



Association of
Institutional Investors (API)

Research report on PJSC ROSTELECOM

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS
COMMUNICATIONS, NATIONAL RESEARCH
UNIVERSITY HIGHER SCHOOL OF
ECONOMICS

Brief capital structure overview

The Government of Russia's effective voting stake in the Company (including the stake of VEB, a substantial shareholder controlled by the Government) is 53%. Preferred shares account for 7.5% of the company's authorized capital, among them 2.32% of the authorized capital are quasi-treasury shares, with one of the largest packages of voting quasi-treasury shares in the Russian market (15%); the policy of voting the quasi-treasury share package is not formalized*, although the package has a substantial impact on decision-making, with ensuing risks for shareholders. Due to the use of this package for voting at the 2016 AGM, the minority shareholders failed to elect the independent director they nominated, with a top manager of the Company elected instead. The President of Rostelecom announced the intention to prevent the election of an independent director to the Board of Directors**.

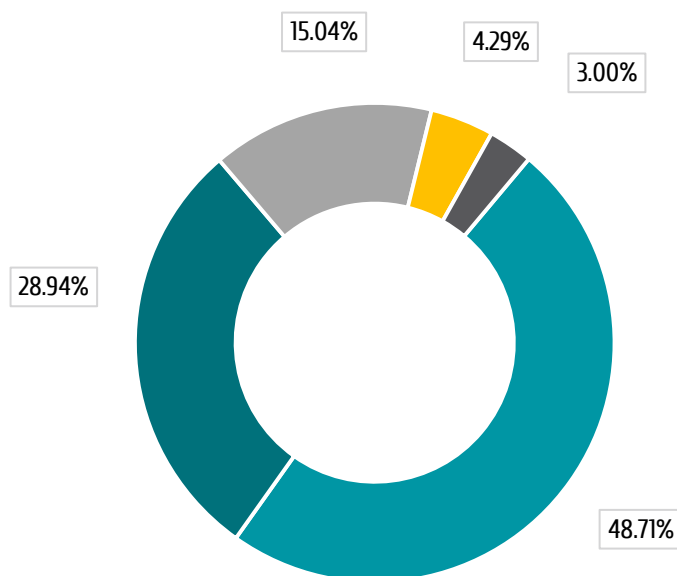
* *The media actively discussed the possible signing of an agreement between Rostelecom and Russia's Federal Agency for State Property Management / Rosimushchestvo on the management of this share package; the agreement has so far not been signed, the quasi-treasury shares are technically voted by the management of Rostelecom Group.*

***"The independent candidate is affiliated to shareholders with a certain track record, which could bring people sometimes pursuing non-corporate interests inside the company. We are against that" (RBC, June 21, 2016).*

Corporate governance self-assessment

In 2015, the Company complied with 73, partially complied with 5 out of the 79 principles and recommendations of the CG Code; amendments to the corporate documents reflecting the CG Code recommendations were approved at the AGMs in 2015 and 2016.

Breakdown of voting shares



- The Russian Federation
- Freefloat (INEDs) & individuals
- Mobitel LLC (quasi-treasury shares)
- Vnesheconombank
- RTK-Razvitie, closed-end unit investment hedge fund

General Summary of CG

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- 4 of the 11 members of the Board of Directors (BoD) are independent Directors (INEDs);
- The Audit Committee (AC) and the Nominations and Remuneration Committee (NRC) are entirely composed of INEDs;
- The Board of Directors meeting may be convened by shareholders possessing at least 2% of the voting shares;
- the company takes the most progressive attitude towards shaping the dividend policy: dividends are based on the free cash flow (FCF) for each financial year, with minimal dividends fixed in absolute terms;
- the actions to be taken by the BoD and its members in case of a conflict of interest are covered in detail by the corporate documents;
- broad powers of the BoD Audit Committee (AC) in relation to internal and external audit, internal control and risk management;
- the Company has created an effective internal audit division regularly and truly accountable to the AC, BoD and CEO;
- the BoD has adequate instruments for monitoring the risk management system, including the payment of bonuses to the chief risk officer;
- all material facts concerning related party transactions are disclosed;
- the charter contains the requirement to consider the most essential aspects of the Company's activities at physical BoD meetings;
- the BoD is authorized to formulate the Company's position when the subsidiaries consider transactions involving the Company's shares;
- all CG Code recommendations as regards the need for a qualified majority or the majority vote of the elected BoD members when voting on most essential issues are given legal recognition in the Company's charter.

