Sustainability Management

TABLE 4. ROSTELECOM'S CONTRIBUTION TO SOCIETY

Stakeholder group	Engagement	2015	2016	2017	2018
Shareholders	Dividend payments, RUB m	16,472	15,000	14,050	6961[1]
Employees	Total headcount, thousand	150	143	134	129
	Salary expenses, RUB m	67,184	66,018	67,238	69,812
	Investment in training, RUB m	354	453	464	496[2]
	Contributions to Telecom-Soyuz and Alliance private pension funds, RUB m	959	704	164	757
	Health and safety expenses, RUB m	623	551	641	698
Government	Income tax, RUB m	2,436	4,692	4,856	4,427
	Other taxes, RUB m	5,560	5,079	4,661	5,747
Society	Member fees, charity contribution, payments to labour units, RUB m	854	660	697	767
Environment	Environmental expenditure, RUB m	130	129	105	112

Sustainability strategy

Rostelecom's resources serve as a technology platform driving the development of Russia's digital economy. The Company contributes to the sustainable development of Russian society in many areas – enabling initiatives in healthcare, education, equal access to public services, transport upgrades, energy development, agriculture, and natural disaster risk mitigation.

In 2018, the Company launched its new five-year strategy, focused on transformation into a digital partner for households, business, and government customers. Rostelecom is evolving from a telecoms operator offering traditional services such as data transmission and storage, into a provider of an entire range of advanced digital services, while maintaining its focus on core infrastructure development.

Among other things, the Company's strategic vision provides for changes in technical infrastructure, IT, HR, and other internal processes, including developing and supporting an advanced innovation management system.

To remain competitive globally, Russian industries need digital transformation and, to maximise the benefits of Industry 4.0 cooperation, should push beyond corporate boundaries. Successful implementation of the new strategy will allow us to automate, accelerate, and simplify connecting digital partner services, as well as expanding the offerings of our own digital services.

Strategic analysis suggests that digital transformation of cities (smart city initiatives), data centre and cloud services, cyber security, digital government, big data analytics, artificial intelligence, Industrial IoT, and digital transformation of Russian industries will be the key growth drivers for our business in the coming years.

1. For 9M 2018.
2. Data for PJSC Rostelecom.

Sustainability priorities

Over the past few years, Rostelecom has increasingly integrated the United Nations Sustainable Development Goals (UN SDGs)[1] into the design of its projects and in the preparation of its annual reports. We seek to bring Rostelecom's development strategy more in line with the global UN SDGs in respect of environmental, social, and economic matters, while applying regional, national, and global lenses.

In 2018, the Company prioritised the list of UN SDGs to identify the areas where it could contribute the most:

TABLE 5. UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS PRIORITISED BY ROSTELECOM

FIRST PRIORITY GOALS

Goal 9
Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Goal 4
Ensure inclusive and equitable quality education and promote lifelong opportunities for all

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable

Goal 10
Reduce inequality within and among countries

SECOND PRIORITY GOALS

Goal 17
Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Goal 12
Ensure sustainable consumption and production patterns Goal 13 Take urgent action to combat climate change and its impacts

Goal 13
Take urgent action to combat climate change and its impacts

Goal 15
Protect, restore and promote sustainable use of terrestrial ecosystems

1. See Sustainability Goals: https://www.un.org/sustainabledevelopment/.

At the same time, Rostelecom also makes efforts towards other United Nations Sustainable Development Goals, seeking to maximise its positive contribution to society.

In the reporting period, the Company developed and approved its Corruption Risk Mitigation Programme for 2018 (the "Compliance Programme"), defining the activities that have a positive impact in preventing corruption, and minimising and (or) mitigating the consequences arising from corruption.

The Company also continues to improve the openness and transparency of its activities in its relations with customers, partners, and shareholders. We continued to develop and adopt innovations which boost the quality of Rostelecom's services and enhance the customer experience. We improve accessibility to the Company's services for small population centres. Rostelecom runs social, volunteer, and charitable programmes improving the quality of life for Russian citizens and contributing to the sustainable development of society. We provide attractive working conditions for our employees. Our priorities include professional development of our people, and promoting employee health and safety. Rostelecom seeks to reduce its environmental footprint, improves energy efficiency, and fosters environmental culture in society. Affordable universal service has become an important enabler for SMEs. We run programmes commissioned by the Russian Government to improve access to knowledge, information, and quality products for all Russian citizens irrespective of their place of residence.

