



Investor Presentation

January 2014



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1. Rostelecom overview

Rostelecom Today

Leading Universal operator

- Rostelecom networks and services cover **all** Federal districts of Russia, including Moscow
- **Strong** market positions in **most** of the telecom **segments**
- **68%¹** market share in fixed voice
- **39%¹** market share in fixed Broadband
- **54%¹** market share in IPTV

Unique infrastructure

~ **500,000** km of national backbone and unique “last mile” infrastructure with **almost 34 mln** households passed

Strong subscriber base

25,9¹ mln fixed – line subs, **9.8¹ mln** broadband subs, **7.0¹ mln** pay-TV subs and **14.1¹ mln** mobile voice subs

Positive Financial Results

Revenue₂₀₁₂ : **RUR 321.3 bln**
OIBDA₂₀₁₂ : **RUR 118.6 bln**
OIBDA margin₂₀₁₂: **36.9%**

Net Income₂₀₁₂ : **RUR 35.2 bln**
Cash CAPEX₂₀₁₂ : **RUR 91.2 bln**
Net debt/OIBDA_{31.12.2012}: **x1.7**

Blue chip

- Currently traded on **MICEX-RTS**
- Rostelecom is included in MSCI Large Cap. Current weight in MSCI Russia is **1.58%²**
- Investment rating “**BBB-**” from **Fitch Rating** (confirmed in August 2013), credit rating “**BB+**” from **S&P** rating agency (confirmed in June 2013)

1 – as of end of 3Q 2013

2 – as at November 20, 2013

New Executive Management Team Members

**Sergey
Kalugin**



- President - CEO
- Joined the Company in March, 2013
- 12 years experience in Telecom & Media
- Previously CEO of National Telecommunications

**Kai-Uwe
Mehlhorn**



- Vice-President - CFO
- Joined the Company in May, 2013
- Over 21 years of TMT experience, 11 years at CFO position
- Previously CFO of Megafon and Tele2.

**Larisa
Tkachuk**



- Senior Vice-President - Commercial Director
- Joined the Company in April, 2013
- Over 10 years of Telecom & Media experience
- Previously Commercial Director at Megafon

**Mikhail
Irzhevsky**



- Vice President of Legal Affairs
- Joined the Company in October, 2013
- Over 20 years of consulting in international law firms
- Previously Partner at Freshfields Bruckhaus Deringer LLP

**Maria
Florentieva**



- Vice-President, Strategy and Investor Relations
- Joined the Company in May, 2013
- 7 years experience in Telecom & Media
- Previously Deputy CEO of National Telecommunications

**Andrey
Cheglakov**



- Senior Vice-President, Innovations
- Joined the Company in April, 2013
- Over 10 years experience in Technology
- Previously worked as Deputy Director General at Federal Goznak

**Dmitriy
Sadkov**



- Vice-President, IT
- Joined the Company in June, 2013
- Over 13 years of experience in IT
- Previously served as Director of Management Consulting Department at IBS and at McKinsey & Company

**Alexander
Tseitlin**

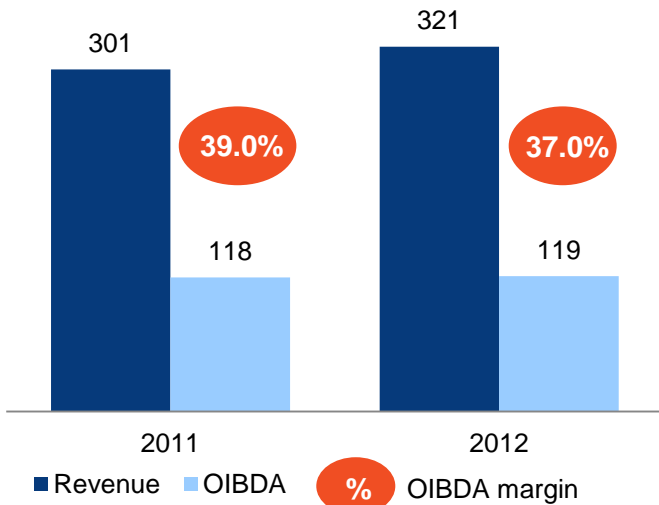


- Senior Vice-President, Network Maintenance
- Joined the Company in May, 2013
- Over 30 years of Telecom experience
- Previously CEO at Mostelecom

Rostelecom business mix

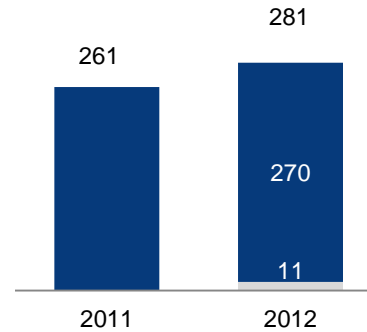
Rostelecom (consolidated)

Revenue and OIBDA, RUB bn

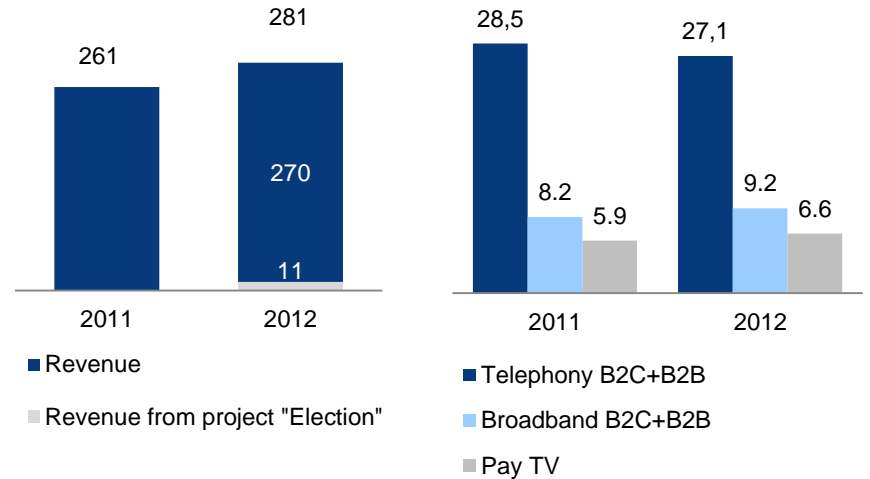


Fixed-line business

Revenue, RUB bn

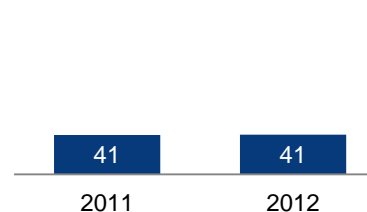


Fixed-line RGUs⁽¹⁾, mln

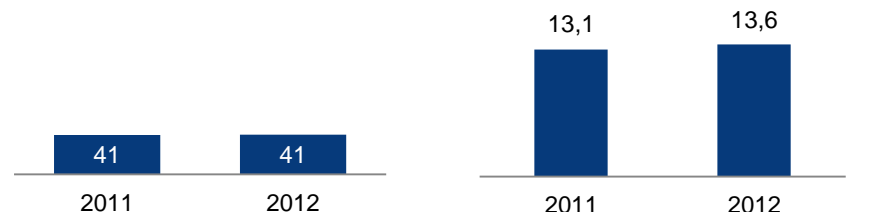


Mobile business

Revenue, RUB bn



Mobile subs, mln



2. Corporate and financial highlights

Key Recent Corporate Events and Results for 9M13

HIGHLIGHTS

Operational news and results:

- Growth of subscriber base in key segments:
 - Fixed broadband +10% y-o-y;
 - Pay - TV +10% y-o-y, IPTV +49%.
 - Mobile (+4% y-o-y)
- In November the total number of IPTV subscribers reached 2 mln households.
- 3G+ launches in St-Pete and Novosibirsk
- Launch of call centers restructuring project
- Agreement with China Telecom re Europe-Asia traffic transit
- The Company participated in the Global Cost Benchmarking Project with AT Kearney. The study indicated high potential for operational improvement.
- The Company continued to upgrade tender process. As a result, we can witness RUB 12 bln as CAPEX and OPEX savings for the 2Q and 3Q.

Financial news and results:

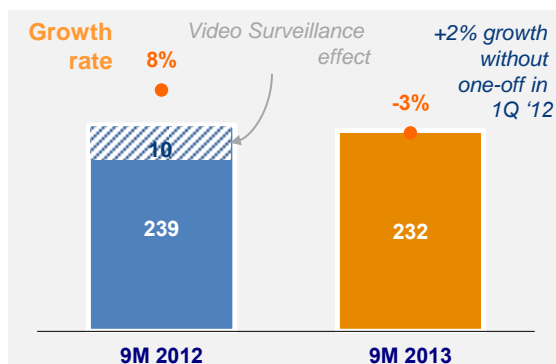
- Moderate growth in revenue for 3Q 2013 (+2% y-o-y) to RUB 78,2 bln.
- Stable OIBDA margin of 37,6% in 3Q 2013 (or 37,5% for 9M 2013).
- Strong growth in Net profit for 3Q 2013 (+12% y-o-y) to RUB 10,5 bln.
- Fitch affirmed Rostelecom's rating at investment category BBB- with a stable outlook.

Corporate news:

- The second stage of Rostelecom's reorganization was completed on October 01, 2013. Svyazinvest as well as 20 other joint-stock companies directly or indirectly controlled by Rostelecom and/or Svyazinvest were merged with Rostelecom. This enabled Rostelecom to eliminate any cross-ownership of the Company, reduce total number of shares by c9,3% and simplify the shareholder structure.
- The Russian Direct Investment Fund (RDIF) and Deutsche Bank collectively acquired 72 187 366 Rostelecom ordinary shares (c.2,7%) from Rostelecom subsidiary Mobitel. The investment amounted to RUB 7,674 billion.
- Rostelecom's subsidiary LLC Mobitel acquired 7,45% of Rostelecom's ordinary shares from OJSC Gazprombank in a transaction worth RUB 25,2 billion.
- In December 2013 BoD approved Rostelecom updated strategy
- On December 30, 2013 EGM approved the spin-off of Rostelecom integrated mobile assets into RT – Mobile, what is an important step in the future development of Rostelecom's mobile assets.

