

Key Risks and Responses

Risk description	Responses and references	Manageability	Dynamics	Additional Information in Appendix "Risk Management" (in Russian)
LEGAL RISKS				
Legal risks				
<p>The Company's key risks are currently related to changes in the legal regulation of certain types of services and business conditions in communications industry. A substantial part of Rostelecom activities is regulated by the government authorities (FTS and FAS). Due to this fact, the Company takes into account the laws and regulations revision risks in disfavour of the Company.</p>	<p>Rostelecom on a regular basis monitors changes in the Russian legislation and regulations, develops appropriate responses. In addition, the Company is in constant interaction with the regulators, representing the Company's position on regulatory and legislative initiatives.</p>	Medium	→	<p>4.1. Legal risks associated with the issuer's activities. 4.6. Risks associated with changes in court practices on the matters of the Issuer's activities (including licensing issues), which may adversely affect the results of its operations, as well as the results of the current, litigations to which the Issuer is a party.</p>
FINANCIAL RISKS				
Investment risk				
<p>Rostelecom considers the risks associated with untimely return on investments of the Company. Such risk may occur as a result of late or defective contractors' work. The currency component of the investment costs can also affect the return on the investment of the projects: in the case of currency fluctuations the cost of resources increases and, consequently, the period for achieving the target level of return increases as well.</p>	<p>For risk management, the Company monitors the investment projects at the stages of implementation and operation. In addition, it uses a program of import substitution to reduce the foreign currency component in the investments.</p>	High	←	<p>3.6. untimely return on investments of the Issuer, the expected level of income under which is more than 10 percent per year. 3.3. Inflation may increase the costs and reduce the profitability of the main activities of the Issuer.</p>
Currency risk				
<p>Rostelecom receives the bulk of the revenue in rubles, at the same time part of the expenses, liabilities, capital expenditures and borrowings is denominated in foreign currencies. As a result of currency fluctuations, financial results associated with payments in foreign currency, as well as assets and liabilities denominated in foreign currency may be revaluated downward.</p>	<p>To minimize the currency risk for capital expenditures the Company pursues a policy of preemptive nomination of the contracts for the supply of equipment and services in the national currency. The company provides loans, based on the principle of currency correspondence, namely, compliance with the currency correspondence of financial instruments in the currency in which the Company operates.</p> <p>See "Financial Performance Review: Debt"</p>	Low	←	<p>3.2. As a result of currency fluctuations, the financial results of the Issuer related to payments in foreign currency, as well as assets and liabilities denominated in foreign currency may be revaluated downward.</p>
INDUSTRY RISKS				
Revenue risk in new emerging markets				
<p>The company carries out the development and promotion of innovative products and services, including the services of industrial internet, geodata, organization of virtual private networks (IP VPN), television services based on cloud technologies etc. The late launch of the products, incorrect focus on the product can lead to failure to achieve targets for new services.</p>	<p>For risk management, the Company has developed a strategy for the development of new services, Has Product Committee and the Department of Venture Products, optimizes the business process of creation and launch of new products, strategic innovation centre ensures the Company's business development through searching and implementing the strategic innovation.</p> <p>As a result of the strategy adjustment, the Company has identified a priority for the services development in fast-growing segments. For optimal presence of emerging markets, Rostelecom also carries out transactions (M&A).</p> <p>See "Strategy: Fixed-line Segment"</p> <p>See "Key events: Transactions"</p>	High	↗	<p>1.1. Further strengthening of the competition, including the emergence of new operators, as well as the development of services that replace traditional communication services, may reduce the market share held by the Issuer, and accordingly, revenues from the provision of these services. 7.6. If the existing as well as new products and communication services, the Issuer brought to market recently or are in the process of development and promotion, will not enjoy sufficient demand, the possibility of the Issuer to achieve further growth of income from these services will be limited.</p>
Revenue risk in the main activity segments				

<p>Rostelecom is facing increased competition in all segments of the Russian market of telecommunication services, which may have a negative effect on the maintenance of or increase in the market share and customer base and lead to a decrease in operating profit.</p>	<p>To manage the revenue downside risk the Company implements the following measures:</p>	<p>High</p>		<p>1.1. Further strengthening of the competition, including the emergence of new operators, as well as the development of services that replace traditional communication services, may reduce the market share held by the Issuer, and accordingly, revenues from the provision of these services. 7.5. Risks related to the Issuer's mobile business development.</p>
	<ul style="list-style-type: none"> • monitoring and the development of measures to improve customer satisfaction; • improving the CRM efficiency, integration with other information systems; • differentiation of products and services, and formation of special and package offers; • improving the quality of customer support; • development of services in the fast-growing segments. 			
	<p>In addition to the above-described response measures common to all segments, Rostelecom implements special measures in relation to the segments and products:</p>			
	<ul style="list-style-type: none"> • In B2C broadband segment, the Company implements projects aimed at improving the quality of the network (bandwidth). • In the B2C segment, the Company is implementing a special project aimed at improving the convenience and the development of additional services of fixed telephony. • In B2B segment, the Company modernizes the network to provide high-quality digital services. 			
	<p>See "Strategy, Fixed-line Segment" See "Best-in-class customer service" See "Differentiated Offerings"</p>			

<p>Business marginality reduction risk</p>				
<p>The Company distinguishes the risk of a possible reduction in business margins that may be due to the influence of the external environment changes.</p>	<p>For the risk management, in 2015, Rostelecom continued to implement programs to improve operational efficiency and reduce costs.</p>	<p>High</p>		<p>1.2. Risks related to changes in prices for the products and/or the Issuer's services in the domestic and foreign markets, as well as their impact on the Issuer's activities. 7.7. If the Issuer is not be able to fully and timely meet its obligations to customers and clients on the major projects, the Issuer may incur significant financial and reputational costs. Moreover, the delayed implementation of such projects may reduce the return on them and, as a consequence, lead to the deterioration in the financial performance of the Issuer. 7.8. If the Issuer's network capabilities are insufficient to support the data transfer services growth in revenue of the Issuer may decline significantly, with the further development of the data transfer network accompanied by a decrease in the return on investment.</p>
	<p>See "Improving Operational Efficiency"</p>			

<p>GENERAL CORPORATE RISK</p>				
<p>No expected return of mergers and acquisitions</p>				
<p>The Company considers the risk of no expected returns from mergers and acquisitions, including due to the complexity of the integration of new assets.</p>	<p>For risk management, the Company carries out a set of measures aimed at creating the optimal action plan, develops a plan of integration of the acquired companies, a set of measures to improve control of subsidiaries and affiliates, develops the risk management functions in the largest Rostelecom subsidiaries.</p>	<p>Medium</p>		<p>7.4. Risks associated with the integration of the acquired companies.</p>

-  Fall in materiality while maintaining probability in 2016 compared to 2015
-  Growth in materiality while maintaining probability in 2016 compared to 2015
-  Growth of materiality and probability in 2016 compared to 2015

Risk Management in 2015

Quarterly meetings of the Risk Management Committee made key decisions on risk management at the level of Rostelecom PJSC. Risk owners were actively involved in the risk management and participated in the risk and response updating.

As a result of the risk management, risk events did not exceed the annual risk-appetite approved by Company's Board of Directors. During 2015, the Company carried out measures on the development of a risk management culture, including training workshops for management at the level of the corporate centre and at macro-regional branches of the Company. In 2015, the Board of Directors updated and approved Risk Management Policy of Rostelecom PJSC.

