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of OJSC Rostelecom
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ANNUAL REPORT

OPEN JOINT STOCK COMPANY LONG-DISTANCE AND INTERNATIONAL TELECOMMUNICATIONS ROSTELECOM

BASED ON YEAR 2012 RESULTS

President of OJSC Rostelecom	s/s	S.B. Kalugin
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Chief Accountant of OJSC Rostelecom	s/s	R.A. Frolov
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April 26, 2013

Moscow, 2013

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report for Open Joint-Stock Company international and Long-Distance Telecommunications Rostelecom (hereinafter to be referred to as "OJSC Rostelecom", "Rostelecom" or the "Company") summarizing the results of 2012 (hereinafter to be referred to as the "Annual Report") are so-called forward-looking statements.

Those forward-looking statements include, but are not limited to:

- The management's assessment of the Company's future operation and financial results, as well as forecasts of the present value of future cash flows and related factors;
- The Company's plans to participate in the charter capital of other organizations, associations of organizations and holding entities;
- The Company's anticipated capital expenditures and plans to develop, construct and modernize its network;
- The Company's expectations as to the growth of demand for its services and plans relating to the development of its existing services and promotion of new services, as well as to expansion of its range of services and their pricing;
- The Company's plans with respect to improving its corporate governance practices;
- The Company's expectations as to its position in the telecommunications market and the development of the market segments within which the Company operates;
- Economic outlook and expected industry trends;
- The Company's expectations as to the regulation of the Russian telecommunication industry and assessment of the impact of regulatory initiatives on the Company's activity;
- Other Company's plans and expectations regarding matters that are not historical facts.

Such forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ from those expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include:

- Risks relating to changes in political, economic, and social conditions in the Russian Federation as well as changes in global economic conditions;
- Risks relating to Russian legislation, legal control, and taxation, including laws, regulations, decrees and decisions governing the Russian telecommunication industry, securities industry, as well as currency and exchange controls relating to Russian entities and their official interpretation by regulatory bodies;
- Risks relating to the Company's operations, including the achievement of the anticipated results, levels of profitability and growth, ability to create and meet demand for the Company's services, including their promotions, and the ability of the Company to remain competitive in a Russian liberalized telecommunications market;
- Technological risks associated with the functioning and development of telecommunication infrastructure, technological innovations, and the convergence of technologies;
- Other risks and uncertainties. For a more detailed discussion of these and other factors, see this Annual Report and the Company's other public documents.

Most of these factors are beyond the Company's control or prediction. Therefore, given these and other uncertainties, readers are cautioned not to place undue reliance on any of the forward-looking statements contained herein or otherwise. The Company does not undertake any obligations to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.

INFORMATION CONTAINED IN THIS ANNUAL REPORT

This Annual Report presents consolidated financial (accounting) statements according to the International Financial Reporting Standards (the IFRS) unless it is expressly stated that financial (accounting) information is presented according to other reporting standards.

Consolidated financial information is presented by Rostelecom and its subsidiaries registered in the Russian Federation according to consolidation of financial accounts as described in Section 4 Principal Accounting Policies of the Consolidated Financial Statements of the Company, prepared according to IFRS for the years ended on December 31 of the years 2012, 2011 and 2010.

In order to ensure consistency and comparability of the information disclosure in this Annual Report, operation and other non-financial results are also presented with respect to Rostelecom and its subsidiaries for which the consolidated financial statements of the Company are prepared.

Also this Annual Reports is supplemented by annual accounting reports of Rostelecom for 2012 prepared according to the Russian Accounting Standards (hereinafter RAS).

ROSTELECOM AT A GLANCE

Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom, Russia's national telecommunications company is a leading Russian telecommunications provider offering services in all telecom industry segments across entire Russia.

The Russian government is Rostelecom majority shareholder controlling over 55% of the Company ordinary shares via OJSC Svyazinvest, Federal Agency for State Property Management (Rosimuschestvo) and Vnesheconombank.

The Company has been existing in its current form since April of 2011, when national long-distance operator Rostelecom consolidated 7 interregional telecommunication companies OJSC CenterTelecom, OJSC North-West Telecom, OJSC UTC, OJSC Volga Telecom, OJSC Uralsvyazinform, OJSC Sibirtelecom, OJSC Far East Telecom (hereinafter referred to as IRCs) and OJSC Dagsvyazinform.

Today OJSC Rostelecom is federally licensed to provide a wide range of telecommunication services in all regions of the Russian Federation. The Company has become the owner of the largest telecommunications network, spanning almost 500 thousand km, and has an unparalleled access (the so-called "last mile") to millions of Russian households and corporations.

Rostelecom is the Russian market leader of Broadband Internet Access (BB) and PayTV with BB subscriber number of 9.2 million, and over 6.6 million of Rostelecom PayTV subscribers, of which some 1.4 million are users of a unique countrywide product – the Interactive TV.

Rostelecom is now a major mobile network operator actively deploying new generation wireless networks. Currently the Company has over 13.5 million mobile subscribers.

The unique combination of powerful infrastructure and exclusive rights to the "last mile" is the guarantee both of the Company's successful emergence as a world-class integrated operator rendering a wide range of telecommunications services and implementation of extensive marketing approaches in the rapidly developing regional telecommunications markets.

In order to provide its customers with easy access to the widest range possible of modern telecommunication services throughout the entirety of the Russian Federation, Rostelecom is actively engaged in the further development and modernization of its infrastructure.

Aggressive introduction and implementation of innovative services assists in the creating and maintaining the Company's technological leadership. Rostelecom is a recognized leader in providing innovative solutions for electronic government (e-government), cloud computing, as well as telecommunications products for healthcare, education, security, utility services. Moreover, Rostelecom has become the undisputed market leader in the provision of telecommunications services for Russian government entities of all levels, government agencies, and organizations.

Consolidated revenues of Rostelecom Group for 2012 totaled 321.3 billion Russian rubles, while OIBDA reached 118.6 billion Russian Rubles (36.9% of the total revenue), and net profit hit 35.2 billion Russian rubles.

The Company's securities are Russian "blue chips" with sound liquidity and a high investment potential. Rostelecom common shares were included in the MSCI Russia Index at a ratio of 2.06%.

The securities of OJSC Rostelecom are listed and traded on the major Russian exchange MICEX-RTS (ticker symbols: RTKM, RTKMP), as well as on the US electronic system OTCQX (ticker symbol: ROSYY). Additionally, Rostelecom depository receipts can be traded via unlisted trading in London (ticker symbols: RKMD), Frankfurt (ticker symbol: RTL) and on other international stock exchanges.

The Company stable financial position as confirmed by its credit ratings. In May 2012 International Rating Agency Fitch Ratings assigned to the Company the issuer rating of BBB-, outlook: stable, while in June last year Standard&Poor's reaffirmed the Company's credit rating of BB+, outlook: stable.

THE BOARD CHAIRMAN'S STATEMENT**Dear Shareholders and Investors!**

In 2012 Rostelecom continued its progressive development consistently making achievements which will undoubtedly become landmarks in the success history of the Company.

Forceful efforts of the Company's management and employees last year resulted in a qualitative push in a number of innovative business areas. The Company excelled in promoting interactive TV services, cloud based products, deployment of mobile data networks. Looking at the Company financials one can see improvements of all key financial and operation indicators.

Alongside daily operations to ensure expansion in the market and improvement of the business operation efficiency the Company made significant advances in preparing the merger of its parent company OJSC Svyazinvest and a number of subsidiaries into Rostelecom. While all governmental approvals required for the merger were obtained as recently as in summer 2012, we managed to complete some major milestones already by the year end: we consolidated SkyLink and acquired a portion of an additional share issue of OJSC Svyazinvest. Buying part of the additional share issue was required for Rostelecom to keep a blocking interest of 25%+1 share in the parent company until the time of the reorganization. This additional share issue was instrumental in contributing the stakes in the regional telecom companies still owned by the government into the authorized capital of Svyazinvest. Now in order to proceed with the reorganization it is necessary for meetings of shareholders of the respective companies to pass the relevant reorganization resolutions, complete some mandatory corporate procedures, and finally the reorganization itself, which should eliminate a complicated cross ownership, making the ownership structure more visible and transparent, and enable integration of subsidiaries' businesses. Structural changes to be brought about by the reorganization are expected to make Rostelecom more attractive for investors because of streamlined and transparent management structure, consolidation of Svyazinvest assets and benefits realized by merging subsidiaries to be consolidated.

As Chairman of the Board of Directors of a major public company I am pleased to realize that Rostelecom adheres to high standards of corporate governments in line with world's best practices. Rostelecom put in place policies and procedures of information disclosure for investment community and for protection of legal interests of shareholders; strong internal audit and risk management units function within the internal control framework. The Operator's Board of Directors has effectively become a working body, while its meetings provide a means to thoroughly discuss and resolve important strategic issues. Initially most significant issues are comprehensively reviewed by relevant Board's Committees, involving as appropriate third party experts and stakeholders' representatives. For instance, in December last year a number of experts including representatives of the Ministry of Communications and Rosimuschestvo were engaged in updating the Company strategy blueprint. Suggestions and comment made by our colleagues were taken into account in the updated Rostelecom strategy, which remained focused on service development in high growth market segments including expansion in the mobile telecommunications market.

I believe sincerely that Rostelecom is an exceptionally promising and interesting Russian company having strong appeal for investors and significant growth potential. I am quite confident in bright future for Rostelecom – the Company is capable of becoming an unrivalled market leader, if it continues to focus on fast growing markets, rely on strong management team and united workforce, be proactive in its activities and implement innovations.

Sincerely yours,

I.I. Rodionov
Chairman of the Board of Directors, OJSC Rostelecom

THE PRESIDENT'S MESSAGE**Dear shareholders, investors, customers, partners, and colleagues!**

It is great honor and responsibility for me to lead one of Russia's largest infrastructure companies, which consolidated regional telecommunications companies across the entire Russia and absorbed most valued traditions and expertise of several generations of telecommunications workers. The Company forms the backbone of the national telecommunications infrastructure which is undoubtedly a great advantage compared to other market players.

Unquestionably over the past years a lot has been accomplished; powerful sound groundwork has been laid for long-term growth. Rostelecom at present is Russia's largest telecom company offering services in all segments of the industry market throughout the entire Russia. Rostelecom is the nationwide leader in terms of such performance indicators as growth rate of broadband Internet and interactive TV connections, thus defining development of these industry segments itself.

The evidence of apparent achievements however does not mean that we are not facing challenges to be met. In particular, the largest telecommunications network is in bad need of modernization, we need innovative products and services, customer service and care ask for great improvement. A lot can and should be done in the area of business efficiency and corporate governance improvement. In addition to purely technological approach to solving specific business issues I am facing an uphill task of extreme importance and complexity – changing the corporate culture, enhancing employees' involvement in our common course: to provide the Company's customers with quality service.

Rostelecom is now facing a lot of problems far from being simple, nevertheless, I am absolutely confident that we have resources and capabilities to bravely meet all the challenges!

Sincerely,

Sergey Kalugin
President

2012 HIGHLIGHTS

January

- Rostelecom became a winner of the all-Russia contest for leaders in public and municipal procurement 2011 in the nomination Trustworthy Supplier. Upon the contest outcome the Company was also recorder in the Federal register of trustworthy suppliers.
- On the engagement by Mincomsvyaz of the RF, Rostelecom proceeded with deployment of polling station web-surveillance and vote counting system at the Presidential elections in Russia in March 2012.
- Rostelecom offered the most favorable contract terms at the tender held by the Ministry of Healthcare and Social Development of Russia to conclude a public contract for implementation of the first stage of Integrated medical e-card project.

February

- Rostelecom acquired a 75% stake in Armenia's largest independent Internet backbone and data service provider – GNC-Alfa.
- LLC Mobitel, a Rostelecom subsidiary, completed the deal to purchase 3.86% of the Company ordinary shares valued at 19 billion rubles, using debt financing.

March

- Rostelecom completed the deal to acquire 28.2% shares of OJSC NTK, one of Russia's leading cable operators. Adding this to 71.8% shares acquired in February 2011, Rostelecom emerged as the sole shareholder of OJSC NTK.
- Rostelecom was granted a certificate of compliance of the quality management system implemented in the consolidated Company with requirements of the national standard GOST R ISO 9001-2008.
- Under the project to deploy a national cloud computing platform Rostelecom proceeded with construction of the Primary Data Center in Moscow to be the largest data center in Russia.
- The number Rostelecom PayTV subscribers more than double over the year and exceeded 800 thousand.
- Rostelecom's Board of Directors approved bond issue with a total value of up to 100 billion rubles.

April

- Russian President signed an order on Rostelecom reorganization paving the way to the second stage of Rostelecom reorganization process.
- Rostelecom completed collection and posted at its 7 data center video-recordings made at the polling stations on March 4, 2012 in the course of voting at the Russian Presidential elections.
- 2 million people registered at the public Internet portal www.gosuslugi.ru, designed for provision of electronic public services and ensuring the public access to information about the services offered by Russian governmental authorities.

May

- Consortium of the Russian Institute of Directors and Expert RA rating agency confirmed the national corporate governance rating of Rostelecom rated as 8 – Mature corporate governance practices.
- Rostelecom introduced to the market a unique federal service package – a new generation Interactive TV.
- Rostelecom announced launch of the National cloud computing platform O7 – a suite of systems designed for provision of cloud computing services to authorities of all levels, businesses and individual users.
- Rostelecom consolidated 100% shares of OJSC Mosteleset' via OJSC NTK.
- Rostelecom won the first place in the nomination for M&A deal of the year at the annual award presenting event Investor awards 2012, held during the III Investment in Russia Forum supported by Securities Market Magazine and social network Инвестор.ру (Investor.ru).
- Fitch Ratings international rating agency assigned to the Company a BBB- issuer credit rating with a stable outlook.

June

- Standard&Poor's rating agency confirmed Rostelecom's BB+ credit rating, outlook: stable.
- General Shareholders' Meeting of Rostelecom passed a resolution to allocate 45.95% of net profit for 2011 according to RAS to dividend distribution.
- Sberbank and Rostelecom signed a loan facility agreement valued at 60 billion rubles to be made available to the Company for 3 and 5 year terms.
- The Board of Experts of the Absolute Brand'2012 named Rostelecom the winner in the nomination for creative and skillful rebranding, creating a single brand for a group of companies.

July

- The number of household subscriptions to a unique federal Interactive TV product across Russia reached 1 million, growing by 42% since the beginning of the year.
- Rostelecom became a winner at federal bidding to provide LTE (4G) telecommunications services.
- Rostelecom closed the deal ensuring 100% control over SkyLink Group.

August

- Rostelecom completed the procedure of the public endorsement of the Company's Social Report for 2011 by the Council for Non-financial reporting under the Russian Union of Industrialist and Entrepreneurs (RSPP).
- Russian President Vladimir Putin awarded Rostelecom top executives with medals and orders for webcam surveillance at the polling stations during the presidential elections in 2012.
- Rostelecom acquired Chita-on-Line LLC – one of largest alternative operators in Chita.

September

- On the eve of the XI International Investment Forum in Sochi Rostelecom launched a special IT center where the network operation center of the unified Olympic Telecommunications Network will be located, and data processing and deployment and integration of special solutions and technology for specific sports will take place.

October

- Media Asset Management Department was created in Rostelecom with the responsibilities to manage all TV products of the Company, Interactive TV development, Internet media-portal ZABAVA.ru and coordinate activities of NMA advertising agency and NCN Media holding.

November

- The number of Rostelecom broadband service subscribers exceeded 9 million. The Company continues to maintain the leading position in the Russian broadband service market with about 40% market share.
- The first 3G+ mobile network of Rostelecom was put into operation in Irkutsk region of Russia.

December

- Rostelecom's Armenian subsidiary ZAO GNC-ALFA started promotion and sales of telecommunications services in the Republic of Armenia under Rostelecom brand.
- Rostelecom purchased 140,315,416 additionally issued ordinary registered shares of OJSC Svyazinvest for the consideration of 1,720,267,000 rubles.

THE COMPANY'S POSITION IN THE INDUSTRY

OJSC Rostelecom has been operating in the telecommunications industry since its state registration on September 23, 1993.

Nowadays, the major players in the Russian telecommunications market are the “big four” operators: Rostelecom, MTS, VimpelCom, and Megaphone. These are companies that provide a full range of basic telecommunications services and account for over 80% of all revenue generated in the Russian telecommunications market. Despite a potential for emerging of alternative operators, the four key players occupy the major share of the earnings in the industry as a result of geographic expansion, growth in the regions, and mergers and acquisitions transactions.

OJSC Rostelecom is the undisputed market leader in fixed-line services. As a result of the merger of Inter-Regional Companies into Rostelecom, the Company managed to expand the range of services it delivers and enter new market segments. In this way, the Company significantly increased its market shares and became the country's largest universal telecom operator.

In the past year, the consolidated company remained the dominant provider of telecommunication services in the traditional markets of local and long-distance communication. It also achieved sustainable growth and prosperity in high technology sectors, developing broadband Internet access and data transmission services, as well as interactive paid television, provisioning of VPNs, video conferencing, and intelligent network services. In addition the Company started provision of mobile data services based on 3G+ (HSPA+) technology, thus expanding its product line offered to existing and potential customers.

The Company managed to capture undisputed leader positions in the sector of telecommunication services provided to Russian state authorities of all levels, public entities and institutions.

Local telephony

Rostelecom is the domineering player in the local telephony sector with a 69% market share by subscribers. Local telephony services offered by Rostelecom are available to a vast majority of households in the country, small and medium businesses, large corporations, and government agencies and entities. The number of active subscriber lines exceeds 27 million lines.

Historically, local telephony services are traditionally provided by Rostelecom and account for a considerable share of its business. Some key strengths like possession of a modern and widespread network, access to the last mile connections, and support from the public sector, allow Rostelecom to dominate the market of local telephony services. The table below illustrates Rostelecom positions in this market and market shares of its major competitors as on December 31, 2012.

Local telephony operators	Market share by subscribers
Rostelecom	69%
MTS (including MGTS)	13%
Others	18%

Source: iKS-consulting

In the past three years, Rostelecom was successful in maintaining its leadership in the local telephony segment through its loyalty programs and mitigating churn. However, taking into account the global trend of fixed voice stagnation, Rostelecom relies on substituting its revenue derived from local telephony with revenue from providing services in the fast-growing segments of broadband Internet access, PayTV, VPN and mobile data services.

Intra-area telephony

Historically, Rostelecom occupies a dominant position on the market of intra-numbering plan area telephony. As of the end of 2010, 2011, and 2012 the Company had a 71%, 71%, and 69% market share respectively on the intra-area telephony market in terms of revenues. The Company's principal competitors in this market are OJSC MTS, OJSC MegaFon, and OJSC VimpelCom.

Mobile operators are Rostelecom main competitors on the local and intra-area telephony market. Specifics of licensing allow mobile operators to charge intra-area phone calls at the price of local calls, which significantly reduces the cost of mobile services. Growing mobility of the population, together with the need to remain always connected, also promotes a growth in the use of mobile services. However, the majority of Russians still find the home fixed-line telephone essential due to relatively cheap unlimited pricing plans for local calls, which, in turn, supports the demand for local and intra-area telephony services.

International and Domestic Long-Distance Telecommunications

As of December 31, 2012 more than 40 operators, besides Rostelecom, were licensed to provide ILD/DLD services. Apart from Rostelecom, long-distance services are actively provided by 6 operators, namely: OJSC MTT, OJSC VimpelCom, CJSC TransTeleCom, LLC Equant, CJSC Synterra, OJSC MTS. Moreover, in

addition to the operators' impact, Rostelecom experiences additional competitive pressure from IP-telephony providers, and developers of applications for voice communications over Internet (Skype, etc.).

Despite tough competition in this market segment, Rostelecom is successful in maintaining its leading position in DLD and ILD market, thus confirming its status as Russia's national operator of international and domestic long-distance telecommunications. By the end of 2010, 2011 and 2012 the Company's market share in the ILD/DLD market in terms of revenue amounted to 68%, 66%, and 65% respectively.

Network interconnection and traffic routing

Rostelecom is a leader in traffic routing and interconnection services market for Russian and foreign operators. As in the end of 2010, 2011 and 2012 the Company's market share by revenue amounted to 48%, 50%, and 52% respectively.

Points of interconnection with Rostelecom network are located across entire Russia in all regions. International points of presence are available on the largest traffic exchange platforms in London, Frankfurt, Stockholm, Helsinki, Hong Kong, Amsterdam, and New York.

Rostelecom enjoys a competitive advantage in the traffic transit market by offering a possibility of transiting huge amounts of information via the shortest transit traffic route between Europe and Asia across Russia called Transit Europe-Asia (TEA). The service is implemented through Rostelecom's own DWDM-network and DWDM facilities of its partners in Europe and Asia. As TEA route is fully terrestrial, it offers a number of advantages: highly reliable service with low mean time to restore service (MTTR). Circuits with bandwidth from Nx64K up to STM-64 are provisioned at the customer request and allow for transmission of information in any format including voice, data, and video. The service has a number of parameters suitable to transmit delay-sensitive information alongside the most valuable characteristics of telecommunications products, i.e. reliability and high-quality service.

The Company's principal competitors in the traffic routing and interconnection market are OJSC MegaFon, OJSC VimpelCom, OJSC MTT, and CJSC TTC.

Broadband Internet access

OJSC Rostelecom is both a traditional market leader in the local and long distance telephony markets and an undisputed leader in the Russian Internet market, which is considered to be one of the most competitive of all the markets where the Company operates. While the markets in Moscow and St. Petersburg have already reached a point of saturation with over 80% of the market being controlled by five principle players, the regional broadband Internet markets are in the most dynamic phase of their formation.

In order to further strengthen its position in rapidly developing regional markets, Rostelecom focused its efforts on reinforcing its competitive advantages and consolidating regional assets. The Company's competitors in this market are both major mobile players which recently merged with alternative fixed-line operators, and regional providers. Rostelecom, however, has a significant advantage: its share of the market is nearly four times greater than that of its nearest competitor. Rostelecom intends to further strengthen its position and control half of the broadband Internet market by 2015.

The table below illustrates Rostelecom's position in the broadband Internet market as well as market shares of its major competitors as of December 31, 2012.

Broadband Internet access providers	Market share by subscribers
Rostelecom	40%
ER-Telecom	11%
VimpelCom	10%
MTS	10%
Others	29%

Source: iKS-consulting, the Company information

As of the end of 2010, 2011, and 2012 the Company's share in the broadband Internet market in terms of number of subscribers was around 40%.

PayTV

PayTV segment is one of the key drivers of the telecommunications market growth. With a 22% market share by the end of 2012, Rostelecom is among top three market leaders of PayTV services in terms of number of subscribers. As of the end of 2011 and 2010, the Company's share amounted to 22% and 5%, respectively. The growth of Rostelecom market share in PayTV can be attributed to the acquisition of NTK Group in February 2011. As a result of this purchase, Rostelecom gained a substantial subscriber base of interactive television services.

Rostelecom major competitors in the paid TV market are Tricolor and OJSC MTS. The following table represents the principal competitors of Rostelecom in the PayTV market as of December 31, 2012.

PayTV operators	Market share by subscribers
Tricolor	29%
Rostelecom	22%
MTS	10%
ER-Telecom	8%
Akado	3%
VimpelCom	3%
Others	25%

Source: iKS-consulting, based on information about the number of cable, satellite, and IPTV subscribers

Rostelecom with 49% market share as in the end of 2012 is also an undisputed leader in provision of IPTV – one of the most dynamically growing segments of PayTV market. The leading position in this segment is ensured by launch of a federal platform enabling digital content delivery to various screen types, both for subscribers of the closed own network and to Internet users in general. Based on this platform two new federal products were introduced in 2012: Interactive TV (IPTV) and ZABAVA.ru portal.

Within the Interactive TV product the Company successfully offers up to 180 channels, including over 20 channels in High Definition format (HD), while flexible pricing options allow for content upselling as thematic and additional packages, as well as Video-on-Demand.

With the launch of the unified portal ZABAVA.ru for content and corresponding applications for iPad Rostelecom started content distribution through Internet: online TV, books, music, software, including antivirus software.

In Q4 2012 massive migration of regional platform subscribers to the federal solution was started. This transition will enable enhancement of the range of Interactive TV services offered to such subscribers and a possibility of further ARPU growth.

In addition, using the Double&Triple Play concepts, Rostelecom offers to its customers bundles of Interactive TV and ZABAVA.ru portal with traditional telephony and Internet access. Measures undertaken in 2012 resulted in doubling the customer base of Interactive TV, totaling some 1.4 million subscribers by the year end.

Mobile Communications services

Rostelecom is one of the leaders of the mobile communications market, having significant presence in certain regional markets. Through its subsidiaries and affiliated companies, the Company provides GSM and CDMA-based mobile communications services to 59 Russian regions. The Company's mobile business is concentrated mainly in the Urals, Siberia, the Volga region, and the Far East. As of the end of 2010, 2011, and 2012, Rostelecom's market share in the mobile communications market in terms of number of subscribers amounted to 6%.

Currently, the growth in the mobile communications market can be attributed mostly to the continued development of a newer, more innovative services market, particularly in the data transmission segment. Rostelecom can advance in mobile business by becoming a leader in the data transmission sector by means of transiting to 3G technologies and to a multi-standard network, as well as by collaborating with existing market players, and by sharing infrastructures.

Rostelecom primary competitors on the mobile communications market are OJSC VimpelCom, OJSC MegaFon, OJSC MTS, and Tele2.

The table below illustrates the shares of Rostelecom's primary competitors in cellular communications market in the Russian Federation as on December 31, 2012.

Mobile operators	Market share by subscribers
MTS	29%
Megaphone	28%
VimpelCom	25%
Tele2	10%
Rostelecom	6%
Others	2%

Source: J'son & Partners Consulting

Leased line services

Rostelecom offers circuits for use across entire and beyond.

With 500,000 km worth of its own backbone network infrastructure and local networks of more than 2.6 million km in length covering the entirety of Russia, points of interconnection with the networks of over 190 operators in 70 of the world's countries, participation in 17 international cable systems, cooperation with 2,300 Russian and international operators and companies, and points of presence in London, Stockholm, Frankfurt, and Amsterdam, Rostelecom is a leader in the leased line services market. Its high quality service, meeting both Russian and international standards, makes Rostelecom a reliable partner in this market sector.

Rostelecom's primary competitors on the leased line services market include CJSC TTC, OJSC MegaFon, OJSC MTS, and OJSC VimpelCom. As of the ends of 2010, 2011, and 2012, the Company's share on the leased line services market in terms of revenue amounted to 38%, 42%, and 45%, respectively.

Cloud technologies

Rostelecom was among first companies in Russia to enter the "cloud" technologies market. "Cloud Technology" is a promising business model using information technology as a service. The main advantage of this model includes the absence of costs for purchasing, installation, modernization, and support of expensive server hardware and software.

Having enormous potential, the "cloud" products market is in its early stages of development and opens up for the Company new prospects of sustainable growth for years to come.

Rostelecom has already become a key player in the "cloud" technology market. In accordance with a Russian government decree, Rostelecom is the only company that can control activity under the Federal Special Purpose "Information Society (2011-2020)" Program in regards to the formation of the Russian national "cloud" computing platform.

The main objective of the national "cloud" computation platform is to increase the availability of key information and telecommunication services, which will produce their greatest socio-economic impacts in areas such as healthcare, education, housing, social security, property and land relations, culture, etc.

Currently, the national cloud computing platform systems are residing in 9 Data Centers of Rostelecom macro-regional branches (hereafter referred to as the MRFs) located in the Russian federal administrative districts.

THE COMPANY AND THE BOARD OF DIRECTORS' REVIEW OF THE YEAR 2012

The 2011 reorganization enabled creation on Rostelecom basis of an integrated telecommunications company offering a comprehensive range of communications and data services throughout entire Russia. The Company aims to evolve as the "National Champion" in telecommunications facing toughening competition on the part of private telecom operators.

Last year key commercial initiatives were focused on maintaining the leading positions in telecom industry using the competitive advantages of a consolidated operator, and creating a strong single brand. Additionally Rostelecom efforts were aimed at retention of subscribers in residential sector and accumulating customer base on the broadband service market. Content aggregation for further provision of quality multimedia services to users became an important new line of business for the Company.

Another top priority issue was diversification of product offerings for corporate enterprise users and public entities aimed at retention of long-standing and acquisition of new customers in all industries of the country's economy. The Company was also focused on expanding its exposure on international markets and strengthening its positions as the key provider of the main transit route between countries in Europe, Asia and Middle East.

In 2012 Rostelecom devoted significant attention to improvement of its own backbone, as by developing the capability of this network the Company creates a basis to meet the growing demand for modern advanced quality telecom products and offers to its users diverse capabilities to access Rostelecom services in all the country's regions.

Having completed the reorganization and ensuring integration of the merged companies' business Rostelecom emerged prepared to tackle new challenges; and it was not long until new ambitious projects were in the pipe.

VIDEO SURVEILLANCE AT THE POLLING STATIONS AT THE RUSSIAN PRESIDENTIAL ELECTIONS IN 2012

Then Russian Prime-Minister Vladimir Putin instructed the Central Election Commission and the Ministry of Telecom and Mass Communications of RF (Mincomsvyaz) to ensure video-surveillance of the voting and vote counting at the polling stations during the Presidential Elections in March 2012. According to paragraph 17 Part 2 Article 55 of the Federal Law on awarding contracts for delivery of goods, completion of works, provision of services for the public and municipal needs, Rostelecom was designated the sole provider of the relevant services.

Under the contracts with Mincomsvyaz approved by Rostelecom's Board of Directors on March 1, 2012 the Company rendered services to collect and store video-recordings of the surveillance, to access the data network and distribute the video-signal of the Presidential Elections in Internet. The total value of these contracts amounted to 13 billion rubles (inclusive of VAT).

In order to implement this unprecedented in terms of timelines and scale project Rostelecom employees installed, provisioned and tested over 91.7 thousand of hardware and software units in all the Russian regions. While only 79 days were available for the system deployment the units were installed at all locations where it was planned, except one constituency, namely the Chaibukha locality in North-Evenski area of Magadan region, as it was proved impossible to deliver the required equipment to that location due to inclement weather.

Rostelecom specialists installed over 53 thousand new last mile connections and constructed over 9 thousand km of new links. Capacity of 10 satellites was used to ensure functioning of the surveillance system. Within extremely short time 19 Central Gateway Earth Stations for space communications were upgraded, 4 new gateways were built and about 4 thousand user terminals for satellite communications were connected. Furthermore 7 regional Data Centers were enhanced to ensure collection, processing and storage of surveillance data. 595 special purpose servers were installed at data centers, and over 142 thousand units of telecom equipment were installed on the Company network.

On the elections day the entire system functioned smoothly without any major failures. No system overload was detected. Some 3.5 million people viewed the election webcast on March 4 presented on www.webvybory2012.ru portal and 7.9 million feeds were viewed.

During peak hours www.webvybory2012.ru portal where videos from polling stations across the country could be viewed was serving up to 415 thousand users simultaneously. The surveillance system operation resulted in some 2,636 Tb of information stored at data centers.

On the voting day over 18.5 thousand employees forming about 6.6 thousand emergency teams were on duty in order to rectify possible faults. Over 5.6 thousand vehicles were on duty, including 3 helicopters used in Arkhangelsk and Naryan-Mar.

Rostelecom on-duty teams were in full operational readiness and promptly restored the system at short notice. As a result the average daily availability of the signal was 99.3%, while maximal availability was 99.7%.

Within the framework of this project Rostelecom established two help-desk services: the “hot line” for members of local election commissions, this service was responsible for set-up and maintenance of the hardware-software units, and another “hot line” service for user of www.webvybory2012.ru website.

The help-desk for the website users received over 20 thousand calls with the average waiting time for operator response not exceeding 3 seconds, and average time of call handling was 5 minutes. The help-desk service was distributed among three locations: Lipetsk, Kurgan and Saransk. Over 1.6 thousand operators specially trained for this purpose were handling calls via this service line.

INNOVATIVE DEVELOPMENT

In September 2012 the Company's Board of Directors approved the Innovative Development Program (the “Program”) for 2012-2015 aimed at transforming the Company from an infrastructure provider into a universal operator and creating conditions for further transforming Rostelecom into a global service provider by building up tools required for execution of the Company's general strategy developed for the period of up to 2015.

In the course of the Program implementation the Company completed a number of R&D studies and technical designs including:

Deployment of Regional Medical Information System (RMIS). The Company provided automation of a number of planning and service provision tools, and automation external and internal processes of interaction between customers, staff and institutions. The developed tool was implemented in over 30 constituent entities of the Russian Federation.

Single emergency number “112” – Processing emergency service calls. Design, development and upgrade of the software of the Call receiving and processing system SPOV-112, standard technical documentation for System-112 was developed based on the distributed data processing platform of Rostelecom. The service was designed to meet the needs of governmental authorities and functionally meets requirements of the Regulations for the single emergency service number 112, approved by a resolution of the Russian Government No 958 of November 21, 2011. Pilot deployment was completed in the Republic of Udmurtia; also system design was executed in 6 Russian constituent entities.

“Safe City”. The Company delivered a trial instance of the Safe City solution to ensure undertaking appropriate measures improving safety and security of living in a city and enable functionality to control the level of security and comfort of living, to cut operation costs of the information and technical solution by employing cloud technologies and reduce integration costs of the legacy safety systems.

Model State Information System for Utilities and Housing Maintenance. A trial instance of the unified system for Utilities and Housing Maintenance complex was developed (SIS Utilities Model). The trial instance was deployed in 5 pilot regions of Russia (Belgorod, Kursk, Penza, Tula regions and the Republic of Udmurtia). The system will enable sound decision making related to development of housing maintenance and utility services in Russia and its regions, provide capabilities to maintain records reflecting the state of the housing facilities and engineering infrastructure, ensure control over activities of managing and resource supplying organizations, control over correct charging and quality of the rendered housing maintenance services, cutting operation costs of information and technical solutions by employing cloud technologies and reduction of integration costs of the existing legacy systems. Integration with public service web-portal will improve the public awareness of the existing tariff schedule and provide capabilities to make payments for the rendered housing maintenance services.

Design of the Education tool, including functionality intended for schools and kindergartens. The tool supports an internal social network, working with training audio and video materials, testing, viewing electronic textbooks, integration with the system controlling access to educational facilities, keeping electronic attendance records and payments by parents in educational institutions for minors. This tool received favorable customer assessments on the outcome of trials in Murmansk, Kaliningrad, Rostov and Stavropol regions.

Design of Distant Learning System. This tool provides a flexibly customized training portal, enables training in the form of webinars, automates the process of full-time attendance and mixed (attendance and distant learning) education of the students, support electronic testing of the students. In future it is planned to enhance the tool in order to use electronic training courses. Additionally the trial instance supports training for religious seminaries and schools.

A Universal Multiplex STB was developed, enabling receiving a converged service package offered by the Company. Further product roll-out will increase the share of domestically developed offerings within the

framework of the cloud services provided in Russia, cut upfront costs and ensure free access to standard services and software applications. This offering will enable using cloud services for making payments for housing maintenance services, entering meters' readings, tax and fine payments, etc. and provide capabilities to create Smart Home applications on the STB basis.

In the course of implementation of energy saving and improving energy efficiency, an energy consumption management framework was developed enabling monitoring of energy resource consumption and comparison analysis to identify best energy saving practices. The energy saving framework will include some energy consumption forecasting.

In 2012 a number of tools and features were deployed on the Basis of the Nationwide Cloud Platform O7, in particular, Virtual Data Center service was developed. Further enhancement of this service will enable optimization of capabilities to use virtual infrastructure of the cloud service platform, in particular, to offer customers virtual facilities to arrange low cost back-up storage. Also a Virtual Enterprise service was developed within the Platform O7 framework. Further enhancement of this service will increase the share of domestically developed offerings within the framework of the cloud services provided in Russia, cut significantly the upfront costs and ensure free access to standard services and software applications for individual entrepreneurs, small and medium businesses. Implementation of this service is aimed at improving efficiency of financial and business operations of small and medium enterprises, streamlining interactions between enterprises, market servicing and communicative capabilities.

ELECTRONIC GOVERNMENT

In order to improve performance of governmental and public authorities the Russian Government since 2002 has been implementing the Federal Special Purpose Program called The Electronic Russia. The E-Government project within the framework of this program is aimed at ensuring the rights of people and organization for access to public services, including the right to obtain information regarding the structure and functions of public authorities and state institutions.

According to the Resolution of the Russian Government No 238-r of February 22, 2012 Rostelecom was designated the sole contractor for E-Government project for 2012-2014.

In furtherance of the Electronic Russia Program the Russian Government Resolution 1815-r of October 20, 2010 established and approved another Federal Special Program called the Information Society. This Program was developed for 2011-2020 and covers in particular development of a public services portal, development of common trusted environment of digital signatures, enhancement of e-workflow between authorities, common authentication system. Rostelecom is also engaged in development of tools enabling usage of mobile devices to access e-government services and state e-mail to be employed for interactions between citizens and state authorities.

The Company's responsibilities and roles as the contractor additionally include creation of common reference information/directories and classifiers for state information systems, and development of other projects like electronic civil registration office, electronic region and electronic democracy. The Nationwide cloud platform O7 being designed and deployed by the Company became the framework for implementation of the above systems.

In 2012 Rostelecom ensured completion of the following key federal level projects under the Information Society Program:

- The State Information System Common Portal of Public and Municipal Services was further enhanced and currently enables electronic provision of 285 public services on the basis of 41 federal executive power authorities both for individuals and entities, as well as 2700 regional services on basis of over 1100 municipal bodies. Over 4 million users were registered on the portal, while the number of services rendered in 2012 exceeded 7 million or 2.5 times more that in 2011. Users of the common portal are provided with information/directory support.
- Development of tools enabling usage of mobile devices to access E-Government services continued further. Currently over 30 e-services are offered on mobile devices to view offline various federal, regional and municipal public services.
- A common trusted environment of digital signatures was created. The Company provided a capability to view and sign electronic documents in compliance with Russian law.
- The electronic workflow between authorities was further enhanced and over 100 million service calls were registered in the system.
- A single system of reference information/directories and classifiers to be used in state and municipal reference information systems.

