# Rostelecom: Connecting with Investors

## Independent directors to help company to realise full potential

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**May 2003**

METROPOL
INVESTMENT FINANCIAL COMPANY

# Summary

- Rostelecom is one of Russia’s undervalued blue chips
- Current price assumes revenues are to decline
- New services, M&A can reverse the trends
- Independent directors to help in turn around

# One of Russia's undervalued stocks

| | | Current price | M Cap | P/E | | EV/EBITDA | | P/S | |
|---|---|---|---|---|---|---|---|---|---|
| | | 20/05/03 | m | 02E | 03E | 02E | 03E | 02E | 03E |
| Rostelecom | $ | 1,51 | 1 100 | 7,5 | 9,6 | 2,4 | 3,8 | 0,8 | 1,3 |
| MGTS | $ | 7,05 | 563 | 10,0 | 9,9 | 3,9 | 4,1 | 1,3 | 1,4 |
| CenterTelecom | $ | 0,29 | 451 | 9,2 | 3,6 | 3,2 | 3,2 | 0,7 | 0,7 |
| NorthWestTelecom | $ | 0,41 | 302 | 10,3 | 3,6 | 3,5 | 3,0 | 1,0 | 0,8 |
| SouthTelecom | $ | 0,08 | 247 | 3,4 | 3,2 | 2,7 | 2,8 | 0,6 | 0,6 |
| VolgaTelecom | $ | 1,84 | 453 | 4,8 | 5,1 | 2,5 | 3,7 | 0,7 | 1,1 |
| UralSI | $ | 0,02 | 614 | 9,1 | 5,1 | 3,0 | 3,8 | 0,6 | 1,1 |
| SiberiaTelecom | $ | 0,03 | 348 | 8,7 | 4,3 | 2,9 | 3,4 | 0,6 | 0,7 |
| FarEastTelecom | $ | 0,70 | 67 | 11,2 | 2,9 | 2,4 | 2,1 | 0,4 | 0,3 |
| Average for PRT | $ | | | 8,2 | 5,3 | 3,0 | 3,3 | 0,7 | 0,9 |
| Discount (premium) to RTKM | $ | | | 10% | -45% | 22% | -13% | -9% | -30% |
| VimpelCom | $ | 41,50 | 2 104 | 10,5 | 13,2 | 6,0 | 7,6 | 2,4 | 3,1 |
| MTS | $ | 50,40 | 5 000 | 13,3 | 17,2 | 5,1 | 6,2 | 2,8 | 3,5 |
| Average for mobile | | | | 11,9 | 15,2 | 5,6 | 6,9 | 2,6 | 3,3 |
| Discount (premium) to RTKM | | | | 58% | 59% | 130% | 81% | 218% | 157% |
| Average for EM telecoms | | | | 11,2 | 9,3 | 3,6 | 3,3 | 1,2 | 1,4 |
| Discount (premium) to RTKM | | | | 48% | -3% | 48% | -15% | 53% | 9% |
| Average for EU telecoms | | | - | 268,2 | 115,0 | 7,6 | 7,4 | 1,3 | 1,3 |
| Discount (premium) to RTKM | | | | -3665% | 1102% | 215% | 94% | 63% | 3% |

Source: Bloomberg, IBES, company data

- **Multiples suggest that RTKM is undervalued**
- **Revenues are widely expected to decline**

# Broker views vary very widely

| Company | Rating | When changed | Target | EPS 2002E | EPS 2003E | Change |
|---|---|---|---|---|---|---|
| RenCap | Sell | 13.09.02 | 0,90 | 0,09 | 0,10 | 11% |
| BUBS | Neutral | 11.01.03 | 1,62 | 0,12 | 0,36 | 200% |
| UFG | Outperform | 10.02.03 | 1,56 | 0,16 | 0,3 | 88% |
| Alfa | Accumulate | 25.10.02 | 1,72 | 0,165 | 0,36 | 118% |
| Merrill Lynch | Hold | 10.12.02 | 1,75 | 0,16 | 0,20 | 25% |
| Deutsche Bank | Hold | 11.12.02 | 1,50 | 0,13 | 0,16 | 23% |
| CSFB | Underperform | 06.09.02 | 1,43 | 0,17 | 0,21 | 24% |
| Average | | | 1,50 | 0,14 | 0,24 | 70% |

