Rostelecom is one of the largest national telecommunications operators in Russia and Europe. The Group operates in all segments of the telecommunications market. The Company’s history began more than 130 years ago when the first telephone communication in Moscow and St-Petersburg was launched in 1882. Since that time the Company has been changed dramatically and passed several technological and organizational phases becoming a national provider capable of delivering a wide range of brand-new digital ICT solutions.

Rostelecom focuses on providing services in Russia. Rostelecom is an undisputable leader of the broadband and pay-TV markets in Russia with over 11.2 million fixed-line broadband subscribers and over 8.0 million pay-TV subscribers, 2.7 million of which are subscribed to Rostelecom’s unique IPTV services available at the national level.

The Company also participates in developing mobile sector in Russia through holding a 45% stake in the joint venture with Tele2 Russia which has a significant potential for further growth and incremental value creation.

The Group is the market leader in providing telecommunications services to government bodies and corporates of all levels. It is also a recognized innovator in solutions in the field of health care, E-Government, cloud computing, education, security and housing & utility services.

The Group generated RUB 310.9 billion of consolidated revenues, RUB 105.4 billion of OIBDA and RUB 37.8 billion of net income in 2014.

Rostelecom was assigned ‘BBB-‘ and ‘BB+’ international credit ratings by Fitch Ratings and Standard & Poor’s respectively.

### Description of client segments and delivered services

<table>
<thead>
<tr>
<th>Segment</th>
<th>Description</th>
<th>Main services</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2C</td>
<td>The Company operates at retail segment and provides telecom solutions to residential clients</td>
<td>High speed broadband Internet, IPTV, Video on demand, local telephony, DLD, ILD, intrazonal and other services. The Company also delivered mobile services till August 2014[1].</td>
<td>RUB 146.7 billion for 2014</td>
</tr>
<tr>
<td>B2B</td>
<td>The Company delivers solutions to corporates, SMB and SoHo</td>
<td>Apart from the services available for households, the Company delivers B2B clients a range of specific solutions such as VPN, data storage and processing, cloud services and others.</td>
<td>RUB 73.4 billion for 2014</td>
</tr>
<tr>
<td>B2G</td>
<td>The Company is the major supplier of telecommunications services to the government</td>
<td>Apart from the services available for B2B clients, the Company provides to the state a comprehensive services for E-government, video surveillance during important events nationwide (elections, unified state exams), clouds solutions in education, health care, housing and utilities, safe city etc. Besides, as part of a 10-year state RUB 168 billion contract with the Company implements the project to bridge the digital divide across the country.</td>
<td>RUB 48.9 billion for 2014</td>
</tr>
<tr>
<td>B2O</td>
<td>The Company delivers services to other operators</td>
<td>In this segment the Company provides services to other operators including interconnect and traffic transit through its network, telecommunication channels and infrastructure rentout.</td>
<td>RUB 41.9 billion for 2014</td>
</tr>
</tbody>
</table>

### Strong Subscriber Base & Market Share

- **70% (24.4 million)** Fixed Voice
- **36% (11.2 million)** Broadband
- **21% (8.0 million)** Pay-TV

### Shareholder Structure[2]

- **32.0%** State stake
- **47.0%** State Property Agency
- **16.9%** Other shareholders
- **4.1%** Vnesheconombank
- **16.9%** Vnesheconombank

### Revenue Mix by Segments 2014

- **B2C** 47%
- **B2B** 13%
- **B2G** 16%
- **B2O** 24%

[1] In early August 2014 the second and final phase of the deal to establish the JV with Tele2 Russia was completed. The JV with Tele2 Russia delivers mobile services currently.

Dear Shareholders,

2014 was the first 12 months of our updated strategy, which is transforming Rostelecom into a high-technology service provider.

Despite the challenging economic environment faced by many companies across all industries, the facts and figures show that the management team is fulfilling its obligations and we are meeting our key performance targets by consistently implementing our vision and strategy for the business.

Our results for 2014 show that we slightly exceeded market expectations and we have fully fulfilled our outlook for key financial indicators:

- Annual revenue in the fixed segment rose by nearly 3% - reduced income from telephones were compensated by revenue growth in digital services, particularly fibre optic broadband and IPTV;
- OIBDA margin in the fixed business stood at 34.3%;
- Annual consolidated net profit grew by 57%;
- The debt burden fell by 18% and is at a comfortable level for the Company.

The early completion of our deal to establish a joint venture with Tele2 Russia has also had a positive impact on our financial results. We continue to develop the mobile business together with our strategic partners, which enables us to focus on our core fixed business and manage our resources more effectively.

I would also like to stress the progress Rostelecom has made with regard to improving client service, a significant point of pressure for any service company. We have done so by successfully implementing a strategic project to develop an integrated call centre. As a result, the number of repeat calls to third line support halved over the last year, with customers’ issues being solved three times more quickly at second line support. In addition, the share of trouble tickets handled by technical support without needing to make on-site visits has doubled. We have caught up with our competitors in practically all areas of customer service and in some cases we are outperforming them. This is our main qualitative shift.

Our customer experience and the level of service we provide correlates directly with the quality of our network, which is why modernising our infrastructure is one of our main areas of focus. In 2014, we provided an additional 6.6 million households with access to fibre optic networks, taking the total number of customers connected to fibre optic up to 25 million. We now have a solid technical foundation to continue to develop our business for many years to come. The project we are implementing to eliminate the digital divide, which involves laying more than 200,000 kilometres of fibre optic lines to serve 13,800 remote settlements in Russia, is providing additional impetus to the development of our technological advantage.

Our packaged services are also growing in popularity as we seek to better address the needs of our customers. Rostelecom has widened its product portfolio and is offering its customers new products, including Russia’s first national TriplePlay promotion and the Multiscreen service.

In addition to growing our top-line, broadening our technical expertise and improving customer experience, we also had to actively improve the efficiency of our business in 2014. By improving our procurement policy, we managed to achieve savings of RUB 16.8 billion last year. We are also working on streamlining our organisational structure. Some departments are being consolidated to reduce the layers of management in the business and to increase all departments’ responsibility for their net result, with a segmented approach also being introduced to improve commercial performance. This new structure will reduce administrative and managerial staff by up to 15%, which will enable Rostelecom to save a further RUB 4 billion per year.

The high level of service Rostelecom provided during the Sochi 2014 Winter Olympics as its General Telecommunications Partner led to the Company being awarded new state contracts, including video surveillance projects for the Unified State Exam and regional elections.

Rostelecom also signed a RUB 168 billion ten-year contract with the Federal Communications Agency (Rossyisst) to provide universal communications services aimed at bridging the digital gap.

Last, but certainly by no means least, Rostelecom has also devoted time and resource to strengthen its position in fast-growing market segments, which is an important part of our vision to transform Rostelecom into a high-technology service provider. At the end of 2014, we formed a partnership with the All-Russia State Television and Radio Broadcasting Company (VGTRK) to produce and distribute pay-TV channels. At the start of 2015, we also completed a deal to acquire a controlling stake in SafeData Group, which strengthens Rostelecom’s presence in the data storage and processing, traffic exchange service and content delivery markets.

In addition to the activities the Company is already working on, Rostelecom will face new issues and challenges in 2015, particularly those related to the macroeconomic situation. However, the main challenge we have to contend with in 2015 is how to make our business much more effective and to meet the targets we set in our strategy in order to create additional value for our shareholders.

Yours sincerely,

Sergey Kalugin
Investments highlights

Rostelecom is a lucrative opportunity for investors looking for stable cash generative and long term investments. The Company has taken a long-term view on telecom landscape evolution, with a value creation strategy that allows for changing marketplace dynamics. We seek to balance shareholder returns with sustainable growth by focusing on operational excellence, network modernization, client-centric approach and product development with the aim of enhancing our competitive edge and supporting top line, which positions us to be a leading ICT service provider in Russia.

Key operating and financial highlights of 2014

2014 was the first year of implementation of our updated strategy approved by the BoD in December 2013. The Company started delivering on its key strategic goals related to transition towards a model of digital service provider, streamlining its corporate structure, demonstrating solid revenues growth and effective cash control management, organically extending its broadband and pay TV subscriber base and increasing the level of its internal efficiency.

In a nutshell, our investment case can be put down to the following:
- We offer our investors an exposure to attractive markets with strong growth profiles; they include broadband, pay TV, media, value added services, clouds etc. We also provide an opportunity to participate in the growing mobile data segment through holding a 45% stake in the JV with Tele2 Russia.
- We are the unchallenged leader in most of the telecom segments in Russia. Rostelecom is number one player in broadband, pay TV, including IPTV, fixed voice, both in B2B and B2C segments.
- We have the largest, unique and unrivalled fixed-line infrastructure across Russia;
- We have a significant upside potential from increasing operational efficiencies;
- Rostelecom has a healthy balance sheet and an overall robust financial profile. On balance, we are well-positioned to create value for our shareholders.

2014 Highlights

**STRUCTURAL CHANGES FINALIZED**
T2-RTK transaction closed. Management focus entirely dedicated to fixed line business development

**THE FIRST YEAR OF UPDATED STRATEGY EXECUTION**
Delivering on our strategic targets: fibre rollout, customer care improvement, transition toward digital services provider, corporate transformation to support new businesses development

**CASH FLOW GENERATION IS A PRIORITY**
Strong FCF position, reduced leverage and Net Debt level as a result of Tele2 Russia transaction and proactive cash management create additional support in challenging macro environment

**ORGANIC GROWTH BASED ON DIGITAL BUSINESS DEVELOPMENT**
Fixed-line revenues grew 3% with the revenues from combined digital services matching traditional voice revenues

**EFFICIENCY IMPROVEMENT ON TRACK**
Continuing our work on improving operational efficiency with significant OpEx and procurement savings
In 2014 the Company managed to achieve strong financial and operating results. Revenue from fixed-line operations grew by 3% year-on-year to reach RUB 298.9 billion.

**Revenue** (RUB billion)

<table>
<thead>
<tr>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.3</td>
<td>80.4</td>
<td>76.0</td>
<td>75.5</td>
<td>79.0</td>
</tr>
</tbody>
</table>

**Fixed-line Revenue Breakdown, %**

<table>
<thead>
<tr>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Telephony</td>
<td>16%</td>
</tr>
<tr>
<td>DLD / ILD, Intra-Zonal</td>
<td>4%</td>
</tr>
<tr>
<td>Broadband Internet</td>
<td>30%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>12%</td>
</tr>
<tr>
<td>Data services</td>
<td>4%</td>
</tr>
<tr>
<td>Interconnect and traffic transit</td>
<td>10%</td>
</tr>
<tr>
<td>Rent of channels</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>27%</td>
</tr>
</tbody>
</table>

We continue to expand our broadband, pay-TV, and other bundled services and increase our revenues from these growing market segments. In 2014 the share of digital services was increased by 2 p.p. and is already competing with the revenue from traditional services.

**Fixed-line D is continued**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>325.7</td>
<td>310.9</td>
</tr>
</tbody>
</table>

[HIGHLIGHTS 2014 (CONTINUE)]

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**Note:** Consolidated P&L data for 2013 and 1Q14 include the entire mobile business of Rostelecom, the 2Q14 data exclude mobile subsidiaries transferred to JV with Tele2 Russia and include RT-Mobile, the 3Q14 data consolidate RT-Mobile only for 1 month.
The number of broadband subscribers grew 6% year-on-year to 11.2 million subscribers:

- The B2C subscriber base grew by 7% to 10.5 million, while the number of subscribers connected by fibre optic increased by 29% year-on-year to 5.2 million (46% of the subscriber base).

The number of pay-TV subscribers grew by 6% year-on-year to 5.2 million (46% of the subscriber base).

The number of IPTV subscribers increased by 24% to 2.7 million.

