ROSTELECOM PJSC (RKMD)

02-Aug-2018 / 13:10 MSK
Dissemination of a Regulatory Announcement that contains inside information according to REGULATION (EU) No 596/2014 (MAR), transmitted by EQS Group.
The issuer is solely responsible for the content of this announcement.

ROSTELECOM ANNOUNCES ITS IFRS FINANCIAL AND OPERATING RESULTS FOR THE SECOND QUARTER OF 2018

PAY-TV SUBSCRIBER BASE EXCEEDED 10 MILLION USERS

Moscow, Russia - August 2
operator, today announces its consolidated financial results for the second quarter of 2018 prepared in accordance with IFRS[1],[2].

KEY ACHIEVEMENTS

- *Revenue grew by 3 % year-on-year in the second quarter of 2018 with average annual revenue growth of 5% over the last four quarters;*
- *The digital segment's[3] contribution to total revenue reached 53%;*
- *Pay-TV subscriber base exceeded 10 million users;*
- *1 million clients use Rostelecom's mobile communication services;*
- *Consistently high growth rates in FTTx Broadband clients (+7%) and in IPTV subscribers (+11%), while ARPU continues to grow in our core broadband and IPTV segments ;*
- *Increase in revenues from VAS and cloud services amounted to 34% in the second quarter of 201 8, as a result of "Smart City" projects, and the promotion of cloud services and data centre services.*

SECOND QUARTER 2018 FINANCIAL HIGHLIGHTS

- *Revenue grew by 3% to RUB 77.4 billion compared to the second quarter of 201 7;*
- *OIBDA[4] of RUB 23.7 billion;*
- *OIBDA margin of 30.6%;*
- *Net profit increased by 9% to RUB 3.1 billion compared to the second quarter of 2017;*
- *CAPEX[5] increased by 16% to RUB 14.4 billion (18.7% of revenue) from RUB 12.5 billion (16.6% of revenue) in the second quarter of 201 7;*
- *Consolidated Free Cash Flow (FCF) improved to RUB (0.8) billion[6] compared to RUB (1.6) billion in the second quarter of 2017 ;*
- *Net debt[7] increased by 7% since the beginning of the year and amoun ted to RUB 193.5 billion, resulting in a Net Debt/OIBDA ratio of 2.0x.*

Key figures for 2Q 2018, RUB mln

RUB million	**2Q 2018**	**2Q 2017**	***% change, y-o-y***
Revenue	**77,365**	**75,166**	*3%*
OIBDA	**23,659**	**24,599**	*(4%)*
OIBDA margin %	**30.6%**	**32.7%**	-
Operating Income	**8,342**	**11,304**	*(26%)*
Operating margin %	**10.8%**	**15.0%**	-
Net Income	**3,094**	**2,826**	*9%*
% of revenue	**4.0%**	**3.8%**	-
Capital Expenditure	**14,442**	**12,451**	*16%*
% of revenue	**18.7%**	**16.6%**	-
Net debt	**193,497**	**185,463**	*4%*
Net debt/ annualised OIBDA	**2.0**	**1.9**	-
FCF	**(832)**	**(1,644)**	*+RUB 812 million*

FIRST HALF YEAR 2018 FINANCIAL HIGHLIGHTS

- *Revenue increased by 5% to RUB 153.6 billion compared to the first half of 201 7;*
- *OIBDA increased by 1% year-on-year to RUB 46. 9 billion compared to the first half of 2017 ;*
- *OIBDA margin of 30.5% compared to 31.7% in the first half of 2017 ;*
- *Net profit increased by 16% to RUB 7.0 billion compared to the first half of 201 7;*
- *CAPEX decreased by 2% year-on-year to RUB 29.6 billion (19.3% of revenue) from RUB 30.2 billion (20.7% of revenue) in the first half of 2017 ;*
- *Free Cash Flow (FCF) of RUB (6.7) billion compared to RUB (4.0) billion in the first half of 201 7;*

Key figures for 1HY 2018, RUB mln

RUB million	**1HY 2018**	**1HY 2017**	**%change, y-o-y**
Revenue	**153,568**	**145,602**	*5%*
OIBDA	**46,852**	**46,168**	*1%*
OIBDA margin %	**30.5%**	**31.7%**	
Operating Income	**16,699**	**19,397**	*(14%)*
Operating margin %	**10.9%**	**13.3%**	
Net Income	**6,958**	**5,976**	*16%*
% of revenue	**4.5%**	**4.1%**	
Capital Expenditure	**29,567**	**30,165**	*(2%)*
% of revenue	**19.3%**	**20.7%**	

