

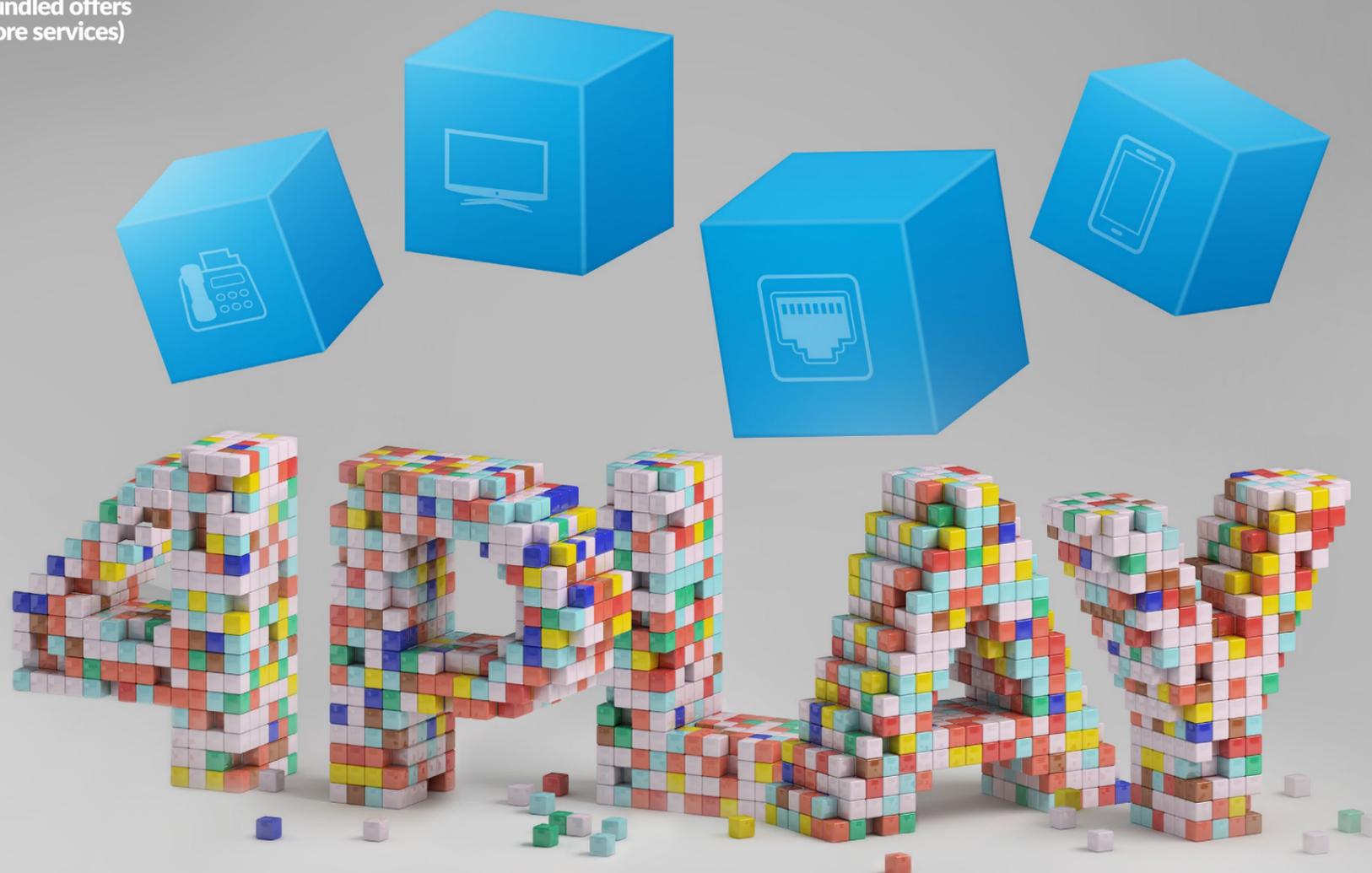
Rostelecom Today

Rostelecom has a rich history, unique infrastructure, and a sustainable business model aimed at providing high-quality and advanced digital services to households, businesses, the government, and other operators. We have leadership in markets with significant growth potential.

Rostelecom is currently the only Russian company capable of providing nationwide quad play services allowing subscribers to benefit from a comprehensive offering while saving time and money.

around 70%

Sales of bundled offers
(two or more services)



2017 Highlights

Revenue
305.3
RUB billion

Revenue from
content and digital
services
47%

+26.3 %
Revenue from VAS
and content services
vs 2016

33 million
households
connected to fibre

Data centre
racks
5,268

OIBDA
96.9
RUB billion

15.5
Tbps
capacity of backbone
network

FCF
20.4
RUB billion

Chairman's Statement

Dear Shareholders and Investors,

Through staying ahead of the curve, rapidly adapting to new economic trends, and quickly adopting innovative solutions, Rostelecom is an undisputed leader in the Russian telecoms market.