**PAY TV**

<table>
<thead>
<tr>
<th>Subscribers (million)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay TV Subscribers</td>
<td>7.5</td>
<td>7.6</td>
<td>7.7</td>
<td>7.8</td>
<td>8.0</td>
</tr>
</tbody>
</table>

+6.3% YoY

<table>
<thead>
<tr>
<th>IPTV Subscribers (million)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPTV Subscribers</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

+23.9% YoY

**BROADBAND**

<table>
<thead>
<tr>
<th>Subscribers (million)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribers</td>
<td>10.6</td>
<td>10.8</td>
<td>10.9</td>
<td>11.0</td>
<td>11.2</td>
</tr>
</tbody>
</table>

+6.4% YoY

<table>
<thead>
<tr>
<th>Fibre Subscribers (million)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibre Subscribers</td>
<td>4.0</td>
<td>4.3</td>
<td>4.5</td>
<td>4.8</td>
<td>5.2</td>
</tr>
</tbody>
</table>

+28.7% YoY

<table>
<thead>
<tr>
<th>Video-on-Demand Transactions (million)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions</td>
<td>1.5</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
</tr>
</tbody>
</table>

+18.0% YoY

**Technology Breakdown (%)**

<table>
<thead>
<tr>
<th>Technology Breakdown (%)</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTTx</td>
<td>62%</td>
<td>60%</td>
<td>59%</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>xDSL</td>
<td>38%</td>
<td>40%</td>
<td>41%</td>
<td>44%</td>
<td>46%</td>
</tr>
</tbody>
</table>
OIBDA margin of fixed-line operations amounted to 34.3% in 2014. This is a solid result for a fixed incumbent which operates across such a vast geography compared to international peers. And we see a lot of upside potential in terms of improving our margin through operational excellence increase.

Read more about operational efficiency in section Efficiency improvement on page 22.

OIBDA margin dynamics was mainly impacted by the increased presence in the revenue structure of the growing, but lower margin, broadband and pay-TV segments as well as the lagged impact of initiatives taken by the management to optimise operating expenses.

Consolidated Net profit rose by 57% year-on-year to RUB 37.8 billion for the full year of 2014, reflecting a one-off paper gain from the completion of the deal with Tele2 Russia.

We invest in upgrading our network and increasing its capacity to reach superior infrastructure quality, which enables the Company to deliver a full range of ICT solutions available on the market.

Read more about our fibre rollout program and Software defined network approach in section Network quality on page 20.
The improved effectiveness of investment activities, including optimised tender procedures and relationships with suppliers, supported investment dynamics. Optimized procurement and tender processes enabled us to build more fibre networks at a comparatively lower level of capital expenditures.

### Households Passed by Fibre (million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>12.8</td>
<td>18.4</td>
<td>25.0</td>
</tr>
<tr>
<td>YoY</td>
<td>+44%</td>
<td>+36%</td>
<td></td>
</tr>
</tbody>
</table>

Consolidated net debt fell by 22% in 2014, due to finalising the mobile business transfer to the JV, which proved to be a timely move, given the current macroeconomic situation. Furthermore, our efforts to effectively manage cash flows led to a 27% increase in FCF to RUB 21.9 billion.

### Net Debt Analysis (RUB billion)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Note</td>
<td>Net Debt / OIBDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### FCF Analysis (RUB billion)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>217.3</td>
<td>184.0</td>
<td>176.2</td>
<td>181.9</td>
<td>171.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4Q13 1Q14 2Q14 3Q14 4Q14
KEY EVENTS OF 2014 & EARLY 2015

SIGNIFICANT EVENTS RELATING TO THE FULL YEAR OF 2014 AND AFTER THE END OF THE REPORTING PERIOD

Business News:
- Rostelecom launched a new federal package “three in one”/“all inclusive”: Home internet, Interactive TV and Home Phone
- The first multiplex of TV channels was made available for Rostelecom’s OTT customers
- Rostelecom launched a new self-service online portal providing users with ample opportunities for managing their accounts
- Rostelecom launched its IPTV services in Moscow
- Rostelecom now ranks second for broadband services in Moscow with an 19% market share[1]
- Rostelecom signed a number of government contracts, including:
  - 10-year contract with Rossvyaz aimed at bridging the digital gap;
  - A contract with Rosobrnadzor to provide video surveillance for the Unified State Exam in 2014 and 2015;
  - 5-year contract with the Moscow government for providing CCTV services as part of the Moscow government’s Information city programme;
- contracts with a number of regional governments for video surveillance services at elections in a single day of voting;
- Rostelecom covered over 25 million Russian households with its fibre optic network
- Rostelecom further developed the Europe-Asia transit project by constructing an additional section
- Rostelecom launched the first section of the network under the Bridging the Digital Divide (BDD) project in the Kostromskaya region and started a significant roll-out of fibre networks across Russia
- Rostelecom secured project financing of RUB 10.1 billion from the Russian Direct Investment Fund, the Russian National Wealth Fund and co-investors to support the BDD project
- Rostelecom adopted a new organisational structure based on its customer segments
- Procurement savings amounted to RUB 16.8 billion in 2014
- Rostelecom successfully acted as Sochi Olympic and Paralympic Games general partner

Other News:
- Rostelecom finalised its reorganisation in the form of demerging its integrated mobile assets into CJSC RT-Mobile, which were later transferred to a JV with Tele2 Russia
- The creation of a new national mobile operator JV with Tele2 Russia is completed
- Rostelecom closed the deal to create a media joint venture with the All-Russia State Television and Radio Broadcasting Company (VGTRK)
- Rostelecom acquired a controlling stake in LLC Data Storage Centre (operating under the SafeData brand), Russia’s largest provider of commercial data centres, traffic exchange service and content delivery
- Rostelecom’s Board of Directors approved the Company’s long-term incentive plan for its management
- Rostelecom’s President Sergey Kalugin became a shareholder in the Company after acquiring a block of ordinary and preferred shares, equivalent of 0.3845% of the Company’s share capital, in June and December 2014

[1] Source: TMT-Consulting
GEOGRAPHY

We operate nationwide, with a sales presence in almost all regions across Russia, and we are well-positioned to serve our customers in our key market segments. On top of it, the Company has operations in Armenia and delivers ICT services through its subsidiary GNC-Alpha.

We are providing our services using a vast and unique fixed line network across the country based on backbone infrastructure of more than 500,000 km in length.
HISTORY

The first Automatic Telephone Stations (ATS) were launched
The USSR’s first urban ATS was opened in Rostov-on-Don. In the early 1930s, automatic telephone stations were set up in Moscow, Leningrad, Novosibirsk, Tashkent, Smolensk and other regions.

Formation of Svyazinvest
Svyazinvest was created in accordance with a Russian Federation Presidential Decree and a Russian Federation Government Regulation. The Company’s capital was formed by consolidating 85 state-owned regional telecom operators, which owned and operated regional and local networks. These smaller, regional players also operated the last mile infrastructure and served residential and corporate clients within their respective regions.

Consolidation of regional telecom operators
More than 80 regional telecom companies were reorganised by merging into seven large intraregional telecom operators (IRCs).

Formation of Rostelecom
In June 1990, the joint stock company Sovtelecom was formed based on the assets previously managed by the USSR’s Telecommunications Ministry. Sovtelecom took over responsibility for maintaining and developing the nation’s backbone telecommunications infrastructure. In late 1991, Sovtelecom was transformed into Intertelecom and, a year later, it was renamed Rostelecom. Rostelecom became an open joint stock company in 1993.

Commercial launch of broadband solutions
Regional telecom operators started to sell broadband Internet services. They offered speeds of 64 Kbit/sec. By the end of 2000, regional telecom operators added 2,500 broadband subscribers.

Commercial launch of telephony service in Russia
In the summer of 1882, telephony services were launched in St. Petersburg, Moscow and other towns across Russia.

1882
1929
1990
1993
1995
2000
2002
Commercial launch of IPTV service
The IRCs commercially launched the IPTV service in a number of regions across the country.

Start of eGovernment project and launch of eGovernment portal
Rostelecom was selected by the state as the only operator to design and create eGovernment infrastructure as part of the government’s Digital Russia programme. Rostelecom launched the eGovernment portal gosuslugi.ru, which gives citizens access to information about services delivered by Russian government bodies.

First stage of Rostelecom’s reorganisation - merger with IRCs completed
Formation of the enlarged entity by merging with the IRCs

Second stage of Rostelecom’s reorganisation - merger with Syvyazinvest completed On October 1, 2013
Syvyazinvest and 20 subsidiaries were merged into Rostelecom to create a single legal entity. The merger eliminated any cross ownership of Rostelecom, resulting in a clear and transparent corporate ownership structure.

Focus on the core fixed-line business
The strategy of focusing on the core business – the fixed-line segment – was approved following the appointment of Mr Kalugin as CEO of the Company. Announced that the mobile segment would be developed in partnership with Tele2 Russia.

Video surveillance during the Presidential election
In March 2012, Rostelecom carried out a video surveillance project across the country during the Presidential Election, which was worth RUB13 billion. The project was unrivalled in terms of deadlines and scope of work, proving that the Company is a reliable and technically sophisticated partner in implementing digital, cloud-based, nationwide solutions for B2B and B2G clients.

First stage of Rostelecom’s reorganisation - merger with IRCs completed
Formation of the enlarged entity by merging with the IRCs

Rostelecom signed a 10-year RUB 168 billion contract with the Federal Communications Agency to provide high-speed Internet access to 13,800 thousand remote rural settlements with a population of between 250 and 500 people.

General Partner of the Olympic Games in Sochi
Rostelecom was a telecom partner of the Winter Olympic Games in Sochi. For the first time in the history of Olympic Games, Rostelecom organised its TV transmission via ground circuits.

JV with Tele2 Russia formed
A joint venture with Tele2 Russia was established to develop the mobile business.

Bridging Digital Divide contract
Rostelecom signed a 10-year RUB 168 billion contract with the Federal Communications Agency to provide high-speed Internet access to 13,800 thousand remote rural settlements with a population of between 250 and 500 people.

TriplePlay launch
Rostelecom launched a nationwide triple-play promotion for broadband, pay TV and telephone services. Rostelecom is the only company in Russia to provide all three services in one package nationwide.

25 million households passed with fibre optic network
Rostelecom passed 25 million households in Russia with fibre optic networks by the end of 2014, providing its customers with Internet speeds of up to 1 gigabit per second.
MARKET OVERVIEW

BROADBAND B2C
Market size in 2014 = RUB 116 billion
Market share dynamics
+0.8 pp by subscribers
+0.7 pp by revenues

BROADBAND B2B
Market size in 2014 = RUB 59 billion
Market share dynamics
-0.2 pp by subscribers
+1.0 pp by revenues

PAY TV
Market size in 2014 = RUB 60 billion
Market share dynamics
-0.2 pp by subscribers
+1.9 pp by revenues

IPTV (AS A PART OF PAY TV)
Market size in 2014 = RUB 10 billion
Market share dynamics
+0.8 pp by subscribers
+5.8 pp by revenues

FIXED TELEPHONY
Market size in 2014 = RUB 180 billion
Market share dynamics
-1.3 pp by subscribers
-0.7 pp by revenues

Rostelecom is the absolute leader in most Russian telecom segments and our strategy is to maintain our leading position by increasing our market share in the key fixed-line telecommunication markets (broadband, pay TV) and expand in new markets (VPN, data centres, various VAS). Since July 2014 Rostelecom has been the sole provider of universal communication services in Russia, i.e. broadband Internet access and payphone services.

Broadband Internet is one of the fastest growing segments of the Russian telecommunication market. In 2014, the number of consumer broadband subscribers increased by 4% leading to 29 million households having broadband access(1). The number of subscribers in the business segment increased by 3% while market volume rose by 7%.

In 2014, broadband penetration reached 51%. The broadband market in Russia is reaching maturity and while penetration levels are already relatively high, they remain lower than in Europe and America, demonstrating that there is a room for further growth. Analysts expect the broadband market in Russia to grow at a rate of 2-3% over the next 3 years(2).

2014 was a year of important milestones for Rostelecom in the broadband sector. By the end of 2014, Rostelecom covered an additional 6.6 million households, resulting in total coverage of 25 million households the fibre optic network. In 2014, Rostelecom became the second largest Internet provider in Moscow with a 19% market share(3). The Company signed a contract with the Federal Communications Agency to provide Internet access for over 13,800 settlements containing a population of 250-500 people across Russia (The “Bridging the Digital Divide” project). This project will not only connect remote settlements but also result in increased broadband coverage in small Russian cities surrounding these settlements, which are expected to be the key growth drivers in the broadband sector over the next few years as the larger cities reach saturation.


[1] The industry data in this section is sourced from iKS-Consulting unless stated otherwise.
PAY TV

The pay TV market includes subscription based cable, satellite and IPTV. In 2014, the pay TV subscriber base reached 37 million after growing 7% year-on-year (the market grew by 12% year-on-year). IPTV is the fastest growing segment in the industry; in 2014, its subscriber base increased by 22% year-on-year while market volume rose by 37% year-on-year. The accelerated development of high-speed broadband supports the growth of the IPTV market. In addition, the Video-on-Demand (VoD) and multiscreen services continue to attract more customers. Though the penetration of pay TV services in Russia is already relatively high at 68%, experts forecast further sustainable growth in this sector. We also see potential for a significant lift in ARPU with subscription fees currently being relatively low due to limited content offerings and growing demand for premium pay TV services, including VoD.

