



## PRESS RELEASE

### ROSTELECOM ANNOUNCES ITS IFRS FINANCIAL AND OPERATING RESULTS FOR THE FOURTH QUARTER AND FULL YEAR OF 2014

***Fixed line revenue grew by 3% y-o-y in FY 2014, with consolidated net profit increasing by 57%***

**Moscow, Russia** – March 16, 2014 - Rostelecom OJSC (MOEX: RTKM, RTKMP; OTCQX: ROSYY), Russia's national telecommunications operator, today announces its consolidated financial results for the fourth quarter and the full year of 2014 prepared in accordance with IFRS.

#### **FULL YEAR 2014 FINANCIAL HIGHLIGHTS**

##### *FINANCIAL HIGHLIGHTS FOR CONTINUING OPERATIONS (FIXED LINE BUSINESS)*

- Revenue, OIBDA margin and CAPEX<sup>1</sup> are in line with management guidance for 2014;
- Revenue from continuing operations grew by 3% year-on-year to RUB 298.9 billion;
- OIBDA<sup>2</sup> amounted to RUB 102.5 billion compared to RUB 104.1 billion in 2013;
- OIBDA margin of 34.3% compared to 35.8% in 2013;
- Capital expenditure of RUB 53.8 billion (18.0% of revenue), a 2% year-on-year increase (CAPEX represented 18.2% of revenue in 2013);
- FCF<sup>3</sup> increased by 27% year-on-year to RUB 21.9 billion;
- Net debt<sup>4</sup> reduction of 18% year-on-year to RUB 171.1 billion;
- Net income of RUB 13.2 billion compared to RUB 26.7 billion in 2013, due mainly to the paper revaluation of financial instruments and goodwill revaluation in 2014, as well as the high base effect in 2013, linked to the deconsolidation of JSC GlobalTel; whereas consolidated net income rose by 57% to RUB 37.8 billion.

##### *CONSOLIDATED RESULTS*

The transfer of Rostelecom's mobile assets to the joint venture ("JV") with Tele2 Russia had the following impact on the Company's consolidated results:

- The consolidated results for the full year 2014 include the operating results of the Company's mobile subsidiaries for the first three months of 2014 (January- March), and CJSC RT-Mobile results for the first seven months of the year (January-July);
- In the third quarter of 2014 after the deal with Tele2 Russia was completed, Rostelecom received a one-off gain of RUB 22 billion reflecting fair valuation of investments into the JV;

<sup>1</sup> Here and below, capital expenditure ("CAPEX") comprises cash spent on fixed assets and intangible assets;

<sup>2</sup> Here and below, please refer to Attachment 1 of this statement for a full definition of OIBDA;

<sup>3</sup> Here and below, FCF is calculated as free cash flow from operating activity minus CAPEX

<sup>4</sup> Here and below, net debt is calculated as total debt less cash, cash equivalents and short-term investments.

## Key figures for the full year of 2014

RUB million	FY 2014			FY 2013			YoY change (continuing operations)	YoY change (consolidated results)
	From continuing operations	Effect from discontinued operations	Total (consolidated results)	From continuing operations	Effect from discontinued operations	Total (consolidated results)		
<b>Revenue</b>	<b>298,937</b>	11,980	310,917	<b>290,736</b>	34,968	325,704	<b>3%</b>	(5%)
<b>OIBDA</b>	<b>102,467</b>	2,909	105,376	<b>104,148</b>	9,134	113,282	<b>(2%)</b>	(7%)
OIBDA margin, %	<b>34.3%</b>	-	33.9%	<b>35.8%</b>	-	34.8%		
<b>Operating income</b>	<b>39,994</b>	2,897	42,891	<b>45,234</b>	(366)	44,868	<b>(12%)</b>	(4%)
Operating margin, %	<b>13.4%</b>	-	13.8%	<b>15.6%</b>	-	13.8%		
<b>Net income</b>	<b>13,182</b>	24,625	37,807	<b>26,686</b>	(2,555)	24,131	<b>(51%)</b>	57%
% of revenue	<b>4.4%</b>	-	12.2%	<b>9.2%</b>	-	7.4%		
<b>Capital expenditure</b>	<b>53,810</b>	3,856	57,666	<b>52,894</b>	15,593	68,487	<b>2%</b>	(16%)
% of revenue	<b>18.0%</b>	-	18.5%	<b>18.2%</b>	-	21.0%		
<b>Net debt</b>	<b>171,135</b>	0	171,135	<b>207,884</b>	9,426	217,310	<b>(18%)</b>	(21%)
Net debt/annualized OIBDA ratio	<b>1.7</b>	-	1.6	<b>2.0</b>	-	1.9		

### FOURTH QUARTER FINANCIAL HIGHLIGHTS FOR CONTINUING OPERATIONS (FIXED LINE BUSINESS)

- Revenue from continuing operations grew 3% year-on-year in the fourth quarter of 2014 to RUB 78.9 billion;
- OIBDA rose by 6% year-on-year to RUB 25.0 billion;
- OIBDA margin increased by 0.9 p.p. to 31.6%;
- CAPEX of RUB 21.5 billion (27.3% of revenue), a 57% year-on-year increase (CAPEX represented 17.9% of revenue in Q4 2013);
- Net debt fell by 18% to RUB 171.1 billion as at 31 December, 2014 with a net debt/OIBDA ratio of 1.7x;
- Net loss of RUB 2.0 billion compared to net profit of RUB 2.7 billion in the fourth quarter of 2013, due to the paper revaluation of financial instruments and goodwill revaluation.

