | 107,250 |
| Interest paid | | (15,881) | (17,083) |
| Income tax paid | | (3,640) | (4,474) |
| Net cash provided by operating activities | | 79,546 | 85,693 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | | (57,666) | (68,487) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 5,433 | 1,641 |
| Acquisition of financial assets | | (2,115) | (11,924) |
| Proceeds from repayment of loans by subsidiaries contributed to associate | | 25,925 | 16,443 |
| Interest received | | 689 | 441 |
| Special dividends from disposed former mobile subsidiaries | | 7,003 | - |
| Dividends received | | 14 | 11 |
| Purchase of subsidiaries, net of cash acquired | | (29) | (47) |
| Proceeds from disposals of subsidiaries, net of cash disposed | | (112) | (6) |
| Acquisition of equity accounting investees | | (250) | - |
| Net cash used in investing activities | | (21,108) | (61,928) |
| Cash flows from financing activities | | | |
| Sale of treasury shares | | 815 | 22,306 |
| Purchase of treasury shares | | (14,485) | (58,376) |
| Proceeds from bank and corporate loans | | 470,559 | 509,685 |
| Repayment of bank and corporate loans | | (496,482) | (524,430) |
| Proceeds from bonds | | - | 30,000 |
| Repayment of bonds | | (2,440) | (1,613) |
| Proceeds from promissory notes | | 12 | - |
| Repayment of promissory notes | | (12) | (282) |
| Repayment of vendor financing payable | | (9) | 11 |
| Repayment of other non-current financing liabilities | | (7) | (11) |
| Repayment of finance lease liabilities | | (2) | (629) |
| Acquisition of non-controlling interest | | (14) | (20) |
| Dividends paid to shareholders of the Group | | (7,294) | (5,828) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (306) | (247) |
| Net cash used in by financing activities | | (49,665) | (29,434) |
| Effect of exchange rate changes on cash and cash equivalents | | 212 | - |
| Net increase/(decrease) in cash and cash equivalents | | 8,985 | (5,669) |
| Cash and cash equivalents at beginning of year | | 7,960 | 13,629 |
| Cash and cash equivalents at the end of year | | 16,945 | 7,960 |

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

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Russian Roubles)

| | Attributable to equity holders of the Group | | | | | | | | | | | |
|---|---|----------------------------|---|-----------------------------------|-----------------|----------------------|---|--------------------------|-------------------|--|--------------------------|----------------|
| | Share capital | Additional paid-in capital | Unrealized gain/ (loss) on available-for-sale investments | Translation of foreign operations | Treasury shares | Share option reserve | Remeasurements of defined benefit pension plans | Stock redemption reserve | Retained earnings | Total equity attributable to shareholders of the Group | Non-controlling interest | Total equity |
| Balances at 1 January 2014 | 97 | 1,658 | (10) | (45) | (68,325) | - | 3,452 | (23,239) | 282,809 | 196,397 | 3,359 | 199,756 |
| Profit for the year | - | - | - | - | - | - | - | - | 37,520 | 37,520 | 287 | 37,807 |
| Other comprehensive income | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | 862 | - | - | - | - | - | 862 | (9) | 853 |
| Actuarial gains | - | - | - | - | - | - | 3,789 | - | - | 3,789 | - | 3,789 |
| Income tax in respect of other comprehensive loss items | - | - | - | - | - | - | (758) | - | - | (758) | - | (758) |
| Total other comprehensive income/(loss), net of tax | - | - | - | 862 | - | - | 3,031 | - | - | 3,893 | (9) | 3,884 |
| Total comprehensive income/ (loss) | - | - | - | 862 | - | - | 3,031 | - | 37,520 | 41,413 | 278 | 41,691 |
| Transactions with shareholders, recorded directly in equity: | | | | | | | | | | | | |
| Dividends to equity holders of the Group | - | - | - | - | - | - | - | - | (7,294) | (7,294) | - | (7,294) |
| Dividends to non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | (306) | (306) |
| Acquisition of treasury shares | - | - | - | - | (14,485) | - | - | 23,239 | - | 8,754 | - | 8,754 |
| Sale of treasury shares | - | 28 | - | - | 787 | - | - | - | - | 815 | - | 815 |
| Disposal of non-controlling interest in disposed subsidiaries | - | - | - | - | - | - | - | - | - | - | (37) | (37) |
| Employee benefits within share-based employee motivation program | - | - | - | - | - | 1,850 | - | - | - | 1,850 | - | 1,850 |
| Other changes in equity | - | (867) | - | - | - | - | - | - | 83 | (784) | 782 | (2) |
| Total transactions with shareholders | - | (839) | - | - | (13,698) | 1,850 | - | 23,239 | (7,211) | 3,341 | 439 | 3,780 |
| Balances at 31 December 2014 | 97 | 819 | (10) | 817 | (82,023) | 1,850 | 6,483 | - | 313,118 | 241,151 | 4,076 | 245,227 |

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

OJSC Rostelecom
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

(In millions of Russian Roubles)

| | Attributable to equity holders of the Group | | | | | | | | | | | Total equity |
|---|---|----------------------------|---|-----------------------------------|-----------------|----------------------|---|--------------------------|-------------------|--|--------------------------|-----------------|
| | Share capital | Additional paid-in capital | Unrealized gain/ (loss) on available-for-sale investments | Translation of foreign operations | Treasury shares | Share option reserve | Remeasurements of defined benefit pension plans | Stock redemption reserve | Retained earnings | Total equity attributable to shareholders of the Group | Non-controlling interest | |
| Balances at 1 January 2013 | 97 | 4,343 | (10) | (82) | (34,822) | 3,197 | 1,970 | - | 261,533 | 236,226 | 2,606 | 238,832 |
| Profit for the year | - | - | - | - | - | - | - | - | 23,872 | 23,872 | 259 | 24,131 |
| Other comprehensive income | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | 37 | - | - | - | - | - | 37 | 4 | 41 |
| Actuarial gains | - | - | - | - | - | - | 1,853 | - | - | 1,853 | - | 1,853 |
| Income tax in respect of other comprehensive loss items | - | - | - | - | - | - | (371) | - | - | (371) | - | (371) |
| Total other comprehensive income/(loss), net of tax | - | - | - | 37 | - | - | 1,482 | - | - | 1,519 | 4 | 1,523 |
| Total comprehensive income/ (loss) | - | - | - | 37 | - | - | 1,482 | - | 23,872 | 25,391 | 263 | 25,654 |
| Transactions with shareholders, recorded directly in equity: | | | | | | | | | | | | |
| Dividends to equity holders of the Group | - | - | - | - | - | - | - | - | (5,828) | (5,828) | - | (5,828) |
| Dividends to non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | (247) | (247) |
| Acquisition of treasury shares | - | - | - | - | (58,376) | - | - | - | - | (58,376) | - | (58,376) |
| Sale of treasury shares | - | (2,633) | - | - | 24,873 | - | - | - | - | 22,240 | - | 22,240 |
| Disposal of non-controlling interest in disposed subsidiaries | - | - | - | - | - | - | - | - | 30 | 30 | 737 | 767 |
| Employee benefits within share-based employee motivation program | - | - | - | - | - | (3,197) | - | - | 3,197 | - | - | - |
| Other changes in equity | - | (52) | - | - | - | - | - | (23,239) | 5 | (23,286) | - | (23,286) |
| Total transactions with shareholders | - | (2,685) | - | - | (33,503) | (3,197) | - | (23,239) | (2,596) | (65,220) | 490 | (64,730) |
| Balances at 31 December 2013 | 97 | 1,658 | (10) | (45) | (68,325) | - | 3,452 | (23,239) | 282,809 | 196,397 | 3,359 | 199,756 |

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

1. REPORTING ENTITY

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

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 2014, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank and Russain Direct Investment Fund, controls the Company by holding of 55.7% of the Company’s voting ordinary shares.

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

On 1 April 2014, the Company completed the first stage of the deal with mobile operator Tele 2 Russia to create a new national mobile operator. At the first stage the Company contributed its standalone mobile subsidiaries and the Company’s mobile fixed assets into the share capital of T2 RTK Holding.

Subsidiaries transferred at the first stage are as follows:

- Akos CJSC
- Apeks OJSC
- Astarta CJSC
- Baikalwestcom CJSC
- BIT CJSC
- Delta telecom CJSC
- Kaliningradskie Mobilnie Seti OJSC
- Moscovskaya sotovaya svyaz OJSC
- MS-Direct CJSC
- NSS CJSC
- LLC Pilar
- Saratovskaya sistema sotovoy svyazy CJSC
- Skay-1800 CJSC
- Sky Link CJSC
- Uralvestcom CJSC
- Volgograd-GSM CJSC
- Yenisey telecom CJSC

At the end of the first stage, the Group received a 26% voting interest in T2 RTK Holding.

On 6 August 2014 Rostelecom OJSC completed the second and final stage of the deal. To complete the final stage of the deal Rostelecom spun off its integrated mobile assets into RT-Mobile and had its licenses reissued to this entity. After that 100% of shares in CJSC RT-Mobile was contributed into T2 RTK Holding. At the end of the second stage the Group increased its interest in T2 RTK Holding up to 45%.

The Company’s headquarters are located in the Russian Federation, Moscow at 1st Tverskaya-Yamskaya Street,

14, 125047.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of Group entities and the currency in which these consolidated financial statements are presented. The only Group entity with other functional currency is GNC-Alfa, incorporated in Armenia. The functional currency of this entity is Armenian Dram (“AMD”). All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

(d) Use of estimates and judgements

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

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

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

Changes in Estimate of Useful Lives

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

Fair Values of Associates

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

Share-based employee benefits

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

Employee Benefits

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

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Allowances

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

Impairment of non-current assets

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

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

Litigation

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

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.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(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.

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.

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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)

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20% and 50% of the voting ownership interest or by power to participate in the financial and operating policy decisions of associates. The Group's share of the net income or losses of associates is included in profit or loss, the Group's share of movement in reserves is recognized in equity and the Group's share of the net assets of associates is included in the consolidated statements of financial position.

An assessment of investments in associates for possible impairment or reversal of impairment recognized previously is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment to fund future losses. Unrealized profits and losses that arise from transactions between the Group and its associates are eliminated in the proportion to the Group's share in such associates.

Non-controlling interest

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

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

(b) Goodwill

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

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

(a) the aggregate of:

- the acquisition-date fair value of consideration transferred;
- non-controlling interest's proportionate share of the acquiree's identifiable net assets; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

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

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

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

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

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

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

(c) Property, plant and equipment

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

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

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

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

| | <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.

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

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

(d) Leases

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

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

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

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

(e) Investment property

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

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

(f) Intangible assets

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

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

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Following initial recognition, intangible assets are carried at cost less any accumulated amortization 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 amortized 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.

Amortization 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 amortization 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 amortization expense on intangible assets with finite lives is included in depreciation and amortization expenses in profit or loss.

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

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

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

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

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

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

(h) Inventory

Inventory principally consists of cable, spare parts for the network and other supplies. Inventory is stated at the lower of cost incurred in bringing each item to its present location and condition and its net realizable value. Cost

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is calculated using weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Net realizable value is determined with respect to current market prices less expected costs to dispose. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in profit or loss.

(i) Accounts receivable

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

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

(j) Financial instruments

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

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

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

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

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

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

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

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

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

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

(k) Borrowings

Borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. In subsequent periods, borrowings are measured at amortized 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 amortization process.

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

(l) Foreign currency transactions

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

As at December 31, 2014 and 2013, the rates of exchange used for translating foreign currency balances were (in Russian Roubles for one unit of foreign currency):

| | 2014 | 2013 |
|------------------------------|-------|-------|
| US Dollar (USD) | 56.26 | 32.73 |
| Special Drawing Rights (SDR) | 81.50 | 50.57 |
| EURO (EUR) | 68.34 | 44.97 |

Source: the Central Bank of Russia

(m) Cash and cash equivalents

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

(n) Deferred income taxes

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

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

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

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

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

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

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

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

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

(o) Revenue and operating costs recognition

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

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

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

The Group charges amounts to interconnected operators for incoming traffic and is charged by operators for termination. These revenues and costs are shown gross in the consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the consolidated statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle liability simultaneously.

Revenues from the sale of transmission capacity on terrestrial and submarine cables, which relates to IRU under operating leases where the Group is a lessor, are recognized on a straight-line basis over the life of the contract.

(p) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is charged in profit or loss or capitalized in an asset if it is required by IFRS.

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

(q) Government grants

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

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

(r) Employee benefits

The Group operates a defined benefit pension scheme which requires one-off contributions, representing the net present value of future monthly payments to employees, to be made by the Group to a separately administered pension fund upon employees' dismissal. The pension fund 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

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revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(t) Dividends

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

(u) Treasury shares

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

(v) Earnings per share

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

(w) Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the 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) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on 1 January 2014. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- IAS 36 “Impairment of assets”;

The adoption of amended Standards have no material impact on the Group's results of operations, financial position and cash flows.

(y) IFRSs and IFRIC interpretations not yet effective

The following new Standards, *amendments to Standards* and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- *IFRS 9 Financial Instruments* was published in July 2014 and it replaces International Financial Reporting Standard *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
- *IFRS 15 Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- *IFRS 14 Regulatory Deferral Accounts*.
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*.
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*.
- *Annual Improvements to IFRSs 2010–2012 Cycle*.
- *Annual Improvements to IFRSs 2011–2013 Cycle*.