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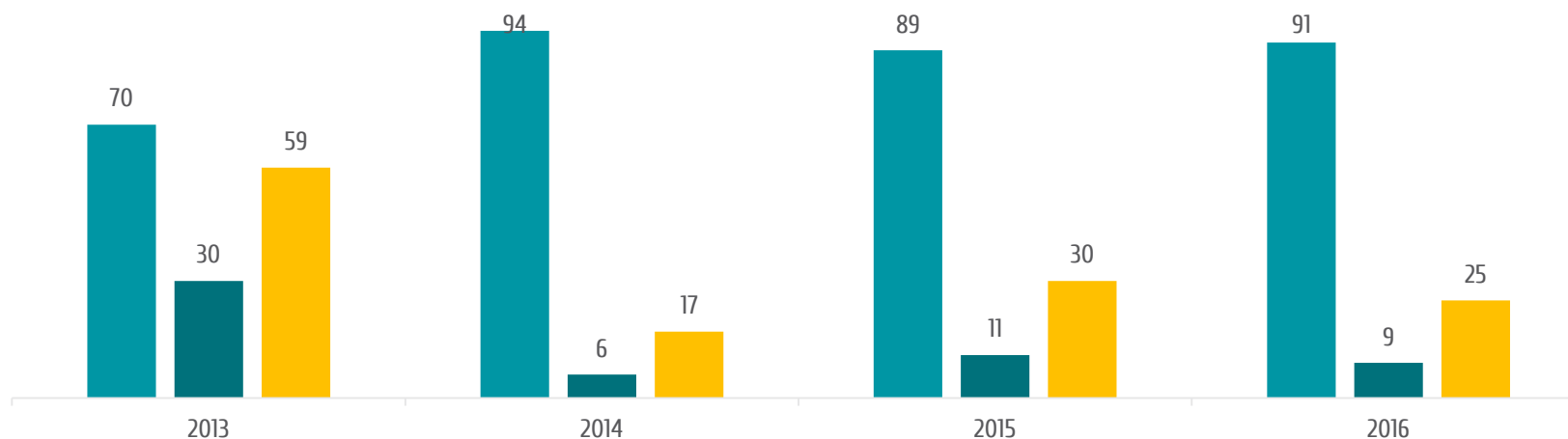
- a major drawback in the Company's CG, with negative implications in practice, is the voting of quasi-treasury shares at general shareholders meetings (GSMs). The BoD found it appropriate that Mobitel LLC should conclude a shareholders' agreement with Rosimushchestvo concerning the management of this package (the essential terms and conditions of this advisable agreement were not disclosed). The agreement has so far not been concluded. In our view, the agreement is only expedient if it provides for a prohibition on the voting; such a prohibition needs proper formalization.
- the results of BoD members' voting on the issues addressed at the meeting, including the individual voting (how exactly each of the BoD members voted), are not disclosed;
- a low number of physical BoD meetings (4 meetings in the period under review, i.e. in January 2015 – September 2016), the key committees virtually existed on paper (no physical meetings of the AC and the NRC);
- due to the principal shareholder's (the Government of Russia) failure to nominate candidates to the Company's control and management bodies in due time (as was the case in 2015), the Company misses deadlines for the consideration of matters by the BoD under the corporate legislation (according to the generally established CG practice, the shareholder is to meet the statutory deadlines for AGM-related proposals);
- (conditionally negative) the company partially discloses the top management remuneration system. While its description is one of the best among the companies covered by the research, the disclosure approaches need to be refined to make the system a benchmark of disclosure for Russian companies;
- the agenda of BoD meetings sometimes includes the "Any Other Business" item. Without details, there is a risk of considering essential issues without properly notifying the BoD members.



General shareholders meeting: quorum, related party transactions, shareholder specifics

The proportion of minority shareholders participating in meetings decreased in 2016 (25% of the free float minority shareholders, a mere 7% of all shareholders). The quorum was 78.4% in 2016.

In 2015 and 2016, the AGMs approved 1 and 4 related party transactions in the amount of RUB 90 billion and RUB 510 billion, respectively, which the Company may effect in future in the normal course of business, as well as 1 related party liability insurance transaction in the amount of €368,500 in 2015 and a similar one worth €654,000 in 2016. It should be noted that one of the reasons for voting quasi-treasury shares, as stated by the management, was to ensure positive decisions on related party transactions.



