Interim condensed consolidated financial statements

PJSC Rostelecom

and its subsidiaries

for the six-month period ended 30 June 2015

PJSC Rostelecom

Interim condensed consolidated statement of financial position

(In millions of Russian roubles unless otherwise stated)

	Notes	30 June 2015 (unaudited)	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	6	323,730	328,266
Investment property		98	224
Goodwill and other intangible assets	7	59,198	58,420
Investments in associates		75,416	75,048
Other investments		121	110
Deferred tax assets		928	359
Other non-current assets		9,624	9,274
Total non-current assets		**469,115**	**471,701**
Current assets			
Inventories		3,662	4,827
Trade and other accounts receivable		50,300	45,056
Prepayments		2,320	4,363
Prepaid income tax		1,071	2,241
Other financial assets		8,502	1,934
Cash and cash equivalents		11,607	16,945
Other current assets		886	988
Total current assets		**78,348**	**76,354**
Held for sale assets		603	579
Total assets		**548,066**	**548,634**
Equity and liabilities			
Equity attributable to equity holders of the Group			
Share capital	8	97	97
Additional paid-in capital		410	819
Treasury shares		(81,170)	(82,023)
Retained earnings and other reserves		320,355	322,258
Total equity attributable to equity holders of the Group		**239,692**	**241,151**
Non-controlling interests		5,990	4,076
Total equity		**245,682**	**245,227**
Non-current liabilities			
Loans and borrowings	10	112,343	137,872
Employee benefits		6,040	5,965
Deferred tax liabilities		32,050	31,206
Accounts payable, provisions and accrued expenses		65	160
Other non-current liabilities		4,998	4,960
Total non-current liabilities		**155,496**	**180,163**
Current liabilities			
Loans and borrowings	10	75,973	52,142
Accounts payable, provisions and accrued expenses		62,557	62,253
Income tax payable		16	89
Other current liabilities		8,342	8,760
Total current liabilities		**146,888**	**123,244**
Total liabilities		**302,384**	**303,407**
Total equity and liabilities		**548,066**	**548,634**

These interim condensed consolidated financial statements were approved by management of PJSC Rostelecom on August 2015 and were signed on its behalf by:

President
Kalugin S.B.

CFO – Senior Vice President
Mehlhorn K.-U.

The accompanying notes on pages 7-27 form an integral part of the unaudited interim condensed consolidated financial statements.

PJSC Rostelecom

Interim condensed consolidated statement of profit or loss and other comprehensive income

(In millions of Russian roubles unless otherwise stated)

	Notes	Six-month period ended 30 June (unaudited) 2015	2014
Continuing operations			
Revenue	11	**143,840**	**145,243**
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(47,095)	(44,718)
Depreciation, amortization and impairment losses		(29,635)	(29,016)
Interconnection charges		(22,131)	(22,283)
Materials, utilities, repairs and maintenance		(11,561)	(12,783)
Gain on disposal of property, plant and equipment and intangible assets		488	1,206
Bad debt expense		(1,193)	(1,576)
Other operating income		7,092	5,381
Other operating expenses		(20,421)	(19,871)
Total operating expenses, net		**(124,456)**	**(123,660)**
Operating profit		**19,384**	**21,583**
(Loss)/income from associates		(1,161)	172
Finance costs		(8,036)	(7,961)
Other investing and financial (loss)/gain, net		1,035	(355)
Foreign exchange loss		(461)	(317)
Profit before income tax from continuing operations		**10,761**	**13,122**
Income tax expense		(2,533)	(2,946)
Profit for the period from continuing operations		**8,228**	**10,176**
Profit after tax for the period from discontinued operations	14	**–**	**4,899**
Profit for the period		**8,228**	**15,075**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations		(67)	8
Other comprehensive income for the period, net of tax		**(67)**	**8**
Total comprehensive income for the year from continuing operations		**8,161**	**10,184**
Total comprehensive income for the period		**8,161**	**15,083**
Profit attributable to:			
Equity holders of the Group		8,057	14,973
Non-controlling interests		171	102
Total comprehensive income/(loss) attributable to:			
Equity holders of the Group		7,973	15,001
Non-controlling interests		188	82
Earnings per share attributable to equity holders of the Group – basic (in roubles)		3.56	6.53
Earnings per share attributable to equity holders of the Group – diluted (in roubles)		3.52	6.52
Earnings per share attributable to equity holders of the Group – basic (in roubles) for continuing operations		3.56	4.39
Earnings per share attributable to equity holders of the Group – diluted (in roubles) for continuing operations		3.52	4.38

The accompanying notes on pages 7-27 form an integral part of the unaudited interim condensed consolidated financial statements.

