

# Rostelecom Investor Presentation



# Disclaimer

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*Certain statements in this presentation are “forward-looking statements” within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbors created thereby.*

*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.*

*For a more detailed discussion of these and other factors, see the Company’s Annual Report on Form 20-F for its most recently completed fiscal year and the Company’s other public filings with The U.S. Securities and Exchange Commission. Many of these factors are beyond the Company’s ability to control or predict. Given these and other uncertainties, the Company cautions not to place undue reliance on any of the forward-looking statements contained herein or otherwise.*

*The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as maybe required under applicable the U.S. federal securities laws.*

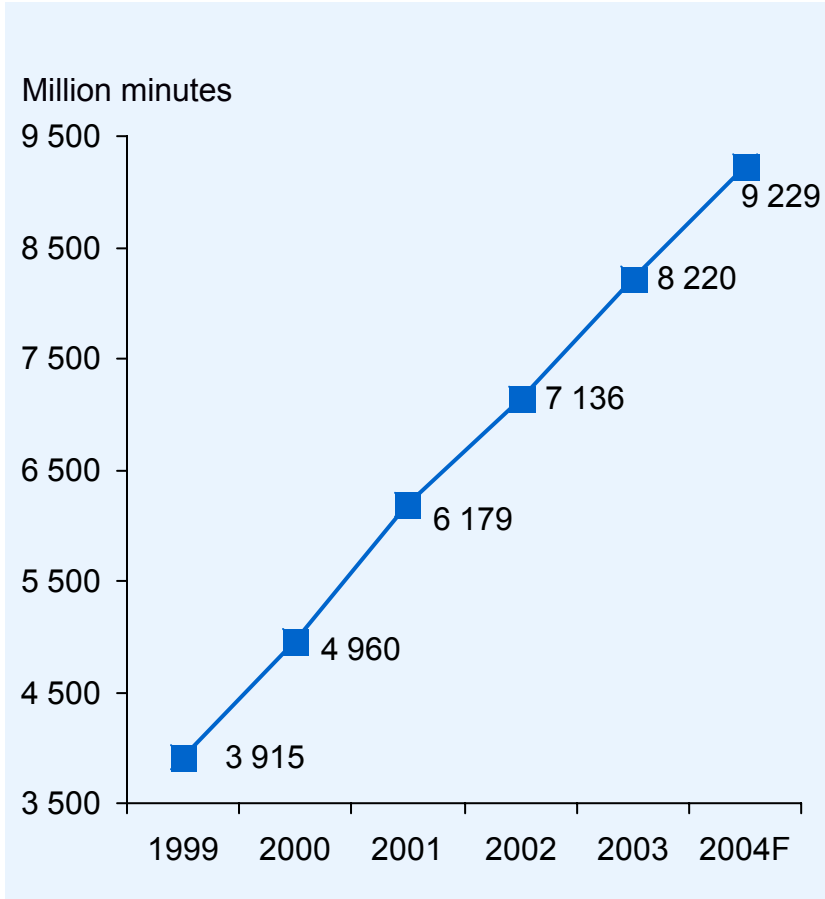
# Presentation Highlights

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- ✓ Russia's telecommunications market continues rapid traffic growth
- ✓ Rostelecom's top-line growth strategy is yielding results
- ✓ New settlement system benefiting Rostelecom's position
- ✓ Corporate objectives to drive further performance improvements