- %, proportion (in relation to quorum) of the Russian Federation, controlled shareholders, quasi-treasury shares
- %, proportion (in relation to quorum) of minority shareholders taking part in the meeting
- %, proportion of free-float taking part in GSMs in relation to total number of shareholders



Information on ROSTELECOM shareholders, according to Bloomberg data and disclosures by shareholders

Shareholder Name	Voting stake	Comment on voting
RUSSIAN FEDERATION	48.71	No voting policy, Rosimushchestvo votes as instructed by the Government of Russia.
MOBITEL LLC	15.06	The company holds quasi-treasury shares used for voting at the 2016 AGM, with the result that a candidate nominated by the management team was elected to the BoD.
VNESHECONOMBANK	4.29	No voting policy, no disclosure of voting.
VANGUARD GROUP	1.27	The shareholder discloses its approaches to voting at GSMs as well as the way it voted in the last corporate season. For funds focused on investments in Russia, the shareholder disclosed non-voting at the AGM in 2016. The shareholder does not nominate BoD/SB (Supervisory Board) candidates, but supports, according to the generally disclosed approaches to voting, the idea of nominating at least 20% of INEDs by a group of shareholders holding at least 3% of the company's shares in the preceding 3 years. The shareholder follows recommendations from proxy advisory firms.
BLACKROCK	0.89	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies. Information on voting in the last corporate season is disclosed. The shareholder did not vote at the AGM in 2016. Recommendations of proxy advisory firms are followed. The shareholder does not nominate BoD/SB candidates but can support other shareholders' proposals if there is certainty about meeting shareholders' interests in the best way possible.
GRANTHAM MAYO VAN OTTERLOO & CO	0.25	The shareholder discloses information on its voting at the shareholders' meeting following ISS recommendations. No specific voting disclosure. In 2016, the ISS recommended voting for 4 independent directors, one of whom was nominated and supported by the minority shareholders.
Sergey B Kalugin	0.23	As of 09/30/2016, the President of Rostelecom owned a package of ordinary shares in the amount of RUB 458 million. Investors welcome the President's significant shareholding in the Company. The data are confirmed by the quarterly report disclosed by the issuer.
HSBC	0.22	The shareholder publicly discloses the voting at GSMs since 2013 for most of its funds. At the 2016 AGM, the shareholder voted for 5 candidates to independent directors (4 of them were elected to the Board of Directors with the Government's support), 4 representatives of the management (CEO + vice presidents). The shareholder discloses the global principles of voting at GSMs noting its reliance on best practices when making voting decisions.
DEUTSCHE BANK AG	0.17	The shareholder publishes the voting policy on behalf of the asset management division; in this case, the shareholder is likely a nominal holder.
RAM (LUX) SYSTEMATIC FUNDS	0.13	The shareholder does not disclose the voting policy but specifies its status of PRI signatory. In this connection, the shareholder declares its commitment to voting at GSMs, but does not disclose actual voting cases and approaches.



Shareholder Name	Voting stake	Comment on voting
NORDEA BANK AB	0.10	Approaches to voting are disclosed by the asset management division as part of the responsible investment policy; in this case, the shareholder is likely a nominal holder.

General shareholders meeting: disclosure of information and essential aspects

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- materials related to GSMs specify the persons proposing agenda items and candidates to the Board of Directors and the Audit Commission;
- draft documents are submitted for approval with comparison tables attached to them reflecting the changes proposed to such documents and the rationale for such changes (in the form of reference to the laws);
- the annual report section concerning the BoD members' participation discipline as regards meetings of the BoD and committees includes information on the format of meetings;
- the Company considers minority shareholder' proposals for AGM agendas on merits, even if the shareholders cannot attach any formally required documents.

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- the Company's documents (the charter and the Regulations on the General Shareholders' Meeting) do not contain any reference to the timeframe of disclosure of GSM-related materials; in practice, however, such materials are disclosed in good time.

Comment on the results of voting at GSMs

The Company's shareholders have come across an unreasonable treatment of the sanctions regime imposed by Western countries on a number of individuals and entities. PJSC Rostelecom is NOT included in the list of Specially Designated Nationals (the SDN or sanction list), but the Chairman of its Board of Directors is personally included in this list. Some of the custodians prevented the shareholders from exercising their rights refusing to execute their clients' instructions for this reason. In this connection, the shareholders concerned wishing, for example, to vote for an independent director supported by other institutional investors in 2016 were unable to do that. As a result, according to our estimates, while the election of 5 INEDs was possible and, if successful, could have set a record among all state-owned companies in terms of the proportion of INEDs in the Board of Directors, only 4 independent directors supported by the Government were eventually elected.