Net debt	**193,497**	**185,463**	*4%*
Net debt/ annualised OIBDA	**2.0**	**1.9**	
FCF	**(6,680)**	**(3,953)**	*-RUB 2,727 million*

Mikhail Oseevsky, President of Rostelecom, commented:

"The Q2 2018 results came in line with our expectations. Rostelecom has gained momentum: revenue has been growing at a solid average annual rate of 5% in the last 12 months. Our digital segment, which currently accounts for 53% of our top-line, has contributed significantly to this growth. Our growth engine is delivering and we are also increasing our competitive positions in the key pay-TV and broadband segments, thanks to a growing subscriber base and higher ARPU. This was achieved by promoting new services such as "Smart Home" video surveillance, where we saw the subscriber base grow three-fold in the reporting period. Higher demand for cloud services, data centers and information security solutions is also contributing to our top-line and is coming from corporate and government clients. We are strengthening our competences in the key growing areas, including cyber security business stream, which is why we acquired Solar Security, a technological leader in target monitoring and information security operational management. Solar Security will make a substantial contribution to this strength and will allow us to boost our presence in the market thanks to its reputation for delivering a reliable and trustworthy suite of services and products. Solar Security will evolve into Russia's national cybersecurity operator which will cover three key areas, including "Services", "Brand new products" and "Full-scale cybersecurity solutions".

We continue to successfully implement the Russian government's state projects of high strategic importance. Public funding enabled us to further expand the number of high-speed connections in Russian healthcare centres and across remote areas during the second quarter. We also successfully delivered the video surveillance of the Unified State Exam, which contributed over RUB 1 billion of revenue.

Serving as regional sponsor to World Cup 2018 has had a significantly marketing contribution for Rostelecom. We were deploying Wi-Fi spots in the majority of sites, provided the Organisation Committee and FIFA with video conferencing services, arranged for steady Internet connection in the stadiums and launched a number of remarkable promotion campaigns during the World Cup. We did our best to ensure comfort and provide high quality services for fans from all over the world, to maintain our reputation of one of the leading digital providers.

In June this year the AGM approved that 100% of net income would be distributed across shareholders at RUB 5.05 per a preferred and ordinary share, which resulted in a high level of dividend yield. We strongly believe that consistent implementation of our robust business development strategy will pave the way for further attractive dividend payments."

Sergei Anokhin, Senior Vice-President and Chief Financial Officer, added:

"Rostelecom's results for the second quarter of 2018 reflect our confident outlook for future developments of the digital segment. We expect our performance to continue to improve across all key financial indicators. W e therefore confirm our full year forecast for revenue growth, and anticipate an increase of more than 2%. OIBDA margin is expected to be above 31.5% in 2018 with CAPEX of RUB 60-65 billion, excluding the implementation of government programmes."

KEY OPERATING HIGHLIGHTS

1. The total number of Internet subscribers grew by 2% to 13.0 million in the second quarter of 2018 compared to the corresponding period of last year;
   - The B2C subscriber base grew by 1% to 12.0 million, whilst the number of subscribers connected by fibre optic increased by 6% year-on-year to 7.9 million (66% of the subscriber base);
2. The number of pay-TV subscribers grew by 5% to 10.0 million households compared to the corresponding period of last year;
   - The number of IPTV subscribers increased by 11% to 5.1 million;
3. The number of MVNO subscriber base reached 1 million users, a more than two-fold increase within 1 year;
4. The number of local telephony subscribers decreased by 8% to 18.3 million.

Number of subscribers (million):	**2Q 2018**	**2Q 2017**	***% change, y-o-y***	**1Q 2018**	***% change, y-o-y***
Internet access	**13.0**	12.8	*2%*	**12.9**	*0.1%*
B2C: Broadband	12.0	11.8	*1%*	12.0	*0.03%*
B2B: Broadband + VPN	1.0	0.9	*2%*	1.0	*2%*
Pay TV	**10.0**	9.5	*5%*	**9.9**	*1%*
Incl. IPTV	5.1	4.6	*11%*	5.0	*2%*
MVNO subscribers	**1.0**	0.5	*107%*	**0.9**	*10%*
Local telephony services	**18.3**	19.9	*(8%)*	**18.7**	*(2%)*