- Electronic civil registration office was tested in 8 pilot regions. A sample SaaS-solution was developed for regional civil registration offices.
- Over 150 services both for state authorities and businesses were developed and put into operation on the basis of the Nationwide Distributed Data Processing Platform whereby computer resources and computing capabilities are offered to users as a web-based tool.
- Development of the automated information system for management of IT implementation in regions and administrative bodies continued further.
- Operation of the production instances of 11 information systems of the E-Government Project infrastructure was started.

Moreover in 2012 Rostelecom completed the following **regional projects of the Federal Special Purpose Information Society Program**:

- Development of the information system supporting cloud services for e-workflow and interactions between authorities within the framework of 14 socially significant services enabled receiving requests from people and organizations on the public service portal, cut document processing time and implement the capability to control request execution and track processing stages of documents under people requests.
- A system for automation of workflow between various authorities (TKMV RU) was developed to solve 2 primary functional tasks: to provide a capability to establish standardized electronic interactions between regional administrative authorities; and a capability of automated usage in the interactions between administrative authorities of information resources owned by regional executive branch bodies and web-services provided by federal executive bodies.
- Development of software and hardware solution Electronic municipal government for automating operations of local self-government authorities and provision of municipal services. This SW and HW solution is incorporated into E-Government Project in the regions implementing it and enables improvement of efficiency of execution of state and municipal tasks and functions
- Development of a cloud-based solution for provision of library directory services and information about large scale events. This is designed to alleviate the problem of significantly declining library attendance. The primary function of this service for people is accessibility of information regarding the library stock, while for authorities in the implementing regions it is automation of maintaining a single catalogue of publications and cost cutting. In addition the service ensures accessibility of information about holding large scale events.
- Development of the regional segment of the E-Government Project infrastructure (Stage 3) related to portal-based solutions for interactions with regional executive bodies and local municipal governments. The goal of this system is provision to Russian constituent entities, municipal entities a capability to ensure participation of people and public organizations and associations in the governmental and public administration based on the implementation of electronic democracy mechanisms using modern Information Technologies in the common electronic information environment.

Rostelecom to further develop the State Information Society Program in 2013 along the following main lines:

- Execution of R&D, design and engineering and other works under the State Information Society Program.
- Ensuring operation of information systems of the Electronic Government infrastructure deployed in 2009-2012.
- Development of the regional segment of the Electronic Government infrastructure within the framework of the Company investment program.
- Enhancement of the National cloud platform.

PROJECT "OLYMPIC WINTER GAMES 2014 in SOCHI"

In January 2009 Rostelecom won a contest conducted by the Organizing Committee of the XXII Olympic Winter Game 2014 in Sochi, and alongside MegaFon was announced a General Telecommunications Partner of the XXII Olympic Winter Game 2014 in Sochi and holds an official right to use the designations of Telecommunications Partner/Telecommunications Operator of the XXII Olympic Winter Game 2014 in Sochi.

It is not simply accidental that Telecommunications was the first category where General Partners were designated. Organizing of the XXII Olympic Winter Game 2014 in Sochi pronounced the Games innovative, and telecommunications is an infrastructural and innovative sector of the economy. For the Company as

Russia's national telecom operator telecommunications is evidently the starting point for implementation of huge scale projects. The primary strength of Rostelecom is its ability to deliver complete turn-key technological implementation of the project. The Company's unique capabilities enables it to deploy in south of Russia a groundwork for offering state-of-art telecommunications services before, during and after the Olympic Winter Games 2014.

The Company's specialists have been performing huge amounts of work to prepare and construct the infrastructure for the forthcoming Olympic Winter Games in Sochi'2014. The principal investment policy goal in the Southern Federal Administrative District is deployment of the core network for the Common Information and Telecommunications Infrastructure for Olympic Games 2014. Another primary goal is upgrade and modernization of the existing digital backbone links to increase the network throughput by tens times, improve the network resilience and optimize backbone performance.

Altogether within the Sochi'2014 Project Rostelecom will provide connection links to network infrastructure and telecommunications services at 33 various Olympic sites, install over 300 km of fiber-optic links with up to 288 fibers and physical route diversity.

Telecommunications Network Built-Out Program:

- Construction of a fiber-optic link between the Coastal and Mountain clusters, 98 km in length;
- Construction of infrastructure and fiber-optic links in the Coastal Cluster, total length is 55 km;
- Construction of infrastructure and fiber-optic links in the Mountain Cluster, total length is 90 km;
- Line construction in the section Veseloe – Sochi – Dzhubga, total length is 185 km, to provide back-up link for protection of the existing fiber-optic link;
- Construction of access nodes of the transport and multiservice networks to Olympic venues;
- Construction of infrastructures at the Olympic venues.

In 2012 Rostelecom completed capacity upgrade of the fiber-optic link connecting the Mountain Cluster venues with the Company's backbone up to 10Gbps in order to provide advanced telecom services for trial competitions.

Also last year during Olympic Summer Games 2012 in London Rostelecom ensured live broadcast of the Games, cultural program of the Olympiad and other prominent events at the Olympiad at the Live Sites of Sochi'2014 in 16 Russian cities and in Russia Sochi Park in London, as well as a webcast on the specially created website.

As the technology operator of the project the Company provided high-speed circuits, connections of each Live Site in major cities to the backbone, editing in real time, added subtitles, professional commentaries, infographics and formed linear programming. Technologies used by the Company enabled broadcast in Full HD, and provision of high-capacity circuits resulted in video-quality at Live Sites significantly surpassing the ordinary TV quality.

The successful implementation of the project directly depended on the availability of a unified common high-tech telecommunications infrastructure, and broad-scale international cooperation and the Company's experience in provision of most advanced services made it possible to employ efficiently the state-of-the-art technologies to implement similar nationwide project with excellent quality.

Additionally Rostelecom developed a free-of-charge application London'2012 Medal Standing enabling users of mobile devices and social networks to track medal distribution at the XXX Olympic Summer Games and Paralympic Games in London. The application was installed on over 30 thousand devices and was at the top in ratings of free-of-charge Russian made applications.

In September 2012 the Company commissioned for operation the Olympic IT Center where the network operation center of the unified Olympic Telecommunications Network will be located, and data processing, deployment and integration of special solutions and technology for specific sports will take place. The IT Center accommodates the following specialized centers:

- Technology Operation Center (TOC);
- Primary Data Center (PDC);
- Network Operational Center (NOC);
- Technology Service desk, Game Call Center;
- Technology Training Center (TTC);
- Integration Test Lab (ITL).

Resources deployed in the IT Center will be used for provisioning and maintenance of all information and telecommunications systems for the Games in Sochi, Olympic Broadcasting Service, the International Olympic Committee, various sports federations and TV broadcasters of the whole world, for public and private sectors in Sochi after the Games.

The Company completed construction and installation of the main telecommunications node in the Coastal Cluster at the Bolshoi (Large) Ice Palace which will link all sports venues in the Olympic Park into a ring network with total capacity of 144 fibers. The total length of fiber-optic links already installed in the Olympic Park area is over 35 km.

In 2012 Rostelecom jointly with the Sochi'2012 Organizing Committee created a telecommunications infrastructure to host 47 international trial competitions in 2012-2013 season, moreover the Company provided support for Russia's Cup and Championship competitions in the Olympic city of Sochi in 2013, this is the largest ever competition program.

The following sport venues: Bolshoi Ice Palace, Puck Ice Arena, Ice Cube Curling Center, Iceberg Winter Sport Center, Adler-Arena Skating Center, Laura Cross-Country Ski and Biathlon Complex, Rosa-Khutor Mountain Ski and Extreme Park, Ski Jump Complex Russian Roller-Coaster and Bobsleigh Center Sledge for holding trial competition competitions were connected to the Company backbone with 10 Gbps links and provisioned with all required features and tools, like Internet access, IP-telephony lines, high-speed data circuits for TV broadcast, special (ISDN BRI) circuits for connection of commentators positions. Additionally a wireless WiFi network for Internet access was set-up at photo taking positions, in mix area, press-centers, locker-rooms for athletes and referees. Also automated information results and competition time systems were connected, etc.

Volumes of basic telecommunications service, like international and domestic long-distance telephone service, local and intra-area telephony, dedicated Internet access, IP VPN services, Intelligent Network service rendered to Sochi'2014 Organizing Committee were substantially increased.

On the basis of the infrastructure under construction Rostelecom intends to offer a range of modern telecom services to Sochi inhabitants, in the interests of Krasnodar krai and other Russian regions. Solution developed in the course of preparations to the Olympiad will be reused by the Company throughout Russia. Altogether this will undoubtedly add new momentum to the development of the Russian telecom industry.

While creating the infrastructure the Company employs most advanced solutions paying due attention to protection of environment and employs state-of-the-art technologies preserving the ecological balance in the region and the natural beauty and variety of Krasnodar region.

The Company's activities in the course of preparations to the Olympic Games are conducted under the motto Olympiad 2014 for everyone. In other words owing to the infrastructure created by Rostelecom everyone in Russia and throughout the world for that matter will be able to become a direct participant in this unique sports festival.

A special part of Rostelecom activities related to the Olympic Games 2014 in Sochi is devoted to publicity and promotion of the values of the Olympic movement. The Company plays an active role in projects aimed at promoting these values, in particular, facilitate adoption of the healthy life-style. An innovative Olympic distant learning system developed together with Sochi'2014 Organizing Committee and Russian Olympic Committee will be part of the humanitarian heritage of the Olympic Games in Sochi. The first Olympic lesson was conducted on the Day of Knowledge September 1, 2012.

DEVELOPING RETAIL RELATIONSHIPS

In the reporting year, Rostelecom developed relations with corporate and residential customers through the expansion of its offer portfolio, provision of a full range of telecommunication services, and introduction of federal offers guaranteeing high parameters of services across the entirety of its network.

An extended network of sales and servicing that consists of about 2300 offices located in regions throughout the Russian Federation allows the Company to sell services efficiently, to provide customers with assistance in the use of services, as well as information on existing services. To deliver more comprehensive service the Company works hard so as to perfect remote sales and service channels.

To simplify the procedure of negotiating contract conditions, the Company drew up a universal agreement that permits subscribers to access information pertaining to all of the Company's services within a single contract.

In order to develop relations with individual customers the Company proceeded with operational management of customer retention, developed measures aimed at reducing churn, at classification and elimination of causes for customer contracts termination. Also, steps were initiated to standardize and improve quality of connection of users – individual customers.

To enhance relations with corporate customers the Customer primarily focused its efforts on implementation of common standards of sales and customer service in order to built-up sales volumes and reduce churn. Earlier a unified segment-oriented system of sales and customer service was put in place alongside general common standards of relations with corporate customers on the federal level based on this system, and

common principles of interactions with agents were developed in order to improve efficiency of the indirect sales channel. In the reporting year the Company improved sales efficiency through diversification of product portfolio, creation of service bundles, development of comprehensive services based on the National Cloud Platform.

Service federalization and unification was underway, and implementation of the complete service portfolio throughout Russia continued, measure were undertaken to improve quality through distribution network modernization. Streamlining relations with corporate federal customers the Company centralized interactions with head companies from TOP-400 major companies list, introduced centralized billing for such customers and single invoice issuing for all services being rendered in all Russian constituent entities. Structural hierarchy and process management enabled prompt handling of centralized tasks in the field and ensured implementation of “one-stop shopping” principle for corporate customers.

In order to improve customer service the Company extensively enhances channels of distant interactions with customers.

The Company also continues to work for service and tool integration by enhancing bundled and packaged solutions for all customer segments. Introduction of new services continued quite actively, while customized and customer specific solutions were designed for key accounts. The Company’s ambitious goal is mobile expansion and becoming the fourth major federal mobile operator.

In the corporate customer segment in 2012 a new packaged solution was launched, called Business to Be. This solution offered voice telephony and Internet connection in a bundle and was aimed at encouraging growth of the Company’s service consumption by small businesses enabling customer to choose for themselves the number of telephone lines and voice traffic volumes included in the bundle. Altogether 18,485 customers using this offer were connected to service in 2012.

Apart from this during the past year a number of promotions were made aimed at reconnecting customers who terminated using the Company’s voice services in 2011-2012.

RUSSIAN OPERATORS’ MARKET

Provision of telecommunication services to Russian and foreign operators is Rostelecom traditional specialty. Long-standing operator experience, as well as the unique advantage of possessing its own digital transport network with extensive geographic coverage enable the Company to provide high quality telecommunications services both in the Russian Federation and abroad.

Today Rostelecom has direct connectivity with network operators in 70 countries. It provides telecommunication services to over 2500 fixed-line and mobile operators and Internet and content providers. Rostelecom products portfolio includes options for voice, data, and video transmission and offers service at different levels corresponding to operators’ individual requirements.

In 2012 the Company continued to reinforce partner relations with international operators and telecommunications service providers of other countries in order to maintain its position on the market of international traffic, in particular, new routes were established with the purpose of penetrating new geographic markets.

In October 2012 a cross-border link between Russia and Mongolia was established with a Mongolian operator Mobicom and a long-term contract was signed to provide at least 20 Gbps transit circuits with the total value of at least 6 million US dollars.

The Company also launched a new international link between Kaliningrad and Poland in order to streamline costs of service provision for end users and telecom operators in Kaliningrad.

In December 2012 tests of a temporary solution with the initial capacity of 100 Gbps under the EPEG (Europe-Persia Express Gateway) project were started. A 20 Gbps Asian portion of MPLS network connected to upstream flows in Tokyo and Hong Kong was completed. In February 2012 a BTM-TEA project with the initial capacity of 200 Gbps was launched toward Japan, and in August – to China.

During 2012 contracts for the total capacity of 170 Gbps, including the contract with Mobicom, also circuit bandwidth to Europe was upgraded to 740 Gbps from 380 Gbps before the upgrade.

TRADITIONAL TELEPHONY SERVICES

Fixed-line telephony services are also a traditional venue for Rostelecom and account for a considerable share of its business. After the merger, the Company was presented with a unique opportunity to provide its customers and interconnected operators with fixed-line telephony services on all levels of the telephone network interconnections, namely local, area, national, and international.

Approximately 58% of the Company’s revenue in 2012 was generated by provision of fixed-line telephone services:

	Russian rubles in millions.
Urban and rural telephone service	85,734
Domestic and international long-distance calls*	20,390
Intra-area telephone service *	18,754
Total	124,878

In the segment of corporate and residential customers, the Company aimed its efforts at reducing churn of existing subscribers and winning back users of international and domestic long-distance telephone services who switched to other operators. Therefore, as of the merger completion, the Company introduced its federal promotional offer for households called "One hour of free intercity phone class", aimed at encouraging subscribers to switch to unlimited pricing plan for local telephony, while receiving a monthly minute package for intra-area and long distance calls to the public telephone network. Subscriber were able themselves to control the number of minutes in their packages through an additional purchase of broadband Internet or IPTV services. Over 304.2 thousand services were additionally contracted under this promotional offer. At the federal level additional pricing plans were also approved intended both for entities (including those for the purposes of bidding in tenders/trades/requests for proposals), and for the residential sector. By the end of 2012 some 100 thousand users of international and long-distance telephone services selected additional pricing plans.

In 2012 Rostelecom continued to further develop its relations with Russian regional telecom operators. In particular, Rostelecom suggested efficient inter-operation frameworks to provide international and long-distance service to subscribers of such operators.

Rostelecom offers interconnections to its own trunk network infrastructure for local and intra-area communications operators in all regions, thus forming a common united national telecommunications network and offering its customers capabilities to make use of international and long-distance telecommunications services in any locality across Russia. When a local telephony subscriber makes domestic long-distance and international calls, regional operators provide the Company with call origination and termination on intra-area and local network level. The Company also pay agency fees, if settlement of invoices with end users, as well as other activities related to customer service, are carried out by an agent.

MOBILE SERVICES

Rostelecom independently provides mobile communication services in 17 Russian regions (and in 59 Russian regions taking into account subsidiaries – NCC, BWC, ETC, companies of SkyLink Group, Volgograd GSM, AKOS, BIT)

In 2012 the Company's revenue in the cellular communications market was 41,161 million rubles, accounting for 12.8% of Rostelecom's total revenue.

Some 13.6 million subscribers use Rostelecom mobile services. Rostelecom's mobile business is concentrated mainly in the Urals, Siberia, the Volga region, and the Far East. Last year, the Company's Ural macro-regional branch started to actively promote converged service offers, bundling fixed and mobile voice services to one single invoice.

In 2012 witnessed launch of 3G+ networks in some regions, more start-ups are in the Company's plans for 2013. By the start of network commercial operations Rostelecom developed special pricing offers and Internet traffic packages that should not only please the existing subscribers, but could become an encouraging factor for new users to connect to the network.

With launch of 3G+ networks the Company's customers will find absolutely new capabilities and data speeds of mobile data.

BROADBAND INTERNET ACCESS

Broadband Internet access services are traditionally offered by the Company to the residential and corporate customers' segments and account for a substantial part of the Company's business.

The Company's revenue generated by provision of broadband Internet access services in 2012 totaled 49,797 million rubles (VAT not included), accounting for 15.5% of Rostelecom total revenue.

In 2012 the Company continued to adhere to access network modernization plan in order to support introduction of new services and a multiservice model. Over the entire year of 2012 the Company was phasing out xDSL access technology and switching to FTTB and PON.

To improve grade of services in all points of presence and drive demand for the Company's offerings among general population Rostelecom in 2012 introduced a common federal offer "Home internet" (Unified

broadband Internet 2.) with a consistent structure and common charging policies. The revamped offer has 4 pricing plans with pre-set speeds and pricing enabling segmented offerings for different users' groups depending on income brackets. In September in order to encourage demand for packaged offers of the Company a new nationwide offer TVIn (Home Internet + Interactive offer) was introduced and over 140 thousand users subscribed to this offer.

The quality of services rendered by Rostelecom confirmed by certificate of compliance of Internet access service of Rostelecom with requirement of the System of voluntary certification of telecom services, telecom facilities and telecommunications quality management systems called Svyaz-quality.

PayTV SERVICES

In 2012 on the basis of a common technical solution Rostelecom launched a nationwide platform enabling digital content delivery to various types of screen, both for subscribers of its own closed network, and for Internet users in general. Two new nationwide products were introduced in 2012 on the basis of this platform: Interactive TV (IPTV) and entertainment portal ZABAVA.ru.

Upon results of 2012 the Company's revenue from provision of PayTV services amounted to 9,147 million rubles of 2.8% of the total income.

Within the Interactive TV product Rostelecom started to successfully offer of up to 180 channels, including over 20 channels in High Definition format (HD), while flexible pricing options allow for content upselling as thematic and additional packages, as well as Video on Demand.

With the launch of the unified portal for content ZABAVA.ru and corresponding application for iPad Rostelecom started content distribution through Internet: online TV, books, music, software, including antivirus software.

In Q42012 massive migration of regional platform subscribers to the federal solution was started. This transition will enable enhancement of the range of Interactive TV services for such subscribers and open a possibility of further ARPU growth.

In addition, using the Double&Triple Play concepts Rostelecom offers to its customers bundles of Interactive TV and ZABAVA.ru portal with traditional telephony and Internet access. Measures undertaken in 2012 resulted in doubling the customer base of Interactive TV, totaling at the year end some 1.4 million subscribers.

The subscriber base of Cable TV in 2012 totaled 5.2 million subscribers, of which 4.7 million are subscribers of NTK Group.

DATA SERVICES

Widening its lines of business in 2012, OJSC Rostelecom assigned a special priority to the development of data transmission and telematic services, including Internet access and data center services, as well as the provision of virtual private networks (VPNs).

Easy access to the high-speed Rostelecom network in all regions of the Russian Federation, flexible tariff options and guaranteed superior quality and reliability, all help maintain strong demand for data services.

In 2012 Rostelecom's revenue from provision of data services amounted to 20,815 million rubles or 6.5% of Rostelecom's total revenue.

Using huge capabilities of a powerful modern telecommunications network enables the Company to offer data transmission services to various categories of customers, from residential consumers to large operators, content providers and governmental authorities.

Network Interconnection and Internet traffic transit are among the Company's top priority activities. The Company's revenue received from the provision of these services in 2012 amounted to 21,003 million rubles or 6.5% of Rostelecom's total revenue. The Company renders network interconnection services, including voice, VoIP, and signaling traffic transit on the local, area, national, and international levels to over 2,300 Russian and foreign fixed and mobile communications operators. Network interconnection services include establishment of inter-operation between the Rostelecom network and various operators' communications networks in order to make it possible to transmit traffic between them. Technical facilities of operators can be connected Rostelecom's resources both by dedicated channels and directly to ports of switching equipment. In order to perform interconnection, an operator is allowed to install its equipment on Rostelecom's technological platforms. It is also possible to interconnect with Rostelecom's network through the use of technical facilities of other operators, interconnected with the Company's network.

In 2012 as compared with 2011, the Company increased its market share of the backbone Internet market up to 40%. Factors which drive significant growth in demand for Rostelecom services include availability of an extensive high-speed data transmission network and superior quality parameters achieved by providing

direct connectivity with the world's leading Internet providers, as well as direct link with major traffic and content exchanges both in Russia and beyond. One of Rostelecom's most significant activities in 2012 was further enhancement of peering relations with international and domestic operators in order to improve network connectivity, quality of Internet access services and cut the costs of Internet traffic purchasing.

A key milestone in the development of both the international and Russian segment of Rostelecom-owned MPLS network was the increase of the European network capacity up to 1.1 Tbps by the year end and establishment of regional peer-to-peer connections with networks of most significant domestic Tier-2 providers for traffic localization, aimed at the optimal routing and saving backbone resources. By the end of the year, the total capacity of peering connections with Russian and foreign operators and content providers was increased up to 1.8 Gbps.

Nowadays, the Company is present at such traffic exchanges DE-CIX (Frankfurt, Germany), MSK-IX (Moscow), Netnod (Stockholm, Sweden).

The project "Virtual City" was continued to be implemented to advance further Internet traffic localization. This project will ensure saving costs involved in the construction of backbone networks, improvement of Internet service quality, reduction of the cost of traffic through purchasing from a single supplier. Currently over 200 Gb of traffic are localized with the total throughput increase up to 754 Gbps from 206 Gbps previously.

Google Global Cache (GGC) project was launched to install Google caching nodes on Rostelecom's network. At the moment the nodes are installed in all Macroregional Branches of Rostelecom. In total all Google nodes provide to users 160 Gbps during peak hours, while consuming less than 25 Gbps. With launch of the GGC project Rostelecom's users experience significantly shorter response time to access Google services, and it became possible to view video content with the very best quality.

Provisioning of Virtual Private Networks (IP VPN) is an interesting option primarily mostly for Rostelecom's corporate customers. Rostelecom's own IP/MPLS backbone network capabilities enables the Company to offer services for provisioning of private virtual networks (IP VPN) uniting all geographically distributed customer offices into a protected corporate network with a united information environment, full range of communications services, and high reliability.

Data transmission security is ensured with the use of MPLS technologies, where each VPN- network of a customer is separated from networks of other customers, thus providing full protection of the traffic from unauthorized access. In addition, Rostelecom's IP/MPLS network has been granted a certificate of compliance of the packet switching network with information security requirements of FSTEC of Russia, which guarantees a high degree of protection of the provided services.

High reliability and availability of services are ensured by ring protection on Rostelecom's backbone network, which is guaranteed by signing the Service Level Agreement (SLA), and also backed by round-the-clock network monitoring and user support.

Rostelecom ensures provisioning of L3 VPNs of any topology and L2 VPNs/VPLS. Depending on customer's requirements the Company will provision VPNs of any scale: local, nationwide, and international.

Applying common IP-based standards enables integration of various company services and features VPN services, such as International Free Call service (dial numbers 8-800), outbound domestic and international long-distance telephony services over IP, Internet access services and server collocations services. These universal standards permit Rostelecom to offer its clients comprehensive services, with convenient usage and saving of time.

Excellent quality, superior performance and reliability characteristics of Rostelecom services to provision virtual private networks are confirmed by a certificate of compliance of the INTERECOMS Voluntary Certification system for services in the field of communications, information technologies and quality systems of enterprises.

In 2012 Rostelecom continued to enhance **the carrier-grade service "Interconnection and transmission of traffic of virtual private networks (InterAS VPN)"**. Using this service, operators are able to extend the reach of their virtual private network services to the entire data transmission network of Rostelecom.

Such interactions between operators allows for creation of a virtual private network (VPN) between offices located in the networks of different operators, with the networks possibly situated in different countries. Regardless of the distance between the user networks, or its offices and regional sites, IP VPN ensures full connectivity between them, security, operation and interactions of any business applications.

InterAS VPN service features all of the advantages of the IP VPN service, including support of Service Quality Management (QoS), the possibility to implement VPN with any topology, provision of high security data transmission, as well as reduced costs of equipment and network operation. The principles applied in

the provisioning of network-network interface, including agreement on Classes of Service (CoS) and carrier service level (SLA), guarantee an excellent quality of IP VPN services of both parties involved.

The key competitive advantages of InterAS VPN service offered by the Company are considered to be wide geographic coverage of its own backbone network, optimization of customer's expenses and flexible tariff plans, advanced technology and equipment, as well as a certificate of compliance for packet switching networks with information security requirements of the FSTEC of the Russian Federation.

Rostelecom data-center services are currently actively adopted by corporate customers and communications service and content providers. By the end of 2012, the Company has set-up 9 data centers, located in Khabarovsk, Novosibirsk, Ekaterinburg, Kazan, Kaliningrad, Stavropol and Moscow. Rostelecom's service offered on the basis of data centers allow customers to install their own server or telecommunications equipment or rent from Rostelecom a server with required configuration and have a permanent high-speed access via Internet to information resources located on servers.

Date Center services enable Rostelecom customers to have a high-speed access to data information resources with confidence in security and integrity of the stored data, and in stable and uninterrupted operation of the equipment and information systems. The Company was granted certificates of compliance for its data center services from the INTERECOMS Voluntary Certification system for services in the field of communications, information technologies and quality systems of enterprises. Additionally, committed quality of service is supported through usage of state-of-the-art technologies and legally and financially ensured by signing a Service Level Agreement (SLA).

Diversifying its business in 2012, Rostelecom aggressively advanced and promoted its data center services among hosting and content providers. Now Rostelecom's data center services, like placement of one's own equipment in a data-center or renting from the Company a dedicated server with a specific configuration are already widely-used by major federal and regional content providers.

Rostelecom continues to deploy VoIP-transit service specifically designed to meet the needs of operators who offer IP-telephony services to end users, for the purposes of interconnection and voice traffic routing over IP. Interconnection with Rostelecom's network is provisioned in facilities or traffic exchange points, as well as through public Internet. The service ensures reliable traffic transmission routes, and required port speeds depending on the operators' traffic volumes.

The Virtual Corporate Telephone Network service (Virtual Telephone Network - VTN) enables provision of a corporate telephone network with a common uniform numbering plans with short numbers and distribution of incoming calls on the basis of an IP-network, without the need to purchase a traditional PBX switch, while using over 100 additional intelligent services of the Company's IP-based softswitch. It is worth noting that some of these services and features are impossible to implement using traditional digital telephone switches.

Using the relevant web-interface a customer is able to manage settings of its corporate telephone network and additional intelligent services, while technical administration of the corporate telephone network is outsourced to Rostelecom.

NETWORK INTERCONNECTION AND TRAFFIC ROUTING

Provision of interconnection with its network and voice traffic routing services has been historically a key Rostelecom designation. The Company offers interconnection and voice traffic routing services on the local, area (NPA), long-distance and international levels of interconnect to over 2,300 Russian and foreign fixed-line and mobile operators.

In 2012 the Company's revenue derived from interconnection and traffic routing services amounted to 21,003 million Rubles, accounting for 6.5% of the Company's total revenue.

Network interconnection service consists of establishment of inter-operation between the Rostelecom network and various operators' communications networks in order to make it possible to transmit traffic between them. Technical facilities of operators can be connected Rostelecom's resources both by dedicated channels and directly to ports of switching equipment. In order to perform interconnection, an operator is allowed to install its equipment on Rostelecom's technological platforms. It is also possible to interconnect with Rostelecom's network through the use of technical facilities of other operators, interconnected with the Company's network. The Company Points of Interconnection are located in all Russia's constituent entities.

Rostelecom also offers call termination services to networks of Russian and foreign operators. These services enable traffic delivery from points of interconnection with other operators' networks to user (terminal) equipment on Russian and foreign networks. Traffic delivery ensures quality transmission of voice and facsimile messages, and ISDN and IN traffic. Additionally Rostelecom has facilities for provision of switched transit for voice traffic across its own network situated between networks of Russian and foreign operators.

LEASED LINE SERVICES

In 2012 Rostelecom remained one of the leaders in providing leased digital dedicated circuits to corporate customers and operators in the Russian Federation and abroad by leveraging its main competitive advantage: possessing the largest modern backbone telecommunications network in the Russian Federation.

In 2012, revenue from provision of telecommunications circuits for use amounted to 11,269 million rubles, or 3.5% of the Company's total revenue.

Rostelecom offers for lease 10 Gbps circuits on any scale: local, intra-area, national, and international. The service is provided on the basis of Rostelecom's own high-speed backbone network and distributed local networks in all regions of Russia.

Rent of digital channels from Rostelecom enables a customer to transmit huge volumes of information of any type, including data, voice and video traffic, without any restrictions. Customers can also use leased channels to set up corporate networks, thus uniting all regional offices in one common information environment.

Leasing its digital circuits Rostelecom guarantees security of transmitted information. Any information transmitted internally via communications circuits is protected against any external influence, as data is exchanged directly and without any need for additional switching equipment. This is particularly important for customers with strict information security requirements. Moreover, the Company ensures round-the-clock use of a dedicated circuit with a guaranteed throughput, as well as the ability to promptly upgrade the circuit capacity.

High reliability of the provided service is ensured by using dense wavelength-division multiplexing DWDM, ring protection of network sections, and supported by signing a Service Level Agreement with the customer.

Rostelecom continues to deploy VoIP-transit service specifically designed to meet the needs of operators who offer IP-telephony services to end users, for the purposes of interconnection and voice traffic routing over IP. Interconnection with Rostelecom's network is provisioned in facilities or traffic exchange points, as well as through public Internet. The service ensures reliable traffic transmission routes, and required port speeds depending on the operators' traffic volumes.

INTELLIGENT NETWORK SERVICES

Rostelecom's own telecommunications network and intelligent platform enable the Company to provide its customers with intelligent network services on local, intra-area, federal, and international levels, offering high quality communication at low prices and huge opportunities to gather and handle statistical information.

On the basis of License No. 29777 issued by the Ministry of Communications and Information Technologies of the Russian Federation Rostelecom provides the following intelligent network services:

- Freephone service, using 800 dialing code;
- Televoting service using 803 dialing code;
- Premium rate communication services with 809 dialing code (Premium Rate Service);
- International Freephone Service;

Last year, specifically for the Freephone Service the Company introduced a web-click feature allowing to make call to service subscribers' intelligent service numbers by a click (selection with a mouse-button) on special banners posted on service subscribers' websites. Additionally, for the premium rate service, the Company generated and implemented 11 new services, which allow customers to get access to reference information and directory services, as well as entertainment content.

Also in 2012 Rostelecom launched commercial operation of IN service "Televoting" enabling real-time voting at special contests and competitions. The service is widely adopted by TV and sound broadcasting companies, as well as by their partners (content providers) providing chargeable voting services for such popular TV projects as Dancing with stars and Battle of psychics. Last year Rostelecom's televoting was used for international song contest Eurovision'2012 and Children's Eurovision'2012.

ENHANCING COOPERATION WITH GOVERNMENT ENTITIES

Historically, Rostelecom has been providing telecommunications services to state and governmental bodies in defense, security and law enforcement sectors. High quality and security of services, as well as the Company's skills and care have made it a trusted partner for such respected state bodies of the Russian Federation as the Federal Security Guard Service (to provide telecommunications services for the Presidential and governmental communications), the Ministry of Internal Affairs, the Ministry of Defense, the Ministry of Emergency Situations and Relief, the Federal Security Service, the Ministry of Telecom and Mass Communications of the Russian Federation, the Russian Post the Federal Service for State Registration, Cadaster and Cartography, the Federal Tax Service, the Pension Fund, the Federal Healthcare Institution

Center of Blood of the Federal Medical and Biology Agency, the Federal Customs Service, the Supreme Court, Court Department of the Supreme Court, the Federal Center for IT implementation of the Central Election Commission, Federal Technical Supervisory Service, Federal Communications Supervisory Service, and many others.

Besides on the basis of Federal Law № 94-FZ of 21.07.2005 and relevant Ordinances of the President and Government of the Russian Federation Rostelecom was designated as the sole contractor to provide telecommunications services for Presidential and Governmental Communications (Specsvyaz of the Federal Guard Service of Russia), telecommunications network of the Ministry of Defense, communications network for New Generation of Passport and Visa Documents (covering networks and telecommunications nodes of the Ministry of Internal Affairs, Federal Security Service, Ministry of Defense of Russia).

Also as party to the Working Group on implementation of the Russia President Order No 601 of May 7, 2012 and Instruction of the Prime-Minister of RF NoDM-P-16-2906 of May 24, 2012 Rostelecom developed basic proposals for making arrangements to provide video-transmission of court hearings via Internet, for improving of repository and storage system for court decision and trial practices using Internet and provision of access to these decisions within the framework of common information environment for the Russian judicial system. Under the public contract entered into with the Court Department of the Supreme Court two sessions of the Court Department Council were held using video-conferencing linking the main studio in the Company's premises and 80 studios in the regions.

As the sole contractor the Company in the reporting year rendered to the Ministry of Defense telecommunications services by providing leased circuits, VPN and collocation services. Over 400 sites of the Ministry of Defense were connected to the VPN, and phased transition to new technologies is underway, sites previously connected by satellite links are reconnected using the Company's resources. Rostelecom renders local, intra-area, domestic long-distance and international telephone and telegraph services to subscribers in the Ministry of Defense located throughout entire Russia.

Also under the public contract various units of the Ministry of Defense were provided with a permanent access to Internet resources, including implementation of reference and information tools and services at the Company's data centers. An official multimedia website of the Ministry of Defense is focused on target audiences and reflects the doctrine of the revamped Armed Forces, presents the key achievements of the reforms and informs about the life and activities of the Russian Armed Forces. Additionally, a public electronic repository of documents is deployed on the website devoted to the Russian people brave defense of the Motherland during World War Two.

In order to support strategic command and staff military exercise of the Southern Military Command Caucasus'2012 Rostelecom rendered telecommunications services providing telecommunications circuits and VPN. The principle goal of the exercise was to check the readiness of the Southern Military Command to repel external threats and protect the state sovereignty of Russia. The exercise was particular important given the forthcoming Olympic Winter Games 2014.

Under a contract with the Federal Service for State Registration, Cadaster and Cartography (Rosreestr) Rostelecom renders services to support a secure data network on the federal and regional scale given specific requirements concerning support level for telecommunications networks resources and quality of the services rendered. Under this government contract web portals rosreestr.ru, pocpееcтp.pф, kadastr.ru are supported and maintained and services are provided for 1553 customer's sites in all Russian regions.

In the reporting year resource rendered telecommunications services to divisions and units of the Federal Guard Service of RF (FSO) for the top rank public officials of the State. These services included lease of private digital circuits, provisioning of private VPNs and operation and maintenance support and ensuring availability of the customer's equipment and communications means. Moreover in the interests of the Spetzsvyaz of the FSO a back-up virtual private L2 MPLS network was deployed meeting specific requirements regarding physical diversity of the main and protection networks and set-up of the services using fiber-optic links. As a result some 68 L2 MPLS (point to point) services were provided by routing links through 69 mandatory points, connected by fiber-optic links. It should be noted that the primary data network for the FSO is also provided and maintained by resource.

The Ministry of Telecom and Mass Communications (MinComSvyaz) of the Russian Federation engaged Rostelecom as the sole contractor under a state contract on provision of operation and maintenance for the state system of issuing, processing, and controlling new generation passport and visa documents. Under this government contract the Company delivered telecommunications services to all sites of the united information and telecommunications infrastructure underlying this system designed for automated gathering, storing, processing and transmission of data involved in personal recording and tracking of people and other proprietary information required for processing, issuance and control of new generation passport and visa documents. By the end of 2012 the relevant VPN network covered over 1300 sites of this system.

Federal State Public Funded Healthcare Institution Blood Center of the Federal Medical and Biology Agency (FMBA) ensured complete supply to the covered medical organizations of donor blood components, developing of advanced production techniques and employment of blood components in the practical healthcare. In 2012 the Company ensured connections to the private data network of the FMBA's Blood Service 38 additional sites (blood transfusion stations) and alongside access was provided to the united data base on implementing measures related to ensuring safety of the donor blood and its components. Under this project an IP VPN was deployed for the Federal Government Institution Main Bureau for Medical and Social Review of the FMBA. Internet access from the IP VPN was provided along the IP VPN services, as well as IP-telephony with provision of terminal equipment.

In order to enable operation and enhancement of the All-Russia comprehensive system for information and alerting of population at the sites of mass public gathering (OKSION) to be implemented under the Federal Special Purpose Program for risk mitigation and alleviation of consequences of emergency human-made situations and natural disasters in the Russian Federation up to 2015 the Company provided telecommunications data services using telecommunications circuits. A united network linked terminal sites of OKSION in 36 regional alert centers across the country.

In 2012 in order to provide telecommunications services for participants and guests of the APEC Summit'2012 the Company provided dedicated circuits, VPN services, Internet access and telephone service on the campus of the Far-Easter Federal University (Russkiy island).

Owing to its long-standing experience in provision of telecommunications service, wide geographic coverage of its network and using modern secure telecommunications circuits Rostelecom is able to guarantee the highest quality and best reliability of its services, this being the primary factor of trust and confidence for the Company on the part of state bodies and authorities.

GUARANTEE OF HIGH QUALITY OF TELECOMMUNICATIONS SERVICES

While offering its communications services to customers and developing new telecommunications services, Rostelecom traditionally devotes a lot of attention to the quality of its products so as to ensure a competitive advantage in the market. Since 2006 the Company has in place a Quality Management System in compliance with ISO 9000 Standard requirements.

In 2011 for the first time after its reorganization Rostelecom was granted certificates of compliance of its quality management system (QMS) not only with requirements of GOST R ISO 9001-2008 Standard, but with requirements of the International ISO 9001:2008 Standard.

