Focus on productivity

As part of its digital transformation, Rostelecom has been automating its operations to right size the headcount. We plan to increase the share of digital experts on our staff to 25% by 2022 while downsizing the total headcount to 115–120 thousand. The headcount restructuring will improve our performance. For example, in 2018 our revenue per employee grew by 10% to RUB 2.49 million.

Recognising its social responsibility, Rostelecom aims to minimise the negative impact of rightsizing by offering upskilling courses to its employees as well as an outplacement programme to help the exiting employees find a new job.

Internal communications

Rostelecom is committed to building a bilateral dialogue between employees and managers across the corporate hierarchy. To this end, we launched the Online Reception service in 2018, enabling employees to ask questions of top managers. We also launched a mobile application for employees, which features contact details of their colleagues and other useful information.

Apart from integrating our proprietary solutions into internal communications, we also have corporate channels in messengers and representation in social media.

Focus on corporate culture

The core values of Rostelecom's corporate culture detailed in its Code of Corporate Conduct are: openness, responsibility, expertise, innovation, and continuity.

In building our corporate culture, we rely on our employees. Every year, Rostelecom runs engagement surveys, using the feedback to improve corporate projects. In 2018, our employee engagement score was 69%, up 14 pp from 2016.

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The Group implemented a number of initiatives to promote its refreshed brand among its employees. The rebranding led to changes in visual elements of all communication tools.

Support for employees

Rostelecom has in place a collective bargaining agreement outlining the benefits and social guarantees offered to employees. In 2018, we approved a new collective bargaining agreement for 2019–2021.

The list of benefits is divided into two groups: basic benefits and the Cafeteria Plan. Basic benefits comprise voluntary health insurance, a housing programme, a corporate pension plan, and other benefits. The Cafeteria Plan was launched in 2018. The new service enables employees to manage their portfolio of benefits by selecting what they need the most and leaving out what they need less.

For more details on the Company's HR management see Rostelecom's Sustainability Report 2018.

Operational excellence

Internal operational efficiency will remain the Company's top priority throughout 2022. The key areas to drive efficiencies include production system enhancement,[1] further implementation of our operational excellence programme (OEP), improved decision making, and real estate portfolio optimisation.

Rostelecom's production system

Total savings in 2018
RUB 918.0 m

Rostelecom's production system (RPS) is an essential tool driving our operational excellence.

The RPS aims at higher efficiency and profitability of our business without attracting additional resources. In 2018, we continued our RPS projects, including Orion,[2] RPS in RRS,[3] RPS in Call Centre, RPS in IT, RPS in B2B, and RPS in SSSCs.[4] In 1H 2018, two centralised RPS projects were launched: RPS in Sales Support Centres and RPS in B2O.

In addition to the eight centralised RPS projects, multiple local projects are run at the MRF level. As at the year-end 2018, RPS teams were active in 43 regional branches.

The hard benefits[5] of the solutions implemented through our RPS projects and local initiatives totalled RUB 219.3 million while the soft benefits[6] totalled RUB 698.7 million.

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1. Rostelecom's production system is a continuous improvement engine driving change across the corporate governance framework, business processes, and corporate culture in every unit or business process of the Company. The RPS was designed with a mission to make Rostelecom a better company for its customers and employees while avoiding stretching our existing resources.
2. The Orion project, launched in July 2016, aims to reduce customer technical support costs and improve the customer experience.
3. Rostelecom Roznichnye sistemy.
4. Single Settlement and Service Centres.
5. Hard benefit is the outcome of optimising a process, measured as the difference between income/expenses from an activity after a Practice was adopted, and financial income/expenses from the activity before the Practice adoption less the expenses on adopting the Practice.
6. Soft benefit is the outcome of optimising a process representing the amount of resources released within the process or a unit and/or elimination (mitigation) of the risk of financial losses and/or the risk of lost profit (opportunity).