Board of Directors: international and domestic practice

BoD activity aspect	AT&T	BT Group	Vodafone	Rostelecom
INEDs/total number of BoD members	11 of 12	7 of 10	9 of 12	4 of 11
Participation in meetings of BoD and committees in 2015 (all meetings at peers are held in the form of joint attendance)	At least 75% to each BoD member (no further details disclosed)	BoD: 10 meetings, 100% attendance; Audit Committee: 8 meetings, 100% attendance HR & Remuneration Committee: 6 meetings, 100% attendance	BoD: 7 meetings, 2 directors missed 1 meeting each, 1 director 2 meetings; Audit Committee: 5 meetings, 1 non-attendance, HR & Remuneration Committee: 5 meetings, 100% attendance	BoD: 40 meetings (3 physical), 2 BoD members missed 1 meeting in absentia each, 2 BoD members missed 1 physical meeting each, 1 BoD member (foreign resident): 0% attendance. Audit Committee: 4 meetings, all in absentia. Nominations and Remuneration Committee: 5 meetings, all in absentia.
Remuneration of BoD members / actual payments based on 2015 performance	\$95K to BoD member + \$2K for BoD/AC/HR&RC meeting, \$1.7K for meeting of other committees, \$25K (Chair of AC/HR&RC), \$15K (other committees) + \$170K in deferred phantom shares accrued up to 15 times per year, but payments upon expiration of tenure only (net of discount) Actual: \$292K-395K	£675K to Chair of BoD, £70K to BoD members; Audit & Risk Committee: £30K to Chair, £20 K to members; Remuneration Committee: £25 K to Chair, £15K to members. £5K-15K to others Actual: £91-168K for corporate year (£686K to Chair of BoD)	No breakdown specified, actual: £625K to BoD Chair; £ 128K to senior INED; £115-140K to BoD members	Basic component: RUB 4 million* , RUB 6 million to BoD Chairman. RUB 0.4 million for membership in AC, RUB 0.32 for membership in other committees (1.25 multiple applies to Chair of the committee) Proportional subtractions for missing meetings Actual payments: 4 received RUB 6.72 million, zero paid to foreign BoD member because of 100% non-attendance.

*The amount of basic remuneration payable to members of the Board of Directors of PJSC Rostelecom is below that of the (conditional) peers.



Board of Directors: practical activity aspects

Board of Directors Chairman

Sergei Ivanov

(representing the Government of Russia), a special representative of the Russian President, no shareholding in the Company

Senior Independent Director,

Alexander Auzan (INED)*

Dean, Department of Economics, Lomonosov Moscow State University, no shareholding in the Company

Nominations and Remuneration Committee Chairman

Ruben Aganbegyan (INED)*

General Director, Otkritie Holding JSC, no shareholding in the Company

Strategy Committee Chairman,

Anatoly Milyukov (INED)*

Chairman of the Board of Directors, JSC April Capital Management Co., no shareholding in the Company

Audit Committee Chairman

Vadim Semenov (INED)*

Chairman of the Supervisory Board, Avtodor Group, no shareholding in the Company

* The API met with all independent directors, all of them are open to contact with the shareholders.

Please find below the summary of BoD members' comments including the API's expert opinion based on the results of these meetings. We appreciate the BoD members' participation in the interview and believe that such annual meetings with the Company's investors and shareholders are extremely useful for assessing the BoD performance and making decisions on the voting for candidates to the BoD at general meetings, among other things.



Board of Directors: practical activity aspects

For the period under review (2015, 9 months of 2016), the Board of Directors held 61 meetings, including 4 meetings in the form of joint attendance. 578 issues were considered.

Most of the issues (63.4%) concerned one of the following activities:

- determining the Company's position on issues within the purview of the supreme management bodies of entities wholly owned by the Company (199 issues, 34.4%);
- approval of related party transactions in the amount of RUB 117 billion and \$3.3 million (141 issues, 24.4%);
- approval of a transaction involving property accounting for 0.5% to 25% of the Company's carrying asset value (27 issues, 4.7%).