## Key figures for the fourth quarter of 2014

RUB million	4Q 2014			4Q 2013			YoY change (continuing operations)	YoY change (consolidated results)
	From continuing operations	Effect from discontinued operations	Total (consolidated results)	From continuing operations	Effect from discontinued operations	Total (consolidated results)		
<b>Revenue</b>	<b>78,930</b>	117	79,047	<b>76,926</b>	8,402	85,328	<b>3%</b>	(7%)
<b>OIBDA</b>	<b>24,958</b>	209	25,167	<b>23,590</b>	1,573	25,163	<b>6%</b>	0%
OIBDA margin, %	<b>31.6%</b>	-	31.8%	<b>30.7%</b>	-	29.5%		
<b>Operating income</b>	<b>7,612</b>	214	7,826	<b>8,762</b>	(1,062)	7,700	<b>(13%)</b>	2%
Operating margin, %	<b>9.6%</b>	-	9.9%	<b>11.4%</b>	-	9.0%		
<b>Net income</b>	<b>(1,965)</b>	216	(1,749)	<b>2,744</b>	(1,712)	1,032	<b>(172%)</b>	(269%)
% of revenue	<b>(2.5%)</b>	-	(2.2%)	<b>3.6%</b>	-	1.2%		
<b>Capital expenditure</b>	<b>21,509</b>	0	21,509	<b>13,740</b>	7,646	21,386	<b>57%</b>	1%
% of revenue	<b>27.3%</b>	-	27.2%	<b>17.9%</b>	-	25.1%		
<b>Net debt</b>	<b>171,135</b>	0	171,135	<b>207,884</b>	9,426	217,310	<b>(18%)</b>	(21%)
Net debt/annualized OIBDA ratio	<b>1.7</b>	-	1.6	<b>2.0</b>	-	1.9		

Sergey Kalugin, Rostelecom's President, commented: "The business continues to make excellent progress on its strategic priorities and succeeded in meeting both our own key financial targets for 2014 and the market's expectations. Fixed-line business revenues increased by 3% and we achieved an OIBDA margin of 34.3%, reflecting our improving operational efficiency and the impact of sizeable new state contracts.

We also closed the deal to create a joint venture with Tele2 Russia several months ahead of schedule, enabling us to maintain our share of the mobile segment and allowing management to focus on our core fixed segment.

We maintain our strong relationship as a key state partner, and the high quality of service provided during the Olympic Games in Sochi, has helped us secure additional public sector contracts, including the latest Unified State Examinations and regional elections video surveillance contracts; and a 10-year, RUB168 billion contract with Rossvyaz to bridge the digital gap in Russia.

We have expanded our range of consumer services by launching a new "all inclusive"/ "three in one" federal package, which covers Home Internet, Interactive TV and Home Phone services. Having increased our fibre optic network coverage by 7 million households this year, we are now covering over 25 million Russian households. We are delighted with the performance of these segments which are showing impressive revenue growth and a very positive contribution to our top line. Our competitive advantage in these segments is underpinned by our growing backbone networks, with further progress made in developing the Europe-Asia transit project by constructing an additional section. Consumers are also benefitting from significant improvements we have made to our customer services, as evidenced by a decrease in the number of repeat calls and we are closing customer requests at a faster rate.

We have therefore entered 2015 with confidence and momentum as we continue to implement our strategic priorities."

Kai-Uwe Mehlhorn, Senior Vice-President and Chief Financial Officer, added: *“We are more than satisfied with the Company’s financial and operational performance in 2014, as we continue to expand our broadband, pay-TV, and other packaged services and increase our revenues from these growing market segments. Rostelecom has formed a media JV with the All-Russia State Television and Radio Broadcasting Company (VGTRK), aimed at accelerating the development of the combined media assets. At the beginning of 2015, Rostelecom acquired a controlling stake in SafeData, strengthening its position in commercial data centres market.*

*As for the Company’s financial performance, consolidated net debt fell by 22% in 2014, due to finalising the mobile business transfer to the JV, which proved to be a timely move, given the current macroeconomic situation. Furthermore, our efforts to effectively manage cash flows led to a 27% increase in FCF to RUB 21.9 billion.*

*We will continue to realize our key strategic initiatives and projects in 2015. While our business is resilient to macro volatility, against a backdrop of uncertainty we must be pragmatic and take a conservative view of our guidance for 2015. Against the current economic backdrop and key indicators, we expect our revenue to remain flat, we expect to achieve an OIBDA margin of above 30% and a CAPEX to revenue ratio of around 20% excluding BDD project investments.”*

## KEY OPERATING HIGHLIGHTS

1. The number of broadband subscribers grew 6% year-on-year to 11.2 million subscribers;
  - ✓ The B2C subscriber base grew by 7% to 10.5 million, while the number of subscribers connected by fibre optic increased by 29% year-on-year to 5.2 million (46% of the subscriber base).
2. The number of pay-TV subscribers grew by 6% year-on-year to 8.0 million;
  - ✓ The number of IPTV subscribers increased by 24% to 2.7 million.
3. The number of local telephony subscribers decreased by 8% year-on-year to 24.4 million as a result of changes in end-users' preferences in how telephone calls are made and the migration of the corresponding traffic to mobile and VoIP operators' networks.
4. Mobile subscriber base dynamics can be attributed to the deconsolidation of mobile assets following the completion of the deal to create a JV with Tele2 Russia.

