



Company: Rostelecom
Conference Title: Rostelecom and Tele2 JV
Presenter: Ekaterina Ustinova
Date: Thursday 12th December 2013

Operator: Welcome to today's Rostelecom Conference Call. At this time all participants are in listen-only mode. The call is also being recorded for replay purposes. I will now hand the conference over to Ekaterina Ustinova, Head of Investor Relations. Please go ahead.

Ekaterina Ustinova: Good morning and good afternoon. Thank you for joining us today to discuss Rostelecom's Updated Corporate Strategy which we are delighted to launch today. Present on the call are Sergey Kalugin, President and Chief Executive Officer; Maria Florentieva, Vice President for Strategic Planning and Investor Relations. Kai-Uwe Mehlhorn, Chief Financial Officer; Andrey Poluektov, Head of M&A will also be available for the Q&A session. You can find today's announcement with details of our updated strategy as well as the presentation that accompanies this call on our website at www.rostelecom.ru in the Investor Relations section. Our contact details can also be found should you have any follow-up questions. A replay of the conference call will also be available in the IR section of the company website.

Before we start I would like to draw your attention to the fact that some of the information provided during this call may contain projections or other forward-looking statements regarding future events or future financial performance. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update the statement to reflect events or circumstances occurring after today's date or to reflect the occurrence of unexpected events. Many factors could cause actual results to differ materially from these projections or forward-looking statements.

I will now hand the call over to our CEO Sergey Kalugin. Mr. Kalugin will speak in Russian and his comments will be translated. Following the presentation we will be happy to answer your questions.



Sergey Kalugin: Good evening dear friends. On the one hand it may seem the strategy is dull thing but on the other hand what we are doing is full of creativity. Speaking about our strategy in general we'd like to achieve two very simple and clear things. First of all we'd like to give a new quality of life to our subscribers and customers. For this purpose we are trying to create a unique infrastructure that would make it possible for our subscribers to get internet at a speed of one gigabit per second. Secondly we'd like to make sure that our shareholders get the maximum incremental added value and I should say that our team is trying to be as good as its word. I am happy to announce that as part of our strategy the Company's Board of Directors has today made a historic decision – we are going to merge to set up a JV with Tele2. We hope that thanks to the decisions made our subscribers will be able to get maximum of fixed line and mobile services and our shareholders get what they deserve – higher shareholder value.

Now with your permission from this upbeat announcement I'd like to turn to a few boring slides that cover our strategy. What do we want to do? We want to be more active in managing our activity in fixed line and mobile services. Speaking about fixed line services, first of all we'd like to have a bit less than 20 million households on technology of fibreoptics to households and the bulk of our customers have internet at a speed of 1 gigabit per second. I should say that the government is supportive of us and the President of the Russian Federation signed a decree that supports not only building our networks and providing services to big cities and towns but in rural areas and areas that are not densely populated.

The second thing that we'd like to do is work with contract providers to provide pay TV and OTT services and video content and we have reached an agreement with Gazprom Media. There are two more elements of our strategy. To be more exact it is not just a strategy, it is a specific programme focused on two segments. First of all we would like to quantitatively improve the client services and reach the best in Russia standard. Secondly we would like to improve our efficiency and streamline our operations so that we can save as much as possible on current operations and we are happy to announce that with Kai-Uwe joining our team which happened six months ago and he took over the procurement and thanks to the activities of his team and himself where he managed to save 14 billion rubles.



With your permission I'd like to say a couple of words about our strategy in the mobile segment. We are happy that the Board of Directors supported our intention and agreed to put the efforts of Rostelecom and Tele2 to develop a mobile system with Tele 2. It seems to us that we usefully Tele 2 Russia and Rostelecom complement each other. Firstly, after the merger the company will have a big number of subscribers. Secondly we wonderfully complement each other in terms of geographic spread. Thirdly we hope that the unique frequency resources that Rostelecom has will be combined with the high level of operational performance that Tele2 Russia has and their know-how in terms of attracting customers. Actually this is really all I wanted to tell you today. I don't know how further discussions will be held but I would like to highlight that today is a very important if not a historic day for our company when the Board of Directors has made a crucial decision for the development of our business.