TABLE 11. RPS IN NUMBERS

Training and development

- 40,000 employees have taken basic RPS training.
- Over 3,000 specialists and managers trained in RPS tools.
- Over 300 RPS champions are being trained at the RPS Academy, our new transformational, educational initiative.

- In August 2018, we launched the Best Practice Portal, a platform for regional branches to post and share their implemented solutions recognised as best practice.
- In 2018, over 400 solutions were posted on the portal.
- These solutions have been replicated more than 1,500 times overall.

- Our specialists and managers submitted a total of 2,309 ideas during 2018.
- As many as 567 proposals were implemented, with 63 of them generating over RUB 30 million in savings for the Company.
- At the year-end, the implemented ideas accounted for 24.5% of total submissions, up from 9.2% in early 2018.

2018 highlights of Rostelecom's Production System

Orion project (B2C technical support)

The Orion project aims to improve the customer experience. Seven lean laboratories continued their operation in 2018, developing over 60 local solutions.

Problem solving case study: Installer control tools: on-line acceptance module in the Siberia MRF

Description: the new online acceptance module developed for the Company provides detailed data on completed installations and possible errors, 80% of which are corrected within 24 hours.

RPS in B2B

The project aims to improve technical support. In 2018, the number of lean laboratories was increased to nine, with over fifty local solutions developed.

Problem solving case study: Increasing the proportion of requests closed by First and Second Line Technical Support

Description: we have developed an optimal sequence of steps for operators to identify and solve customer issues through diagnostic tools. With the solution rolled out across the Company, the proportion of closed incidents increased throughout all macroregional branches.

RPS in RRS (Rostelecom Roznichnye sistemy)

In 2018, the project focused on improving the customer experience by developing employee professional skills, reducing queues, and cutting average routine service times. Four new lean laboratories joined the project to run diagnostics of the existing service and sales processes.

Problem solving case study: Savings on consumables: receipt length

Description: Rostelecom spends over RUB 500 thousand every year per one centimetre of a receipt. We have cut this expense item significantly by reducing our receipt length by 10 cm with smaller font size and software updates.

RPS in Call Centres

The project aims to cut the costs of B2C service channel, while maintaining the high quality of customer service. Throughout 2018, the project team focused on improving our first call resolution rates for customers in the B2C segment.

Problem solving case study: Billing via text messages with links to a web platform detailing the charges, and providing the opportunity for customers to manage service delivery, monitor progress, and track the activation request status

Description: workload on the call centre operators has been reduced by 4,000 man-hours on an annualised basis through developing functional requirements for a web form that allows customers to manage service delivery and customer service.

RPS in IT

The project aims to enhance linear development processes for OSS[1] IT systems and reduce lead times for implementing IT improvements. Three macroregional branches joined the project in 2018.

Problem solving case study: Standardising and classifying change requests

Description: we have migrated to a single system managing requests for linear improvements to OSS IT systems, and developed and implemented technical requirements for integration of the Company's request management systems.

RPS in Single Settlement and Service Centres

Launched in December 2017, the RPS in SSSC project aims to improve business processes within the Company's Single Settlement and Service Centres while also increasing the volume of operations handled by SSSC operations without hiring more staff or compromising on the quality of customer service.

Problem solving case study: Automated data processing for adjustment registers
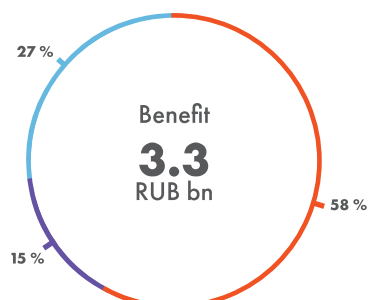
Description: the rollout of our Toki software solution has removed manual steps from data processing procedures for payment and accrual adjustment registers. The automation initiative has released four Volga SSSC FTEs for other important tasks.

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1. OSS/Operation Support Systems – software solutions interacting with telecoms infrastructure – telecoms networks, switching equipment, PBXs, and hardware. They are used to support operating processes related to the development and operation of telecoms infrastructure.