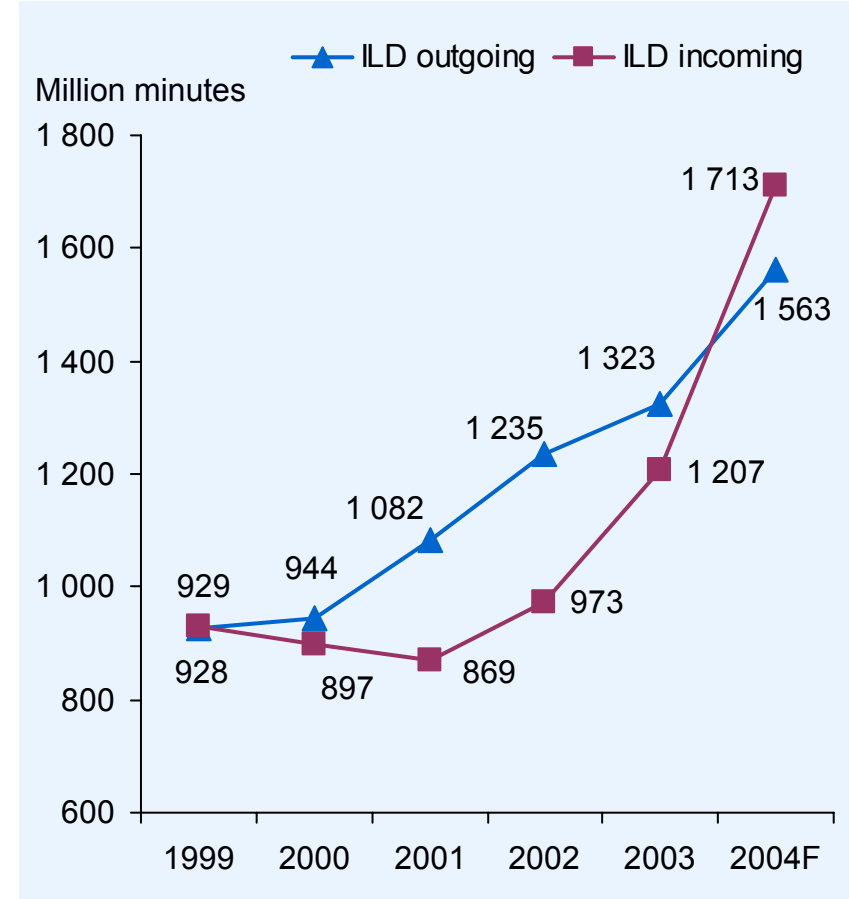
# Russian Market Continues Strong Traffic Growth

## Domestic long-distance (DLD) traffic dynamics



✓ DLD traffic growth of 10% p.a.

## International long-distance (ILD) traffic dynamics

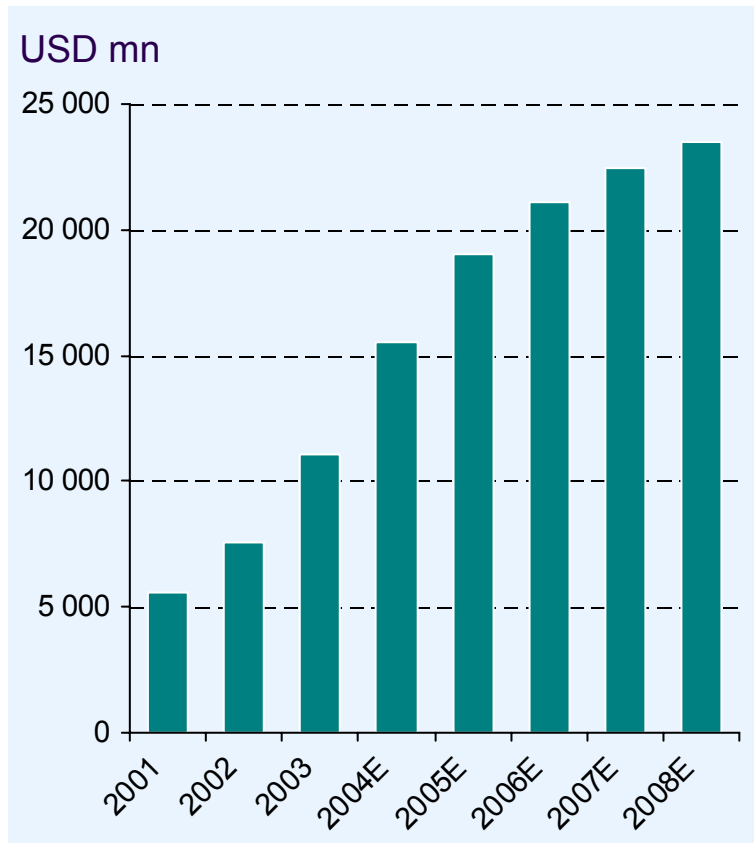


✓ Incoming ILD traffic growth at 20%,  
outgoing ILD – at 10%

# Low Penetration Rates and Increasing Consumer Spending Generate High Growth Potential

Telecommunications industry in Russia is likely to grow at a **13% CAGR** in 2004-2008, generating **USD23.5 billion** in revenues by the end of 2008

