

# North-West Telecom

## Key Business Objectives

*June 2005*



# NWT today

***The leading integrated telecom provider in the North-Western Federal District***

- ✓ 10 regional branches
- ✓ 4.5 mln subscribers
- ✓ 33 ths employees
- ✓ Revenue 2004 530 MUSD
- ✓ Revenue 2005F 680 MUSD

- NWFD is a large market with significant investment potential
- NWFD has advantageous geographical position on the border of Europe & Baltic states
- NWFD has the 3d largest per capita income level among Russian regions
- NWT is characterized by the highest telephone density (30 telephone sets/100 inhabitants) in Russia

Region	Telephone density
Europe	60
Russia	29
NWFD	36
St.Petersburg	47

# International ratings

*One of the tops in Telecom sector*

S&P Transparency Index of North-West Telecom grew to 62% in 2004 from 44% in 2003. It is the 8th among 50 largest Russian companies.

Issuer	Credit Rating			Corporate Governance score
	International		National	
	Standard&Poor's	Fitch	Standard&Poor's	Standard&Poor's (1-10)
<b>Russia</b>	<b>BBB-/Stable</b>	<b>BBB-/ Stable</b>	<b>ruAAA</b>	
Uralsvyazinform	B+/Stable	BB-/Stable	-	4.9
<b>North-West Telecom</b>	<b>B-/Positive</b>	<b>-</b>	<b>ruBBB+</b>	<b>5.0</b>
Centertelecom	CCC+/Stable	B-/Negative	ruBB+	4.8
UTK	CCC+/Negative	-	ruBB	4.4
Volgatelecom	B+/Stable	-	ruA+	5.1
Dalsvyaz	-	B/Positive	-	4.8/ Negative
Sibirtelecom	-	B+/Positive	-	4.7

# Share capital structure

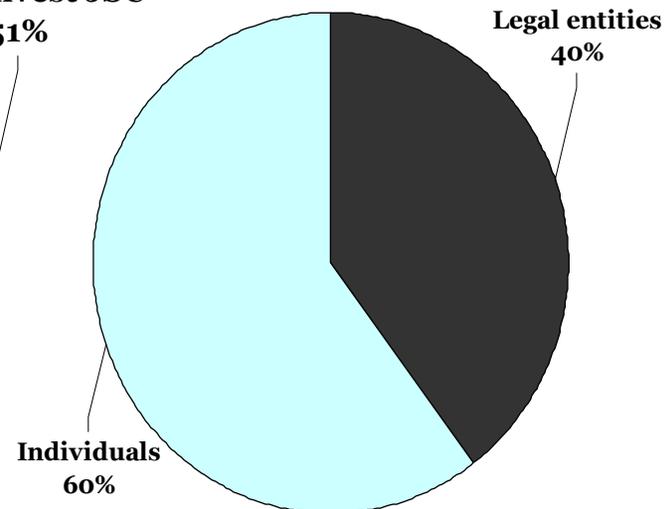
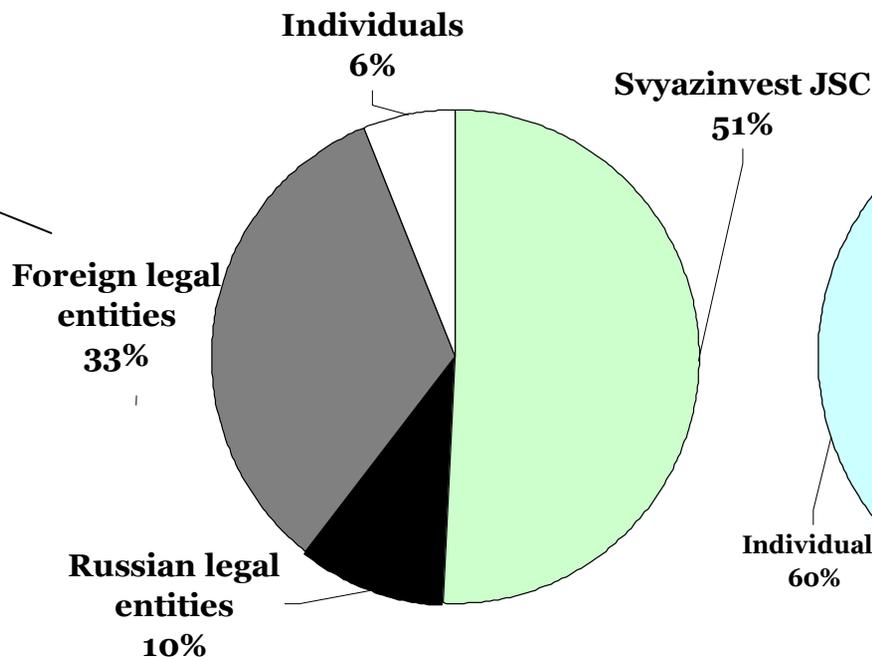
*One of the seven Svyazinvest RTOs*

## ORDINARY SHARES

## PREFERRED SHARES

Including:

- 5% - JP Morgan Chase Bank
- 4% - Gensor Enterprises Limited
- 4% - Westmead Limited
- 3% - Stotter Limited
- 3% - Fenway Service Limited
- 2% - Skandinaviska Enskilda Banken AB (Publ)
- 2% - Fractor Investments Limited
- 1.4% - Red Hand Investments Limited
- 1.2% - Lindsell Enterprises Limited

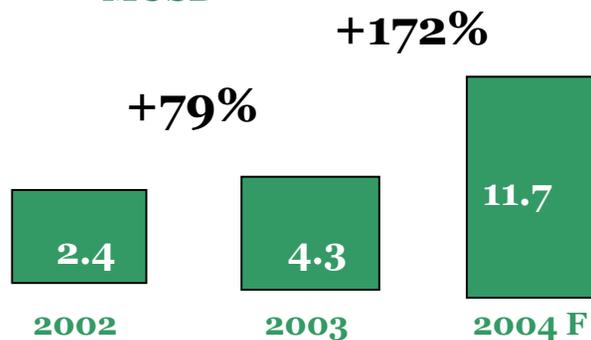


- ✓ Free float is estimated at 55%
- ✓ 4.4% of ordinary shares are converted into 1st Level ADRs and are traded in the USA Over-The-Counter market (NWTEY), as well as in the Berlin- & Frankfurt Stock Exchange
- ✓ In Russia, shares are listed at MICEX and RTS Stock Exchange

# Dividend Policy

*Increasing dividend yield*

## Net profit distributed as dividends, MUSD



% of Net Profit distributed	2002	2003	2004 F
	23%	16%	24%

Volume of 2004 dividends to be paid is likely to increase x2.5, including:

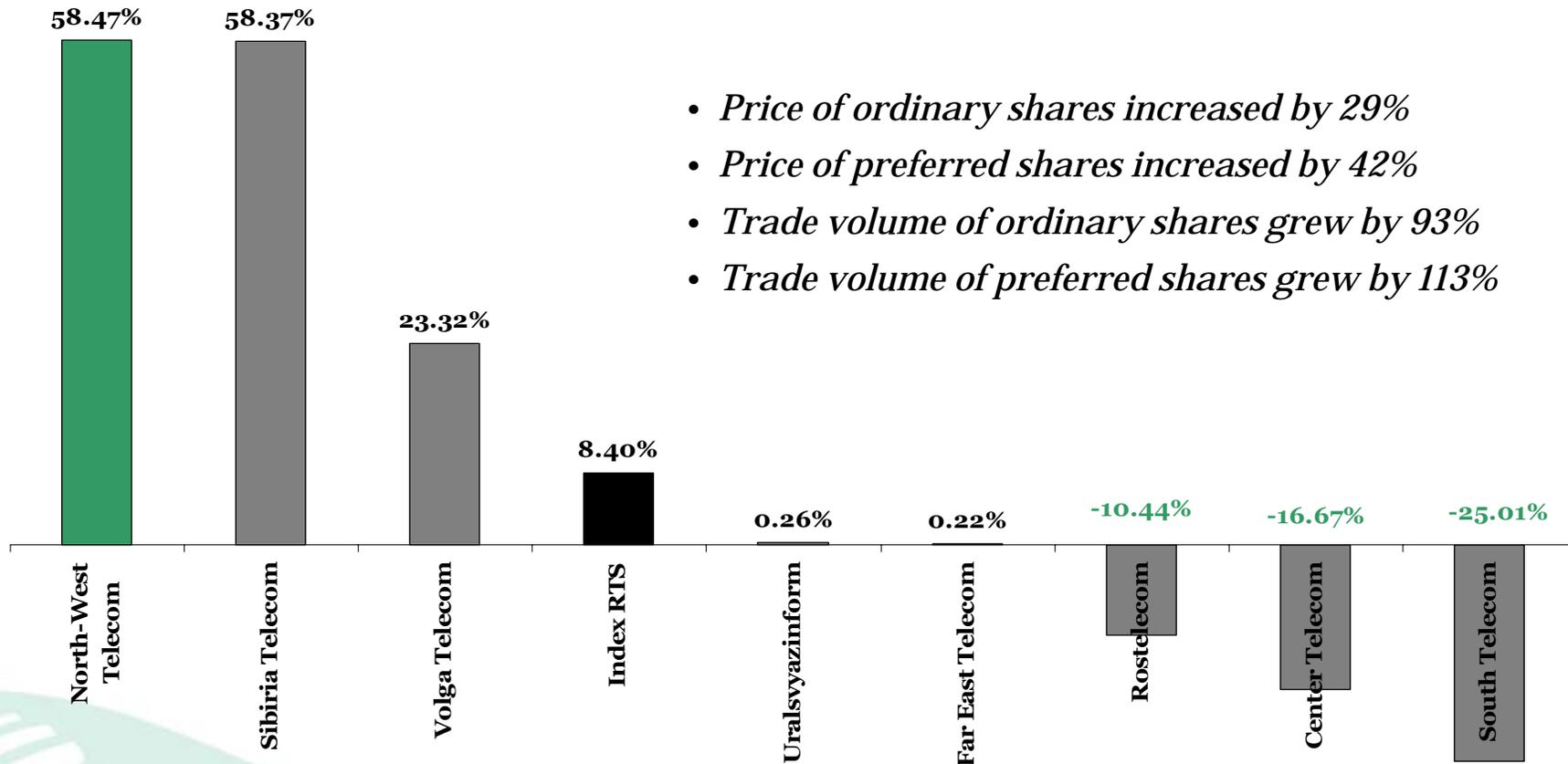
- dividends per preferred share - x1.6
- dividends per ordinary share - x3.6

Dividend Yield (D/P)	Ordinary shares	Preferred shares
NWT	1.35%	3.74%
Telecom sector average	0.48%	3.77%

# Share & Bond market

## *Industry leader of stock market in 2004*

✓ In 2004 NWT was the leader in capitalization growth among Russian Regional Telecom Operators



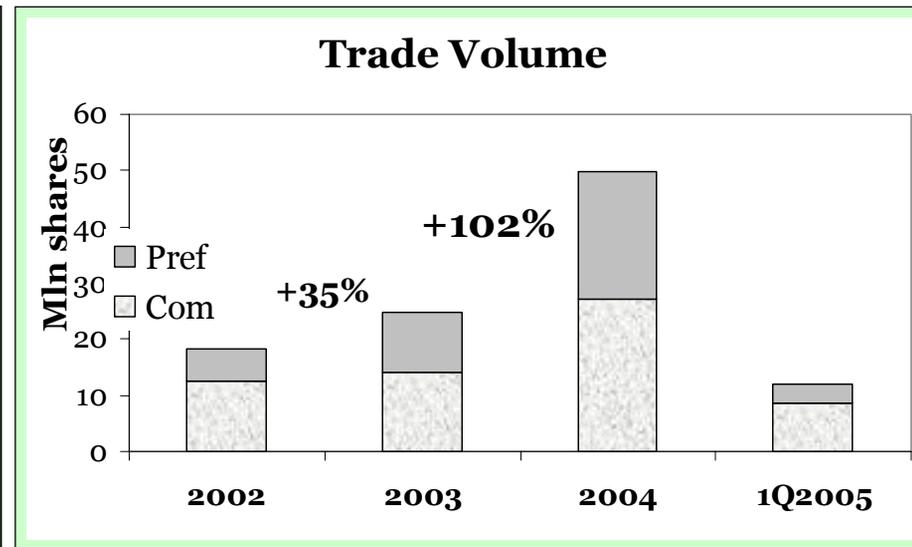
- *Price of ordinary shares increased by 29%*
- *Price of preferred shares increased by 42%*
- *Trade volume of ordinary shares grew by 93%*
- *Trade volume of preferred shares grew by 113%*

# Share & Bond market

*Continuous capitalization & liquidity growth*

**Since consolidation in November 2002 :**

- ✓ Capitalizations grew up approx. x 4 (incl. organic growth of approx. 100%)
- ✓ Trade volume grew up approx. x3



**In 2004:**

- ✓ Shares were listed at MICEX & RTS Stock Exchanges. Trade volume grew more than 2 times
- ✓ Capitalization grew 58%, while RTS index grew 8% only

# Share & Bond market

## *Successful issuer on corporate bonds market*

- ✓ The 3rd corporate bond issue in RUR was placed on March 3<sup>rd</sup>, 2005, with 9,25% yield
- ✓ The issue was 2.5 times oversubscribed
- ✓ Significant demand originated from foreign investors
- ✓ On June 2<sup>nd</sup>, 2005, NWT paid off the 1st coupon

### *NWT Corporate bonds track record*

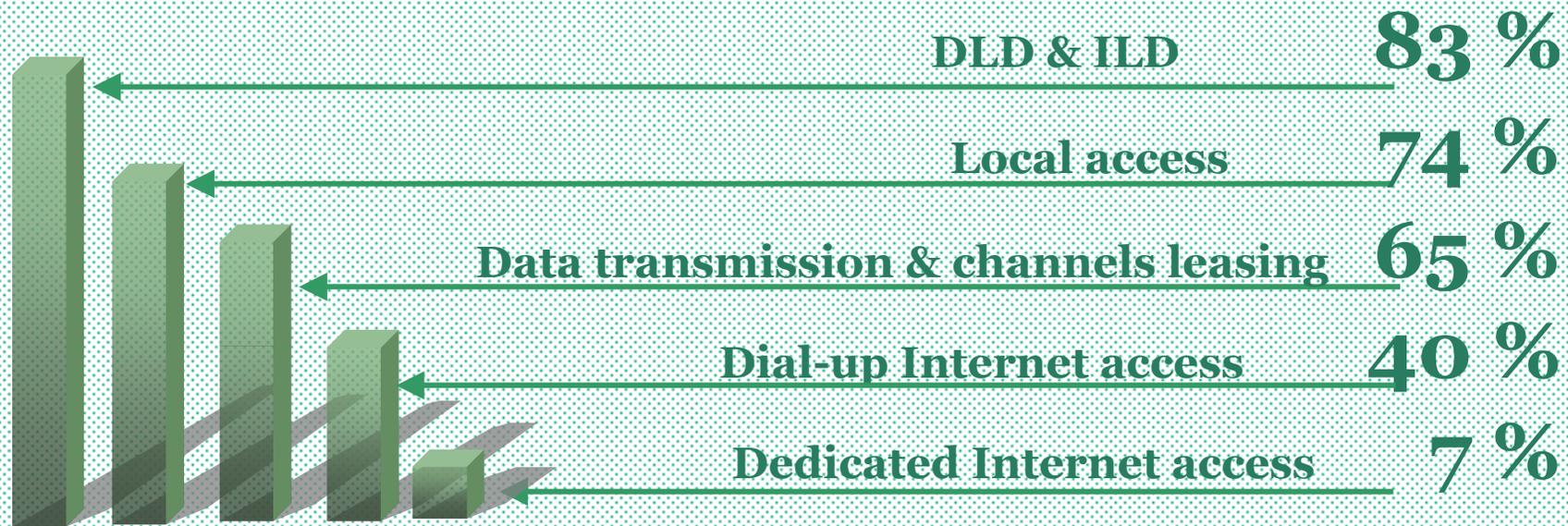
Year	Volume, MUSD	Yield
<b>2002</b>	<b>10</b>	<b>20.8%</b>
<b>2004</b>	<b>50</b>	<b>14.4%</b>
<b>2005</b>	<b>110</b>	<b>9.58%</b>

