

Investor Meetings, November 2009

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# *Rostelecom Investor Presentation*

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*Certain statements in this presentation are forward-looking statements within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbors created thereby.*

*Those forward-looking statements include, but are not limited to:*

- Management's assessment of the Company's future operating and financial results as well as forecasts of the present value of future cash flows and related factors;*
- the Company's anticipated capital expenditures and plans to construct and modernize its network;*
- the Company's expectations as to the growth in demand for its services, plans relating to the expansion of the range of its services and their pricing;*
- the Company's plans with respect to improving its corporate governance practices;*
- the Company's expectations as to its position in the telecommunications market and the development of the market segments within which the Company operates;*
- economic outlook and industry trends;*
- the Company's expectations as to the regulation of the Russian telecommunications industry and assessment of impact of regulatory initiatives on the Company's activity;*
- other statements regarding matters that are not historical facts.*

*Such forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include:*

- risks relating to changes in political, economic and social conditions in Russia as well as changes in global economic conditions;*
- risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian telecommunications industry, securities industry as well as currency and exchange controls relating to Russian entities and their official interpretation by regulatory bodies;*
- risks relating to the Company, including the achievement of the anticipated results, levels of profitability and growth, ability to create and meet demand for the Company's services including their promotions, and the ability of the Company to remain competitive in a liberalized telecommunications market;*
- technological risks associated with the functioning and development of the telecommunications infrastructure, technological innovations as well as the convergence of technologies;*
- other risks and uncertainties. For a more detailed discussion of these and other factors, see the Company's Annual Report on Form 20-F for its most recently completed fiscal year and the Company's other public filings with The U.S. Securities and Exchange Commission.*

*Many of these factors are beyond the Company's ability to control or predict. Given these and other uncertainties, readers are cautioned not to place undue reliance on any of the forward-looking statements contained herein or otherwise. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.*

## Key Facts

## Revenue Breakdown



Rostelecom owns and operates nationwide digital trunk network



Rostelecom primarily provides fixed-line DLD and ILD services to end-customers throughout Russia, diversifying business by expanding into new services



Rostelecom is a major provider of telecommunications services for state organizations and governmental agencies, television and radio broadcasters



51% of voting shares owned by the state controlled holding company Svyazinvest

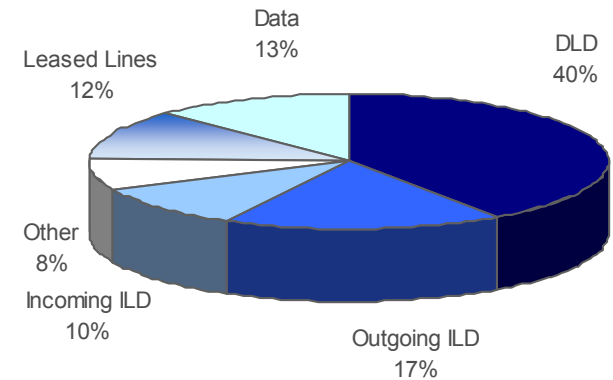


Shares traded on NYSE, LSE, FWB, RTS, MICEX



Market capitalization: USD 5.39 billion

Revenue breakdown by service\*



\* In accordance with HY 2009 IFRS results

# Technologically Advanced Nationwide Network Underpins Rostelecom's Competitive Market Position

## Developed backbone network underlies the Company's competitive advantages

### Most extensive and sophisticated network infrastructure among Russian operators

- ✓ about 150,000 km in length
  - ✓ points of presence across entire Russian Federation
  - ✓ points of presence in London, Stockholm, Frankfurt, Helsinki, New York, Tokyo and Hong Kong
  - ✓ 99% digitalized in channel-kilometers
  - ✓ 100% digitalized in switching capacity
- ✓ Rostelecom has established direct international connections with more than 150 operators in 68 countries, participates in 25 cable systems and cooperates with approximately 600 fixed-line and mobile operators inside and outside of Russia