PJSC Rostelecom

Interim condensed consolidated statement of cash flows

(In millions of Russian roubles unless otherwise stated)

	Notes	Six-month period ended 30 June (unaudited) 2015	2014
Cash flows from operating activities			
Profit before tax from continuing operations		10,761	13,122
Profit before tax from discontinued operations	14	–	5,291
Profit before tax		**10,761**	**18,413**
Adjustments to reconcile profit before tax to cash generated from operations:			
Depreciation, amortization and impairment losses		29,635	29,028
Gain on disposal of property, plant and equipment and intangible assets		(488)	(1,183)
Bad debt expense		1,193	1,732
Loss/(income) from associates		1,161	(172)
Finance costs excluding finance costs on pension and other long-term social liabilities		7,662	7,784
Other investing and financial gain		(1,035)	(2,304)
Foreign exchange loss, net		461	227
Share-based motivation program	16	625	750
Changes in net working capital:			
Increase in accounts receivable		(6,314)	(5,392)
Increase in employee benefits		75	109
Decrease/(increase) in inventories		1,323	(673)
Decrease in accounts payable, provisions and accrued expenses		(2,835)	(201)
Change in other assets and liabilities		(764)	(2,121)
Cash generated from operations		**41,460**	**45,997**
Interest paid		(8,403)	(8,270)
Income tax refund		2,175	–
Income tax paid		(2,545)	(2,214)
Net cash from operating activities		**32,687**	**35,513**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(27,405)	(24,798)
Proceeds from sale of property, plant and equipment and intangible assets		1,186	1,714
Acquisition of financial assets		(10,018)	(321)
Proceeds from disposals of financial assets		2,563	25,583
Interest received		602	228
Special dividends from disposed former mobile subsidiaries		–	7,003
Dividends received		2	10
Purchase of subsidiaries, net of cash acquired	5	(464)	(29)
Acquisition of equity accounted investees		(16)	–
Net cash (used in) / from investing activities		**(33,550)**	**9,390**

The accompanying notes on pages 7-27 form an integral part of the unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows (continued)

	Notes	Six-month period ended 30 June (unaudited) 2015	2014
Cash flows from financing activities			
Sale of treasury shares		–	815
Purchase of treasury shares		(5)	(13,844)
Proceeds from bank and corporate loans		231,796	193,130
Repayment of bank and corporate loans		(243,542)	(223,233)
Proceeds from bonds		10,000	–
Repayment of bonds		(2,408)	(2,440)
Proceeds from promissory notes		–	12
Repayment of promissory notes		–	(12)
Repayment of vendor financing payable		(5)	(5)
Repayment of other non-current financing liabilities		(2)	(4)
Repayment of finance lease liabilities		(57)	(1)
Dividends paid to shareholders of the Group		–	(12)
Dividends paid to non-controlling shareholders of subsidiaries		(39)	–
Net cash used in financing activities		**(4,262)**	**(45,594)**
Net decrease in cash and cash equivalents		**(5,338)**	**(711)**
Effect of exchange rate changes on cash and cash equivalents		(213)	(20)
Cash and cash equivalents at beginning of the period		**16,945**	**7,960**
Cash and cash equivalents at the end of the period		**11,607**	**7,249**

PJSC Rostelecom

Interim condensed consolidated statement of changes in equity

(In millions of Russian roubles unless otherwise stated)

	Equity attributable to shareholders of the Group											
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Stock redemption reserve	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interests	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 period (unaudited)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,973**	**14,973**	**102**	**15,075**
Exchange differences on translating foreign operations (unaudited)	–	–	–	28	–	–	–	–	–	28	(20)	8
Total other comprehensive income, net of tax (unaudited)	**–**	**–**	**–**	**28**	**–**	**–**	**–**	**–**	**–**	**28**	**(20)**	**8**
Total comprehensive income for the period (unaudited)	**–**	**–**	**–**	**28**	**–**	**–**	**–**	**–**	**14,973**	**15,001**	**82**	**15,083**
Transactions with shareholders, recorded directly in equity (unaudited)												
Dividends to shareholders of the Company	–	–	–	–	–	–	–	–	(7,455)	(7,455)	–	**(7,455)**
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	**–**	(293)	**(293)**
Acquisition of treasury shares	–	–	–	–	(13,844)	–	–	23,169	–	**9,325**	–	**9,325**
Sale of treasury shares	–	28	–	–	787	–	–	–	–	**815**	–	**815**
Disposal of non-controlling interest i disposed subsidiaries	–	–	–	–	–	–	–	–	–	**–**	(24)	**(24)**
Employee benefits within share based employee motivation program (Note 16)	–	–	–	–	–	600	–	–	–	**600**	–	**600**
Other change in equity	–	(64)	–	–	–	–	–	–	64	**–**	–	**–**
Total transactions with shareholders (unaudited)	**–**	**(36)**	**–**	**–**	**(13,057)**	**600**	**–**	**23,169**	**(7,391)**	**3,285**	**(317)**	**2,968**
Balances at 30 June 2014 (unaudited)	**97**	**1,622**	**(10)**	**(17)**	**(81,382)**	**600**	**3,452**	**(70)**	**290,391**	**214,683**	**3,124**	**217,807**

