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Growth Strategy



Five areas of strategic growth were defined in 2013 to bring about major transformations within the Company by optimising its traditional telecommunications business and identifying additional sources of growth. New challenges were added towards the end of 2015, as the Company sought to expand into high-potential market segments which could add momentum to the process of transforming Rostelecom into an integrated provider of digital services and platforms. We made great strides on our digital transformation journey over the recent years, as evidenced by the growth of the digital segment's share of total revenues to 44% in 2016.

One of our near-term priorities is to maintain our focus on improving the quality of service for our customers across our offering and on further enhancing customer experience. It is an essential pillar of our strategy and one that requires further improvement to sharpen our customer focus across the board and enhance our value proposition for customers. Our top priorities in this area include keeping our services simple and easy to use, addressing customer concerns and providing information support and advice anytime across a variety of channels (offices, call centres, multimedia channels, self-service functionality).

Further enhancement of our value proposition is also possible through expanding our range of available services, launching new customised solutions, and improving the Company's agility and flexibility in responding to changes in demand and evolving needs of our customers. It is another strategic focus for us to sharpen our competitive edge and ensure sustainable revenue growth going forward. One example is the initiative we started in 2016 by launching a number of IIoT pilots with companies in the oil and gas, power generation and engineering sectors. Generally speaking, IIoT is a very broad concept. We include in this category any activities related to data collection, processing and subsequent use in the real economy. Therefore, the Internet can make processes in basic industries cheaper and faster, and offer additional competitive advantages through efficiency gains. Another important feature of IIoT is that it helps build ecosystems that break silos between market segments and link up a multitude of actors.

In the M&A market, we continue to closely monitor regional broadband opportunities, assessing potential acquisition targets that are economically viable for us and selectively growing our foothold on local markets. We also have a venture capital fund focused on new technology assets. As a matter of priority, the fund seeks exposure to assets with expertise in our focus areas.

Sergei Anokhin,
Senior Vice President

VISION: BUILDING A DIGITAL RUSSIA

MISSION:

Provide people with high-quality convenient digital services for comfortable life and effective business management

STRATEGIC AMBITION:

To become an integrated provider of digital services

VALUES:

Our customers shape our future; We work for the benefit of people; Our decisions are driven by intellect and data; We deliver and are proactive.



Rostelecom

Fixed-line business

STRATEGIC PRIORITIES:

- » Technology leadership
- » Differentiated offerings
- » Customer service excellence
- » Organisational transformation
- » Operational excellence

NEW STRATEGIC AREAS OF FOCUS:

- » Data centres
- » Cloud services
- » OTT
- » IIoT
- » Geodata



Mobile business (Tele2)

GOAL:

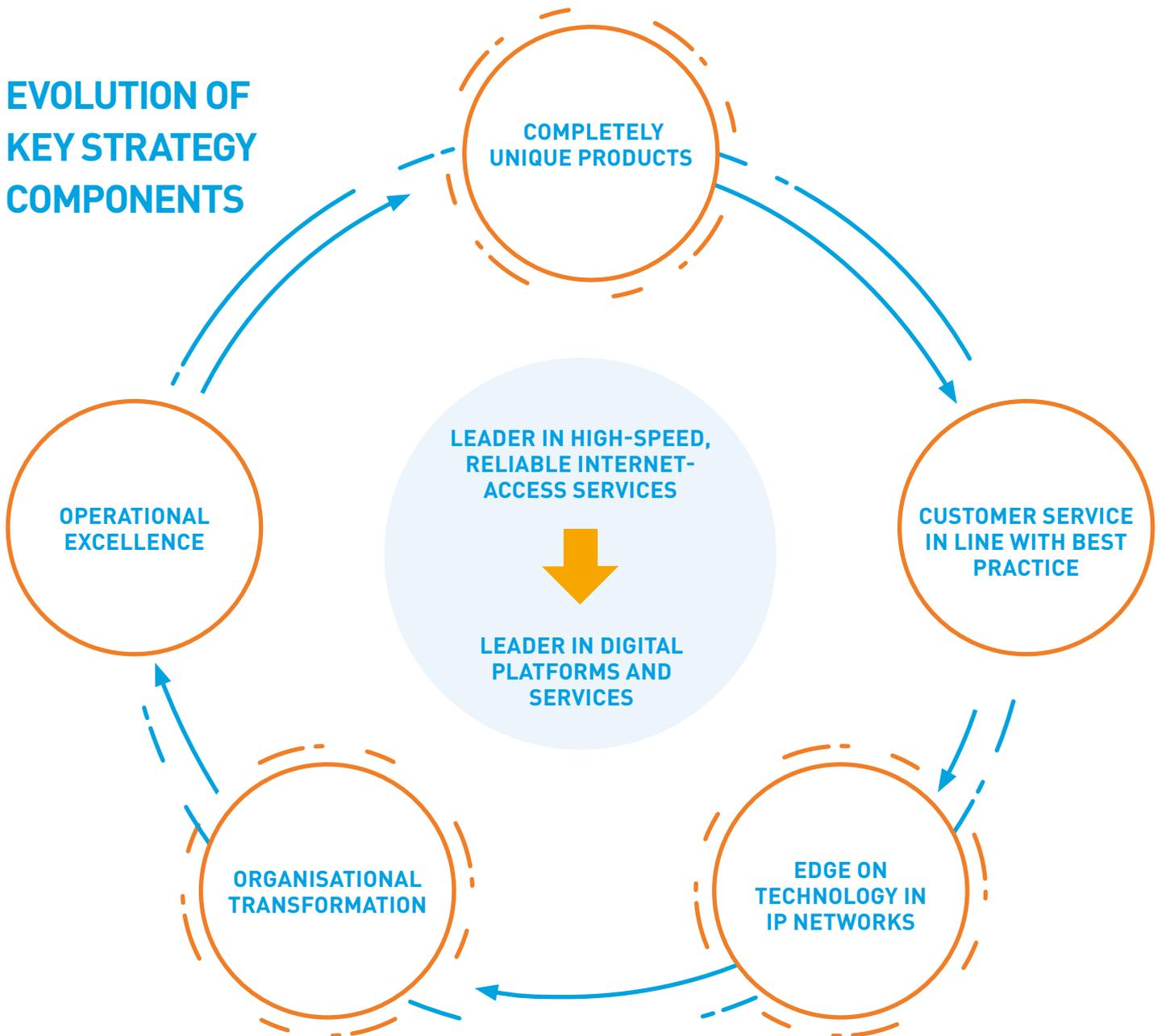
- » Service provider of choice
- » Best ROI
- » Employer of choice