<i>Number of subscribers (million)</i>	<b>4Q 2014</b>	<b>4Q 2013</b>	<b>% change, y-o-y</b>	<b>3Q 2014</b>	<b>% change, y-o-y</b>
Broadband Internet	<b>11.2</b>	10.6	6%	11.0	2%
Residential	<b>10.5</b>	9.8	7%	10.3	2%
Corporate clients	<b>0.7</b>	0.7	2%	0.7	1%
Pay-TV	<b>8.0</b>	7.5	6%	7.8	3%
IPTV	<b>2.7</b>	2.2	24%	2.5	8%
Local telephony services	<b>24.4</b>	26.5	(8%)	25.0	(3%)
Mobile communication services	<b>0.0</b>	14.8	-	0	-

## **SIGNIFICANT EVENTS RELATING TO THE FULL YEAR OF 2014 AND AFTER THE END OF THE REPORTING PERIOD**

### **Business News**

- Rostelecom launched a new federal package "three in one"/ "all inclusive": Home Internet, Interactive TV and Home Phone;
- The first multiplex of TV channels was made available for Rostelecom's OTT customers;
- Rostelecom launched a new self-service online portal providing users with ample opportunities for managing their accounts;
- Rostelecom launched its IPTV services in Moscow;
- Rostelecom now ranks second for broadband services in Moscow with an 18% market share<sup>5</sup>;
- Rostelecom signed a number of government contracts, including:
  - ✓ 10-year contract with Rossvyaz aimed at bridging the digital gap;
  - ✓ A contract with Rosobrnadzor to provide video surveillance for the Unified State Exam in 2014 and 2015;
  - ✓ 5-year contract with the Moscow government for providing CCTV services as part of the Moscow government's Information city programme;
  - ✓ contracts with a number of regional governments for video surveillance services at elections in a single day of voting;
- Rostelecom covered over 25 million Russian households with its fibre optic network;
- Rostelecom further developed the Europe-Asia transit project by constructing an additional section;
- Rostelecom launched the first section of the network under the Bridging the Digital Divide (BDD) project in the Kostromskaya region and started a significant roll-out of fiber networks across Russia;
- Rostelecom secured project financing of RUB 10.1 bln from the Russian Direct Investment Fund, the Russian National Wealth Fund and co-investors to support the '*bridging the digital divide*' project;
- Rostelecom adopted a new organizational structure based on its customer segments;
- Procurement savings amounted to RUB 16.8 billion in 2014;
- Rostelecom successfully acted as Sochi Olympic and Paralympic Games general partner.

### **Other News**

- Rostelecom finalised its reorganisation in the form of demerging its integrated mobile assets into CJSC RT-Mobile, which were later transferred to a JV with Tele2 Russia;
- The creation of a new national mobile operator JV with Tele2 Russia is completed;
- Rostelecom closed the deal to create a media joint venture ("JV") with the All-Russia State Television and Radio Broadcasting Company (VGTRK);

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<sup>5</sup> Source: Telecom Daily as of 30.09.2014

- Rostelecom acquired a controlling stake in LLC Data Storage Centre (operating under the SafeData brand), Russia's largest provider of commercial data centres, traffic exchange service and content delivery;
- Rostelecom's Board of Directors approved the Company's long-term incentive plan for its management;
- Rostelecom's President Sergey Kalugin became a shareholder in the Company after acquiring a block of ordinary and preferred shares, equivalent of 0.3845% of the Company's share capital, in June and December 2014.

## OPERATING REVIEW

### Revenue Analysis

#### Revenue structure by services

RUB million	4Q 2014	4Q 2013	% change, y-o-y	2014	2013	% change, y-o-y
Local telephony services	19,679	21,531	(9%)	80,528	87,323	(8%)
Intra-zone telephony services	3,621	4,228	(14%)	14,669	17,128	(14%)
DLD/ILD telephony services	3,530	4,056	(13%)	14,561	17,100	(15%)
Interconnection and traffic transit services	7,328	7,203	2%	29,344	26,450	11%
Broadband Internet	15,658	14,512	8%	60,364	55,867	8%
Pay-TV	3,887	3,267	19%	14,458	11,927	21%
Data services (VPN, data centres, wholesale Internet sales)	6,667	6,167	8%	24,399	22,661	8%
Rent of channels	3,444	2,783	24%	11,761	11,093	6%
Other revenue	15,116	13,179	15%	48,853	41,187	19%
<b>Total revenue from continuing operations</b>	<b>78,930</b>	<b>76,926</b>	<b>3%</b>	<b>298,937</b>	<b>290,736</b>	<b>3%</b>
Effect of discontinued operations	117	8,402	-	11,980	34,968	-
Mobile services	15	9,811	-	13,991	39,195	-
Other	102	(1,409)	-	(2,010)	(4,227)	-
Total consolidated revenue	79,047	85,328	(7%)	310,917	325,704	(5%)