The accompanying notes on pages 7-27 form an integral part of the unaudited interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity (continued)

	Equity attributable to shareholders of the Group											
	Share capital	Additional paid-in capital	Unrealized gain on available-for-sale investments	Translation of foreign operations	Treasury shares	Other capital reserves	Remeasurements of defined benefit pension plans	Stock redemption reserve	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)	–	–	–	–	–	–	–	–	**8,057**	**8,057**	**171**	**8,228**
Exchange differences on translating foreign operations (unaudited)	–	–	–	(84)	–	–	–	–	–	(84)	17	(67)
Total other comprehensive income, net of tax (unaudited)	–	–	–	**(84)**	–	–	–	–	–	**(84)**	**17**	**(67)**
Total comprehensive income for the period (unaudited)	–	–	–	**(84)**	–	–	–	–	**8,057**	**7,973**	**188**	**8,161**
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	–	–	–	–	–	–	–	–	–	–	(246)	(246)
Acquisition of treasury shares	–	–	–	–	(5)	–	–	–	–	(5)	–	(5)
Acquisition of non-controlling interest (Note 17)	–	–	–	–	–	(2,080)	–	–	–	(2,080)	–	(2,080)
Non-controlling interest in acquired subsidiaries	–	–	–	–	–	–	–	–	–	–	1,469	1,469
Employee benefits within share based employee motivation program (Note 16)	–	–	–	–	858	68	–	–	(301)	625	–	625
Other change in equity	–	(409)	–	–	–	(387)	–	–	500	(296)	503	207
Total transactions with shareholders (unaudited)	–	**(409)**	–	–	**853**	**(2,399)**	–	–	**(7,477)**	**(9,432)**	**1,726**	**(7,706)**
Balances at 30 June 2015(unaudited)	**97**	**410**	**(10)**	**733**	**(81,170)**	**(549)**	**6,483**	**–**	**313,698**	**239,692**	**5,990**	**245,682**

The accompanying notes on pages 7-27 form an integral part of the unaudited interim condensed consolidated financial statements.

1. Reporting entity

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

The registered address of the Company is Russian Federation, St. Petersburg, Dostoevsky street, 15. The Company's headquarters are located in the Russian Federation, Moscow at 1st Tverskaya-Yamskaya Street, 14, 125047.

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 30 June 2015, the Russian Federation, represented by the Federal Property Management Agency together with Vnesheconombank and Russian Direct Investment Fund, controls the Company by holding of 54.2% 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 presentation

These interim condensed consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*, as published by the International Accounting Standards Board ("IASB"). The accounting policies and methods of computation used to prepare these interim condensed consolidated financial statements are the same that were used to prepare consolidated financial statements as of and for the year ended 31 December 2014.

The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2014. The management of the Group believes that the notes to the interim condensed consolidated financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the significant changes in financial position and performance of the Group since year end. In the opinion of the Group's management, the business is not subject to significant seasonal fluctuations.

2. Basis of presentation (continued)

The preparation of financial statements requires management to make 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. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, intangible assets, fair values of assets and liabilities acquired in business combinations, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

The functional currency of the Company and majority of the Company's subsidiaries and the reporting currency for the accompanying interim condensed consolidated financial statements is the Russian rouble.

3. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed 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.

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

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2015, and have not been applied in preparing these interim condensed consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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

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

The following new or amended standards that apply for the first time in 2015 are not expected to have a significant impact of the Group's consolidated financial statements or the Group's interim condensed consolidated financial statements.

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

5. 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 CJSC Interaction Computer Network Center "MCK-IX" and LLC Advanced Network Technology. Thus, the total cash consideration transferred in a business combination amounted to 527.

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.

5. Business combinations (continued)

2015 transactions (continued)

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 DST Udomlya – 100%
- LLC Center Technology Virtualization – 66.44%
- LLC Interaction Network Center – 100%, holding interests in the following entities:
  - CJSC 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
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	**1,110**
Goodwill arising on acquisition	886
Non-controlling interest	**1,469**
Purchase consideration transferred (paid in cash)	**527**
Net cash acquired with the SafeData Group (included in cash flows from investing activities)	335
Cash paid	(527)
Net cash flow on acquisition	**(192)**

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.

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 so determined 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.