However, we need to regularly adjust our growth strategy to objectively reflect the current market environment and develop realistic plans for the future. At the same time, our key goal has remained the same, as reflected in the recently approved corporate Strategy 2022: to transform into a digital partner for retail, business, and government customers, offering a wide range of high-demand products and services.

Rostelecom's new dividend policy balances the interests of both the Company and its shareholders while strictly respecting their rights, thereby further improving our investment appeal and increasing market capitalisation.

As regards our operating and financial performance, I would like to highlight that last year we confidently passed an important landmark of RUB 300 billion in gross revenue by bringing the share of content and digital services up to 47%.

Successfully certified to intergovernmental standards, our risk management framework has remained strong.

We have also seen some notable progress in our corporate governance practices, and according to the Russian Government Expert Council, Rostelecom has outperformed on this measure all other Russian government-owned companies.

The Company's performance has generally been quite strong, and I have ample reasons to be optimistic about its outlook that offers us new opportunities for comprehensive growth.

Dear colleagues, I thank you on behalf of the Board for your positive contribution to achieving our goals, and I look forward to our continued rewarding cooperation.

Sergei Ivanov
Chairman of the Board, PJSC Rostelecom

Letter from the President

Dear Shareholders, Partners, and Colleagues,

In 2017, Rostelecom continued its transformation into a digital partner for retail, business, and government customers. The Company has increased both its revenue and net profit. Our free cash flow, which is used to calculate dividend payments to our shareholders, has also grown by 50%. Our new business model relies on content and digital services which have been consistently growing at double-digit rates and are driving Rostelecom's strategic transformation.



Our retail business showed strong performance in 2017, with 33 million households passed by fibre, 12 million broadband users, 5 million Pay TV subscribers, and 830 thousand MVNO subscribers.

Rostelecom's B2B business has 763 thousand broadband subscribers, including 45% fibre-connected. The Company is leading in the Russian data centre market, with a total of 5,300 racks as at the end of 2017, comprising over 14% of the market.

The government remains our major customer. In-depth expertise and a vast pool of experience have ensured Rostelecom's lead under the IT Infrastructure section of the Digital Economy of the Russian Federation programme. More than half of Russian regions use our digital healthcare, security, and emergency response solutions. Drawing on the government's financial support, Rostelecom has been extending its digital network to remote areas of the country while consistently refining its internal business processes to make the customer experience as smooth as possible. As at the end of 2017, over 6,000 settlements were connected to fibre under the government-sponsored Bridging the Digital Divide (BDD) programme, while 64 million people are now using the e-government website.

Rostelecom successfully maintains relations with other operators. In 2017, our market share in traffic transmission was 56%, with over 1 Tbps of our capacity contracted for carrying transit traffic between Europe and Asia. Our communications networks have been upgraded and rapidly expanding, with their combined length already totalling 500,000 km. In 2017, the Company completed its Kamchatka-Sakhalin-Magadan FOCL and proceeded to connect the Kuril Islands to its network. During the year, the throughput of our backbone network rose to 15.5 Tbps.

In the reporting period, Rostelecom continued improving its operational efficiency, rightsizing its workforce and streamlining its organisational structure, while divesting non-core assets. The combined effect from our efficiency improvement programme totalled RUB 17 billion over the past several years.

The Company places a particular emphasis on fostering its corporate culture by encouraging all level employees to engage in creating customer value. In 2017, the Board of Directors approved the new long-term management incentive programme, which directly motivates key employees to boost the Company's value. The programme will contribute to the Company's sustainable growth and delivery of business priorities

within its transformation into a digital service provider. As of 2018, we are using NPS as a key performance indicator to assess customer satisfaction.

In 2018, the Company launched its new development strategy through to 2022. The strategy involves using our existing experience and expertise, but also building new capabilities. In today's fast-paced environment, the Company is continuously seeking and embedding solutions to enhance relations with all stakeholders and drive a more sustainable growth. With its excellent track record and business standing, Rostelecom looks forward with confidence as we continue to develop new high value-added segments such as cyber security, biometrics, virtualisation, IIoT, education, and more.

We will continue in the current direction of boosting the share of digital services and solutions, as we are confident that our new strategy fully addresses both the current needs of the market and emerging challenges. We are planning to maintain our leadership by building ecosystems of competitive digital products that cater to the needs of our customers.

I would like to recognise the positive contribution that our employees, shareholders, and partners have shown during 2017.

