



**Rostelecom**  
More possibilities

# Investor Presentation

November 2012





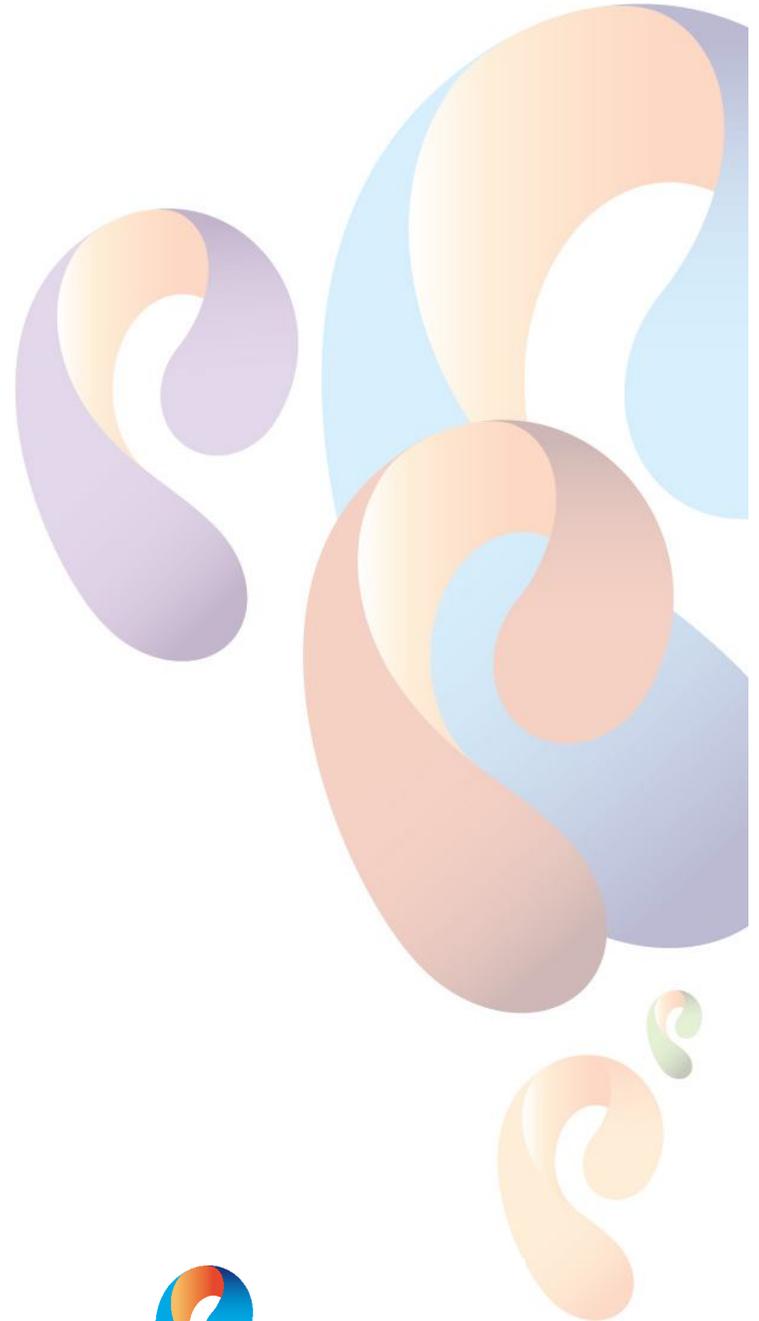
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# Chapter 1 | Company overview





<b>Key state interest in telecom industry</b>	Rostelecom networks and services cover <b>all</b> Federal districts of Russia, including Moscow						
<b>Unique infrastructure</b>	~ <b>500,000</b> km of national backbone and unique “list mile” infrastructure with <b>over 33 mln</b> households passed						
<b>Strong subscriber base</b>	~ <b>27.5<sup>1</sup> mln</b> fixed – line subs, ~ <b>8.9<sup>1</sup> mln</b> broadband subs, ~ <b>6.4<sup>1</sup> mln</b> pay-TV subs and ~ <b>13.5<sup>2</sup> mln</b> mobile voice subs						
<b>Positive Financial Results</b>	<table border="0"> <tr> <td>Revenue<sub>2011</sub> : <b>RUR 296.0 bln</b></td> <td>Net Income<sub>2011</sub> : <b>RUR 46.1 bln</b></td> </tr> <tr> <td>OIBDA<sub>2011</sub> : <b>RUR 117.7 bln</b></td> <td>Cash CAPEX<sub>2011</sub> : <b>RUR 82.8 bln</b></td> </tr> <tr> <td>OIBDA margin<sub>2011</sub> : <b>39.8%</b></td> <td>Net debt<sub>30.09.2012</sub> : <b>RUR 197.6 bln</b></td> </tr> </table>	Revenue <sub>2011</sub> : <b>RUR 296.0 bln</b>	Net Income <sub>2011</sub> : <b>RUR 46.1 bln</b>	OIBDA <sub>2011</sub> : <b>RUR 117.7 bln</b>	Cash CAPEX <sub>2011</sub> : <b>RUR 82.8 bln</b>	OIBDA margin <sub>2011</sub> : <b>39.8%</b>	Net debt <sub>30.09.2012</sub> : <b>RUR 197.6 bln</b>
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OIBDA margin <sub>2011</sub> : <b>39.8%</b>	Net debt <sub>30.09.2012</sub> : <b>RUR 197.6 bln</b>						
<b>Strategic Goals 2015</b>	<p>Revenue: <b>High Single Digit CAGR</b>  OIBDA margin <b>around 40%</b>  CAPEX: average <b>20%</b> of revenues for the period 2011-2015</p>						
<b>Clear Ownership Structure</b>	<p>Government controls <b>&gt; 55%</b> of ord. shares  Treasury shares: ~ <b>5%</b> of ordinary shares and ~<b>13%</b> of preferred shares  Other shareholders ~ <b>40%</b> of ordinary shares</p>						
<b>Listing</b>	<p>Currently traded on MICEX-RTS. LSE listing is planned in the near future  On September 01, 2011 Rostelecom was included in MSCI Large Cap. Current weight in MSCI Russia of 2.19%<sup>3</sup></p>						

1 – As at September 30, 2012

2 - including SkyLink, acquired in 3Q 2012

3 - As at August 30, 2012

### Clear outcome from structural changes

- Optimization of capital structure
- Consider preferred shares and treasury shares questions
- Growth of dividend yield

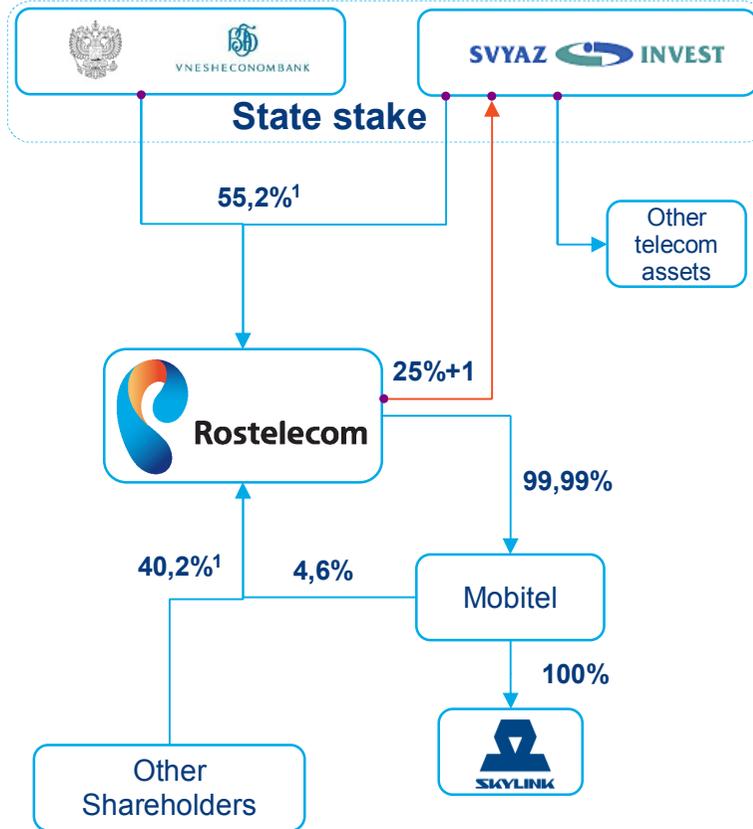
### Growth in Fundamentals

- Universal service company – full spectrum of telecom services to all types of clients with key focus on:
  - Fixed and mobile broadband
  - Pay-TV
- Universal multi-standard network covering whole territory of Russia
- Business expansion to adjacent segments (clouds, IT)
- Increase in operational effectiveness

