

Annual General Shareholders Meeting

Sergei I. Kuznetsov
General Director
Rostelecom

June 1, 2002



Agenda

I. Trends in the Russian telecommunications market and Rostelecom tasks

II. Optimization of the organizational structure

III. Commercial activity optimization

IV. Enhancement of capital expenditure efficiency

V. Stricter control over capital flows

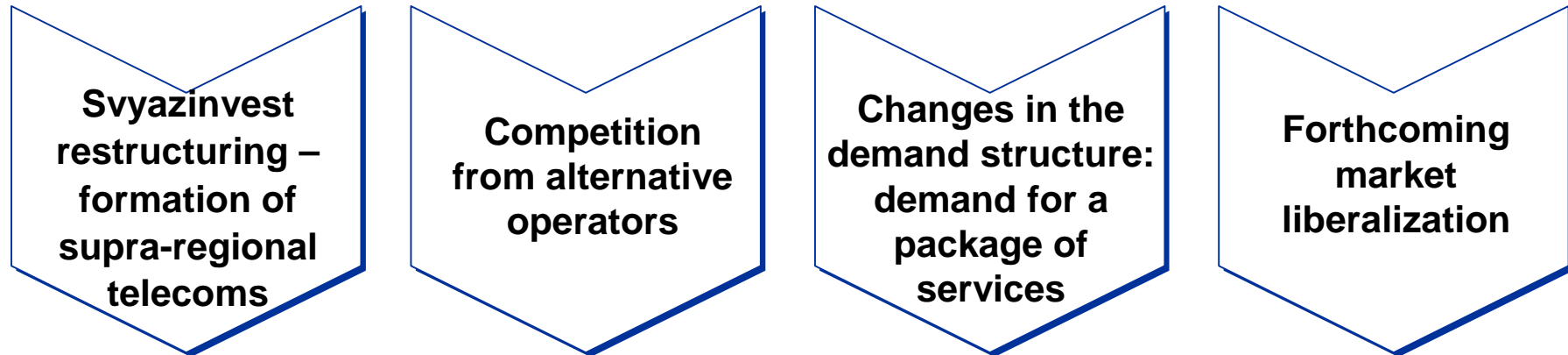
VI. Debt restructuring

VII. Key financial indicators and market capitalization

VIII. Social program

IX. Tasks for 2002

Trends in the Russian telecommunication sector lead to stronger competition



Rostelecom

Key aim:
prepare Rostelecom for competition by creating an efficiently-run competitive business

Tasks faced by the management

- Optimization of organizational structure to improve manageability, efficiency and to cut costs
- Optimization of commercial activity – introduction of flexible tariff policy, sales promotion
- Enhancement of capex efficiency
- Stricter control over capital flows
- Debt restructuring, reduced debt burden

Increased investment attractiveness of Rostelecom

Agenda

I. Trends in the Russian telecommunications market and Rostelecom tasks

II. Optimization of the organizational structure

III. Commercial activity optimization

IV. Enhancement of capital expenditure efficiency

V. Stricter control over capital flows

VI. Debt restructuring

VII. Key financial indicators and market capitalization

VIII. Social program

IX. Tasks for 2002

2001: optimization of the organizational structure

- ✓ Management structure completely reorganized to with clear determination of responsibilities
- ✓ Centralized decision making system on technological issues introduced
- ✓ Information technology strategy developed
- ✓ Branch network restructuring plan developed and approved, first enlarged branch (the Central branch) already formed
- ✓ New staff policy developed. Staff number decreased from 37,000 to 32,000 people