Mikhail Oseevskiy
President of PJSC Rostelecom

Key Events

Key Events of 2017

January 2017

- » Rostelecom's venture capital fund invested in Transportation Information Technologies (TransInfoTech)

February 2017

- » Rostelecom signed a strategic partnership agreement with Gazprom Neft to foster innovation and the Industrial Internet of Things (IIoT)
- » Rostelecom signed an agreement to provide services to the State Automated System "Justice"

March 2017

- » Mikhail Oseevskiy was appointed President of Rostelecom
- » Rostelecom consolidated 100% of SafeData Group

April 2017

- » Rostelecom placed bonds for RUB 10 billion at 8.65% p.a.
- » Rostelecom commenced offshore FEED for SFOCL construction on the Kuril Islands

June 2017

- » Rostelecom's Annual General Shareholders' Meeting was held; the dividend per share was determined at RUB 5.39; the new Board of Directors and Audit Commission were elected; the auditor was approved

July 2017

- » Rostelecom approved a new share option plan for senior and middle management
- » Rostelecom was assigned AA(RU) credit rating by ACRA, with a stable outlook

September 2017

- » Rostelecom successfully completed the first multi-vendor compatibility test of a transport software-defined network (SDN) in Russia
- » Rostelecom provided video surveillance on the election day

October 2017

- » Rostelecom presented a new bundle for small and medium-sized businesses – "Byt v plyuse" ("Plus Account")
- » Rostelecom launched a new "Smart Home. Video Surveillance" service for households

November 2017

- » Rostelecom's data centres secured 5,268 telco racks (No. 1 player in the Russian data centre market)
- » Rostelecom was ranked first in the rating of full compliance with priority recommendations of the Corporate Governance Code
- » Rostelecom placed bonds for RUB 10 billion at 7.7% p.a.

December 2017

- » Rostelecom acquired 100% in the provider Tvingo Telecom
- » Sberbank and Rostelecom signed an agreement on a parity basis to increase the capital of the commercial real estate sub-fund in the form of a joint venture to RUB 8.8 billion.

Key Events After the Reporting Period

January 2018

- » Rostelecom created the Geodata Information System (GIS) for the Arkhangelsk Region
- » Rostelecom signed an agreement with the Moscow Government on telemetry transmission from special vehicles

February 2018

- » Rostelecom signed an agreement with TechnoServ Cloud on traffic monitoring and DDoS protection services
- » Rostelecom introduced the first beta version of the Unified Biometric System
- » Rostelecom introduced a cloud solution to protect online resources from a wide range of attacks
- » Fitch affirmed Rostelecom's investment grade rating of BBB-

March 2018

- » Rostelecom invested in Sailfish, a mobile operating system developer
- » Rostelecom placed bonds for RUB 10 billion at 7.15% p.a.
- » Rostelecom announced its updated Strategy 2022 and the new Dividend Policy for 2018–2020
- » Rostelecom, Nokia, and the Skolkovo Foundation launched the first open pilot zone for the next-generation 5G network in Russia
- » Rostelecom provided video surveillance at Russia's Presidential election

History Milestones

7 March 1876

Alexander Bell patented the telephone

1 June 1880

The world's first payphone introduced

15 January 1880

The first domestic long-distance telephone network launched in Russia

1882

Commercial telephony launched in Russia for the first time ever, with 338 users in Saint Petersburg and 224 users in Moscow signed up for the new communication service during the first year of operation

24 December 1906

The world's first broadcast of a radio programme

9 May 1911

Boris Rosing patented a method of electrical transmission of images over a distance and became the first in the world to transmit and receive TV images

1929

First automatic telephone station (ATS) put into operation in the USSR. Wide-scale communications networks development commenced by the People's Commissariat for Communications of the USSR, and later on – by the Ministry of Communications of the USSR

30 December 1957

The world's first vision of fibre-optic communications introduced in the USSR's Telecommunications Research Institute

1 November 1964

The world's first multichannel optical data transmission system launched with a 10 km range of coverage

29 October 1969

ARPANET packet switching network (the prototype for the Internet) launched

3 April 1973

The world's first call from a handheld mobile phone made

22 May 1973

Ethernet developed

1990

The Ministry of Communications of the USSR established Joint-Stock Company Sovtelecom responsible for operation and enhancement of the long-distance and international telecommunications network



1991

Sovtelecom transformed into Intertelecom, an international joint-stock company, and, one year on, was renamed to Rostelecom

6 August 1991

The world's first website published

3 December 1992

The first SMS text sent



1995

Svyazinvest, a state-owned holding company, established to run 85 regional telecoms operators

23 July 1996

First broadcast of digital high definition signals made



2002

Seven interregional companies (IRCs) established through merging regional telecoms operators



2011

Stage 1 of the government-initiated reform to consolidate state communications assets completed, as IRCs joined Rostelecom