KEY EVENTS RELATING TO 2Q 2018 AND AFTER THE END OF THE REPORTING PERIOD

Business news

- Rostelecom continues to develop and expand its range of services:
  - Rostelecom' s "Smart Home" video surveillance service was upgraded with 5 new detectors and safety actuators, and customers now also have the option to buy smart periphery online. Users now have access to smarter solutions to further automate their households to increase comfort and security;
  - The ability to archive video footage for 14 and 30 days is now included in the "Smart Home" video surveillance service;
  - Further enhancements were made to the functionality of Rostelecom's 4Game option of the "Gaming" tariff plan;
  - In B2B/G segments, Rostelecom increased product functionality and expanded its product offering for "Hosted PBX", "Web conferencing", "Managed communication services", "National Wi-Fi", "Virtual Data Centre", and "Information security";
  - Special offers within the MVNO project were launched, including:
    - 2 successful promotional campaigns aimed at increasing demand for communication services (offered through the "Mobile gifts" and "Compliment" promotions);
    - New clients are offered a special 20% discount when switching to Rostelecom and they can keep existing phone numbers (the "Welcoming" offer);
    - The traffic in Interactive TV applications was reset;

- Brand-new convergent products were launched in Saint-Petersburg, Komi Republic and Chelyabinsk;
- A number of roaming options were introduced for clients using Rostelecom services when travelling.

The initiatives listed above helped increase Rostelecom's subscriber base to 1 million users;

- Rostelecom continues to grow its digital segment:
  - During the second quarter of 2018, the pay-TV subscriber base surpassed 10 million users;
  - The Company has gained around 70% of new subscriptions in the IPTV market in the second quarter of 2018[8];
  - Rostelecom successfully delivered the video surveillance of the Unified State Exam, which contributed over RUB 1 billion of revenue;
  - The "Smart Home" video surveillance client base tripled over the reporting period;
  - Sales of Rostelecom's Antivirus service doubled in the last 12 months, with the number of users growing at an equivalent rate;
  - Rostelecom launched pilot sites for a new generation 5G network located in Innopolis in the Republic of Tatarstan and the State Hermitage museum in Saint-Petersburg; these launches were added to the 5G network in Skolkovo in Moscow in the first quarter of 2018;
- Rostelecom signed/renewed a number of large contracts, including agreements with Roseestr (The Federal Service for State Registration, Cadastre and Cartography), Federal Treasury, Moscow Center for Education Quality of the Education Department of the city of Moscow, Gazprombank, State Firefighter Service of the Tulskaya region and other;
- Rostelecom's loyalty programme was awarded two prizes at the 2018 Loyalty Awards Russia ceremony;
- As part of FIFA World Cup 2018:
  - Rostelecom provided videoconferencing services for the Russian Organising Committee office and FIFA headquarters in Zurich. The service was also delivered in hosting cities, including in the International Exhibition Centre, FIFA headquarters, and at stadiums and operational centres;
  - Rostelecom set up W-Fi networks for fans in 5 participating hosting cities;
  - The Company arranged a ticket lottery for "Bonus" programme users, and a "Football Mania" campaign for its clients;
  - Rostelecom broadcasted the "Match! Ultra" TV channel within its TV package offering (the channel was 100% dedicated to World Cup);
  - Rostelecom's provided Internet access across 8 FIFA World Cup 2018 stadiums, including in Kaliningrad, Nizhny Novgorod, Samara, Saransk, Rostov-on-Don, Volgograd, Sochi, Ekaterinburg;
- Voice interconnects were upgraded so as to allow for 90% transmission of the Tele2 Russia DLD traffic through Rostelecom's network;
- The revenue from O2O project (the infrastructure operator) increased by 2.3 times;
- More than 20% of partnering operators were connected to the Operator's personal account;
- Rostelecom negotiated with the management of TIC (IRAN), OmanTel (Oman), Afgantelecom (Afghanistan), Gmobile (Mongolia) on further cooperation development and strengthening Rostelecom's positions as the key transit operator in the regions;

Other News

- The AGM approved the Company's dividend payout, which amounted to RUB 14.050 bln, or 100% of 2017 net income in accordance with IFRS. This is to be paid in cash, and rewarded as follows:
  - RUB 5.05 per Class A preferred share[9];
  - RUB 5.05 per ordinary share[10].
- Rostelecom offered an electronic voting option to its investors at the AGM;
- Analytical Credit Rating Agency (ACRA) affirmed AA(RU) credit rating with a stable outlook;
- National Media Group and Rostelecom launched a JV to produce and acquire content, launch joint TV channels and promote owned and external TV channels;
- Rostelecom acquired 100% of the share capital of Solar Security, a technological leader in target monitoring and information security (IS) operational management. Solar Security will evolve into Russia's national cybersecurity operator which will cover three key areas, including "Services", "Brand new products" and "Full-scale cybersecurity solutions".