# Market position

*Regional leader at the traditional telecom services market*

**Regional Market Share – 27%**  
by revenues including mobile operators

**NWFD**



*NWT has strong positions in both retail (76%) and infrastructure segments (51%)*

*Market shares in corporate (26%) and VAS (34%) segments are to be improved*

# Market position

## *Substantial competitive advantages*

### *SWOT- ANALYSYS*

<i>Strengths</i>	<i>Opportunities</i>
<ul style="list-style-type: none"> <li>• Substantial client base</li> <li>• Proper sophisticated network infrastructure</li> <li>• Wide coverage area</li> <li>• Advantageous geographical position – potential of DLD &amp; ILD traffic growth</li> <li>• Wide range of services provided</li> <li>• Good potential for cost cutting due to reduction of personnel &amp; efficient management</li> <li>• Prudent borrowing policy</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing of purchasing power of telecom service consumers (notably in cities)</li> <li>• Growing demand for Internet access, data transmission, information, inquiry and other VAS</li> <li>• Growing demand for integrated regional corporate networks</li> </ul>
<i>Weaknesses</i>	<i>Threats</i>
<ul style="list-style-type: none"> <li>• Competition with CLECs, including mobile operators, at the highly competitive market</li> <li>• Significant regulatory risks</li> <li>• Low marketing and promotion activity</li> <li>• Low brand development</li> </ul>	<ul style="list-style-type: none"> <li>• Increased client expectations as to the quality of telecom services</li> <li>• Decline in local &amp; intra-zonal traffic consumption by Residential segment due to active use of mobile communications</li> <li>• Outflow of DLD &amp; ILD traffic to IP-telephony in corporate segment</li> <li>• Growth of CLECs activity in corporate sector</li> </ul>

# Financial highlights

*Steady improvement of financial performance*

Financial strategy provides for y-o-y growth of EBITDA, OIBDA, Net Income and respective margins

RAS, MUSD	2004	2004/2003	2005*	2005/2004
<b>Revenue</b>	533	+33%	678	+27%
<b>OIBDA</b>	154	+24%	209	+35%
<b>OIBDA margin</b>	29%	~	31%	~
<b>Net Income</b>	46	+69%	61	+32%
<b>Net Income margin</b>	8.6%	~	8.9%	~

\* Forecast for year 2005 :

- Includes Costs savings program approved by Board of Directors on May 17<sup>th</sup>, 2005,
- Does not include possible changes due to DLD & ILD market liberalization.

# Financial highlights

1Q2005 estimate

RAS, MUSD	1 Q 2004	1 Q 2005	2005/2004
<b>Revenue</b>	115	177	+ 53%
<b>OIBDA</b>	40	60	+ 51%
<b>OIBDA margin</b>	35%	34%	~
<b>Net Income</b>	23.5	22.9	- 2%
<b>Net Income margin</b>	20%	13%	~

**IAS Financial statements are available at:**

[www.nwtelecom.ru](http://www.nwtelecom.ru) (Language:English) > Economic and Finance > Financial statement (according to Ineternational Accounting standards),  
Balance sheets

# Sector indexes *Sector leader*

Index	2003	2004	2004/2003	Place among RTOs
Lines per employee	120	125	+3,3%	1
Revenue per employee, THUSD	13.8	18.5	+34%	2
Income from sales per employee, THUSD	3.1	3.7	+21%	3
Capitalization per employee, USD	11.700	16.400	+40%	4
Capitalization per line, USD	100	132	+32%	4

# Key business objectives

- ✓ Develop share and corporate bond markets
- ✓ Strengthen market position in corporate and VAS (Value Added Services) segments
- ✓ Improve financial performance
- ✓ Develop sound long-term corporate strategy

# Developing share and bond markets

## *Strategic Goals*

- Raise investment attractiveness & securities liquidity
- Implement corporate governance approach fit to requirements of International Investment community
- Improve reputation management quality

## *Planned in 2005*

- Issue of Level I ADRs for preferred shares
- Developing ADR trading on European stock markets (Frankfurt & Berlin Stock Exchanges)

# Strengthening market position in corporate and VAS segments

***In 2006, share in revenues will increase:***

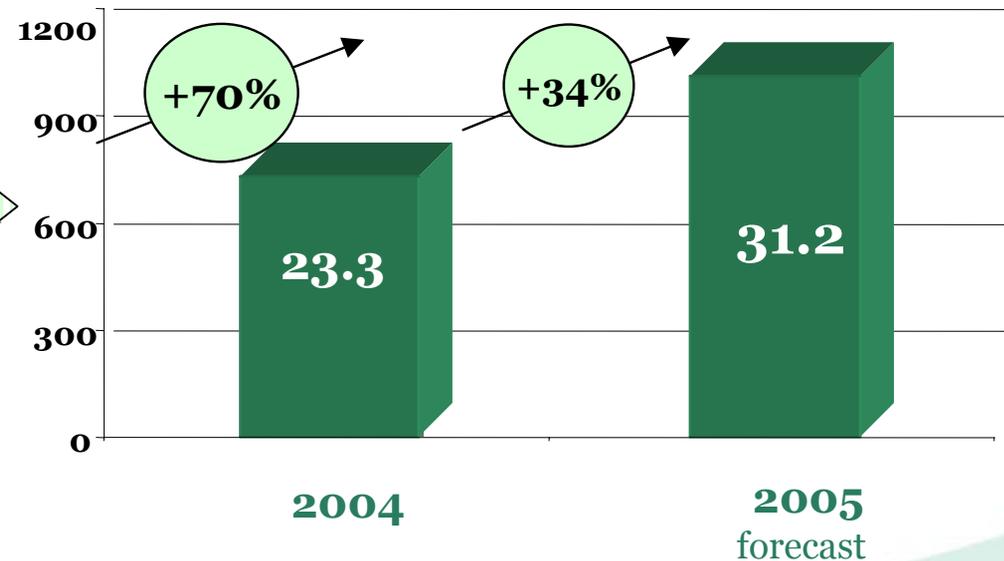
- ✓ *from VAS to 7,6%,*
- ✓ *from corporate sector to 6,7%*