Ekaterina Ustinova: Thank you Sergey. Dear friends, to give you more details on this potential JV transaction, I would like to hand the call over now to Maria Florentieva who will provide you with some details about this transaction.

Maria Florentieva: Hello. To give you details let us start with slide 19 of the presentation which describes the transaction structure. As I think most of you are aware the mobile business within the Rostelecom Group is structured in two ways, the first being subsidiary companies with regional presence and another one is integrated business which is part of Rostelecom activities together with the fixed line, and this is added up by LTE and other spectrum licences held by Rostelecom. Based on that we are proposing to arrange the transaction in two stages, the first one being contribution of shares of Rostelecom in its mobile subsidiaries; and the second one is the carve-out of integrated business together with the licence portfolio into a separate entity and then subsequently the contribution of this entity into the JV.

If we go forward with detail from the transaction to slide 21 you can see the major KPIs for two parts of the proposed JV, one being the Rostelecom Mobile business and the second one Tele2 Russia's business. As Sergey already mentioned the JV formation creates the Company significantly larger scale and puts it into the national player basket, and also allows the JV to



monetise rapidly the spectrum portfolio which is contributed by Rostelecom and especially in mobile data services.

Then on slide 23 you can see the major financial data on which we are currently analysing the full scale financial effects of the proposed transaction to Rostelecom. We believe that in general that effect is going to be the significant release of cash flows for Rostelecom. The JV, after it will be created, will finance the network rollout and other capex to the balance sheet, that means that Rostelecom, after the transaction, will finance from its balance sheet only its fixed line capex. As part of the transaction, Rostelecom also intends to transfer to JV the debts which are related to its mobile assets and the current size of this debt allocated to mobile licence is 34 billion rubles. Therefore we are still going on forwards with our financial team and Kai-Uwe is here with us to comment specifically if you have questions on the financial impact but in general our estimate is that this transaction will allow the company to put much more effort and be much more cash efficient in its operating business. Thank you.

Ekaterina Ustinova: Thank you Maria. So now we are ready to answer your questions. As the deal is not signed yet and negotiations are still ongoing we won't be able to provide answers to some of your questions so thank you for your understanding. So operator?

We will now take our first question from Igor Semenov from Deutsche Bank. Please go ahead.

Igor Semenov: Yes, hi. Thank you very much. Can you talk a little bit about the governance of the JV, the management and the board composition, management team? Thank you very much.

Sergey Kalugin: Regarding the governance of the JV I'd like to say the following. Firstly given that Rostelecom has a controlling government stake and VTB which owns Tele2 is also controlled by the government then the Board of Director control will be in the hands of the government. Secondly we as a company will have control over the key Board of Directors committee and over the audit committee. Speaking about the nomination of the company's CEO I should say that at the moment this is under discussion. In accordance with the agreement that we signed, the CEO will be nominated by the consortium set up by VTB and the Bank Rossiya (incorrect translation)



and we will have to either support this nomination or reject it. So we have to wait for the developments and when the process enters its formal phase after the JV is set up the consortium will nominate the CEO.

Igor Semenov: Thank you.

Ekaterina Ustinova: Thank you. Can we have the next question please?

Operator: Our next question comes from Ivan Kim from VTB Capital. Please go ahead.

Ivan Kim: Yes, good afternoon. Two quick questions please, one on the capex plans of the JV on the mobile side, so how many...which terms like money terms of capex to sales terms or physical terms just in the number of base stations you plan to install over 2014-2016 and if possible specifically focus on Moscow? Then, secondly how do you see the pricing strategy on the markets? I presume that it will be a discount on the price but any sort of thoughts on that would be appreciated. Thank you.

