

Investor Protection Association

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IPA voting recommendations to the shareholders meeting

Company: **Rostelecom (RTKM)**

Meeting date: December 30, 2013

Record date: November 20, 2013

Agenda of the meeting and IPA recommendations:

#	Agenda item	IPA recommendations
1	Restructuring of the OJSC "Rostelecom" through spin-off and establishing of the Closed joint stock company "RT-Mobile"	AGAINST*

* Shareholders that hold voting shares of OJSC "Rostelecom" are entitled to call for buyback by the Company of all or a part of shares they own in case of restructuring of the Company provided that they voted AGAINST the decision on the restructuring of the Company (agenda item No.1 of the shareholders meeting) or did not take part in the voting on the item. **Holders of ordinary and preferred shares have the right to take part in the voting.**

The shares are to be bought back at the price determined by the Board of Directors of OJSC "Rostelecom".

The buyback price of shares of OJSC "Rostelecom" is:

– 123 rubles 93 kopecks per one ordinary share;

– 87 rubles 80 kopecks per one preferred share class A.

The list of shareholders entitled to call for buyback by the Company of their shares is compiled based on the shareholders register of the Company as of November 20, 2013.

The volume of the buyback is limited by the law at the level of 10% of net assets as of the last reporting date. The net assets of OJSC "Rostelecom" as of October 31, 2013, were estimated at 228.9bn rubles.

Brief profile of the Company

OJSC "Rostelecom" is the federal communications operator rendering fixed and mobile telephony services (26.4m of landline subscribers and 13.8m of mobile subscribers), broadband access services (9.6m subscribers) and pay television (IPTV) (6.9m subscribers). The spread of own backbone networks of the operators is 500,000 km, of the local networks – over 2.6m km. The Company's revenue in 2012 in compliance with the IFRS reached 321bn rubles, the net profit – 34.5bn rubles. The Company has 3G and 4G mobile communications licenses on the whole territory of the Russian Federation.

The shareholders structure (the share in the equity capital taking into consideration preferred and ordinary shares):

The Russian Federation – 43.07%;

Vneshekonombank – 5.03% (together with the share of RFPI – 1.23%);

Treasury shares – 8.07% (non-voting shares pursuant to the law);

OOO Mobitel (quasi-treasury shares) – >10% (with the right to vote).

Agenda of the Shareholders meeting:

Item 1: Restructuring of the Open joint stock company of long-distance and international electric communications “Rostelecom” through spin-off and establishing of the Closed joint stock company “RT-Mobile”

IPA recommendations:

We recommend voting AGAINST on item 1 on the agenda of the Shareholders meeting of OJSC “Rostelecom” in view of the following reasons:

- 1) As follows from the comments by the management and the reasons given in the explanatory note to the shareholders meeting, “ the spin-off of mobile assets to a separate structure will allow the company to work in this sphere jointly with strategic partners by means of establishing joint ventures”. Actually this shareholders meeting is the last chance for the shareholders to express their opinion about further development of the mobile business, since all forthcoming steps essential for shareholders will be determined by the management and the Board of Directors within their competence.
- 2) Proceeding from multiple publications in the mass media, as well as comments by the interested parties, a possibility of setting up a JV on the basis of the Rostelecom assets to be spun off and the existing assets of Tele 2 Russia is being discussed at the moment. The shares in the JV will allegedly be distributed as follows: 45% for Rostelecom, 55% for owners of Tele 2 Russia. At the same time an option for Rostelecom to gain control in the JV in future, e.g. through the use of respective derivatives, was not discussed with shareholders.
- 3) The main risks that shareholders of OJSC “Rostelecom” will face in case of approval of the restructuring in the format discussed (45/55) could be identified as follows:
 - A) a negative impact on the image of the Company in the eyes of investors in view of taking out the mobile business into a separate uncontrolled structure (reduction of the consolidated revenues of Rostelecom by 13%, uncontrolled dividend policy of the JV);
 - B) rescheduling the privatization plans of the Company in 2014-2015 in view of possible decrease of capitalization of the Company;
 - C) an unfair appraisal of the assets to be given over to the JV (the main issue lies in determining the market value of intangible assets and their potential). Rostelecom has 3G and 4G mobile communications licenses covering the whole territory of the Russian Federation, whereas Tele 2 Russia operates only in the GSM standard with frequencies of 1800 MHz;
 - D) significant restructuring costs, including the need to buy back shares of the Company and minimize credit risks.
- 4) Taking into consideration that the envisioned transaction concerning establishing of the JV is still under discussion and the shareholders lack of sufficient information about the fair value of the

assets of both parties to the transaction and future relations between them within the JV (in particular as regards dividend payments and decision-making on essential issues) we believe that at the current stage it would be more advisable to vote "Against". In general investors share negative outlook on the Company's plans to spin off the mobile assets to the JV with a minority ownership share. Besides, in case the restructuring is approved, the shareholders will have the right to call for buy back of their shares at 123.93 rubles per one ordinary stock and 87.8 rubles per one preferred stock of OJSC "Rostelecom".

Item description:

The extraordinary general shareholders meeting is to consider:

1. Restructuring of OJSC "Rostelecom" through spin-off and establishing of ZAO "RT-Mobile";

- The restructuring will become effective from the date of state registration of the Detached company.
- The shares of the Detached company will be placed by means of purchase of shares of the joint stock company established by results of the spin-off (ZAO "RT-Mobile") by the company restructured through such spin-off (OJSC "Rostelecom").
- A part of the assets, rights and obligations of the Company, including the obligations disputed by the parties (if applicable) go to the Detached company in accordance with the spin-off balance sheet from the moment of state registration of the Detached company.
- The charter capital of the Detached company is formed exclusively out of own funds of the Company, i.e. out of the retained profit of the Company.
- As a result of restructuring of the Company through spin-off and establishing of ZAO "RT-Mobile" the size of its charter capital is not affected.
- As a result of restructuring the Company purchases ordinary registered non-documentary shares of the Detached company in the amount of 100 (one hundred) shares, which makes up 100% (one hundred per cent) of the charter capital of the Detached company from the date of state registration of the latter.

In case of any questions and/or comments please contact us at: +7 (495) 510-5306 or via email: info@ipa-moscow.com