



# **Conference Transcription**

**Date of conference : 5 April 2011**  
**Conference title : Conference Call to  
Discuss the  
Completion of the  
Reorganisation of  
Rostelecom**

# CONFERENCE DETAILS

Conference Date: 5 April 2011

Conference Time: 13:00 UK Time

Conference Duration: Approximately 48 minutes

Chairperson: Masha Eliseeva



## **ACT Operator**

Ladies and gentlemen, welcome to the Conference Call to Discuss the Completion of the Reorganisation of Rostelecom on 5 April 2011. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press \*0 on your telephone for operator assistance.

I will now hand the conference over to Maria Eliseeva. Please go ahead, madam.

## **Masha Eliseeva**

Good morning and good afternoon and thank you for joining us today for this call regarding the Completion of the Reorganisation of Rostelecom. Present on the call today are Alexander Provotorov, President and Chief Executive Officer, and me, Masha Eliseeva, Head of Investor Relations. You can find the presentation on the reorganisation at [www.rt.ru](http://www.rt.ru) in financial report section of investor center.

Before we start, I would like to draw your attention to the fact that some of the information during this call may contain projects or other forward-looking statements regarding future events or future financial performance. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect that occurrence of unexpected events. Many factors could cause the actual results to differ materially from those contained in our projection or forward-looking statement.

Following the presentation we will be happy to answer your questions. I will now hand the call over to our CEO, Alexander Provotorov.

## **Alexander Provotorov**

Thank you, Masha. Good morning and good afternoon, ladies and gentlemen, and thank you for joining us today. First of all let me remind you shortly the history of reorganisation process of Svyazinvest companies and Rostelecom. 2010 was a year of significant change for us and for the whole telecommunications industry in Russia. We have been busy preparing for the major reorganisation of the telecommunications assets controlled by the government, and for the merger of the seven regional incumbents of Svyazinvest, or RTOs, and Dagsvyazinform with Rostelecom. This merger will create a strong national integrated operator, which will provide a full range of telecommunications services on a pan-Russian basis to residential, corporate and government customers, as well as other operators.

The reorganization process began in May 2009 when the Government Commission on Transport and Communication approved the restructuring of the state-owned telecommunications assets. The summer 2010 AGMs of each of the regional companies and Rostelecom voted in favour of the merger and approved the applicable equity SWAP ratios, which were based on the independent report provided by Ernst and Young.

Rostelecom and the merging companies each repurchased shares during the Summer of 2010, which together represented 2.27% of the ordinary shares, and 28.8% of the preferred shares, of the merged company, for approximately 14 billion rubles. The shares were repurchased from the Rostelecom and RTO shareholders who voted against or did not vote on the reorganization. Rostelecom and each of the RTOs contributed their respective repurchased shares to the share capital of Mobitel, which became the 99.99% owned subsidiary of new Rostelecom when the merger was completed. The RTO shares



that have been acquired by Mobitel have been exchanged for newly issued Rostelecom ordinary shares, and these treasury shares can be used either in M&A transactions, financing opportunities, or for management stock motivation plans.

The reorganization process entered its final stage at the beginning of 2011. The Regulator registered the additional issue of 2.2 billion Rostelecom ordinary shares and up to 31.56 billion rubles of Rostelecom bonds in the middle of February.

We notified the MICEX and RTS Russian Stock Exchanges on the 25th of March, that the RTO shares would cease to exist from the first of April, and trading in the RTO shares was therefore halted on the 28th of March.

The reorganization was effectively completed on the first of April when the RTOs and Dagsvyazinform were excluded from the Uniform State Register of Legal Entities, and the RTO share and bond holders have received new Rostelecom shares and bonds. Over the next two weeks, we will prepare a report on the results of the placement by means of the share and bond swap, and we will provide this document to the regulator for registration. The registration process will take approximately 2 more weeks. We therefore expect trading in the newly issued Rostelecom ordinary shares to commence on MICEX and RTS at the beginning of May. The Rostelecom shares listed on MICEX will be traded as 18 separate issues for a period of three months. All of these separate company shares will then be merged into one new Rostelecom class of ordinary share, and one class of preferred share, after the three month period. The shares listed on the RTS will be traded as just two shares from the outset.

