

# Investment Hotspot

Russia's telecommunications industry is attractive for both long-term and short-term investors. Building on its strong competitive advantages, Rostelecom benefits from stable cash flows and demonstrates solid operational performance despite unfavourable macroeconomic conditions and fast-paced advances in technology and evolving customer preferences. The Company responds to market challenges and makes use of new opportunities they present. High asset quality, streamlined business processes and accumulated expertise enable Rostelecom to grow sustainably in its core operating segments.

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## COUNTRY

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## INDUSTRY

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## COMPANY

## Short-term drivers

- » Inflation slowdown to 5.4%<sup>1</sup> in 2016 and 4.1% by 2019 – lower cost of debt and expenses in RUB terms
- » Rouble appreciation by 17% against the US dollar in 2016 – cheaper imports and better financial performance in USD terms

- » Lower sensitivity to adverse market changes – sustainable revenues
- » Smaller wallet share of telecoms expenses – stable market position
- » Ability to accumulate expertise and quality assets via acquisitions
- » Higher penetration – subscriber base expansion

- » Leadership in Broadband (38% market share) and IPTV (69% market share) + CAPEX of RUB 61.9 billion in 2016 – technology edge
- » More than 32 million households connected to fibre – leadership in B2C
- » FCF of RUB 13.3 billion and net profit of RUB 12.2 billion – strong financial performance supporting strategic development
- » Progressive dividend policy – at least 75% of FCF, but not less than RUB 45 billion in 2015–2017
- » Share option plan – employees incentivised to drive the Company's value

## Long-term drivers

- » Improvements in investment climate
- » Economic diversification and lower reliance on commodity prices – higher demand for high-tech products and services
- » Digitalisation of the economy – Russian Government's focus on the development of digital products and services
- » Population growth to 150 million people by 2030 – customer base expansion

- » Fourth Industrial Revolution, IIoT and 5G – growing market size
- » Demand shifting towards digital products and VAS – opportunities to capture new revenue pools and grow ARPU

- » Presence in high-potential markets – differentiated offerings to grow ahead of the market
- » Loyal customer base and company's focus on customer service excellence – higher customer satisfaction
- » Organisational transformation – higher employee engagement and revenue per employee ratio
- » Focus on efficiency – cost reduction
- » Real estate portfolio – proceeds from asset disposals and lower maintenance costs
- » Venture capital fund – investments in start-ups
- » Strategic investments in joint ventures with Tele2 Russia and VGTRK – development of converged products
- » R&D – driving competitive edge in technology
- » Government as a customer – nation-wide government-sponsored projects

<sup>1</sup> Source hereinafter: Rosstat (Federal State Statistics Service), the Bank of Russia, Russian Ministry of Economic Development, TMT Consulting, Higher School of Economics, Company data.