OPERATING REVIEW

Revenue analysis

Revenue structure by services

RUB million	2Q 2018	2Q 2017	*% change, y-o-y*	1HY 2018	1HY 2017	*% change*
Broadband	**19,653**	17,589	*12%*	**38,836**	35,096	*11%*
TV services	**8,488**	6,809	*25%*	**16,663**	13,452	*24%*

Fixed telephony	**17,717**	19,763	*(10%)*	**36,000**	40,162	*(10%)*
Wholesale services	**19,395**	20,225	*(4%)*	**38,794**	37,536	*3%*
Rent of channels	***2,386***	*2,367*	*1%*	***4,682***	*4,770*	*(2%)*
Interconnect and traffic transit services	***7,913***	*8,958*	*(12%)*	***16,288***	*15,701*	*4%*
VPN	***5,723***	*5,627*	*2%*	***11,247***	*10,652*	*6%*
Rent and maintenance of telecommunications infrastructure	***3,374***	*3,273*	*3%*	***6,577***	*6,414*	*3%*
VAS and cloud services	**7,470**	5,555	*34%*	**14,707**	9,449	*56%*
Other telecommunications services	**2,836**	3,538	*(20%)*	**5,446**	6,796	*(20%)*
Other non-telecommunications services	**1,805**	1,686	*7%*	**3,122**	3,111	*0.4%*
Total	**77,365**	**75,166**	***3%***	**153,568**	145,602	***5%***

Revenue structure by customer segments

RUB million	**2Q 2018**	**2Q 2017**	***% change, y-o-y***	**1HY 2018**	**1HY 2017**	***% change***
Residential customers	**34,361**	33,756	*2%*	**68,447**	67,723	*1%*
Corporate customers / Government customers	**28,109**	25,897	*9%*	**55,121**	49,249	*12%*
Operators	**13,704**	14,343	*(4%)*	**27,690**	26,333	*5%*
Other	**1,192**	1,169	*2%*	**2,310**	2,297	*1%*
Total	**77,365**	**75,166**	***3%***	**153,568**	**145,602**	***5%***

In the second quarter of 2018, revenue increased by 3% to RUB 77.4 billion, compared to the second quarter of 2017, as a result of the following factors:

- a 34% increase in revenue from VAS and cloud services, mainly due to proceeds from the development of "Smart City" projects, data-centres and the promotion of cloud services;
- a 25% increase in revenue from pay-TV services due to growth in the IPTV subscriber base, higher ARPU, as well as the application of new IFRS standards;
- a 12% rise in revenue from broadband services due to an increased number of subscribers, higher ARPU, as well as the application of new IFRS standards;

In the first half of 2018, revenue increased by 5% to RUB 153.6 billion, compared to the first half of 2017, as a result of the following factors:

- a 56% increase in revenue from VAS and cloud services, mainly due to proceeds from the video surveillance services provided during the presidential election in Russia, as well as the development of "Smart City" projects, data-centres and the promotion of cloud services;
- a 11% rise in revenue from broadband services due to an increased number of subscribers, higher ARPU, as well as the application of new IFRS standards;
- an 24% increase in revenue from pay-TV services due to growth in the IPTV subscriber base, higher ARPU, as well as the application of new IFRS standards;
- a 3% rise in revenue from wholesale services, due to higher revenue from interconnect and traffic transit services and VPN in the first quarter of 2018;

Operating income analysis

Operating expenses structure

RUB million	**2Q 2018**	**2Q 2017**	***% change, y-o-y***	**1HY 2018**	**1HY 2017**	***% change, y-o-y***
Personnel costs *(excluding the option programme)*	**(23,210)**	(22,462)	*3%*	**(46,937)**	(46,379)	*1%*
Option programme related expenses	**(920)**	436	-	**(1,678)**	430	-
Depreciation, Amortization and impairment losses	**(14,397)**	(13,731)	*5%*	**(28,475)**	(27,201)	*5%*
Interconnection charges	**(13,632)**	(13,547)	*1%*	**(27,776)**	(24,322)	*14%*
Materials, repairs and maintenance, utilities	**(6,057)**	(5,682)	*7%*	**(12,395)**	(11,865)	*4%*
Gain on the disposal of PPE and intangible assets	**976**	642	*52%*	**1,394**	796	*75%*
Impairment loss of financial assets measured at amortized cost	**(1,629)**	(841)	*94%*	**(2,803)**	(1,497)	*87%*
Other operating income	**3,415**	3,233	*6%*	**6,994**	6,365	*10%*
Other operating expenses	**(13,569)**	(11,911)	*14%*	**(25,193)**	(22,532)	*12%*
Total operating expenses	**(69,023)**	**(63,862)**	***8%***	**(136,869)**	**(126,205)**	***8%***

