ROSTELECOM PJSC (RKMD)

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

DIGITAL SEGMENT CONTRIBUT ION UP TO 55% OF TOTAL REVENUE

Moscow, Russia - November 1, 2018 - Rostelecom PJSC (MOEX: RTKM, RTKMP; OTCQX: ROSYY), the largest digital service provider in Russia, today announces its consolidated financial results for the third quarter of 2018 prepared in accordance with IFRS[1],[2].

KEY ACHIEVEMENTS

- *Revenue grew by 5 % year-on-year in the third quarter of 2018 with average annual revenue growth of more than 5% over the last four quarters ;*
- *The digital segment's [3] contribution to total revenue reached 55 %;*
- *OIBDA[4] grew by 9% in the third quarter of 2018;*
- *Net profit increased by 46% in the third quarter of 2018;*
- *Consistently high growth rates in FTTx Broadband clients (+6%) and in IPTV subscribers (+9%), while ARPU continues to grow in our core broadband and IPTV segments;*
- *Increase in revenues from VAS and cloud services of 37% in the third quarter of 2018, as a result of "Smart City" projects, the development of data centre services and the promotion of cloud services ;*
- *Revenue growth guidance for 2018 increased to above 3%.*

THIRD QUARTER 2018 FINANCIAL HIGHLIGHTS

- *Revenue grew by 5 % to RUB 7 9.4 billion compared to the third quarter of 201 7 ;*
- *OIBDA grew by 9% to RUB 2 7.3 billion;*
- *OIBDA margin grew by 1. 4 p.p. to 34.4 %;*
- *Net profit increased by 46% to RUB 5 .7 billion compared to the third quarter of 2017 ;*
- *CAPEX [5] increased by 35 % to RUB 16.3 billion (20.6 % of revenue) from RUB 12 .1 billion (16.0 % of revenue) in the third quarter of 201 7 ;*
- *Free Cash Flow (FCF) of RUB 3.4[6] billion compared to RUB 7.1 billion in the third quarter of 2017;*
- *Net debt [7] increased by 12 % since the beginning of the year to RUB 203.3 billion, resulting in a Net Debt/OIBDA ratio of 2.0x.*

Key figures for 3Q 2018, RUB mln

RUB million	3Q 2018	3Q 2017	change, y-o-y
Revenue	79,414	75,614	5%
OIBDA	27,330	24,977	9%
OIBDA margin %	34.4%	33.0%	-
Operating Income	10,934	9,176	19%
Operating margin %	13.8%	12.1%	-
Net Income	5,703	3,905	46%
% of revenue	7.2%	5.2%	-
Capital Expenditure	16,325	12,125	35%
% of revenue	20.6%	16.0%	-
Net debt	203,347	191,152	6%
Net debt/ annualised OIBDA	2.0	2.0	-
FCF	3,368	7,055	(3,687)

NINE MONTHS OF 2018 FINANCIAL HIGHLIGHTS

- *Revenue increased by 5% to RUB 23 3.0 billion compared to the nine months of 2017;*
- *OIBDA increased by 5 % to RUB 74.9 billion compared to the nine months of 2017 ;*
- *OIBDA margin of 3 2.1%;*
- *Net profit increased by 28 % to RUB 12.7 billion compared to the nine months of 2017 ;*
- *CAPEX in creased by 9% year-on-year to RUB 45 .9 billion (19.7% of revenue) from RUB 42 .3 billion (19 .1% of re venue) in the nine months of 2017 ;*
- *Free Cash Flow (FCF) of RUB (3.3) billion compared to RUB 3.1 billion in the nine months of 2017 .*

Key figures for the nine months of 2018, RUB mln

RUB million	9M 2018	9M 2017	change, y-o-y
Revenue	232,982	221,216	5%
OIBDA	74,871	71,062	5%
OIBDA margin %	32.1%	32.1%	-
Operating Income	27,633	28,573	(3%)
Operating margin %	11.9%	12.9%	-
Net Income	12,661	9,881	28%