Agenda

I. Trends in the Russian telecommunications market and Rostelecom tasks

II. Optimization of the organizational structure

III. Commercial activity optimization

IV. Enhancement of capital expenditure efficiency

V. Stricter control over capital flows

VI. Debt restructuring

VII. Key financial indicators and market capitalization

VIII. Social program

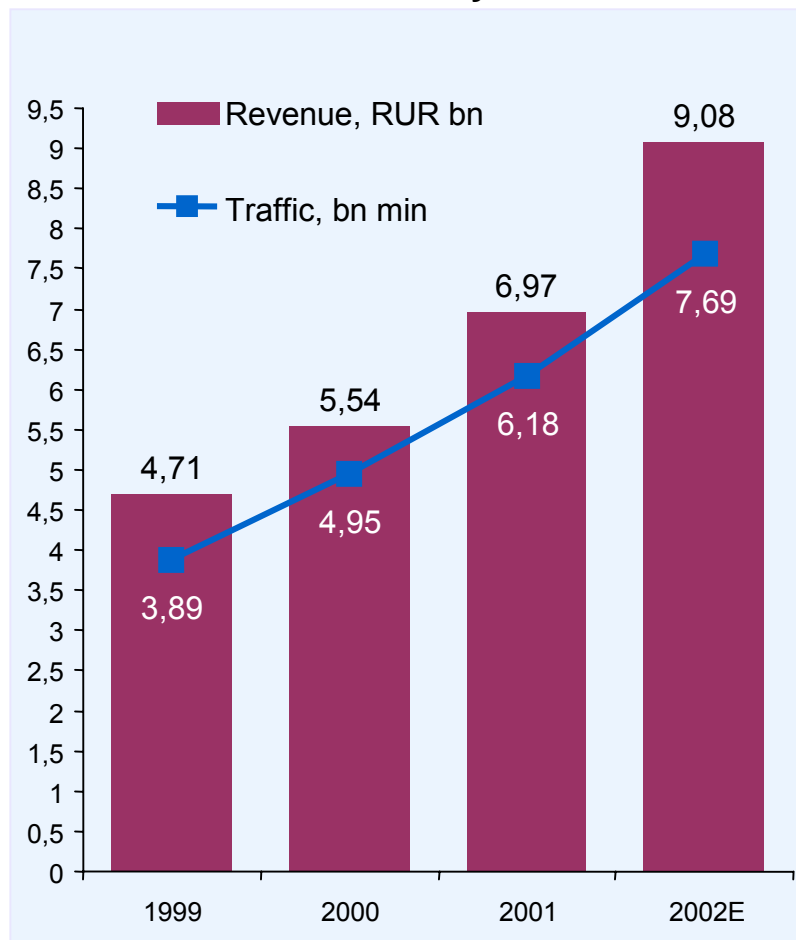
IX. Tasks for 2002

2001: introduction of a flexible tariff policy

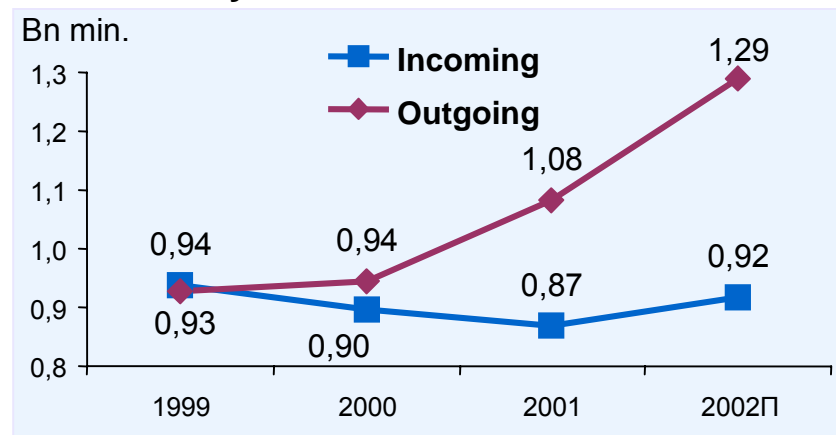
- ✓ Tariffs for alternative operators and commercial clients reduced
- ✓ Households' DLD tariffs increased in Moscow
- ✓ Tariffs in Moscow, Moscow region, St. Petersburg and Leningrad region on calls to US, Canada and European countries reduced
- ✓ Tariffs on calls to a number of CIS countries increased
- ✓ As a result of negotiations with Anti-Trust Ministry linear component of Integral Settlement Rate (rate used for settlements with regional operators on DLD traffic) increased
 - by 25% as of July 1, 2001
 - by 25% as of January 1, 2002

Traffic and revenue dynamics

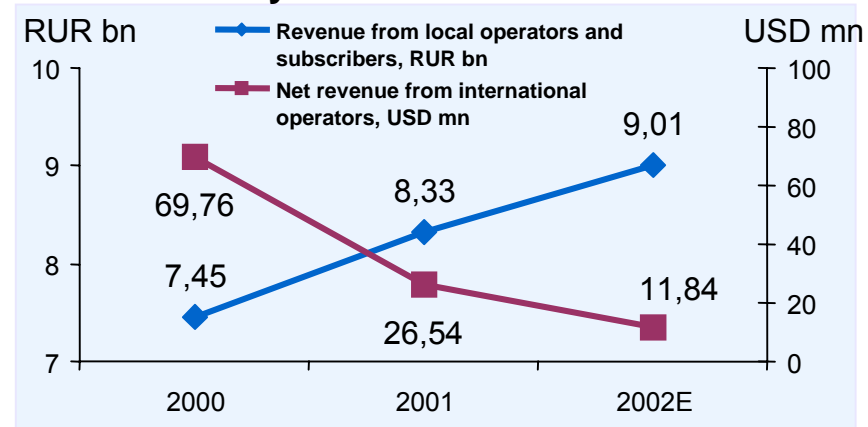
DLD traffic and revenue dynamics



ILD traffic dynamics



ILD revenue dynamics



Agenda

I. Trends in the Russian telecommunications market and Rostelecom tasks

II. Optimization of the organizational structure

III. Commercial activity optimization

IV. Enhancement of capital expenditure efficiency

V. Stricter control over capital flows

VI. Debt restructuring

VII. Key financial indicators and market capitalization

VIII. Social program

IX. Tasks for 2002

2001: enhancement of capex efficiency

- ✓ **New approach to investment policy based on the following principles:**
 - Orientation on commercial needs when choosing investment projects
 - Clear and formalized evaluation process
 - Control over implementation
 - Capex planned for 2001 at RUR 4.1 bn reduced to RUR 2.4 bn

Trunk network development

In 2001 the following objects commissioned:

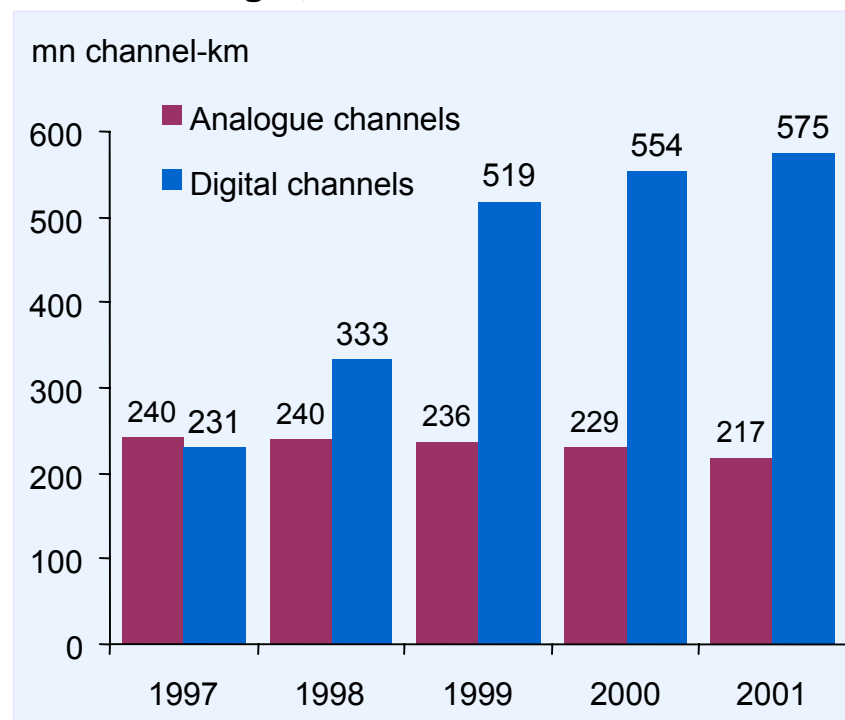
- ✓ Over 1,686 km of fiber-optic lines (FOL)

Region	Object	Length, km
North Caucasus	FOL Novorozhdestvenskaya-Stavropol-Makhachkala	140,4
Volga	FOL Samara-Saratov-Volgograd	1 077,2
North-West	FOL Lyuban-Issad	140,9
	FOL Vologda-Issad-Murmansk	319,5
Central region	FOL "Moscow ring"	8,78

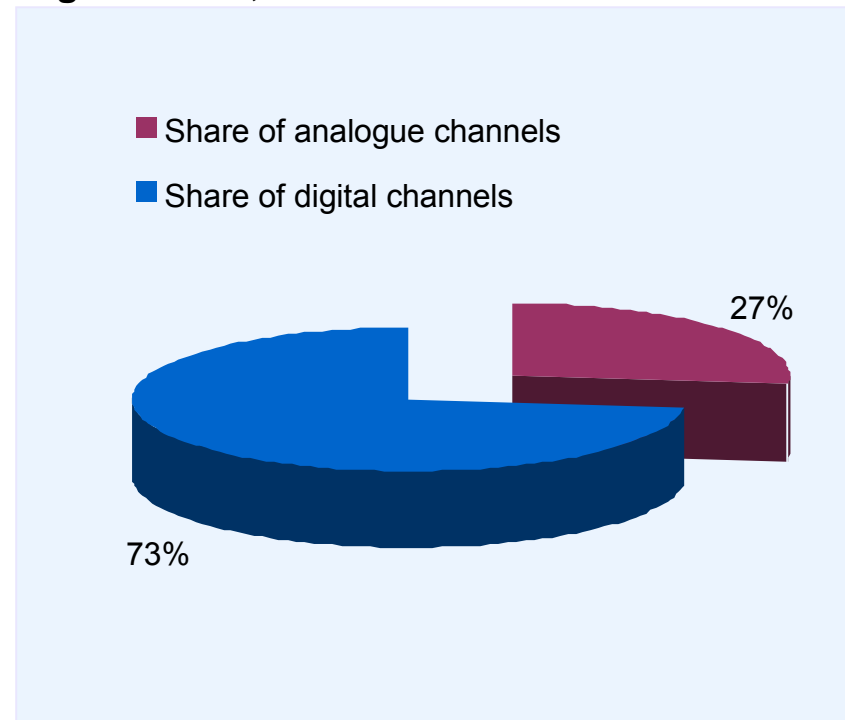
- ✓ 10 800 additional DLD ports
- ✓ 1 320 ILD ports
- ✓ 1 satellite station