Key Operational and Financial Results for 9M 2013

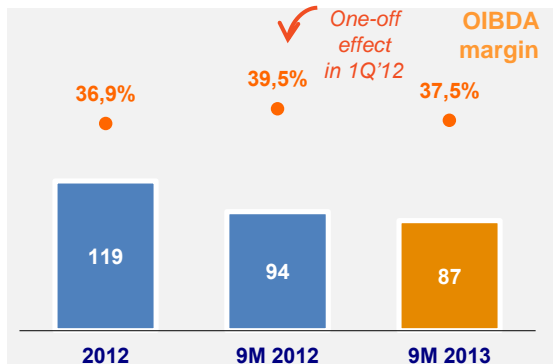
Revenue (RUB bln)



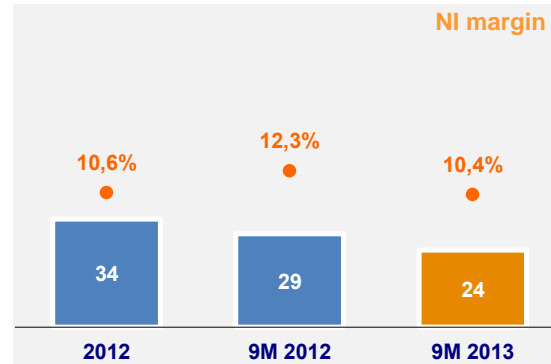
* - video surveillance revenue (one-off)

** - growth rate without video surveillance revenue in 1Q 2012

OIBDA (RUB bln) and OIBDA margin (%)

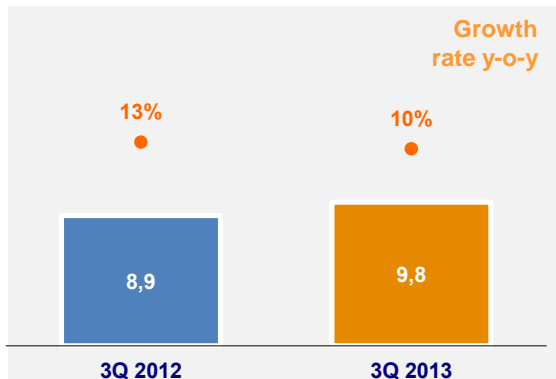


Net Income* (RUB bln)

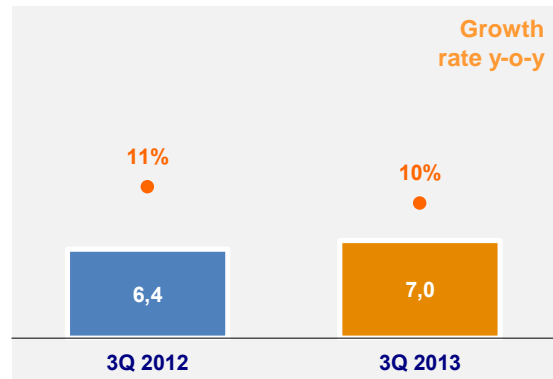


* - adjusted for Syvazinvest 25% share in RTKM net income

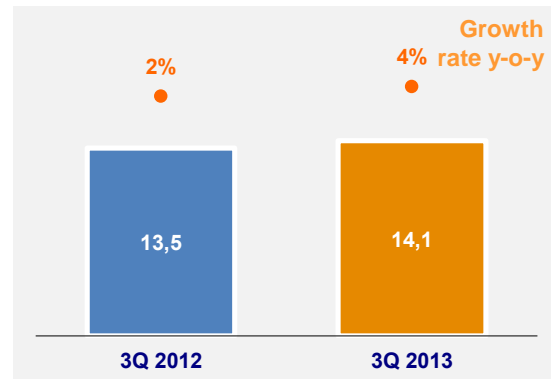
Fixed Broadband (mln subscribers)



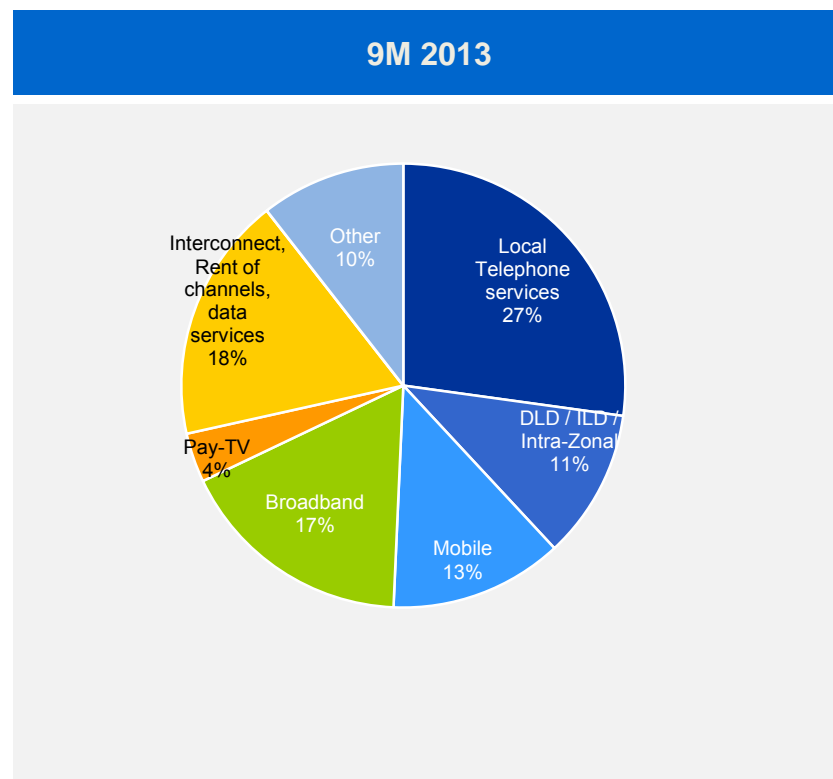
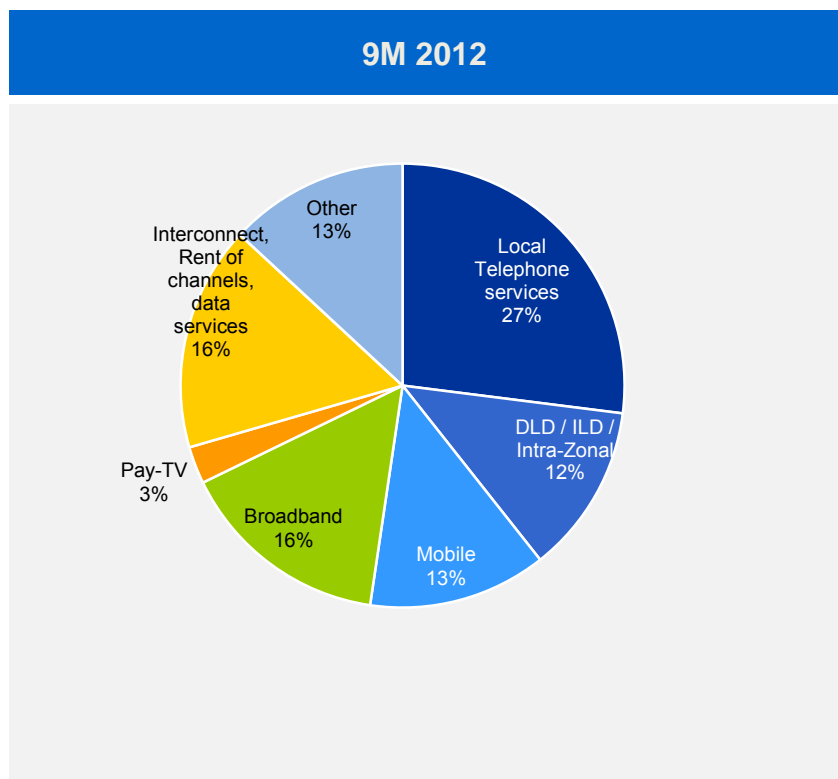
Pay-TV (mln subscribers)



Mobile Segment (mln subscribers)



Revenue structure

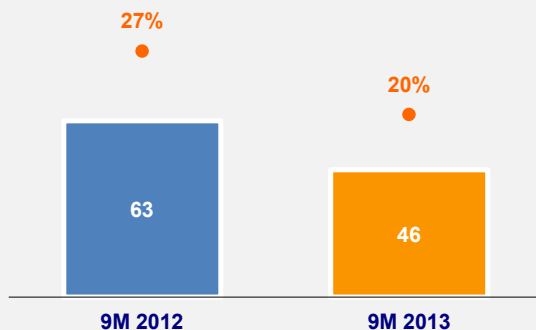


The revenue structure in 1Q 2012 was influenced largely by one-off video surveillance revenue and resulted in increased share of other revenues.

Capital Expenditures

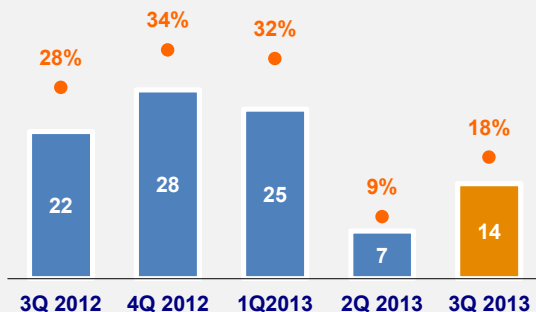
CAPEX Trends (RUB bln)

CAPEX / Revenue



Quarterly CAPEX Trends (RUB bln)

CAPEX / Revenue

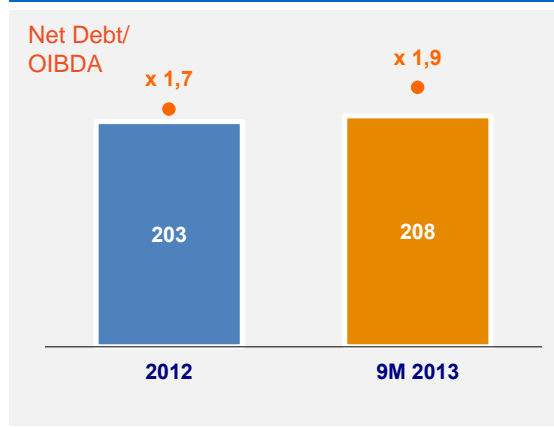


KEY DATA

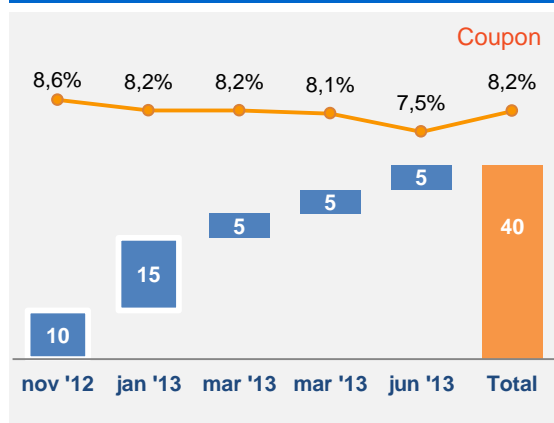
- In 9M 2013 CAPEX decreased by 28% y-o-y to RUB 46 bln. The decrease in investment in the reporting quarter resulted predominantly:
 - CAPEX deviation during calendar year;
 - optimization of procurement process and active working capital management.
- The Company continued to upgrade tender process. As a result, we can witness RUB 12 bln as CAPEX and OPEX savings for the 2Q and 3Q.
- In 9M of 2013 CAPEX to Revenue ratio amounted to 20% compared to 27% in the relevant period of 2012.

Tightening Cash Flow Control

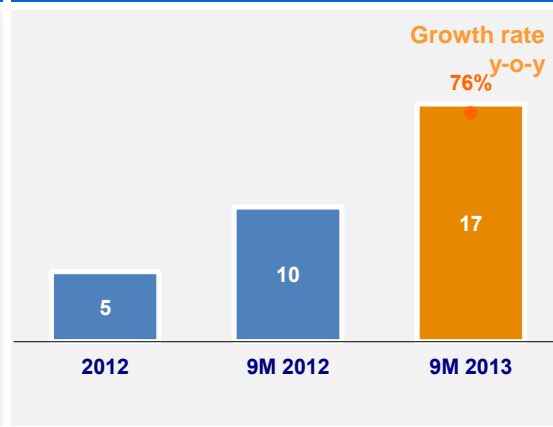
Net Debt Analysis (RUB bln)



Bonds Issues Details (RUB bln)



FCF¹ Analysis (RUB bln)



1 - Free Cash Flow = net cash provided by operating activities less CAPEX

KEY DATA

- As of end of 9M 2013 total debt amounted to RUB 223 bln or 4% up y-o-y
- Starting October 2012 Rostelecom successfully placed five bond issues for the total amount of RUB 40 bln. One of the goals for bond issue was to refinance current short-term loan and improve debt structure.
- The Company succeeded to lower the interest rate down to 8,27% compared to 8,39% at the end of 1Q 2013.
- About 99% of our total debt is ruble denominated to minimize currency risk.
- In 9M 2013 the Company reported FCF of RUB 17 bln (or 76% up y-o-y).