***Operating margin:***

- ✓ *Average - 24%*
- ✓ *VAS - 60%*

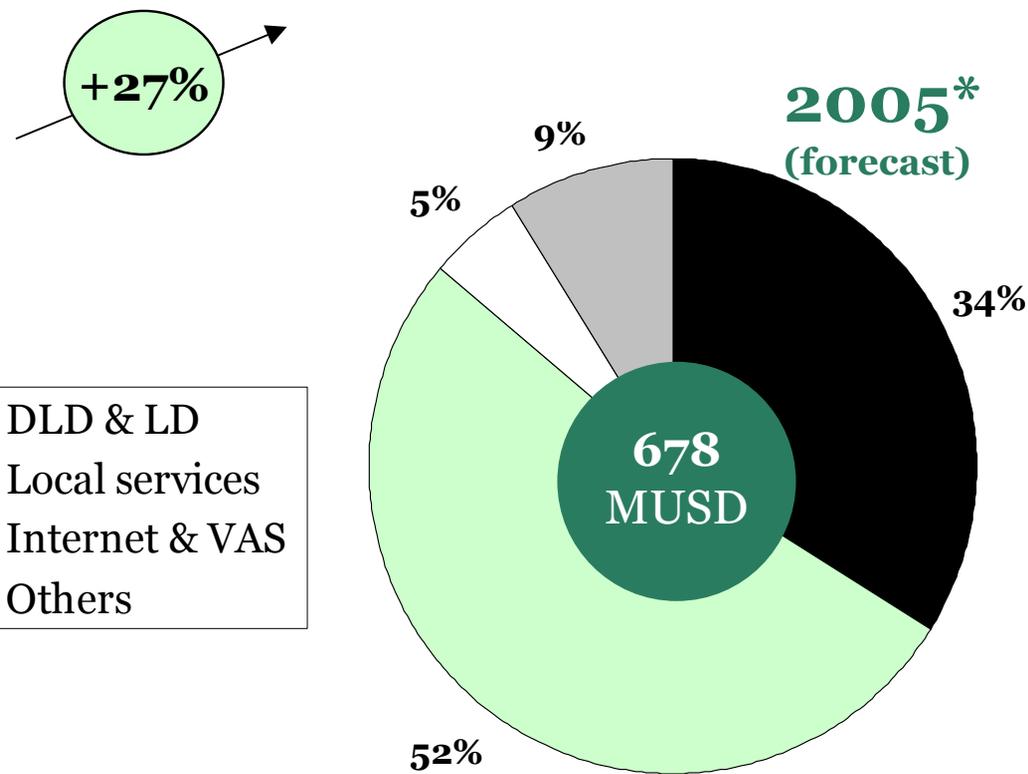
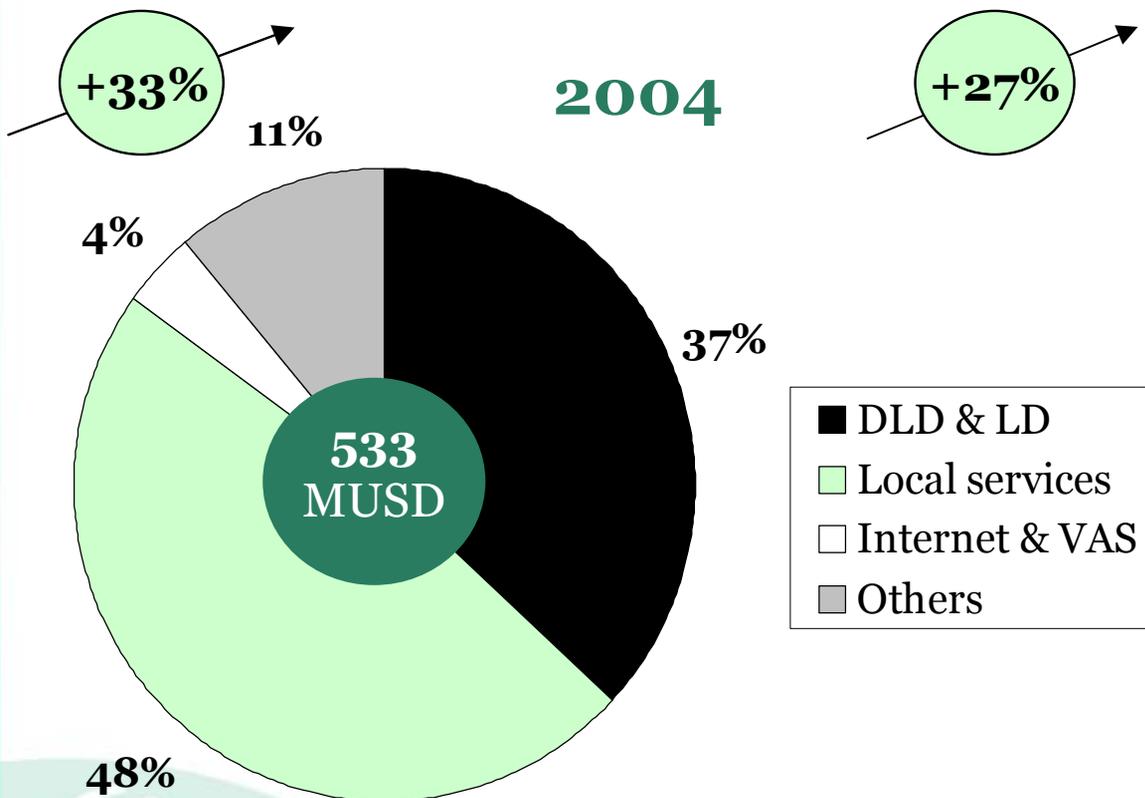
**Revenue from VAS, MUSD**

- Internet access
- Data transmission
- Next Generation network services
- Intellectual network services



# Improving financial performance

## Revenue Structure

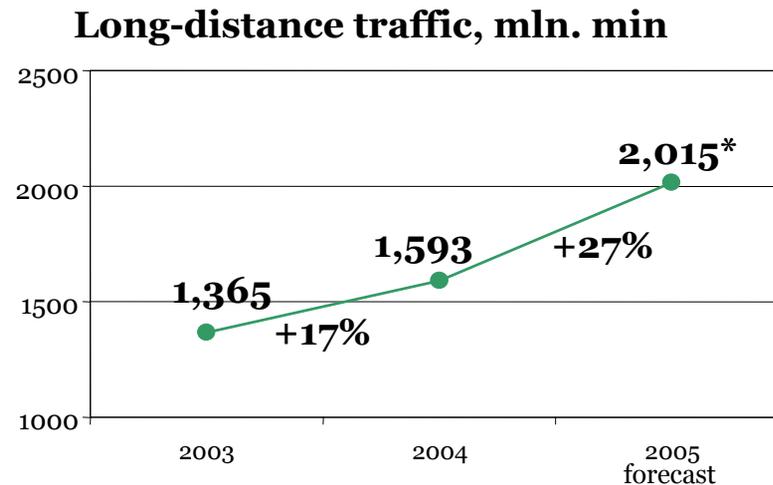
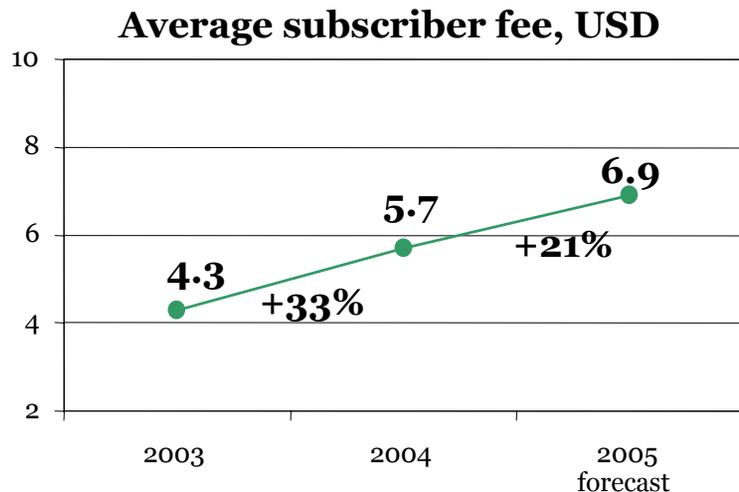