Source: Bloomberg

- **Brokers' target prices range between $0.9 and $1.7**

**Key catalysts shared by analysts:**

- **«Lack of strategy results in market share loss»**
- **«Sales are assumed to fall by up to 30% by 2007»**

# Board to tackle key issues in '03-04

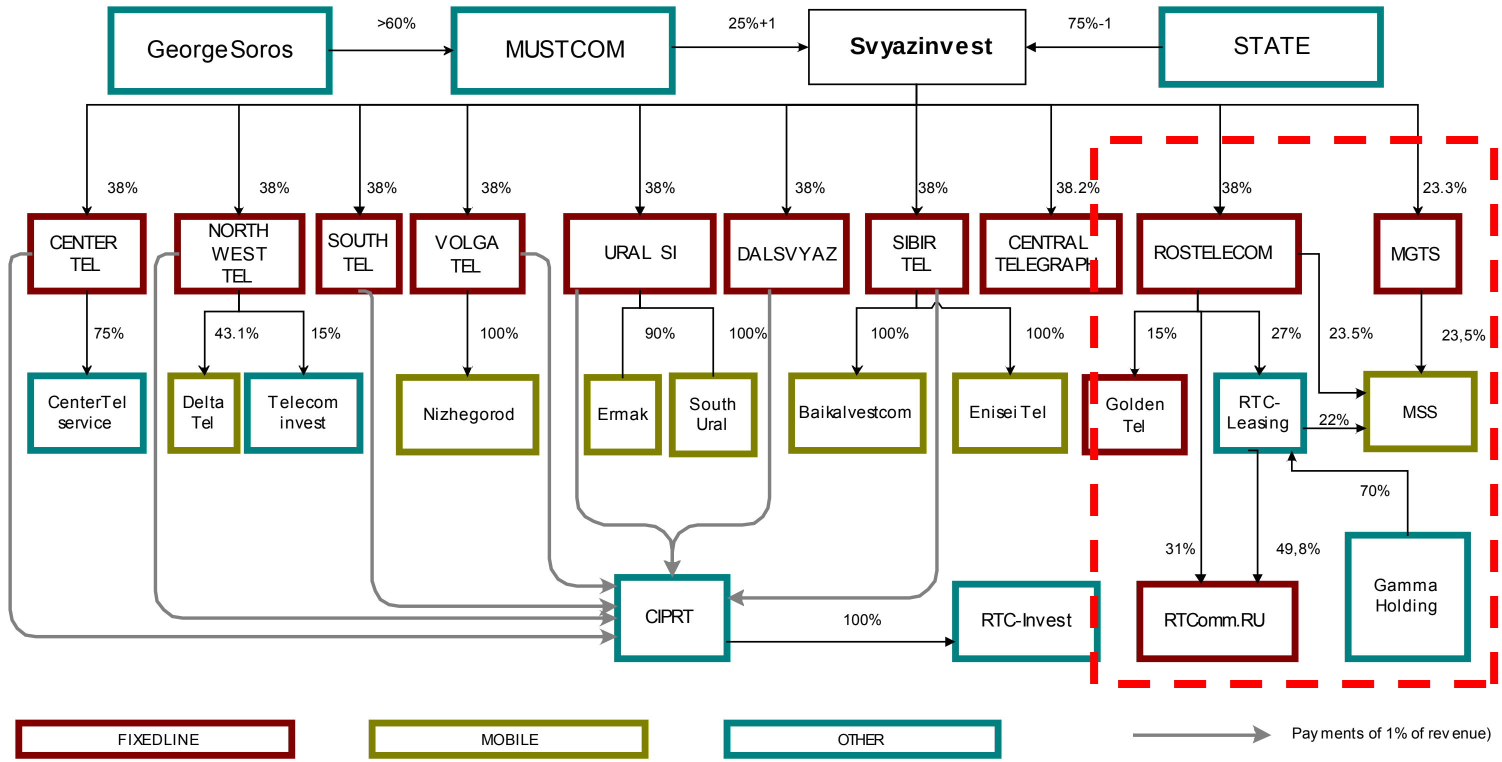
**Key Board decisions in 2002/03**

- **Strategy: 2003 business plan adopted**
  - To boost revenues from mobile operators and ISPs
  - To implement new billing systems
- **Directors ask management hard questions**
  - Insurance cost cut to 2% of asset value
  - Rent from subsidiaries hiked by $1 m
  - $1 m grant to Russian national soccer team questioned
  - Feasibility of a $100 m loan restructuring challenged