FIG. 39. OPERATIONAL EXCELLENCE

TOTAL

- Decommissioning, disposal, and sales of obsolete copper infrastructure
- Reviews of maintenance, repair, and reconditioning costs for equipment and lines
- Energy efficiency programme

B2C

- Improving IPTV profitabilit
- Improving the Accounts Receivable process
- Optimising reconditioning costs for used customer premises equipment
- Optimising channel lease costs

B2B/G/O

- Improving cost management for communications lines

Benefit
3.3
RUB bn

27 %

58 %

15 %

Target 2018–2022

Savings

**up to
RUB 20 bn**

Operational excellence programme (OEP)

Comprising dozens of initiatives, our operational excellence programme (OEP) is a long-term strategic priority for the Company through 2022. The 2018 OEP's priorities included upgrading segment-specific internal processes, rolling out the Margin Control System (MCS 2.0) for leased channels, diagnostics of subsidiaries and affiliates, and optimising operations in regions. Operational efficiency improvements are expected to generate up to RUB 20 billion in savings through 2022.

Segment-specific RPS projects

B2C

The combined benefit for 2018 totalled RUB 1.9 billion.

In 2018, savings were mostly generated through our initiatives to optimise business processes in retail. Below are some of the more significant projects.

Increasing margins for IPTV products

During 2018, we significantly reduced our content costs per subscriber for a number of TV channels. In addition, we negotiated fixed FX rates for a number of contracts, thus reducing the risk of higher content costs in the second half of 2018 due to movements in the rouble/US dollar exchange rate. Another focus was on revising the content of TV packages to optimise costs.

Benefit: RUB 750 million

Accounts receivable

To improve collection of receivables and encourage timely payments from our retail customers, we put in place a single penalty scheme across our macroregional branches.

Benefit: RUB 700 million

Optimising reconditioning costs for used customer premises equipment

The Company discontinued in-house reconditioning of used customer premises equipment, contracting a third party instead, which raised the quality of reconditioned equipment and reduced the cost of purchases of new customer premises equipment.

Benefit: RUB 380 million

Channel lease terminations

The Company audited its leased communications channels and updated the list of channels for our B2C subscribers based on the audit results.

Benefit: RUB 102 million

B2B/G and B2O

The combined benefit for 2018 totalled RUB 500 million.

Margin Control System (MCS 2.0)

In 2018, our optimisation efforts in B2O, B2G, and B2B were focused on rolling out the Margin Control System (MCS 2.0).

With the MCS 2.0 IT solution in place, we can now analyse and control margins for the lines with last mile leased from other operators. The initiative aims to mark up or discontinue unprofitable tariff plans. The MCS 2.0 rollout enabled the Company to improve the effectiveness of channel-specific cost management.

THE MCS 2.0 ROLLOUT

Mission	Objective	Description	Impact
Ensuring the rational use of Company resources	Establishing control over acquired resources throughout their life cycle	Creating an automated system to track resource procurement and control margins for acquired channels, contracts, and projects	RUB 500 m of savings generated in 2018

Function-specific projects

> The combined benefit for 2018 totalled RUB 590 million.

In 2018, the Company implemented projects to drive operational efficiencies across its functions. The most impact so far has been achieved by our technical function, as described below.

Decommissioning, disposal, and sales of obsolete copper infrastructure

In 2018 the Company installed approximately 70 thousand km of urban and long-distance (intra-zone) fibre, a calendar-year record. This success allowed us to decommission more copper infrastructure and sell nearly twice as many decommissioned copper lines as we had planned.

Additional income: over RUB 310 million

Reviews of maintenance, repair, and reconditioning costs for equipment and lines

Optimising our installed equipment fleet is the key cost reduction lever within this initiative. In addition, we have renegotiated unit cost reductions, including with vendors, revised the scope and volume of FOCL maintenance contracts, and successfully negotiated higher discounts on technical maintenance, repair, and reconditioning services.