% of revenue	**5.4%**	**4.5%**	-
Capital Expenditure	**45,892**	**42,290**	*9%*
% of revenue	**19.7%**	**19.1%**	-
Net debt	**203,347**	**191,152**	*6%*
Net debt/ annualised OIBDA	**2.0**	**2.0**	-
FCF	**(3,312)**	**3,102**	*(6,414)*

Mikhail Oseevsky, President of Rostelecom, commented:

"The robust top line growth for the third quarter of 2018 was accompanied by very strong bottom line performance. Total revenue increased by 5%, OIBDA, by 9% and net income by almost 50%. These achievements were mainly driven by the expansion of the digital and content services segment, which showed remarkable progress, and now accounts to 55% of revenue.

We are committed to further developing our digital unit. We are focusing on introducing technologies that make a difference to our customers, in a way that improves daily life by maximising comfort and convenience. We are no longer fixated on achieving a set number of connections, our technologies now have the capability to touch entire areas of our customers' lives. We are creating entire digital ecosystems, where every client will find solutions that meet their individual needs. This approach forms the basis of our new brand, which we presented in September this year. The new positioning incorporates our digital services and tariff lines in harmony with the transforming market place and the priorities we have set ourselves.

The multimedia platform Wink was added to our private client ecosystem, marking an evolutionary stage in the development of IPTV, which is today popular among millions of families across the entire country. Wink is a truly comprehensive platform, comprising of a mobile app, a website and a Smart TV app, with extremely user-friendly functionality, more than 200 TV channels and more than 12 thousand films and episodes already available to Rostelecom's clients, as well as a set of value added services including NPVR and Parental control options.

Products in our new tariff line were developed and named around the need of the typical family: "For Internet", "For Safety", "For Fun", "All together" and "Gaming". We have also improved our product offering with exclusive tariff plans. One of the latest developments is the launch of the "Cloud" tariff, together with Yandex, which offers high speed internet access and massive cloud storage that grows monthly by 1tb. This is a service with unique features and storage capacities, available exclusively to Rostelecom's clients.

Another area that we have been actively integrating into our ecosystem is online education. We launched Rostelecom Lyceum, a platform that will reframe supplementary school education in Russia, significantly enhancing its quality, safety and availability. For entrepreneurs, we also launched an updated platform "Plus Account" that ensures high speed Internet connectivity and mobile communication, with extra services also offered, such as a Hosted PBX, SMS advertising, Wi-Fi, video surveillance and TV for business.

We have further expanded our digital offering by launching a range of additional solutions. We launched the Unified Biometrics System which is one of the key elements of the remote identification mechanism that provides remote access to financial services for citizens. As part of this project we also introduced "Rostelecom Key", a mobile app that identifies customers remotely using our Unified Biometrics System. The practical and secure nature of this solution led to the signing of a deal with Tinkoff Bank to integrate it with its own infrastructure and become the first vendor in Russia. The JV with Nokia marks another significant event this year and represents an important milestone when it comes to setting the backdrop for developing innovative technologies. It is also worth mentioning the 5G network-based testing infrastructure for unmanned vehicles that we launched in Skolkovo.

We continue to successfully implement highly strategic state projects for the Russian government. Public funding enabled us to further expand the number of high-speed connections in Russian healthcare centres and across remote areas. We also successfully provided video surveillance on the Single Voting Day at polling stations.

Our achievements reflect major commitment and delivery on our strategic objectives. This paves the way for the Company to propose the payment of an attractive interim dividend for the nine months of 2018, subject to approval at our next extraordinary general meeting at the end of December, thus distributing a part of the annual dividend sooner than planned".

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

"Rostelecom's results for the nine months of 2018 reflect our confident outlook for the future development of the digital segment. In addition to expanding our digital segment, we are introducing measures that are improving internal efficiency. This complements the efficiencies we are realising through in part the optimisation of our real estate portfolio. We expect our performance to continue to improve across all key financial indicators. We therefore raise our full year forecast for revenue growth and anticipate an increase in revenue of more than 3%. We expect an OIBDA margin of more than 31.5%, with CAPEX of RUB 60-65 billion, excluding the implementation of government programmes."