In the second quarter of 2018, operating expenses increased by 8% compared to the corresponding period of 2017 and amounted to RUB 69.0 billion, largely due to the following factors:

- a 14% increase (of RUB 1.7 billion) in other operating expenses, partly related to equipment supplies for B2B/G projects and further promotion of Rostelecom's services;
- a change in allowance for the option programme (by RUB 1.4 billion) due to similar accruals later in 2017 as well as reversal of reserves under previous option programme in the second quarter 2017;
- a 94% increase (of RUB 0.8 billion) in impairment loss of financial assets measured at amortized cost, mainly due to increased cost on

potential credit losses;

- a 5% increase (of RUB 0.7 billion) in depreciation, amortization and impairment losses, mainly due to new IFRS standards application;

In the first half of 2018, the operating expenses increased by 8% compared to the corresponding period of 2017 and amounted to RUB 136.9 billion due to the following factors:

- a 14% increase (of RUB 3.5 bln) in interconnection charges, mainly due to higher expenditure on interconnect and traffic transit services in the first quarter of 2018, as a result of an increase in corresponding income;
- a 12% increase (of RUB 2.7 bln) in other operating expenses, mainly due to organizing of the video surveillance of Russia's presidential election in the first quarter of 2018, equipment supplies for B2B/G projects, as well as the promotion of services;
- a change in allowance for the option programme (by RUB 2.1 billion) due to later similar accruals in 2017 as well as reversal of reserves under previous option programme in the second quarter 2017;
- a 87% increase (of RUB 1.3 bln) in the impairment loss of financial assets measured at amortized cost, mainly due to one-off write-offs from the previous periods.

Operating profit decreased by 26% year-on-year to RUB 8.3 billion in the second quarter of 2018, compared to the corresponding period of 2017. Operating profit decreased by 14% year-on-year to RUB 16.7 billion in the first half of 2018.

OIBDA for the second quarter of 2018 decreased by 3.8% year-on-year to RUB 23.7 billion. OIBDA for the first half of 2018 increased by 1.5% to RUB 46.9 billion. The OIBDA margin stood at 30.6% in the second quarter of 2018 compared to 32.7% in the corresponding period of 2017. The OIBDA margin was at 30.5% in the first half of 2018 compared to 31.7% in the corresponding period of 2017.

Net Income Analysis

In the second quarter of 2018, profit before tax decreased by 1% to RUB 4.5 billion, compared to the corresponding period in 2017. In the first half of 2018, profit before tax increased by 9% to RUB 9.4 billion.

This dynamics was influenced by the following factors:

- lower operating profit;
- improved associated companies' financial results, mainly from the joint venture with Tele2 Russia;
- lower financial expenses, mainly due to a higher base in the second quarter of 2017;

The increase in profit before tax in the first half of 2018 mainly resulted from the following factors:

- lower financial expenses, mainly due to a higher base in the first half of 2018;
- improved associated companies' financial results, mainly from the joint venture with Tele2 Russia;

Income tax in the second quarter of 2018 decreased by 19% to RUB 1.4 billion. Income tax in the first half of 2018 decreased by 7% to RUB 2.4 billion.

The effective income tax rate was 32% in the second quarter of 2018, and 26% in the first half of 2018 compared to the 20% rate set by the Tax Code. A higher income tax rate in the second quarter of 2018 and the first half of 2018 was driven by the non-deductible expenses for taxation purposes.

Net profit increased by 9% in the second quarter of 2018 and totalled RUB 3.1 billion, and by 16% to RUB 7.0 billion in the first half of 2018.

Financial review

Consolidated net operating cash flow in the second quarter of 2018 increased by 18%, to RUB 11.7 billion, compared to the corresponding period of 2017, and decreased by 19% to RUB 20.0 billion in the first half of 2018. The increase in consolidated net operating cash flow in the second quarter of 2018 was partly caused by changes in working capital, which was mainly driven by lower level of accounts payable. This decrease in accounts payable was due to an earlier annual bonuses payout, compared to 2017. A decrease in accounts receivables for retail and corporate customers was also a factor for changes in working capital. The decrease in consolidated net operating cash flow in the first half of 2018 is mainly due to changes in working capital, partly caused by an increase in accounts receivables for one-off projects in the first quarter of 2018. Changes in tax payments / refunds had also an impact on consolidated net operating cash flow in the first half of 2018.