3. Rostelecom strategy update

Rostelecom strategic priorities

Fixed-line business

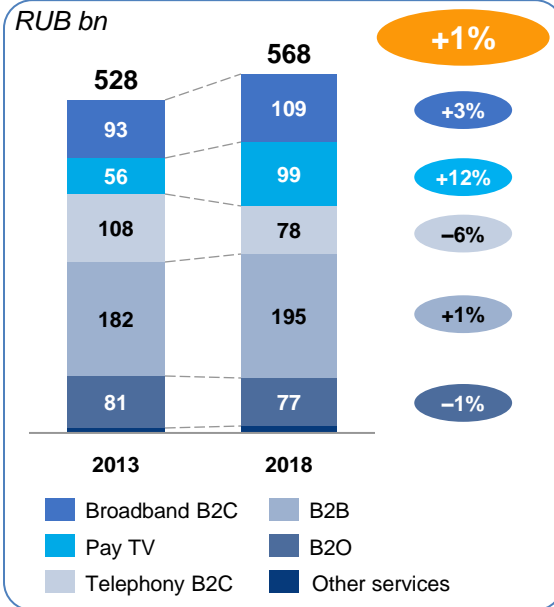
- ✓ **Accelerated expansion of fiber last mile** to unlock value of the largest fixed-line network in Russia
- ✓ **Strengthening** competitive advantage in **bandwidth to household** and «heavy» content delivery
- ✓ **Bundling of services** to reduce churn rates – Triple play and other
- ✓ **Leadership in Pay-TV** market and investing into content
- ✓ **Focus on digital platforms and services** – OTT, SaaS and other

Mobile services business

- ✓ **Joint venture with Tele2 Russia** - creation of a national mobile operator
 - **Sufficient scale** to compete with MTS, MegaFon, VimpelCom
 - **Effective utilization of 3G/4G licenses** coupled with substantial capex savings and B/S deleveraging
- ✓ Accelerate roll-out of **3G/4G networks nationwide**
- ✓ Capitalise on the **mobile broadband** opportunity
- ✓ Maintain **high level of operational efficiency**
- ✓ Convergent offerings: mobile as part of **4-Play bundles**
- ✓ Continue to use Rostelecom backbone and backhaul

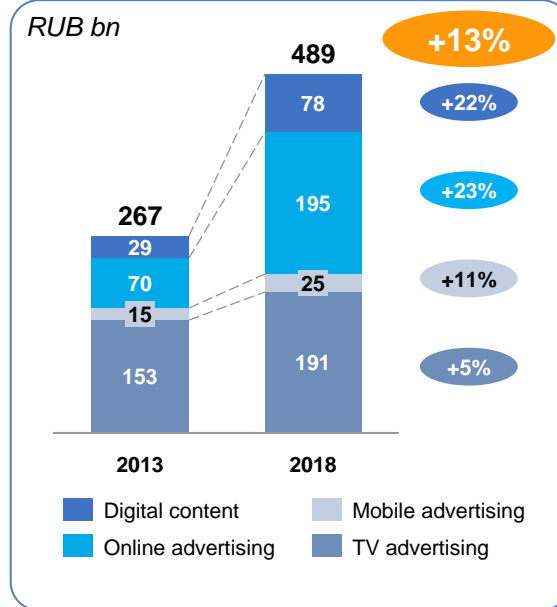
Russian TMT market forecasts: key segments

Fixed and Pay TV



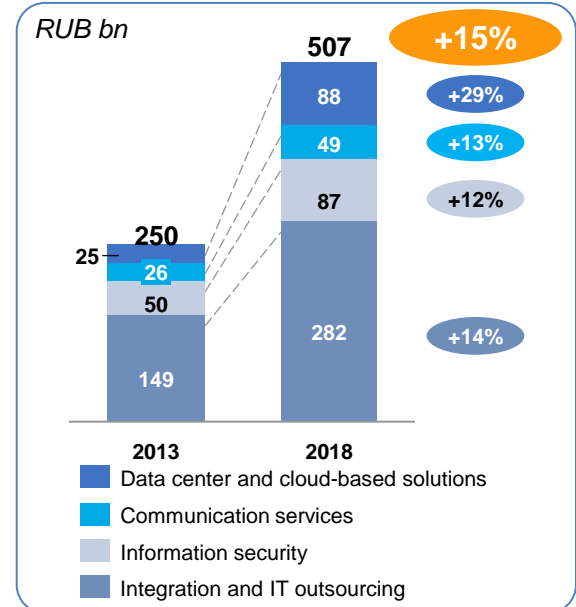
- Stagnation as a result of decline in fixed voice and slowdown in broadband segment growth
- Pay TV market will continue to grow as consumers are willing to pay for diverse and high-quality content
- The fastest growing segments are OTT¹ and IPTV

Digital media and advertising



- Transition from analog to digital content distribution
- Significant growth in online advertising market, primarily, in search advertising. In addition, rapid growth is observed in mobile and online video advertising

IT and ICT services

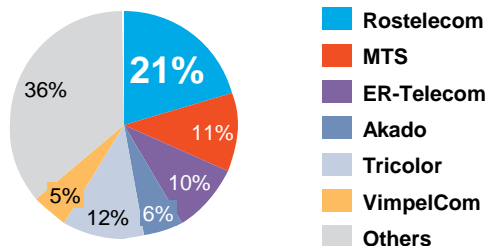


- Rising demand from government and business for outsourcing of data storage and processing
- Corporate clients' cost optimization for communication and IT services
- Transition to IT-outsourcing model

Rostelecom current position in B2C segment

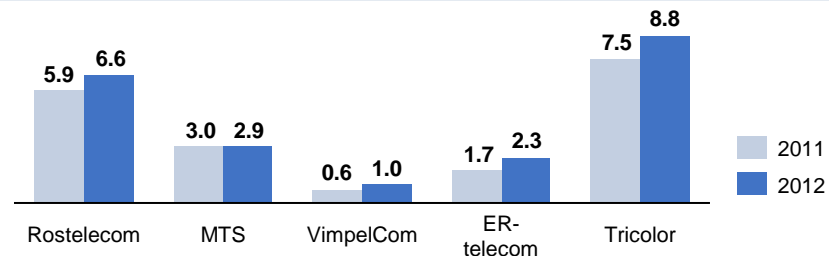
Pay TV

Market share, %, 3Q2013



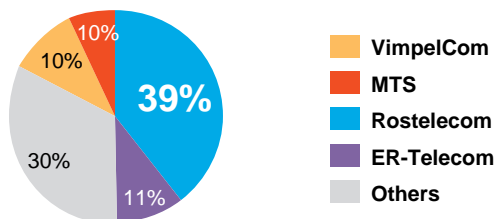
- Rostelecom is the leader in Pay TV market. Company's revenue market share in IPTV reached 55% in 3Q2013
- IPTV is the key growth driver in this segment. Rostelecom subscriber base increased by 49% y-o-y and reached 1.8m subscribers in 3Q2013

Pay TV subscribers¹, mln



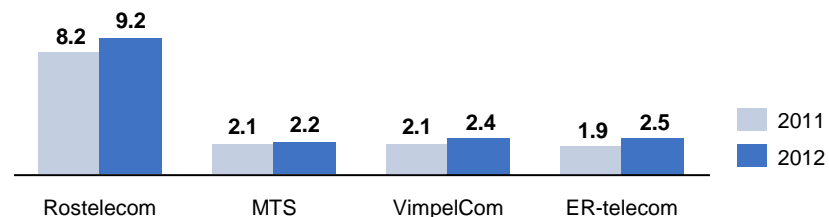
Broadband

Market share, %, 3Q2013



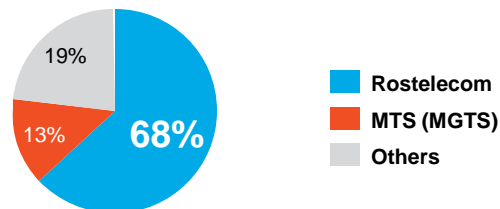
- Rostelecom is the largest provider of fixed broadband services in Russia
- As of 3Q2013 the number of fiber optic subscribers increased by 40% y-o-y to 3.5m subscribers, while the total subscribers base increased by 10% y-o-y and amounted to 9.8m

Fixed broadband subscribers, mln



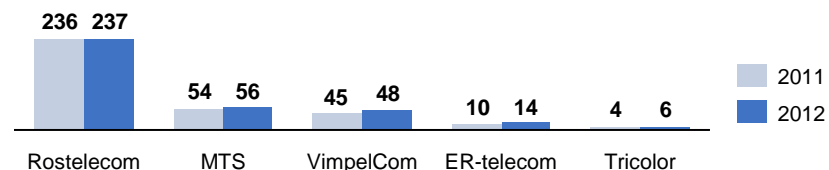
Fixed-line telephony

Market share, %, 3Q2013



- Rostelecom market share was stable in 2012-2013
- As of 3Q 2013 the company served 25.9m subscribers (6% decrease versus 3Q 2012)

Revenue from fixed-line telephony, broadband and Pay TV², RUB bn



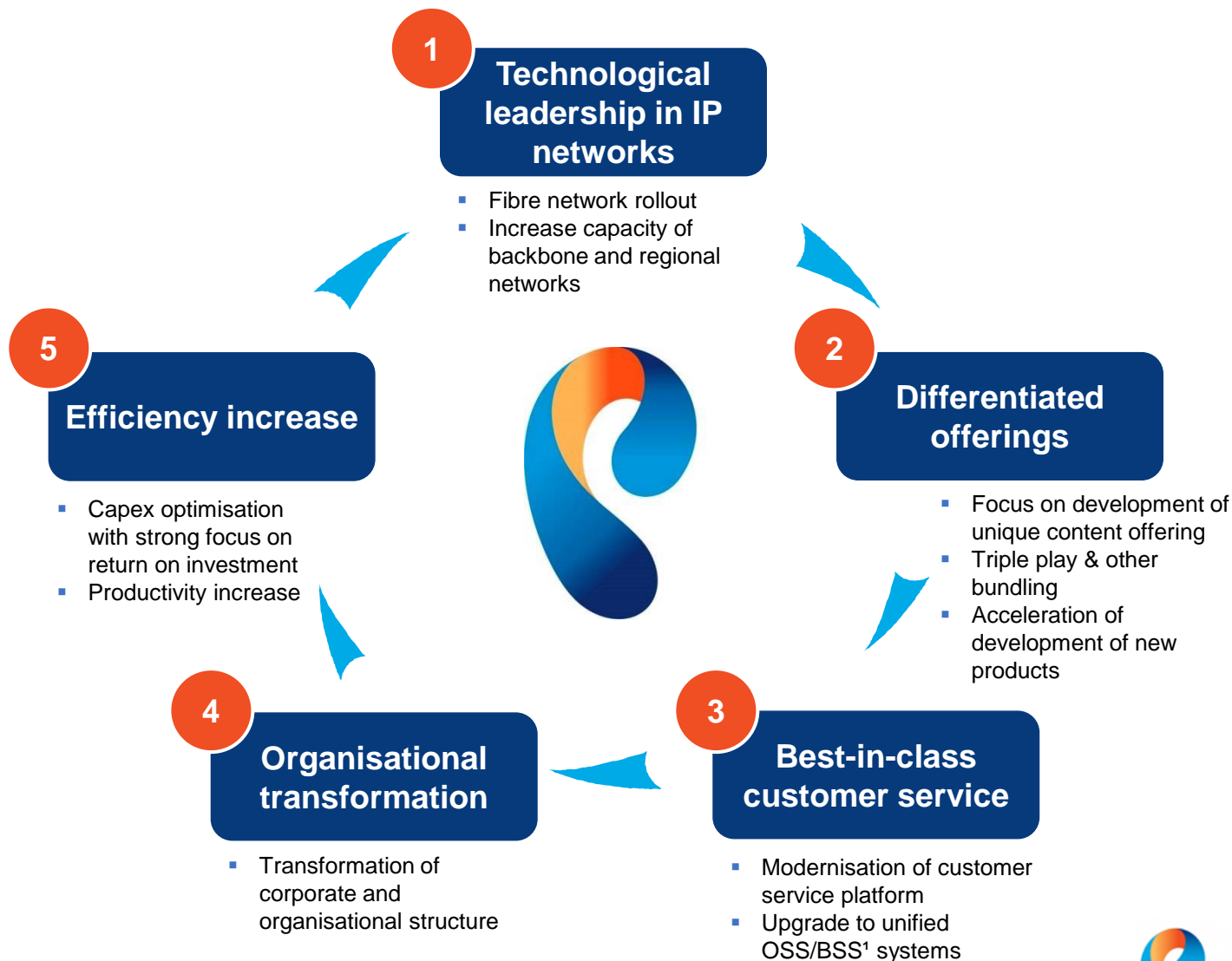
Source: iKS-Consulting, ACM Consulting, operators data