5. Business combinations (continued)

2015 transactions (continued)

From the date of acquisition until 30 June 2015, SafeData Group has contributed 67 to net profit from continuing operations of the Group and 482 to revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 8,213 and revenue would have been 144,010. 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 interim condensed consolidated statement of profit or loss and other comprehensive income, and are part of operating cash flows in the interim condensed consolidated statement of cash flows.

JSC Vostoktelekom

On 6 February 2015 a subsidiary of the Company, OJSC RTComm.RU increased its stake in JSC 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. Present interim condensed consolidated financial statements includes the results of JSC Vostoktelecom for the four months period from the acquisition date.

The remeasurement to the acquisition-date fair value of the Group's previously held 25% interest in JCS Vostoktelecom resulted in a loss of 18 which has been recognised in other investing and financial gains in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2015.

The fair value of the identifiable assets and liabilities of JSC Vostoktelekom as at the date of acquisition were:

	JSC Vostoktelekom
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)**

5. Business combinations (continued)

2015 transactions (continued)

The goodwill of 6 comprises the value of expected synergies and other benefits from combining the assets and activities of JSC 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 30 June 2015, JSC Vostoktelekom has contributed 24 to decrease of net profit from continuing operations of the Group and 183 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 8,203 and revenue would have been 143,934. 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 are included in other investing and financial loss in the condensed interim consolidated statement of profit or loss and other comprehensive income, and are part of operating cash flows in the condensed interim 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.

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

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. Present interim condensed consolidated financial statements includes results of CJSC Global-Tel for the four 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.

5. Business combinations (continued)

2015 transactions (continued)

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

	CJSC Global-Tel
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	3
Intangible assets	4
Deferred tax assets	462
Cash and cash equivalents	60
Inventories	70
Accounts payable, provisions and accrued expenses	(464)
Total identifiable net assets at fair value	**135**
Income arising on acquisition	27
Purchase consideration transferred (paid in cash)	**108**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	60
Cash paid	(108)
Net cash flow on acquisition	**(48)**

Income arising on acquisition in the amount 27 was recognized as other investing and financial gains in the interim condensed consolidated statement of profit or loss and other comprehensive income.

From the date of acquisition until 30 June 2015, CJSC Global-Tel has contributed 21 to net profit from continuing operations of the Group and 73 of revenue. If the combination had taken place at the beginning of 2015, net profit from continuing operations of the Group would have been 8,210 and revenue would have been 143,878. 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.

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 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 interim condensed consolidated financial statements includes results of LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa for two 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. At the date of issuing the present interim condensed consolidated financial statements for six months ended 30 June 2015 the restructuring of the debt has not been completed.

5. Business combinations (continued)

2015 transactions (continued)

Provisional amounts of fair value of the identifiable assets and liabilities of LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa as at the date of acquisition were:

	FreshTel Group
Fair value of identifiable assets and liabilities:	
Property, plant and equipment	1,270
Intangible assets	1
Other non-current assets	215
Trade and other accounts receivable	34
Cash and cash equivalents	4
Current investments	9
Inventories	31
Other current assets	63
Non-current loans and borrowings	(1,815)
Current loans and borrowings	(221)
Accounts payable, provisions and accrued expenses	(426)
Deferred tax liabilities	(43)
Total identifiable net assets at fair value	**(878)**
Goodwill arising on acquisition	1,088
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**

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 30 June 2015, LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa has contributed 153 to decrease of net profit from continuing operations of the Group and 7 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 7,315 and revenue would have been 143,867. 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.

CJSC GNC-Alfa

In June the Company paid contingent consideration 37, that is according to the share purchase agreement the sum of Earn-OUT-Payments for the financial years 2014.

6. Property, plant and equipment

During the six months ended 30 June 2015, the Group acquired property, plant and equipment with a cost of 18,446 (30 June 2014: 16,428), excluding 3,428 of property, plant and equipment of acquired subsidiaries (refer to Note 5).

6. Property, plant and equipment (continued)

Assets with a net book value of 359 were disposed of by the Group during the six months ended 30 June 2015 (30 June 2014: 310), resulting in a net gain on disposal of 537 (30 June 2014: 1,244).

Interest amounting to 644 and 743 was capitalized in property, plant and equipment for the six months ended 30 June 2015 and 2014, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 8.79% and 8.18%, respectively.

Property, plant and equipment with a carrying value of 200 and 427 were pledged in relation to loan agreements entered into by the Group as of 30 June 2015 and 31 December 2014, respectively.

7. Goodwill and other intangible assets

During the six months ended 30 June 2015, the Group acquired assets with a cost of 1,939 (30 June 2014: 1,703), excluding 2,616 of intangible assets of acquired subsidiaries (refer to Note 5).