Consolidated cash outflow for investments in non-current assets increased by 16% to RUB 14.4 billion in the second quarter of 2018. Excluding the state programmes, this figure increased by 3% to RUB 12.0 billion (15.5% of revenue). Consolidated cash outflow for investments in non-current assets decreased by 2% to RUB 29.6 billion in the first half of 2018. Excluding the state programmes, this figure decreased by 15% to RUB 24.5 billion (16.0% of revenue). These trends were driven by an uneven distribution of capital expenditure across the calendar year in accordance with the terms of signed contracts.

Consolidated free cash flow improved in the second quarter of 2018 and totalled RUB (0.8) billion compared to RUB (1.7) billion in the corresponding period of 2017. Consolidated free cash flow in the first half of 2018 totalled RUB (6.7) billion compared to RUB (4.0) billion in the first half of 2017.

As at June 30, 2018, the Group's total debt increased by 6% compared to the beginning of the year, and amounted to RUB 203.6 billion. Over 99% of the Group's total debt was rouble-denominated as at June 30, 2018.

As at June 30, 2018, the Group's consolidated net debt amounted to RUB 193.5 billion. The net debt /OIBDA ratio stood at 2.0x for the past twelve months ended in the first half of 2018.

OTHER INFORMATION: CONFERENCE CALL

Rostelecom's management will hold a conference call and webcast today at 6.00 PM (Moscow), 5.00 PM (CET), 4.00 PM (UK) and 11.00 AM (NYT). To participate in the conference call, please dial:

Russia: +7 495 646 9190
UK/ International: +44 (0)330 336 9411
USA: + 1 929 477 0324

Confirmation Code (ENG): **9118937**
Confirmation Code (RUS): **9118897**

A webcast of the conference call will only be available in English. To access the webcast please follow the link: https://webcasts.eqs.com/rostelecom20180802.

A replay of the conference call will be available on the Company's website https://www.company.rt.ru/ir/results_and_presentations/financials/IFRS/2018/2/ in due course.

* * *

APPENDICES

1. Reconciliation of OIBDA;
2. IFRS 9, 15 and 16 standards application;
3. Statement of Comprehensive Income for the first six months of 2018;
4. Statement of Cash Flows for the first six months of 2018;
5. Statement of Financial Position for the six three months of 2018.

APPENDIX 1: RECONCILIATION OF OIBDA

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

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

RUB million	**1Q 2018**	**1Q 2017**	*% change, y-o-y*	**1HY 2018**	**1HY 2017**	*% change, y-o-y*
Operating income	**8,342**	**11,304**	*(26%)*	**16,699**	**19,397**	*(14%)*
Plus amortisation	**14,397**	**13,731**	*5%*	**28,475**	**27,201**	*5%*
Plus non-cash expenses related to the long-term management incentive programme	**920**	**(436)**	-	**1,678**	**(430)**	-
OIBDA	**23,659**	**24,599**	*(4%)*	**46,852**	**46,168**	*1%*
OIBDA margin, %	30.6%	32.7%		30.5%	31.7%	

APPENDIX 2: IFRS 9, 15 and 16 STANDARDS APPLICATION

The Group initially adopted IFRS 9, 15 and 16 using the modified retrospective approach starting from the first quarter of 2018.
The key changes related to the application of these standards are listed below:

* Expenses related to the operating leases have been capitalized and are reflected in the accounting balance sheet under the title "Right-of-use assets (RoU)". The RoU related liabilities are reflected in relative balance lines under same titles;
* The expenses related to the conclusion and implementation of contracts with customers have been capitalized and are reflected under "Revenue from Contracts with Customers";
* Assets for contracts with customers in arrears on payments for services rendered, but yet not invoiced, were excluded from the accounts receivable balance;
* Revenues from the sale of goods or provision of services of not sufficient individual value to customers, have been deferred;
* Recurring advances, containing the financing component, have been discounted;
* Impairment provisions of financial assets are recognised on the basis of expected credit losses.

