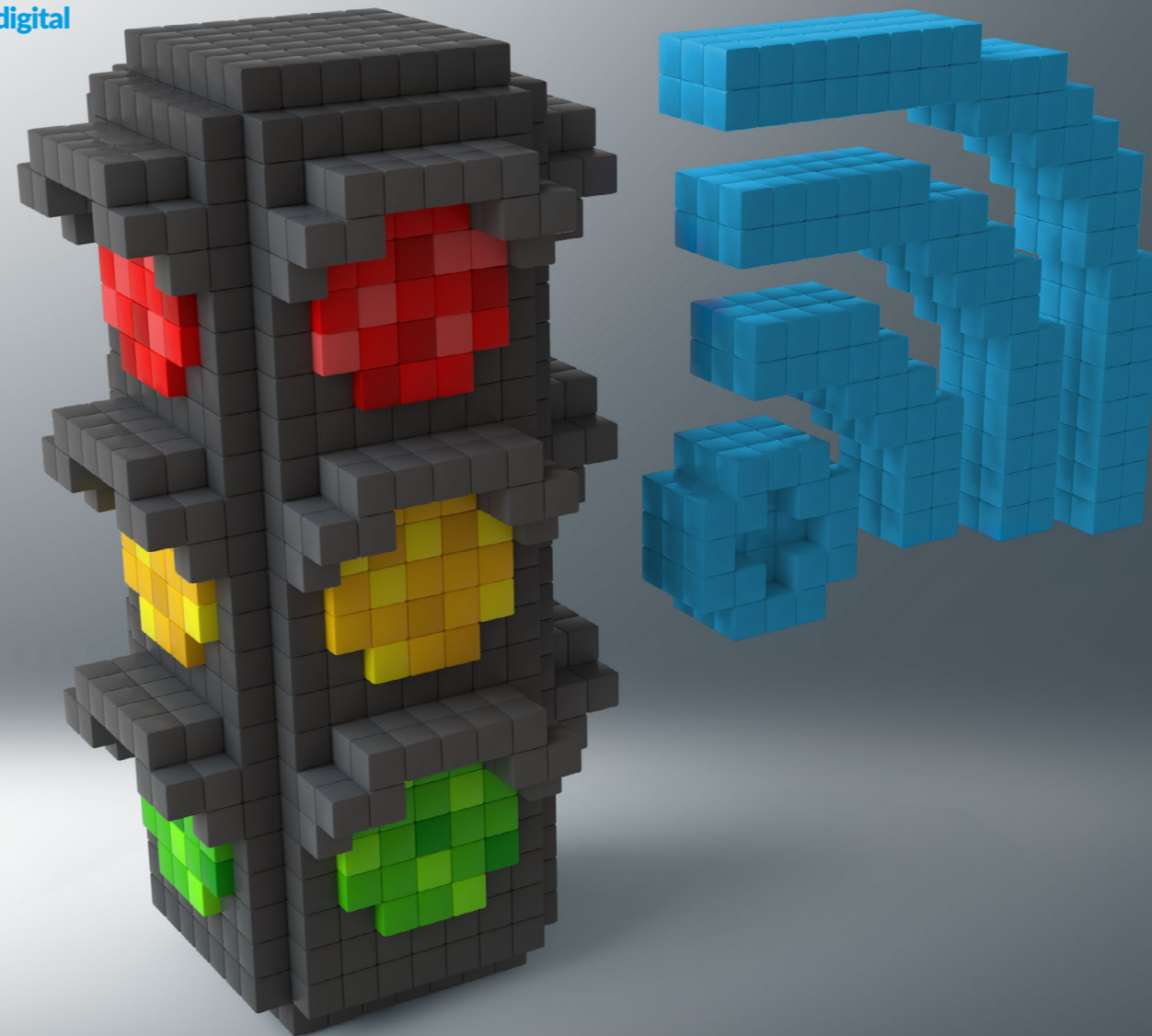


Rostelecom ensures equal rights for all shareholders and continuously improves upon its corporate governance framework. In 2017, Rostelecom was recognised as the most successful partially government-owned joint-stock company in implementing the Code's recommendations to the fullest extent. We comply with the best Russian and international corporate governance principles.

Smart City projects pursued by the Company facilitate a brand new seamless digital environment in urban areas.

>50

Regions using Rostelecom's Health-care, Safe City, and Hotline 112 digital solutions



Corporate Governance Practice

Corporate Governance Framework

Rostelecom's corporate governance is built in line with best practices and complies both with Russian laws and the Rules of the Moscow Exchange.

Corporate governance principles	Corporate governance priorities	Corporate governance enhancement focus
Balance between the interests of shareholders, management and stakeholders	Focus on stakeholder interests and relations	Effective internal controls and audit
Equal treatment of all shareholders and protection of their rights	Compliance with business conduct and ethics	Continuous improvement of the corporate governance practice
Accountability of the Board of Directors, the President, and the Management Board to shareholders	Timely and accurate information disclosure	Electronic voting at General Shareholders' Meetings
Informational and financial transparency	Corporate social responsibility	Introduction of an IT system to automate the Management Board's and its Committees' processes

In accordance with the Charter, Rostelecom is governed by:

- » the General Shareholders' Meeting
- » the Board of Directors elected by the General Shareholders' Meeting to guide the Company's strategic management
- » the President (CEO) and the Management Board, appointed by the Board of Directors to manage the Company's day-to-day operations.



Key Improvements in 2017

- » The Charter was amended to enable electronic voting via the Internet (e-voting) at shareholders' meetings.
- » Rostelecom, the National Settlement Depository, and JSC Noviy Registrator tested the e-voting system using which Rostelecom's shareholders will be able to vote at shareholders' meetings by signing in to the online account on the public services portal of the Russian Federation.
- » The Regulations on the Board of Directors' Performance Assessment were approved.¹²
- » The Regulations on the General Shareholders' Meeting reflect the Company's readiness to broadcast shareholders' meetings live and receive shareholders' proposals on nominees to the governing bodies and agenda items via its e-mail rtkm@rt.ru, provided that the documents are signed with a qualified digital signature.

