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# Reform of the system of settlements between Rostelecom and regional telecoms: the way to transparency and market capitalization growth

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*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.*

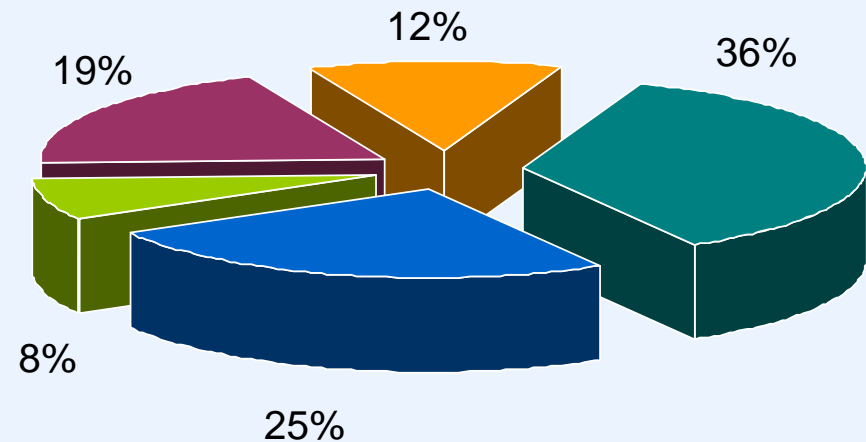
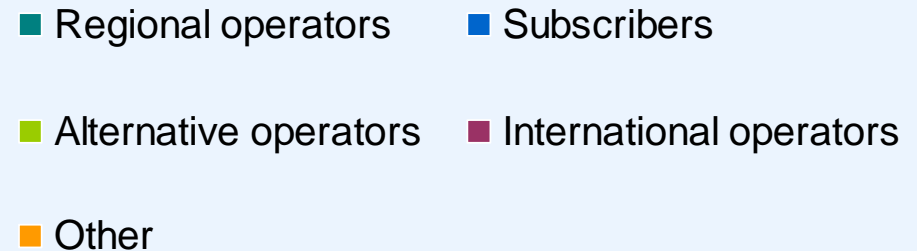
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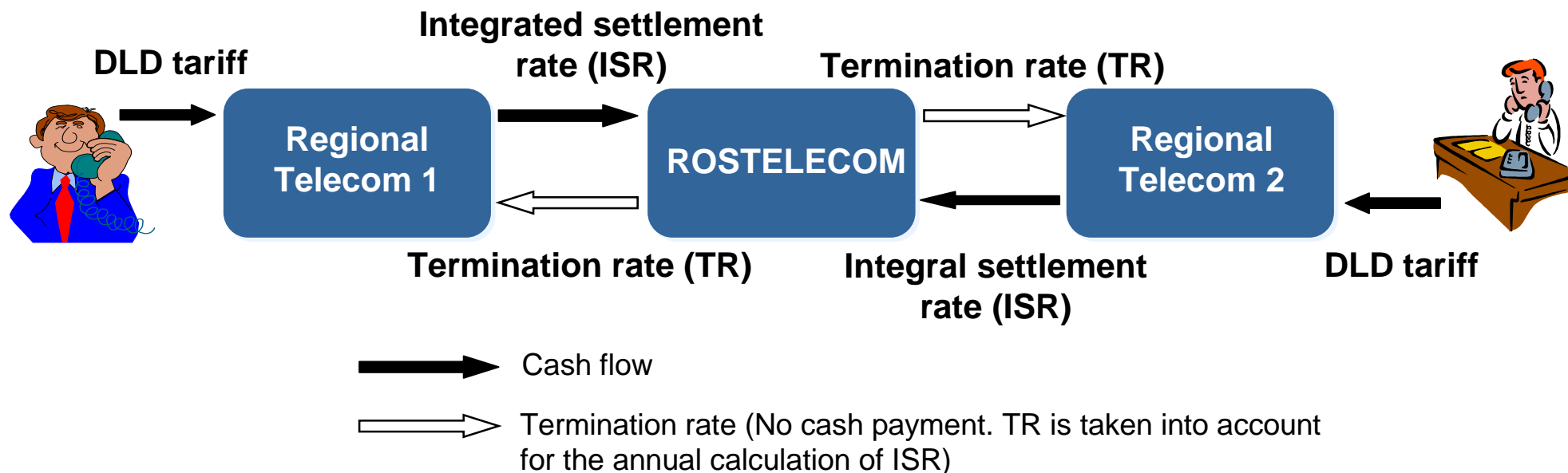
# Rostelecom – Russian national long-distance operator

