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Investor meetings, October – November 2003

Rostelecom Investor Presentation



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These forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements.

These risks include the risk of changes the Company’s operations and business prospects, the general financial and economic circumstances, relating to regulation of the Russian telecommunications industry and the Russian legislation; the competition and other risks.

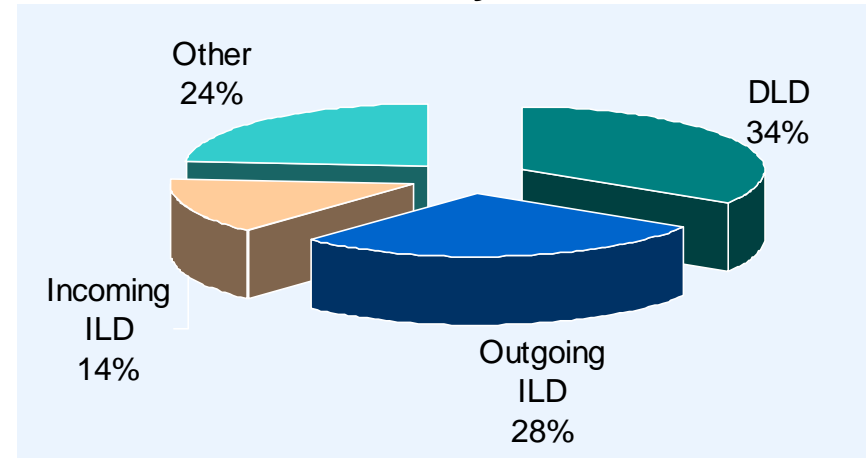
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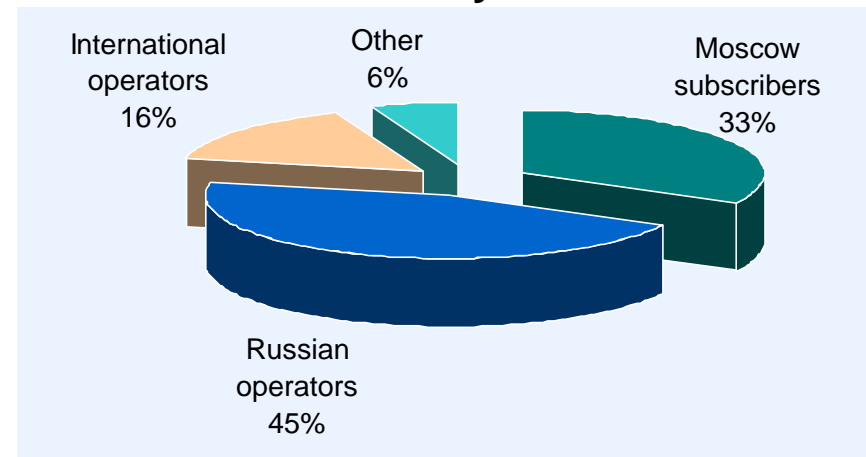
Rostelecom is Russia's national telecommunications operator...

- ✓ Rostelecom owns and operates national trunk network covering almost the whole territory of Russia
- ✓ In every region except Moscow Rostelecom is a “carriers’ carrier”, interconnecting public operators’ networks into a unified transnational network
- ✓ The only operator licensed to carry both outgoing and incoming international voice traffic
- ✓ In Moscow, Rostelecom offers DLD and ILD services to end-users

Revenue breakdown by service*



Revenue breakdown by client*



* In accordance with 6mo2003 IAS results

...with strong competitive advantages

- ✓ Rostelecom enjoys a monopolistic position in the transit (“wholesale”) long-distance market
- ✓ Rostelecom has the only countrywide up-to-date network in Russia
- ✓ Points of presence in virtually every large Russian city
- ✓ Rostelecom’s new entrepreneurial management team has proved its ability to deliver results

Rostelecom's network has unique scale in Russia

- ✓ Almost 200,000 km. of trunk lines
- ✓ Transmission capacity digitalization level – 76.3%

- ✓ Eight powerful automatic switching nodes
- ✓ 11 international switching centers
- ✓ Over 90% of switching capacity is digital

- ✓ Direct international connections with >100 operators in 72 countries
- ✓ Participation in 30 international cable systems

In 2001&2002 the Company focused on corporate restructuring...

