

# Financial Overview

## Key financial highlights

Rostelecom's financial performance in 2018 is testament to the Company's stability and demonstrates good prospects for further development. The digital segment expansion and internal efficiency improvement proved to be the key drivers of the Group's performance.

In 2018, Rostelecom's revenue rose by 5% to RUB 320.2 billion, OIBDA increased by 4% to RUB 100.9 billion, and net profit grew by 7% to RUB 15.0 billion. Digital service development was the key driver of financial growth. Digital services grew by 7 pp and accounted for 55% of the Company's revenue.

Item <sup>1</sup>	2016	2017	2018	2018 vs 2017, %
Revenue, RUB m	297,446	305,329	320,239	+ 5
OIBDA, RUB m	96,771	96,688	100,900	+ 4
% of revenue	32.5	31.7	31.5	-
Operating profit, RUB m	39,836	37,885	35,800	- 6
% of revenue	13.4	12.4	11.2	-
Net profit, RUB m	12,249	14,050	15,012	+ 7
% of revenue	4.1	4.6	4.7	-
CAPEX, RUB m	61,857	60,752	73,179	+ 20
% of revenue	20.8	19.9	22.9	-
Net debt, RUB m	177,481	181,594	186,712	+ 3
Net debt/OIBDA	1.8	1.9	1.9	-
FCF, <sup>2</sup> RUB m	13,298	20,385	14,751	- RUB 5,634 m

FIG. 42. REVENUE BREAKDOWN, %

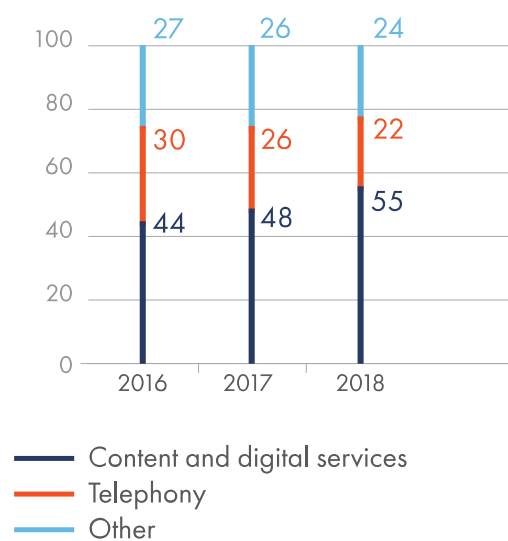
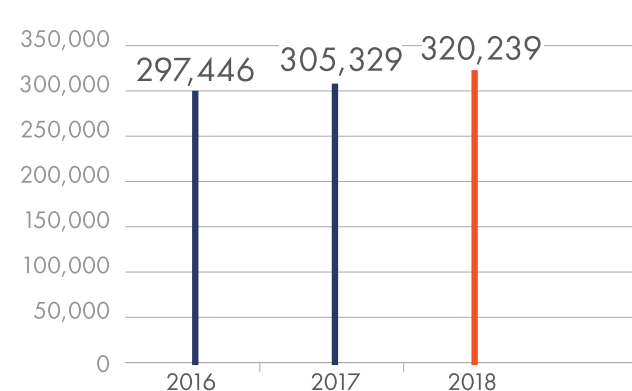


FIG. 43. REVENUE, RUB M



1. Taking into account the impact of the new IFRS standards. The Group initially adopted IFRS 15 and IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. The Group applied IFRS 9 from 1 January 2018 and has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

2. Starting from 2018, free cash flow is calculated based on the statement of cash flows as the net cash from operating activities, net of CAPEX, plus proceeds from sale of property, plant and equipment and intangible assets, plus interest received. Free cash flow for 2017 and 2016 is presented as reported in the corresponding period.