Russian total telecom sector revenues



Source: Renaissance Capital estimates

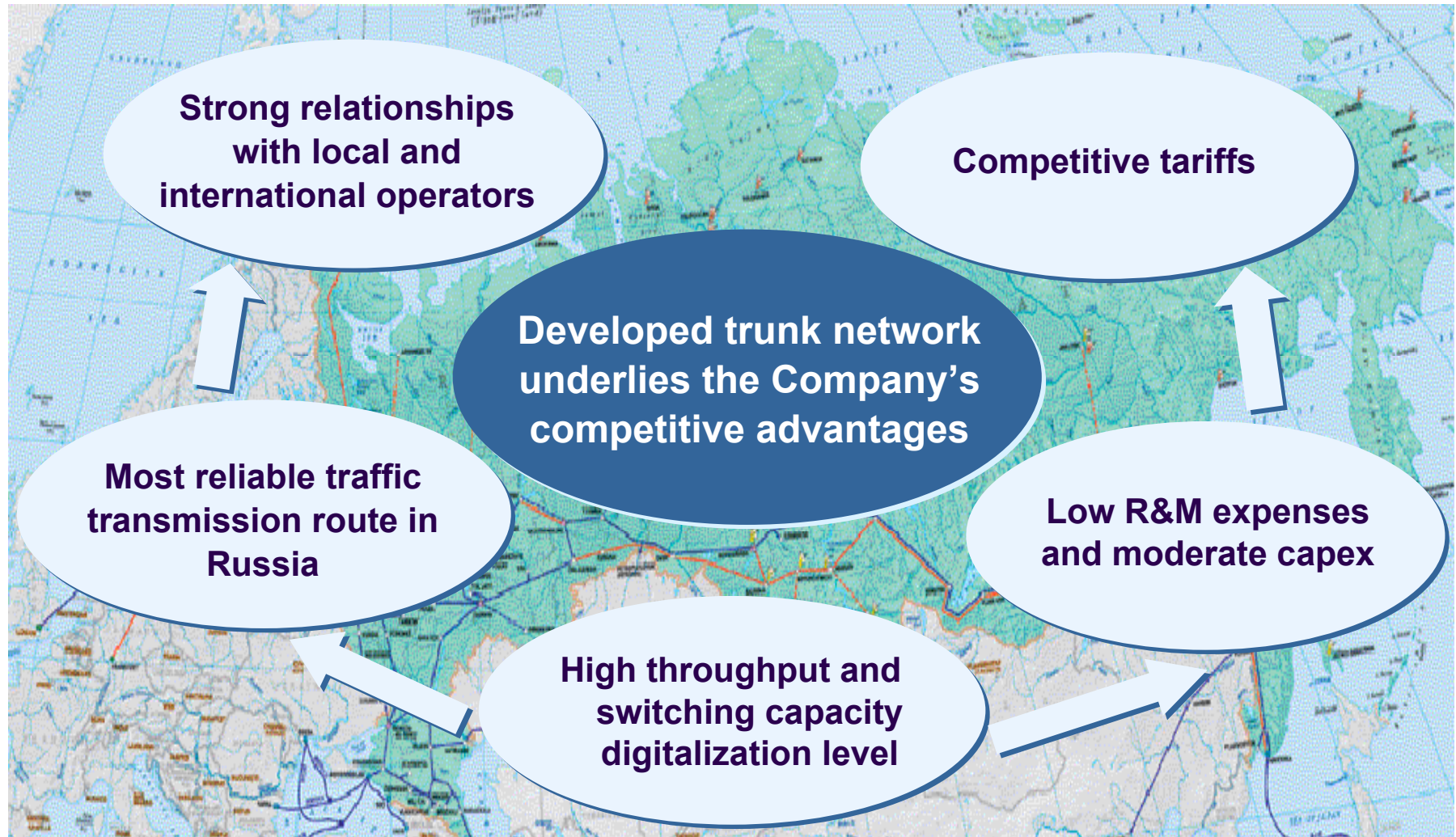
Russian telecom sector key indices forecast\*