- ✓ New entrepreneurial management team
- ✓ Branch network optimized: 24 branches replaced with 7 regional and 2 functional units
- ✓ Headcount reduced from 37 to 28 thousand people

Management & organizational system reform

- ✓ ERP system introduced
- ✓ Unified accounting and budgeting systems introduced
- ✓ Activity Based Costing methodology developed and applied
- ✓ Billing system for operators being introduced

Development & introduction of business-processes

- ✓ In 2002 USD 80 million repaid ahead of schedule
- ✓ Profit from early repayment: USD 7 million interest reduction: USD 6 million
- ✓ Debt levels decreased almost threefold compared to 1998 levels

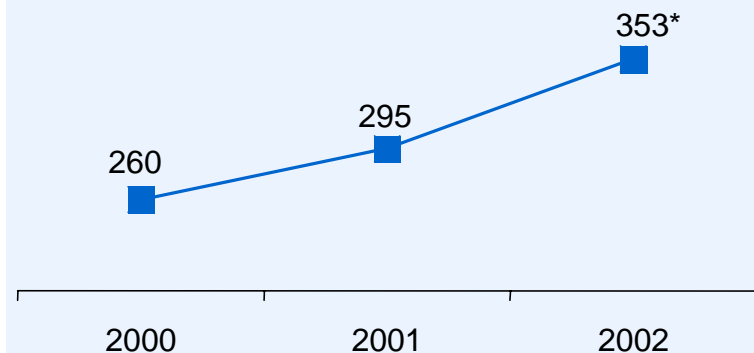
Debt reduction

Revision of relationships with subsidiaries

- ✓ Optimized business portfolio
- ✓ Reduced number of subsidiaries
- ✓ Intercompany agreements revised to concentrate on adding value to Rostelecom's core activities

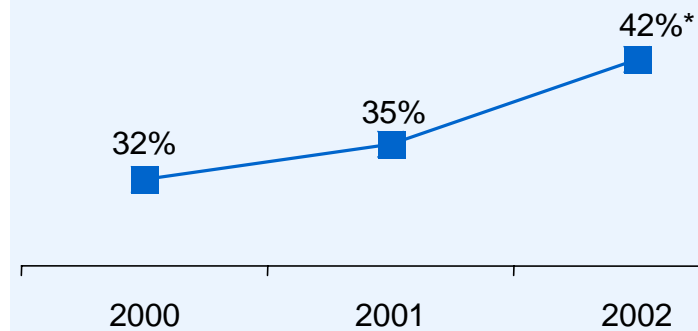
...that drove significant improvement in the Company's financial performance