FIXED TELEPHONY

Over recent years, demand for traditional fixed-line telephony has declined due to migration to mobile and Voice-over-IP (VoIP) telephony. This is an international trend and the Russian fixed-line market decreased by 6% in 2014. Rostelecom is the leading player in this sector with a market share of over 60%. Although the market is stagnating, the Company continues to take measures to retain its customer base, including increasing the tariffs attractiveness and introducing bundling offers.

MOBILE

The Russian mobile market continued to expand in 2014 growing 3% year-on-year largely as a result of an increase in data. In 2014 Rostelecom transferred its mobile assets to a JV with Telegorussia and currently participates in the mobile market through a 45% equity stake in this JV. More information on the mobile JV can be found in the ‘Adding Value’ section of this report.

KEY TRENDS IN RUSSIAN TELECOMMUNICATIONS MARKET

Over the coming years, consumption of digital services will continue to rise, with users consuming more traffic and VAS. The growing demand for higher network capacity will be also driven by the increasing spectrum of devices used and the development of cloud services. This requires modernization of the broadband networks to fibre.

The rapidly developing OTT and IPTV segments along with HDTV-ready and Smart TVs becoming cheaper to purchase will continue to fuel the development of interactive HD TV services.

Analysts forecast that the trend towards offering bundled packages that include mobile, fixed-line and TV services to continue. Developing ‘triple play’ and ‘quadro play’ packages provide a range of benefits for the user including simplicity, flexibility and cost savings.

As the traditional telecommunications markets are reaching maturity, companies are branching out into new adjacent markets to deliver future growth opportunities.

MACRO VIEW. LOOKING FORWARD TO 2015

2014 was a year of many challenges. Political instability in Ukraine led to macroeconomic pressures in Russia, increased uncertainty and rouble volatility. Further effects could be seen in 2015. The management team realises the potential challenges that lie ahead and has developed a contingency plan to be able to handle them effectively.

The Company’s revenue may come under some pressure in 2015 due to budget cuts from B2B/B2G clients. However, the consumer segment is expected to remain resilient to macro pressures, since telecommunication services are now considered to be essential services that many clients are not prepared to give up. Moreover, telecommunications represents a relatively low proportion of a household’s budget, meaning it is not a priority for households to cut. Government and business segments are more volatile in the current period of macroeconomic instability. The key measure to offset these effects will be retaining our customer base through offering them a variety of bundling and wholesale discounts. More clients tend to use only one provider for their telecoms services to benefit from more favourable pricing, thus creating an opportunity for the Company to increase revenue.

Higher inflation and foreign exchange rates might put operational expenses and capital expenditures under pressure, though the portion of FX expenses is relatively low. Measures we implement to counteract these effects include import substitution, the operational efficiency improvement programme and procurement optimisation.

Although the Company’s leverage was at a reasonable level at the end of 2014, the Company is constantly working to reduce its debt and optimise its debt portfolio. The Company reduces its exposure to interest rate risk by borrowing mainly at fixed rates. Moreover, the interest rate risk is expected to decrease throughout the year as market interest rates stabilise.

Experts do not expect macroeconomic turbulence to have a significant impact on the telecommunications sector, mainly due to the relatively low elasticity of demand.

\(^{(1)}\) As at the end of 2014.
\(^{(2)}\) TMT-Consulting.
The ultimate goal of our business is to ensure a potent combination of sustainable growth, high level of operational efficiency and enhancement of our competitive position to create an additional value to our shareholders.

Our business model is based on continued investment to maintain a superior fibre telecommunications infrastructure and customer experience, offering a range of top-notch telecom solutions with the aim of sustaining high levels of profit and cash generation with which we can reward shareholders and reinvest in the business.
In 2014 and early 2015 we completed several vital transactions which pave the way to capitalizing on the development of promising market segments and ensuring maximum value growth of our assets.

The formation of the joint venture with Tele2 Russia, which was the largest deal in telecom sector in Russia, the creation of the JV with VGTRK as well as the acquisition of Safe Data are aimed at crystallizing value from those transactions by giving an additional impulse to enhance our competitive positions in the segments.

THE JOINT VENTURE WITH TELE 2 RUSSIA

The formation of the JV represents a key milestone in the implementation of Rostelecom’s mobile strategy and reinforces Rostelecom’s presence in the mobile segment. The mobile assets of Rostelecom and Tele2 Russia offer a great strategic fit, complementing each other in terms of footprint and allowing T2 RTK Holding to capitalise on Tele2 Russia’s know-how across the segments, proven track record of innovation and Rostelecom’s next-generation spectrum holdings. Rostelecom substantially enhances its exposure to Russia’s fast growing mobile data market through its strategic interest in a larger and faster growing operator, capable of effectively competing with the major players in the market.

Geographical coverage of JV

The contribution from Rostelecom was effected in two stages. The first stage, finalized in late March 2014, saw Rostelecom contributing its standalone mobile subsidiaries and assets, including SkyLink, into T2 RTK Holding along with associated net debt of approximately $1 billion. At the end of this first stage, Rostelecom received a 45% voting interest and a 26% economic interest in T2 RTK Holding.

During the second stage, Rostelecom contributed into the JV its wholly-owned subsidiary CJSC RT-Mobile which is formed by demerging the Company’s integrated mobile businesses and having Rostelecom’s mobile licenses (including the LTE licenses) re-issued to it. The second phase was completed several months ahead of the schedule in August 2014. As a result, Rostelecom increased its economic interest in T2 RTK Holding to 45%.

The transaction enabled to create a truly nationwide player. This combination of the assets will bring substantial benefits to both parties, as well as to consumers and the entire Russian telecom sector. T2 RTK Holding plans to undertake investments in the development of 3G/LTE network as well as in innovative and high-quality mobile services for the benefit of Russian consumers and businesses.

Transaction structure

1. Stage 1 – transfer of mobile subsidiaries

- VTBC
- Other investors
- Tele2 Russia Holding AB
- Rostelecom

- T2 RTK Holding
- Integrated mobile assets of Rostelecom + licenses (including LTE)

Rostelecom contributed its standalone mobile subsidiaries (including SkyLink), selected assets, along with associated net debt of c. $1bn, and received 26% economic stake in JV (45% voting rights). JV gained access to Rostelecom integrated spectrum assets through MVNO arrangements.

Economic rights / Voting rights

- In CJSC Acos: 94.4456%
- In CJSC SkyLink: 50% (effectively 100% of the charter equity)
- In OJSC Apex: 93.49%
- In CJSC TSRS: 40%

2. Stage 2 – transfer of integrated mobile assets

- VTBC
- Other investors
- Tele2 Russia Holding AB
- Rostelecom

- T2 RTK Holding
- Mobile subsidiaries of Tele2 Russia
- Standalone mobile subsidiaries and selected assets of Rostelecom

Rostelecom transferred 100% of its integrated mobile business to the JV. As a result, Rostelecom increased its economic interest in T2 RTK Holding to 45%.
The following strategic considerations were behind the transaction:

- T2 RTK Holding gets immediate nation-wide reach and sufficient scale to effectively compete with existing mobile operators;
- The combination of mobile assets allows T2 RTK Holding to capture the imminent data growth opportunity in the Russian telecoms market by capitalising on Tele2 Russia’s know-how and impressive track record in developing mobile operations and on Rostelecom’s wide next-generation spectrum holdings;
- T2 RTK Holding commands superior cash flow generation potential, to the extent the combination is expected to generate significant synergies over the medium term, particularly in respect of network roll-out and operation, distribution and customer service;
- T2 RTK Holding is able to offer converged fixed-mobile products across the country;
- Rostelecom additionally benefits from substantial savings of mobile capital expenditures and elimination of debt related to mobile operations albeit facing relatively minor negative impact on top line.

THE JOINT VENTURE WITH VGTRK

In December 2014, Rostelecom announced a deal to create a media joint venture with the All-Russia State Television and Radio Broadcasting Company (“VGTRK”), Russia’s leading producer of pay-TV channels for cable and satellite broadcast. The JV was made up of VGTRK’s Digital Television and Rostelecom’s subsidiary NKS-Media.

The main aim of the JV is to accelerate the development of the combined media assets in the field of production and distribution of thematic pay-TV channels for cable and satellite broadcast. The participation in creation of Russia’s leading producer of pay-TV channels, together with one of the country’s largest media holdings VGTRK, will provide Rostelecom with access to an expertise of high-quality original content creation. In addition, this will also enable the company to benefit from economies of scale.

The deal was structured as follows:

- Digital Television JSC carried out an additional share issue placed by private subscription;
- Rostelecom acquired additional share issue of Digital Television OJSC by contributing 100% of its equity interest in NKS-Media and RUB 250 million in cash and received 25.33% of Digital Television’s voting shares.

Rostelecom’s assets contribution to the JV amounts to more than RUB 1 billion.

We believe our media assets will generate greater value as part of a larger JV with VGTRK rather than attempting to develop our media business as a standalone entity. This will enable the combined company to obtain a much stronger position in the market, manage its costs more efficiently and enhance a leadership in quality of content.

### Channels

<table>
<thead>
<tr>
<th>Digital Television</th>
<th>NKS-Media Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Novel</td>
<td>24Doc</td>
</tr>
<tr>
<td>Russian Bestseller</td>
<td>24D Doc</td>
</tr>
<tr>
<td>Russian Detective</td>
<td>24T E XHD</td>
</tr>
<tr>
<td>My Planet</td>
<td>Mother &amp; Child</td>
</tr>
<tr>
<td>Science 2.0</td>
<td>Real Scary TV</td>
</tr>
<tr>
<td>History</td>
<td>CТPAШIPOEHD</td>
</tr>
<tr>
<td>IQ HD</td>
<td>Entertainment Park</td>
</tr>
<tr>
<td>u-mama.ru (web-portal)</td>
<td></td>
</tr>
</tbody>
</table>

### Transaction rationale

<table>
<thead>
<tr>
<th>Deal feature</th>
<th>Benefits for Rostelecom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer of 100% of ООО “NKS-Media”, Rostelecom’s media subsidiary(^1), to establish a leader of the thematic pay TV market</td>
<td>Benefits from economies of scale &amp; accelerated development of the combined media assets</td>
</tr>
<tr>
<td>Digital Television is a part of VGTRK, one of the leading media holdings in Russia</td>
<td>Profits reinforced by VGTRK partnership (i.e. TV channels promotion via VGTRK Group’s free-to-air channels)</td>
</tr>
<tr>
<td>JV to be managed by professional management team with significant media experience</td>
<td>Ability to concentrate on the core business – high-quality content delivery to the customers</td>
</tr>
<tr>
<td>20 channels = 13 from Digital Television + 6 from Rostelecom + 1 to launch jointly</td>
<td>Long-term access to an expertise and a high-quality original content</td>
</tr>
<tr>
<td>Primarily non-cash transaction</td>
<td>Acquisition of a block shareholding (25.33%) in the leading content producer by contribution of existing assets</td>
</tr>
</tbody>
</table>

\(^1\)Acquired in 2010 as part of NTK transaction (largest cable TV provider in Moscow).
ACQUISITION OF SAFEDATA

Early 2015 Rostelecom acquired a controlling stake in LLC Data Storage Centre (operating under the SafeData brand), Russia's largest provider of commercial data centres, traffic exchange service and content delivery.

The acquisition will enable Rostelecom to accelerate its development of a national content storage and distribution network. This includes a federal geographically distributed network of data centres, which combines communication channels, traffic exchange points, content delivery systems, as well as systems to protect against network attacks and traffic monitoring. As a result of the deal, Rostelecom became a leading player in the Internet exchange points (IX) and content delivery (CDN) segments. It also strengthened the Company's position in the data centre market, as Rostelecom became Russia's second largest provider with a 15% consolidated market share following the completion of the acquisition.

The deal has been structured in two stages:

- During stage one, Rostelecom, acquired 5.4% of the share capital of LLC Data Storage Centre for RUB 104.2 million;
- During stage two, Rostelecom added RUB 1,728.9 million of cash to LLC Data Storage Centre's share capital. As a result, Rostelecom's stake in LLC Data Storage Centre's share capital increased to 50.1%.

The volume of information being stored globally is increasing exponentially and is driving growth in the data storage and distribution market. Other factors include an increase in cloud service computing capacity, the complexity of telecoms operators’ interworking model, as well as increasing demands for reliable and timely delivery of digital content. A law requiring companies to keep data on Russian users within Russia also makes this segment attractive.