	2003	2008E
Disposable income, USD	1,792	4,230
Telecom revenues as % of disposable income	4.3%	5.0%
Consumer spending, USD	1,686	3,714
Telecom revenues as % of consumer spending	4.5%	7.0%
Telecom revenue per capita, USD	76	212
Fixed-line incumbent revenue, USD bn	2.4	3.5
ARPU of fixed-line incumbents services, USD	6	8
Fixed line penetration	23%	28%
Mobile penetration	25%	71%

\* Conservative case

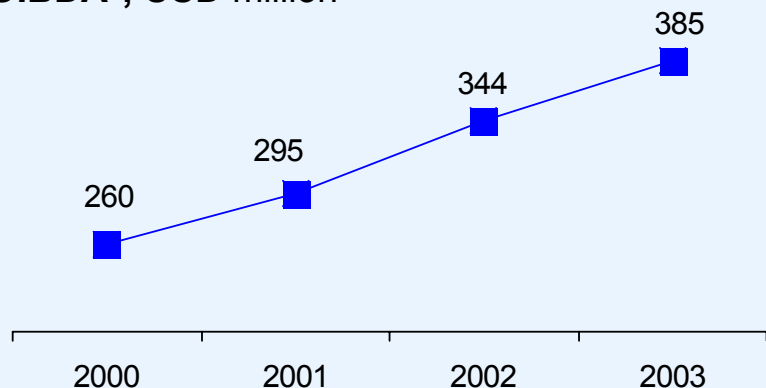
Source: Renaissance Capital estimates

# Nationwide Network Underpins Rostelecom's Leading Market Position

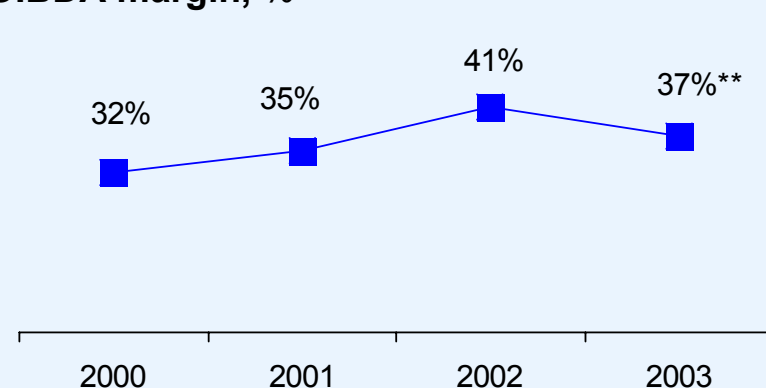


# Corporate Restructuring Built Strong Foundation

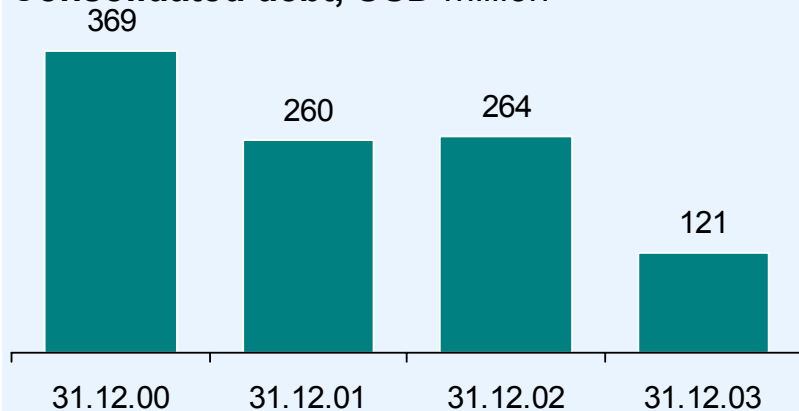
OIBDA\*, USD million



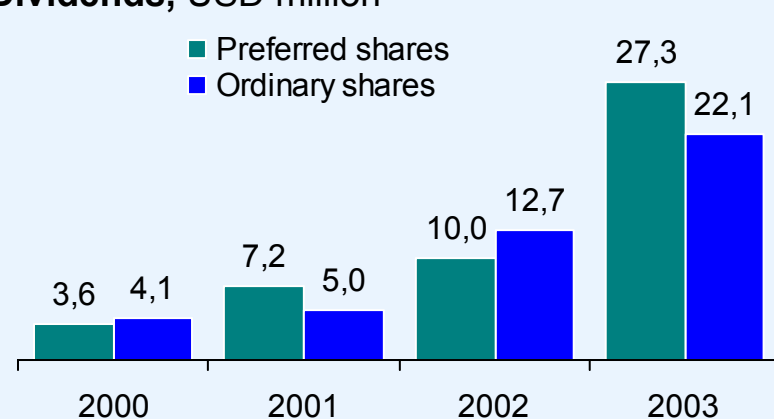
OIBDA margin, %



Consolidated debt, USD million



Dividends, USD million



\* OIBDA is a non-U.S. GAAP financial measure, which the Company defines as operating income before depreciation, amortization and loss on disposal of PP&E.

\*\* Decline in OIBDA margin is explained by the new settlement system

# Today's Priorities Focus on Growth and Efficiency

## 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
- ✓ Disposal of underperforming assets
- ✓ Further improvement of business portfolio and debt structure

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



# Clear Business Objectives in Each Market

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## Leadership in Regions