Assets with a net book value of 52 were disposed of by the Group during the six months ended 30 June 2015 (30 June 2014: 50), resulting in a net loss on disposal of 49 (30 June 2014: 38).

Interest amounting to 105 and 70 was capitalized in intangible assets for the six months ended 30 June 2015 and 2014, respectively.

8. Shareholders' equity

Dividends

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

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

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**

The difference between the dividends declared and the dividends presented in the statement of changes in equity relates to the dividends attributable to the treasury shares, held by the subsidiaries of the Company. General meeting of shareholders approved decision to cancel 94,289,347 ordinary and 33,266,322 preference Class A shares of the Company respectively.

9. Financial instruments

The Group's principal financial instruments comprise cash and cash equivalents, loans issued and receivables, 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 30 June 2015 and 31 December 2014:

Classes	Categories	30 June 2015	31 December 2014
Cash and cash equivalents	Loans and receivables	11,607	16,945
Trade and other receivables	Loans and receivables	54,373	49,290
Available-for-sale financial assets at cost	Available-for-sale	93	84
Loans	Loans and receivables	8,531	1,957
Non-hedge derivative	Financial assets at fair value through profit or loss	–	3
Total financial assets		**74,604**	**68,279**
Bank and corporate loans	Liabilities at amortized cost	141,039	150,857
Bonds	Liabilities at amortized cost	45,152	37,560
Promissory notes	Liabilities at amortized cost	10	10
Vendor financing	Liabilities at amortized cost	84	55
Finance lease liabilities	Liabilities at amortized cost	420	175
Interest payable	Liabilities at amortized cost	1,519	1,265
Other borrowings	Liabilities at amortized cost	92	92
Trade and other payables	Liabilities at amortized cost	34,480	47,870
Non-hedge derivative	Financial liabilities at fair value through profit and loss	6,540	5,975
Total financial liabilities		**229,336**	**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, 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. Market value of bonds as of 30 June 2015 is 2.5% less carrying value at the reporting date.

Available for sale financial assets 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.

9. 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)

	30 June 2015	31 December 2014
Financial assets at fair value through profit or loss		
Non-hedge derivatives		
Level 1	–	–
Level 2	–	3
Level 3	–	–
Total non-hedge derivatives	**–**	**3**
Financial liabilities at fair value through profit or loss		
Non-hedge derivatives		
Level 1	–	–
Level 2	6,540	5,975
Level 3	–	–
Total non-hedge derivatives	**6,540**	**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 six-month periods ended 30 June 2015 and 30 June 2014.

Financial instruments at fair value through profit or loss

In October 2013 the Group bought a call option on 36,093,684 Company's ordinary shares and sold 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 Rostelecom ordinary share price volatility.

Data of the model	**Call**	**Put**
Grant date share price, USD	3.2842	3.2842
Exercise price, USD	4.2695	3.3934
Expected volatility	31.16%	31.16%
Remaining option life, years	0.44	0.44
Dividend yield	3.0%	3.0%
Risk-free interest rate	10.2%	10.2%
Fair value as at 30 June 2015 (asset/(liability))	0	(6,540)

For the six-months period ended 30 June 2015 the Group recognised a loss in the amount of 567 due to the changes of fair value of the options in Other investing and financial (loss)/gain (six-months period ended 30 June 2014: 1,275). Fair values of the options as at 30 June 2014 were: Call option – asset of 134 and Put option – liability of 1,886.

10. Borrowings

As of 30 June 2015 and 31 December 2014, interest bearing loans are denominated in the following foreign currencies:

	30 June 2015 (unaudited)	31 December 2014
US dollars (USD)	2,323	1,056
Euro	–	20
Other	–	22
Foreign currency denominated loans	**2,323**	**1,098**
Russian rubles denominated loans	185,993	188,916
Total borrowings	**188,316**	**190,014**

	RUB	USD	EUR	Other	Carrying amount
Balance as of 1 January 2015	**188,916**	**1,056**	**20**	**22**	**190,014**
New issues					
Bank and corporate loans	232,442	1,114	–	90	233,646
incl. bank loans from acquired subsidiaries	*746*	*1,104*	–	–	*1,850*
Bonds	10,000	–	–	–	10,000
Vendor financing	34	–	–	–	34
incl. vendor financing from acquired subsidiaries	*34*	–	–	–	*34*
Finance lease liabilities	302	–	–	–	302
incl. finance lease liabilities from acquired subsidiaries	*192*	–	–	–	*192*
Foreign exchange loss	–	78	–	–	78
Interest payable	8,503	155	–	–	8,659
incl.interest payable from acquired subsidiaries	*99*	*112*	–	–	*211*
Repayments					
Bank and corporate loans	(243,355)	(55)	(20)	(112)	(243,542)
Bonds	(2,408)	–	–	–	(2,408)
Vendor financing	(5)	–	–	–	(5)
Finance lease liabilities	(57)	–	–	–	(57)
Restructured customer payments	(2)	–	–	–	(2)
Interest payable	(8,377)	(25)	–	(1)	(8,403)
Balance as of 30 June 2015	**185,993**	**2,323**	**0**	**0**	**188,316**