2013

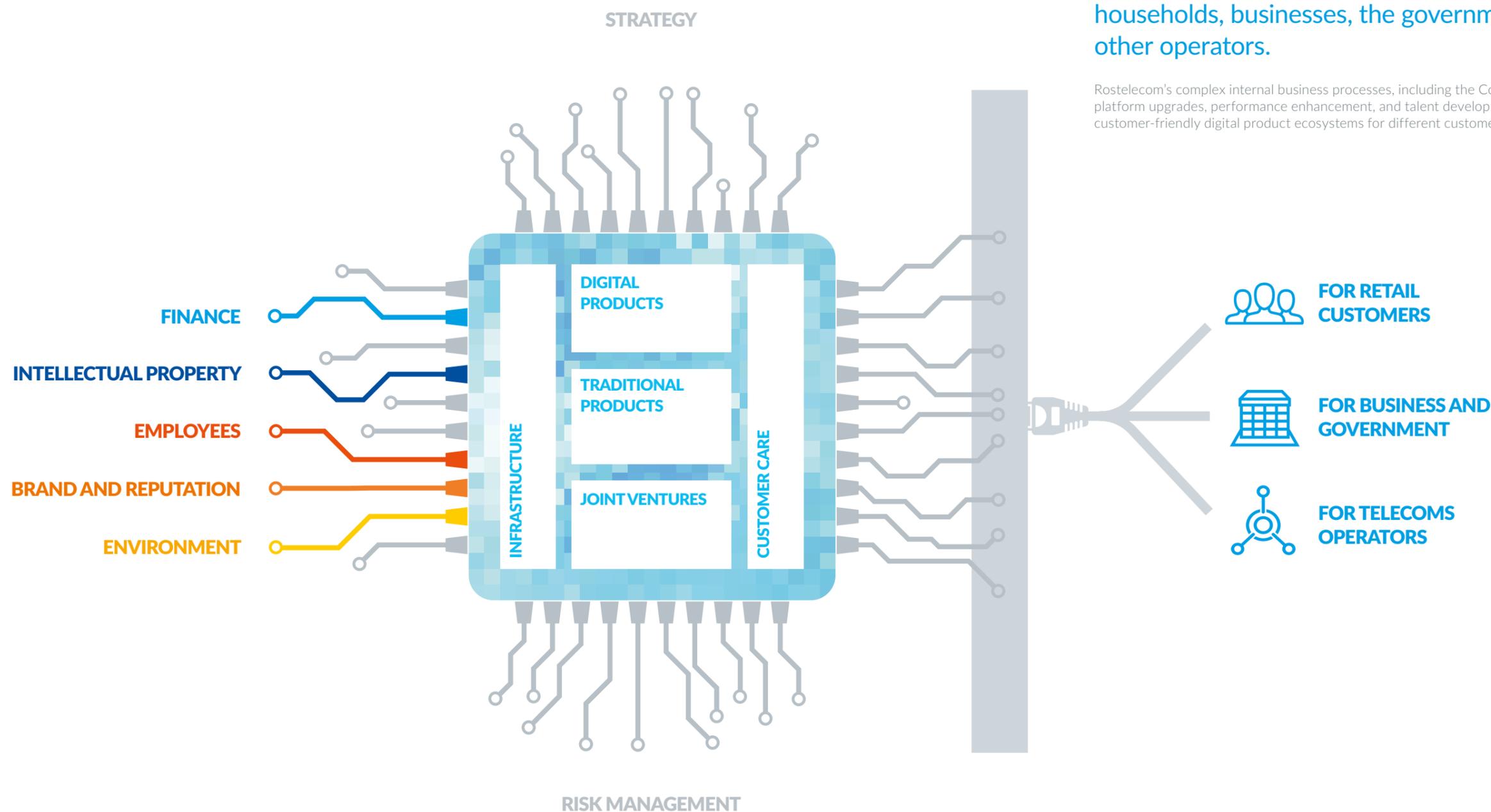
Stage 2 of Rostelecom transformation completed, as Svyazinvest and 20 subsidiaries merged to form a new company, Rostelecom



