



APPROVED  
by the Board of Directors  
of PJSC Rostelecom  
December 4, 2015

Minutes No 13 of December 4, 2015

**PUBLIC JOINT-STOCK COMPANY LONG-DISTANCE AND INTERNATIONAL TELECOMMUNICATIONS  
ROSTELECOM**

**DIVIDEND POLICY**

(new issue No 3)

Moscow  
2015

**I. GENERAL PROVISIONS**

- 1.1. This Dividend Policy of Rostelecom (hereinafter the “Policy”) has been developed pursuant to applicable Russian Law, the Charter of PJSC Rostelecom (hereinafter sometimes to be referred to as the “Company”) and other internal regulations of the Company, the Code of Corporate Conduct as approved by the Board of Directors of the Bank of Russia on 21.03.2014
- 1.2. The Policy shall set forth basic principles of the Company’s dividend policies, procedures for making decisions on dividend payments (dividend declaration), determination of dividend amounts and their payment procedure.

**II. TERMS AND DEFINITIONS**

- 2.1 Terms and definitions used herein shall have the same meaning as when they are used in applicable law, rules and regulations, unless otherwise is expressly stated in this Policy.
- 2.2 For the purpose of this Policy the following terms and definitions shall apply:
  - **“Shareholder”** or **“Eligible for Dividend Person”** shall mean a person who is an owner of shares of a certain class (type) or a person exercising rights attached to the relevant shares according to applicable federal law, as at the end of the banking day which is determined according to the dividend payment decision as the date to finalize the list of persons eligible to receive dividends;
  - **“Depositary Receipts”** shall mean securities issued on the underlying shares of Rostelecom according to provisions of foreign law in order to facilitate trading in the Company shares beyond Russian Federation;
  - **“General Shareholder Meeting”** shall mean annual or extraordinary shareholder meeting of PJSC Rostelecom;
  - **“Rosimuschestvo”** shall mean the Federal Agency for State Property Management of the Russian Federation;
  - **“Free Cash Flow”** (hereinafter the “FCF”) shall mean the net cash from operating activities, (1) net of cash paid for purchase of property, plant and equipment and intangible assets, (2) plus proceeds from sale of property, plant and equipment and intangible assets. The FCF shall be determined according to the Cash Flow Statement of the Company consolidated financial statements pursuant to requirements of the International Financial Reporting Standards (hereinafter the “IFRS”);
  - **The “Board of Directors”** shall mean the Board of Directors of PJSC Rostelecom;
  - **“Dividend Payment Term”** shall mean the time interval within which the dividend payment obligation shall be discharged according to applicable law and the Company’s Charter;
  - **The “Charter”** shall mean the current issue of the Charter of PJSC Rostelecom;
  - **“Net Debt/OIBDA”** shall mean a performance indicator to be calculated as the ratio of: 1) the Net Debt as of the reporting date (long-term and short-term Loans and borrowings net of Cash and cash equivalents and Other financial assets), to 2) OIBDA over the 12 months preceding the reporting date (operating earnings before depreciation and amortization and non-cash expenses); with all these amounts to be determined pursuant to the Company financial statements according to IFRS;
  - **“RAS Net Profit”** shall mean the Company net profit after tax to be determined according to the Company financial statements in accordance with requirements of applicable Russian law (RAS), as stated in line 2400 Net profit (loss) of the Profit and Loss Statement;
  - **“IFRS Net Profit”** shall mean after tax profit to be determined pursuant to consolidated financial statements according to IFRS requirements.

**III. KEY DIVIDEND PROVISIONS**

- 3.1. A General Shareholders’ Meeting shall be entitled to pass a decision to pay (declare) dividend payments on the outstanding shares as at the end of a fiscal year as well as at the end of the first quarter, a half year and nine months of a relevant fiscal year unless otherwise is prescribed by

---

\* Other financial assets are determined as the line of the same name in Current assets section of Consolidated statement of financial position prepared in accordance with IFRS

applicable Russian law.