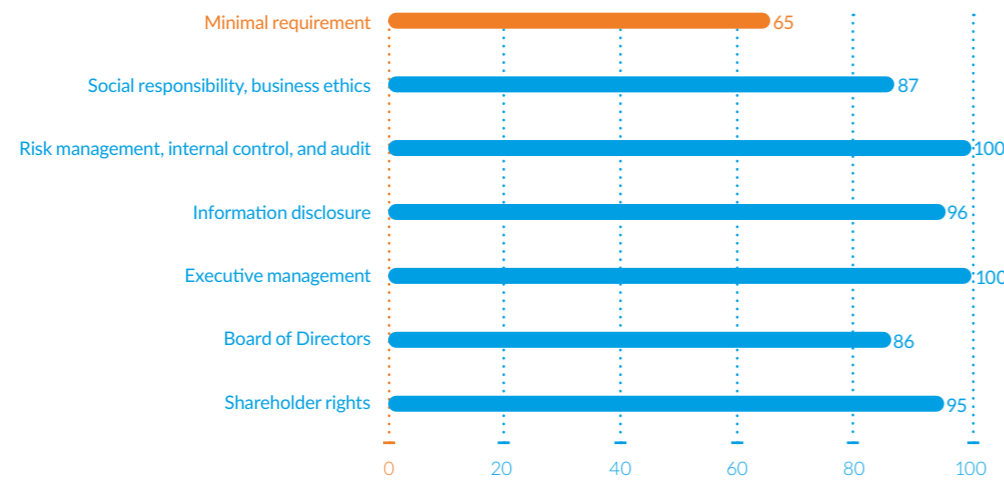
⁽¹²⁾ Board of Directors' Minutes No. 6 dated 27 October 2017.

- » The Regulations on the President determine that the President is elected by a majority of all elected Directors.
- » The Regulations on the Management Board state that members of the Management Board may hold positions in management bodies of other entities with the Board of Directors' prior consent.
- » The development of the IT system to automate the Management Board's and its Committees' processes, including remote discussion and e-voting (the Management Board portal), was completed.

Corporate Governance Self-Assessment Results

Since 2015, Rostelecom has been self-assessing its corporate governance through benchmarking the effective corporate governance¹³ standards against the key provisions of the Corporate Governance Code¹⁴. As at the end of 2017, the assessment scored¹⁵ our corporate governance at 92%, much higher than the minimum 65% requirement¹⁶.

Corporate governance level, %



(13) For more details see Appendix 1 Report on Compliance with the Corporate Governance Code Recommended by the Bank of Russia to this Annual Report.
 (14) The Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014.
 (15) The benchmark used the Guidelines for Corporate Governance Self-Assessment for Partially Government-Owned Companies developed by the Federal Agency for State Property Management (Rosimushchestvo).
 (16) Recommended by Rosimushchestvo.

Corporate Governance Rating

Corporate governance rating assigned by the Russian Institute of Directors (RID)¹⁷

7++

Advanced corporate governance practice

Compliance with Russian laws

Low risks of shareholder losses due to governance quality

Adherence to a substantial number of recommendations set out in the Russian Corporate Governance Code

In 2017, the Expert Council of the Russian Government and the International Financial Centre in Moscow (MIFC) assessed¹⁸ the Code¹⁹ implementation progress monitoring for the last three years at twelve partially government-owned joint-stock companies. Rostelecom was named as a leader in implementing the Code's recommendations to the fullest extent and was ranked first in the corporate governance rating.

Plans to Improve Corporate Governance

- » Starting from 2018, shareholders may use the e-voting option at shareholders' meetings, including through signing in to the public services portal of the Russian Federation.
- » In 2018, the Management Board portal will be launched to enable remote discussion and e-voting at the meetings of the Management Board and its Committees.
- » In 2018, Rostelecom's registrar will arrange shareholder access to their online accounts where they can monitor their personal data and vote at Rostelecom's AGM.

(17) Rating was assigned in March 2018.
 (18) For more information see: open.gov.ru/events/5516467/?sphrase_id=191663
 (19) The Corporate Governance Code approved by the Board of Directors of the Bank of Russia in 2014.

Governing Bodies

General Shareholders' Meeting

The General Shareholders' Meeting is the Company's supreme governing body.

In 2017, Rostelecom's General Shareholders' Meeting²⁰ was held on 19 June²¹.

Board of Directors

The Board of Directors is a collective governing body responsible for the Company's growth strategy and general management, except for matters reserved exclusively for the General Shareholders' Meeting. The powers of the Board are detailed in the Charter²² and the Regulations on the Board of Directors.²³

Assessment of the Board of Directors' performance

In May 2018, the Board of Directors self-assessed its 2017 performance.²⁴ The assessment of the Board of Directors' performance comprised the overall assessment of the Board of Directors, the assessment of its Committees and each member of the Board, including the Chairman.²⁵

Induction of Board members

New members of the Board of Directors get familiar with all of the Company's internal documents regulating the proceedings of the Board of Directors, and hold meetings with members of the Management Board and internal and external auditors.

Key functions and tasks of the Board of Directors

Set up and advance business and operational objectives of the Company

Protect the rights and legitimate interests of shareholders

Ensure integrity, reliability, and fairness of public information about the Company

(20) Minutes No. 1 dated 22 June 2017.

(21) For more details on key resolutions passed by the General Shareholders' Meeting see Appendix 2 Governing and Control Bodies to this Annual Report.

(22) Version No. 17 was approved by the Company's AGM on 19 June 2017, Minutes No. 1 dated 22 June 2017. The new version is available at: https://www.rostelecom.ru/en/ir/corporate_governance/docs/Charter_ver17_eng.pdf.

(23) Version No. 15 was approved by the Company's AGM on 19 June 2017, Minutes No. 1 dated 22 June 2017. The new version is available at: https://www.rostelecom.ru/en/ir/corporate_governance/docs/Regulations_BoD_ver15_eng.pdf.

(24) In line with the Regulations on the Board of Directors' Performance Assessment approved in October 2017.

(25) For more details see Appendix 2 Governing and Control Bodies to this Annual Report.