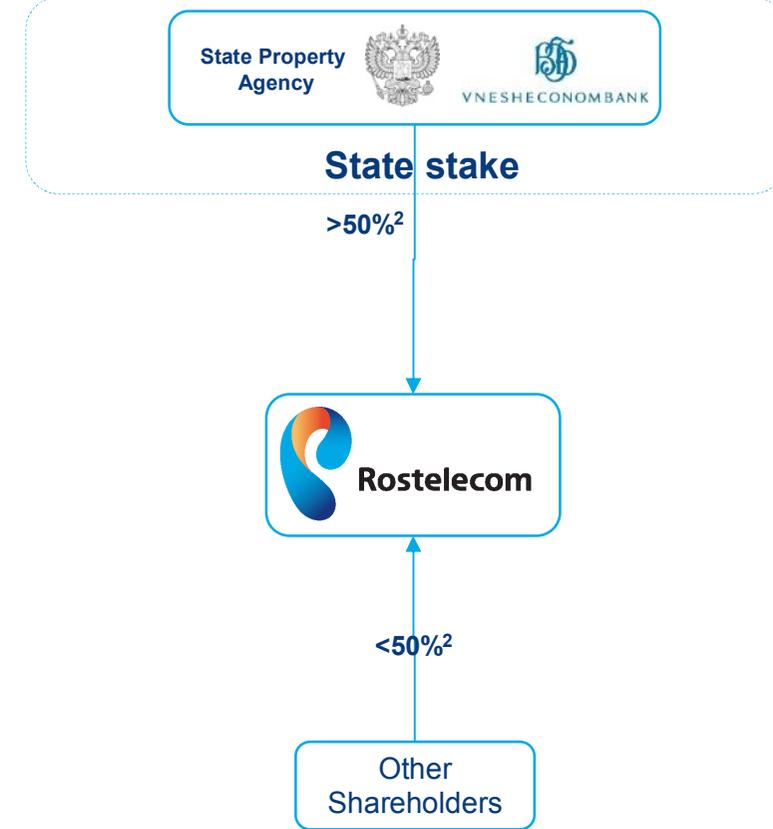




## Current structure



## Target structure



1- Percentage of voting shares

2 - Will depend on the valuation of Svyazinvest assets & Rostelecom



Rostelecom

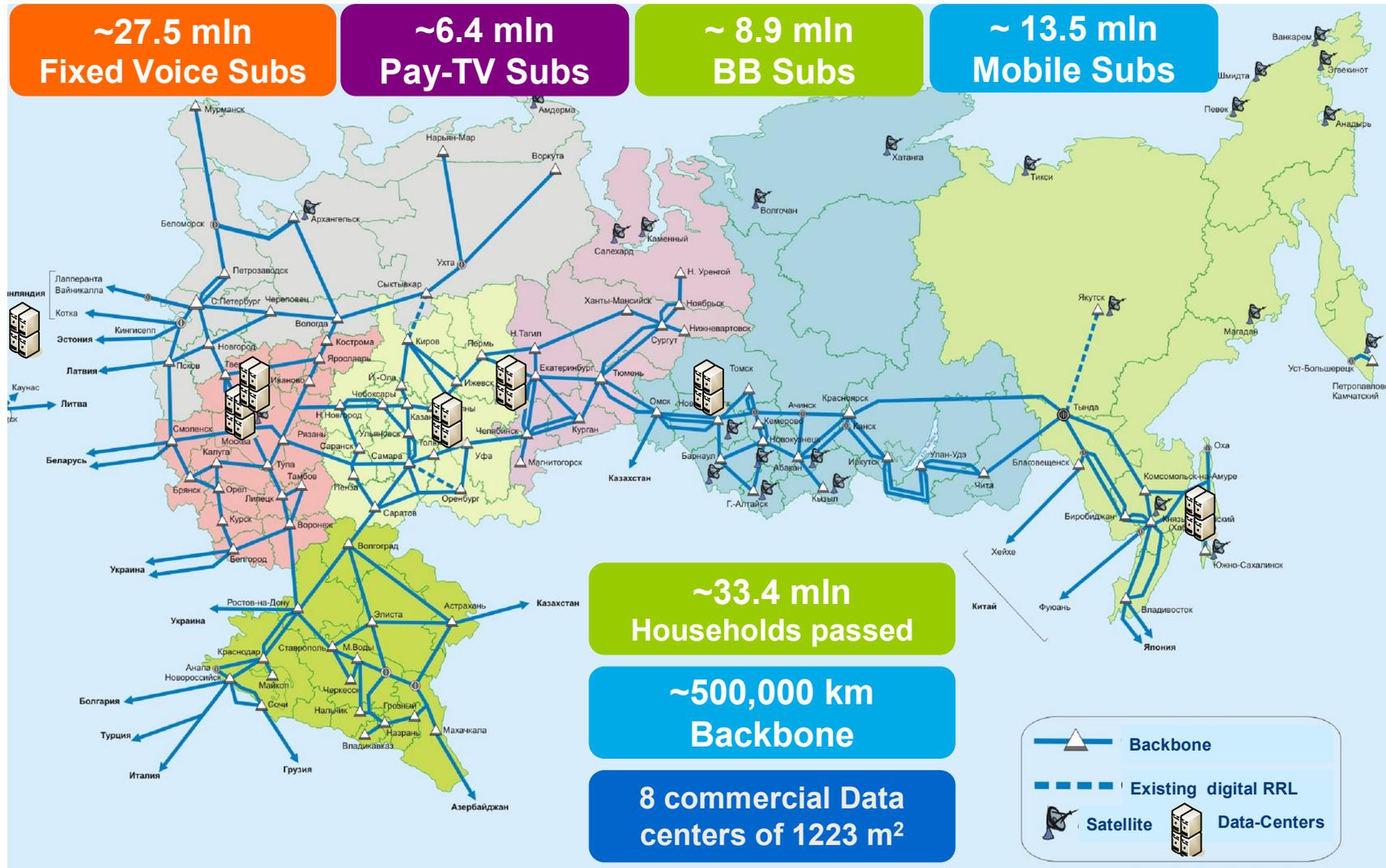
# National Integrated Operator

~27.5 mln  
Fixed Voice Subs

~6.4 mln  
Pay-TV Subs

~ 8.9 mln  
BB Subs

~ 13.5 mln  
Mobile Subs



Competitive environment<sup>1)</sup>

Rostelecom



MTS



VIP



Megafon

Operational Data <sup>2)</sup>

Backbone	(000 km)	500	117	111	130
Fixed-Line subs	(mln. subs)	27,5	6,3	n/a	n/a
Total HH passed	(mln.)	33,4	11,8	n/a	n/a
BB Subs	(mln. subs)	8,9	2,1	2,3	n/a
Mobile Subs	(mln. subs)	13,5	70,7	56,2	62,8
Pay-TV Subs	(mln. subs)	6,4	2,9	n/a	n/a
Sales points	(000 units)	~2,5	4,2	~2,9 <sup>4)</sup>	1,6
Free Float	(%)	40%	47%	18%	0%

## Financials (9M 2012)

Revenue	(RUR bln.)	238,7	249,7	218,2	199,5
OIBDA	(RUR bln.)	94,0	110,9	92,8	84,6
OIBDA margin	(%)	39,4%	44,4%	42,5%	42,4%
Net Income	(RUR bln.)	30,6	46,1	n/a	25,9
Net Income margin	(%)	12,8%	18,5%	n/a	13,0%

Source: Companies' data

1) all data from Russian operations only

2) as at September, 30, 2012

3) including SkyLink

4) including franchise sales points

5) Consolidated

- As of September 30, 2012 Rostelecom was **by far the biggest** operator **by subscribers** and **backbone network**.

- Future growth will be driven by:

- ✓ Fixed and mobile data

- ✓ IPTV

- ✓ Cloud solutions

1. Electronic government

2. Cloud document management system for federal and regional governments

3. Electronic Medicine

4. Electronic Education – “School of the Future”

5. Housing services and Utilities

6. Virtual Office – cloud solution for small and mid-size enterprises

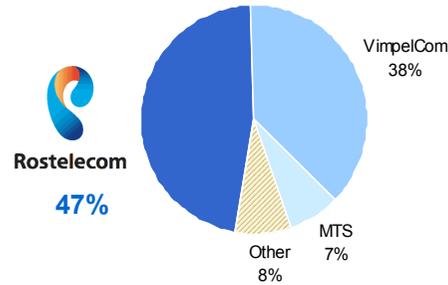
7. Safe city - #112 emergency service, ecological monitoring



**IPTV**

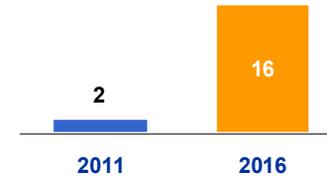
➤ **Key driver for fixed broadband**

Market share 2011



Source: iKS – Consulting, IPTV

Market growth potential '11 – '16

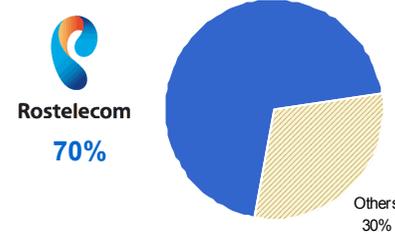


CAGR 2011- 2016

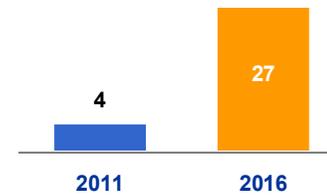
**+52%**

**Cloud Solutions**

➤ **Unique area of expertise**



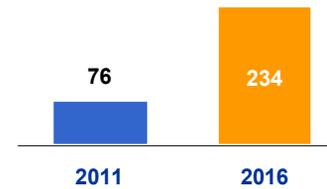
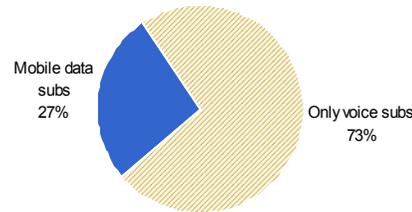
Source:AC&M Consulting, iKS-Consulting, J'son Consulting