With regard to the ADR programmes of the seven RTOs, the reorganization has been carried out under Russian law, and it is the underlying shares rather than the ADRs that have been exchanged. JPMorgan, which is the owner of the RTO securities under Russian law, and the depository bank under US law, has therefore received the new Rostelecom ordinary shares in exchange for the RTO shares underlying the ADRs. JPMorgan is required to sell the new Rostelecom shares and return the cash, net of costs, to the ADR holders. The RTO ADR programmes will be terminated.

Trading in the existing pre-reorganization Rostelecom shares and depository receipts will not be halted at any stage during this process.

Given the rapidly evolving competitive environment, we have not just been focusing on preparations for the transition to the new corporate and capital structure. We have been integrating our activities as nine independent operators, in order to ensure that the establishment of a new single integrated company is a smooth process for all of our stakeholders, and our customers in particular. We implemented a new organisational structure for the merged Company during 2010, and centralised a number of common functions including procurement and marketing. We have also been working on the post-merger business development strategy.

We have evolved our approach to the organisation and management of the Company. For example, we are working on a project to develop an employee motivation programme for the merged Company, and have already implemented a number of common initiatives to enhance efficiency levels across the business. We have signed collective agreements with the Communication Workers' Union on all aspects that relate to our employees.

New Rostelecom is clearly the largest player in the Russian telecommunications market. We have substantial human, infrastructural, and financial resources, and we also have access to the necessary frequencies and licenses to provide integrated services across the whole of the Russian Federation.

We will provide more information about the strategy for the newly merged company in a separate announcement in due course. What I can say now is that we have a number of priority strategic drivers or directions.

- Firstly, our objective is to develop our position as one of Russia's leading mobile operators.
- We also intend to consolidate our position as Russia's number one provider of fixed line broadband internet access.
- We also want to grow our presence in the pay-TV market.
- And to extend our leadership in the corporate telecommunications segment.
- We are committed to maintaining our number one position as a national provider of traditional voice telephony services, by launching a range of initiatives to minimize the effects of mobile substitution.
- We are also focused on building our leadership in the B2O segment.
- Our goal is clearly to generate and realize substantial synergies by increasing operating and financial efficiency levels, and, finally,
- We will transfer the overall business to a single unified Rostelecom brand. This corporate identity is under development at the moment and will be unveiled later this year.

Our strategic initiatives will be focused on each of our customer groups - residential, corporate, government, and operators - and making our service offering of telephony, data, TV, and Value-Added-Solutions available across both mobile and fixed line networks.

The overall strategic goal for new Rostelecom is clear – to grow the business and boost profitability levels, in order to generate sustainable economic value and deliver superior shareholder returns. We are operating in markets with tremendous growth potential. The opportunity is clear and we are determined to fully exploit it.

Thank you, and now back to you Masha.

### **Maria Eliseeva**

Thank you, Alexander. We will now be happy to answer your questions. In order to allow enough time to deal with everyone's questions in the time available we would ask that you limit yourself to one initial question and one follow-up question. Operator, please may we have the first question?

### **ACT Operator**

Thank you, madam. If any participant would like to ask a question, please press \*1 on your telephone. If you wish to cancel this request, please press \*2. Your questions will be polled in the order they are received and there will be a short pause while participants register for a question.

The first question comes from Alex Kazbegi from Renaissance Capital. Please state your question.

### **Alex Kazbegi – Renaissance Capital**

Hi, good evening. If I may I have two questions. The first one, I was wondering the cross ownership which exist now between Svyazinvest and Rostelecom back and forth, is there any plan to eliminate that? And if so, when we can expect and how it can be unwound?

The second question would be about your mobile strategy. I was just wondering if you can give us some more detail in terms of how do you see Rostelecom becoming the one

of the leading mobile operator. Is it through acquisitions, is it through build out of your own network, what will be the main pillar of that strategy please? Thank you.