Kai-Uwe Mehlhorn: This is Kai-Uwe Mehlhorn speaking, the CFO. Regarding your first question on the capex, I have to say that I believe it's a little bit too early to disclose details of the joint investment plan and joint budget because as we said at the beginning we have today got all the approvals and we believe that we will close the deal very soon. At the same time we do not have yet a closed transaction. Inside the coordination between the two companies we also applied a due diligence process, we do know what are the plans in terms of future budget and medium term investment plans from both sides, this is understood but there is a clear task after closing of the deal within three months by the joint company to develop a medium and long term business plan and this medium and long term business plan has to be approved by the new board of the company, so we believe that this will be done jointly and as we understand we have done from both sides already a lot of investment and instalments, and also on the Tele2 side the company knows how to build fast and how to build efficiently, so we believe that will be handled in a very efficient way. With regard to Moscow, your question regarding the launch of Moscow, our plans have not changed and I believe inside the future JV this will be discussed and



will be agreed on the details of this plan. Your second question was with regard of the pricing strategy of the future joint venture. Also, here I believe that most likely the question is a bit too early because we cannot speak for the future joint venture. On the other hand it is clear that the pricing strategy will differ region by region because the current presence of both companies in the regions are different. In new regions, there will most likely be quite a sensitive approach which there is normally but we do not intend and no side of the deal has an intention to follow a very aggressive discount strategy. We will try to offer to the customers very good value or better value for money and in order to have a good penetration in the market and in order to reach a good market share. Thank you.

Ekaterina Ustinova: Thank you. Operator, can we have the next question please?

Operator: Absolutely. Our next question comes from Polina Ugryumova from Morgan Stanley. Please go ahead.

Polina Ugryumova: Good afternoon. Can I please ask you if possible to comment on how the LTE spectrum which Rostelecom is going to contribute into a JV is valued and also if possible can we also get the valuation for the assets contributed, not only the debt contributed in the JV? This is question number one, and number two also can you please comment if you see any synergies from integrating two networks and if yes how would you estimate those? Also do you see any costs associated in the near term, associated with the integration of the two networks and if yes how would you estimate those? Thank you.

Maria Florentieva: Addressing the first question on valuation, we are not disclosing this fully currently and I think that it is important to understand that the complexity of Rostelecom mobile licence requires from us quite a detailed approach to valuation. Not only did we engage in this process a professional appraiser but Barclays Bank has also provided the Company's Board of Directors with a fairness opinion on the distribution of value and resulting shares of the two contributors in the JV, therefore in general we believe that we've got the best market practice in appraising both fixed assets of going concern businesses and spectrum licences for



that transaction. Then the second question is about capex synergies so maybe Kai-Uwe will go on.

Kai-Uwe Mehlhorn: Yes. Obviously we believe that in the joint venture there will be a lot of synergies. There will be also integration costs like usual but when it comes to capex synergies we understand that those synergies will happen first of all on the overlay network. Also they will happen in the regions where we have a joint presence because by joining forces we can offer to the customer improved penetration, point of view systems and better services so also I think both companies will benefit from a joint approach in terms of procurement because by aggregating the volumes and also given the experience on both sides we can achieve best in class market prices to build more for less capex. I think there was also a question about...

Polina Ugryumova: Possible costs associated with the integration of the networks.

Kai-Uwe Mehlhorn: We believe that in the first year, year and a half the positive effect of the synergy and let's say the negative effect of integration costs will balance each other out but on the medium and long term obviously all the cost benefits will go on the positive side and I think the market synergies are obvious, so basically a nationwide operator is created with the synergies on the marketing approach and national traffic so we have a clear understanding that by doing this deal, value is created for both sides, it's the best possibility for shareholders and I think this is a major milestone in the development of the telecommunication in Russia. Thank you.

Ekaterina Ustinova: Operator, can we move to the next question?

Operator: Absolutely. Our next question comes from Igor Goncharov from BCS. Please go ahead.