**Most reliable traffic transmission route in Russia**

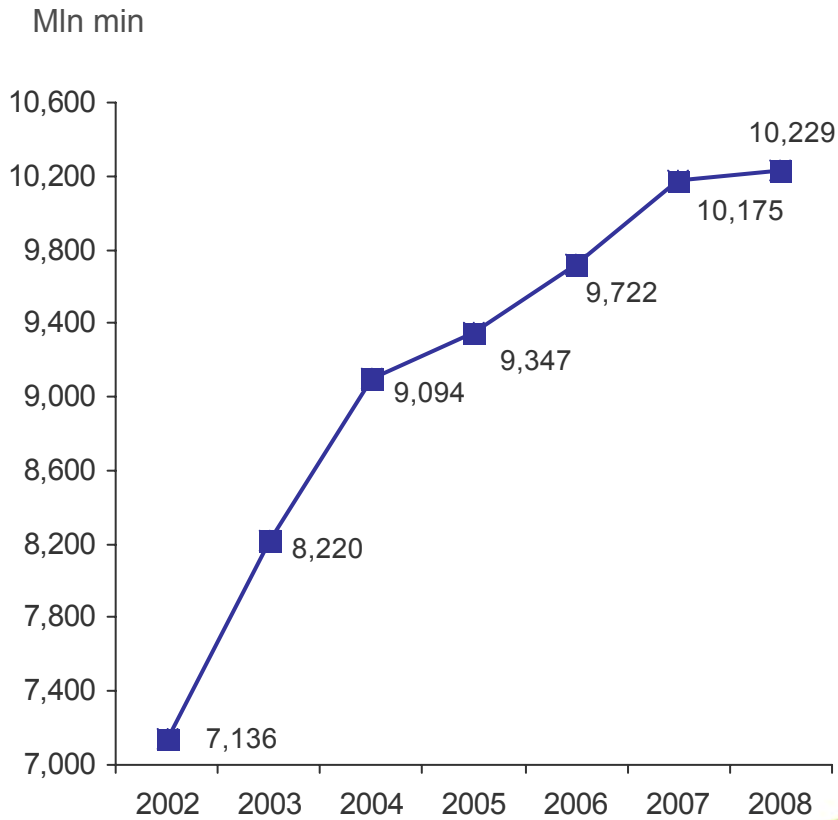
**Low Repair & Maintenance expenses**

**High service recognition from operators and end-customers**

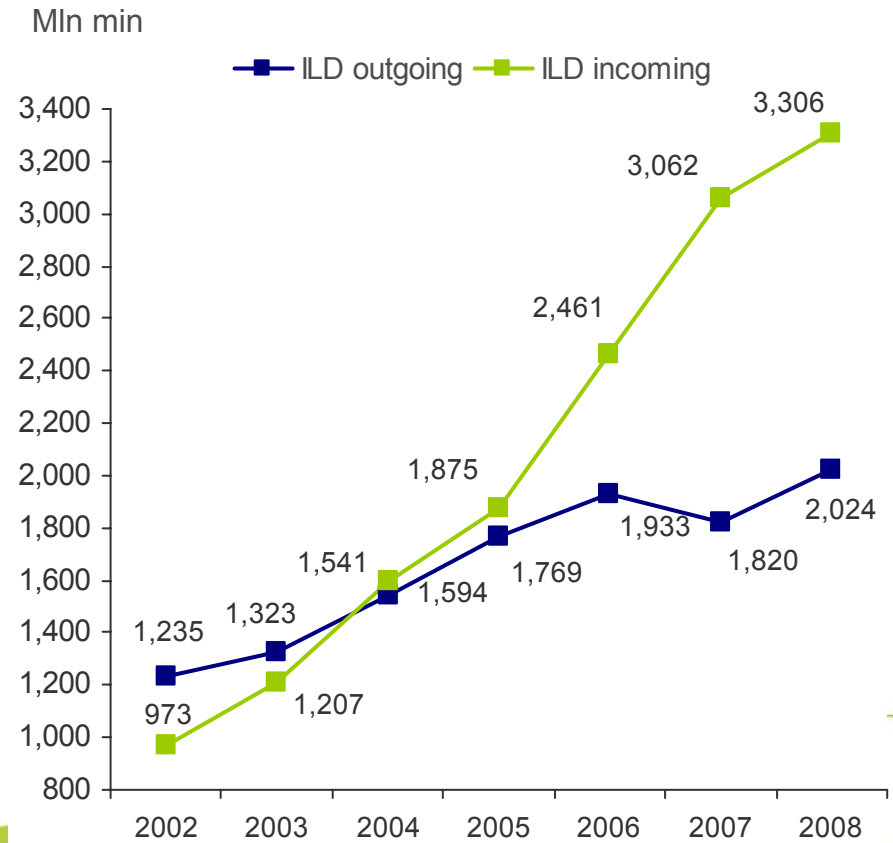
**Competitive transit rates**

**Rostelecom has built the most advantageous technological position for providing a growing range of telecommunications services in the competitive environment**

Rostelecom's domestic long-distance (DLD) traffic dynamics



Rostelecom's international long-distance (ILD) traffic dynamics



# Offering State-of-the-art Services for Every Customer Segment

	Voice services	Data transmission	Intelligent network services (INS)
Residential customers	<ul style="list-style-type: none"> <li>DLD and ILD services</li> </ul>	<ul style="list-style-type: none"> <li>Internet access (from Zebra Telecom - Rostelecom's subsidiary)</li> </ul>	<ul style="list-style-type: none"> <li>Home country direct (HCD) Inbound</li> <li>Premium rate</li> <li>Freephone – under the Tet-a-tel brand (from Zebra Telecom - Rostelecom's subsidiary)</li> </ul>
Corporate customers	<ul style="list-style-type: none"> <li>DLD and ILD services</li> <li>Videoconferencing</li> <li>Audioconferencing</li> <li>Local telephone services</li> <li>Additional premium services for local telephony (Voice&amp;IP Centrex, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Leased lines</li> <li>Internet access</li> <li>IP VPN</li> <li>Data Center services</li> </ul>	<ul style="list-style-type: none"> <li>Freephone, International Freephone (IFS)</li> <li>Premium rate</li> <li>Televoting</li> </ul>
Operators	<ul style="list-style-type: none"> <li>Traffic transit and termination services, incl. mobile transit</li> <li>IP transit</li> </ul>	<ul style="list-style-type: none"> <li>Leased lines (Domestic PLC, International PLC; Europe-Asia transit /TEA/)</li> <li>Internet traffic transit</li> <li>IP VPN</li> </ul>	<ul style="list-style-type: none"> <li>Home country direct (HCD) Outbound</li> <li>International Freephone (IFS) Outbound</li> </ul>

Through the continued diversification of the business in 2008, Rostelecom increased the share of data transmission and intelligent network services (INS) to 10% of the Company's consolidated revenue