**Alexander Provotorov**

Thank you, Alex. First question, you are absolutely right that we have cross ownership with Svyazinvest and of course we believe that it is not business of operational company to hold such significant and expensive stake like our stake in Svyazinvest. We think that it will be a good opportunity for some of government agents to acquire the stake to improve government control and large government control if they want to do it. Our second option which is discussed now with the government and Svyazinvest is to consolidation of Svyazinvest and Rostelecom and in this case cross ownership will be terminated by itself. It is not clear how situation will be resolved as there are a number of different scenarios and options. However as I said we expect the cross ownership to be resolved and we believe that the value of our Svyazinvest stake is now higher than when we bought it. Is it OK for first question?

**Alex Kazbegi – Renaissance Capital**

Yes. Do you expect this to be finished sometime before the next year elections or there is no real timeframe for that.

**Alexander Provotorov**

I hope that it can be resolved during this year.

**Alex Kazbegi – Renaissance Capital**

OK, thank you. And the mobile?

**Alexander Provotorov**

Mobile strategy, of course the mobile strategy is part of a big strategy. The details will be announced when the strategy is approved. But I can say that we have plan to utilise licenses and frequencies currently available to the Group, I mean Svyazinvest group and in this case I am talking about SkyLink, first of all. SkyLink has UMTS licenses for almost the whole territory of Russian Federation. We believe that mobile voice is not so interesting market for Rostelecom because of very high penetration and very tough competition between all of operators.

We believe that mobile data is much more interesting segment of mobile business for us. Answering your question, we think that we can utilise SkyLink 3G licenses together with SkyLink CDMA licenses for rural areas and we have such plans. Simultaneously, we are discussing internally the option of MVNO agreement with one of big three operators. It is too early to disclose any details but we want to make our homework to understand is it better idea to go by MVNO scenario or to build our own network which can be used for some future purposes as well.

Third option, you know that we have signed a preliminary agreement with company Scartel or Yota together with big three operators, VimpelCom, MTS and Megafon which allows us to acquire proportionate stake of Yota in 2014 and to have ability to utilise Yota network which should be constructed during this time. And we hope that we can get legally binding agreements shortly, I hope. And after that we can start together with Megafon, MTS and VimpelCom start to think about construction of 4G network. Is it OK.

**Alex Kazbegi – Renaissance Capital**



Yes. Two may be clarifying question. I mean on SkyLink if you pursue that one presumably you would prefer to have control of SkyLink which you don't have now which you have just 25% with Svyazinvest.

**Alexander Provotorov**

You are absolutely right.

**Alex Kazbegi – Renaissance Capital**

OK. The second clarification may be have you considered buying somebody like Tele2 for instance or some small operator?

**Alexander Provotorov**

SkyLink, we are discussing with Svyazinvest various scenarios and opportunities how to use our SkyLink frequencies and licenses. My understanding is that we will find some solution. And of course you are absolutely right, our goal to control 100% of SkyLink. Now I cannot disclose how we will do it, but the aim is absolutely clear for us.

Second question, we do not comment our potential M&A deals and activities. It is more or less in respect of Tele2. And we do not think that we have more potential targets, we have some progress in NTK minority buyout discussions but again there is now nothing to discuss right now.

**Alex Kazbegi – Renaissance Capital**

OK. Great. Thank you very much.

**Alexander Provotorov**

Thank you.

**ACT Operator**

The next question comes from Igor Semenov from Deutsche Bank. Please state your question.

**Igor Semenov – Deutsche Bank**

Yes, hi, thank you very much. I just wanted to follow up on something you mentioned earlier today at the press conference, you said your CapEx guidance for the medium-term, for the next four to five years, is going to be 20% of revenues. I just wanted to understand why you think it is going to be so high and may be do you have a medium-term revenue and EBITDA guidance as well or may be short to medium-term revenue growth and EBITDA margin guidance as well? Thank you.