**Board decisions in 2003/04**

- **Execution of a business plan**
  - Aim to expand quickly via M&A, among other things
  - Mobile operators' DLD and ILD traffic to be targeted
  - ISP assets to be assessed for consolidation
  - Legal outgoing ILD traffic
- **Development of a long-term strategy**
  - Privatization of Svyazinvest
  - New Telecom Sector Law

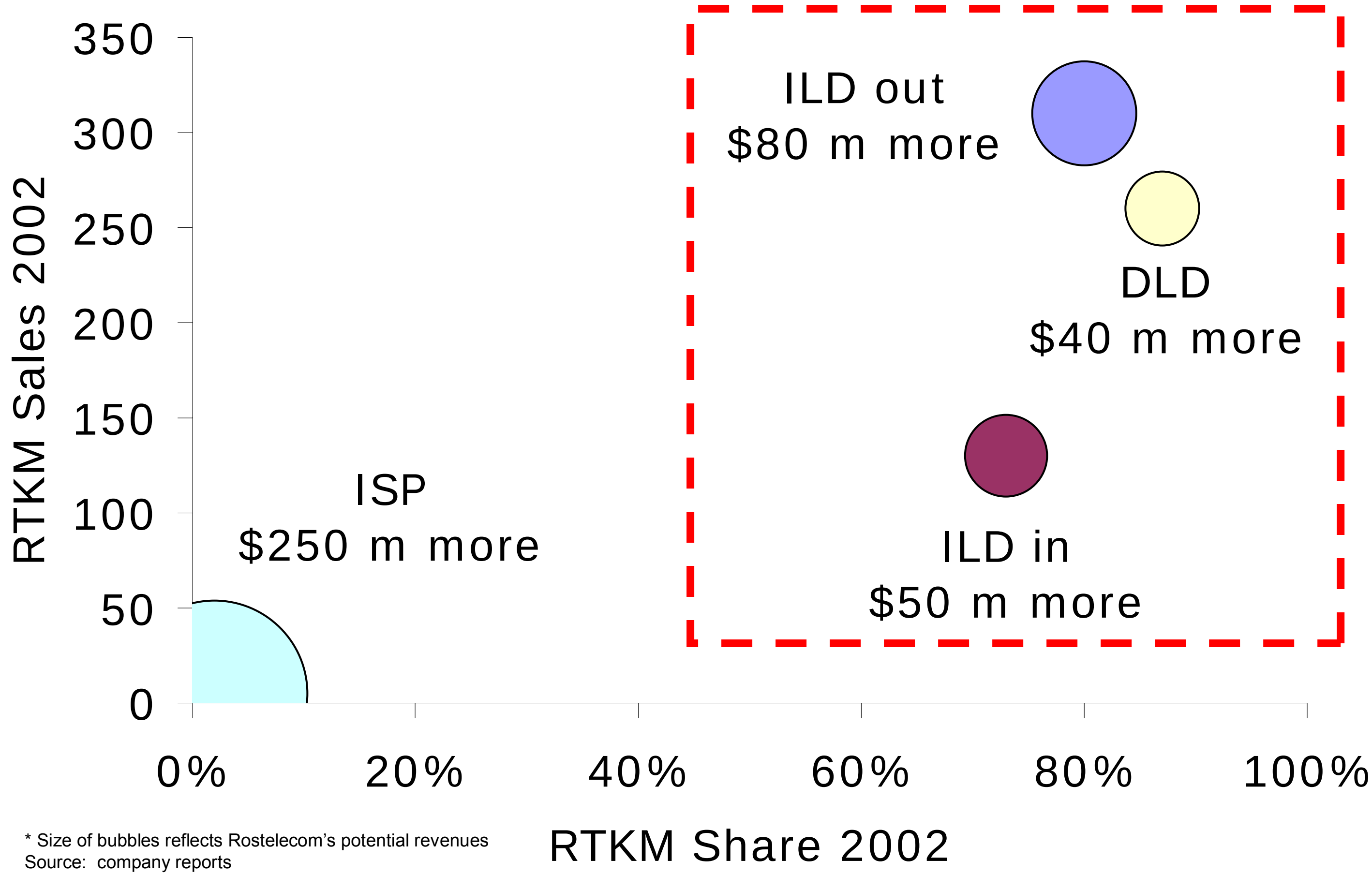
# New Svyazinvest owner to hike profit




Source: company reports

- **Svyazinvest's new owner to streamline the business**
  - Min of Property would like to sell 75%, Min of Comm'n - nothing till later
  - Candidates could include Alfa (~$2 bn cash) and YUKOS
- **The new Law to close most loopholes for ILD rivals**
  - RTKM to keep a monolopy position in ILD traffic
  - The second reading is earmarked for June

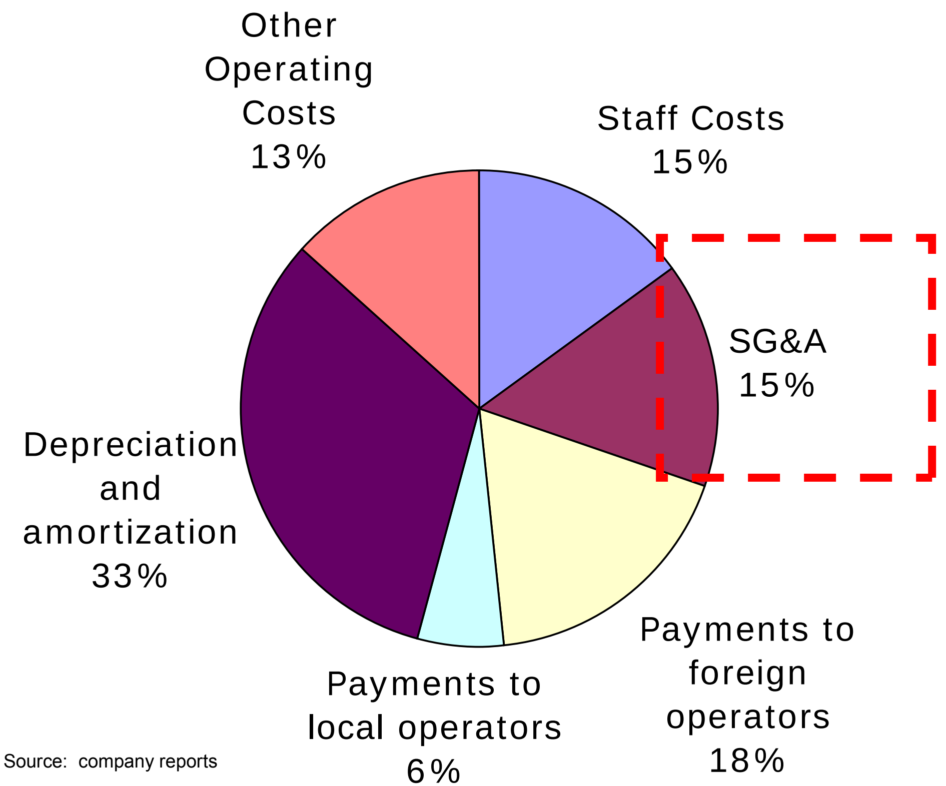
# New services to boost sales




* Size of bubbles reflects Rostelecom's potential revenues
Source: company reports

- **Alt. operators' sales have reached $1.1 bn in '02**
- **Business from cell. operators ($3.4 bn rev.) could surge**

# Pressure on costs to continue




Source: company reports

- **Terms of leasing arrangements to be challenged**
- **Installation of ERP & CRM to hike SG&A efficiency**
- **Efficiency review of 50+ subs is long overdue**

# Independent directors role is crucial

- **Minority shareholders have only 2 candidates**
  - Svyazinvest candidates: 9 Svyazinvest top managers + 1 Svyazinvest consultant + 1 Rostelecom CEO

**Independent directors' main goals:**

- **To facilitate execution of strategic plans**
  - revenue and earnings growth, cost control
- **To provide information transperency to investors**
  - Monthly reports, regular meetings and conference-calls
- **To improve corporate governance procedures**
  - principles of management compensation, efficiency of Board commitees
- **To adopt an attractive dividend policy**
  - pledge to pay up to 30% of net profit