KEY OPERATING HIGHLIGHTS

Number of subscribers (million):	**3Q 2018**	**3Q 2017**	***change, y-o-y***	**2Q 2018**	***change, y-o-y***
Internet access	**13.0**	12.8	*1%*	**13.0**	*0.3%*
B2C: Broadband	**12.0**	11.9	*1%*	**12.0**	*0.1%*
B2B: Broadband + VPN	**1.0**	0.9	*7%*	**1.0**	*3%*
Pay TV	**10.1**	9.7	*4%*	**10.0**	*0.5%*
Incl. IPTV	5.1	4.7	*9%*	5.1	*2%*
MVNO subscribers	**1.1**	0.7	*58%*	**1.0**	*10%*
Local telephony services	**17.8**	19.5	*(9%)*	**18.3**	*(2%)*

Total subscriber base

1. The total number of Internet subscribers grew by 1% to 13.0 million in the third quarter of 2018 compared to the corresponding period of last year;
2. The number of pay-TV subscribers grew by 4% to 10.1 million households compared to the corresponding period of last year;

- The number of IPTV subscribers increased by 9% to 5.1 million;

3. The number of MVNO subscriber base increased by almost 60% and reached 1.1 million users;
4. The number of local telephony subscribers decreased by 9% to 17.8 million.

B2C subscriber base

KEY EVENTS RELATING TO 3Q 2018 AND AFTER THE END OF THE REPORTING PERIOD

Business news

- Rostelecom continues to develop and expand its range of products and services:
  - In September 2018, Rostelecom announced its new positioning and brand;
  - Rostelecom launched a product family of OTT media services under the "Wink" brand: the application was downloaded by more than 480,000 users on mobile and SmartTV gadgets within just a few days of its launch;
  - The Company launched Rostelecom Lyceum, a platform that will enhance the quality, safety and availability of the supplementary school education in Russia;
  - In partnership with Yandex, Rostelecom launched a new "Cloud" tariff plan with high speed Internet access (of up to 250 Mbps) and a substantial cloud storage capability on Yandex.Disk (with a +1Tb increase monthly);
  - As part of the "Gaming" tariff plan, a special fighter aircraft "Yak-3T" is now available in the famous aerial combat action game World of Warplanes;
  - New tariff lines "Speed" and "Call" were launched for SMEs;
  - As part of the "Smart Home" ecosystem:
    - Rostelecom launched a mobile app with a new interface and a dashboard functionality;
    - A SOS/Panic button is now available in a number of regions, including Ekaterinburg, Saint-Petersburg, Novosibirsk and Samara;
    - Users are now able to pay for services directly in their "Smart Home" mobile app;
    - A new set of functions was introduced within the "Under control" package, including a motion sensor, a door sensor, an RGB lamp and a socket;
    - Rostelecom launched a package offer, comprised of Broadband and Video Surveillance services;
  - 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";
  - Within the MVNO project:
    - The Company introduced the possibility of purchasing a landline number in addition to a main mobile number, in an additional 16 cities, which increased total enrolment across 200 localities;
    - Voice interconnect was upgraded in the Chuvash Republic, and schemes for voice traffic routing were expanded in Kaluga, Vologda, Kaliningrad, Petrozavodsk and Krasnodar. This led to a reduction in the number of missed calls and increased the quality of voice communication;
    - Rostelecom launched two new functions for its mobile users: "Call me back" and "Recharge my account".
- Rostelecom continues to grow its digital segment:
  - Rostelecom launched the Unified Biometric System, one of the key elements of the remote identification mechanism, that provides remote access to financial services for citizens;
  - Rostelecom completed a large-scale project for the transfer of Alrosa's subscribers to a new digital platform in Sakha Republic (Yakutia);
  - A JV with Nokia to develop innovation technologies was signed;
  - A 5G network-based test infrastructure for unmanned vehicles was launched in Skolkovo;
  - Rostelecom provided video surveillance on the Single Voting Day at 10,510 district electoral committees and 871 territorial committees, and 11,381 offices in total, under federal and regional contracts;
  - The "Antivirus" services revenues posted more than twofold growth in the last 12 months in retail segment and eightfold growth across business and state client base.
- Rostelecom signed/renewed a number of large contracts, including agreements with Roseestr (The Federal Service for State Registration, Cadastre and Cartography), the Moscow region Electoral Committee, the Voronezh region Communications Department, Moscow City Department for Competitive Policy, Mosenergosbyt, SAP, Huawei, VTB, Transneft, X5 Retail group and others;
- Rostelecom secured almost 80% of Tele2 total ILD traffic;
- The underwater sector construction of the fibre-optic communication line in Kuril Islands was successfully completed;
- Revenues from the O2O project (infrastructure operator) increased by 46% quarter on quarter;