FIG. 44. NET PROFIT, RUB M, AND NET PROFIT MARGIN, %

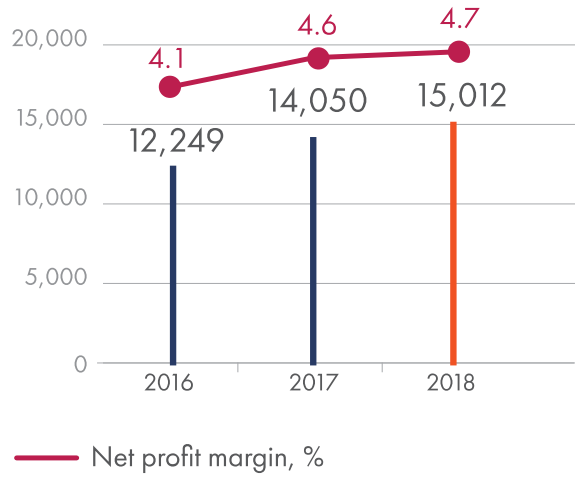


FIG. 46. FREE CASH FLOW (FCF), RUB M

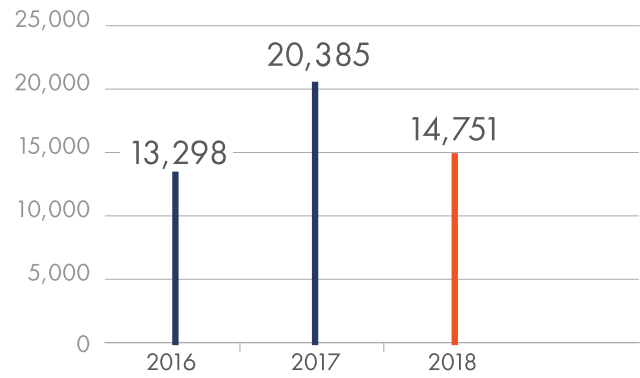


FIG. 45. OIBDA, RUB M, AND OIBDA MARGIN, %

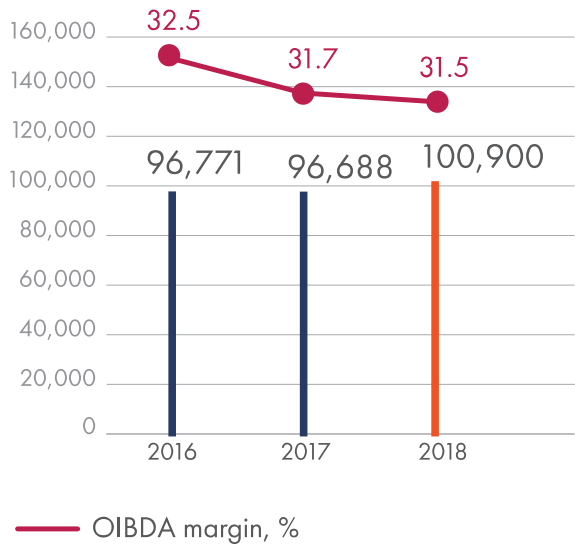


FIG. 47. OPERATING EXPENSES, RUB M

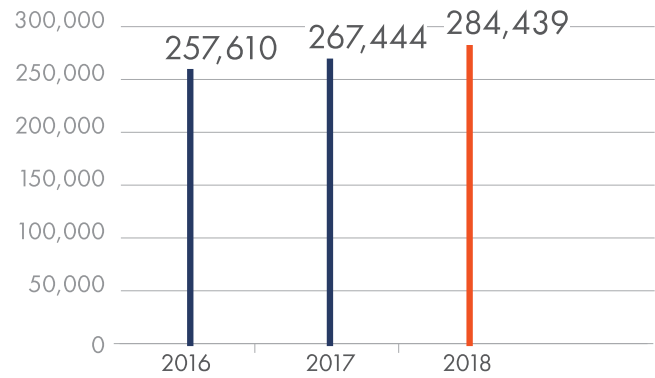


FIG. 48. NET DEBT, RUB M, AND NET DEBT/OIBDA

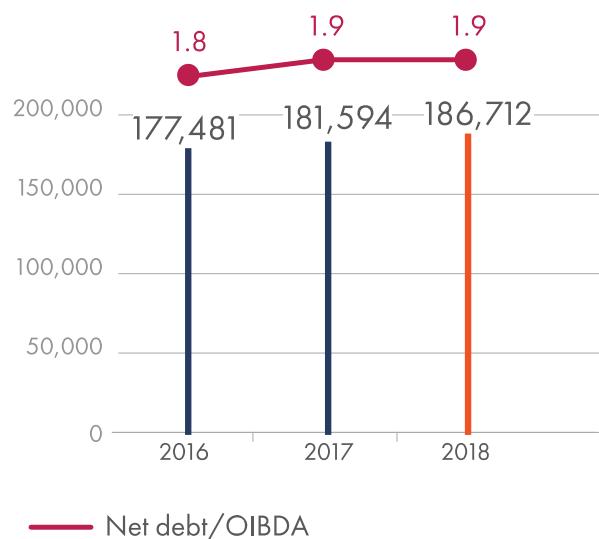


FIG. 50. CAPEX, RUB M AND % OF REVENUE

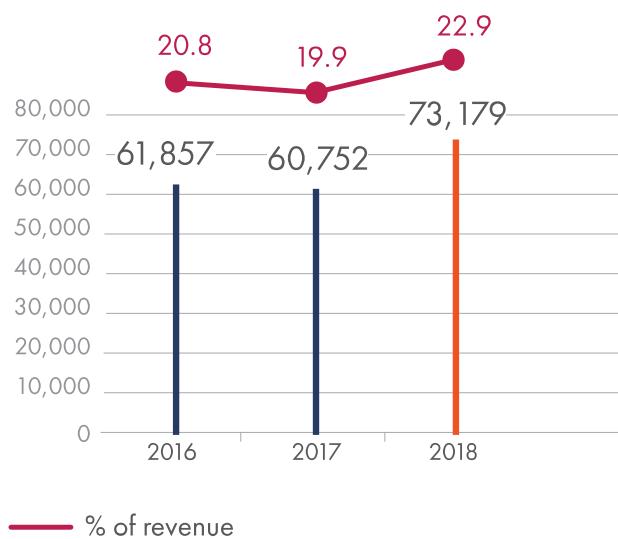
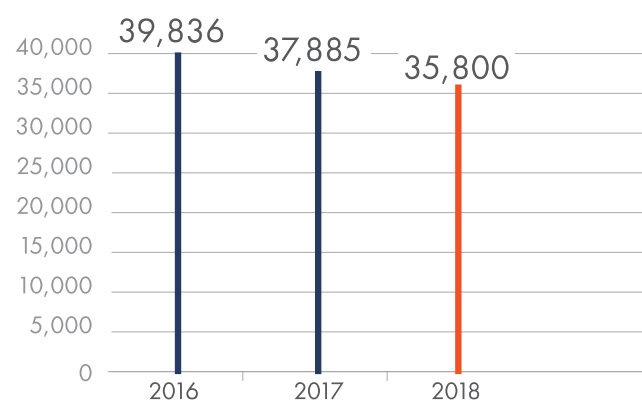


FIG. 49. OPERATING PROFIT, RUB M



## Revenue breakdown

In 2018, Rostelecom's revenue grew by 5% to RUB 320.2 billion. The B2C and B2B/G segments were the main contributors to the revenue, accounting for 43% and 38% of the revenue respectively. B2B/G demonstrated the highest growth rate with an 11% revenue growth, while other segments experienced almost no revenue growth.

Broadband (RUB 9.3 billion), TV (RUB 7.1 billion), and VAS and cloud services (RUB 10.9 billion) were the biggest contributors to the revenue growth by type of service. VAS and cloud services showed the highest year-on-year growth rate of 42%. Rostelecom continued reducing the share of fixed-line services in the Company's total revenue - in 2018, it accounted for less than 22%.