#### Revenue structure by services

RUB million	4Q 2014	4Q 2013	% change, y-o-y	2014	2013	% change, y-o-y
Residential customers	34,220	34,310	0%	136,345	136,665	0%
Corporate customers	18,601	18,255	2%	71,662	71,141	1%
Governmental customers	14,850	14,018	6%	48,804	45,336	8%
Operators	11,259	10,343	9%	42,126	37,594	12%
<b>Total revenues from continuing operations</b>	<b>78,930</b>	<b>76,926</b>	<b>3%</b>	<b>298,937</b>	<b>290,736</b>	<b>3%</b>
Effect from discontinuing operations	117	8,402	-	11,980	34,968	-
Total consolidated revenue	79,047	85,328	(7%)	310,917	325,704	-5%

In the fourth quarter of 2014, revenue from continuing operations increased by 3% year-on-year to RUB 78.9 billion due to:

- An 8% increase in revenues from broadband services as a result of subscriber base growth;
- 19% revenue growth from pay-TV services reflecting higher number of IPTV subscribers and an increase in VoD consumption and ARPU;

- 15% growth in other revenues following a switch to selling rather than leasing out customer-premises equipment, and additional income was generated from renting out company infrastructure.
- A 24% increase in revenue from renting channels, mainly following a new contract signed with the mobile JV;
- Zero tariff indexation in 2014 for local telephony services.

For the full year of 2014, revenue from continuing operations increased by 3% year-on-year to RUB 298.9 billion, largely due to;

- growth in broadband, pay-TV;
- increased interconnection and international traffic transit services;
- an increase in other revenues due to the switching to selling rather than leasing out customer-premises equipment, with additional income generated from video surveillance projects and proceeds generated from renting out company infrastructure.

Revenue from mobile services in 2014 decreased due to the deconsolidation of our mobile subsidiaries, which were transferred to the JV with Tele2 Russia.

## Operating Income Analysis

### Operating expenses structure (excluding depreciation and amortisation)

RUB milliom	4Q 2014	4Q 2013	% change, y-o-y	2014	2013	% change, y-o-y
Personnel costs	23,109	23,010	0%	89,929	85,798	5%
Interconnection charges	12,651	12,824	(1%)	47,429	42,420	12%
Materials, repairs and maintenance, utilities	7,182	7,461	(4%)	25,828	26,260	(2%)
Other operating income	(3,965)	(4,190)	(5%)	(12,950)	(15,228)	(15%)
Other operating expenses	15,458	14,231	9%	48,084	47,338	2%
<b>Total operating expenses from continuing operations</b>	<b>54,435</b>	<b>53,336</b>	<b>2%</b>	<b>198,320</b>	<b>186,588</b>	<b>6%</b>
Effect of discontinued operations	(92)	6,829	-	9,071	25,834	-
Total consolidated operating expenses	54,343	60,165	(10%)	207,391	212,422	(2%)

In the fourth quarter of 2014, operating expenses excluding depreciation and amortisation grew by 2% year-on-year and amounted to RUB 54.4 billion, mainly as a result of the following factors:

- A 9% year-on-year increase in other operating expenses to RUB 15.5 billion. This was mainly due to costs related to the sale of customer-premises equipment, rather than renting it out, which has had a positive effect on corresponding revenues;
- A 4% decrease in materials and repairs and maintenance expenses to RUB 7.2 due to the significant amount of work carried out to repair equipment for provide universal telecommunications services in 2013, the cost of which has mostly been recovered already.
- A 5% decrease in other operating income to RUB 4.0 billion. This was partly due to one-off bonuses from equipment suppliers received in 2013, following improved procurement efficiency;

Operating expenses excluding depreciation and amortisation for the full year 2014 rose by 6% year-on-year to RUB 198.3 billion, due to the following:

- An increase in interconnection charges, accompanied by a rise in the corresponding revenues;
- An increase in personnel costs due to accruals related to management's long-term incentive programme, as well as the insourcing of some functions; and
- A decrease in other operating incomes due to one-off bonuses from equipment suppliers received in 2013.

The Company's operating income fell by 13% year-on-year to RUB 7.6 billion in the fourth quarter and by 12% year-on-year to RUB 40.0 billion in 2014.

Depreciation and amortisation expenses grew by 14% year-on-year to RUB 16.9 billion in the fourth quarter and by 3% year-on-year to RUB 60.6 billion for the full year of 2014. This was largely due to the recognition of a goodwill impairment loss, caused by a review of long-term forecasts for a number of subsidiaries. This was mainly a result of an increased discount rate due to the unfavourable economic conditions and adverse situation in the financial markets.

OIBDA for the fourth quarter of 2014 increased by 6% year-on-year to RUB 25.0 billion. In 2014, OIBDA totalled RUB 102.5 billion compared to RUB 104.1 billion in 2013. The OIBDA margin in the fourth quarter and the full year of 2014 reached 31.6% and 34.3%, respectively. OIBDA was mainly impacted by:

- The increased presence of the growing, but lower margin, broadband and pay-TV segments in the revenue structure;
- The lagged impact of initiatives taken by management to optimise operating expenses are having on the Company's financial results.

Above any other event, the deconsolidation of Rostelecom's mobile subsidiaries, which were transferred to the JV with Tele2 Russia, following the completion of the first and second stages of the deal, had the most influence on operating expense, OIBDA and operating income dynamics in the fourth quarter and full year of 2014.

