

Letter from the President



Dear Shareholders, Partners, and Colleagues,

In 2018, Rostelecom demonstrated strong operational and financial performance. We continuously worked on growing the digital segment, which generated more than 55% of our total revenue in 2018. Our key services – Pay TV and broadband – demonstrated a larger subscriber base and higher ARPU. We saw increased demand in value-added services and new services, with revenue from the Corporate TV and Federal Wi-Fi growing two-fold, sales in the cyber security segment growing four-fold, and revenue from smart home services – 24-fold.

Our digital transformation achievements yielded strong financial results in 2018, with revenue going up by 5% to RUB 320.2 billion, OIBDA increasing by 4% to RUB 100.9 billion, and net profit growing by 7% to RUB 15.0 billion.

2018 was a special year for Rostelecom. We launched our new Strategy 2022 to develop digital ecosystems of services and customer care, upgrade our technology platform, develop human capital, and improve operational excellence.

We have repositioned Rostelecom as an IT company which delivers digital solutions for retail customers, business, and government customers. The rebranding, which emphasises Rostelecom's digital transformation, was a landmark on this journey. People and the customer experience are at the core of our new brand. We do not simply create products and services, we provide a safe and comfortable environment for denizens of the digital age, create new experiences, open opportunities for quality education and healthcare, help businesses grow, and help the government reach out to the people.

DEVELOPMENT OF PRODUCT, SERVICE, AND CUSTOMER SERVICE ECOSYSTEMS

Today, Rostelecom is traversing the path of creating ecosystems across all customer segments, covering households, government and business sectors, and other telecommunications operators.

We implemented a number of ambitious projects in 2018. We launched the Unified Biometric System, digital solutions for education and healthcare, as well as a new tariff line for retail customers allowing all users to choose a tariff that best matches their personal needs. We updated the “Byt v plyuse” (“Plus Account”) platform that provides entrepreneurs with fast access to broadband and mobile services and offers additional services like Virtual PBX, SMS marketing, Wi-Fi, video surveillance, or business TV. We also developed the Wink multimedia platform, which has expanded our retail customer ecosystem. Wink is the new generation of interactive TV combining a mobile app, a web portal, and a Smart TV app.

Higher revenue in the B2B and B2G segments was primarily driven by Smart City projects, video surveillance, data centres, and promotion of cloud and other digital services.

Rostelecom is continuing development of its Operator for Operators offering, which received strong demand from other operators and boosted sales in 2018, generating a revenue of RUB 1.1 billion, a three-fold increase.

Developing the digital economy requires a focus on information security. Rostelecom strengthened its position in the segment in 2018 by establishing Rostelecom-Solar and launching a Unified Cyber Security Platform.

TECHNOLOGICAL PLATFORM UPGRADE

As part of our efforts to upgrade Rostelecom’s technological platform, we are expanding our FOCL network and centralising the IT landscape. In 2018, our IP/MPLS backbone network capacity was increased by 31% to 20.3 Tbps.

HUMAN CAPITAL DEVELOPMENT

I firmly believe that Rostelecom’s team is our greatest asset in achieving our goals. We seek to create an environment that will encourage the professional development of every Rostelecom employee. I am pleased to note that our employee engagement score grew strongly in 2018 to 69%.

In order to build a talent pipeline for the future, we are actively working with school and university students by holding competitions and training programmes and offering internships.

OPERATIONAL EXCELLENCE

Strong operational excellence, which is critical for a digital company, is being pursued across three key areas. Firstly, through developing Rostelecom’s production system (RPS), with its projects generating around RUB 1 billion in savings in 2018. Priority areas include an operational excellence programme, which delivered a benefit of over RUB 3 billion in cost savings, as well as optimising the real estate portfolio and increasing labour productivity. Our revenue per employee grew by 9% – a major achievement.

We also strive to improve Rostelecom’s investment appeal by leveraging our unique market position of being a leading digital service provider. We have an extensive network infrastructure and a committed management team. Going forward, we will continue our key strategic projects while developing digital ecosystems, technological infrastructure, and human capital. Rostelecom plans to maintain its leading position as a provider of digital services across all customer segments and fully achieve its strategic goals by 2022.

I would like to thank all our employees, shareholders, partners, and other stakeholders for supporting Rostelecom in 2018, and I look forward to continuing our positive cooperation in the future.

Mikhail Oseevsky,
President of PJSC Rostelecom