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5. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as at 31 December 2014, 2013 was as follows:

| | Buildings and site services | Cable and transmission devices | Other | Construction in progress | Total |
|---|--|---|----------------|-------------------------------------|----------------|
| Cost/deemed cost | | | | | |
| At 1 January 2013 | 176,265 | 479,945 | 95,947 | 63,907 | 816,064 |
| Additions | 87 | 2,980 | 1,650 | 54,471 | 59,188 |
| Reclassification from investment property and assets held for sale | 473 | - | 13 | - | 486 |
| Reclassification to assets held for sale | (11,077) | (71,536) | (6,696) | (15,216) | (104,525) |
| Transfer | 5,566 | 53,867 | 8,499 | (67,932) | - |
| Disposals | (972) | (9,498) | (4,773) | (586) | (15,829) |
| Foreign exchange | - | 39 | 3 | 10 | 52 |
| Reclassification | (24,102) | 17,113 | 6,473 | 91 | (425) |
| At 31 December 2013 | 146,240 | 472,910 | 101,116 | 34,745 | 755,011 |
| At 1 January 2014 | 146,240 | 472,910 | 101,116 | 34,745 | 755,011 |
| Additions | 183 | 1,437 | 2,419 | 49,098 | 53,137 |
| Assets revaluation of acquired subsidiaries | (5) | 23 | 6 | - | 24 |
| Reclassification from investment property and assets held for sale | 522 | - | 44 | - | 566 |
| Reclassification to assets held for sale | (1,069) | 14 | (338) | (1,516) | (2,909) |
| Reclassification to intangible assets | - | (31) | (464) | (488) | (983) |
| Transfer | 3,566 | 44,246 | 8,360 | (56,172) | - |
| Disposals | (915) | (10,526) | (3,353) | (1,235) | (16,029) |
| Foreign exchange | 1 | 469 | 30 | 48 | 548 |
| Reclassification | (16,986) | 11,347 | 5,659 | (13) | 7 |
| At 31 December 2014 | 131,537 | 519,889 | 113,479 | 24,467 | 789,372 |

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| | Buildings and site services | Cable and transmission devices | Other | Construction in progress | Total |
|---|--|---|-----------------|-------------------------------------|------------------|
| Accumulated amortization and impairment losses | | | | | |
| At 1 January 2013 | (86,144) | (258,018) | (70,291) | (1,694) | (416,147) |
| Depreciation expense | (4,900) | (44,268) | (9,811) | - | (58,979) |
| Reclassification from investment property and assets held for sale | (262) | - | (13) | - | (275) |
| Reclassification to assets held for sale | 2,933 | 34,920 | 3,622 | 189 | 41,664 |
| Reversal of impairment losses | (21) | (70) | (48) | 262 | 123 |
| Disposals | 677 | 7,762 | 4,638 | 165 | 13,242 |
| Foreign exchange | - | (5) | - | - | (5) |
| Reclassification | 11,878 | (7,433) | (4,020) | - | 425 |
| At 31 December 2013 | (75,839) | (267,112) | (75,923) | (1,078) | (419,952) |
| At 1 January 2014 | (75,839) | (267,112) | (75,923) | (1,078) | (419,952) |
| Depreciation expense | (3,274) | (38,858) | (9,632) | - | (51,764) |
| Reclassification from investment property and assets held for sale | (348) | - | (43) | - | (391) |
| Reclassification to assets held for sale | 557 | 321 | 252 | - | 1,130 |
| Accruals of impairment losses | (23) | (240) | (24) | (260) | (547) |
| Disposals | 528 | 6,615 | 3,283 | 99 | 10,525 |
| Foreign exchange | - | (91) | (9) | - | (100) |
| Reclassification | 9,400 | (4,994) | (4,410) | (3) | (7) |
| At 31 December 2014 | (68,999) | (304,359) | (86,506) | (1,242) | (461,106) |
| Net book value | | | | | |
| At 31 December 2013 | 70,401 | 205,798 | 25,193 | 33,667 | 335,059 |
| At 31 December 2014 | 62,538 | 215,530 | 26,973 | 23,225 | 328,266 |

On 6 August 2014 assets of mobile business were transferred to T2 RTK Holding for completion the second stage of the deal to create a new national mobile operator (refer to Note 8).

At 31 December 2014 and 2013 cost of fully depreciated property, plant and equipment was 196,082 and 181,117 respectively.

Interest capitalization

Interest amounting to 1,126 and 2,780 was capitalized in property, plant and equipment for the years ended 31 December 2014 and 2013 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 8.25% and 8.37% for the years ended 31 December 2014 and 2013 respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 427 and 2,072 was pledged in relation to loan agreements entered into by the Group as at 31 December 2014 and 2013 respectively.

Impairment of property, plant and equipment

As at 31 December 2014 and 2013 the Group conducted impairment testing of its property, plant, equipment, to identify possible irrecoverability of the assets. The Group assessed the recoverable amount of the assets for which estimation on individual basis is impossible within respective CGU. The Group defines CGUs as regional branches (in case of Rostelecom), legal entities or group of legal entities (in case of subsidiaries).

In 2013 as a result of reorganization (refer to Note 8) a number of legal entities were merged with the Company which caused the change in composition of CGUs. Assets including goodwill previously allocated to legal entities were reallocated to regional branches to which former entities have been merged.

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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 real terms as the weighted average cost of capital on pre tax basis. Nominal rates for discounting varies from 18.10% to 27.54% per CGU;
- OIBDA margin is based on historical actual results and varies from 6.45% to 65.82% per CGU;
- for CGU, except GNC Alfa, 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.

For CGU GNC Alfa cash flow projections cover the period of six years, due to special terms of business model at the acquisition date.

Future cash flows were adjusted using consistent assumptions about price increases attributable to general inflation.

For individual items of construction in progress for which the Group has no intention to complete and use or sell them the impairment loss was recognised in the amount of their carrying value.

2014 impairment testing

As a result of impairment testing no loss in respect of property, plant and equipment was recognised.

2013 impairment testing

As a result of impairment testing no loss in respect of property, plant and equipment was recognised.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The net book value of goodwill and other intangible assets as at 31 December 2014, 2013 was as follows:

| | Goodwill | Number capacity | Trade-marks | Computer software | Customer list | Licences | Other | Total |
|---|----------|-----------------|-------------|-------------------|---------------|----------|---------|----------|
| Cost | | | | | | | | |
| At 1 January 2013 | 38,274 | 1,295 | 832 | 40,735 | 16,789 | 11,247 | 7,314 | 116,486 |
| Additions | - | - | - | 8,610 | - | 421 | 67 | 9,098 |
| Disposals | - | (2) | - | (6,576) | - | (237) | (520) | (7,335) |
| Reclassification to assets held for sale of mobile business | (12,940) | (208) | (59) | (3,018) | (1,741) | (11,594) | (1,004) | (30,564) |
| Reclassification | - | - | - | (133) | - | 833 | (700) | - |
| Foreign exchange | 34 | - | - | 4 | 2 | 1 | 11 | 52 |
| At 31 December 2013 | 25,368 | 1,085 | 773 | 39,622 | 15,050 | 671 | 5,168 | 87,737 |
| At 1 January 2014 | 25,368 | 1,085 | 773 | 39,622 | 15,050 | 671 | 5,168 | 87,737 |
| Additions | - | - | 6 | 5,253 | 6 | 368 | 225 | 5,858 |
| Disposals | (268) | (357) | (72) | (1,955) | (100) | (493) | (752) | (3,997) |
| Reclassification to assets held for sale of mobile business | (216) | - | - | (4,004) | - | (100) | - | (4,320) |
| Reclassification to PPE | - | - | - | 983 | - | - | - | 983 |
| Reclassification | - | - | - | 89 | 11 | 95 | (195) | - |
| Foreign exchange | 322 | - | - | 17 | 9 | 17 | 7 | 372 |
| At 31 December 2014 | 25,206 | 728 | 707 | 40,005 | 14,976 | 558 | 4,453 | 86,633 |

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| | Goodwill | Number capacity | Trade-marks | Computer software | Customer list | Licences | Other | Total |
|---|---------------|-----------------|-------------|-------------------|---------------|------------|--------------|---------------|
| Accumulated amortization and impairment losses | | | | | | | | |
| At 1 January 2013 | (1,690) | (537) | (525) | (17,129) | (2,874) | (3,040) | (2,362) | (28,157) |
| Amortization expense | - | (24) | (140) | (5,212) | (1,249) | (1,468) | (1,187) | (9,280) |
| Disposals | - | 2 | - | 6,369 | - | 211 | 416 | 6,998 |
| Impairment losses | (359) | - | - | (273) | - | - | (1) | (633) |
| Reversal of impairment losses | - | - | - | 338 | - | - | - | 338 |
| Reclassification to assets held for sale of mobile business | 135 | 183 | 59 | 2,142 | 641 | 3,970 | 216 | 7,346 |
| Reclassification | - | - | - | (10) | - | (83) | 93 | - |
| Foreign exchange | - | - | - | (1) | (1) | - | (1) | (3) |
| At 31 December 2013 | (1,914) | (376) | (606) | (13,776) | (3,483) | (410) | (2,826) | (23,391) |
| At 1 January 2014 | (1,914) | (376) | (606) | (13,776) | (3,483) | (410) | (2,826) | (23,391) |
| Amortization expense | - | (3) | (56) | (4,735) | (1,361) | (333) | (457) | (6,945) |
| Disposals | - | 356 | 49 | 1,911 | 95 | 361 | 549 | 3,321 |
| Impairment losses | (1,307) | - | - | (114) | - | (1) | - | (1,422) |
| Reversal of impairment losses | - | - | - | 86 | - | - | - | 86 |
| Reclassification to assets held for sale of mobile business | 6 | - | - | 114 | - | 26 | - | 146 |
| Reclassification | - | - | (17) | (28) | (3) | 69 | (21) | - |
| Foreign exchange | - | - | - | (2) | (1) | (4) | (1) | (8) |
| At 31 December 2014 | (3,215) | (23) | (630) | (16,544) | (4,753) | (292) | (2,756) | (28,213) |
| Net book value | | | | | | | | |
| At 31 December 2013 | 23,454 | 709 | 167 | 25,846 | 11,567 | 261 | 2,342 | 64,346 |
| At 31 December 2014 | 21,991 | 705 | 77 | 23,461 | 10,223 | 266 | 1,697 | 58,420 |

Interest amounting to 161 and 105 was capitalized in intangible assets for the years ended 31 December 2014 and 2013 respectively.

Intangible assets with indefinite useful lives and goodwill

The owned number capacity with a carrying amount of 705 (2013: 709) is intangible assets with indefinite useful lives and is not amortized. 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.

During 2014 the Group concluded contracts under the investment programme subject of which was research and development. Main area of research and development were software, hardware, clouds models, which may be used as a standard solution on promotion of the services provided by the Group to government and private customers.

The aggregate amount of research and development expenditure recognized as an expense is 0 (2013:0).

The Group, on an annual basis, performs testing for impairment of goodwill and intangible assets with indefinite lives.

At each reporting date the Group performs impairment testing of goodwill allocated to CGUs that were acquired upon business combinations.

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

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| CGU | 31 December 2014 | | 31 December 2013 | |
|-------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| | Intangible assets with indefinite | | Intangible assets with indefinite | |
| | Goodwill before impairment loss | useful lives before impairment loss | Goodwill before impairment loss | useful lives before impairment loss |
| MRF Moskva* | 12,681 | 228 | 12,681 | 228 |
| MRF Severo-Zapad* | 4,214 | 12 | 4,230 | 12 |
| MRF Volga | 1,930 | - | 2,146 | - |
| Macomnet | 1,210 | 50 | 1,210 | 50 |
| MRF Dalniy Vostok | 1,008 | - | 1,057 | - |
| MRF Ural | 637 | - | 637 | - |
| Globus Telecom | 636 | 359 | 636 | 359 |
| GNC Alfa | 946 | - | 631 | - |
| RTComm.RU | 606 | - | 606 | - |
| Severen telecom | 432 | - | 432 | - |
| MRF Sibir | 182 | - | 262 | - |
| MRF Center | 10 | - | 10 | - |
| Other | 714 | 57 | 830 | 57 |
| Total | 25,206 | 706 | 25,368 | 706 |

Key assumptions used by management in impairment testing are as follows (disclosed only for material CGUs*):

- discount rates are estimated in real terms as the weighted average cost of capital on pre tax basis is 19,75%;
- OIBDA margin is based on historical actual results and are 47.14% for MRF Moskva and 47,16% for MRF Severo-Zapad;
- 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.

2014 impairment testing

As a result of impairment testing of goodwill the Group recognized an impairment loss of 1,300 related to: Globus Telecom of 277, GNC Alfa of 459 and Macomnet of 564.

2013 impairment testing

As a result of impairment testing goodwill in respect of Globus Telecom was impaired by 359.

Impairment loss was recognized in the line *Depreciation, amortisation and impairment losses* in the statement of comprehensive income.

Discount rate and operating income before amortization 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 gross margin projection is based on historical actual results and growth rate forecasts which correlates to industry growth rate.