- ✓ Over 10% DLD and outgoing ILD traffic growth
- ✓ Revenue growth of 11%

## Moscow Position

- ✓ Positive revenue dynamics
- ✓ Gain market share

## Incoming ILD Market

- ✓ Over 20% traffic growth and revenue stabilization
- ✓ Further growth in market share

# Entry into Europe – Asia Transit Market Will Add to Future Potential

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## Opportunities

- ✓ Europe-Asia traffic is expected to continue its 20 to 30% annual growth trend, tripling by 2010
- ✓ Existing undersea lines will not be able to accommodate growing capacity needs
- ✓ Undersea lines have certain drawbacks, including limited capacity, large length, poor quality & reliability

## Rostelecom strengths

- ✓ Unique geographical location – shortest route between Europe and Asia
- ✓ Rostelecom already has fiber-optic backbone in place
- ✓ Better quality and reliability of routing
- ✓ Competitive pricing
- ✓ Agreements on cooperation in principle reached with operators of China and Kazakhstan
- ✓ Capacity expansion of Rostelecom's network to Chinese border underway

# Restructuring Continues

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## Headcount Reduction

Rostelecom's headcount was reduced by 13% in 2003

## Decommissioning underperforming assets

- ✓ Decommissioning tropospheric radio lines will save USD 3-4 million annually
- ✓ Phasing out 20,000 km of analogue lines p.a.