- ✓ **Rostelecom** – national long-distance operator satisfying operators' needs in trunk network and interconnecting operators' networks into a unified transnational network
- ✓ **Rostelecom** – the only operator that has contractual relationship with all PSTN operators
- ✓ **Rostelecom** – central part in the system of settlements between operators for long distance services
- ✓ **Rostelecom** – an operator that forms Russian long-distance telecommunications market

**Rostelecom revenue breakdown by clients**



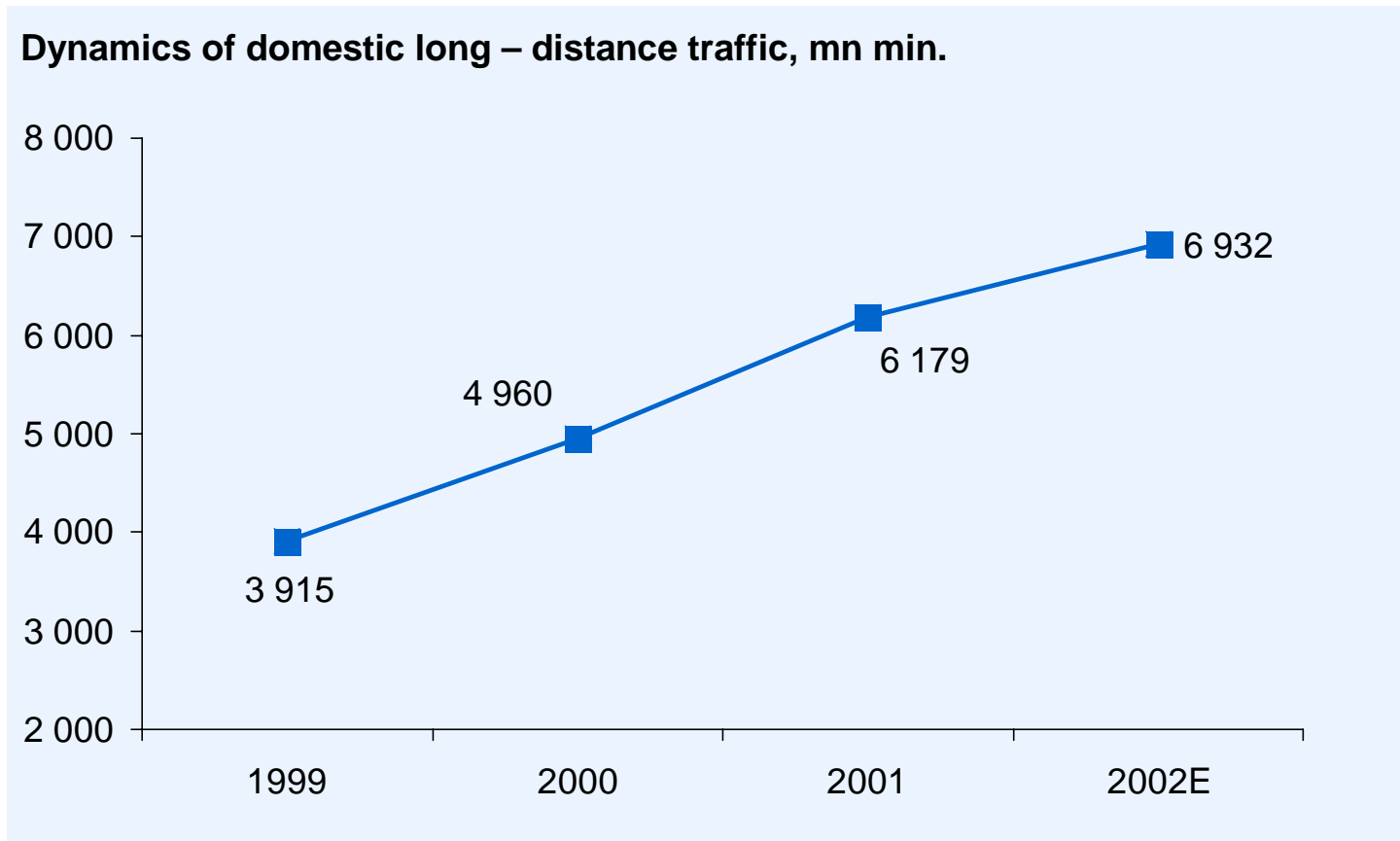
# Existing system of settlements between operators for long distance services is...