Business ethics

Rostelecom's Code of Ethics conforms to the highest standards of business ethics and is underpinned by our corporate values of expertise, responsibility, innovation, openness, and continuity. Legal compliance, integrity, openness, privacy, and engagement are the key principles of PJSC Rostelecom's Code of Ethics.

Any employee of the Company can report violations of the Code of Ethics to a dedicated e-mail address: ethics@rostelecom.ru.

Rostelecom cooperates with the government to help justice and law-enforcement. The key elements of our Code of Ethics are:
- corporate transparency
- customer and partner confidence
- reputation of an open and reliable company providing high quality, affordable services.

Rostelecom has a zero tolerance approach to any manifestations of corruption, demonstrating commitment to high standards of business conduct and ethics in dealings with any and all stakeholders. Between 2014 and 2018, we developed a number of key documents covering corruption prevention (including the updated Code of Ethics, Anti-Corruption Policy, Regulations on the Conflict of Interest Management, Regulations on on Giving and Receiving Gifts, Regulations on Charitable Donations and Assistance, etc.).

Rostelecom implements effective measures to prevent corruption and fraud – we have in place a whistleblowing hotline, as well as a dedicated anti-corruption portal www.nocorruption.rt.ru (in Russian). The Company employees and suppliers can take special tests on the portal, as well as find anti-corruption documents. As part of our corruption prevention and asset protection efforts, we have extended the availability of the anti-corruption portal and whistleblowing hotline to Rostelecom subsidiaries. Additionally, 480 employees of the Company and 420 employees of Rostelecom subsidiaries were trained in 2018 on anti-corruption issues (as per the requirements of anti-corruption laws) through distance or classroom learning.

Society

As the only designated universal service provider throughout the Russian Federation, the Company seeks to contribute as much as it can towards societal development across all Russian regions. In 2018, Rostelecom continued to drive social change for the public good and develop infrastructure for Russia's digital economy, implementing a range of programmes, including federal and regional social programmes, as well as carrying out volunteer activities, charitable projects, etc.

Digital Equality

Digital Equality is an integrated nationwide programme to improve the quality of life for millions of Russian citizens by bridging digital divides and ensuring accessibility of communications services for such underprivileged and vulnerable groups as senior citizens, children in orphanages, children in needy families, physically challenged children, and others.

The programme comprises the most significant and successful social projects of the Company: ABC of the Internet, Growth, Learn the Internet – Manage It!, Social Impact Award, Internet for Social Infrastructure Facilities, Computerisation of Orphanages, and Distance Learning for Disabled Children.

In 2018, Rostelecom became a winner of the Leaders in Corporate Philanthropy project, getting the first prize of the Graduate School of Management (GSOM SPbU) for the Best Programme (Project) Facilitating Education Development in Russia with its integrated Digital Equality social programme.

Rostelecom was ranked third among Top 10 companies

The Digital Equality programme won the Ethical Dimensions of the Information Society category. Rostelecom received the award of the international contest held by the UN World Summit on the Information Society (WSIS) to select the best innovative projects involving Information and Communications Technology (ICT).

ABC of the Internet

– a programme offering quality training on basic computer and internet skills for senior citizens and people with disabilities. Over 85 thousand senior citizens were trained under this programme in 2018.

Learn the Internet – Manage It!

– a socio-educational project for school students, using modern interactive format to provide basic knowledge of the internet – its tools and capabilities.

Annual Report 2018

❙❮ 36 / 37 ❯❯

✛ CONTENTS

Rostelecom Today
Strategic Report
Corporate Governance
Additional Information

A total of approximately 142 thousand school students from across Russia have benefited from the project since its inception.

Growth

– a distance learning project for children in orphanages and foster homes, as well as children deprived of parental care. Over 4,800 lessons were given across the entire school curriculum in 2018.