Key principles of the Board of Directors

Contribute to the Company's and its employee development and competitive business edge

Make decisions based on reliable information on the Company's operations

Ensure the Company's adherence to long-term interests of its shareholders and receipt by shareholders of all relevant information on the Company's operations

Balance the interests of various groups of the shareholders and make most objective and well-balanced decisions for the benefit of all shareholders

Interpret ambiguities in the rules of any laws and regulations in favour of enhancement of the rights and legitimate interests of the shareholders

Annually elected

11 directors

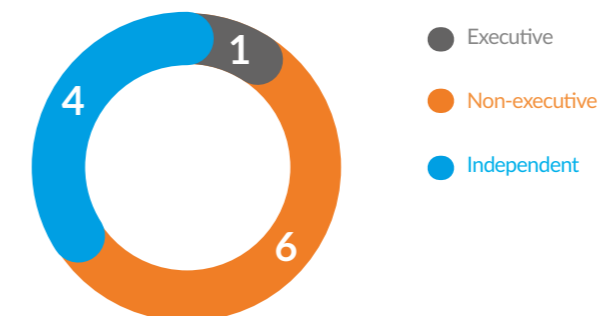
Average age of Directors

51 years

Average tenure of the Company's directors

4,3 years

Director independence²⁶



(26) At its meeting on 7 July 2017, the Board of Directors reviewed the compliance of the Board members with the independence criteria of the Corporate Governance Code approved by the Bank of Russia on 21 March 2014 and the Listing Rules of the Moscow Exchange and determined Ruben A. Aganbegyan, Alexander A. Auzan, Vadim V. Semenov and Alexei A. Yakovitskiy as independent directors.

Membership of the Board of Directors²⁷

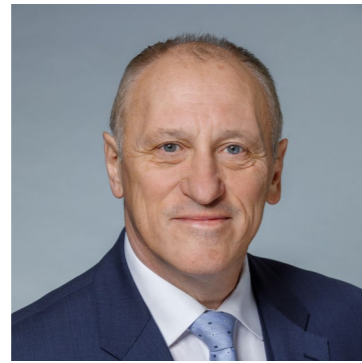


SERGEI B. IVANOV

Special Presidential Representative for Nature Protection, the Environment and Transport

member of the Board of Directors since 2015 (three years)

Ch



ALEXANDER A. AUZAN

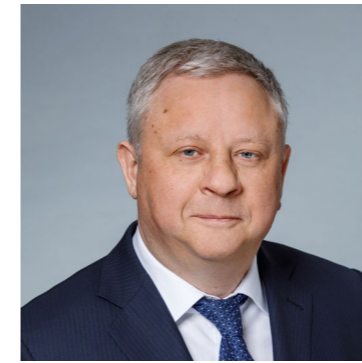
Dean of the Department of Economics of Lomonosov Moscow State University

member of the Board of Directors since 2015 (three years)

SID AC NRC
SC IC

Ch	Chairman of the Board of Directors ²⁸
SID	Senior Independent Director
ID	Independent Director
AC	Audit Committee
CGC	Corporate Governance Committee
NRC	Nomination and Remuneration Committee
SC	Strategy Committee
IC	Investment Committee
Sh	Shareholding

52 Corporate Governance Practice
55 Corporate Governance Framework
56 **Governing Bodies**
67 Control Bodies
68 Remuneration
75 Information Disclosure



SERGEI B. KALUGIN

Deputy Minister of Telecom and Mass Communications of the Russian Federation

member of the Board of Directors since 2013 (five years)

CGC Sh



MIKHAIL E. OSEEVSKIY

President of PJSC Rostelecom

member of the Board of Directors since 2017 (one year)

SC CGC



MIKHAIL I. POLUBOYARINOV

First Deputy Chairman of Vnesheconombank

member of the Board of Directors in 2010–2011 and since 2014 (five years)



RUBEN A. AGANBEGYAN

Advisor to the CEO of VEB Capital LLC

member of the Board of Directors since 2013 (five years)

ID AC NRC
SC



KIRILL A. DMITRIEV

General Director of JSC RDIF Management Company

member of the Board of Directors since 2014 (four years)



ANTON A. ZLATOPOLSKY

General Director of Rossiya TV Channel

member of the Board of Directors since 2011 (seven years)

CGC



ALEXANDER A. PCHELINTSEV

member of the Board of Directors in 2013–2014 and since 2015 (four years)

IC CGC



VADIM V. SEMENOV

Chairman of the Supervisory Board of State Company Russian Highways (Avtodor)

member of the Board of Directors since 2011 (seven years)

ID AC NRC
CGC



ALEXEI A. YAKOVITSKIY

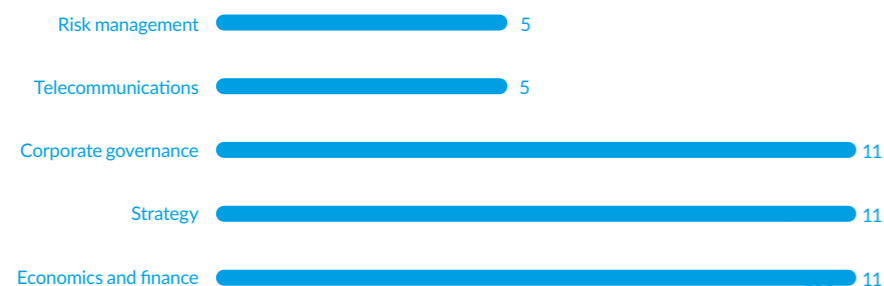
General Director of JSC VTB Capital

member of the Board of Directors since 2017 (one year)

ID SC NRC

(27) For detailed biographies of all members of the Board of Directors in 2017, as well as their shares in the Company stock, see Appendix 2 Governing and Control Bodies to this Annual Report.
(28) The Chairman of Rostelecom's Board of Directors is elected by members of the Board of Directors from among its members and may be re-elected at any time.

Role of the Board of Directors



The liability of the Company's Directors was insured for EUR 150 million, with the additional insurance coverage of EUR 920 thousand for Independent Directors.⁽²⁹⁾

No conflicts of interest involving members of the Board of Directors were identified in 2017.

(29) For more details see Appendix 2 Governing and Control Bodies to this Annual Report.

