

DIVIDEND POLICY OF ROSTELECOM

(restated version No.1)

I. GENERAL PROVISIONS

- 1.1 This Dividend Policy (hereinafter the “Policy”) has been developed pursuant to applicable Russian Law, the Charter of OJSC Rostelecom (hereinafter sometimes to be referred to as the “Company”) and other internal regulations of the Company, recommendations of the Code of Corporate Conduct approved by the Federal Securities Market Commission/Federal Financial Markets Service of Russia (hereinafter sometimes to be collectively referred to as the “applicable law, rules and regulations”) and shall set forth basic principles of the Company’s dividend policies, procedures for making decisions on dividend payment (dividend declaration), determination of dividend amounts.

II. TERMS AND DEFINITIONS

- 2.1 Terms and definitions used herein shall have the same meaning as when they are used in applicable law, rules and regulations, unless otherwise is expressly stated in this Policy.
- 2.2 For the purpose of this Policy the following terms and definitions shall apply:
- 2.2.1. “Eligible for Dividend Person” shall mean a person included in the list of persons entitled to receive dividends on Rostelecom shares. The above list shall be compiled as of the record date for making a list of shareholders eligible to take part in the general meeting of shareholders at which the decision on the relevant dividend payment shall be made.
- 2.2.2. “Dividend Payment Term” shall mean the time-frame within which the dividend payment obligation shall be discharged according to the Company’s Charter.
- 2.2.3. In the event of dividend payable in cash the dividend payment shall be deemed effected:
- upon receipt of the relevant payment document certifying that the amount equal to the dividend amount declared by Rostelecom was credited to the Company shareholder’s bank account with the bank specified by this shareholder in the registered person form/receipt of the relevant cash funds in the amount equal to the dividend amount declared by Rostelecom at the postal address specified by the shareholder in the registered person form and consequently shown in the register of the Company’s registered securities holders taking into account information provided by nominee shareholders, according to the decision on the term and arrangements for dividend payments;

- by disbursement of cash funds in the cashier offices of the Company to its employees included in the list of persons eligible for dividend on the Company shares.
- 2.2.4. “The Register” shall mean the list of the Company’s shareholders (registered securities holders) containing information about the quantity, par value and class of the securities held by shareholders compiled as of any specified date and enabling identification of such securities holders, their rights, certain quantity and class of securities owned by them.
- 2.2.5. “Net profit” shall mean the Company earnings after tax determined according to the Company financial statements compiled according to requirements of applicable Russian law (RAS), as indicated in Line 160 Profit (loss) from ordinary operations in the profit and loss account (Form 2 under OCUD).
- 2.2.6. “Dividend” shall mean a portion of the Company’s net profit as at the relevant fiscal year end to be distributed to shareholders.
- 2.2.7. “The Registrar” shall mean the organization which is a professional securities market member providing to the Company services for maintaining the Company shareholders’ register, recording transfers of share ownership rights, mailing materials to shareholders, dividend payments and other services.
- 2.2.8. “Treasury shares” shall mean the Company shares repurchased by it from shareholders and recorded on its account. These shares are not eligible for voting, shall not be taken into account for vote count, and shall not accrue any dividend. These shares shall be sold at the price at least equal to the market price within one year at latest after transfer of the ownership rights for these shares to the Company, otherwise a decision to reduce the Company’s authorized capital by cancelling these shares shall be passed at a General Meeting of Shareholders of the Company.

III. GENERAL DIVIDEND PROVISIONS

- 3.1. Dividend shall be a portion of the Company’s net profit to be distributed to shareholders.
- 3.2. The Company shall be entitled to pay preferred share dividend by funds earlier specifically allocated by the Company to this end.
- 3.3. The Company once a year shall pass a decision on (declare) payment of dividend on the outstanding shares.
- 3.4. To make a decision about payment of dividend on any shares of any class and type is the Company’s right, but not its obligation.
- 3.5. General Meetings of Shareholders of OJSC Rostelecom (hereinafter sometimes the “GMS”) shall be authorized to make a decision to pay preferred share dividend partially as compared to the preferred share dividend stipulated in the Charter, or not to make a decision to pay dividend.
- 3.6. According to the Company’s Charter dividend shall be payable in cash funds except situations where at the Company’s GMS a decision regarding annual dividend on ordinary shares is made to pay out dividend in other form of assets. Dividend on the Company’s preferred shares shall be payable in cash funds only.
- 3.7. Payments of the declared dividend shall be the Company’s obligation. The Company shall be liable to shareholders according to applicable law, rules and regulations for failure to perform this obligation.
- 3.8. In the event of creating fractional shares of the Company it shall be governed by applicable