2014

Joint venture with Tele2 Russia established to develop the mobile business

Business Model

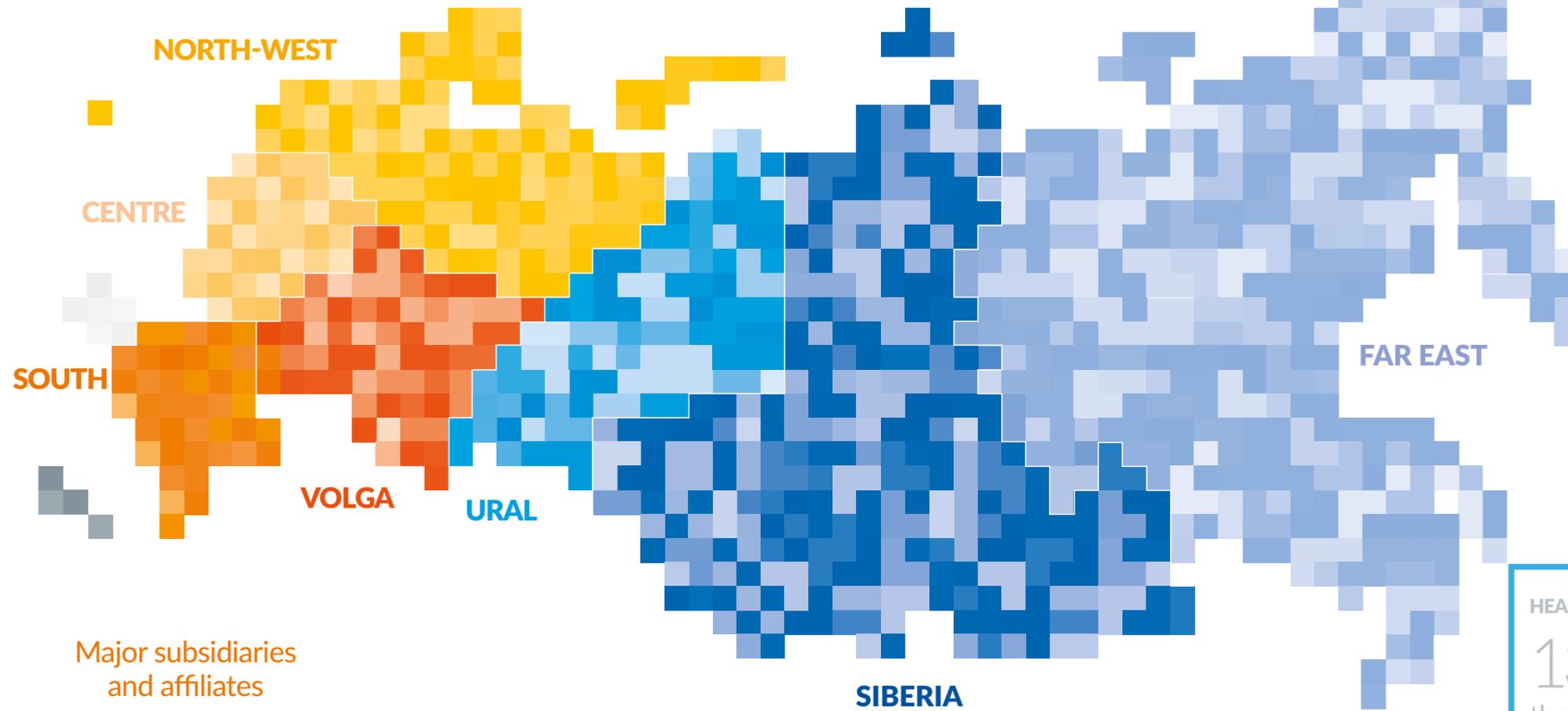


In line with the updated Rostelecom's strategy, its business model is aimed at providing advanced and top quality digital services to households, businesses, the government, and other operators.

Rostelecom's complex internal business processes, including the Company's technology platform upgrades, performance enhancement, and talent development, enable to create customer-friendly digital product ecosystems for different customer segments.

Company Structure

Macroregional branches (MRFs)



Major subsidiaries and affiliates

- [PJSC Bashinformsvyaz](#)
- [PJSC Central Telegraph](#)
- [LLC Data Storage Centre \(SafeData\)](#)
- [LLC Centre Technology Virtualization](#)
- [JSC Interaction Computer Network Centre "MCK-IX"](#)
- [CJSC Macomnet](#)
- [JSC Severen-Telecom](#)
- [PJSC Giprosvyaz](#)
- [CJSC GNC-ALFA](#)

Joint ventures



<http://www.ru.tele2.ru> <http://digitalrussia.tv>

Consolidated highlights

<p>REVENUE FROM CONTENT AND DIGITAL SERVICES</p> <p>47%</p>	<p>BACKBONE NETWORK CAPACITY</p> <p>15.5 Tbps</p>
<p>REVENUE</p> <p>305.3 RUB billion</p>	<p>HEADCOUNT</p> <p>133.7 thousand people</p>
<p>OIBDA</p> <p>96.9 RUB billion</p>	

Investment Hotspot

Investment Highlights

The following points underpin Rostelecom's investment case:

- » leadership and the largest customer base in the markets with significant growth potential (broadband, Pay TV, data centres, cloud solutions, Safe City, cyber security, and other digital services), and presence in the growing mobile data market through its 45% share in the joint venture with Tele2 Russia
- » unique expertise in all market segments and an ambitious strategy aimed at capturing new revenue pools from digital solutions and services
- » a network infrastructure unique for its coverage and capacity, covering 33 million households with fibre-to-the-home (FTTH) and comprising backbone lines with a capacity exceeding 15 Tbps
- » a potential to further enhance operational efficiency (real estate, personnel, network infrastructure optimisation) to provide cost savings
- » incentivised management focused on achieving the Strategy targets, including through the Long-Term Incentive Programme tied to the share value
- » an attractive dividend policy (at least 75% of free cash flow, and at least RUB 5 per ordinary share for three years).