Board of Directors' and its Committees' Performance Report for 2017⁽³⁰⁾

Meetings of the Board of Directors

24 ^{4 in person}
_{20 in absentia}

Matters were discussed

278

Governing bodies and key workstreams

Matters discussed and resolutions passed

Board of Directors

- » creates the environment to maintain the Company's consistent performance and growth prospects
- » boosts the investment case
- » ensures effective control over asset management, including non-core assets, and over investment, financial, and business activities
- » improves management performance and transparency
- » improves internal controls and secures shareholder rights.
- » A number of resolutions were passed to increase Rostelecom's market share, accelerate revenue growth in new segments, and increase market capitalisation
- » The Company's new Management Board was elected
- » The Regulations on Assessment of the Board of Directors' Performance were approved; the Board of Directors self-assessed its performance in May 2018
- » The progress on Rostelecom's key strategic projects was continuously monitored
- » A number of M&A matters were discussed, including the increase of the stake in SAFEDATA LLC through acquiring SafeData Invest LLC and further consolidation of the DC assets of the Company using the facilities of RTC-DC LLC.
- » The terms of reference for auditing the progress of the Long-Term Development Programme and the KPI progress report were approved
- » A new Programme for Disposal of Non-Core Assets and the Register of Non-Core Assets were approved
- » A number of deals to develop the joint venture with Sberbank Investments LLC were endorsed
- » PJSC Rostelecom's Long-Term Development Programme for 2017–2021 was approved
- » The results of PJSC Rostelecom's Innovative Development Programme were reviewed
- » Risk management and internal control matters were discussed on a regular basis
- » The Company's Strategy 2022 and Dividend Policy for 2018–2020 were approved

(30) For more details on voting of members of the Board of Directors and its Committees at the 2017 meetings held in person / in absentia, as well as on the matters discussed at the meetings of the Board of Directors and its Committees see Appendix 7 Information on Meetings of the Board of Directors and Its Committees to this Annual Report.

Governing bodies and key workstreams	Matters discussed and resolutions passed
Audit Committee³¹	
<ul style="list-style-type: none"> » develops recommendations for and supports the Board of Directors in reviewing the financial statements and other related documents » monitors and improves the performance of the internal control and risk management system » assesses internal and external audit, accounting and financial reporting. 	In 2017, the Committee was particularly focused on adjusting the risk management programme and further improving the quality of internal audit. In March 2018, following a meeting with the Company's external auditor, the Audit Committee positively assessed the external audit of the Company's annual RAS accounting statements and IFRS consolidated financial statements for 2017. In April 2018, based on the Company's internal audit report, the Committee gave a positive assessment of the 2017 internal audit.
Nomination and Remuneration Committee³²	
<ul style="list-style-type: none"> » develops recommendations on remuneration of the Company's President and top management » sets and assesses top management and employee targets » assesses the HR management performance. 	In 2017, the Nomination and Remuneration Committee reviewed nominees to the Board of Directors and the Audit Commission proposed for election at the General Shareholders' Meeting, including their independence. The Committee also discussed the progress against KPIs and made decision on bonus payments to the President and the Corporate Secretary.
Strategy Committee³³	
<ul style="list-style-type: none"> » develops recommendations on drafting business plans for budget planning and asset acquisitions » facilitates constructive dialogue on long-term financial and strategic planning between top managers and the Board of Directors. 	In 2017, the Strategy Committee focused on monitoring the strategy performance, particularly, when developing recommendations for the Board of Directors on M&As, net profit distribution, and the size of dividends. The Committee discussed PJSC Rostelecom's budget for 2018, the stake in RTC-DC LLC, and updated innovation KPIs.
Corporate Governance Committee³⁴	
<ul style="list-style-type: none"> » resolves corporate conflicts, enhances corporate governance, and helps improve the performance of the Company's Board of Directors. 	The Committee reviewed the report on compliance with Rostelecom's Information Disclosure Policy, which supported the high quality of the corporate information disclosure.

(31) Version No. 3 of the Regulations on the Audit Committee was approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(32) Version No. 3 of the Regulations on the Nomination and Remuneration Committee was approved by the Board of Directors on 10 November 2016. Minutes No. 7 dated 10 November 2016.
(33) Version No. 3 of the Regulations on the Strategy Committee was approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(34) Version No. 4 of the Regulations on the Corporate Governance Committee was approved by the Board of Directors on 10 November 2016. Minutes No. 7 dated 10 November 2016.

Governing bodies and key workstreams	Matters discussed and resolutions passed
Investment Committee³⁵	
<ul style="list-style-type: none"> » improves the Company's business performance through integrating consumer opinions into the investment policy » ensures transparent decision-making on public telecommunications tariffs, and approving investment projects and programmes regulated under the Federal Law On Natural Monopolies 	No meetings of the Committee were held in 2017.

Corporate Secretary

To comply with the procedures designed to secure the rights and legitimate interests of shareholders, Rostelecom introduced the role of Corporate Secretary.



The Corporate Secretary facilitates the coordination between the Company, the Board of Directors, and its Committees, and assists the Company's governing bodies in corporate governance.

The Corporate Secretary reports to the Board of Directors and is elected by a simple majority of votes cast by its members.

The Company has stringent requirements for the person elected to this position. The Corporate Secretary should have the knowledge sufficient to perform their duties and an impeccable reputation.

Ekaterina S. Mironova has been the Company's Corporate Secretary since 2011³⁶.

(35) The Regulations on the Investment Committee were approved by the Board of Directors on 8 October 2015. Minutes No. 9 dated 9 October 2015.
(36) For more details on the Corporate Secretary see Appendix 2 Governing and Control Bodies to this Annual Report.

President and Management Board

Management Board

9 members

Average age of
the Management Board

44 years

Meetings of
the Management Board

30 23 in person
7 in absentia

Average tenure of the
Management Board

4,9 years

Management Board's performance report

Key agenda items

Operational excellence

- » Enhancement of the corporate project management.
- » Implementation status and key priorities of Rostelecom's Production System.
- » Procurement optimisation.
- » Decommissioning of analogue network equipment.
- » Changes in the organisation of the Company's branches.

The Company's growth

Strategy 2022, target IT architecture development, and transformational solutions for telecoms networks.

Risk management

Progress of the Risk Management Programme.

Enhancement of corporate governance standards

Development and approval of the Risk Management Programme.
Internal control development concept.