Trunk network development

Channels length, mn channel-km



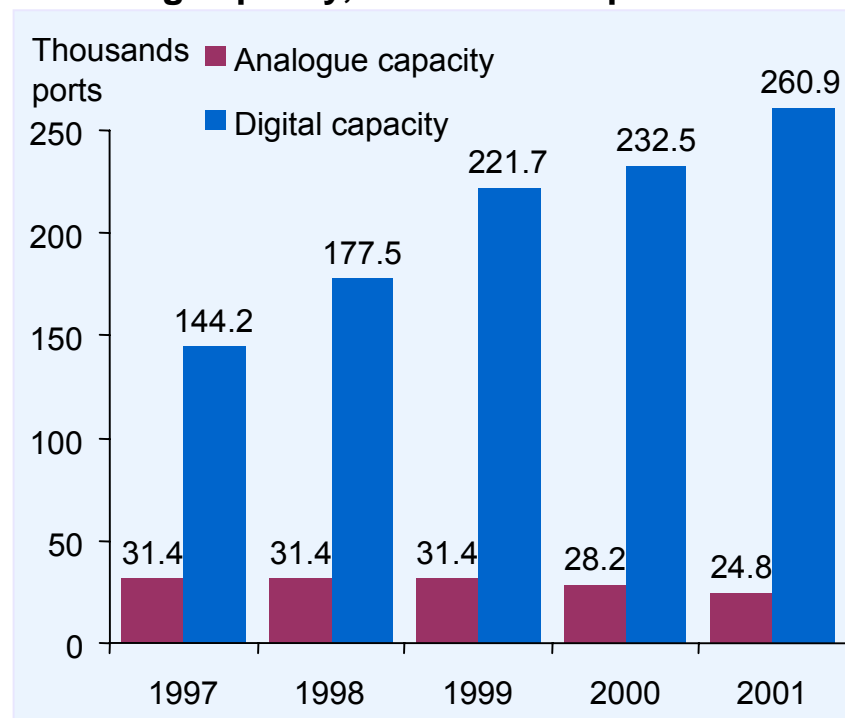
Digitalization, %



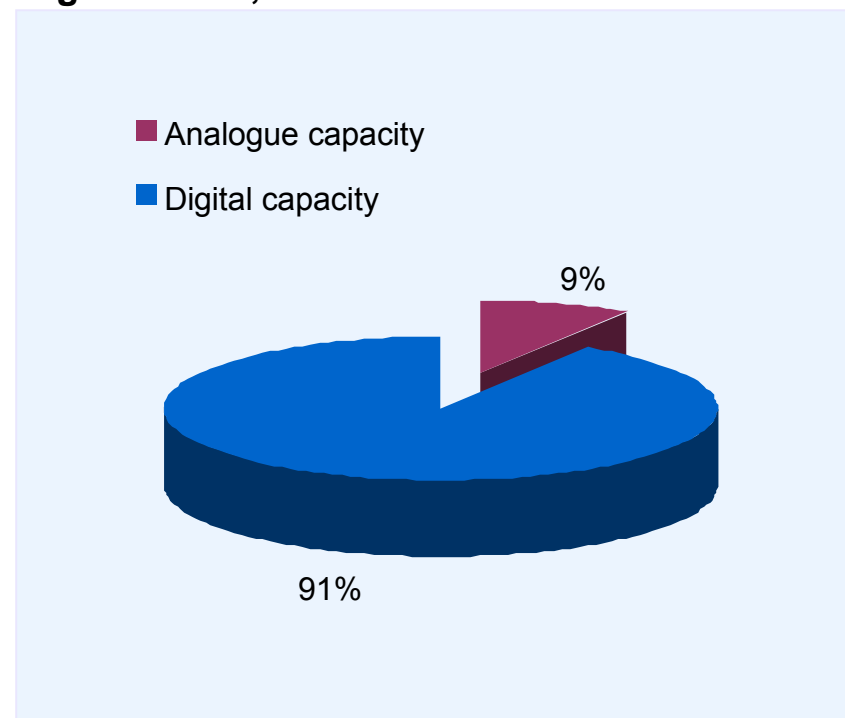
- ✓ In 2001 21.3 mn channel-km of digital lines commissioned. By the end of 2000 the digital network exceeded 574 mn channel-km
- ✓ In 2001 we continued to decommission analogue lines. Total length of analogue lines by the end of the year was 217 mn channel-km

Trunk network development

Switching capacity, thousands of ports



Digitalization, %



- ✓ In 2001 10,800 additional DLD ports were introduced in Moscow, which allowed to considerably increase switching capacity in the city and meet growing demand

Agenda

- I. Trends in the Russian telecommunications market and Rostelecom tasks
- II. Optimization of the organizational structure
- III. Commercial activity optimization
- IV. Enhancement of capital expenditure efficiency

V. Stricter control over capital flows

- VI. Debt restructuring
- VII. Key financial indicators and market capitalization
- VIII. Social program
- IX. Tasks for 2002

2001: stricter control over capital flows

- ✓ Budgeting methodology developed
- ✓ Unified accounting policy developed
- ✓ ABC-cost accounting developed together with McKinsey&Company; introduction under way
- ✓ Optimization program for investments in subsidiaries approved aimed at spin-off of non-core assets and concentration of valued in Rostelecom