In 2012 the Company established its Moscow Macro-regional Branch. Upon inspection and validation of the quality management system the Company confirmed the certificate of compliance validity and included in the certified entities the newly established branch. The inspection and validation were performed issued by a respected Russian certification body – ANO Certification Center “Communication – Certificate” and an international certification organization AFNOR Certification.

The certificate applicability covers the quality management system of the entire Company, as applied to the design, development, deployment and provision of telecommunications and broadcasting services.

The ISO 9000 family of standards are related not to the quality of provided services themselves but to the quality of management system which should identify and ensure achievement of the targets related to customers' satisfaction with the quality of offered services. At present, the ISO standards of this series are the most popular and widespread. They are recognized worldwide and adopted as national standards in more than 140 countries.

Having an ISO 9001:2008 certificate witnesses that Rostelecom is capable of providing services that consistently meet ever growing customer requirements and facilitates efficient and successful development of business which is essential for capturing and maintaining leading positions in various market segments.

Furthermore, in the reporting year, Rostelecom received certificates of compliance for its local and intra-area telephone service, IPTV services and Internet traffic transmission from INTERECOMS – a voluntary certification systems for communications services, information technology and quality systems of enterprises. In addition measures were taken to achieve certification of the Company's video surveillance system for the voting and vote counting at the elections across the entire territory of the Russian Federation. The entire product line of Rostelecom, including both traditional services and data services (data centers, virtual private network, traffic inspection and protection from DDoS-attacks) and its Intelligent Network service (Toll-free service, IFS) has been identified, tested and deemed compliant with requirements of relevant regulatory documents.

Availability of certified services from Rostelecom is an additional assurance that the Company provides telecommunication services with a guarantee of high quality meeting customer requirements and in compliance with relevant technical performance norms and standards.

OPERATING AND FINANCIAL RESULTS

Key operation indicators

Description	2011 RUB in millions	2012 RUB in millions	2012/2011 %
Revenue from sales of goods, products, works, services	301,494	321,251	6.2
Net operating expenses	241,305	267,426	9.8
Operating profit	60,189	53,825	-11.8
Profit before taxes	53,295	44,033	-21.0
Net profit	42,528	35,240	-20.7

Revenue breakdown

Type of services	2011 RUB in millions	2012 RUB in millions
Local telephone service	88,061	85,734
Intra-NP area telephone service	21,393	18,754
Domestic and International Long-Distance telephone service	24,070	20,390
Interconnection and traffic routing services (except Internet)	19,774	21,003
Mobile telecommunications services	40,660	41,161
Circuit lease services	10,356	11,269
Broadband Internet access	46,396	49,797
PayTV services	6,706	9,147
Data services (VPN, data centers), supply of Internet traffic to operators	18,872	20,815
Cloud services	2,764	6,625
Other services	22,442	36,556
Total	301,494	321,251

Expenses

Item	2011		2012	
	RUB in millions	%	RUB in millions	%
Payroll, other compensations and social benefits	76,252	31.6	84,308	31.5
Amortization and loss from current asset depreciation	57,524	23.8	64,729	24.2
Expenses for operators services	40,736	16.9	47,312	17.7
Material, repair and maintenance, utility services	27,507	11.4	27,358	10.2
Loss from retirement of fixed assets and intangibles	792	0.3	822	0.3
Expenses on doubtful receivables	572	0.2	1,318	0.5
Other operating income	-14,712	-6.1	-13,868	-5.2
Other operating expenses	52,634	21.8	55,447	20.7
Net operating expenses, total	241,305	100.0	267,426	100.0

Efficiency Indicators

Indicator	Measurement unit	2011	2011	2012/2011 %
Operating margin	%	20.0	16.8	-
Net margin	%	14.1	11.0	-
Costs per 100 rubles of revenue	RUB	80	83	4.0
OIBDA	RUB in millions	117,713	118,554	0.7
OIBDA margin	%	39.0	36.9	-
Revenue per employee*	RUB in millions	1,8060	1,9244	6.6
Net profit per employee*	RUB in millions	0.2548	0.2111	-17.1

* Reporting year average headcount including part-time workers was taken into account

Net Assets

Description	2011	2012
Net assets, RUB in millions	272,718	255,966
Net assets to charter capital ratio	2,573	2,415

Distribution of 2011 Net Profit

Figures in the table below are shown in accordance with the Russian Accounting Standards (RAS)

Description	RUB in thousands	as % of net profit
Net profit for 2011, RUB in thousands	32,561,040	
<i>Net profit allocation</i>		
Dividend payments, RUB in thousands, of which:	14,961,559	45.95%
to the federal budget	1,026,620	3.15%
To finance the increase of the charter capital in terms of the undistributed 2011 profit	17,599,481	54.05%
Allocated to reserves	0	0.0%
Allocations to other funds	0	0.0%
Other net profit allocations	0	0.0%
For reference only:		
Allocations to investment projects (programs) implementation*	65,899,535	202.39%
<i>Report on the investment project implementation is presented in Investment Programs Implementation section of this Annual Report</i>		

* money outflow due to purchases, creation, upgrades, reconstruction and preparation for usage of non-current assets

Energy Resources Used**Consumption of energy resources in 2012**

Energy resources	Measurement unit	Consumption volume	Cost, RUB in thousands
1. Fuels and process liquids			1 450 428
For boilers			171 217
Other	thou. m ³ ton	18 41	17 455
Coal	ton	20 066	46 686
Diesel fuel/oil	thou. liters ton	2 524 2 072	82 053
Gas (including gas condensate)	thou. m3	6 262	21 504
Black oil fuel	ton	148	1 905
Kerosene	ton	78	1 613
For transport and mechanisms			1 173 734
Fuel	ton thou. liters	24 994 17 689	1 120 350
Oil and process liquids	ton thou. liters	308 211	53 659
For production equipment			105 201
Fuel	ton thou. liters	2 228 1 532	96 399
Oil and process liquids	ton thou. liters	41 92	8 803
2. Utility services			6 944 527
Electric power supply	kW x h in thousands	1 533 667	5 203 647
Heating	Gcal	1 322 575	1 740 880

Telecommunications Infrastructure

Item description	Measurement unit	2011	2012
Fixed-line numbering capacity	phone numbers in thou.	33,676	34,040.1
Broadband capacity	thousand ports	12,544	
Mobile numbering capacity	thou. mobile numbers	7,337.58	16,363
Mobile base stations	pieces	3,956.0	15,316
Intra-area transmission lines	km	681.2	122,414.8
Earth station for satellite communications	pieces	14	5,636
Long-distance and area transit node capacity	trunk circuits in thou.	1,670.7	1,662.1

COMPANIES IN ROSTELECOM GROUP

At the beginning of 2012 Rostelecom was a member/shareholder of 89 economic entities, 51 of which are its subsidiaries and 14 are its dependent entities. The book value of financial investments as on December 31, 2011 was over 102 billion rubles. Dividends received by the Company in 2012 from interest in other entities totaled over 1.49 billion rubles.

In 2011 Rostelecom's Board of Directors (according to Minutes No. 23 of 08.12.2011) approved the Company's non-core assets disposal program. Implementing measures aimed at terminating its interest in non-core and non-operating assets Rostelecom during 2012 discontinued its participation in 9 companies as follows:

- ZAO NIZHEGORODSKY TELEPHONE was deleted from the Unified State Register of Legal Entities (USRLE, Russian EGRUL) on 28.02.2012 due to liquidation.
- LLC NIZHEGORODSKY TELESERVICE was deleted from the Unified State Register of Legal Entities on 26.04.2012 due to its liquidation.
- ZAO Transsvyaz was deleted from the Unified State Register of Legal Entities on 25.05.2012 due to its liquidation.
- ZAO Teleport Ivanovo was deleted from the Unified State Register of Legal Entities on 18.09.2012 due to its liquidation.
- ZAO RUSTEL was deleted from the Unified State Register of Legal Entities on 29.12.2012 due to its liquidation.
- OJSC NTK REGION 2009 was deleted from the Unified State Register of Legal Entities on 19.11.2012 due to its liquidation as bankrupt.
- ZAO Russian Information Centers was deleted from the Unified State Register of Legal Entities on 24.04.2012 due to discontinued operations.
- LLC Svyazexpertisa was deleted from the Unified State Register of Legal Entities on 06.11.2012 due to discontinued operations.
- OJSC Sberbank of Russia; based on the Board of Directors decision of 29.12.2011 the interest was divested.

Apart from this on 01.08.2012 the Company terminated its participation in ZAO Orenburg-GSM, because the latter company was reorganized by merging it into ZAO NCC; also on 16.10.2012 the Company divested its interest in LLC Vladimirsky Payphone.

Information about all forms of Rostelecom's participation in commercial and non-profit organizations is presented in Appendix No. 4 to this 2012 Annual report and constitutes its integral part.

Acquisitions in 2012

Acquisition by Rostelecom's daughter company ROSTELECOM INTERNATIONAL LIMITED of a control over the stake in ZAO GNC-Alfa (Republic of Armenia)

On February 02, 2012 a wholly owned subsidiary of Rostelecom named TELESET NETWORKS LIMITED (in February 2012 it changed its name to ROSTELECOM INTERNATIONAL LIMITED) purchased 75% - 1 share in FILORS VENTURES LTD, which is the sole shareholder in ZAO GNC-Alfa). The value of the deal was USD22.5 million or some 682 million rubles according to the exchange rate set by the Bank of Russia on the date of the deal.

GNC-Alfa operates a modern fiber-optic core network covering about 70% of the territory of the Republic of Armenia with the total length of over 1,500 km. This network is interconnected with main core networks in the region and major traffic exchanges and has international gateways with Iran and Georgia. In 2012 provision of telecommunications services to individuals and small businesses in Armenia was started on the basis of GNC-Alfa backbone.

Acquisition of 3.86% of Rostelecom shares by LLC Mobitel – a Rostelecom subsidiary

On February 9, 2012 LLC MOBITEL which is a Rostelecom daughter company completed acquisition of 3.86% of the Company's ordinary shares for 19 billion rubles using debt financing.

Acquisition of an interest in LLC Enter

On February 28, 2012 the Company acquired a 100% interest in the charter capital of LLC ENTER for 305 million rubles.

At the time of the acquisition LLC ENTER provided broadband Internet access services to individuals in Barnaul, Novokuznetsk and Tumen' and owned one of the most extensive and advanced network infrastructures in the cities where it operated.

Acquisition of an interest in OJSC NTK

On March 06, 2012 Rostelecom completed a deal to acquire 28.2% of shares of OJSC NTK for 13.8 billion rubles. As a result of the acquisition OJSC NTK became wholly owned by the Company.

OJSC NTK is a major fixed-line and Cable TV provider in Russia, offering free “social” and PayTV services and broadband Internet access to individual subscribers and legal entities, as well as telephony services and circuit lease services. In addition OJSC NTK offers access to its subscribers for TV channels and sells advertising both on its channels and on distributed channels. OJSC NTK jointly with its daughter companies has networks in 6 Russian cities: Moscow, Ekaterinburg, St. Petersburg, Novosibirsk, Kurgan and Elektrostal’.

Acquisition by Rostelecom subsidiary LLC MOBITEL of an interest in ZAO SkyLink

On July 26, 2012 LLC MOBITEL which is a subsidiary of Rostelecom completed the deal to acquire a 50% interest (and effectively 100%) in the charter capital of ZAO SkyLink from OJSC Svyazinvest in a share swap for 1.91% of Rostelecom ordinary shares. The stake of 1.91% of Rostelecom ordinary shares was valued at 9.4 billion rubles or 167 rubles per ordinary share.

SkyLink Group offers high-speed mobile Internet access, data and voice services (using 3G technologies 3G/EV-DO and 2G/GSM).

Currently the licensed coverage of SkyLink Group of Companies includes 76 constituent entities of Russia with a population of over 90% of the total country’s population, including Moscow, St. Petersburg and other major Russian cities; the territory where SkyLink branded services are provided covers over 10,300 populated localities in 36 constituent entities.

Acquisition by Rostelecom subsidiaries ZAO AMT and ZAO WESTELCOM of an interest in LLC Chita-online

On September 03, 2012 Rostelecom subsidiaries ZAO AMT and ZAO WESTELCOM completed the deal to acquire 100% of the charter capital of LLC Chita-Online. The value of the deal was 140 million rubles.

At the time of the acquisitions LLC Chita-Online was one of the largest alternative operators in Chita offering broadband Internet access services (using FTTB/ETTH technologies) and PayTV services, as well as a number of other telecom services.

Acquisition by Rostelecom subsidiary OJSC NTK of an interest in OJSC Mostelesest’

On May 23, 2012 OJSC NTK which is a wholly owned subsidiary of Rostelecom was pronounced a winner of an auction to buy 26% ordinary shares (constituting 26% of the charter capital) of OJSC Mostelesest’.

On June 28, 2012 OJSC NTK closed the deal to acquire the said interest in OJSC Mostelesest’ from Moscow Government for 1.8 billion rubles. As a result the interest owned by OJSC NTK in the charter capital of OJSC Mostelesest’ reached 100%.

OJSC Mostelesest’ is a holding owning 100% of ZAO Mostelecom, network infrastructure operator in Moscow, and a 51% interest in ZAO Macomnet (the remaining 49% interest is owned by Moscow Metro) and offering services to corporate customers in Moscow on the basis of its own network, deployed mainly in the Moscow Metro.

Acquisitions of shares additionally issued by OJSC Svyazinvest

On December 25, 2012 Rostelecom closed the deal to purchase 140,315,416 ordinary registered book-record shares additionally issued by OJSC Svyazinvest by paying cash amount totaling 1,720,267 thousand rubles. The shares acquired in the deal ensured that the Company will maintain its blocking interest in OJSC Svyazinvest by owning 25%+1 share.

Pursuant to Presidential Decrees No1005 of 12.08.2010 and No1418 of 15.11.2010 within the framework of this additional share issue of OJSC Svyazinvest the Russian Federation contributed to the charter capital of the issuer the government stakes owned by the Russian Federation in 5 telecom companies, namely: OJSC Central Telegraph, OJSC Bashinformsvyaz, OJSC Moscow International Long-Distance Telephone Exchange No9 (OJSC MMTS-9), OJSC Chukotkasvyazinform and OJSC Ingushelektrosvyaz.

Acquisition of an interest in OJSC Bashinformsvyaz

On September 12, 2012 pursuant to provisions of the Federal Law on Joint-Stock Companies the Company issued a mandatory offer to acquire securities of OJSC Bashinformsvyaz. In January 2013 the Company closed the deal to purchase the shares offered in the mandatory offer buying 1.6% of ordinary shares valued in total at 172.6 million rubles

OJSC Bashinformsvyaz is the largest telecom operator in the Republic of Bashkortostan, offering fixed-line telephone services, broadband Internet access and PayTV services to residential and corporate customers, and provides leased lines for telecom operators.

THE COMPANY'S DEVELOPMENT PRIORITIES AND PLANS

In late December 2012 Rostelecom Board of Directors approved an updated Company development strategy for the period 2013-2017. After changes in the Company's top management an analysis of its current operations and key strategy elements was initiated. At the date of compiling this Annual Report the key objectives to be met by the Company for the forthcoming years were identified.

The principle goal for Rostelecom is provision of advanced quality telecommunications services. To this end the Company will be focused on solving the following major tasks:

1. Building up the upgrade rates of both fixed-line and mobile networks.

One of the main advantages of the Company over competition is availability of an extensive telecommunications network spanning all Russian regions. Currently most innovative cutting-edge solutions are available on the market, and change of the successive technology cycle is underway, while operators tend to invest increasingly less funds in the network growth due to the economy slow-down. These open for us an opportunity to efficiently and fairly fast breach the technology gap separating the Company from its competitors.

2. Improving the customer care

Development and improvement of customer service will be a pivotal point to concentrate the Company efforts. Simple usage and usability of services, a possibility to solve customer problems and receive information and advice any time and via any customer care channel (offices, contact centers, multimedia channels, self-service functionality) – these are the Company priorities in this area.

Rostelecom constantly reviews best practices of customer service and plans implementation of advanced customer servicing standards (SLA). In the first place this covers lead time for service activation, help-desk time to response, etc. Modernization of Operation Support System / Business Support System is envisaged, allowing for optimal inventory, accounting and planning of telecommunications resources (for instance, numbering ranges, traffic), service delivery management, service performance and quality control, and fraud mitigation at the telecom data level, forecasting and driving service demand. The BSS subsystem include application software to support business processes of a telecom operator, Billing and CRM first of all.

3. Design of services bundles unrivalled in terms of market characteristics, and an attractive pricing schedule.

Rostelecom possesses unique for the Russian market strengths in terms of infrastructure and regional expertise in order to deploy and offer to the market a range of telecom services with the best customer value. This would mean an optimal balance of the pricing and composition of packaged services with communications services, Internet and digital TV. This concerns not only the service technical performance, like data speed, but also quality and relevancy of the offered content and customer support. The sheer scale of the Company operations enables it in collaboration with right-holders to design and offer to customers unique and economically appealing products.

4. Improving operational efficiency.

Fixed-line business currently accounting for over half of the Company revenues is expected to remain virtually stagnant in the 5 year perspective, while its margins will be shrinking. Cost-cutting in the fixed-line segment is the Company ambitious goals for the forthcoming years. Cost cuts will be enabled by modernization and abandonment of overlay network approach, centralization and reducing the number of management level in hierarchy, freeing-up and reduction of real estate maintenance costs.

Apart from this even now the first outcomes of extensive overhaul of procurement activities are visible, with their efficiency improving through:

- unification and standardization of procurement processes both on the level of the Corporate Center and Macro-regional Branches;
- procurement centralization across key item groups to achieve the maximal economic effect;
- increased competition due to enhancement of alternative/similar equipment base, and substitute products;
- monitoring and control over independent procurement by Marc-Regional Branches;
- consumption standard making and control.

Procurement centralization is one of the key areas of improving the Company operational efficiency. Currently Rostelecom intends to streamline and coordinate procurement in all units to improve operational efficiency and process transparency. Even now through streamlined procurement commission activities,

transparent tender procedure the Company managed to achieve savings up to dozens percent. For instance, in the outcome of the tender for STB purchases to provide Interactive TV services the price was reduced altogether by 24%. The savings in this bidding reached over 580 million rubles compared to allocated budget funds.

In its procurement the Company intends to accommodate and develop best nationwide and international procurement practices.

5. Streamlining business administration.

Quality of administration practices is an essential resource to improve growth and efficiency. The Company will seek to achieve a radical improvement of business processes, streamlined management structure, better involvement of employees in solving the tasks facing the Company. Special attention is expected to be paid to personnel development and hiring new highly skilled employees.

THE COMPANY TELECOMMUNICATIONS INFRASTRUCTURE

Transport Network

The total length of Rostelecom's communication network is about 500 thousand kilometers.

The main components of the backbone network are powerful fiber-optic communication lines connecting Moscow and Novorossiysk, Moscow and St. Petersburg and Moscow and Khabarovsk. The basis of a transport regional network is composed of communication lines connecting large settlements and regional towns with access to the backbone network.

The transport communications network of the Company is built on the basis of SDH/DWDM equipment manufactured by major global vendors. The total volume of installed SDH/DWDM equipment is about 9,000 units. The total volume of the Company's management system complexes supervising the SDH/DWDM equipment exceeds 180 units, most of them are deployed on the level of regional branches of former IRCs.

Technology strategy of the development of Rostelecom's international backbone transport network is inseparably linked with realization of various telecommunication projects aimed at strengthening the Company's positions, advancing its new services on the international market and provisioning of the Company's international infrastructure.

Rostelecom set up international fiber-optic telecommunications lines providing access to Finland, Turkey, Italy, Bulgaria, Japan, China, Estonia, Latvia, Kazakhstan, Ukraine, Azerbaijan, Georgia, and Belarus. The Company has set up its international points of presence in Stockholm, Frankfurt, Amsterdam, and London. The Company also offers high-speed transit services from Europe to Asia via the territory of the Russian Federation.

In order to minimize the risk of traffic loss and the consequences of emergency traffic interruptions on backbone and regional communication lines and for the purposes of improving the quality of service for Russian and foreign customers, Rostelecom undertakes special measures to plan and offer protection mechanisms for traffic transmission, both in terms of physical diversity and international cross-border links and points of interconnections with two or three independent foreign operators on each international route. All of Rostelecom's backbone links are fully protected.

As new digital communication lines have been deployed, Rostelecom phases out its analogue communication link. For the period from January 31, 2001 to January 31, 2011 about 141,140 kilometers of analogue communications lines were decommissioned, with 13,925 km of analogue lines were put out of service in 2012 itself.

Multiservice Network

As Russia's national operator Rostelecom offers the following services in Russia:

- Local telephone service;
- Intra (NP) area telephone service;
- Domestic and international long-distance telecommunications;
- Interconnection and traffic transmission on local, intra-area, national, and international levels;
- Signaling traffic transmission;
- Audio and video conferencing;
- ISDN and intelligent network services;
- Interconnection and Internet traffic transmission;
- Dedicated broadband Internet access;
- IPTV;
- VPN (Virtual Private Network), including L2 VPN, L3 VPN, VPLS, and InterAS VPN;
- Data-Center Services.

The international digital transit telephone network is based on 10 international transit nodes. The total installed capacity of the international network by the end of 2012 amounted to 202.2 thousand circuits. The digitalization level of the international nodes is 100%.

Rostelecom long-distance digital transit telephone network is based on 16 Transit Long-Distance Nodes and 6 combined Area/Long-Distance Nodes. The total installed capacity of the long-distance network by the end of 2012 was 618.5 thousand circuits.

Rostelecom's intra-numbering plan area digital transit telephone network functions on the basis of 132 transit area nodes. The total installed capacity of the Company's area network by the end of 2012 amounted to 1043.6 thousand circuits. The digitalization level of the area transit nodes is 100%.

Rostelecom's local digital transit telephone network is functions on the basis of 27,938 automatic telephone exchanges. The total installed capacity of the local network by the end of 2012 amounted to 34,040.1 thousand subscriber lines. The digitalization level of local nodes is 77%.

Currently, the Company offers video conferencing services in the regions where there is a high demand for them. Access to national and international videoconferencing is open to clients in 78 regions of the Russian Federation, while customers in 177 Russian cities have their audio and video terminals connected to the videoconferencing network with 414 studios for providing video conferencing sessions.

The Toll Free call service, Televoting, Premium Rate services based on the Intelligent Platform are provided to customers in all regions of Russia and in a number of networks owned by commercial communications providers. The Company provides International FreePhone service” from the territory of foreign states. Additionally, region-based services on intelligent platforms are also provided to customers.

Rostelecom’s IP/MPLS data transmission network for provision of packet switched services includes the backbone data transmission network, regional data transmission networks, as well as the international segment consisting of international centers abroad located in Stockholm and Frankfurt.

As of the end of 2011, the total capacity of the IP/MPLS network exceeded 3.5 Tbps.

In order to lease out it Nx64 kbps digital channels to clients, the Company deployed networks of leased national and international digital circuits using flexible multiplexer equipment:

- a network based on Lucheza (MartisDXX) multiplexers, consisting of 168 network nodes located in 125 cities;
- a network based on UMUX multiplexers, consisting of 58 network nodes located in 52 cities;
- a network based on MainStreet equipment, consisting of 13 network nodes located in Moscow.

Submarine cables

As part of its program to expand and upgrade its international telecommunications capacity Rostelecom uses modern submarine cables to establish communication circuits between Russia and other countries. The Company is both a terminal party and owner of major capacity in four international submarine fiber-optic cable systems, namely: Italy-Turkey-Ukraine-Russia, Georgia-Russia, the Black Sea fiber-optic cable system, and Russia-Japan, in which Rostelecom owns approximately 30%, 67%, 9.4%, and 50% respectively. Remaining interests in cable systems are owned by various international providers.

To provide access to these systems and establish high-quality direct international circuits to remote areas of the world Rostelecom participates in the construction of a number of international cable systems and acquires capacity in them.

As of the end of 2011, the Company holds interest or indefeasible right of use in 16 cable systems, including such global cable systems projects as FLAG (Fiber Link Around the Globe), the UK-Middle East-Japan system, the Canadian Transatlantic system, the Trans-Pacific cable system (China-USA), the South-East Asia – Middle East – Western Europe and Trans-Atlantic systems.

Satellite communications

The united satellite communications network of Rostelecom is based on two technologies:

- Rostelecom’s own and leased circuits employing the space segment of the C-and Ku- frequency bands. Rostelecom owned channels are provisioned using leased capacity with the use of 163 earth stations. The leased circuits are purchased on a turnkey basis from such operators as FSUE (Federal State Unitary Enterprise) Satellite Communications, Zond Holding, Satis-TL-94, Svyazkontaktinform, and Yamaltelekom.
- Rostelecom’s own and leased VSAT-networks with shared access use the space segment of the Ku-frequency band. Rostelecom owned VSAT-networks are provisioned on the basis of leased capacity with the use of central VSAT-stations located in Center, Siberia, Ural, Far East macro-regional branches of Rostelecom. Leased VSAT-networks (or individual channels) are purchased as a general redistributed pool resource from such providers as RTComm.RU, Stek.kom, Synterra, Iskra, FSUE Satellite Communications, Amtel-Svyaz and GTNT.

In order to ensure operation of the united satellite communications network Rostelecom engages FSUE Satellite Communications for the provision of services aimed at leasing capacities for “Express” satellites. Rostelecom decided upon the structure and location of satellite earth stations on the basis of secondary network needs, as well as the likelihood of accessing the digital backbone network.

Lines and circuits of other operators used by Rostelecom

In the course of its business activity Rostelecom engages other telecom operators for delivering line and circuits to be used by the Company, mainly for the purposes of providing protection and back-up for the Company’s existing technological network infrastructure and provision of services to end users in the event of shortages of Rostelecom’s own resources. In the latter case network resources are purchased based upon the term of the contract signed with the end user and taking into account Rostelecom’s margin requirements.

Rostelecom believes that early termination or non-renewal of current agreements with telecom operators which are providing leased lines and communications circuit services is unlikely. Taking into account tough competition in the segment of leased lines and the significant number of telecommunications operators providing such services, there is no reason to believe that Rostelecom requirements for these services will not be met.

The Company Mobile Network

The number of the Company's base stations including equipment owned by daughter companies totaled 15,316 by the end of 2012.

The Company deployed GSM 1800 networks in 51 Russian constituent entities, UMTS networks in 24 constituent entities. Site survey and installation and set-up and provisioning of GSM/UMTS equipment were completed. In late last year a 3G network based on UMTS technology was commercially launched in Irkutsk region by Rostelecom's subsidiary ZAO BWC. Additionally, availability of LTE licenses made it possible to start designing and construction of 4G network in Krasnodar krai.

Voice calls originated by radio-access networks using GSM, UMTS and CDMA standards countrywide are handled by 55 HLRs, 88 switches and over 250 controllers. The Company striving to provide highest quality of services is rolling out advanced technologies on its network enabling higher equipment utilization and improved network performance and quality of service.

In order to meet growing mobile data requirements mobile packet core equipment in Moscow, South and Far-East Macro-regional branches underwent upgrades. Network resilience was improved by employing internal protection of the equipment using N+1 and/or 1+1 protection mechanisms, ensuring minimization of external impact on the quality of services rendered.

In the course of provision services in roaming the existed GRX network was upgraded, and a back-up connection to an external GRX provider was established.

A content-related SMS-traffic aggregation center was set up on the basis of the Ural Macro-regional branch of the Company, enabling provision of a single SMS transmission point within the framework of 2316 – link to the President. Centralization of content-services is underway on the basis of equipment of the Ural Macro-regional branch.

Additionally, in the reporting year we continued transition of mobile subscribers of daughter and dependent companies into a common mobile network code (MNC 39), allocated to the Company, thus cutting costs of roaming cross-payments.

INVESTMENT PROGRAMS IMPLEMENTATION

Item description	Measurement unit	2011 (actual)	2012 (actual)	2013 (plan)
Investment in fixed assets	RUB in millions	83,231	91,181	70,628
The main areas of investment:				
Traditional telephony	%	4.8	1.9	1.5
New services	%	38.5	34.0	33.0
Mobile business development		13.4	24.6	31.1
IT investment	%	4.7	5.8	6.8
Intra-area transmission links and telecom infrastructure sites	%	26.0	26.0	13.4
Trunk lines, long-distance and international telephone facilities	%	2.3	2.7	10
Other infrastructure	%	10.3	5.0	4.2

Major and strategically important investment projects of 2012:***Implementation of project for web-transmission of video surveillance at polling station during presidential elections on March 4, 2012***

Within the framework of this project 10 data centers were deployed based on Rostelecom's own facilities, over 9 thousand km of new transmission lines were constructed and some 200 thousand km of existing lines were modernized.

Moreover, 19 central earth stations for satellite communications were upgraded, and 4 new ones were built.

In future the newly deployed infrastructure is planned to be used for provision of video-surveillance during election of federal and regional scale to be conducted in Russia's constituent entities on the so-called one common election day, and for the currently under development E-Scholl of the Future project which includes introduction of a number of new on-line services and tools for general education schools making use of new last mile lines to general education institutions where polling stations were located.

Enhancement of Rostelecom's own IP/MPLS data network

For the purposes of increasing capacity and upgrade of IP/MPLS network in order to meet in full the demand of customers across all segments:

- Rostelecom transport network was enhanced by provisioning 10/40/100 Gbps optical channels with installation of transponders on existing DWDM systems.
- 13 existing core nodes were upgraded and 8 new core-regional nodes were deployed. 51 new regional IP/MPLS nodes were installed and 55 were upgraded.
- Additional equipment of management systems, and hardware and software complexes were installed.
- Several new DWDM systems were installed.

Provisioning of High-Speed Transit Expressway Transit Europe-Asia (TEA Express)

A state-of-art qualitatively new equipment was used in this project enabling traffic transmission line speed up to 100 Gbps and supporting interfaces of optical transport hierarchy (OTN a technology enabling optical traffic transmission using standardized speed hierarchy, frame structures and client signal mapping formats).

Construction of Fiber-Optic Cable Link Vologda-Arkhangelsk-Belomorsk to create a ring in North-Western region

This FOCL was implemented in order to enhance network resources, provisioning of digital backhaul links for Arkhangelsk and Vologda to provide new telecom services, and creation of a ring providing protection circuits for Petrozavodsk, Arkhangelsk and Murmansk.

Construction of Fiber-Optic Cable Link Novy Urengoy-Nadym

A high-speed digital transmission link Novy Urengoy-Nadym was constructed using advanced DWDM technology as a section of a transport backbone network thus enabling provision of advanced telecom services to people.

Contraction of an Intra-Numbering Plan Area Link in the section Dal'niy-Mil'kovo

A fiber-optic cable link was put into service ensuring:

- high quality and reliability of telecom services\$

- provision of interactive home TV services and high-speed broadband access services with unlimited pricing plans for people populating these localities.
- provision of telecom services at a qualitatively new level to private businesses and governmental entities.

Provisioning of services for the Russian Ministry of Defense

In the reporting year the Company undertook a number of efforts to provision backhaul links connecting sites of the Ministry of Defense of the Russian Federation to Rostelecom's digital network and to further enhance the range of offered services (digital channels and paths, VPN services, Internet access).

RISK MANAGEMENT

A risk-oriented approach to business

Rostelecom's business operations are subject to various risks that may adversely affect the achievement of the Company's objectives.

In order to manage possible risks, the Company has implemented and continues to develop a risk-oriented business management approach designed to ensure efficient adoption of the most effective decisions decided upon by the Company's management under conditions of uncertainty, and to effectively identify opportunities for achieving OJSC Rostelecom's goals and objectives.

Every year Rostelecom's Board of Directors approves the Company risk management program, which involves regular risks update and development and subsequent monitoring of any response measures taken to reduce any negative consequences to an acceptable level. In the course of the development and implementation of operational business decisions, the Company also assesses inherent risks through discussions at Board of Director, Auditing Committee, Management Committee, and Internal Control Committee meetings, as well as various working groups and conferences.

Listed below are the risks that may significantly affect Rostelecom's operation. However, the Company cannot rule out the existence of other risks, including risks of which the Company is currently unaware or which the Company currently considers insignificant.

Industry risks

Risks connected with an increase in competition in the telecommunications industry.

An increase in the level of competition in the telecommunications industry, including the emergence of new operators and the development of services which replace traditional communication services, may decrease the Company's market share and, as a result, adversely affect its revenue from providing such services.

Domestic market:

After its merger with IRCs (Inter-regional telecommunication companies), legally completed on April 1, 2011, Rostelecom became a provider of a full range of services, including those of fixed-line and mobile communication, Internet access and paid television in some regions where the level of competition is very high.

As a result of DLD and ILD market liberalization more than 40 (new) companies were licensed in 2011 to provide DLD and ILD communication services, among which were the following operators (other than OJSC Rostelecom): MTT, VimpelCom, TransTelecom, Equant, Arktel, Sinterra, and MTS.

Additionally, the fast growth of mobile communications facilities provides communication operators with a wide access to end users of telecommunication services throughout the country. Mobile operators have the technical capabilities to provide DLD and ILD services on the national, international, zonal, and local levels using both their own networks and networks of competing operators. Lack of equality with competitors in terms of coverage and low speed of deployment and mobile business development may affect the Company operations. The Company strategy provides for a separate focus on mobile business enhancement and sales channels in top priority regions.

Ubiquitous construction by competitors of broadband data networks using FTTx and PON technologies with roll-out from cities with over a million population to cities with populations over 50 thousand people results in competition in technologies of service provision and declining demand for services using xDSL technology used by the Company. There is a risk of declining market share of the Company in the regions where there is a shortage of the required volume of FTTx/PON technology based networks.

Moreover, active development of IP-telephony may also significantly enhance competition in the Russian voice services market. IP-technology allows to ensure existence of a more optimized cost structure compared with the costs of operators of public telephone networks. Moreover, development of broadband Internet in the Russian Federation and throughout the world makes IP-telephony services an attractive alternative to the more expensive communication services offered by incumbent carriers and mobile operators. The competition offered by operators, offering the IP-telephony services, can have an adverse affect on Rostelecom's capability to attract new clients and to preserve current clients. It can also lead to a decrease in the operating profit margin and a decrease in the Company's market share.

In 2Q 2012 a number of players including Rostelecom announced their plans to launch commercial operation of wireless LTE networks; this will also results in tougher competition both on wireless service market, and with traditional means of internet access. Today LTE services in Russia are offered by companies, viz. LLC Skartel, OJSC MegaFon, and OJSC MTS.

Lagging behind the competition in terms of LTE network development may negatively affect the Company operations in mid-term.

Possible mergers or takeovers or consolidation of larger players on the Russian ICT market may potentially affect the Company operations.

Rostelecom pursues a sound policy of acquisitions and subsequent integration of the attractive assets according to its strategic priorities.

Intending to lower this risk, Rostelecom continuously monitors the operations of its competitors, including the (non)compliance of their operations with legislation, undertakes efforts aimed at developing new services and improving competitiveness of existing services and, if necessary, devising necessary countermeasures.

External market:

Industry changes on the external market do not have a significant impact on Rostelecom's business due to the inconsiderable number of operations performed there.

Risks connected with possible alteration in the prices of raw materials and services used by the Company in its activities.

Domestic market:

Growth of expenses for regulated communications services without corresponding tariffs adjustments may lead to lower profitability, which could have a negative impact on the Company's financial results. In order to mitigate this risk the Company is undertaking efforts to optimize costs of the provided services and improve operational efficiency.

External market:

Tariffs for services used by Rostelecom on the external market (leasing of ILD-channels, ILD-traffic transfer) remain generally stable, and the risks associated with their change, are estimated as minute.

Risks relating to possible changes in prices and tariffs for the Company's products or services.

Domestic market:

Due to the fact that Rostelecom is included in the Register of Natural Monopolies, the Company's operations are subject to the regulation of the Federal Tariff Service (FTS). Presently, the FTS regulates the Company's tariffs for DLD communication services throughout entire Russian Federation, as well as for its local and intra-area telecommunication services. In general, regulation of the Company's tariffs allows to set competitive and economically feasible and sustainable tariffs. There is a risk of declining profit margins of regulated services in the event growing costs without corresponding adjustment of regulated tariffs. Decreasing tariffs for interconnections and traffic transmission may significantly affect the Company revenues.

To reduce this risk, the Company cooperates with regulating authorities on setting optimal tariffs.

External market:

The Company's tariffs in the foreign markets (leasing of ILD-channels, ILD-traffic transfer) are generally stable and the risks related to any fluctuations in this area are not fundamental.

The impact of the abovementioned risks on the Company's activity is not very significant and cannot have an adverse effect on the performance of the Company's securities obligations.

Country and regional risks

Risks relating to political and economic situation in the country and the regions where the Company carries out its core activity.

The Company is a registered taxpayer in the city of Saint Petersburg, where the collective executive body, i.e. the Management Board is sitting, while the sole person executive body of the Company – its President is located in Moscow.

The Company carries out its core activity in all federal districts of the Russian Federation on the basis of seven macro-regional branches, namely, Center, North-West, Volga, South, Ural, Siberia, and the Far-East Macro-regional branches. Rostelecom's main activity in each of them (except for Far East macro-regional branch of the Company) generates more than 10 percent of the Company's income. All of these specified regions are characterized by risks associated with the political and economic situation in the country as a whole.

The stability of the Russian economy depends mostly on economic reforms, development of legal, tax, and administrative infrastructure, and the efficiency of measures taken by the Government of the Russian Federation in the financial and monetary policy fields.

Presently the political situation in the country is stable; nevertheless, the Russian economy is subject to fluctuation in response to the world economy.

In many ways, the Russian economy is dependent on the oil prices. An increase in the price of oil leads to an influx of foreign investment into Russia, as well as to manufacturing recovery, a reduction of unemployment, growth of income per household, and the replenishment of the country's gold and currency reserves.

In spite of the measures taken by the government of the Russian Federation aimed at ensuring the liquidity and refinancing of foreign loans to Russian banks and companies, some uncertainty remains regarding the possibility of access to capital resources and the cost of capital for the Company and its contractors. This may influence the Company's financial position, as well as the outcomes of its operations and its economic prospects. The instability of capital markets may lead to a significant worsening of liquidity in banking sector and a subsequent stiffening of the terms of credit in the Russian Federation.