As a result of the deal, Rostelecom will quickly build up national-scale operations in the content storage and distribution market. The level of growth and promise offered by the marketplace makes its entry a logical step for Rostelecom. Furthermore, the business fits in with our overall strategy and SafeData is uniquely positioned, as the only player in the market to combine data processing centres, traffic exchange and content delivery into its business. This acquisition will allow us to present our clients with an integrated offering and make us the market leader in providing data services.

### Transaction description

**TARGET**

LLC Data Storage Centre (SafeData brand), one of the Russia's largest provider of data storage services & peer-to-peer and CDN networks owner

**STAGE 1**

Acquisition of 5.4% of the share capital of LLC Data Storage Centre

**STAGE 2**

Cash contribution to the share capital of LLC Data Storage Centre, resulting in 50.1% stake

**RESULT**

RUB 1,728.9 MILLION

**OPPORTUNITIES**

- Participation in the growing market of the data storage and distribution
- Accelerated development of a national content storage and distribution network

**BENEFITS**

- Access to federal geographically distributed network of data centres, communication channels, traffic exchange points, content delivery systems, systems to protect against network attacks and traffic monitoring

**RESULT**

Market Leadership

Rostelecom's resulting market shares:
- Internet exchange points (IX) - #1
- Content delivery (CDN) - #1
- Data centre market - #2

### Data Centres Market Breakdown in 2014

By revenue:

- DataLine: 11%
- Rostelecom: 15%
- CROC: 7%
- Selectel: 6%
- Stack Telecom: 5%
- Linxdatacenter: 5%
- TrustInfo: 5%
- DataPRO: 4%
- Other: 14%

By racks:

- DataLine: 22%
- Rostelecom: 15%
- CROC: 10%
- Selectel: 8%
- Stack Telecom: 7%
- Linxdatacenter: 6%
- TrustInfo: 5%
- DataPRO: 5%
- Other: 9%

### Data Centres Market Volume (RUB billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>DataLine</th>
<th>Rostelecom</th>
<th>CROC</th>
<th>Selectel</th>
<th>Stack Telecom</th>
<th>Linxdatacenter</th>
<th>TrustInfo</th>
<th>DataPRO</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014E</td>
<td>11.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2015F</td>
<td>14.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2016F</td>
<td>18.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017F</td>
<td>22.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018F</td>
<td>26.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cloud Services Market Volume (RUB billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Internet exchange points (IX)</th>
<th>Content delivery (CDN)</th>
<th>Data centre market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.4</td>
<td>1.9</td>
<td>2.4</td>
</tr>
<tr>
<td>2014E</td>
<td>2.4</td>
<td>3.1</td>
<td>3.8</td>
</tr>
<tr>
<td>2015F</td>
<td>3.1</td>
<td>3.8</td>
<td>4.7</td>
</tr>
<tr>
<td>2016F</td>
<td>3.8</td>
<td>4.7</td>
<td></td>
</tr>
<tr>
<td>2017F</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018F</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CAGR 2014-2018 = 22%

CAGR 2014-2019 = 24%

**Source:** iKS-Consulting
OUR STRATEGY

The Company’s updated strategy was approved by the Board of Directors in December 2013 following the appointment of Mr. Kalugin as CEO.

A key component of the updated strategy was to split the Company’s business into two parts – the fixed-line operations and the mobile segment – and to develop each part separately.

The strategy for developing the mobile business was to enter into a joint venture (JV) with a leading player in the Russian mobile market in order to maximise Rostelecom’s ability to realise value from its existing cellular assets. Tele2 Russia, who became the Company’s JV partner, is strategically the best fit for the Company. Rostelecom’s attractive spectrum portfolio coupled with Tele2’s proven track record for establishing strong, competitive market positions by focusing on cost management are expected to make the new JV a major force in the mobile segment.

As for the Company’s core, fixed-line operations, Rostelecom aims to deliver the highest quality telecom solutions to its clients. We plan to achieve this by drawing on the following pillars.

- Technological leadership in IP networks
- Differentiated offerings
- Best-in-class customer service
- Organisational & corporate culture transformation
- Efficiency improvement

- Data growth opportunity
- Proven track-record of cost control
- Effective utilization of 3G / 4G licenses & network roll-out
- 45% STAKE IN T2-RTK
- Dividends
- Fundamental value
- Revenue OIBDA margin
- CAPEX / Revenue

SHAREHOLDER RETURN
Construction of up-to-date, high-speed network infrastructure based on fibre technologies

One of the Company’s key competitive advantages is its vast network infrastructure, which covers all of the Russian regions and services millions of Russian households. There is an array of new innovative telecom solutions available on the market today as we transition to the next technological cycle. Given the current increase in demand for high-quality telecom solutions, it is crucial we maintain and enhance our technological edge. The Company’s goal is to speed up the process of modernising the fixed-line network in order to provide our clients with new, better quality services within a shorter timeframe. In particular, Rostelecom is currently implementing a significant project to upgrade the last mile infrastructure with the aim of passing 33 million households with fibre networks in Russia by the end of 2016. This will enable the Company to deliver a full range of ICT services to our clients at a speed of 1 GB per second.

Our progress in 2014
On the one hand, we expanded our fibre optic network at a faster pace, and covered an additional 6.6 million households with our fibre optic broadband network in 2014, highlighting Rostelecom’s leading market position. As a result, we now provide access to over 25 million households across Russia. On the other hand, we continued to invest in our backbone infrastructure and we increased its capacity by more than 40% to 10.6 TB/s as at the end of 2014. We also started rolling out fibre networks as part of the Bridging Digital Divide project, which is financed by the Russian government and aimed at ensuring high speed internet in the country’s most remote settlements.

Network Management Strategy: Top Priorities

**SOFTWARE DEFINED NETWORK (SDN)**

**HIGH-SPEED READY LAST MILE UPGRADE (UP TO 1 GB/S CAPACITY)**

Multiservice Network Capacity IP/MPLS, TB/s

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity</td>
<td>3.5</td>
<td>7.4</td>
<td>10.6</td>
</tr>
</tbody>
</table>

+111%  +43%

Households Passed by Fibre, million

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>12.8</td>
<td>18.4</td>
<td>25.0</td>
</tr>
</tbody>
</table>

+44% YoY  +35% YoY

Bridging Digital Divide Project

In May 2014 we entered into a large scale project with the state to bridge the digital divide across Russian regions. The 10-year project worth RUB 168 billion is aimed at constructing fibre optics to cover 13,800 rural settlements with a population between 250-500 residents.

The project implies providing broadband access via collective Internet access points at a minimum speed of 10 MB/s on a regulated tariff basis. This project enables to increase broadband penetration within the country and enhance our network capacity and length. On top of it, this project has some extra upside potential:
- in the mentioned 13,800 settlements we can upsell clients with personal broadband and other services from the Company, which is expected to support our topline;
- on the road to cover those rural areas we can catch up nearby towns which as a standalone case were not NPV positive before the Bridging Digital Divide project. But with this project on track those settlements become commercially viable;
- the reduced maintenance costs due to the accelerated upgrade of existing copper lines to fibre infrastructure.

As part of the contract with the state, legislative changes were established, including appointing Rostelecom as the sole provider of universal communications services in Russia. The project is being funded out of the Universal Communication Service Fund which is put together out of the mandatory payments by the Russian telecom operators in the amount of 1.2% from their revenue.

Currently we assess that the capital expenditures for the project will amount to in between RUB 60-80 billion, approximately the same amount of RUB 60-80 billion we expect to be the operating expenditures. The detailed information on the project is presented in the investor relations presentation available on the Company’s web-site in IR section.

The project we are implementing to eliminate the digital divide is providing additional impetus to the development of our technological advantage.
PRODUCT DEVELOPMENT

Establishing unrivalled service packages and attractive tariff propositions
With its unmatched infrastructure and regional expertise, Rostelecom is a unique provider which is well-positioned to deliver a range of telecom solutions with the best value-for-money proposition on the market. Our packages bring about a sustained balance between the price and volume of voice, broadband Internet and IPTV services, bringing together high-speed data, high-quality and relevant content with excellent customer support. The scale of our operations enables us to develop and deliver unique and economically attractive products in cooperation with the content owners.

Our progress in 2014
Our packaged solutions became increasingly popular in 2014 as we sought to better meet our clients’ needs. Rostelecom broadened its product portfolio and started offering its customers new products, including Russia’s first national TriplePlay promotion and the Multiscreen service.

Key Operational Projects

BEST-IN-CLASS CUSTOMER CARE

Improving the quality of customer care
Enhancing customer care is one of our key priorities. Our objectives here include offering user-friendly services and 24/7 customer support on multiple platforms (through Rostelecom offices, call centres, multimedia channels and self-service facilities).

The Company monitors best practices in customer care and plans to implement up-to-date standards of service level agreements (SLA) to reduce the time it takes to subscribe to services or reach technical support. The planned modernisation of the operational and business support systems (BSS) will enable the Company to view key data more easily, such as capacity and traffic, which will help the Company to optimise tracking and planning. It will also help us to improve our efforts to counter fraud and protect customer data. Furthermore, our BSS applications enhance our ability to support operator business processes, particularly in relation to billing and customer relationship management (CRM).

Our progress in 2014
Rostelecom made tangible progress with regard to improving client service. The number of repeat calls to third line support halved over 2014, with customers’ issues being solved three times more quickly at the second line support. In addition, the share of trouble tickets handled by technical support without needing to make on-site visits has doubled. To ensure superior customer experience online, we upgraded our web portal to make it more customer-oriented and easier to navigate by launching 30 additional service operations that can be handled via the client area. As a result, the number of subscribers using the client area almost doubled in 2014 and reached five million customers. We have now caught up with our competitors in practically all areas of customer service and, in some cases, we are outperforming them.

TECHNICAL SUPPORT

<table>
<thead>
<tr>
<th>3rd line</th>
<th>September 2013</th>
<th>December 2014</th>
<th>KPIs 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Repeated calls</td>
<td>19%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2 Calls resolved within target time</td>
<td>14%</td>
<td>61% (2+3 lines)</td>
<td>75% (2+3 lines)</td>
</tr>
<tr>
<td>Target time</td>
<td>48 h</td>
<td>24h</td>
<td></td>
</tr>
<tr>
<td>1 Repeated calls</td>
<td>15.25%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>2 Customer issues average handle time</td>
<td>50-20 h</td>
<td>8 h</td>
<td>6 h</td>
</tr>
<tr>
<td>3 Tickets resolved remotely</td>
<td>25-40%</td>
<td>50%</td>
<td>60%</td>
</tr>
</tbody>
</table>

3rd line of technical support: Customer & repeated calls

<table>
<thead>
<tr>
<th>3Play</th>
<th>Multi-screen</th>
<th>Virtual data-centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>154</td>
<td>164</td>
<td>9.7%</td>
</tr>
<tr>
<td>114</td>
<td>128</td>
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</tr>
<tr>
<td>111</td>
<td>111</td>
<td>9.5%</td>
</tr>
<tr>
<td>128</td>
<td>128</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

TOTAL TOP-35 cities

Increase due to seasonality effects and subscribers growth
Ensuring a high level of internal efficiency

The ambitious goal for the coming years is to reduce costs in the fixed-line segment. Cost cutting will be achieved by modernising the infrastructure, eliminating overlay networks, centralising and decreasing management layers, vacating some premises, thus reducing the maintenance costs associated with real estate.

Rostelecom has been running a large scale project to increase internal efficiency and bring the Company in line with the best-in-class players. As a result, the Company expects to save up to RUB 15 billion during the 3-year period.

The Company has also transformed its procurement system by:
- Unifying and standardising the procurement processes at the Headquarters and macro branches level;
- Centralising procurement by key product lines to extract maximum economic effect;
- Increasing competition due to widening the base of alternative / identical equipment and substitute products;
- Monitoring and controlling independent procurement at the macro branches level;
- Standardising and controlling consumption.

Centralising procurement procedures is key to increasing operating efficiency. Rostelecom aims to streamline procurement in all of the Company’s divisions to enhance the level of economic efficiency and transparency. The activities of the procurement commission and transparent tenders have already resulted in dozens of percentage points’ worth of savings.

Our progress in 2014

We actively improved the efficiency of our business in 2014. By optimising our procurement policy, we managed to achieve savings of RUB 16.8 billion last year. Our large-scale project to increase internal efficiency within the Company led to savings of RUB 2.5 billion in 2014.