## Data transmission services

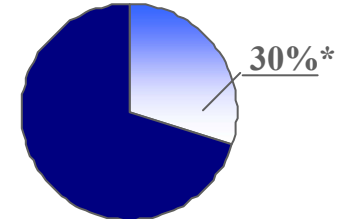
- Internet access
- IP VPN
- Data Center services
- VoIP

## Intelligent network services

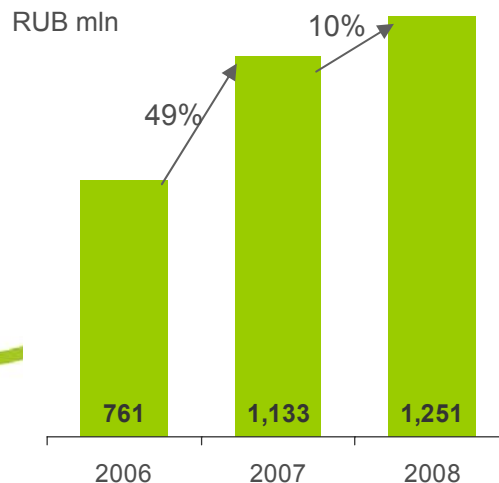
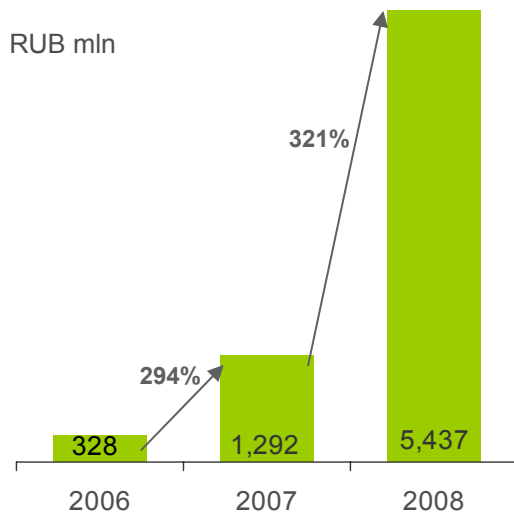
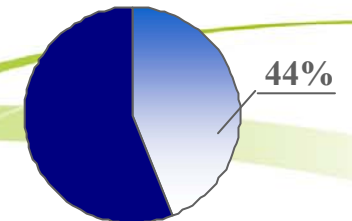
- Freephone
- International Freephone (IFS)
- Premium rate
- Televoting

## Market share 2008

### Wholesale Internet



### INS



\* Includes consolidation of RTComm.RU

# Data Transmission Market: Seizing Significant Opportunities in a Fast Growing Market

Following the launch of wholesale Internet services in 2006, Rostelecom's market share reached 11% in 2007, 30% - in 2008\* with a targeted 40% in 2009

## Expansion of Rostelecom's IP/MPLS network

- ✓ 2005 – Began construction.
- ✓ 2007 – Rostelecom's IP/MPLS network – the most technologically advanced in Russia with high capacity and reliability:
  - cutting-edge technologies and equipment;
  - certified information security.
- ✓ 2008-2009 – further network upgrades in Russia and abroad:
  - over 100 regional nodes;
  - launch and expansion of data centers across Russia;
  - additional presence in key international traffic exchange points.

## Further development of Internet and IP VPN services aimed at both operators and corporates

- ✓ Active development of services on the back of Rostelecom's IP/MPLS network – new growth opportunities to counteract any future decreases in market shares in traditional telecom segments.
- ✓ A wide range of services (Internet, IP VPN, Data Centers) aimed at both operators and corporates underpinned by continuing growth of the Russian data transmission market.
- ✓ Rostelecom's priorities:
  - development of bundled data transmission services for Russian businesses and operators;
  - launch of offerings aimed at international operators such as the Europe-Asia Internet traffic transit and IP-based services.

\* Includes consolidation of RTComm.RU



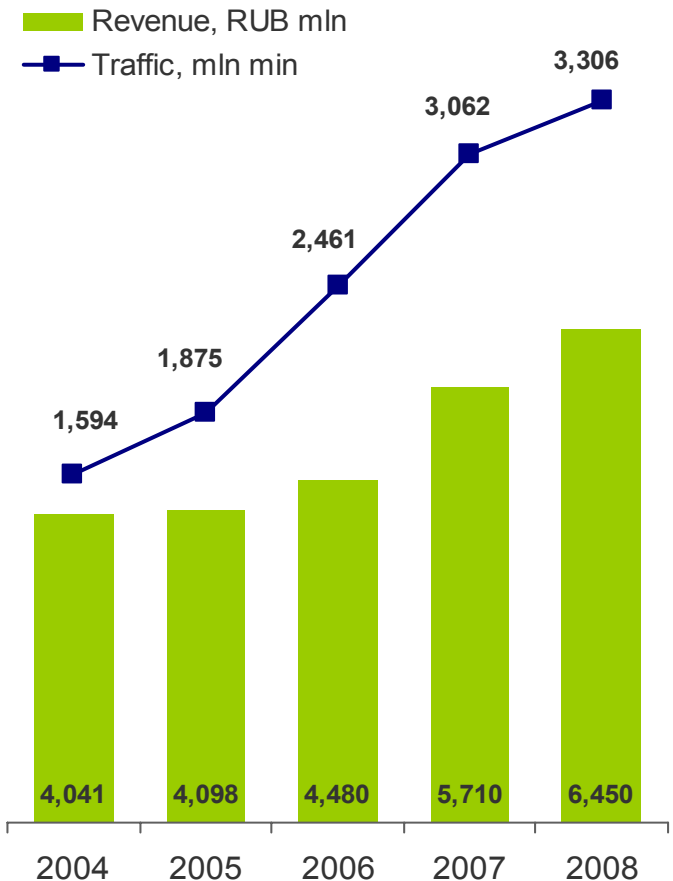
# International Market: Stable Revenues on the Back of Sustained Traffic Growth