- The capacity of the transcontinental Transit Europe-Asia (TEA) was upgraded up by 1Tb/s from Europe to China and to Japan.

Other news

- Rostelecom sponsored the first online school Olympiad "Cybercall";
- The Board of Directors of Rostelecom passed a resolution to hold an extraordinary meeting of shareholders to discuss reelection of the Board of Directors and interim dividend payment.

OPERATING REVIEW

Revenue analysis

Revenue structure by services

RUB million	3Q 2018	3Q 2017	*change*	9M 2018	9M 2017	*change*
Broadband	**19,871**	17,550	*13%*	**58,707**	52,646	*12%*
TV services	**8,655**	6,828	*27%*	**25,318**	20,279	*25%*
Fixed telephony	**17,035**	19,132	*(11%)*	**53,035**	59,295	*(11%)*
Wholesale services	**20,344**	19,581	*4%*	**59,138**	57,118	*4%*
Rent of channels	***2,394***	*2,302*	*4%*	***7,077***	*7,071*	*0%*
Interconnect and traffic transit services	***8,627***	*8,418*	*2%*	***24,916***	*24,120*	*3%*
VPN	***6,038***	*5,720*	*6%*	***17,285***	*16,372*	*6%*
Rent and maintenance of telecommunications infrastructure	***3,284***	*3,141*	*5%*	***9,860***	*9,555*	*3%*
VAS and cloud services	**8,991**	6,541	*37%*	**23,698**	15,990	*48%*
Other telecommunications services	**2,626**	3,732	*(30%)*	**8,072**	10,528	*(23%)*
Other non-telecommunications services	**1,892**	2,251	*(16%)*	**5,014**	5,362	*(6%)*
Total	**79,414**	**75,614**	***5%***	**232,982**	**221,216**	***5%***

Revenue structure by customer segments

RUB million	3Q 2018	3Q 2017	*change*	9M 2018	9M 2017	*change*
Residential customers	**33,983**	33,387	*2%*	**102,430**	101,111	*1%*
Corporate customers / Government customers	**29,440**	26,971	*9%*	**84,562**	76,219	*11%*
Operators	**14,333**	13,947	*3%*	**42,023**	40,280	*4%*
Other	**1,658**	1,310	*27%*	**3,968**	3,606	*10%*
Total	**79,414**	**75,614**	***5%***	**232,982**	**221,216**	***5%***

In the third quarter of 2018, revenue increased by 5% to RUB 79.4 billion, compared to the third quarter of 2017, as a result of the following factors:

- a 37% increase in revenue from VAS and cloud services, mainly due to proceeds from the development of "Smart City" projects, the promotion of cloud services, the development of data-centres and online video broadcasting projects;
- a 13% increase in revenue from broadband services due to a higher number of subscribers, higher ARPU, as well as the application of new IFRS standards;
- a 27% 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 4% increase in revenue from wholesale services due to the segment growth across the board, including additional proceeds from Tele2 Russia.