**+50%**

**Mobile Broadband**

➤ **Access to growth story in mobile**



Source: iKS-Consulting, J'son Consulting

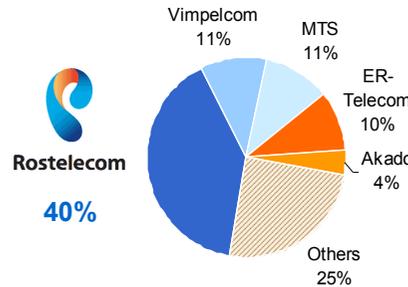
**+25%**



## Fixed Broadband

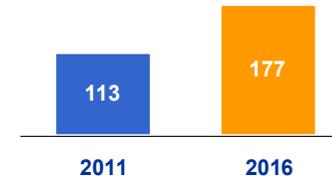
➤ **Solid present with strong potential**

### Rostelecom Market share 2011



Source: AC&M – Consulting, by residential subs

### Market growth potential '11 – '16



### CAGR 2011- 2016

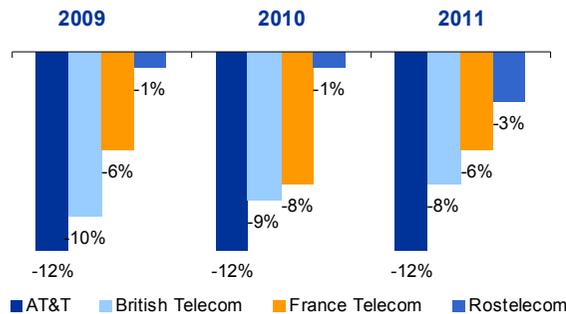
**+ 9%**

Source: iKS-Consulting, J'son Consulting

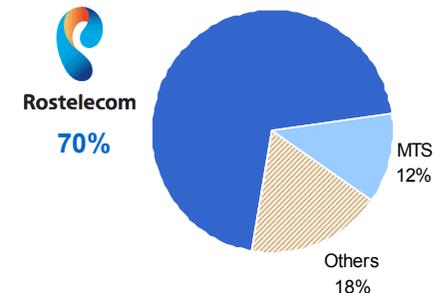
## Fixed line telephony

➤ **Better than world's peers**

### Lines loss trend vs peers



### Rostelecom Market share 2011



**Key focus is to keep the number of paying households and up-sell current fixed line customers to other services (broadband, IPTV, mobile)**

## Chapter 2

### En route to a services company model: success on key strategic initiatives





- 1 Integration & cost optimization
- 2 Broadband – fixed and mobile
- 3 Cloud & IT services – new growth opportunities



**Integrated infrastructure**

- ✓ Fixed networks: migration to a single full IP network
- ✓ Mobile networks: upgrade of existing 2G networks and focus on development of universal 3G and LTE infrastructure
- ✓ Unified IT systems: billing, customer care and management

**Integrated management**

- ✓ Centralised group management structure
- ✓ Unified KPIs
- ✓ Unification of HR systems and new unified trade union contract
- ✓ Unified salaries and remuneration systems

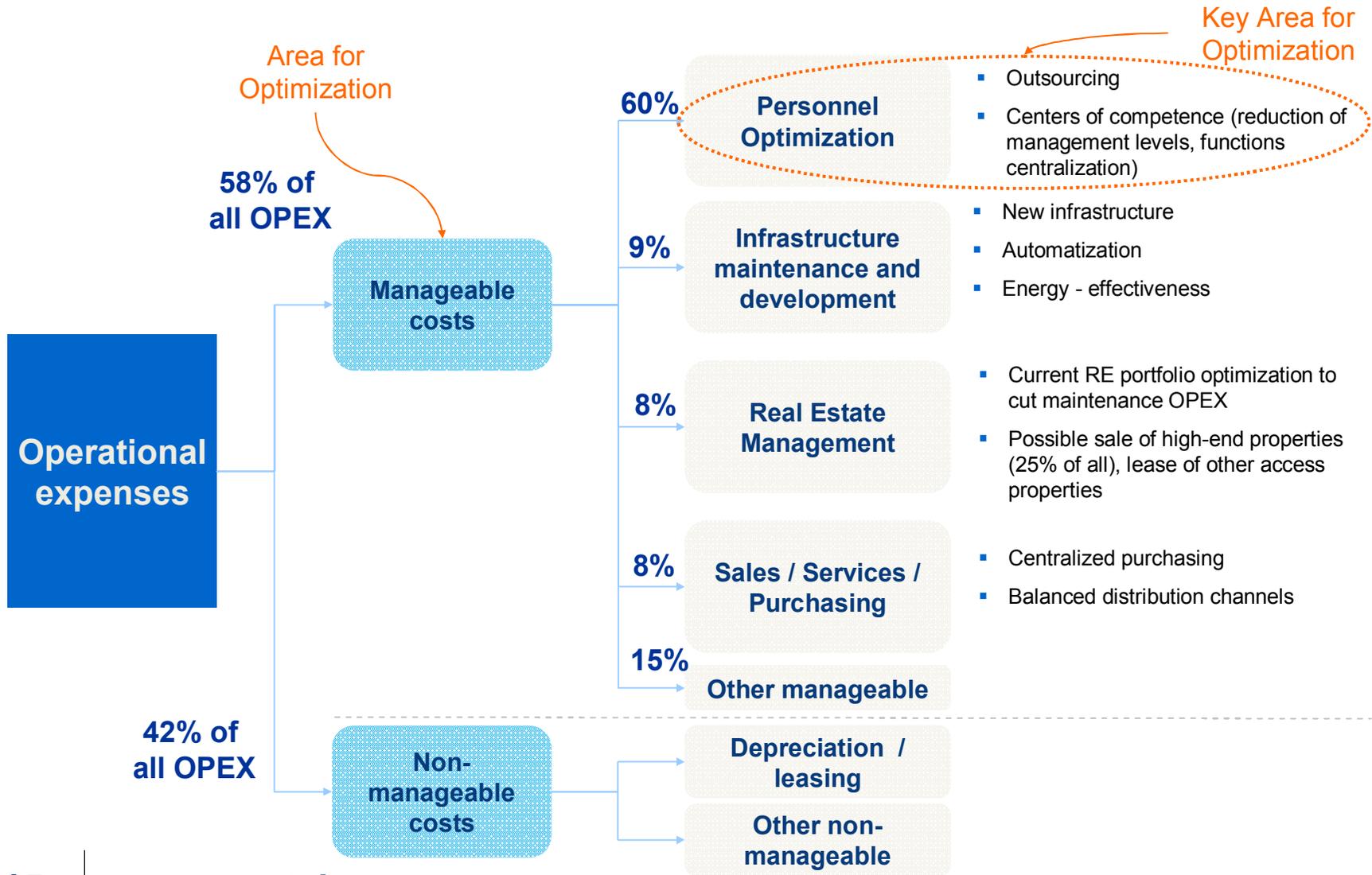
**Single brand**

- ✓ New positive image
- ✓ Unification of over 50 brands in a single “Rostelecom” brand
- ✓ New brand well received by all target audiences
- ✓ Selected strong product brands will be kept during 2012-2013

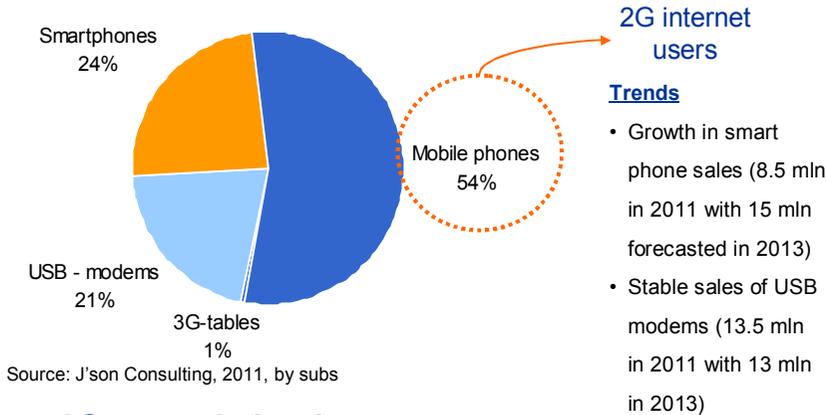
**Cost management**

- ✓ Effective real estate management
- ✓ Personnel expenses optimization
- ✓ Unification of procurement processes
- ✓ Outsourcing of maintenance functions
- ✓ Energy effective initiatives

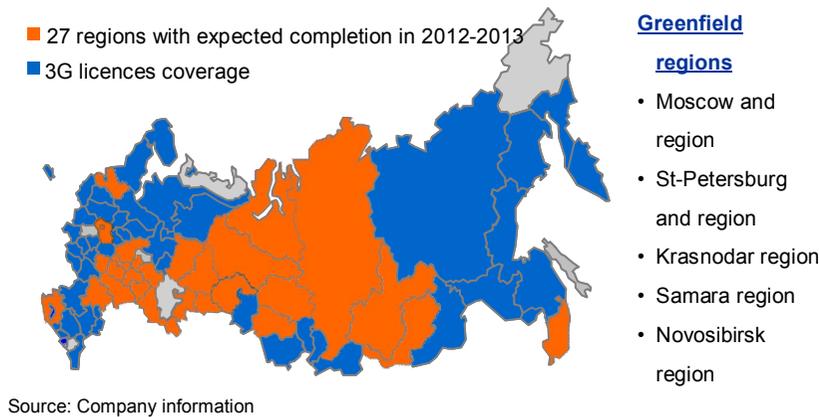
**Continuing cost optimization and synergies realization will help enhance the margins**



## Mobile Data users in Russia – by type of devices



## 3G network development



## Key terms of Rostelecom 4G auction lot

### Spectrum allocated

791-798,5 / 832-839,5

727,5-735 / 768,5-776

2560-2570 / 2680-2690

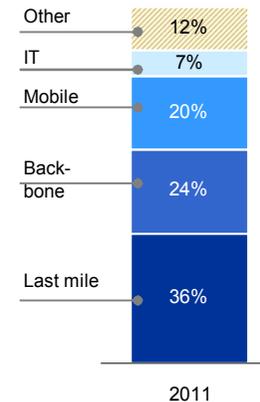
### Number of regions to cover

01.12.2013	5
01.12.2014	10
01.12.2015	20
30.11.2016	30
30.11.2017	50
30.11.2018	60
30.11.2019	all areas

+ commitment to invest Rub 15 bln per year (includes refarming cost).