Preparation of materials and matters referred to the Board of Directors

Preview of related party transactions

Operations

Reports on budget performance and drafting the budget for 2018.

Social responsibility

Charity and sponsorship initiatives.

Membership of the Management Board



MIKHAIL E. OSEEVSKIY

Chairman of the Management Board and President of Rostelecom, joined the Company in 2017



ALEXANDER E. ABRAMKOV

Vice President and Director of the Centre Macroregional Branch, joined the Company in 2013



SERGEI N. ANOKHIN

Senior Vice President and CFO, joined the Company in 2017



VLADIMIR S. KIRIENKO

First Vice President, joined the Company in 2016



KAI-UWE MEHLHORN

Advisor to the President, joined the Company in 2013



DMITRY V. PROSKURA

Vice President and Director of the Volga Macroregional Branch, joined the Company in 2011



GALINA V. RYSAKOVA

Senior Vice President for Organisational Development and Human Resources, joined the Company in 2001

ALEXEI V. SAPUNOV

Senior Vice President for Technical Infrastructure, joined the Company in 2013

ANNA V. SHUMEYKO

Senior Vice President, Chief of Staff of Rostelecom's President, joined the Company in 2017

No conflicts of interest involving members of the Management Board were identified in 2017.

Committees of the Management Board

To improve the performance of the Management Board, the Company has in place four committees³⁷.

Budget and
Investment
Committee

Compensation
Committee

Risk
Management
Committee

Charity
Committee

(37) For more details on the Committees of the Management Board see Appendix 2 Governing and Control Bodies to this Annual Report.

Control Bodies³⁸

Internal Audit Unit

- » Supports the Board of Directors and executive bodies of the Company in increasing the effectiveness of management and improving the financial and business performance;
- » Conducts independent objective reviews and develops recommendations to improve the Company's performance;
- » Ensures a holistic and consistent approach to evaluating and improving internal controls, risk management, and corporate governance;
- » Performs reasonable assessment of the feasibility of Company's objectives

Risk Management Unit

- » Identifies and assesses the Company's risks to ensure that risks are monitored continuously and risk management activities are complete and effective;
- » Coordinates information sharing on risk management across the Company's business units and governing bodies under the Risk Management Programme and through quarterly risk management reports;
- » Develops documents based on the international best practices to regulate the guidelines and procedure for routine coordination of the Company's business units within risk management processes;
- » Reports on risk management and submits reports for review, agreement, and approval by the Management Board, the Board of Directors, and their Committees

Internal Control Unit

- » Facilitates protection of the interests of shareholders, investors, and customers; prevents and resolves conflicts of interest; maintains strong corporate governance; supports the most effective Company management and achievement of its targets, including adjustment to the changing internal and external environment;
- » Encourages the Company's compliance with the applicable laws and internal regulations;
- » Creates a supportive environment for timely preparation and presentation of reliable financial, accounting, statistical, management, and other reporting data for external and internal users;
- » Contributes to protection of the Company's assets and sustainable use of the Company's resources and growth potential

Audit Commission

- » Controls the financial and business operations between General Shareholders' Meetings

Independent Auditor

- » Confirms the reliability of the financial statements at the General Shareholders' Meeting

Ernst & Young LLC was selected as PJSC Rostelecom's auditor of both IFRS and RAS financial statements for 2H 2017 and 1H 2018.

(38) For more details on control bodies' activities see Appendix 2 Governing and Control Bodies to this Annual Report.

Remuneration

Board of Directors

Board of Directors' remuneration policy³⁹

Fixed annual remuneration payable to each member of the Board of Directors

4 RUB million

Annual remuneration payable to members of the Audit Committee of the Board of Directors

440,000
RUB

Annual remuneration payable to members of other Committees of the Board of Directors

320,000
RUB

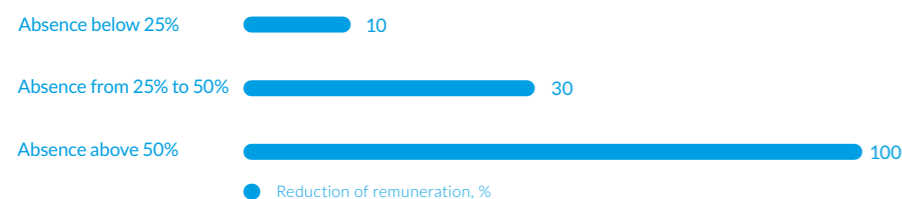
Factor applied to the Chairman of the Board of Directors

1.5

Factor applied to the Board of Directors' Committee Chairmen

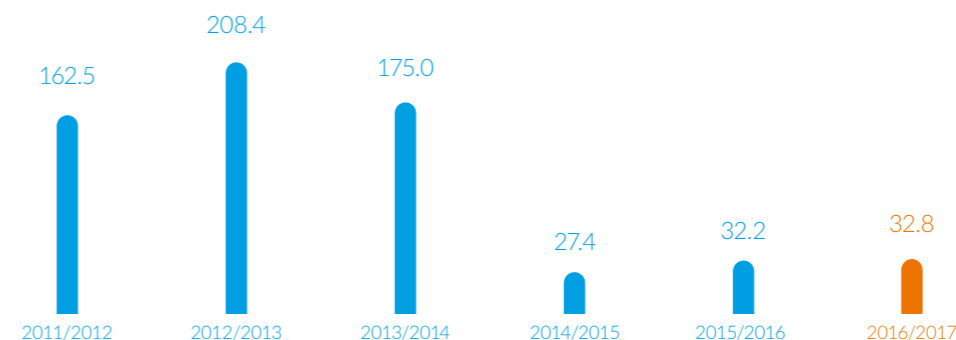
1.25

Reduction of remuneration due to absence from meetings held in person or in absentia, %



(39) Outlined in Version No. 15 of the Regulations on the Board of Directors approved by the Annual General Shareholders' Meeting on 19 June 2017, Minutes No. 1 dated 22 June 2017.

Remuneration paid to the Board of Directors in 2012–2017⁴⁰, RUB million



No reimbursement of expenses or other payments were made to members of the Board of Directors in 2017, no loans (credit facilities) were granted.

In 2017, non-employee members of the Board of Directors did not participate in the long-term incentive programme for the Company's management.