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The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2014:

| CGU | Increase in discount rate | Impairment loss | Increase in discount rate which resulted in equality of recoverable and carrying amount | Decrease of OIBDA margin | Impairment loss | Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount |
|-----------------|----------------------------------|------------------------|--|---------------------------------|------------------------|---|
| Severen telecom | n/a | n/a | n/a | 5% | (168) | 2.65% |
| RTComm.RU | 1% | (20) | 0.9% | 5% | (1,179) | 0.71% |
| Other | 0.50%-1.50% | (93) | 2.9% | 5% | (990) | 3.67% |

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.

2014 impairment testing

As at 31 December 2014 no impairment loss in respect of other intangible assets were recognised.

2013 impairment testing

As at 31 December 2013 no impairment loss in respect of other intangible assets were recognised.

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7. 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 | |
|--|-------------------------------------|---|--------|
| | | 2014 | 2013 |
| CJSC MTs NTT | Communication services (fixed line) | 100% | 100% |
| CJSC Westelcom | Leasing of equipment | 100% | 100% |
| OJSC Infoteks-Taganrog Telecom | Communication services | 99.99% | 99.99% |
| CJSC Zebra Telecom | Communication services | 100% | 100% |
| OJSC RTComm.RU | Communication services (internet) | 100% | 100% |
| CJSC RTComm-Sibir | Communication services (internet) | 100% | 100% |
| LLC RTComm-Volga-Ural | Communication services (internet) | 51% | 51% |
| LLC RTComm-Ug | Communication services (internet) | 100% | 100% |
| CJSC NSS | Communication services (mobile) | - | 100% |
| LLC Uzhno-Uralskaya telefonnaya kompania | Communication services | - | 100% |
| CJSC Baikalwestcom | Communication services (mobile) | - | 100% |
| CJSC Yenisey telecom | Communication services (mobile) | - | 100% |
| CJSC Akos | Communication services (mobile) | - | 94.56% |
| CJSC Globus-Telecom | Communication services | 94.92% | 94.92% |
| CJSC Makomnet | Communication services | 51% | 51% |
| CJSC Natsionalnoe media agentstvo* | TV services | - | 100% |
| LLC Televisionnaya kompaniya Novy Vybor | Radio and TV | 100% | 100% |
| LLC NKS Media* | Other | - | 100% |
| CJSC TKT-stroy | R&D services | 100% | 100% |
| LLC Art Media Markt* | Other | - | 100% |
| LLC Mobitel | Investment company | 100% | 100% |
| OJSC RT Labs | Communication services | 100% | 100% |
| CJSC AMT | Investment company | 100% | 100% |
| LLC Intmashservis | Repair services | 100% | 100% |
| OJSC Mobiltelecom | Communication services | 91.75% | 91.75% |
| OJSC Regionalnie informatsionnie seti | R&D services | 100% | 100% |
| CJSC NTC Komset | R&D services | 55.45% | 55.45% |
| LLC Set Stolitsa | Maintenance services | 100% | 100% |
| CJSC Sankt Peterburgskie taksofoni | Communication services | 100% | 100% |
| NP Telecomcentr | R&D services | - | 100% |
| CJSC Volgograd-GSM | Communication services (mobile) | - | 100% |
| CJSC Severen-Telecom | Communication services | 100% | 100% |
| CJSC GNC Alfa | Communication services | 74.98% | 74.98% |
| OJSC Kolatelecom | Communication services | 50% | 50% |
| CJSC Chita-Online | Communication services (internet) | 100% | 100% |
| CJSC Sky Link | Communication services (mobile) | - | 100% |
| CJSC MS-Direct | Communication services (mobile) | - | 100% |
| CJSC Delta telecom | Communication services (mobile) | - | 100% |
| OJSC Moscovskaya sotovaya svyaz | Communication services (mobile) | - | 100% |
| OJSC Kaliningradskie Mobilnie Seti | Communication services (mobile) | - | 100% |
| LLC Pilar | Communication services (mobile) | - | 100% |
| CJSC Skay-1800 | Communication services (mobile) | - | 100% |
| CJSC Uralvestcom | Communication services (mobile) | - | 100% |
| CJSC Astarta | Communication services (mobile) | - | 100% |
| CJSC Saratovskaya sistema sotovoy svyazy | Communication services (mobile) | - | 100% |
| OJSC Apeks | Communication services (mobile) | - | 93.5% |
| OJSC Tsentralny Telegraph | Communication services (telegraph) | 80% | 80% |

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| Subsidiary | Main activity | Effective share of the Group as at 31 December | |
|--|-----------------------------------|---|--------|
| | | 2014 | 2013 |
| CJSC Otkritie telekommunikatsii | Communication services | - | 80% |
| OJSC Giprosvyaz | Engineering design | 80% | 80% |
| OJSC Chukotkasvyazinform | Communication services | 100% | 100% |
| OJSC Bashinformsvyaz | Communication services | 70.95% | 70.78% |
| LLC Bashtelecomservis | Communication services | 70.95% | 70.78% |
| LLC Bashtelecomleasing | Leasing | 70.95% | 70.78% |
| LLC Bashlelecominvest | Investment company | 70.95% | 70.78% |
| LLC Sterlitamakstroysevis | Communication services (internet) | 70.95% | 70.78% |
| OJSC Sotovaya svyaz Bashkortostana | Communication services (mobile) | 70.95% | 70.78% |
| | Communication equipment | | |
| OJSC Ufimsky zavod promsvyaz | manufacturing | 70.91% | 70.74% |
| CJSC Rosmedia | Communication services | 100% | 100% |
| OJSC MMTS-9 | Communication services | 99.81% | 99.81% |
| OJSC OK Orbita | Recreational services | 100% | 100% |
| CJSC RPK Svyazist | Recreational services | 100% | 100% |
| CJSC BIT | Communication services (mobile) | - | 100% |
| Rostelecom International Limited (former Teleset Networks Public Company) | Communication services | 100% | 100% |
| LLC KM Media | IT consulting | 74.99% | 74.99% |
| OJSC Svyazintek | IT consulting | 100% | 100% |

All the above entities have the same reporting date as the Group.

All significant subsidiaries, except for Rostelecom International and GNC Alfa, are incorporated in Russia. Rostelecom International is incorporated in Cyprus, GNC Alfa is incorporated in Armenia.

* Total share in LLC NKS Media, CJSC Natsionalnoe media agentstvo, LLC Art Media Markt was transferred as consideration for the acquisition of the share in OJSC Tsifrovoe televidenie (refer to Note 8).

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised statements of financial position

| | CJSC Makomnet | | Bashinformsvyaz Group | |
|---|-------------------|--------------|-----------------------|--------------|
| | As at 31 December | | As at 31 December | |
| | 2014 | 2013 | 2014 | 2013 |
| Current assets | 491 | 504 | 5,383 | 3,877 |
| Current liabilities | (79) | (103) | (2,369) | (2,879) |
| Total current net assets / (liabilities) | 412 | 401 | 3,014 | 998 |
| Non-current assets | 1,511 | 1,612 | 9,949 | 11,466 |
| Non-current liabilities | (212) | (224) | (3,109) | (2,966) |
| Total non-current net assets | 1,299 | 1,388 | 6,840 | 8,500 |
| Net assets | 1,711 | 1,789 | 9,854 | 9,498 |
| NCI | 837 | 876 | 2,863 | 2,776 |

Summarised statements of profit or loss and other comprehensive income

| | CJSC Makomnet | | Bashinformsvyaz Group | |
|---|------------------------|------------|------------------------|------------|
| | Year ended 31 December | | Year ended 31 December | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | 1,361 | 1,340 | 7,642 | 7,586 |
| Profit before income tax | 389 | 429 | 1,127 | 1,233 |
| Income tax | (82) | (90) | (346) | (316) |
| Total comprehensive income | 307 | 339 | 781 | 917 |
| Total comprehensive income allocated to non-controlling interests | 151 | 166 | 254 | 268 |
| Dividends paid to non-controlling interests | 189 | 196 | 71 | 47 |

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Summarised cash flows

| | CJSC Makomnet | Bashinformsvyaz Group |
|---|--------------------------------|--------------------------|
| | For the year ended 31 December | |
| | 2014 | 2014 |
| Cash generated from operations | 586 | 2,342 |
| Interest paid | - | (71) |
| Income tax paid | (94) | (720) |
| Net cash generated from operating activities | 492 | 1,551 |
| Net cash used in investing activities | (126) | (768) |
| Net cash used in financing activities | (316) | (1,430) |
| Net increase/(decrease) in cash and cash equivalents | 50 | (647) |
| Cash and cash equivalents at beginning of year | 19 | 962 |
| Exchange gains/(losses) on cash and cash equivalents | | 115 |
| Cash and cash equivalents at end of year | 69 | 430 |

8. INVESTMENTS IN ASSOCIATES

Investments in associates as at 31 December 2014 and 2013 were as follows:

| Associate | Main activity | Voting share capital, % | 2014 Carrying amount | 2013 Carrying amount |
|--|------------------------|----------------------------|-------------------------|-------------------------|
| LLC T2 RTK Holding | Communication services | 45 | 72,848 | - |
| OJSC Tsifrovoe televidenie | TV services | 25.33 | 1,319 | - |
| OJSC KGTS | Communication services | 37.29 | 342 | 383 |
| CJSC Samara Telecom | Communication services | 27.78 | 158 | 163 |
| OJSC WestBalt Telecom | Communication services | 38 | 140 | 131 |
| CJSC IKC Express | Communication services | 37.9 | 80 | 83 |
| OJSC Vostoktelecom | Communication services | 25 | 88 | 81 |
| Other | Various | - | 73 | 77 |
| Total investments in associates | | | 75,048 | 918 |

In December 2014 the Group transferred shares of its subsidiaries NKS Media LLC, NMA CJSC, ArtMediaMarkt OJSC and 250 cash payment for the 25.33% share in OJSC Tsifrovoe televidenie. Fair value of the Group share in OJSC Tsifrovoe televidenie was 1,319 after the completion of transaction.

In 2014 the Group received dividends from its investments in equity accounted investees in the amount of 11 (2013: 8).

All associated companies are incorporated in Russia.

There are no contingent liabilities relating to the Group's interest in the associates.

Summarized financial information as at 31 December 2014 and 2013 and for the years then ended of the associates

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is presented below:

| Aggregate amounts | 2014 | 2013 |
|--------------------------|-------------|-------------|
| Assets | 226,096 | 3,143 |
| Liabilities | 126,935 | 407 |
| Revenue | 73,388 | 1,968 |
| Net income | (669) | 195 |

Summarized financial information for substantial associates as at 31 December 2014 and 2013 and for the years then ended is presented below:

| Associate | Year | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Revenue | Net income/(loss) |
|----------------------------|-------------|---------------------------|-----------------------|--------------------------------|----------------------------|----------------|--------------------------|
| OJSC KGTS | 2014 | 842 | 206 | 43 | 88 | 751 | 97 |
| | 2013 | 966 | 158 | 11 | 86 | 742 | 104 |
| CJSC Samara Telecom | 2014 | 278 | 362 | 23 | 51 | 165 | 12 |
| | 2013 | 310 | 396 | 21 | 100 | 201 | 15 |
| OJSC WestBalt Telecom | 2014 | 125 | 280 | - | 38 | 142 | 8 |
| | 2013 | 128 | 253 | - | 36 | 150 | (1) |
| CJSC IKC Express | 2014 | 12 | 217 | - | 18 | 55 | (4) |
| | 2013 | 13 | 213 | - | 8 | 72 | 6 |
| OJSC Vostoktelecom | 2014 | 285 | 124 | 5 | 55 | 502 | 30 |
| | 2013 | 102 | 287 | 5 | 59 | 595 | 31 |
| T2 RTK Holding LLC | 2014 | 197 834 | 20 269 | 69 141 | 53 578 | 71 529 | (848) |
| | 2013 | - | - | - | - | - | - |
| OJSC Tsifrovoe televidenie | 2014 | 1,931 | 1,090 | 10 | 1,723 | - | - |
| | 2013 | - | - | - | - | - | - |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in associates:

| Summarised financial information | OJSC Tsifrovoe televidenie | OJSC KGTS | CJSC Samara Telecom | OJSC WestBalt Telecom | CJSC IKC Express | OJSC Vostoktelecom |
|---|-----------------------------------|------------------|----------------------------|------------------------------|-------------------------|---------------------------|
| Net assets at December 31, 2014 | 1,287 | 917 | 567 | 366 | 211 | 349 |
| Interest in associates, % | 25.33 | 37.29 | 27.78 | 38 | 37.9 | 25 |
| Goodwill | 993 | - | - | - | - | - |
| Carrying value at December 31, 2014 | 1,319 | 342 | 158 | 139 | 80 | 87 |

Investment in T2 RTK Holding LLC

| | 2014 |
|-----------------------|---------------|
| At 1 January | - |
| Acquisition | 73,339 |
| Share of profit | (491) |
| At 31 December | 72,848 |

Investment in T2 RTK Holding LLC was recognised as a result of the deal with the mobile operator Tele 2 Russia (refer to Note 1). There is no quoted market price available for its shares.

The carrying value of the investment at the acquisition date was determined with reference to the value of the assets transferred to T2 RTK Holding LLC based on the valuation report of an independent appraiser. The determination of the fair value was based on the following assumptions:

- discount rates are estimated in nominal terms on pre tax basis. Nominal rates for discounting vary from 11.7% to 13.2%;

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- EBITDA margin is based on historical actual results and varies from 26% to 27%;
- projected annual growth of revenue is at average 11.6%, projected annual growth of customer base is at average 8.7%;
- terminal growth rate was 2.5%.