APPENDIX 3: Statement of Comprehensive Income for the first six months of 2018

	Six-month period ended 30 June (unaudited)	
	2018	**2017***
Revenue	**153,568**	**145,602**
Operating expenses		
Wages, salaries, other benefits and payroll taxes	(48,615)	(45,949)
Depreciation, amortization and impairment losses	(28,475)	(27,201)
Interconnection charges	(27,776)	(24,322)
Materials, utilities, repairs and maintenance	(12,395)	(11,865)
Gain on disposal of property, plant and equipment and intangible assets	1,394	796
Impairment loss of financial assets measured at amortized cost	(2,803)	(1,497)
Other operating income	6,994	6,365
Other operating expenses	(25,193)	(22,533)
Total operating expenses, net	**(136,869)**	**(126,206)**
Operating profit	**16,699**	**19,396**
Gain/(loss) from associates and joint ventures	198	(1,739)
Finance costs	(8,355)	(9,468)
Other investing and financial gain, net	1,074	371
Foreign exchange (loss)/gain, net	(219)	41
Profit before income tax	**9,397**	**8,601**

Income tax expense	(2,439)	(2,626)
Profit for the period	**6,958**	**5,975**
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations, net of tax	178	(41)
Other comprehensive income/(loss) for the period, net of tax	**178**	**(41)**
Total comprehensive income for the period	**7,136**	**5,934**
Profit attributable to:		
Equity holders of the Group	6,705	5,739
Non-controlling interests	253	236
Total comprehensive income attributable to:		
Equity holders of the Group	6,897	5,696
Non-controlling interests	239	238
Earnings per share attributable to equity holders of the Group - basic (in roubles)	2.97	2.55
Earnings per share attributable to equity holders of the Group - diluted (in roubles)	2.94	2.55

* *The Group initially adopted IFRS 15 and IFRS 16 using the modified retrospective approach . Under this approach, the comparative information is not restated. The Group applied IFRS 9 from 1 January 2018 and has not restated comparative information for 2017 for financial instruments under the IFRS 9 standard.*

APPENDIX 4: Statement of Cash Flows for 1HY 2018

	Six-month period ended 30 June (unaudited)	
	2018	**2017**
Cash flows from operating activities		
Profit before tax	9,397	8,601
Adjustments to reconcile profit before tax to cash generated fromoperations		
Depreciation, amortization and impairment losses	28,475	27,201
Gain on disposal of property, plant and equipment and intangible assets	(1,394)	(796)
Impairment loss of financial assets measured at amortized cost	2,803	1,497
(Gain)/loss from associates and joint ventures	(198)	1,739
Finance costs excluding finance costs on pension and other long-term social liabilities	8,291	9,405
Other investing and financial gain, net	(1,074)	(371)
Foreign exchange loss/(gain), net	219	(41)
Share-based motivation program	1,645	(382)
Changes in net working capital		
Increase in accounts receivable and contract assets	(12,391)	(9,545)
Increase/(decrease) in employee benefits	520	(65)
(Increase)/decrease in inventories	(565)	(236)
Increase/(decrease) in accounts payable, provisions and accrued expenses	2,417	(2,544)
Decrease in other liabilities	(5,871)	(1,206)
Cash generated from operations	**32,274**	**33,257**
Interest paid	(8,905)	(8,624)
Income tax refund	-	1,514
Income tax paid	(3,407)	(1,355)
Net cash from operating activities	**19,962**	**24,792**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(29,567)	(30,165)
Proceeds from sale of property, plant and equipment and intangible assets	2,634	1,420
Acquisition of financial assets	(3,370)	(7,264)
Proceeds from disposals of financial assets	3,518	3,919
Interest received	291	335
Dividends received	-	1
Purchase of subsidiaries and business, net of cash acquired	(2,019)	(64)
Proceeds from disposal of subsidiaries, net of cash disposed	-	139
Acquisition of equity accounted investees	(3,471)	-
Net cash used in investing activities	**(31,984)**	**(31,679)**
Cash flows from financing activities		
Proceeds from bank and corporate loans	330,883	269,120
Repayment of bank and corporate loans	(316,172)	(258,150)
Proceeds from bonds	10,000	10,000
Repayment of bonds	(11,209)	(9,285)
Repayment of vendor financing payable	(11)	(5)
Repayment of other non-current financing liabilities	(1)	(2)
Options settlement repayments	-	(209)
Repayment of lease liabilities	(1,128)	(61)
Acquisition of non-controlling interest	-	(2,255)
Dividends paid to non-controlling shareholders of subsidiaries	(35)	-
Net cash from financing activities	**12,327**	**9,153**
Effect of exchange rate changes on cash and cash equivalents	(4)	(135)
Net increase in cash and cash equivalents	**301**	**2,131**
Cash and cash equivalents at beginning of the period	3,815	4,257
Cash and cash equivalents at the end of the period	**4,116**	**6,388**