The BoD also considered issues related to:

- the risk management system and remuneration of the chief risk officer (22 issues);
- internal audit and remuneration of the chief audit executive (17 issues);
- budget performance results (6 issues);
- long-term management program and KPIs (6 issues);
- sponsorship and charity (3 issues).

The company's strategy is discussed in detail by the BoD, primarily based on the management's standpoints; BoD usually prefer listening and asking questions to bringing up their proposals for discussion. The management team possesses broad and undisputable strategic visioning skills compared with the BoD members. We had the impression that some INEDs see the need for the BoD members' deeper involvement in the development, monitoring and implementation of the corporate strategy.

A benchmark is actively used in all business planning, KPI setting and motivation aspects. Both external (international) and internal (Russian) benchmarks are applicable.

Independent directors wish to increase the number of physical BoD meetings: in the period under review (2015 and 9 months of 2016), the BoD held 4 physical meetings, which falls short of the BoD activity level at any international (conditional) peers and does not meet the normal practice at other Russian companies.

At the 4 physical meetings, the BoD addressed the approval and implementation of the long-term development program, the company's budget, the strategy in new segments and the establishment of a corporate real estate fund. All the other essential issues, including the management's motivation, activity of the internal audit system, risk management system, preparation for the shareholders meeting, etc. were discussed in absentia.

According to INEDs, physical BoD meetings are effective and productive, proposals of BoD members and discussions are welcome, any BoD member can express their opinions and make amendments, if necessary, to the draft resolution proposed by the management. The BoD members surveyed commend the role of the BoD in the CG system, however, it is the quality and performance of the management team that is the determining factor for CG, they say. The independent directors surveyed highly appreciate the effectiveness of the current team and personally of the sole executive body (CEO).

INED note a large number of issues subject to instructions, which can dilute, in a way, responsibility of the BoD. That said, directors have not noted any considerable problems with such issues in the BoD activity.

As for submitting proposals to Rosimushchestvo for candidates to the BoD for the next corporate year, INED take a passive attitude assuming that this should primarily concern the shareholder.

The senior independent director position is technically established at the Company, but the focus of activity and objectives are under discussion, for example, in the way of some involvement in relations with shareholders and investors.



In our view, the practice of putting the undefined 'Any Other Business' item on the agenda is a negative element in the BoD activity. In one case (the BoD meeting as of October 8, 2015), the company discloses the resolution made when handling an AOB issue: "On invalidating the Regulations on Remuneration of Management Board members," in another case (December 14, 2015), the results of the BoD meeting were not disclosed, the agenda item in question was presumably not considered. We recommend that the Company abandon this approach to shaping the agenda of BoD meetings.

At the same time, we appreciate the good practice of legal recognition of the following in the corporate documents:

- procedure for providing requested information on the company and its controlled entities to BoD members (INED commend the absence of any problems with access to any information they need);
- the right of BoD members to require that the dissenting opinion on agenda items and resolutions, if any, be included in the minutes of the meeting (the practice of disclosing the dissenting opinion of a BoD member, e.g. concerning the preparation for a GSM).

We should also note the broad expertise of the BoD as regards participation in the management of subsidiary entities (as evidenced by the biggest proportion of agenda items considered at the meetings). At the same time, it is useful to give BoD members the right to nominate candidates to the management bodies of substantial controlled and subsidiary entities, including the companies where Rostelecom does not have 50% +1 share (the mobile business). At the moment, proceeding from the current wording of the charter, the BoD, in our view, only has the power to coordinate the Company's position.

The Board of Directors has established 5 specialized committees, namely, the Strategy Committee, the Investment Committee, the Nominations and Remuneration Committee, the Audit Committee and the Corporate Governance Committee. Of special note is the extremely formal approach to activity at no less than 2 key committees in 2015: all meetings of the Audit Committee and the Nominations and Remuneration Committee were held in absentia. Only the Strategy Committee held all its 3 meetings in the form of joint attendance. Information on meetings held by the other committees was not disclosed.

Independent directors assured us that the committees held meetings in the form of joint attendance in 2016 (the related statistics will be disclosed in the Company's 2016 annual report).

The BoD committees have the right to engage external experts (on a paid basis, among other things, to the extent of the budgeted expenses for such services).



Audit Committee (AC)

The Audit Committee consists of 3 INEDs. 4 meetings were held in 2015. The role and activities of the committee meet the CG Code recommendations. The Committee has broad powers in the field of internal and external audit, internal control and risk management, which is one of the best cases among the companies targeted by the research.