EBITDA, USD million



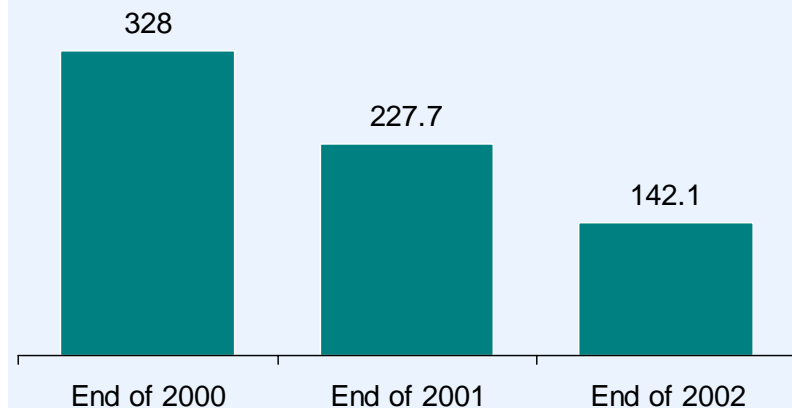
*excluding one-off non-cash items

EBITDA margin, %

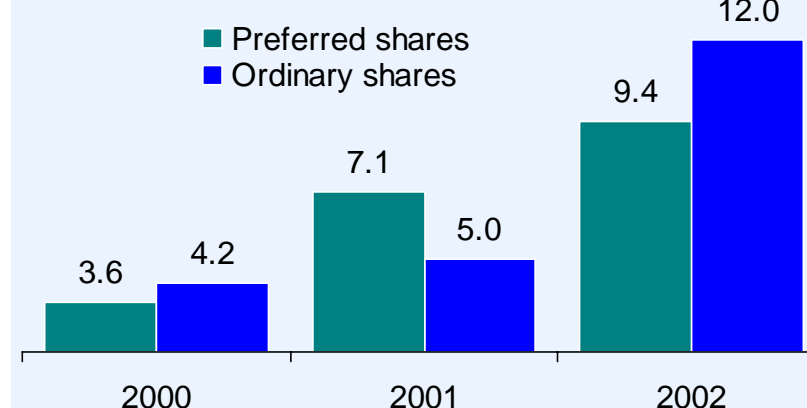


*excluding one-off non-cash items

Non-consolidated debt, USD million



Dividends, USD million



Key tasks faced by Rostelecom management in 2003 and beyond

Top line performance improvement

- Strengthening competitive position in Moscow
- Building on leadership in the regions
- Further improvement in market share in the incoming ILD traffic market & entering transit market

Active participation in sector reform

- Elimination of cross-subsidy system
- Discontinue social burden
- Interconnect system reform

Further operational efficiency enhancement

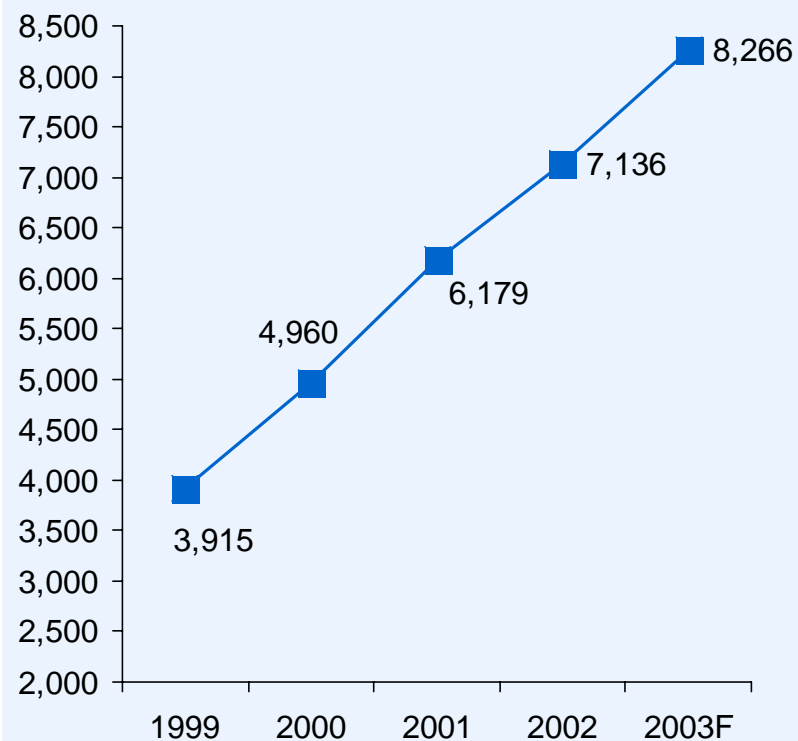
- Further headcount reduction
- Dispense with underperforming assets
- Further optimization of business portfolio and debt structure

Management's key goal – prepare Rostelecom for market liberalization by creating an efficiently- run and competitive business