As a whole, the Company cannot produce any significant impact on the economic situation in the country. Nevertheless, the Company will take all possible measures to reduce the occurrence of negative results that may compromise its ability to fulfill its security obligations, including portfolio diversification, should there be any negative results in the country or in particular regions in which the Company is a registered taxpayer and conducts its business.

In the future, Rostelecom intends to use advanced energy saving technologies to minimize operational costs, so as to direct all available money funds to meet its debt obligations.

Risks relating to possible military conflicts, states of emergency, and strikes in the country and regions, in which the Company carries out its core activity:

The likelihood of military conflicts, introduction of national state of emergency and/or strikes in the country and the regions in which the Company is a registered taxpayer and conducts its business is evaluated as insufficient for these risks to be treated as circumstances capable of significantly impacting the Company business. To prevent strikes the Company on its part creates favorable working conditions and fulfills all of its obligations toward the employees. To minimize the risk of terrorist attacks, the Company takes additional security and protection measures.

Risks relating to specific geographical features of the Russian Federation and the regions in which the Company is a registered taxpayer conducts its business, including an increased danger of natural disasters, possible stoppages of transport connections due to remoteness and difficult to access localities, etc.

Risks relating to specific geographical features of the Russian Federation and the regions in which the Company is a registered taxpayer conducts its business, including an increased danger of natural disasters, possible stoppages of transport connections due to remoteness and difficult to access localities are considered insignificant.

Financial Risks

Risks relating to changes in interest rates of the financial market.

At the moment, in the Company's debt finance portfolio there are instruments whose value depends on the floating interest rates. In this respect, a possible increase of interest rates in the market may potentially increase the Company's expenses related to its debt servicing obligations, as well as result in an increase in cost of new debt financing. In order to mitigate this risk Company continuously monitors the money market situation and if necessary is capable of refinancing its loan obligations with floating interest rates using debt financing with fixed interest rates.

Such indicators of the Company's financial performance as interest payable and credit and loan liabilities are most vulnerable and can grow in value in the event that this risk is materialized.

Due to changes in the situation on the money and loan market there is also a possibility of higher interest rates of new borrowings.

Risks relating to changes in foreign currency exchange rates.

As a result of currency fluctuations, the part of the Company's financial performance based on foreign currency transactions, as well as money denominated in foreign currency, may be negatively reevaluated.

A significant share of the Company's revenue, as well as costs and liabilities, including capital expenditures and borrowings, are denominated in foreign currencies, whilst the major part of its operational earnings is in rubles. As a result of 12 months of the year 2012 ruble appreciation against the US dollar was 6% (the RUB/USD exchange rate as of December 31, 2011 was 32,1961 compared with 30,3727 ruble for US dollar as on 31.12.2012). The ruble appreciation against the Euro was 3% (the RUB/Euro exchange rate as of

December 31, 2011 was 41,6714 RUB per EUR, compared with 40,2286 rubles for 1 Euro as on December 31, 2012).

Since the probability of the ruble's devaluation remains, the Company's expenditures and liabilities may increase considerably in ruble terms, which, in turn, would adversely affect the profitability and the results of the Company's operations. Additionally, significant fluctuations in the ruble's exchange rates may lead to losses related to re-evaluation of the Company's foreign currency assets and liabilities, which may produce a negative effect on the Company's financial results. At the same time, the currency risk should not significantly impact liquidity and the Company's sources of finance, taking into account the fact that the major part of its assets and liabilities are denominated in rubles.

Foreign currency nominated debt liabilities are rather insignificant and carry no significant risk for the Company operations.

Such indicators of the Company's financial performance as cash funds, receivables and payables, loaning and borrowing debts accrued, which may fall (assets) or rise (liabilities) in case the risk is realized, are most vulnerable to this kind of risk. The risk is, above all, related to changes in global currency markets and in government regulation relating to currency exchange rates.

Inflation related risks.

The Russian economy is still characterized by a relatively high inflation rate. In 2008 and 2009, the inflation level was 13.3% and 8.8% respectively. In 2010 and 2011 the inflation rate amounted to 8.8% and 6.1% respectively. For the 12 months of the year 2012 the inflation rate amounted to 6.6%, or 0.5 percentage points higher than over the same period of the previous year. With a fairly high probability the inflation related risks will remain at a relatively high level despite some stabilization of the inflation rates over the past two years. In the Company's opinion, the critical inflation rate would be such that significantly exceed the official predictions for 2013 and cannot be precisely forecasted.

As some of the Company's expenses are subject to inflation, a rising general price level may increase the nominal value of the Company's costs, while the increasing competition between telecommunication operators may prevent the Company from increasing, at its own discretion, its tariffs up to a level sufficient to sustain the required minimum profitability of its operations.

To reduce this risk, the Company allocates available funds to income-bearing financial instruments and optimizes the cost of the services it provides.

Indicators of the Company's financial performance such as funds that are subject to potential devaluation and investment costs that may rise in case the risk is realized are most vulnerable to this kind of risk. The probability of the risk is, above all, related to government regulation of money in circulation and of prices and tariffs.

Risks relating to failure of the Company's customers and other counterparties to meet their payment obligations and their inability to recover the debt.

Occasionally, both in the past and presently, OJSC Rostelecom has experienced delays in receiving payments from organizations, individuals, government bodies, and international operators. Delayed payments may cause cash shortages that may force the Company to borrow funds to compensate for them and consequently pay interest rates for the use of said borrowed funds.

In addition, the Company allocates available cash to short-term promissory notes and other financial instruments. Faced with the instability of the financial system in Russia, especially amid a possible "second wave" of the global financial crisis, the Company risks failing to retrieve the deposits or receiving repayments of deposit certificates, as well as to repay its debt obligations.

To reduce this risk, the Company optimizes working procedures to recover receivables, including cases when debt collection agencies are engaged.

Indicators of the Company's financial performance such as the debts payable are most vulnerable to this kind of risk. The probability of the risk is, above all, related to the solvency of the Company's contractors and the general economic climate in the country.

Risks relating to insufficient asset liquidity of the Company.

While Rostelecom timely repays its own obligations, the Company may be exposed to liquidity risks; in the event that the Company's contractors demand due payments from the Company, it may face difficulties and even incur losses due to the insufficiency or lack of funds required to repay such obligations and due to the need to dispose of its liquid and other assets with a significant discount.

Nevertheless on June 6, 2012, the international rating agency Standard&Poor's reiterated its BB+ credit rating of the Company with a "stable" outlook. Additionally, on May 28, 2012 an international credit rating agency Fitch Ratings assigned to the Company a default rating of BBB- with a stable outlook. It is stressed that the Company is likely to keep its leading positions in the fixed line business and will maintain leadership in Internet broadband access sector owing to infrastructure modernization strategy and transition to fiber-optic solutions.

Indicators of the Company's financial performance such as financial investments, payables and loaning and borrowing debts accrued, are most vulnerable to this kind of risk, as they are subject to increases, as are the penalties, charges and forfeits, in case the risk is realized. The probability of the risk is, first above all, related to the Company's financial investments.

Legal Risks

Legal risks related to the Company's activity.

Domestic market:

Presently, the Company's main legal risks are defined by changes in legal regulation relating to specific services and requirements of business operation in the telecommunications industry in view of the amendments to federal law no. 126-FL "On Telecommunication" dated July 7, 2003, approving a series of legal acts regulating different operational fields in telecommunication (Rules on providing local, intra-area, DLD and ILD telecommunication services, rules on telecommunication networks connection and interaction, rules on providing telegraph communication services, rules on providing mobile communication services, etc.) and bringing existing relations in line with the requirements of the legal acts in force, including the undue adoption of bylaws.

External market:

Legal risks relating to activity on the external market do not have a substantial influence on the Company as only a small amount of its operations are performed in this sphere.

Risks relating to changes in the exchange regulation:

Domestic market:

Risks related to changes in the exchange regulation are presently considered insignificant by the Company. In view of the liberalization of the current exchange regulations, the risks here are deemed low.

The Russian legislation regulating foreign investments in no way forbids or limits foreign investment into the telecommunication industry. However, there is no unanimity as to what level of government regulation in the telecommunication industry is optimal. Since the telecommunication industry is a strategic industry for the Russian Federation, government regulation may increase and foreign investment may be limited. Any strengthening of governmental control or restrictions on foreign investment may prevent the ease of access to additional capital.

External market:

Legal risks relating to changes in the exchange regulation on the external market do not assert any substantial influences as only a small amount of the Company's operations are performed in this sphere.

Risks relating to changes in tax legislation:

Domestic market:

Russian tax legislation is subject to variable interpretations and regular additions and amendments. The Company monitors ongoing changes in tax legislation and pays particular attention to workshops and meetings with leading experts in this field.

Recent developments indicate that Russian tax authorities may take up a tougher position on the interpretation of tax legislation and tax calculations. As a result, tax authorities may lodge claims to those transactions and accounting methods which were not subjects to said claims before. Consequently, tax authorities may impose additional taxes, penalties and fines, which could be significant. The Company is subject to review by tax authorities over three calendar years of its operations preceding the year of current review, and under certain circumstances such reviews may cover even longer periods.

External market:

Legal risks relating to changes in tax legislation on the external market have a substantial impact as only a small amount of the Company's operations are performed in this sphere.

Risks associated with changes in customs rules and customs duties regulations.

Part of the Company's equipment required for the construction of communication links and/or providing telecommunication services is imported and/or manufactured from components produced abroad. Any changes in customs and custom duties regulations may lead to increases in the costs of acquired basic

asset and an increased delivery period related to necessary equipment and/or spare parts, which may in return inflict additional costs on the Company, as well as increase the likelihood of network failures.

Risks associated with changes in licensing requirements of the Company's main operations or licensing of the rights to use objects with limited circulation.

Domestic market:

Rostelecom's main operations are subject to licensing according to the current legislation.

The list of licensing requirements according to the Federal Law no. 126-FZ "On Telecommunications" dated July 7, 2003, formulated by the Government of the Russian Federation. In view of the Government's decree of the Russian Federation No. 87 dated February 18, 2005, "On approving the list of telecommunication services to be licensed and the list of licensing requirements" came into effect (with amendments altered by the Government decree of the Russian Federation No. 837 dated December 29, 2005). The Company took actions to change its earlier (actual) licenses. All of the necessary amendments to licenses were completed.

Changes in licensing requirements in the telecommunication industry may lead to delays in renewing the Company's main licenses for providing telecommunication services or in a failure to obtain new licenses, which may negatively affect the Company's financial performance.

In addition, the Company has no absolute guarantee that, by the expiration of its validity, the license will be renewed and a subsequent growth in liabilities and/or a reduction in the rights granted under the terms of prolonged licenses will not occur. All this may result in increased costs, as well as limit the provision of telecommunication services. If the Company is unable to renew a license or obtain a new license that meets the current requirements, it will be forced to cut the range of services performed, which, in turn, will result in a decrease in the number of subscribers.

Rostelecom takes all of the steps necessary to fully comply with licensing requirements, therefore the forecast concerning the Company's license renewal for the delivery of certain services is thought to be positive and the risks associated with inability to prolong the Company's license is considered to be minimal.

External market:

Legal risks relating to changes in licensing requirements on the external market exert no material influence on the Company's activity as only a small portion of its operations are performed in this sphere.

Risks associated with changes in court practices regarding the issues inherent in the Company's operations (including licensing issues).

Domestic market:

Even though there is no case law in the Russian Federation, court practices play an important role in the system of law enforcement. Judicial acts, not being sources of the legal system in the proper sense, in certain cases imply compulsory interpretation of legal norms subject to enforcement. In practice, the following regulations are mandatory for legal agencies to refer to: Decrees of the Plenum of Supreme Court; Decrees of the Plenum of the Supreme Arbitration Court of the Russian Federation; and Rulings by the Constitutional Court of the Russian Federation.

The Company operates in exact accordance with current legislation. The negative consequences of changes in the judicial practice are only possible in the event of changes in the stand of regulatory authorities or if the Company exercises its operations in breach of the existing legislation.

External market:

Legal risks relating to changes in court practices on the external market exert no material influence on the Company's activity as the Company performs only a small amount of its operations in this sphere.

Risks associated with the Company's operations.

Risks associated with current judicial processes in which the Company is involved

The legal actions in which the company is involved in one way or another as of December 31, 2012, are noted below and may dramatically affect the Company's business operation and financial performance. In case the court does not rule in the Company's favor, the Company will incur significant expenses which will negatively affect its financial statement.

In February 2010, the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No.7 executed a complex tax inspection of the company for 2007-2008 and produced Resolution no. 3 dated April 2, 2010, stating a tax offence committed and a corresponding total charge of additional taxes, penalties and charges worth 714,727,286.03 rubles. The Company appealed the Judgment to the Federal Tax Service of the Russian Federation. The Federal Tax Service of the Russian Federation in its Resolution No. AC-37-9/11482@ as of September 17, 2010 (received by the Company on September 28, 2010), partially disallowed Resolution no.3 of the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers

No.7 as of April 2, 2010, that is – invalidated the following charges: profit taxes of 14,793,081.00 rubles with respective penalties and charges; VAT of 352,475,816.80 rubles with respective penalties and charges; profit tax penalties of 4,983.59 rubles; land tax of 77,472.00 rubles; water tax of 83,308.00 rubles with penalties of 14,838.4 rubles and charges of 10,850.00 rubles; charges on personal income tax of 251.07 rubles. As for the rest, Resolution of the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No.7 dated April 2, 2010, was confirmed. The Company filed a case at the Moscow Arbitration Court seeking to declare the Resolution invalid to the extent concerning the invalidation of additional charges totaling 305,387,512.48 rubles (including 279,779,309.69 rubles of taxes). The Moscow Arbitration Court initiated proceedings on the case, numbered A40100845/10-4-498. The Judgment of the Moscow Arbitration Court dated June 10, 2011, completely satisfied the Company's claims. Resolution of the Ninth Arbitration Court of Appeal dated October 21, 2011 disallowed the judgment of the Moscow Arbitration Court with regard to this matter. The Ninth Arbitration Court of Appeal reviewed this case according to the rules established for cases to be considered by an arbitration court of primary jurisdiction and adopted a new court decree which:

- recognized the Company's waiver of the claim with regard to appealing Clause 1.8 of the disputed Resolution of the tax authority;
- satisfied the Company's claim that Clauses 1.1, 1.10, 1.66 of the disputed Resolution should be recognized invalid (with respect to additional tax charges for the total amount of 240,374,426.89 rubles);
- declined the other part of the Company's claim (with respect to additional tax charges totaling 39,404,882.79. rubles.
- The decision of the Federal Anti-Monopoly Service of the Moscow District as of March 16, 2011 with respect to Case No. A40-100845/10-4-498 disallowed Resolution of the Ninth Arbitration Court of Appeal as of October 21, 2011 with respect to Case No. A40-100845/10-4-498 as regards satisfaction of the Company's claim related to:
 - additional income tax charges according to Clause 1.7.of the Resolution of the tax authority on the indebtedness of Pacific Gateway Exchange Inc., which amounted to 11,578,166.96 rubles;
 - additional VAT charges according to Clause 1.16 of the Resolution with regard to a failure to accept the tax rebate, which amounted to 1,973,294.55 rubles;
 - tax liability for incomplete payment of income taxes, VAT and UST, as well as penalties for late payment of the above mentioned taxes.

For this purpose the court recognized Resolution no. 3 of the Interregional Inspection of the Federal Tax Service for Major Taxpayers No.7 as of April 02, 2010, related to additional VAT charges according to Clause 1.16 of the Resolution with regard to a failure to accept the tax rebate amounting to 1,973,294.55 rubles.

As regards Clause 17 of the Resolution on Pacific Gateway Exchange Inc.'s debt amounting to 11,578,166.96 rubles, as well as the tax liability for the incomplete payment of income taxes, VAT, and UST, and penalization, the case was sent for a new hearing by the Ninth Arbitration Court of Appeal. Resolution of the Ninth Arbitration Court of Appeal No. 09АП9059/2012-AK as of June 01, 2012 declared invalid Resolution of the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers as of April 02, 2010 as regards additional income tax charges according to Clause 1.7 of the Resolution on Pacific Gateway Exchange Inc.'s debt amounting to 11,578,116.96 rubles (the amount of additional income tax charges is 2,778,760.07 rubles) as well as related fines and penalties; and with respect to tax liability for incomplete payment of income taxes, VAT and UST due to the federal budget and for delay of payment of the said taxes. The Resolution of the Court of Appeal was not considered under cassational procedure.

2. On December 06, 2010 the Open Joint Stock Company "Central Telecommunications Company" appealed to the Moscow Arbitration Court to invalidate Resolution No. 11 of June 30, 2010 of the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 concerning the Company's liability for tax offences. The Resolution was made by the tax authority based on field tax auditing of the Company's activities for the years 2007-2008. The Company disputes additional VAT charges amounting to 34,394,013.36 rubles, additional income tax charges of 3,872,772.15 rubles, as well as fines and penalties worth 69,044.00 rubles and 31,936.61 rubles, respectively. Taking this appeal into account, the Moscow Arbitration Court filed case No. A40-144303/10-90-850. In the course of proceedings in connection with reorganization of OJSC CenterTelecom in the form of merger with OJSC Rostelecom, the Moscow Arbitration Court replaced the applicant party (Center Telecom) with Rostelecom in the above-mentioned arbitration case. According to a Judgment of the Moscow Arbitration Court dated November 24, 2011, the Company's claims in this case were satisfied in their entirety. According to Judgment of the Ninth Arbitration Court of Appeal on case No. 09АП-37096/2011-AK dated February 2, 2012, the judgment of the arbitration court of primary jurisdiction was kept in force and the appeal of the tax authority was not satisfied. The Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 filed a cassational appeal

with the Federal Anti-Monopoly Service of the Moscow District. The Resolution of the Federal Anti-Monopoly Service of the Moscow District as of May 11, 2012 left the court decrees of the Arbitration Court of Moscow and the Ninth Arbitration Court of Appeal unchanged and did not satisfy the cassational appeal of the tax authority.

3. On December 09, 2010 the Company appealed to the Arbitration Court of the Samara Region with an application to nullify Order No. 480 dated September 09, 2010 issued by the Office of the Federal Anti-Monopoly Service in the Samara Region "On Introduction of Changes into the Register of Economic Entities with a Market Share of Certain Goods of More than 35 Percent that are Dominant in a Market of a Certain Type of Goods, if Cases of Recognition of a Dominant Position of Economic Entities with Respect to Such a Market are Specified in Federal Laws" and to exclude Rostelecom from this Register. On June 14, 2011 Hearing on Case No. A55-25947/2010 was held which resulted in a judgment, completely satisfying the asserted claims. This judgment has not been reviewed by a court of appeal or a cassation court.

4. The Interregional Inspectorate of the Federal Tax Service of Russia for Major Taxpayers in the Republic of Dagestan (hereinafter referred to as "Tax Authority" or "Inspectorate") made a field tax inspection of the OJSC Dagsvyazinform (currently Dagestan Branch of OJSC Rostelecom) on complying with legislation requirements concerning taxation and revenue with respect to all taxes and revenues collected from January 01, 2008 through December 31, 2009, and with respect to TIPI - from December 19, 2008 through June 23, 2010.

The results of the tax inspection performed by a state authority were presented in Field Tax Inspection Statement No. 10-55 dated August 04, 2011 which suggested that unpaid taxes should be collected from the Company in the amount of 82,996,625.00 rubles including VAT in the amount of 78,983,177.00 rubles, the income tax in the amount of 4,013,448.00 rubles and penalties for delayed payment or non-payment of taxes (levies).

Upon consideration of the tax inspection materials some of the Company's arguments stated in Objections to the Tax Inspection Statement were accepted by the Inspectorate, while the other conclusions of the Inspectorate were left in force and were stated in Resolution No. 10-55P as of September 29, 2011.

The Company and the Division of the Tax Service of Russia for the Republic of Dagestan (hereinafter referred to as Division of the FTS of Russia for the Republic of Dagestan) lodged an appeal on the Resolution which did not come into force.

After consideration of the cassation appeal the Division of the Federal Tax Service of the Russian Federation for the Republic of Dagestan produced Resolution # 15-08/091 dated December 15, 2011 in which they were declared unjustified by a superior tax authority unjustified and the arguments - unreasonable.

Thus Resolution of the Division of the Federal Tax Service of the Russian Federation for the Republic of Dagestan # 15-08/091 dated December 15, 2011 the arrears and penalties totaling 10,701,366.00 rubles additionally charged by the Inspectorate were declared unjustified. The other arguments specified by us in the cassation appeal of the Company were recognized unjustified by the Division of the Federal Tax Service of the Russian Federation for the Republic of Dagestan.

Resolution of the tax authority No. 10-55P dated September 29, 2011 with consideration of alterations made by the Division of the Federal Tax Service of the Russian Federation for the Republic of Dagestan came into force.

On December 28, 2011 the Interregional Inspectorate of the Federal Tax Service of the Russian Federation for Major Taxpayers No. 7 sent to the Company Request No. 95 demanding that the Company should pay a tax, levy, penalties and fines totaling 76,364,348.00 rubles, including back taxes in the amount of 67,735,929.00 rubles and penalties worth 8,628,419.00 rubles.

For the purpose of appealing Resolution of the Tax Authority No. 10-55P dated September 29, 2011 and Request No. 95 for payment of a tax, levy, penalties and fines dated December 28, 2011 the claim papers were transferred to the Arbitration Court of Moscow. At a preliminary court hearing which took place on April 20, 2012 the proceedings related to lodging a complaint against Resolution No. 10-55P was detached into a separate case and passed over to the Arbitration Court of the Republic of Dagestan. As for the other part of the case hearings in the Arbitration Court of Moscow were suspended.

The case was taken over by the Arbitration Court of the Republic of Dagestan and is being seriously investigated.

During investigation of the case by the Arbitration Court of the Republic of Dagestan Rostelecom lodged another complaint against a resolution of the Interregional Inspectorate of the Federal Tax Service of Russia for Major Taxpayers in the Republic of Dagestan, that is Resolution 10-72P dated April 25, 2012 based on

the results of the field tax inspection of the Dagestan Branch of the Company for the years 2010-2011. The total sum of the additionally charged taxes amounted to 72,353,651.00 rubles.

As reasons for additional charge of tax were the same, according to the opinion of the court, the Arbitration Court of the Republic of Dagestan at its own initiative lumped these two cases into one case and on December 12, 2012 produced a judgment to satisfy all claims of the Company except for VAT charges. The Inspectorate lodged a complaint.

5. In July 2010 the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No.7 completed a repeated field tax auditing on the updated declarations of income tax for 2006 and 2007. Upon its results the Tax Inspectorate produced a Resolution No.13 dated September 06, 2010 to dismiss prosecution for a tax offence based on which the JSC NWT was requested to pay income tax arrears in the amount of 12,356,000.00 rubles, and income tax penalties equal to 388,000.00 rubles. The OJSC "North-West Telecom" in the appeal procedure established by Art. 101.2. of the Tax Code disputed the resolution of the Tax Inspectorate in a superior authority, namely the Federal Tax Service. By Resolution No. AC-37-9/14409@ on the appeal petition dated October 28, 2010 the Federal Tax Service cancelled Resolution of the Tax Inspectorate concerning the income tax penalty charges for the amount of 223,000.00 rubles, leaving the other part of the resolution unchanged, namely the total amount of 12,521,000.00 rubles. In 2011 the Company, being a legal successor of OJSC North-West Telecom, filed a claim with the Moscow Arbitration Court to recognize Resolution No. 13 dated September 06, 2010 invalid in the disputed part. According to Judgment of the Moscow Arbitration Court as of November 30, 2011, the filed claims were satisfied. The Resolution of the Inspectorate was recognized invalid in the part related to the additional charge of tax for 2007 in the amount of 3,647,762.00 rubles (on the grounds specified in Clause 2 of the reasons for judgment section), income tax in the amount of 9,310,298.00 rubles (of this amount 4,919,412.00 rubles relate to the year 2006 and 4,390,886 rubles refer to 2007 (on the grounds specified in Clause 5 of the reasons for judgment section). According to Judgment of the Ninth Arbitration Court of Appeal No. 09AP-810/2012 dated February 02, 2012 the judgment of the Arbitration court of primary jurisdiction was left unchanged and the complaint of the tax authority - unsatisfied. The Interregional Federal Tax Authority for Major Taxpayers No. 7 lodged a complaint with the Federal Anti-Monopoly Service of Moscow District which is to be handled on April 23, 2012. Resolution of the Federal Anti-Monopoly Service of Moscow District dated April 27, 2012 left the judgment of the Arbitration Court of primary jurisdiction and the judgment of the Arbitration Court of Appeal unchanged.

7. According to Resolution of the Division of the Federal Anti-Monopoly Service for Novgorod Region No. 10 dated October 28, 2011 Rostelecom was called to administrative account under Article 14.31, Part 1 of the Administrative Code of the Russian Federation by way of a penalty in the amount of 8,248,150.00 rubles.

On November 16, 2011 an application was filed with the Arbitration court of the Novgorod Region disputing the resolution of the administrative authority on calling to administrative account.

By a ruling dated December 08, 2011 on case No. A44-6048/2011 the application was accepted for handling. The proceedings were assigned for February 02, 2012. By a ruling of the Arbitration Court of the Novgorod Region as of February 02, 2012, proceedings on case No. A44-6048/2011 were suspended until Case No. A44-230/2011 has been considered by courts of Appeal and cassation.

8. Rostelecom is a respondent in a dispute with ZAO Telecom MTK (Moscow) which is currently under a procedure of receivership (bankruptcy proceedings). A bankruptcy manager of ZAO Telecom MTK has challenged the allegation by OJSC Dalsvyaz, whose successor the Company is, as to setting off the counter claims of the same kind which both ZAO Telecom MTK and OJSC Dalsvyaz had encountered out of a number of construction contracts. ZAO Telecom MTK's bankruptcy manager believes that this setoff violates the priority order of satisfying creditors' claims under the bankruptcy case, being a deal concluded within the so called 'suspicion period'. On March 15, 2012, the Arbitration court of Moscow partially satisfied the application by the bankruptcy manager: Rostelecom's indebtedness against ZAO Telecom MTK has been restored in the amount of 6,877,307 (six million eight hundred seventy seven thousand three hundred and seven) rubles, while ZAO Telekom MTK's debt against the Company has been restored in the amount of 35,390,876.00 (thirty five million three hundred ninety thousand eight hundred and seventy six) rubles. By Resolution of the Ninth Arbitration Court of Appeal as of May 25, 2012, this judicial act has been upheld. By Resolution of the Federal Anti-Monopoly Service of the Moscow district No. F05-15141/2011 as of August 01, 2012, the judicial acts by both first instance and by appeals instance were upheld, while the Company's cassation appeal was left unsatisfied. On October 19, 2012, the Company's appeal as to a supervisory review of the case was returned by the Supreme Arbitration court of the Russian Federation. As a result of the case examination, the Company may be submitted a claim from the part of LLC Gorsvyazstroy (Moscow) for the amount of 28,513,569.00 (twenty eight million five hundred and thirteen thousand five hundred and sixty nine) rubles. ZAO Telecom MTK has conceded the mentioned amount of indebtedness to LLC Gorsvyazstroy in the process of bankruptcy.

9. Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 has carried out an on-site tax audit pertaining to Rostelecom as a successor of OJSC Uralsvyazinform, in the matter of compliance by the latter with the RF taxation and revenue legislation for the period from January 01, 2008 through December 31, 2009, the results of such audit being accounted for by the Inter-district Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 in its Resolution No. 1 as of January 16, 2012. Having not agreed with the decision made by the Inspectorate of the Federal Tax Service for Major Taxpayers No. 7, the Company applied to the Arbitration court of Moscow. In doing so, the Company challenges additional charge of VAT in the amount of 34,394,013.36 rubles, additional charge of profit tax in the amount of 854,571.97 rubles, property tax in the amount of 27,140,441.00 rubles, and the relevant fines and penalties. According to this appeal, the Arbitration court of Moscow has commenced a case No. A40-114401/12-99-596. The regular session of the court has been assigned for January 16, 2013.

10. The Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 has carried out an on-site tax audit pertaining to Rostelecom as a successor of OJSC SZT for the period from January 01, 2008 through December 31, 2009. As a result of that audit, it made Resolution No. 2 as of January 16, 2011 on bringing the Company to tax liability. The Company appealed against this decision in the Federal Tax Service of the Russian Federation. By Resolution of the Federal Tax Service of the Russian Federation No. CA-4-9/9235@ as of June 06, 2012, the above mentioned resolution of the Interregional Inspectorate of the Federal Tax Service for Major Taxpayers No. 7 was amended as follows: The Federal Tax Service of the Russian Federation has quashed the decision in so far as pertaining to additional charge of profit tax in the amount of 21,328,354.00 rubles (items 1.1. and 1.5. of the Resolution) and pertaining to the fine for personal income tax for failure to report, within the due term, about impossibility to withhold a tax in the amount of 200.00 rubles (item 3.4. of the Resolution), and in so far as pertaining to the relevant amount of penalties being due for the specified amounts of taxes. The rest of the Resolution was upheld, and hence became final.

Having not agreed with the decision made by the tax authority, the Company applied to the Arbitration court of Moscow to adjudicate it as partially invalid. The decision is appealed against in the part of additional charge of profit tax and VAT for the total amount of 51,297,280.43 rubles, and in the part of the penalties being due for this amount. The Arbitration court of Moscow has accepted this application and has initiated proceedings on case No. A40-120812/12-90-604. The regular session of the court pertaining to this case has been assigned for January 29, 2013.

11. By the decision of the Arbitration court of Moscow as of November 19, 2012 on the case No. A40-27560/2012, the Company's claims for the total amount of 1,042,853,668.85 rubles have been included into the register of claims by creditors of ZAO Globalstar-Kosmicheskoye Telekommunikatsii (into the third priority order of the claims satisfaction). The regular session of the court concerning a report of the ZAO GlobalTel's interim manager has been assigned for March 12, 2013.

Risks associated with the Company's possible liability for third-party debts, including those of the affiliates of the Company.

The Company occasionally bears the risks associated with the possible liability for debts of a third party in the amount of the provided security value.

In case of nonperformance or undue performance by the debtors warranted by the Company, the Company shall bear shared responsibility with their creditors.

The Company's senior management does not expect to incur any significant payables associated with backing up such debtors. The probability of occurrence of the factors which may lead to the nonperformance or improper performance with respect to liabilities is minimal.

Risks associated with the possible loss of a single customers accounting for at least 10% of the total sales income of the Company (sales of work and services).

The risks are non-existent, since presently there are no single customers that account for at least 10% of the total revenue of the Company.

Risks associated with integration of the interregional communication companies and JSC Dagsvyazinform consolidated to the Company.

On April 1, 2011, OJSC Center Telecom, OJSC Sibirtelecom, OJSC Dalsvyaz, OJSC Uralsvyazinform, OJSC Volga Telecom, OJSC North-West Telecom, OJSC UTC and OJSC Dagsvyazinform were excluded from the Uniform State Register of Legal Entities in connection with the merger, which became the legal successor of all rights and liabilities of these companies.

The reorganization of the entity the size of Rostelecom involves risks associated with the inefficient integration of business processes and systems of the merged company. Inefficient performance of business

processes may be associated with the conflict of roles, duplication of functions, time-consuming process of document coordination, gaps in business processes management, demotivation of staff, changing the terms of set tasks, etc. In turn, the specified risks can lead to an increase in operating expenses, a decrease in the quality service and customer outflows, a reduction of revenue and a worsening of the Company's reputation. To reduce this risk, the Company established agencies to coordinate the integration process, develop and implement a comprehensive integration plan that covers all of the Company's business processes, and carry out the regular monitoring of its execution and updating taking into account current changes.

Risks related to integration of newly acquired companies

In order to consolidate its ICT market positions the Company performs market analysis on order to identify possible acquisitions targets and acquires companies following its strategic priorities. Ineffective integration of acquired companies in the event of revealing facts unknown to the Company at the time of acquisition may result in additional expenses and failure to realize the expected synergy effects.

In order to mitigate this risk the Company develops an integration plan for companies to be acquired and supervises its implementation.

Risks associated with the Company's rebranding.

One of the strategic objectives of the Company's 2011-2015 development includes the transition to a single brand. Some current brands of affiliated companies and subsidiaries are strong enough in their regions, thus there is a risk of losing customers when moving to a single brand. In addition, the failure to start a single brand may negatively impact the Company's ability to attract new customers. To reduce the consequences of this risk, the Company plans gradual introduction of the new brand and development of a single brand.

Risks associated with the integration of the Company's mobile business.

The Company currently provides mobile services based on Ural, Volga, Center, Far-East macro-regional branches and a number of subsidiaries in 59 Russian regions. Meanwhile, the current structure of the mobile assets is characterized by usage of various frequencies and cellular technologies (GSM 900/1800, CDMA 450, UMTS 2100, LTE 700-800, 2300-2400, 2500-2700). On 25.07.2012 LLC MOBITEL as a result of fulfillment of securities swap agreement concluded with OJSC Svyazinvest emerged as an owner of 50% of ZAO SkyLink in exchange of 1.91% of ordinary shares of Rostelecom, while the other 50% of ZAO SkyLink belongs to ZAO MC-Direct, with 100% of the latter company outstanding shares belonging to ZAO MC-Direct. Thus, the Company has acquired control over operations of ZAO SkyLink via the Company's daughter company LLC MOBITEL.

A failure to achieve a technological and coverage equality in mobile business under the circumstances of tough competition may result in a failure to reach the target market share. To lower this risk, the Company prepared and realizes a mobile business development strategy providing for expansion in most promising regions and taking into account available frequencies, network resources, tariffs and the Company market positions.

Additionally the Company was awarded with licenses to provide LTE telecom services, thus increasing significantly its license potential in the most commercially vibrant and promising LTE frequency band.

Risks associated with the lack of demand for current and emerging products and company services.

Presently, the Company's revenue is primarily generated by traditional services, such as DLD and ILD telecommunication and leased line services. Lately, the Company has been developing and promoting new advanced innovative products and services, including high speed Internet access based on fiber-optic lines, provisioning of Virtual Private Networks (IP VPN), TV, etc.

In conditions of continued decrease in demand for traditional voice services which may not be compensated for by consumption of new services offered by the Company, this risk may negatively affect the Company's financial performance and growth prospects.

In order to mitigate possible consequences the Company develops IT-based products. Also the Company is involved in sales optimization, develops and applies new principles and approaches to voice service packaging together with other services.

Risks associated with a complete failure to fulfill obligations to customers or clients on major projects or a failure to fulfill obligations in a timely manner:

At the current time Rostelecom is in the process of realizing several complicated projects (including federal projects), involving the operation of high tech equipment, significant costs, and long realization periods. The success of such projects calls for a high level performance at all stages of realization, including those of planning, cooperation with subcontractors and public authorities, financing, and execution. Poor quality or

delayed implementation of these projects by the Company, including failures not attributable to the Company's fault, like failure to perform on the part of associated contractors, unpredictable changes in the customer's requirements for the project outcome, may incur significant financial and reputation damage. In some projects, such as Industry Specific Services, Sochi'2014 and Electronic Government, the realization of a project is directly linked to issues of national or strategic importance and can have among others significant social implications. Failure to conclude contracts for Industry Specific Services and E-Government project may result in worsened financial results of the Company

If the Company fails completely or in part to fulfill its obligations to customers on large projects or clients and/or fails to fulfill obligations on large projects within a predetermined framework, it may incur significant financial and reputation damage. Additionally, any delayed implementation of these projects may reduce the pay-off and, as a result, worsen the financial results of the Company.

To reduce this risk, the project management offices of the most important projects have been made separate units within the Company, and continuously coordinate the Company and its contractors' operations according to the projects' schedules.

Risks associated with a lack of capacity, insufficient network capabilities, and a possible decrease in returns on investment in the communications network.

Active development of the data network-based services is becoming one of the main drivers of growth in the telecommunications market. To guarantee this development, it is necessary to significantly expand the data network capacity, functionality and features. In order to reduce this risk, OJSC Rostelecom invests a lot into the development and upgrade of the existing data network. However, if the Company's predictions on the growth of demand for these services turn out to be incorrect, or if the Company fails to develop the data network on time, the growth in revenue derived from these services may be limited.

Significant increases in the volume of data traffic in the network call for investment in the data network's development and are expected to naturally lead to falling rates per traffic volume unit for end users. In this context, there is a risk of falling returns on investment made into the data network, as per traffic unit rates decline further and the data service market becomes saturated.

In order to manage the risk of declining return on investment for investment project the Company is implementing a program to improve investment efficiency including among others putting in place a per-project and per-site supervising and monitoring system of investment project implementation.

In addition, to ensure the Company's presence in the wireless broadband Internet access segment, it is necessary to expand the network on the basis of available LTE frequencies. In 2010 the Company was awarded with 2.3-2.4 GHz frequency range, however provision of services on these frequencies have not yet been started due to lengthy negotiations with Russian governmental bodies and lack of Russian made equipment (to use such equipment is a mandatory license obligation). Moreover in July 2012 upon a tender outcome the Company was awarded with 791-798.5/832-839.5 MHz (as well as frequency bands 2500-2690, 720-750 and 761-791 MHz with an obligation to free-up radio-frequency spectrum).

In order to reduce the risk of frequency shortage for the development of promising services in LTE standard, the Company besides utilizing the already awarded frequencies looks for alternative opportunities, in particular, shared usage of frequencies with other players on the Russian telecommunications market, awarded with LTE licenses, and is involved in working out of frequency usage.

Risks associated with changes in existing technology services and the initiation of new technology services in the communications industry.

A lot of the services offered by the Company (Internet access, IPTV, IP VPN, etc.) include a variety of technological components subjected to rapid and substantial changes. The emergence of new technologies or significant modifications of existing technologies can weaken the Company's and render it noncompetitive and requiring of additional investment for further improvement and a guarantee of marketability.

In addition, investment in new technologies in which the Company has neither implementation skills nor experience can be commercially unreasonable. Such technologies can demand more time for their introduction or additional expenditures that were not originally anticipated.

These changes may adversely affect the Company's financial results and the introduction of new products and services. To decrease this risk, the Company has established a special internal unit that continuously monitors technological innovations. The Company also develops and implements plans of introducing new products and services given best implementation practices in each corresponding area. The Company consistently analyses opportunities to use new technologies and product offerings on their basis, including cross-industry implementations.