Russian law in order to determine the arrangements for accrual and payment of dividends on such shares.

- 3.9. The Company's underlying shares on which American Depositary Receipts (ADRs) are issued shall entitle their owners to receive dividend. Declaration, determination and payment of dividend on ADRs shall be made according to terms and conditions of this Policy subject to Depositary Agreement between the Company, the depositary bank and ADR owners.

IV. PRINCIPLES OF THE COMPANY'S DIVIDEND POLICY

- 4.1 The Company shall allocate a portion of its net profit in a reporting year, if any, for dividend payments and apply the rest of the net profit remaining at Rostelecom disposal to fund financial and business operations and development of the Company in order to increase its capitalization;
- 4.2 Achievement of optimal balance between interests of the Company and those of its shareholders;
- 4.3 Improvement of the Company's appeal for investors and increase of its capitalization;
- 4.4 Observance and protection of shareholders' rights conferred by applicable law, rules and regulations and contemplated by the highest standards of best corporate governance practices;
- 4.5 Transparent arrangements for determination of the amounts and payments of dividend on the Company's shares.

V. DIVIDEND DETERMINATION

- 5.1 According to requirements of applicable law, rules and regulations the source of funding dividend payments to the Company's shareholders shall be the Company's profit after tax (net profit of the Company) determined on the basis of the Company's financial reporting compiled in accordance with requirement of the Russian law (RAS). Net profit is shown in Line 160 Profit (loss) from ordinary operations in the profit and loss account (income statement Form 2 under OCUD). The Company shall also be entitled to pay preferred share dividend by funds earlier specially allocated by the Company to this end.
- 5.2 The Company's Board of Directors shall make recommendations on the amount of dividend payable on the Company's shares and portion of the net profit allocated for dividend payments based on the net profit amount under RAS and taking into account operation and investment requirements of the Company.
- 5.3 According to the Company's Charter the total amount payable per each preferred share as annual dividend shall be equal to at least 10% (ten per cent) of the Company's net profit for the past fiscal year divided by the total number of preferred shares which account for 25% (twenty five per cent) of the authorized (charter) capital of the Company. In order to compute the dividend payable per preferred share the total amount payable on the preferred shares shall be divided by the total number of outstanding preferred shares (less treasury shares repurchased by the Company from shareholders) accounting for 25% (twenty five per cent) of the Company's authorized (charter) capital.
- 5.4 The total amount payable as annual dividend per each ordinary share shall be equal to at least 5% (five per cent) of the Company's net profit for the past fiscal year divided by the number of ordinary shares, which account for 75% (seventy five per cent) of the Company's authorized (charter) capital.
- 5.5 If the dividend amount payable by the Company per each ordinary share for a given year exceeds the dividend amount payable per preferred share for that year the latter shall be increased to be equal to the dividend amount payable per ordinary share.

