

# Letter from the President



**Dear Shareholders, Partners and Colleagues,**

In 2016, we strengthened Rostelecom's leadership in the traditional and digital segments and continued to steadily grow our priority, high-growth lines of business. In line with our strategy, the share of Rostelecom's revenue from sales of digital and content services increased considerably in 2016, reaching 44%.

In the reporting year, not only did we maintain steady growth rates in Rostelecom's traditional business but we also actively expanded into new, high-potential areas. The broadband subscriber base grew by 6%, comprising over 12.3 million households as at the end of the year, and construction of the Kamchatka – Magadan – Sakhalin submarine FOCL was completed. Additionally, through its joint venture with Tele2, Rostelecom launched a full MVNO project, to enable us to further develop converged services and strengthen customer loyalty.

Our corporate segment remained the key growth driver for the Company's revenue in 2016 by tripling its sales of new products. The segment also increased the share of broadband subscribers on fibre-based tariff plans by 41%.

Content and digital services were the biggest contributors to revenue growth, including VAS and Clouds which grew by 28%, Pay TV by 22%, and VPN and Broadband by 6% and 5%, respectively.

I would also like to highlight that Rostelecom continues to assist the Russian government as a strong and dependable partner involved in the implementation of large-scale nationwide projects: in 2016, the Company provided continuous video surveillance during the nationwide Unified National Exams for graduating secondary school students, as well as at polling stations during the Russian State Duma election. We also continued to implement major national projects to bridge the digital divide and develop a public service portal.

In seeking to achieve operational excellence in 2016, Rostelecom continued to streamline its real estate portfolio and headcount, improve the performance of its business processes, and increase labour productivity. As a result, revenue per employee reached RUB 2.1 million as at the year end, and the total positive effect on the Company's operating costs was almost RUB 6 billion.

Corporate culture remains one of the pillars of the Company's strategy and this is underpinned by making Rostelecom employees feel as though the Company is their own business. To foster this attitude, we have been implementing a lean framework which offers employees the tools to support their daily activity, progress and improvements in performance.

Rostelecom will maintain its focus on its strategic objective of evolving into an integrated digital service provider and on improving the quality of service by offering convenient telecommunications services, and help customers improve their business performance. This means that with every passing day we become more flexible, customer-focused, agile and innovative.

To conclude, I would like to thank all Rostelecom's employees, partners and shareholders, and express my confidence that our team's superior expertise, creativity, and hard-working attitude will continue to drive the successful growth of our business.

**Mikhail Oseevsky,**  
President, Rostelecom