

PJSC Rostelecom

Consolidated financial statements

*for the year ended 31 December 2015
prepared in accordance with
International financial reporting standards (IFRS)
and Auditors' report*

PJSC Rostelecom

Consolidated financial statements

for the year ended 31 December 2015

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Independent auditors' report

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

We have audited the accompanying consolidated financial statements of PJSC Rostelecom and its subsidiaries (further jointly, the Group), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Important facts

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes that in June 2015 PJSC Rostelecom changed its legal form from OJSC to Public Joint Stock Company.

Other matter

The consolidated financial statements of OJSC Rostelecom and its subsidiaries for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 11 March 2015.

Ernst & Young LLC

11 March 2016

Moscow, Russia

PJSC Rostelecom

Consolidated statement of financial position

(In millions of Russian roubles)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	7	338,699	328,266
Investment property		107	224
Goodwill and other intangible assets	8	60,755	58,420
Investments in associates	10	74,474	75,048
Other financial assets	11	621	110
Deferred tax assets	22	627	359
Other non-current assets	12	8,241	9,274
Total non-current assets		483,524	471,701
Current assets			
Inventories	13	4,060	4,827
Trade and other accounts receivable	14	43,152	45,056
Prepayments		2,822	4,363
Prepaid income tax		927	2,241
Other financial assets	11	5,719	1,934
Cash and cash equivalents	15	7,165	16,945
Other current assets	16	2,600	988
Total current assets		66,445	76,354
Held for sale assets	36	1,351	579
Total assets		551,320	548,634
Equity and liabilities			
Equity attributable to equity holders of the Group			
Share capital	17	93	97
Additional paid-in capital		87	819
Treasury shares		(68,669)	(82,023)
Retained earnings and other reserves		314,237	322,258
Total equity attributable to equity holders of the Group		245,748	241,151
Non-controlling interests		3,916	4,076
Total equity		249,664	245,227
Non-current liabilities			
Loans and borrowings	18	126,620	137,872
Employee benefits	21	5,021	5,965
Deferred tax liabilities	22	30,238	31,206
Accounts payable, provisions and accrued expenses	19	3,545	160
Other non-current liabilities	20	5,543	4,960
Total non-current liabilities		170,967	180,163
Current liabilities			
Loans and borrowings	18	59,934	52,142
Accounts payable, provisions and accrued expenses	19	62,268	62,253
Income tax payable		215	89
Other current liabilities	20	8,272	8,760
Total current liabilities		130,689	123,244
Total liabilities		301,656	303,407
Total equity and liabilities		551,320	548,634

These consolidated financial statements were approved by management of PJSC Rostelecom on 11 March 2016 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.

PJSC Rostelecom

Consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles)

	Notes	Year ended 31 December	
		2015	2014
Continuing operations			
Revenue	23	297,355	298,937
Operating expenses			
Wages, salaries, other benefits and payroll taxes	24	(91,081)	(89,929)
Depreciation, amortisation and impairment losses	7,8	(60,599)	(60,623)
Interconnection charges		(49,825)	(47,429)
Materials, utilities, repairs and maintenance	25	(25,125)	(25,828)
Gain on disposal of property, plant and equipment and intangible assets		2,133	1,475
Bad debt expense	14	(882)	(2,006)
Other operating income	26	14,630	12,950
Other operating expenses	27	(48,020)	(47,553)
Total operating expenses, net		(258,769)	(258,943)
Operating profit		38,586	39,994
Loss from associates and joint ventures	10	(3,583)	(517)
Finance costs	28	(16,311)	(15,519)
Other investing and financial loss, net	29	(434)	(3,793)
Foreign exchange (loss)/gain, net		(1,431)	228
Profit before income tax		16,827	20,393
Income tax expense	22	(2,436)	(7,211)
Profit for the year from continuing operations		14,391	13,182
Discontinued operations			
Profit after tax for the year from discontinued operations	36	–	24,625
Profit for the year		14,391	37,807
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		584	853
Income tax relating to items that may be reclassified		–	–
Items that will not be reclassified to profit and loss:			
Remeasurement of defined benefit pension plans		(412)	3,789
Income tax relating to items that will not be reclassified		82	(758)
Other comprehensive income for the year, net of tax		254	3,884
Total comprehensive income for the year from continuing operations		14,645	17,066
Total comprehensive income for the year from discontinued operations	36	–	24,625
Total comprehensive income for the year		14,645	41,691
Profit from continuing operations attributable to:			
Equity holders of the parent		13,944	37,520
Non-controlling interests		447	287
Total comprehensive income from continuing attributable to:			
Equity holders of the parent		14,182	41,413
Non-controlling interests		463	278
Earnings per share attributable to equity holders of the Group – basic (in RUB)	32	6.20	16.47
Earnings per share attributable to equity holders of the Group – diluted (in RUB)	32	6.11	16.37
Earnings per share attributable to equity holders of the Group – basic for continuing operations (in RUB)	32	6.20	5.66
Earnings per share attributable to equity holders of the Group –diluted for continuing operations (in RUB)	32	6.11	5.63

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

PJSC Rostelecom

Consolidated statement of cash flows

(In millions of Russian roubles)

	Notes	Year ended 31 December	
		2015	2014
Cash flows from operating activities			
Profit before tax from continuing operations		16,827	20,393
Profit before tax from discontinued operations		–	27,361
Profit before tax		16,827	47,754
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>			
Depreciation, amortization and impairment losses	7,8,36	60,599	60,635
(Gain) on sale of property, plant and equipment and intangible assets	36	(2,133)	(1,452)
Bad debt expense	14,36	882	2,182
Loss from associates		3,583	517
Finance costs excluding finance costs on pension and other long-term social liabilities	28	15,560	14,939
Other investing and financial loss / (gain), net	29,36	434	(20,919)
Foreign exchange loss/(gain), net	36	1,431	(183)
Share-based payment expenses	31	1,251	1,850
<i>Changes in net working capital:</i>			
Decrease /(Increase) in accounts receivable		1,629	(5,303)
Decrease in employee benefits		(1,356)	(3,808)
Decrease/(Increase) in inventories		892	(907)
Increase in accounts payable, provisions and accrued expenses		268	5,877
(Increase) in other assets and liabilities		(25)	(2,115)
Cash generated from operations		99,842	99,067
Interest paid		(17,082)	(15,881)
Income tax refund		2,559	–
Income tax paid		(4,469)	(3,640)
Net cash provided by operating activities		80,850	79,546
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(62,726)	(57,666)
Proceeds from sale of property, plant and equipment and intangible assets		3,838	5,433
Acquisition of financial assets		(15,943)	(2,115)
Proceeds from disposals of financial assets		10,442	25,925
Interest received		1,495	689
Special dividends from disposed former mobile subsidiaries		–	7,003
Dividends received		7	14
Purchase of subsidiaries, net of cash acquired	6	(1,145)	(29)
Proceeds from equity accounted investees		322	–
Proceeds from disposal of equity accounted investees		240	–
Proceeds from disposals of subsidiaries, net of cash disposed		–	(112)
Acquisition of equity accounted investees	10	(2,098)	(250)
Net cash used in investing activities		(65,568)	(21,108)
Cash flows from financing activities			
Sale of treasury shares		–	815
Acquisition of treasury shares		(2,867)	(14,485)
Proceeds from bank and corporate loans		546,080	470,559
Repayment of bank and corporate loans		(550,410)	(496,482)
Proceeds from bonds		10,000	–
Repayment of bonds		(12,112)	(2,440)
Proceeds from promissory notes		–	12
Repayment of promissory notes		–	(12)
Repayment of vendor financing payable		(48)	(9)
Repayment of other non-current financing liabilities		(4)	(7)
Options settlement repayments		(5,361)	–
Repayment of finance lease liabilities		(57)	(2)
Acquisition of non-controlling interest	9	(2,349)	(14)
Dividends paid to shareholders of the Group	17	(7,676)	(7,294)
Dividends paid to non-controlling shareholders of subsidiaries		(308)	(306)
Net cash used in by financing activities		(25,112)	(49,665)
Effect of exchange rate changes on cash and cash equivalents		50	212
Net (decrease)/increase in cash and cash equivalents		(9,780)	8,985
Cash and cash equivalents at beginning of the year		16,945	7,960
Cash and cash equivalents at the end of the year		7,165	16,945

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

PJSC Rostelecom

Consolidated statement of changes in equity

(In millions of Russian roubles)

	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 2015	97	819	(10)	817	(82,023)	1,850	6,483	–	313,118	241,151	4,076	245,227
Profit for the year	–	–	–	–	–	–	–	–	13,944	13,944	447	14,391
Other comprehensive income												
Exchange differences on translating foreign operations	–	–	–	568	–	–	–	–	–	568	16	584
Actuarial losses (Note 21)	–	–	–	–	–	–	(412)	–	–	(412)	–	(412)
Income tax in respect of other comprehensive income items	–	–	–	–	–	–	82	–	–	82	–	82
Total other comprehensive income/(loss), net of tax	–	–	–	568	–	–	(330)	–	–	238	16	254
Total comprehensive income/(loss)	–	–	–	568	–	–	(330)	–	13,944	14,182	463	14,645
Transactions with shareholders, recorded directly in equity:												
Dividends to equity holders of the Group (Note 17)	–	–	–	–	–	–	–	–	(7,676)	(7,676)	–	(7,676)
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(308)	(308)
Acquisition of treasury shares	–	–	–	–	(2,867)	–	–	–	–	(2,867)	–	(2,867)
Acquisition of non-controlling interest (Note 9)	–	–	–	–	–	–	–	–	312	312	(2,661)	(2,349)
Non-controlling interest in acquired subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	–	1,538	1,538
Redemption of treasury shares	(4)	–	–	–	15,306	–	–	–	(15,302)	–	–	–
Employee benefits within share-based employee motivation program	–	–	–	–	915	657	–	–	(321)	1,251	–	1,251
Other changes in equity	–	(732)	–	–	–	(387)	–	–	514	(605)	808	203
Total transactions with shareholders	(4)	(732)	–	–	13,354	270	–	–	(22,473)	(9,585)	(623)	(10,208)
Balances at 31 December 2015	93	87	(10)	1,385	(68,669)	2,120	6,153	–	304,589	245,748	3,916	249,664

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

PJSC Rostelecom

Consolidated statements of changes in equity (continued)

	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 (Note 21)	–	–	–	–	–	–	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 (Note 17)	–	–	–	–	–	–	–	–	(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.

PJSC Rostelecom

Notes to consolidated financial statements

for the year ended 31 December 2015

(In millions of Russian roubles)

1. Reporting entity

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

The registered address of the Company is Russian Federation, St. Petersburg, Dostoevsky street, 15. Since February 2016 the headquarters are located in the Russian Federation, Moscow at Goncharnaya Street, 30 (on 31 December 2015: Moscow at 1st Tverskaya-Yamskaya Street, 14).

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 2015, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank, controls the Company by holding of 53% of the Company’s voting ordinary shares.

On 1 September 2014 Federal Law No. 99-FZ which introduced amendments to the Civil Code of the Russian Federation, including changes to the forms of legal entities, came into force. According to this Law the Company has changed its legal form to a public joint stock company (PJSC). On 24 June 2015, an entry was made to the Uniform State Register of Legal Entities for the official registration of changes to Rostelecom’s legal incorporation documents.

The Group provides communication services (including local, intra-zone, long-distance domestic and international fixed-line telephone services, mobile services), data transmission, Internet, Pay TV, VPN and data centres services, rent of communication channels and radio communication services in the territory of Russian Federation. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying voice and data traffic that originates in its own network and other national and international operators’ networks to other national and international operators for termination.

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

2. Basis of preparation

(a) Statement of compliance

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

(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).

Notes to consolidated financial statements (continued)

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

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.).

Notes to consolidated financial statements (continued)

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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.

Notes to consolidated financial statements (continued)

3. Operating environment of the Group (continued)

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 and methods of computation applied in the preparation of these consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective from 1 January 2015.

(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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

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

Combination of entities under common control

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

Acquisitions of non-controlling interests

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

Subsidiaries

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

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

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

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

Investments in associates (equity accounted investees)

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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(a) Principles of consolidation (continued)

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.