\* Does not include possible changes due to the DLD & ILD market liberalization

# Improving financial performance

## 2004 Revenue growth drivers

### Organic growth (24%)

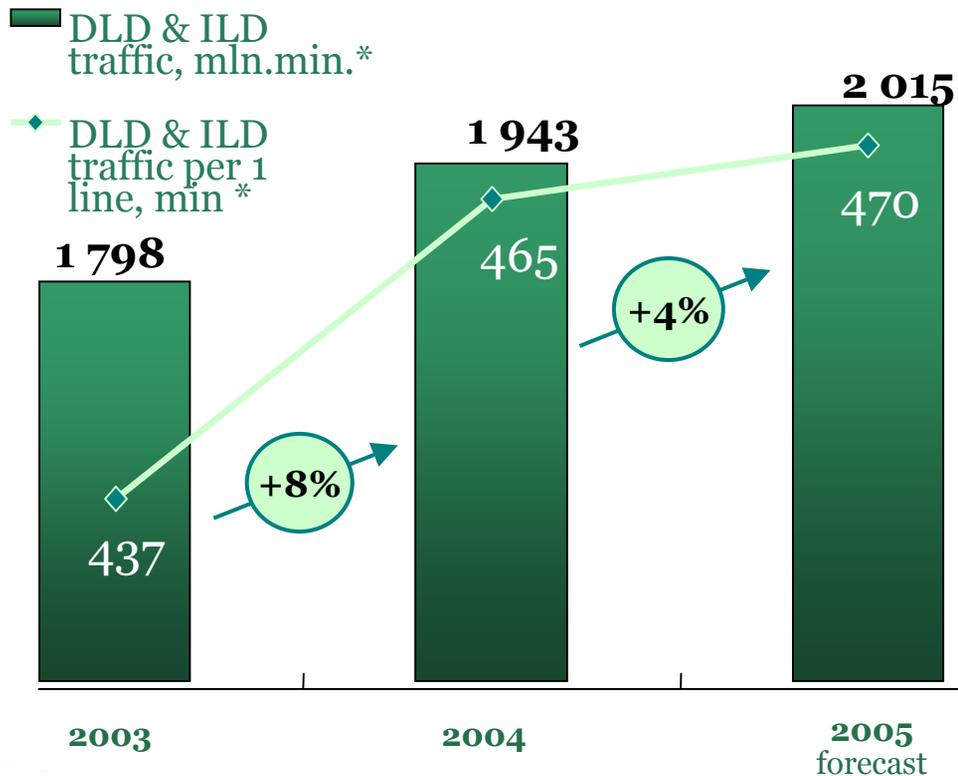


### Non-Organic growth (9%)

✓ Consolidation of Lensvyaz and Svyaz Komi as of October 1, 2004

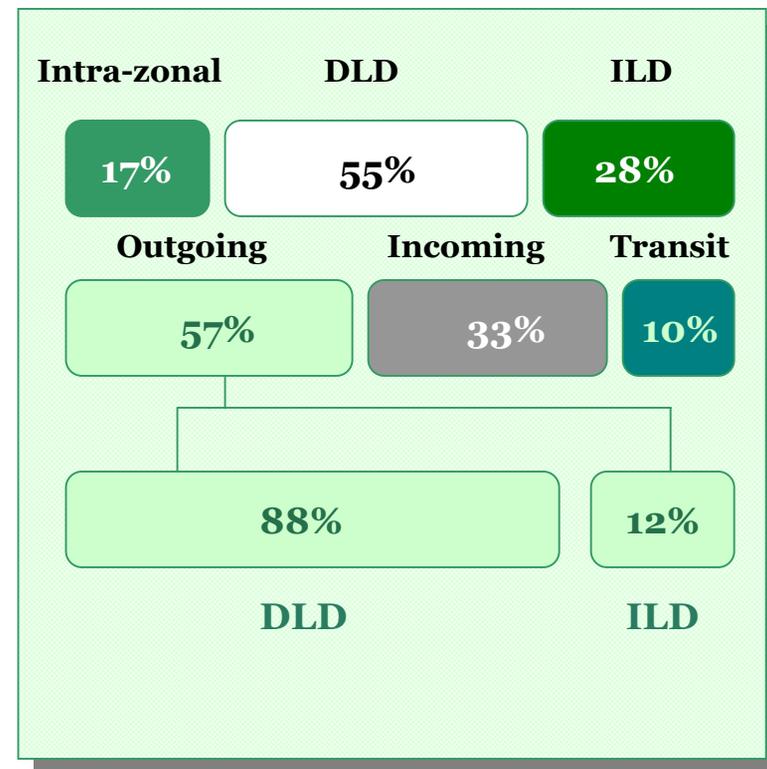
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# Improving financial performance



\* In comparable data

## Long distance traffic structure\*\*



\*\*By revenues

# Improving financial performance

## Expected DLD & ILD sector liberalization

### + Extra revenues from:

- Intra-zonal services to CLECs ;
- ILD traffic termination;
- Mobile traffic termination.

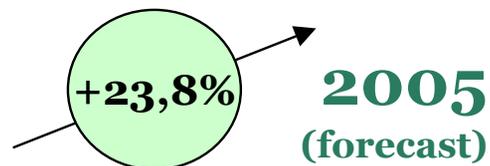
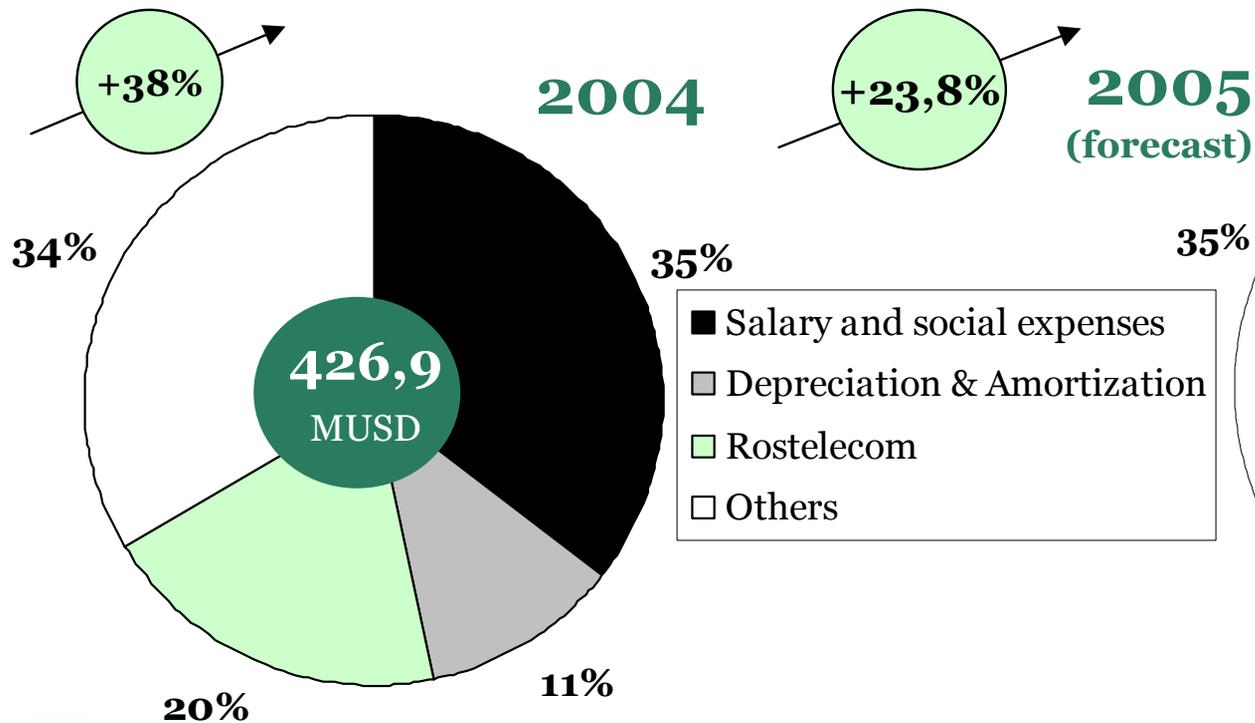
### - Possible losses in:

- Revenues after Rostelecom & other LD-operators start competition at intra-zonal segment.