Agenda

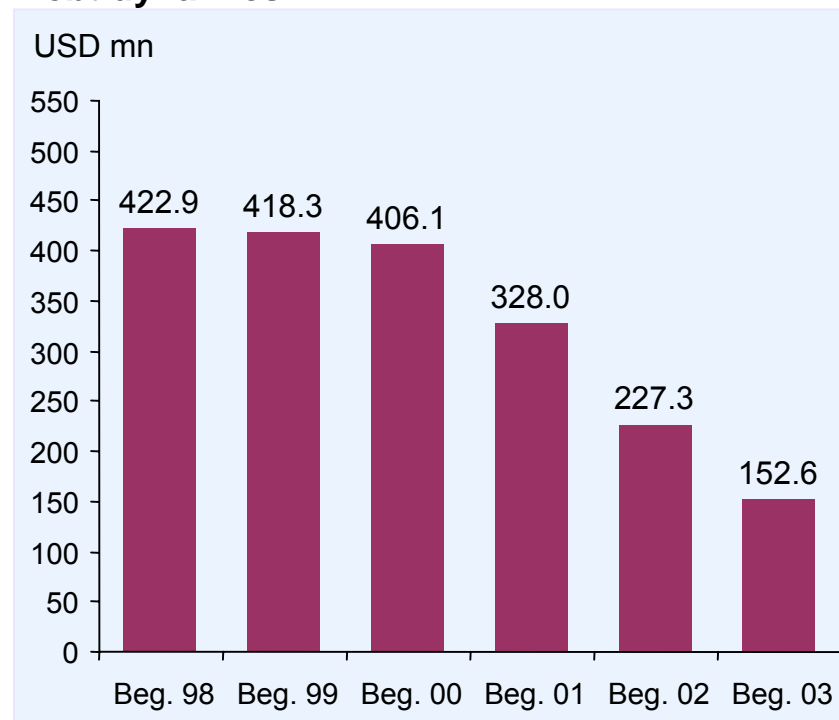
- I. Trends in the Russian telecommunications market and Rostelecom tasks
- II. Optimization of the organizational structure
- III. Commercial activity optimization
- IV. Enhancement of capital expenditure efficiency
- V. Stricter control over capital flows

VI. Debt restructuring

- VII. Key financial indicators and market capitalization
- VIII. Social program
- IX. Tasks for 2002

2001: Debt restructuring

Debt dynamics



In May 2002 Standard & Poors raised its long-term credit rating on Rostelecom by two notches – from CCC to B-

- ✓ Outstanding debt amount decreased by more than 30%
- ✓ Restructuring of leasing obligations to RTC-Leasing led to saving of USD 120 mn

Agenda

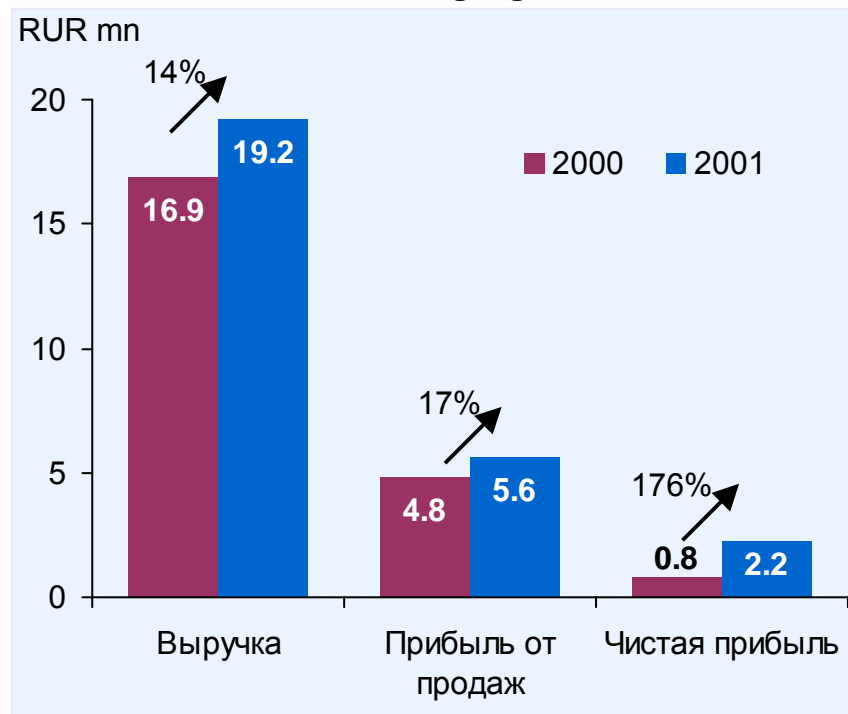
- I. Trends in the Russian telecommunications market and Rostelecom tasks
- II. Optimization of the organizational structure
- III. Commercial activity optimization
- IV. Enhancement of capital expenditure efficiency
- V. Stricter control over capital flows
- VI. Debt restructuring

VII. Key financial indicators and market capitalization

- VIII. Social program
- IX. Tasks for 2002

Financial improvement

Profit and Loss Statement Highlights*



Balance Sheet Highlights*

000' RUR

	31.12.2000	31.12.2001
ASSETS		
Non-current assets	27 933 033	23 547 730
Current assets	11 821 763	13 426 502
TOTAL ASSETS	39 754 796	36 974 232
LIABILITIES		
Shareholders equity	14 095 922	16 298 968
Liabilities	25 658 874	20 675 264
Long-term	16 756 594	9 338 977
Short-term	8 902 280	11 336 287
TOTAL SE & Liabilities	39 754 796	36 974 232
Net Assets	14 179 500	16 708 903