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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(b) Goodwill (continued)

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

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

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

(c) Property, plant and equipment

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

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

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

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

	<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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

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

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

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

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

(d) Leases

Service contracts that do not take the legal form of a lease but convey rights to the Group to use an asset or a group of assets in return for a payment or a series of fixed payments are accounted for as leases. Determining whether an arrangement contains a lease is determined based on the facts and circumstances of each arrangement to determine whether 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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(d) Leases (continued)

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

(e) Investment property

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

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

(f) Intangible assets

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

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

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

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)**(f) Intangible assets (continued)**

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 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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(j) Financial instruments (continued)

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

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

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

(k) Borrowings

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

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(l) Foreign currency transactions (continued)

As at 31 December 2015 and 2014, the rates of exchange used for translating foreign currency balances were (in Russian roubles for one unit of foreign currency):

	<u>2015</u>	<u>2014</u>
US dollar (USD)	72.88	56.26
Special Drawing Rights (SDR)	101.24	81.50
Euro (EUR)	79.70	68.34

Source: the Central Bank of Russia

(m) Cash and cash equivalents

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

(n) Deferred income taxes

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

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

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

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

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

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

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(n) Deferred income taxes (continued)

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

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

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

(o) Revenue and operating costs recognition

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

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

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

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

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

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

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(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.

Notes to consolidated financial statements (continued)

4. Significant accounting policies (continued)

(s) Share-based payments (continued)

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

(t) Dividends

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

(u) Treasury shares

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

(v) Earnings per share

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

(w) Segment information

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

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

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

Notes to consolidated financial statements (continued)

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

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is relevant to the Group, but did not have a material impact on the annual consolidated financial statements of the Group.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

Notes to consolidated financial statements (continued)

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

Annual Improvements 2010-2012 Cycle (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- ▶ An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- ▶ The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- ▶ Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- ▶ This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PJSC Rostelecom is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

Notes to consolidated financial statements (continued)

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

Annual Improvements 2011-2013 Cycle (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

New standards and interpretations that are issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9 (Classification and measurement, Impairment, Hedge accounting). This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

Notes to consolidated financial statements (continued)

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

New standards and interpretations that are issued, but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

The new revenue standard 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.

To recognise revenue, a company would apply the following five steps:

- ▶ Identify the contract(s) with the customer;
- ▶ Identify the performance obligations in the contract;
- ▶ Determine the transaction price;
- ▶ Allocate the transaction price;
- ▶ Recognise revenue when a performance obligation is satisfied.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Group expect a significant impact as a result of applying IFRS 15.

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*.

Notes to consolidated financial statements (continued)

5. New standards, interpretations and amendments adopted by the Group (continued)**New standards and interpretations that are issued, but not yet effective (continued)**

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are capitalised by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities.

Lessees

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessors

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Notes to consolidated financial statements (continued)

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

New standards and interpretations that are issued, but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

Notes to consolidated financial statements (continued)

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

Annual Improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ▶ The materiality requirements in IAS 1
- ▶ That specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- ▶ That entities have flexibility as to the order in which they present the notes to financial statements
- ▶ That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Notes to consolidated financial statements (continued)

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

Annual Improvements 2012-2014 Cycle (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are not expected to have any impact on the Group.

6. Business combinations

2015 transactions

Acquisition of subsidiaries

SafeData Group

On 17 February 2015 the Group acquired a control over LLC Data Storage Centre (DSC) and its subsidiaries (jointly referred to as SafeData Group), Russia's largest provider of commercial data centres, traffic exchange service and content delivery operating under the SafeData brand.

The acquisition will enable the Group to accelerate the development of its national content storage and distribution network. This includes a geographically distributed federal network of data centres, which combines communication channels, traffic exchange points, content delivery systems, as well as network attack and traffic monitoring protection systems.

The deal was contemplated as a single transaction completed in several stages: during the first stage, the Group acquired 5.4% share capital of DSC with nominal value of 10.152 from Brennan Investments Limited in exchange for cash consideration of 104. Following a completion of the second stage, the Group increased its stake up to 50.1% by contributing 1,728.9 of cash into DSC's share capital (the Share capital contribution) out of which 423 was used to purchase controlling stakes in DSC's associates SC Interaction Computer Network Center "MCK-IX" and LLC Advanced Network Technology. Thus, the total cash consideration transferred in a business combination amounted to 527.

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

Subsequent to the acquisition of control over SafeData the residual part of the Share capital contribution that remained within the Group was used to settle DSC's liabilities as well as for other operating purposes of SafeData Group.

The structure of SafeData Group at the acquisition date (immediately after the acquisition) was as follows:

LLC Data Storage Centre held the following interests in:

- ▶ LLC RTK - DC – 100%
- ▶ LLC Center Technology Virtualization – 66.44%
- ▶ LLC Interaction Network Center – 100%, holding interests in the following entities:
 - ▶ SC Interaction Computer Network Center "MCK-IX" – 51%
 - ▶ LLC Advanced Network Technology – 50.1%

The fair value of the identifiable assets and liabilities of SafeData Group as at the date of acquisition were:

	SafeData Group
	<hr/>
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	1,788
Intangible assets	593
Deferred tax assets	12
Other non-current assets	4
Trade and other accounts receivable	218
Cash and cash equivalents	335
Inventories	20
Other current assets	110
Non-current loans and borrowings	(36)
Current loans and borrowings	(111)
Accounts payable, provisions and accrued expenses	(1,581)
Deferred tax liabilities	(242)
Total identifiable net assets at fair value	<hr/> 1,110 <hr/>
Goodwill arising on acquisition	886
Non-controlling interest	<hr/> 1,469 <hr/>
Purchase consideration transferred (paid in cash)	<hr/> 527 <hr/> <hr/>
Net cash acquired with the SafeData Group (included in cash flows from investing activities)	335
Cash paid	(527)
Net cash flow on acquisition	<hr/> (192) <hr/> <hr/>

The goodwill of 886 comprises the value of expected synergies and other benefits from combining the assets and activities of SafeData Group with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

The fair value of the trade and other accounts receivable amounts to 218, which is approximately equal to the gross amounts of corresponding receivables as of the acquisition date. None of the trade and other accounts receivable have been impaired and it is expected that the full contractual amounts can be collected.

The Group has elected to measure the non-controlling interest as a proportionate share in the recognised amounts of the SafeData Group's identifiable net assets. The amount of the non-controlling interest assumes a portion of the cash contribution by the Group to the capital of DSC that remained within the SafeData Group as of the acquisition date after the payment of 423 out of this contribution to obtain controlling interest in the DSC's associates.

From the date of acquisition until 31 December 2015, SafeData Group has contributed 223 to net profit from continuing operations of the Group and 1,359 to revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 14,377 and revenue would have been 297,525. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

Transaction costs of 40 were expensed and are included in other investing and financial loss in the consolidated statement of profit or loss and other comprehensive income, and are part of operating cash flows in the consolidated statement of cash flows.

SC Vostoktelecom

On 6 February 2015 a subsidiary of the Company, OJSC RTComm.RU increased its stake in SC Vostoktelecom from 25% to 100% by purchasing an additional 75% of shares from KDDI Overseas Holdings B.V. and Sojitz Corporation in exchange for cash consideration of 203.

The acquisition has been accounted for using the acquisition method. These consolidated financial statements includes the results of SC Vostoktelecom for the ten months period from the acquisition date.

The remeasurement to the acquisition-date fair value of the Group's previously held 25% interest in CS Vostoktelecom resulted in a loss of 18 which has been recognised in other investing and financial gains in the consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2015.

PJSC Rostelecom

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

The fair value of the identifiable assets and liabilities of SC Vostoktelecom as at the date of acquisition were:

	SC Vostoktelecom
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	162
Intangible assets	35
Deferred tax assets	15
Trade and other accounts receivable	89
Cash and cash equivalents	14
Other current assets	6
Accounts payable, provisions and accrued expenses	(57)
Total identifiable net assets at fair value	264
Goodwill arising on acquisition	6
Acquisition-date fair value of the previously held interest	67
Purchase consideration transferred (paid in cash)	203
Net cash acquired with the subsidiary (included in cash flows from investing activities)	14
Cash paid	(203)
Net cash flow on acquisition	(189)

The goodwill of 6 comprises the value of expected synergies and other benefits from combining the assets and activities of SC Vostoktelecom with those of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2015, SC Vostoktelecom has contributed 17 to decrease of net profit from continuing operations of the Group and 502 to increase of revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 14,367 and revenue would have been 297,449. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

Transaction costs of 1 were expensed and included in other investing and financial loss in the consolidated statement of profit or loss and other comprehensive income, and are part of operating cash flows in the consolidated statement of cash flows.

CJSC Globalstar – Space Telecommunications

In 2013 Arbitration Court of Moscow initiated a bankruptcy administration and established an external management over CJSC Globalstar-Space Telecommunications (hereinafter CJSC Global-Tel) as part of its bankruptcy procedures. As a result the Group has lost control over CJSC Global-Tel from 1 July 2013 and deconsolidated CJSC Global-Tel.

During the bankruptcy procedure over 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.

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

According to the Settlement agreement the obligations of CJSC Global-Tel to the Company were ceased at 27 January 2015 by the 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.

Also on 27 January 2015, the Company purchased two promissory notes for 108 from Loral Space & Communications Inc. with the total principal amount 2,501.2, 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.

On 16 February 2015 the decision of the Arbitration court of Moscow to approve the Settlement agreement went into force that stopped the external management procedure over CJSC Global-Tel. As a result, the Group regained a control over CJSC Global-Tel. These consolidated financial statements includes results of CJSC Global-Tel for ten months period from 1 March 2015.

The amount for which the Company purchased two promissory notes from Loral Space & Communications Inc. is treated as cash consideration paid for acquisition of CJSC Global-Tel since this payment effectively settled the dispute between CJSC Global-Tel and its creditors and resolved the bankruptcy claim.

The fair value of the identifiable assets and liabilities of CJSC Global-Tel as at the date of acquisition were:

	<u>CJSC Global-Tel</u>
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	3
Intangible assets	4
Cash and cash equivalents	60
Inventories	70
Deferred tax liability	(7)
Accounts payable, provisions and accrued expenses	(464)
Total identifiable net assets at fair value	<u>(334)</u>
Goodwill arising on acquisition	442
Purchase consideration transferred (paid in cash)	<u>108</u>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	60
Cash paid	(108)
Net cash flow on acquisition	<u>(48)</u>

The goodwill recognised is attributable primarily to the expected synergies from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2015, CJSC Global-Tel has contributed 40 to net profit from continuing operations of the Group and 163 of revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 14,374 and revenue would have been 297,393. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

Notes to consolidated financial statements (continued)

6. Business combinations (continued)**2015 transactions (continued)***FreshTel Group*

In April 2015 the Company obtained control over FreshTel Group, which includes 100% stakes in LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa, for a cash consideration of 210 from Comenetti Investments Limited. Cash consideration was equally divided and 100% share in each LLC was acquired for 52.5.

FreshTel Group provides services to over 14,000 subscribers in more than 38 Russian towns. It has a large frequency resource to provide wireless internet access in the 3.4GHz and 3.5GHz bands via WiMax technology.

The acquisition has been accounted using the acquisition method. Present consolidated financial statements includes results of LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa for eight months period from 1 May 2015.

The agreements for acquisition of 100 % share in LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa includes the special condition which determines that cash consideration will be paid only after the restructuring of the debt payable to Vnesheconombank, by each of the acquired company. The restructuring of the debt was completed in February 2016 (Note 37).

As a result of acquisition the Group obtained the right to use the favourable terms of credit line to be available from Vnesheconombank. The right to use the favourable terms of credit line is recognised as other current asset in consolidated statement of financial position.