Social Impact Award

– and international programme promoting social enterprise among young people. In 2018, 98 applications were submitted, with 13 proposed projects from 8 cities getting to the finals and the winners offered the opportunity of free enrolment in an incubator programme.

Computerisation of Orphanages

– overall, in 2018, Rostelecom:
➢ provided computer equipment to 31 orphanages
➢ offered support to 2,384 children;
➢ deployed 15 Wi-Fi hotspots
➢ donated 112 desktops.

Distance Learning for Disabled Children

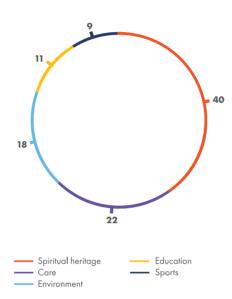In 2018, we provided access to distance learning courses for 1,000 disabled children.

Internet for Social Infrastructure Facilities

– 3,260 people used the platform integrating library and information centre resources and benefited from access to learning and educational materials.

Philanthropy

Active charitable giving is a part of our responsible approach to business. Rostelecom channels significant funds to programmes in healthcare, education, promotion of healthy lifestyles and sports, support for vulnerable groups across all Russian regions, etc. The Company cooperates with major charities active both in regions or on a national scale. Rostelecom not only provides quality telecommunications services, but also actively contributes to create stable social environment, and seeks to help those most in need.

In 2018, PJSC Rostelecom (including its subsidiaries and affiliates) spent RUB 193,320.18 thousand on charitable purposes, including in education, environment, sports, etc.

FIG. 20. CHARITABLE PRIORITIES, %

9
11
18
22
40

— Spiritual heritage
— Care
— Environment
— Education
— Sports

Volunteer activities

Volunteer activities of Rostelecom are featured by their large scale. Volunteer actions have become common in each region of the Company's operation. Employee volunteers are actively involved for all kinds of programmes. It helps them contribute to significant social causes, fulfil their potential and improve engagement.

Active volunteering confirms Rostelecom's reputation as socially responsible company with strong focus to improve the quality of life for Russian citizens. Among the more significant projects are Donorship, Midday, Let's Help Together, Stan Dedom Morozom (Become a Santa) New Year campaign, House of Veronica, Run and Help, Believe in Yourself, and many others. Project Midday is an interactive educational programme for children in orphanages and foster homes providing career guidance with a focus on the telecoms industry and social adaptation. Within the project Let's Help Together, Rostelecom employees send own money through charities to help severely ill children and seniors. In preparation for New Year's holidays, children in

orphanages across Russia, supported by our sponsorship programme, receive gifts under the Company's Become a Santa volunteer project. Through our active volunteering strategy, we reinforce Rostelecom's reputation as a socially responsible organisation committed to improving the quality of life for Russian citizens. The Company's volunteers help residents of the hostel to learn how to benefit from web resources. Run and Help is a sports charitable project raising money for medical treatment of children with severe and rare illnesses.

A total of 200 volunteering projects were carried out during 2018.

Over 600 people took part in donor sessions.

3,500 Rostelecom employees are regularly involved in volunteering projects.

At the All-Russian corporate volunteering contest, Champions of Good Deeds 2018, our Believe in Yourself social project won the second prize for Skill-based Volunteering.

At the 11th People Investor 2018 Forum, organised by the Russian Managers Association, our Run and Help project made it to the top four social projects for Healthy Lifestyles.

Our people

In 2018, Rostelecom's headcount totalled 128.6 thousand employee, making the Company to one of Russia's largest employers.

We make every effort to create career advancement and self-fulfilment opportunities for our employees, ensure decent working conditions, and provide access to training and professional development programmes. Transparency of the remuneration system, provision of statutory social benefits, and ensuring safe working conditions to employees remain our key priorities[1].

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1. See Section 3, Investing in Our People, of Rostelecom's Sustainability Report 2018.

Our Long-Term Personnel Transformation Programme, spanning the period until 2019, helps attract and retain best talent, create career opportunities, provide decent remuneration, recognise achievements, foster dialogue with management, and develop leadership skills in people. All these initiatives boost Rostelecom's profile as the employer of choice, supporting its longer-term development goals.