Risks associated with possible claims made by the Federal Antimonopoly Service against the Company.

The Company is included in the register of natural monopoly entities. In addition, the range of the Company's activity continues to grow both through integration of interregional telecommunications operators and through acquisitions, which requires preliminary coordination with the Federal Antimonopoly Service (FAS). In view of obscure rules of antimonopoly regulation, unfair and disputable complaints against the Company to the FAS by competitors, as well as the objective growth of the Company's presence in some markets due to its transition to the sphere of universal telecommunications provider, FAS proceedings against the Company may occur unexpectedly and adversely affect both the Company's market position and its financial performance and reputation. To lower this risk, the Company does its best to meet the relevant anti-monopoly requirements and, if necessary, to defend its position in court proceedings.

CORPORATE GOVERNANCE

The development of sound corporate governance practices is one of the key priorities for the Company management. The principles behind Rostelecom corporate governance policies promote transparency to help ensure the stable balance between the economic and social objectives and the interests of the Company, its shareholders, and other stakeholders.

In its corporate governance practices, Rostelecom adheres to the best domestic and international practices and standards and, in many cases, implements the recommendations of independent rating agencies and consultants to improve these practices. Following the highest recognized standard of corporate governance helps to create an atmosphere of trust and confidence among the Company's employees, as well as increase the efficiency of management decisions and assists the growth of the Company's investment appeal in the long run.

Structure of the Company Governance

Pursuant to the Charter of Rostelecom, the Company is governed by:

- the General Shareholders' Meeting – the Company's supreme governing body;
- the Board of Directors elected by the shareholders of the Company in the General Shareholders' Meeting responsible for the strategic management of the Company;
- the President and the Management Board appointed by the Board of Directors for ensuring management of the daily operations of the Company.

Corporate Governance Standards

Rostelecom has implemented its Corporate Governance Code and the Code of Ethics to ensure that its shareholders have equal access to transparent, comprehensive corporate information and to guarantee the Company's compliance with the highest ethical standards. These codes also consolidate internationally recognized high standards of corporate practices and regulate such matters as conflicts of interest, prohibition of abuse of official powers or insider information, as well as procedures for preparing and disclosing information on operational performance.

The Corporate Governance Code and the Code of Ethics were developed by the Company in accordance with the requirements and recommendations of the New York Stock Exchange, the US Securities and Exchange Commission, and the recommendations of the Federal Financial Markets Service of Russia. Compliance with these guidelines is a pre-condition for maintaining a listing of the Company's securities on the Russian and foreign stock exchanges.

Rostelecom's Codes are based on the following corporate governance principles recognized in Russia and worldwide:

- observing shareholders' rights and interests as stated by applicable legislation, norms and requirements, as well as ensuring the long-term growth of the shareholder value through improved corporate practices, openness, and transparency;
- ensuring transparent and efficient management mechanisms and structures, as well as ensuring that senior management undertake their duties competently and in good faith, in accordance with the high corporate governance and business ethics standards;
- maintaining an efficient internal control and auditing system;
- active cooperation with all of the stakeholders in the interest of ensuring the Company's long-term sustainable development.

Corporate Governance Rating

According to the results of the monitoring Rostelecom's corporate governance practices, held in the period from December 2010 to September 2012, the Consortium of the Russian Institute of Directors and the "Expert RA" rating agency (hereafter referred to as the Consortium "Expert RA") gave the Company a rating of "8" in September 2012 according to the scale of the National Rating of Corporate Governance.

Therefore, according to the consortium "Expert RA", Rostelecom is one of the leaders among Russian companies in terms of quality of corporate governance. Rostelecom has low corporate governance risks. The Company complies with the requirements of the Russian legislation concerning corporate governance, follows the Russian Code of Corporate Conduct in most cases as well as the separate recommendations of the international best practices in corporate governance.

Compliance with the Code of Corporate Conduct of FCSM of Russia

On November 28, 2001, the Russian Government approved the Code of Corporate Conduct. In the course of improving its corporate governance standards, OJSC Rostelecom took the recommendations of the Code and embedded them into its own Charter and other internal regulations of the Company in accordance with the current legislation of the Russian Federation.

Information on Rostelecom compliance with recommendations of the Corporate Conduct Code of the Federal Commission for Securities Market of the Russian Federation is provided in Appendix 1 to this Annual Report and constitutes its integral part.

SHARE CAPITAL

As of December 31, 2012 the Charter Capital of Rostelecom 7 965 224,3450 rubles, including 2,943,258,269 ordinary shares (state registration number 1-01-00124-A dated November 10, 1993 2003) and 242,831,469 Type A preference shares (state registration number 2-01-00124-A dated November 10, 1993), with par value of 0.0025 rubles each.

According to OJSC Rostelecom's Charter, effective as on December 31, 2012, the Company in addition to already placed outstanding shares may issue announced shares totaling 3,685,438,051 authorized shares and 531 Type A preference shares, with a par value of 0.0025 rubles each.

Rostelecom's Share Capital Structure as of December 31, 2012

The shareholders who own 2% or more of Charter Capital or ordinary (voting) shares of the Company (including nominal holders):

	Share in Charter capital		Share in Ordinary shares	Share in Preference shares
	RUB	%	%	%
Shareholders				
JSC Svyazinvest	3,332,279.7350	41.84%	45.29%	0.00%
The Russian Federation represented by Federal Property Management Agency	546,551.4925	6.86%	7.43%	0.00%
Vnesheconombank	180,032.7625	2.26%	2.45%	0.00%
LLC Mobitel	417,297.8400	5.24%	4.64%	12.55%
Nominal holders				
NPO CJSC NRD	1,721,137.3375	21.61%	18.67%	57.27%
CJSC ING Bank (Eurasia)	431,679.7650	5.42%	5.49%	4.61%
CJSC UBS Nominees	265,374.5150	3.33%	3.61%	0.00%
OJSC Sberbank of Russia	297,215.2900	3.73%	4.00%	0.47%

As on December 31, 2012 the Russian Federation represented by the Federal Property Management Agency owns 218,620,597 ordinary shares of the Company. The Russian Federation does not have a special right ("golden share") to participate in the management of the Company.

Breakdown of the Company shareholders by category:

	Number of registered shareholders	Share in Charter capital	Percentage of ordinary shares	Percentage of Preference shares
Legal entities, including:	749	93.83%	94.63%	84.64%
Resident companies	651	93.75%	94.55%	84.05%
Non-resident companies	98	0.07%	0.08%	0.01%
Individuals, including:	158,050	6.17%	5.37%	15.94%
Residents	157,807	6.16%	5.35%	16.89%
Non-residents	243	0.02%	0.01%	0.05%

The Dividend Policy

Rostelecom pays dividends in accordance with the Company Charter. In clause 10.3 of the Charter, and in par. 5.2 of the Regulation on Dividend Policy the minimal total value payable as a dividend on preference shares is fixed at ten percent of the Company's net profit, defined in accordance with Russian legislation (Russian Accounting Standards) determined upon results of the last accounting period to be divided by the total number of shares constituting twenty-five percent of the Company's Charter Capital.

In December 2011, the Board of Directors approved the new second edition of the Regulation on Dividend Policy. According to accepted regulation, the minimal total value payable as a dividend on ordinary shares should constitute no less than twenty percent of the Company's total net profit, determined in accordance with International Accounting Standards (IAS). Earlier, the dividend policy defined the minimal total value

payable as a dividend on ordinary shares on the basis of the Company's net profit according to Russian Accounting Standards.

The Company's Annual General Shareholders' Meeting held on June 14, 2012, resolved to pay the following dividends based on the 2011 year results:

- dividends on Type A preference shares in the amount of 4.6958 rubles per share;
- dividends on ordinary shares in the amount of 4.6959 per share.

Thus, the total amount of the dividends accrued on Type A preference shares totaled 1,140,312 thousand rubles and accounted for 3.5% of the Company's net profit for 2011. The total amount of dividends payable on ordinary shares exceeded 13,821,247 thousand rubles, or 42.45% of the Company's 2011 net profit.

In the 2012 reporting year, the Company paid dividends to the federal budget totaling 1.027 billion rubles. Therefore, the Company has no indebtedness on payments of dividends to the federal budget.

As on December 31, 2012 the Company's debt to shareholders upon the results of dividend payments for 2011 amounted to approximately 0.83% of the total dividend amount payable in respect of the relevant periods.

The main cause of dividends non-payments is the shareholders' failure to submit information on certain changes in their personal data to the register of the Company's securities holders in accordance with the payment method they had selected. These changes included:

- Changes in the shareholder's residential location, for those opting to receive dividends by mail transfer;
- A lack of details, indication of incorrect bank details and/or changes in bank details for those opting to receive dividends by bank transfer;
- Changes in shareholders' passport details (this being applicable to any payment method)

Rostelecom complies with the resolutions of the Annual General Shareholders' Meetings and fully performs its obligations pertaining to the remittance of dividends to persons entitled to receive them.

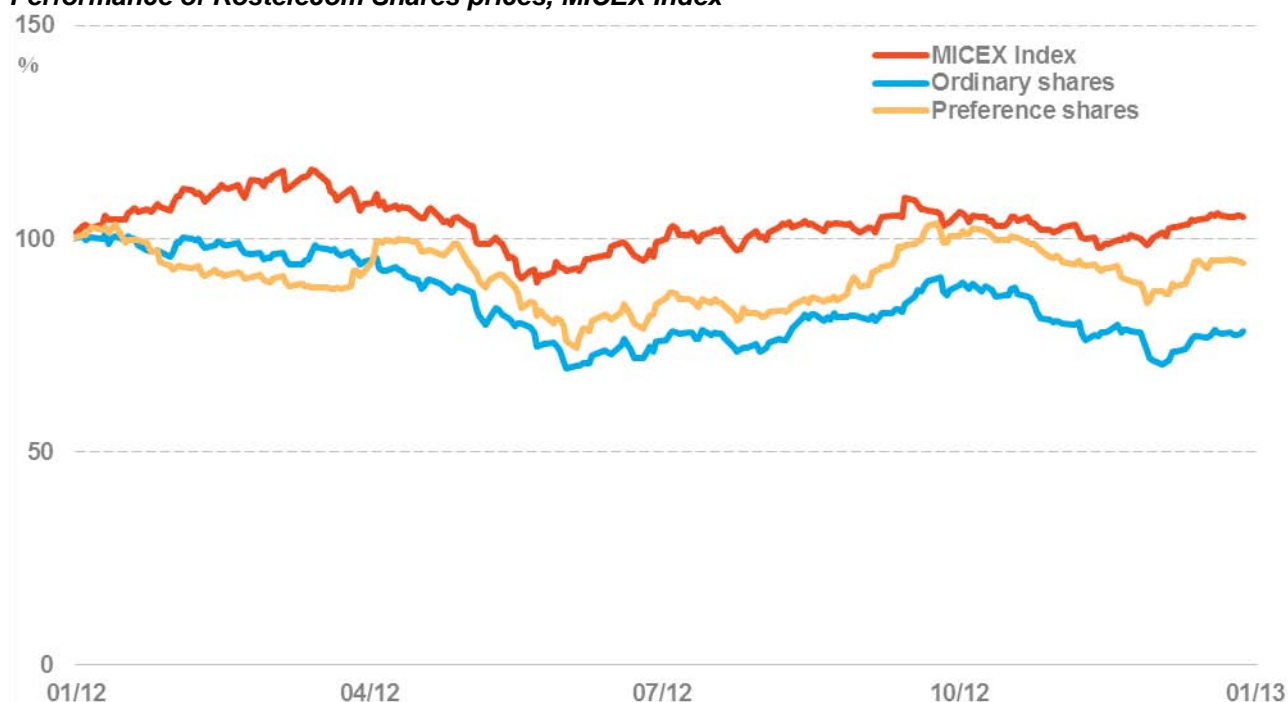
Moreover, pursuant to par. 5 of Article 44 of the Federal law No. 208-FZ "On Joint-Stock Companies" of October 31, 2002, and par. 13.3 of Article 13 of Rostelecom Charter, a shareholder shall advise the Company's Registrar in a timely manner on any changes in his/her personal details. In case of a shareholder's failure to provide information on changes in his/her details (on time), OJSC Rostelecom and the registrar shall not be held liable for his/her losses inflicted in connection therewith.

It is important to note that upon the expiry of the dividend payout period set by the General Meeting of Shareholders, the Company monitors the shareholder register on a monthly basis and pays outstanding dividends to the shareholders which have made requisite changes to the register of the Company.

The Company's Shares on the Russian Market

As of December 31, 2012 the Company's ordinary and preference shares (RTKM, and RTKMP tickers) are currently listed as level A1 securities on the MICEX Stock Exchange. The listing on the MICEX as well as the inclusion of OJSC Rostelecom's securities in the calculation of exchanges' indices demonstrates the ample liquidity of the Company's securities and ensures the observance of rights and interests of shareholders and investors in accordance with listing requirements.

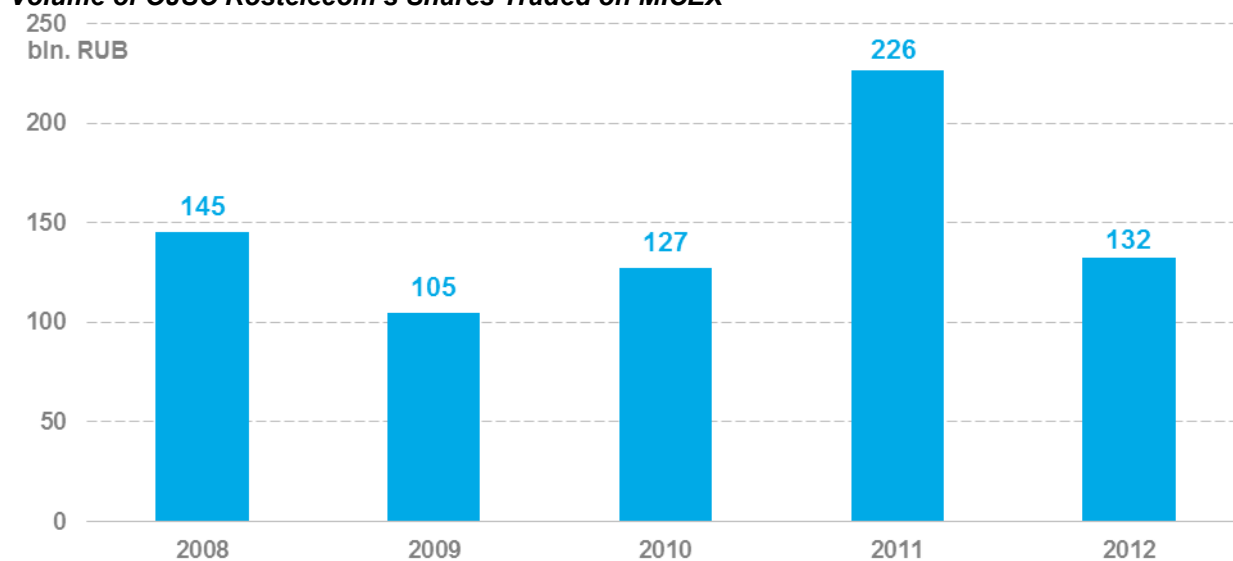
Performance of Rostelecom Shares prices, MICEX Index



* Prices of OJSC Rostelecom's ordinary and preference shares and the MICEX index were assumed to be equal to 100 base points as on December 31, 2011

** The MICEX weighted average prices for OJSC Rostelecom's ordinary and preference shares are used.

Volume of OJSC Rostelecom's Shares Traded on MICEX



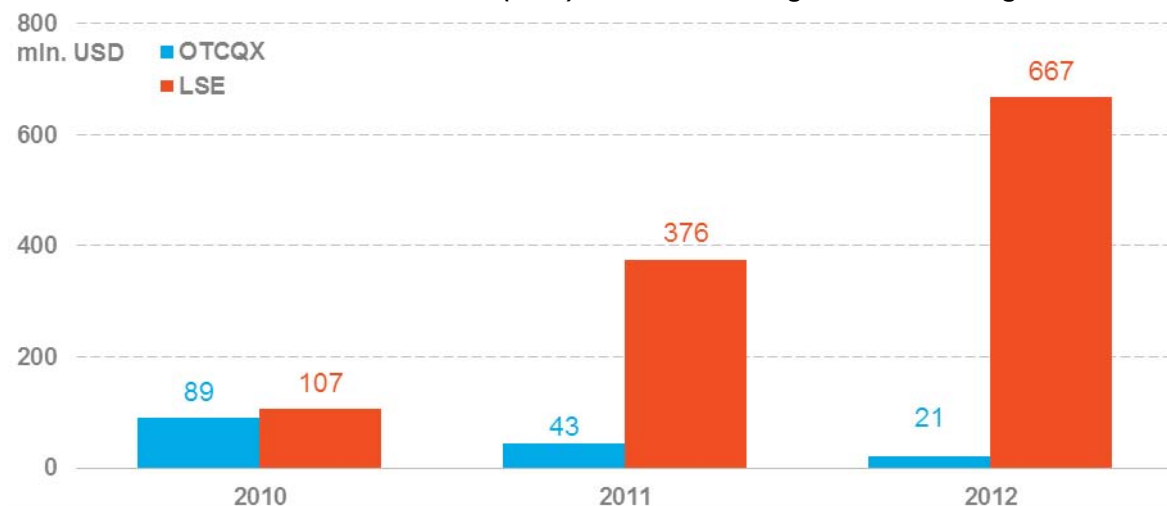
Company's Securities on Markets Abroad

Rostelecom ADRs were listed on the New York Stock Exchange (NYSE) from February 1998 to December 2009. In December 2009, the Board of Directors thoroughly reviewed the Level II ADR Program and decided to delist the ADRs from the NYSE and to deregister them with the U.S. Securities and Exchange Commission. The main reason for this decision compliance with reporting requirements under the U.S.

Exchange Act was associated with substantial expenses, while the major market for Rostelecom's securities was by far and large the Russian securities market.

After the delisting from the NYSE the ADR Program was transferred to Level I and Rostelecom's ADRs had begun trading in the U.S. over-the-counter (OTC) market by means of the "Pink Sheets" electronic system. In March 2010, to maintain a high level of transparency and disclosure in line with the best global practices, OJSC Rostelecom's ADRs were listed on the OTCQX International Premier – the highest tier of the U.S. OTC market. The Company's ADRs are also traded outside of listing at the London, Frankfurt and other foreign stock exchanges. As of December 31, 2012, some 3.03% of the Company's ordinary shares circulated outside the Russian Federation in the form of ADRs.

Volume of OJSC Rostelecom's Shares (ADR) Traded on Foreign Stock Exchanges



GENERAL MEETING OF SHAREHOLDERS

Pursuant to the Company's Charter the General Shareholders' Meeting is the Company's supreme governing body.

The extraordinary General Shareholders' Meeting was held on June 14, 2012, and approved the annual report and annual financial statements of the Company on results of 2011 and elected members of the Board of Directors. Also the said meeting approved ZAO KPMG as the Company's auditor for 2012 and endorsed the remuneration payable for performance of their duties to members of the Board of Directors, who are not public servants. Also the Extraordinary Shareholders' Meeting approved new issues of the Company's Charter, Regulations on the Board of Directors and Regulations on the Company Audit Commission.

THE BOARD OF DIRECTORS

Pursuant to the Company's Charter, the Board of Directors is a governing collective executive body responsible for the general management of the Company in between the General Shareholders' Meetings, and consists of 11 members. In its activity, the Board of Directors is guided by the Charter of the Company and the Regulations on the Board of Directors of the Company. The new edition No. 11 of the abovementioned Regulations was approved by the Annual General Shareholders' Meeting of the Company held on June 14, 2012, Minutes No. 1 dated June 16, 2012.

The current membership of the Board of Directors was elected on June 14, 2012 at the Annual General Shareholders' Meeting. The persons listed below were members of the Board of Directors of the Company during 2012 as well as in 2013 until the date of the Company's Annual General Shareholders' Meeting:

Name, patronymic letter, surname of BoD Member	14.06.2012	
1. Sergei A. Azatyan		
2. Vladimir N. Bondarik		
3. Anton A. Zlatopolsky		
4. Anton S. Inshutin		
5. Yury A. Kudimov		
6. Sergei I. Kuznetsov		
7. Mikhail A. Leschenko		
8. Anatoly A. Milyukov		
9. Alexander N. Pertsovsky		
10. Alexander Yu. Provotorov		
11. Ivan I. Rodionov		
12. Vadim V. Semenov		
13. Anatoly V. Tikhonov		
14. Igor O. Shchegolev		

Brief biographies of the members of Rostelecom's Board of Directors are attached as Appendix No.2 "Company Management and Controlling Bodies" to this Annual Report and shall be its integral part.

Activities of the Board of Directors and its Committees in 2012

During 2012 the Company's Board of Directors held 59 meetings, nine of which 9 meetings were held by attendance in person and 50 meetings by written correspondence. This ratio of the number of meetings by attendance and absentee meetings is based on the wish to make meetings as efficient as possible given such requirements as to make prompt decisions on the agenda issues, volume of information to be reviewed by members of the Board of Directors and the need for discussing the Company development issues. Information on the meetings of the Board of Directors of the Company is attached as Appendix No 5 to this Annual Report and made its integral part.

Major Resolutions Adopted by the Board of Directors

In January 2012 the Board of Directors reviewed a broad range of issues related to the policies of the developing the Company's international business.

In February of the reporting year the Board of Directors reviewed results of the Company operations in the Moscow market, and made decisions aimed at further consolidation of Moscow based assets.

In March the Board of Directors reviewed and approved a number of transactions required to ensure video transmission of the voting process and counting of ballots cast by voters at the Presidential elections in the Russian Federation on March 4, 2012.

In the second half of 2012 the Board of Directors on a regular basis reviewed various matters related to implementation of the wide-scale concept of the Company for optimization of regional branches' structure.

Pursuant to the instruction of Rosimuschestvo in September the Board of Directors approved amendments to the Company's innovative development program.

In late September the Board of Directors reviewed results of the Company activities in various fields of activity, in particular, a progress report and financial outcomes of the realization of the program for disposal of non-core assets and implementation status of the e-Government program.

In late 2012 the Board of Directors approved documents which will determine the Company development directions for years to come, namely, the mid-term (for 5 years) and long-term (for 10 years) Company development strategies.

In the reporting period the Board of Directors approved the Company's budget for 2013 and regularly reviewed issues relating to meeting budget targets and management of receivables.

Over entire 2012 the Board of Directors focused significant efforts on streamlining risk management, on internal audit and control in the Company.

Additionally, in accordance with authorities vested with Board of Directors by the Federal law "On Joint-Stock Companies" the Board of Directors regularly reviewed issues pertaining to the approval of related party transactions. Also, in 2012 the Board of Directors made decisions related to the preparing and conducting the Annual General Shareholders' Meeting on 2011 results.

Committees of the Board of Directors

To improve the Company's efficiency, the Board of Directors set up the Strategy Committee, the Nominations and Remuneration Committee, the Audit Committee, and the Corporate Governance Committee. These committees are elected on an annual basis. As initiatives are proposed, each Committee carries out a detailed analysis from the perspective of its own area of expertise and presents its recommendations to the Board. This ensures that each decision made by the Board of Directors is well-researched and sufficiently informed. Information on the meetings of Committees of the Board of Directors of the Company is presented in Appendix No 5 to this Annual Report and made its integral part.

The Strategy Committee

In its activity the Strategy Committee is guided by the Regulations on the Strategy Committee of the Board of Directors of the Company. Its new second edition was approved by the Board of Directors in 2009 (Minutes No 5 dated June 24, 2009).

In 2012 the Strategy Committee focused significant efforts on reviewing matters related to elaboration of a mid-term and long-term strategy of the Company, and ensuring further growth and modernization of the Company business as a whole.

Besides, the Strategy Committee traditionally pays a lot of attention to meeting budget targets and approval of the budget for 2013.

Members of the Strategy Committee until June 14, 2012:

- Yury A. Kudimov;
- Sergei Kuznetsov;
- Anatoly Milyukov;
- Alexander Provotorov;
- Ivan Rodionov;
- Vadim Semenov;
- Anatoly Tikhonov.

Members of the Strategy Committee as of July 23, 2012

- Sergei Azatyan;
- Anton Inshutin;
- Sergei Kuznetsov;
- Alexander Provotorov;
- Vadim V. Semenov.

The Nominations and Remuneration Committee

In its activities the Nominations and Remuneration Committee is guided by the Regulations on the Nominations and Remuneration Committee of the Board of Directors. Its new edition No 1 was approved by the Board of Directors in 2009 (Minutes No 11 dated September 21, 2009).

Last year, the basic responsibilities of the Human Resources and Remuneration Committee were to assess candidates to the Board of Directors, the Management Board, the Audit Commission and for managerial positions. The Committee also reviewed and revised remuneration policies for the Board of Directors and the Management Board, for senior management and middle management, and approved the essential terms and conditions of employment contracts with members of the Management Board.

Members of the Nominations and Remuneration Committee until June 14, 2012:

- Vladimir Bondarik ;
- Anton Zlatopolsky;
- Anatoly Milyukov;
- Alexander Pertsovsky.

Members of the Nominations and Remuneration Committee as of July 23, 2012:

- Sergei Azatyan;
- Anton Zlatopolsky;
- Mikhail Leschenko;
- Anatoly Milyukov.

The Audit Committee

In the course of its activities the Audit Committee is guided by the Regulations on the Audit Committee of the Board of Directors. Its new second edition was approved by the Board of Directors in 2009 (Minutes No 11, dated September 21, 2009).

In 2012 the Audit Committee was focused on controlling the quality and integrity of information included in the Company's financial (accounting) statements. The Committee regularly reviewed and evaluated the statement of opinions of the Audit Commission and opinions of the independent external auditor, monitored efficiency of the Company's auditing practices and reviewed draft auditing services agreements.

Particular attention in 2012 the Audit Committee paid to improvement of the Company's risk management program, and further improvements of the quality of internal audit and controls.

Members of the Auditing Committee until June 14, 2012:

- Yury A. Kudimov;
- Alexander Pertsovsky;
- Vadim Semenov;
- Ivan Rodionov.

Members of the Auditing Committee until June 14, 2012:

- Yury A. Kudimov;
- Anton Inshutin;
- Vadim Semenov;
- Ivan Rodionov.

The Corporate Governance Committee

In its activity, the Corporate Governance Committee is guided by the Regulations on the Corporate Governance Committee of the Board of Directors of the Company, the revised second edition of which was approved by the Board of Directors in 2009 (Minutes No 11 dated September 21, 2009).

In 2012 the Corporate Governance Committee focused primarily on improving corporate governance practices of the Company; in particular, special efforts were aimed at drafting new revisions of key corporate documents of the Company: the Charter, Regulations on the Board of Directors, Regulations on the Audit Commission. The committee also reviewed matters related to preparation and adoption of the agenda and materials for the Company's Annual General Shareholders' Meeting on 2011 results.

Members of the Corporate Governance Committee until June 14, 2012:

- Vladimir Bondarik;
- Anton Zlatopolsky;
- Sergei Kuznetsov;
- Alexander Provotorov.

Members of the Corporate Governance Committee as of July 23, 2012:

- Vladimir Bondarik;
- Anton Zlatopolsky;
- Sergei Kuznetsov;
- Mikhail Leschenko;
- Alexander Provotorov.

Remuneration of the Board of Directors

Pursuant to par. 2 of Article 64 of the Federal law "On Joint Stock Companies", the amount of remuneration payable to the members of the Board of Directors shall be determined set by a resolution at the General Shareholders' Meeting. In compliance with the requirements of the Russian legislation, the Annual General Shareholders' Meeting held on June 14, 2012 approved a new revised version of the Regulations on the Board of Directors of OJSC Rostelecom, which stipulates the manner of payment to the members of the Board of Directors; the decision was also made regarding compensation to the members of the Board of Directors for their duties as members of the Company's Board of Directors.

The remuneration of the members of the Board of Directors consists of quarterly and annual payments. The quarterly remuneration payable to each member of the Board of Directors shall be equal to 1,500,000 rubles. The Chairman of the Board of Directors shall receive remuneration 1.3 times as much as the remuneration of individual board members. The quarterly remuneration of a member of Board of Directors shall be reduced:

- by 10%, in case of absence in 25 or less percent (inclusive) of the Board of Directors meetings and absentee meetings held;
- by 30%, in case of absence in more than 25 yet less than 50 percent (inclusive) of the Board of Directors meetings and absentee meetings held;
- by 100%, in case of absence in more than 50 percent of the Board of Directors meetings and absentee meetings held.

If during a quarter, there were changes in the personal membership of the Board of Directors and/or changes in the terms and conditions of performing the duties (for remuneration/on a complimentary basis) by a member of the Board of Directors, the remuneration shall accrue and be payable pro rata to the period of time during which the member of the Board of Directors performed their functions for a remuneration.

The annual remuneration for all members of the Company's Board of Directors shall be set by resolution of the Annual General Shareholders' Meeting as a percentage of OIBDA* upon the completion of the annual financial statements prepared according to IFRS. In 2011 and until the Annual General Shareholders' Meeting on 2010 results the Regulations on the Board of Directors of the Company was in effect, according to which the remuneration payable to the entire membership of the Board of Directors shall be calculated on the basis of OIBDA according to RAS.

At the Annual General Shareholders' Meeting held on 2011 results, shareholders approved the Regulations on the Board of Directors of the Company in a new edition No 11, according to which the annual remuneration for the entire composition of Board of Directors is established by the resolution of the Annual General Shareholders' Meeting on results of the last full fiscal year as a percentage of OIBDA calculated on the basis of consolidated financial statements prepared according to IFRS for the reporting financial year, in which such resolution was passed. This percentage shall not exceed 0.13% and is used to determine the remuneration of persons who performed the functions of members of the Board of Directors as of the Annual General Shareholders' Meeting on results of the last full financial year until the next Annual General Shareholders' Meeting.

Annual remuneration for a member of the Board of Directors shall be determined according to the following calculation method: the value described above divided by the number of persons elected to the Board of Directors. The annual remuneration of the Chairman shall be 1.3 times this amount. Annual remuneration of a member of the Board of Directors shall be reduced by 50% in the event of his/her participation in less than half of the Board of Directors meetings held over his/her term of office.

If during the period starting from the election of the Board of Directors by the Annual General Shareholders' Meeting until the next Annual General Shareholders' Meeting, there were changes in the personal membership of the Board of Directors and/or changes in the terms and conditions of performing the duties (for remuneration/on a complimentary basis) by a member of the Board of Directors, the remuneration shall accrue and be payable pro rata to the period of time during which the member of the Board of Directors performed their functions for a remuneration.

The annual remuneration to each member of the Board of Directors shall be paid no later than 3 months after its approval at the Annual General Shareholders' Meeting.

Members of the Board of Directors of OJSC Rostelecom who are also members of the Auditing Committee will receive an additional quarterly payment amounting to 150,000 rubles for fulfilling these duties. The payment to the Chairman of the Audit Committee shall be 1.25 times this amount.

A member of the Board of Directors also serving as a member on other Board committees will receive an additional quarterly payment amounting to 126,000 rubles for serving as a member of the Board committee. The payment to the Chairman of each committee shall be 1.25 times this number (for participation in each committee).

The quarterly remuneration of a member of a Committee of the Board of Directors may be reduced by:

- 10%, in case of absence in 25 or less percent (inclusive) of the Board of Directors meetings and absentee meetings held;
- 30%, in case of absence in more than 25 yet less than 50 percent (inclusive) of the Board of Directors meetings and absentee meetings held;
- 100%, in case of absence in more than 50 percent of the Board of Directors meetings and absentee meetings held.

* OIBDA is calculated as the amount of operational income less depreciation and loss from depreciation of non-current assets according to the consolidated income statement for the relevant period.

If during the quarter there were changes in the composition of the Committee, the remuneration to the former or new Committee member shall accrue and be paid in proportion to the period of time during which the member of the Committee performed his/her functions.

Members of the Board of Directors who are simultaneously employed by the state shall perform their duties on an unpaid basis.

Members of the Board of Directors are not entitled to any additional remuneration or compensation in whatever form or manner for any expenses incurred in the course of performing their duties in respect of making any decisions by the Board of Directors or by the Company other bodies, as well as in respect of exercising their rights and obligations as members of the Board of Directors, apart from those remunerations and compensations to be received according to the Regulations on the Board of Directors or pursuant a decision of the Annual General Shareholders' Meeting expressed in other way.

Given all payments (including bonuses, commission fees, benefits and/or compensation for expenses, as well as other property distributions) the total remuneration paid by the Company to the Board of Directors in 2012 amounted to 238,950,176 rubles.

THE PRESIDENT AND MANAGEMENT BOARD

According to the Company's Charter, the Management Board is a governing collective executive body of the Company responsible for its day-to-day management. The number of members and the personnel composition of the Management Board is determined by the Board of Directors. Management Board members are elected by the Board of Directors excluding the Chairman of the management Board. According to the Federal law "On Joint Stock Companies", the authority of the Chairman of the Management Board is vested with the President.

As of July 14, 2010, Alexander Provotorov was the Company President. On March 3, 2012 according to a resolution passed by the Board of Directors, Mr. Sergei Kalugin was appointed the President of the Company.

During 2012 and in 2013 the following persons took part in the Company's Management Board activities:

Name, patronymic letter and surname of the Management Board member	Jan.28 2012	June 14 2012	July 31 2012	Feb. 18 2013	March 27 2013
1. Alexander Yu. Provotorov					
2. Natalia A. Albrekht					
3. Pavel A. Zaytsev					
4. Ivan I. Zima					
5. Viktor V. Iudin					
6. Sergei B. Kalugin					
7. Sergei A. Lukash					
8. Vaagn A. Martirosyan					
9. Vladimir K. Mironov					
10. Alexey S. Nashchekin					
11. Alexey N. Nichiporenko					
12. Alexander M. Rogovoy					
13. Galina V. Rysakova					
14. Olga N. Rummyantseva					
15. Viktor V. Strelkov					
16. Roman A. Frolov					
17. Anton A. Khozyainov					
18. Mikhail M. Magrilov					
19. Oleg. I. Senkov					

Brief biographies of the President and members of the Company's Management Board are presented in Appendix No 2 entitled "The Company Management and Controlling Bodies" attached to this Annual Report and made its integral part.

Activities of the Management Board and its Committees in 2012

The Management Board of the Company held 59 meetings in 2012, 8 meetings by attendance in person and 51 meetings by written correspondence.

In 2012, the Management Board reviewed the Company's operational activities with particular focus on development of current plans are formulated and decisions making it possible to ensure achievement of the declared goals. The Management Board also reviewed budget performance reports and reports on marketing and advertising plan implementation.

In order to improve operational efficiency, the Management Board adopted certain resolutions in 2011 on the decommissioning of analogue communication lines and facilities and on optimizing the structure of Rostelecom's branches.

Furthermore, to ensure thorough study of matters and quality of decisions to be taken, the Management Board made significant efforts to prepare materials and issues for the Board of Directors to pass resolutions, including efforts devoted to preliminary review of related party transactions.

Constantly working to improve the Company's corporate governance standards and internal control procedures, the Management Board in 2012 paid particular attention to the risk management program put in place in the Company. The Management Board realizing the Company social responsibilities also drove the Company's social responsibility initiatives, undertaking numerous charitable and sponsorship initiatives on behalf of the Company.

Committees of the Management Board

In 2012, several committees were in place to improve the efficiency of and support general activities of the Management Board: the Budget and Investment Committee, the Compensations Committee, the Information Disclosure Committee, the Internal Control Committee, the Information Security Committee, and the Charity Committee of the Management Board.

The Budget and Investment Committee

In 2012 the Budget and Investment Committee analyzed, assessed, and made investment decisions related to projects and programs planned for 2012 and 2013. In addition, the Committee completed a thorough review of the 2013 budget for structural units and branches in order to produce a 2012 Consolidated Budget for the united Company.

The Compensations Committee

The Compensations Committee focused on making improvements to the Company's efficiency by ensuring the employees are highly-qualified personnel stimulated to achieve the common goals. The Committee took decisions and implemented programs associated with compensation and motivation schemes for the Company's employees

The Information Disclosure Committee

In 2012 the Information Disclosure Committee ensured consistency and compliance with procedures of disclosing information deemed important for the Company, before disclosure of this information to third parties, in order to prevent the inconsistency and conflicts of information disclosed by the Company.

The Internal Control Committee

The objective of activities of the Internal Control Committee is to review issues concerning risk management and development, implementation, operation, and improving the internal control systems of the Company's operational and financial performance.

During the past year the Internal Control Committee devoted its attention primarily to the optimization of the Company's risk management system.

The Information Security Committee

In the reporting year, the Information Security Committee of the Management Board focused on operational decision-making regarding issues related to information and data and the protection of Rostelecom data and informational resources. The Committee also made significant efforts to ensure compliance with information security requirements defined by laws and regulations, consistence with goals and objectives of the Company.

The Charity Committee

The Charity Committee is engaged in reviewing appropriate issues and making decisions on the Company's charitable donations and participation in socially significant projects.

Remuneration of the President and of the Management Board

Pursuant to the Regulations on the General Director (President) of the Company, the remuneration of the President is defined in a written contract between the President and the Company, with terms and conditions approved by the Board of Directors. In addition, according to the resolution of the Board of Directors, the following amounts are payable to the President:

- A quarterly bonus based on diligent performance of duties and upon results of meeting quarterly budget targets.
- An annual bonus based diligent performance of duties and upon achievement of annual key performance indicators as approved by the Board of Directors.

Decision on remunerations payable to members of the Company's Management Board shall be taken by the Board of Directors, according to an internal document approved by the Board of Directors. At present, members of the Management Board receive a quarterly monetary remuneration for performing their duties.

Quarterly bonus payable to an individual Management Board member shall not exceed 733,000 rubles and 879,600 rubles payable to the Chairman. Quarterly bonus amounts payable to members of the Management Board shall be determined by the Board of Directors based on meeting performance targets.

When evaluating the quality of materials prepared for the Board of Directors' meetings, the Board of Directors takes into account the due arrangement and timely delivery of materials and solutions, their

compliance with the current legislation, the Charter and the internal documents of the Company, as well as accepted standards.