The fair value of the identifiable assets and liabilities acquired in a business combination as at the date of acquisition were:

Fair value of identifiable assets and liabilities of FreshTel Group:

Property, plant and equipment	246
Intangible assets	379
Deferred tax assets	71
Trade and other accounts receivable	34
Cash and cash equivalents	4
Current investments	9
Inventories	31
Other current assets	61
Loans and borrowings	(1,739)
Accounts payable, provisions and accrued expenses	(485)
Deferred tax liabilities	(7)
Total identifiable net assets of FreshTel Group at fair value	(1,396)
Fair value of rights to use the favourable terms of credit line	1,330
Deferred tax liability	(266)
Goodwill arising on acquisition	542
Purchase consideration to be transferred	210
Net cash acquired with the subsidiary (included in cash flows from investing activities)	4
Cash paid	–
Net cash flow on acquisition	4

PJSC Rostelecom

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

The goodwill recognised is attributable primarily to expected synergies from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition until 31 December 2015, LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa has contributed 842 to decrease of net profit from continuing operations of the Group and 31 to increase of revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 13,479 and revenue would have been 297,382. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

IQmen – Business Intelligence

On 1 December 2015 the Group acquired control over IQmen – Business Intelligence, a Russian Big Data platform developer. The Group acquired 75% stake in IQmen – Business Intelligence.

This acquisition is in line with Rostelecom's strategy to enter new digital segments, including the fast-growing Big Data market.

The acquisition has been accounted using the acquisition method. Present consolidated financial statements include results of IQmen – Business Intelligence for one month from 1 December 2015.

Provisional amounts of fair value of the identifiable assets and liabilities of IQmen – Business Intelligence as at the date of acquisition were:

	IQmen – Business Intelligence
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	1
Intangible assets	231
Trade and other accounts receivable	13
Cash and cash equivalents	53
Accounts payable, provisions and accrued expenses	(21)
Total identifiable net assets at fair value	277
Goodwill arising on acquisition	317
Non-controlling interest	69
Purchase consideration transferred (paid in cash)	525
Net cash acquired with the subsidiary (included in cash flows from investing activities)	53
Cash paid	(525)
Net cash flow on acquisition	(472)

The goodwill recognised is attributable primarily to expected synergies from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

PJSC Rostelecom

Notes to consolidated financial statements (continued)

6. Business combinations (continued)

2015 transactions (continued)

StartTelecom

On 18 August 2015 the Group completed an acquisition of telecommunication business of OJSC Start Telecom (“Start Telecom”) in Saransk and Dzershinsk cities. The deal was structured as acquisition of integrated set of telecommunication assets and activities including the respective telecommunication networks and customer lists assignments for a total consideration of 217.

The respective customers of Start Telecom were offered to sign service contracts with the Company by 1 December 2015, whereas the Company agreed to accept all rights and obligations of Start Telecom to the customers accepting the offer. Settlements with the customers that did not accept the offer, as well as between Start Telecom and the Company, were completed by 1 December 2015.

The acquisition has been accounted using the acquisition method.

The following table represents fair values of the acquired assets and liabilities as of the acquisition date:

	<u>StartTelecom</u>
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	112
Intangible assets	105
Cash	8
Accounts payable, provisions and accrued expenses	(8)
Total identifiable net assets at fair value	<u>217</u>
Purchase consideration transferred (paid in cash)	<u>217</u>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8
Cash paid	<u>(217)</u>
Net cash flow on acquisition	<u>(209)</u>

PJSC Rostelecom

Notes to consolidated financial statements (continued)

7. Property, plant and equipment

The net book value of property, plant and equipment as at 31 December 2015 and 2014 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost / deemed cost					
At 1 January 2014*	118,813	497,731	105,060	33,407	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	104,110	544,710	117,423	23,129	789,372
At 1 January 2015	104,110	544,710	117,423	23,129	789,372
Additions	104	4,689	1,920	54,302	61,015
Assets of acquired subsidiaries	328	1,621	199	164	2,312
Reclassification from investment property and assets held for sale	290	–	–	–	290
Reclassification to assets held for sale	(3,499)	(7)	(394)	(42)	(3,942)
Transfer	2,913	37,192	6,541	(46,646)	–
Disposals	(1,356)	(8,182)	(4,024)	(846)	(14,408)
Foreign exchange	1	421	21	45	488
Other changes**	–	–	–	1,060	1,060
Reclassification	(1,815)	2,024	(337)	(4)	(132)
At 31 December 2015	101,076	582,468	121,349	31,162	836,055
Accumulated amortization and impairment losses					
At 1 January 2014*	(65,735)	(274,879)	(78,297)	(1,041)	(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	(58,895)	(312,126)	(88,880)	(1,205)	(461,106)
At 1 January 2015	(58,895)	(312,126)	(88,880)	(1,205)	(461,106)
Depreciation expense	(3,032)	(38,737)	(9,924)	–	(51,693)
Reclassification from investment property and assets held for sale	(163)	–	–	–	(163)
Reclassification to assets held for sale	2,541	6	373	42	2,962
Accruals of impairment losses	(73)	(289)	(50)	(122)	(534)
Disposals	901	7,917	3,995	374	13,187
Foreign exchange	–	(129)	(12)	–	(141)
Reclassification	417	(435)	151	(1)	132
At 31 December 2015	(58,304)	(343,793)	(94,347)	(912)	(497,356)
Net book value					
At 31 December 2014	45,215	232,584	28,543	21,924	328,266
At 31 December 2015	42,772	238,675	27,002	30,250	338,699

* Includes reclassification between groups of Property, Plant and Equipment as at 1 January 2014. There is no net impact on the statement of financial position.

** Includes reclassification of inventories used for construction.

Notes to consolidated financial statements (continued)

7. Property, plant and equipment (continued)

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 10 and 36).

At 31 December 2015 and 2014 cost of fully depreciated property, plant and equipment was 224,238 and 196,082 respectively.

Interest capitalization

Interest amounting to 1,809 and 1,126 was capitalized in property, plant and equipment for the years ended 31 December 2015 and 2014 respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 8.87% and 8.25% for the years ended 31 December 2015 and 2014 respectively.

Pledged property, plant and equipment

Property, plant and equipment with a carrying value of 42 and 427 was pledged under the loan agreements entered into by the Group as at 31 December 2015 and 2014 respectively.

Impairment of property, plant and equipment

As at 31 December 2015 and 2014 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 2014-2013 as a result of reorganization 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.

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 15.26% to 20.79% per CGU;
- ▶ OIBDA margin is based on historical actual results and varies from 8.05% to 65.09% per CGU;
- ▶ for CGU cash flow projections cover the period of five years, cash flows beyond five-year period are extrapolated using growth rate of 2% for each CGU.

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

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

Notes to consolidated financial statements (continued)

7. Property, plant and equipment (continued)**Impairment of property, plant and equipment (continued)****2015 impairment testing**

As a result of impairment testing of property, plant and equipment the Group recognized an impairment loss of 90 related to Sotovaya Svyaz Bashkortostana.

2014 impairment testing

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

8. Goodwill and other intangible assets

The net book value of goodwill and other intangible assets as at 31 December 2015 and 2014 was as follows:

	Goodwill	Number capacity	Trade-marks	Computer software	Customer list	Licences	Other	Total
Cost								
At 1 January 2014	25,368	1,085	773	39,622	15,050	671	5,168	87,737
Additions	–	–	6	5,253	–	368	225	5,852
Intangible assets of acquired subsidiaries	–	–	–	–	6	–	–	6
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
At 1 January 2015	25,206	728	707	40,005	14,976	558	4,453	86,633
Additions	–	–	–	5,494	–	588	951	7,033
Intangible assets of acquired subsidiaries	2,193	–	9	274	681	382	1	3,540
Disposals	–	–	(4)	(749)	(45)	(310)	(6)	(1,114)
Reclassification	–	–	(18)	(40)	(7)	(62)	127	–
Foreign exchange	119	–	–	16	6	14	4	159
At 31 December 2015	27,518	728	694	45,000	15,611	1,170	5,530	96,251
Accumulated amortization and impairment losses								
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)
At 1 January 2015	(3,215)	(23)	(630)	(16,544)	(4,753)	(292)	(2,756)	(28,213)
Amortization expense	–	–	(55)	(5,238)	(1,188)	(479)	(771)	(7,731)
Disposals	–	–	4	694	45	309	6	1,058
Impairment losses	–	–	–	(638)	–	–	–	(638)
Reversal of impairment losses	–	–	–	38	–	–	–	38
Reclassification	–	–	11	(174)	339	44	(220)	–
Foreign exchange	–	–	–	(3)	(1)	(5)	(1)	(10)
At 31 December 2015	(3,215)	(23)	(670)	(21,865)	(5,558)	(423)	(3,742)	(35,496)
Net book value								
At 31 December 2014	21,991	705	77	23,461	10,223	266	1,697	58,420
At 31 December 2015	24,303	705	24	23,135	10,053	747	1,788	60,755

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Notes to consolidated financial statements (continued)

8. Goodwill and other intangible assets (continued)

Interest amounting to 245 and 161 was capitalized in intangible assets for the years ended 31 December 2015 and 2014 respectively.

Amortization expense includes the effect of revising customer list useful life as at 1 October 2015 amounting to 65.

Intangible assets with indefinite useful lives and goodwill

The owned number capacities with a carrying amount of 705 (2014: 706) are intangible assets with indefinite useful lives and are 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.

No research and development expenditure was recognized in 2015 and 2014.

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:

CGU	31 December 2015		31 December 2014	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
MRF Center*	11,696	228	11,696	228
MRF Severo-Zapad*	4,197	12	4,197	12
MRF Volga	1,785	–	1,785	–
Macomnet	646	50	646	50
MRF Dalniy Vostok	973	–	973	–
MRF Ural	637	–	637	–
Globus Telecom	–	359	–	359
GNC Alfa	606	–	487	–
RTComm.RU	606	–	606	–
Severen telecom	432	–	432	–
MRF Sibir	182	–	182	–
SafeData Group	885	–	–	–
Global-Tel	442	–	–	–
FreshTel Group	542	–	–	–
IQ'Men	317	–	–	–
Other	357	56	350	57
Total	24,303	705	21,991	706

Notes to consolidated financial statements (continued)

8. Goodwill and other intangible assets (continued)**Intangible assets with indefinite useful lives and goodwill (continued)**

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 18.96%;
- ▶ OIBDA margin is based on historical actual results and are 36.20% for MRF Center and 37.80% 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.

2015 impairment testing

As at 31 December 2015 no impairment loss in respect of goodwill were recognised.

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.

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

Discount rate and operating income before 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 OIBDA projection is based on historical actual results and growth rate forecasts.

The table below demonstrates the sensitivity analysis for impairment and the effect of a reasonably possible change in key assumptions as at 31 December 2015:

CGU	Decrease of OIBDA margin	Impairment loss	Decrease in OIBDA margin which resulted in equality of recoverable and carrying amount
MTs NTT	5%	(97)	4.46%
Tsentralny Telegraph	5%	(71)	4.64%
Search Website Sputnik	5%	(14)	4.85%
GlobusTelecom	5%	(128)	2.85%

For CGUs listed above no possible change in discount rate would result in impairment.

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Notes to consolidated financial statements (continued)

8. Goodwill and other intangible assets (continued)

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.

2015 impairment testing

As at 31 December 2015 no material impairment loss in respect of other intangible assets was recognised.

