



Motivation Programs

LONG-TERM MANAGEMENT MOTIVATION PROGRAM

On 31 March the Board of Directors approved Terms and Conditions of the Long-Term Rostelecom employees' bonus program and long-term share acquisition program (employees' option program) of Rostelecom constituting the long-term Rostelecom management motivation program (the "Motivation Program") which provides for setting up an option plan for ordinary shares to be purchased by the Motivation program participants at a fixed price through a yearly bonus payable depending on achievement of long-term Key Performance Indicators' targets, based on the Free Cash Flow (FCF), Net Profit and Return on Invested Capital (ROIC)¹.

The programs will be in effect for 3 years starting from 2014. There are about 200 participants to the Motivation Program including top and senior managers, regional branch directors in particular. The total target package for all Motivation Program participants consists of the Company ordinary shares and accounts for 1.5 % of the Charter Capita. The final package size will depend of the KPI achievements and is limited by 200 % of the total target share package if KPIs are significantly exceeded. If KPIs are significantly not achieved the Motivation Program participants will lose their rights for the option in the portion attributed to the relevant reporting period. Shares to each participant are soled annually in percentage of the total target share package and given adjustment depending on the extent the KPIs are achieved: 30 % in 2014, 30 % in 2015 and 40 % in 2017.

Vesting is also gradual: 50 % at the end of the relevant fiscal year, another 50 % twelve months afterward.

A closed unit fund RTC-Development managed by VTB Capital Asset Management was set-up to implement the option plan. Over the year ended on 31 December 2015 employees exercised their options for 6 818 718 shares or 0.265 % of the total number of ordinary shares.

The total amount of payments accrued in favour of the Motivation Program participants and connected with members of the Management Board and Vice Presidents in cash equivalent was RUB 341 mln on the results 2015 and RUB 875 mln on results of 2014.

¹Net profit is based on the Profit and Loss account according to IFRS, while FCF for the purpose of the Motivation Program is computed as the difference between OIBDA and capital expenditure amount (according to the accrual method); ROIC is the ratio of the net operational profit before tax (NOPAT) to the capital invested



SHORT-TERM PERSONNEL MOTIVATION PROGRAM

Improvements of the KPI Framework which is the basis of the variable portion of the pay to employees and enables motivation of the Company personnel to achieve strategic goal in the most efficient way were continued in 2014 as part of a new salary and motivation program implemented in the Company in 2012.

The KPI Framework can be viewed as a pyramid at the top which there are Corporate KPIs as indications of Company performance as a whole and describing the success in implementing the Company general strategy.

Corporate KPI are drilled down to the business KPIs describing performance of structural units and employees at all level of management. Corporate KPIs and Business KPIs are used for determining bonuses payable to employees at all level while relative weight of Corporate KPIs diminishes down the management hierarchy. This cascading allows for motivating specialists in various functional areas to achieve common targets ensuring consistent and unified implementation of cross-functional processes. In order to execute the list of assignments issued by the Russian President on 5 July 2013 № PR1474 and following the Guidelines for KPI implementation issued by the Ministry of Economic Development and Rosimuschestvo, KPIs Regulations were developed and implemented, and amendments were made in the effective Regulations on using KPI for bonuses as far as it is concerned with alignment of bonuses with achievement of planned performance targets as defined in the Long-Term Development Program (Minutes № 26 of 12 January 2015 of the Board of Directors Meeting).

The following existing regulations on providing real incentives for employees were updated in the Company:

- Regulations on the long-term bonus program for Rostelecom employees;
- Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months;
- Regulations on the real incentives for Rostelecom employees based on operation results.

How the KPIs identified for Long-Term Development Program are linked to KPIs of the Management and Employees Reward Framework of the Company is clarified in the Table below.



KPIs identified for Long-Term Development Program are linked to KPIs of the Management and Employees Reward Framework of the Company

Key Performance Indicator (KPI)	Effective period		Document title
	2015	2016	
Total shareholders' return (TSR)	+	+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months;
		+	Regulations on the real incentives for Rostelecom employees based on operation results (Senior Vice President, Senior Vice President – CFO)
Return on Invested Capital (ROIC)	+	+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
Revenue	+	+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months;
		+	Regulations on the real incentives for Rostelecom employees based on operation results
Efficiency indicator: OIBDA		+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
		+	Regulations on the real incentives for Rostelecom employees based on operation results;
Efficiency indicator: OIBDA margin	+		Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
		+	Regulations on the real incentives for Rostelecom employees based on operation results
Labour productivity indicator (LPI)	+		Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
		+	Regulations on the real incentives for Rostelecom employees based on operation results (Senior Vice President for Organizational Development and Personnel Management)
Innovation KPI (Quality of design and survey execution in 2015)	+		Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
		+	Regulations on the real incentives for Rostelecom employees based on operation results (Senior Vice President)

Table continued on next page



Table continuation

KPIs identified for Long-Term Development Program are linked to KPIs of the Management and Employees Reward Framework of the Company

Key Performance Indicator (KPI)	Effective period		Document title
	2015	2016	
Broadband and IPTV subscribers	+		Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months;
	+		Regulations on the real incentives for Rostelecom employees based on operation results
Subscriber base growth		+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
		+	Regulations on the real incentives for Rostelecom employees based on operation results (Senior Vice President for Business Management, Senior Vice President for Technical Infrastructure);
Number of households passed connected to fiber networks	+	+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months
	+	+	Regulations on the real incentives for Rostelecom employees based on operation results
Net Debt / OIBDA	+	+	Regulations on defining and application of KPIs in order to determine the bonus amounts payable to Rostelecom President for 3, 6, 9 and 12 months;
	+	+	Regulations on the real incentives for Rostelecom employees based on operation results