Benefit: RUB 243 million

Energy efficiency programme

The long-term programme comprises over 30 initiatives optimising consumption and keeping down operating expenses on fuel and energy. The programme is expected to generate RUB 5 billion in savings within a decade.

It includes cost control, switching to optimal electricity tariffs driven by the facility-specific consumption profile, replacing obsolete, low-efficiency power equipment with more advanced solutions, and optimising heat, fuel, and lubricant consumption. In 2018, an initial positive impact of RUB 37 million was achieved from a range of measures to track and monitor GPS-equipped vehicle locations via a satellite link. The programme is expected to gain momentum and generate significantly higher impact in 2019.

Benefit: RUB 37 million in 2018

Regional projects

In addition to the centralized projects designed by the headquarters, we implement regional initiatives to drive efficiencies in business processes. Within these initiatives, macroregional branches and subsidiaries are looking for ways to improve their internal efficiency. The most notable examples of such projects are given below.
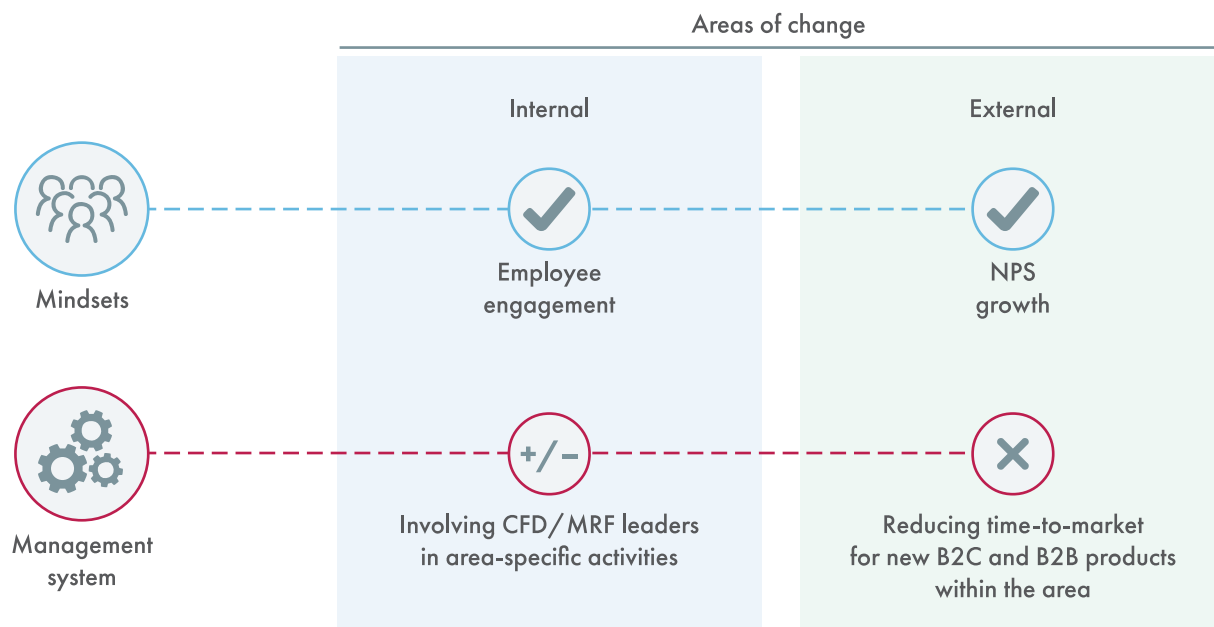
OEP in macroregional branches (MRFs)

> Combined benefit: RUB 165 million

Our Ural, Far East, and North-West Macroregional Branches are carrying out the Area Master project aimed to reinforce accountability for local service delivery within the local governance framework. The initiative empowers line section and line support facility managers and makes them accountable not only for network quality but also for revenue and income performance within their areas.