Note: All data shown includes Russia only. Rostelecom numbers are provided without Svyazinvest

¹ For Tricolor TV only paying subscribers are taken into account

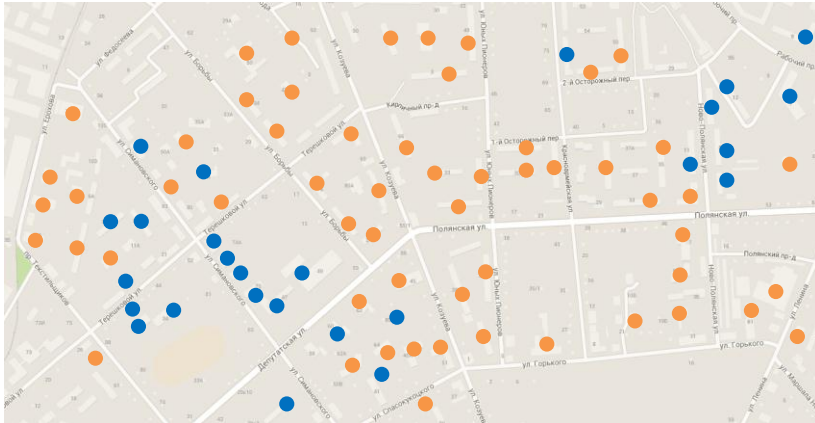
² For VimpelCom revenue is translated in RUB at CBR exchange rate for the relevant period

Key strategic pillars of Rostelecom fixed-line business

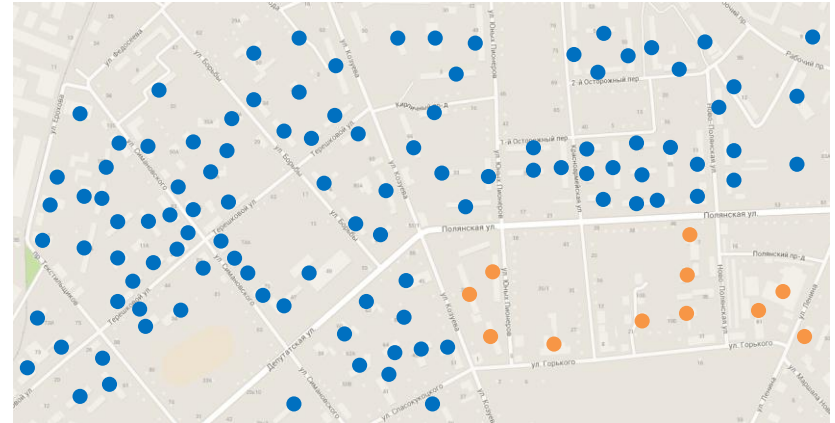


High speed access

From single-point roll-out today...



...to systematic approach to network development



● xDSL ● PON

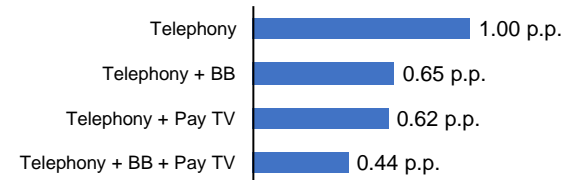
- New strategy for household coverage – “Broadband conveyor”, which involves cluster-based roll-out, covering all households in city regions. Single-point roll-out is only allowed in up to 20% of households
- Ensure continuity of the priority access technology for the existing network. All new backbone segments are PON-ready
- Decommission telephony lines and exchanges in regions where supported by the business case
- Use CPEs with multiple interfaces (Ethernet, RJ, RF, WiFi 2.4 / 5GHz)
- Use wireless access as replacement for last mile in regions with low population density
- Target households covered by the end of 2016 – 33m – all households in high and medium rise buildings
- Sign framework agreements and decrease procurement costs by switching to standardised network architecture and equipment

Development of differentiated offerings for B2C subscribers

Telephony

- Differentiated tariffs for Inter-regional and international calls
- Bundling with Broadband and Pay TV services to reduce churn and maintain subscriber levels

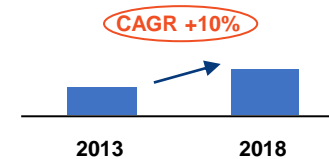
Effect of bundled services on the level of churn



Broadband

- Speeds 10% higher versus competitors, for the same monthly tariffs
- Exclusive speed of 1Gbit/s for top-end tariff

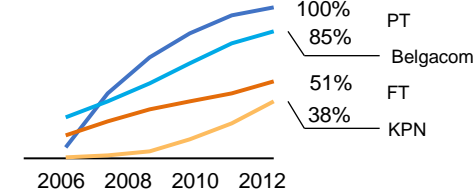
Rostelecom B2C Broadband subscribers



Pay TV

- Interactive TV with unique content proposition (HD, exclusive channels, VoD²)
- OTT platform (TV Everywhere)³

TV subscribers as % of Broadband subscribers¹, %



New services

- Financial services
- Smart house / Safe house
- Online and mobile commerce
- Payment for goods and services, cash services, credits, overdrafts and deposits, money transfers
- Home monitoring, control on water and electricity costs with smart meters, remote control of electrical appliances, remote monitoring of health
- Mobile and online payments, use of personal mobile and fixed line telephony accounts as electronic wallet

2b Pay TV segment strategy

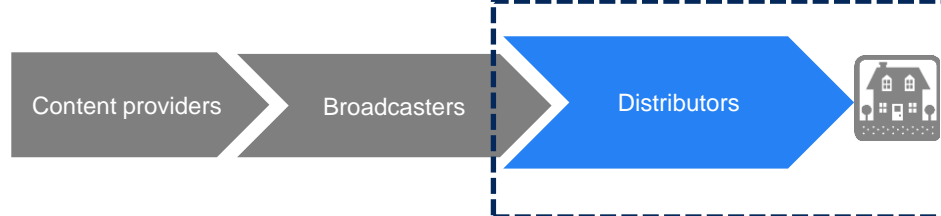
1
Network improvement in order to increase ARPU

- Increase speed and network capacity in order to switch subscribers to bundled services with higher ARPU
- Examples: roll out FTTH VDSL networks in Europe, upgrade of cable networks



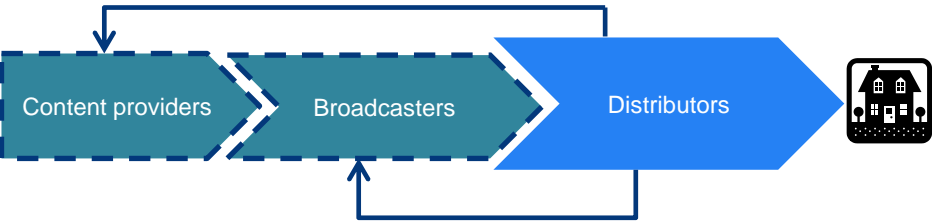
2
Provide best-in-class services to enhance customer loyalty

- State of the art technology, high speed network as an instrument for cross selling and client retention
- Examples: LGI Set-Top-Boxes (stickiness) and Free TV offerings (cross-selling)



3
Vertical integration with content providers to avoid intermediaries

- Acquisition or merger with content providers to prevent emergence of intermediaries
- Examples: Comcast / NBC Universal



4
Providing fixed and mobile services in bundled offerings

- Acquire expertise in fixed line business to provide attractive bundled offerings
- Examples: Vodafone acquisition of CWW



5
Expand digital coverage, allowing monetisation content independent of the platform

- Expand digital coverage to allow monetisation of content on all platforms
- Examples: digital and related business of P7S1, increase in VoD for RTL



B2B and B2Gs products development

Large corporate clients

- Package solutions for companies with requirements of large, high capacity, reliable and secure networks
- Core services: VPN, WAN, Broadband, data centers hosting, fixed voice
- Cloud computing services O7: call center, unified communications, web-video- conference communications, telepresence and broadcast, information security, managed services, content filtering
- Integrated solutions

SME

- Full Package Products for sub-segments
- Package: Broadband + fixed voice, option – VPN + hosting
- Cloud computing services O7: Hosted PBX, virtual office, web-video- conference communications
- M2M services: transport and logistics, CCTV monitoring

Implementing client service best practices

	Key initiatives	Targets
Call center	<ul style="list-style-type: none"> Unified call-center on the base of common IT infrastructure Unified call number for client services and client call rebalancing system Unified SLA 	<ul style="list-style-type: none"> 90% calls processed at first attempt 95% client satisfaction rate
Online client services	<ul style="list-style-type: none"> Multiplatform web-interface: rt.ru portal and 'my account' service Focus on customer self-service through web-channels 	<ul style="list-style-type: none"> > 50% share of remote channels
Retail distribution	<ul style="list-style-type: none"> Restructuring of retail distribution network: carve-out of retail chain operations into separate entity, retail chain optimisation, franchising opportunities Rebranding of the distribution network to increase sales and improve brand awareness Focus on efficiency of distribution network (margins) 	<ul style="list-style-type: none"> 20% share of channel in revenues 2x decrease of distribution network OPEX
2nd and 3rd support lines	<ul style="list-style-type: none"> Standardisation of maintenance process Centralisation of network monitoring and management Upgrade incentive system for maintenance staff with key focus on quality of service 	<ul style="list-style-type: none"> Less than 2% share of repetitive requests Less than 24h request processing time
Corporate and SME accounts	<p>Client-centric approach for large corporate clients:</p> <ul style="list-style-type: none"> Personal account manager to provide assistance on key customer support and services questions Dedicated technical support line, quality of service (QoS) management <p>Differentiated approach for SME clients:</p> <ul style="list-style-type: none"> Standardised SLA depending on service package Dedicated sales and support channels with unified business processes 	<ul style="list-style-type: none"> 90% calls processed at first attempt 3% lost calls rate (LCR) 80% service level commitment

4 Organizational transformation

Organizational transformation initiatives

- Centralisation of support functions: IT, backoffice, etc.
- Creation of competence centers at macro branches level
- Outsourcing of certain business functions and related optimisation of organizational structure