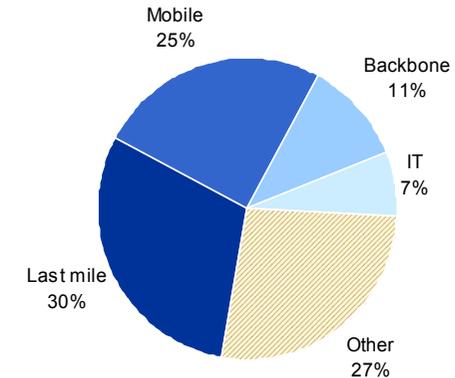
## Capital expenditure by segment (2011-2015)

### 2011 breakdown



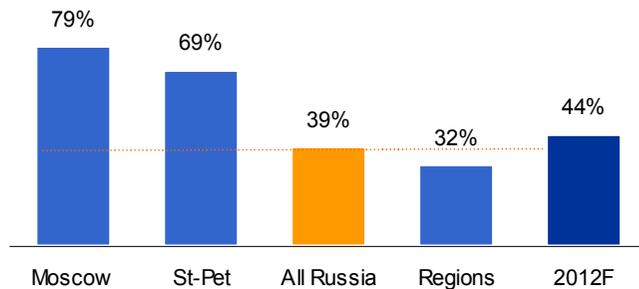
**Total CAPEX RUB 82.8 bln**  
**CAPEX / Sales 28.0%**

### 2011-2015 CAPEX = 20% of Sales



Source: Company information  
 Note: % of total CAPEX spent during 2011-2015

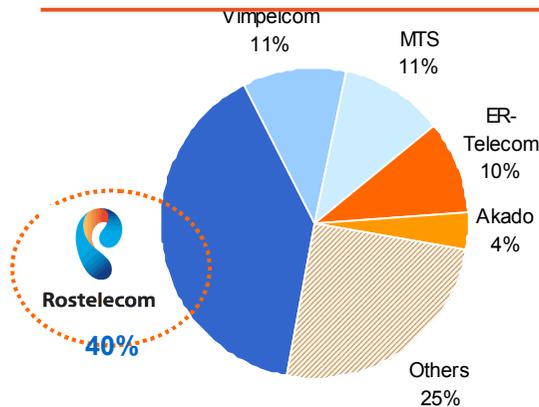
## Fixed broadband penetration in Russia



Source: Telegeography, 2011, by residential subs

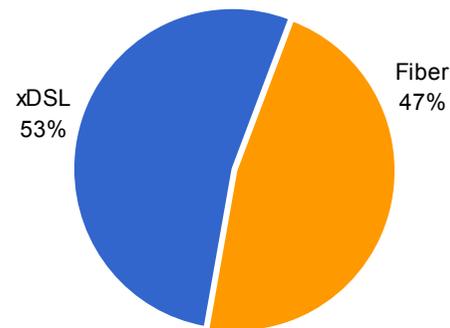
- ✓ Rostelecom is a proved leader with 40% market share
- ✓ On-going last mile modernization project shows significant improvement in fiber subscriptions (from 20% in 3Q'11 to 28% in 9M'12)
- ✓ Solid growth in Moscow (from 6% market share in 2011 to 10% as of 1H 2012)
- ✓ Average speed for fixed broadband – 5-6 mbit/s, speeds on fiber connection – up to 100 mbit/s
- ✓ Fiber rollout drives IPTV sales (from 350K in 1Q'11 to over 1.2 mln in 9M'12)

## Broadband Leader...



Source: ACM – Consulting, 2011, by residential subs

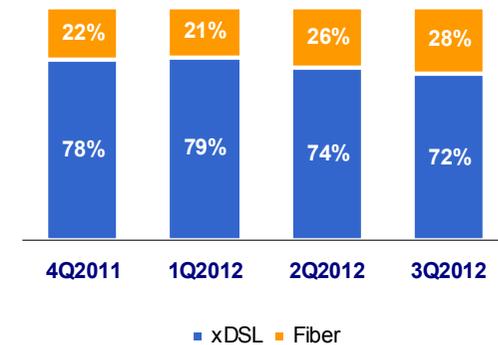
## ... with over 33 mln HH passed<sup>1</sup>...



1 – the number of HH passed excludes technologies intersections

## ... and proved growth in Fiber Subs

### Subscribers breakdown by type





### 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

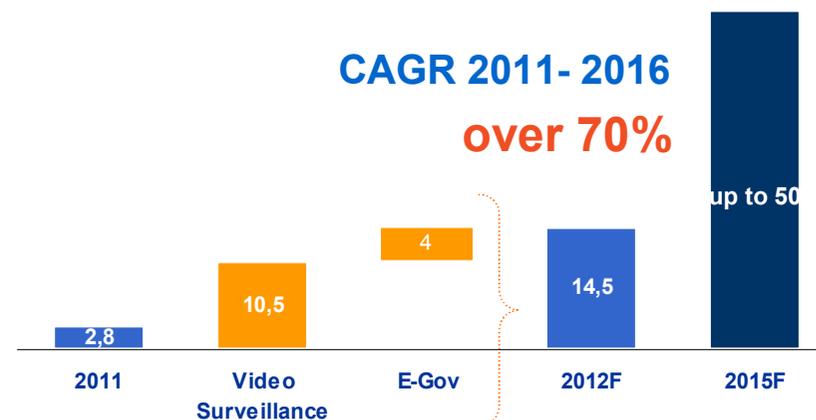


### O7. Business

- ✓ Automation of key business processes
- ✓ Virtual office

- ✓ According to Presidential Degree, by 2015 all state services should be in electronic format
- ✓ In 2012 Rostelecom was appointed as a sole provider of E-government program
- ✓ E-government today: all 83 federal regions are covered; average annual service fee of RUB 10-30 mln / region. Over 26K municipal entities in Russia for potential coverage
- ✓ Federal budget for e-government modernisation in 2012: federal level – RUB 80 bln, regional level – RUB 60 bln
- ✓ Cloud solutions: fee for services + fee for channels
- ✓ Healthy margins for cloud services:
  - up to 20% at implementation stage
  - up to 40% at service stage