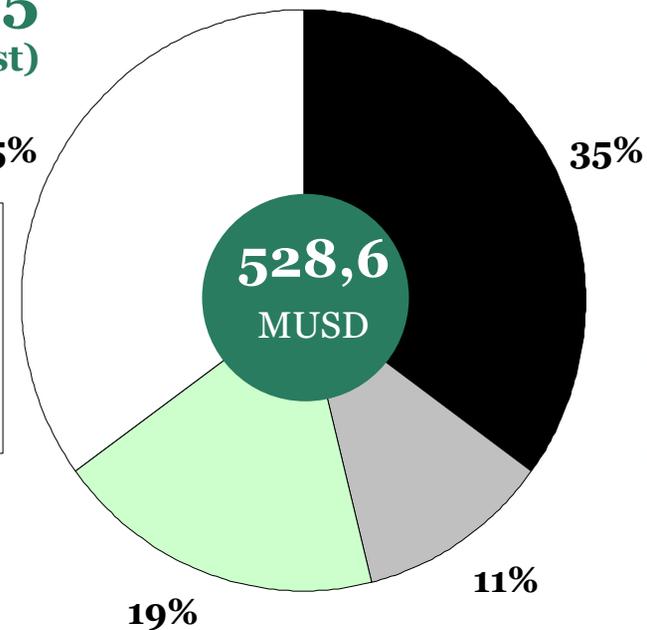
### *Estimated financial impact as of 2H 2005*

- ✓ Reduction in revenues & costs by 50 MUSD
- ✓ Cash flow remains stable
- ✓ Increase in EBITDA margin from 26,2% to 28,2%
- ✓ Increase in OIBDA margin from 31,2% to 33,6%

# Improving financial performance



## Cost Structure

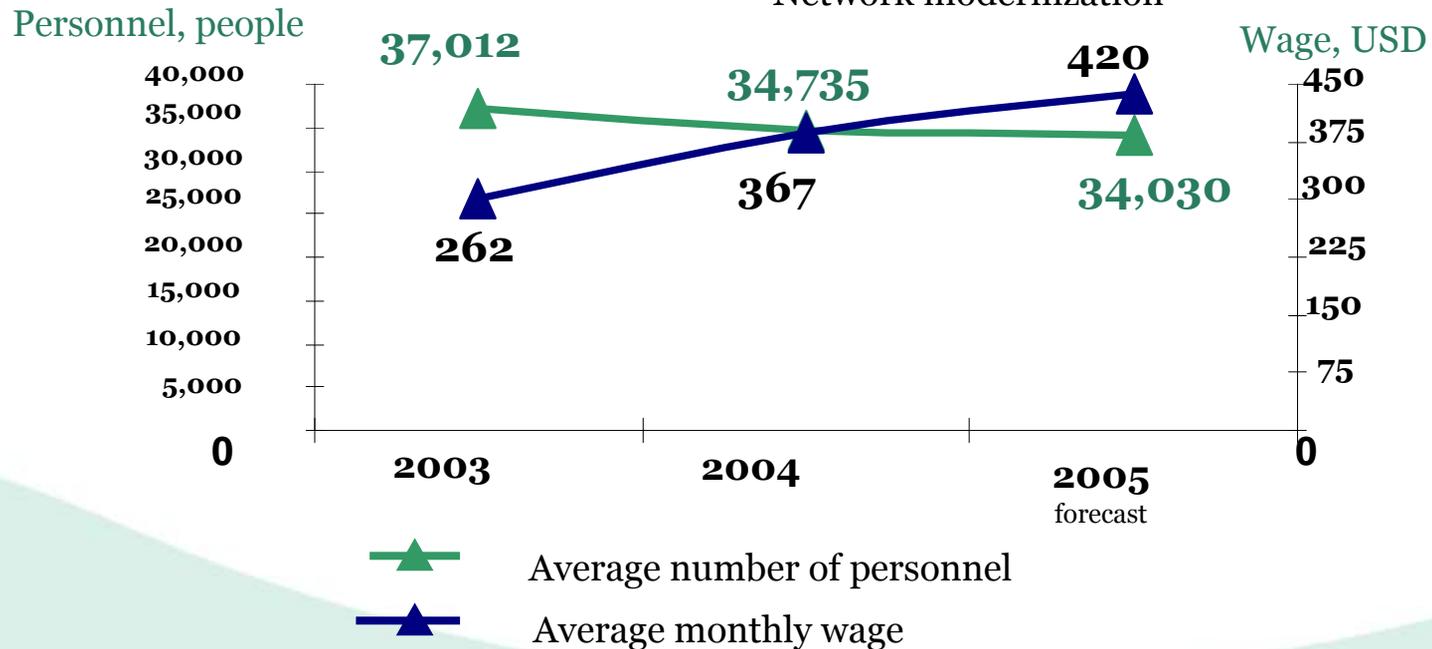


***In 2005 revenue growth will outpace operating expenses growth for the first time since consolidation***

# Improving financial performance

## Personnel optimization

- ✓ Between 2002 and 2004 personnel was reduced by 13%
- ✓ Key factors influencing number of personnel:
  - Improving organization structure (to be completed by November 1<sup>st</sup>, 2005)
  - Implementation of business-units structure
  - Network modernization



# Improving financial performance

## Costs saving program

### January, 2005

➤ 2005 Budget was approved by NWT Board of Directors. However, Board of Directors recommended to develop costs cutting program