'Ideal branch' model

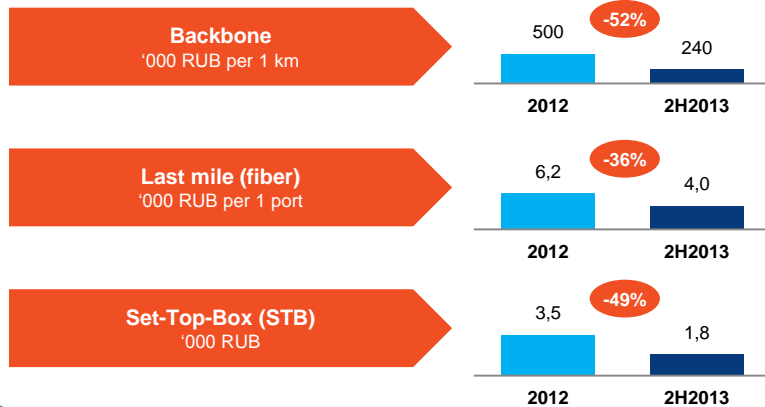
- Development of 'ideal' operational model with solid scalability potential on the base of some pre-selected local branch
 - Pilot project in Voronezh branch
- Replication of developed operational model at regional branches level
- 'Ideal branch' project is expected to be instrumental for the whole organizational process and should also set the ground for CRM and other IT systems

Corporate culture transformation and sustainability improvement

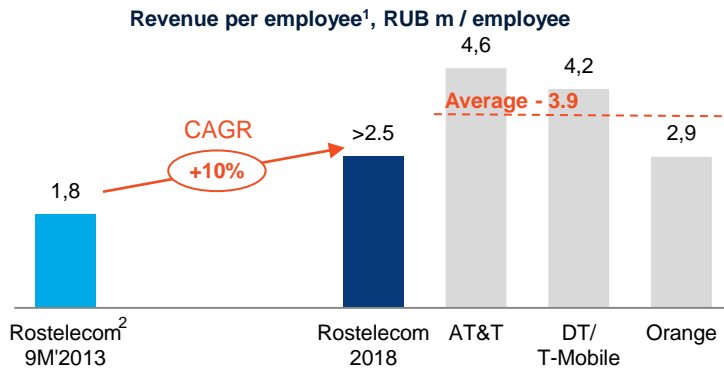
- Management efficiency: lead by example, mentorship, commitment, encouragement and staff training
- Customer-oriented approach, continuous improvement
- Motivate to action and evaluate on real achievements
- Simplicity and delegation: facilitate accomplishment of the objectives and empowerment

Focus on improvement of operational and investment efficiency

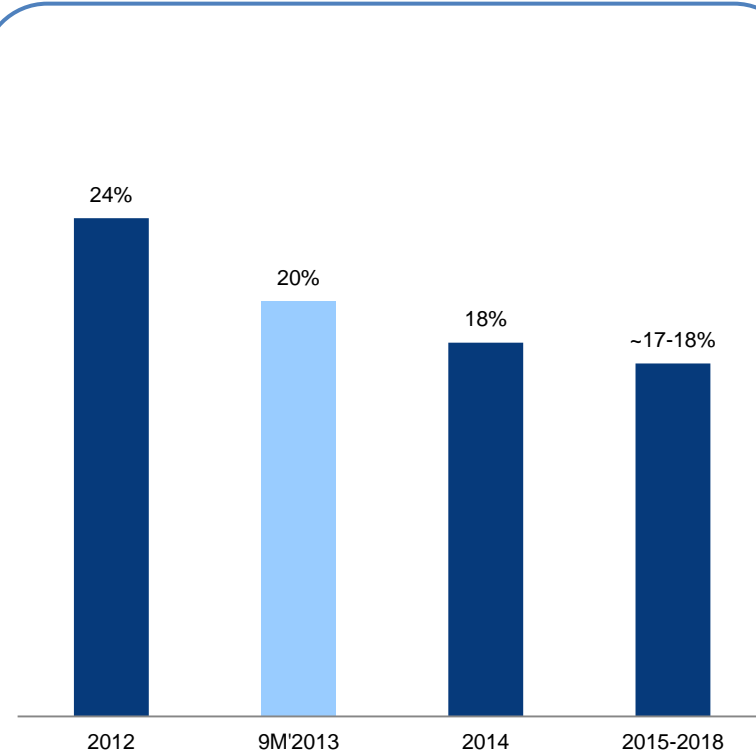
Procurement optimization



Headcount optimisation



CAPEX / Revenue, %

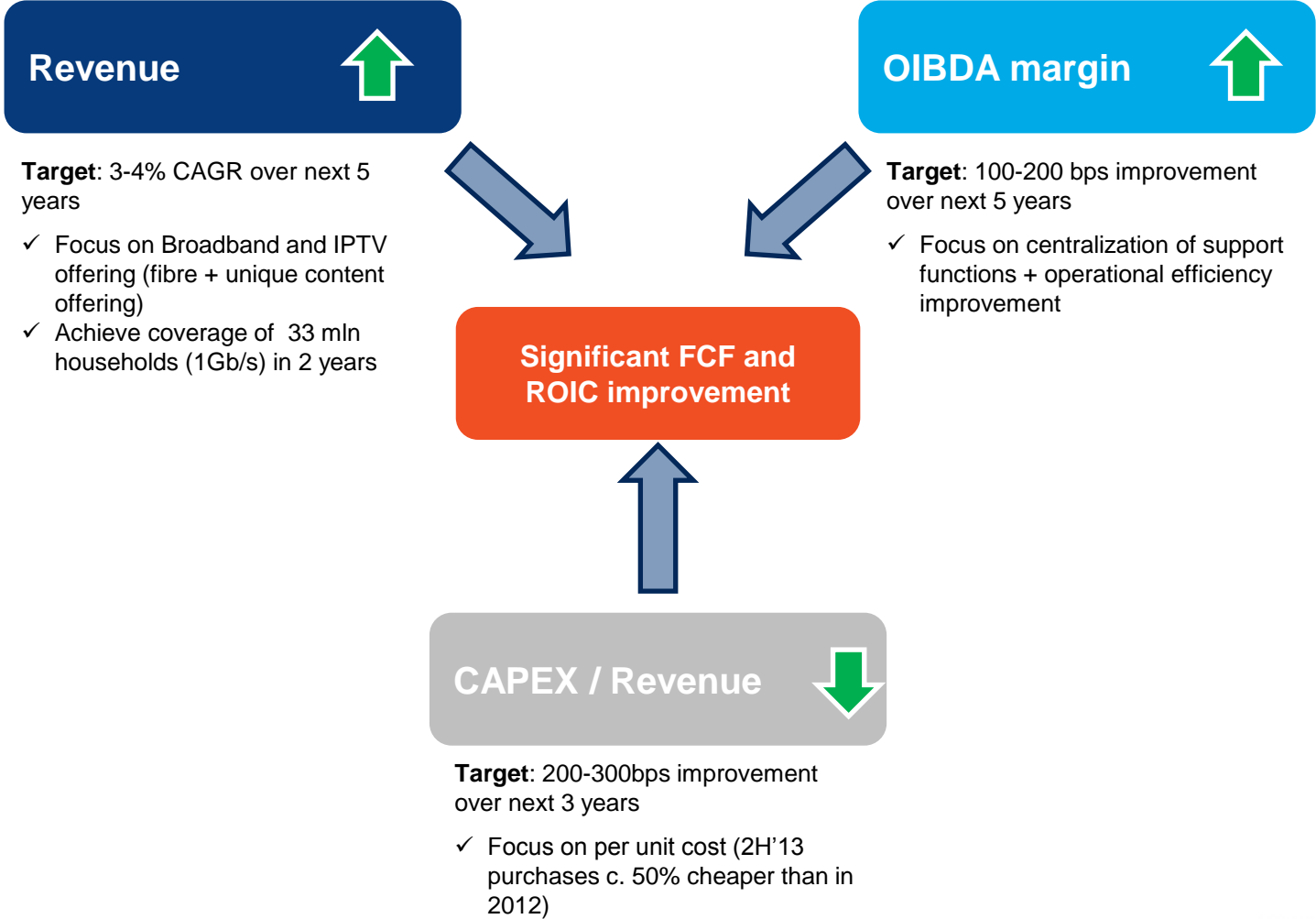


Source: Companies data

Notes: ¹ Data on international operators (incl. their mobile business) is PPP (purchasing power parity) adjusted

² Calculated as annualized revenue for 9m 2013 divided by number of employees as of the end of 3Q2013

Focus on shareholder value



4. Creating T2-RTK Holding – national mobile player

Joint venture with Tele2 Russia: transaction highlights

- Rostelecom and Tele2 Russia to merge their mobile assets to form a new national mobile operator T2 RTK Holding (or “JV”) in the largest in-market consolidation in Russian telecom space
- Subject to receipt of necessary regulatory and corporate approvals and successful completion of all transaction stages, Rostelecom will get 45% ownership in JV and is expected to become the largest single beneficial shareholder
- Transaction will be effected in two stages

Stage 1:

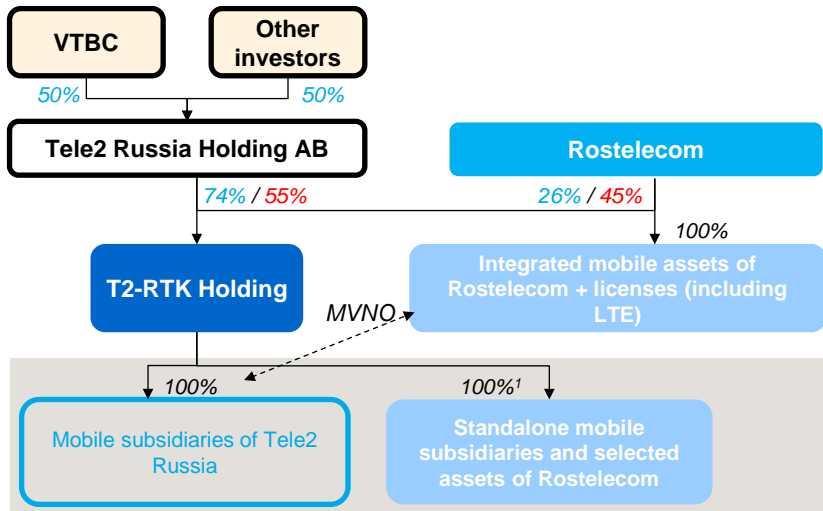
- Rostelecom will contribute its standalone mobile subsidiaries and certain mobile assets (except for its spectrum in the 450MHz band), including SkyLink, along with associated net debt of approximately RUB 34bn
- Tele2 Russia will contribute all its mobile assets, along with associated net debt of approximately RUB 27bn

Stage 2:

- Rostelecom will transfer its integrated mobile businesses and integrated licenses (including LTE), subject to an internal reorganisation required to effect the transfer
- Before completion of Stage 2, JV will get access to Rostelecom spectrum assets through MVNO arrangements
- Transaction was approved by Rostelecom Board of Directors on December 12, 2013