2014 impairment testing

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

9. Subsidiaries

These consolidated financial statements include the assets, liabilities and results of operations of the following significant subsidiaries:

Subsidiary	Main activity	Effective share of the Group as at 31 December	
		2015	2014
SC MTs NTT	Communication services	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%
SC 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 Globus-Telecom	Communication services	94.92%	94.92%
CJSC Makomnet	Communication services	51%	51%
LLC Televisionnaya kompaniya Novy Vybor	Radio and TV	100%	100%
SC TKT-stroy	R&D services	100%	100%
LLC Mobitel	Investment company	100%	100%
SC RT Labs	Communication services	100%	100%
CJSC AMT	Investment company	100%	100%
LLC Intmashservis	Repair services	100%	100%
OJSC Mobiltelecom	Communication services	91.75%	91.75%
SC 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%
SC Severen-Telecom	Communication services	100%	100%
CJSC GNC Alfa	Communication services	74.98%	74.98%
PJSC Tsentralny Telegraph	Communication services (telegraph)	80%	80%
OJSC Giprosvyaz	Engineering design	63.36%	60.00%
OJSC Chukotkasvyazinform	Communication services	75.55%	75.55%
PJSC Bashinformsvyaz	Communication services	96.33%	70.95%
LLC Bashtelecomservis	Communication services	96.33%	70.95%
LLC Bashtelecomleasing	Leasing	96.33%	70.95%
LLC Bashlelecominvest	Investment company	96.33%	70.95%
OJSC Sotovaya svyaz Bashkortostana	Communication services (mobile)	96.33%	70.95%
OJSC Ufimsky zavod promsvyaz	Communication equipment manufacturing	96.27%	70.91%
CJSC Rosmedia	Communication services	100%	100%
OJSC MMTS-9	Communication services	88.29%	88.29%
OJSC OK Orbita	Recreational services	100%	100%
CJSC RPK Svyazist	Recreational services	100%	100%

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Notes to consolidated financial statements (continued)

9. Subsidiaries (continued)

Subsidiary	Main activity	Effective share of the Group as at 31 December	
		2015	2014
Rostelecom International Limited	Communication services	100%	100%
LLC Sputnik	IT consulting	74.99%	74.99%
OJSC Svyazintek	IT consulting	100%	100%
SC Restrım (former CJSC Chita-Online)	IT consulting	100%	100%
CJSC Incom	Communication services	100%	100%
LLC Rostelecom Roznichnye sistemy	Retail services	100%	100%
LLC Rostelecom Integraciya	IT consulting	100%	100%
LLC Data Storage Centre	Data storage services	50.1%	–
LLC RTK - DC	Data storage services	50.1%	–
LLC Center Technology Virtualization	Data storage services	33.29%	–
LLC Interaction Network Center	Data storage services	50.1%	–
SC Interaction Computer Network Center “MCK-IX”	Data storage services	25.55%	–
LLC Advanced Network Technology	Data storage services	25.10%	–
SC Vostoktelecom	Communication services	100%	25%
CJSC Globaltel (Note 6)	Communication services	100%	51%
LLC Search Website Sputnik	IT consulting	100%	–
LLC Interproekt	Communication services	100%	–
LLC Orion	Communication services	100%	–
LLC Progress	Communication services	100%	–
LLC Stolitsa	Communication services	100%	–
LLC BUM SP	Investment company	80%	–
LLC BUM TV	Telecommunication services	80%	–
LLC Magalyascom	Communication services	100%	50%
IQmen – Business Intelligence	Data services	75%	–
LLC KommIT Capital	Communication services	100%	100%

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

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

During the year 2015 the Group has completed the buyout of the outstanding ordinary shares from PJSC Bashinformsvyaz’s shareholders. By 31 December 2015 the Company completed the consolidation of 100% Bashinformsvyaz’s ordinary shares. After the buyback the effective share of Group in PJSC Bashinformsvyaz is 96.33%.

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

	SafeData Group	CJSC Makomnet
	As at 31 December 2015	
Current assets	660	564
Current liabilities	(138)	(176)
Total current net assets/(liabilities)	522	388
Non-current assets	2,662	1,402
Non-current liabilities	(274)	(218)
Total non-current net assets	2,388	1,184
Net assets	2,910	1,572
NCI	1,619	770

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Notes to consolidated financial statements (continued)

9. Subsidiaries (continued)

Summarised statements of financial position (continued)

	CJSC Makomnet	Bashinformsvyaz Group
	As at 31 December 2014	
Current assets	491	5,383
Current liabilities	(79)	(2,369)
Total current net assets/(liabilities)	412	3,014
Non-current assets	1,511	9,949
Non-current liabilities	(212)	(3,109)
Total non-current net assets	1,299	6,840
Net assets	1,711	9,854
NCI	837	2,863

Summarised statements of profit or loss and other comprehensive income

	SafeData Group	CJSC Makomnet
	Year ended 31 December 2015	
Revenue	1,640	1,262
Profit before income tax	391	272
Income tax	(71)	(54)
Total comprehensive income	320	218
Total comprehensive income allocated to non-controlling interests	223	107
Dividends paid to non-controlling interests	73	175

	CJSC Makomnet	Bashinformsvyaz Group
	Year ended 31 December 2014	
Revenue	1,361	7,642
Profit before income tax	389	1,127
Income tax	(82)	(346)
Total comprehensive income	307	781
Total comprehensive income allocated to non-controlling interests	151	254
Dividends paid to non-controlling interests	189	71

Summarised cash flows

	CJSC Makomnet	Safedata Group
	For the year ended 31 December 2015	
Cash generated from operations	527	307
Interest paid	–	–
Income tax paid	(74)	(93)
Net cash generated from operating activities	453	214
Net cash used in investing activities	(103)	(137)
Net cash used in financing activities	(310)	(101)
Net increase/(decrease) in cash and cash equivalents	40	(24)
Cash and cash equivalents at beginning of year	69	335
Exchange gains/(losses) on cash and cash equivalents	–	15
Cash and cash equivalents at end of year	109	326

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Notes to consolidated financial statements (continued)

10. Investments in associates and joint ventures

Investments in associates and joint ventures as at 31 December 2015 and 2014 were as follows:

Name	Main activity	Type	Voting share capital as at 31 December 2015, %	Voting share capital as at 31 December 2014, %	2015 Carrying amount	2014 Carrying amount
LLC T2 RTK Holding	Communication services	JV	45	45	69,320	72,848
SC Tsifrovoe televidenie	TV services	JV	41.29	25.33	3,380	1,319
OJSC KGTS	Communication services	Associate	37.29	37.29	364	342
SC Samara Telecom	Communication services	Associate	–	27.78	–	158
SC WestBalt Telecom	Communication services	Associate	–	38	–	140
SC Vostoktelecom (Note 6)	Communication services	Associate	–	25	–	88
LLC IKC Express	Communication services	Associate	37.9	37.9	77	80
Other	Various		Various	Various	1,333	73
Total investments in associates and joint ventures					74,474	75,048

In November 2015 the Group acquired additional issue of JV SC Tsifrovoe televidenie shares for the cash amount of 2,000. As a result of the deal the Group share in SC Tsifrovoe Televidenie increased from 25.33% to 41.29%. The determination of fair values of identifiable assets and liabilities of SC Tsifrovoe Televidenie has not been completed as of 31 December 2015.

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

In 2015 the Group received dividends from its investments in equity accounted investees and joint ventures in the amount of 5 (2014: 11).

All associated companies and joint ventures are incorporated in Russia.

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

Summarized financial information as at 31 December 2015 and 2014 and for the years then ended of associates and joint ventures is presented below:

Aggregate amounts	2015	2014
Assets	215,950	199,467
Liabilities	153,108	128,726
Revenue	99,683	73,388
Net income	(7,805)	(669)

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Notes to consolidated financial statements (continued)

10. Investments in associates and joint ventures (continued)

Summarized financial information for substantial associates and joint ventures as at 31 December 2015 and 2014 and for the years then ended is presented below:

Associate/JV	Year	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net income/ (loss)
OJSC KGTS	2015	947	181	60	91	736	72
	2014	842	206	43	88	751	97
LLC IKC Express	2015	9	218	–	24	117	(9)
	2014	12	217	–	18	55	(4)
T2 RTK Holding LLC	2015	194,923	12,287	83,043	65,043	94,812	(7,840)
	2014*	175,515	15,959	76,623	47,887	71,529	(848)
OJSC Tsifrovoe televidenie	2015	2,118	3,235	20	2,554	3,296	248
	2014	1,931	1,090	10	1,723	–	–
CJSC Samara Telecom	2015	–	–	–	–	104	(13)
	2014	278	362	23	51	165	12
OJSC WestBalt Telecom	2015	–	–	–	–	130	11
	2014	125	280	–	38	142	8
SC Vostoktelecom	2015	–	–	–	–	–	–
	2014	285	124	5	55	502	30

* Revenue and net loss of T2 RTK Holding LLC are presented for the period from 1 April to 31 December 2014.

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

Summarised financial information	LLC T2 RTK Holding	SC Tsifrovoe televidenie	OJSC KGTS	LLC IKC Express
Net assets at 31 December 2015	59,124	2,779	977	203
Interest in associates and joint ventures, %	45.00	41.29	37.29	37.9
Goodwill	42,714	2,611	–	–
Increase in ownership in existing JV effect	–	(378)	–	–
Carrying value at 31 December 2015	69,320	3,380	364	77

Fair value of net assets and notinal goodwill of SC Tsifrovoe televidenie is presented in the table above based on the provisional amounts.

Investment in T2 RTK Holding LLC

	2015	2014
At 1 January	72,848	–
Acquisition	–	73,339
Share of loss	(3,528)	(491)
At 31 December	69,320	72,848

Investment in T2 RTK Holding LLC was recognised as a result of the deal with the mobile operator Tele 2 Russia (Note 36). There is no quoted market price available for its shares.

The carrying value of the investment at the acquisition date in 2014 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.

Summarised financial information for T2 RTK Holding LLC

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

Notes to consolidated financial statements (continued)

10. Investments in associates and joint ventures (continued)

Summarised statement of financial position

	31 December 2015	31 December 2014
Current		
Cash and cash equivalents	735	3,637
Other current assets (excluding cash)	11,552	12,322
Total current assets	12,287	15,959
Financial liabilities (excluding trade payables)	38,282	18,700
Other current liabilities (including trade payables)	26,761	29,187
Total current liabilities	65,043	47,887
Non-current Assets	194,923	175,515
Financial liabilities	75,488	53,140
Other liabilities	7,555	23,483
Total non-current liabilities	83,043	76,623
Net assets	59,124	66,964

Summarised statement of profit or loss and other comprehensive income

	2015	1 April – 31 December 2014
Revenue	94,812	71,529
Depreciation and amortisation	(21,042)	(13,046)
Interest income	147	188
Interest expense	(11,595)	(5,612)
Pre-tax profit or loss from continuing operations	(9,076)	(278)
Income tax expense	1,609	(570)
Post-tax profit from continuing operations	(7,467)	(848)
Other changes in net assets	(74)	–
Total changes in net assets	(7,541)	(848)

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

Summarised financial information	2015	2014
Opening net assets	66,964	67,812
Profit/(loss) for the period	(7,766)	(848)
Other changes in net assets	(74)	–
Closing net assets	59,124	66,964
Interest 45%	26,606	30,134
Goodwill	42,714	42,714
Carrying value	69,320	72,848

Certain amounts shown in the disclosures of information related to the Company's investment in T2 RTK Holding for the year 2014 do not correspond to the respective disclosures in the 2014 financial statements and reflect adjustments made to correct presentation of notional goodwill arising from the acquisition of share in T2 RTK Holding in 2014 as well as presentation of the share in T2 RTK Holding net assets.

Notes to consolidated financial statements (continued)

11. Other financial assets

	31 December 2015	31 December 2014
Non-current financial assets		
Available-for-sale financial assets	97	84
Financial assets at fair value through profit or loss	5	3
Loans and receivables	519	23
Total other non-current financial assets	621	110
Current financial assets		
Loans and receivables	5,719	1,934
Total other current financial assets	5,719	1,934
Total other financial assets	6,340	2,044

The Group's exposure to credit, currency and interest rate risks and fair value information related to other financial assets is disclosed in Note 33.

12. Other non-current assets

	31 December 2015	31 December 2014
Non-current advances for investing activities	2,409	4,410
Non-current advances for operating activities	1,236	630
Non-current receivables	4,847	4,355
Other assets	7	–
Less: doubtful debt allowance	(258)	(121)
Total other non-current assets	8,241	9,274

13. Inventories

	31 December 2015	31 December 2014
Cable	501	922
Finished goods and goods for resale	2,156	1,646
Spare parts	363	757
Tools and accessories	116	136
Construction materials	70	75
Fuel	110	125
Other inventory	744	1,166
Total inventories	4,060	4,827

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Notes to consolidated financial statements (continued)

14. Trade and other accounts receivable

Trade and other accounts receivable as at 31 December 2015 and 2014 comprised of the following:

	Gross, 31 December 2015	Doubtful debt allowance	Net, 31 December 2015
Amounts due from customers for operating activities	39,066	(5,044)	34,022
Amounts due from customers for non-operating activities	8,420	(1,458)	6,962
Amounts due from commissioners and agents	1,000	–	1,000
Amounts due from personnel	145	–	145
Amounts due from lessees for financial lease	378	–	378
Amounts due from other debtors	1,154	(509)	645
Total trade and other accounts receivable	50,163	(7,011)	43,152
	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

As at 31 December 2015 and 2014 settlements with customers for operating activities included settlements with the following counterparties:

	31 December 2015	31 December 2014
Residential customers	13,833	12,434
Corporate customers	6,274	5,654
Governmental customers (Note 34)	11,306	12,349
Interconnected operators – domestic	5,542	7,039
Interconnected operators – international	2,111	2,860
Less: doubtful debt allowance	(5,044)	(5,114)
Total accounts receivable due from customers for operating activities	34,022	35,222

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

The following table summarizes the changes in the allowance for doubtful accounts receivable, advances and other assets for the years ended 31 December 2015 and 2014:

	2015	2014
Balance, beginning of year	(8,055)	(7,049)
Bad debt expense	(882)	(2,182)
Accounts receivable written-off	1,577	1,176
Balance, end of year	(7,360)	(8,055)

Notes to consolidated financial statements (continued)

14. Trade and other accounts receivable (continued)

As at 31 December 2015 and 2014 amounts due from other debtors include short-term portion of finance lease receivables of 378 and 666 respectively. Long-term portion of finance lease receivables of 2,258 and 2,517 as at 31 December 2015 and 2014 respectively is included into non-current receivables (refer Note 12).