In 2018, the following drivers contributed to revenue growth:

- ▶ Development of VAS and cloud services including the Smart City project, video surveillance, promotion of cloud services and data centres
- ▶ Broadband promotion: subscriber base expansion and ARPU growth, internet access for hospitals and out-patient clinics
- ▶ Pay TV promotion, Interactive TV subscriber base expansion and ARPU growth
- ▶ Development of wholesale services

TABLE 12. REVENUE BY SEGMENT, RUB M

Segment	2016	2017	2018	2018 vs 2017, %
B2C	133,917	136,304	137,745	+ 1
B2B/G	102,195	109,209	121,509	+ 11
B2O	56,851	55,061	56,389	+ 2
Other revenue	4,483	4,755	4,596	- 3

TABLE 13. REVENUE BY TYPE OF SERVICE, RUB M

Type of service	2016	2017	2018	2018 vs 2017, %
Broadband	66,771	70,785	80,042	+ 13
TV services	23,599	27,348	34,464	+ 26
Fixed-line telephony	87,703	78,445	69,983	- 11
Wholesale services:	79,010	77,525	79,593	+ 3
Lease of channels	10,538	9,437	9,582	+ 2
Interconnection and traffic transfer	35,102	33,253	33,256	0
VPN	20,823	21,981	23,433	+ 7
Lease and maintenance of telecommunications infrastructure	12,546	12,855	13,322	+ 4
VAS and cloud services	18,245	26,013	36,902	+ 42
Other telecommunications services	14,352	16,854	12,076	- 28
Other non-telecommunications services	7,767	8,359	7,179	- 14

## Operating expenses

In 2018, Rostelecom's operating expenses grew by 6% to RUB 284.4 billion. All of Rostelecom's operating expenses increased, with interconnection charges demonstrating the highest growth of 10%.

The following key drivers impacted operating expenses in 2018:

- For interconnection charges – growing channel lease and traffic transfer expenses accompanied by higher income, including under contracts with major businesses and government organisations, as well as from network infrastructure synergies with Tele2 Russia
- For other operating expenses – video surveillance during elections, equipment delivery as part of various B2B/G projects, and growing service promotion expenses
- Option programme expansion

TABLE 14. OPERATING EXPENSES, RUB M

Operating expenses	2016	2017	2018	2018 vs 2017, %
Personnel costs	(90,340)	(93,381)	(97,350)	+ 4
Depreciation, amortisation, and impairment losses	(55,589)	(56,628)	(60,329)	+ 7
Interconnection charges	(52,161)	(52,762)	(58,293)	+ 10
Materials, repairs and maintenance, utilities	(24,917)	(25,926)	(26,183)	+ 1
Gain on disposal of PPE and intangible assets	4,556	5,344	7,184	+ 34
Impairment loss of financial assets measured at amortised cost	(2,775)	(2,776)	(4,057)	+ 46
Other operating income	12,948	13,444	13,579	+ 1
Other operating expenses	(49,332)	(54,759)	(58,990)	+ 8
Operating expenses	(257,610)	(267,444)	(284,439)	+ 6

## OIBDA

In 2018, Rostelecom's OIBDA grew by 4% to RUB 100.9 billion. In the reporting period, Rostelecom changed OIBDA calculation methodology by excluding expenses related to private pension fund programme from Q3 2018 onwards.

TABLE 15. OIBDA BREAKDOWN, RUB M

Item	2016	2017	2018	2018 vs 2017, %
Operating profit	39,836	37,885	35,800	- 6
Add: depreciation	55,589	56,628	60,329	+ 7
Add: non-cash expense under the long-term incentive programme	1,347	2,344	3,638	+ 55
Add: expense under the private pension fund programme	-	(170)	1,133	-
OIBDA <sup>1</sup>	96,771	96,688	100,900	+ 4
OIBDA/revenue, %	32.5	31.7	31.5	- 0.2 pp

## Debt

By the end of 2018, Rostelecom's total debt increased by 2.3% to RUB 204.3 billion. Rostelecom's net debt was up 3% to RUB 186.7 billion, while the net debt to OIBDA ratio remained flat at 1.9. Over 99% of the Company's total debt is rouble-denominated.