The Company discloses the full list of issues considered by the Audit Committee in an annex to the annual report. The AC regularly approved reports on the internal audit department's activity, on the award of bonuses to the risk manager and the head of the internal audit department, on the risk management program and the internal audit department regulations, on the recommendations for selecting the auditor and determining the auditor's fee, on implementing the risk management program. The efficiency assessment of the system for preventing conflicts of interest, illegal actions and violations, an independent system for warning members of the Audit Committee and BoD members (the hotline) was not considered separately, but the chief audit executive informs members of the committee on all feedback received via the hotline and the progress in follow-up checks when reporting on the internal audit division's activity.

Nominations and Remuneration Committee (NRC)

The NRC consists of three INEDs, 5 meetings were held in 2015. The Committee considered approving the terms of additional agreements to labor contracts with the management as regards the stock option plan and the management's remuneration, the terms and conditions of additional agreements to the labor contract with head of the internal audit department, the President's appointment and his term of office, as well as the bonuses payable to BoD members and the Company's President.

The Committee has not assessed the Board of Directors' activity. The procedure for preparing proposals to the majority shareholder as regards candidates to the BoD for the next corporate year is not formalized.

According to comments from the Chairman, the Committee considered a new long-term motivation program for Rostelecom employees in 2016. At the moment of the meeting with INEDs, the committee discussed the launch of a new motivation program covering up to 6% of Rostelecom shares. A portion of the quasi-treasury share package was considered as the source of the program.



Essential CG aspects

External auditor

The remuneration payable to Ernst & Young LLC engaged as the auditor for auditing the Company's statements in 2016 and H1 2017 is RUB 102.6 million (76.6% of the initial purchase price). As regards the auditor selection criteria, it should be noted that the bidder with the second best result offered a much lower price but could not primarily compete in the experience of auditing major companies and state-owned enterprises (SOEs). *We appreciate the positive practice of assessing the quality of audit services without focusing on the contract price as the only determining factor.* Based on the disclosed materials, the auditor does not provide non-audit services to the Company. The 2015 annual report contains a declaration of checking the auditor's independence. The Audit Committee prepares recommendations to the BoD as regards selection of the auditor and determination of the auditor's fee based on a review of the auditors' services and the terms and conditions of their provision, as well as an opinion of the Company's top executives. The terms of the contract with the auditor are subject to approval by the BoD. The Audit Committee is satisfied with the quality of external audit.

Internal audit, internal control, risk management

In 2015, the Company updated the Internal Audit Regulations and the Internal Audit Department Regulations. The internal audit division headed by the chief audit executive consists of the internal audit department of the corporate center and the internal audit departments of each of Rostelecom's macroregional branches. *At the end of 2015, Rostelecom had 142 employees engaged in the internal audit activities (the disclosure by the Company of this figure is extremely important for assessing the adequacy of resources for the internal audit function).* In 2015, the internal audit department checked the Company's business processes and conducted

comprehensive inspections at macroregional branches, according to the 2015 activity plan approved by the BoD, performed preventive control of documents and control of remedy measures, checked the measures aimed at improving efficiency of the internal control service and business processes, and made a selective assessment of the risk management system efficiency. According to the BoD members surveyed, the internal audit system is effective, accountability to the BoD is high and adequate. *The powers of the BoD and of the Audit Committee in relation to internal audit are consistent with the CG Code recommendations (except for approving a separate budget of the internal audit division).*

The Board of Directors effectively monitors the risk management system. In the period under review, risk-related matters were considered 22 (!) times, including quarterly reviews of substantial risk management results, bonuses to the chief risk officer, the annual risk management program and related adjustments, the risk management policy.

Dividend policy

Under the Dividend Policy Regulations, the Company earmarks at least 75% of the FCF for the financial years 2015, 2016 and 2017 (but no less than RUB 45 billion in total for all types of shares) for the payment of dividends. According to the old version of the Dividend Policy Regulations, the Company was to earmark at least 20% of its IFRS net profit for dividends on ordinary shares. The minimum required dividend per preferred share did not change: 10% of the Russian GAAP (RAS) net profit divided by the number of preferred shares, while maintaining parity in dividend payments if the estimated dividend per ordinary share exceeds the dividend per preferred share.

We welcome the use of the FCF as the benchmark, which increases the Company's dividend yield and ensures effective distribution of profits taking into account the current situation and the stage of development.