Igor Goncharov: Yes, hello. Thank you very much for the presentation. I have several questions, first on the structure of the transaction, basically in relation to slide number 19. The questions are first of all the T2 RTK Holding, on the capital structure, is this going to be a Russian incorporated entity? That's the first question. Secondly I see from the slide that the economic



and voting shares of Tele2 Russia Holding and Rostelecom in this sense it would be different. The economic stakes will be different from the voting stakes. Does it mean that this entity would have preference shares and if so what would be the capital structure of this entity? How many preference shares would it have and what would be the dividend rule on those preference shares? Then when we moved from stage 1 to stage 2, what will happen to those preference shares? Will those be cancelled if there are preference shares or indeed would Rostelecom receive its bunch of the preference shares? Then question number three in relation to the structure of the transaction, clearly VTB Capital is the financial investor in this story. Would any of the involved investors have a buyout option for the stake or pre-emptive rights to buy the VTB Capital stakes at some horizon and at which conditions? So those are the questions on the structure of the transaction and then on the integration what would be the integration steps from a marketing standpoint i.e. more specifically when do you plan to introduce a unified brand for Tele2 and Rostelecom mobile operations? That's it. Thank you very much.

Sergey Kalugin: We are grateful for you for such a detailed and fundamental question. Let me try to start answering the question. If I omit something please let me know and I will try to cover this part of your question as well. Firstly we do not plan to have a preferred share. Rostelecom's share in the JV will be 45%. Each party will have a pre-emptive right in case of withdrawal or exit of the other party. We started the integration process two months ago when we set up the Integration Committee.

Igor Goncharov: Thank you very much. Just to clarify, then on the capital structure, on the first stage what you have is Rostelecom has 45% of the voting rights and 26% of the economic rights. How will it be structured? If it has simply 45% of the capital it would mean both 45% of the economic and voting rights. In this case to make this happen you would need to have some different classes of the shares available or what would be the legal mechanism to have different voting and economic rights?

Maria Florentieva: Let me clear up the details for you. The holding company is a Russian entity and its legal form allows us to have increased voting rights compared to the economic share at the first stage, so the economic share is going to move according to the value of assets contributed



by this, voting participation is established at the first stage at the level which is equal to the final share of Rostelecom in the JV, so there is no preferred shares. It is a limited liability company.

Igor Goncharov: So it's going to be an OAO?

Maria Florentieva: It's going to be a limited liability company.

Igor Goncharov: Ok. Then on the buyout thing, you said the issue of the parties would have pre-emptive rights. I understand by parties you mean Tele2 Russia Holdings on one side and Rostelecom on the other side but my question was related to the shareholders of Tele2 Russia Holdings, so if VTB Capital which will be a shareholder of Tele2 Russia Holdings decides to exit, would Rostelecom have some pre-emptive rights on this stake, on its stake in Tele2 Russia Holdings, not on Tele2 Russia Holdings' stake in T2 RTK?

Sergey Kalugin: Until the deal is closed we are reluctant to comment on it.

Igor Goncharov: Thank you very much.

Ekaterina Ustinova: Thank you. Operator, can we move to the next question please?

Operator: Absolutely. Our next question comes from Sergey Libin from Raiffeisen Bank. Please go ahead.

Sergey Libin: Hello, thanks for the presentation. My first question is I was wondering what would be the impact of the mobile business deconsolidation on OIBDA level? You spoke about revenues and capex and just if you could provide any colour on the operation level please?

Kai-Uwe Mehlhorn: Thank you for the question. As you know we do not disclose OIBDA level by business unit as well as our competitors do not do that but what we can frankly say and also disclose is since our mobile efforts were in a way a mixture of mature business, so certain regions for instance Urals and also start-up regions where we just started to roll out and to



launch the 3G services, we have OIBDA level at a combined level which is slightly lower as our overall OIBDA level, so from this perspective there will be a slightly positive impact on the overall OIBDA level from this perspective but we do not disclose further details on this as of today.