### **Net Income Analysis**

In the fourth quarter, profit before tax from continuing operations decreased by 96% year-on-year to RUB 0.2 billion. In 2014 this figure fell by 42% year-on-year to RUB 20.4 billion. This was mainly due to:

- a paper loss due to the revaluation of financial instruments;
- a decrease in operating income, including the recognition of an impairment loss due to the revaluation of goodwill.

During the fourth quarter of 2014, income tax contributions from continuing operations amounted to RUB 2.2 billion, remaining flat year-on-year. In 2014, income tax contributions decreased by 14% year-on-year and totalled RUB 7.2 billion, largely reflecting the changes in profit before income tax. The effective income tax rate was more than 100% in the fourth quarter of 2014 and 35% for the full year, compared to the 20% rate specified by the Tax Code. The higher effective tax rate in the fourth quarter and in 2014 resulted from a future tax rate increase on dividends from 9% to 13% on the legislative level, which is applied to income received from investing in associated companies, as well as was a result of expenses which were not deductible for tax purposes.

Net loss from continuing operations totalled RUB 2.0 billion in the fourth quarter of 2014 compared to the net profit of RUB 2.7 billion in the corresponding quarter of 2013. Net profit for 2014 amounted to RUB 13.2 compared to RUB 26.7 billion in 2013.

The Group's consolidated net loss amounted to RUB 1.7 billion in the fourth quarter of 2014 compared to the net profit of RUB 1.0 billion in the corresponding period of 2013. Net profit rose by 57% year-on-year to RUB 37.8 billion for the full year of 2014, reflecting a one-off gain from the completion of the deal with Tele2 Russia.

### **Financial Review**

Consolidated net operating cash flow decreased by 7% year-on-year to RUB 79.5 billion in 2014. Consolidated free cash flow grew by 27% year-on-year to RUB 21.9 billion. This was mainly due to the investment programme optimisation which resulted in higher construction volumes.

Net cash used in investing activities amounted to RUB (21.1) billion. This was largely due to the receipt of funds from closing the first stage of the deal to create a JV with Tele2 Russia (due to the repayment of intra-group debt of subsidiary companies which was transferred to the JV). Consolidated cash outflow in investments to non-current assets fell by 1% year-on-year in the fourth quarter of 2014 to RUB 21.5 billion, and decreased by 16% year-on-year to RUB 57.7 billion in 2014. The investment dynamics were partly affected by management's policy of improving the effectiveness of investment activities, including optimising tender procedures and relationships with suppliers.

The changes in net cash received from financing activities related to decreased volumes of share repurchases from shareholders who voted against the Company's reorganisation.

At the end of 2014, the Group's total debt decreased by 17% and amounted to RUB 190.0 billion, which was partly due to the transfer of some debt to the JV with Tele2 Russia, as well as the repayment of a number of loans. More than 99% of the Group's total debt was rouble-denominated as at December 31, 2014.

As at December 31, 2014, the Group's consolidated net debt amounted to RUB 171.1 billion with a net debt/ OIBDA ratio of 1.6x.

#### **OTHER INFORMATION: CONFERENCE CALL**

Rostelecom's management will hold a conference call and webcast today at 5.00PM (Moscow), 3.00PM (CET), 2.00 PM (UK) and 9.00 AM (NYT). To participate in the conference call, please dial:

Russia: +7 495 213 0979

UK/International: +44 (0)20 3427 1910

USA: +1 646 254 3362

Access code: 5562317

A replay of the conference call will be available on the Company's website:

[http://www.rostelecom.ru/en/ir/results\\_and\\_presentations/financials/IFRS/](http://www.rostelecom.ru/en/ir/results_and_presentations/financials/IFRS/) in due course.

## **APPENDICES**

1. Reconciliation of OIBDA;
2. Accounting policy specifics affecting Rostelecom's results for the full year of 2014;
3. Statement of Comprehensive Income for the full year of 2014;
4. Statement of Cash Flows for the full year of 2014;
5. Statement of Financial Position for the full year of 2014.

## 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	4Q 2014	4Q 2013	% change , y-o-y	2014	2013	% change , y-o-y
Operating income from continuous operations	7,612	8,762	(13%)	39,994	45,234	(12%)
Plus depreciation and amortisation from continuing operations	16,883	14,828	14%	60,623	58,914	3%
Non-cash expenses related to the long-term management incentive programme	463	0	-	1,850	0	-
<b>OIBDA from continuing operations</b>	<b>24,958</b>	<b>23,590</b>	<b>6%</b>	<b>102,467</b>	<b>104,148</b>	<b>(2%)</b>
<b>OIBDA margin from continuing operations, %</b>	<b>31.6%</b>	<b>30.7%</b>		<b>34.3%</b>	<b>35.8%</b>	
Effect from discontinued operations	209	1,573	-	2,909	9,134	-
Consolidated OIBDA	25,167	25,163	0%	105,376	113,282	(7%)
Consolidated OIBDA margin, %	31.8%	29.5%		33.9%	34.8%	

## **APPENDIX 2: ACCOUNTING POLICY SPECIFICS AFFECTING ROSTELECOM'S RESULTS FOR THE FULL YEAR OF 2014**

### Spinning off the mobile business

In relation to Rostelecom Board of Director's decision to create a joint venture with Tele2 Russia by contributing its mobile assets to the JV and following the EGM's approval on 30 December to spin off its integrated mobile assets into CJSC RT-Mobile, the Company presents results from continuing and discontinued operations separately in accordance with IFRS 5.