# Oleg Fedorov

- Deputy CEO of Investor Protection Association
- Member of the Executive Board of Independent Directors Association
- 10 years of experience in equity markets
- Independent director in telecoms - 3 years (Novgorod, Volga)

## *Investor Protection Association*

- Established in April, 2000 to protect investor rights and improve the corporate governance in Russia
- Members include 12 domestic and 15 international investors with app $3 bn AUM in Russia
- IPA coordinates activities of 34 directors in 56 companies, including all pan regional telecoms

## *Independent Directors Association.*

- Est. in 2002, chaired by Sir Andrew Wood, former UK Ambassador to Russia

# Mikhail Slipenchuk

- CEO of IFC Metropol
- 10 years of experience in equity markets
- Independent director in Russian companies - 3 years (Rostelecom - 1 year)

***Investment Financial Company Metropol***

- Established in 1995
- Successful operations on capital markets have boosted the company assets to $40 m (IAS ’01 audited by Deloitte & Touche)
- The London office obtained a level C FSA license in 2003
- The company owns 6% of RTKM shares

# RTKM IR to be streamlined

| | Events | 9-Jun-03 | 16-Jun-03 | 23-Jun-03 | 30-Jun-03 | 7-Jul-03 | 14-Jul-03 | 21-Jul-03 | 28-Jul-03 | 4-Aug-03 | 11-Aug-03 | 18-Aug-03 | 25-Aug-03 | 1-Sep-03 | 8-Sep-03 | 15-Sep-03 | 22-Sep-03 | 29-Sep-03 | 6-Oct-03 | 13-Oct-03 | 20-Oct-03 | 27-Oct-03 | 3-Nov-03 | 10-Nov-03 | 17-Nov-03 | 24-Nov-03 | 1-Dec-03 | 8-Dec-03 | 15-Dec-03 | 22-Dec-03 | 29-Dec-03 | 5-Jan-04 | 12-Jan-04 | 19-Jan-04 | 26-Jan-04 | 2-Feb-04 | 9-Feb-04 | 16-Feb-04 | 23-Feb-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Corporate events** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | Preparation to Board meetings | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | *Board meetings* | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ |
| 4 | *Telephone conferences held* | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ |
| 5 | *BoD meeting reports sent out* | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | | ▲ | | | | ▲ | | | | ▲ | | | | | ▲ |
| 6 | **Information transparency** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | web-site improvement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | development of a regular report format | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | *distribution list prepared* | | | | | | | | | | | | | | | | | ▲ | | | | | | | | | | | | | | | | | | | | | |
| 10 | *mothly reports sent* | | | | | | | | | | | | | | | | | ▲ | | | | ▲ | | | | ▲ | | ▲ | | | | | | | ▲ | | | | ▲ |
| 11 | **Analyst meetings** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12 | *RAS and IAS report releases* | | | | | | | | | | | ▲ | | | | | | | ▲ | | | | | | ▲ | | | | | | | | | | | | | | |
| 13 | *management meetings* | | | | | | | | | | | | | | ▲ | ▲ | ▲ | | | | | | | | | | | | | | | | | | | | | | |
| 14 | **Investor meetings** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 | *Cont EU* | | | | | | | | | | | | | ▲ | | | | | | | | | | | | | | | | | | | | | | | ▲ | | |
| 16 | *UK* | | | | | | | | | | | | | | | ▲ | | | | | | | | | | | | | | | | | | | | | | | ▲ |
| 17 | *US* | | | | | | | | | | | | | | | | | ▲ | | | | | | | | | | | | | | | | | | | | | |
| 18 | *Russia* | | | | | | | | | | | | | | | | | | | ▲ | | | | | | | | | | | | | | | | | | | |
| 19 | *Broker conferences* | | | | | | | | | | | | | | | | | | | | | | ▲ | | | | | | | | | | | | ▲ | | | | |

- **Corporate events**
  - telephone conferences and short reports on BoD meetings
- **Informtaion transparency**
  - web-site improvement and regular company report
- **Analyst and investor meetings**

# The ADR voting procedure

- **Ex-date for June 15 AGM is April 28**
- **Voting card was sent to ADR holders on May 6**
- **Filled out cards to be received by June 6, 3 pm NYC time**
  - JP Morgan Chase Bank, POB 43062, Providence, RI 02940-5115

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