Proportion of profit earmarked for dividends before and after the new dividend policy

<i>Dividend payout ratio</i>	<i>Dividends on ordinary shares in relation to RAS net profit</i>	<i>Dividends on ordinary shares in relation to IFRS net profit</i>	<i>Dividends on prefs in relation to RAS net profit</i>	<i>Dividends on prefs in relation to IFRS net profit</i>
2014	29.2%	22.8%	2.9%	2.2 %
2015	70.63%	105.84%	5.75%	8.61%

Dividend payout ratios at (conditional) peers vs. Rostelecom in 2015

	<i>Rostelecom</i>	<i>AT&T (2014 dividends**)</i>	<i>BT Group</i>	<i>Vodafone (2014 dividends**)</i>
Payout ratio*	118.1% (76% of the RAS net profit)	80%	39%	35%

*factoring in the profit attributable to the parent company's shareholders

**information on 2014 dividends is provided for companies posting losses in 2015

Information disclosure

- for 95% of all related party transactions, the Company discloses their material terms, including the subject of the transaction, the parties, the price (or its limits), the party in interest to the transaction (the best transaction disclosure practice!);
- the notices on resolutions made by the BoD do not disclose information on the results of voting on the agenda items, including the individual voting, i.e. how exactly each of the BoD members voted (we recommend that the Company disclose this information);
- the link to the hotline mentioned in the Company's Code of Ethics and intended for reporting violations of the Code is quite difficult to find without using the search form and without knowing of the existence of the Company's Code of Ethics; it is recommended that the link be located where people wishing to share information about violations can easily find it.



Management remuneration system disclosure practice at international peers of PJSC Rostelecom

The company has one of the most advanced management motivation disclosure systems among the companies covered by the research (for example, it discloses payments to the 5 highest-paid employees). *Our recommendation is to consider still broader disclosure based on international practices and focusing on the ratio between the long-term and short-term components, information on the target and actual (achieved) KPIs, estimates of future payments, etc.*

Approximate proportions of CEO remuneration components in 2015

	AT&T	BT Group	Vodafone	Rostelecom
Fixed component	8%	23%	23%	45%
12-month bonuses	25%	32%	27%	55%
Long-term	67%	44%	49%	0%*

	AT&T Inc.	BT Group plc	Vodafone	Rostelecom
Disclosure, all payment, incl. in the form of stock, estimates of future payments	CEO + CFO + 3 top managers. Actual, CEO: Salary \$1,741,667, bonus: \$5,500K, long-term remuneration: \$14,600K.	CEO + CFO. Actual, CEO: Salary £ 946K, bonus: £1,322K (including deferred stock), long-term remuneration: £1,812K.	CEO + CFO + Chief Engineer. Actual, CEO: Salary £1,150K, bonus: £1,342K (including deferred stock), long-term remuneration: £2,429K	Total for Management Board + separately to 5 highest-paid Management Board members in total. Management Board reduced from 15 to 6 since September 2015. Remuneration for membership in Management Board: RUB 46 million, salary: RUB 208 million, annual bonus: RUB 314 million, including an option worth RUB 180.7 million. Payments to 5 highest-paid Management Board members: RUB 16 million for membership in 5 Management Board, RUB 145 million in salaries, RUB 174 million bonuses



	AT&T Inc.	BT Group plc	Vodafone	Rostelecom
KPIs influencing the short-term (annual) variable remuneration component (incl. the KPI relative weight, if any)	Consolidated profit, EPS, Free cash flow. No proportions provided.	Executive achievements 10%, revenue growth – 10%, personal contribution to strategic achievements 15%, normalized FCF 20%, customer satisfaction 25%, adj. EPS 20%	EBITDA, revenue, adjusted FCF 20% each, strategic KPIs (eg. consumer recommendation index, market share) 40%	TSR, ROIC, Revenue, OIBDA, labor productivity, quality of the innovative development program, subscriber growth, number of households connected to fiber optical cables, net debt/OIBDA ratio
KPIs influencing the long-term variable remuneration component (3-year targets for some of the KPIs)	Shares for achievement of KPIs: ROIC 75%, TSR vs. S&P 100: 25%, restricted stock units: same KPIs (the number of restricted stock units in money terms equal to the number of phantom shares for achievement of KPIs)	Relative TSR across peers 40%, normalized FCF 40%, increase in base revenue without excluding transit revenues 20% (for a period of 3 years)	TSR across peers (info contains peers + total growth index in emerging markets)	see remuneration of the management section: long-term motivation*
Long-term bonuses	(Phantom) shares for the achievement of KPIs (settlement/payout period: 3 years); restricted stock units (accumulation period: 4 years, payment in shares)	Shares with deferred distribution (base April 1, 2014). Base calculation period: 3 years + 3-year deferred shares (1/3 of annual bonus)	Shares with 3-year deferral of receipt and obligations to co-invest in company's shares +dividends on them (up to 594% of CEO's salary and 525% of other salaries)	see remuneration of the management section: long-term motivation*