As at 31 December 2014 the Group conducted impairment testing of this investment in associate. Key assumptions used by management in impairment testing are as follows:

- discount rates are estimated in nominal terms on pre tax basis. Nominal rate for discounting was 17.87%;
- EBITDA margin varies from 22% to 45%;
- projected annual growth of revenue is at average 16%, projected annual growth of customer base is at average 14%;
- cash flow projections cover the period of twelve years, cash flows beyond twelve-year period are extrapolated using growth rate of 3%.

On the basis of the impairment testing the recoverable amount exceeded the carrying value of the investment in associate.

The group has no commitments relating to its associate. There are no contingent liabilities relating to the Group's interest in the associate.

Summarised financial information for T2 RTK Holding LLC

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

Summarised statement of financial position

| | 31 December 2014 |
|--|-------------------------|
| Current | |
| Cash and cash equivalents | 3,637 |
| Other current assets (excluding cash) | 16,631 |
| Total current assets | 20,268 |
| Financial liabilities (excluding trade payables) | 17,416 |
| Other current liabilities (including trade payables) | 36,162 |
| Total current liabilities | 53,578 |
| Non-current | |
| Assets | 197,834 |
| Financial liabilities | 55,192 |
| Other liabilities | 13,949 |
| Total non-current liabilities | 69,141 |
| Net assets | 95,383 |

Summarised statement of profit or loss and other comprehensive income

| | 01 April - 31 December 2014 |
|---|------------------------------------|
| Revenue | 71,529 |
| Depreciation and amortisation | (13,046) |
| Interest income | 188 |
| Interest expense | (5,612) |
| Profit or loss from continuing operations | (278) |
| Income tax expense | (570) |
| Post-tax profit from continuing operations | (848) |

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| | |
|-----------------------------------|--------------|
| Total comprehensive income | (848) |
|-----------------------------------|--------------|

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

Summarised financial information

| | |
|--|---------------|
| Opening net assets 1 April 2014 | 96,231 |
| Profit/(loss) for the period | (848) |
| Closing net assets | 95,383 |
| Interest 45% | 42,923 |
| Goodwill | 29,925 |
| Carrying value | 72,848 |

9. OTHER INVESTMENTS

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| Non-current investments | | |
| Available-for-sale financial assets | 84 | 83 |
| Financial assets at fair value through profit or loss | 3 | 401 |
| Loans and receivables | 23 | 36 |
| Total other non-current investments | 110 | 520 |
| Current investments | | |
| Available-for-sale financial assets | - | 6 |
| Loans and receivables | 1,934 | 1,960 |
| Total other current investments | 1,934 | 1,966 |
| Total other investments | 2,044 | 2,486 |

The Group's exposure to credit, currency and interest rate risks and fair value information related to other investments is disclosed in Note 30.

10. OTHER NON-CURRENT ASSETS

| | 31 December 2014 | 31 December 2013 |
|---|---------------------|---------------------|
| Non-current advances for investing activities | 4,410 | 1,872 |
| Non-current advances for operating activities | 630 | 956 |
| Non-current receivables | 4,355 | 1,264 |
| Less: doubtful debt allowance | (121) | (102) |
| Total other non-current assets | 9,274 | 3,990 |

11. INVENTORIES

| | 31 December 2014 | 31 December 2013 |
|-------------------------------------|---------------------|---------------------|
| Cable | 922 | 781 |
| Finished goods and goods for resale | 1,646 | 556 |
| Spare parts | 757 | 1,076 |
| Tools and accessories | 136 | 165 |
| Construction materials | 75 | 72 |
| Fuel | 125 | 142 |
| Other inventory | 1,166 | 1,149 |
| Total inventories | 4,827 | 3,941 |

12. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2014 and 2013 comprised of the following:

| | Gross, 31 December 2014 | Doubtful debt allowance | Net, 31 December 2014 |
|---|-------------------------------|----------------------------|-----------------------------|
| Amounts due from customers for operating activities | 40,336 | (5,114) | 35,222 |
| Amounts due from customers for non-operating activities | 9,283 | (2,158) | 7,125 |
| Amounts due from commissioners and agents | 1,330 | - | 1,330 |
| Amounts due from personnel | 141 | - | 141 |
| Amounts due from lessees for financial lease | 666 | - | 666 |
| Amounts due from other debtors | 1,148 | (576) | 572 |
| Total trade and other accounts receivable | 52,904 | (7,848) | 45,056 |

| | Gross, 31 December 2013 | Doubtful debt allowance | Net, 31 December 2013 |
|---|-------------------------------|----------------------------|-----------------------------|
| Amounts due from customers for operating activities | 37,304 | (4,670) | 32,634 |
| Amounts due from customers for non-operating activities | 6,246 | (1,658) | 4,588 |
| Amounts due from commissioners and agents | 1,536 | - | 1,536 |
| Amounts due from personnel | 191 | - | 191 |
| Amounts due from lessees for financial lease | 4 | - | 4 |
| Amounts due from other debtors | 1,331 | (460) | 871 |
| Total trade and other accounts receivable | 46,612 | (6,788) | 39,824 |

As at 31 December 2014, 2013 settlements with customers for operating activities included settlements with the following counterparties:

| | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|
| Residential customers | 12,434 | 12,201 |
| Corporate customers | 5,654 | 5,006 |
| Governmental customers | 12,349 | 12,931 |
| Interconnected operators – domestic | 7,039 | 5,005 |
| Interconnected operators – international | 2,860 | 2,161 |
| Less: doubtful debt allowance | (5,114) | (4,670) |
| Total accounts receivable due from customers for operating activities | 35,222 | 32,634 |

Based on historic default rates, management believes that trade and other receivables are adequately provided.

As at 31 December 2014, 2013 the share of accounts receivable that are past due but not impaired amounted to approximately nil.

The following table summarizes the changes in the allowance for doubtful accounts receivable, advances and other assets for the years ended 31 December 2014, 2013:

| | 2014 | 2013 |
|---------------------------------|----------------|----------------|
| Balance, beginning of year | (7,049) | (6,552) |
| Bad debt expense | (2,182) | (2,140) |
| Accounts receivable written-off | 1,176 | 1,643 |
| Balance, end of year | (8,055) | (7,049) |

As at 31 December 2014 and 2013 amounts due from other debtors include short-term portion of finance lease receivables of 666 and 6 respectively. Long-term portion of finance lease receivables of 2,517 and 174 as at 31 December 2014 and 2013 respectively is included into non-current receivables (refer Note 10).

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Increase in finance lease receivables is due to transferring 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 2014 and 2013 amounted to 320 and 46 respectively, and are included in other investing and financial gain in these consolidated statements of comprehensive income.

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2014 and 2013 are as follows:

| | 31 December 2014 | |
|------------------------------------|----------------------------|---|
| | Gross investments in lease | Present value of minimum lease payments |
| Current portion (less than 1 year) | 1,046 | 666 |
| More than 1 to 5 years | 2,498 | 1,385 |
| Over 5 years | 1,724 | 1,132 |
| Total | 5,268 | 3,183 |

| | 31 December 2013 | |
|------------------------------------|----------------------------|---|
| | Gross investments in lease | Present value of minimum lease payments |
| Current portion (less than 1 year) | 50 | 6 |
| More than 1 to 5 years | 191 | 27 |
| Over 5 years | 321 | 147 |
| Total | 562 | 180 |

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014, 2013 included cash in bank, cash in-hand, short-term deposits and bills of exchange with original maturities of less than three months as follows:

| | 31 December | |
|---|------------------|--------------|
| | 31 December 2014 | 2013 |
| Cash in bank and in-hand | 16,472 | 7,636 |
| Short-term deposits and promissory notes up to 3 months | 353 | 249 |
| Other cash and cash equivalents | 120 | 75 |
| Total cash and cash equivalents | 16,945 | 7,960 |

14. OTHER CURRENT ASSETS

| | 31 December | |
|-----------------------------------|-------------|------------|
| | 2014 | 2013 |
| Deferred expenses | 2 | - |
| VAT recoverable | 976 | 584 |
| Other current assets | 28 | 35 |
| Less: doubtful debt allowance | (18) | (10) |
| Total other current assets | 988 | 609 |

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15. 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 2014 amounted to 7,280,089 nominal (uninflated) RUB (2013: 7,280,089).

The authorized share capital of the Company as at 31 December 2014 and 2013 comprised 6,354,642,352 ordinary shares and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to RUB 0.0025 per share.

During the reorganisation the number of outstanding ordinary shares resulted from the conversion of Svyazinvest ordinary shares into additional 1,071,502,300 Rostelecom ordinary shares, and the cancellation of 1,345,556,268 Rostelecom ordinary shares, which previously owned by Svyazinvest, on 1 October 2013.

As at 31 December 2014 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 | 2,669,204,301 | 6.673 | 72 |
| Preferred Shares, RUB 0.0025 par value | 242,831,469 | 0.607 | 25 |
| Total | 2,912,035,770 | 7.280 | 97 |

As at 31 December 2013 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 | 2,669,204,301 | 6.673 | 72 |
| Preferred Shares, RUB 0.0025 par value | 242,831,469 | 0.607 | 25 |
| Total | 2,912,035,770 | 7.280 | 97 |

Data for comparative periods were revised as if the reorganization had occurred at the beginning of the earliest comparative period.

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 29).

As a result of the reorganization approved by shareholders' meeting as at 30 December 2013 dissenting minor shareholders obtained the right to sell their shares. For this purpose stock redemption reserve was accrued in the financial statements as at 31 December 2013. The reserve is classified as current payables, refer to note 17.

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Treasury shares

As at 31 December 2014 and 2013 total number of treasury shares held by the Group was as follows:

| Type of shares | 31 December 2014 | 31 December 2013 |
|------------------|--------------------|--------------------|
| Ordinary Shares | 554,322,609 | 465,757,157 |
| Preferred Shares | 97,771,701 | 72,987,143 |
| Total | 652,094,310 | 538,744,300 |

In 2013 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 66,610,190 shares.

During 2014, 2013 the Group purchased 95,115,353 and 221,575,350 ordinary shares, for 12,301 and 28,067 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.

Total amount of dividend paid on ordinary shares should be not less than 20% of net profit of the Group as reported under IFRS.

In July 2014 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2013 in the amount of 3.11596 roubles per ordinary share (2012: 2.4369 roubles per ordinary share) and 4.84856 roubles per preference share (2012: 4.1022 roubles per preference share).

| Category of shares | Number of shares | Dividends per share, roubles | Total sum of dividends, mln. roubles |
|---------------------------------------|----------------------|------------------------------|--------------------------------------|
| Declared and approved for 2013 | | | |
| Preference shares | 209,613,653 | 4.84856 | 1,016 |
| Ordinary shares | 2,505,859,384 | 3.11596 | 7,808 |
| Total | 2,715,473,037 | | 8,824 |

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.

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16. BORROWINGS

Borrowings as at 31 December 2014 and 2013 were as follows:

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| Long-term Borrowings | | |
| <i>Non-current portion of long-term borrowings</i> | | |
| Bank and corporate loans | 112,697 | 149,393 |
| Bonds | 25,000 | 35,000 |
| Promissory notes | 10 | 9 |
| Vendor financing | 46 | 55 |
| Finance lease liabilities | 104 | 107 |
| Interest payable | 14 | 15 |
| Restructured customer payments | 1 | 21 |
| Total non-current portion of long-term borrowings | 137,872 | 184,600 |
| <i>Current portion of long-term borrowings</i> | | |
| Bank and corporate loans | 25,721 | 1,133 |
| Bonds | 12,560 | 5,000 |
| Vendor financing | 9 | 9 |
| Finance lease liabilities | 71 | 61 |
| Restructured customer payments | 91 | 75 |
| Total current portion of long-term borrowings | 38,452 | 6,278 |
| Total long-term borrowings | 176,324 | 190,878 |
| Short-term Borrowings | | |
| Bank and corporate loans | 12,439 | 25,399 |
| Promissory notes | - | 377 |
| Interest payable | 1,251 | 1,155 |
| Total short-term borrowings | 13,690 | 26,931 |
| Current portion of long-term borrowings | 38,452 | 6,278 |
| Total current borrowings | 52,142 | 33,209 |
| Total borrowings | 190,014 | 217,809 |

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

| | December 31, 2014 | | |
|---------------------|--------------------------|-------------------|-------------------|
| | Fair value | Book value | Difference |
| Rostelecom 15 bonds | 4,800 | 5,000 | (200) |
| Rostelecom 16 bonds | 2,522 | 2,560 | (38) |
| Rostelecom 17 bonds | 9,597 | 10,000 | (403) |
| Rostelecom 18 bonds | 9,193 | 10,000 | (807) |
| Rostelecom 19 bonds | 9,906 | 10,000 | (94) |
| Bank financing | 132,762 | 140,298 | (7,536) |
| | 168,780 | 177,858 | (9,078) |

The above amounts exclude accrued interest. The market value of the Group's Ruble bonds was determined based on MOEX.