Solid relationships with international operators underpin Rostelecom's strong position in the international market

- ✓ Active cooperation with international operators
- ✓ Incoming ILD settlement rates optimization

✓ Continued growth in traffic volumes and positive revenue dynamics

Traffic and revenue from international operators



## Key Strengths in the Leased Line Market: High Quality Service and Unique Network Advantages

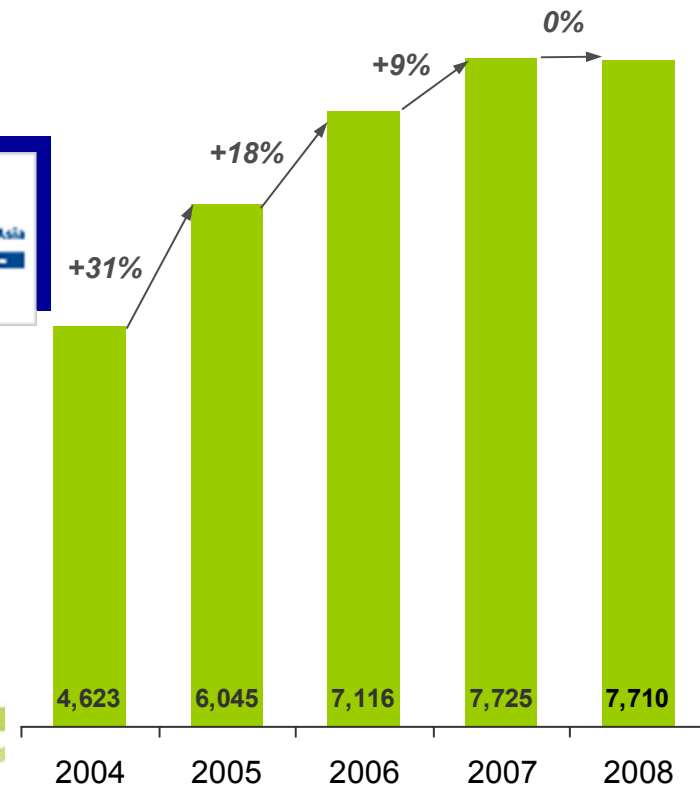
Rostelecom remains highly competitive in this segment on the back of continued optimization of the tariff policy. This coupled with the increase in channel capacity as well as the expanding geographic reach, throughput capacity and reliability of the Company's trunk network ensures Rostelecom stays ahead of its peers.

- ✓ Unique scale and capacity of Rostelecom's advanced nationwide network
- ✓ Ongoing demand for leased line services from operators and businesses across Russia – despite the fact that Russian operators are actively constructing their own networks, which has slowed the growth rate
- ✓ Domestic & International Private Leased Circuits (IPLC & DPLC) for rent: Includes Europe-Asia transit (TEA) services – offering international operators the shortest and most reliable route for traffic transmission between the two continents via Rostelecom's terrestrial network
- ✓ High quality of service and brand awareness



Revenue from leased line services

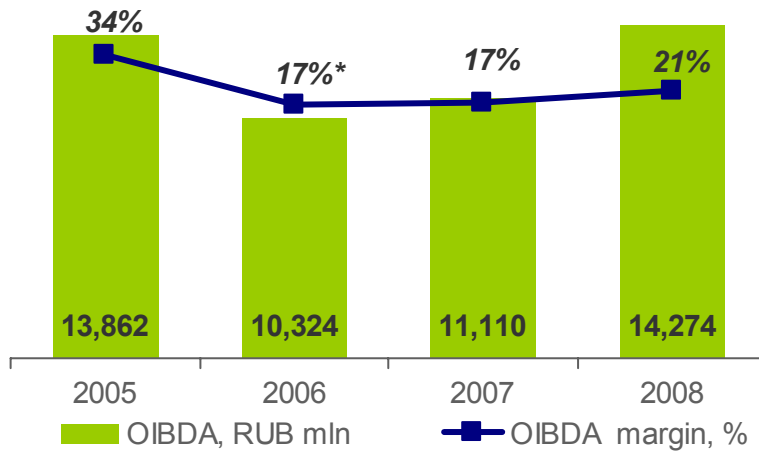
RUB mln



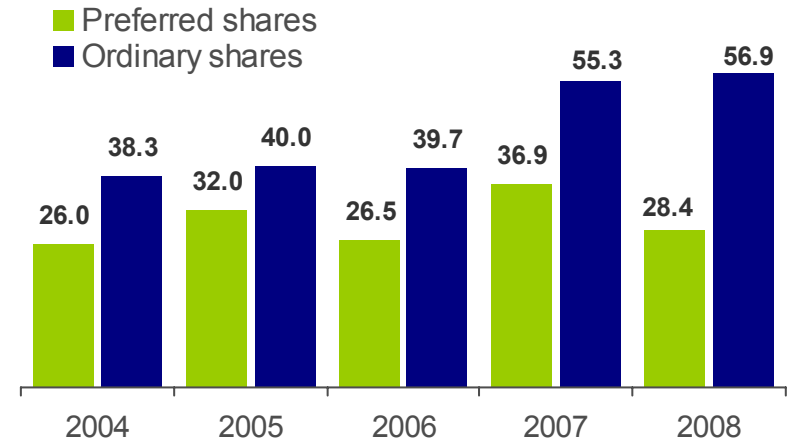
- ✓ Rostelecom enjoys sustained position in the leased line market with a market share of about 40%
- ✓ Revenues from leased line services to remain stable