The finance lease receivables is included the transfer to companies of the group T2 RTK Holding terrestrial optical fiber cables under finance lease in April 2014. The lease agreement is non-cancellable for the period from 5 years till 18 years, which differs in each macroregional branches. Leasing period equals approximately the remaining useful life of the optical fibers. Effective interest rate of the lease is 13% p.a. Lease payments are denominated in Roubles.

Finance income for the years ended 31 December 2015 and 2014 amounted to 405 and 320 respectively, and is included in other investing and financial gain in these consolidated statements of comprehensive income (Note 29).

Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2015 and 2014 are as follows:

	31 December 2015	
	Gross investments in lease	Present value of minimum lease payments
Current portion (less than 1 year)	650	377
More than 1 to 5 years	2,460	1,524
Over 5 years	1,136	734
Total	4,246	2,635

	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

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2015 and 2014 included cash in banks, cash in-hand, short-term deposits and bills of exchange with original maturities of less than three months as follows:

	31 December 2015	31 December 2014
Cash in bank and in-hand	3,259	16,472
Short-term deposits and promissory notes up to 3 months	3,758	353
Other cash and cash equivalents	148	120
Total cash and cash equivalents	7,165	16,945

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Notes to consolidated financial statements (continued)

16. Other current assets

	31 December 2015	31 December 2014
Input VAT	1,089	976
Other current assets	1,548	30
Less: doubtful debt allowance	(37)	(18)
Total other current assets	2,600	988

As of 31 December 2015 other current assets includes fair value of rights to use favourable terms of credit line of FreshTel Group in the amount of 1,495. Total result of revaluation from the date of acquisition is 165. The gain in the amount of 73 is recorded as Foreign exchange and gain in the amount of 92 is recorded as the Other investing and financial gains.

17. Equity

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of hyperinflation from that date through 31 December 2002. The share capital of the Company in the Russian statutory accounts at 31 December 2015 amounted to 6,961,200 nominal (uninflated) RUB (2014: 7,280,089).

The authorized share capital of the Company as at 31 December 2015 comprised 5,188,850,705 ordinary shares and 209,565,678 non-redeemable preferred shares (2014: 5,283,140,052 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.

In accordance with the decision of the Annual General Meeting of Shareholders in October 2015 the Group redeemed 94,289,347 ordinary shares and 33,266,322 preferred shares. As a result of redemption of shares the Group's authorized capital at par value has decreased to 6.961.

As at 31 December 2015 the issued share capital of the Company was as follows:

Type of shares	Number of shares issued	Total par value	Carrying value
Ordinary shares, RUB 0.0025 par value	2,574,914,954	6.437	69
Preferred shares, RUB 0.0025 par value	209,565,147	0.524	24
Total	2,784,480,101	6.961	93

As at 31 December 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

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.

Notes to consolidated financial statements (continued)

17. Equity (continued)

Owners of preferred shares have the right to participate in and vote on all issues within the competence of shareholders' general meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

In case of liquidation, the residual assets remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Accordingly, the preferred shares of the Company are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 32).

Treasury shares

As at 31 December 2015 and 2014 total number of treasury shares held by the Group was as follows:

Type of shares	31 December 2015	31 December 2014
Ordinary shares	485,386,400	554,322,609
Preferred shares	64,529,500	97,771,701
Total	549,915,900	652,094,310

In 2015 total number of ordinary shares realized as an exercise of the options under the management motivation program constituted 6,818,718 shares.

During 2015, 2014 the Group purchased 32,171,856 and 95,115,353 ordinary shares, for 2,865 and 12,301 respectively. During 2014 the Group sold 6,549,901 ordinary treasury shares for 787.

Dividends

According to the charter of the Company a preferred share carries dividend amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by 25% of total number of shares and the dividend paid on one ordinary share.

On 4 December 2015 the Board of Directors approved a new dividend policy of the Company according to which the Company pays dividends as a percentage of Free Cash Flow (hereinafter FCF, net cash from operating activities, reduced by the cash paid for acquisition of fixed assets and intangible assets, and increased by the proceeds from the sale of fixed assets and intangible assets). The payable dividend amount shall not be less than the level recommended by Rosimuschestvo for companies with state ownership interest.

In June 2015 the General Meeting of Shareholders approved the dividends for the year ended 31 December 2014 in the amount of 3.34108 roubles per ordinary share (2013: 3.11596 roubles per ordinary share) and 4.05003 roubles per preference share (2013: 4.84856 roubles per preference share).

Category of shares	Number of shares	Dividends per share, roubles	Total sum of dividends, mln. roubles
Declared and approved for 2014			
Preference shares	209,561,268	4.05003	849
Ordinary shares	2,574,884,900	3.34108	8,603
Total	2,784,446,168		9,452

Notes to consolidated financial statements (continued)

17. Equity (continued)**Dividends (continued)**

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.

18. Borrowings

Borrowings as at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
Long-term borrowings		
<i>Non-current portion of long-term borrowings</i>		
Bank and corporate loans	100,888	112,697
Bonds	25,448	25,000
Promissory notes	9	10
Vendor financing	40	46
Finance lease liabilities	235	104
Interest payable	–	14
Restructured customer payments	–	1
Total non-current portion of long-term borrowings	126,620	137,872
<i>Current portion of long-term borrowings</i>		
Bank and corporate loans	35,141	25,721
Bonds	10,000	12,560
Vendor financing	12	9
Finance lease liabilities	216	71
Restructured customer payments	91	91
Total current portion of long-term borrowings	45,460	38,452
Total long-term borrowings	172,080	176,324
Short-term borrowings		
Bank and corporate loans	12,833	12,439
Finance lease liabilities	12	–
Interest payable	1,629	1,251
Total short-term borrowings	14,474	13,690
Current portion of long-term borrowings	45,460	38,452
Total current borrowings	59,934	52,142
Total borrowings	186,554	190,014

Notes to consolidated financial statements (continued)

18. Borrowings (continued)

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

	31 December 2015		
	Fair value	Book value	Difference
Traded bonds	29,908	30,448	(540)
Bank loans	86,856	92,721	(5,865)
Total	116,764	123,169	(6,405)

The fair value of the Group's quoted Ruble bonds was determined based on Moscow Exchange quotes. The fair value of the Group's non-quoted bank loans was determined based on Central Bank's interest rate statistics. The market value of the Group's bank loans and non-traded bonds was determined based on the Central Bank rates.

19. Accounts payable, provisions and accrued expenses

Accounts payable, provisions and accrued expenses consisted of the following as at 31 December 2015 and 2014:

	31 December 2015	31 December 2014
Payables for purchases and construction of property, plant and equipment	21,049	16,936
Payable to personnel	11,637	10,716
Payable for operating activities	11,985	9,513
Other taxes payable	7,251	7,618
Payable to interconnected operators	2,515	2,813
Payable for purchases of software	2,696	2,449
Dividends payable	238	248
Current provisions	215	127
Other accounts payable	4,682	11,833
Current accounts payable, provisions and accrued expenses	62,268	62,253
Financial liabilities at fair value through profit and loss		
Non-current payables	3,544	50
Non-current provisions	1	110
Non-current accounts payable, provisions and accrued expenses	3,545	160
Total accounts payable, provisions and accrued expenses	65,813	62,413

20. Other non-current and current liabilities

Other non-current liabilities consisted of the following as at 31 December 2015, 2014:

	31 December 2015	31 December 2014
Advances received	3,452	2,094
Government grants	1,172	1,174
Deferred revenue	919	1,692
Total other non-current liabilities	5,543	4,960

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Notes to consolidated financial statements (continued)

20. Other non-current and current liabilities (continued)

Other current liabilities consisted of the following as at 31 December 2015 and 2014:

	31 December 2015	31 December 2014
Advances received from operating activities	6,602	7,047
Deferred revenue	667	1,050
Advances received from non-operating activities	448	380
Advances received from various debtors	379	216
Advances received for disposed PPE	170	64
Advances received for disposal of other assets	6	3
Total other current liabilities	8,272	8,760

21. 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 2015 the Group expensed 45 (2014: 14) 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 2015, the Group employed 133,831 participants of defined benefit plan (2014: 151,725) and supported 38,352 pensioners eligible for post-employment benefit (2014: 37,493).

As at 31 December 2015 and 2014 net defined benefit plan liability comprised the following:

	2015	2014
Present value of obligations on defined benefit plans	5,028	5,975
Fair value of plan assets	(7)	(10)
Present value of unfunded obligations	5,021	5,965

Net expenses/gains for the defined benefit plan recognized in 2015 and 2014 were as follows:

	2015	2014
Current service cost	256	446
Interest cost	751	783
Expected return on plan assets	(1)	(1)
Past service cost	(1,448)	–
Curtailement effect	–	(169)
Net (income)/expense for the defined benefit plan	(442)	1,059

Notes to consolidated financial statements (continued)

21. Employee benefits (continued)

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

Net income/expense for the defined benefit plan, excluding interest cost and return on plan assets, is included in the consolidated statement of comprehensive income in the line “Wages, salaries, other benefits and payroll taxes”. Return on plan assets and interest cost are recognized respectively in “Other investing and finance gain” and “Finance costs” line items of these consolidated statements of comprehensive income.

Curtailment effect occurred due to reduction of staff eligible for benefits under the plan in 2014.

The following table summarizes movements in the present value of defined benefit obligations for the above plan in 2015 and 2014:

	2015	2014
Present value of defined benefit obligations as at 1 January	5,975	9,783
Curtailment of liabilities	–	(169)
Interest cost	751	783
Current service cost	256	446
Past service cost	(1,448)	–
Benefits paid	(916)	(1,079)
Remeasurement gains/(losses) in OCI:	410	(3,789)
actuarial gains and losses arising from changes in demographic assumptions	290	(290)
actuarial gains and losses arising from changes in financial assumptions	701	(2,405)
Experience adjustments	(581)	(1,094)
Present value of defined benefit obligations as at 31 December	5,028	5,975

The following table summarizes movements in the fair value of defined benefit plan assets in 2015 and 2014:

	2015	2014
Fair value of plan assets as at 1 January	10	9
Expected return on plan assets	1	1
Actuarial losses	(2)	–
Benefits paid	(916)	(1,082)
Contributions by the employer	914	1,082
Fair value of plan assets as at 31 December	7	10

As at 31 December 2015 and 2014 the principal actuarial assumptions used in determining the amounts for the defined benefit plan were as follows:

	2015	2014
Discount rate	10.00%	13.00%
Future salary increases	8.12%	8.10%
Annuity rate	4.00%	4.00%
Increase in financial support benefits	6.00%	7.00%
Staff turnover	5% for aged 50 and below; 0% for aged above 50	Probability distribution depends on age and gender
Mortality tables (source of information)	1985/86	2010 with 40% adjustment

Notes to consolidated financial statements (continued)

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

The sensitivity analyses below are based on a change in a significant assumption, keeping all other assumptions constant.

DBO sensitivity analyses	Change, %
Discount rate 9%	5%
Real wages growth 3%	0%
Inflation 7%	2%
Mortality 10% less	3%
Disability 10% less	0%
Employee turnover 10% for all ages below 50	(3%)

The Group expects to contribute 864 to its non-state pension funds in 2016 in respect of defined benefit plans.