Revenue drivers in the third quarter of 2018 (RUB, billion)

During the nine months of 2018, revenue increased by 5% to RUB 233.0 billion, compared to the nine months of 2017, as a result of the following factors:

- a 48% 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, the promotion of cloud services and the development of data-centres;
- a 12% increase in revenue from broadband services due to a higher number of subscribers, higher ARPU, as well as the application of new IFRS standards;
- 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 4% increase in revenue from wholesale services due to the segment growth across the board, including additional proceeds from Tele2 Russia.

Revenue drivers in the nine months of 2018 (RUB, billion)

Operating income analysis

Operating expenses structure

RUB million	3Q 2018	3Q 2017	*change*	9M 2018	9M 2017	*change*
Personnel costs	**(22,615)**	(22,504)	*0%*	**(71,230)**	(68,453)	*4%*
Depreciation, Amortization and impairment losses	**(15,141)**	(13,983)	*8%*	**(43,616)**	(41,184)	*6%*
Interconnection charges	**(14,691)**	(13,671)	*7%*	**(42,467)**	(37,993)	*12%*
Materials, repairs and maintenance, utilities	**(6,010)**	(5,795)	*4%*	**(18,405)**	(17,660)	*4%*
Gain on the disposal of PPE and intangible assets	**947**	685	*38%*	**2,341**	1,481	*58%*
Impairment loss of financial assets measured at amortized cost	**(599)**	(1,121)	*(47%)*	**(3,402)**	(2,618)	*30%*
Other operating income	**3,621**	3,223	*12%*	**10,615**	9,588	*11%*
Other operating expenses	**(13,992)**	(13,271)	*5%*	**(39,185)**	(35,804)	*9%*
Total operating expenses	**(68,480)**	**(66,438)**	***3%***	**(205,349)**	**(192,643)**	***7%***

In the third quarter of 2018, operating expenses increased by 3% compared to the corresponding period of 2017 and amounted to RUB 68.5 billion, largely due to the following factors:

- an 8% increase (of RUB 1.2 billion) in depreciation, amortization and impairment losses, mainly due to the application of new IFRS standards;
- a 7% increase (of RUB 1.0 billion) in interconnection charges, mainly due to higher expenditure on channels and equipment lease, which in part resulted from the MVNO project development.

In the nine months of 2018, the operating expenses increased by 7% compared to the corresponding period of 2017 and amounted to RUB 205.3 billion due to the following factors:

- a 12% increase (of RUB 4.5 bln) in interconnection charges, mainly due to higher expenditure on interconnect and traffic transit services, as a result of an increase in corresponding income;
- a 9% increase (of RUB 3.4 bln) in other operating expenses, mainly due to the video surveillance services provided during the presidential election in Russia in the first quarter of 2018, equipment supplies for B2B/G projects, as well as the promotion of services;
- a 6% increase (of RUB 2.4 bln) in depreciation, amortization and impairment losses, mainly due to new IFRS standards application;
- a change in allowance for the share options programme (of RUB 1.3 billion) due to later similar accruals in 2017 as well as reversal of reserves under previous share options programme in the second quarter 2017.

Operating profit increased by 19% year-on-year to RUB 10.9 billion in the third quarter of 2018, compared to the corresponding period of 2017. Operating profit decreased by 3% year-on-year to RUB 27.6 billion in the nine months of 2018.

OIBDA for the third quarter of 2018 increased by 9% year-on-year to RUB 27.3 billion. OIBDA for the nine months of 2018 increased by 5% to RUB 74.9 billion. The OIBDA margin increased by 1.4 p.p. to 34.4% in the third quarter of 2018. OIBDA margin reached 32.1% in the nine months of 2018 compared to 32.1% in the corresponding period of 2017.

Net Income Analysis

In the third quarter of 2018, profit before tax increased by 42% to RUB 7.2 billion, compared to the corresponding period in 2017. In the nine months of 2018, profit before tax increased by 21% to RUB 16.6 billion.