### Revenues from Cloud and Innovative services

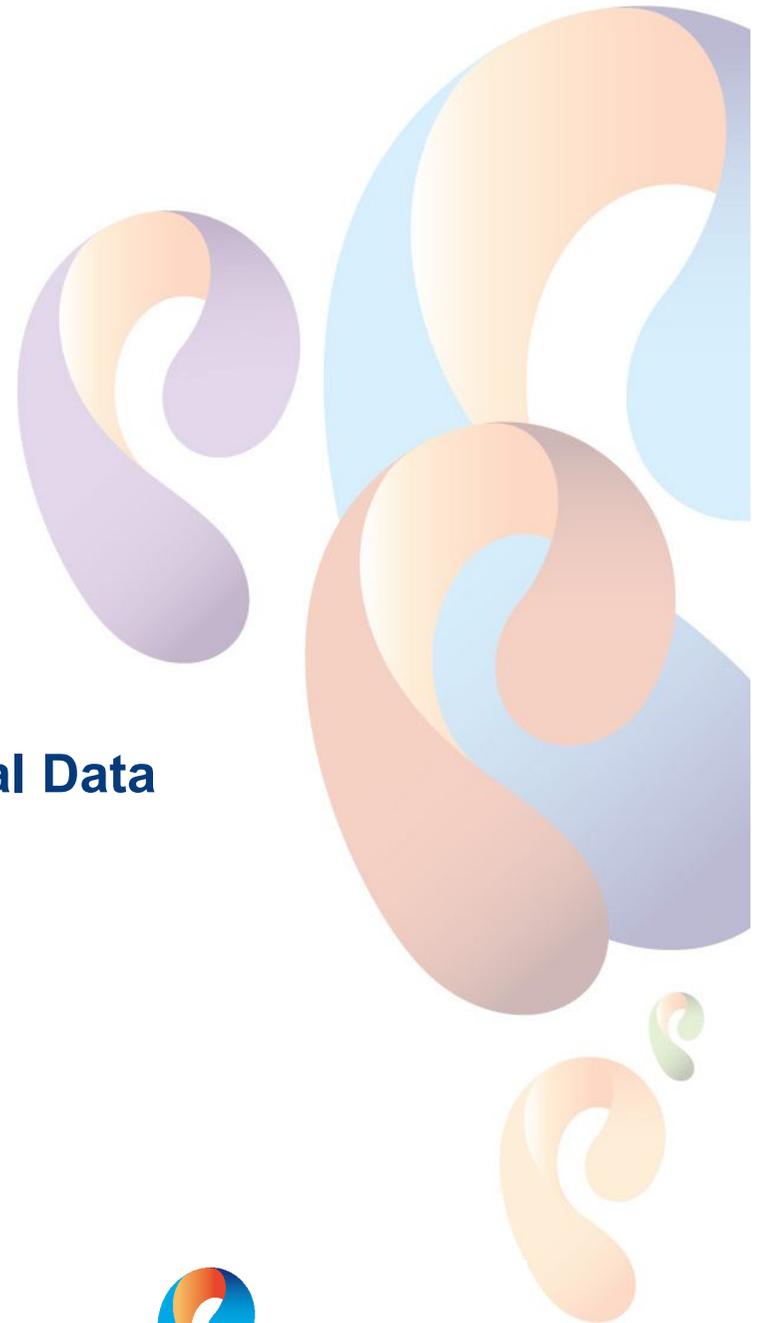


### Rostelecom cloud solutions



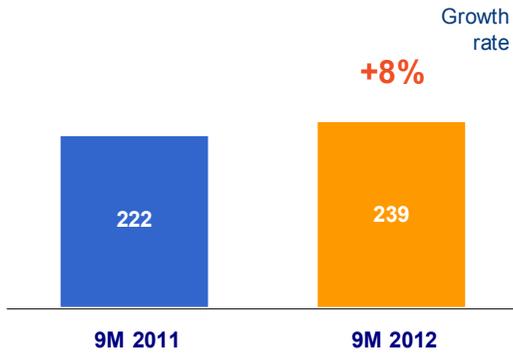
## Chapter 3

## Operational and Financial Data

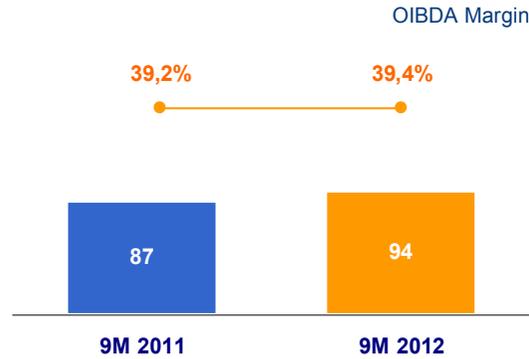




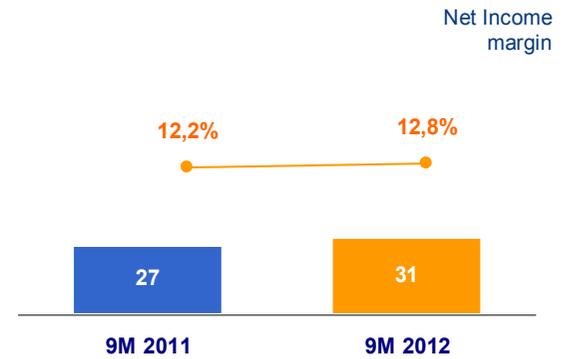
## Revenue, RUB bln.



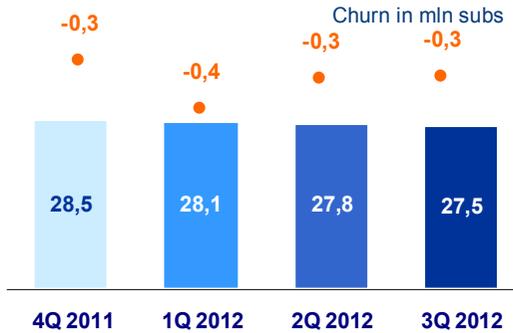
## OIBDA, RUB bln.



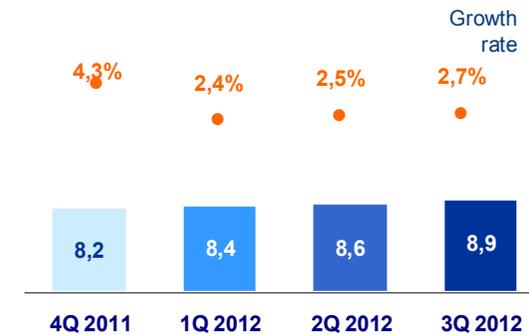
## Net Profit, RUR bln.



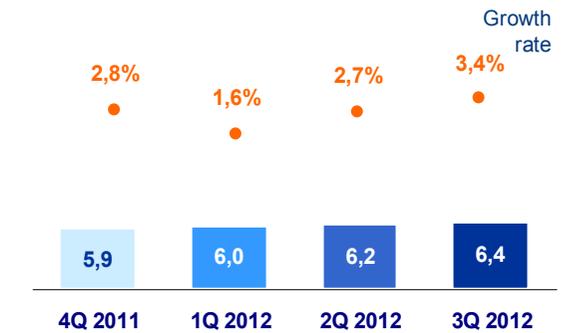
## Local voice subscribers, mln



## Broadband subscribers, mln

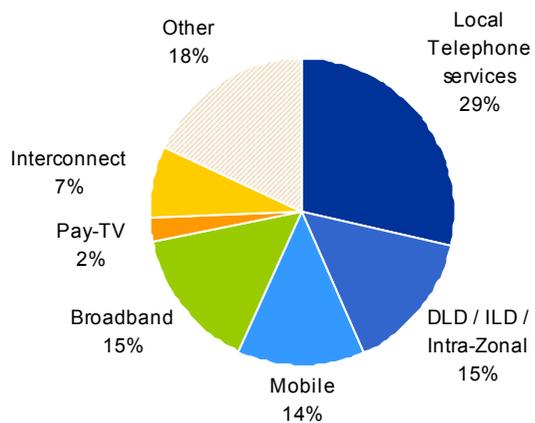


## Pay-TV subscribers, mln

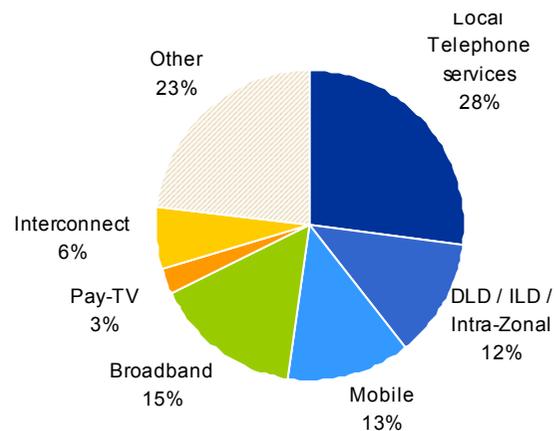




By services, 3Q 2012



By services, 9M 2012





Bln RUR		FINANCIALS							
P&L	1Q 2012	2Q 2012	3Q 2012	9M 2012	9M 2011	Growth rates	2011	2010	Growth rates
<b>Revenue (see breakdown below)</b>	<b>85,319</b>	<b>76,387</b>	<b>76,985</b>	<b>238,691</b>	<b>221,838</b>	<b>7,6%</b>	<b>301,494</b>	<b>277,497</b>	<b>8,6%</b>
<b>Operating Expenses</b>	<b>(66,992)</b>	<b>(62,277)</b>	<b>(63,551)</b>	<b>(192,820)</b>	<b>(180,059)</b>	<b>7,1%</b>	<b>(241,155)</b>	<b>(227,543)</b>	<b>6,0%</b>
Wages, salaries, other benefits and pay: <i>including stock option program</i>	(22,014)	(20,025)	(19,327)	(61,366)	(59,396)	3,3%	(76,252)	(74,731)	2,0%
Depreciation and Amortization	(16,616)	(15,493)	(15,992)	(48,101)	(45,079)	6,7%	(57,427)	(56,605)	1,5%
Interconnect Charges	(11,812)	(10,835)	(11,812)	(34,459)	(29,966)	15,0%	(40,736)	(37,623)	8,3%
Materials, utilities, repair and maintena	(7,264)	(6,600)	(7,134)	(20,998)	(20,605)	1,9%	(28,306)	(25,439)	11,3%
Other operating income	4,023	2,299	4,023	10,345	10,173	1,7%	14,690	14,650	0,3%
Other operating expense, including: <i>Impairment of property, plant &amp; equipment (PPE)</i>	(13,309)	(11,623)	(13,309)	(38,241)	(35,187)	8,7%	(53,123)	(47,796)	11,1%
<i>Loss on sale and disposal of PPE</i>	(0,383)	0,100	(0,257)	(0,540)	(0,967)	-44,2%	(0,844)	(0,933)	
<i>Bad debt reserve</i>	(0,438)	(0,207)	(0,521)	(1,166)	(0,462)		(0,572)		
<b>Operating Profit</b>	<b>18,327</b>	<b>14,110</b>	<b>13,434</b>	<b>45,871</b>	<b>41,779</b>	<b>9,8%</b>	<b>60,339</b>	<b>49,954</b>	<b>20,8%</b>
Operating Profit margin	21,5%	18,5%	17,5%	19,2%	18,8%		20,0%	18,0%	
<b>OIBDA</b>	<b>34,943</b>	<b>29,603</b>	<b>29,426</b>	<b>93,972</b>	<b>86,858</b>	<b>8,2%</b>	<b>117,767</b>	<b>106,558</b>	<b>10,5%</b>
OIBDA Margin	41,0%	38,8%	38,2%	39,4%	39,2%		39,1%	38,4%	
Income from equity accounted investee	1,558	0,669	1,259	3,486	2,737	27,4%	4,473	0,353	
Finance costs	(3,666)	(4,100)	(4,398)	(12,164)	(10,265)	18,5%	(12,630)	(11,996)	5,3%
Other Investing and financial gains	0,991	(0,060)	0,860	1,791	1,426	25,5%	2,135	2,296	-7,0%
Foreign exchange loss, net	0,650	(0,805)	0,479	0,324	(0,482)	-167,2%	(0,377)	(0,094)	301,8%
<b>Profit before income tax</b>	<b>17,860</b>	<b>9,814</b>	<b>11,634</b>	<b>39,308</b>	<b>35,194</b>	<b>11,7%</b>	<b>53,940</b>	<b>40,513</b>	<b>33,1%</b>
Income tax expense	(4,247)	(2,703)	(1,732)	(8,682)	(8,157)	6,4%	(10,739)	(10,084)	6,5%
Non-controlling shareholders of subsidiaries							(0,167)		
<b>Net Profit</b>	<b>13,613</b>	<b>7,111</b>	<b>9,902</b>	<b>30,626</b>	<b>27,037</b>	<b>13,3%</b>	<b>43,034</b>	<b>30,429</b>	<b>41,4%</b>
Net Profit margin	16,0%	9,3%	12,9%	12,8%	12,2%		14,3%	11,0%	