# Stable Dividend Payments despite Impact of the New Interaction System

OIBDA and OIBDA margin



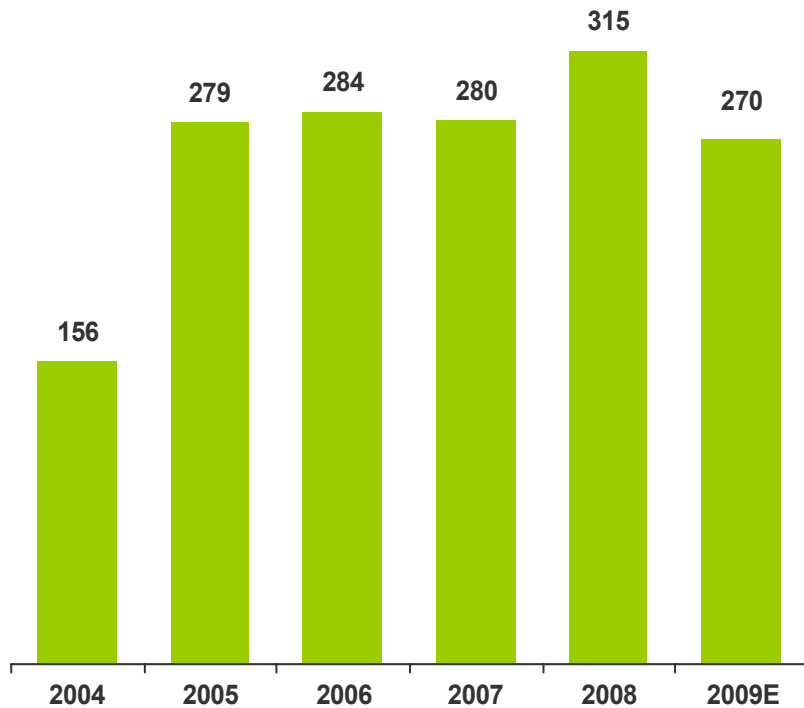
Dividends, USD million



*\*Decline in OIBDA margin is due to the transition to the new system of interaction with Russian operators and subscribers for the provision of domestic and international long-distance services effective from January 1, 2006*

# Capital Expenditure Program to Enhance Rostelecom's Competitive Advantages

USD mln



## Investment priorities

Capacity expansion (incl. IP/MPLS network)

Construction of new fiber-optic lines

Network modernization, ring back-up system construction, development of new services

Building last mile infrastructure

### Rostelecom Mission

**TO HELP FOSTER THE ADVANCEMENT OF SOCIETY BY CONNECTING OUR CUSTOMERS ANYWHERE, AT ANY TIME THROUGH THE MOST ADVANCED, HIGHEST QUALITY TELECOMMUNICATIONS SERVICES.**

### Rostelecom Strategic Objective for 2009-2013

**TO BECOME A SINGLE-SOURCE PROVIDER OF COMPREHENSIVE TELECOM AND INFOCOMMUNICATION SERVICES TO CUSTOMERS AND OPERATORS THROUGHOUT RUSSIA AND BEYOND.**

*\* As defined in Rostelecom's objectives and strategy for 2009-2013 confirmed by the Company's Board of Directors in the end of October 2008.*

# Strategic Summary: Geographic Expansion and Innovation in Key Segments\*

## Expand geographic presence:

- Infrastructure deployment, including access networks
- Partner programs

## Develop new, innovative services and improve existing services:

- Product line expansion and service customization
- Create comprehensive system to improve customer service, support and enhance loyalty

## Cooperate with Svyazinvest Intra-Regional Telecom Companies (IRCs):

- Minimize cross-competition: Complement IRC efforts – to increase the aggregate market share of Svyazinvest companies in the Russian telecom market

### Residential segment

- Secure solid position in the retail DLD/ILD market
- Enter broadband market (ETTH, wireless broadband access) in target regions/cities
- Expand product offering through the development of innovative services

### Small and Medium Businesses

- Expand the product portfolio
- Develop partnerships to sell services
- Consolidate position in the Moscow market
- Provide bundled packages through partnerships with IRCs

### Federal Customers

- Provide comprehensive services from Svyazinvest companies (“One Stop Shop”)
- Participate in governmental projects
- Implement CRM system
- Expand the range of services

### Operators

- Maintain leadership in the Russian wholesale telecom market
- Aggressively develop data transmission services, leveraging the acquisition of RTComm.RU
- Implement VNE model (Virtual Network Enabler)

### International market

- Implement wholesale (voice & data transit, capacity lease) and retail (fixed-line voice, Internet & data, mobile services, INS, data centers, call-centers, etc.) strategies to capitalize on strong international market growth potential
- Priority regions – CIS; China, India, Japan; Europe, Middle East, Asia-Pacific

Organic growth

Mergers & Acquisitions

\* As defined in Rostelecom’s objectives and strategy for 2009-2013 confirmed by the Company’s Board of Directors in the end of October 2008.