These dynamics were influenced by the following factors:

- higher operating profit;
- improved associated companies' financial results, mainly from the joint venture with Tele2 Russia.

The increase in profit before tax in the nine months of 2018 can be attributed to the following factors:

- improved associated companies' financial results, mainly from the joint venture with Tele2 Russia;
- lower financial expenses, mainly due to a higher base in the nine months of 2018 compared to the corresponding period in 2017;

Income tax in the third quarter of 2018 increased by 28% to RUB 1.5 billion. Income tax in the nine months of 2018 increased by 4% to RUB 4.0 billion.

The effective income tax rate was at 21% in the third quarter of 2018, and 24% in the nine months of 2018 compared to the 20% rate set by the Tax Code. A higher income tax rate in the third quarter of 2018 and the nine months of 2018 was driven by the nondeductible expenses for taxation purposes.

Net profit increased by 46% in the third quarter of 2018 and totalled RUB 5.7 billion, and by 28% to RUB 12.7 billion in the nine months of 2018.

Financial review

Net operating cash flow in the third quarter of 2018 decreased slightly and amounted to RUB 18.3 billion, compared to the corresponding period of 2017, and decreased by 11% to RUB 38.2 billion in the nine months of 2018. The decrease in net operating cash flow in the nine months of 2018 was mainly due to changes in working capital, which was partly driven by an increase in accounts receivables for one-off projects in 2018. Changes in tax liabilities also had an impact on net operating cash flow in the nine months of 2018.

Cash outflow for investments in non-current assets increased by 35% to RUB 16.3 billion in the third quarter of 2018. Excluding the state programmes, this figure increased by 28% to RUB 14.1 billion (17.8% of revenue). Cash outflow for investments in non-current assets increased by 9% to RUB 45.9 billion in the nine months of 2018. Excluding the state programmes, this figure decreased by 3% to RUB 38.7 billion (16.6% 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.

Free cash flow in the third quarter of 2018 totalled RUB 3.4 billion compared to RUB 7.1 billion in the corresponding period of 2017. Free cash flow in the nine months of 2018 totalled RUB (3.3) billion compared to RUB 3.1 billion in the corresponding period of 2017.

Free Cash Flow (RUB, billion)

As at September 30, 2018, the Group's total debt increased by 12% compared to the beginning of the year and amounted to RUB 213.6 billion. Over 99% of the Group's total debt was rouble-denominated as at September 30, 2018.

As at September 30, 2018, the Group's net debt increased by 12% and amounted to RUB 203.3 billion. The net debt /OIBDA ratio stood at 2.0x for the past twelve months ended in the last 12 months 2018.

OTHER INFORMATION: CONFERENCE CALL

Rostelecom's management will hold a conference call and webcast today at 4.00 PM (Moscow), 2.00 PM (CET), 1.00 PM (UK) and 9.00 AM (NYT). To participate in the conference call, please dial:

UK/ International: +44 (0)330 336 9125
USA: +1 646 828 8193
Russia: +7 495 213 1767

Confirmation Code (ENG): **3083345**
Confirmation Code (RUS): **7509555**

A webcast of the conference call will only be available in English. To access the webcast please follow the link: https://webcasts.eqs.com/rostelecom20181101.

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/2018/3/.

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APPENDICES

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

The following indicators are not taken into account in the calculation of OIBDA:

- Expenses related to the long-term management incentive programme, implying accruals in personnel costs line starting from Q2, 2014;
- Expenses related to non-government pension insurance starting from the third quarter of 2018.

Comparable indicators in 2017 and last period of 2018 were reviewed under the applied methodology, starting from the third quarter of 2018.