Procurement savings (RUB billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>16.1</td>
<td>16.8</td>
</tr>
</tbody>
</table>

Project result: +1-2% OIBDA margin increase by 2017

Revenue per employee (RUB million/person) & Number of employees (thousand)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue per employee (RUB million/person)</td>
<td>174</td>
<td>174</td>
<td>174</td>
<td>+10%</td>
</tr>
<tr>
<td>Number of employees (thousand)</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>+6%</td>
</tr>
</tbody>
</table>

Total savings breakdown

- Points of sale: 26%
- Personnel efficiency: 28%
- Consolidation of control centers: 3%
- Network modernization: 4%
- Contact-centers: 13%
- Rent of channels: 27%
- Real estate in use: 26%
- Bills printing and delivery: 22%
- Other: 7%

* Estimates for continuing operations, i.e. without mobile business.
Establishing a client-centric approach and increasing employee engagement

An important area for further enhancing growth and efficiency is the quality of administration. Rostelecom believes that making significant improvements to business processes, simplifying the management structure and increasing employee engagement are all key to meeting the Company’s strategic goals. We will also pay great attention to developing our personnel and recruiting highly-qualified staff.

In 2015, we plan to realise the final phase of our ‘Staff transformation’ project, which is aimed at implementing a new organisational culture and improving the level of employee engagement. This project will be instrumental in helping to underpin a client-centric approach within our Company, which is one of our key areas of focus for the year ahead.

Our progress in 2014

Streamlining our organisational structure was one of our key priorities in 2014. Together with Bain & Company, we developed the structure to best suit our targeted business model, which is that of a modern, digital service provider. As a result, we started to transition to this new structure in early 2015. Some departments are being consolidated to reduce the layers of management in the business and to increase all departments’ responsibility for their net result, with a segmented approach also being introduced to improve commercial performance.
Our employees are fundamental to the successful execution of our strategy and the delivery of our sustained growth as a Company. We understand the importance of our people and we stick to a policy of attracting and retaining highly qualified professionals, in an inclusive workplace with great opportunities for staff to develop competencies and build their careers.

In 2014, our key personnel management initiatives were focused on increasing productivity and developing a strong customer-oriented culture. To address these issues the company has launched two long-term programmes called the Personnel Transformation Programme and the Personnel Structure and Capacity Enhancement Programme.

**Headcount and Personnel Strengths**

Diversity is a key pillar of the successful development of our team and our business, and one that provides us with an opportunity to better understand our clients and their needs. We treat people fairly and offer equal opportunities to our employees regardless of race, nationality, gender, age, marital status, disability, and political or religious beliefs. 44% of Rostelecom’s workforce is made up of women, who also take up 10% of all management positions. The average age of Rostelecom employees is 43.

Rostelecom employed approximately 158,900 people including subsidiary staff as at the year end of 2014, which is almost 4% lower than in the previous year. In terms of the division of labour, most are employed in technical and sales while 18% have administrative roles.

Headcount dynamics in 2014 were influenced by a number of organisational changes related to the implementation of Rostelecom’s strategic business projects, which include enhancements made to the model we use to manage our telecommunications networks, the restructuring of our retail sales chain as well as improvements made to processing and service functions. The unification of our IT landscape and the transfer of back-office operations to our General Multiservice Centre also had an impact.

Substantial structural changes that we continue to roll out result from our transition to a target management model, which we launched in October last year. The organisational structure we are shaping is going to provide a basis for the development of Rostelecom’s strategic business model as a content services and technologies provider. The changes are also driven by the transition to the region- and segment-based business management principle and are focused mainly on Rostelecom’s commercial, technical and IT departments responsible for the development of the Company’s three key business directions.

**Personnel Transformation**

The aim of the Personnel Transformation Programme is to create a workplace setting that encourages superior performance and productivity and increased staff engagement towards realising the benefits of delivering the Company’s strategic goals.

**Motivation and rewarding performance**

We aim to reward people based on their performance, potential and contribution to our success. One of the crucial targets of the programme is to establish an employee reward scheme that encourages employees to grow and their performance can be assessed according to their actual achievements.

One of the programme’s key achievements in 2014 was to increase the average monthly salary for a Company employee to 35,000 Russian rubles, higher than the average salary in Russia and the majority of regions where Rostelecom operates. This became possible thanks to a salary indexation and remuneration review following a comprehensive personnel assessment. The aim of the indexation plan was to bring the wages of lower-paid staff in line with the market, with salary increases also reflecting performance assessments designed to reward employees who achieved outstanding results.

While average salary indexation did not exceed 7%, the targeted remuneration increase of highly efficient specialists could amount to up to 20%.

Personnel assessment, training and development

We want people to develop their careers at Rostelecom and enhance the skills and talent needed to help Rostelecom grow its business.

We regularly assess the learning needs of staff so that priorities are identified early on and learning plans can be designed to support Rostelecom’s business strategy and ensure that our staff is motivated and that employee training courses are impactful in terms of career and professional development.

A model of corporate competencies was developed in 2014, from which a number of comprehensive training programmes, tailored for the needs of the various layers of management has been formed, which incorporates training already available at Rostelecom: from distance courses to Mini-MBA programs. In addition, individual development plans (IDP) were widely used in 2014 by employees to help them plan their development process and schedule the required training courses. A total of 46,946 people participated in corporate training during the year.

Cross-functional projects and engagement programmes

In 2014 a number of events took place under the Personnel Development Programme aimed at increasing personnel engagement to support Rostelecom’s strategic goals and facilitate the implementation of changes in the Company’s internal environment.

Efficiency and possessing a client-oriented approach are key components of Rostelecom’s new corporate culture, stipulated in the Corporate Conduct Code drawn up in 2014. Rostelecom’s values as specified in the Code, as well as in how the Company interacts with customers, partners and employees help enhance decision making processes and shape effective communications at all layers of the organisation.

On top of traditional corporate events, the ‘Open Space’ concept was implemented in early 2014 to create a single cross-functional information portal within the Company which all Rostelecom employees, customers and partners would have access to. 766 events were held as part of the Open Space project during the year, and more than 41,000 people took part.

Two important crowdsourcing initiatives were also introduced last year to provide Rostelecom employees with the opportunity to contribute in a joint search for solutions for vital business tasks and come up with their own ideas to improve the Company’s business processes. The two initiatives were named: ‘A portal for innovative ideas’ and ‘Capturing the broadband access market: collective mind’.

Social safeguard

Programmes aimed at retaining talent and providing social support for employees form an important part of HR management. Under these programmes, employees not only receive social benefits and guarantees as required by the Russian Federation law (including pension, medical, accident and other kinds of insurance), but are also offered additional benefits according to the collective labour contract and the Company’s social programmes.

In general the additional social support measures set forth in the collective labour contract include: optional medical insurance (over 30 programmes, drawn up with consideration for regional specific conditions); non-state pension schemes, full or partial refund of the cost of health resort vouchers and vouchers to children’s vacation camps at special rates. Additional benefits seen by children receive Christmas gifts; financial aid is offered for medical treatment and expensive medicines, with financial assistance offered to retired employees.

Labour protection

Considerations around Health & Safety are an integral part of every business decision and are critical to our vision of preventing any incidents that could affect the health and safety of our people.

In 2014, labour protection activities were carried out pursuant to the requirements of the Russian Federation’s Labour Code, and other legal and regulatory considerations relating to labour protection.

Activities aimed at ensuring a safe working environment resulted in a 30% year-on-year drop in the accident frequency rate in 2014 (44 accidents in 2014 compared to 64 accidents in 2013). In 2014, the number of calendar days lost due to injury also decreased by 17% compared to 2013 (3,245 man-days in 2014, 3,883 man-days in 2013).
In order to manage potential risks, the Company has introduced and developed a risk-based approach to conducting business. This ensures that the management of Rostelecom takes the most effective decisions when circumstances are uncertain, and also is able to form an opinion on business opportunities for the Company.

Every year, the Board of Directors approves a Risk Management Programme. Rostelecom regularly updates its risk profiles and develops and monitors its action plans in order to reduce the occurrence of risk to an acceptable level. The risk-management system is implemented at all levels within the group: headquarters, regional branches and subsidiaries. The diagram below illustrates the risk management process across the Company.

The risk management system deals with both internal risks, which are specific for the Company, and external risks that arise from outside the Company, such as economic and political risks. The risk management process implies interaction of risk managers, risk owners, the Board of Directors, the BoD’s Audit Committee, the Management Board and the Risk Committee of the Management Board.
RISK FACTORS

AN INVESTMENT IN OUR SHARES AND DRs INVOLVES RISKS, INCLUDING:

Risks Relating to Our Business
- We face increasing competition in all segments of the Russian telecommunications market, which may adversely affect our ability to retain or increase our current subscriber base and could result in reduced operating margins and a loss of market share, as well as different pricing, service or marketing policies.
- Changes in the regulation of Russian telecommunication markets may materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If the demand for certain telecommunications services that we offer or are developing and promoting does not increase, our ability to achieve further revenue growth from these services will be limited.
- Significant delays in the receipt of receivables and the inability to collect payments for various telecommunications services provided to our customers may result in losses and could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Continuing rapid changes in technologies could increase competition and/or require us to make substantial investments which may be ineffective.
- Our inability to obtain equipment, software and other network components and related services in a timely manner at market prices could have a material adverse effect on our business, financial condition and results of operations.
- We depend on the reliability of our networks, and a system failure or breach of our security measures could result in a loss of subscribers and could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If the calculation of our tax liability and certain initiatives we have used to reduce our tax burden are successfully challenged by Russian tax authorities, we will face significant losses associated with the assessed amount of unpaid tax and related interest and penalties, which may have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Our intellectual property rights are costly and difficult to protect.
- If leaks of confidential information, including information relating to our subscribers, occur it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- A part of our fixed line infrastructure is outdated, and we may be required to make significant investments beyond those that are currently planned to modernize it.
- Social projects that we implement may put pressure on our margins.
- Alleged medical risks of cellular technology may subject us to negative publicity or litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.
- Systems failures, delays and failure to optimise our information technology systems could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions, or fail to approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions, or fail to approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- We may be forced to repay the indebtedness of our subsidiaries owed by them and we may not be able to recover the debt of our subsidiaries owed to us.
- We could be materially adversely affected if lenders accelerate our debt due to any failure to comply with loan agreements.
- We may not be able to secure sufficient financing to fund our acquisition strategy and capital expenditure plans.

Risks Relating to our Financial Condition
- Servicing and refinancing our indebtedness will require a significant amount of cash, and our ability to generate cash or obtain financing depends on many factors beyond our control.
- Fluctuations in the value of the rouble against the US dollar and the euro, could materially affect our financial condition, results of operations or prospects or the value of the Shares and DRs.
- The value of the rouble against the US dollar and the euro depreciated materially in 2014 increasing the Company’s capital expenditures and operating expenses related to obligations in hard currencies. Further rouble depreciation can cause a negative impact on our business, financial condition, results of operations, as well as the value of the Shares and DRs.
- The inflation rate, expected to rise year-on-year, may lead to higher operating expenses and tariffs revision.
- The increasing interest rates, both fixed and floating (LIBOR, EURIBOR and MOSPRIME), as well as their volatility, may increase the cost of financing for the Company.

Risks relating to our business and the telecommunications industry
- Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate our telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.
- It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered.

Additional Risks Relating to our Business
- Our competitive position and future prospects depend on our senior management's experience and expertise and our ability to recruit and retain qualified personnel.
- Legal uncertainties relating to privatisation of our shares and assets may exist.
- Failure to fulfil our obligations to state authorities completely and in a timely manner in connection with a few of our significant projects could materially adversely affect our business and result in significant financial and reputation damages. In addition, any interruption in implementing these projects could materially adversely affect our financial results.
- Worsening economic conditions and tightening budget deficit may lead to reduced expenditures on telecommunications projects by federal and local authorities which could adversely affect our results.

RISKS RELATING TO RUSSIA

Risks relating to our business and the telecommunications industry
- Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate our telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.
- It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered.
Political risks
- Political and governmental instability, including conflicts among federal, regional and local authorities and other political conflicts which could create an uncertain operating environment, hinder our long-term planning ability and could have an adverse effect on our business, financial condition and results of operations.
- A new wave of sanctions against Russia, including banking and financial sectors, could further increase an uncertainty in operating environment and adversely affect the value of investments in Russia.
- The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on our business, as well as investments in Russia more generally.
- Deterioration of Russia’s relations with other countries could result in a significant decrease in demand for securities of Russian companies and/or adversely affect the value of investments in Russia.
- Political and social conflicts or instability could create an uncertain operating environment and adversely affect the value of investments in Russia.