Individual payments to members of the Board of Directors, RUB

Name	Remuneration for serving on the Board of Directors	Remuneration for serving on the Audit Committee	Remuneration for serving on the Strategy Committee	Remuneration for serving on the Nomination and Remuneration Committee	Remuneration for serving on the Corporate Governance Committee
RUBEN A. AGANBEGYAN	3,600,000.00	0.00	320,000.00	400,000.00	0.00
ALEXANDER A. AUZAN	4,000,000.00	400,000.00	320,000.00	0.00	0.00
KIRILL A. DMITRIEV	4,000,000.00	0.00	0.00	0.00	320,000.00
ANTON A. ZLATOPOLSKY	0.00	0.00	0.00	0.00	0.00
SERGEI B. IVANOV*	0.00	0.00	0.00	0.00	0.00
MIKHAIL P. IRZHEVSKY	0.00	0.00	0.00	0.00	0.00
SERGEY B. KALUGIN**	428,571.43	0.00	34,285.71	0.00	34,285.71
ANATOLY A. MILYUKOV	4,000,000.00	400,000.00	400,000.00	320,000.00	0.00
MIKHAIL I. POLUBOYARINOV	4,000,000.00	0.00	0.00	0.00	0.00
ALEXANDER A. PCHELINTSEV	4,000,000.00	0.00	320,000.00	0.00	400,000.00
VADIM V. SEMENOV	4,000,000.00	500,000.00	320,000.00	320,000.00	0.00
TOTAL, BY TYPE OF PAYMENT	28,028,571.43	1,300,000.00	1,714,285.71	1,040,000.00	754,285.71
GRAND TOTAL	32,837,142.86				

* Chairman of the Board of Directors.

** Employed by the Company prior to 3 March 2017 (inclusive), public officer since 12 April 2017.

Note: The specified remuneration amount was paid based on the performance of the Board of Directors effective from 21 June 2016 until 19 June 2017.

No annual remuneration is paid to the members of the Board of Directors holding public offices, as well as the members who renounced their remuneration.

(40) Remuneration for the year of X/Y was paid for the Board of Directors' performance during the period from the date of the Annual General Shareholders' Meeting in the year of X to the same in the year of Y. The much lower remuneration of the Board of Directors in 2015–2017 is attributable to the amendments in the remuneration system approved by the 2014 AGM.

President and Management Board

The President's compensation package is determined in his contract approved by the Board of Directors. Furthermore, in line with the Board of Directors' resolution, the President's pay may include an annual bonus for good-faith performance of his duties and performance against budget targets.

No remuneration is payable to members of the Management Board following the resolution of the Board of Directors dated 8 October 2015 to deem invalid the Regulations on Remuneration of Members of the Management Board.

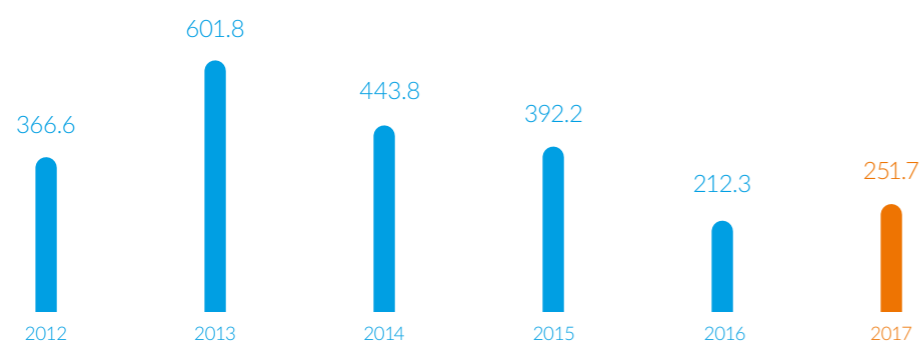
In line with the requirements of the Labour Code of the Russian Federation, the severance pay payable to Rostelecom's managers including members of the Management Board, if their employment is terminated by the Company or results from the change of ownership of the Company, does not exceed triple average monthly earnings of the relevant employee.

Payments to the Management Board and the highest paid members of the executive bodies in 2017, RUB

Payment type	Payments to Management Board members	Payments to Top 5 highest paid members of the executive bodies (key executives)
Salary	177,050,730.72	114,341,874.79
Bonuses	397,551,034.55	302,593,963.15
including cash used to purchase the Company ordinary shares	322,872,045.29	224,834,349.62
Fees	0.00	0.00
Benefits	0.00	0.00
Reimbursement of expenses	0.00	0.00
Other	0.00	0.00
GRAND TOTAL	574,601,765.27	416,935,837.94

No loans (credit facilities) were granted by the Company to members of the Management Board.

Remuneration paid to the Management Board, excluding the long-term incentive programme, RUB million



Note: The higher remuneration paid to the Management Board in 2017 was driven by the increase of the Board's size from six to nine people.

Audit Commission

Audit Commission's remuneration policy⁽⁴¹⁾

Annual remuneration payable to the members of the Audit Commission

800,000

RUB

Factor applied to the Chairman of the Audit Commission

1.3

Factor applied to the Secretary of the Audit Commission

1.1

Payments to members of the Audit Commission in 2017, RUB

Name	Remuneration for serving on the Audit Commission	Salary
Alexander S. Vasilchenko	0.00	0.00
Valentina F. Veremyanina	800,000.00	755,576.70
Vasily V. Garshin	0.00	0.00
Ilya I. Karpov	0.00	0.00
Mikhail P. Krasnov	880,000.00	0.00
Alexander S. Ponkin	0.00	0.00
Alexander V. Shevchouk	1,040,000.00	0.00
GRAND TOTAL	2,720,000.00	755,576.70

Note: No annual remuneration is paid to the members of the Audit Commission holding public offices.

(41) Outlined in Version No. 4 of the Regulations on the Audit Commission approved by the Annual General Shareholders' Meeting on 15 June 2015, Minutes No. 1 dated 17 June 2015.

Incentive Programmes

Rostelecom abides by the uniform standard Payroll Policy, a framework for local Payroll Policies. Local Payroll Policies apply to all employees of the Company. Rostelecom also has in place the uniform Regulations on the Monetary Incentives for Employees Based on Project Performance which apply to all employees. Rostelecom's subsidiaries and affiliates adopted local incentive systems currently adjusted to match Rostelecom's incentive system.