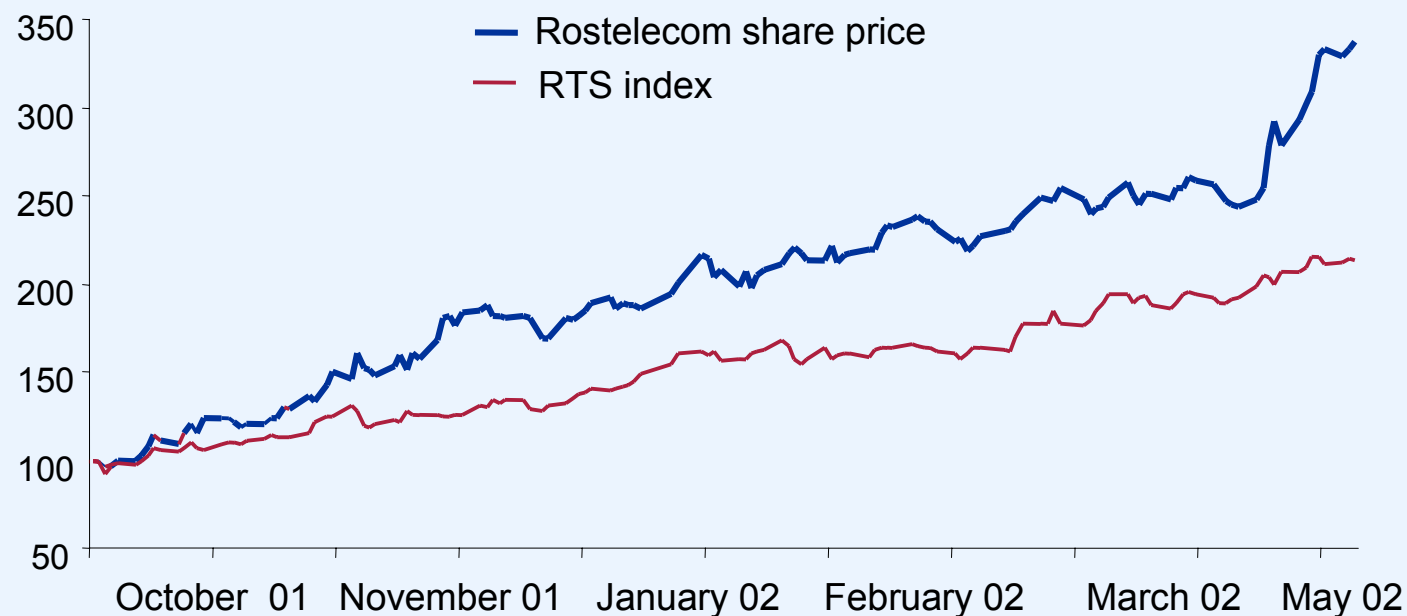
- ✓ Absolute liquidity ration at the end of 2001 was 0.24, or 0.11 higher than in 2000
- ✓ Independence ratio was 0.44, 0.09 higher year-on-year.

* In accordance with Russian Accounting Standards

Market noticed positive changes in Rostelecom

Ordinary share price dynamics versus RTS index, from October 2001

October 1, 2001
rebased to 100



Since October 2001 Rostelecom's Market Cap has almost tripled, exceeding USD 1.1 bn

Agenda

- I. Trends in the Russian telecommunications market and Rostelecom tasks
- II. Optimization of the organizational structure
- III. Commercial activity optimization
- IV. Enhancement of capital expenditure efficiency
- V. Stricter control over capital flows
- VI. Debt restructuring
- VII. Key financial indicators and market capitalization
- VIII. Social program**
- IX. Tasks for 2002

Personnel – the key factor of the Company successful development

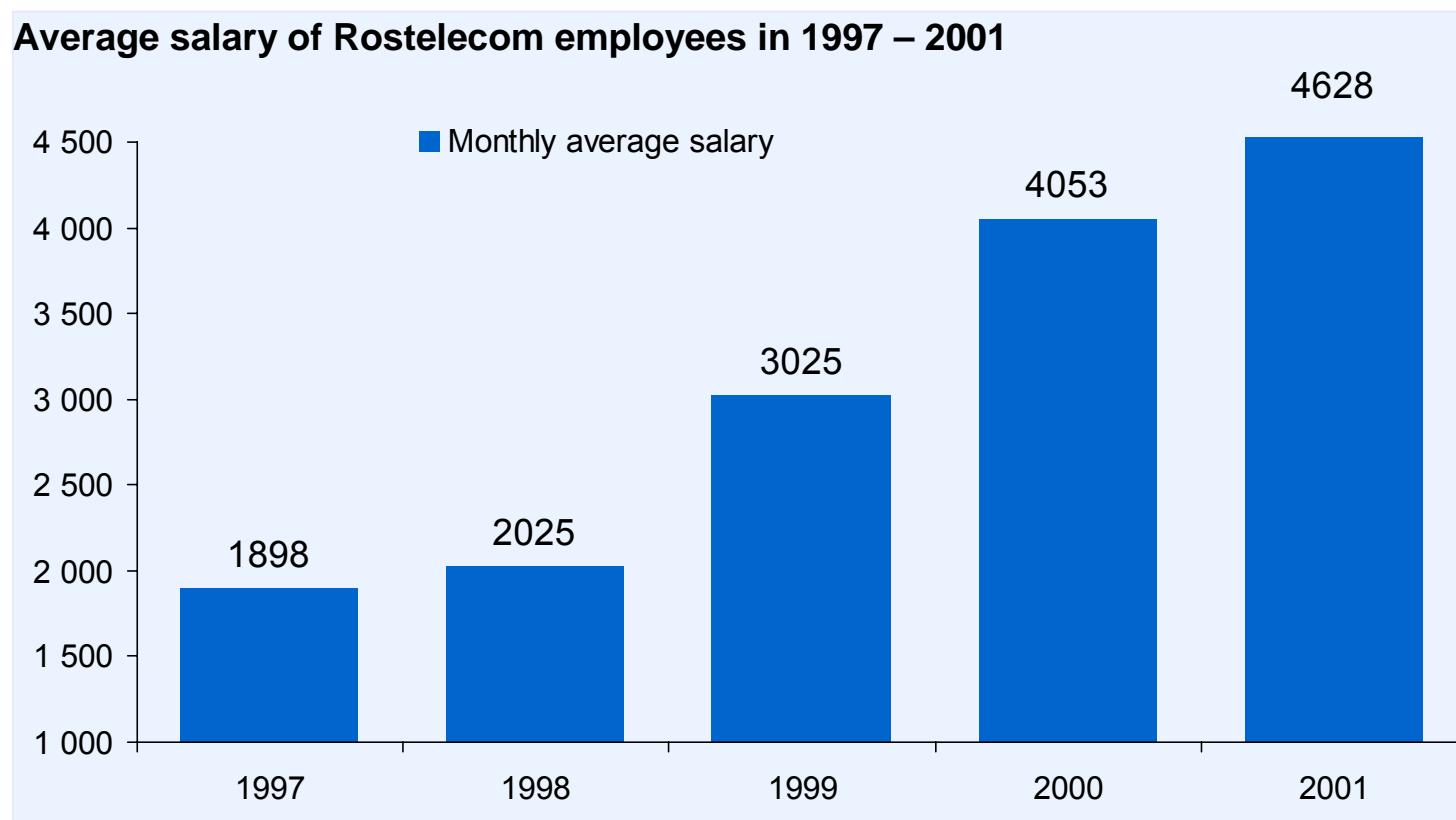
New personnel management system is aimed at providing:

- ✓ Effective motivation system
- ✓ Stability
- ✓ Professional and career growth
- ✓ Continuous development
- ✓ An opportunity to show potential

A number of programs are being implemented, including:

- ✓ Training system
- ✓ Compensation program
- ✓ Staff number optimization program

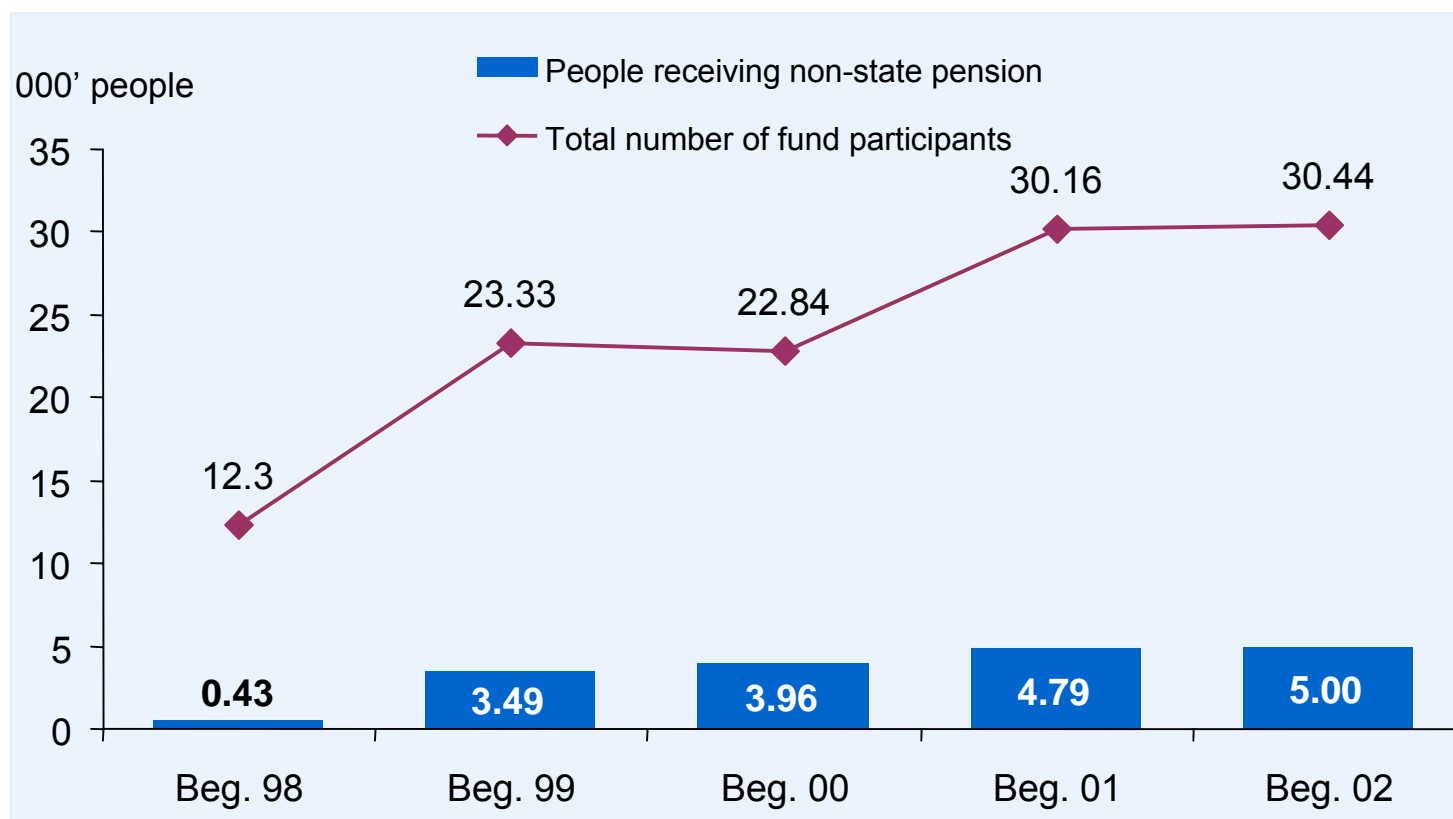
Social program implementation



- ✓ In 2001 average salary was increased by 14% combined with staff cuts resulting from reduction of technical personnel as the network is being modernized, reduction in administrative staff as the branch network is being reorganized, guaranteed pensions for pension-age employees

Social program implementation

Total number of participants in Non-State Pension Fund “Rostelecom-Garantia”, including people eligible for non-state pensions



- ✓ Average size of a non-state pension at the beginning of 2002 was RUR 459

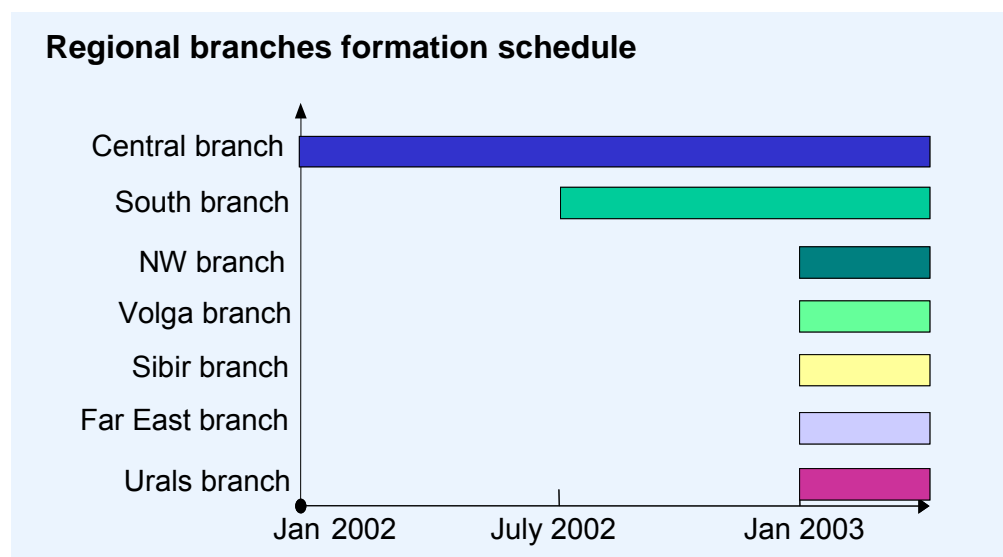
Agenda

- I. Trends in the Russian telecommunications market and Rostelecom tasks
- II. Optimization of the organizational structure
- III. Commercial activity optimization
- IV. Enhancement of capital expenditure efficiency
- V. Stricter control over capital flows
- VI. Debt restructuring
- VII. Key financial indicators and market capitalization
- VIII. Social program

IX. Tasks for 2002

2002: Organizational structure optimization

- ✓ Completion of the branch network reorganization, formation of 7 regional branches on the basis of 17 existing, estimated cost savings – 20%
- ✓ Finalization of the plan for interaction between Rostelecom's branches and supra-regional telecoms of Svyazinvest
- ✓ Further HR policies optimization
 - staff reduction
 - enhancement of professional qualifications