The Group's continuing operations results are presented as if the mobile business was deconsolidated on the reporting date. Intergroup transactions between continuing and discontinued operations are not excluded from the continuing operations, but are presented as turnover from third parties.

The results from the discontinued operations present the sum of the results of the mobile business operations and the losses from eliminating intergroup operations. A full transcript of the components can be found in Note 33 of the Group's consolidated IFRS financial statements.

Upon completion of the first stage of the deal, Rostelecom received 45% of the voting rights, and 26% of the economic share of T2 RTK Holding. Upon completion of the second stage of the deal, Rostelecom received 45% of the economic share of T2 RTK Holding.

The investment in T2 RTK Holding is reflected in Rostelecom's consolidated IFRS financial statement dated December 31, 2014 as an investment in an associated company. The initial recognition of the investment is made on value, which is based on the fair value of the assets, which were transferred to T2 RTK Holding's share capital. The fair value of the transferred assets was determined by an independent auditor and amounted to RUB 72.9 billion. Subsequent investments will be reflected in the financial results using the equity method in accordance with IFRS 28.

### APPENDIX 3: STATEMENT OF COMPREHENSIVE INCOME FOR THE FULL YEAR OF 2014

	Year ended 31 December 2014		
	Continuing operations	Effect from discontinued operations	Total
<b>Revenue</b>	<b>298,937</b>	<b>11,980</b>	<b>310,917</b>
<b>Operating expenses</b>			
Wages, salaries, other benefits and payroll taxes	(89,929)	(1,763)	(91,692)
Depreciation, amortisation and impairment losses	(60,623)	(12)	(60,635)
Interconnection charges	(47,429)	(3,126)	(50,555)
Materials, utilities, repairs and maintenance	(25,828)	(754)	(26,582)
Gain on disposal of property, plant and equipment and intangible assets	1,475	(23)	1,452
Bad debt expense	(2,006)	(176)	(2,182)
Other operating income	12,950	71	13,021
Other operating expenses	(47,553)	(3,300)	(50,853)
<b>Total operating expenses, net</b>	<b>(258,943)</b>	<b>(9,083)</b>	<b>(268,026)</b>
<b>Operating profit</b>	<b>39,994</b>	<b>2,897</b>	<b>42,891</b>
Loss from associates	(517)	-	(517)
Finance costs	(15,519)	(203)	(15,722)
Other investing and financial gain/(loss)	(3,793)	24,712	20,919
Foreign exchange gain/(loss), net	228	(45)	183
<b>Profit before income tax</b>	<b>20,393</b>	<b>27,361</b>	<b>47,754</b>
Income tax expense	(7,211)	(2,736)	(9,947)
<b>Profit for the year</b>	<b>13,182</b>	<b>24,625</b>	<b>37,807</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified subsequently to profit and loss:</b>			
Exchange differences on translating foreign operations	853	-	853
<b>Items that will not be reclassified to profit and loss:</b>			
Remeasurement of defined benefit pension plans	3,789	-	3,789
Income tax relating to items that will not be reclassified	(758)	-	(758)
<b>Other comprehensive income for the year, net of tax</b>	<b>3,884</b>	<b>-</b>	<b>3,884</b>
<b>Total comprehensive income for the year</b>	<b>17,066</b>	<b>24,625</b>	<b>41,691</b>
<b>Profit attributable to:</b>			
Equity holders of the Group	12,895	24,625	37,520
Non-controlling interests	287	-	287
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Group	16,788	24,625	41,413
Non-controlling interests	278	-	278
<b>Earnings per share attributable to equity holders of the Group – basic (in RUB)</b>	<b>5.66</b>	<b>10.81</b>	<b>16.47</b>
<b>Earnings per share attributable to equity holders of the Group –diluted (in RUB)</b>	<b>5.63</b>	<b>10.74</b>	<b>16.37</b>

	Year ended 31 December 2013		
	Continuing operations	Effect from Discontinued operations	Total
<b>Revenue</b>	<b>290,736</b>	<b>34,968</b>	<b>325,704</b>
<b>Operating expenses</b>			
Wages, salaries, other benefits and payroll taxes	(85,798)	(5,204)	(91,002)
Depreciation, amortisation and impairment losses	(58,914)	(9,500)	(68,414)
Interconnection charges	(42,420)	(7,326)	(49,746)
Materials, utilities, repairs and maintenance	(26,260)	(2,235)	(28,495)
Loss on disposal of property, plant and equipment and intangible assets	111	(455)	(344)
Bad debt expense	(2,094)	(46)	(2,140)
Other operating income	15,228	701	15,929
Other operating expenses	(45,355)	(11,269)	(56,624)
<b>Total operating expenses, net</b>	<b>(245,502)</b>	<b>(35,334)</b>	<b>(280,836)</b>
<b>Operating profit</b>	<b>45,234</b>	<b>(366)</b>	<b>44,868</b>
Income from associates	177	-	177
Finance costs	(14,853)	(947)	(15,800)
Other investing and financial gain/(loss)	4,981	(1,533)	3,448
Foreign exchange loss, net	(483)	(91)	(574)
<b>Profit before income tax</b>	<b>35,056</b>	<b>(2,937)</b>	<b>32,119</b>
Income tax expense	(8,370)	382	(7,988)
<b>Profit for the year</b>	<b>26,686</b>	<b>(2,555)</b>	<b>24,131</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified subsequently to profit and loss:</b>			
Exchange differences on translating foreign operations	41	-	41
<b>Items that will not be reclassified to profit and loss:</b>			
Remeasurement of defined benefit pension plans	1,853	-	1,853
Income tax relating to items that will not be reclassified	(371)	-	(371)
<b>Other comprehensive income for the year, net of tax</b>	<b>1,523</b>	<b>-</b>	<b>1,523</b>
<b>Total comprehensive income for the year</b>	<b>28,209</b>	<b>(2,555)</b>	<b>25,654</b>
<b>Profit attributable to:</b>			
Equity holders of the Group	26,429	(2,557)	23,872
Non-controlling interests	257	2	259
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Group	27,948	(2,557)	25,391
Non-controlling interests	261	2	263
<b>Earnings per share attributable to equity holders of the Group – basic (in RUB)</b>	<b>10.35</b>	<b>(1.00)</b>	<b>9.35</b>
<b>Earnings per share attributable to equity holders of the Group –diluted (in RUB)</b>	<b>10.35</b>	<b>(1.00)</b>	<b>9.35</b>