Economic risks
- Further decrease in household purchasing power may lead to growth in accounts receivable both in residential and business segments.
- Companies operating in emerging markets such as Russia are generally subject to greater risks than companies operating in more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on our business.
- Economic instability in Russia could have an adverse effect on our business.
- The physical infrastructure in Russia is in poor condition, which may lead to interruptions in effective financial and economic activity.
- Weaknesses in the Russian banking sector make it more susceptible to market downturns or economic slowdowns.

Legislative and legal risks
- Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business, financial condition and results of operations.
- Unlawful, selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.
- Our failure to comply with new personal data protection laws in Russia may have a material adverse effect on our business, financial condition and results of operations.
- Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of the DRs from obtaining effective redress in a court proceeding, which could have a material adverse effect on our business, financial condition and results of operations or the price of the DRs.
- Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.
- The law relating to Russian corporate governance and control may be applied inconsistently and is difficult to enforce.
- Lack of developed corporate and securities laws and regulations in the Russian Federation may limit our ability to attract future investment.
- Shareholder rights provisions under Russian law may impose additional costs on us.
- Shareholder liability under Russian corporate law could cause us to become liable for the obligations of our subsidiaries.
- Russian legislation may not adequately protect against expropriation and nationalisation.
- Russia’s unpredictable acknowledgement and enforcement of foreign court judgements or arbitral awards give rise to significant uncertainties.
- The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Shares, including the Shares underlying the relevant DRs.

Social risks
- Social instability, particularly if caused by further worsening economic conditions, and turmoil in the Russian financial markets, could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.

Risks Relating to Taxation
- Our business has a significant exposure to taxation in Russia.
- We are subject to tax audits by Russian tax authorities which may result in additional liabilities.
- We may be deemed to receive unjustified tax benefits.
- We may encounter difficulties in recovery of VAT paid to vendors or at customs.
- The Russian transfer pricing rules are vaguely drafted and are subject to varying interpretations by Russian tax authorities and courts.
FINANCIAL REVIEW

OPERATIONAL & FINANCIAL REVIEW

Our financial performance in 2014 reflects sustained growth in our key markets that allowed us to manage the structural changes caused by ongoing stagnation of fixed telephony. As a result, we demonstrated stable organic revenues growth from our core fixed-line segment. In 2014 the Company’s consolidated financial results were impacted by the transformation of Rostelecom business resulted from a demerger of our mobile assets into newly established JV with Tele2 Russia. Broadening our customer base in broadband and pay TV services and proactive development of new services were among key drivers supported our top line. Improved efficiency of operations, reduced leverage and significantly strengthened quality and coverage of our network enabled to increase financial stability of the Company.

FY2014 FINANCIAL HIGHLIGHTS

When analysing the full-year 2014 results, it is important to consider the separation of results from continuing operations and discontinued operations (in accordance with IFRS 5) based on the creation of a joint venture (“JV”) with IFRS 5) based on the creation of a joint venture (“JV”) to consider the separation of results from continuing operations. When analysing the full-year 2014 results, it is important to consider the separation of results from continuing operations. The transfer of Rostelecom’s mobile assets to the JV with Tele2 Russia had the following impact on the Company’s consolidated results:

- The consolidated results for the full year 2014 include the operating results of the Company’s mobile subsidiaries for the first three months of 2014 (January-March), and CJSC RT-Mobile results for the first seven months of the year (January-July);
- In the third quarter of 2014 after the deal with Tele2 Russia was completed, Rostelecom received a one-off gain of RUB 22 billion reflecting fair valuation of investments into the JV.

FINANCIAL HIGHLIGHTS FOR CONTINUING OPERATIONS (FIXED-LINE BUSINESS)

- Revenue, OIBDA margin and CAPEX were in line with management guidance for 2014;
- Revenue from continuing operations grew by 3% year-on-year to RUB 298.9 billion;
- OIBDA amounted to RUB 102.5 billion compared to RUB 104.1 billion in 2013;
- OIBDA margin of 34.3% compared to 35.8% in 2013;
- Capital expenditure of RUB 33.8 billion (18.0% of revenue), a 2% year-on-year increase (CAPEX represented 18.2% of revenue in 2013);
- FCF increased by 27% year-on-year to RUB 21.9 billion;
- Net debt reduction of 18% year-on-year to RUB 171.1 billion;
- Net income of RUB 13.2 billion compared to RUB 8.0 billion (total net income rose by 57% to RUB 37.8 billion).

FY2014 Operating summary

<table>
<thead>
<tr>
<th>Number of subscribers (million)</th>
<th>2014</th>
<th>2013</th>
<th>% change, y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadband Internet</td>
<td>11.2</td>
<td>10.5</td>
<td>6%</td>
</tr>
<tr>
<td>Residential</td>
<td>10.5</td>
<td>9.8</td>
<td>7%</td>
</tr>
<tr>
<td>Corporate clients</td>
<td>0.7</td>
<td>0.7</td>
<td>2%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>8.0</td>
<td>7.5</td>
<td>6%</td>
</tr>
<tr>
<td>IPTV</td>
<td>2.7</td>
<td>2.2</td>
<td>24%</td>
</tr>
<tr>
<td>Local telephony services</td>
<td>24.4</td>
<td>26.5</td>
<td>(8%)</td>
</tr>
<tr>
<td>Mobile communication services</td>
<td>0.0</td>
<td>14.8</td>
<td>-</td>
</tr>
</tbody>
</table>

REVENUE

The Company reported a 3% y-o-y increase in revenue from continuing operations to RUB 298.9 billion in 2014 (the consolidated revenue decreased by 5%). This was influenced by the following:

- 8%, or RUB 4.5 billion, growth from broadband services and 21%, or RUB 2.5 billion, growth from pay TV services due to an increased subscriber base;
- 11%, or RUB 2.9 billion, from interconnection and traffic transit services (additional volumes from other operators to Rostelecom’s networks);
- an increase in other revenues due to the switching to selling rather than leasing out customer-premises equipment, with additional income generated from video surveillance projects and proceeds generated from renting out company infrastructure

The revenue growth was partially offset by a decline in revenues from Local, DL/DLD and Intra-zone telephony services, which primarily reflected on-going changes in usage patterns for traditional fixed-line services.

Revenue from mobile services in 2014 decreased due to the deconsolidation of our mobile subsidiaries, which were transferred to the JV with Tele2 Russia.

- The number of local telephony subscribers decreased by 8% year-on-year to 24.4 million as a result of changes in end-users’ preferences in how telephone calls are made and the migration of the corresponding traffic to mobile and VoIP operators’ networks.
- Mobile subscriber base dynamics can be attributed to the deconsolidation of mobile assets following the completion of the deal to create a JV with Tele2 Russia.

<table>
<thead>
<tr>
<th>FY2014 OPERATING HIGHLIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of broadband subscribers grew 6% year-on-year to 11.2 million subscribers;</td>
</tr>
<tr>
<td>The B2C subscriber base grew by 7% to 10.5 million, while the number of subscribers connected by fibre optic increased by 29% year-on-year to 5.2 million (46% of the subscriber base).</td>
</tr>
<tr>
<td>The number of pay TV subscribers grew by 6% year-on-year to 8.0 million;</td>
</tr>
<tr>
<td>The number of IPTV subscribers increased by 24% to 2.7 million.</td>
</tr>
</tbody>
</table>

FINANCIAL HIGHLIGHTS FOR CONTINUING OPERATIONS (FIXED-LINE BUSINESS)

FY2014 Financial summary

<table>
<thead>
<tr>
<th>RU million</th>
<th>2014</th>
<th>2013</th>
<th>YoY change (continuing operations)</th>
<th>YoY change (consolidated results)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>298,937</td>
<td>310,917</td>
<td>3%</td>
<td>(5%)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>102,467</td>
<td>105,376</td>
<td>3%</td>
<td>(7%)</td>
</tr>
<tr>
<td>OIBDA margin, %</td>
<td>34.3%</td>
<td>33.9%</td>
<td>0.2%</td>
<td>(7%)</td>
</tr>
<tr>
<td>Operating income</td>
<td>39,994</td>
<td>42,891</td>
<td>0.4%</td>
<td>(4%)</td>
</tr>
<tr>
<td>Operating margin, %</td>
<td>13.4%</td>
<td>13.8%</td>
<td>-0.4%</td>
<td>(4%)</td>
</tr>
<tr>
<td>Net income</td>
<td>13,182</td>
<td>13,807</td>
<td>5.2%</td>
<td>(5%)</td>
</tr>
<tr>
<td>% of revenue</td>
<td>4.4%</td>
<td>12.2%</td>
<td>7.8%</td>
<td>(7%)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>53,810</td>
<td>57,666</td>
<td>7%</td>
<td>(6%)</td>
</tr>
<tr>
<td>% of revenue</td>
<td>18.0%</td>
<td>18.5%</td>
<td>0.5%</td>
<td>(1%)</td>
</tr>
<tr>
<td>Net debt</td>
<td>171,135</td>
<td>171,135</td>
<td>0%</td>
<td>-1%</td>
</tr>
<tr>
<td>Net debt/annualised OIBDA ratio</td>
<td>1.7</td>
<td>1.6</td>
<td>0.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Revenue structure by services

<table>
<thead>
<tr>
<th>RU million</th>
<th>2014</th>
<th>2013</th>
<th>% change, y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local telephony services</td>
<td>80,528</td>
<td>87,323</td>
<td>(8%)</td>
</tr>
<tr>
<td>Intra-zone telephony services</td>
<td>14,669</td>
<td>17,128</td>
<td>(14%)</td>
</tr>
<tr>
<td>DL/DLD telephony services</td>
<td>14,561</td>
<td>17,100</td>
<td>(15%)</td>
</tr>
<tr>
<td>Interconnection and traffic transit services</td>
<td>29,344</td>
<td>26,450</td>
<td>11%</td>
</tr>
<tr>
<td>Broadband Internet</td>
<td>60,364</td>
<td>55,867</td>
<td>8%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>14,458</td>
<td>11,927</td>
<td>21%</td>
</tr>
<tr>
<td>Data services (VPN, wholesale Internet)</td>
<td>24,399</td>
<td>22,661</td>
<td>8%</td>
</tr>
<tr>
<td>Rent of channels</td>
<td>11,761</td>
<td>11,093</td>
<td>6%</td>
</tr>
<tr>
<td>Other revenue</td>
<td>48,853</td>
<td>41,187</td>
<td>19%</td>
</tr>
<tr>
<td>Total revenue from continuing operations</td>
<td>298,937</td>
<td>290,736</td>
<td>3%</td>
</tr>
<tr>
<td>Effect of discontinued operations</td>
<td>11,980</td>
<td>34,968</td>
<td>-</td>
</tr>
<tr>
<td>Mobile services</td>
<td>13,091</td>
<td>39,195</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>(2,010)</td>
<td>(4,227)</td>
<td>-</td>
</tr>
<tr>
<td>Total consolidated revenue</td>
<td>310,917</td>
<td>325,704</td>
<td>(5%)</td>
</tr>
</tbody>
</table>
Revenue structure by customer segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
<th>% change, y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential customers</td>
<td>136,345</td>
<td>136,665</td>
<td>0%</td>
</tr>
<tr>
<td>Corporate customers</td>
<td>71,662</td>
<td>71,141</td>
<td>1%</td>
</tr>
<tr>
<td>Governmental customers</td>
<td>48,804</td>
<td>45,336</td>
<td>8%</td>
</tr>
<tr>
<td>Operators</td>
<td>42,126</td>
<td>37,594</td>
<td>12%</td>
</tr>
<tr>
<td>Total revenues from continuing operations</td>
<td>298,937</td>
<td>290,736</td>
<td>3%</td>
</tr>
<tr>
<td>Effect from discontinuing operations</td>
<td>11,980</td>
<td>34,968</td>
<td>-</td>
</tr>
<tr>
<td>Total consolidated revenue</td>
<td>310,917</td>
<td>325,704</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Above any other event, the deconsolidation of Rostelecom’s mobile subsidiaries, which were transferred to the JV with Tele2 Russia, following the completion of the first and second stages of the deal, had the most influence on operating expense, OIBDA and operating income dynamics in 2014.