Securities

Shares

PJSC Rostelecom ordinary and preference shares (tickers RTKM and RTKMP) are admitted to the A1 quotation list (A1) of the Moscow Exchange and to the non-quotation section of PJSC Saint Petersburg Stock Exchange's list.

PJSC Rostelecom shares are also included in the FTSE Emerging Markets and MVIS indices

Free float

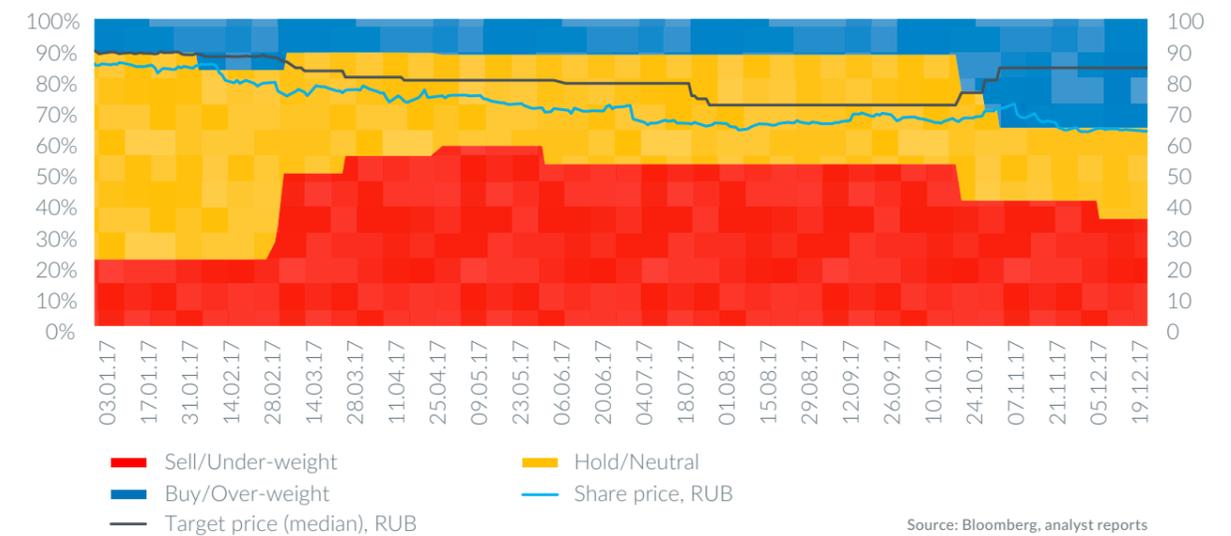
Item	Share in charter capital, %	Ordinary shares, %	Preference shares, %
Free float	38.98	36.52	69.21

Key performance highlights of PJSC Rostelecom shares on the Moscow Exchange

Item	Ordinary shares, RUB	Preference shares, RUB
Price as at 30 December 2016	84.00	62.80
Annual low (2017)	63.36	50.22
Annual high (2017)	85.70	65.95
Price as at 29 December 2017	63.90	55.95

Ordinary and preference share trading volume totalled RUB 53,091 million and RUB 5,595 million, respectively, in 2017. The bulk of trade in PJSC Rostelecom shares is concentrated on the Moscow Exchange.

Analyst recommendations for ordinary shares of PJSC Rostelecom



Depository receipts

PJSC Rostelecom launched a Level One American Depositary Receipt (ADR) programme for its ordinary shares in February 1998⁽¹⁾. One (1) ADR stands for six (6) ordinary shares. Currently, the ADRs are traded on the OTCQX trading platform, as well as on London, Frankfurt, and other foreign stock exchanges under unlisted trading privileges. As at 31 December 2017, 2.6% of PJSC Rostelecom ordinary shares were traded as ADRs outside the Russian Federation.

Bonds

In 2017 and early 2018, Rostelecom issued 10-year exchange-traded bonds for a total of RUB 30 billion, including:

- » on 26 April 2017 – RUB 10 billion with a five-year put option, Series 001P-02R, at 8.65% p.a.
- » on 21 November 2017 – RUB 10 billion with a five-year put option, Series 001P-03R, at 7.70% p.a.
- » on 16 March 2018 – RUB 10 billion with a six-year put option, Series 001P-04R, at 7.15% p.a.

The proceeds were used to refinance the Company's existing debt and did not change its overall leverage.

As at 31 December 2017, the total value of the Company's outstanding bonds amounted to RUB 47.1 billion, or 24.61% of its debt portfolio.

⁽¹⁾ For more details on the depository and custodian see Appendix 11 Additional Information on PJSC Rostelecom to this Annual Report.