## DISCONTINUED OPERATIONS

Consolidated income from discontinued operations for the full year of 2014:

	Year ended 31 December 2014		
	Discontinued operations	Intragroup transactions	Total
<b>Revenue</b>	<b>16,450</b>	<b>(4,470)</b>	<b>11,980</b>
<b>Operating expenses</b>			
Wages, salaries, other benefits and payroll taxes	(1,763)	-	(1,763)
Depreciation, amortisation and impairment losses	(12)	-	(12)
Interconnection charges	(6,513)	3,387	(3,126)
Materials, utilities, repairs and maintenance	(757)	3	(754)
Loss on disposal of property, plant and equipment	(23)	-	(23)
Doubtful debt allowance	(176)	-	(176)
Other operating income	71	-	71
Other operating expenses	(4,380)	1,080	(3,300)
<b>Total operating expenses, net</b>	<b>(13,553)</b>	<b>4,470</b>	<b>(9,083)</b>
<b>Operating profit</b>	<b>2,897</b>	<b>-</b>	<b>2,897</b>
Finance costs	(776)	573	(203)
Other investing and financial gains	32,258	(7,546)	24,712
Foreign exchange loss, net	(45)	-	(45)
<b>Profit before income tax</b>	<b>34,334</b>	<b>(6,973)</b>	<b>27,361</b>
Income tax expense	(2,736)	-	(2,736)
<b>Profit for the year</b>	<b>31,598</b>	<b>(6,973)</b>	<b>24,625</b>

Consolidated income from discontinued operations for the full year of 2013:

	Year ended 31 December 2013		
	Discontinued operations	Intragroup transactions	Total
<b>Revenue</b>	<b>44,229</b>	<b>(9,261)</b>	<b>34,968</b>
<b>Operating expenses</b>			
Wages, salaries, other benefits and payroll taxes	(5,204)	-	(5,204)
Depreciation, amortisation and impairment losses	(9,504)	4	(9,500)
Interconnection charges	(14,725)	7,399	(7,326)
Materials, utilities, repairs and maintenance	(2,243)	8	(2,235)
Gain/ (loss) on disposal of property, plant and equipment	(456)	1	(455)
Doubtful debt allowance	(46)	-	(46)
Other operating income	701	-	701
Other operating expenses	(13,122)	1,853	(11,269)
<b>Total operating expenses, net</b>	<b>(44,599)</b>	<b>9,265</b>	<b>(35,334)</b>
<b>Operating profit</b>	<b>(370)</b>	<b>4</b>	<b>(366)</b>
Finance costs	(2,916)	1,969	(947)
Other investing and financial gains	991	(2,524)	(1,533)
Foreign exchange loss, net	(89)	(2)	(91)
<b>Profit before income tax</b>	<b>(2,384)</b>	<b>(553)</b>	<b>(2,937)</b>
Income tax expense	382	-	382
<b>Profit for the year</b>	<b>(2,002)</b>	<b>(553)</b>	<b>(2,555)</b>