17. ACCOUNTS PAYABLE, PROVISIONS AND ACCRUED EXPENSES

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2014, 2013:

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Payables for purchases and construction of property, plant and equipment | 16,936 | 13,903 |
| Payable to personnel | 10,716 | 9,800 |
| Payable for operating activities | 9,513 | 7,632 |
| Other taxes payable | 7,618 | 6,412 |
| Payable to interconnected operators | 2,813 | 2,471 |
| Payable for purchases of software | 2,449 | 4,633 |
| Dividends payable | 248 | 356 |
| Current provisions | 127 | 341 |
| Stock redemption reserve | - | 23,161 |
| Other accounts payable | 11,833 | 4,926 |
| Current accounts payable, provisions and accrued expenses | 62,253 | 73,635 |
| Financial liabilities at fair value through profit and loss | | |
| Non-current payables | 50 | 903 |
| Non-current provisions | 110 | 174 |
| Non-current accounts payable, provisions and accrued expenses | 160 | 1,077 |
| Total accounts payable, provisions and accrued expenses | 62,413 | 74,712 |

18. EMPLOYEE BENEFITS

According to staff agreements, the Group contributes to pension plans and also provides additional benefits for its active and retired employees.

Defined contribution plans

The non-state pension fund NPF Telecom-Soyuz maintains the defined contribution plan of Group. In 2014 the Group expensed 14 (2013: 124) in relation to defined contribution plans.

Defined benefit plans and other long-term employee benefits

To become eligible for benefits under the plan upon retirement the participant must achieve the statutory retirement age, which is currently 55 for women and 60 for men and fulfil certain minimum seniority requirements.

As at 31 December 2014, the Group employed 151,725 participants of defined benefit plan (2013: 160,219) and supported 37,493 pensioners eligible for post-employment benefit (2013: 47,378).

As at 31 December 2014 and 2013 net defined benefit plan liability comprised the following:

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| | 2014 | 2013 |
|---|--------------|--------------|
| Present value of obligations on defined benefit plans | 5,975 | 9,783 |
| Fair value of plan assets | (10) | (9) |
| Present value of unfunded obligations | 5,965 | 9,774 |

Net expenses/ gains for the defined benefit plan recognized in 2014 and 2013 were as follows:

| | 2014 | 2013 |
|---|--------------|--------------|
| Current service cost | 446 | 495 |
| Interest cost | 783 | 769 |
| Expected return on plan assets | (1) | (1) |
| Other expenses | - | 600 |
| Curtailement effect | (169) | - |
| Net expense for the defined benefit plan | 1,059 | 1,863 |

Net expense/ gain 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 in “Other investing and financing gain” and “Finance costs” line items of these consolidated statements of comprehensive income.

Curtailement effect occurred due staff reduction in 2014.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2014 and 2013:

| | 2014 | 2013 |
|---|--------------|---------------|
| Present value of defined benefit obligations as at 1 January | 9,783 | 10,870 |
| Curtailement of liabilities | (169) | - |
| Interest cost | 783 | 769 |
| Current service cost | 446 | 495 |
| Other expenses | - | 600 |
| Benefits paid | (1,079) | (1,097) |
| Actuarial gains | (3,789) | (1,854) |
| Present value of defined benefit obligations as at 31 December | 5,975 | 9,783 |

The following table summarizes movements in the fair value of defined benefit plan assets in 2014 and 2013:

| | 2014 | 2013 |
|--|-------------|-------------|
| Fair value of plan assets as at 1 January | 9 | 9 |
| Expected return on plan assets | 1 | 1 |
| Actuarial (gains)/losses | - | (1) |
| Benefits paid | (1,082) | (1,097) |
| Contributions by the employer | 1,082 | 1,097 |
| Fair value of plan assets as at 31 December | 10 | 9 |

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As at 31 December 2014 and 2013 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

| | 2014 | 2013 |
|--|---|-------------|
| Discount rate | 13.00% | 8.00% |
| Future salary increases | 8.10% | 9.20% |
| Inflation rate | 7.00% | 5.00% |
| Increase in financial support benefits | 7.00% | 5.00% |
| Staff turnover | Probability distribution depends on age and gender 5% for aged 50 and below 0% for aged above 50 | |
| Mortality tables (source of information) | 2010 with 40% adjustment | 1985/86 |

The amounts of experience adjustments and present value of defined benefit obligation and defined benefit assets for the current annual period and previous two annual periods are as follows:

| | 2014 | 2013 |
|--|-------------|-------------|
| Defined benefit obligations | 5,975 | 9,783 |
| Defined benefit assets | (10) | (9) |
| Plan deficit | 5,965 | 9,774 |
| Experience adjustments on defined benefit plan liabilities | (1,047) | (1,084) |
| Experience adjustments on defined benefit plan assets | - | (1) |

The Group expects to contribute 762 to its non-state pension funds in 2015 in respect of defined benefit plans.

The following net pension liabilities are in consolidated statements of financial position in 2014 and 2013:

| | 2014 | 2013 |
|--|--------------|---------------|
| Net defined benefit obligations as at 1 January | 9,774 | 10,861 |
| Total defined benefit plan expenses, net | 1,062 | 1,863 |
| Contributions by the employer | (1,082) | (1,097) |
| Remeasurement of pension liabilities | (3,789) | (1,853) |
| Net defined benefit obligations as at 31 December | 5,965 | 9,774 |

Remeasurement of pension liabilities consists of:

| | 2014 | 2013 |
|---|----------------|----------------|
| Actuarial (gains)/losses on liabilities | (3,789) | (1,854) |
| Actuarial (gains)/losses on assets | - | 1 |
| Remeasurement of pension liabilities | (3,789) | (1,853) |

19. INCOME TAXES

The components of income tax expense for the years ended 31 December 2014 and 2013 were as follows:

| | 2014 | 2013 |
|--|----------------|----------------|
| Current income tax expense | | |
| Income tax for the year | (5,396) | (3,752) |
| Adjustments of the current income tax for previous years | 31 | 101 |
| Total current income tax for the year | (5,365) | (3,651) |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (3,062) | (5,988) |
| Changes in unused tax losses | (1,520) | 1,651 |
| Total deferred income tax | (4,582) | (4,337) |
| Total income tax expense for the year | (9,947) | (7,988) |

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

| | 2014 | 2013 |
|--|----------------|----------------|
| Profit before tax | 47,754 | 32,119 |
| Statutory income tax rate | 20% | 20% |
| Theoretical tax charge at statutory income tax rate | (9,551) | (6,424) |
| Adjustments of the current income tax for previous years | 31 | 101 |
| Non-deductible expenses and non-taxable income | 916 | (2,299) |
| Tax on intragroup dividend income | (123) | (379) |
| Changes in unrecognized deferred tax assets | (1,087) | 1,013 |
| Effect of tax rate change | (133) | - |
| Total actual income tax | (9,947) | (7,988) |
| Effective tax rate, % | 20,83% | 24,87% |

Effect of tax rate change include calculation of deferred tax assets and liabilities from associate as at December 31, 2014.

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2014 and 2013:

| | 2014 | 2013 |
|---|-------------|----------------|
| Effect of other employee benefits | 288 | 223 |
| Effect of business combination achieved in several stages | (128) | - |
| Reversal/ (accrual) of impairment loss | 260 | 72 |
| Other | 496 | (2,594) |
| Total non-deductible expenses and non-taxable income | 916 | (2,299) |

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, other expenses and value added tax accrued on free-of-charge services.

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The components of net deferred tax assets and liabilities as at 31 December 2014 and 2013, and the respective movements during 2014 and 2013 were as follows:

| | Movement during 2014 recognized in | | | | | | Balance as at 31 December 2014 |
|---|---|---|---------------|-----------------------------------|--------------------------------------|---|---------------------------------------|
| | Balance as at 1 January 2014 | Disposal through business combinations | Equity | Other comprehensive income | Profit / or loss for the year | Reclassification to assets held for sale of mobile | |
| <i>Tax effects of future tax deductible items</i> | | | | | | | |
| Property, plant and equipment | 9 | (35) | 1 | - | 137 | 25 | 137 |
| Intangible assets | 74 | - | - | - | (65) | - | 9 |
| Unused tax losses | 1,614 | (58) | - | - | (1,520) | (19) | 17 |
| Trade and other accounts receivable | 39 | (4) | - | - | 56 | (31) | 60 |
| Inventories | 807 | - | - | - | (518) | - | 289 |
| Investments | 429 | - | - | - | 138 | - | 567 |
| Employee benefits | 1,945 | - | - | (758) | (11) | - | 1,176 |
| Accounts payable, provisions and accrued expenses | 4,451 | (2) | - | - | (325) | (124) | 4,000 |
| Other | 474 | (9) | 3 | - | (12) | (1) | 455 |
| Gross deferred tax asset | 9,842 | (108) | 4 | (758) | (2,120) | (150) | 6,710 |
| <i>Tax effects of future taxable items:</i> | | | | | | | |
| Property, plant and equipment | (30,186) | 5 | - | - | (18) | 1,128 | (29,071) |
| Intangible assets | (3,086) | 45 | - | - | (52) | 11 | (3,082) |
| Investments | (635) | 9 | - | - | (3,135) | - | (3,761) |
| Accounts payable, provisions and accrued expenses | (18) | - | - | - | (5) | - | (23) |
| Trade and other accounts receivable | (1,907) | - | - | - | 734 | 4 | (1,169) |
| Inventories | - | - | - | - | (7) | - | (7) |
| Loans and borrowings | (274) | - | - | - | 16 | - | (258) |
| Other | (188) | - | (4) | - | 6 | - | (186) |
| Gross deferred tax liability | (36,294) | 59 | (4) | - | (2,461) | 1,143 | (37,557) |
| Net deferred tax liability | (26,452) | (49) | - | (758) | (4,581) | 993 | (30,847) |

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| | Movement during 2013 recognized in | | | | | | Balance as at 31 December 2013 |
|---|---|--|---------------|---|--|---|---|
| | Balance as at 1 January 2013 | Acquisition through business combinations | Equity | Other comprehensive income | Profit / or loss for the year | Reclassification to assets held for sale of mobile | |
| <i>Tax effects of future tax deductible items</i> | | | | | | | |
| Property, plant and equipment | 464 | - | - | - | (5) | (450) | 9 |
| Intangible assets | - | - | - | - | 74 | - | 74 |
| Unused tax losses | 3,087 | - | - | - | 1,651 | (3,124) | 1,614 |
| Trade and other accounts receivable | 169 | - | - | - | (124) | (6) | 39 |
| Inventories | 227 | - | - | - | 624 | (44) | 807 |
| Investments | 1,481 | - | - | - | (1,051) | (1) | 429 |
| Employee benefits | 1,708 | - | - | (371) | 608 | - | 1,945 |
| Loans and borrowings | 5 | - | - | - | - | (5) | - |
| Other non-current liabilities | 110 | - | - | - | (110) | - | - |
| Accounts payable, provisions and accrued expenses | 2,817 | - | - | - | 1,787 | (153) | 4,451 |
| Other | 639 | - | 1 | - | 130 | (296) | 474 |
| Gross deferred tax asset | 10,707 | - | 1 | (371) | 3,584 | (4,079) | 9,842 |
| <i>Tax effects of future taxable items:</i> | | | | | | | |
| Property, plant and equipment | (22,888) | - | (1) | - | (8,151) | 854 | (30,186) |
| Intangible assets | (5,158) | - | - | - | 265 | 1,807 | (3,086) |
| Investments | (855) | - | - | - | 220 | - | (635) |
| Accounts payable, provisions and accrued expenses | (152) | - | - | - | 106 | 28 | (18) |
| Trade and other accounts receivable | (1,544) | - | - | - | (387) | 24 | (1,907) |
| Loans and borrowings | (222) | - | - | - | (54) | 2 | (274) |
| Other | (273) | - | (2) | - | 80 | 7 | (188) |
| Gross deferred tax liability | (31,092) | - | (3) | - | (7,921) | 2,722 | (36,294) |
| Net deferred tax liability | (20,385) | - | (2) | (371) | (4,337) | (1,357) | (26,452) |

In 2013 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognised. Accordingly the tax value of property, plant and equipment was decreased, which resulted in an increase of deferred tax liabilities.

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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 2014 and 2013 amounted to 5,298 and 4,902 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 2014 and 2013 amounted to 6,205 and 2,759 respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2014 and 2013 amounted to 1,133 and 1,836, respectively, of which unused tax losses with expiry date from 2014 to 2022 amounted to 156 and 157 for 2014 and 2013, respectively.