### May, 2005

➤ Board of Directors approved Costs saving program

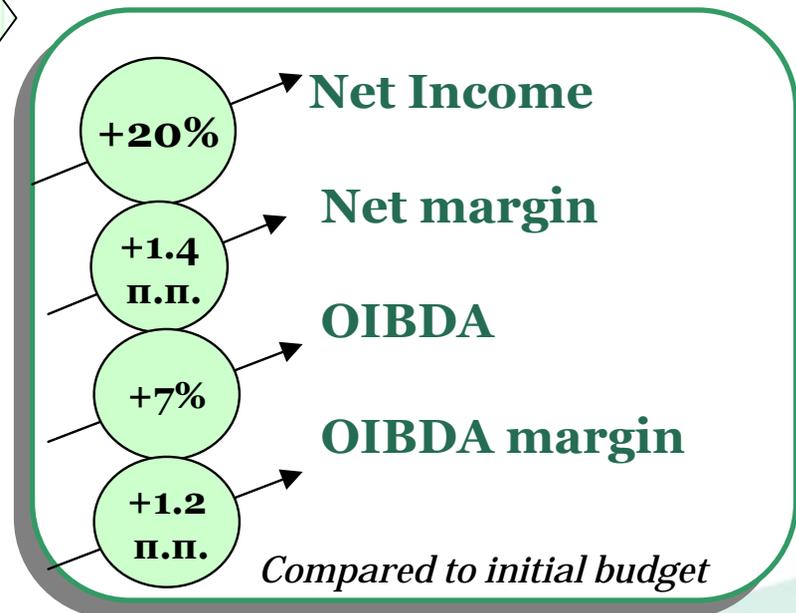
### June, 2005

➤ Adjusted budget for 2005 is expected to be approved by Board of Directors

*Costs to be reduced amounted to*  
**12.4 MUSD**  
 in 2005

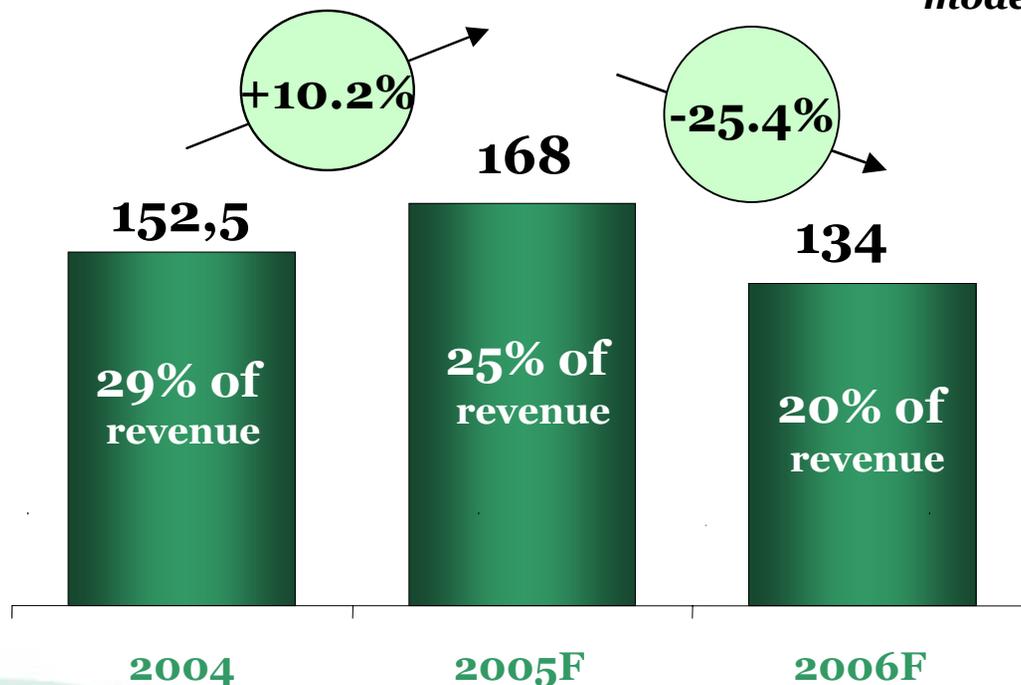
### *Cost lines to be reduced:*

- maintenance
- consulting services
- interests



# Improving financial performance

CAPEX, MUSD



*Reasonable balance between network modernization & development requirement and capex volume*

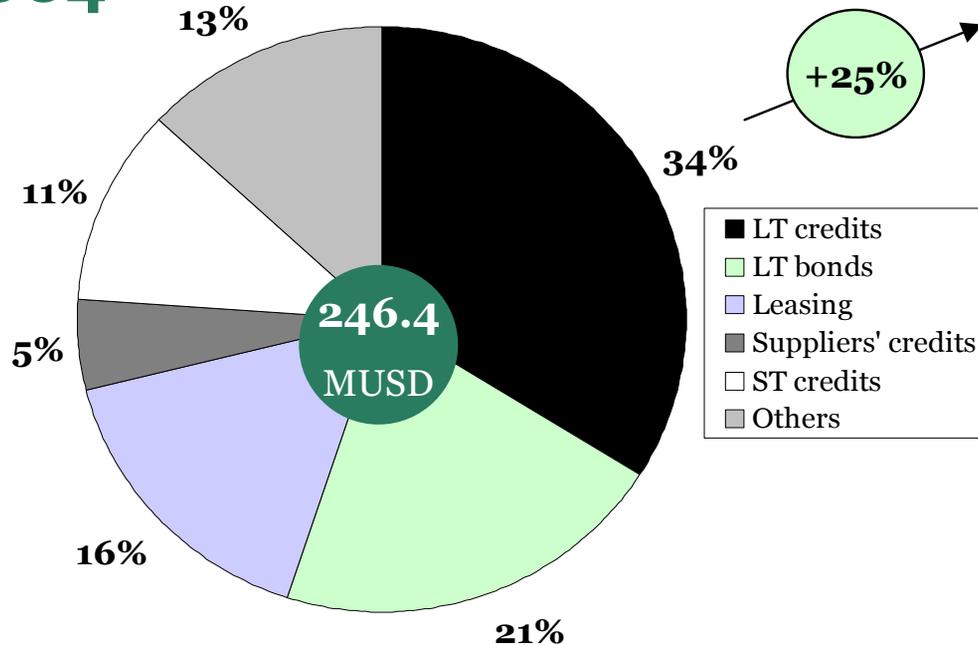
In 2005 :

- ✓ Subscriber base will increase by **149 ths** numbers
- ✓ Digitalization rate will raise from **48%** to **52%**
- ✓ In most regional centers network digitalization rate approaches **100%**
- ✓ **10** MUSD will be invested in VAS