The following net pension liabilities were in consolidated statements of financial position in 2015 and 2014:

	2015	2014
Net defined benefit obligations as at 1 January	5,965	9,774
Total defined benefit plan expenses, net	(442)	1,062
Contributions by the employer	(914)	(1,082)
Remeasurement of pension liabilities	412	(3,789)
Net defined benefit obligations as at 31 December	5,021	5,965

Remeasurement of pension liabilities consists of:

	2015	2014
Actuarial (gains)/losses on liabilities	410	(3,789)
Actuarial losses on assets	2	–
Remeasurement of pension liabilities	412	(3,789)

22. Income taxes

The components of income tax expense for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
Current income tax expense from continuing operations	(4,014)	(4,787)
Income tax for the year	(4,094)	(4,756)
Adjustments of the current income tax for previous years	80	(31)
Current income tax for the year from discontinued operations	–	(578)
Total current income tax for the year	(4,014)	(5,365)
Deferred tax expense from continuing operations	1,578	(2,424)
Origination and reversal of temporary differences	1,582	(904)
Changes in unused tax losses	(4)	(1,520)
Deferred income tax for the year from discontinued operations	–	(2,158)
Total deferred income tax	1,578	(4,582)
Total income tax expense for the year from continuing operations	(2,436)	(7,211)

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Notes to consolidated financial statements (continued)

22. Income taxes (continued)

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

	2015	2014
Profit before tax	16,827	20,393
Statutory income tax rate (20%)	20%	20%
Theoretical tax charge at statutory income tax rate	(3,365)	(4,079)
Adjustments of the current income tax for previous years	80	(31)
Non-deductible expenses and non-taxable income	1,326	(1,981)
Tax on intragroup dividend income	(204)	(123)
Changes in unrecognized deferred tax assets	(273)	37
Effect of dividends tax rate change	–	(1,034)
Total actual income tax for the year from continuing operations	(2,436)	(7,211)
Effective tax rate, %	14.48%	35.36%

Effect of dividends tax rate change relates to the Group's investments in associates and joint ventures as at 31 December 2014.

Non-deductible expenses and non-taxable income comprised the following amounts for the year ended 31 December 2015 and 2014:

	2015	2014
Effect of other employee benefits	(172)	(288)
Effect of business combination achieved in several stages	–	(163)
Accrual of impairment loss	(18)	(260)
Non-hedge derivatives	(476)	(1,050)
Recalculation of deferred tax from joint venture	2,293	–
Effect of 13% dividend tax rate applied to investments in associates and JVs	(251)	(36)
Other	(50)	(184)
Total non-deductible expenses and non-taxable income	1,326	(1,981)

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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Notes to consolidated financial statements (continued)

22. Income taxes (continued)

The components of net deferred tax assets and liabilities as at 31 December 2015 and 2014, and the respective movements during 2015 and 2014 were as follows:

	Balance as at 1 January 2015	Movement during 2015 recognized in				Reclassifi- cation to assets held for sale of mobile	Balance as at 31 December 2015
		Acquisition through business combina- tions	Equity	Other compre- hensive income	Profit/(loss) for the year		
Tax effects of future tax deductible items							
Property, plant and equipment	137	16	–	–	(22)	–	131
Intangible assets	9	–	–	–	26	–	35
Unused tax losses	17	1	–	–	(4)	–	14
Trade and other accounts receivable	60	–	–	–	(7)	–	53
Inventories	289	–	–	–	219	–	508
Investments in associates and JVs	567	–	–	–	(566)	–	1
Employee benefits	1,176	–	–	82	(270)	–	988
Accounts payable, provisions and accrued expenses	4,000	–	–	–	121	–	4,121
Other	455	82	–	–	(352)	–	185
Gross deferred tax asset	6,710	99	–	82	(855)	–	6,036
Tax effects of future taxable items:							
Property, plant and equipment	(29,071)	(122)	–	–	(1,725)	–	(30,918)
Intangible assets	(3,082)	(98)	–	–	379	–	(2,801)
Investments in associates and JVs	(3,761)	–	–	–	3,564	–	(197)
Accounts payable, provisions and accrued expenses	(23)	–	–	–	21	–	(2)
Trade and other accounts receivable	(1,169)	–	–	–	(6)	–	(1,175)
Inventories	(7)	–	–	–	7	–	–
Loans and borrowings	(258)	(7)	–	–	138	–	(127)
Other	(186)	(296)	–	–	55	–	(427)
Gross deferred tax liability	(37,557)	(523)	–	–	2,433	–	(35,647)
Net deferred tax liability	(30,847)	(424)	–	82	1,578	–	(29,611)

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Notes to consolidated financial statements (continued)

22. Income taxes (continued)

	Movement during 2014 recognized in						Balance as at 31 December 2014
	Balance as at 1 January 2014	Acquisition through business combinations	Equity	Other comprehensive income	Profit/(loss) for the year	Reclassification to assets held for sale of mobile	
Tax effects of future tax deductible items							
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 in associates and JVs	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
Tax effects of future taxable items:							
Property, plant and equipment	(30,186)	5	–	–	(18)	1,128	(29,071)
Intangible assets	(3,086)	45	–	–	(52)	11	(3,082)
Investments in associates and JVs	(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)

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 2015 and 2014 amounted to 6,501 and 5,298 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 2015 and 2014 amounted to 8,337 and 6,205 respectively.

Deductible temporary differences for which no deferred tax assets were recognized in the accompanying consolidated statements of financial position as at 31 December 2015 and 2014 amounted to 653 and 2,019, respectively, of which unused tax losses with expiry date from 2015 to 2022 amounted to 27 and 156 for 2015 and 2014, respectively.

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Notes to consolidated financial statements (continued)

22. Income taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

The consolidated statement of comprehensive income for 2015 and 2014 includes tax expense in respect of following items of other comprehensive income:

	2015	2014
Actuarial gains and losses (Note 20)	82	(758)

23. Revenue

Revenue comprised the following for the years ended 31 December 2015 and 2014:

	2015	2014
Fixed Telephony	99,105	109,710
Broadband Internet	63,880	60,364
TV services	19,368	15,250
Wholesale Services	79,021	77,895
VAS & Clouds	13,468	11,384
Other telecommunication services*	14,499	16,554
Other non-telecommunication services	8,014	7,780
Total revenue	297,355	298,937

* Revenue from other telecommunication services includes sales of customer-premises equipment 4,164 and 5,110 for the year ended 31 December 2015 and 31 December 2014 respectively.

In 2015 and 2014 the Group generated revenue by the following major customer groups:

Customer Groups	2015	2014
Residential customers	134,482	136,345
Corporate customers	54,598	55,696
Governmental customers (Note 34)	50,940	48,804
Interconnected operators	57,335	58,092
Total	297,355	298,937

24. Wages, salaries, other benefits and payroll taxes

	2015	2014
Salary expenses	67,587	65,862
Share-based remuneration	1,437	1,682
Social taxes	19,042	17,869
(Income) loss from pension plans	(1,148)	274
Other personnel costs	4,163	4,242
Total wages, salaries, other benefits and payroll taxes	91,081	89,929

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Notes to consolidated financial statements (continued)

25. Materials, utilities, repairs and maintenance

	2015	2014
Utilities	10,645	10,129
Repairs and maintenance	8,198	9,720
Materials	6,282	5,979
Total materials, utilities, repairs and maintenance	25,125	25,828

26. Other operating income

	2015	2014
Reimbursement of losses incurred from universal services fund	13,313	11,148
Fines and penalties	348	343
Reimbursement of other losses incurred	133	234
Gain on disposals of other assets	9	13
Other income	827	1,212
Total other operating income	14,630	12,950

27. Other operating expenses

	2015	2014
Rent	6,610	5,289
Agency fees	6,104	5,147
Taxes, other than income tax	5,560	6,107
E-Government contract expenses	4,893	3,619
Advertising expenses	3,860	4,850
Fire and other security services	3,103	3,169
Cost of sales of customer-premises equipment	2,750	4,665
Contributions to universal service fund	2,656	2,674
Transportation and postal services	2,028	2,015
Support and maintenance of software and databases	1,797	1,929
Billing expenses	1,517	1,723
Third party services and expenses related to administration	1,314	1,704
Member fees, charity contribution, payments to labour units	854	791
Audit and consulting fees	585	623
Fines and penalties	175	118
Asset insurance	135	129
Other	4,079	3,001
Total other operating expenses	48,020	47,553

28. Finance costs

	2015	2014
Interest expense of defined benefit plans	751	783
Interest expense on bank and corporate loans, bonds, promissory notes and vendor financing	15,379	14,674
Interest expense on finance lease liabilities	104	23
Borrowing servicing expense	77	39
Total finance costs	16,311	15,519

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Notes to consolidated financial statements (continued)

29. Other investing and financial loss, net

	<u>2015</u>	<u>2014</u>
Interest income from finance assets	2,153	1,271
Dividend income	7	12
Income/(expenses) related to subsidiaries' acquisition	(110)	24
Gain on disposal of subsidiaries	–	513
(Loss)/gain on disposal of other financial assets	125	(55)
Loss on change of fair value of financial assets/liabilities through profit and loss	(2,445)	(5,496)
Impairment of financial assets	(304)	(316)
Other gains/(losses)	140	254
Total other investing and financial loss, net	<u>(434)</u>	<u>(3,793)</u>

Gain on disposal of subsidiaries for 2014 includes gain from disposal of media companies in SC Tsifrovoe televidenie (refer to the Note 10) in amount of 212 and deconsolidation of other subsidiaries in amount of 298.

30. Segment information

From 1 January 2015 Rostelecom Management Board which is the chief operating decision maker ("CODM") started to analyse operating results of PJSC Rostelecom by macroregional branches on consolidated basis together with subsidiaries allocated to the branches. Consequently, the Group has determined its macroregional branches with subsidiaries as operating segments.

Starting 2015 the Group has ten 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.

Comparative segment information is restated in these consolidated financial statements to conform the current year.

Management of the Group assesses the performance of the operating segments based on the IFRS data on consolidated basis. A measure of segment profit or loss reported to the management of the company is operating income before depreciation, amortization and long-term employee motivation program expenses (OIBDA).

Total assets are not allocated to operating segments and are not analysed by the CODM.

The tables below illustrate financial information of reportable segment reviewed by management for the year ended 31 December 2015 and 2014.

The following table illustrates information about reportable segment revenue and OIBDA for the year ended 31 December 2015:

<u>2015</u>	<u>Corp. Center</u>	<u>North-West</u>	<u>Center</u>	<u>South</u>	<u>Volga</u>	<u>Ural</u>	<u>Sibir</u>	<u>Far East</u>	<u>Moscow</u>	<u>Other operations and reconciliation</u>	<u>Total segments</u>
Revenue											
Third party revenue	33,702	36,369	34,041	28,746	41,265	31,036	32,266	21,003	38,658	269	297,355
Inter-segment revenue	13,521	423	76	278	2,412	184	230	392	689	60	18,265
OIBDA	<u>(14,740)</u>	<u>17,387</u>	<u>13,618</u>	<u>12,528</u>	<u>17,255</u>	<u>12,685</u>	<u>14,680</u>	<u>9,051</u>	<u>18,343</u>	<u>32</u>	<u>100,839</u>

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30. Segment information (continued)

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the year ended 31 December 2015:

OIBDA of reportable segments	100,807
OIBDA of other segments	32
<i>Adjustments</i>	
Depreciation, amortization and impairment losses	(60,599)
Share of profit (loss) in equity accounted investees	(3,583)
Finance costs and other investing and financial gain	(16,745)
Foreign exchange loss, net	(1,431)
Share-based remuneration	(1,653)
Other adjustments	(1)
Profit before income tax	16,827

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

2014	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Moscow	Other operations and reconciliation	Total segments
Revenue											
Third party revenue	32,106	37,155	35,301	30,152	41,101	33,106	32,199	21,682	35,879	256	298,937
Inter-segment revenue	7,412	560	231	409	2,090	930	600	280	1,434	-	13,946
OIBDA	(11,943)	17,576	15,473	12,743	18,247	12,773	13,274	8,282	16,078	(36)	102,467

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

OIBDA of reportable segments	102,503
OIBDA of other segments	(36)
<i>Adjustments</i>	
Depreciation, amortization and impairment losses	(60,623)
Share of profit (loss) in equity accounted investees	(517)
Finance costs and other investing and financial gain	(19,312)
Foreign exchange loss, net	228
Share-based remuneration	(1,850)
Profit before income tax	20,393

31. Share-based payments

Share-based program started in 2014 (ordinary shares)

In March 2014 the Board of Directors approved the employee motivation program. The program established a plan under which the participants were granted a right to purchase at a fixed price ordinary shares of the Company using proceeds from the annual bonus, which is paid depending on achievement of the KPI's, based on Free Cash Flow (FCF), net profit and Return on Invested Capital (ROIC).