Outstanding bonds as at 31 December 2017

Series	Placement date	Issue size, RUB	Number of outstanding bonds	Maturity date
Corporate bonds				
15	30.01.2013	5,000,000,000	5,000,000	50% on 26.07.2017 50% on 24.01.2018
16	13.06.2013	5,000,000,000	152,309	50% on 07.12.2017 50% on 07.06.2018
18	30.01.2013	10,000,000,000	10,000,000	50% on 26.07.2017 50% on 24.01.2018
19	12.03.2013	10,000,000,000	7,265,722	50% on 05.09.2017 50% on 06.03.2018
Bonds				
BO-01	29.05.2015	5,000,000,000	862,810	16.05.2025
001P-01R	22.09.2016	15,000,000,000	15,000,000	10.09.2026
001P-02R	26.04.2017	10,000,000,000	10,000,000	14.04.2027
001P-03R	21.11.2017	10,000,000,000	10,000,000	09.11.2027

Dividends

The Regulations on the Dividend Policy of PJSC Rostelecom² state that the Company should aim to allocate to dividend payouts (on ordinary and preference shares in total) at least 75% of its free cash flow³ in 2016, 2017, and 2018 (i.e. for FY2015, FY2016, and FY2017, respectively), for each fiscal year, but not less than RUB 45 billion in total for these three years.

Total dividends on each Class A preference share⁴ are set to be 10% of the Company's net profit as per RAS and divided by the number of shares making up 25% of Rostelecom's charter capital. If dividends payable on each ordinary share in a certain year exceed dividends payable on each Class A preference share, the latter dividends are increased to the amount of dividends payable on ordinary shares.

Rostelecom complies with its Charter and the principles described in its Dividend Policy. By resolution of the Annual General Shareholders' Meeting⁵, the total amount of dividends on Rostelecom shares was RUB 15 billion for FY2016, while dividends on Class A preference shares and ordinary shares amounted to RUB 5.387002045593 per share. To distribute this amount as dividend, the Annual General Shareholders' Meeting made a decision to use both the entire RAS net profit for 2016 and RUB 4,097,798 thousand of retained earnings of past years.

Total dividends on Class A preference shares amounted to 10.41% of the RAS net profit and to 9.22% of the IFRS net profit for 2016. Dividends on ordinary shares amounted to 127.90% of the RAS net profit and to 113.24% of the IFRS net profit for 2016.

RUB 6,756,322 thousand out of net profit generated in 2016 were paid to the federal budget. The Company has no outstanding dividends payable to the federal budget.

By the end of 12M 2017, the consolidated cash flow from investing activities in non-current assets decreased by 2% to RUB 60.8 billion, while having increased by 1% to RUB 57.3 billion (18.8% of revenue) net of the BDD project. Therefore, 683% of the RAS net profit and 423% of the IFRS net profit for FY2017 were allocated to investment projects (programmes).

(2) Approved by PJSC Rostelecom's Board of Directors on 4 December 2015; Minutes No. 13 dated 4 December 2015.

(3) Free cash flow (FCF) means the net cash from operating activities, (1) net of cash paid for purchased property, plant, and equipment and intangible assets, (2) plus proceeds from disposals of property, plant, and equipment and intangible assets. FCF is calculated on the basis of the consolidated statement of cash flows of the Company's consolidated financial statements prepared under the International Financial Reporting Standards (IFRS).

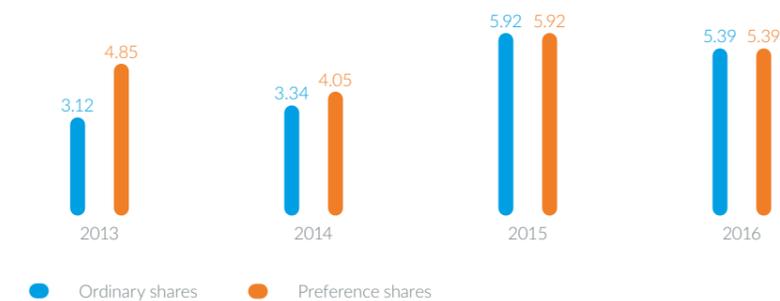
(4) According to paragraph 10.3 of PJSC Rostelecom's Charter (version No. 16) and paragraph 5.6 of the Regulations on the Dividend Policy of PJSC Rostelecom (version No. 3).

(5) The meeting was held on 19 June 2017.