Transaction structure

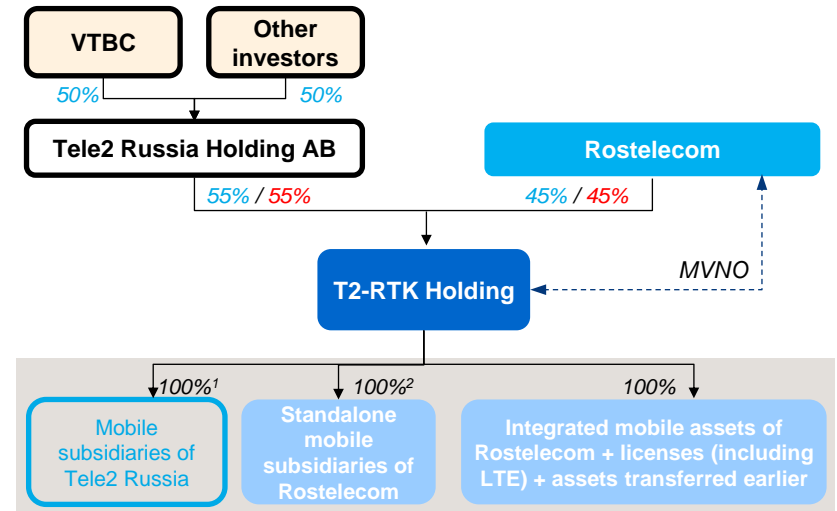
1 Stage 1 – transfer of mobile subsidiaries



Economic rights / Voting rights

- Rostelecom contributes its standalone mobile subsidiaries (including SkyLink), selected assets, along with associated net debt of c. RUB 34bn, and receives 26% economic stake in JV (45% voting rights)
- Tele2 Russia contributes all of its mobile assets, along with associated net debt of c. RUB 27bn, and receives 74% economic stake in JV (55% voting rights)
- JV gets access to Rostelecom integrated spectrum assets through MVNO arrangements

2 Stage 2 – transfer of integrated mobile assets



- Rostelecom transfers its integrated mobile businesses and licenses (including LTE), subject to an internal reorganisation required to effect the transfer
- Upon successful completion of Stage 2, Rostelecom's economic stake will increase from 26% to 45%
- Rostelecom will enter into MVNO agreement with JV for LTE to provide 4-play services

¹ In CJSC Acos: 94,4456%; in CJSC SkyLink: 50% (effectively 100% of the charter equity); in OJSC Apex: 93.49%; in CJSC TSRS: 40%

Transaction rationale (1/4)

Key considerations

Strategically important transaction for Rostelecom

- Reinforce Rostelecom's mobile strategy by creating mobile operator with sufficient scale to compete nationwide
- Rostelecom is expected to be the largest single beneficial owner in the JV
 - Pre-emptive rights in the event of a strategic sale by Tele2 Russia and right to acquire additional equity interests (up to the controlling stake) in the event of an IPO
- Retention of upside from mobile-fixed synergies and future convergence

Builds long-term shareholder value

- Substantial operational and financial upside from strengthened competitive position
- Significant synergy potential on capex and opex
- Release of cash flows at Rostelecom level

Transaction rationale (2/4)

Re-positioning Rostelecom's mobile assets through JV with Tele2 Russia

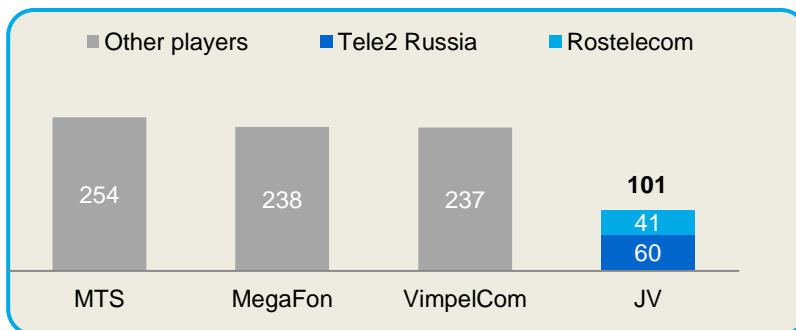
Benefits for Rostelecom

- ✓ **Increased scale**
 - Over 37m subscribers
 - Over 16% market share (by subscribers)
- ✓ **Full national license coverage**
- ✓ **Increased footprint**
 - From 35 to 64¹ operational regions
- ✓ **Capture mobile data growth opportunity**
- ✓ **Provide convergent services**
- ✓ **Ability to accelerate 3G/4G networks roll-out**
- ✓ **Accelerate monetization of licence portfolio**
- ✓ **Capitalize on Tele2 Russia's know-how and impressive track record: from a newcomer to niche player successfully competing with BIG-3**

Key combination parameters

	Rostelecom mobile	Tele2 Russia
Regions covered ³	35	41
Subscribers (mm) ³	14.1	23.7
Revenue (RUB bn) ⁴	41	60
Market share ⁶	6%	10%

Mobile revenues 2012 (RUB bn)²



Nationwide license coverage



Population coverage ⁵	100%
Licenses held (by region of RF):	
700 MHz (LTE)	83 regions
800 MHz (LTE)	83 regions
900 MHz (2G)	26 regions
1800 MHz (2G / LTE ⁵)	78 regions
2100 MHz (3G / UMTS)	71 regions
2300 MHz (LTE)	39 regions
2600 MHz (LTE)	83 regions

Source: Companies data

¹ Including 12 regions where Tele2 operations overlaps with Rostelecom. Excluding CDMA only regions.

² Rostelecom revenue including CDMA subscribers. Only Russian business is taken into account

³ Number of regions with commercial 2G, 3G mobile operations and mobile subscribers as of Q3 2013

⁴ Based on 2012 full year

⁵ License coverage, including technology neutrality

⁶ Based on number of subscribers

Transaction rationale (3/4)

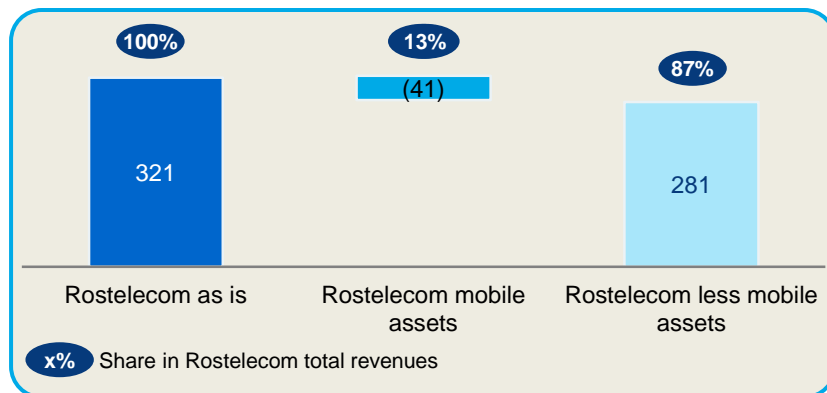
Substantial synergy potential

Area	Synergies
Revenue	<ul style="list-style-type: none">✓ Upsell existing Tele2 Russia subscribers high speed mobile data packages✓ Cross-selling fixed line services to mobile subscribers✓ Converged proposition for Rostelecom subscribers: offer mobile services bundled with Rostelecom fixed line services✓ Increased revenues from international roaming due to renegotiated tariffs for Tele2 Russia
Network & IT	<ul style="list-style-type: none">✓ Site rationalisation in Rostelecom and Tele2 Russia overlapping regions✓ Efficient 3G and 4G roll-out through colocation on existing Tele2 Russia sites✓ Efficient 4G network roll-out in Tele2 Russia regions due to wide spectrum bandwidth✓ Backhaul, backbone and core network consolidation✓ Optimisation of roaming costs✓ Consolidate and simplify IT and billing
Distribution & marketing	<ul style="list-style-type: none">✓ Increased bargaining power with federal distributors✓ Rationalisation of retail network by leveraging Rostelecom retail locations and Tele2 Russia's monobrand stores✓ Reduction in marketing costs
Other synergies	<ul style="list-style-type: none">✓ Leveraging Tele2 Russia know-how and business development track record to launch a national operator with uniform high standard of operation across the country and efficient central management function✓ Elimination of overlapping functions✓ Efficiencies in property management and procurement

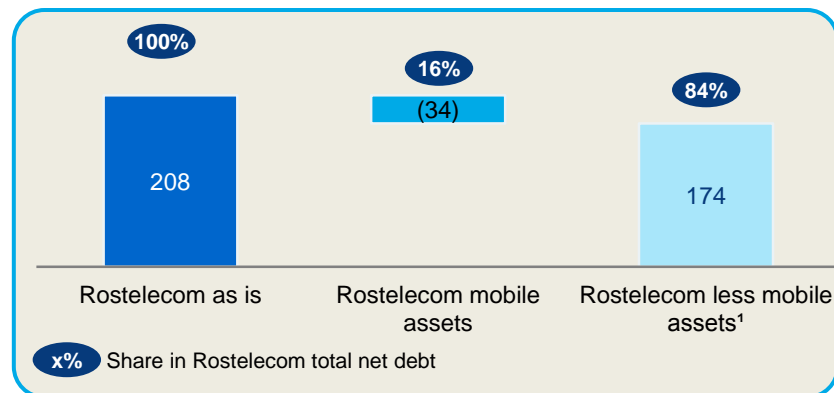
Transaction rationale (4/4)

Release of cash flows at Rostelecom level

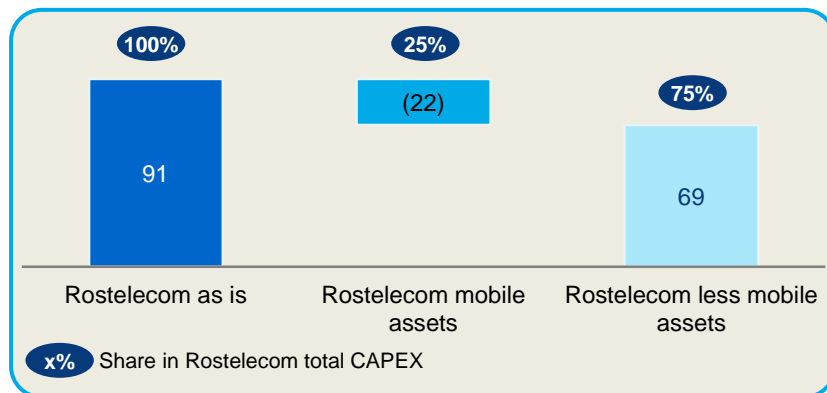
Revenue 2012 (RUB bn)



Net debt as of 3Q'13 (RUB bn)



CAPEX 2012 (RUB bn)