Operating expenses structure (excluding amortization)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
<th>% change, y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel costs</td>
<td>(89,929)</td>
<td>(85,798)</td>
<td>5%</td>
</tr>
<tr>
<td>Interconnection charges</td>
<td>(47,429)</td>
<td>(42,420)</td>
<td>12%</td>
</tr>
<tr>
<td>Materials, repairs and maintenance, utilities</td>
<td>(25,828)</td>
<td>(26,260)</td>
<td>(2%)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>12,950</td>
<td>15,228</td>
<td>(15%)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(48,284)</td>
<td>(47,338)</td>
<td>2%</td>
</tr>
<tr>
<td>Total operating expenses from continuing operations</td>
<td>(198,320)</td>
<td>(186,588)</td>
<td>6%</td>
</tr>
<tr>
<td>Effect of discontinued operations</td>
<td>(9,071)</td>
<td>(25,834)</td>
<td>-</td>
</tr>
<tr>
<td>Total consolidated operating expenses</td>
<td>(207,391)</td>
<td>(212,422)</td>
<td>(2%)</td>
</tr>
</tbody>
</table>

Operating expenses excluding depreciation and amortisation for the full year 2014 rose by 6% year-on-year to RUB 198.3 billion, due to the following:
- An increase in interconnection charges, accompanied by a rise in the corresponding revenues;
- An increase in personnel costs due to accruals related to management’s long-term incentive program, approved in March 2014 as well as the insourcing of some functions; and
- A decrease in other operating incomes due to one-off bonuses from equipment suppliers received in 2013.

The Company’s operating income fell by 12% year-on-year to RUB 40.0 billion in 2014. Depreciation and amortisation expenses increased by 3% year-on-year to RUB 60.6 billion for the full year of 2014. This was largely due to the recognition of a goodwill impairment loss, caused by a review of long-term forecasts for a number of subsidiaries. This was mainly a result of an increased discount rate due to the unfavourable economic conditions and adverse situation in the financial markets.

In 2014, OIBDA totalled RUB 102.5 billion compared to RUB 104.1 billion in 2013 resulting in the OIBDA margin of 34.3%. OIBDA was mainly impacted by:
- The increased presence of the growing, but lower margin, broadband and pay TV segments in the revenue structure;
- The lagged impact of initiatives taken by management to optimise operating expenses are having on the Company’s financial results.

Net income analysis

In 2014 profit before tax from continuing operations decreased by 42% year-on-year to RUB 20.4 billion. This was mainly due to:
- a paper loss due to the revaluation of financial instruments;
- a decrease in operating income, including the recognition of an impairment loss due to the revaluation of goodwill.

In 2014, income tax contributions decreased by 14% year-on-year and totalled RUB 7.2 billion, largely reflecting the changes in profit before income tax. The effective income tax rate was 35% for the full year, compared to the 20% rate specified by the Tax Code. The higher effective tax rate in 2014 resulted from a future tax rate increase on dividends from 9% to 13% on the legislative level, which is applied to income received from investing in associated companies, as well as was a result of expenses which were not deductible for tax purposes.

Net profit from continuing operations for 2014 amounted to RUB 13.2 billion compared to RUB 26.7 billion in 2013.

The Group's consolidated net profit rose by 57% year-on-year to RUB 37.8 billion for the full year of 2014, reflecting a one-off gain from the completion of the deal with Tele2 Russia.

Consolidated Net Income (RUB billion) & Net Income margin (%)
FREE CASH FLOW
Consolidated net operating cash flow decreased by 7% year-on-year to RUB 79.5 billion in 2014. Consolidated free cash flow grew by 27% year-on-year to RUB 21.9 billion. The increased FCF level together with higher construction volumes is a result of proactive approach to procurement efficiency and investment program optimisation.

Net cash used in investing activities amounted to RUB (21.1) billion. This was largely due to the receipt of funds from closing the first stage of the deal to create a JV with Tele2 Russia (due to the repayment of intra-group debt of subsidiary companies which was transferred to the JV). Consolidated cash outflow in investments to non-current assets fell by 1% year-on-year in the fourth quarter of 2014 to RUB 21.5 billion, and decreased by 16% year-on-year to RUB 57.7 billion in 2014. The investment dynamics were partly affected by management’s policy of improving the effectiveness of investment activities, including optimising tender procedures and relationships with suppliers.

The changes in net cash received from financing activities related to decreased volumes of mandatory share buybacks in 2014 compared to 2013.

NET DEBT
At the end of 2014, the Group’s total debt decreased by 17% and amounted to RUB 190.0 billion, which was partly due to the transfer of some debt to the JV with Tele2 Russia, as well as the repayment of a number of loans. More than 99% of the Group’s total debt was rouble-denominated as at December 31, 2014. As at December 31, 2014, the Group’s consolidated net debt amounted to RUB 171.1 billion with a net debt/OIBDA ratio of 1.6x.
Social Responsibility

Social projects implementation is an essential part of Rostelecom corporate social responsibility. The Company believes that its mission is not just to offer quality services to its customers, but also to assist in development of local communities in regions where it operates, facilitate sustainable social environment and improving quality of life in the country.

Social project management adheres to a holistic approach, complies with the Russian Federation law, the Company’s Charter and is guided by the following principles:

Long-lasting nature
We believe that the Company’s positive social role can only be fully fulfilled through persistent long-lasting efforts, so all our programs are of a long term nature.

EDUCATION
Rostelecom traditionally supports education projects, opening new areas and advancing the existing ones. The emphasis is placed on training highly efficient experts in the field of telecommunications, information security for younger generation and bridging the digital gap.

“Internet ABC Book”
In 2014 Rostelecom and the Pension Fund of the Russian Federation signed an agreement on collaboration in teaching senior citizens computer skills. The main goal is to enhance the life quality through teaching to work on a computer and development of Internet skills. A special reference-book called “Internet ABC Book” has been prepared under the Agreement. It can be used as a teach yourself book and as a reference book for specialized training centers of computer literacy for pensioners that are widely spread throughout Russia. Besides that, an electronic version of the book has been made under the project which is available on the education Web portal www.azbukainterneta.ru. The portal also contains best practices guidelines, audio-visual aids, presentations and useful references.

The Company believes that free distribution of the book will make it possible to increase the number of pensioners with computer and Internet skills and enable access to public e-services for the elderly.

The first groups for training under the “Internet ABC Book” program were formed in Bryansk, Volograd, Vologda, Tula and Stavropol. In September 2014 training started at specialized computer centers. In Nizhny Novgorod and Nizhny Novgorod Region the social security authorities allocated 128 computer rooms and hold regular classes for pensioners and people with disabilities. Other regions like Ural, Siberian and Southern Federal Districts, have started to implement the practice adopted in the Volga area.

“IT-Advancement” Project
For several years Rostelecom and the youth volunteer organization “ASEK” have been implementing the IT-Advancement Project which allows senior high-school students to understand current information technologies and gives them an idea of advanced high-tech services of fixed-line and mobile communications.

Early in 2014 promising young experts and foreign volunteers held interactive workshops under the IT-Advancement Project in Moscow, Omsk, Tomsk, Novosibirsk, Chelyabinsk, Samara and St. Petersbourg. The workshops were held in English on the following topics: “History of development of the IT-industry in Russia and worldwide”, “Success stories of celebrities/companies active in the IT-industry”, “Future of the IT-industry. Development prospects”, “Demand for IT-specialists in Russia and worldwide”, “Prospects of making a career in the IT-sphere for the youth”.

Altogether 145 foreign students from 10 countries of the world – Brazil, Columbia, India, China, Egypt, Turkey, Italy, Czechia, Poland and the Philippines took part in the workshops for high-school students. In the second season of the project that was held in five Russian cities from 15 September to 15 October 2014, the Company employees gave to the young boys and girls the idea of new telecommunication technologies and arranged visits to telecommunication museums in Rostelecom multimedia centers.

“Learn the Internet and Manage it”
This social project of Rostelecom and Coordination Center of the National Internet Domain aimed at enhancement of Internet literacy of rising generation was launched in September 2011. The Project offers a popular and interesting form of getting an idea of the worldwide web capabilities and gives basic knowledge of the network architecture and operation principles. The Project launched an All-Russia Internet game competition in which high-school as well as college and university students are involved.

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The Midday project
Since 2013 Rostelecom and Society of Educational and Creative Leisure Activities “Games of the Future” have been developing an interactive and educational module for career guidance in telecommunications. Within this framework the Midday project for social adaptation of children from
orphanages is being implemented aimed at enabling children to develop occupational skills and competence essential for successful socialization.

The method was developed by the Center of Interactive Educational Technologies (IET) of Lomonosov Moscow State University and is extensively used for training the university students in situational business games. Annual charity ballroom dancing parties are another element of the Midday training program.

Advancement of professional education

In 2014 the Company continued supporting telecommunications industry-specific higher education institutions where specialized chairs were established. These higher education institutions include: Moscow Technical University of Communications and Informatics (MTUCI), The Bonch-Bruevich Saint Petersburg State University of Telecommunications, Siberian State University of Telecommunications, Siberian State University of Informatics (SibSUTI), Volga State University of Telecommunications and Informatics (VSUTU), Moscow Institute of Physics and Technology (State University). Support of industry-specific educational institutions includes improvement of their material and technical base, support of students’ clubs, payment of scholarships, making arrangements for training of students in Rostelecom business units. The Company’s specialized chairs in these institutions apply innovative approaches to education, use a research approach to education and engage students in academic research.

As part of cooperation with Far Eastern Federal University Rostelecom acted as a general partner of the “Ajax-2014” career marathon which enables final year students to find a job of their dream and select most preferred candidates for work in the telecommunications industry.

In 2014 Rostelecom continued implementation of the program “Distance education for children with disabilities” which offers free Internet access to children who are unable to go to school due to various reasons and are taught at home. The children can master the school curricula on their own using special programs, and maintain online contact with their teachers, using Skype among other means. All teachers participating in the project have taken a special course to acquire skills of distance teaching. Moreover, this year the Company has developed a system of online education for children living in orphanages and boarding schools. Extended education in all subjects was provided in selected institutions with application of Internet technologies. To ensure successful implementation Rostelecom provided Internet access where required and installed necessary equipment in computer classes free of charge.

Projects in the field of Internet Security

To protect children and adolescents from harmful Internet content, all Company tariff plans offer the service “Child at home”. The Company also implements a federal project that foresees content filtering services for secondary schools.

Apart from technical solutions of the Internet security, in 2013 the Company implemented a series of communication projects on safe Internet – parent meetings “Children in the Internet”, “Internet security in schools”, “Children’s video clips contest”, “Social poster contest”, National Russian competition of pedagogical development “Safe Internet”. These events targeted various audiences - children, teachers, parents and the public. The range of problems raised by these projects includes malware handling, spam counteraction and protection against fraud and harmful content.

Distance learning for children

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Youth Competitions and Contests

As part of cooperation with youth associations and festivals Rostelecom supports active, talented and diligent young people in their drive to creative development and realization of personal potential. In 2014 the Company was a partner of a number of youth events: arts festival “Student spring – 2014” in the Chuvash Republic; school; student and youth leagues of the TV game “Club of the Merry and Smart” of the Republic of Udmurtia; Volga League of the “Club of the Merry and Smart plus” in Nizhny Novgorod, Samara Regional League, Junior and Youth Leagues “Samara”, specialized youth camp “Summer school of social modelling “Takeoff 2014” in Nizhny Novgorod Region; the Young Wave project in Rostov Region, launching new opportunities for implementing initiatives of the young, etc.

The company assisted in holding an interregional championship in Internet information search in the North-Western Region and a similar event among students of Syktyvkar State University called “I am proud of my Republic”.

Rostelecom regularly supports cyber sport events among young people which accelerate brainwork, develop logic and ability to work in a team. In April 2014 the Company was General Partner of the final DOTA 2 game in the Far-Eastern League which was held in Vladivostok, and in December of the same year it was a partner of the Open online competition of the network computer game “SIBERIA Dota 2 Cup” in Yakutsk.

Rostelecom also became a telecommunication partner of the North Caucasus Youth Forum “Mashuk-2014” – a social and educational project aimed to support young people who are interested in politics, economics, science and innovations, art and creative work.

Application of modern technologies for education and children’s creativity

Rostelecom carries out projects enabling children to gain knowledge using modern telecommunication technologies. In Primorye Territory a unified system for distance learning has been launched for small schools located in remote communities. A platform based on terrestrial and satellite links and special data equipment was developed making it possible to teach distant classes in 130 schools. In the Southern and North Caucasus Federal Districts provision of Internet access at orphanages and boarding schools has been successfully completed. A modern computer classroom has been opened in a boarding school in the city of Mozdok which is under special care of Rostelecom. In most educational institutions Internet connection speed has been doubled owing to deployment of a required telecommunication infrastructure.

A project to implement a security system and provide a set of telecommunication services was implemented for a unique children’s center “Sunny Land” in the rural community of Tashla in Orenburg Region.