STRATEGIC AREAS OF FOCUS:

- » Completely unique, attractive, simple and honest offers
- » Loyalty programmes and digital partner services
- » Leadership in efficiency
- » Time to market

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EVOLUTION OF KEY STRATEGY COMPONENTS



FIXED-LINE BUSINESS SEGMENT⁶

Rostelecom's goal in the fixed segment, which is the Company's core segment in terms of revenue and available expertise, is to provide its customers with high-quality advanced communications services while improving internal operational efficiency.

Rostelecom's key objective for the next few years is to shift to a business model of an integrated digital service provider offering the market a platform with its own and third-party digital services.

To this end, Rostelecom focuses on the following five key areas:

- » **driving competitive edge in technology** through the construction of advanced high-speed network infrastructure based on fibre-optic technology;
- » **promotion of differentiated products** through bundled offers and launching new advanced digital services;
- » **provision of customer service in line with best practice** through the deployment of best customer service standards and enhancement of customer experience;

- » **lean-based organisational transformation**, streamlining the organisational structure, and fostering a customer-focused approach in the Company;
- » **internal efficiency improvements** through OPEX reduction programmes.

MOBILE BUSINESS SEGMENT

The Company decided to develop its mobile business through a joint venture with Tele2 Russia with a view to create a leading nationwide mobile operator.

In 2016, Tele2 adopted a new strategy until 2021. Under the new strategy, Tele2 plans to become a key player of a new mobile-based digital ecosystem through partnerships with other companies.

Tele2 sees its role as providing a convenient, attractive platform to market new products and services in various spheres of life not only to customers but to partners as well, while maintaining its fundamental principles of operating with transparency and integrity.

NEW STRATEGIC OPPORTUNITIES

In October 2015, the Board of Directors of Rostelecom reviewed the Company's strategic opportunities in new market segments. Apart from developing traditional business segments, including broadband and pay TV, Rostelecom intends to expand its footprint on new markets with high growth potential. In addition to its vast expertise, the Company has required infrastructure and an extensive customer base to unlock the growth potential of these market segments. Key growth points in the new services segment are:

- » Data centres;
- » Cloud services;
- » OTT video;
- » Geodata;
- » Industrial Internet of Things (IIoT).

Successful performance on new markets will provide the Company with a platform to support high revenue growth rates in the future.

⁶ Growth Strategy 2014–2018 is in place at Rostelecom, approved by the Board of Directors in December 2013 (Minutes No. 23 dated 16 December 2013). No changes were made to the 2014–2018 Strategy in 2016. In October 2015, the Board reviewed the strategic opportunities available to the Company in new market segments. Key growth points in the new services segments include data centres, cloud services, OTT video, Industrial Internet of Things, and geodata.

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LONG-TERM DEVELOPMENT PROGRAMME

In January 2015, the Board of Directors approved the Company's Long-term Development Programme⁷, developed in accordance with the Governmental directives and guidelines of the Russian Ministry of Economic Development. Along with the Long-term Development Programme, the Board of Directors also approved Key Performance Indicators (KPIs) for 2015–2019^{8,9,10}.

The Long-term Development Programme was developed pursuant to the Company's strategy and defines tactical activities and tools to achieve its strategic goals until 2019.

The scope of the Long-Term Programme covers all activities of Rostelecom both in consolidating its market position, driving infrastructure development and supporting innovation-driven growth, and in improving business performance.

Adequate investment, HR and management resources were allocated to support the activities set out in the Long-Term Programme. These activities are well balanced to reflect financing capabilities of the Company.

⁷ The Long-term Development Programme was approved by the Board of Directors on 29 January 2015, minutes №28.

⁸ The list of 2016 KPIs was supplemented in accordance with new directives by an integrated innovation KPI and a KPI for opex reduction.

⁹ On 28 December 2016, the Board approved updated KPI targets for 2016 for the worst-case scenario to supplement those in the approved 2016 Programme.

¹⁰ Actual performance against KPI targets set in the 2016 Long-Term Development Programme is detailed in Appendix 7.