- ✓ ... based on netting out of mutual obligations
- ✓ Termination and settlement rates are regulated by the Anti-Trust Ministry
- ✓ All settlements are carried out on the basis of the outgoing traffic data only
- ✓ ISR is calculated once a year based on the previous year's data

# Dynamics of Rostelecom's domestic long-distance traffic

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- ✓ Domestic long-distance traffic grows at 15 - 20% p.a.
- ✓ Balance of regional operators' incoming/outgoing traffic volumes changes all the time

# Main drawbacks of the existing settlement system

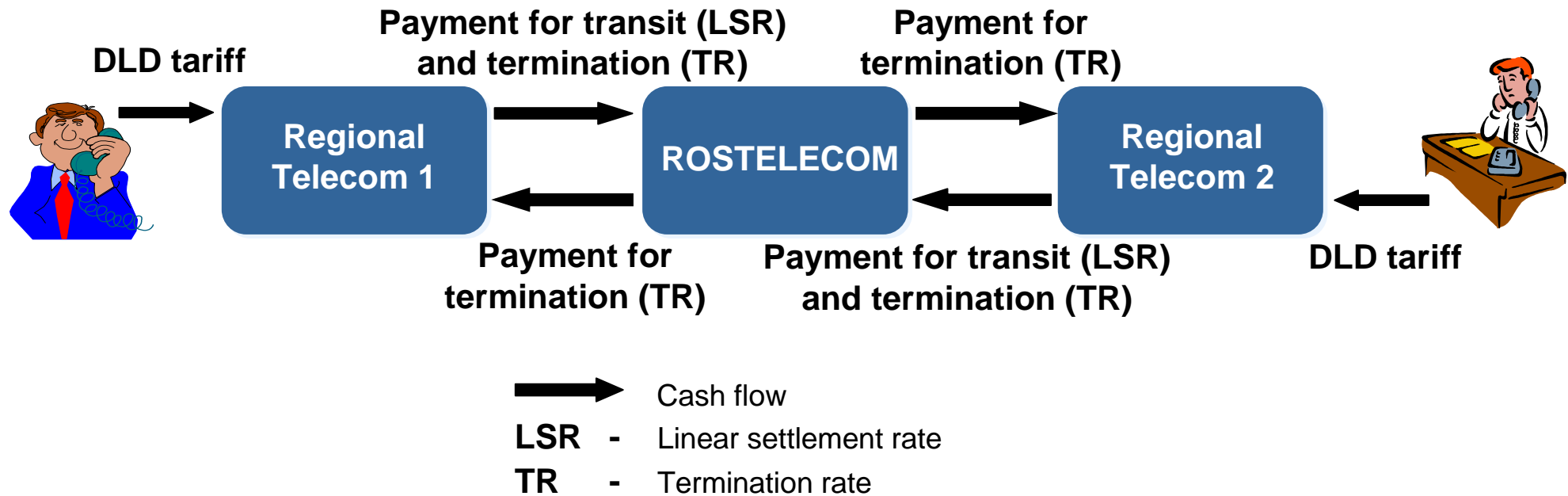
## Drawbacks

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

## Consequences

- ✓ Existence of offers that are much lower than the regulated price in the operators' market
- ✓ Incumbent operators are constantly underpaid

# New system – ISR «opening» and transition to the system of direct payments



Principle of settlements remains unchanged, while the order of settlements changes

# Main advantages on the new settlement system

## **For Rostelecom**

- ✓ Improved transparency
- ✓ Increase in revenues from incoming international traffic termination
- ✓ Increase in revenues from alternative operators

## **For regional operators**

- ✓ Improved transparency
- ✓ Dynamic accounting for trends of traffic growth and incoming/outgoing traffic changes
- ✓ Additional revenues resulting from obligatory termination payment by all operators
- ✓ Lower competition from IP operators



# Further steps to optimize system of settlements between operators

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- Optimizing Rostelecom's linear settlement rate (LSR)
- Reducing the difference between regional operators' termination rates and local telecom services tariffs
- Changing the settlement system for the international outgoing traffic
- Optimizing end-user ILD tariffs  
(introducing flexible tariff plans and stimulation system)