SPORTS

Social initiatives in collaboration with the “Sochi - 2014” Organizing Committee

As a General Partner of the XXII Olympic Winter Games in Sochi Rostelecom arranged a number of public events aimed at promotion and popularization of Olympic values and a healthy lifestyle among the young. Winter and Summer Olympic kick-offs were launched before the Games – events in different sports for children and youth which took place throughout Russia – from Far East to Kaliningrad.

Over the whole duration of the XXII Olympic Winter Games in Sochi Rostelecom ensured TV broadcasts of the events to jumbotrons installed in central squares of big Russian cities. Sports fans throughout the country had a chance not only to cheer on our athletes, but also sense the unique atmosphere of the Olympic Games.

The final stage of the cultural and information marathon assisted by Rostelecom lasted over a period of seven years in libraries of Krasnodar Region. In the course of the project over 600 thousand young residents of Kuban got themselves familiar with the history of the Olympic Games, developed their own creative projects related to sports, tried their hand in literary Olympic relays and competitions.
**Dream Team**

For a number of years Rostelecom has been a partner of CSKA basketball club. The All-Russian program of master classes “Dream Team” is currently underway which enables children from regional basketball schools to show their abilities and acquired skills to the best coaches and top players of the club and talk to the stars of Russian basketball. The program covers all federal districts of the Russian Federation. In the season of 2013-14 successful participants of the master classes aged 14-16 from 8 Russian cities got a real chance to play in their dream team. Upon the results of the master classes two or three participants from each city were selected by coaches of the youth team for taking part in a two-weeks’ training session that was held in Moscow in May. The club made professional contracts with children who showed good results in the session.

**Star Track**

Since 2009 Rostelecom has been the General Partner of the Russian Figure Skating Federation (RFSF). As of 2011 Rostelecom and RFSF have been carrying out a joint program called “Star Track” – a series of master classes for “rookie” figure skaters. During the master classes big sports stars Victor Kudryavtsev, Arthur Dmitriyev, Irina Lobacheva, Alexander Zhulin, Alexey Urmanov, Oksana Kazakova and many other leading athletes and coaches shared secrets of their professional skills. Young athletes from all federal districts of Russia took part in the program over a period of three years. The project offered children a unique opportunity to showcase their abilities and skills before famous coaches and get helpful advice from them. In 2014 master classes were held in Vladivostok, Sochi, Perm, Volgograd, Oryol, Ulyanovsk, Samara, and Omsk. Children, who came out the best, were invited to Moscow together with their coaches and attended Rostelecom Cup events – the Russian stage of the Figure Skating ISU Grand Prix Series and took part in a meeting which was specially arranged for them with Olympic champions – Tat’yana Volosozhar, Yekaterina Bobrova, Dmitry Solovyov and Victor Kudryavtsev, a distinguished coach and consultant of the national team.

**On Your Mark! with Rostelecom**

Rostelecom regularly arranges winter and summer sport events for school children and young athletes. Winter events are arranged in all regions, where the Company operates, in such sports as ice-hockey, skating and sledding, and in summer competitions take place among young volleyball and basketball players, track and field athletes, etc. Mass sport events of different scale were arranged with the assistance of the Company. During the reporting period the following events took place: bike rides in Orel and Volgograd, the All-Russian festival of national and non-Olympic sports in Ulyanovsk, the Volga festival of a healthy lifestyle “Run After Me” in Mordovia and the city festival “Skipping Marathon. Jump into Summer” in Sochi. As a result young musicians and their tutors got a unique chance not only to attend classes of great musicians – the singer Vladimir Volyavin, Yuri Bashmet, the Italian flute player Massimo Merchelli, the jazz trumpet player Brian Lynch and the piano player Olli Mustonen, but talk to them personally and ask them questions.

**CULTURE**

**Supporting National Arts**

Starting from 2008 representatives of Rostelecom sit on the Supervisory Board of the State Academic Bolshoi Theatre of Russia. The Company assists the theatre in making new productions, arranging tours, engagement of stars and young talented actors and improvement of the management system, financial and commercial activities of the theatre. Thanks to Rostelecom thousands of spectators in Moscow are offered an opportunity to appreciate the talents of established and younger master-performers of the world famous Russian ballet school performing on the old stage of the Bolshoi Theatre that was opened again in 2011 after a prolonged renovation.

**The Cultural Olympiad**

Rostelecom was telecommunications partner of the VI International Winter Arts Festival in Sochi, the artistic director of which was Yuri Bashmet, a world renowned violinist and conductor.

During the festival Rostelecom ensured provision of technical facilities for holding master classes for students of music schools and their teachers in five cities of Russia – Sochi, Ekaterinburg, Novokuibyshevsk (Samara Region), Novosibirsk and Rostov-on-Don. This was made possible through a multi-channel videoconference call which connected the Hall of chamber and organ music in Sochi with music sites in four cities of Russia equipped with specially designed modern videoconferencing systems. As a result young musicians and their tutors got a unique chance not only to attend classes of great musicians – the singer Vladimir Volyavin, Yuri Bashmet, the Italian flute player Massimo Merchelli, the jazz trumpet player Brian Lynch and the piano player Olli Mustonen, but talk to them personally and ask them questions.

**Film festival**

For two years running Rostelecom has been a telecommunications partner of the International Film festival “Meridians of the Pacific” which takes place in Vladivostok in September. Rostelecom also provided communications services to the XII theater and cinema festival “The Amur Fall” which was held in Blagoveschensk from 6 to 14 September 2014. The Company ensures free Wi-Fi Internet access at film festival venues and provides its network resources to organizers and press center of the events.

**Theatre-lover’s Star Award**

In December 2014 Rostelecom arranged a webcast of the VII Theatre-lover’s Star award ceremony. During 7 years of its existence the award has become an epitome of unbiased assessment, fair victory and public recognition, since the winners are chosen by the largest jury – a several thousand strong viewing audience. During a theatre season the public nominates and selects online on the Award Internet portal new productions they liked, and at the end of the year winners are announced at a festive ceremony following the vote outcome. This time some 10 thousand people watched a direct webcast of the VII Theatre-lover’s Star award-giving ceremony which Rostelecom arranged on several Internet sites simultaneously.

**CHARITY**

Let us give the children a world of knowledge!

In 2014 Rostelecom and the Publishing House “Arguments of the week” arranged a real feast of knowledge for children from orphanages and boarding schools in St. Petersburg, Chelyabinsk, Ekaterinburg, Kazan, Pskov, Kaluga, Smolensk, Nizhny Novgorod, Voronezh, Saratov, Orenburg and Belgorod and gave them the best children’s educational books from Russia and other parts of the world. The event took place under the large-scale All-Russian project “Let us give the children a world of knowledge!” This is the fourth event of this kind, and its goal is to supply the children with high-quality and time-proven educational literature. As a result 6 thousand publications found their readers in 83 sponsored orphanages throughout the country.

**The Bright Week Festival**

For two years running Rostelecom has been supporting the International Children’s Easter Vocal and Chorus festival “The Bright Week”. In 2014 it was held in Moscow, 23-25 May. The aim of the festival is to develop spiritual values in children and youth, promote children’s and youth’s chorus art, and popularize Russian choir, vocal and folk music. Besides, this music forum will give a chance to perform in Moscow’s concert halls not only to professional musicians,
but amateurs as well. About 5 thousand young musicians from over 100 different professional choirs, Sunday and religious music schools of Russia as well as foreign guests have taken part in the festival since its start in 2008.

Charity performances at the Bolshoi Theatre

On New Year's Eve the Company traditionally arranges charity performances at the State Academic Bolshoi Theatre for children from orphanages and boarding schools. Every year several children, as well as children from large families in Moscow and Moscow Region have a chance to visit the main theatre of the country and get themselves familiar with great examples of the scenic art.

The vast majority of children who get invitations, go to the Bolshoi Theatre for the first time which itself is an unforgettable event for them. Since the subjects of the performances are related to New Year, it helps to sense the atmosphere of the coming holiday. For a number of years Rostelecom arranged charity performance of the ballet by Tchaikovsky "The Nutcracker" on the stage of the Bolshoi Theatre. In 2014 the Company presented to children from 12 social institutions of Moscow and Moscow Region the opera "Story of Kai and Gerda" staged after the fairy tale "Snow Queen" by Hans Christian Andersen.

Christmas charity program

In 2014 the number of children's institutions covered by Rostelecom's charity program neared the figure of 140. For reference - in 2013 their number was 90. So, the number of children who got aid from the Company on the eve of the holiday has significantly increased and reached some seven thousand people.

The principal areas of aid allocation remain unchanged. All funds earmarked for charity are allocated to purchase basic essentials, clothes and footwear. Besides, aid is provided to orphanages in order to purchase furniture and all kinds of equipment - educational, sporting, medical, training, including articles used for equipping up-to-date computer classrooms with Internet access.

A separate part of Rostelecom's New Year's charity program is the volunteer project "You Can Become Santa Claus". It is traditionally held on New Year's Eve. In 2014 Company employees from 36 cities of Russia took part in the project. In each of those cities Rostelecom offices looked like sites for collection of gifts for orphanage children. For that purpose lists of boys and girls from sponsored children's institutions were posted on the Intranet portal together with information regarding presents that children would like to get from Santa Claus. Every Company employee could choose a child and a present to be given to that child.

"I want to live!" Project

For the second year running Rostelecom is taking an active part in the charity program "I want to live!" arranged by the Charity Fund "Arguments and Facts. Feeling Heart". The main goal is provision of targeted aid to children suffering from renal failure that already had or are about to have renal transplantation. A charity party is arranged under the program for children paternalized by the Charity Fund "Arguments and Facts. Feeling Heart". Pictures featuring children who had renal transplantation are on display at the party.

In addition to that, specialized master classes in different professions are arranged for orphanage children as well as excursions to various Moscow's museums.

Books as a present

For a number of years Rostelecom together with the Fund "Illustrated Books for Small Blind Children" has been implementing the program "Books as a present". Thanks to this program over 10 thousand small and young children with poor eyesight have already got new sets of special books "Illustrations Perception Atlas" by charity subscription. All books have color pictures with distinct outlines enhanced by hot stamping which one can feel and encircle with a finger. The books get the children acquainted with the world around, awake in them interest in reading, facilitate development of speech habits, attention, thinking, augment sensory experience, bring positive emotions.

Melody of the Game

Due to partnership with the Charity Fund "Country of Talents", starting from 2014 Rostelecom has been arranging chess evenings called "The Melody of the Game" designed for disabled children from orphanages and boarding schools. The first competitions took place in St. Petersburg, Nizhny Novgorod and Rostov-on-Don. The project receives much support from regional and municipal authorities. All this allows to run the chess competitions on a high level confirmed by participation of experienced grandmasters. They play games of multiboard chess with children and share their experience in master classes. The main goal of the project is to attract attention of the public and mass media to social adaptation of children with disabilities, to recognition of a significant role of chess in development of children's intellectual abilities and mental capacity.

Assistance to sponsored child care institutions

Rostelecom actively supports a variety of social institutions - hospitals and orphanages. The Company buys medical equipment and pays for emergency medical operations, allocates funds to repair buildings and purchase basic necessities, helps organize holidays for children from orphanages and meetings of relevant professional psychologists with children, provides channels for distance teaching of children. Assistance is rendered both on-demand and on an ongoing basis.

New opportunities for children with disabilities

Rostelecom helps in social integration of people with disabilities and, in particular, disabled children. Rostelecom, implements a program for distance teaching of children with disabilities both at the level of the Corporate Center and at the level of macro-regional branches, at home and in specialized institutions.

Thus, in 2014, in many regions of its presence Rostelecom participated in programs for distance teaching, in which the Company provides children with disabilities with unlimited access to the Internet, and ensures delivery and installation of necessary equipment.

Support for veterans

Every year on Victory Day Rostelecom offers to war veterans an opportunity to make free long-distance and international telephone calls and send telegrams in the territory of the Russian Federation, to CIS and Baltic states.

It has become a good tradition for Rostelecom to arrange videoconferences on Victory Day. For many years the Company has helped veterans from various cities to see their fellow soldiers, talk to them live and take part in anniversary celebrations.

For many years charity support has been provided to Samara regional clinical hospital for war veterans. Over a year in Karelia the Company held festive events for war veterans and those who took part in the Great Patriotic War as well as home front workers on the eve of professional holidays – Radio Day, which is communication workers’ Day, and Victory Day. Employees of the Arkhangelsk branch rendered individual greetings to workers of the communications industry – veterans of the Great Patriotic War under the initiative “Thank You for Victory”.

SOCIAL RESPONSIBILITY (CONTINUE)