Top line performance improvement is a priority

Domestic long-distance (DLD) traffic dynamics

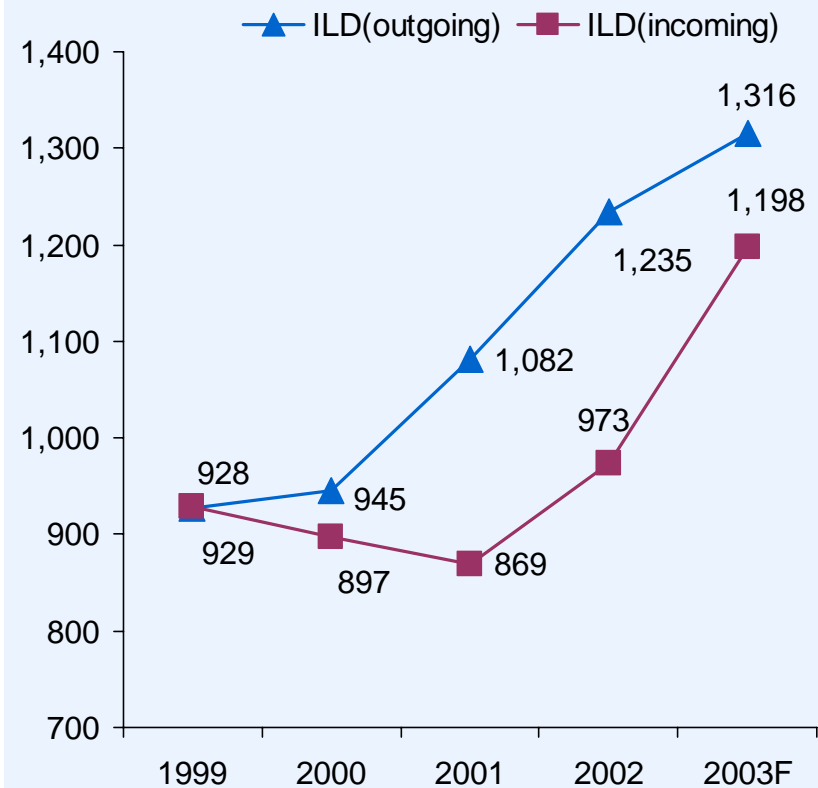
Million minutes



- ✓ DLD traffic volume growth at 15-20% per annum

International long-distance (ILD) traffic dynamics

Million minutes



- ✓ Incoming ILD traffic volume growth at >15% per annum, outgoing ILD >5%

Rostelecom benefits from positive trends in the Russian telecommunications market

Key drivers of traffic growth:

Introduction of new local-access lines by regional operators

- ✓ 2.6 million new lines were installed in 2002
- ✓ 3 million new lines are planned to be installed in 2003

Increase in the number of mobile subscribers

- ✓ About 10 million new subscribers per year

Increase in income per capita

- ✓ Growth in minutes per line

Strengthen competitive position in the Moscow market

Achievements

- ✓ Moscow's branch restructuring initiated to optimize the organizational structure, improve efficiency, cut costs
- ✓ New, customer-focused approach
- ✓ Account manager system created
- ✓ Revenue decline brought to a stop

Further steps

- ✓ New billing system is being introduced
- ✓ Major new call-center and a number of service centers will be set up – improved client servicing quality
- ✓ Single card platform will be introduced
- ✓ Service promotion campaigns are underway – ILD tariff cuts on calls to the US, Canada and Europe to evaluate market elasticity
- ✓ Resource optimization, further network digitalization, phasing out of analog equipment

Rostelecom's goal:

- ✓ Ensure stable FY 2003 revenue
- ✓ Gain market share

Boost revenue growth by leveraging strong regional positions

Achievements

- ✓ Regional branches consolidated into seven units to correspond with Svyazinvest's regional operators' service areas
- ✓ A technical agreement signed for a plan for interconnecting regional companies' and Rostelecom's networks
- ✓ DLD interconnect system reformed: from August 1, 2003 Integral Settlement Rate replaced with a system of direct payments

Further steps

- ✓ Strong commercial team to work with super-regional telecoms is being formed
- ✓ Further reform of the interconnect system
- ✓ Cooperation with super-regionals aimed at collecting regional traffic
- ✓ Introduction of flexible pricing to minimize the risk that super-regional operators overtake traffic within enlarged regions
- ✓ Further network digitalization and expansion, joint investment projects with super-regional telecoms

Rostelecom's goal:

- ✓ Ensure 15% DLD and 10% ILD FY 2003 traffic growth
- ✓ Ensure Rostelecom's regional traffic and revenue growth in line with the overall sector performance

Increase market share in the incoming ILD market

Achievements

- ✓ A strong team formed to work with international operators
- ✓ Settlement rates with traditional international operators optimized & cooperation with alternative international operators activated
- ✓ Non-economic routes closed, number of counterparts decreased
- ✓ Points of presence in London and Stockholm obtained
- ✓ New interconnect system with regional telecoms will strengthen Rostelecom's competitive positions

Further steps

- ✓ Further optimizing settlement rates
- ✓ Expanding existing and obtaining new points of presence in key international traffic exchange points
- ✓ Active marketing of switched transit services
- ✓ Rostelecom's international network expansion

Rostelecom's goal:

- ✓ Ensure FY 2003 revenue stabilization and market share improvement from 50% to >60%

