

**PJSC Rostelecom
and its subsidiaries**

Unaudited management
interim condensed consolidated financial statements

*for the nine-month period ended 30 September 2016
prepared in accordance with the Group's accounting policy based on
International Financial Reporting Standards*

PJSC Rostelecom and its subsidiaries

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PJSC Rostelecom

Interim consolidated statement of financial position

(In millions of Russian roubles unless otherwise stated)

	30 September 2016 (unaudited)	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	334,580	338,699
Investment property	99	107
Goodwill and other intangible assets	60,730	60,755
Investments in associates	70,205	74,474
Other financial assets	845	621
Deferred tax assets	620	627
Other non-current assets	9,821	8,241
Total non-current assets	476,900	483,524
Current assets		
Inventories	4,709	4,060
Trade and other accounts receivable	50,337	43,152
Prepayments	2,140	2,822
Prepaid income tax	2,870	927
Other financial assets	5,913	5,719
Cash and cash equivalents	4,427	7,165
Other current assets	2,063	2,600
Total current assets	72,459	66,445
Held for sale assets	1,727	1,351
Total assets	551,086	551,320
Equity and liabilities		
Equity attributable to equity holders of the Group		
Share capital	93	93
Additional paid-in capital	90	87
Treasury shares	(66,932)	(68,669)
Retained earnings and other reserves	308,238	314,237
Total equity attributable to equity holders of the Group	241,489	245,748
Non-controlling interests	4,246	3,916
Total equity	245,735	249,664
Non-current liabilities		
Loans and borrowings	140,543	126,620
Employee benefits	5,522	5,021
Deferred tax liabilities	33,175	30,238
Accounts payable, provisions and accrued expenses	5,018	3,545
Other non-current liabilities	5,908	5,543
Total non-current liabilities	190,166	170,967
Current liabilities		
Loans and borrowings	59,868	59,934
Accounts payable, provisions and accrued expenses	48,367	62,268
Income tax payable	42	215
Other current liabilities	6,908	8,272
Total current liabilities	115,185	130,689
Total liabilities	305,351	301,656
Total equity and liabilities	551,086	551,320

These interim consolidated financial statements were approved by management of PJSC Rostelecom on 09 November 2016 and were signed on its behalf by:

President
Kalugin S.B.

CFO – Senior Vice President
Mehlhorn K.-U.

PJSC Rostelecom

Interim consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles unless otherwise stated)

	Nine-month period ended 30 September (unaudited)	
	2016	2015
Revenue	217,039	216,336
Operating expenses		
Wages, salaries, other benefits and payroll taxes	(68,474)	(68,511)
Depreciation, amortization and impairment losses	(42,247)	(44,461)
Interconnection charges	(36,704)	(34,395)
Materials, utilities, repairs and maintenance	(17,304)	(17,382)
Gain on disposal of property, plant and equipment and intangible assets	1,363	724
Bad debt expense	(2,675)	(1,978)
Other operating income	10,266	10,797
Other operating expenses	(32,676)	(31,802)
Total operating expenses, net	(188,451)	(187,008)
Operating profit	28,588	29,328
Loss from associates	(5,004)	(2,302)
Finance costs	(12,724)	(12,026)
Other investing and financial gain, net	640	108
Foreign exchange gain/(loss), net	547	(802)
Profit before income tax	12,047	14,306
Income tax expense	(3,384)	(4,032)
Profit for the period	8,663	10,274
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations, net of tax	(417)	257
Other comprehensive income for the period, net of tax	(417)	257
Total comprehensive income for the period	8,246	10,531
Profit attributable to:		
Equity holders of the Group	8,253	9,924
Non-controlling interests	410	350
Total comprehensive income attributable to:		
Equity holders of the Group	7,834	10,157
Non-controlling interests	412	374
Earnings per share attributable to equity holders of the Group – basic (in roubles)	3.68	4.39
Earnings per share attributable to equity holders of the Group – diluted (in roubles)	3.64	4.33

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Interim consolidated statement of cash flows

(In millions of Russian roubles unless otherwise stated)