FINANCIALS									
Revenue / Breakdown	1Q 2012	2Q 2012	3Q 2012	9M 2012	9M 2011	Grwth rates	2011	2010	Growth rates
<b>By services:</b>									
Local Telephone services	21,604	21,719	21,125	64,448	66,107	-2,5%	88,011	85,393	3,1%
Intra-Zonal	4,797	4,720	4,568	14,085	16,261	-13,4%	21,443	23,358	-8,2%
DLD / ILD	5,471	5,070	4,863	15,404	17,782	-13,4%	24,070	27,931	-13,8%
Interconnect and traffic transit	4,889	5,146	5,418	15,453	14,757	4,7%	19,774	19,646	0,7%
Mobile communication services	10,031	10,446	10,512	30,989	30,340	2,1%	40,660	35,531	14,4%
Rent of channels	2,894	2,918	3,014	8,826	7,558	16,8%	9,713	9,143	6,2%
Broadband Internet	12,158	12,386	12,367	36,911	34,330	7,5%	46,992	39,214	19,8%
Pay-TV	2,055	2,143	2,394	6,592	4,847	36,0%	7,011	1,102	536,2%
Data services	4,995	4,957	5,149	15,101	13,597	11,1%	18,893	17,186	9,9%
Cloud & E-gov									
Other	16,425	6,882	7,575	30,882	16,259	89,9%	24,927	18,993	31,2%
<b>% of total Revenues</b>									
Local Telephone services	25,3%	28,4%	27,4%	27,0%	29,8%		29,2%	30,8%	
Intra-Zonal	5,6%	6,2%	5,9%	5,9%	7,3%		7,1%	8,4%	
DLD / ILD	6,4%	6,6%	6,3%	6,5%	8,0%		8,0%	10,1%	
Interconnect and traffic transit	5,7%	6,7%	7,0%	6,5%	6,7%		6,6%	7,1%	
Mobile communication services	11,8%	13,7%	13,7%	13,0%	13,7%		13,5%	12,8%	
Rent of channels	3,4%	3,8%	3,9%	3,7%	3,4%		3,2%	3,3%	
Broadband Internet	14,3%	16,2%	16,1%	15,5%	15,5%		15,6%	14,1%	
Pay-TV	2,4%	2,8%	3,1%	2,8%	2,2%		2,3%	0,4%	
Data services	5,9%	6,5%	6,7%	6,3%	6,1%		6,3%	6,2%	
Other	19,3%	9,0%	9,8%	12,9%	7,3%		8,3%	6,8%	
<b>By customers:</b>									
B2C	41,081	40,680	40,163	121,924	124,084	-1,7%	165,336	156,373	5,7%
B2B	16,364	17,156	16,844	50,364	49,630	1,5%	68,136	62,149	9,6%
B2G	18,965	9,445	10,191	38,601	23,488	64,3%	34,819	28,445	22,4%
B2O	8,909	9,106	9,787	27,802	24,636	12,9%	33,203	30,532	8,7%
B2C	48,1%	53,3%	52,2%	51,1%	55,9%		54,8%	56,4%	
B2B	19,2%	22,5%	21,9%	21,1%	22,4%		22,6%	22,4%	
B2G	22,2%	12,4%	13,2%	16,2%	10,6%		11,5%	10,3%	
B2O	10,4%	11,9%	12,7%	11,6%	11,1%		11,0%	11,0%	



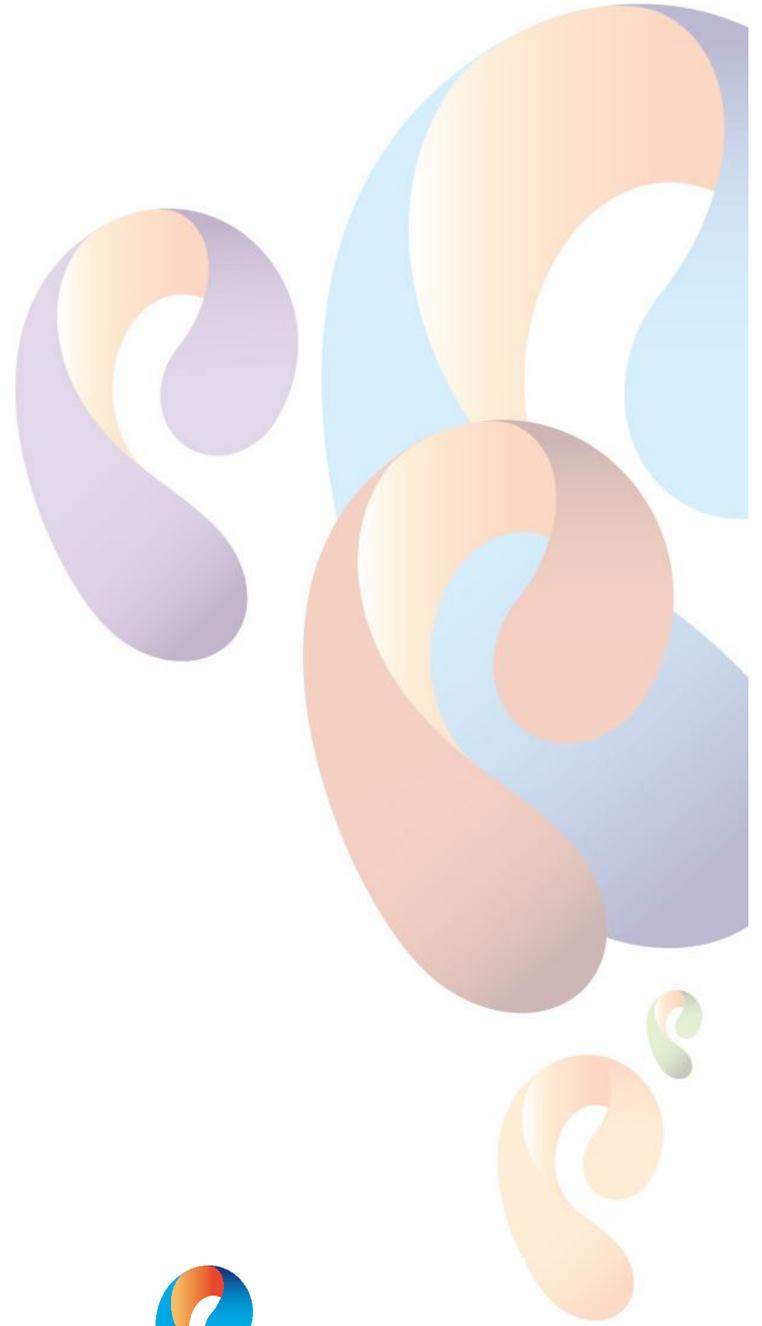
Bln RUR	FINANCIALS							
	BALANCE SHEET			31.03.2011	30.06.2011	30.09.2011	31.12.2011	31.12.2010
	31.03.2012	30.06.2012	30.09.2012					
<b>Assets</b>								
<b>Current Assets</b>								
Cash & cash equivalents	13,821	9,396	3,369	8,423	8,754	6,141	7,380	12,627
Other investments	4,159	2,939	0,656	7,938	2,364	1,455	3,926	5,580
Prepayments	3,045	3,956	4,445	5,691	5,378	2,390	2,706	3,828
Prepaid income tax	5,198	3,089	1,753			1,354	3,309	
Inventories	5,820	5,070	5,316	4,907	5,725	6,279	4,763	4,156
Trade and other accounts receivable	42,512	38,980	35,834	33,153	30,876	30,855	28,790	25,611
Other current assets	1,790	2,602	2,838	2,580	1,303	1,201	1,276	1,095
<b>Total current assets</b>	<b>76,346</b>	<b>66,032</b>	<b>54,211</b>	<b>62,692</b>	<b>54,400</b>	<b>49,676</b>	<b>52,150</b>	<b>52,897</b>
<b>Non-current assets</b>								
PPE & Intangible assets	336,870	346,053	358,260	303,943	304,492	319,094	335,205	301,068
Investment property	0,263	0,256	0,186	0,292	0,309	0,333	0,259	0,356
Goodwill and other intangible assets	88,343	87,006	86,778	60,004	62,320	83,818	88,937	30,209
Investment in associates	34,537	34,142	34,726	28,789	32,759	33,032	34,746	27,517
Other investments	2,763	2,209	2,691			3,359	3,635	
Other non-current assets	15,271	16,666	15,059	20,956	20,145	5,945	14,689	14,764
<b>Total non-current assets</b>	<b>478,047</b>	<b>486,333</b>	<b>497,700</b>	<b>413,984</b>	<b>420,025</b>	<b>445,582</b>	<b>477,471</b>	<b>373,914</b>
<b>Total assets</b>	<b>554,393</b>	<b>552,365</b>	<b>551,911</b>	<b>476,676</b>	<b>474,425</b>	<b>495,258</b>	<b>529,621</b>	<b>426,811</b>
<b>Liabilities</b>								
<b>Current Liabilities</b>								
Accounts payable	47,926	58,012	50,860	34,625	37,994	38,745	39,196	38,935
Short-term loans and borrowings	109,346	69,868	73,963	51,519	48,117	67,202	81,464	50,096
Other current liabilities	9,967	8,219	9,621	7,708	10,389	7,064	8,537	6,478
<b>Total current liabilities</b>	<b>167,238</b>	<b>136,100</b>	<b>134,444</b>	<b>93,852</b>	<b>96,500</b>	<b>113,010</b>	<b>129,197</b>	<b>95,509</b>
<b>Non-current Liabilities</b>								
Shareholders equity	0,106	0,106	0,106	0,100	0,106	0,106	0,106	0,100
Treasury shares	(34,801)	(36,307)	(36,707)	(25,416)	(25,416)	34,739	34,739	(25,410)
Additional paid in capital	34,739	34,739	34,842	33,424	33,424	(17,437)	(17,164)	33,424
Retained earnings and other reserves	248,982	241,977	253,529	215,582	224,737	231,509	247,928	204,981
Non-controlling interest	3,793	0,355	0,438	4,600	8,045	7,804	7,784	0,012
Long-term loans	96,755	136,965	127,655	119,208	102,127	87,620	90,806	87,941
Employee benefits	12,047	12,180	12,399	16,123	16,671	17,226	11,752	16,197
Deferred tax liabilities	21,416	22,109	21,067	16,609	16,435	18,317	20,699	12,281
Other non-current liabilities	4,118	4,142	4,138	2,594	1,796	2,363	3,774	1,776
<b>Total non-current liabilities</b>	<b>387,155</b>	<b>416,266</b>	<b>417,467</b>	<b>382,824</b>	<b>377,925</b>	<b>382,248</b>	<b>400,424</b>	<b>331,302</b>
<b>Total equity &amp; liabilities</b>	<b>554,393</b>	<b>552,365</b>	<b>551,911</b>	<b>476,676</b>	<b>474,425</b>	<b>495,258</b>	<b>529,621</b>	<b>426,811</b>
<b>Net Debt</b>	<b>188,120</b>	<b>194,498</b>	<b>197,593</b>	<b>154,366</b>	<b>139,126</b>	<b>147,226</b>	<b>160,963</b>	<b>119,830</b>
Net Debt / OIBDA LTM	x 1,5	x 1,5	x 1,6	x 1,5		x 1,3	x 1,4	x 1,1