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 2014 and 2013 includes tax expense in respect of following items of other comprehensive income:

| | 2014 | 2013 |
|----------------------------|-------------|-------------|
| Actuarial gains and losses | (758) | (371) |

20. REVENUE

Revenue comprised the following for the years ended 31 December 2014 and 2013:

| | 2014 | 2013 |
|---|----------------|----------------|
| Local telephone services | 80,528 | 87,322 |
| Intra-zone telephone services | 14,669 | 17,128 |
| Domestic long-distance/International long-distance telephone services | 14,561 | 17,101 |
| Interconnection and traffic transit services (excluding Internet) | 28,481 | 24,843 |
| Mobile communication services | 13,991 | 39,195 |
| Rent of channels | 11,651 | 10,705 |
| Broadband Internet | 60,367 | 55,885 |
| Pay TV | 14,458 | 11,927 |
| Data services (VPN, data centres, wholesale Internet sales) | 24,252 | 22,276 |
| Other | 47,959 | 39,322 |
| Total revenue | 310,917 | 325,704 |

In 2014 and 2013 the Group generated revenue by the following major customer groups:

| Customer Groups | 2014 | 2013 |
|--------------------------|----------------|----------------|
| Residential customers | 146,744 | 165,884 |
| Corporate customers | 73,368 | 73,827 |
| Governmental customers | 48,855 | 45,604 |
| Interconnected operators | 41,950 | 40,389 |
| Total | 310,917 | 325,704 |

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21. WAGES, SALARIES, OTHER BENEFITS AND PAYROLL TAXES

| | 2014 | 2013 |
|--|---------------|---------------|
| Salary expenses | 67,177 | 67,454 |
| Share-based remuneration | 1,682 | - |
| Social taxes | 18,255 | 18,026 |
| Loss for pension plans | 290 | 1,218 |
| Other personnel costs | 4,288 | 4,304 |
| Total wages, salaries, other benefits and payroll taxes | 91,692 | 91,002 |

22. MATERIALS, UTILITIES, REPAIRS AND MAINTENANCE

| | 2014 | 2013 |
|--|---------------|---------------|
| Repairs and maintenance | 10,048 | 11,654 |
| Utilities | 10,406 | 10,374 |
| Materials | 6,128 | 6,467 |
| Total materials, utilities, repairs and maintenance | 26,582 | 28,495 |

23. OTHER OPERATING INCOME

| | 2014 | 2013 |
|---|---------------|---------------|
| Reimbursement of losses incurred from universal services fund | 11,149 | 12,392 |
| Fines and penalties | 346 | 360 |
| Reimbursement of other losses incurred | 234 | 233 |
| Gain on disposals of other assets | 15 | 210 |
| Other income | 1,277 | 2,734 |
| Total other operating income | 13,021 | 15,929 |

24. OTHER OPERATING EXPENSES

| | 2014 | 2013 |
|---|---------------|---------------|
| Taxes, other than income tax | 6,221 | 7,513 |
| Rent | 6,086 | 7,156 |
| Agency fees | 5,981 | 7,700 |
| Advertising expenses | 5,124 | 5,644 |
| E-Government contract expenses | 4,519 | 4,651 |
| Fire and other security services | 3,222 | 3,323 |
| Contributions to universal service fund | 2,831 | 3,082 |
| Transportation and postal services | 2,026 | 2,221 |
| Third party services and expenses related to administration | 1,773 | 2,003 |
| Member fees, charity contribution, payments to labour units | 795 | 703 |
| Audit and consulting fees | 646 | 871 |
| Asset insurance | 135 | 169 |
| Fines and penalties | 119 | 141 |
| Other | 11,375 | 11,447 |
| Total other operating expenses | 50,853 | 56,624 |

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25. FINANCE COSTS

| | 2014 | 2013 |
|--|---------------|---------------|
| Interest expense of defined benefit plans | 783 | 769 |
| Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing | 14,877 | 14,845 |
| Interest expense on finance lease liabilities | 22 | 48 |
| Borrowing servicing expense | 40 | 138 |
| Total finance costs | 15,722 | 15,800 |

26. OTHER INVESTING AND FINANCIAL GAIN

| | 2014 | 2013 |
|--|---------------|--------------|
| Interest income from finance assets | 859 | 1,194 |
| Dividend income | 12 | 20 |
| Income/(expenses) related to business combinations | 24 | (2) |
| Gain on disposal of subsidiaries | 25,637 | 3,308 |
| (Loss)/gain on disposal of other financial assets | (64) | 96 |
| Loss on change of fair value of financial assets/liabilities through profit and loss | (5,496) | (492) |
| 1 Impairment of financial assets | (307) | (17) |
| Other gains/(losses) | 254 | (659) |
| Total other investing and financial gain | 20,919 | 3,448 |

Gain on disposal of subsidiaries for 2014 includes gain from disposal mobile subsidiaries and the Company's mobile fixed assets in T2 RTK Holding LLC amounted 25,125, gain from disposal media companies in OJSC Tsifrovoe televidenie (refer to the Note 8) in the amount of 212, deconsolidation other subsidiaries of 298.

Gain on disposal of subsidiaries for 2013 include income received as a result of GlobalTel deconsolidation in the amount of 3,308.

27. SEGMENT INFORMATION

Rostelecom Management Body which is the chief operating decision maker started to analyze operating results of OJSC Rostelecom by macroregional branches. The results of subsidiaries are analyzed on standalone basis. Consequently, the Group has determined its macroregional branches and subsidiaries as operating segments. However, subsidiaries with the exception of Skylink do not meet quantitative threshold defined by IFRS 8 and financial information of these operating segments are combined and presented under the heading Other. Currently Group has eleven reportable segments, which are the Group's strategic business units. While differentiated geographically, the strategic business units offer mainly the same services to the customers.

Management of the Group assesses the performance of the operating segments based on the accounting data that is prepared using Russian statutory accounting principles on unconsolidated basis. A measure of segment profit or loss reported to the management of the company is earnings before interest, taxes, depreciation and amortization (EBITDA).

The tables below illustrate financial information of reportable segment required for disclosure by IFRS 8 for the year ended 31 December 2014 and 2013.

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The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2014:

| 2014 | Corp. Center | IRC North-West | IRC Center | IRC South | IRC Volga | IRC Ural | IRC Siber | IRC Far East | IRC Moscow | Sky Link | Other operations and reconciliation | Total segments | Adjustment and eliminations | Total |
|-----------------------------|---------------------|-----------------------|-------------------|------------------|------------------|-----------------|------------------|---------------------|-------------------|-----------------|--|-----------------------|------------------------------------|----------------|
| Revenue | | | | | | | | | | | | | | |
| Third party revenue | 29,523 | 36,025 | 36,022 | 29,562 | 35,020 | 35,976 | 31,874 | 21,146 | 30,990 | 588 | 27,637 | 314,363 | (3,446) | 310,917 |
| Revenue from other segments | 2,095 | 219 | 137 | 151 | 446 | 335 | 354 | 125 | 303 | 1,195 | 9,069 | 14,429 | (14,429) | - |
| Total revenue | 31,618 | 36,244 | 36,159 | 29,713 | 35,466 | 36,311 | 32,228 | 21,271 | 31,293 | 1,783 | 36,706 | 328,792 | (17,875) | 310,917 |
| EBITDA | (18,461) | 16,433 | 15,536 | 13,260 | 19,537 | 13,472 | 16,220 | 7,931 | 14,096 | (175) | 4,422 | 102,271 | 921 | 103,192 |

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The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2014:

| | |
|--|---------------|
| EBITDA of reportable segments | 97,849 |
| EBITDA of other segments | 4,422 |
| <i>Adjustments</i> | |
| Depreciation, amortization and impairment losses | (53,126) |
| Finance costs and other investing and financial gain | 5,197 |
| Net gain for defined benefit plan | 789 |
| Net gain for defined contribution plan | - |
| The charge of sponsorship contribution the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 | (1,321) |
| Loss from associates | (517) |
| Share-based remuneration | (722) |
| Intragroup dividends | (7,395) |
| Adjustments to loss on disposal of property, plant and equipment and intangible assets | (503) |
| Adjustments to loss on disposal of property, plant and equipment and revenue under lease contracts | (154) |
| Assets impairment | (1,300) |
| Reversal of income from revaluation of subsidiaries recognized in statutory books | 2,097 |
| Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS | 896 |
| Treasure shares revaluation at OJSC Svyazinvest | - |
| Reversal of expenses recognized in statutory books and capitalized in intangible assets under IFRS | 220 |
| Accruals of other operating income and income for traffic | 345 |
| Other adjustments | 977 |
| Profit before income tax | 47,754 |

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The following table illustrates information about reportable segment revenue and EBITDA for the year ended 31 December 2013:

| 2013 | Corp. Center | IRC North-West | IRC Center | IRC South | IRC Volga | IRC Ural | IRC Siber | IRC Far East | IRC Moscow | Sky Link | Other operations and reconciliation | Total segments | Adjustment and eliminations | Total |
|-----------------------------|---------------------|-----------------------|-------------------|------------------|------------------|-----------------|------------------|---------------------|-------------------|-----------------|--|-----------------------|------------------------------------|----------------|
| Revenue | | | | | | | | | | | | | | |
| Third party revenue | 31,319 | 33,054 | 33,928 | 27,931 | 32,872 | 45,740 | 30,299 | 19,976 | 21,298 | 3,097 | 50,028 | 329,542 | (3,838) | 325,704 |
| Revenue from other segments | 2,950 | 430 | 111 | 383 | 942 | 191 | 1,103 | 232 | 924 | 3,062 | 11,107 | 21,435 | (21,435) | - |
| Total revenue | 34,269 | 33,484 | 34,039 | 28,314 | 33,814 | 45,931 | 31,402 | 20,208 | 22,222 | 6,159 | 61,135 | 350,977 | (25,273) | 325,704 |
| EBITDA | (8,437) | 15,390 | 14,748 | 11,819 | 16,030 | 19,195 | 13,301 | 7,846 | 9,081 | (566) | (9,724) | 88,683 | 24,202 | 112,885 |

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The following table illustrates reconciliation of reportable segment EBITDA to profit before income tax for the year ended 31 December 2013:

| | |
|---|----------------|
| EBITDA of reportable segments | 98,407 |
| EBITDA of other segments | (9,724) |
| <i>Adjustments</i> | |
| Depreciation, amortization and impairment losses | (61,396) |
| Finance costs and other investing and financial gain | (12,352) |
| Net loss for defined benefit plan | (1,863) |
| Net loss for defined contribution plan | (124) |
| Income from associates | 177 |
| Share-based remuneration | - |
| Intragroup dividends | (5,013) |
| Adjustments to loss on disposal of property, plant and equipment and intangible assets | 318 |
| Reversal of income from revaluation of subsidiaries recognized in statutory books | (910) |
| Reversal of material expenses recognized in statutory books and capitalized in property, plant and equipment under IFRS | 888 |
| Treasure shares revaluation at OJSC Svyazinvest | 24,730 |
| Other adjustments | (1,019) |
| Profit before income tax | 32,119 |

28. SHARE-BASED PAYMENTS

Share-based program started in 2014 (ordinary shares)

In March 2014 the Board of Directors approved employee motivation program. The program provides grant of ordinary shares which are purchased by program participants at fixed price, using proceeds from the annual bonus, which is paid depending on achievement of the KPI, based on FCF, net profit and ROIC.

Duration of the program is three years, starting from 2014. About 200 people are expected to take part in the program - senior and middle managers, including directors of regional branches.

The total target package of all participants of the program consists of ordinary shares equivalent to 1.5% of the share capital of the Company. The maximum size of the package depends on meeting the KPI requirements and is limited to the 200% of the target shares in the event of a significant overperformance. In the event of a significant non-compliance with the KPI, program participants lose the right to the option in part attributable to the reporting period.

Shares are granted to participants in stages: 2014 – 30%, 2015 – 30%, 2016 – 40% whereas target package is adjusted to reflect achieved level of KPIs. Annual vesting also occurs in stages: 50% on the year end and 50% 12 months later.

To facilitate the program, the Company establish a closed fund «RTK-Development» managed by VTB Capital AM.

Total amount of 1,850 including social taxes was recognized as an expense in wages, salaries, other benefits and payroll taxes in this Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 in relation to the program (Note 21).

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The following share-based payment arrangements were introduced during 2014:

| Grant series | Number of shares granted | Grant date | Exercise date |
|--------------------------------------|-----------------------------|------------|---------------|
| Grant contracts signed in 2014 | 9,771,882 | Year 2014 | Year 2015 |
| Grant contracts to be signed in 2015 | 900,000 | Year 2014 | Year 2015 |
| Grant contracts signed in 2014 | 9,771,882 | Year 2014 | Year 2016 |
| Grant contracts to be signed in 2015 | 900,000 | Year 2014 | Year 2016 |
| Grant contracts signed in 2014 | 13,029,176 | Year 2014 | Year 2017 |
| Grant contracts to be signed in 2015 | 1,200,000 | Year 2014 | Year 2017 |
| Total | 35,572,940 | | |

The weighted average fair value of the shares granted as of the grant date is 90.89 RUB.

29. EARNINGS PER SHARE

| | 2014 | 2013 |
|---|---------------|---------------|
| Profit from continuing operations attributable to equity holders of the Group | 12,895 | 26,429 |
| Profit (loss) from discontinued operations attributable to equity holders of the Group | 24,625 | (2,557) |
| Profit attributable to equity holders of the Group | 37,520 | 23,872 |
| Weighted average number of shares outstanding used in calculation of basic earning per shares | 2,278,305,337 | 2,553,708,075 |
| Weighted average number of shares outstanding used in calculation of diluted earning per shares | 2,292,220,390 | 2,553,708,075 |
| Earnings per share from continuing and discontinued operations attributable to equity holders of the Group during the year, in RUB | | |
| Basic earnings per share | 16.47 | 9.35 |
| From continuing operations | 5.66 | 10.35 |
| From discontinued operations | 10.81 | (1.00) |
| Diluted earnings per share | 16.37 | 9.35 |
| From continuing operations | 5.63 | 10.35 |
| From discontinued operations | 10.74 | (1.00) |

Weighted average number of shares outstanding for the years ended 31 December 2014 is adjusted for the weighted average number of treasury shares of the Group, which amounted to 539,836,460 (2013: 280,811,796) ordinary and 93,893,973 (2013: 77,515,899) preferred shares of the Company.