**Alexander Provotorov**

We do not think that we have high CapEx projections. My understanding it is more or less in line with our competitors in Russia. Probably on the developed market it can be less but we see a lot of opportunities in Russia. You are pretty much aware that we have less than 30% penetration of broadband in Russia, we have less than 30% penetration of pay-TV, we have very low penetration of mobile data and to realise all those opportunities of course we need to have enough CapEx. Again I don't think that it is higher than we can see from our competitors.

Second question, we do not provide guidance for OIBDA level. I think that you will see first combined report of unified company soon during this month and you can make your own projections in respect of OIBDA level of the company.

**Igor Semenov – Deutsche Bank**

In terms of revenue growth, do you have any guidance for the next couple of years?

**Alexander Provotorov**

The answer is the same.

**Igor Semenov – Deutsche Bank**

OK. Can I just then follow up on your mobile strategy. You said that you basically have three options, one of them is developing the SkyLink essentially through the opportunity in mobile data rather than in voice. My guess, my question is, is it not if you are building network, it will support both data and voice, there is no difference right. My question is essentially, if this is your preferred route, you will become the full blown competitor to the big three mobile operators and do you think that the investment that you have to make into the mobile data network, will they be adequately rewarded? Do you think you will be able to generate enough returns?

**Alexander Provotorov**

Ok, yes, we believe that it will be a profitable business for the Company and you are absolutely right that in case of building our own UMTS network or in the MVNO scenario - voice operator as well. But again me personally I don't believe that we can significantly enlarge our market share in voice segment. In case of data very simple example, we have 1 million subscribers only in Urals region right now. If you provide all this people with 3G or 4G network I think that effect will be very good.

Our strategy is to build the network first of all in the areas where we have clear opportunity to return our money. And of course we will wait and we will go slowly in the regions with very high competition or in the region where we don't have clear possibility to have good profitable business. Of course we will do it smoothly and there is no idea to build mobile network in one year just for the status of federal mobile operator.

**Igor Semenov – Deutsche Bank**

OK. Thank you.

**Alexander Provotorov**

Thank you.

**ACT Operator**

The next questions comes from Zoltan Palfi from Credit Suisse. Please state your question.

**Zoltan Palfi – Credit Suisse**

Good afternoon. Alex and Masha, it is mainly a technical question, more of a follow-up to the first question asked. Can you give some colour about the minority interest line both on the balance sheet and the P&L for the enlarged company given the cross ownership between some of the assets?



**Alexander Provotorov**

Thank you, Zoltan, I would recommend you to wait for combined report which as I said will be ready soon and I think that you will see all effect of cross ownership in this report.

**Zoltan Palfi – Credit Suisse**

Right, thanks Alex. The second question is, I am wondering whether you face any regulatory obstacle to bundle together fixed and mobile services going forward or you are free and allowed to do so in the future?

**Alexander Provotorov**

Thank you and I don't see any big problems with it. Let me remind you that we have Urals region and we have already a packaged services in this region, combining fixed mobile, Internet and now television in one package. And we can see that all of our competitors I mean MTS and VimpelCom, not Megafon, providing services in the same manner to the customers or they are starting to do it. We don't think that it will be a problem for us.

**Zoltan Palfi – Credit Suisse**

Right. Thanks very much.

**Alexander Provotorov**

Thank you.

**ACT Operator**

The next question comes from Evgeny Golossnoy from Troika Dialog. Please state your question.

**Evgeny Golossnoy – Troika Dialog**

Yes, good afternoon. I have got a technical question, in a way, did not quite understand when you said about conversion of ADR programmes. Could you confirm at this stage that there will be a conversion of ADR programmes previously conducted for regional telcos into the Rostelecom ADR programme? What I mean is that there will be no major hassle for shareholders, they would not have to sell anything or buy anything, it will be done by the depository. Is it wrong or is it correct?

**Alexander Provotorov**

Thank you, Evgeny, my understanding is that it is correct. I would like to ask Masha probably to add something.