	Nine-month period ended 30 September (unaudited)	
	2016	2015
Cash flows from operating activities		
Profit before tax	12,047	14,306
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>		
Depreciation, amortization and impairment losses	42,247	44,461
Gain on disposal of property, plant and equipment and intangible assets	(1,363)	(724)
Bad debt expense	2,675	1,978
Loss from associates	5,004	2,302
Finance costs excluding finance costs on pension and other long-term social liabilities	12,366	11,473
Other investing and financial gain, net	(640)	(108)
Foreign exchange (gain)/loss, net	(547)	802
Share-based motivation program	1,184	938
<i>Changes in net working capital:</i>		
Increase in accounts receivable	(9,258)	(6,919)
Increase in employee benefits	128	147
(Increase)/decrease in inventories	(615)	1,523
Decrease in accounts payable, provisions and accrued expenses	(2,142)	(2,311)
Decrease in other liabilities	(1,932)	(211)
Cash generated from operations	59,154	67,657
Interest paid	(14,383)	(12,590)
Income tax refund	1,395	2,260
Income tax paid	(3,822)	(2,653)
Net cash from operating activities	42,344	54,674
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(46,797)	(43,383)
Proceeds from sale of property, plant and equipment and intangible assets	2,133	1,597
Acquisition of financial assets	(5,737)	(10,250)
Proceeds from disposals of financial assets	6,376	5,890
Interest received	827	705
Dividends received	20	5
Purchase of subsidiaries, net of cash acquired	(2,438)	(464)
Proceeds from disposals of equity accounted investees	-	322
Proceeds from disposals of subsidiaries, net of cash disposed	(1)	-
Acquisition of equity accounted investees	(778)	(98)
Net cash used in investing activities	(46,395)	(45,676)
Cash flows from financing activities		
Purchase of treasury shares	-	(2,867)
Sale of treasury shares	8	-
Proceeds from bank and corporate loans	496,127	368,768
Repayment of bank and corporate loans	(492,822)	(376,378)
Proceeds from bonds	15,000	10,000
Repayment of bonds	(2,734)	(2,408)
Repayment of vendor financing payable	(7)	(44)
Repayment of other non-current financing liabilities	-	(3)
Options settlement repayments	(231)	(448)
Repayment of finance lease liabilities	(116)	(56)
Acquisition of non-controlling interest	-	(2,079)
Dividends paid to shareholders of the Group	(13,295)	(7,676)
Dividends paid to non-controlling shareholders of subsidiaries	(248)	(287)
Net cash used in financing activities	1,682	(13,478)
Net decrease in cash and cash equivalents	(2,738)	(4,479)
Effect of exchange rate changes on cash and cash equivalents	(369)	1
Cash and cash equivalents at beginning of the period	7,165	16,945
Cash and cash equivalents at the end of the period	4,427	12,466

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Interim consolidated statement of changes in equity

(In millions of Russian roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Unrealized loss on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
Balances at 1 January 2016	93	87	(10)	1,385	(68,669)	2,120	6,153	304,589	245,748	3,916	249,664
Profit for the period (unaudited)	–	–	–	–	–	–	–	8,253	8,253	410	8,663
Exchange differences on translating foreign operations (unaudited)	–	–	–	(419)	–	–	–	–	(419)	2	(417)
Total other comprehensive (loss)/ income, net of tax (unaudited)	–	–	–	(419)	–	–	–	–	(419)	2	(417)
Total comprehensive income for the period (unaudited)	–	–	–	(419)	–	–	–	8,253	7, 834	412	8,246
Transactions with shareholders, recorded directly in equity (unaudited)											
Dividends to shareholders of Combined entity	–	–	–	–	–	–	–	(13,295)	(13,295)	–	(13,295)
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(236)	(236)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	21	21
Sale of treasury shares	–	–	–	–	12	–	–	(4)	8	–	8
Disposal of non-controlling interest	–	–	–	–	–	–	–	9	9	(34)	(25)
Non-controlling interest in acquired subsidiaries	–	–	–	–	–	–	–	–	–	167	167
Employee benefits within share-based employee motivation program	–	–	–	–	1,725	58	–	(599)	1,184	–	1,184
Other change in equity	–	3	–	–	–	–	–	(2)	1	–	1
Total transactions with shareholders (unaudited)	–	3	–	–	1,737	58	–	(13,891)	(12,093)	(82)	(12,175)
Balances at 30 September 2016 (unaudited)	93	90	(10)	966	(66,932)	2,178	6,153	298,951	241,489	4,246	245,735

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Interim consolidated statement of changes in equity (continued)

	Share capital	Additional paid-in capital	Unrealized loss on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	Total equity
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 period (unaudited)	–	–	–	–	–	–	–	9,924	9,924	350	10,274
Exchange differences on translating foreign operations (unaudited)	–	–	–	233	–	–	–	–	233	24	257
Total other comprehensive income, net of tax (unaudited)	–	–	–	233	–	–	–	–	233	24	257
Total comprehensive income for the period (unaudited)	–	–	–	233	–	–	–	9,924	10,157	374	10,531
Transactions with shareholders, recorded directly in equity (unaudited)											
Dividends to shareholders of the Company	–	–	–	–	–	–	–	(7,676)	(7,676)	–	(7,676)
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(295)	(295)
Acquisition of treasury shares	–	–	–	–	(2,867)	–	–	–	(2,867)	–	(2,867)
Acquisition of non-controlling interest	–	–	–	–	–	(298)	–	281	(17)	(2,381)	(2,398)
Non-controlling interest in acquired subsidiaries	–	–	–	–	–	–	–	–	–	1,469	1,469
Employee benefits within share based employee motivation program	–	–	–	–	915	344	–	(321)	938	–	938
Other change in equity	–	(732)	–	–	–	(387)	–	518	(601)	808	207
Total transactions with shareholders (unaudited)	–	(732)	–	–	(1,952)	(341)	–	(7,198)	(10,223)	(399)	(10,622)
Balances at 30 September 2015 (unaudited)	97	87	(10)	1,050	(83,975)	1,509	6,483	315,844	241,085	4,051	245,136