In April 2015 the Group obtained control over FreshTel Group which includes 100% stakes in LLC Interproekt, LLC Orion, LLC Progress and LLC Stolitsa (refer to Note 5). Each of the acquired company has debt payable to Vnesheconombank nominated partially in USD and partially in RUB. Total debt payable to Vnesheconombank which was acquired with the FreshTel Group equals to 2,015 and includes principal amount payable of 1,805 and interest payable of 210. The debt is currently under restructuring procedure which assumes changes in some significant conditions including conversion of debt from USD to RUB, reduction of interest rate, changing the payment schedule. The Group expects that the restructuring of the debt will be completed before the finalization of the purchase price allocation on acquisition of FreshTel Group and may affect the provisional amount of fair value of non-current loans and borrowings of FreshTel Group (refer to Note 5).

11. Revenue

Revenue comprised the following for the six months ended 30 June 2015 and 2014:

	Six-month period ended 30 June	
	2015 (unaudited)	2014 (unaudited)
Fixed Telephony	50,957	56,099
Broadband Internet	31,475	29,799
TV services	9,336	7,375
Wholesale Services	36,938	37,355
VAS & Clouds	4,806	3,733
Other telecommunication services	7,057	7,259
Other non-telecommunication services	3,241	3,602
Mobile communication services	30	21
Total revenue	**143,840**	**145,243**

During six months ended 30 June 2015 and 2014 the Group generated revenue by the following major customer groups:

	Six-month period ended 30 June	
Customer Groups	2015 (unaudited)	2014 (unaudited)
Residential customers	67,847	68,660
Corporate customers	26,881	27,383
Governmental customers	22,657	21,514
Interconnected operators	26,455	27,686
Total revenue	**143,840**	**145,243**

12. 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 interim condensed 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 and amortization (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 30 June 2015 and 30 June 2014.

12. Segment information (continued)

The following table illustrates information about reportable segment revenue and OIBDA for the six months ended 30 June 2015:

6m2015	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Moscow	Other operations and reconciliation	Total segments	Adjustment and eliminations	Total
Revenue													
Third party revenue	**14,561**	**17,957**	**16,970**	**14,108**	**19,864**	**15,655**	**15,568**	**10,468**	**18,552**	**137**	**143,840**	**–**	**143,840**
Inter-segment revenue	4,933	212	14	92	1,068	15	98	173	294	15	6,914	(6,914)	–
OIBDA	(6,280)	8,594	7,443	6,286	8,607	5,927	6,782	4,371	8,169	(14)	49,885	(866)	49,019

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the six months ended 30 June 2015:

OIBDA of reportable segments	**49,899**
OIBDA of other segments	**(14)**
Adjustments	
Depreciation, amortization and impairment losses	(29,635)
Share of profit (loss) in equity accounted investees	(1,161)
Finance costs and other investing and financial gain	(7,001)
Foreign exchange loss, net	(461)
Share-based remuneration	(827)
Other adjustments	(39)
Profit before income tax	**10,761**

The following table illustrates information about reportable segment revenue and OIBDA for the six months ended 30 June 2014:

6m2014	Corp. Center	North-West	Center	South	Volga	Ural	Sibir	Far East	Moscow	Other operations and reconciliation	Total segments	Adjustment and eliminations	Total
Revenue													
Third party revenue	**14,391**	**18,178**	**17,179**	**15,191**	**20,193**	**15,745**	**16,007**	**10,696**	**17,531**	**132**	**145,243**	**–**	**145,243**
Inter-segment revenue	3,709	327	132	229	1,222	474	460	141	1,032	–	7,726	(7,726)	–
OIBDA	(6,684)	9,149	7,671	6,357	9,007	6,815	7,149	4,178	7,712	(5)	51,349	(750)	50,599

The following table illustrates reconciliation of reportable segment OIBDA to profit before income tax for the six months ended 30 June 2014:

OIBDA of reportable segments	**51,354**
OIBDA of other segments	**(5)**
Adjustments	
Depreciation, amortization and impairment losses	(29,016)
Share of profit (loss) in equity accounted investees	172
Finance costs and other investing and financial gain	(8,316)
Foreign exchange loss, net	(317)
Share-based remuneration	(750)
Profit before income tax	**13,122**

13. 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 54.2% of the Company's ordinary shares through Vnesheconombank and Federal Agency of State properties management. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