Bln RUR	FINANCIALS							
	1Q 2012	1H 2012	9M 2012	1Q 2011	1H 2011	9M 2011	2 011	2 010
<b>CASH FLOW STATEMENT</b>								
<b>Cash flows from operating activities</b>								
Profit before income tax	17,202	27,674	39,308	12,646	23,600	35,195	53,940	40,513
<i>Adjustments to reconcile profit before tax to cash generated from operations:</i>								
Depreciation and amortization	16,616	32,109	48,101	13,862	29,794	45,079	57,427	56,605
Loss on sale of property, plant and equipment	0,383	0,283	0,540	0,005	0,586	0,967	0,287	0,933
Impairment losses /(reversal of impairment losses)				0,000	0,000			
Finance costs excluding finance costs on pension and other social liabilities	3,429	7,297	11,464	3,529	6,102	9,263	11,434	10,374
Other non-cash (gains) / loss				(0,525)				
Other investing and financing gains	(0,991)	(0,931)	(1,791)	(0,090)	(0,469)	(1,426)	(2,656)	(2,745)
Other cash flows from operating activities	(1,770)	(1,427)	(2,644)	(2,647)	(2,926)	(1,793)	(2,547)	0,530
Share-based payment expenses	0,041	0,041	0,041	0,000	0,411	0,513	0,588	3,930
<i>Changes in net working capital:</i>	<i>(4,913)</i>	<i>(9,220)</i>	<i>(5,591)</i>	<i>(8,667)</i>	<i>(4,553)</i>	<i>(6,413)</i>	<i>(13,192)</i>	<i>(4,075)</i>
<b>Cash generated from operations</b>	<b>29,997</b>	<b>55,826</b>	<b>89,428</b>	<b>18,113</b>	<b>52,545</b>	<b>81,385</b>	<b>105,282</b>	<b>106,064</b>
Interest paid	(3,529)	(7,470)	(11,757)	(3,562)	(6,430)	(9,544)	(11,234)	(11,356)
Income tax paid	(2,233)	(4,348)	(4,495)	(2,691)	(3,244)	(8,995)	(9,050)	(9,704)
<b>Net cash provided by operating activities</b>	<b>24,235</b>	<b>44,008</b>	<b>73,176</b>	<b>11,860</b>	<b>42,871</b>	<b>62,846</b>	<b>84,998</b>	<b>85,004</b>
<b>Cash flows from investing activities</b>								
Purchase of PPE and intangible assets	(20,426)	(41,858)	(63,460)	(15,332)	(26,745)	(42,647)	(82,776)	(51,845)
Proceeds from sale of property, plant and equipment	0,049	0,147	1,225	0,325	0,629	0,752	1,484	1,284
Acquisition of financial assets	(3,578)	(3,509)	(3,764)	(2,793)	(4,054)	(5,456)	(8,565)	(10,764)
Proceeds from disposals of financial assets	4,296	5,513	7,991	0,705	6,008	8,041	9,176	20,152
Purchase of subsidiaries, net of cash acquired	(0,986)	(1,175)	(1,287)	(29,967)	(30,005)	(32,285)	(32,281)	(4,548)
Other cash flows from investing activities							2,232	2,470
Acquisition of equity accounted investees				(0,103)	(3,640)	(3,640)	(3,640)	(26,000)
<b>Net cash used in investing activities</b>	<b>(20,576)</b>	<b>(40,684)</b>	<b>(58,183)</b>	<b>(46,765)</b>	<b>(56,443)</b>	<b>(73,570)</b>	<b>(114,370)</b>	<b>(69,251)</b>
<b>Cash flows from financing activities</b>								
Purchase of treasury shares	(18,975)	(21,367)	(21,928)	(0,006)	(0,006)	(0,006)	(1,486)	(25,343)
Sale of treasury shares	1,338	2,224	2,224				1,754	
Proceeds from bank and corporate loans	110,589	247,216	380,463	62,745	95,518	167,438	289,469	123,353
Repayment of bank and corporate loans	(80,557)	(209,045)	(343,289)	(27,602)	(79,350)	(150,061)	(246,941)	(83,215)
Repayment of bonds	(0,659)	(3,377)	(6,436)	(3,300)	(3,706)	(8,398)	(13,932)	(11,077)
Proceeds from promissory notes	7,650	21,882	22,863	12,050	13,146	13,490	0,750	5,340
Repayment of promissory notes	(2,250)	(21,863)	(22,946)	(12,093)	(13,539)	(14,840)	(1,768)	(7,276)
Dividends paid to shareholders of the Group	(0,001)	(0,362)	(12,808)			(0,113)	(0,116)	(14,106)
Other cash flows from financing activities	(14,333)	(16,627)	(17,136)	(1,007)	(2,291)	(3,324)	(3,479)	(4,481)
<b>Net cash used in financing activities</b>	<b>2,802</b>	<b>(1,319)</b>	<b>(18,993)</b>	<b>30,787</b>	<b>9,772</b>	<b>4,186</b>	<b>24,251</b>	<b>(16,805)</b>
Net (decrease)/increase in cash and cash equivalents	6,461	2,005	(4,011)	(4,118)	(3,800)	(6,538)	(5,450)	(0,994)
Effect of exchange rate changes on cash and cash equivalents	(0,021)	0,011	(0,011)	(0,041)	(0,056)	(0,015)	0,000	0,000
<b>Cash and cash equivalents at beginning of year</b>	<b>7,380</b>	<b>7,380</b>	<b>7,380</b>	<b>12,694</b>	<b>12,694</b>	<b>12,694</b>	<b>12,627</b>	<b>13,621</b>
<b>Cash and cash equivalents at the end of year</b>	<b>13,821</b>	<b>9,396</b>	<b>3,369</b>	<b>8,535</b>	<b>8,838</b>	<b>6,141</b>	<b>7,177</b>	<b>12,627</b>

**Appendix**

**Additional Information**





- Dividends payable on the Preferred Shares are fixed by our charter in the amount of 10% of our net profits, based on the year-end RAS statutory accounting report, divided by the number of shares representing 25% of our outstanding shares.
- Dividends payable on Ordinary Shares must be equal to at least 20% of our net profit for the past fiscal year based on the year-end IFRS financial statements.
- On June 14, 2012 the AGM approved the following dividends payments: in the amount of RUB 15 bln or 45.95% of 2011 RAS net profit (32.48% of 2011 IFRS net profit), including:
  - 3.5% of 2011 RAS net profit (2.48% of IFRS 2011 net profit) on preferred shares
  - 42.45% of 2011 RAS net profit (30% of IFRS 2011 net profit) on all ordinary shares.