Rostelecom Group's salary expenses were increased from RUB 67.2 billion in 2017 to RUB 69.8 billion in 2018 (+4%), with the average monthly pay raised from RUB 44 thousand to RUB 47 thousand (+6%) and employee engagement score up by 14 pp to 69% at year-end 2018 vs year-end 2016). As at 31 December 2018, 41,779 employees were members of our new corporate pension scheme offered by the subsidiary pension fund Alliance – 46.2% of total employees eligible for the scheme.

Corporate Online University

The purpose of Rostelecom's Corporate Online University is to build modern professional skills in our employees. To upgrade professional skills among employees, we engage both in-house and external experts: Russians trainers with experience of training in similar educational establishments, specialists who studied and interned abroad, and international business coaches. Both face-to-face and distance learning opportunities are offered in-house.

In 2018, the Company established its Knowledge Management Department, with a mission to create a favourable environment for continuous employee development across all functions and roles throughout their entire careers with Rostelecom. During the reporting period, the Knowledge Management Department started the transformation of internal employee training to address the following tasks:
- implement uniform, effective business processes to train and develop employees
- define the standards and methodology for training, as well as for development and implementation of nationwide skill building programmes
- finalise the updated centralised catalogue of internal programmes to build soft skills
- enhance the competencies of in-house coaches.

Environmental protection and energy efficiency

As Russia's largest telecoms operator, Rostelecom sees environmental protection as an integral part of its business. The Company implements a wide range of environmental initiatives, contributes to fostering environmental culture in society, and offers innovative solutions based on the smart city philosophy.

Environmental Policy

The Company has developed and implemented an Environmental Policy, setting requirements for managing Rostelecom's activities with a potential impact on the environment. Our key objectives in environmental protection and safety are sustainable use of natural resources, minimising Rostelecom's environmental footprint, and preserving the environment for future generations.

Key environmental initiatives in 2018

Improving the environmental management system – in 2018, the Company's environmental management system successfully passed an external recertification audit for compliance with GOST ISO 14001, with the certificate of conformity renewed for one year. Within the Company's environmental operational control framework, 758 specific internal audits (540 on-site audits and 218 desk audits) were performed, with 974 facilities audited and 1,029 violations identified and remedied.

Boiler facility upgrades (replacement of boilers, equipment, and automatics with modern, higher performance ones; conversion to cleaner fuels) – 46 boiler facilities were upgraded for a total of RUB 14,476.16 thousand.

Replacing fluorescent lamps with LEDs – a total 31,300 lamps were replaced across 502 facilities.

Optimising the use of water supply wells – in 2018, the number of wells in use decreased by 8%, from 104 to 96, with groundwater consumption reduced by 38%, from 372 thousand cu m to 229.55 thousand cu m.

Replacement of transport equipment with poor environmental performance. In 2018, the Company procured 1,104 Euro 5 vehicles to replace the retired Euro 0–4 vehicles. As at the end of 2018, Euro 5 vehicles accounted for 27.7% of the Company's total fleet, Euro 4 22.5%, and Euro 3 and lower 49.8%.

TABLE 6. TOTAL ENVIRONMENTAL EXPENDITURES AND INVESTMENTS, 2018, RUB THOUSAND

Landfill disposal fees for municipal/household solid waste	88,685.5
Disposal/neutralisation fees for non-landfill wastes (lamps, oils, batteries, etc.)	10,489.7
Environmental charges for air pollution	764.8
Environmental charges for waste landfill	10,412.7
Third party fees for drafting an environmental charge declaration	514.0
Permit/license fees and duties	1,428.5
Fees for the development of emission limits, obtaining air pollution permits	12,827.0
Fees for the development of draft waste generation rates and disposal limits, obtaining approvals for waste generation rates and disposal limits	10,175.0
Expenses related to obtaining subsoil licences (for wells), excluding duties	1,206.8
Employee training and upskilling	1,566.8
Expenses related to setting up separate waste collection (procurement of containers, waste sorting, etc.)	657.0
Expenditures on land improvements and urban greening	2,133.5
Expenditures on air pollution control and climate change mitigation	5,753.1
Expenditures on surface water and groundwater pollution control, and wastewater treatment (renovation and refurbishment of water treatment facilities, water well cementing, cleaning of river beds, setting up sanitary protection zones around water bodies and wells, etc.)	1,507.3
Expenditures on soil contamination control (sampling, decontamination, reclamation, etc.)	69.0
Expenses on wastewater laboratory testing	2,334.3
Expenses on groundwater laboratory testing	1,997.1
Expenses related to the development and approvals of draft projects to establish sanitary protection zones	1,746.9
Fees for official registration of facilities affecting the environment	241.7
Fees for the development of environmental operational control programmes	4,147.0
Development of passports for Hazard Classes 1–4 wastes	64.8
Other	763.6
Total	159,485.9