Each line section and line support facility were set 2018 revenue and OIBDA targets broken down by segment. To achieve the targets, managers and staff of line sections and line support facilities focused on driving revenue and optimising costs. To this end, the relevant branches were implementing targeted fibre link projects for B2C and B2B customers, optimising security costs, removing idle equipment from buildings for subsequent lease or sale, optimising utility expenses, and reducing vehicle fleets.

FIG. 40. AREA MASTER OEP PROJECT

Areas of change

Internal

Mindsets

Employee engagement

Involving CFD/MRF leaders in area-specific activities

External

NPS growth

Reducing time-to-market for new B2C and B2B products within the area

Management system

Operational excellence programme in subsidiaries and affiliates

Combined benefit: RUB 160 million

A series of internal audits were carried out across Rostelecom subsidiaries and affiliates in 2018 to optimise their investment and operating expenses, increase income, sell non-core assets, and identify synergies from cooperation with Rostelecom. Following the audits, we designed operational excellence initiatives for subsidiaries and affiliates. The biggest impact so far has been achieved in two of the subsidiaries, PJSC Bashinformsvyaz and JSC Severen-Telecom.

Bashinformsvyaz

Joint acquisition of content with Rostelecom was the principal source of savings generated by Bashinformsvyaz.

Benefit: RUB 90 million

JSC Severen-Telecom

The key sources of operational efficiency for Severen-Telecom were sales of Rostelecom's new services to existing and new customers, identifying customer churn predictors and deploying retention tools used by Rostelecom, optimising the organisational structure in subsidiaries and affiliates, following which a decision was taken to shift to centralised MRF contracting for post-warranty maintenance, and equipment and software procurement.
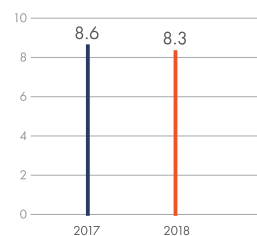
Benefit: RUB 70 million

FIG. 41. REAL ESTATE PORTFOLIO OPTIMISATION

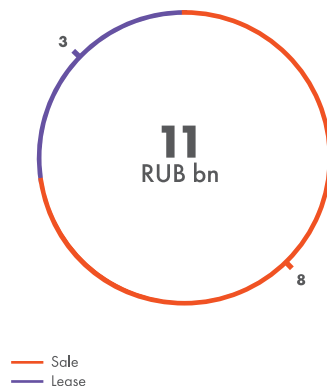## Total real estate space, million sq m

–3 %

Real estate portfolio optimisation

RUB 0.2 bn

Opex savings due to reduced portfolio

Real estate income, RUB bn

11
RUB bn

— Sale
— Lease

including the sale of the Central Telegraph building, an office and technological facility with a total area of 12,000 sq m in Moscow, for RUB 2 bn inclusive of VAT

Targets 2018–2022

Real estate portfolio

–20 %

Real estate income

> RUB 30 bn

Opex savings

RUB 3 bn

Total savings between 2018 and 2022 and over RUB 1 bn in annual savings starting from 2022

Real estate portfolio optimisation

Real estate portfolio optimisation, focused on more efficient use of the Company's properties, is a top priority in Rostelecom's efforts to improve internal efficiency. According to the current strategic plan, our real estate income will exceed RUB 30 billion between 2018 and 2022 while the total opex savings from portfolio optimisation initiatives are expected to exceed RUB 3 billion.

Rostelecom's real estate portfolio includes more than 21 thousand properties. Almost half of the Company's total real estate space is located in cities with a population in excess of 100 thousand people, including Moscow and Saint Petersburg. In 2018, Rostelecom successfully reduced the size of its real estate portfolio by 3%, or 0.3 million sq m, to 8.3 million sq m, with additional income from property sales at RUB 8 billion. The total

income from real estate management, including rental income, reached RUB 11 billion in 2018. The total opex impact from our real estate portfolio optimisation efforts in 2018 was RUB 200 million in savings.

One of the larger 2018 deals was the sale of the Central Telegraph building, an office and technological facility with a total area of 12 thousand sq m in Moscow, for RUB 2 billion inclusive of VAT.