In 2012, the total remuneration amount paid to members of the Management Board members for their duties pursuant to the Regulations on the Management Board amounted to 43,304,998 rubles. Other payments to the persons acting as members of the Management Board in 2012, including the President, (including salaries, bonuses, commissions, benefits and/or compensation of expenses, as well as other payouts in the form of property under the Labor Code of the Russian Federation and relevant employment contracts) amounted to 246,875,262 rubles in 2012.

The total remuneration of the President and the Management Board members is disclosed as part of quarterly reports.

THE AUDIT COMMISSION

Pursuant to the Company's Charter the Audit Commission is established as an independent body within the Company responsible for supervising the Company's financial and operational activities during the periods between the Annual General Shareholders' Meetings.

On June 14, 2012, at the Annual General Shareholders' Meeting on 2011 results, the currently effective Audit Commission was elected, consisting of 5 members as follows:

- Svetlana N. Bocharova;
- Valentina F. Veremyanina;
- Bogdan I. Golubitsky;
- Olga G. Koroleva;
- Vyacheslav G. Ulupov.

Brief biographies of the Company's Audit Commission members are presented in Appendix No2 "The Company Management and Controlling Bodies" attached to this Annual Report and made its integral part.

The Audit Commission Activities in 2012

During 2012, the Audit Commission conducted a review of the Company's financial and operational activities. The Audit Commission used selective inspection techniques of individual transactions. The review was based on documents such as accounting and taxation records, as well as registers and statements provided by the Company's management.

Within the analysis framework the Audit Commission also reviewed the disclosure and accounting procedures applied for reflection in the Company's financial accounts of information regarding the Company's financial and business activities; as well as the Company's accounting methods and principles, and procedures used to prepare the Company's financial statements and annual reports.

Remuneration of the Audit Commission members

The amounts of remuneration payable to members of the Auditing Commission and compensation for expenses are set forth in the Regulations on the Audit Commission. Members of the Auditing Commission are compensated for all proven expenses incurred while executing their duties.

Members of the Auditing Commission during their term in office shall receive quarterly remuneration amounting to 350,000 rubles to each individual member. The quarterly remuneration to the Chairman of the Audit Commission is 1.3 times as much as this amount.

During the quarter when the Auditing Commission is being reelected or in the event that a member of Commission resigns as stipulated by paragraph 8 of the Regulations on the Audit Commission, quarterly remuneration will be paid pro rata to the period when such member performed all applicable duties during the relevant quarter.

The overall remuneration paid to the members of the Auditing Commission in 2012 amounted to 7,420,000.00 rubles.

SOCIAL RESPONSIBILITY

Projects in the social sphere is a paramount part of Rostelecom's corporate social responsibility both on federal and regional level. Over more than 10 years the Company has been involved in socially oriented activities and contributed to solving social problems and issues.

Rostelecom's vision of its mission is not only to ensure provision of quality telecom services to its customers, but also to assist in development of local communities in the regions of the Company's presence, facilitate creation of sustainable social environment and improve the quality of living in the country.

Rostelecom's own infrastructure, telecommunications resources, a wide range of services and well-established relations with regional authorities enable Rostelecom to efficiently resolve problems both facing separate population groups, for instance, veterans or disabled people, and more holistic tasks in such spheres of the life of society as healthcare, education, sports, environment protection and culture.

Rostelecom pursue socially significant projects across the entire Russian Federation from Kaliningrad region in the west to Sakhalin in the east, facilitating solution of most acute and vital social issues.

In the course of implementing its social policies the Company maintains the following programs: Education, Sports, Care, Ecology, Cultural heritage.

Education Program

Support of vocational education

In 2012 the Company assisted specialized higher education institutions and education institutions of specialized secondary education such as Moscow Technical University of Communications and Informatics, Professor Bonch-Bruевич St. Petersburg State University of Telecommunications, Siberian State University of Telecommunications and Informatics, (SibSUTI), the SibSUTI College of Telecommunications and Informatics. In 2012 Rostelecom within the framework of its innovative development program opened 5 specialized chairs based in 5 core higher education institutions.

Support of specialized education institutions above all includes the improvement of the material and technical foundation of these education institutions, the promotion of student initiatives and unions, the payment of scholarships, the organization of practical trainings for students in the Company's departments.

Leveraging modern technologies for education and children's crafts

In February 2012, within the framework of the V International Winter Arts Festival in Sochi Rostelecom arranged a series of musical master classes for young musicians in four Russian cities – Sochi, Yaroslavl, Penza and Novokuybyshevsk (Samara region). This was made possible owing to a multi-channel video-conference which linked together the Chamber Music Hall in Sochi and concert stages in these cities, equipped with advanced video-conferencing hardware. As a result young musicians and their mentors were given a unique opportunity “to attend” lessons given by great musicians Yury Bashmet, Dmitry Vdovin and Maxim Vengerov, and ask them questions in real time about secrets of mastering musical instruments.

During the whole year the Company was a telecommunications partner of the First National contest of classic music performers under the auspices of worldwide famous Russian violist and conductor Yury Bashmet. In this partnership Rostelecom ensures technical capabilities to have hearings of young musicians simultaneously in three Russian cities – Krasnodar, Sochi and Stavropol. Upon the contest outcome the All-Russia Symphonic youth orchestra was established and its first performance was in Sochi in November 2012.

In May 2012, Rostelecom provided a webcast for a competitive program called “Art. Youth. Talent.” as part of the Eleventh Youth Delphic Games in Russia. For the first time in the history of the Games, spectators included not only participants and guests, but all users of the Internet: Rostelecom offered a live broadcast of all of the Games' events and its award ceremony from 11 different platforms on its website for the entire duration of the Games.

Safe Internet projects

Since April 2012 all pricing plans offered by the Company to its customer include an option “A child at home” to protect children and young people against Internet content violating the Russian law. The Company is also implementing a federal scale project to offer content filtration tool designed for general education schools.

In addition to technical solutions to the problems of security in the web, since 2012 in Russian regions the Company launched a number of communications projects of safe Internet – parents meetings Children surfing Internet, Lessons of safe Internet in classes, Contest of children's video-clips, Contest of social posters, all-Russia contest of teaching materials for safer Internet targeting various audiences: children, teachers, parents and general public. A swarm of problems raised by these projects includes working with malware, spam, fraud, dangerous content, etc.

Youth Olympiads and Contests

Alongside supporting special education institutions the Company in the regions provides assistance to various contests aimed at encouraging creative interest of schoolchildren and students to modern computer technologies, their involvement in activities for using in practice Internet-technologies and computer aided graphics.

Active support by the Company of the International Student Olympiad in information technologies called Planet IT is one of examples of these activities in 2012.

Grandma and Granddad On-Line

Programs of improving computer literacy among senior citizens remain for several years one of the most large-scale social projects initiated by the Company.

Since 2012 Rostelecom in collaboration with Inter-regional public organization Association of veterans, disabled and pensioners and Intel company has been implementing a project called Grandma, Granddad on-line. As an Official Partner of the Program Rostelecom will provide internet access based on its own network to Learning Centers to be opened in the regions for senior citizens to teach them computer and IT basics.

The primary goal of this program is to facilitate development of information society in the country, and in particular to include senior citizen in the info-communications environment. Training courses and workshops are designed to eliminate the psychological barrier and fear of new technologies common with older people, help them learn new skills to work with a computer and with Internet, using social networking, foras, IP-tools.

Program participants learn the basics of operating a personal computer, acquire the skills that are necessary to find specific information in the Internet and to working with e-mail, study how to use popular applications for Internet communications (ICQ, Skype), as well as social networks, etc.

Sports Program

Social initiatives in partnership with the Organizing Committee of "Sochi 2014"

Since 2009 Rostelecom has been a general partner of the 2014 Winter Olympic Games in Sochi and a participant in the Olympic project, guided by the principle of "Olympic Games for everyone!".

Within the framework of this partnership in 2012 the Company participated in several social initiatives of the "Sochi" 2014 Organizing Committee, aimed at the promotion and popularization of the Olympic values in the regions of Russia.

Special federal sports and education actions for children and the young have become a good tradition for Rostelecom. Since 2011 specifically under Partnership with Sochi'2014 Organizing Committee for preparation of XXII Olympic Winter Games the Company has been implementing a program of youth children sports actions and competitions. The events are staged twice a year in winter and late spring and dozens of cities throughout Russia take part with active participation of Olympic athletes, winner and medal winners in various sports, while numerous local people became spectators and guests attending these jolly good competitions.

A distant Olympic learning program was launched with Rostelecom support in 2012. The Company signed a memorandum of Understanding with the Organizing Committee of XXII Olympic Winter Games in Sochi 2014 and Russian Olympic Committee to implement on the federal level an Olympic education program Sochi'2014 scheduled for one and a half years and covering all the Russian regions. According to the MoU Rostelecom as a telecommunications partner of Olympic Education System Sochi'2014 will provide sites equipped with modern video-conferencing hardware in Moscow and other Russian regions to hold workshops for teachers in regional schools, teaching techniques developers, etc.

At the start of 2012-2013 school year Rostelecom, the Organizing Committee of XXII Olympic Winter Games in Sochi 2014 and Russian Olympic Committee held for the first time in Russia a an innovative Olympic Internet class London'2012 – Sochi'2014 for schoolchildren. In Moscow students came to the building housing the Organizing Committee of XXII Olympic Winter Games in Sochi 2014, while their counterparts in Sochi, Krasnodar and Saransk were connected with them via video-conferencing, and children in Kazan and Rostov-on-Don joined them via Internet, and anyone wishing to watch the event was provided with an opportunity to watch the web-cast of the class on websites www.rostelecom.ru and www.sochi2014.ru. At the class children learnt from first hand information about Olympic and Paralympic Games in London and preparations for Olympic Games in Sochi.

Cooperation with the Figure Skating Federation of Russia

Since 2009 Rostelecom has been a general partner of the Figure Skating Federation of Russia. The Company annually sends financial aid directed at the organization and to realization of federation events to train athletes of the Russian team national for the Olympic Games, European Championships, World Championships, the final ISU Grand Prix, etc.

In December 2011 Rostelecom and Figure Skating Federation launched a joint program of master classes called "Star Track of Rostelecom". In 2012 the program events were staged in major cities of the European Russia, Siberia and Far East – Stary Oskol, Chelyabinsk, Kaliningrad, Rostov-on-Don, Omsk, Khabarovsk. The program is intended for searching for talented people in the regions of our country. In the course of master classes, big-time sports stars will share the secrets of their professional skills with young figure-skaters, and young athletes will have a unique opportunity to show their abilities to well-known coaches.

The Care Program

Aid to sponsored child care centers

Rostelecom provides a number of social institutions, such as hospitals and orphanages, with extensive assistance.

The Company buys medical equipment and pays for urgent medical operations, allocates funds to repair buildings and to purchase living essentials, helps organize holidays for children from orphanages and meetings between children and dedicated experts and psychologists, and provides channels of communication for children's distance learning.

Help is offered both in the event of one-off requests of institutions and on a constant basis. Many of these institutions are sponsored organizations for the macro-regional branches of the Company.

New Year Charity Program for sponsored orphanages schools for children without parental care

On the eve of 2013 Rostelecom implemented a unique federal level charity program for children living in orphanages in dozens of Russian regions.

Altogether some 60 institutions for children without parental care across Russia were covered bringing up over 5 thousand children.

The Company decided not to buy corporate New Year presents for its customers and partners and used the saved money to purchase essential things required for children in orphanages and charity institutions: clothes and shoes, furniture, and learning, sporting and developing appliances.

Additionally, in thirty Russian cities employees of Rostelecom's branches took part in a large scale voluntary project Be a Father Christmas. New Year trees were installed in the Company offices, garnished with peculiar toys – New Year decorations and hand-made pieces made by children from orphanages. Children's appeals to the Father Christmas with their needs were attached to toys. Thus, any Rostelecom's employee was able to choose a child's wish of his/her choice and fulfill the dream of the child by buying the relevant present.

Also on 2013 eve Rostelecom opened the doors of the country's principle theatre for children from 23 orphanages and charity institutions and families having many children from Moscow and Moscow region: on December 27, 2012 in the Bolshoi Theatre Rostelecom arranged for charity performance of the Nutcracker ballet. It was for the first time that such a huge scale charity performance was staged in the Bolshoi Theatre.

Meanwhile the Company organized a series of New Year webcasts of some Russian best ballet performances for children-patients of hospitals for children in Moscow and Moscow region, who had to stay in the hospitals during the New Year festivities. The Nutcracker staged by Mikhailovski Theatre and Cinderella broadcast from Stanislavski and Nemirovich-Danchenko Musical Theatre were watched by little patients of Rogachev's Hospital for Children, Russian Hospital for Children, Institute of Urgent Surgery and Children's Traumatology headed by Leonid Roshal, and Children Hospital in Kolomna.

New opportunities for disabled children

Rostelecom traditionally helps people with disabilities and, in particular, children with disabilities, to integrate into society. Rostelecom, both at the corporate center and macro-regional branch levels, realizes distance learning programs for disabled children, both at home and in specialized institutions.

For example, in 2012, in many regions of its presence, Rostelecom participated in the implementation of distance learning programs. In the framework of these programs, the Company provides disabled children with unlimited access to the Internet, as well as delivers and installs all necessary equipment.

Support of the veterans

Rostelecom and its Zebra Telecom subsidiary held their traditional meetings with the Russian Committee of the Veterans of War and Military Service. In 2012, the veterans received new universal calling cards from Zebra Telecom, allowing them to make free calls to other cities not only from landlines, but from mobile phones as well.

Also during 2012 Rostelecom organized a number of multichannel video conferences for World War II veterans.

The Ecology Program

Protecting Ecosystems

In its activity Rostelecom seeks not only to avoid having a negative impact on the environment, but also tries to minimize all adverse effect on nature.

Telecommunications infrastructure in itself produces no harmful emissions and introduces no industrial waste into the environment. However, new constructions can have short-term negative influences on ecology. Therefore, during the construction of telecommunications infrastructure, Rostelecom constantly carries out environmental inspections, ensuring the minimization of emissions into the atmosphere, and the preservation of soil and water. The Company also arranges obligatory biological and technical land reclamation.

In addition, Rostelecom volunteers regularly participate in federal and regional events aimed at nurturing respect and careful attitudes towards nature by creating so-called “ecological landings” that clean the environment from garbage and waste.

In its environment protection activities Rostelecom is guided by Russian regulations and legal acts identifying the key requirements in the area of environment protection and sustainable management of natural resources. Meeting these requirement the Company implements the following functions: inventory taking and norm setting for adverse environmental impacts, planning and carrying out environment protecting measures, production ecological control, ecological monitoring, statistical recording and accounting of impacts and report generation.

The Cultural Heritage Program

Supporting national art

Since 2008 Rostelecom representatives have been members of the Board of Trustees of the Russian State Academic Bolshoi Theatre.

The Board of Trustees is responsible for raising resources outside of the theatre’s budget, to assist the Bolshoi Theatre in new staging, in tour organization, in attracting stars and young talent, as well as in improving the theater’s management system, in additional to its financial and business operation.

Thanks to Rostelecom, thousands of spectators in Moscow and other Russian cities can personally take in the talent of both experienced and novice masters of the world-renowned Russian ballet, starring on the newly renovated historical stage (reopened in 2011) of the Bolshoi Theatre, which was under reconstruction for a long time.

Support for museums of telecommunications

For many years Rostelecom has been cooperating with the Russian Fund for Communication History. Its annual program offerings include the promotion and development of the Central Museum of Communications named for A.S. Popov in St. Petersburg. The museum is one of the oldest science and technology museums in the world. A unique collection of the museum, dedicated to the history of communication, consists of exhibits on the history of postal, telegraphic and telephone communications, radio communications and radio broadcasting, television, mobile, and space and satellite communications.

Additionally, macro-regional branches of Rostelecom provide annual support to regional museums- of telecommunications, both those on the branches’ and municipal levels and those organized by enthusiasts at their own expense. The Company and its affiliates arrange excursions to the museums, replenish them with new exhibits, and encourage scientific investigation.

THE COMPANY'S PERSONNEL

Rostelecom's highly efficient and constantly progressing staff is one of the factors determining the success of the company's operation in the modern telecommunication market. In accordance with the requirements of company merger realized in 2012, key activities in the field of personnel management include optimization of the consolidated company organizational structure in order to ensure the prolific execution of management functions, create conditions for the permanent and high quality professional development of employees, and to execute social projects.

The key measures realized in 2012 were:

- completion of integration of telecommunications maintenance centers ensuring operation of Rostelecom primary network at the stage of restructuring into regional production units;
- start of integration of Rostelecom subsidiaries and affiliated companies as part of implementation of strategic tasks associated with development of the Company's mobile business;
- optimization and automation of work flows within the structural units of the macroregional branches, reduction of management layers, and centralization of functions.

All activities associated with the optimization of personnel number were planned, coordinated, and executed in accordance with applicable laws, decisions of Rostelecom competent authorities, and the Company's internal regulations.

The average number of Rostelecom employees in 2012 amounted to 159,181 people. The average monthly wage of company employees increased from 2011 by 10.2% and amounted to 29,444.00 rubles.

	2010	2011	2012
Average number of employees	175,918	166,936	159,981
Average monthly salary	25,132	28,702	29,444

The need to implement a number of key business initiatives, approved by the Company's Board of Directors within the development strategy scheduled up to 2015, in particular, promotion of new business segments, shows brand new requirements to expertise and skill level of employees. In this regard, in 2012, for the purpose of advancing corporate-wide and professional competence, the company continued offering to its personnel full-time and distance training programs. Sixty three thousand company employees upgraded their qualifications or attended additional training courses over the past year. Over 12,000 company employees participated in training programs on sales, public speaking and oratorical skills, stress management, efficient customer support, successful communication in negotiations, and other topics in the in-House Training Institute.

An important aspect of working with the company personnel are programs aimed at employee retention and welfare protection. To improve principles of social partnership conditions have been created for a constructive dialogue between employees and the Company as an employer. These conditions are stated in Rostelecom collective employment agreement according to which the Company's employees are provided with a variety of social benefits and social safeguard.

A system of non-state pension provision and a Voluntary Health Insurance Program operate for those staff members whose primary place of employment is Rostelecom.

One of the most important aspects of personnel development in 2012 was corporate culture support.

On the basis of a questioning of about 60 thousand Company employees with assistance of leading world experts in human resources a model of Company corporate values was elaborated in 2012. Responsible executives of regional and macroregional level as well as Company top managers took part in subsequent discussion of the offered model and concretization of proposals.

Late in 2012 an opinion survey was carried out in which over 23 thousand employees took part. Its aim was to analyze personal attitude of every Rostelecom employee to existing practices in labor organization, personnel management to the progress of implementation of strategic initiatives, innovation and technological development - to the whole range of processes realized in the Company. All conclusions made on the basis of the survey were taken into consideration during elaboration of a range of HR-projects for 2013.

In 2012 the largest corporate events were consistently arranged at three levels of the Company management - the regional, macroregional and federal levels.

The most memorable event in the sport life of the Company - "Rostelecom Spartakiada - 2012" took place in Antalya (Turkey) in October 2012. It was the most outstanding event in the Company corporate culture in which all branches of the Russian national operator took part. This was the final stage of sport events that

were organized during the whole year in regional and macroregional branches of Rostelecom. More than 300 athletes and fans from macroregional branches and the Corporate Center took part in the all-corporate final event. The Spartakiada was an event where over 20 football and volleyball games were played, the best swimmers were named in 9 swimming competitions, both individual and swimming relay, winners in 40 table tennis games were revealed and a bowling competition was held. "Rostelecom Spartakiada - 2012" is the first event of such a level in the Company history.

Mass sport events, that now have become a tradition, took place in macroregional branches. Rostelecom teams made a good showing in the industry mini-football, volleyball and cross-country skiing competitions. During the year, the Company arranged events tied to Radio Day, Victory Day, Health Day, Children's Day, the Knowledge Day, International Day for the Elderly and other significant dates.

Additionally the Company's macro-regional branches organized professional skills competitions among experts in professions which are critically important for Rostelecom business: technical (among cable joiners) and commercial (among representatives of corporate customers business units). These events were held for the purpose of mastering professional skills and expertise of the employees and popularization of professions. specialists.

Besides that during the year cultural events, traditional for different divisions, were organized in macroregional branches including a children's drawing contest, photo competitions, a song contest, etc.

Altogether 90 965 people took part in cultural and professional events in 2012 which is 7 percent more than in 2011.

Under child health improvement programs, the children of Rostelecom employees went on vacation to various children's health-centers in Russia, including the All-Russian "Orlyonok" Children's Center on the coast of the Black Sea.

Labor protection

All 2012 Rostelecom labor protection initiatives were carried out in accordance with the requirements of the Labor Code of the Russian Federation and other laws and regulations.

In 2012, the company spent about 705 million rubles (4.6 thousand rubles per one employee) on activities aimed at improving conditions and at providing personnel with labor protection.

Staff members are provided with all necessary clothing and protective equipment in accordance with industry standards. Moreover, the company regularly organizes professional medical examinations of its employees engaged in hazardous production work, gives courses on labor protection, and performs workplace labor conditions compliance certification.

As a result of work aimed at ensuring occupational safety in 2012, the company (with a view to integrated IRCs) significantly reduced the level of occupational accidents in comparison with 2011 by 7% (there were 72 accidents in 2011)

THE COMPANY'S SIGNIFICANT TRANSACTIONS

Related Party Transactions

In 2012, the Company participated in a number of related party transactions. Information on these transactions, as well as information on their preliminary approval by Rostelecom's Board of Directors, is provided in Annex No.3 of this Annual Report and is an integral part hereof.

Major Transactions

In 2012 the Company did not participate in transactions deemed significant by the federal law "On Joint Stock Companies".

INFORMATION ON THE ACTUAL EXECUTION RESULTS OF LAWS AND REGULATIONS OF THE PRESIDENT OF THE RUSSIAN FEDERATION AND ORDERS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

Information regarding the establishment of specialized committees under the Company's Board of Directors, approval of the KPI system, development and adoption of regulations on remuneration of management members (based on the KPI system) and remuneration of the Board members (according to Order of the Government of the Russian Federation No. VZ-P13-6294 dated July 23, 2009, the letter of the Federal Property Management Agency No. GN-13/20732 dated August 18, 2009).

Information regarding the establishment of specialized committees by Rostelecom Board of Directors, as well as remuneration of the members of the Board is presented in the "Board of Directors" sub-section of the "Corporate Governance" section of this Annual Report.

In 2012, the company will implement a new system of incentive and compensation. The basis of the remuneration of employees is a balanced system of key performance indicators (hereafter referred to as KPI), which motivate the staff to ensure a more effective fulfillment of the Company's strategic objectives.

The KPI system represents a pyramid with corporate KPI indicators at the top characterizing general performance of the Company and the strategies for future. Corporate KPIs can be broken down into business KPIs defining the operation of departments and personnel at all levels of management. When giving bonuses to employees of all levels, corporate KPIs and business KPIs are used. The value of corporate KPIs goes down as management hierarchy narrows. Such a cascading mechanism guides experts of different spheres, enables them to perform universal duties, and provides coherence and coordination in implementation of cross-functional processes.

Information concerning payment (remuneration) of the company's managerial personnel including the sole executive body/chairman of the collective executive body, the deputy of the sole executive body/members of the collective executive body, heads of departments, and members of the Board of Directors (Supervisory Board) entitled to receive remuneration (Order of the Government of the Russian Federation No. ISH-P13-2232 dated April 08, 2010, Letter of the Federal Property Management Agency No. YUM-13/10638 dated April 27, 2010 No., fax messages of the Federal Property Management Agency No. 81 dated July 5, 2010 and No. 93 of August 4, 2010).

Information on payment (remuneration) of the company's managerial personnel is presented in the "The Board of Directors" and "The President and the Management Board" sub-sections of the "Corporate Governance" section of this Annual Report.

Information on realization of investment programs (Order of the First Deputy Chairman of the Russian Federation No. ISH-P13-5361 dated September 18, 2009, fax message of the Federal Property Management Agency No. GN-15/8808 dated April 1, 2011).

Information on realization of investment programs is presented in the "Telecommunications Network" section of this Annual Report.

Information on realization of the joint-stock company strategy in the field of energy saving and efficiency (paragraph 8 of the Order of the Russian Federation Government No. ISH-P9-3772 dated June 18, 2008 on implementation of the Decree of the President of the Russian Federation No. 889 dated June 04, 2008 "On certain measures aimed to increase the energetic and ecological efficiency of the Russian economy", Letter of the Federal Property Management Agency No. GN-13/28934 dated November 27, 2008).

Analysis of applicability of certain activities at Rostelecom sites was performed in 2012 under the Program of energy saving and energy efficiency improvement.

A working group to deal with energy efficiency improvement was established.

Power examination of energy consumption sites contemplated as an obligatory activity under the Program was performed by Rostelecom employees. Research and development were carried out aimed at elaboration of the Company power management in compliance with the Program. Internal regulatory documents of power management prepared with consideration of ISO5001 international standard were developed in the course of R&D activities. During these activities hard and software of the automated system of energy management was also developed and put in operation.

Information on procurement of products of Russian origin (Letter of the Federal Property Management Agency No. GN-13/7796 dated April 03, 2009).

Products of Russian origin made a 28.1% share of all 2012 deliveries.

Information on working out the Company's midterm development strategy and its innovative development program (Minutes No. 4 of the meeting at the Russian Federation Prime Minister's Office dated August 3, 2010).

Program of innovative development of OJSC Rostelecom (Version 2) was approved by Rostelecom Board of Directors on September 6, 2012 (Minutes No. 13 dated September 10, 2012).

Information on disposal of non-core assets pursuant to Decree of the President of the Russian Federation No. 596 dated May 7, 2012 (Letters of the Federal Property Management Agency No. GN-13/1359 dated January 24, 2011, No. GN-15/10587 dated April 9, 2012, No. EA-15/48093 dated October 25, 2012), including information about consideration at meetings of the Board of Directors of issues of non-core asset disposition both of the parent organization as well as of the subsidiaries and affiliates and approval of programs aimed at disposal of the said assets.

Information about disposition of shares in non-core companies is provided in the "Rostelecom Group of Companies" section of this Annual Report.

As part of activities aimed at the sale of non-core property items in 2012, 435 items retired with the residual cost of 151,347.80 thousand rubles. Revenue from their realization amounted to 1,040,725 thousand rubles, excluding VAT.

Information on measures aimed at ensuring transparency of purchases and transition to making e-purchases, including terms regulating procedures of goods, work and services procurement. It is important to disclose the results of the meeting of the Board of Directors (Supervisory Board) of the joint-stock company which considered the said issues (Order of the Government of the Russian Federation No. ISh-P13-8685 dated December 17, 2010, Letter of the Federal Property Management Agency No. GN-13/1416 dated January 25, 2011).

In 2012 principles of information openness regarding procurement activities were implemented, in accordance with the general principles of goods, work, and services procurement, described in the Federal Law No. 223-FZ «On procurement of goods, work, services performed by certain legal entities» dated July 18, 2011. In particular, Rostelecom regulation on procurement of goods, work, and services by was elaborated which was subsequently considered and approved by the Board of Directors on February 29, 2012 (Minutes No. 39 dated March 5, 2012).

Rostelecom was the first company that pursuant to the order of law published on July 7, 2012 Rostelecom's Regulation on procurement of goods, work, and services as well as the Company Charter at the official web-site zakupki.gov.ru and on December 29, 2012 - a schedule of purchases to be made by the Company in 2013

According to the above mentioned Regulation the Company shall be guided by the following principles:

disclosure of information on procurement;

equality, justice, non-discrimination, and unreasonable restrictions of competition in relation to entities participating in procurement;

targeted and cost-effective expenditure of funds on acquisition of goods, work, and services (including, if necessary, lifecycle costs of purchased products) and implementation of measures aimed at reducing the expenses of the Company;

no limit to participation in procurement due to establishment of measured requirements to procurement participants.

In 2012 the Company placed the following information on the Internet, including the official web-site zakupki.gov.ru:

a plan for procurement of goods and services;

information on current tender procedures (publication of a notice and documentation on procurement, including the draft contract);

information on signed contracts, including:

the number and total value of contracts signed as a result of purchasing goods, works, and services;

the number and total value of contracts signed based on the purchases from a single supplier (performer, contractor);

the number and total value of contracts signed by the customer based on strategic purchases, the details of which constitute a state secret or with regard to which the government of the Russian Federation has adopted a non-disclosure policy on its official site.

Additionally, in 2012 gradual increase of the proportion of its e-procurement took place.

On December 10, 2012 a Certificate of the National Rating of Procurement transparency in the nomination "Committed transparency" was awarded to Rostelecom which was high appreciation of the work performed by the Company in the field of information transparency. The rating had been organized by the National Association of Participants of e-commerce. The rating is performed with the assistance of the Ministry of Economic Development of the Russian Federation, the Federal Anti-Monopoly Service and the Audit Chamber of the Russian Federation.

Information on decisions aimed at improving the compensation system for employees of the joint-stock company (Order of the Government of the Russian Federation, dated December 4, 2010 No. KA-P13-8297; Letter of the Federal Property Management Agency No. GN-13/3802 dated February 15, 2011.

In 2012, the following steps were undertaken as part of activities aimed at the establishment of a universal system of motivation and remuneration of employees:

a common grading system for the whole Company was introduced which makes it possible to evaluate the personal contribution of each employee in achievement of the common result. Each position in the Company had been thoroughly evaluated in accordance with universal assessment standards and a common scale of factors indicated by STRATA methodology;

ranges of remuneration for each "grade" based on the grade system were defined and approved on the basis of common principles for the entire company, taking into account the Company's economic capacities and terms of payment for labor on the labor market;

a standard KPI reference book was prepared and approved as part of standardization of the system of monetary incentives of the employees which considers all aspects of financial and business operations of the Company as broken down according to functions. The reference book is a multi-level system of key indicators of efficiency with corporate KPI at the head which are mapped on KPI of lower levels. This enables to link the results of the performance of each employee with the system of monetary incentives depending both on the results of individual performance and the results of the Company's activities in general;

a standard regulation on remuneration for employees of Rostelecom was adopted. On its basis, regulations on remuneration for employees of macroregional branches of Rostelecom were also developed and approved;

principles and ranges of bonuses to be paid to employees were elaborated and approved with consideration of specific nature of employment duties. These principles and ranges of bonuses are aimed at enhancement of motivation and interest of employees in proper performance of their employment duties and achievement of high production results.

Information concerning activities aimed at the creation of innovative development programs in joint stock companies on the list of organizations that produce such programs, as approved by Resolution of the Government Commission for Advanced Technology and Innovation dated August 3, 2010, Minutes no. 4 (Letter of the Federal Property Management Agency No. GN-13/32160 dated October 29, 2010, No. GN-13/32156 dated October 29, 2010):

A number of key activities must be performed in order to realize innovative development programs. A list of these activities, as well as their completion status as of the end of 2012 is provided below:

Activity	Status
Creation of the Company's innovative development unit	Done
Setting up the Innovative Center	Done
Budgeting innovative development	Done
Introduction of the ideas management system	Done
Creation of the KPI system for managers aimed at the achievement of goals regarding the innovative development of the Company	Done
Development of interaction patterns with universities and research institutions	Done
Financing the target capital fund of the Skolkovo Institute of Science and Technology	Done
Working out criteria of assessment of interaction with universities and research institutions	Done
Working out /modernization of regulations for the Company innovations management	Done
Development of partnerships with supporting universities and research institutions, venture capital funds, technology parks, etc.	Done

Activity	Status
Development of partnerships with various participants of the innovation market, including innovative small and medium businesses	Done
Involvement of the Company employees in the process of innovative activities	Done
Participation in the activity of technical committees and international communication institutions	Done

Paragraph “E”, clause 1 of the List of regulations of the President of the Russian Federation on the implementation of priority measures aimed at improving the investment climate in the Russian Federation, No.Pr-846 dated April 2, 2011, according to which it is necessary to provide information on the adoption of solutions to reduce the expenses on acquisition of goods (work, services) per one unit of production by at least ten percent per year, within three years in real terms in government-controlled companies (joint stock companies), where the share of the Russian Federation in the charter capital constitutes more than 50% (hereafter - OJSC) (Letters of the Federal Property Management Agency No. GN-15/27795 dated September 14, 2011, No. GN-15/28326 dated September 16, 2011, No. GN-15/27797 dated September 14, 2011 as well as No. GN-15/28327 dated September 16, 2011 and No. DP-15/20610 dated July 14, 2011.

The Company's Board of Directors approved the value calculation methodology "Rate of change of expenses on acquisition of goods (work, services) per one unit of production in the Company (Minutes no. 29 dated December 29, 2011), including for the purpose of defining the size of a reward to the President of the Company). In 2012, the Company's expenses on acquisition of goods (work, services) per one unit of production decreased by 18.3% per one unit of production.

In 2012, with its new system of incentive and remuneration, OJSC Rostelecom introduced a system of key performance values (KPI) to assess the performance of the Company and the Company staff, which contemplates inclusion in KPIs for managerial personnel of the function of the KPI efficiency of the company, so as to achieve the target of reducing expenses in acquisition of goods (work, services) per one unit of production.

Information on the liability insurance of independent directors – public interest representatives in the management of joint stock companies (Order of the President No. Pr-2206 dated August 3, 2011, Letter of the Federal Property Management Agency No. GN-15/36784 dated November 29, 2011).

In May 2012, the liability insurance contract of officers and members of Rostelecom Board of Directors was signed by the Company with a liability limit of USD 250 million. This contract had received a preliminary approval by members of the Board of Directors (Minutes no. 58 dated May 23, 2012). Upon expiry of the term of this contract in November 2012 a liability insurance contract was signed for the Board members, officers and companies with the liability limit of USD 250 million. This contract had been preliminary approved by the Board of Directors (Minutes No. 19 of November 26, 2012).

Information on proposals and recommendations aimed at promoting the development of mechanisms for environmental liability according to international standards, including financial statements and the system of voluntary certification and labeling, subject to independent verification and certification (subparagraph "I" clause 1 of the List of regulations of the President of the Russian Federation No. Pr-1640 dated June 6, 2010, Letter of the Federal Property Management Agency No. GN-13/37524 dated December 5, 2011)

Activities aimed at development of Rostelecom's environmental policy have been performed by the Company. The Company's environmental policy includes environmental performance in dynamic economic growth, which provides the most efficient use of natural resources and preservation of favorable environmental conditions for future generations.

The goal shall be reached by implementing the following principles:

reduction of the Company's impact on the environment through implementation of the best environmental management methods currently available and development of environmental management system in accordance with international standards.

a consistent improvement of the Company's environmental management system with the help of the timely development and updating of corporate regulations in the field of environmental protection and ecological safety.

compliance of Company activities with legislative and other requirements in the field of ecological safety and environmental protection.

continuous perfection of the Company's image as an ecologically-oriented company.

Support of available information regarding the Company's activities in the fields of environmental protection and ecological safety and efficient society outreach.

On practical application of principles of coinvestment in Russian and international venture funds according to the Order of the President of the Russian Federation No. Pr-3291 dated November 3, 2011, (Letters of the Federal Property Management Agency No. GN-15/14430 dated May 12, 2012 and No. 15/34351 dated August 23, 2012).

Not applicable.

On practicability of core assets disposition in economy sectors with a sufficient level of competition in compliance with subparagraph "B", Clause 1 of the List of Orders of the President of the Russian Federation No. Pr-1092 dated April 27, 2012, (Letter of the Federal Property Management Agency No. DP-15/26414 dated July 12, 2012).

Rostelecom telecommunication assets are involved in provision of a full range of telecommunication services, as well as implementation of the Company development strategy as an integrated operator. OJSC Rostelecom development strategy as approved by the Company Board of Directors (Minutes No. 28 dated December 26, 2012) (hereinafter referred to as the "Strategy") does not suggest apportionment or sell-off of these assets. Equipment not involved in the production process which is standing ready for use for back-up purposes and national security protection cannot be sold. Equipment which is disposed of and put out of operation is out-of-date and cannot be efficiently used for provision of communication services. Besides, the sale of some items of the range of telecommunication equipment (assets) will not allow small and medium business enterprises to provide communication services due to a specific nature of the communication systems organization as a unified industrial complex, including equipment, networks and channels, software and professional human resources.

Along with this Rostelecom owns a number of minority stakes/shares in companies providing communication services. Due to small shares in the charter capitals of such companies the Company cannot take an active part in the development of business, in investments, or in distribution of profits of such companies. This circumstance accompanied by a downward trend of the value of the said shares/stakes dictates desirability of their sale. For the purposes of ensuring the interests of the Company shareholders, including the state, the shares/stakes of the said companies are expected to be sold on arm's length terms complying with all required corporate procedures. The sale of minority financial investments in specialized telecommunications companies is going to be discussed by the Board of Directors in the 2nd quarter of 2013.

On provision of all required certificates of income, property and property obligations of the management of a joint stock company (including members of the Board of Directors (Supervisory Board) and their close relatives) (husband, wife, children (both of age and underage), parents, blood brothers and sisters) to the federal body of the executive branch pursuant to Orders of the Government of the Russian Federation No. VP-P13-9308 dated December 28, 2011 and No. VP-P24 - 1269 dated March 5, 2012 (Letters of the Federal Property Management Board No. GN-15/8330 dated March 21, 2012 and No. GN-15/9449 dated March 29, 2012).

Pursuant to Order of the Government of the Russian Federation No. VP-P13-9308 dated December 28, 2012 and No. VP-P24-1269 dated March 5, 2012 the Company has submitted to the Government of the Russian Federation, the Federal Tax Service of the Russian Federation, Rosfinmonitoring and the Ministry of Telecom and Mass Communications of Russia certificates of income and property obligations for 2011 of the Company managerial personnel (including members of the Board of Directors) and their close relatives (husband, wife, children (both of age and underage), parents, blood brothers and sisters).