Sergey Libin: Fair enough, thank you. Secondly if I may could you tell us whether there are any plans to monetise your stake in this joint venture, for instance maybe dividends?

Kai-Uwe Mehlhorn: Could you be more specific please?

Sergey Libin: Are there any plans for this joint venture to pay dividends after the incorporation like in the second year, so until there could be any sales of the stake like in IPO? That's what I mean.

Kai-Uwe Mehlhorn: I think it's a relevant question but I also believe it's a little bit early, as we have said since the deal is not finally closed we cannot comment and disclose all the details of the agreement and the contracts to be signed so that's why I hope that you understand that you have to be a little bit more patient on those important but detailed questions. We might answer at a later stage. Thank you.

Sergey Libin: Sure. The final one, could you tell us whether the separation of integrated mobile assets will trigger another mandatory buyout?

Kai-Uwe Mehlhorn: Could you please repeat the question? It was not very good to hear.

Sergey Libin: Sorry. Will the separation of the integrated assets cause another mandatory buyout under the legislation?

Sergey Kalugin: Basically it is an understandable story as you know and it is a well known thing that if any shareholders of Rostelecom disagree with this transaction, those who do not want to vote for it will be entitled to sell their shares to the company and as you know the Board of Directors approved the value of the shares at which the company will buy them out but I'd like to add a



few words to this. Firstly we sincerely believe that this deal will make it possible for Rostelecom shareholders to get maximum incremental value through presence in the most fast growing mobile segment, mobile broadband; and secondly I'd like to say that mass media newspapers are writing that we are setting up a fourth operator. I'd like to say that our ambition and the ambition of our partners is much higher and bigger. We'd like to create a leader and we believe that by combining our competencies we will be able to implement this plan in reality.

Sergey Libin: Thank you very much.

Ekaterina Ustinova: Thank you. Operator, can we move to the next question please?

Operator: Absolutely. Our next question comes from Alex Wright from UBS. Please go ahead.

Alex Wright: Yes, thank you. So the presentation highlights that there are twelve regions where Rostelecom's mobile assets overlap with those of Tele2 and I just wondered if you could give an indication of what proportion of the subscribers or revenues of the JV will be present in those twelve regions please? Then the second question, I know you can't talk in detail about the financials of the JV at this point. Are you able to say at all whether you expect it to be free cash flow positive already or is it too early to say that? Thank you.

Kai-Uwe Mehlhorn: The first question is a rather detailed question and we cannot disclose the answer of this. In the twelve regions I can give you information, we had region by region different situations. We have regions where the presence of Rostelecom is rather small. We have regions where the presence of Tele2 is rather small and we have I think five or six regions where we have a strong presence from both sides where we have a really mature or material overlapping, so not in twelve regions but depending on how you treat it 5-6, this is the first statement. Regarding the detailed question of future cash flow and free cash flow I need to repeat the answer I have given already before. There's a clear plan how the joint company may develop and agree with the Board of Directors the medium and long term business plan. The teams from both sides of the integration have started this work. We have inside the due diligence process access to both sides' plans and also actual figures, however it requires work



from both sides and then the approval of the budget and medium term plan so we cannot talk about this until this is approved by the future Board of Directors.

Alex Wright: I understand. Thank you.

Ekaterina Ustinova: Thank you. Operator, can we have the next question please?

Operator: Of course. Our next question comes from Anna Lepetukhina from Sberbank. Please go ahead.

Anna Lepetukhina: Hello. My first question is on the JV. How will the JV be established? I know you said that it will be decided later but is there a possibility that you will have to finance capex of JV or they will characterise that? Do you have any understanding at this point? My second question, the process today that there will be the shareholder agreement. Has this agreement been signed already and whether it will be published? My third question is generally on your strategy, you spoke in terms of what exactly you plan to do but just maybe you can say otherwise about where you can see low hanging fruit and where first improvements can come from on the profitability level if possible? Thank you.