**Masha Eliseeva**

Yes, JP Morgan, which is the depository bank for RTO depository programmes, got the ordinary shares and they have to sell it and give the money back to the holders of RTO depository receipts.

**Evgeny Golossnoy – Troika Dialog**



But that means that people holding shares of regional telcos in the form of ADRs will not receive Rostelecom ADRs, they will receive cash for their shares.

**Masha Eliseeva**

Yes, they will receive cash.

**Evgeny Golossnoy – Troika Dialog**

But that somehow opposes what you have been saying previously that they might switch into the Rostelecom ADRs, so this is not the case anymore.

**Masha Eliseeva**

Yes, there are some legal restrictions that prevent us from doing this.

**Evgeny Golossnoy – Troika Dialog**

OK. And at what price and where JP Morgan would sell them?

**Masha Eliseeva**

They have a room of about one month to sell the shares on the open market, so it will be market price.

**Evgeny Golossnoy – Troika Dialog**

But how can they sell the shares of companies which no longer exist.

**Masha Eliseeva**

No, they will sell ordinary shares of Rostelecom, the new issue that they got in exchange for the ordinary shares of RTOs that they held as a depository bank.

**Evgeny Golossnoy – Troika Dialog**

OK. But that means that people who may still own not ADRs but Russian local stock of Rostelecom they can still hold the Russian stock or the shares will be sold anyway by JP Morgan?

**Masha Eliseeva**

It is only regarding the depository programmes of regional companies.

**Evgeny Golossnoy – Troika Dialog**

All right, OK. Thank you.

**ACT Operator**

The next question comes from Tibor Bokor from Otkritie. Please state your question.

**Tibor Bokor – Otkritie**

Hi, two questions if I may. One is regarding the synergies, can you update us on already realised synergies between Rostelecom and regional telcos in terms of the revenues and

costs? And what is your view going forward specifically in 2011 whether there is some major programmes in realising these synergies? Thank you.

**Alexander Provotorov**

Thank you, Tibor. Again we had estimation from our consultants and our own evaluation that we can realise synergies up to RUB30 billion of NPV for four years period. We have number of plans and initiatives to realise all these synergies. From a cost side it is unified procurement policy which we are in the process of implementation. We have agreed a special department of procurement and our main goal till the end of this year to realise main CapEx, main from cost point of view procurements in the headquarter of the Company.

From revenue side of course the main idea is to package different services for the clients to up-sell our fixed line subscribers with Internet and Pay-TV services. If we get 3G or 4G operations of course it will be up-sell of new services to our current customers. We have just launched first such package in 1 April, the same date when we finished the reorganisation. It's a package of free hours of intercity calls to our subscribers for Internet and Pay-TV. Of course we think that we will have more such packages in the future.

Talking about synergies I would stress out that quantity of sale synergies will not be proportional for each of this four years. Of course the number of synergies will be higher for last second years rather than for first years.

**Tibor Bokor – Otkritie**

Do I understand correctly that when we receive the consolidated numbers for 2010 there will be most of these synergies will not be realised, almost none of that, most of the synergies will be coming in the future, right?

**Alexander Provotorov**

Of course. Frankly speaking I think that we got some synergies in 2010 because we made some steps before the reorganisation to improve our policy in respect of network maintenance and network construction. We eliminated some double projects in respect of network development. But main synergies of course we will see later.

**Tibor Bokor – Otkritie**

In terms of the headcount reduction, is there some plan for already 2011 some significant plan?

**Alexander Provotorov**

We have such plans. We have an agreement with labour union and we coordinate all these projects with labour union. I don't have exact figures but we have programme for replacement of analog equipment. We have a lot of employees of senior age which can leave the company for the retirement in the nearest time, so I think that of course we will have reduction of our personnel.

**Tibor Bokor – Otkritie**

OK, all clear on synergies. Second question, if I may, would be on Moscow strategy. Can you update us on the assets that you are buying in Moscow? And what would these assets allow you – what kind of services to offer in Moscow and what would be your competitive situation with the Moscow operators?