## APPENDIX 5: STATEMENT OF CASH FLOWS FOR THE FULL YEAR OF 2014

	Year ended 31 December	
	2014	2013
<b>Cash flows from operating activities</b>		
Profit before income tax	47,754	32,119
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>		
Depreciation, amortization and impairment losses	60,635	68,414
(Gain)/loss on sale of property, plant and equipment and intangible assets	(1,452)	344
Bad debt expense	2,182	2,140
Loss/(income) from associates	517	(177)
Finance costs excluding finance costs on pension and other long-term social liabilities	14,939	15,031
Other investing and financial gain	(20,919)	(3,448)
Foreign exchange (gain)/loss, net	(183)	574
Share-based payment expenses	1,850	-
<i>Changes in net working capital:</i>		
Increase in accounts receivable	(5,303)	(5,706)
Decrease in employee benefits	(3,808)	(1,087)
(Increase)/decrease in inventories	(907)	986
Increase in accounts payable, provisions and accrued expenses	5,877	378
Decrease in other assets and liabilities	(2,115)	(2,318)
<b>Cash generated from operations</b>	<b>99,067</b>	<b>107,250</b>
Interest paid	(15,881)	(17,083)
Income tax paid	(3,640)	(4,474)
<b>Net cash provided by operating activities</b>	<b>79,546</b>	<b>85,693</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets	(57,666)	(68,487)
Proceeds from sale of property, plant and equipment and intangible assets	5,433	1,641
Acquisition of financial assets	(2,115)	(11,924)
Proceeds from disposals of financial assets	25,925	16,443
Interest received	689	441
Special dividends from disposed former mobile subsidiaries	7,003	-
Dividends received	14	11
Purchase of subsidiaries, net of cash acquired	(29)	(47)
Proceeds from disposals of subsidiaries, net of cash disposed	(112)	(6)
Acquisition of equity accounting investees	(250)	-
<b>Net cash used in investing activities</b>	<b>(21,108)</b>	<b>(61,928)</b>
<b>Cash flows from financing activities</b>		
Sale of treasury shares	815	22,306
Purchase of treasury shares	(14,485)	(58,376)
Proceeds from bank and corporate loans	470,559	509,685
Repayment of bank and corporate loans	(496,482)	(524,430)
Proceeds from bonds	-	30,000
Repayment of bonds	(2,440)	(1,613)
Proceeds from promissory notes	12	-
Repayment of promissory notes	(12)	(282)
Repayment of vendor financing payable	(9)	11
Repayment of other non-current financing liabilities	(7)	(11)
Repayment of finance lease liabilities	(2)	(629)
Acquisition of non-controlling interest	(14)	(20)
Dividends paid to shareholders of the Group	(7,294)	(5,828)
Dividends paid to non-controlling shareholders of subsidiaries	(306)	(247)
<b>Net cash used in by financing activities</b>	<b>(49,665)</b>	<b>(29,434)</b>
Effect of exchange rate changes on cash and cash equivalents	212	-
Net increase/(decrease) in cash and cash equivalents	8,985	(5,669)
<b>Cash and cash equivalents at beginning of year</b>	<b>7,960</b>	<b>13,629</b>
<b>Cash and cash equivalents at the end of year</b>	<b>16,945</b>	<b>7,960</b>

## APPENDIX 6: STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	31 December 2014	31 December 2013
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	328,266	335,059
Investment property	224	113
Goodwill and other intangible assets	58,420	64,346
Investments in associates	75,048	918
Other investments	110	520
Deferred tax assets	359	276
Other non-current assets	9,274	3,990
<b>Total non-current assets</b>	<b>471,701</b>	<b>405,222</b>
<b>Current assets</b>		
Inventories	4,827	3,941
Trade and other accounts receivable	45,056	39,824
Prepayments	4,363	3,508
Prepaid income tax	2,241	4,894
Other investments	1,934	1,966
Cash and cash equivalents	16,945	7,960
Other current assets	988	609
<b>Total current assets</b>	<b>76,354</b>	<b>62,702</b>
Held for sale assets	579	93,048
<b>Total assets</b>	<b>548,634</b>	<b>560,972</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the Group</b>		
Share capital	97	97
Additional paid-in capital	819	1,658
Treasury shares	(82,023)	(68,325)
Retained earnings and other reserves	322,258	262,967
<b>Total equity attributable to equity holders of the Group</b>	<b>241,151</b>	<b>196,397</b>
Non-controlling interests	4,076	3,359
<b>Total equity</b>	<b>245,227</b>	<b>199,756</b>
<b>Non-current liabilities</b>		
Loans and borrowings	137,872	184,600
Employee benefits	5,965	9,774
Deferred tax liabilities	31,206	26,728
Accounts payable, provisions and accrued expenses	160	1,077
Other non-current liabilities	4,960	5,127
<b>Total non-current liabilities</b>	<b>180,163</b>	<b>227,306</b>
<b>Current liabilities</b>		
Loans and borrowings	52,142	33,209
Accounts payable, provisions and accrued expenses	62,253	73,635
Income tax payable	89	69
Other current liabilities	8,760	9,350
<b>Total current liabilities</b>	<b>123,244</b>	<b>116,263</b>
Held for sale liabilities	-	17,647
<b>Total liabilities</b>	<b>303,407</b>	<b>361,216</b>
<b>Total equity and liabilities</b>	<b>548,634</b>	<b>560,972</b>

**Rostelecom** ( [www.rostelecom.ru](http://www.rostelecom.ru) ) is one of the largest national telecommunications operators in Russia and Europe. The Group 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 11.2 million fixed-line broadband subscribers and over 8.0 million pay-TV subscribers, 2.7 million of which are subscribed to Rostelecom's IPTV services.

The Group generated RUB 298.8 billion of revenues in the fixed-line segment, RUB 102.5 billion of OIBDA (34.3% of revenues) and RUB 13.2 billion of net income in 2014.

The Group is a market leader in providing telecommunications services to government bodies and corporates of all levels. It is also an important innovator that provides solutions in the field of medicine, E-Government, cloud computing, education, security and housing & utility services.

Rostelecom was assigned 'BBB-' and 'BB+' international credit ratings by Fitch Ratings and Standard & Poor's respectively.

\* \* \*

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

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

- *Management's assessment of the Company's 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 participate in the charter capital of other organizations, associations of organizations and holding entities;;*
- *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 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 after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.*