## Debt Restructuring

USD 24 million profit in 2003

## Sale of RTC-Leasing

- ✓ Debt and credit risk reduction
- ✓ Transparency improvement

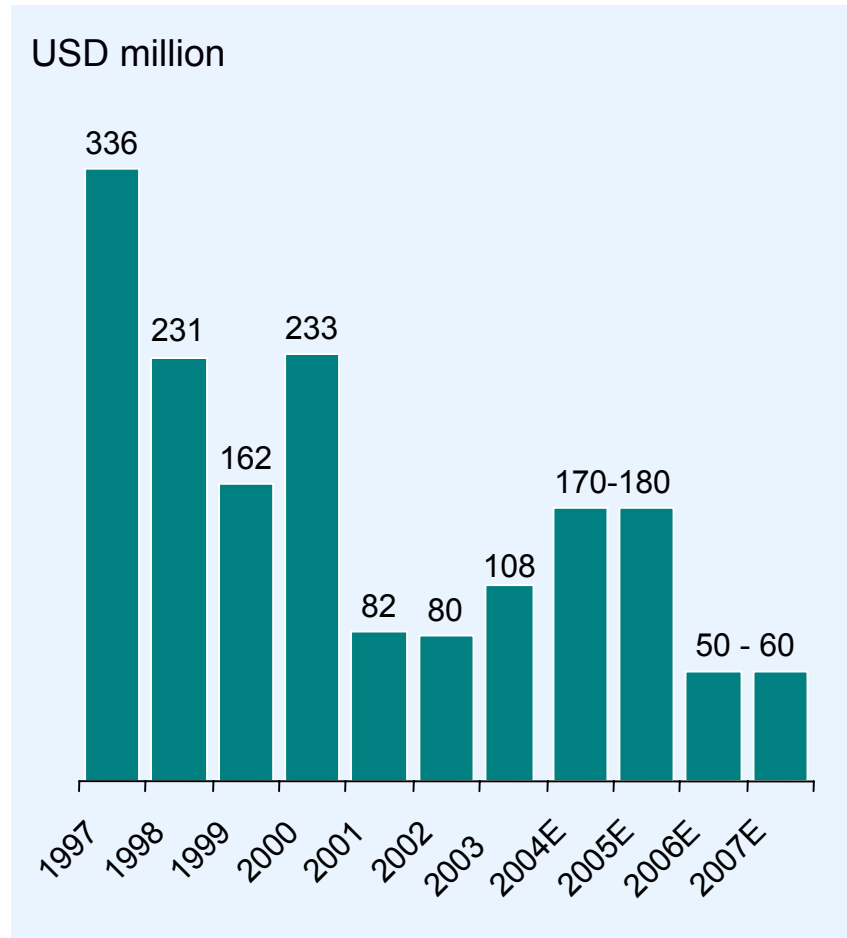
# 2003 operating and financial highlights

	2003	2002	% change y-o-y
<b>min mn</b>			
DLD	8,220	7,136	15.2%
Outgoing ILD	1,323	1,235	7.2%
Incoming ILD	1,207	973	24.1%
<b>USD mn</b>			
Revenue	1,039	837	24.1%
<i>Revenue, excluding effect of new settlement system</i>	942	837	12.6%
OIBDA*	385	344	11.9%
<i>OIBDA Margin, %</i>	37%	41%	
Operating income	109	80	36.8%
<i>Operating Margin, %</i>	10.5%	9.5%	
Net loss from discontinued operations, net of tax**	(101)	(68)	49.9%
Net profit	41	37	9.2%
<i>Net Margin, %</i>	3.9%	4.4%	

\* OIBDA is a non-U.S. GAAP financial measure, which the Company defines as operating income before depreciation, amortization and loss on disposal of PP&E.

\*\* According to IFRS No. 5, adopted by the Company in 2003, the results of discontinued operations are to be reported separately in the profit and loss statements, including respective amounts for prior periods presented. Therefore results of RTC-Leasing and its subsidiaries, which represent leasing, and banking & investing segments are shown separately as "Net loss from discontinued operations, net of tax"

# Capital Expenditure Dynamics and Priorities



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

# Contact information

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## Investor & Public Relations

Anton Klimenko

Director

Tel. + 7 095 973 9920

Fax + 7 095 787 2850

E-mail: AKlimenko@hq.rt.ru

## Securities Department

Olga Mokhoreva

Head of Department

Tel. + 7 095 973 9940

Fax + 7 095 787 2850

E-mail: mokhoreva@hq.rt.ru

## Company Headquarters

14, 1<sup>st</sup> Tverskaya-Yamskaya Street

Moscow, 125047 Russia

Tel. + 7 095 972 8283

Fax + 7 095 787 2850

E-mail: rostelecom@hq.rt.ru

[WWW.RT.RU/EN/](http://WWW.RT.RU/EN/)

## ADR Program Administration

JPMorgan

Tel. + 1 800 428 4237

(Free Phone in the US)

Tel. + 1 781 575 4328

E-mail: [adr@jpmorgan.com](mailto:adr@jpmorgan.com)

[WWW.ADR.COM](http://WWW.ADR.COM)