APPENDIX 5: Statement of Financial Position for the 1HY of 2018

	30 June 2018 (unaudited)	31 December 2017 (audited)*
Assets		
Non-current assets		
Property, plant and equipment	347,240	348,430
Investment properties	157	159
Goodwill and other intangible assets	60,382	59,820
Right of use assets	19,340	-
Trade and other accounts receivable	7,966	8,352
Investments in associates and joint ventures	69,638	65,879
Other financial assets	1,422	1,600
Other non-current assets	6,034	4,352
Deferred tax assets	817	647
Contract assets	423	-
Contract costs	11,847	-

Total non-current assets	**525,266**	**489,239**
Current assets		
Inventories	6,747	6,169
Contract assets	8,989	-
Trade and other accounts receivable	48,660	47,813
Prepayments	4,518	3,455
Prepaid income tax	2,091	159
Other financial assets	5,963	5,963
Other current assets	3,032	2,619
Cash and cash equivalents	4,116	3,815
Held for sale assets	1,047	997
Total current assets	**85,163**	**70,990**
Total assets	**610,429**	**560,229**
Equity and liabilities		
Equity attributable to equity holders of the Group		
Share capital	93	93
Additional paid-in capital	91	91
Treasury shares	(60,419)	(65,556)
Retained earnings and other reserves	303,738	311,494
Total equity attributable to equity holders of the Group	**243,503**	**246,122**
Non-controlling interests	3,487	3,242
Total equity	**246,990**	**249,364**
Non-current liabilities		
Loans and borrowings	195,361	166,660
Lease liabilities	17,816	-
Employee benefits	5,253	4,733
Deferred tax liabilities	38,046	35,681
Accounts payable, provisions and accrued expenses	2,499	2,233
Other non-current liabilities	13,075	6,383
Total non-current liabilities	**272,050**	**215,690**
Current liabilities		
Loans and borrowings	8,215	24,712
Lease liabilities	3,864	-
Accounts payable, provisions and accrued expenses	68,091	60,666
Income tax payable	41	1,162
Other current liabilities	11,178	8,635
Total current liabilities	**91,389**	**95,175**
Total liabilities	**363,439**	**310,865**
Total equity and liabilities	**610,429**	**560,229**

* *The Group initially adopted IFRS 15 and IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. The Group applied IFRS 9 from 1 January 2018 and has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.*

Rostelecom is one of the largest national telecommunications operators in Russia and Europe. The Company operates in all segments of the telecommunications market and covers millions of households in Russia.

Rostelecom is an undisputable leader of the broadband and pay-TV markets in Russia with over 13.0 million fixed-line broadband subscribers and over 10 million pay-TV subscribers, over 5.1 million of which are subscribed to Rostelecom's IPTV services.

In the first half of 2018, the Group generated RUB 153.6 billion of revenues, RUB 46.9 billion of OIBDA (30.5% of revenue) and RUB 7.0 billion of net income.

The Group is a market leader in providing telecommunications services to government bodies and corporates of all levels.

Rostelecom is an important innovator that provides solutions in the field of E-Government, cloud computing, healthcare, education, security and housing & utility services.

The Group's stable financial position confirmed by its credit ratings. Rostelecom was assigned 'BBB-' and 'BB+' international credit ratings by Fitch Ratings and Standard&Poor's respectively, and AA(RU) by ACRA.

* * *

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

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

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

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

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

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

---

[1] International financial reporting standards.
[2] The Group initially adopted IFRS 9, 15 and 16 using the modified retrospective approach starting from the first quarter of 2018. Please refer to Attachment 2. The change evaluation is given in the financial report in accordance with IFRS standards for 2018.
[3] The digital segment comprises broadband, pay-TV, VPN, VAS and cloud services.
[4] Here and below, please refer to Attachment 1 of this statement for a full definition of OIBDA.
[5] Here and below, capital expenditure ("CAPEX") comprises cash spent on fixed assets and intangible assets.
[6] Here and below starting from 2018 free cash flow is FCF is calculated as free cash flow from operating activity minus CAPEX, plus proceeds from selling fixed assets and intangible assets, plus interest received
[7] Here and below, Net Debt is calculated as total debt less cash, cash equivalents and short-term investments (other financial assets).
[8] Estimates from the analytical agency TMT-Consulting
[9] The unrounded dividend per Class A preferred share is equal to RUB 5.045825249373
[10] The unrounded dividend per ordinary share is equal to RUB 5.045825249373

ISIN: US7785291078
Category Code: MSCH
TIDM: RKMD
LEI Code: 2534001D752JPNM0H170
Sequence No.: 5825
EQS News ID: 710431