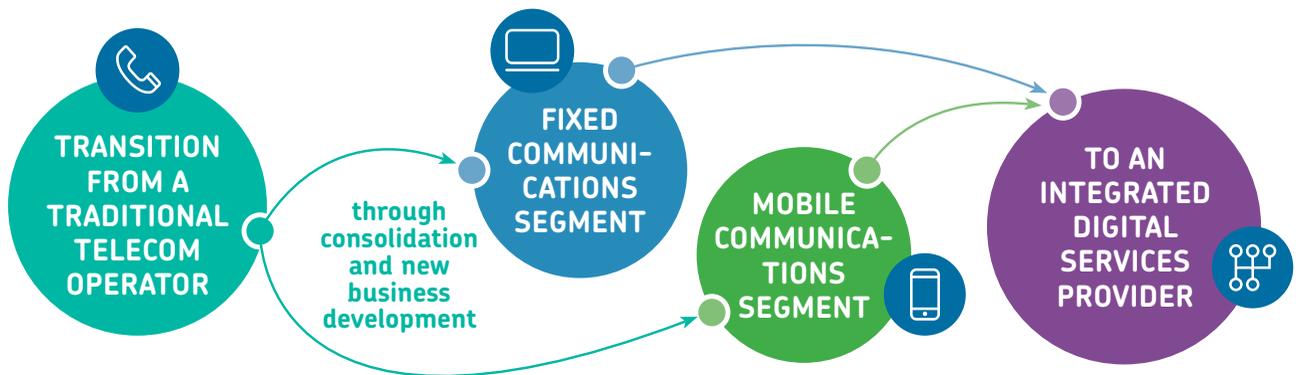
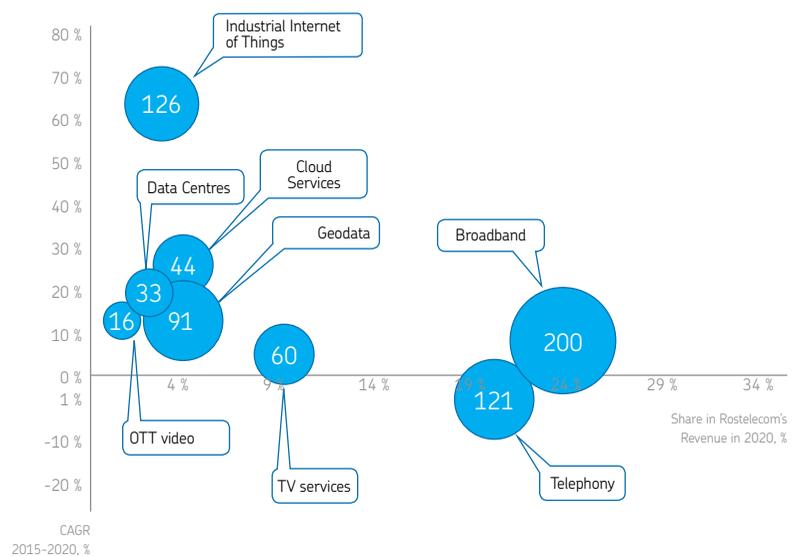


Strategy



THE AIM OF THE LONG-TERM STRATEGY¹ IS TO IDENTIFY GROWTH PROSPECTS IN THE COMPANY'S TWO KEY BUSINESS SEGMENTS: FIXED AND MOBILE COMMUNICATIONS.

Expected market size (RUB bln) and share in revenue by 2020.



¹ The Strategy for 2014-2018, approved by the Board of Directors in December 2013, is in place at Rostelecom (Minutes №23 of 16 December 2013). No changes in the Strategy for 2014-2018 were introduced over 2015. In December 2015, the Board reviewed the strategic opportunities available to the Company in new market segments. The key growth areas in the new services segment include data centres, cloud services, over-the-top (OTT) video, the Industrial Internet of Things and geodata. available to the Company in new market segments.



MOBILE SEGMENT

As part of its Strategy, the Company decided to develop its mobile business through a Joint Venture with Tele2 Russia with a view to creating a leading federal mobile operator.

The establishment of the JV with Tele2 Russia was approved by Rostelecom's Board of Directors on 12 December 2013. Under the deal's terms and conditions, Rostelecom contributed its mobile business to the JV, including SkyLink and LTE licenses, while Tele2 Russia contributed all its mobile assets.

The JV's strategic goal is to become the number three player in the Russian mobile communications market.

The Tele2 Russia growth drivers: entering the lucrative Moscow market in October 2015.

- 1.3 mln subscribers by the end of 2015
- 7,770 base stations by the end of 2015, of which 5,500 base stations are 3G and 2,200 are LTE
- about 100 new base stations to be deployed weekly after the network is launched in Moscow and the Moscow region
- over 10,000 partner sales points to sell the operator's SIMs
- over 450 Tele2 Russia single brand sales offices.

The demerger of the mobile business is expected to deliver the following results:

- The use of Tele2 Russia's success and know-how is expected to speed up the launch of the mobile operator nationwide with significant cost saving achieved based on unified IT systems and operational standards, centralised management. The single brand was adopted in 2015.

- Elimination of function duplication and organisational structure streamlining:
- in 2015 the 33 operating companies were reorganised and ceased to exist as separate entities. The integration of Rostelecom's mobile assets was completed ahead of schedule.
- Significant CAPEX savings in the mobile segment, in particular, owing to a reduction in capitalintensive investments required for the 3G/4G network roll-out: by the end of 2015, 3G/4G services were offered in 61 of Russia's regions, with the number of Tele2 Russia's base stations approaching that of competitors.
- More efficient deployment of Tele2 Russia's mobile data networks in the regions owing to wider frequency bands: by the end of 2015, active Internet users accounted for 19.5 % of the Tele2 Russia subscriber base.
- A more robust financial position. The mobile segment's debt was transferred to the JV: as of the end of 2015, Rostelecom enjoys a comfortable net debt/OIBDA ratio of 1.7x
- The platform's distribution network was optimised by exploiting Rostelecom's retail offices and Tele2 Russia's single brand sales points: by the end of 2015, the number of Tele2 Russia sales points exceeded 100,000 throughout the country, including sales points in Rostelecom sales offices.