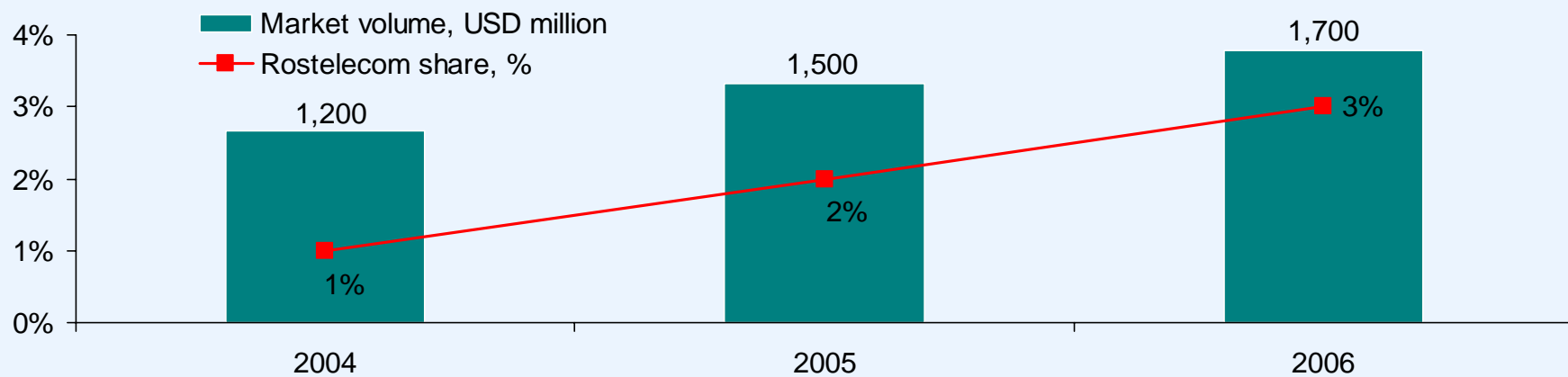
Rostelecom will be ready to enter the Europe–Asia transit market as early as 2004

Achievements

- ✓ Capacity expansion and modernization of the Moscow to Novosibirsk line almost finalized
- ✓ Points of presence in London and Stockholm obtained
- ✓ Principal agreements on cooperation reached with operators of China and Kazakhstan

Further steps

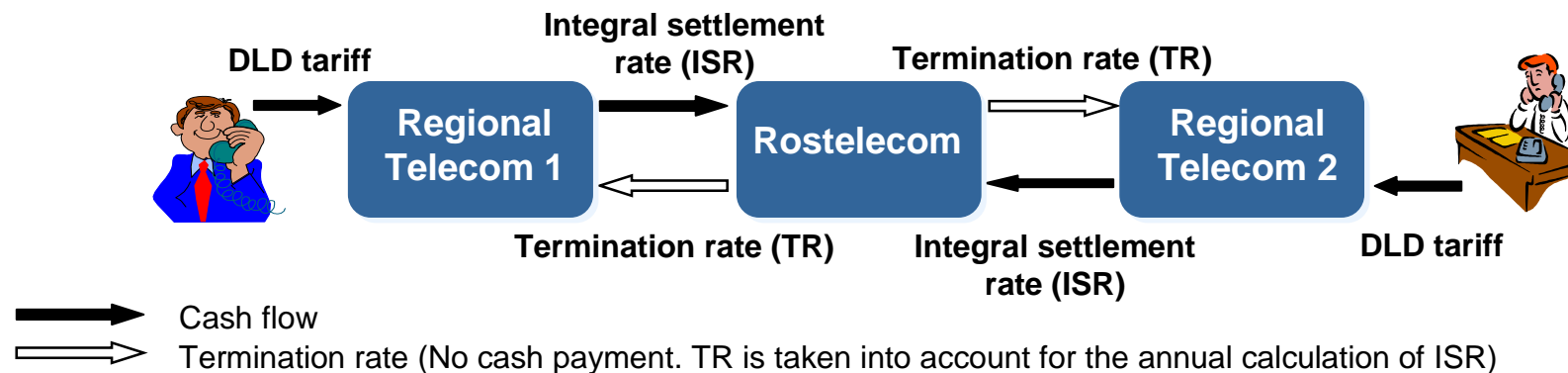
- ✓ Capacity expansion of Rostelecom's network to the Chinese border
- ✓ Construction of the St. Petersburg to Kaliningrad to Germany undersea cable line
- ✓ Rostelecom will be ready to enter the transit market already in 2004