TABLE 16. KEY METRICS

	2016	2017	2018	2018 vs 2017, %
Total debt, RUB m	187,105	191,372	204,279	+ 7
Net debt, RUB m	177,481	181,594	186,712	+ 3
Net debt / OIBDA	1.8	1.9	1.9	-

1. OIBDA is not an indicator calculated under US GAAP or IFRS. The Company calculates OIBDA as operating profit before depreciation and non-cash expenses.

FIG. 52. DEBT BREAKDOWN BY MATURITY, %

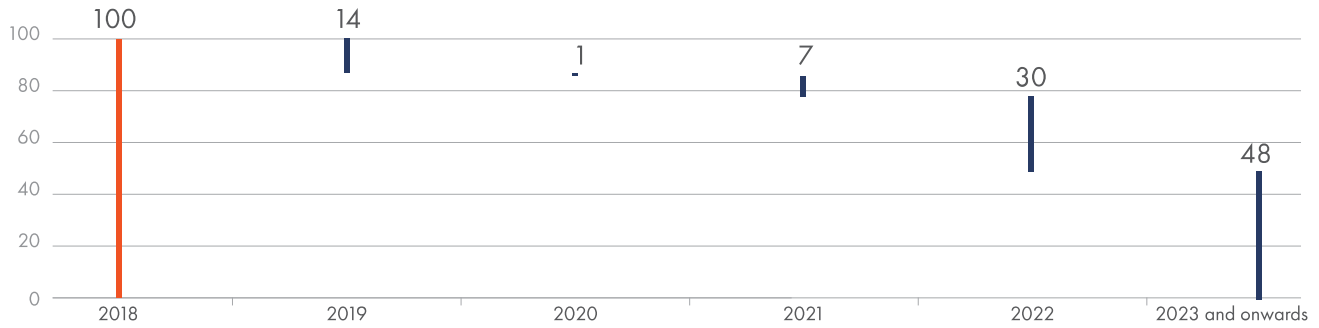
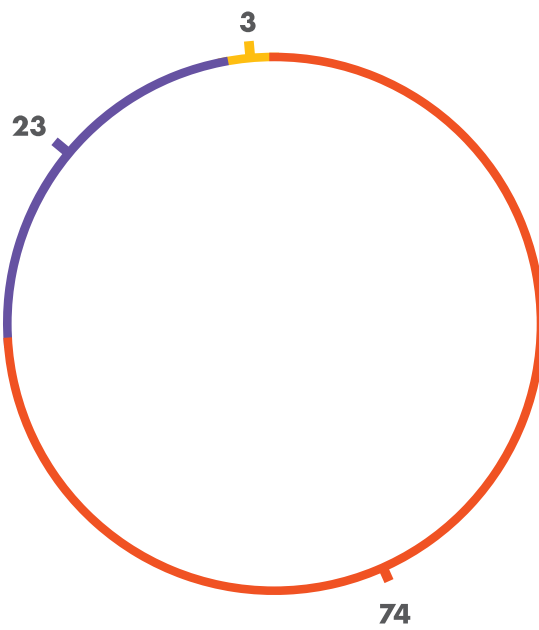


FIG. 51. DEBT BREAKDOWN BY INSTRUMENT, EXCLUDING INTEREST, %



- Loans
- Bonds
- Other

### Outlook

We expect our key financial indicators to grow, which allows us to set the following goals for 2019:

- > Revenue and OIBDA growth of at least 2.5%
- > CAPEX in the range of RUB 65 billion to RUB 70 billion, including RUB 7 billion of regulatory CAPEX and excluding the implementation of government programmes