Shareholdings of Management Board members

Management Board member	Rounded-off value of share package as of September 30, 2016
Sergey Kalugin (CEO)	RUB 978 million (including preferred shares)
Maria Florentieva	RUB 121 million (including preferred shares)
Larisa Tkachuk	RUB 26 million
Kai-Uwe Mehlhorn	RUB 24 million
Galina Rysakova	RUB 24 million
Alexander Tseitlin	RUB 24 million



*Management remuneration: long-term motivation

The Company has a long-term 2014-2015 management motivation program. Its participants purchase ordinary shares at a fixed price out of the annual bonus paid subject to the achievement of KPIs based on FCF, net profit and ROIC. *The shares are sold annually, a certain percentage of the total target package, with an adjustment, depending on the KPI achieved (30% for 2014, 30% for 2015, 40% for 2016; or 40%-60%, respectively, for those who joined the program in 2015).* The final package is subject to periodic adjustment based on the KPI achieved in each year and factors in expected changes in the KPIs for the remaining years of the program.

Structurally, the program differs from long-term top manager motivation programs used in the international practice in the following way: the Company does not provide for an accumulation period during which the shares or corresponding conditional units are accrued subject to annual KPIs but do not pass into the manager's ownership until expiration of the tranche settlement period. According to international practices, such an accumulation period ranging from 2 to 5 years is intended for backdated bonus reduction in case of a failure to meet a target KPI (e.g. the TSR for a certain period and/or multiple targets in succession during the period) or in case of non-compliance with the conditions related to early employment termination, absence of violations over the period, etc.).

Besides, the Company does not provide for a base KPI calculation period until the bonus award in more than 1 year. Shares are transferred to the ownership of managers under Rostelecom's program at a fixed price. According to international practices, the price at which payments are effected at the end of the calculation period differs from the accrual price in each year applying to the calculation of the number of shares each year during the accumulation period.

The approaches to determining the size of the bonus payable for the successful KPI achievement used in the program are not disclosed. In the international practice, the bonus determination is mainly based on a combined multiplicative KPI achievement assessment formula.

Therefore, the program is similar to employee stock ownership plans (ESOP) used in the international practice, subject to an adjustment for motivation purposes (setting the total number of shares for bonuses based on the achievement of KPIs monitored in each year over a period of 2 or 3 years). The information on exercising options disclosed in the annual report does not contain a clear indication of the physical contingent income (loss) attributable to the managers in each reporting year (no specific financial calculation). The reports on remuneration of Management Board members do not specify whether the bonus component includes the stock option plan.



Corporate social responsibility

In 2015, the Company approved restated Regulations on the donations and charity procedure. The Company does not disclose the document or its approaches to charity & sponsorship budgeting and to setting limits on these expenses. The annual 2015 report contains the following information:

Charity and sponsorship expenditure of the Company and its subsidiaries in 2015 (million rubles)

PJSC Rostelecom	294.2
PJSC Bashinformsvyaz	51
OJSC MMTS-9	0.95
JSC MC NTT	0.48
OJSC Orbita Health Resort	0.03
Rostelecom Retail Systems Ltd	0.003
TOTAL	346.7

The corporate social responsibility issues and related matters are also disclosed in the annual social reports published on the Company's website since 2011 and consisting of the following sections: company profile, corporate culture, social policy, socially oriented services and security. The document contains separate data on charity expenses, for example, the transfer of about RUB 7 million to regional orphanages and boarding schools in 2015.

<i>Charity expenses at Rostelecom vs. conditional peers</i>	<i>Rostelecom</i>	<i>AT&T</i>	<i>BT Group</i>	<i>Vodafone (2014)</i>
Ratio of direct social investment and charity expenses to IFRS profit	2.49%	1.14%	1.31%	0.68%