Notes to consolidated financial statements (continued)

31. Share-based payments (continued)**Share-based program started in 2014 (ordinary shares) (continued)**

The duration of the program is three years, starting from 2014. About 200 individuals are expected to take part in the program – senior and middle managers, including directors of regional branches.

The total Target package for 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 of KPI's. In the event of a significant non-compliance with the KPI's in a particular year, the participants lose the right to receive remuneration under the program for that year.

The rights to purchase shares were granted to participants in 2014 and have gradual vesting for the tranches as follows: 30% tranche is vesting by the end of 2014, the second 30% tranche is vesting by the end of 2015, the third 40% tranche is vesting by the end of 2016. For participants who take part in the program in 2015 gradual vesting for the tranches will be as follows: 40% tranche is vesting by the end of 2015 and 60% by the end of 2016. The Target package is subject to periodic adjustment to reflect achieved level of KPI's in each year and to account for the anticipated changes of the KPI's performance for the remaining years of the program.

Vested and exercised rights under each tranche will be paid to the participant of the program in two stages: 50% within a two months period following the announcement of the particular year's KPI's and 50% within the 12 months thereafter.

To facilitate the program, the Company established a closed unit shares investment fund (RTK-Razvitie) managed by a fund operator VTB-Capital AM.

Total amounts of 1,653 and 1,850 (including related social and personal income taxes gross-up) related to the motivation program were recognized as an expense in wages, salaries, other benefits and payroll taxes in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 and 31 December 2014 respectively.

The following table reconciles the share options on ordinary shares outstanding at the beginning and end of the year:

	2015		2014	
	Number of options	Weighted average exercise price, RUB	Number of options	Weighted average exercise price, RUB
Balance at beginning of year	33,018,960	90.89	–	–
Granted during the period	4,607,936	90.05	33,018,960	90.89
Forfeited during the period	(752,109)	87.01	–	–
Exercised during the year	(6,818,718)	87.11	–	–
Balance at end of year	30,056,068	87.42	33,018,960	90.89

During the year ended 31 December 2015 the program participants exercised their rights for 6,818,718 shares. The share prices at the date of exercise were:

Number of shares	Exercise price, RUB
6,592,892	87.01
225,826	89.95

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Notes to consolidated financial statements (continued)

32. Earnings per share

	2015	2014
Profit from continuing operations attributable to equity holders of the Group	13,944	12,895
Profit (loss) from discontinued operations attributable to equity holders of the Group	–	24,625
Profit attributable to equity holders of the Group	13,944	37,520
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,253,647,362	2,278,305,337
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,283,703,431	2,292,220,390
Earnings per share from continuing and discontinued operations attributable to equity holders of the Group during the year, in RUB		
Basic earnings per share	6.20	16.47
From continuing operations	6.20	5.66
From discontinued operations	–	10.81
Diluted earnings per share	6.11	16.37
From continuing operations	6.11	5.63
From discontinued operations	–	10.74

Weighted average number of shares outstanding for the years ended 31 December 2015 and 2014 is adjusted for the weighted average number of treasury shares of the Group, which included to 538,840,710 (2014: 539,836,460) ordinary and 90,111,774 (2014: 93,893,973) preferred shares of the Company.

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

	2015	2014
Weighted average number of shares outstanding used in calculation of basic earning per shares	2,253,647,362	2,278,305,337
Dilutive effect of employee motivation program vested shares	30,056,069	13,915,053
Weighted average number of shares outstanding used in calculation of diluted earning per shares	2,283,703,431	2,292,220,390

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Notes to consolidated financial statements (continued)

33. Financial instruments

The Group's principal financial instruments comprise cash and cash equivalents, investments, bank loans, bonds and promissory notes issued and finance leases liabilities. These instruments serve to finance the Group's operations and capital expenditures; its corporate financial transactions such as share repurchase and acquisition strategy; place available funds in course of cash management. Other financial assets and liabilities such as trade receivables and trade payables arise directly from the Group's operations. The following table presents the carrying amounts of financial assets and liabilities as at 31 December 2015 and 2014:

Classes	Categories	31 December 2015	31 December 2014
Cash and cash equivalents	Loans and receivables	7,165	16,945
Trade and other receivables	Loans and receivables	47,748	49,290
Available-for-sale financial assets at cost	Available-for-sale	97	84
Loans	Loans and receivables	6,238	1,957
Non-hedge derivative	Financial assets at fair value through profit or loss	5	3
Total financial assets		61,253	68,279
Bank and corporate loans	Liabilities at amortized cost	148,862	150,857
Bonds	Liabilities at amortized cost	35,448	37,560
Promissory notes	Liabilities at amortized cost	9	10
Vendor financing	Liabilities at amortized cost	52	55
Finance lease liabilities	Liabilities at amortized cost	463	175
Interest payable	Liabilities at amortized cost	1,629	1,265
Other borrowings	Liabilities at amortized cost	91	92
Trade and other payables	Liabilities at amortized cost	54,143	47,870
Non-hedge derivative	Financial liabilities at fair value through profit and loss	3,543	5,975
Total financial liabilities		244,240	243,859

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.

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

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)

	2015	2014
Financial assets at fair value through profit and loss		
<i>Non-hedge derivatives</i>		
Level 1	–	–
Level 2	5	3
Level 3	–	–
Total non-hedge derivatives	5	3
Financial liabilities at fair value through profit and loss		
<i>Non-hedge derivatives</i>		
Level 1	–	–
Level 2	3,543	5,975
Level 3	–	–
Total non-hedge derivatives	3,543	5,975

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

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the twelve-month periods ended 31 December 2015 and 31 December 2014.

Notes to consolidated financial statements (continued)

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

In October 2013 the Group entered into agreement with Deutsche bank A.G. London branch and RDIF Investment management LLC for the purchase a call option on 36,093,684 Company's ordinary shares and sale a put option on 72,187,366 Company's ordinary shares. These options were classified as financial instruments at fair value through profit or loss, and included in Level 2 of the fair value measurement hierarchy (refer to the above tables). Fair values of options were determined using the Black-Scholes option pricing model. Expected volatility is based on the historical average Company's ordinary share price volatility.

The table below summarizes the most significant inputs to the options pricing models:

Data of the model	2015	2014
Grant date share price, USD	3.2842	3.2842
Exercise price, USD	3.2842	3.3934
Expected volatility	33.53%	36.59%
Remaining option life, years	1.92	0.94
Dividend yield	3.6%	3.0%
Risk-free interest rate	14.4%	14.3%
Fair value as at 31 December 2015 (asset/(liability))	(3,543)	(5,975)

In August 2015 the Group extended agreement with Deutsche bank A.G. London branch to 1 December 2017.

In October 2015 the Group finalized settlement with RDIF Investment management LLC in two stages: at the first stage the Group acquired 32,082,543 of the Company's ordinary shares in the amount of 2,853 (the transfer of ownership was completed on 30 September 2015), during the second stage the Group made an additional payment in line with the option agreement in the amount of 73,332 thousand US dollars (4,812 at the US dollars to RUB exchange rate as of date of payment).

During the year ended 31 December 2015 the Group recognised a net loss in the amount of 2,380 due to the changes of fair value of the options in Other investing and financial (loss)/gain (year ended 31 December 2014: 5,097).

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Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

Income and expenses on financial instruments

	Bad debt income/ (expense)	Finance costs	Other investing and financing gains and losses						Foreign exchange gains/ (losses)	OCI	Total
		Interest expense	Interest income	Dividend income	Gains/ (losses) on asset disposal	Fair value change	Impairment loss (reversal of impairment)	Other		Fair value change	
2015											
Cash and cash equivalents	–	–	675	–	–	–	–	–	128	–	803
Trade and other receivables	(882)	–	651	–	–	–	–	–	1,113	–	882
Available for sale financial instruments	–	–	–	4	125	–	(4)	–	–	–	125
Financial assets at fair value through profit and loss	–	–	–	–	–	3	–	–	–	–	3
Loans	–	(145)	1,198	3	–	–	–	–	–	–	1,056
Total financial assets	(882)	(145)	2,524	7	125	3	(4)	–	1,241	–	2,869
Bank and corporate loans	–	(12,071)	–	–	–	–	–	–	(821)	–	(12,892)
Bonds	–	(3,162)	–	–	–	–	–	–	–	–	(3,162)
Vendor financing	–	(2)	–	–	–	–	–	–	–	–	(2)
Finance lease liabilities	–	(103)	–	–	–	–	–	–	–	–	(103)
Trade and other payables and non-hedge derivatives	–	–	–	–	–	(2,380)	–	–	(1,851)	–	(4,231)
Total financial liabilities	–	(15,338)	–	–	–	(2,380)	–	–	(2,672)	–	(20,390)

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Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

Income and expenses on financial instruments (continued)

	Bad debt income/ (expense)	Finance costs	Other investing and financing gains and losses						Foreign exchange gains/ (losses)	OCI	Total
		Interest expense	Interest income	Dividend income	Gains/ (losses) on asset disposal	Fair value change	Impairment loss (reversal of impairment)	Other		Fair value change	
2014											
Cash and cash equivalents	–	–	116	–	–	–	–	–	284	–	400
Trade and other receivables	(2,006)	–	321	–	–	–	–	–	2,499	–	814
Available for sale financial instruments	–	–	–	12	(55)	–	–	–	–	–	(43)
Financial assets at fair value through profit and loss	–	–	–	–	–	(399)	–	–	–	–	(399)
Loans	–	–	1,156	–	–	–	(316)	–	–	–	840
Total financial assets	(2,006)	–	1,593	12	(55)	(399)	(316)	–	2,783	–	1,612
Bank and corporate loans	–	(11,476)	–	–	–	–	–	–	(475)	–	(11,951)
Bonds	–	(3,197)	–	–	–	–	–	–	–	–	(3,197)
Promissory notes	–	(1)	–	–	–	–	–	–	–	–	(1)
Finance lease liabilities	–	(22)	–	–	–	–	–	–	–	–	(22)
Trade and other payables and non-hedge derivatives	–	–	–	–	–	(5,097)	–	–	(2,080)	–	(7,177)
Total financial liabilities	–	(14,696)	–	–	–	(5,097)	–	–	(2,555)	–	(22,348)

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

(a) Credit risk

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

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

The Group's accounts receivable are represented by receivables from the Government and other public organizations, businesses and individuals each of them bearing different credit risk. Collection of receivables from the Government and other public organizations is mainly influenced by political and economic factors and not always under full control of the Group. However, management undertakes all possible efforts to minimize the exposure to risk of receivable from this category of clients. In particular, creditworthiness of such subscribers is assessed based on financing limits set by the Government. Management believes there were no significant unprovided losses relating to these or other receivables as at 31 December 2015 and 2014.

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

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

Maximum exposures to credit risk are limited to the net carrying amounts of respective financial assets, except for guarantee (see Note 33 (e)).

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

(b) Liquidity risk

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

Issued guarantees are disclosed in Note 33(e).

Maturity analysis as at 31 December 2015 and 2014 represented below shows undiscounted cash flows, including estimated interest payments:

	2016	2017	2018	2019	2020 and later	Total
31 December 2015						
Bank and corporate loans	61,225	49,260	42,758	4,719	32,618	190,580
Bonds	13,487	19,346	7,619	–	–	40,452
Promissory notes	11	–	–	–	9	20
Vendor financing	12	11	10	9	10	52
Finance lease liabilities	254	47	48	42	364	755
Other borrowings and hedge derivatives	94	–	–	–	–	94
Trade and other payables and non-hedge derivatives	50,599	3,544	1	–	–	54,144
Total financial liabilities	125,682	72,208	50,436	4,770	33,001	286,097

	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
Total financial liabilities	118,246	57,392	47,216	49,769	6,308	278,931

(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.