# APPENDIX – 1:

## Financials

## 2009 HY IFRS Financial Highlights

RUB mln

Telephone traffic

DLD

Outgoing ILD

Incoming ILD (termination and transit)

Leased line services

Data transmission services

Other

**Total revenue**

Operating expenses before depreciation and gain on disposal of PP&E

**OIBDA**

OIBDA margin, %

Depreciation

Gain on sale of property, plant and equipment

**Total operating expenses**

**Operating profit**

Loss from associates

Other (loss) / income (incl. net result from financial activities)

**Income before tax**

Income tax expense

**Net income**

**6mo 2009**

**6mo 2008**

**Change, %**

22,308

23,287

-4.2

13,253

14,693

-9.8

5,691

5,829

-2.4

3,364

2,765

21.7

3,797

3,955

-4.0

4,134

1,435

188.1

2,535

2,722

-6.9

**32,774**

**31,399**

**4.4**

(27,039)

(23,553)

14.8

**5,735**

**7,846**

**-26.9**

17.5

25.0

n.a.

(3,786)

(3,670)

3.2

28

61

-54.1

(30,797)

(27,162)

13.4

**1,977**

**4,237**

**-53.3**

(5)

(22)

-77.3

(50)

9,030

n.a.

**1,922**

**13,245**

**-85.5**

(491)

(3,418)

-85.6

**1,431**

**9,827**

**-85.4**



## Condensed Consolidated Balance Sheet

RUB mln	Jun. 30, 2009	Dec. 31, 2008	Change, %
<b>Non-current assets, incl.</b>	<b>42,687</b>	<b>43,982</b>	<b>-2.9</b>
Property, plant and equipment	37,648	39,586	-4.9
<b>Current assets, incl.</b>	<b>35,404</b>	<b>32,721</b>	<b>8.2</b>
Accounts receivable, net	10,702	10,133	5.6
Short-term investments	10,009	8,762	14.2
Cash and cash equivalents	12,816	11,992	6.9
<b>Total assets</b>	<b>78,091</b>	<b>76,703</b>	<b>1.8</b>
<b>Total equity</b>	<b>58,851</b>	<b>59,425</b>	<b>-1.0</b>
<b>Non-current liabilities, incl.</b>	<b>2,215</b>	<b>2,411</b>	<b>-8.1</b>
Borrowings, net of current portion	63	117	-46.2
Deferred tax liability	1,536	1,590	-3.4
<b>Current liabilities, incl.</b>	<b>17,025</b>	<b>14,867</b>	<b>14.5</b>
Current portion of long-term borrowings	2,561	2,522	1.5
<b>Total liabilities</b>	<b>19,240</b>	<b>17,278</b>	<b>11.4</b>
<b>Total equity and liabilities</b>	<b>78,091</b>	<b>76,703</b>	<b>1.8</b>
<i>Net debt*</i>	<i>-20,201</i>	<i>-18,115</i>	<i>11.5</i>

\* Net debt is calculated as the sum of long-term loans (current & non-current portions) minus cash and cash equivalents and short-term investments

	9 mo 2009	9 mo 2008	Change, %
<b>Million minutes</b>			
Domestic long-distance traffic	6,958	7,522	-7.5
Outgoing international traffic	1,297	1,511	-14.1
Incoming international traffic	2,635	2,408	9.4
<b>RUB million</b>			
<b>Revenue</b>	<b>45,406</b>	<b>46,414</b>	<b>-2.2</b>
Operating expenses, incl.	(39,390)	(37,561)	4.9
Depreciation	(3,344)	(3,214)	4.0
<b>OIBDA</b>	<b>9,360</b>	<b>12,067</b>	<b>-22.4</b>
OIBDA margin, %	20.6	26.0	n.a.
<b>Operating profit</b>	<b>6,016</b>	<b>8,853</b>	<b>-32.0</b>
Other gains & (losses), incl.	(300)	412	n.a.
Profit (loss) from the sale of financial investments	(78)	445	n.a.
Profit (loss) from revaluation of financial investments	310	(489)	n.a.
<b>Profit before tax</b>	<b>5,716</b>	<b>9,265</b>	<b>-38.3</b>
Profit tax	(1,162)	(2,335)	-50.2
<b>Net profit</b>	<b>4,554</b>	<b>6,930</b>	<b>-34.3</b>

## **A P P E N D I X – 2:**

**New system of interaction with Russian operators and subscribers for the provision of domestic and international long-distance services effective from January 1, 2006**

# Evolving Rostelecom's Business Model to Seize Opportunities in Liberalized Market Environment

Getting direct access to end-users across Russia from January 1, 2006 :

	Until 2006	From 2006
<b>Main contributor to top-line</b>	LD traffic transit services to operators	LD calls provision to subscribers of local network operators
<b>Revenue recognition</b>	Transit and termination rate from operators  The whole amount of end-user tariff in Moscow	The whole amount of end-user tariff across Russia
<b>Billing and customer service</b>	<ul style="list-style-type: none"> <li>B2B (in-house)</li> <li>B2C in Moscow (in-house)</li> </ul>	<ul style="list-style-type: none"> <li>B2B (in-house)</li> <li>B2C in Moscow (in-house)</li> <li>B2C (outsourced in regions)</li> </ul>