VI. DECISION MAKING REGARDING DECLARATION OF ANNUAL DIVIDEND

- 6.1 A dividend payment (declaration) decision, approval of the payment form and amount (regarding annual dividend on ordinary shares) shall be made at the General Meeting of Shareholders when the distribution of the Company's profit for the relevant fiscal year is approved. The decision to approve the dividend amount payable per share of each type and class and payment procedure shall be passed only on a recommendation of the Board of Directors.
- 6.2 Any dividend payment decision shall specify:
- the type and class of shares for which dividend payment is declared;
 - the dividend amount payable per each share of a given class;
 - payment form (regarding annual dividend payment on ordinary shares);
 - payment terms and conditions.
- 6.3 Dividend amount shall be declared regardless of any tax and other mandatory charges payable by shareholders and expenses to be borne by shareholders in relation with receiving their dividend including expenses of remittance of dividend into bank accounts of shareholders and wire transfer expenses.
- 6.4 A decision to declare dividend on ordinary shares shall be passed only after a decision was made to declare dividend in full amount payable on preferred shares for which rules of decision making regarding the dividend amount are stipulated by the Company's Charter.
- 6.5 The Board of Director at its meeting dedicated to the matters related to holding a General Meeting of Shareholders shall make a decision on the amount of annual dividend on shares of each type and class to be recommended to the General Meeting of Shareholders.
- 6.6 The dividend amount approved at the General Meeting of Shareholders shall not exceed the dividend amount recommended by the Company's Board of Directors.

VII. MAIN TERMS AND CONDITION FOR DIVIDEND PAYOUT

Main terms and conditions of dividend payments to the Company's shareholders are as follows:

- availability of net profit of the Company for the year (i.e. profit after tax of the Company), determined according to par. 5.1 of this Policy;
- no applicable restrictions on dividend payments stipulated by Article 43 of the Federal Law On Joint Stock Companies;
- adopted recommendation of the Company's Board of Directors regarding the dividend amount;
- resolution of the General Meeting of Shareholders on dividend payment (declaration).

VIII. LIST OF SHAREHOLDERS ELIGIBLE FOR RECEIVING DIVIDEND

- 8.1. In order to make dividend payment the Company shall compile a list of persons eligible for receiving dividend.
- 8.2. The list of persons eligible for receiving dividend shall be compiled after the Company's Board of Directors has adopted recommendation on dividend declaration when types and classes of shares on which dividend shall be payable are identified. The list shall be compiled as at the record date when the list of persons entitled to take part in the relevant General Meeting of Shareholders is finalized (hereinafter the "record date").
- 8.3. The list of persons eligible for receiving dividend shall contain names of shareholders

recorded in the register of holders of registered securities of Rostelecom and beneficiary holders as at the record date. To this end a nominal shareholder shall submit to the Registrar information about beneficiary holders in whose interests the said nominal holder owns shares by the record date and within period set forth by applicable law, rules and regulations. Nominal holders shall be liable according to applicable Russian law to their clients, to the Registrar and the Company for refusal to provide this information.

In order to provide additional protection of the rights of Rostelecom's shareholders the Registrar following the Company's instruction shall accept information from nominal holders right until the date of the General Meeting of Shareholders.

- 8.4. If one share is owned by several persons the dividend shall be divided among them pro rata to their relative portions of the share value, unless otherwise is stipulated by the agreement between these persons or by the power of attorney.

IX. TERMS OF DIVIDEND PAYMENTS

- 9.1 Annual dividend shall be paid out not later than October 31 of the fiscal year in which the decision on payment of annual dividend was made, with annual dividend on preferred shares to be paid not later than within sixty (60) days after the decision on dividend payments was made at the General Meeting of Shareholders.
- 9.2 The Company (Registrar) shall monthly make payments of declared dividends on the shares whose holders failed to receive the payable dividend within period set forth in par. 6.1 above (unclaimed dividend).
- 9.3 Unclaimed dividend shall accrue no interest.

X. DIVIDEND ACCRUAL

- 10.1 No dividend shall be accrued or paid:
- on shares not outstanding (unplaced);
 - on shares acquired/repurchased by the Company;
 - in other cases as stipulated by applicable law, rules and regulations.
- 10.2 The dividend amount payable to any individual shareholder shall be determined for each class of shares separately by multiplying the dividend per share by the quantity of shares owned by the shareholder.
- 10.3 The dividend amount payable to any one shareholder shall be rounded-off to the nearest whole number of copecks, if a fractional quantity of copecks is payable.