### **Alexander Provotorov**

OK, thank you. You are aware that we bought in the end of 2010 a company called National Telecommunications. This company has its major asset in Moscow which is called Mostelecom. Our strategy in Moscow aligns mainly in development of Mostelecom business and National Telecommunications business as well, because Mostelecom is network and sales and other operations in National Telecommunications Company. We have some plans, first of all we have our goal to have up to 100% of National Telecommunications and 100% of Mostelecom in our possession. I hope that we can realise both of these goals during next year.

Mostelecom is quite a successful growing business. At the end of September of 2010 they have around 5 million subscribers, not only in Moscow but including other cities. And they have 4 million TV subscribers and more than 400,000 broadband subscribers. They did, we think, very successful job during last year and they have up to 100% growth in Moscow in broadband. And we believe that they will be one of the biggest players in Moscow market.

Simultaneously we are discussing with Svyazinvest and Central Telegraph scenarios in respect of Central Telegraph broadband subscribers. And hopefully we can make some agreement in respect of Central Telegraph subscribers as well. In this case we would be a significant player in Moscow market. We have pretty aggressive business plan for National Telecommunications and Mostelecom for current year. And we are ready to support this business plan with all necessary financing. Probably last if we start to build our own UMTS network in Moscow on SkyLink frequencies of course Moscow will be one of the key market. And I hope that we can get some subscribers in Moscow with mobile broadband as well.

### **Tibor Bokor – Otkritie**

Just to clarify you want to increase stakes to 100% in 2011 right in these two companies?

### **Alexander Provotorov**

During this year, I will be more conservative, if we can do it during this year it will be very good.

### **Tibor Bokor – Otkritie**

Thank you very much for your answers.

### **Alexander Provotorov**

Thank you.

### **ACT Operator**

The next question comes from Andrey Stoyanov from BCS Asset Management. Please state your question.

### **Andrey Stoyanov – BCS Asset Management**

Good evening. My question is, does the board of directors prepare any amendments to the charter of the Company that will concern the rights of preferred shareholders of the Company?



The second question, could you please give us some indications on when the general meeting this year will take place for example mid of June, end of June and so on? Thank you.

**Alexander Provotorov**

We don't hear any discussion in respect of our prefs now, so currently we don't have any initiatives or any discussions in respect of this issue. And annual meeting will take place 27 June in Moscow.

**Andrey Stoyanov – BCS Asset Management**

Thank you. Just one follow-up question, please. Are you still interested in AKADO.

**Alexander Provotorov**

I think it's a difficult question. I don't believe that we can find good solution in terms of price with the shareholders of AKADO.

**Andrey Stoyanov – BCS Asset Management**

Thank you.

**ACT Operator**

The next question comes from Ivan Kim from Renaissance Capital. Please state your question.

**Ivan Kim – Renaissance Capital**

The first one is on your dividend policy, will it change and what is the timeframe?

The second one technical please, when the issues of Rostelecom common shares will be merged, is it three months from the registration of the issued FSFM or is it from the start of the trading? Thank you.

**Alexander Provotorov**

Thank you very much. First question, we understand the importance of this issue for all our investors and as we will make some consultations and our homework in respect of dividend policy of the Company. We want to be a good example comparing with our direct competitors and other Russian companies. And after such homework and presentation to the board I don't exclude that we can change the dividend policy but it is not clear right now. Anyway we will make all efforts to understand and to provide the board of directors with full analytic materials in respect of this question.

Second question, Masha can you answer, please?

**Masha Eliseeva**

Yes, it will be merged with the existing issue of Rostelecom shares in three months period after the registration of the reports of the placement with the regulator.

**Ivan Kim – Renaissance Capital**



Yes, so that would be pretty much around a month before the trading starts in early May.

**Masha Eliseeva**

No. You can say that with the company it take about two weeks to make this report then it will be provided to the regulator and the regulator has also about two weeks to register it. In a month from the 1 April we expect the registration of the report and from this date after three months the issues will be merged.

**Ivan Kim – Renaissance Capital**

OK, understood. Thank you.