**New interaction system effective from January 1, 2006 – expanded customer base and change in traffic split**

Rostelecom's market presence:

until 2006: primarily wholesale LD operator

from 2006: major Russian LD retail operator

<b>End-users market</b>	<ul style="list-style-type: none"> <li>Provider of DLD and ILD services to Moscow subscribers only</li> <li>Provider of channel capacity to Russian corporate clients</li> </ul>	<ul style="list-style-type: none"> <li>Provider of DLD and ILD services to subscribers of local network operators throughout Russia</li> <li>Provider of channel capacity to Russian corporate clients</li> </ul>
<b>Russian operators' market</b>	<ul style="list-style-type: none"> <li>Primarily provider of DLD and outgoing ILD traffic transit service to operators</li> <li>Provider of channel capacity to operators</li> </ul>	<ul style="list-style-type: none"> <li>Provider of traffic transit services to operators</li> <li>Provider of channel capacity to operators</li> </ul>
<b>International operators' market</b>	Provider of incoming ILD traffic transit and termination, non-switched international traffic transit services and channel capacity	
<b>Other markets</b>	Provider of intelligent network services, data transmission services, customer equipment servicing (third party telecom equipment & facilities support and maintenance) etc.	

## New Interaction System Effects on Rostelecom's Profit & Loss Statement

### Upward effect on revenues

- ✓ Rostelecom recognizes as revenue the total amount of the end-user tariff
- ✓ Changes in revenue composition: decrease in revenues from local operators and increase in revenues from subscribers

### Upward effect on operating expenses

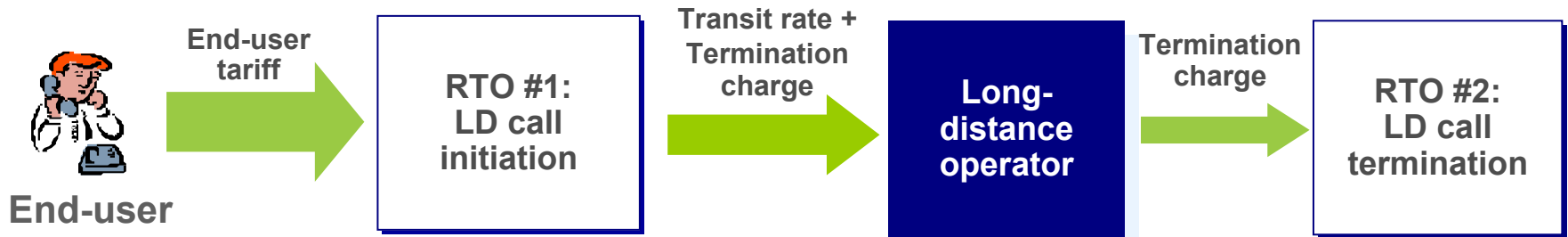
- ✓ Rostelecom's payments to local operators increase:
  - initiation charge
  - termination charge
  - additional service charges to local operators
- ✓ Additional tax expense in the form of the Universal Service Fund tax (1.2% of revenues, collected from subscribers for LD services)

### Effect on margins

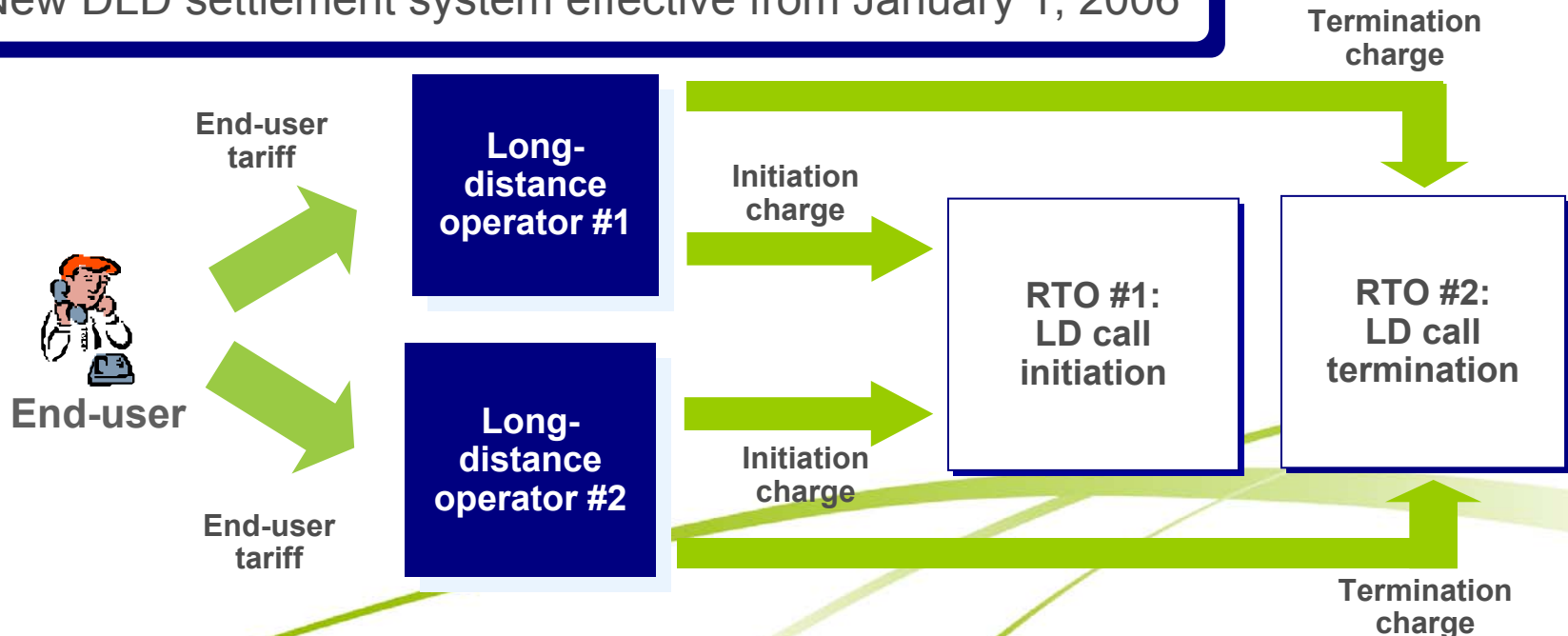
- ✓ Negative effect on EBITDA (OIBDA) margin