RUB million	**3Q 2018**	**3Q 2017**	***change***	**9M 2018**	**9M 2017**	***change***
Operating income	**10,934**	9,176	*19%*	**27,633**	28,573	*(3%)*
Plus amortisation	**15,141**	13,983	*8%*	**43,616**	41,184	*6%*
Plus expenses related to the long-term management incentive programme	**1,074**	1,836	*(42%)*	**2,752**	1,406	*96%*
Plus expenses related to non-government pension insurance	**118**	(18)	-	**870**	**(101)**	-
OIBDA	**27,330**	24,977	*9%*	**74,871**	71,062	*5%*

OIBDA margin, %	34.4%	33.0%	32.1%	32.1%

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 nine months of 2018

	Nine-month period ended 30 September (unaudited)	
	2018	**2017***
Revenue	**232,982**	**221,216**
Operating expenses		
Wages, salaries, other benefits and payroll taxes	(71,230)	(68,453)
Depreciation, amortization and impairment losses	(43,616)	(41,184)
Interconnection charges	(42,467)	(37,993)
Materials, utilities, repairs and maintenance	(18,405)	(17,660)
Gain on disposal of property, plant and equipment and intangible assets	2,341	1,481
Impairment loss of financial assets measured at amortized cost	(3,402)	(2,618)
Other operating income	10,615	9,588
Other operating expenses	(39,185)	(35,804)
Total operating expenses, net	**(205,349)**	**(192,643)**
Operating profit	**27,633**	**28,573**
Gain/(loss) from associates and joint ventures	722	(2,399)
Finance costs	(12,800)	(13,535)
Other investing and financial gain, net	1,411	1,074
Foreign exchange (loss)/gain, net	(325)	(4)
Profit before income tax	**16,641**	**13,709**
Income tax expense	(3,980)	(3,828)
Profit for the period	**12,661**	**9,881**
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations, net of tax	282	(67)
Other comprehensive income/(loss) for the period, net of tax	**282**	**(67)**
Total comprehensive income for the period	**12,943**	**9,814**
Profit attributable to:		
Equity holders of the Group	12,368	9,517
Non-controlling interests	293	364
Total comprehensive income attributable to:		
Equity holders of the Group	12,669	9,446
Non-controlling interests	274	368
Earnings per share attributable to equity holders of the Group - basic (in roubles)	5.46	4.23
Earnings per share attributable to equity holders of the Group - diluted (in roubles)	5.36	4.19

* *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 the nine months of 2018

	Nine-month period ended 30 September (unaudited)	
	2018	**2017**
Cash flows from operating activities		
Profit before tax	16,641	13,709
Adjustments to reconcile profit before tax to cash generated from operations		
Depreciation, amortization and impairment losses	43,616	41,184
Gain on disposal of property, plant and equipment and intangible assets	(2,341)	(1,481)
Impairment loss of financial assets measured at amortized cost	3,402	2,618
(Gain)/loss from associates and joint ventures	(722)	2,399
Finance costs excluding finance costs on pension and other long-term social liabilities	12,704	13,441
Other investing and financial gain, net	(1,411)	(1,074)
Foreign exchange loss/(gain), net	325	4
Share-based motivation program	2,645	1,381
Changes in net working capital		

Increase in accounts receivable and contract assets	(19,933)	(12,231)
Increase/(decrease) in employee benefits	(507)	(169)
(Increase) in inventories	(932)	(345)
Increase/(decrease) in accounts payable, provisions and accrued expenses	7,070	(441)
(Decrease)/increase in other assets	(4,458)	(1,689)
Decrease in other liabilities	(632)	(591)
Cash generated from operations	**55,467**	**56,716**
Interest paid	(13,448)	(13,700)
Income tax refund	-	1,771
Income tax paid	(3,786)	(1,975)
Net cash from operating activities	**38,233**	**42,812**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(45,892)	(42,290)
Proceeds from sale of property, plant and equipment and intangible assets	3,906	2,580
Acquisition of financial assets	(5,283)	(9,575)
Proceeds from disposals of financial assets	4,353	5,423
Interest received	441	491
Subsidy from Government	10	-
Dividends received	48	6
Purchase of subsidiaries and business, net of cash acquired	(2,020)	(64)
Proceeds from disposal of subsidiaries, net of cash disposed	80	347
Acquisition of equity accounted investees	(3,582)	(30)
Net cash used in investing activities	**(47,939)**	**(43,112)**