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

| | 2014 | 2013 |
|--|----------------------|----------------------|
| Weighted average number of shares outstanding used in calculation of basic earning per shares | 2,278,305,337 | 2,553,708,075 |
| Dilutive effect of call options | 13,915,053 | - |
| Weighted average number of shares outstanding used in calculation of diluted earning per shares | 2,292,220,390 | 2,553,708,075 |

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30. 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 2014 and 2013:

| Classes | Categories | 31 December 2014 | 31 December 2013 |
|---|---|---------------------|---------------------|
| Cash and cash equivalents | Loans and receivables | 16,945 | 7,960 |
| Trade and other receivables | Loans and receivables | 49,290 | 40,986 |
| Available-for-sale financial assets at cost | Available-for-sale | 84 | 83 |
| Available-for-sale financial assets at fair value | Available-for-sale | - | 6 |
| Loans | Loans and receivables | 1,957 | 1,996 |
| Non-hedge derivative | Financial assets at fair value through profit or loss | 3 | 401 |
| Total financial assets | | 68,279 | 51,432 |
| Bank and corporate loans | Liabilities at amortized cost | 150,857 | 175,925 |
| Bonds | Liabilities at amortized cost | 37,560 | 40,000 |
| Promissory notes | Liabilities at amortized cost | 10 | 386 |
| Vendor financing | Liabilities at amortized cost | 55 | 64 |
| Finance lease liabilities | Liabilities at amortized cost | 175 | 168 |
| Interest payable | Liabilities at amortized cost | 1,265 | 1,170 |
| Other borrowings | Liabilities at amortized cost | 92 | 96 |
| Trade and other payables | Liabilities at amortized cost | 47,870 | 43,045 |
| Non-hedge derivative | Financial liabilities at fair value through profit and loss | 5,975 | 878 |
| Total financial liabilities | | 243,859 | 261,732 |

The fair value of cash and cash equivalents, current receivables, trade payables, other current financial assets and liabilities approximate their carrying amount largely due to the short-term maturity of these instruments.

The fair value of long-term debt investments, long-term accounts receivable and non-current accounts payable correspond to the present values of the payments related to the assets and liabilities, taking into account the current interest rate parameters that reflect market-based changes to terms and conditions and expectations. Fair value of financial liabilities approximate their carrying amount.

Available for sale investments accounted for at cost include unquoted equity investments whose value cannot be measured reliably. Quoted prices are not available for these investments due to the absence of an active market. It is also impracticable to derive fair value using the similar transaction method. The discounting cash flow method cannot be applied to such investments as there are no reliably determinable cash flows related to them.

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The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| | 2014 | 2013 |
|--|--------------|------------|
| Available-for-sale financial assets | | |
| Long-term investments at fair value | | |
| Level 1 | - | 6 |
| Level 2 | - | - |
| Level 3 | - | - |
| Total long-term equity investments at fair value | - | 6 |
| Financial assets at fair value through profit and loss | | |
| Non-hedge derivatives | | |
| Level 1 | - | - |
| Level 2 | 3 | 401 |
| Level 3 | - | - |
| Total non-hedge derivatives | 3 | 401 |
| Financial liabilities at fair value through profit and loss | | |
| Non-hedge derivatives | | |
| Level 1 | - | - |
| Level 2 | 5,975 | 878 |
| Level 3 | - | - |
| Total non-hedge derivatives | 5,975 | 878 |

Management of the Group believes that the fair values of accounts receivable and accounts payable shown in the balance sheet approximate their carrying amounts

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Income and expenses on financial instruments

| 2014 | Finance costs | | Other investing and financing gains and losses | | | | | | Equity | | Total |
|--|----------------------------|------------------|--|-----------------|------------------------------------|-------------------|--|----------|-----------------------------------|-------------------|-----------------|
| | Bad debt income/ (expense) | Interest expense | Interest income | Dividend income | Gains / (losses) on asset disposal | Fair value change | Impairment loss (reversal of impairment) | Other | Foreign exchange gains / (losses) | Fair value change | |
| Cash and cash equivalents | - | - | 116 | - | - | - | - | - | 284 | - | 400 |
| Trade and other receivables | (2,182) | - | 321 | - | - | - | - | - | 2,499 | - | 638 |
| Available for sale financial instruments | - | - | - | 12 | (64) | - | - | - | - | - | (52) |
| Financial assets at fair value through profit and loss | - | - | - | - | - | (399) | - | - | - | - | (399) |
| Loans | - | - | 743 | - | - | - | (307) | - | - | - | 436 |
| Total financial assets | (2,182) | - | 1,180 | 12 | (64) | (399) | (307) | - | 2,783 | - | 1,023 |
| Bank and corporate loans | - | (11,679) | - | - | - | - | - | - | (475) | - | (12,154) |
| Bonds | - | (3,197) | - | - | - | - | - | - | - | - | (3,197) |
| Promissory notes | - | (1) | - | - | - | - | - | - | - | - | (1) |
| Finance lease liabilities | - | (22) | - | - | - | - | - | - | - | - | (22) |
| Trade and other payables and non-hedge derivatives | - | - | - | - | - | (5,097) | - | - | (2,125) | - | (7,222) |
| Total financial liabilities | - | (14,899) | - | - | - | (5,097) | - | - | (2,600) | - | (22,596) |

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Income and expenses on financial instruments

| 2013 | Finance costs | | Other investing and financing gains and losses | | | | | | Equity | | Total |
|--|----------------------------|------------------|--|-----------------|------------------------------------|-------------------|--|----------|-----------------------------------|-------------------|-----------------|
| | Bad debt income/ (expense) | Interest expense | Interest income | Dividend income | Gains / (losses) on asset disposal | Fair value change | Impairment loss (reversal of impairment) | Other | Foreign exchange gains / (losses) | Fair value change | |
| Cash and cash equivalents | - | - | 676 | - | - | - | - | - | 19 | - | 695 |
| Trade and other receivables | (2,140) | - | 45 | - | - | - | - | - | 295 | - | (1,800) |
| Available for sale financial instruments | - | - | 9 | 20 | 41 | - | - | - | - | - | 70 |
| Financial assets at fair value through profit and loss | - | - | - | - | - | 386 | - | - | - | - | 386 |
| Loans | - | - | 509 | - | - | - | (17) | - | 23 | - | 515 |
| Total financial assets | (2,140) | - | 1,239 | 20 | 41 | 386 | (17) | - | 337 | - | (134) |
| Bank and corporate loans | - | (11,893) | - | - | - | - | - | - | (170) | - | (12,063) |
| Bonds | - | (2,889) | - | - | - | - | - | - | - | - | (2,889) |
| Promissory notes | - | - | - | - | - | - | - | - | (12) | - | (12) |
| Vendor financing | - | (63) | - | - | - | - | - | - | (178) | - | (241) |
| Finance lease liabilities | - | (48) | - | - | - | - | - | - | - | - | (48) |
| Trade and other payables and non-hedge derivatives | - | - | - | - | - | (878) | - | - | (551) | - | (1,429) |
| Total financial liabilities | - | (14,893) | - | - | - | (878) | - | - | (911) | - | (16,682) |

(a) Credit risk

Each class of financial assets represented in the Group's statement of financial position to some extent is exposed to credit risk. Management develops and implements policies and procedures aiming to minimize the exposure and impact on the Group's financial position in case of risk realization.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2014 and 2013.

To reduce risk of exposure on receivables from businesses and individuals the Group implements a range of procedures. Credit risk is determined based on a summary of probabilities of occurrences and possible impact of events negatively influencing the customer's ability to discharge its obligation. A credit rating is attributed to a customer on initial stage of cooperation and, then, reassessed periodically based on credit history. As a part of its credit risk management policy, the Group arranges preventive procedures which are represented by but not limited to advance payments, request for collaterals and banks and third parties guarantees. For collection of receivables, which are past due, the Group takes a variety of actions from suspension of rendering of services to taking legal action.

According to the financial policy of the Group, the Group deposits excess cash available with several largest Russian banks (with high credit ratings). To manage the credit risk related to deposit of cash available with banks, management of the Group implements procedures to periodically assess the creditworthiness of the banks. To facilitate this assessment, deposits are mainly placed with banks where the Group has already had comparable credit obligations, current settlement account and can easily monitor activity of such banks.

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets, except for guarantee (see Note 30 (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 (OJSC Rostelecom) via cash-pooling.

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Maturity analysis as at 31 December 2014 and 2013 represented below shows undiscounted cash flows, including estimated interest payments:

| | 2015 | 2016 | 2017 | 2018 | 2019 and later | Total |
|--|----------------|---------------|---------------|---------------|-------------------|----------------|
| 31 December 2014 | | | | | | |
| Bank and corporate loans | 51,583 | 45,956 | 45,958 | 34,661 | 6,096 | 184,254 |
| Bonds | 18,603 | 11,396 | 1,230 | 15,081 | - | 46,310 |
| Promissory notes | 5 | 11 | - | - | 9 | 25 |
| Vendor financing | 9 | 9 | 9 | 9 | 19 | 55 |
| Finance lease liabilities | 84 | 19 | 18 | 18 | 183 | 322 |
| Other borrowings and hedge derivatives | 92 | 1 | - | - | - | 93 |
| Trade and other payables | 47,870 | - | 1 | - | 1 | 47,872 |
| Guaranties issued | - | - | - | - | 13,822 | 13,822 |
| Total financial liabilities | 118,246 | 57,392 | 47,216 | 49,769 | 20,130 | 292,753 |
| | 2014 | 2015 | 2016 | 2017 | 2018 and later | Total |
| 31 December 2013 | | | | | | |
| Bank and corporate loans | 40,583 | 33,563 | 69,541 | 43,175 | 32,423 | 219,285 |
| Bonds | 8,981 | 2,778 | 1,396 | 11,230 | 25,081 | 49,466 |
| Promissory notes | 377 | 1 | - | - | 8 | 386 |
| Vendor financing | 9 | 9 | 9 | 9 | 28 | 64 |
| Finance lease liabilities | 78 | 20 | 19 | 18 | 200 | 335 |
| Other borrowings and hedge derivatives | 80 | 20 | 2 | - | - | 102 |
| Trade and other payables | 43,045 | 90 | - | - | 1 | 43,136 |
| Stock redemption reserve | 23,161 | - | - | - | - | 23,161 |
| Total financial liabilities | 116,314 | 36,481 | 70,967 | 54,432 | 57,741 | 335,935 |

(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. To manage this risk, the Group entered into interest rate swaps to hedge significant amounts of its floating rate debt. Other borrowings do not materially influence the exposure to interest risk.

| | 31 December 2014 | 31 December 2013 |
|----------------------------------|---------------------|---------------------|
| Fixed rate instruments | | |
| Financial assets | 18,902 | 9,962 |
| Financial liabilities | (178,890) | (176,437) |
| | (159,988) | (166,475) |
| Variable rate instruments | | |
| Financial assets | 3 | 401 |
| Financial liabilities | (17,100) | (42,250) |
| | (17,097) | (41,849) |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------|-------------|
| Euribor (+1%) | - | - |
| Euribor (-1%) | - | - |
| MosPrime (+1%) | (51) | (1,090) |
| MosPrime (-1%) | 51 | 1,090 |
| Federal loan bonds rate (+1%) | 111 | 90 |
| Federal loan bonds rate (-1%) | (111) | (90) |
| CB refinancing (+1%) | (1) | - |
| CB refinancing (-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.

Financial assets and liabilities of the Group presented by currency as at 31 December 2014 and 2013 were as follows:

| | <u>31 December 2014</u> | | <u>31 December 2013</u> | |
|---|-------------------------|------------|-------------------------|----------------|
| | USD | EUR | USD | EUR |
| Cash and cash equivalents | 487 | 192 | 327 | 62 |
| Trade receivables | 2,343 | 835 | 1,497 | 879 |
| Financial assets at fair value through profit or loss | 3 | - | 401 | - |
| Loans and receivables | - | - | 79 | - |
| Bank and corporate loans | (1,056) | (20) | (604) | (220) |
| Trade and other payables and non-hedge derivatives | (8,184) | (245) | (4,051) | (2,150) |
| Net exposure | (6,407) | 762 | (2,351) | (1,429) |

The table below demonstrates the sensitivity to a reasonably possible change in exchange rates, with all

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other variables held constant, of the Group's profit before tax:

| | 31 December 2014 | | 31 December 2013 | |
|--------------------------------------|------------------|-------|------------------|-------|
| | USD | EUR | USD | EUR |
| Strengthening of the currency (+20%) | (2,476) | 152 | (1,398) | (286) |
| Weakening of the currency (-20%) | 2,416 | (152) | 1,272 | 286 |

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

Other price risk

As at 31 December 2014, the Group's assets include investments in quoted securities subject to other price risk. To mitigate this risk, the Group regularly analyses market securities trends and makes a decision to sell a security, when necessary.

The table below demonstrates the sensitivity to a reasonably possible change in market indexes for securities, with all other variables held constant, of the Group in terms of the result of fair value revaluation recognized in other comprehensive income.

| | Increase/decrease in percentage point | Effect on revaluation result recognized in profit or loss |
|-------------|--|--|
| 2014 | | |
| MICEX | + 30.0% | 1,685 |
| MICEX | - 30.0% | (1,804) |
| 2013 | | |
| MICEX | + 30.0% | 1,191 |
| MICEX | - 30.0% | (1,496) |

(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 2013-2014.