Dividend payout for 2017

Year	Type of shares	Total accrued, RUB thousand	Total paid during 2017, RUB thousand	Total paid prior to 2017, RUB thousand	Total paid as at 31 December 2017, %
2016	Ordinary shares	13,871,072	13,762,659	-	99.22
	Preference shares	1,128,928	1,112,546	-	98.55
2015	Ordinary shares	15,231,824	12,217	15,112,350	99.30
	Preference shares	1,239,676	1,604	1,222,695	98.76
2014	Ordinary shares	8,602,904	3,232	8,543,223	99.34
	Preference shares	848,730	616	838,467	98.86
2013	Ordinary shares	7,808,157	1,350	7,755,397	99.34
	Preference shares	1,016,323	281	1,004,982	98.91

Dividend per share at year-end, RUB



In March 2018, the Board of Directors approved the Company's new Dividend Policy for 2018-2020⁶ whereby the Company will aim to:

- » allocate to dividend payouts (on ordinary and preference shares in total) at least 75% of its free cash flow in 2019, 2020, and 2021 (i.e. for FY2018, FY2019, and FY2020, respectively), for each reporting year
- » pay dividends for each reporting year in the amount of at least RUB 5 per ordinary share
- » ensure that the amount of dividend payouts (on ordinary and preference shares in total) does not exceed 100% of the IFRS net profit for the reporting year, but in no case be less than the amount recommended by Rosimushchestvo and the Government of the Russian Federation for partially government-owned companies if such requirement is applicable to the Company.

In specific cases where the Company's operating results in the reporting year were significantly affected by certain one-off items, the FCF intended for dividend payout may be adjusted by the cash flow associated with such non-recurring expenses.

The Board of Directors may resolve to change the size or renounce dividend payouts if the Company's performance is significantly affected by certain events such as: significant capital expenditures related to meeting legal requirements; major and material M&A transactions; transactions that will lead to a more than 2.5x increase in the Net debt/OIBDA per year; other activities that have a significant impact on Rostelecom's performance.

(6) Approved by PJSC Rostelecom's Board of Directors on 14 March 2018; Minutes No. 17 dated 14 March 2018.

Shareholder and Investor Relations

The Company strives to strengthen its relations with the investment community. Rostelecom maintains ongoing dialogue with analysts and holds regular meetings with existing shareholders and potential investors in the Company's securities.

At the Annual Report Competition organised by the Moscow Exchange, the Company was praised for its successful investor relations and named the best among telecommunications companies.

In 2017, Rostelecom took part in eight investment conferences and involved its senior management and IR team in approximately 90 one-on-one meetings and conference calls with 150 investors.

In March 2018, the Company held an Investor Day in Moscow to present its updated Strategy 2022.

IR Calendar

Date	Event	Format
9 February 2017	Raiffeisen Russian Day, Stockholm, Sweden	One-on-one and small group meetings with management
6 March 2017	Announcement of Q4 2016 and FY2016 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
5 April 2017 – 7 April 2017	Exchange Forum 2017, Moscow, Russia	One-on-one and small group meetings with management
17 May 2017	Announcement of Q1 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
19 June 2017	AGM	Management presentation to shareholders
19 June 2017 – 21 June 2017	Renaissance Capital's 21st Annual Russia Investor Conference, Moscow, Russia	One-on-one and small group meetings with management
20 June 2017 – 21 June 2017	VTB Capital Investment Forum RUSSIA CALLING, London, UK	One-on-one and small group meetings with management
3 August 2017	Announcement of Q2 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
24 October 2017 – 26 October 2017	VTB Capital's RUSSIA CALLING! Investment Forum 2017, Moscow, Russia	One-on-one and small group meetings with management
2 November 2017	Announcement of Q3 2017 IFRS results	Publication of a press release, presentation, financial statements, and other materials for the reporting period. Holding of a press conference and a management conference call with investors
13 November 2017 – 14 November 2017	Goldman Sachs CEEMEA One-on-One Conference, London, UK	One-on-one and small group meetings with management
15 November 2017 – 17 November 2017	Morgan Stanley European TMT Conference, Barcelona, Spain	One-on-one and small group meetings with management
6 December 2017	WOOD's Emerging Europe Conference, Prague, Czech Republic	One-on-one and small group meetings with management

Analysts

Bank	Analyst
ATON	Victor Dima
Bank of America-Merrill Lynch	Haim Israel
BCS	Igor Goncharov
Citi	Dilya Ibragimova
Credit Suisse	Olga Bystrova
Deutsche Bank	Masha Kahn
Gazprombank	Anton Fokin
Goldman Sachs	Vyacheslav Degtyarev
HSBC	Herve Drouet
JPMorgan	Alexei Gogolev
Morgan Stanley	Madhvendra Singh
SOVA Capital	Александр Венгранович
Alexander Vengranovich	Алекс Казбег
Renaissance Capital	Alex Kazbegi
Raiffeisen Bank	Sergey Libin
Sberbank CIB	Svetlana Sukhanova
UBS	Ulyana Lenvalskaya
Uralsib	Konstantin Chernyshov

Credit rating agencies

Agency	Analyst
Fitch Ratings	Slava Bunkov
Standard & Poor's	Svetlana Oshchepkova
ACRA	Alexander Gushchin

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