XI. DIVIDEND PAYMENT ARRANGEMENTS

- 11.1 The Corporate Secretary and the Company's Corporate Department shall be responsible for making all necessary arrangements, coordination and performance of all activities required to make dividend payments as stipulated by this Policy.
- 11.2 The Company shall be entitled to engage the Registrar as payment agent for arranging and making dividend payments, and in such case the Company shall not be relieved from liability to its shareholders for payments of dividend owed to them.
- 11.3 Any shareholder shall be entitled to make inquiry to the Company's Corporate Department or with the Company's Registrar about his/her inclusion in the list of persons eligible for receiving dividend, and procedure of dividend calculation, crediting to account and taxation of dividend amount, payment terms and conditions.
- 11.4 The Company shall give a notice to all shareholders of the time, date, form, venue and

arrangements of dividend payments by way of information disclosure according to applicable law, rules and regulation including a printed notice in a regular printed publication and posting on newswire of one of information agencies authorized by the competent federal body for securities markets to disseminate information to be disclosed on the securities market, as well as by posting the relevant information on the Company's website.

XII. DIVIDEND PAYMENTS

- 12.1 The Company shall be the tax agent for the purposes of tax payments on the income payable to shareholders on the shares owned by them. The Company shall calculate, make deductions and payments to the budget of taxes on the dividend amounts within timeframes and according to procedure as required by applicable Russian law.
- 12.2 Dividend shall be paid to shareholders less the amount of taxes and other obligatory charges stipulated by applicable Russian law.
- 12.3 The Company shall take into account dividend amounts received by the Company itself from organizations in which the Company is a shareholder or a member for the purposes of calculation tax amounts to be deducted from income of Russian entities and individuals – Russian residents included in the list of persons eligible for receiving dividends. Only dividend received by the Company for the calendar year (from January 1 through December 31) for which the Company shall itself make dividend payments will be taken into account.
- 12.4 The Company shall take into account availability or lack of a treaty (convention, agreement) on avoiding of double taxation with countries where the relevant foreign entities or individuals-nonresidents of Russia are registered for the purpose of calculation of withholding tax to be deducted from income of foreign entities or individuals – nonresidents of Russia included in the list of persons eligible for receiving dividend.
- 12.5 Tax to be deducted from income of the Company's shareholders in respect of whom the relevant nominal holder or these shareholders themselves failed to provide due to some reasons within the stipulated timeframe required information regarding their tax status shall be charged at the maximal rate permitted by the Russian Tax Code.
- 12.6 Depending on the payment method chosen by the relevant shareholder, dividend payments may be made net of commission charged by postal or banking institutions. The Company is unable to regulate the commission amount as it is set according to postal rates or banking service agreement between the bank and shareholder.
- 12.7 Dividend to the Company's ADR holders shall be remitted according to the Depositary Agreement between Rostelecom, the depositary bank and ADR holders.

XIII. LIABILITY FOR PAYMENTS OF DECLARED DIVIDEND

- 13.1 The Company must make payments of dividend declared on Rostelecom shares of each type (class).
- 13.2 Shareholders shall be entitled to enforce payments of declared dividend if the Company fails to perform its payment obligation.
- 13.3 The Company's General Director and the Management Board of the Company shall be responsible for timely and accurate performance of the dividend payment arrangements.
- 13.4 In the event of incomplete and untimely payment of dividend to shareholders who on time provided to the Company's Registrar their banking details or postal address with changes as required the Company and Registrar shall be liable according to the applicable Russia law.
- 13.5 According to Article 44 of the Federal Law On Joint Stock Companies a person recorded in

the register of the Company's shareholders should timely advise the Company's Registrar of changes in his/her identification data. In the event of his/her failure to provide information about changes of the identification data the Company and Registrar shall not be held liable for damages caused by this omission.

XIV. MAKING CHANGES IN THIS POLICY

- 14.1 This Dividend Policy shall be approved by the Company's Board of Directors. Any amendment and/or addition hereto shall be made on the basis of the relevant decision of the Company's Board of Directors.
- 14.2 If due to any changes introduced in the Russian law or the Company's Charter some provisions of this Dividend Policy become contradictory with the Russian law and/or the Company's Charter the contradictory provisions shall be deemed invalid and until the necessary changes in this Dividend Policy are made as required, the Company shall be governed by the Russian law and the Company's Charter.