Targeted incentive systems have been adopted for certain categories of employees of technical and commercial units.

Payment and financial incentives for Rostelecom's management are on par with the labour market. The Company is regularly involved in reviewing salaries and HR policies.

The Management Board is responsible for approval of the internal regulations governing the overall remuneration and incentive framework. Targeted incentives are approved either by the President or by authorised persons acting under a power of attorney.

Rostelecom does not use non-cash incentives except for the Long-Term Incentive Programme.

Severance may be paid to the Company's employees upon retirement by mutual agreement of the parties.⁴² The severance pay may not exceed triple average monthly earnings of the relevant employee.

Long-term incentives

Long-Term Incentive Programme for 2014–2016

On 31 March 2014, the Board of Directors approved the Regulations on the Long-Term Bonus Programme for Employees and the Regulations on the Long-Term Share Purchase Programme (Share Option Programme) constituting the Long-Term Incentive Programme for PJSC Rostelecom's management (Programme), which provided for setting up an option plan for ordinary shares to be purchased by the Programme participants at a fixed price through an annual bonus payable against achievement of such long-term Key Performance Indicators (KPIs) as free cash flow (FCF), net profit, and return on invested capital (ROIC)⁴³.

The Programme was scheduled for three years and was completed in 2016; final payments were made in 2017. The Programme integrated about 200 participants – top and middle managers including regional branch directors.

Shares representing a percentage of the total target package were sold to each participant annually and were adjusted depending on the KPI performance: 30% in 2014, 30% in 2015, and 40% in 2016.

RTC-Development, a closed-end unit investment fund managed by JSC VTB Capital Asset Management, was set up to implement the option plan.

Rights to shares exercised under the share option programme

Item	2015	2016	2017	Total for three years
Number of ordinary shares	6,818,718	12,855,030	18,322,439	37,996,187
% of the total number of ordinary shares	0.265	0.499	0.712	1.476

(42) Clause 1, Part 1, Article 77 of the Labour Code of the Russian Federation.

(43) Net profit is based on the Statement of Profit or Loss prepared in accordance with IFRS, while FCF for the Programme is calculated as the difference between OIBDA and CAPEX (on an accrual basis); ROIC is calculated as the ratio of the net operating profit after tax (NOPAT) to invested capital.

52	Corporate Governance Practice
55	Corporate Governance Framework
56	Governing Bodies
67	Control Bodies
68	Remuneration
75	Information Disclosure

Long-Term Incentive Programme for 2017–2019

In July 2017, the Board of Directors approved a new Long-Term Incentive Programme for Rostelecom's management (the New Programme). The New Programme is based on a share matching plan and provides for purchasing a relevant number of shares using part of regular bonuses (monthly, quarterly, and/or annual) (participant contribution) and an extra bonus (Company contribution).

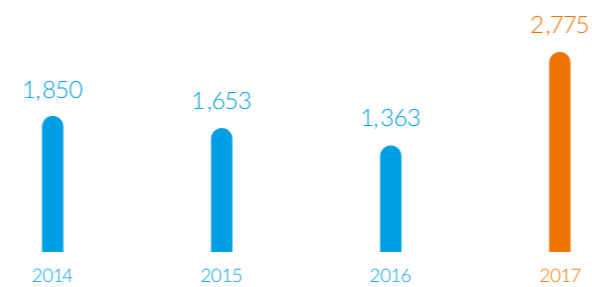
The new Long-Term Incentive Programme has three implementation phases: Phase 1 – 2017 and the first eleven months of 2018; Phase 2 – 2018 and the first eleven months of 2019; Phase 3 – 2019 and the first eleven months of 2020.

The maximum aggregate package of all participants of the New Long-Term Incentive Programme includes the Company shares and does not exceed 6% of the charter capital; the share package size for each phase may not exceed 2% of the charter capital.

The New Programme is guided by such KPIs as free cash flow (FCF), net profit, and return on invested capital (ROIC).

To implement this Long-Term Incentive Programme, the Company continues to use RTC-Development, a closed-end unit investment fund.

Expenses on the Long-Term Management Incentive Programme within the Statement of Profit or Loss, RUB million⁴⁴



Short-term incentives

In 2017, Rostelecom continued improving its employee motivation scheme to achieve its strategic goals.

An incentive scheme providing for annual bonus payments (without quarterly payments), which was introduced for top managers in 2016, was expanded to cover middle management in 2017.

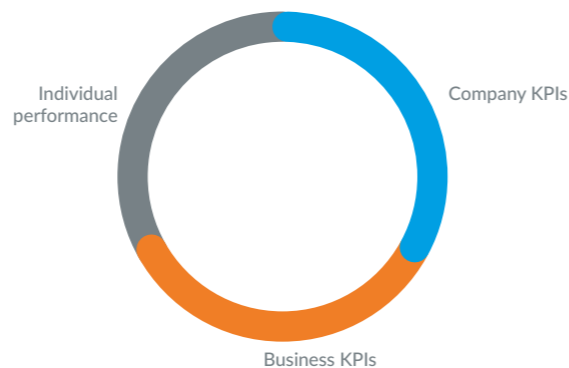
These changes are aimed at strengthening motivation to boost the overall achievement of the Company KPIs in the reporting year. Rostelecom developed tailored incentive schemes for B2C and B2B business units and product teams, which strengthen the employee motivation to achieve the Company's tactical and strategic goals such as increasing the market share in key segments and reducing the time-to-market for new products.

In 2017, the Company launched assessments of its in-house services. In 2017, the Company launched assessments of its in-house services by integrating the relevant KPI into the incentive system as a Business KPI for support functions (HR, finance and accounting, legal support, etc.). Availability of a service assessment tool for in-house customers harmonises the support functions' KPIs. The assessed functions actively follow up on the customer survey results. The assessment tool also contributes to building a feedback culture within the Company.

(44) Salary expenses, other payments, and social charges, including personal income tax and social charges.

