

TV infrastructure development

In 2018, Rostelecom continued to develop its TV infrastructure, including upgrading its interactive TV platform and launching the new Wink video service and other new products.

The software and hardware upgrade of the interactive TV IPTV/OTT infrastructure completed during the year enabled us to ensure technical readiness for IPTV, OTT, and Freeview services.

During the year, we deployed a new version of the DRM Verimatrix system and a new centralised CAS Conax Contego solution.

In September, Rostelecom launched a new video service, Wink, offering access to interactive TV from any device or network. We also launched our DVB-C Hotel TV product and a 4K (UHD) broadcasting system. 35 new TV channels were added to the network.

During the year, we connected 27 sites of Federal State-Owned Enterprise Russian Television and Radio Broadcasting Network (RTRN) to receive signals of TV channels with statutory public access. As a result, we have considerably improved the quality of TV channels broadcast within our Interactive TV service package.

Mobile networks

Rostelecom cooperates with Russian operators of terrestrial mobile networks to extend the range of high-quality network services, including national and international roaming.

As at the end of 2018, the Company was routing international calls for 754 mobile networks in 203 countries. Rostelecom continues to build up its mobile network capacity across Russian regions.

IT infrastructure expansion

In 2018, Rostelecom focused on enhancing the performance of its IT function, including improvements to IT architecture and optimisation of internal and external business processes.

Streamlining the IT landscape

As part of streamlining the IT landscape, Rostelecom has been implementing its strategic Target OSS/BSS Architecture Programme (the Basis programme). In 2018, we redesigned the programme to expand its functionality and launch new projects, including at macroregional branches.

Ensuring transparency and agility

In late 2017 and early 2018, we launched a number of critical initiatives to enhance the performance of our IT function, including:

- › transforming IT function capabilities
- › optimising procedures for cooperating with the IT function
- › increasing transparency into decision making and external communications of the IT function
- › educating external stakeholders about the IT function's activities
- › adapting a new IT culture, including through creating a specialised IT cluster, applying advanced methods, and developing a plan for building a digital community within the organisation to improve agility in finding and adopting new solutions.

Developing the information environment to improve customer relations

To use data more effectively, the Group has launched its Single Reporting and Master Data Management Framework programme, which provides for improvements to the data storage centre as well as to customer and reference data management.

In 2018, the Group made progress on all major areas of the programme. Specifically, we reduced data submission times, integrated the basic functionality to harmonise customer data, and launched a reference data unification process.

Human capital development

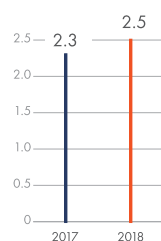
With a headcount of 129 thousand employees, Rostelecom Group ranks among Russia's largest employers. Rostelecom views human capital development as a top strategic priority. Achieving the Group's long-term goals requires a high level of engagement and satisfaction as well as opportunities for professional and personal growth of each employee.

We are committed to building a working environment that encourages talent development. Customising all processes and services around the employee and his or her interests is a key focus area for us. Considering Rostelecom's strategic goals and trends in the labour market, the Group has been focusing on strengthening its HR brand, integrating Generation Z into business processes, and enhancing labour productivity.

FIG. 37. FOCUS ON WORKFORCE PRODUCTIVITY

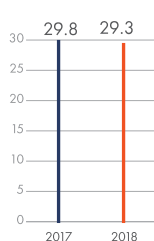
+9 %
Increase
in productivity

Revenue per employee,
RUB m



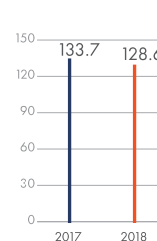
-0.6 pp
Decrease in payroll share
of revenue

Payroll to revenue ratio,
%



-4 %
Headcount
optimisation

Headcount,
thousand employees



Targets 2018–2022

Productivity
+40 %

Decrease in payroll share of revenue
- 2 pp

Headcount
**115–120 thousand
employees**

Incentives

We focus on engaging employees on the Company's success by creating a positive environment that encourages enhanced performance. Rostelecom has in place several incentive programmes covering a wide range of employees or targeting specific employee groups.

In 2018, we approved Rostelecom's Long-Term Incentive Programme for 2020–2022, a logical extension of our Long-Term Incentive Programme for 2017–2019.

For more details on our employee incentive and remuneration programmes see the Corporate Governance section.

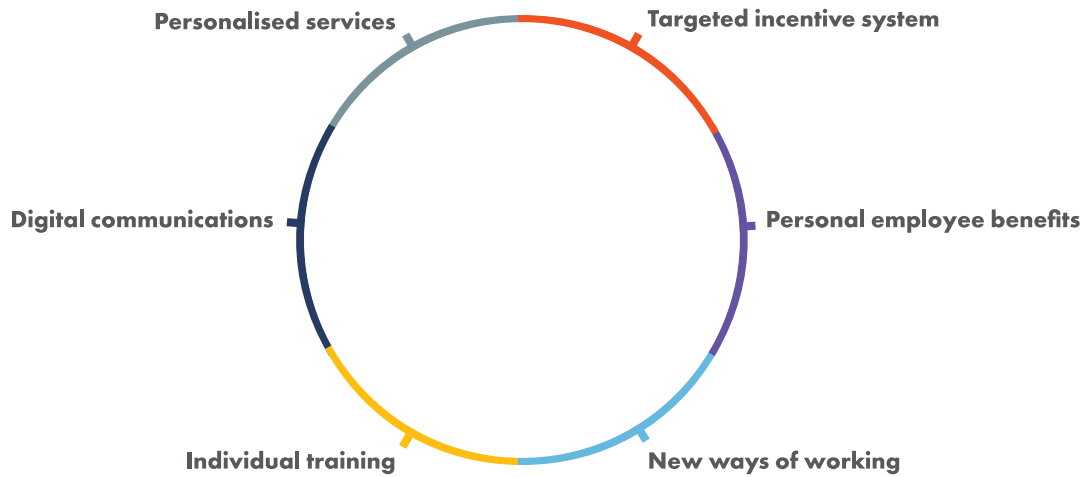
Education and development

Rostelecom places a particular emphasis on training its employees. Our training programmes involve over 50 thousand employees. In 2018, we continued to develop our corporate training platform by expanding its functionality and adding The Basics of the Digital Economy and IMBA courses.

We aim to build a positive working environment for our employees from their very first day at work. All our new employees are provided with a ready-to-use workplace and access to a corporate mobile application on their first day of employment.

We offer our employees a mentoring programme to expand their career opportunities. Rostelecom also builds a talent pool, counting 415 employees in 2018.

FIG. 38. POSITIVE CORPORATE ENVIRONMENT



Engaging the youth

We believe that by 2022 20% to 25% of our employees will belong to Generation Z,¹ who are known for their high mobility and agile decision making. To ensure a solid talent pipeline for the future, Rostelecom has already started promoting its HR brand among young people.

In 2018, Rostelecom launched a leadership programme for students, Internship 365°, covering 25 major Moscow universities. Following the programme, 15 students started an internship with the Company.

We also continued offering externships for students as part of our relations with universities. In 2018, about 4,000 students underwent externships at Rostelecom, with 17 offered an employment at the Company as a result, while another 27 continued working with us on a project basis.

For school students, Rostelecom launched a range of Information Security programmes. The programmes covered a 3 million audience, with 1,500 most active participants included in our talent pool.

1. Generations of people born approximately after 1995 according to the generational theory by William Strauss and Neil Howe.

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 benefits⁵ of the solutions implemented through our RPS projects and local initiatives totalled RUB 219.3 million while the soft benefits⁶ totalled RUB 698.7 million.

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).