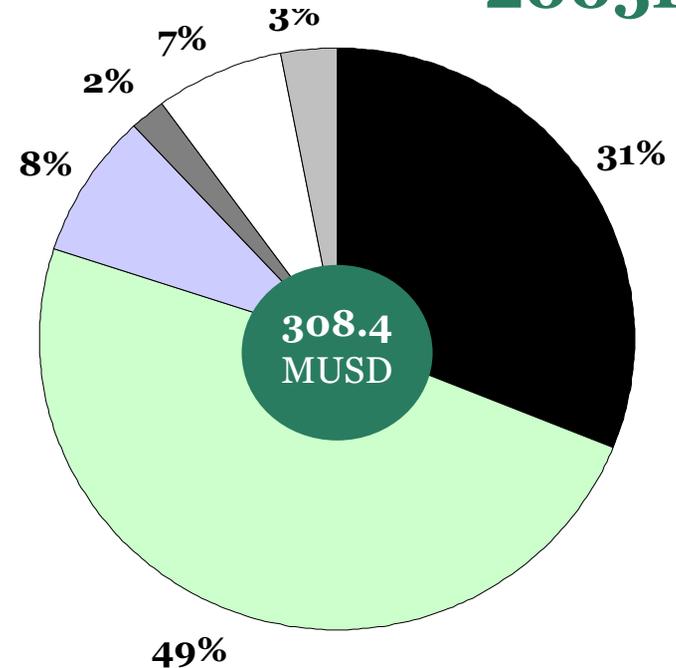
# Improving financial performance

## Funding

2004



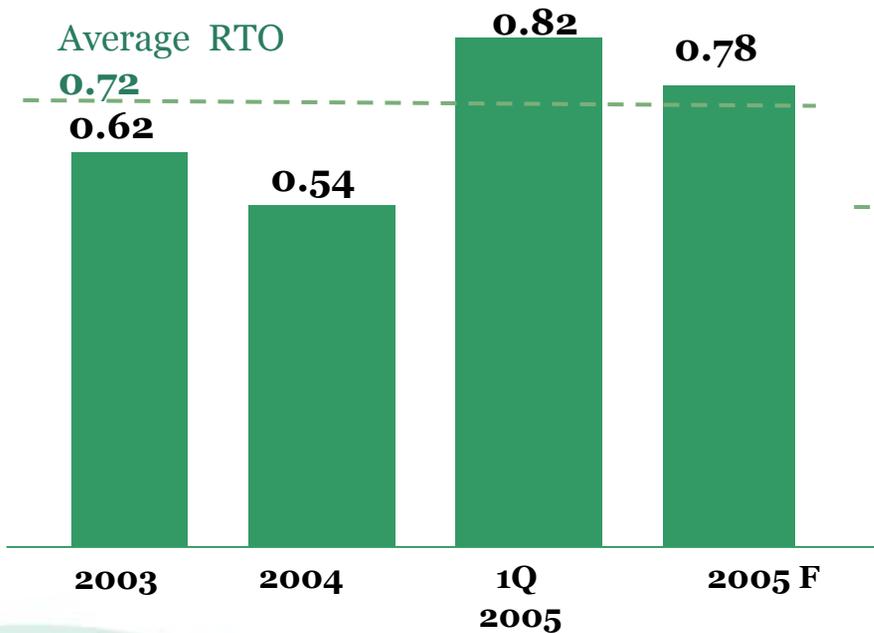
2005F



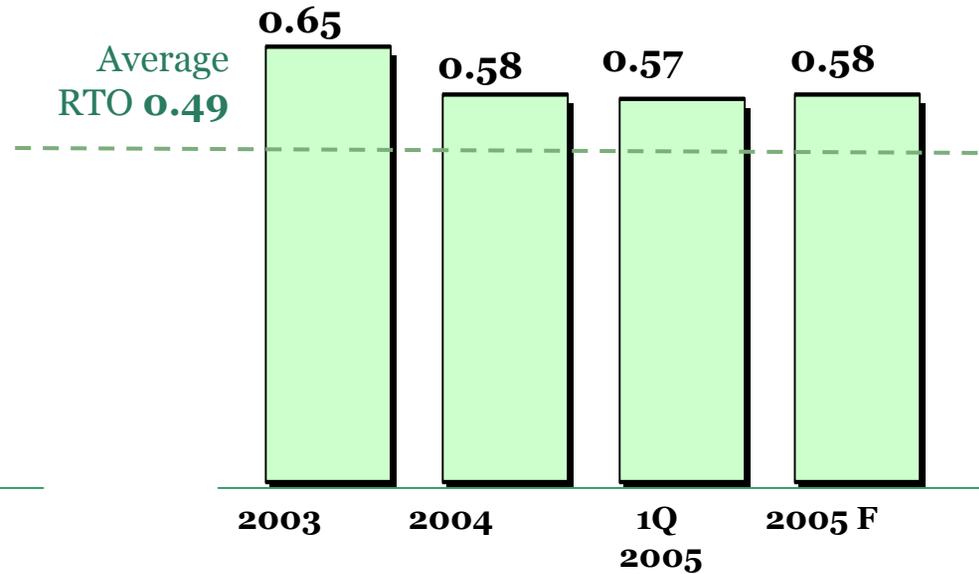
- ✓ In 2005 financial debt will increase by 70 MUSD to 308 MUSD
- ✓ 2005 funding program is aimed to refinance short-term debts and includes the following:
  - 3<sup>rd</sup> corporate bond issue (issued on March 3<sup>rd</sup> ; volume 100 MUSD; maturity 6 years)
  - Long-term bank credits (75 MUSD)

# Improving financial performance

## Current ratio



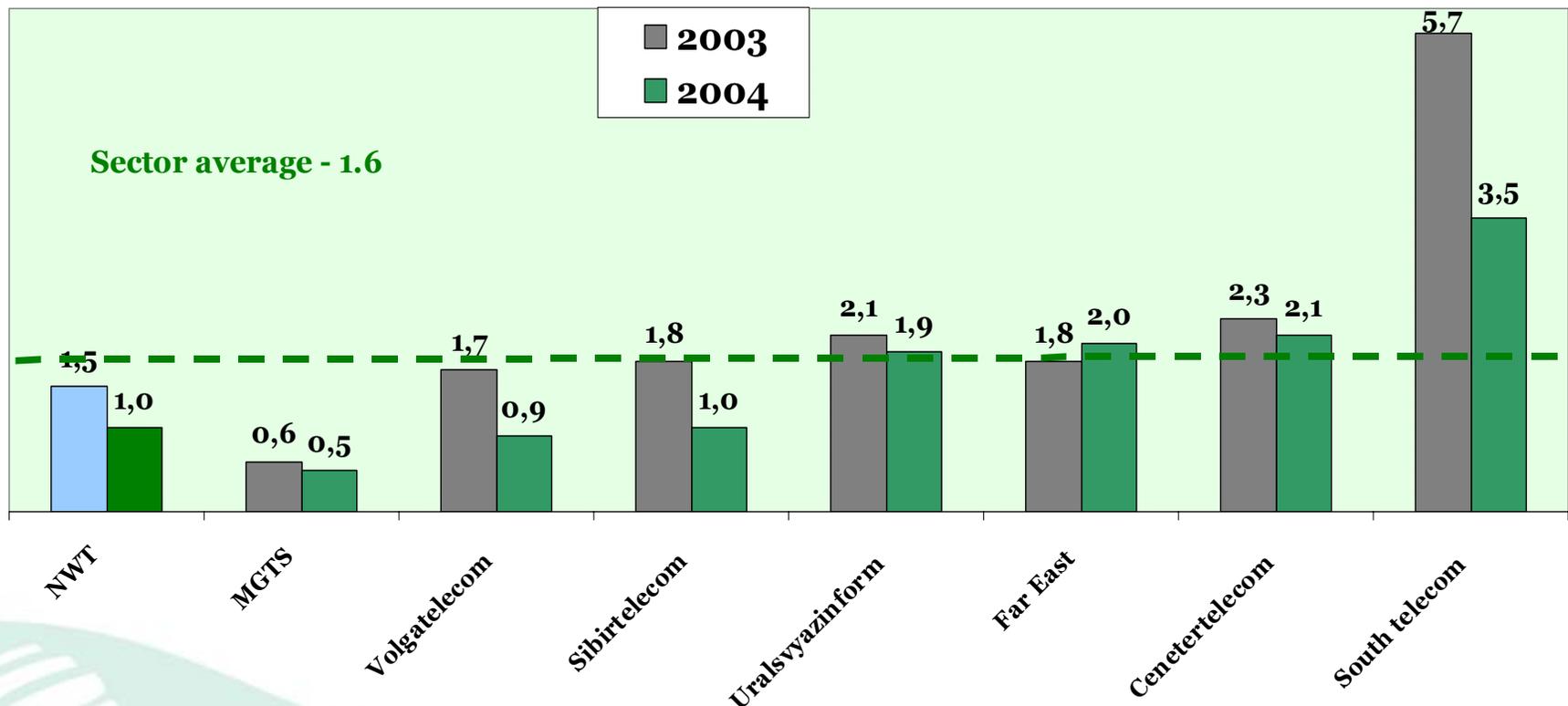
## Equity to total assets ratio



# Improving financial performance

Net debt/EBITDA

*Low level of debt*



Source: FSSS, Fitch estimation

# Improving financial performance

## Streamlining subsidiaries policy

**June 2004**

- Board of Directors approved subsidiaries reorganization policy

### Main Goal:

**Concentrate presence on prospective market niches (VAS, corporate & etc.):**

*Consolidation of core business companies  
(ex. “Novgorod Datacom” LTD)*

*De-consolidation of non-core business  
(ex. “Policom” LTD, “Centrum” LTD, “Pagetelecom” LTD, “Neva Cable” LTD)*

# Developing sound long-term corporate strategy

## Financial forecast\*

RAS, MUSD	2005	2006	2006 /2005	2007	2007/ 2006	2008	2008 /2007
<i>Revenue</i>	578	639.8	10,6%	706.8	10,5%	783.9	10.9%
<i>Costs</i>	426.9	474.4	11,1%	523.4	10,3%	578.3	10.5%
<i>Operating profit</i>	151.5	165.5	9,2%	183.5	10,9%	205.6	12.1%
<i>Operating margin, %</i>	26,2	25,9		26,0		26,2	
<i>Income before taxation</i>	79.5	82.1	3,1%	92.5	12,8%	113.0	22,1%
<i>Net income</i>	56.3	58.4	3,7%	65.9	12,8%	80.5	22.1%
<i>Net income margin, %</i>	9,7	9,1		9,3		10,3	
<i>EBITDA</i>	167.3	193.8	15,8%	217.5	12,8%	244.3	12,3%
<i>EBITDA margin, %</i>	28,9	30,3		30,8		31,2	

\* Includes possible changes due to the DLD & ILD market liberalization

✓ Board of Directors will review mid-term strategy in July 2005

# Developing sound long-term corporate strategy

- ✓ Strengthen achieved market positions & expand to new market segments
- ✓ Improve company's economic efficiency
- ✓ Modernize & develop network infrastructure
- ✓ Introduce highly efficient management systems and procedures

*Create a strong basis  
for growth of company's  
capitalization*

# North-West Telecom

Chairman of Board of Directors ..... **Valeriy Yashin**  
Chief Executive Officer ..... **Vladimir Akulich**  
Chief Financial Officer ..... **Venera Khusnutdinova**  
Auditor ..... **Ernst & Young**  
Registrar ..... **Registrar-Svyaz**  
ADR Depository ..... **JP Morgan**  
URL..... **www.nwtelecom.ru**

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**Thank you for your attention**