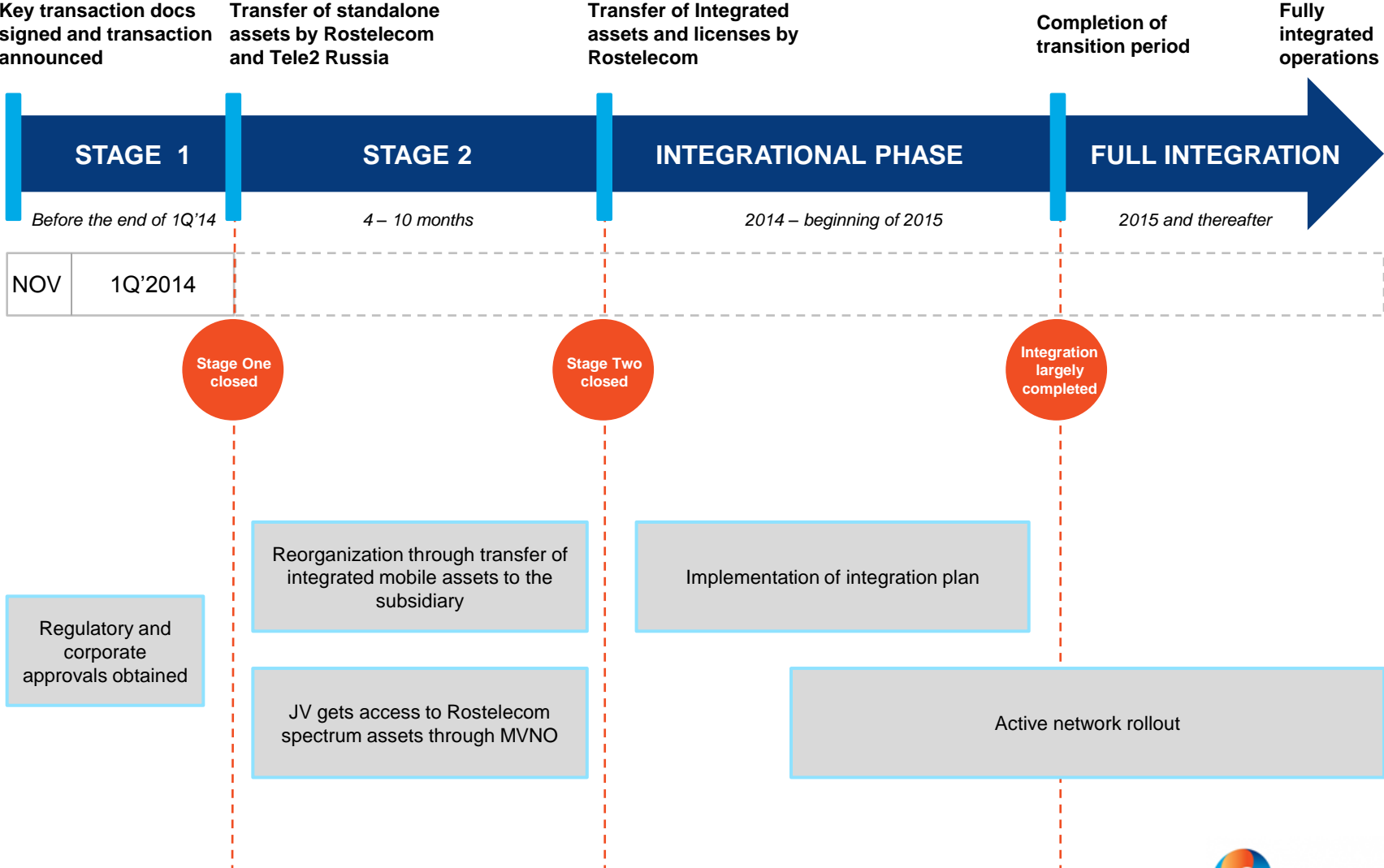
Carve-out impact

- **Additional cash flow released**
 - Substantial savings of mobile CAPEX, particularly from capital intensive roll-out of 3G/4G networks
- **Balance sheet is strengthened**
 - Elimination of debt related to mobile operations
- **Minor impact on top line**
 - Large scale of fixed line business compared to mobile

Source: Company data including CDMA subscribers

¹ Rostelecom's net debt less net debt transferred to JV

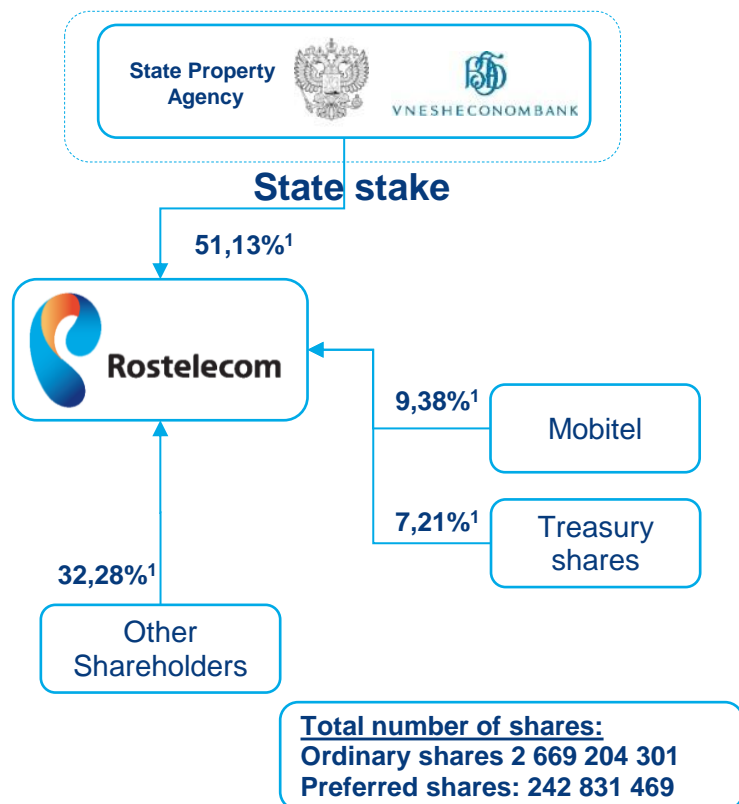
Indicative transaction timetable



5. APPENDIX

Svyazinvest Merger – Key Results

Current structure (as at November 20th, 2013)



1- voting stake

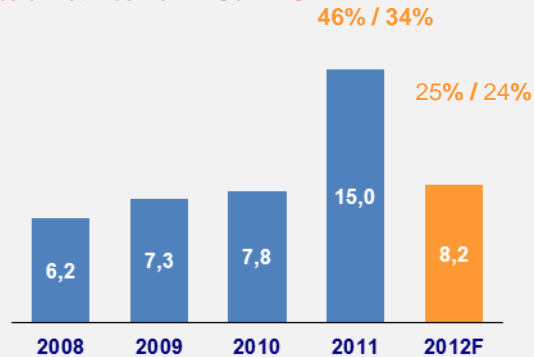
Key results

- Simplification of shareholders structure, elimination of cross-ownership.
- Assets consolidated:
 - 20 daughter companies merged with Rostelecom (influence on RAS accounting);
 - 2 major Svyazinvest assets merged – 28,2% stake in Bashinformsvyaz and 80% stake in Central Telegraph (total expected revenues in 2013 – over RUB 10 bln) (influence on both RAS and IRFS accounting)
- Number of shares decreased by c9,3%.

Group's dividends

Dividends (RUB bln)

% of net income RAS / IRFS



Dividend for 2012

- RUB 4,1022 for 1 preferred share of class A
- RUB 2,4369 for 1 ordinary share

KEY DATA

- In April 2012 the Board of Directors proposed to approve 2012 dividend payment in the total amount of RUB 8,2 bln or 25% of RAS net income for 2012 or:
 - RUB 4.1022 for 1 preferred share of class A (total payment of 3,05% of RAS net income or 2,87% of IRFS net income)
 - RUB 2.4369 for 1 ordinary share (total payment of 21,95% of RAS net income or 20,64% IRFS net income)
- Dividends were approved during shareholders' meeting in June 2013.
- Dividends are calculated as:
 - at least 20% of IRFS net income / by number of ordinary shares for 1 ordinary share;
 - 10% of RAS Net income / 25% of total number of shares for 1 preferred share.

Cloud & IT Services: Competitive Advantage to Become the Unchallenged Leader



E-government

- ✓ United portal for public services
- ✓ Public services in e-format
- ✓ 70 out of 83 regions already subscribed (200K total in all levels)



O7. Medicine

- ✓ United electronic medical card
- ✓ E-front desk
- ✓ Medicine info systems



O7. Education

- ✓ E-School and E-Nursery
- ✓ Social network for school students
- ✓ Educational TV channel



O7. Housing

- ✓ Tariff and budget control
- ✓ Payments and financial assets
- ✓ Market potential - over 100K service companies



O7. City

- ✓ City infrastructure monitoring
- ✓ Predicting and prevention of emergency situations



O7. 112

- ✓ United contact number for admission and processing of messages
- ✓ Special services coordination



O7. DOC

- ✓ Office administration
- ✓ Document exchange



O7. Business

- ✓ Automation of key business processes
- ✓ Virtual office

P&L Statement

(RUB bln)

P&L	1Q 2013	2Q 2013	3Q 2013	4Q 2013	9M 2013	Growth rates 3Q	Growth rates 9M	1Q 2012	2Q 2012	3Q 2012	4Q 2012	2012	Growth rates
Revenue (see breakdown below)	77,067	77,030	78,220		232,317	2%	-3%	85,319	76,387	76,985	82,560	321,251	7%
Operating Expenses	(65,585)	(64,248)	(64,963)	0,000	(194,796)	2%	1%	(67,527)	(61,365)	(63,563)	(74,606)	(267,061)	11%
Wages, salaries, other benefits and payroll taxes (see breakdown below) including stock option program	(21,924)	(20,572)	(20,157)		(62,653)	5%	3%	(21,893)	(19,904)	(19,206)	(22,942)	(83,945)	10%
					0,000				0,000	0,000		0,000	
Depreciation and Amortization	(17,355)	(16,048)	(16,141)		(49,544)	1%	3%	(16,616)	(15,493)	(15,992)	(16,628)	(64,729)	13%
Interconnect Charges	(10,168)	(12,137)	(12,533)		(34,838)	6%	1%	(11,334)	(11,313)	(11,812)	(12,853)	(47,312)	16%
Materials, utilities, repair and maintenance	(5,949)	(5,954)	(7,693)		(19,596)	11%	-4%	(7,264)	(6,306)	(6,924)	(6,360)	(26,854)	-2%
Other operating income	2,483	2,759	5,394		10,636	34%	3%	2,597	3,725	4,023	3,523	13,868	-6%
Other operating expense, including:	(12,672)	(12,296)	(13,833)		(38,801)	1%	0%	(13,017)	(12,074)	(13,652)	(19,346)	(58,089)	8%
Operating Profit	11,482	12,782	13,257	0,000	37,521	-1%	-19%	17,792	15,022	13,422	7,954	54,190	-10%
Operating Profit margin	14,9%	16,6%	16,9%		16,2%			20,9%	19,7%	17,4%	9,6%	16,9%	
OIBDA	28,837	28,830	29,398	0,000	87,065	0%	-8%	34,408	30,515	29,414	24,582	118,919	1%
OIBDA Margin	37,4%	37,4%	37,6%		37,5%			40,3%	39,9%	38,2%	29,8%	37,0%	-5%
Income from equity accounted investees	0,169	0,147	0,138		0,454	15%	9%	0,182	0,114	0,120	0,807	1,223	-73%
Finance costs	(3,912)	(3,741)	(3,837)		(11,490)	-12%	-5%	(3,666)	(4,114)	(4,348)	(3,841)	(15,969)	22%
Other Investing and financial gains	0,585	0,270	3,536		4,391	138%	63%	0,991	0,217	1,485	(0,351)	2,342	13%
Foreign exchange loss, net	(0,142)	(0,401)	0,017		(0,526)	-96%	-260%	0,650	(0,788)	0,467	0,156	0,485	-229%
Profit before income tax	8,182	9,057	13,111	0,000	30,350	18%	-19%	15,949	10,451	11,146	4,725	42,271	-21%
Income tax expense	(1,769)	(1,782)	(2,567)		(6,118)	46%	-25%	(3,481)	(2,969)	(1,761)	(0,111)	(8,322)	-23%
Net Profit	6,413	7,275	10,544	0,000	24,232	12%	-17%	12,468	7,482	9,385	4,614	33,949	-20%
Net Profit margin	8,3%	9,4%	13,5%		10,4%			14,6%	9,8%	12,2%	5,6%	10,6%	-25%

Revenue structure

(RUB bln)