Sergey Kalugin: We are grateful to you for your question. Speaking about the JV budget, the JV budget has to be adopted jointly and unless we participate in the process no budget can be approved. Speaking about the shareholders' agreement we have agreed the agreement with the government and the directive that the government gave to the board members to vote for the JV at today's board meeting means approval of the shareholders' agreement provisions. Speaking about quick wins or low hanging fruit, we have a number of simple and clear steps in our plan. First of all by optimising client services we would like to significantly reduce the churn rate next year and we would like to also reduce the client service costs. Then the creation of the JV would make it possible for Rostelecom to focus on its internal agenda and issues and will release financial resources that we would like to allocate in order to do a radical change of our IT landscape and we do hope that this would lead to another cost savings spiral. Actually we do



have a question here, we are debating it with our colleagues whether you mean low hanging fruit and quick wins for the JV or for Rostelecom as a standalone company?

Anna Lepetukhina: No, I meant for Rostelecom as a standalone company.

Sergey Kalugin: Thank you Anna. I'm proud that I understand better than my colleagues do. What else would we like to say? We believe that the new product line that we have very much redesigned and we hope that thanks to this new product line and new high speed tariff rates for newly built optic lines would make it possible for us to attract subscribers more quickly and the new networks that we built will be cheaper in terms of maintenance and service.

Ekaterina Ustinova: Operator, can we move to the next question please?

Operator: Absolutely. Our next question comes from Roman Arbuzov from Barclays. Please go ahead.

Roman Arbuzov: Hello and thank you for taking my question. Both of my questions relate to the mobile JV. On slide 20 you guys mentioned that you could acquire additional equity interest up to the controlling stake. Can you just clarify? Do you have to stop at 50% or can you go beyond that? Does this mean 50% plus one share for example? My second question is again on the JV, I'm wondering who will be running the JV on the operational level? I know you have mentioned that you are still deciding who will be the CEO but is there some sort of preliminary agreement on which legacy team Rostelecom or Tele2 will be in charge and there were some press rumours as well of the company redundancies in Rostelecom Mobile division, so can we assume that it will be the Tele2 guys who will run the JV? Thank you.

Sergey Kalugin: Thank you for your wonderful question and with your permission I'd like to start by answering your third question first. No doubt that combining the resources of the two mobile operators would lead to some redundancies. I cannot quote any exact number as to the total number of lay-offs because it is up to the coordination committee to decide. From the JV perspective it seems to us that we have sent all the needed messages and signals to the



incumbent management of Tele2 to have them on board and continue working for the company and continue the maximum efficient performance for the benefit of the company's development and we do hope that the key load related to the JV will be borne by them. Speaking about the increase of our share in the JV, we are going to take a very thoughtful approach to this matter.

Roman Arbuzov: Sorry, can you just clarify, the controlling stake, does that mean you have to stop at 50% or can you go beyond?

Sergey Kalugin: I'd like to repeat that we are considering this investment as strategic from our own perspective. Speaking about the participatory interest and how it is going to change, this is a question that I'd like to abstain from answering for the time being but I'd only like to add that in this respect we are going to act in the best interests of Rostelecom shareholders.

Roman Arbuzov: Thank you.

Ekaterina Ustinova: Thank you. Operator, can we have the next question please?

Operator: Absolutely. Our next question comes from Evgeny Golosnoy from Metropol. Please go ahead.

Evgeny Golosnoy: Yes, hi, a couple of questions from my side. The first is the question about the controlling interest you may eventually get in the company. Are you really interested in getting it? That's the first question. If yes, are there legal instruments in the deal that you are going to sign guaranteeing that, making it almost certain that you will get it in case you want it? The second question is more about the operational statistics of the forecast for the new company. What's your estimate of the let's say five year capex requirement for the company to become as you claim the leader on the Russian mobile market in US dollar terms? That's one. Secondly are there any areas or geographic areas particularly that this new company would like to prioritise let's say data in Moscow, 3G in Moscow or whatever? Are there any preferences or priorities for the JV to start doing things?