GENERAL INFORMATION ABOUT THE COMPANY**OJSC ROSTELECOM****Full company name:**

Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom

Abbreviated company name:

OJSC Rostelecom

Registration number and date of issuance of State Registration Certificate:

Data on the original state registration: No.021.833 dated September 23, 1993

Data on the registration of the legal entity: OGRN No. 1027700198767 September 9, 2002

Legal address:

15 Dostoyevskogo Street, Saint Petersburg, 191002, Russian Federation

Mailing address:

14 Pervaya Tverskaya-Yamskaya Street, Moscow, 125047, Russian Federation

Main activity:

The code ARCEA (All-Russia Classifier of Economic Activities) 64.20 - Activity in the field of telecommunications

Information regarding shortlisting of strategic joint-stock companies:

OJSC Rostelecom is not included in the list of strategic joint-stock companies, approved by Decree of the President of the Russian Federation No. 1009 as of August 04, 2009. However the Company is a business entity of strategic importance for ensuring defense of the country and state security as it performs activities specified in paragraphs 12-14 and 37 a) of Art. 6 of the Federal Law of 29.04.2008 № 57-FZ "On the Procedure for Foreign Investment in Business Companies which are of Strategic Importance for National Defense and State Security":

- activity subject to licensing pursuant to the Russian Federation legislation related to distribution of encryption (cryptographic) tools;
- activity subject to licensing pursuant to the Russian Federation legislation related to maintenance of cryptographic equipment;
- provision of services data encryption services;
- Activity of the economic entity listed in accordance with Article 23 of the Federal Law "On Protection of Competition" register, and occupying the dominant position in the communication services market of the geographic boundaries of the Russian Federation (excluding access to the Internet services).

Contact phone/fax:

+7 (499) 972 8283 / +7 (499) 972 8222

Website:

www.rt.ru – for product and service descriptions

www.rostelecom.ru – for information disclosure

Director of External Communication	Director of Investors Relations	Corporate Secretary	Director of corporate governance
Kira E. Kiryukhina Phone: + 7 (499) 999 8283, ext. 7001923	Mariya S. Eliseeva Phone: +7 (499) 995 9780 Fax: +7 (499) 995 9877	Ekaterina S. Mironova Phone: +7 (499) 995 9783 Fax: +7 (499) 995 9854	Pavel A. Nezhtutin Phone: +7 (499) 995 9840 Fax: +7 (499) 995 9777
pr@rt.ru	ir@rt.ru	rtkm@rt.ru	rtkm@rt.ru

Branches	Addresses
Moscow Macroregional Branch	30 Goncharnaya St., 115172, Moscow
Center Macroregional Branch	23 Proletarskaya St., 141400, Khimki
North-West Macroregional Branch	14/26 Gorokhovaya St., 191186, St. Petersburg
Volga Macroregional Branch	Dom svyazi, Maxim Gorky Sq., 603000, Nizhny Novgorod
South Macroregional Branch	59 Krasnaya St., 350000, Krasnodar
Ural Macroregional Branch	11 Moskovskaya St., 620014, 620014, Yekaterinburg
Sibir Macroregional Branch	53 M. Gorkogo St., 630099, Novosibirsk
Far East Macroregional Branch	57 Svetlanskaya St., 690091, Vladivostok

Training and Production Center (UPTs RT)	143380, Town of Bekasovo, Naro-Fominsk District, Moscow region
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Representative Offices

in Geneva	94 Rue de Lozanne, 1202 Geneva, Switzerland
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THE REGISTRAR**Name:**

Open Joint Stock Company "United Registration Company" (JSC URC)

Legal address:

30 Buzheninova St., Moscow, Russian Federation

Mailing address:

30 Buzheninova St., 107996 Moscow

Office:

30 Buzheninova St., Moscow, Russian Federation

Contact phones/fax:

+7 (495) 775 1820

License:

Russian FCSM perpetual License for exercising registrar's activities No.10-000-1-00314 dated March 30, 2004

E-mail address:

ork@ork-reestr.ru

Website:

www.ork-reestr.ru

THE INDEPENDENT AUDITOR**Name:**

JSC KPMG

Legal address:

18/1 Olympiysky avenue, Room 3035, Moscow, Russian Federation, 129110

Mailing address:

10 Presnenskaya Embankment, Block C, floor 31, Moscow, Russian Federation, 123317

Contact phones/fax:

+7 (495) 937-44-77 / +7 (495) 937-44-00/99

Member of selfregulated auditor organization:

Member of Non-profit partnership "Auditing Chamber of Russia". The general registration number in the state register of auditors and auditing organizations is 10301000804.

E-mail address:

moscow@kpmg.ru

Website:

www.kpmg.ru

APPENDIX NO.1

"INFORMATION ON COMPLIANCE WITH RECOMMENDATIONS CONTAINED IN THE CODE OF CORPORATE CONDUCT OF FCSM OF RUSSIA"

No.	Provision of FCSM's Corporate Conduct Code	Compliant or Non-Compliant	Notes
General Shareholders' Meeting			
1.	Notice to shareholders on intent to convene a General Shareholders' meeting no less than 30 days before the meeting date regardless of the agenda items unless the law determines a larger notice period.	Compliant	Article 18.4. of Rostelecom's Charter ¹ .
2.	Opportunity for shareholders to study the list of persons entitled to participate in a General Shareholders' meeting beginning from the day of the notice until the in-presence general shareholders meeting is closed. In case of an in-absentia general shareholders meeting - until the end of voting bulletin acceptance period.	Compliant	Article 35.3. of Rostelecom's Charter ¹ .
3.	Opportunity for shareholders to study information (materials) relevant to the General Shareholders' meeting by means of electronic telecommunications, including the Internet.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Participation of Shareholders in the Management of the Company").
4.	Opportunity for shareholders to put issues on the general meeting agenda or request a convocation of a general shareholders meeting without a statement from the shareholders' register, if such shareholder's title to the shares is attested by a shareholders' register. Where the shareholder's title to the shares is attested by a DEPO account, a statement from the DEPO account will suffice in order to exercise the above rights.	Compliant	Clause 3.1 and Clause 3.6. of the Regulations on Rostelecom's General Shareholders' Meeting ³ .
5.	Stipulation of provisions in the Company's Charter or internal documents requiring the presence at a shareholders meeting of the General Director, Management Board members, Board of Directors members, Audit Commission members, as well as an auditor of the Company.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Participation of Shareholders in the Management of the Company").
6.	Mandatory presence of candidates at a General Shareholders meeting when election of the Board of Directors and Audit Commission members, as well as approval of the Company's auditor are considered.	Compliant	This provision is set in Rostelecom's Corporate Governance Code ² (see section "Participation of Shareholders in the Management of the Company").
7.	Stipulation in the Company's internal documents of a procedure regulating registration of participants to a General Shareholders' meeting.	Compliant	Article 9. of the Regulations on Rostelecom's General Shareholders' Meeting ³ .
Board of Directors			
8.	Stipulation in the Company's Charter of the Board of Directors' authority to approve the Company's financial and economic plan (budget) on an annual basis.	Compliant	Clause 23.3.1. of Article 23 of Rostelecom's Charter ¹ .
9.	Existence of a risk management procedure approved by the Board of Directors.	Compliant	Risk Management Policy approved by Minutes No.12 of the absentee voting of Rostelecom's Board of Directors dated March 20, 2007.
10.	Stipulation in the Company's Charter of the Board of Directors' right to decide on suspension of powers of the General Director appointed at a General Shareholders' meeting.	Non-Applicable	According to Article 23.3.18. of Rostelecom's Charter ¹ , the Board of Directors has the right to decide on appointment and early dismissal of the President.
11.	Stipulation in the Company's Charter of the Board of Directors' right to establish criteria for qualification and the size of remuneration of the General director, Management Board members, and heads of the Company's main	Compliant	Articles 23.3.23., 23.3.24. of Rostelecom's Charter ¹ , as well as Rostelecom's Corporate Governance Code ² (see section "Selection,

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	divisions.		Evaluation and Retention of the CEO and members of the Management Board”).
12.	Stipulation in the Company’s Charter of the Board of Directors’ right to approve agreements with the General Director and members of Management Board.	Compliant	Articles 23.3.23. and 23.3.24 of Rostelecom’s Charter ¹ .
13.	Stipulation in the Company’s Charter or internal documents of the requirement that while approving agreements with the General Director (managing company or manager) and members of the Management Board, votes of the Board of Directors members, who also serve as the General Director and the Management Board members, are not taken into consideration.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Selection, Evaluation and Confirmation Engagement of the CEO and members of the Management Board”).
14.	Presence on the Board of Directors of at least three Independent Directors who qualify for requirements of the Corporate Conduct Code.	Compliant	During 2012at least three members of Rostelecom’s Board of Directors qualified for requirements of the Corporate Conduct Code.
15.	No persons on the Board of Directors found guilty of economic crimes or crimes against government or local authorities, government interests, or persons who were administratively liable for crimes related to violations in business, finance, taxes and levies, or securities market.	Compliant	Observed in practice. This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Composition of the Board of Directors”).
16.	No persons on the Company’s Board of Directors, being participants, general directors (top managers), members of governing bodies, or employees of any entity that is competing with the Company.	Compliant	Observed in practice. This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Composition of the Board of Directors”).
17.	Stipulation in the Company’s Charter of a requirement for election of members of the Board of Directors by cumulative vote.	Compliant	Article 24.3. of Rostelecom’s Charter ¹ .
18.	Stipulation in the Company’s internal documents of an obligation of members of the Board of Directors to refrain from actions that will lead or might potentially lead to conflicts between their interests and the Company’s interests; and should such conflicts of interest arise - an obligation to inform the Board of Directors of such conflicts.	Compliant	This provision is contained in OJSC Rostelecom Corporate Governance Code ² (Section titled Responsibility of Members of the Board of Directors) and Code of Ethics ⁴ .
19.	Stipulation in the Company’s internal documents of an obligation of members of the Board of Directors to notify the Board of Directors in writing about intentions to make transactions with securities of the corporation, in which they are members of the Board of Directors or of its subsidiaries (affiliates), as well as to disclose information about transactions they made with such securities.	Compliant	This provision is set forth in Corporate Governance Code ² (see section “Responsibility of Directors”) and in the Insider Trading Policy 5.
20.	Stipulation in the Company’s internal documents of a requirement for hold meetings of the Board of Directors at least once every six weeks.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Organization of Board of Directors Activity”).
21.	Holding meetings of the Board of Directors’ during the year, for which the Company’s annual report is prepared, at least once every six weeks.	Compliant	Observed in practice (61 meetings altogether during 2012).
22.	Stipulation in the Company’s internal documents of a procedure of holding meetings of the Board of Directors.	Compliant	Article 26 of Rostelecom’s Charter ¹ and Article 6 of the Regulations on Rostelecom Board of Directors ⁶ .
23.	Stipulation in the Company’s internal documents of the necessity for the Board of Directors to approve all Company transactions worth more than 10 percent of the Company assets, except for deals made in the ordinary course of business.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Management Board Responsibility”) and Article 31.6. of Rostelecom’s Charter ¹ . Also pursuant to Article 31.6 of Rostelecom’s Charter ¹ transactions amounting to 1 to 25 percent of the Company assets shall be preliminarily approved by the Board of Directors.

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24.	Stipulation in the Company's internal documents of the Board of Directors' right to obtain from the executive bodies and heads of the Company's major divisions information required to assist the Board of Directors in fulfilling its duties, as well as responsibility for a failure to submit such information.	Compliant	This requirement is contained in paragraph 3.4. of the Regulations on the Board of Directors of the Rostelecom ⁶ . This provision is also set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board Responsibility").
25.	Existence of the Board of Directors' committee on strategic planning or assignment of the functions of this committee to another committee (excluding the Audit Committee and the Personnel and Compensation Committee).	Compliant	The Board of Directors established the Strategy Committee on September 16, 2003. Current members of the Strategy Committee were elected on July 23, 2012 (according to Minutes of the Board of Directors No. 03 dated July 24, 2012).
26.	Existence of a committee of the Board of Directors' (the Audit committee), which advises the Board of Directors on selection of an auditor for the Company and cooperates with the auditor and the Company's Audit Committee.	Compliant	The Board of Directors established the Audit Committee on December 21, 2004. Current members of the Audit Committee were elected on July 23, 2012 (according to Minutes of the Board of Directors No. 03 dated July 24, 2012).
27.	Presence of independent and Non-Executive directors only on the Audit Committee.	Compliant	This requirement is contained in paragraph 3.2. of the Regulations on Board of Directors' Audit Committee of Rostelecom ⁷ ; decision on item 4 of Minutes of the Board of Directors No. 03 of July 24 2012.
28.	An Independent director's chairmanship of the Audit Committee.	Compliant	Decision on item 4 of Minutes of the Board of Directors No. 03 dated July 24, 2012.
29.	Stipulation in the Company's internal documents of the right of all Audit Committee members to have access to any of the Company's documents and information on a non-disclosure basis.	Partially Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Board of Directors' Audit Committee") and Article 4.15 of the Regulations on the Audit Committee of Rostelecom's Board of Directors ⁷ .
30.	Establishment of the Board of Directors' Committee (Nomination and Remuneration committee), which will develop selection criteria for candidates to the Board of Directors and develop the Company's remuneration policy.	Compliant	The Board of Directors established the Nominations and Remuneration Committee on September 16, 2003. Current members of the Nominations and Remuneration Committee were elected on July 23, 2012 (according to Minutes of the Board of Directors No.03 dated July 24, 2012)
31.	An Independent director's chairmanship of the Personnel and Compensation Committee.	Compliant	From September 16, 2003 and up to now the Chairman of Nominations and Remuneration Committee is an Independent Director; decision on item No.2 of Minutes of the Board of Directors No03 dated July 24, 2012
32.	No Company's executives in the Nomination and Remuneration Committee.	Compliant	The provision is embodied in Article 3 of the Regulations on Nominations and Remuneration Committee of the Board of Directors of Rostelecom ⁸ ; decision on item 2 of Minutes of the Board of Directors No.03 dated July 24, 2012.
33.	Establishment of the Board of Directors' Committee for risks or assignment of this Committee's functions to another committee (excluding the Audit committee and the Nomination and Remuneration committee).	Non-Compliant	The Audit Committee of the Board of Directors of Rostelecom is charged with performing this function ⁷ .
34.	Establishment of the board of directors' committee for	Compliant	The Corporate Governance

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	corporate conflict settlement or assignment of this committee's functions to another committee (excluding the audit committee and the nomination and remuneration committee).		Committee of OJSC Rostelecom Board of Directors is charged with performing this function. See Article 2 of the Regulation on the Corporate Governance Committee of OJSC Rostelecom Board of Directors ⁹ .
35.	No Company's executives on the Committee for Corporate conflict settlement.	Non-compliant	On July 23, 2012, the Board of Directors appointed members of the Corporate Governance Committee of OJSC Rostelecom Board of Directors (Minutes of the Board of Directors No 03 as of July 24, 2012), including Rostelecom President Alexander Provotorov.
36.	An Independent director's chairmanship of the Committee for Corporate Conflict settlement.	Compliant	During 2012 the Corporate Governance Committee of Rostelecom the Board of Director was chaired by an independent director.
37.	Existence of the Company's internal documents approved by the Board of Directors, providing for the procedure of creation and functioning of the Board of Directors' committees.	Compliant	On September 18, 2009, the Board of Directors approved Regulations on the Audit Committee ⁷ , Nominations and Remuneration Committee ⁸ and Corporate Governance Committee ⁹ . On July 23, 2009, the Board of Directors approved Regulations on the Strategy Planning Committee ¹⁰ .
38.	Stipulation in the Company's Charter of a procedure for designation of the Board of Directors' quorum, which will provide for mandatory participation of Independent directors in the Board of Directors' meetings.	Non-compliant	
Executive Bodies			
39.	Existence of the Company's collective executive body (Management Board).	Compliant	Article 27.1. of Rostelecom's Charter.
40.	Stipulation in the Company's Charter or internal documents of mandatory approval of real estate transactions and loan agreements by the Management Board, if these deals are not considered as major ones and do not belong to day-to-day business of the company.	Partially compliant	Regulation on operations documenting and control procedures with respect to fixed assets accounting of Rostelecom stipulates the procedure of taking decision on acquisition and retirement of assets, including real estate, and the necessity to approve these transactions by the Management Board.
41.	Stipulation in the Company's internal documents of the procedure of coordinating transactions which are beyond the scope of the Company's financial and economic plan.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board Responsibility").
42.	No persons in executive bodies, being participants, general directors (top managers), management body members or employees of any legal entity that is competing with the Company.	Compliant	Conformed to in practice. This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board and Its Committees").
43.	No persons in executive bodies found guilty of economic crimes or crimes against government or local authorities, government interests, or persons who were administratively liable for crimes related to violations with business, finance, taxes and duties or securities market. If the sole executive body's functions are fulfilled by a management company or a manager, the General Director and Management Board members of the management company or the manager must meet the requirements set for the General Director and Management Board members of the Company.	Compliant	Conformed to in practice. This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board and Its Committees").
44.	Stipulation in the Company Charter or internal documents	Non-	

	of a ban on a management company (manager) to perform similar functions in a competing company, as well as to establish other property relations with the Company except for provision of services of a management organization (manager).	Applicable	
45.	Stipulation in the Company's internal documents of an obligation of executive bodies to refrain from actions that will lead or can potentially lead to conflicts between their interests and the Company's interests; and should such conflicts of interest arise - an obligation to inform the Board of Directors of such conflicts.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board and Its Committees").
46.	Stipulation in the Company's Charter or internal documents of the criteria for selection of a management company.	Non-Applicable	
47.	Monthly reports of executive bodies on their deliverables to the board of directors.	Partially compliant	The Company's Board of Directors deems it reasonable to consider at its meeting quarterly reports of the Management Board.
48.	Stipulation in agreements between the Company and the General Director (management company, manager), as well as between the Company and Management Board members of the responsibility for violating regulations on confidential and insider information use.	Compliant	Conformed to in practice. This norm is embodied in Corporate Governance Code of Rostelecom ² (Section "Management Board and its Committees"), in contract with Rostelecom's President and in contracts with members of the Company's Management Board.
Company Secretary			
49.	Existence in the Company of a special official (the Company corporate secretary), whose task is to facilitate adherence by the Company bodies and executives to requirements that guarantee exercise of rights and legal interests of the Company.	Compliant	Regulations on Corporate Secretary and Corporate Secretary's office of Rostelecom ¹¹ .
50.	Stipulation in the Company's Charter or internal documents of the procedure of appointing (electing) the Company secretary and establishing the secretary's duties.	Compliant	Article 23.3.29. of Rostelecom's Charter ¹ . Section 2 of Regulations on Corporate Secretary of Rostelecom ¹¹ .
51.	Stipulation in the Company's Charter of requirements for secretary candidates.	Partially compliant	Article 27.11. of Rostelecom's Charter ¹ designates a special person to assure compliance by the Company's executive bodies with applicable regulations and procedures aimed to protect legal rights and interests of the shareholders. Requirements to the candidacy for Rostelecom's Corporate Secretary are contained in Section 2 of Provision on Corporate Secretary of Rostelecom ¹¹ .
Major Corporate Activities			
52.	Stipulation in the Company's Charter or internal documents of a requirement to approve large deals (worth 25-50 percent of the Company assets value) before they are made.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Major Corporate Activities").
53.	Mandatory engagement of an independent appraiser to appraise the market value of property that is the subject of large deals.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Major Corporate Activities").
54.	Stipulation in the Company's Charter of a ban on taking any measures, when acquiring major stakes in the Company (acquisition), aimed at protection of interests of executive bodies (members of executive bodies) and members of the Company Board of Directors, and worsening the shareholders' positions as compared to their current positions (in particular, a ban for the Board of Directors to make decisions, prior to the assumed end date of share purchase, on issue of securities convertible into	Non-Compliant	Rostelecom's Charter ¹ does not contain provisions aimed to protect the interests of executive bodies (members of executive bodies) and board of directors members, when acquiring major stakes in the This provision is set forth in Rostelecom's Corporate Governance

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	shares or securities that grant the right to acquire the Company shares even if the right to make such a decision is stipulated in the Charter).		Code ² (see section “Major Corporate Activities”).
55.	Stipulation in the Company’s Charter of a requirement for mandatory engagement of an independent appraiser to appraise the current market value of shares and possible changes in their market value as a result of acquisition of the Company.	Non-applicable	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Major Corporate Activities”).
56.	No release in the Company’s Charter of purchasers from an obligation to offer shareholders an opportunity to sell their ordinary shares of the Company (securities convertible into ordinary shares) upon acquisition.	Compliant	This provision is missing in the Company’s Charter ¹ .
57.	Stipulation in the Company’s Charter or internal documents of a requirement for mandatory engagement of an independent appraiser to determine the share conversion ratio in the Company reorganization.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section “Major Corporate Activities”).
Information Disclosure			
58.	Existence of a document approved by the Board of Directors that makes the rules for and approaches to disclosure of information about the Company (the Information Policy Regulations).	Compliant	The Board of Directors approved the Information Disclosure Policy (new version No.1) on December 29, 2008 ¹² .
59.	Stipulation in the Company’s internal documents of a requirement for disclose of information about the purpose of placing shares, about persons who intend to buy these shares, including a large stake, as well as about intentions of Company executives to buy the Company shares to be placed.	Non-compliant	
60.	Stipulation in the Company’s internal documents of a list of documents, materials and other information to be submitted to the shareholders for solving issues put on the agenda of a general shareholders meeting.	Compliant	Article 18.5. of Rostelecom’s Charter ¹ .
61.	Existence of the Company’s of an Internet website and regular publication of information about the Company on the website.	Compliant	www.rostelecom.ru
62.	Stipulation in the Company’s internal documents of a requirement for disclose of information about the Company’s deals with persons who, according to the Charter, are the Company’s top executives, as well as about the Company’s deals with organizations, in which the Company top executives directly or indirectly hold 20 percent or larger stakes, or on which these executives are able to exert essential influence.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section on Company Information Policy) and Insider Trading Policy of OJSC Rostelecom ⁵ .
63.	Stipulation in the Company’s internal documents of a requirement for disclosure of information about all deals, which may influence the market value of the Company shares.	Compliant	This provision is set forth in Rostelecom’s Corporate Governance Code ² (see section on the Company Information Policy).
64.	Existence of an internal document approved by the Board of Directors that describes how to use essential information about the Company’s activity, shares and other securities, and also about transactions with them, which is not publicly accessible and the disclosure of which may essentially influence the market value of the Company shares and other securities.	Compliant	Insider Trading Policy of OJSC Rostelecom ⁵ . Regulations on Provision of Access to Insider Information, Safeguarding Its Confidentiality and Exercising Control Over the Law Requirements with Regard to Insider Information ¹⁶ .
Financial and Business Control			
65.	Existence of procedures approved by the Board of Directors for internal control over the Company’s financial and economic activities.	Partially compliant	Internal control over financial and economic activities of Rostelecom is performed including, but not limited to, a relative system of business processes (Internal control system). It was not however approved by the Board of Directors.
66.	Existence of a special division in the Company that facilitates adherence to the procedures of internal control (control and auditing service).	Compliant	Internal Audit Department; Regulations on Internal Audit Department ¹³

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67.	Stipulation in the Company's internal documents of the control and auditing service's obligation to inform the Audit committee about irregularities found, as well as an obligation of the service head to regularly report to the Audit Committee on implementation of the Company's financial and economic plan and deviations from the plan.	Compliant	This provision is contained in the Regulations on Internal Audit Department ¹³ .
68.	No persons in the Company control and auditing service found guilty of economic crimes or crimes against government or local authorities, government interests, or persons who were administratively liable for crimes related to violations with business, finance, taxes and duties or securities market.	Compliant	Observed in practice.
69.	No persons in the control and auditing service, being members of the Company executive bodies, as well as being participants, general directors (top managers), management body member or employees of any legal entity that is competing with the Company.	Compliant	Observed in practice.
70.	Stipulation in the Company's internal documents of a period for submitting documents and materials to the control and auditing service, required for assessing a financial and economic transaction made, as well as responsibility of the Company executives and employees for failure to submit the above papers prior to the deadline.	Compliant	These provisions are set out in the Regulations on Internal Audit Department of OJSC Rostelecom and Regulations on the Audit Commission of OJSC Rostelecom ¹⁴ .
71.	Stipulation in the Company's internal documents of the control and auditing service's obligation to inform the Audit Committee (or in its absence, the Board of Directors) about irregularities.	Compliant	These provisions are set out in the Regulations of Internal Audit Department of OJSC Rostelecom and Regulations on the Audit Commission of OJSC Rostelecom ⁵
72.	Stipulation in the Company's Charter of a requirement for a control and auditing service to assess advisability for making transactions (nonstandard transactions) that are not included in the Company's financial and economic plan.	Non-compliant	Assessment of practicability of performed operations not provided for in the Rostelecom's year budget shall be made by the Board of Directors and Management Board of the Company. This provision is set out in the Corporate Governance Code ² (Section "Responsibility of the Management Board").
73.	Stipulation in the Company's internal documents of a procedure of coordinating nonstandard transactions with the Board of Directors.	Compliant	This provision is set forth in Rostelecom's Corporate Governance Code ² (see section "Management Board Responsibility").
74.	Existence of an internal document approved by the Board of Directors that describes the procedure of auditing the Company's financial and economic activity by the Audit Commission.	Not applicable	This requirement is in conflict with Federal Law No.208-FZ on Joint-stock Companies of December 26, 1995. In accordance with this law Regulations on the Audit Commission of Rostelecom ¹⁴ are approved by the annual General Meeting of Shareholders of OJSC Rostelecom.
75.	Review by the Audit Committee of the auditors' opinion prior to presentation thereof to the shareholders at a general meeting.	Compliant	This requirement is included in the Regulations on the Audit Committee of the Board of Directors ⁷ .
Dividends			
76.	Existence of an internal document approved by the Board of Directors, based on which the Board of Directors passes recommendations for the size of dividends (the Dividend Policy Regulations).	Compliant	Rostelecom's Dividend Policy ¹⁵
77.	Stipulation in the Dividend Policy Regulations on the procedure of determining a minimum amount of the Company's net profits allocated for dividend payment, and conditions, under which dividends are fully or partially paid on preferred shares; the size of dividends on these preferred shares is set out in the Company's Charter.	Compliant	Rostelecom's Dividend Policy ¹⁵ .
78.	Publication of information about the Company's Dividend Policy and changes therein in a bulletin stipulated in the	Compliant	The required information is placed in the Internet-site www.rostelecom.ru

Company's Charter for publication of statements about general shareholders meetings, as well as publication of this information on the Company's website.

- 1 Charter of OJSC Rostelecom (restated version No.12) approved by the Annual General Meeting of Shareholders of OJSC Rostelecom on June 14, 2012 (pursuant to Minutes No.1 as of June 18, 2012)
- 2 Corporate Governance Code of OJSC Rostelecom approved by the Board of Directors of OJSC Rostelecom on December 27, 2007 (pursuant to Minutes No.12 as of December 29, 2007)
- 3 Regulations on the General Shareholders' Meeting of OJSC Rostelecom (restated version No.4) approved by the Annual General Meeting of Shareholders of OJSC Rostelecom on June 26, 2010 (pursuant to Minutes No.1 as of June 30, 2010)
- 4 Code of Ethics of OJSC Rostelecom approved by the Board of Directors of OJSC Rostelecom on December 27, 2007 (pursuant to Minutes No.12 as of December 29, 2007)
- 5 Insider Trading Policy of OJSC Rostelecom (restated version No.1) approved by the Board of Directors of OJSC Rostelecom on December 29, 2008 (pursuant to Minutes No.14 as of December 30, 2008)
- 6 Regulations on the Board of Directors of OJSC Rostelecom (restated version No.11) approved by the Annual General Meeting of Shareholders of OJSC Rostelecom on June 14, 2012(pursuant to Minutes No.1 as of June 18, 2012)
- 7 Regulations on the Audit Committee of OJSC Rostelecom Board of Directors (restated version No.2) approved by the Board of Directors of OJSC Rostelecom on September 18, 2009 (pursuant to Minutes No.11 as of September 21, 2009)
- 8 Regulations on the Nominations and Remuneration Committee of OJSC Rostelecom Board of Directors (restated version No.1) approved by the Board of Directors of OJSC Rostelecom on September 18, 2009 (pursuant to Minutes No.11 as of September 21, 2009))
- 9 Regulations on the Corporate Governance Committee of OJSC Rostelecom Board of Directors (restated version No.2) approved by the Board of Directors of OJSC Rostelecom on September 18, 2009 (pursuant to Minutes No.11 as of September 21, 2009)
- 10 Regulations on the Strategy Committee of OJSC Rostelecom Board of Directors (restated version No.2) approved by the Board of Directors of OJSC Rostelecom on July 23, 2009 (pursuant to Minutes No.5 as of July 24, 2009)
- 11 Regulations on Corporate Secretary and Corporate Secretary's office approved by the Board of Directors of OJSC Rostelecom on June 15, 2011 (pursuant to Minutes No.14 as of June 17, 2011)
- 12 Information Disclosure Policy of OJSC Rostelecom (restated version No.1) approved by the Board of Directors of OJSC Rostelecom on December 29, 2008 (pursuant to Minutes No.14 as of December 30, 2008)
- 13 Statute of OJSC Rostelecom Internal Audit Department (version No.4) approved by the Board of Directors of OJSC Rostelecom on March 31, 2011 (pursuant to Minutes No.07as of April 04, 2011)
- 14 Regulations on the Audit Commission of OJSC Rostelecom (restated version No 3) approved by the Annual General Meeting of Shareholders of OJSC Rostelecom on June 14, 2012 (pursuant to Minutes No.1 as of June 18, 2012)
- 15 Dividend Policy of OJSC Rostelecom (restated version No.2) approved by the Board of Directors of OJSC Rostelecom on December 26, 2011 (pursuant to Minutes No.29 as of December 29, 2011).
- 16 Regulations on Provision of Access to Insider Information, Safeguarding Its Confidentiality and Exercising Control Over the Law Requirements with Regard to Insider Information Approved by an Order of OJSC Rostelecom # 476 of August 09, 2011.

APPENDIX NO.2 TO THE ANNUAL REPORT ON RESULTS OF 2012

THE COMPANY GOVERNING AND CONTROLLING BODIES.

BOARD OF DIRECTORS

Sergei Azatyan, Member of the Board of Directors since June 14, 2012

Mr. Azatyan was born in 1979 in the city of Erevan. In 2000 he graduated from the State Finance Academy.

The table below provides the list of offices Mr. Azatyan held over the past 5 years and his current position(s):

Period	Organization	Position
2007 – 2009	LLC Marshall Consulting	Investment Head
2009 – 2011	Representative Office of MarCap Advisors Ltd. in Moscow	Managing Director
2009 – present	Mayak real Estate Limited, a company limited by shares (Cyprus)	Member of the Board of Directors
2011 – present	Representative Office of MarCap Investments Group Limited LLC in Moscow	Managing Director, Member of the Board of Directors
2012 – present	GT Gettaxi Limited	Member of the Board of Directors
2012 – present	OJSC Rostelecom	Member of the Board of Directors
2012 – 2013	ZAO NVision Group	Member of the Board of Directors

As on December 31, 2012 Mr. Azatyan owned no interest in the charter capital of the Company. In 2012, Mr. Azatyan made no transactions with the Company's securities.

Vladimir Bondarik

Mr. Bondarik was born in 1957. In 1980 he graduated from the Moscow Institute of Physics and Technology where he specialized in radioelectronic devices and obtained a qualification of an Engineer-Physicist.

The table below provides the list of offices Mr. Bondarik held over the past 5 years and his current position(s):

Period	Organization	Position
2005 – 2008	LLC RoilSystems	Deputy General Director, Managing Director, General Director
2008 – 2009	LLC Roilcom	General Director
2009 – present	OJSC Rostelecom	Member of the Board of Directors
2009 – 2011	OJSC Svyazinvest	Deputy General Director, Member of the Management Board
2009 – present	Ministry of Telecom and Mass Communications of the Russian Federation	Advisor to Minister on a voluntary basis
2010 – 2011	OJSC Svyazintek	Member of the Board of Directors
2010 – 2011	OJSC RTcomm.RU	Member of the Board of Directors
2010 – 2011	OJSC Rostelecom	Chairman of the Board of Directors
2010 – present	OJSC Vitonet	Chairman of the Board of Directors
2011 – present	OJSC Giprosvyaz	General Director, Chairman of the Management Board

As on December 31, 2012, Mr. Bondarik owned no interest in the charter capital of the Company. In 2012, Mr. Bondarik made no transactions with the Company's securities.

Anton Zlatopolsky

Mr. Zlatopolsky was born in Moscow in 1966. In 1988 he graduated from Lomonosov Moscow State University, where he specialized in jurisprudence. Mr. Zlatopolsky holds a Ph.D. degree in law.

The table below provides the list of offices Mr. Zlatopolsky held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – present	Branch of FGUP “VGTRK” “TV-channel “Rossiya”	Director
2011 – present	OJSC Rostelecom	Member of the Board of Directors

As on December 31, 2012, Mr. Zlatopolsky owned no interest in the charter capital of the Company. In 2012, Mr. Zlatopolsky made no transactions with the Company’s securities.

Anton Inshutin, Member of the Board of Directors since June 14, 2012

Mr. Inshutin was born in Moscow in 1974. In 1996 he graduated from the Russian Government’s State Academy of National Economy where he specialized in financial management.

The table below provides the list of offices Mr. Inshutin held over the past 5 years and his current position(s):

Period	Organization	Position
2002 – 2007	ZAO United Financial Group Ltd. / Deutsche Bank	Executive Director, TMT, Russia & CIS
2007 – 2012	Morgan Stanley	Executive Director, TMT, Russia & CIS
2012 – present	InVenture Partners	Managing Partner
2012 – present	GT Gettaxi Limited (Cyprus)	Member of the Board of Directors
2012 – present	Haplink Ltd. (Cyprus)	Member of the Board of Directors
2012 – present	OJSC Rostelecom	Member of the Board of Directors

As on December 31, 2012, Mr. Inshutin owned no interest in the charter capital of the Company. In 2012, Mr. Inshutin made no transactions with the Company’s securities.

Yury Kudimov

Mr. Kudimov was born in 1953. In 1979 he graduated from Lomonosov Moscow State University where he specialized in journalism. In 1998 Mr. Kudimov graduated from Dauling College (USA) where he received a master degree in Banking and International Monetary Systems.

The table below provides the list of offices Mr. Kudimov held over the past 5 years and his current position(s):

Period	Organization	Position
2005 – 2008	OJSC NRBank	President, Chairman of the Management Board
2008 – 2009	OJSC NRBank	Chairman of the Board of Directors
2006 – present	ZAO BaltAvtoPoisk	Member of the Board of Directors
2010 – present	LLC VEB-Capital	General Director
2010 – present	OJSC Rostelecom	Member of the Board of Directors
2011 – present	OJSC Svyazinvest	Member of the Board of Directors
2011 – present	OJSC Sheremetyevo International Airport	Member of the Board of Directors

As on December 31, 2012, Mr. Kudimov owned no interest in the charter capital of the Company. In 2012, Mr. Kudimov made no transactions with the Company’s securities.

Sergei Kuznetsov

Mr. Kuznetsov was born in 1953. He graduated from Northwestern Polytechnic Institute where he specialized in computer technologies and received an engineer qualification. Mr. Kuznetsov was trained in Columbia University business school (USA) and completed a business administration course at Duke University’s Fuqua School of Business (USA).

The table below provides the list of offices Mr. Kuznetsov held over the past 5 years and his current

position(s):

Period	Organization	Position
2005 – 2009	OJSC Rostelecom	Member of the Board of Directors
2005 – 2009	OJSC CenterTelecom	Member of the Board of Directors
2006 – 2009	OJSC VolgaTelecom	Chairman of the Board of Directors
2006 – 2009	OJSC SibirTelecom	Member of the Board of Directors
2007 – 2010	CJSC BaltAvtoPoisk	Chairman of the Board of Directors
2007 – present	Russian Union of Industrialists and Entrepreneurs	Member of the National Register of Independent Directors
2009 – present	OJSC Rostelecom	Member of the Board of Directors

As on December 31, 2012, Mr. Kuznetsov owned no interest in the charter capital of the Company. In 2012, Mr. Kuznetsov made no transactions with the Company's securities.

Mikhail Leschenko, Member of the Board of Directors since June 14, 2012

Mr. Leschenko was born in 1975. In 1997 he graduated from Saint Petersburg State University of Economics and Finance where he specialized in world economy and received an economist qualification.

The table below provides the list of offices Mr. Leschenko held over the past 5 years and his current position(s):

Period	Organization	Position
2007 – 2008	LLC Marshall Consulting	Deputy General Director
2008 – 2009	Ministry of Telecom and Mass Communications of the Russian Federation	Advisor to Minister of Telecom and Mass Communications of the Russian Federation
2009 – 2009	OJSC Svyaz-Bank	Member of the Board of Directors
2009 – 2010	OJSC Rostelecom	Member of the Board of Directors
2009 – 2010	OJSC North-West Telecom	Member of the Board of Directors
2009 – 2010	OJSC Uralsvyazinform	Member of the Board of Directors
2009 – 2010	OJSC CenterTelecom	Member of the Board of Directors
2009 – 2010	OJSC SibirTelecom	Member of the Board of Directors
2009 – 2010	OJSC Dalsvyaz	Member of the Board of Directors
2009 – 2010	OJSC Central Telegraph	Member of the Board of Directors
2009 – 2010	OJSC Svyazinvest	Member of the Board of Directors
2009 – 2011	OJSC VolgaTelecom	Member of the Board of Directors
2009 – 2011	OJSC Southern Telecommunication Company	Member of the Board of Directors
2009 – present	OJSC Giprosvyaz	Member of the Board of Directors
2009 – present	OJSC Svyazinvest	Deputy General Director
2009 – present	OJSC Svyazinvest	Member of the Management Board
2009 – present	ZAO BaikalWestCom	Chairman of the Board of Directors
2010 – 2010	ZAO Stack GSM	Chairman of the Board of Directors
2011 – 2011	OJSC North-West Telecom	Member of the Board of Directors
2011 – 2011	OJSC Uralsvyazinform	Member of the Board of Directors
2011 – 2011	OJSC CenterTelecom	Member of the Board of Directors
2011 – 2011	OJSC SibirTelecom	Member of the Board of Directors
2011 – 2011	OJSC Dalsvyaz	Member of the Board of Directors
2011 – present	OJSC Rostelecom	Member of the Board of Directors
2011 – 2012	LLC Southern-Ural Telephone Company	Member of the Board of Directors
2011 – 2011	OJSC NTK	Member of the Board of Directors
2011 – 2012	ZAO CenterTelecom Service	Member of the Board of Directors
2011 – 2012	LLC MOBITEL	Member of the Board of Directors

As on December 31, 2012, Mr. Leschenko owned no interest in the charter capital of the Company. In 2012, Mr. Leschenko made no transactions with the Company's securities.