Revenue / Breakdown	1Q 2013	2Q 2013	3Q 2013	4Q 2013	9M 2013	Growth rates 3Q	Growth rates 9M	1Q 2012	2Q 2012	3Q 2012	4Q 2012	2012	Growth rates
By services:													
Local Telephone services	21,399	21,260	20,497		63,156	-3%	-2%	21,604	21,719	21,125	21,286	85,734	-3%
Intra-Zonal	4,194	4,152	4,032		12,378	-12%	-12%	4,797	4,720	4,568	4,669	18,754	-12%
DLD / ILD	4,651	4,206	4,081		12,938	-16%	-16%	5,471	5,070	4,863	4,986	20,390	-15%
Interconnect and traffic transit	5,376	5,687	6,558		17,621	21%	14%	4,889	5,146	5,418	5,550	21,003	6%
Mobile communication services	9,503	9,939	9,883		29,325	-6%	-5%	10,031	10,446	10,512	10,172	41,161	1%
Rent of channels	2,608	2,638	2,463		7,709	-18%	-13%	2,894	2,918	3,014	2,443	11,269	9%
Broadband Internet	13,354	13,326	13,326		40,006	8%	8%	12,158	12,386	12,367	12,886	49,797	7%
Pay-TV	2,772	2,686	2,887		8,345	27%	29%	2,055	2,143	2,274	2,555	9,027	35%
Data services	5,335	5,555	5,451		16,341	11%	10%	4,995	4,957	4,891	5,714	20,557	9%
Other	7,875	7,581	9,042		24,498	14%	-22%	16,425	6,882	7,952	12,299	43,558	73%

% of total Revenues

Local Telephone services	27,8%	27,6%	26,2%		27,2%			25,3%	28,4%	27,4%	25,8%	26,7%	
Intra-Zonal	5,4%	5,4%	5,2%		5,3%			5,6%	6,2%	5,9%	5,7%	5,8%	
DLD / ILD	6,0%	5,5%	5,2%		5,6%			6,4%	6,6%	6,3%	6,0%	6,3%	
Interconnect and traffic transit	7,0%	7,4%	8,4%		7,6%			5,7%	6,7%	7,0%	6,7%	6,5%	
Mobile communication services	12,3%	12,9%	12,6%		12,6%			11,8%	13,7%	13,7%	12,3%	12,8%	
Rent of channels	3,4%	3,4%	3,1%		3,3%			3,4%	3,8%	3,9%	3,0%	3,5%	
Broadband Internet	17,3%	17,3%	17,0%		17,2%			14,3%	16,2%	16,1%	15,6%	15,5%	
Pay-TV	3,6%	3,5%	3,7%		3,6%			2,4%	2,8%	3,0%	3,1%	2,8%	
Data services	6,9%	7,2%	7,0%		7,0%			5,9%	6,5%	6,4%	6,9%	6,4%	
Other	10,2%	9,8%	11,6%		10,5%			19,3%	9,0%	10,3%	14,9%	13,6%	

By customers:

B2C	40,806	40,119	39,683		120,608	-1%	-1%	41,081	40,680	40,163	40,569	162,493	-2%
B2B	17,287	17,425	18,732		53,444	11%	6%	16,364	17,156	16,844	18,651	69,015	-1%
B2G	10,378	9,801	10,624		30,803	4%	-20%	18,965	9,445	10,191	14,851	53,452	55%
B2O	8,596	9,685	9,181		27,462	-6%	-1%	8,909	9,106	9,787	8,489	36,291	14%
B2C	52,9%	52,1%	50,7%		51,9%			48,1%	53,3%	52,2%	49,1%	50,6%	
B2B	22,4%	22,6%	23,9%		23,0%			19,2%	22,5%	21,9%	22,6%	21,5%	
B2G	13,5%	12,7%	13,6%		13,3%			22,2%	12,4%	13,2%	18,0%	16,6%	
B2O	11,2%	12,6%	11,7%		11,8%			10,4%	11,9%	12,7%	10,3%	11,3%	

Balance Sheet

(RUB bln)

BALANCE SHEET	31.03.2013	30.06.2013	30.09.2013	31.12.2013	31.03.2012	30.06.2012	30.09.2012	31.12.2012
Assets								
Current Assets								
Cash & cash equivalents	4,008	10,761	4,492		10,370	9,396	10,370	10,370
Other investments	1,137	4,467	9,780		0,952	2,939	0,952	0,952
Prepayments	3,331	3,486	3,369		3,912	3,939	3,912	3,912
Prepaid income tax	3,608	3,363	2,691		2,921	3,089	2,921	2,921
Inventories	4,139	4,007	3,865		4,534	5,070	4,534	4,534
Trade and other accounts receivable	38,778	37,672	42,162		33,992	39,204	33,992	33,992
Other current assets	1,325	1,386	1,481		1,258	2,596	1,258	1,258
Total current assets	56,326	65,142	67,840	0,000	57,939	66,233	57,939	57,939
Non-current assets								
PPE & Intangible assets	383,424	379,991	375,462		385,994	346,053	385,994	385,994
Investment property	0,254	0,216	0,229		0,274	0,256	0,274	0,274
Goodwill and other intangible assets	85,240	84,191	82,744		87,830	87,006	87,830	87,830
Investment in associates	5,354	5,420	5,546		5,179	4,782	5,179	5,179
Other investments	2,471	1,763	2,088		2,498	2,209	2,498	2,498
Other non-current assets	8,220	7,648	8,891		8,107	16,666	8,107	8,107
Total non-current assets	484,963	479,229	474,960	0,000	489,882	456,972	489,882	489,882
Total assets	541,289	544,371	542,800	0,000	547,821	523,205	547,821	547,821
Liabilities								
Current Liabilities								
Accounts payable	49,402	91,573	48,168		59,889	58,011	59,889	59,889
Short-term loans and borrowings	55,319	46,411	66,250		63,499	69,013	63,499	63,499
Other current liabilities	8,570	8,745	8,544		10,038	8,219	10,038	10,038
Total current liabilities	113,291	146,729	122,962	0,000	133,426	135,243	133,426	133,426
Non-current Liabilities								
Shareholders equity	0,106	0,106	0,106		0,106	0,106	0,106	0,106
Treasury shares	(35,445)	(28,374)	(56,078)		(36,615)	(36,304)	(36,615)	(36,615)
Additional paid in capital	7,119	7,046	7,202		7,119	8,736	7,119	7,119
Retained earnings and other reserves	260,917	229,203	271,160		254,457	239,670	254,457	254,457
Non-controlling interest	0,471	0,206	0,946		0,493	0,355	0,493	0,493
Long-term loans	156,130	150,744	156,315		150,907	138,205	150,907	150,907
Employee benefits	11,045	11,082	11,055		10,997	11,371	10,997	10,997
Deferred tax liabilities	22,650	22,541	24,188		22,565	21,681	22,565	22,565
Other non-current liabilities	5,005	5,088	4,944		4,366	4,142	4,366	4,366
Total non-current liabilities	427,998	397,642	419,838	0,000	414,395	387,962	414,395	414,395
Total equity & liabilities	541,289	544,371	542,800	0,000	547,821	523,205	547,821	547,821
Net Debt	206,304	181,927	208,293	0,000	203,084	194,883	203,084	203,084
Net Debt / OIBDA LTM	x 1,8	x 1,6	x 1,9		x 1,6	x 1,6	x 1,7	x 1,7

Cash Flow statement

(RUB bln)

	1Q 2013	1H 2013	9M 2013	2013	1Q 2012	1H 2012	9M 2012	2012
CASH FLOW STATEMENT								
Cash flows from operating activities								
Profit before income tax	8,181	17,239	30,350		15,949	26,400	37,546	44,033
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>								
Depreciation and amortization	17,355	33,403	49,544		16,616	32,109	48,101	64,729
Loss on sale of property, plant and equipment	0,054	(0,040)	0,127		0,383	0,283	0,540	0,822
Impairment losses /(reversal of impairment losses)			0,000				0,000	
Finance costs excluding finance costs on pension and other It social liabilities	3,725	7,281	10,937		3,429	7,311	11,428	15,054
Other non-cash (gains) / loss			0,000			0,041	0,000	
Other investing and financing gains	(0,585)	(0,855)	(4,391)		(0,991)	(1,208)	(2,693)	(1,440)
Other cash flows from operating activities	0,403	1,031	1,787	0,000	(0,394)	0,353	0,421	(3,455)
Share-based payment expenses			0,000		0,041		0,041	0,018
<i>Changes in net working capital:</i>	<i>(1,326)</i>	<i>(0,180)</i>	<i>(8,242)</i>	<i>0,000</i>	<i>(5,035)</i>	<i>(9,462)</i>	<i>(5,954)</i>	<i>(0,591)</i>
Cash generated from operations	27,807	57,879	80,112	0,000	29,998	55,827	89,430	119,170
Interest paid	(3,962)	(8,155)	(12,466)		(3,529)	(7,470)	(11,757)	(16,015)
Income tax paid	(2,538)	(4,503)	(4,682)		(2,233)	(4,348)	(4,495)	(6,924)
Net cash provided by operating activities	21,307	45,221	62,964	0,000	24,236	44,009	73,178	96,231
Cash flows from investing activities								
			(13,935)					
Purchase of PPE and intangible assets	(24,889)	(31,890)	(45,826)		(20,426)	(41,858)	(63,460)	(91,181)
Proceeds from sale of property, plant and equipment	0,316	0,666	0,899		0,049	0,147	1,225	1,864
Acquisition of financial assets	(0,161)	(3,718)	(10,147)		(3,578)	(3,509)	(3,764)	(4,436)
Proceeds from disposals of financial assets	0,076	0,395	1,565		4,296	5,513	7,991	8,300
Purchase of subsidiaries, net of cash acquired	(0,021)		(0,021)		(0,986)	(1,175)	(1,287)	(1,287)
Other cash flows from investing activities	0,003	0,122	0,795		0,069	0,198	1,112	1,145
Acquisition of equity accounted investees		(0,005)	(0,005)					(1,908)
Net cash used in investing activities	(24,681)	(34,430)	(52,739)	0,000	(20,576)	(40,684)	(58,183)	(87,503)
Cash flows from financing activities								
Purchase of treasury shares			(30,299)		(18,975)	(21,367)	(21,928)	(22,126)
Sale of treasury shares	0,499	8,234	11,093		1,338	2,224	2,224	2,775
Proceeds from bank and corporate loans	97,428	172,778	326,948		110,589	247,216	380,463	532,663
Repayment of bank and corporate loans	(125,159)	(219,276)	(344,049)		(80,557)	(209,045)	(343,289)	(491,724)
Repayment of bonds	(0,398)	(1,215)	(1,613)		(0,659)	(3,377)	(6,436)	(7,285)
Proceeds from promissory notes					7,650	21,882	22,863	22,863
Repayment of promissory notes					(2,250)	(21,863)	(22,946)	(22,939)
Dividends paid to shareholders of the Group		(0,427)	(7,407)		(0,001)	(0,362)	(12,808)	(12,131)
Other cash flows from financing activities	24,636	29,490	29,234	0,000	(14,333)	(16,627)	(17,136)	(7,818)
Net cash used in financing activities	(2,993)	(10,416)	(16,093)	0,000	2,802	(1,319)	(18,993)	(5,722)
Net (decrease)/increase in cash and cash equivalents	0,006	0,391	(5,878)		6,441	1,935	(4,009)	2,990
Effect of exchange rate changes on cash and cash equivalents	(6,362)	0,016	(0,011)		(0,021)	0,011	(0,011)	(0,016)
Cash and cash equivalents at beginning of year	10,370	10,370	10,370	10,370	7,380	7,380	7,380	7,380
Cash and cash equivalents at the end of year	10,376	10,761	4,492	10,370	13,821	9,396	3,369	10,370
FCF	(3,581)	13,331	17,138		3,810	2,151	9,718	5,050

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