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

(c) Market risks (continued)

Interest rate risk

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

	31 December 2015	31 December 2014
Fixed rate instruments		
Financial assets	16,039	18,902
Financial liabilities	(152,777)	(178,890)
	(136,738)	(159,988)
Variable rate instruments		
Financial assets	5	3
Financial liabilities	(37,321)	(17,100)
	(37,316)	(17,097)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	2015
MosPrime (+6%)	(528)
MosPrime (-5%)	440
Federal loan bonds rate (+1%)	121
Federal loan bonds rate (-1%)	(124)
CB rate (+1%)	(1,542)
CB rate (-1%)	1,542
	2014
MosPrime (+1%)	(51)
MosPrime (-1%)	51
Federal loan bonds rate (+1%)	111
Federal loan bonds rate (-1%)	(111)
CB refinancing (+1%)	(1)
CB refinancing (-1%)	1

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)**(c) Market risks (continued)*****Foreign exchange risk***

Currency risk is the risk that fluctuations in exchange rates will adversely affect the Group's cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Group's consolidated statement of comprehensive income, statement of financial position and/or statement of cash flows. The Group is exposed to currency risk in relation to its assets and liabilities denominated in foreign currencies, mostly from accounts receivable and payable from operations with international telecom operators, accounts payable for equipment, borrowings issued in foreign currencies. The Group does not have formal procedures to reduce its currency risks.

Financial assets and liabilities of the Group presented by currency as at 31 December 2015 and 2014 were as follows:

	31 December 2015		31 December 2014	
	USD	EUR	USD	EUR
Cash and cash equivalents	739	236	487	192
Trade receivables	1,321	857	2,343	835
Financial assets at fair value through profit or loss	5	–	3	–
Bank and corporate loans	(2,851)	–	(1,056)	(20)
Trade and other payables and non-hedge derivatives	(12,134)	(167)	(8,184)	(245)
Net exposure	(12,920)	926	(6,407)	762

The tables below demonstrate the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax:

	31 December 2015	
	USD	EUR
Strengthening of the currency (USD+40%, EUR+43%)	(6,342)	398
Weakening of the currency (USD-13%, EUR-15%)	2,041	(139)

	31 December 2014	
	USD	EUR
Strengthening of the currency (+20%)	(2,476)	152
Weakening of the currency (-20%)	2,416	(152)

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

Other price risk

As at 31 December 2015, 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.

Notes to consolidated financial statements (continued)

33. Financial instruments (continued)

(c) Market risks (continued)

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

	Increase/decrease in percentage point	Effect on revaluation result recognized in profit or loss
2015		
MICEX	+ 30.0%	813
MICEX	- 30.0%	(881)
2014		
MICEX	+ 30.0%	1,685
MICEX	- 30.0%	(1,804)

(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 2014-2015.

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.

34. Commitments and contingencies

(a) Legal proceedings

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

Notes to consolidated financial statements (continued)

34. Commitments and contingencies (continued)

(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.

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 2015 and 2014. However, the general risk remains that relevant authorities could take different position with regard to interpretative issues and the effect could be significant.

(c) Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years from 2016 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 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.

Notes to consolidated financial statements (continued)

34. Commitments and contingencies (continued)**(d) Capital commitments**

As at 31 December 2015, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 18,254 (2014: 31,114).

(e) Operating leases

As at 31 December 2015, all lease contracts are legally cancellable. However, the Group was involved in a number of operating lease agreements for land, on which the Group constructed certain leasehold improvements. Since March 2015 the Group was involved in operating leasing agreement of office accommodations "Rumyantsevo" for 15 years, under which the Group should pay significant penalty for breaking agreement.

Thus, it is reasonably certain that these leases would not be cancelled. Future minimum lease payments under these operating leases as at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
As lessee		
Current portion	998	228
Between one to five years	3,954	311
Over five years	9,959	1,180
Total minimum rental payables	14,911	1,719

35. Related party transactions**(a) The Government as a shareholder**

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

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

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.

PJSC Rostelecom

Notes to consolidated financial statements (continued)

35. Related party transactions (continued)

(c) Associates and joint ventures

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

	2015	Nine-month period ended 31 December 2014
Revenue	8,830	9,293
Interest income	341	389
Purchase of telecommunication services	(3,786)	(2,203)
Purchase of other services	(445)	(2,301)

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

	31 December 2015	31 December 2014
Accounts receivable	4,375	6,953
Allowance for doubtful receivables	(267)	(293)
Accounts payable and accrued expenses	(428)	(898)
Loans and borrowings	(90)	(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:

	2015	2014
Revenue	230	173
Interest income	51	1
Purchase of telecommunication services	(254)	(113)
Purchase of other services	(95)	(57)

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

	2015	2014
Accounts receivable	126	150
Financial assets	248	1,566
Allowance for doubtful receivables	(2)	(13)
Accounts payable and accrued expenses	(7)	(33)
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 21). 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 2015 amounted to 959 (2014: 1,096).

Notes to consolidated financial statements (continued)

35. Related party transactions (continued)

(e) Transactions with other government-related entities

In January 2009, PJSC Rostelecom in partnership with mobile operator PJSC 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 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 2014 amounted to 310 (2014: 1,321).

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.

Decree of the Government of the Russian Federation № 453- dated 21 March 2011
PJSC Rostelecom appointed sole executor of works as part of the state program of the Russian Federation "Information Society 2011-2018". PJSC Rostelecom shall provide the following tasks:

- a) Creation of a common infrastructure to support the decisions of state tasks, ensuring the provision of services for various branches of the public sector.
- b) Create a national platform of distributed computing to provide solutions as services to federal, regional and municipal authorities.

This task the operator has already performed a significant amount by implementing standard solutions for e-government in the regions under Saas. Services based on cloud computing will enjoy both government agencies and commercial customers.

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

During 2015 the Group received revenue of individually essential project concluded with the Ministry of Communications and Mass Communications of the Russian Federation, under the contract to operate the infrastructure of e-government in the amount of 1,831 (2014: 1,750). For other individually immaterial contracts Group's revenue in 2015 amounted to 5,052 (2014: 3,804).

Decree of the Government of the Russian Federation № 437-r dated 26 March 2014 at PJSC Rostelecom has the responsibility for the provision of universal communication services starting from 1 April 2014. In May of 2014 between the Federal Communications Agency and PJSC Rostelecom signed a contract for the provision of universal communication services for 10 years and the total amount of financial support RUB 163 billion.

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Notes to consolidated financial statements (continued)

35. Related party transactions (continued)

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

In accordance with federal law *On communication* PJSC Rostelecom as a single universal service provider for the entire territory of the Russian Federation shall ensure the functioning of:

- a) telephone services using payphones, multifunction devices, information kiosks (informants) and similar devices;
- b) data services and provide access to the "Internet" information and telecommunication network using multiple access means;
- c) before the end of 2018 it is planned to provide data services and provide access to the "Internet" information and telecommunications network with access points.

The total volume of income in respect of losses from universal telecommunication services in 2015 amounted to: 13,316 (2014: 11,148).

Between PJSC Rostelecom and FSUE Mail of Russia signed agency agreements to ensure the provision of universal communication services – data services and provide access to information and telecommunication network Internet using multiple access without the use of user equipment. FSUE Mail of Russia is a budgetary organization, associated with the state, operations of which are individually significant for disclosure purposes. For 2015 the cost of agency contracts amounted to 2,113. During 2014 expenses amounted to 763.

The Group received loans from government-related banks PJSC Sberbank, PJSC Bank VTB, PJSC Sviaz-bank, PJSC Vnesheconombank, PJSC Russian regional development bank, JSC Gazprombank and others. The outstanding balances from these banks amounted to 132,817 as at 31 December 2015 (31 December 2014: 133,719). Interest rate of these loans varies from 7.6% to 15.8%. During year ended 31 December 2015 the Group obtained loans from these banks in amount of 404,282 (2014: 327,069), acquisition through business combinations amounted to 2,265 (2014: nil), made repayments in amount of 418,831 (2014: 367,377). Interest expense accrued on those loans during year ended 31 December 2015 amounted to 11,383 (2014: 12,297).

In 2014, the Company received a loan from the state-related special project company, implementing investment project "Bridging the Digital Divide in the sparsely populated areas of Russia" LLC Infrastructure investment-4 for 4 years, the balance on 31 December 2015: 8,910 (31 December 2014: 10,129), during year ended 31 December 2015 the Group obtained loans in amount of nil (2014: 10,125), made repayments in amount of 2,717 (2014: nil). Interest expense accrued on those loans during year ended 31 December 2015 amounted to 1,498 (2014: 4).

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. The financial result of these operations with the governmental customers is presented in Notes 14 and 23. Management assesses these transactions as individually insignificant, except government-related banking deposits.

The amount of funds placed on deposits with government-related banks for the year ended 31 December 2015 is 13,866 (2014: 411) with related income recognised in profit and loss of 1,094 (2014: 26) and amounts repaid back to the Company's account of 9,345 (2014: 561).

The amount of of the Group's cash and cash equivalents kept on the accounts opened with the government-related banks on 31 December 2015 is 5,896 (31 December 2014: 15,964).

Notes to consolidated financial statements (continued)

35. Related party transactions (continued)

(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 2015 amounted to 747. 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 2014 amounted to 872.

The remuneration amounts are stated exclusive of social taxes.

Also in 2014 the Company introduced a long-term motivation programme for executives and senior employees of the Company. The amount of employee benefits expense 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 2015 is 341 (2014: 875).

In 2015 the Group made a contribution of 4 to the non-state pension fund (2014: nil) for its key management personnel. The plans provide for payment of retirement benefits starting date employee complies with terms of acting non-state pension program.

36. Held for sale assets and liabilities and discontinued operations

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. At the end of the first stage, the Group received a 26% voting interest in T2 RTK Holding. On 6 August 2014 the Company completed the second and final stage of the deal by spinning-off of its integrated mobile assets into its then subsidiary RT-Mobile and reassigning to is of certain of the Company's licenses followed by the contribution of RT-Mobile to the capital of T2 RTK Holding. As a result at completion the Company increased its interest in T2 RTK Holding up to 45%. As a result of the transaction completion during 2014, the last-named operations were discontinued by the Group and the related assets and liabilities are not included in the statement of financial positions as of 31 December 2014.

The following table illustrates information on assets and liabilities held for sale for the year ended 31 December 2015 and 2014.

	31 December 2015	31 December 2014
Assets		
Property, plant and equipment	1,351	579
Total assets held for sale	1,351	579

Notes to consolidated financial statements (continued)

36. Held for sale assets and liabilities and discontinued operations (continued)

The following table illustrates information about consolidated statement of profit or loss of discontinued operations for the year ended 31 December 2014.

	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

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

	2014
Operating cash flow	3,482
Investing cash flow	(1,222)
Financing cash flow	(1,462)
Total cash flows	798

37. Subsequent events**New loan agreement with Sberbank PJSC**

In January-February 2016, the Group attract funds under the loan agreement with the PJSC “Sberbank” in the amount of RUB 10.0 billion. Non-revolving credit line granted for a period of 2 years. At the same time on other long-term loan agreements with PJSC “Sberbank” the Group was repaid principal debt totaling RUB 11 billion.

PJSC Rostelecom additional investments in “BUM” LLC

In January 2016 Company paid an additional contribution to share capital of Big Universal Mall LLC (“BUM” LLC) in the amount of RUB 577.5. Share of PJSC Rostelecom in the “BUM” LLC has not changed and is 60% of its share capital.

Notes to consolidated financial statements (continued)

37. Subsequent events (continued)

New loan agreement with Vnesheconombank

In February 2016, the Company entered into credit line facility agreement with Vnesheconombank, for the amount of RUB 5.2 billion and a maturity of 10 years for the implementation of capital investments.

Restructurisation of FreshTel's loan agreement

In February 2016 FreshTel Group restructured its debt before Vnesheconombank by signing a supplementary agreement (Note 6).