Cash flows from financing activities		
Sale of treasury shares	-	1
(Purchase) of treasury shares	-	(981)
Proceeds from bank and corporate loans	439,539	415,828
Repayment of bank and corporate loans	(414,848)	(391,919)
Proceeds from bonds	10,000	10,000
Repayment of bonds	(11,209)	(20,418)
Repayment of vendor financing payable	(13)	(7)
Repayment of other non-current financing liabilities	(1)	(5)
Options settlement repayments	-	(209)
Repayment of lease liabilities	(2,227)	(89)
Acquisition of non-controlling interest	-	(2,255)
Dividends paid to shareholders of the Group	(11,547)	(12,195)
Dividends paid to non-controlling shareholders of subsidiaries	(208)	(183)
Net cash from financing activities	**9,486**	**(2,432)**
Effect of exchange rate changes on cash and cash equivalents	1	(182)
Net increase in cash and cash equivalents	**(219)**	**(2,914)**
Cash and cash equivalents at beginning of the period	3,815	4,257
Cash and cash equivalents at the end of the period	**3,596**	**1,343**

APPENDIX 5: Statement of Financial Position for the nine months of 2018

	30 September 2018 (unaudited)	31 December 2017 (audited)*
Assets		
Non-current assets		
Property, plant and equipment	351,303	348,430
Investment properties	160	159
Goodwill and other intangible assets	61,188	59,820
Right of use assets	20,005	-
Trade and other accounts receivable	7,619	8,352
Investments in associates and joint ventures	70,221	65,879
Other financial assets	1,797	1,600
Other non-current assets	6,008	4,352
Deferred tax assets	970	647
Contract assets	909	-
Contract costs	11,955	-
Total non-current assets	**532,135**	**489,239**
Current assets		
Inventories	7,114	6,169
Contract assets	12,911	-
Trade and other accounts receivable	50,799	47,813
Prepayments	5,108	3,455
Prepaid income tax	1,169	159
Other financial assets	6,622	5,963
Other current assets	3,235	2,619
Cash and cash equivalents	3,596	3,815
Held for sale assets	1,092	997
Total current assets	**91,646**	**70,990**
Total assets	**623,781**	**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	310,506	311,494
Total equity attributable to equity holders of the Group	**250,271**	**246,122**
Non-controlling interests	3,312	3,242
Total equity	**253,583**	**249,364**

Non-current liabilities		
Loans and borrowings	174,575	166,660
Lease liabilities	17,888	-
Employee benefits	4,227	4,733
Deferred tax liabilities	38,332	35,681
Accounts payable, provisions and accrued expenses	2,823	2,233
Other non-current liabilities	14,696	6,383
Total non-current liabilities	**252,541**	**215,690**
Current liabilities		
Loans and borrowings	38,990	24,712
Lease liabilities	3,471	-
Accounts payable, provisions and accrued expenses	63,629	60,666
Income tax payable	101	1,162
Other current liabilities	11,466	8,635
Total current liabilities	**117,657**	**95,175**
Total liabilities	**370,198**	**310,865**
Total equity and liabilities	**623,781**	**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.*

PAO Rostelecom is the largest digital service provider ,operating in all segments of the telecommunications market and covering 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 10.1 million pay-TV subscribers, over 5.1 million of which are subscribed to Rostelecom's IPTV services.

In the nine months of 2018, the Group generated RUB 233.0 billion of revenues, RUB 74.9 billion of OIBDA (32.1% of revenue) and RUB 12.7 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.

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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.

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[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 2017 numbers are presented here without implementation of the given standards.
[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. Note that the company changed the methodology of OIBDA calculation since 3q 2018 by excluding expenses related to non-government pension insurance. Historical OIBDA numbers for 2018 and relevant periods of 2017 were recalculated in line with the renewed methodology.
[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).

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