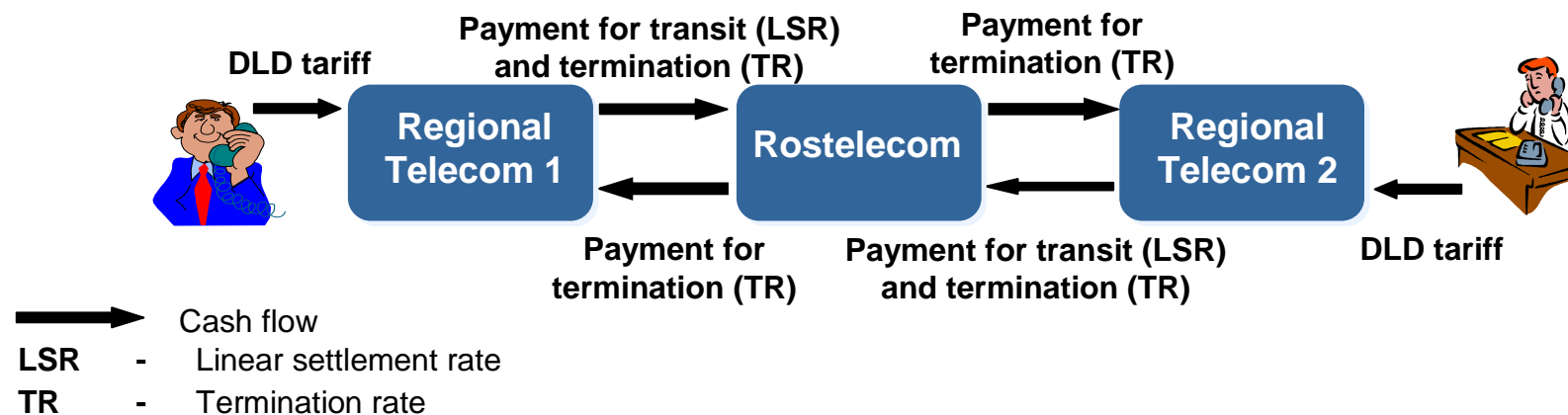
Source: OVUM, Rostelecom estimates

Rostelecom to benefit from a more transparent and rational settlement system for DLD traffic

Old interconnect system



New interconnect system introduced from August 1, 2003



New settlement system will positively impact revenues

Old system

- ✓ Lack of transparency
- ✓ Lack of control over outgoing traffic data by incoming traffic data
- ✓ Distortion of settlements because of once-a-year calculation of ISR
- ✓ Absence of revenue from termination of the incoming traffic for regional telecoms
- ✓ Imbalance between termination rate and prices for similar local access services

New system

- ✓ Improved transparency
- ✓ Dynamic accounting for trends of traffic growth and incoming/outgoing traffic changes
- ✓ Increase in revenues from incoming international traffic termination
- ✓ Increase in revenues from alternative operators
- ✓ The new system is in line with international standards

Financial analysis of ISR phase-out

DLD revenue from regional operators will grow by the amount of termination payment

Payments to operators will grow by the amount of termination payment

- *There will be no direct effect on EBITDA*
- *EBITDA margin will decrease*

Further operational efficiency enhancement

- ✓ Headcount to be reduced by further 8% in 2003; number of employees at the end of H1 2003 – 28 thousand people
- ✓ In 2003 Rostelecom plans to phase out 22 thousand km of analogue lines; in summer 2003 the Company decommissioned its tropospheric radio lines – expected cost savings of USD 3-4 million annually
- ✓ In 2003 Rostelecom finalized the restructuring of its overdue Yen-denominated debt to the Ministry of Finance and ceased to be in technical default; the restructuring resulted in a profit of USD 24 million reported in H1 2003 financials

In 2003 Rostelecom finalized the terms of the deal with RTC-Leasing shareholders...