Sergey Kalugin: Please allow me to answer your first question and my colleague Kai-Uwe will follow me and answer your second question. We have been working with leading international investment banks and leading international lawyers to structure the deal. That`s why we believe that we`ll have all the prerequisites or let`s say all sufficient opportunities to acquire control if there are real prerequisites for taking over a controlling stake.

Kai-Uwe Mehlhorn: Let me try to answer the second question. I understand the topic is very interesting and you of course would like to get more detailed information about future business plans, OIBDA level, revenue levels and future investment plans but I have to repeat myself that this is unfortunately too early to provide detailed figures and I have given the reasons before, but let me give let`s say at least a certain understanding, certain outlines. For me it`s obvious and this is based on the discussion we had that the company will have a kind of cluster approach. The company, the joint venture will not go for all the regions at the same time so they will do a logical step-by-step approach based on priorities. Moscow is obviously one of the priorities but also in terms of capex development it`s obvious that for instance for regions where for instance Tele2 has a 2G presence, an upgrade to 3G is something which can be done rather quickly and fast and provides value, so from this perspective those things will be done and they are more than logical. Thank you.

Evgeny Golosnoy: Ok, thank you.

Ekaterina Ustinova: Thank you. Operator, can we move to the next question please?

Operator: We can indeed. Our next question comes from Alexandra Serova from Renaissance Capital. Please go ahead.

Alexandra Serova: Yes, good evening. Thank you for the presentation. Two short questions from my side. First can you please name the regions where the JV currently doesn`t have operations except for Moscow that you plan to enter in 2014 and to 2016 and what technology you plan to use there? The second question was with regard to the JV ownership structure. Actually you said



you will not discuss how you plan to change your stake in the JV but whether at all you will be able to sell or buy additional shares before the IPO and what will be the restrictions for you and your partner to sell your shares in the JV please?

Ekaterina Ustinova: Alexandra, I think answering to your first question it could be easily matched according to our website and actually the website of Tele2 Russia or we can provide you with this information. I think there is no time and no need to mention all these regions now.

Alexandra Serova: No, I mean what are the plans, so you plan to enter only Moscow in 2014 or some other regions where the JV doesn't have operations?

Sergey Kalugin: To be honest I am reluctant to comment on the mobile JV plans but I can tell you the following thing: last week Rostelecom made a very significant decision that will actually describe our future destiny so to say. We are going to continue building the network in St-Pete using the GPON technology and in two years 90% of households will have to be hooked up to our fiber network and it is a multi-billion project. Speaking about the legal assets of the JV, I think we have already covered that by saying that we believe that we have every legal possibility and have every opportunity to deliver and achieve what we like in terms of the equity stake.

Alexandra Serova: Ok, thank you very much.

Ekaterina Ustinova: Thank you. Operator, can we have the next question please?

Operator: Of course. Our next question comes from Igor Semenov from Deutsche Bank. Please go ahead, your line is once again open.

Igor Semenov: Yes, thanks very much for the follow-up. Can I just clarify that the launch in Moscow will be done already by the JV and can I also clarify that – you may have answered this already but I probably missed it – did you decide that it will be the Tele2 brand that you will use across the country or this will be something else? Thank you.



Sergey Kalugin: Colleagues, we hope that we will be able to move forward establishing the JV and in all likelihood the 3G services will be provided by the JV in Moscow. Speaking about service, your second question, we have to apologise because we are not willing to answer this question due to the fact that the deal is not yet closed.

Igor Semenov: Ok, another follow-up on the financial impact. Do I understand correctly that you will not be obviously consolidating the results of the JV because you don't control it so you will be only accounting for your share in the capital of the JV so therefore in the early stages until stage two you will account for 26% of the earnings or losses of the JV and after that for 45%. Is that correct?

