

# Letter from the President



## DEAR SHAREHOLDERS AND INVESTORS,

2015 was a year of momentous transformation for Rostelecom. By implementing its principle strategies, the Company is realizing its ambitious new goal of transforming itself into a digital services and platforms provider.

### CONSOLIDATING MARKET POSITIONS

The Company continued to steadily grow its traditional digital segments in 2015, with its broadband revenue increasing by 6 %, and the PayTV revenue surging by 27 %. We are also close to completing the transition of our "last-mile" infrastructure to fibre optic access networks, which currently passes more than 30 mln households.

Rostelecom achieved significant growth in all major market segments over the past 12 months, with our PayTV market share expanding by 4.4 percentage points. Our enhanced content offerings, extended subscriber base and increased demand for VoD services contributed to these achievements. Rostelecom also secured a leading position in the data centre service market through its acquisition of SafeData.

Rostelecom continues to assist the Russian government as a strong and dependable partner involved in the implementation of large-scale nationwide projects, such as efforts to bridge the digital divide, the development of a single common portal of public and municipal services (the e-government), as well as providing video surveillance during the Unified State Exam and at municipal elections.

# 31 mln

HH passed  
by fibre out  
of 33 mln  
under the  
program

# 7.5 mln

unique users  
of the single  
common portal  
of public services

# 37.3%

BB (B2C)  
market share  
(+1.1 p.p.)

# 34.8%

BB (B2B)  
market share  
(+4.0 p.p.)

# 27.6%

Pay TV  
market share  
(+4.4 p.p.)

## EMBRACING THE DIGITAL FUTURE

Looking into the future, it is clear that Internet-based technologies have significantly enhanced the access people have to information and communication tools, and the internet is set to continue to shape our lives from influencing the way families live, to the way business models are constructed and the way industrial processes are followed. To enable our customers to make use of emerging technologies faster and more efficiently, the Company's Board of Directors passed a decision to embark on the development of a new generation of digital services and platforms, which include: the nationwide DC grid, cloud services, OTT-services, industrial internet of things and geodata services. Initial steps were already taken in 2015, which includes the launch of a large scale project to build an energy efficient DC in association with Rosenergoatom, and the introduction of the Interactive TV 2.0 OTT product, which provides access to a wide variety of Rostelecom content offerings anywhere and from any device, and the development of our own geo-information service platform.

Rostelecom features prominently among the leaders of Russia's national Industrial Internet Consortium to coordinate R&D activities within the emerging new technological mode.

## FOSTERING A MOTIVATIONAL ENVIRONMENT

The Company has a clear vision that its current and future prosperity relies on the motivation, inclusion and realization of the creative potential of its employees. We are now implementing a comprehensive organizational transformation programme aimed at making Rostelecom one of the most desirable Russian employers.

In 2015, we implemented the Rostelecom Production Framework to empower our employees in different roles and on various management levels to be involved in improving operation performance and accelerating the Company growth.

Furthermore, a long-term key employee motivation programme using the Company's shares was launched 2 years ago and serves as an essential means of achieving cohesion between the management team's interests and our ultimate objective of maximizing shareholder returns.

**3.9**  
thou. racks are  
deployed in data  
centres

**200**  
employees  
became  
Company  
shareholders

**≥75%**  
of FCF for  
dividends<sup>1</sup>

### CREATING SHAREHOLDER VALUE

Last year Rostelecom significantly improved its dividend policy, we are also providing greater transparency and appeal to investors. We hope our competitive strengths in our traditional markets, our new product development plans and programmes for improving operational and investment efficiency will enable us to deliver sustainable revenue growth, OIBDA and free cash flow.

**RUB 8.5 bln**  
of cost savings  
over 2014-  
2015 under  
the efficiency  
improvement  
programme

### REALIZING OUR PLANS FOR 2016

There remains much to be accomplished in 2016. We need to strengthen the businesses that operate in new digital segments and we need to propel the business into a new level. We also need to launch new transformational network infrastructure technology. We remain confident that based on the support of our customers, partners and shareholders we will deliver on all of our targets.

Yours Sincerely,  
Sergey Kalugin  
Chief Executive Officer

<sup>1</sup> But no less than RUB 45 bln in 2016-2018