# Main Effect of the New Interaction System – Direct Revenue Recognition from End-Users

## Old DLD settlement system

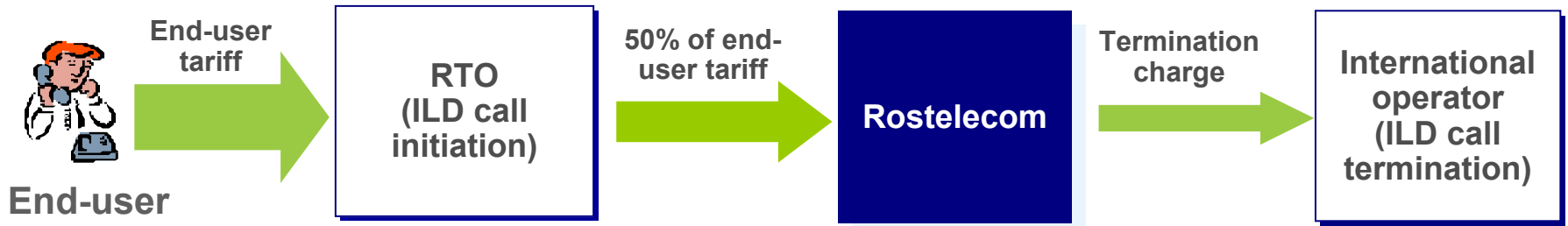


## New DLD settlement system effective from January 1, 2006



## Old settlement system

International LD services to Russian end-users

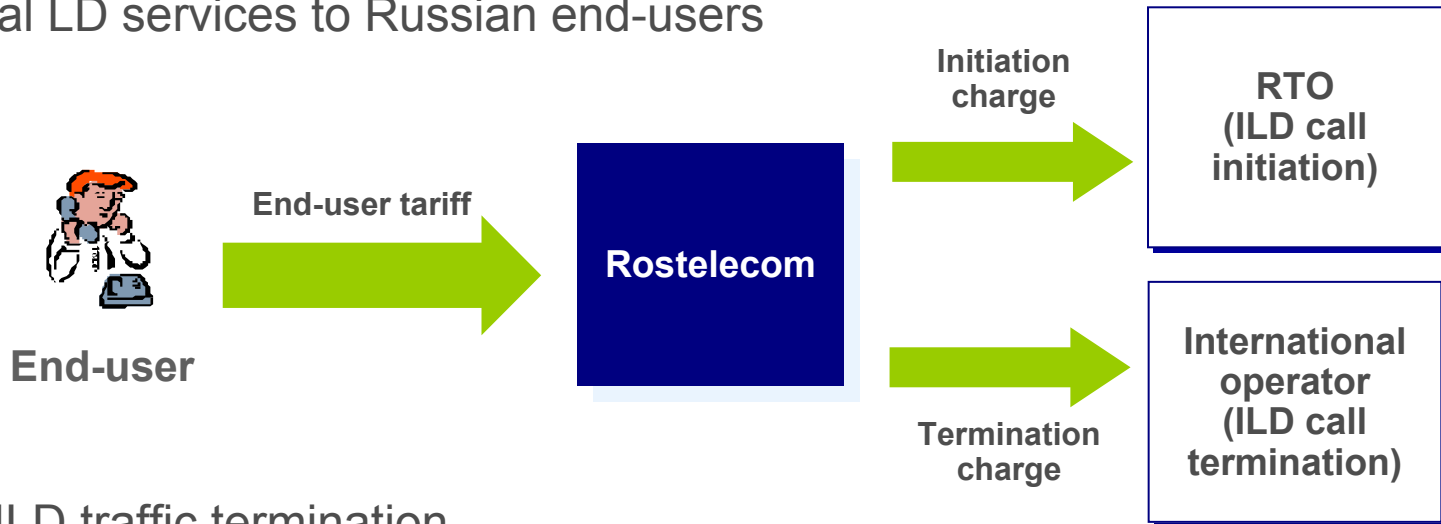


Incoming ILD traffic termination



## New settlement system

International LD services to Russian end-users



Incoming ILD traffic termination





- **Listings:**

NYSE, RTS, MICEX

- **Free float:**

62% (49% ORD and 100% PREF)

- **Market capitalization:**

USD 5.39 billion

- **Recent stock price (10/11/2009):**

ORD: USD 6.64 (52 WK HI/LO: USD 10.58 / 4.39)

PREF: USD 2.25 (52 WK HI/LO: USD 2.37 / 0.36)

ADR: USD 40.16 (52 WK HI/LO: USD 66.78 / 26.93)

- **2008 Dividend yield**

0.8% (ORD) / 19.8% (PREF)

- **Dividend policy**

PREF: 10% of the full financial year net profit under RAS

ORD: recommended by the Board of Directors

- ✓ **“BB” credit rating from S&P, outlook stable**
- ✓ **Corporate Governance Code and Code of Ethics in place**
- ✓ **IFRS reporting**

### Investor Relations

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