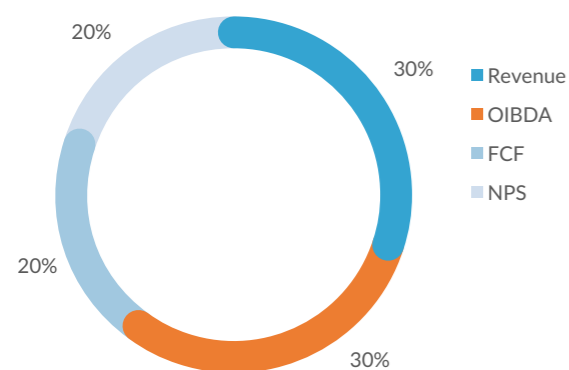
System of KPIs⁴⁵

The Company has in place a KPI system whereby employee bonuses depend on the progress against three groups of targets: Company, business, and individual. The share of each group and group KPIs vary by position and scope of responsibility.⁴⁶

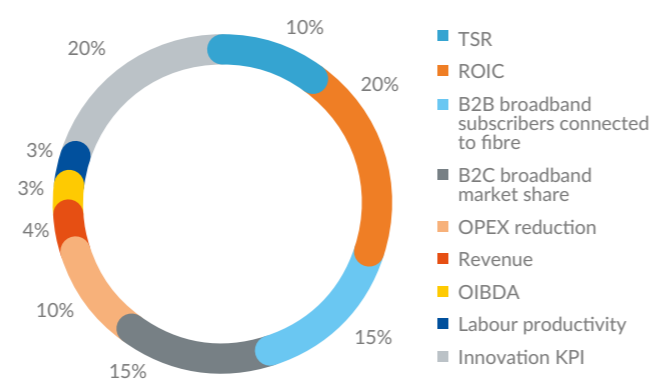


Company and business KPI system for top management since 2018

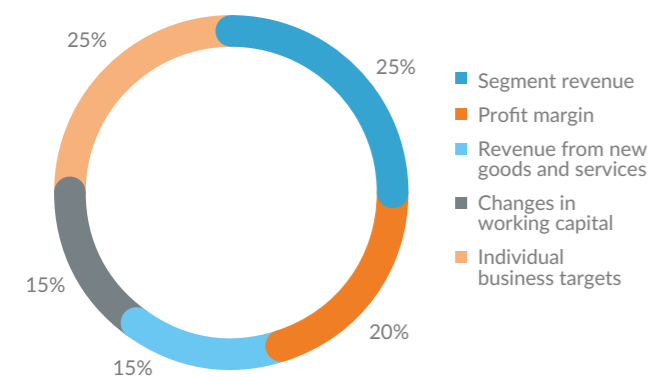
Company KPIs



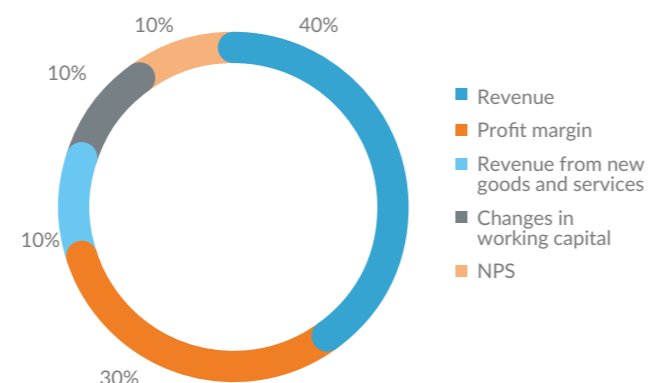
Business KPIs: President and members of the Management Board



Business KPIs: managers of key business segments (B2C, B2B/B2G, B2O)

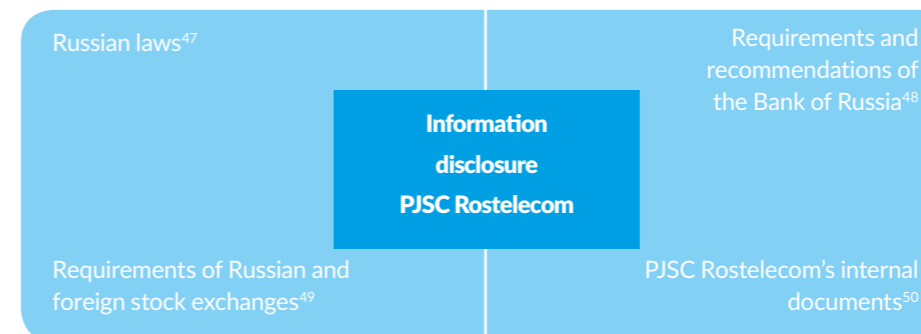


Business KPIs: Vice Presidents – directors of macroregional branches



(45) Approved by the Board of Directors on 29 December 2017. Minutes No. 13 dated 29 December 2017.
(46) The KPI system for top managers includes only Company and business KPIs.

Information Disclosure



The Board of Directors establishes the rules of, and approaches to, disclosures by approving relevant internal documents.

Key objectives of the Regulations on the Information Disclosure Policy:

- » enhance openness and build trust
- » improve transparency
- » determine the Company's disclosure framework.

Key principles of the information policy:

- » timely, consistent, and prompt provision of the information
- » accessibility, objectivity, completeness, accuracy, and comparability of disclosed information
- » equal rights of all stakeholders to obtain information in compliance with all applicable laws, standards, and regulations
- » information disclosure regardless of specific individual or group interests
- » reasonable balance between the Company's transparency and protection of its business interests
- » confidentiality of information that constitutes a state secret or a trade secret in accordance with the Company's internal documents
- » control over the use of insider information.

The primary source of Company information disclosure is its official website:
www.rostelecom.ru

Information is also available in the e-disclosure system at:
www.e-disclosure.ru

(47) Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995 and Federal Law No. 39-FZ On Securities Market dated 22 April 1996.
(48) Regulations On Information Disclosure by Securities Issuers; Corporate Governance Code.

(49) Regulations on the Information Disclosure Policy approved by the Board of Directors, Minutes No. 8 dated 30 September 2015.

(50) Policy of Access to Insider Information, Rules of its Protection and Control over Compliance with Applicable Insider Information Law Requirements approved by the Board of Directors, Minutes No. 11 dated 28 November 2015.