

Operating Efficiency Improvement

In 2014, the Company has developed the Program of operating efficiency improvement (until 2018); this is one of the most important steps in building the reliable model of modern business. In 2015, the Company has successfully implemented the program and managed to outstrip essentially the

planned target: the cumulative effect of program implementation was RUB 8.5 bln at the end of 2015, while the 'revenue per employee' indicator rose to RUB 2 mln. Due to the implementation of this program the aggregate saving will amount up to RUB 19 bln cumulative by 2019.

Staff headcount and revenue per employee²

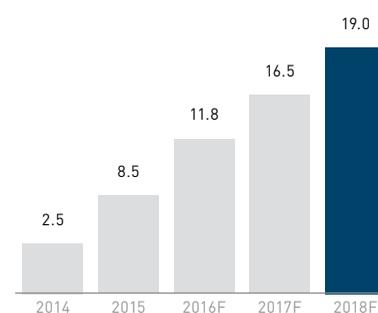


The most significant projects included in the program are:

1. Staff efficiency improvement

The main focus of this project is to optimize operations of technical and administrative staff at the expense of decreasing the level of management, transformation of the network infrastructure and IT systems, balance approach to outsourcing, and performance improvement at the expense of higher employees' engagement. Based on the result of 2015, the average staff headcount has decreased by 6 % with a 5 % increase in output per employee compared to 2014.

Cumulative effect of operating efficiency improvement, RUB bln



2. Rural communication systems upgrade

Within this project it is assumed to replace obsolete equipment and copper communication networks with optical access technologies and wireless broadband Internet solutions, which enables reducing the cost of leasing and maintaining buildings and the cost of service, and decreasing the number of emergencies in the network.

3. Sales and service networks optimization

The main effect of this project will be the less than half reduction in the number of sales and service points, combined with the growth of remote sales and service channels' share. This enables reducing the cost of sales and service points' maintenance and cutting the staff cost.

² Note: Continuing operations data.



4. Centralization of network control centres

Key goals of this project include the improvement of subscribers' service quality (SLA), and the reduction in overhead and staff costs. Implemented measures include the reduction of employed staff headcount by half, lowering the number of control centres from 67 to 7, the unification of equipment monitoring systems and the increase in the share of controlled equipment to 90 %.

5. Optimization of contact centres

Contact centres' optimization is aimed at improving the quality of client service combined with the associated decrease in staff and premises lease costs.

PROCUREMENT

THE COMPANY PURSUES IMPROVING THE EFFICIENCY OF PROCUREMENTS, IN PARTICULAR THROUGH RAISING THE LEVEL OF COMPETITION WITHIN BIDDING PROCEDURES.

Indicator	2012	2013	2014	2015
Saving, RUB mln (all procurements)	3,549	16,218	16,765	24,914
Saving, % (competitive)	4.7	16.5	13.1	20.3
Saving, % (all, including sole supplier)	3.5	10.3	9.8	13.9
Number of procurements/lots (total)	6,124	6,245	8,525	7,761
Highly competitive (over 4 bidders), %	1.5	14.2	17.7	27.2

Share of procurements with 4 bidders and over, %



Centralization and local procurements control, %

Distribution of procurements by the level of control





CONSOLIDATION OF PROCUREMENT AND LOGISTICS FUNCTIONS:

- all procurement procedures are carried out in an open way through e-tenders;
- implementation of the balanced system of authorities allocation;
- implementation of the procurement strategy and logistics strategy as a single strategy of supply chain;
- optimization of the logistics network and warehouse facilities pursuant to the supply strategy;
- changed approaches to inventory and material flows management.

Refer to Appendix 'Actual Results of Compliance with Orders and Instructions of the President of the Russian Federation and Instructions of the Government of the Russian Federation' for information on fuel and energy resource used in 2015.

ENVIRONMENTAL SAFETY

Rostelecom sees the activity aimed at protecting of environment as an integral part of its day-to-day business, being fully aware of the need to maintain the ecological balance and ensure the stable social and economic development.

The company adheres to the environmental policy aimed at the rational use of natural resources, minimizing the damage to environment resulting from the Company's operations, and maintaining prosperous environment for future generations. Internal rules and regulations governing various aspects in the area of environmental safety are executed by production supervision functions. They control the volume of waste water discharge, the volume of waste transferred to special purpose organizations for disposal and decontamination, and landfilling in solid waste dumps.

Assigned employees are trained in environmental safety every five years and have certificates of qualification upgrade.