- 3.2. According to the Company's Charter dividend shall be payable in cash funds except situations where at the Company's General Meetings of Shareholders a decision regarding annual dividend on ordinary shares is made to pay out dividend in other form of assets. Dividend on the Company's preferred shares shall be payable in cash funds only.
- 3.3. Payments of the declared dividend shall be the Company's obligation, except cases specified in Article 43 of the Federal law "On Joint-Stock Companies" No208-FZ of 26.12.1995 (hereinafter the "Federal Law on Joint-Stock Companies"). The Company shall be liable to shareholders according to applicable law for failure to perform this obligation.
- 3.4. Depository Receipts shall entitle their holders to receive dividends in the amounts according to the number of the underlying shares of the Company assigned to such Depository Receipts.

#### **IV. PRINCIPLES OF THE COMPANY DIVIDEND POLICY**

- 4.1 This Dividend Policy prescribes the following principles of dividend amount determination and dividend payments:
  - observance and protection of shareholders' rights conferred by applicable law, rules and regulations and contemplated by the highest standards of best corporate governance practices;
  - ensuring financial stability of the Company, obtaining the highest possible credit rating assigned by international rating agencies S&P's, Moody's, Fitch, maintaining debt burden corresponding to Net Debt/OIBDA ratio not greater than 2.5x on an annual basis;
  - ruling out dividend payments where such payments might lead to signs of insolvency (bankruptcy) according to the Russian law on insolvency (bankruptcy);
  - achievement of an optimal balance between the Company's need in funds to ensure its further growth and the shareholders' need in dividend repayments of funds invested in the Company shares provided that an optimal capital structure to be held;
  - improving the investment appeal of the Company securities for current and potential shareholders, and as a consequence, growth of the Company capitalization;
  - transparent arrangements for determination of the amounts and payments of dividend on the Company's shares
  - priority to be assigned to ensuring stable and sustainable growth of the Company given the effects of macroeconomic factors;
  - creating equal conditions for receiving dividend payments by the Company shareholders owning shares of the same class (type) throughout the Dividend Payment Term.

#### **V. DIVIDEND DETERMINATION**

- 5.1 The Company's Board of Directors shall make recommendations on the amount of dividend payable on the Company's shares based on principles specified in Article IV of this Policy.
- 5.2 The Company will aim to allocate to dividend payments (payable on ordinary and preference shares in total) during 2016, 2017 and 2018 (i.e. upon results of 2015, 2016 and 2017) at least 75% of FCF for each fiscal year but not less than RUB 45 bln cumulatively for the three years in question. While over this period the Company will try to increase the dividend amount payable per each ordinary share **in absolute ruble** terms compared to the relevant preceding year.
- 5.3 In no case the payable dividend amount shall be less than the level recommended by Rosimuschestvo for companies with state ownership interest if such requirement is applicable to the Company.
- 5.4 In some specific situations where in the reporting fiscal year the Company's operating results were significantly affected by certain extraordinary items, the amount of FCF specified for dividend payment determination can be adjusted following a resolution passed by the Company's Board of Directors according to the amount of related cash flow stated for such extraordinary items.
- 5.5 The total amount payable as annual dividend per each ordinary share shall be determined in the relevant period subject to par. 5.2 of this Policy.

- 5.6 According to the Company's Charter the total amount payable per each preference A-type share as annual dividend shall be equal to 10% (ten percent) of the Company's RAS Net Profit for the past fiscal year divided by the total number of preference shares which account for 25% (twenty five percent) of the authorized (charter) capital of the Company. While if the dividend amount payable by the Company per each ordinary share for a given year exceeds the dividend amount payable per preference share, the latter shall be increased to be equal to the dividend amount payable on ordinary shares.
- 5.7 Accrued dividend amounts payable to an individual shareholder of the Company shall be computed with one kopeck accuracy.

**VI. MAKING AMENDMENTS IN THIS POLICY**

- 6.1 This Dividend Policy shall be approved by the Company's Board of Directors and take effect as of its approval. Making any amendment and/or addition to this Policy, or holding it null and void shall be on the basis of a relevant decision of the Company's Board of Directors.
- 6.2 If due to any changes introduced in Russian law or the Company's Charter, some provisions of this Policy become contradictory with the Russian law and/or the Company's Charter the contradictory provisions shall be deemed invalid, and until the necessary amendments in this Policy are made as required, the Company shall be guided by the Russian law and the Company's Charter.
- 6.3 If any provisions of this Policy are invalid this shall not affect validity of any other provisions and/or the Policy in general.