 - bringing in young specialists
 - introduction of a flexible compensation system



Active marketing strategy in 2002 will allow Rostelecom to...

.....to strengthen its positions both in the end-user market in Moscow and in the operators' market...

Key directions:

- ✓ Introduction of a system to monitor the market situation
- ✓ Further tariff policy optimization with respect to both end-users in Moscow as well as regional and alternative operators
- ✓ Revision of existing agreements with international operators aimed at overcoming the trend of decreasing incoming traffic
- ✓ Expansion of the services range as well as the client base
 - Introduction of intelligent services network
 - Offering of a package of services, “one stop shopping”
- ✓ New approach towards client relationship management
- ✓ Introduction of sales and servicing system, demand generating and promotion mechanisms

2002 investment plan is based...

...solely on commercial needs

New fiber-optic lines construction

- ✓ Access to Kazakhstan
- ✓ Links to large cities (Kirov, Cheboksary)
- ✓ Access to Kalinigrad and borders with Lithuania and Poland

Capacity expansion

DWDM equipment installation – increased capacity on the key directions

Secondary network modernization, new services introduction

Construction of a multiservice network

Total Capex volume planned for 2002 is RUR 4.2 bn, almost twice as much as in 2001

2002: stricter control over capital flows

- ✓ Introduction of an ERP system
- ✓ Introduction of a single billing system
- ✓ Switch to ABC accounting
- ✓ Program of optimization of investments in subsidiaries - getting rid of non-core assets, concentrating value in the mother company

Rostelecom in 2003 and further