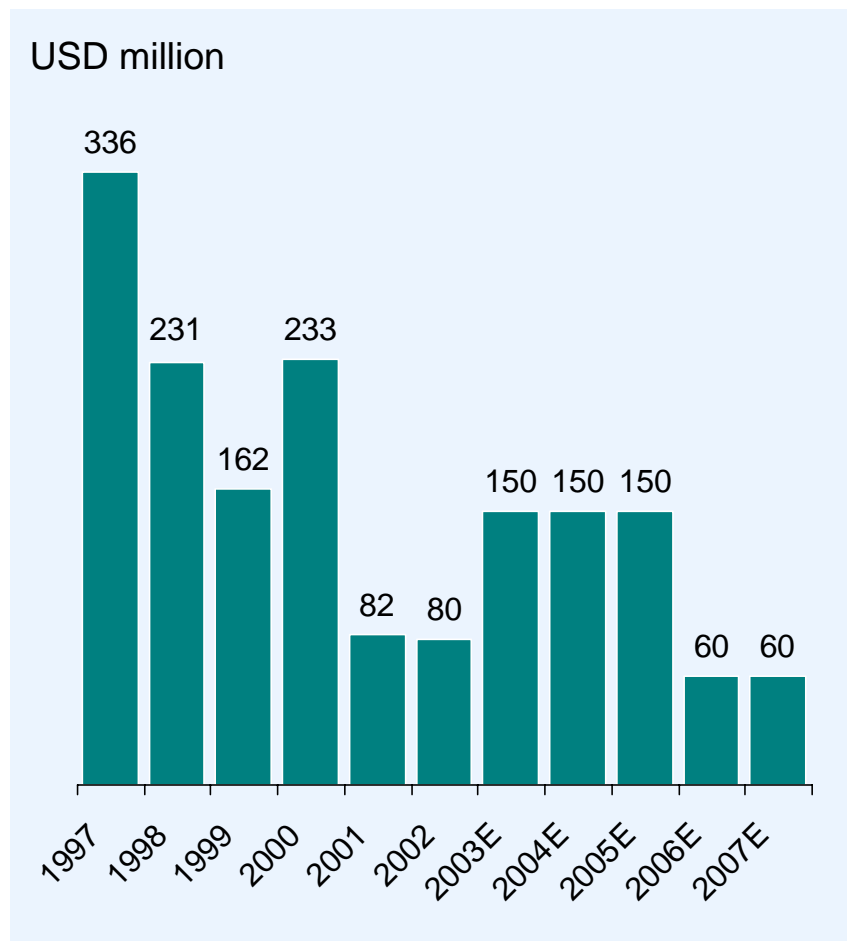
...which provide for...

- ✓ ...reduction of Rostelecom's liabilities to RTC-Leasing in the amount not less than RUR 1.8 billion
- ✓ cancellation of all the guarantees and pledges provided by Rostelecom on RTC-Leasing's obligations to third parties
- ✓ sale of shares in RTC-Leasing owned by Rostelecom and Rostelecom-Garantiya non-state pension fund to a third party at a market price of not less than RUR 750 million

...and will allow Rostelecom to...

- ✓ ...improve transparency of its business portfolio
- ✓ ensure significant debt reduction
- ✓ reduce credit risks associated with guarantees and pledges issued by Rostelecom to RTC-Leasing's creditors
- ✓ obtain ownership over telecom assets reported on Rostelecom's balance-sheet but currently owned by RTC-Leasing
- ✓ sell a non-core asset on favorable terms and receive a substantial amount of cash to be invested in Rostelecom's core business development

Capital expenditure dynamics and priorities



- ✓ Construction of new fiber-optic lines
- ✓ Capacity expansion
- ✓ Secondary network modernization, new service development

H1 2003 operating and financial highlights

	H1 2003	H1 2002	% change y-o-y
<i>min mn</i>			
DLD	3,996	3,327	20%
Outgoing ILD	629	605	4%
Incoming ILD	552	426	30%
<i>USD mn</i>			
	H1 2003	H1 2002	% change y-o-y
Revenue	440	398	11%
EBITDA	176	173	2%*
<i>EBITDA Margin, %</i>	40%	43%	
Operating profit	36	66	-45%**
<i>Operating Margin, %</i>	8%	16%	
Net profit	30	21	43%
<i>Net Margin, %</i>	7%	5%	

* Due to increased staff costs (as expected), higher payments to operators and a non-cash loss on disposal of PP&E

** Due to above mentioned factors and higher depreciation

H1 2003 results underscore Rostelecom's improving competitive position and strong traffic growth

Key developments of the first six months of 2003

- ✓ Improved top-line performance
 - Moscow revenue decline halted, accompanied by traffic growth
 - The decline in incoming ILD revenue from international operators slowed significantly
 - Both traffic and revenue from regional operators continued to grow steadily
- ✓ Pressure on operating costs due to:
 - higher depreciation charges and loss on sale of PP&E (both non-cash)
 - Higher staff costs and payments to operators
- ✓ Restructuring of obligations to the Ministry of Finance resulted in profit of USD 24 million reported as income from debt restructuring in non-operating income

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