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

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Service and the Federal Telecommunications Agency, has the general authority to regulate certain tariffs. In addition to the regulation of tariffs, the telecommunication legislation requires the Group and other operators to make certain revenue-based payments to the Universal service fund, which is controlled by the Federal Telecommunications Agency. Moreover, the Ministry of Telecom and Mass Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Associates

On 1 April 2014 the Group obtained significant influence over T2 RTK Holding (refer to Note 14). Transactions with companies of T2 RTK Holding group were as follows:

	Six-month period ended 30 June	
	2015 (unaudited)	**2014 (unaudited)**
Revenue	4,244	1,661
Interest income	–	129
Purchase of telecommunication services	(1,865)	(1,382)
Purchase of other services	(447)	–

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

	30 June 2015	**31 December 2014**
Accounts receivable	2,096	6,953
Allowance for doubtful receivables	–	(293)
Accounts payable and accrued expenses	(1,079)	(898)
Loans and borrowings	–	(9)

13. Related party transactions (continued)

(c) Associates (continued)

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

	Six-month period ended 30 June	
	2015 (unaudited)	2014 (unaudited)
Revenue	83	66
Interest income	3	–
Purchase of telecommunication services	(69)	(50)
Purchase of other services	(96)	(29)

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

	30 June 2015 (unaudited)	31 December 2014
Accounts receivable	90	150
Financial assets	–	1,566
Allowance for doubtful receivables	(8)	(13)
Accounts payable and accrued expenses	(36)	(33)
Loans and borrowings	–	(3)

(d) 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 amounted to USD 260 million and should be contributed by each sponsor in the amount of USD 130 million. Half of this amount must be paid in cash and the other half must be contributed in free services. In return, each partner obtained 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 six months ended 30 June 2015 amounted to 176 (six months ended 30 June 2014: 606).

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 were on the Oversight Board of this Organisation.

The Group received loans from government-related banks PJSC Sberbank, PJSC Bank VTB, PJSC Sviaz-bank and others. The outstanding balances from these banks amounted to 135,658 as at 30 June 2015 (30 June 2014: 142, 530). During six months ended 30 June 2015 the Group obtained loans from these banks in amount of 173,242 (six months ended 30 June 2014: 133,229), made repayments in amount of 187,890 (six months ended 30 June 2014: 158,889). Interest expense accrued on those loans during six months ended 30 June 2015 amounted to 6,459 (six months ended 30 June 2014: 6,461).

13. Related party transactions (continued)

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

The Group has collectively but not individually significant transactions with other government-related entities including but not limited to providing telecommunication services, consuming services having both production and miscellaneous nature, depositing and borrowing money. All these transactions are carried out in the course of normal day-to-day business operations on the terms comparable to those with other entities which are not government-related. Management assesses these transactions as not particular material.

The amount of funds placed on deposits with government-related banks for the six months ended 30 June 2015 is 8,601 (six months ended 30 June 2014: 121) with related income recognised in profit and loss of 652 (six months ended 30 June 2014: 4) and amounts repaid back to the Company's account of 2,245 (six months ended 30 June 2014: 332).

At 30 June 2015 and 2014 a significant portion of the Group's cash and cash equivalents is kept on the accounts opened with the government-related banks.

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 six months ended 30 June 2015 amounted to 417. 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 six months ended 30 June 2014 to 297.

Also in 2014 the Company introduced a long-term motivation program for executives and senior employees of the Company (refer to Note 16). The amount of employee benefits related to the program and attributed to the key management personnel for the six months ended 30 June 2015 is 314 (six months ended 30 June2014: 404).

The remuneration amounts are stated exclusive of social taxes.

14. 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%.

14. Discontinued operations (continued)

As a result of the transaction completion during 2014, the aforementioned 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 about consolidated income statement of a discontinued operations for the six months ended 30 June 2014.

	Six-month period ended 30 June 2014		
	Discontinued operations	Intragroup transactions	Total
Revenue	**15,108**	**(3,981)**	**11,127**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(1,700)	–	(1,700)
Depreciation, amortisation and impairment losses	(12)	–	(12)
Interconnection charges	(5,941)	3,169	(2,772)
Materials, utilities, repairs and maintenance	(729)	3	(726)
Loss on disposal of property, plant and equipment	(23)	–	(23)
Bad debt expense	(156)	–	(156)
Other operating income	71	–	71
Other operating (expenses)	(3,873)	809	(3,064)
Total operating (expenses), net	**(12,363)**	**3,981**	**(8,382)**
Operating profit	**2,745**	–	**2,745**
Finance (costs)	(776)	573	(203)
Other investing and financial gain	10,205	(7,546)	2,659
Foreign exchange gain	90	–	90
Profit before income tax	**12,264**	**(6,973)**	**5,291**
Income tax expense	(392)	–	(392)
Profit for the period	**11,872**	**(6,973)**	**4,899**

The following table illustrates information about cash flows attributable to the operating, investing, and financing activities of a discontinued operation for 6 months ended 30 June 2014.