**Total dividend paid**

<i>RUB mln.</i>	<b>2011</b>		<b>2010</b>		<b>2009</b>		<b>2008</b>	
	ord	pref	ord	pref	ord	pref	ord	pref
Rostelecom	13 821	1 140	810	435	1 020	510	1 414	707
N-West			559	278	521	307	544	321
Center			798	532	759	506	388	259
South			339	226	277	185	84	56
Volga			661	322	639	426	443	295
Ural			911	607	610	407	402	268
Sibir			478	260	352	230	316	207
Far-East			326	155	326	214	260	221
<b>Total</b>	<b>13 821</b>	<b>1 140</b>	<b>4 882</b>	<b>2 815</b>	<b>4 504</b>	<b>2 785</b>	<b>3 851</b>	<b>2 334</b>
<b>Grand Total</b>	<b>14 962</b>		<b>7 697</b>		<b>7 289</b>		<b>6 185</b>	

<b>Dividend per share</b>	<b>2011</b>		<b>2010</b>		<b>2009</b>		<b>2008</b>	
	ord	pref	ord	pref	ord	pref	ord	pref
Rostelecom	4,70	4,70	1,11	1,79	1,40	2,10	1,94	2,91



# Merger with Svyazinvest – Schedule<sup>1</sup>

Event*	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	
<b>Stage 1. Svyazinvest to increase its authorised capital</b>																										
Svyazinvest to estimate the market value of Svyazinvest shares for placing purposes		100%																								
Svyazinvest to estimate the market value of the assets that the State will exchange for Svyazinvest's additional share issue		100%																								
Svyazinvest to call a Board of Directors meeting to discuss additional share issue								100%																		
Svyazinvest to hold its EGM								100%																		
Svyazinvest to call a Board of Directors to discuss approval of share issue documents and transactions connected to additional share issue, including EGM																										
Svyazinvest to hold its EGM																										
Registration of share issue documents with FSFM																										
Rostelecom to hold a Board of Directors meeting																										
Rostelecom to purchase additional issue of Svyazinvest shares																										
Registration of the results of additional share issue with the FSFM																										
<b>Stage 2. Svyazinvest to exchange Sky Link CJSC (Sky Link) shares for Rostelecom shares</b>																										
Ernst & Young to conduct an independent valuation of the Sky Link shares which form part of the deal	100%																									
Avers Group to conduct an independent valuation of Rostelecom shares			100%																							
Mobitel LLC (Mobitel) to obtain permission from FAS to purchase Sky Link shares	100%																									
Svyazinvest to hold a Board of Directors meeting to discuss: a) the sale of Sky Link b) the valuation of Rostelecom shares exchanged as part of the deal c) the convening of an EGM to approve the transaction d) the increasing of its stake in Rostelecom.								100%																		
Svyazinvest EGM to vote on the acquisition of Rostelecom shares from Mobitel in exchange for Sky Link shares												100%														
Mobitel to obtain corporate approvals																										
Mobitel to exchange 1.91% of Rostelecom shares for Sky Link shares							100%																			
<b>Stage 3. Svyazinvest to purchase Rostelecom shares using proceeds from its additional share issue</b>																										
Svyazinvest to estimate the market value of the Rostelecom shares which it will acquire at a later date																										
Both Mobitel and Svyazinvest to obtain respective corporate approvals																										
Svyazinvest to purchase Rostelecom shares using proceeds from its additional share issue																										
<b>Stage 4. Completion of Svyazinvest's merger with Rostelecom</b>																										
Rostelecom to conduct a valuation of Svyazinvest shares to establish the share buyback conversion ratio																										
Svyazinvest to conduct a valuation of Rostelecom shares to establish the share buyback conversion ratio																										
Svyazinvest to hold a Board meeting to discuss: a) the convening of an EGM to seek approval for its merger with Rostelecom as part of the reorganisation, and to approve the conditions of the merger agreement and the transfer act b) the price of the share buyback c) to establish Svyazinvest's stance towards the reorganisation when voting at Rostelecom's EGM																										
Svyazinvest EGM to approve the reorganisation																										
Rostelecom to hold its Board meeting to discuss: a) the convening of an EGM to vote on the merger with Svyazinvest as part of the reorganisation, including the approval of the merger agreement b) the price of the share buyback																										
Rostelecom EGM to approve the reorganisation																										
Rostelecom to tender a mandatory buyback offer to their respective shareholders who voted against the reorganisation, or who did not participate in the vote																										
Rostelecom to hold a meeting of its Board of Directors to discuss:																										
a) the increasing of Rostelecom's authorised share capital by placing additional shares as part of the conversion of its old shares into new ones																										
b) the approval of documentation relating to the additional share issue																										
Rostelecom to register the additional share issue with the Russian Federal Service for Financial Markets (FSFM)																										
Rostelecom to execute the mandatory buyback from shareholders who voted against the reorganisation, or who did not participate in the vote																										
Rostelecom to convert Rosmushchestvo's stake in Svyazinvest into Rostelecom shares, cancellation of "ex-Svyazinvest" and treasury shares (from cross holding)																										
Rostelecom to register the results of the additional share issue with the FSFM																										

\* - all the dates in the schedule are approximate and may change, depending on the completion of each reorganisation stage.

## Assets to be obtained during the merger with Svyazinvest

From Svyazinvest			From State Property Agency via Svyazinvest <sup>1</sup>		
Name	Share	Description	Name	Share	Description
Central Telegraph	51%	Broadband provider in Moscow (Qwerty brand) with over 8% market share, CentralTelegraph building of over 20K m <sup>2</sup> next to Kremlin	Central Telegraph	29%	Revenues in 2011 amounted to RUB 3.6 bln.
HyproSvyaz	74,99%	Leading engineering company in telecom sector	Bashinform svyaz	28.2%	Major fix-line provider in Bashkortostan with revenues of RUB 5.87 bln (2011). Good addition to current 39.8% acquired by Rostelecom in 2011
SkyLink	100%	CDMA operator with 1.5 mln mobile voice and 0.5 mobile data subs and 3G licenses for 69 regions	Chukotka Svyazinform	100%	Key telecom provider in Chukotka with reported revenues of over RUB400 mln in 2010
Kostroma GTS	37,29%	Telecom provider in Kostroma and Volgorechensk (fix voice, cable TV, VPN, broadband)	Ingushelectro svyaz	100%	Major telecom provider in Ingushetia
United Register Company	9.0%	Registrar	MMTS - 9	51%	Key collocation and hosting provider in Moscow with revenues of over RUB 471 mln in 2010. Good addition to 41.1% already owned by Rostelecom.

<sup>1</sup> – after State Property agency contributes the assets into Svyazinvest



<b>AGM</b>	Annual General Shareholders Meeting
<b>BB</b>	Broadband
<b>BoD</b>	Board of Directors
<b>CDMA</b>	Code Division Multiple Access (3G)
<b>CAPEX</b>	Capital Expenditures
<b>DLD</b>	Domestic Long Distance
<b>DTH</b>	Direct To Home
<b>FMC</b>	Fixed/mobile convergence
<b>FTTx</b>	Fiber to the x
<b>FX</b>	Foreign Exchange
<b>GSM</b>	Global System for Mobile Communication (2G)
<b>HH</b>	Households
<b>ILD</b>	International Long Distance
<b>IPTV</b>	Internet Protocol Television
<b>RTO</b>	Interregional Company
<b>LTE</b>	Long Term Evolution (4G)
<b>LTM</b>	Last Twelve Month
<b>MSCI</b>	Morgan Stanley Capital International
<b>MVNO</b>	Mobile Virtual Network Operator
<b>NGN</b>	Next Generation Network
<b>OIBDA</b>	Operating Profit Before Depreciation and Amortization
<b>RTCM</b>	Rostelecom
<b>SG &amp; A</b>	Selling, General and Administrative expenses
<b>SME</b>	Small and Medium – size Enterprise



## Investor Relations

Office +7 (499) 995 9780

Fax +7 (499) 972 8222

E-mail: [ir@rt.ru](mailto:ir@rt.ru)

Web: [www.rt.ru/en/centr-invest/info/](http://www.rt.ru/en/centr-invest/info/)