The Boards of directors of the companies comprising the Group review their performance and establish a variety of key performance indicators which are based on Russian statutory accounts. The companies comprising the Group monitor and manage their debt using financial independence ratio and net debt/equity, net debt/OIBDA ratios.

(e) Guarantee

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

31. COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business (refer to (b) below). Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Group.

(b) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and interest, which can be significant. The Group's tax returns are open for review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year in which the decision on the conduct of the tax audit was adopted. Under certain circumstances, reviews may cover longer periods.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new 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 (RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

In 2014 based on acts of comprehensive tax inspection for the period of 2011-2012 Federal Tax Service of the Russian Federation issued a claim in the amount of 676 of additional taxes. The Group has appealed the decision of Tax authorities.

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 2014 and 2013. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant. As a result, the Group has accrued tax liability reserve in the amount of 9.5 million. Due to tax audit initiated by Tax authorities and results can be disputed in administrative procedure and in court there is an uncertainty about the execution date of tax liability.

(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 2015 up to 2022.

The Group has renewed all other licenses on a regular basis in the past, and believes that it will be able to

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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 2014, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 50,040 (2013: 15,131).

(e) Operating leases

As at 31 December 2014, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as at 31 December 2014 and 2013 were as follows:

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| As lessee | | |
| Current portion | 228 | 129 |
| Between one to five years | 311 | 320 |
| Over five years | 1,180 | 1,267 |
| Total minimum rental payables | 1,719 | 1,716 |
| As lessor | | |
| Current portion | 172 | 109 |
| Between one to five years | 86 | 125 |
| Over five years | 35 | 25 |
| Total minimum rental receivables | 293 | 259 |

32. 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 55,7% 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 service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Associates

On 1 April 2014 the Group obtained significant influence over T2 RTK Holding as a result of the reorganization (refer to Note 1). Transactions with companies of T2 RTK Holding were as follows:

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| | Nine-month period ended 31 December 2014 |
|--|---|
| Revenue | 9,293 |
| Interest income (expense) | 389 |
| Purchase of telecommunication services | (2,203) |
| Purchase of other services | (2,301) |

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

| | 31 December 2014 |
|---------------------------------------|-------------------------|
| Accounts receivable | 6,953 |
| Allowance for doubtful receivables | (293) |
| Accounts payable and accrued expenses | (898) |
| Loans and borrowings | (9) |

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

| | 2014 | 2013 |
|--|-------------|-------------|
| Revenue | 173 | 141 |
| Interest income (expense) | 1 | - |
| Purchase of telecommunication services | (113) | (103) |
| Purchase of other services | (57) | - |

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

| | 2014 | 2013 |
|---------------------------------------|-------------|-------------|
| Accounts receivable | 150 | 20 |
| Financial assets | 1 566 | - |
| Allowance for doubtful receivables | (13) | (3) |
| Accounts payable and accrued expenses | (33) | (16) |
| Loans and borrowings | (3) | - |

(d) Non-state pension fund “Telecom-Soyuz”

The Group has centralized pension agreements with a non-state pension fund “Telecom-Soyuz” (refer to Note 18). In addition to the state pension, the Company provides the employees with a non-state pension and other employee benefits through defined benefit and defined contribution plans.

The total amount of contributions to non-state pension fund paid by the Group in 2014 amounted to 1,096 (2013: 1,216). The fund retains 3% of every pension contribution to cover its administrative costs.

(e) Transactions with other government-related entities

In January 2009, OJSC Rostelecom in partnership with mobile operator OAO Megafon won a tender for sponsorship of the XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi in a category “Telecommunications”. According to the agreement with the Organisation committee of XXII Winter Olympic Games and the XI Winter Paralympic Games 2014 in Sochi the sponsorship contribution amounts to USD 260 million and should be contributed by each sponsor in the amount of USD 130 million. Half of this amount shall be paid in cash and the other half shall be contributed in free services. In return, each partner will obtain exclusive rights to use the Olympic logo in its advertising and other activity. There

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is a joint responsibility of the Group and Megafon in respect of non-cash contributions. The total charge of sponsorship contribution to profit and loss for the year ended 31 December 2013 amounted to 1,321 (2013: 993).

The Group considers this transaction as a transaction with a related party because the Group treats the Organisation committee as a government-related entity. The reason for this is that the federal government was one of the founders of the Organisation committee and government executives are on the Oversight Board of this Organisation.

The Group received loans from government-related banks OJSC Sberbank, OJSC Bank VTB, OJSC Sviazbank, OJSC Gazprombank and others. The outstanding balances from these banks amounted to 133,719 as at 31 December 2014 (2013: 161,730). Interest rate of these loans varies from 6,67% to 10,75%. Maturity of these loans varies from 6 month to 5 years.

During year ended 31 December 2014 the Group obtained loans from these banks in amount of 303,569 (2013: 380,360), made repayments in amount of 343,846 (2013: 408,473). Interest expense accrued on those loans during year ended 31 December 2014 amounted to 12,266 (2013: 12,975).

The Group has collectively 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 not particular material except for placing deposits and purchase and sales of investments in promissory notes of government-related banks.

Proceeds from sales of government-related banks promissory notes for the year ended 31 December 2014 amounted to nil (2013: nil), purchases of the same kind of investments comprised 1 (2013: nil). Related income recognized in profit and loss in respect of government-related banks promissory notes amounted to nil for the year ended 31 December 2014 (2013: nil).

The amount of funds placed on deposits with government-related banks for the year ended 31 December 2014 is 411 (2013: 1,405) with related income recognised in profit and loss of 26 (2013: 52) and amounts repaid back to the Company's account of 561 (2013: 2,061).

(f) 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 2014 amounted to 872. Remuneration includes salaries, bonuses, payments for participation in the work of management bodies and other short-term benefits.

Short-term benefits accrued to the key management personnel for the year ended 31 December 2013 amounted to 953.

Also in 2014 the Company introduced a long-term motivation programme for executives and senior employees of the Company. The amount of employee benefits related to the programme and attributed to the Management Board's members, the Board of Directors' members and Vice-Presidents for the year ended 31 December 2014 is 809 (2013: nil).

The remuneration amounts are stated exclusive of social taxes.

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As a result of the decision to transfer mobile assets into share capital of T2RTK Holding LLC (refer to Note 1) all assets and liabilities of the mobile communication subsidiaries as well as integrated assets and liabilities of the Company were classified as held for sale in the statement of financial position at 31 December 2013 and disposed off in the year ended 31 December 2014. Related operations presented as discontinued in the statement of comprehensive income for the years ended 31 December 2014 and 2013.

The following table illustrates information on assets and liabilities held for sale for the year ended 31 December 2014 and 2013.

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Property, plant and equipment | 579 | 63,140 |
| Goodwill | - | 12,805 |
| Intangible assets | - | 10,413 |
| Investments in associates | - | 24 |
| Deferred tax asset | - | 3,153 |
| Inventories | - | 567 |
| Trade and other receivables | - | 1,071 |
| Prepayments | - | 701 |
| Prepaid income tax | - | 167 |
| Other investments | - | 1 |
| Cash and cash equivalents | - | 864 |
| Other assets | - | 142 |
| Total assets held for sale | 579 | 93,048 |
| LIABILITIES | | |
| Employee benefits | - | - |
| Deferred tax liability | - | 1,795 |
| Loans and borrowings | - | 10,291 |
| Trade and other payables | - | 3,897 |
| Income tax payable | - | 19 |
| Provisions | - | 538 |
| Other liabilities | - | 1,107 |
| Total liabilities directly attributable to assets held for sale | - | 17,647 |

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The following table illustrates information about consolidated income statement of a discontinued operations for the year ended 31 December 2014 and 2013.

| | Year ended 31 December 2014 | | |
|---|------------------------------------|--------------------------------|-----------------|
| | Discontinued operations | Intragroup transactions | Total |
| Revenue | 16,450 | (4,470) | 11,980 |
| Operating expenses | | | |
| Wages, salaries, other benefits and payroll taxes | (1,763) | - | (1,763) |
| Depreciation, amortisation and impairment losses | (12) | - | (12) |
| Interconnection charges | (6,513) | 3,387 | (3,126) |
| Materials, utilities, repairs and maintenance | (757) | 3 | (754) |
| Loss on disposal of property, plant and equipment | (23) | - | (23) |
| Doubtful debt allowance | (176) | - | (176) |
| Other operating income | 71 | - | 71 |
| Other operating expenses | (4,380) | 1,080 | (3,300) |
| Total operating expenses, net | (13,553) | 4,470 | (9,083) |
| Operating profit | 2,897 | - | 2,897 |
| Finance costs | (776) | 573 | (203) |
| Other investing and financial gains | 32,258 | (7,546) | 24,712 |
| Foreign exchange loss, net | (45) | - | (45) |
| Profit before income tax | 34,334 | (6,973) | 27,361 |
| Income tax expense | (2,736) | - | (2,736) |
| Profit for the year | 31,598 | (6,973) | 24,625 |
| | Year ended 31 December 2013 | | |
| | Discontinued operations | Intragroup transactions | Total |
| Revenue | 44,229 | (9,261) | 34,968 |
| Operating expenses | | | |
| Wages, salaries, other benefits and payroll taxes | (5,204) | - | (5,204) |
| Depreciation, amortisation and impairment losses | (9,504) | 4 | (9,500) |
| Interconnection charges | (14,725) | 7,399 | (7,326) |
| Materials, utilities, repairs and maintenance | (2,243) | 8 | (2,235) |
| Gain/ (loss) on disposal of property, plant and equipment | (456) | 1 | (455) |
| Doubtful debt allowance | (46) | - | (46) |
| Other operating income | 701 | - | 701 |
| Other operating expenses | (13,122) | 1,853 | (11,269) |
| Total operating expenses, net | (44,599) | 9,265 | (35,334) |
| Operating profit | (370) | 4 | (366) |
| Finance costs | (2,916) | 1,969 | (947) |
| Other investing and financial gains | 991 | (2,524) | (1,533) |
| Foreign exchange loss, net | (89) | (2) | (91) |
| Profit before income tax | (2,384) | (553) | (2,937) |
| Income tax expense | 382 | - | 382 |
| Profit for the year | (2,002) | (553) | (2,555) |

The following table illustrates information about cash flows attributable to the operating, investing, and financing activities of a discontinued operation for the years ended 31 December 2014 and 2013.

OJSC Rostelecom
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In millions of Russian Roubles unless otherwise stated)

| | 2014 | 2013 |
|-------------------------|-------------|-------------|
| Operating cash flow | 3,482 | 9,771 |
| Investing cash flow | (1,222) | (25,255) |
| Financing cash flow | (1,462) | 15,409 |
| Total cash flows | 798 | (75) |

34. SUBSEQUENT EVENTS

Settlement agreement with CJSC "Global-Tel"

During the bankruptcy procedure of CJSC "Globalstar - Space Telecommunications" (hereinafter CJSC "Global-Tel") on 16 January 2015 the Arbitration Court of Moscow approved the settlement agreement dated 14 November 2014 between CJSC "Global-Tel" (Debtor) and bankruptcy creditors whose claims were included in the register of creditors of CJSC "Global-Tel".

According to the settlement agreement the obligations of CJSC "Global-Tel" to the Company were ceases at 27 January 2015 by debtor's issuance of the promissory note maturing on demand but not earlier than 30 November 2021 with the principal amount 1,042.9 and interest rate 13% per annum.

At the same date, on 27 January 2015, the Company purchased two promissory notes from Loral Space & Communications Inc. for the total principal amount 2,501.2 maturing on demand but not earlier than 30 November 2021 with interest rate 13% per annum, which were received by Loral Space & Communications Inc. from CJSC "Global-Tel" as repayment obligations under the settlement agreement on the case A40-27560/2012.

In addition, the Group purchase 49% interest in Global Tel from Loral Space & Communications Inc. for 2 US Dollars increasing ownership to 100%. The Group will consolidate CJSC "Global-Tel" in 2015. As a result, income from reversing of bad debt provision on intragroup receivable amounted to 1,042.9 will be recognised.

The acquisition of a controlling stake in LLC "Data Storage Centre"

On 15 January 2015 Board of Directors approved a deal to acquire a controlling stake in LLC "Data Storage Centre" (operating under the SafeData brand), Russia's largest provider of commercial data centres, traffic exchange service and content delivery.

The acquisition will enable Rostelecom to accelerate its development of a national content storage and distribution network. This includes a federal geographically distributed network of data centres, which combines communication channels, traffic exchange points, content delivery systems, as well as systems to protect against network attacks and traffic monitoring. As a result of the deal, Rostelecom becomes a leading player in the Internet exchange points (IX) and content delivery (CDN) segments. It will also strengthen the Company's position in the data centre market, as Rostelecom will become Russia's second largest provider with a 12% consolidated market share following the completion of the acquisition.

The deal has been structured in two stages:

1. During stage one, the Company will acquire 5.4% of the share capital of LLC "Data storage centre" with nominal value of 10.152 from Brennan Investments Limited for 104.2 according to purchase agreement.
2. During stage two, the Company will add 1,728.9 of cash to LLC "Data storage centre" share capital. As a result, the Company stake in LLC "Data storage centre" share capital will increase to 50.1%.

As of the date of issuing the present Consolidated Financial Statements for the year ended 31 December 2013 and 2014 the deal has been completed.