**ACT Operator**

The next question comes from Alexander Vengranovich from Otkritie. Please state your question.

**Alexander Vengranovich – Otkritie**

Yes, good afternoon. I just got a question on equity raising this year. Do you plan to raise equity this year and may be do you consider GDR programme as a part of the equity raising? And the EPS - do you plan to do it this autumn and or later? Thank you.

**Alexander Provotorov**

Thank you for the question. We do not think it is necessary for us to go to the equity market as a company. We think Rostelecom has no need or intention to issue shares or sell our preferred shares to finance our current operations. We have enough financial resources from our banks to finance all of our operations.

What was the question in respect of SPO, can you repeat it please.

**Alexander Vengranovich – Otkritie**

Yes. Do you consider GDR programme in connection to that just like in London Equity, SPO in London this autumn, for example.

**Alexander Provotorov**

We do not consider equity SPO in London or somewhere else as a Company. But we heard some rumours that some of our shareholders can make some placements through the stock exchange. But first of all, we need to make listing and we hope that we can do it during this year. We will have depository programme for such listing, it is too earlier to say GDR or ADR programme, but I hope that we can finalise it during this year.

**Alexander Vengranovich – Otkritie**

OK. Thank you.

**Alexander Provotorov**

Thank you.

**ACT Operator**

Once again, if you would like to ask a question, please press \*1 on your telephone. To cancel this request, please press \*2.

The next question comes from Victor Klimovich from VTB Capital. Please state your question

**Victor Klimovich – VTB Capital**

Good afternoon. I have a follow-up regarding mobile strategy. Alexander, can you please elaborate on your mobile data strategy? You said that you don't expect that you will be very aggressive in terms of CapEx. But on the other hand we see that all mobile operators MTS, Megafon and VimpelCom they are very aggressive in terms of data network roll out. Don't you afraid that these opportunities in data market which you mentioned might be lost within basically one or two years? Thank you.

**Alexander Provotorov**

Thank you, Victor. It s interesting that you are not in line with Deutsche Bank for this question. When I said that we will have around 20%, 22% of annual CapEx for the next four, five years. Of course if we decide to build 3G network for next two years it will be significantly higher. It's the first part of my answer.

Secondly, as far as I understand the main direction of CapEx for our competitors I mean MTS, VimpelCom and Megafon relates to the network, not for the base station and 3G equipment but to improve and to enlarge their backbone infrastructure. In Rostelecom we have such backbone infrastructure more or less, of course we need to expand it, we need to enlarge our capacity but we don't need to finance it in the same volume like our competitors. Probably its an answer.

Probably third part of this issue, the cost of 3G equipment is significantly lower than two or three years before that's my understanding. Probably I am wrong but my understanding is now we can have much more interesting conditions from our vendors.

**Victor Klimovich – VTB Capital**

Yes, but if I understand this correctly your competitors, mobile operators, they want to build fibre optic networks and as far as I know Rostelecom of course you have much wider backbone of fibre optic network but again you need to build fibre optics to each base station to compete with our respective competitors. What do you think about this?

**Alexander Provotorov**

Yes, but now we have network of regional companies which is pretty wide. As far I remember its more than 2 million kilometres of network and I believe that we can cover all major cities including so called 'rayonnie centry'. And our competitors as from my understanding just started such project, for example as far as I remember Sinterra just announced plan to reach all 'rayonnie centry' by fibre and we are already in the main regions.

**Victor Klimovich – VTB Capital**

OK, I see. Thank you very much.

**ACT Operator**

There appeared to be no further questions. I will now hand the conference back to Maria Eliseeva.



**Masha Eliseeva**

This is it for today. Thank you for dialling in and for your questions. We look forward to speaking and meeting with you over the coming weeks and months. Good bye for now.

**Alexander Provotorov**

Thank you very much and good bye.

**ACT Operator**

This concludes the conference call to the discuss the Completion of the Reorganisation of Rostelecom. Thank you for participating. You may now disconnect.

*END OF CONFERENCE*