	2014
Operating cash flows	3,526
Investing cash flows	(779)
Financing cash flows	(1,462)
Total cash flows	**1,285**

15. Commitments and contingencies

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. There were no changes in contingencies since the date of issuance of the consolidated financial statements of the Group as of and for the six months ended 30 June 2015.

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 Company or the Group.

As of 30 June 2015 and of 31 December 2014, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 34,277 and 31,114 respectively.

16. Share-based payments

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

The duration of the program 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 2017. 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 827 and 750 (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 interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 and 30 June 2014 respectively.

The following share-based payment arrangements were made in 2014:

Grant series	Number of shares granted	Grant date	Exercise date
Grant contracts signed in 2014	9,805,383	Year 2014	Year 2015
Grant contracts signed in 2015	100,305	Year 2014	Year 2015
Grant contracts signed in 2014	9,805,383	Year 2014	Year 2016
Grant contracts signed in 2015	100,305	Year 2014	Year 2016
Grant contracts signed in 2014	13,037,844	Year 2014	Year 2017
Grant contracts signed in 2015	133,740	Year 2014	Year 2017
Total	**33,018,960**		

The weighted average fair value of the shares granted as of the grant date was 87.04 RUB.

16. Share-based payments (continued)

No new grants under the program were made during the six months period ended 30 June 2015.

During the six month period ended 30 June 2015 the program participants exercised their rights for the 6,397,732 shares. The share prices at the date of exercise were:

Number of shares	Exercise price, RUB
6,171,906	87.01
225,826	89.95

17. Subsequent events

PJSC Rostelecom and Korea's GS Home Shopping Inc. create Big Universal Mall Channel

On 21 July 2015 PJSC Rostelecom signed agreements with Korea's GS Home Shopping Inc. to create Big Universal Mall Channel, a new teleshopping channel for the Russian market.

Both companies are expected to invest a total of USD 20 million, with Rostelecom funding USD 12 million of this amount. Rostelecom will have a 60% share in the operating company that will handle the channel's sales (Big Universal Mall LLC), and an 80% share in the broadcasting company (Big Universal Mall Channel LLC).

Big Universal Mall Channel is a new concept in Russia with a focus on live broadcasting and interaction with the audience. The channel will go on air at the beginning of 2016. Rostelecom will broadcast the channel on its own cable TV and IPTV networks and will review the possibility of cooperating with other pay-TV providers. The teleshopping channel can draw on Rostelecom retail chain to both promote and deliver goods, and the Company's call center to handle customer enquiries.

Acquisition of Bashinformsvyaz ordinary shares under a voluntary buy-out

On 14 April 2015 the Company made a voluntary tender offer to buy-out the outstanding non-controlling ordinary shares of Bashinformsvyaz, the Company's subsidiary, for 8.53 Russian Roubles per share, as a first stage of the plan to consolidate the non-controlling interest in the subsidiary. The Company recognized a related reserve in the interim condensed consolidated statement of changes in equity with a corresponding liability recorded in Accounts payable, provisions and accrued expenses (Current liabilities) of the interim condensed consolidated statement of financial position.

On 27 July 2015 the Company completed the first stage of the plan to consolidate 100% of Bashinformsvyaz's and acquired 25.7% of its shares for 2,080. As a result of the transaction, Rostelecom's share of Bashinformsvyaz has increased from 68.2% to 92.9%. The second stage of Bashinformsvyaz's non-controlling ordinary shares buy-out is planned to be completed in August 2015 as a result of the mandatory tender offer to the holders of the remaining non-controlling interest in Bashinformsvyaz.

17. Subsequent events (continued)

Extension of Call and Put share option agreement ("the Options agreement") with Deutsche Bank Ltd

On 6 August 2015 Board of Directors of the Company has approved an extension of the Options agreement with Deutsche Bank Ltd. The Options agreement was originally signed in October 2013 as part of the deal according to which Deutsche Bank acquired 1.35% of Rostelecom ordinary shares and provided to Rostelecom and Deutsche Bank call and put options for the respective ordinary shares of the Company. The agreement has been extended to 1 December 2017.

New loan agreement with VTB Bank PJSC

In June 2015, the Group entered into credit line facility agreement with VTB Bank, for the amount of RUB 14.0 billion and bearing interest of Central Bank of Russia rate of refinancing + 2.55%, maturing in June 2018. As of the date of approval of these financial statements, the Group has not yet made any drawn downs under this agreement.