Kai-Uwe Mehlhorn: Yes, this is correct.

Igor Semenov: Thanks.

Ekaterina Ustinova: Operator, can we have the next question please?

Operator: Absolutely. Our next question comes from Polina Ugryumova from Morgan Stanley. Please go ahead.

Polina Ugryumova: Yes, thank you very much for the follow-ups. Two technical questions from my side. First in terms of consolidation of the income from a JV under Russian accounting standards, am I right in understanding that there will be no consolidation at all? I am talking about Russian accounting standards. The second one relates to the buyout which is related to the divestment of mobile assets which is to be approved on the EGM later in December. When you will need to determine the maximum amount of money you will be able to spend for the buyout? This should be linked to 10% of the NAV. Can you tell us what the date for this NAV will be used? Will it be the end of Q3 or the end of Q4 or any other month? Thank you.



Kai-Uwe Mehlhorn: The answer on the first question is that you are correct, under Russian accounting standards we will not consolidate the figures of the JV. On the second question the date is 30th November.

Polina Ugryumova: Thank you.

Ekaterina Ustinova: Sorry, can we have the next question please operator?

Operator: Absolutely. We will now take our next question which is a follow-up from Igor Goncharov from BCS. Please go ahead.

Igor Goncharov: Thank you very much for the follow-up. I just want to follow-up on the questions that I asked earlier. First of all on the legal production of the T2 RTK Holding you mentioned this would be a limited liability company incorporated in Russia. What does this mean in Russian? Is this "OAO", "OOO" or some other kind of legal structure? The second question relates to the buyout which presumably will take place after the approval of the reorganisation on the EGM of 30th December. I think if I understand from a legal standpoint nothing stops you from submitting the shares of the quasi-treasury shares owned by Mobitel to the buyout because they are not directly owned by Rostelecom. Is there any risk that Mobitel may submit part of its stake to the buyout? Thank you.

Maria Florentieva: On the legal form the JV is going to be "OOO". The buyout procedures are not today among the issues that we are prepared to discuss.

Igor Goncharov: Ok, thank you very much. Just a follow-up on the legal structure, if this is a "OOO" would it mean that before going for an IPO you would have to restructure the legal structure into the open joint-stock company which would involve additional legal procedures?

Maria Florentieva: Yes, that's correct.

Igor Goncharov: Ok, thank you.



Ekaterina Ustinova: Operator, can we move to the next question and the last one?

Operator: We will now take our last question which is a follow-up from Ivan Kim from VTB Capital. Please go ahead.

Ivan Kim: Just a question on dividends, one on the dividends from the JV. Will there be any dividend policy there and will you collect the dividend from year one? Then secondly on the dividend of Rostelecom, we asked this question before but I just wanted to find out whether there is anything used or what kind of dividend payout should we expect next year...from 2013 earnings to be paid next year? Thank you.

Kai-Uwe Mehlhorn: Yes, thank you for the question. Unfortunately we cannot tell you about the future dividend policy of the company which is officially and legally not yet formed. As you understand we are in the interim stage so we have done today a very important step in order to get approval from our Board of Directors to go ahead and finalise the deal but the deal is not yet closed so details of the future setup including dividend policy based on this cannot be disclosed. Also we believe it is too early to disclose on let's say 2014 dividend procedure for Rostelecom as we are as of today in the final stage of the budget discussion with our board and this is part of these relevant discussions, we cannot give you details but we believe that our dividend payout will be related to our possibilities and also will be in the light of the market. Thank you.

Sergey Kalugin: Colleagues, we are very grateful to you for your questions and we would like to express our double gratitude because Rostelecom is sponsoring the CSKA Basketball Club which is playing with Barcelona today, so we do have a chance to have a vent for our emotions that accumulated over the past few months.

Ekaterina Ustinova: So I think we're done for today. Thank you for your time, thank you for your questions. Bye bye.



Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.