Environmental safety

Rostelecom is committed to ensuring environmental protection and safety, conducting regular environmental risk assessments across all activities, i.e. assessments of the likelihood of adverse changes in the environment.

One of the environmental safety procedures put in place by the Company is specialised training of managers and employees responsible for making decisions that could have adverse environmental impact.

Energy efficiency

Through implementing its Energy Policy, Rostelecom maintains a continued focus on reducing its energy consumption and greenhouse gas emissions and helps its customers to follow suit. The Company upgrades networks and infrastructure by introducing more energy efficient equipment, increases the share of renewables in its total energy mix, and seeks to gradually maximise the use of green energy. Among other things, Rostelecom actively upgrades street lighting in regions, enabling local authorities to enhance the reliability and efficiency of street lighting systems and reduce energy consumption.

In 2018, we reduced our power consumption by 52,149,620 kWh (down 3.74%).

Rostelecom won a tender for the development and support of the Automated Power Supply Data Collection System of the Moscow Region. Integration of platforms and databases will enable automation of the process for creating energy passports for regional budgetary institutions.

Green Office

In 2017, Rostelecom developed the concept of separate office waste collection and launched its phased implementation across the Company. Separate collection has been adopted for used office paper in 52 regional branches (238 facilities), and for used household batteries in 37 regional branches (112 facilities). A total 270 tonnes of waste paper and 1.1 tonne of batteries have been collected and handed over for recycling.

The Green Office principles are actively implemented in operating office spaces: reduced energy and water consumption, use of environmentally safe consumables, reduced paper use through electronic document flow, wider use of videoconferencing, etc. As one tonne of collected waste paper saves ten trees, in 2018, Rostelecom employees saved a total 2,700 trees (3,400 trees in 2017).

2019 priorities

In 2019, in line with the Company's strategy of digital transformation we will focus on automation of compliance processes, including the development of the Compliance Control automated system (resolution of conflicts of interest, and handling employee and third party enquiries).

In addition, Rostelecom plans to actively participate in the sector-specific risk assessment carried out by FATF for telecoms operators to create a national risk assessment framework of the Russian Federation.

We are also planning to continue our focus on further development and promotion of healthy lifestyles, expanding sports programmes through non-team sporting activities, e.g. providing opportunities for building running or workout communities etc.

Plans for 2019 also include launching online training programmes to build digital skills:
- iMBA (skills of a digital company leader)
- Digital Economy. Jobs of the future
- A Programming School.

We will continue transforming the internal employee training system, with plans to launch new programmes building employee soft skills and desired socio-behavioural, communication, and managerial skills (e.g. programme for top managers, including MBA programmes offered by the SKOLKOVO Moscow School of Management, and Sberbank 2020 programme).

A pilot project with banks participating in the FinTech Association will be launched in 2019, moving online the loan application process for improved customer experience.

In the coming years, Rostelecom will continue to focus on ensuring the sustainable operation of the E-Government infrastructure.

We will also continue contributing to Bridging the Digital Divide. As at 31 January 2019, contracts were signed for the construction of 27 thousand km of fibre-optic communications lines. The Company is planning to install 2,723 access points through to Q4 2019.

To maximise the efficiency of delivering its Smart City projects, Rostelecom plans to foster cooperation with regional authorities, local authorities, urban service and backbone enterprises, and federal and local businesses.