Anatoly Milyukov

Mr. Milyukov was born in Moscow in 1972. In 1994 he graduated from Lomonosov Moscow State University where he specialized in international economy, and in 2001 from MBA School of Harvard University.

The table below provides the list of offices Mr. A. Milyukov held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – present	Managing Company ZAO Gazprombank - Assets Management	Member of the Board of Directors
2006 – present	OJSC Gazprombank	Executive Vice President
2007 – present	GBP Asset Management S.A. (Luxembourg)	Member of the Board of Directors
2008 – present	ZAO New Instrumental Solutions	Member of the Board of Directors
2010 – 2010	OJSC Uralsvyainform	Member of the Board of Directors
2011 – 2011	OJSC Southern Telecommunication Company	Member of the Board of Directors
2011 – present	OJSC Rostelecom	Member of the Board of Directors
2011 – present	OJSC NTK	Member of the Board of Directors

As on December 31, 2012, Mr. Milyukov owned no interest in the charter capital of the Company. In 2012, Mr. Milyukov made no transactions with the Company's securities.

Alexander Pertsovsky, Member of the Board of Directors until and inclusive of June 14, 2012

Mr. Pertsovsky was born in 1968. In 1991 he graduated from Moscow Institute of Radioengineering, Electronics and Automation where he received a qualification of an engineer-mathematician, and from Columbia Business School (MBA), New York

The table below provides the list of offices Mr. A. Pertsovsky held over the past 5 years and his current position(s):

Period	Organization	Position
2000 – present	OJSC RTS	Member of the Board of Directors
2002 – present	Renaissance Group	Chairman of the Management Board
2002 – present	Renaissance Capital	Chairman of the Management Board
2011 – present	OJSC Svyazinvest	Member of the Board of Directors
2011 – 2012	OJSC Rostelecom	Member of the Board of Directors

As on December 31, 2012, Mr. Pertsovsky owned no interest in the charter capital of the Company. In 2012, Mr. Pertsovsky made no transactions with the Company's securities.

Alexander Provotorov

Mr. Provotorov was born in 1974. In 1996 he graduated from Lomonosov Moscow State University with a degree in Law, a lawyer qualification

The table below provides the list of offices Mr. Provotorov held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – 2008	LLC Marshall Capital	General Director
2009 – 2009	MarCap Advisors Limited, Moscow Representative Office	Senior Managing Director
2009 – 2009	ZAO PTT	Member of the Board of Directors
2009 – 2010	OJSC MGTS	Member of the Board of Directors

2009 – 2010	CJSC AKOS	Chairman of the Board of Directors
2010 – present	LLC MobiTel	Member of the Board of Directors
2009 – 2010	OJSC Svyazinvest	First Deputy General Director
2009 – 2010	ZAO NSS	Chairman of the Board of Directors
2010 – 2011	ZAO NSS	Member of the Board of Directors
2009 – 2011	OJSC CenterTelecom	Member of the Board of Directors
2009 – 2011	OJSC Uralsvyazinform	Member of the Board of Directors
2009 – 2011	OJSC North-West Telecom	Member of the Board of Directors
2009 – present	OJSC Svyazinvest	Member of the Management Board
2009 – present	OJSC Rostelecom	Member of the Board of Directors
2009 – present	OJSC Central Telegraph	Member of the Board of Directors
2009 – present	OJSC Rosinfocominvest	Member of the Board of Directors
2009 – 2010	OJSC GIPROSVYAZ	Chairman of the Board of Directors
2010 – 2011	ZAO AKOS	Member of the Board of Directors
2011 – present	OJSC Svyazinvest	Member of the Board of Directors
2011 – 2011	OJSC NTK	Chairman of the Board of Directors
2010 – present	Non-State Pension Fund Telecom-Soyuz	Member of the Board of the Fund
2010 – 2013	OJSC Rostelecom	General Director, President, Chairman of the Management Board
2012 – present	OJSC NTK	General Director

As on December 31, 2012, Mr. Provotorov owned no interest in the capital of the Company. In 2012, Mr. Provotorov made no transactions with the Company's securities.

Ivan Rodionov, Chairman of the Board of Directors

Mr. Rodionov was born in 1953. In 1978 he graduated from Lomonosov Moscow State University where he specialized in national economy planning and obtained a qualification of an economist specializing in synthetic planning.

The table below provides the list of offices Mr. Rodionov held over the past 5 years and his current position(s):

Period	Organization	Position
2000 – present	OJSC IBS Group Holding	Member of the Board of Directors
2001 – 2011	OJSC North-West Telecom	Member of the Board of Directors
2003 – present	State University Higher School of Economics	Professor, Chair of Enterprise Economics and Finance
2004 – present	OJSC FosAgro	Member of the Board of Directors
2005 – 2007	OJSC MGTS	Member of the Board of Directors
2005 – present	OJSC Energo – Machine-building Alliance	Member of the Board of Directors, Chairman of the Board of Directors
2006 – present	Russian State University for the Humanities	Professor, Finance and Credit Chair
2009 – 2010	OJSC Rostelecom	Member of the Board of Directors
2009 – present	OJSC Svyazinvest	Member of the Board of Directors
2009 – present	OJSC IC Rusinvest	Member of the Board of Directors
2011 – present	OJSC Rostelecom	Chairman of the Board of Directors
2011 – present	OJSC Interagency Analytical Center	Member of the Board of Directors
2011 – present	OJSC Amofos	Member of the Board of Directors

As on December 31, 2012, Mr. Rodionov owned no interest in the charter capital of the Company. In 2012, Mr. Rodionov made no transactions with the Company's securities.

Vadim Semenov

Mr. Semenov was born in 1965 in Leningrad. In 1987 he graduated with a degree in Law from A. A. Zhdanov Leningrad State University awarded with Orders of Lenin and Red Banner of Labor.

The table below provides the list of offices Mr. Semenov held over the past 5 years and his current position(s):

Period	Organization	Position
2003 – 2009	OJSC MegaFon	Head of Legal Department, Head of Legal Office, Director for Legal Matters, Deputy Director for Legal Matters
2009 – 2009	OJSC Gazprom, ElectroGaz Subsidiary	Deputy General Director for Legal Matters and Corporate Relations
2009 – 2010	OJSC Rostelecom	Advisor to General Director, Deputy General Director for Corporate Development, Vice-President for Legal and Corporate Development
2009 – 2011	OJSC Rostelecom	Member of the Management Board
2010 – 2011	ZAO Westelcom	Member of the Board of Directors
2010 – 2011	ZAO GlobalTel	Member of the Board of Directors
2010 – 2011	ZAO INCOM	Chairman of the Board of Directors
2010 – present	ZAO MMTS-9	Chairman of the Board of Directors
2010 - 2011	Malachite Recreation Facility	Member of the Board of Directors
2011 – present	OJSC Svyazinvest	General Director, Chairman of the Management Board, Member of the Board of Directors
2010 – 2012	ZAO Sky Link	Member of the Board of Directors
2011 – present	OJSC Central Telegraph	Chairman of the Board of Directors
2011 – 2012	ZAO DeltaTelecom	Chairman of the Board of Directors
2011 – 2012	OJSC MSS	Chairman of the Board of Directors
2011 – 2011	OJSC CenterTelecom	Chairman of the Board of Directors
2011 – 2011	OJSC North-West Telecom	Chairman of the Board of Directors
2011 – 2011	OJSC Southern Telecommunication Company	Chairman of the Board of Directors
2011 – 2011	OJSC SibirTelecom	Chairman of the Board of Directors
2011 – 2011	OJSC Uralsvyazinform	Chairman of the Board of Directors
2011 – 2011	OJSC Dalsvyaz	Chairman of the Board of Directors
2011 – 2011	OJSC VolgaTelecom	Chairman of the Board of Directors
2011 – 2011	OJSC RTcomm.RU	Member of the Board of Directors
2011 – 2011	ZAO NSS	Member of the Board of Directors
2010 – present	Non-State Pension Fund Telecom-Soyuz	Member of the Board of the Fund
2011 – present	OJSC Bashinformsvyaz	Deputy Chairman of the Board of Directors
2011 – present	OJSC Rostelecom	Member of the Board of Directors
2011 – present	OJSC GIPROSVYAZ	Chairman of the Board of Directors
2012 – present	OJSC Echo of Moscow	Member of the Board of Directors

As on December 31, 2012, Mr. Semenov owned no interest in the charter capital of the Company. In 2012, Mr. Semenov made no transactions with the Company's securities.

Anatoly Tikhonov, Member of the Board of Directors until and inclusive of June 14, 2012

Mr. Tikhonov was born in 1969. He graduated from Lomonosov Moscow State University with a degree in Law.

The table below provides the list of offices Mr. Tikhonov held over the past 5 years and his current position(s):

Period	Organization	Position
2003 – 2008	Administration of Krasnoyarsk Region	Deputy Governor – Head of External Relations Department
2006 – 2008	OJSC Corporation for Krasnoyarsk Region Development	Member of the Board of Directors
2008 – 2008	Government of Krasnoyarsk Region	Deputy Governor – Deputy Chairman of the Government
2008 – 2009	OJSC Corporation for Samara Region Development	Member of the Board of Directors
2008 – present	State Corporation «Bank for Development and Foreign Economic Affairs (Vnesheconombank)»	Member of the Management Board – First Deputy Chairman
2009 – present	United Company RUSAL Limited	Member of the Board of Directors
2009 – present	OJSC Sheremetyevo International Airport	Member of the Board of Directors
2009 – present	LLC VEB-Engineering	Member of the Board of Directors
2009 – present	ZAO ALROSA	Member of the Supervisory Board
2009 – present	OJSC Svyaz-Bank	Chairman of the Board of Directors
2010 – 2012	OJSC Rostelecom	Member of the Board of Directors
2010 – present	OJSC Corporation for Development of Northern-Caucasus	Member of the Board of Directors

As on December 31, 2012, Mr. Tikhonov owned no interest in the charter capital of the Company. In 2012, Mr. Tikhonov made no transactions with the Company's securities.

Igor Shchegolev, Member of the Board of Directors until and inclusive of June 14, 2012

Mr. Shchegolev was born in 1965. In 1988 he graduated from the Translators' Faculty of the M. Thorez Moscow State Institute of Foreign Languages and the Germanic faculty of Leipzig University.

The table below provides the list of offices Mr. Shchegolev held over the past 5 years and his current position(s):

Period	Organization	Position
2002 - 2008	Presidential Administration	Chief of Protocol of the Russian President
2008 – 2012	Ministry of Telecom and Mass Communications	Minister
2010 – 2011	OJSC Svyazinvest	Member of the Board of Directors
2011 – 2012	OJSC Rostelecom	Member of the Board of Directors

As on December 31, 2012, Mr. Shchegolev owned no interest in the charter capital of the Company. In 2012, Mr. Shchegolev made no transactions with the Company's securities.

PRESIDENT AND MANAGEMENT BOARD

Alexander Provotorov, President, Chairman of the Management Board until March 27, 2013

For information on Mr. A. Provotorov please refer to section "Board of Directors" of this Appendix.

Pavel Zaytsev

Mr. Zaytsev was born in 1977. In 2000 he graduated from Ural State Technical University with a degree in Information Systems in Economics.

The table below provides the list of offices Mr. Zaytsev held over the past 5 years and his current position(s):

Period	Organization	Position
2005 – 2007	ZAO Uraltelecomservice	General Director
2007 – 2008	OJSC Uralsvyazinform	Advisor to the Director of Ekaterinburg Telecommunications Branch
2008 – 2009	ZAO Uraltelecomservice	General Director
2009 – 2010	OJSC Uralsvyazinform	Member of the Management Board
2009 – 2010	OJSC Uralsvyazinform	Deputy General Director – Commercial Director
2010 – present	LLC Southern-Urals Telephone Company	Member of the Board of Directors
2010 – present	OJSC Rostelecom	Vice President – Commercial Director, Member of the Management Board
2010 – present	ZAO WESTELCOM	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO GlobalTel	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	OJSC NTK	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO Severen-Telecom	Chairman of the Board of Directors Member of the Board of Directors
2011 – present	ZAO ACOS	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO BIT	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO NSS	Member of the Board of Directors, Chairman of the Board of Directors
2011 – 2012	OJSC MMTS-9	Member of the Board of Directors
2011 – present	ZAO Baikalwestcom	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO Eniseitelecom	Member of the Board of Directors, Chairman of the Board of Directors
2011 – 2012	OJSC RTS	Member of the Board of Directors, Chairman of the Board of Directors
2011 – 2012	ZAO Orenburg-GSM	Member of the Board of Directors, Chairman of the Board of Directors
2011 – present	ZAO Volgograd-GSM	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	LLC Rostelecom - Retail Systems	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	ZAO GNC-Alfa	Member of the Board of Directors, Chairman of the Board of Directors
2012 – 2012	OJSC MSS	Member of the Board of Directors, Chairman of the Board of Directors
2012 – 2012	ZAO Delta Telecom	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	ZAO Sky Link	Member of the Board of Directors,

		Chairman of the Board of Directors
2012 – present	ZAO AMT	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	OJSC NKS	Member of the Board of Directors, Chairman of the Board of Directors

As on December 31, 2012, Mr. Zaytsev owned no interest in the charter capital of the Company. In 2012, Mr. Zaytsev made no transactions with the Company's securities.

Ivan Zima

Mr. Zima was born in 1971. In 1994 he graduated from Irkutsk State Technical University where he specialized in radio engineering. The table below provides the list of offices Mr. Zima held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – 2010	OJSC Rostelecom, Far-Eastern Branch	Deputy General Director, Director of Far-Eastern Branch
2010 – 2011	OJSC Rostelecom, Far-Eastern Branch	Vice President, Director of Far- Eastern Branch
2011 – 2011	OJSC Rostelecom	Director for Network Planning and Development
2011 – present	OJSC Rostelecom	Member of the Management Board, Vice President, Technical Director
2011 – present	OJSC NTK	Member of the Board of Directors
2011 – present	ZAO Baikalwestcom	Member of the Board of Directors
2011 – present	ZAO Eniseitelecom	Member of the Board of Directors
2011 – present	ZAO NSS	Member of the Board of Directors
2012 – present	ZAO Volgograd-GSM	Member of the Board of Directors
2012 – present	ZAO AKOS	Member of the Board of Directors
2012 – present	ZAO BIT	Member of the Board of Directors
2012 – present	ZAO Orenburg-GSM	Member of the Board of Directors
2012 – present	ZAO ROSTELEGRAPH	Member of the Board of Directors
2012 – present	OJSC Mobiltelekom	Member of the Board of Directors
2012 – present	OJSC RTComm.RU	Member of the Board of Directors
2012 – present	ZAO Sky Link	Member of the Board of Directors
2012 – present	ZAO Novgorod Datacom	Member of the Board of Directors
2012 – present	OJSC GIPROSVYAZ	Member of the Board of Directors

As on December 31, 2012, Mr. Zima owned no interest in the charter capital of the Company. In 2012, Mr. Zima made no transactions with the Company's securities.

Viktor Iudin, Member of the Management Board up to and inclusive of July 31, 2012

Mr. Iudin was born in 1967 in Shatura district, Moscow region. In 1988 he graduated from the Moscow State Institute of Railway Engineering.

The table below provides the list of offices Mr. Iudin held over the past 5 years and his current position(s):

Period	Organization	Position
2005 – 2009	OJSC Rostelecom	Deputy General Director–Central Branch Director
2009 – 2010	OJSC Rostelecom	First Deputy General Director, Member of the Management Board
2009 – present	ZAO Globus-Telecom	Chairman of the Board of Directors
2011 – present	OJSC RTComm.RU	Member of the Board of Directors
2011 – present	ZAO Novgorod Datacom	Member of the Board of Directors
2011 – present	ZAO CenterTelecomService	Member of the Board of Directors
2011 – present	ZAO NSS	Member of the Board of Directors

2011 – present	OJSC RTS	Member of the Board of Directors
2010 – 2012	OJSC Rostelecom	Member of the Management Board

As on December 31, 2012, Mr. Iudin owned a 0.00006% interest in the charter capital and 0.00007% of the ordinary shares of the Company. In 2012, Mr. Iudin made no transactions with the Company's securities.

Sergei Lukash, Member of the Management Board until to and inclusive of February 18, 2013

Mr. Lukash was born in 1957 in Rubtsovsk, the Altai territory. In 1976 he graduated from the Alma-Ata communications technical school, and in 1986 from the All-Union Extramural Electrotechnical Institute with a degree in Radio and Broadcasting. In 1997 Mr. Lukash graduated from the Russian Academy of Public Service with a degree in State and Municipal Administration.

The table below provides the list of offices Mr. Lukash held over the past 5 years and his current position(s):

Period	Organization	Position
2008 – 2009	Federal Unitary Enterprise Communications-Security	First Deputy General Director, Acting General Director
2009 – 2010	OJSC Svyazinvest	Deputy General Director, Member of the Management Board
2010 – 2011	OJSC Uralsvyazinform	General Director, Chairman of the Management Board, Member of the Board of Directors
2011 – 2011	OJSC Rostelecom	Director of Ural Macroregional Branch
2010 – 2013	OJSC Rostelecom	Vice President, Member of the Management Board
2011 - 2011	OJSC Svyazinvest	Member of the Board of Directors
2011 – 2011	OJSC NTK	Member of the Board of Directors

As on December 31, 2012, Mr. Lukash owned no interest in the charter capital of the Company. In 2012, Mr. Lukash made no transactions with the Company's securities.

Mikhail Magrilov, Member of the Management Board since August 01, 2012

Mr. Magrilov was born in St. Petersburg on December 9, 1975. In 1997 he graduated from the Baltic State Technical University in St. Petersburg, where he specialized in Automatic Control Systems. In 1999 he graduated from Universitetet I Nordland in Norway where he received a Master degree in Economics.

The table below provides the list of offices Mr. Magrilov held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – 2008	Moscow Representative Office of A.T. Kearney	Manager
2008 – 2012	Branch of Pricewaterhouse Coopers Russia B.V.	Director (Partner)
2012 – present	OJSC Rostelecom	Vice President for Strategy and Operational Efficiency, Member of the Management Board

As on December 31, 2012, Mr. Magrilov owned no interest in the charter capital of the Company. In 2012, Mr. Magrilov made no transactions with the Company's securities.

Vladimir Mironov

Mr. Mironov was born in 1956. He graduated from the Academician V.N. Obraztsov Leningrad Institute of Railway Engineers with a degree in railway transport electrification.

The table below provides the list of offices Mr. Mironov held over the past 5 years and his current position(s):

Period	Organization	Position
2002 – present	OJSC Rostelecom	Deputy General Director, Vice President, Member of the

		Management Board
2010 – 2010	ZAO Globus-Telecom	Member of the Board of Directors
2010 – present	ZAO INCOM	Member of the Board of Directors

As of December 31, 2011, Mr. Mironov owned no interest in the charter capital of the Company. In 2011, Mr. Mironov made no transactions with the Company's securities.

Vaagn Martirosyan, Member of the Management Board until and inclusive of July 31, 2012

Mr. Martirosyan was born in 1951. In 1974 he graduated from Erevan Polytechnic Institute where he specialized in automatic and telemechanical devices.

The table below provides the list of offices Mr. Martirosyan held in the recent 5 years and his current position(s):

Period	Organization	Position
2002 – 2007	OJSC Central Telegraph	General Director, Chairman of the Management Board, Member of the Board of Directors
2002 – 2008	ZAO ROSTELEGRAPH	Chairman of the Board of Directors
2004 – 2009	CJSC Centel	Chairman of the Board of Directors
2007 – 2008	Non-commercial partnership Center for Telecommunications Development Research	Member of the Partnership Board
2007 – 2011	OJSC CenterTelecom	General Director, Chairman of the Management Board
2011 – 2011	OJSC Rostelecom	Vice President, Director of Central Macroregional Branch
2011 – 2012	OJSC Rostelecom	Senior Vice President, Member of the Management Board
2007 – present	ZAO CenterTelecomService	Chairman of the Board of Directors, Member of the Board of Directors
2008 – present	OJSC RTS	Chairman of the Board of Directors, Member of the Board of Directors
2010 – present	OJSC KGTS	Member of the Board of Directors

As on December 31, 2012, Mr. Martirosyan had a 0.000003% interest in the charter capital and 0.000004% of the ordinary shares of the Company. In 2012, Mr. Martirosyan made no transactions with the Company's securities.

Alexey Nashchekin, Member of the Management Board from August 01, 2012 until and inclusive of February 18, 2013

Mr. Nashchekin was born in 1976. In 1999 he graduated from the V.I. Lenin Ivanovo State Power Engineering University where he obtained a qualification of an Engineer-Physicist. In 2006 he graduated from the State Academy of Vocational Training and Improvement of Professional Skills of Executives and Experts of Investment Sphere (GASIS) where he obtained a qualification in Finance and Credit; Ph.D. in Technical Sciences.

The table below provides the list of offices Mr. Nashchekin held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – 2007	Federal Unitary Enterprise SKC Rosatom	Advisor to Director on IT Technologies and Development
2007 – 2010	ZAO NVision Group	Deputy General Director for Development of Power-Generating sector, Deputy General Director for Development, General Director
2010 – 2013	OJSC Rostelecom	Adviser to General Director, Deputy General Director for Federal Programs, Vice President for Federal Programs, Vice President for

		Innovative Development, Member of the Management Board
2012 – present	LLC KM Media	Member of the Board of Directors
2012 – present	OJSC MMTS-9	Member of the Board of Directors
2012 – present	OJSC RT Labs	Member of the Board of Directors Chairman of the Board of Directors

As on December 31, 2012, Mr. Nashchekin owned no interest in the charter capital of the Company. In 2012, Mr. Nashchekin made no transactions with the Company's securities.

Alexey Nichiporenko, Member of the Management Board until and inclusive of January 27, 2012

Mr. Nichiporenko was born in 1966, in Krasnoe Selo, Leningrad region. In 1988 he graduated from Leningrad Higher Marine Engineering Academy with a degree in Radio Engineering. In 1999 Mr. Nichiporenko graduated from St. Petersburg International Institute of Management with a degree in Management.

The table below provides the list of offices Mr. Nichiporenko held over the past 5 years and his current position(s):

Period	Organization	Position
2004 – 2009	OJSC MegaFon	Senior Deputy General Director
2008 – 2009	ZAO MegaFon International	General Director
2009 – 2010	OJSC Svyazinvest	Advisor to General Director
2010 – 2010	OJSC Rostelecom	Senior Deputy General Director
2010 – 2010	ZAO Stack GSM	Member of the Board of Directors
2010 – 2010	OJSC Altaisvyaz	Member of the Board of Directors
2009 – 2011	ZAO NSS	Member of the Board of Directors
2011 - 2011	ZAO NSS	Chairman of the Board of Directors
2009 – 2011	ZAO BaikalWestCom	Member of the Board of Directors
2011 – 2011	ZAO BaikalWestCom	Chairman of the Board of Directors
2009 – 2011	ZAO Eniseitelecom	Member of the Board of Directors
2011 – 2011	ZAO Eniseitelecom	Chairman of the Board of Directors
2009 – 2011	ZAO AKOS	Member of the Board of Directors
2011 – present	ZAO AKOS	Chairman of the Board of Directors
2009 – 2011	ZAO Volgograd GSM	Member of the Board of Directors
2011 – present	ZAO Volgograd GSM	Chairman of the Board of Directors
2010 – present	OJSC Rostelecom	Senior Vice President, Member of the Management Board

As on December 31, 2012, Mr. Nichiporenko owned no interest in the charter capital of the Company. In 2012, Mr. Nichiporenko made no transactions with the Company's securities.

Alexander Rogovoy

Mr. Rogovoy was born in 1979. In 2001 he graduated from Moscow State Academy of Law.

The table below provides the list of offices Mr. Rogovoy held over the past 5 years and his current position(s):

Period	Organization	Position
2003 – 2009	OJSC MegaFon	Head of the Legal Department
2009 – 2010	OJSC Hlebprom	Director for Legal Matters and Corporate Development
2009 – 2010	OJSC Melas	Head of the Legal Department
2010 – present	OJSC Rostelecom	Vice President for Legal Matters and Corporate Development
2011 – present	OJSC Rostelecom	Member of the Management Board
2010 – present	ZAO WESTELCOM	Member of the Board of Directors

2011 – 2011	ZAO ZEBRA TELECOM	Member of the Board of Directors
2011 – present	ZAO GLOBUS-TELECOM	Member of the Board of Directors
2011 – 2011	ZAO GlobalTel	Member of the Board of Directors
2011 – 2011	OJSC NTK	Member of the Board of Directors
2011 – present	ZAO AKOS	Member of the Board of Directors
2011 – present	ZAO INCOM	Member of the Board of Directors
2011 – present	ZAO CenterTelecom Service	Member of the Board of Directors
2011 – 2011	ZAO Severen Telecom	Member of the Board of Directors

As on December 31, 2012, Mr. Rogovoy owned no interest in the Charter capital of the Company. In 2012, Mr. Rogovoy made no transactions with the Company's securities.

Galina Rysakova

Ms. Rysakova was born in 1967, Lobnya, Moscow region. In 1999 she graduated from Lomonosov Moscow State University with a degree in Law.

The table below provides the list of offices Ms. Rysakova held over the past 5 years and her current position(s):

Period	Organization	Position
2003 – present	OJSC Rostelecom	Member of the Management Board
2005 – present	ZAO Insurance Company Costars	Member of the Board of Directors
2006 – 2011	OJSC Rostelecom	Director of the Department of Organizational Development and Human Resources Management
2008 – 2009	OJSC RTComm.RU	Member of the Board of Directors
2010 – present	Malachite Recreation Facility	Member of the Board of Directors
2011 – present	ZAO Svyazist	Member of the Board of Directors
2011 – present	OJSC OK Orbita	Member of the Board of Directors
2011 – present	OJSC Rostelecom	Executive Director, Director for Organizational Development and Human Resources Management

As on December 31, 2012, Ms. Rysakova owned no interest in the charter capital of the Company. In 2012, Ms. Rysakova made no transactions with the Company's securities.

Olga Rumyantseva, Member of the Management Board since August 01, 2012

Ms. Rumyantseva was born in 1973. In 1996 she graduated from Moscow State Technological University "Stankin" where she specialized in automated design systems.

The table below provides the list of offices Ms. Rumyantseva held over the past 5 years and her current position(s):

Period	Organization	Position
2006 – 2008	OJSC Rostelecom	Director of the Sales and Customer Service Department
2008 – 2009	OJSC Rostelecom	Director of the Mass Segment and Inter-regional Companies Business Department
2010 – 2011	OJSC Rostelecom	Director of the Corporate Sales Department
2011 – present	OJSC Rostelecom	Executive Director – Corporate Sales Director
2011 – present	ZAO Severen Telecom	Member of the Board of Directors, Chairperson of the Board of Directors
2011 – present	ZAO MTs NTT	Member of the Board of Directors

2012 – present	OJSC RTComm.RU	Member of the Board of Directors
2012 – present	ZAO GLOBUS-TELECOM	Member of the Board of Directors
2012 – present	OJSC RTS	Member of the Board of Directors

As on December 31, 2012, Ms. Rumyantseva owned no interest in the charter capital of the Company. In 2012, Ms. Rumyantseva made no transactions with the Company's securities.

Viktor Strelkov, Member of the Management Board until and inclusive of February 18, 2013

Mr. Strelkov was born in 1968 in Moscow. In 1991 he graduated from Moscow Institute of Aerospace Technology specializing in applied mathematics.

The table below provides the list of offices Mr. Strelkov held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – 2007	LLC INTELOTECH GROUP	General Director
2007 – 2009	ZAO SITRONICS Telecom Solutions	Head of the Marketing Department
2009 – 2009	OJSC SITRONICS	Chief Architect
2009 – 2010	OJSC Rostelecom	Advisor to General Director
2009 – 2013	OJSC Rostelecom	Director of the Information Technologies Department, Executive Director - IT Director, Member of the Management Board
2010 – present	ZAO ZEBRA TELECOM	Member of the Board of Directors
2011 – present	OJSC Svyazintek	Member of the Board of Directors
2011 – present	OJSC AK Mobiltelecom	Member of the Board of Directors
2010 – present	OJSC RINET	Member of the Board of Directors

As on December 31, 2012, Mr. Strelkov owned no interest in the charter capital of the Company. In 2012, Mr. Strelkov made no transactions with the Company's securities.

Oleg Senkov, Member of the Management Board since August 01, 2012

Mr. Senkov was born in 1978. He graduated from the Russian Government's Finance Academy Federation with a degree in Global Economy. Ph.D. in Economics.

The table below provides the list of offices Mr. Senkov held in the recent 5 years and his current position(s):

Period	Organization	Position
2008 - 2008	LLC Aria Capital	Deputy General Director
2009 – 2010	LLC Advance Capital	Deputy General Director
2010 – 2011	OJSC Svyazinvest	Executive Director – Director of Mergers and Acquisitions Department
2011 – present	OJSC Bashinformsvyaz	Member of the Board of Directors
2011 – present	OJSC NTK	Member of the Board of Directors
2012 – present	OJSC Rostelecom	Executive Director - Director of Mergers and Acquisitions Department
2012 – present	OJSC Rostelecom	Member of the Management Board
2012 – present	ZAO Sky Link	Member of the Board of Directors
2012 – present	ZAO Baikalwestcom	Member of the Board of Directors
2012 – present	ZAO Eniseitelecom	Member of the Board of Directors
2012 – present	ZAO BIT	Member of the Board of Directors
2012 – present	ZAO NSS	Member of the Board of Directors
2012 – present	ZAO Volgograd-GSM	Member of the Board of Directors
2012 – present	ZAO AKOS	Member of the Board of Directors

As on December 31, 2012, Mr. Senkov owned no interest in the charter capital of the Company. In 2012, Mr. Senkov made no transactions with the Company's securities.

Roman Frolov

Mr. Frolov was born in 1976. In 1997, he graduated from Plekhanov Russian Academy of Economics, where he specialized in Finance and Credit, and in 2000 he completed a Post-Graduate Program at this Academy.

The table below provides the list of offices Mr. Frolov held over the past 5 years and his current position(s):

Period	Organization	Position
2006 – present	OJSC Rostelecom	Chief Accountant, Member of the Management Board

As on December 31, 2012, Mr. Frolov owned no interest in the charter capital of the Company. In 2012, Mr. Frolov made no transactions with the Company's securities.

Anton Khozyainov

Mr. Khozyainov was born in 1974. In 1997 he graduated from Moscow Institute of Electronics and Mathematics specializing in Applied Mathematics.

The table below provides the list of offices Mr. Khozyainov held over the past 5 years and his current position(s):

Period	Organization	Position
2005 – 2008	LLC Marshall Capital Partners	Financial Director
2009 – 2009	ZAO MTs NTT	Adviser to General Director
2009 – 2010	OJSC Rostelecom	Deputy General Director – Financial Director
2009 – 2010	ZAO Zebra Telecom	Member of the Board of Directors
2009 – 2011	OJSC MMTS-9	Member of the Board of Directors
2009 – present	OJSC RTcomm.RU	Member of the Board of Directors
2009 – present	ZAO GLOBUS-TELECOM	Member of the Board of Directors
2009 – present	OJSC Rostelecom	Member of the Management Board
2009 – 2011	ZAO GlobalTel	Member of the Board of Directors
2009 – present	ZAO MTs NTT	Member of the Board of Directors
2010 – present	OJSC Rostelecom	Vice President for Economy and Finance, Senior Vice President
2010 – 2012	Malachite Recreation Facility Subsidiary	Member of the Board of Directors
2011 – 2011	OJSC NTK	Member of the Board of Directors
2011 – present	ZAO Severen-Telecom	Member of the Board of Directors
2011 – present	ZAO AKOS	Member of the Board of Directors
2011 – present	ZAO NSS	Member of the Board of Directors
2011 – present	ZAO Baikalwestcom	Member of the Board of Directors
2011 – present	ZAO Eniseitelecom	Member of the Board of Directors
2011 – present	ZAO Volgograd-GSM	Member of the Board of Directors
2011 – 2012	ZAO Orenburg-GSM	Member of the Board of Directors
2011 – present	OJSC RTS	Member of the Board of Directors
2011 – 2011	ZAO Delta Telecom	Member of the Board of Directors
2011 – 2011	ZAO MSS	Member of the Board of Directors
2012 – present	LLC Rostelecom - Retail Systems	Member of the Board of Directors

As on December 31, 2012, Mr. Khozyainov owned no interest in the charter capital of the Company. In 2011, Mr. Khozyainov made no transactions with the Company's securities.

No members of the Management Board of the Company have faced administrative charges for offences in

the spheres of finance, taxes and levies, securities market, or criminal charges (no member of the Management Board of the Company has any previous conviction record) for crimes in the sphere of economics or for crimes against the state authority, and among the members of the Company's Management Board there are no persons who held any positions in managing bodies of profit-making entities over the period when bankruptcy proceedings were initiated against, and/or any bankruptcy procedures were applied in respect of such entities pursuant to the Russian laws and regulations.

AUDIT COMMISSION

Svetlana Bocharova

Ms. Bocharova was born in 1970. She graduated from Lomonosov Moscow State University with qualification of a lawyer. She holds a Ph.D. degree in Law.

The table below provides the list of offices Ms. Bocharova held over the past 5 years and her current position(s):

Period	Organization	Position
2003 – present	OJSC Svyazinvest	Deputy Chief Accountant (since late 2011). Head of Tax Division, Department of Financial, Tax and Statistics Accounting
2006 – 2008	OJSC Uralsvyazinform	Chairperson of the Audit Commission
2006 – 2008	OJSC Dalsvyaz	Member of the Audit Commission
2007 - 2008	OJSC NSS	Chairperson of the Audit Commission
2007 – 2009	OJSC North-West Telecom	Chairperson of the Audit Commission
2008 – 2011	OJSC VolgaTelecom	Member of the Audit Commission
2008 – present	OJSC Rostelecom	Member of the Audit Commission
2009 – 2010	OJSC North-West Telecom	Member of the Audit Commission
2010 – 2011	OJSC North-West Telecom	Chairperson of the Audit Commission
2011 – 2011	ZAO Severen-Telecom	Member of the Audit Commission
2011 – present	OJSC Central Telegraph	Member of the Audit Commission
2011 – present	ZAO Delta Telecom	Member of the Audit Commission
2012 – present	OJSC GIPROSVYAZ	Member of the Audit Commission

As on December 31, 2012, Ms. Bocharova owned no interest in the charter capital of the Company. In 2012, Ms. Bocharova made no transactions with the Company's securities.

Valentina Veremyanina

Ms. V. Veremyanina was born in 1966. In 1988 she graduated from Voronezh State University specializing in law.

The table below provides the list of offices Ms. V. Veremyanina held over the recent 5 years and her current position(s):

Period	Organization	Position
2006 – present	OJSC Svyazinvest	Executive Director – Head of the Department of Corporate Management and Legal Support, Head of the Department of Corporate Management and Legal Support, Deputy Head of the Department of Corporate Management and Legal Support
2010 – present	OJSC Svyazinvest	Member of the Management Board
2008 – 2011	OJSC Uralsvyazinform	Member of the Audit Commission
2007 – 2010	OJSC Dalsvyaz	Member of the Audit Commission
2011 – present	OJSC GIPROSVYAZ	Member of the Board of Directors
2011 – present	OJSC Central Telegraph	Member of the Board of Directors
2011 – present	ZAO Sky Link	Member of the Board of Directors
2005 – 2007	OJSC Southern Telecommunication Company	Member of the Board of Directors
2008 – 2011	OJSC Southern Telecommunication Company	Member of the Board of Directors
2010 – 2011	OJSC North-West Telecom	Member of the Board of Directors

2009 – 2011	ZAO NSS	Member of the Board of Directors
2009 – 2011	ZAO Eniseitelecom	Member of the Board of Directors
2011 – present	OJSC Rostelecom	Member of the Audit Commission
2011 – present	OJSC ORK	Member of the Board of Directors
2011 – 2011	ZAO MTs NTT	Member of the Board of Directors
2011 – 2011	OJSC OK Orbita	Member of the Board of Directors
2011 – 2011	ZAO RPK Svyazist	Member of the Board of Directors
2012 – present	OJSC Chukotkasvyazinform	Chairman of the Board of Directors
2011 – 2013	NP RID	Member of the Partnership Board

As on December 31, 2012 Ms. Veremyanina owned no interest in the charter capital of the Company. In 2012 Ms. Veremyanina made no transactions with the Company's securities.

Bogdan Golubitsky

Mr. B. Golubitsky was born in 1979. In 2000 he graduated from Moscow Technical University of Communications and Informatics specializing in economics and management of telecommunications companies with a qualification of an economist-manager.

The table below provides the list of offices Mr. Golubitsky held over the past 5 years and his current position(s):

Period	Organization	Position
2000 – present	OJSC Svyazinvest	Executive Director, Director of the Department of Economics and Finance (since late 2011), Executive Director - Director of the Department of Economic Planning and Budgeting, Director of the Department of Economic Planning and Budgeting (before 2008 – First Grade Specialist, Senior Specialist, Chief Specialist, Head of Division, Deputy Department Director)
2005 – 2008	OJSC Uralsvyazinform	Member of the Audit Commission
2007 – 2009	OJSC Central Telegraph	Member of the Board of Directors
2008 – 2009	OJSC Dalsvyaz	Member of the Board of Directors
2008 – 2009	OJSC Southern Telecommunication Company	Head of the Audit Commission
2009 – 2009	OJSC Dalsvyaz	Chairman of the Board of Directors
2009 – 2011	OJSC RTComm.RU	Member of the Board of Directors
2009 – 2011	OJSC SibirTelecom	Member of the Board of Directors
2009 – present	OJSC Rostelecom	Member of the Audit Commission
2010 – 2012	ZAO Sky Link	Member of the Board of Directors
2010 – 2012	CJSC Urals Telephone Company	Member of the Board of Directors
2010 – present	OJSC Svyazinvest	Member of the Management Board
2011 – present	OJSC Giprosvyaz	Member of the Board of Directors
2011 – 2012	ZAO ZEBRA TELECOM	Member of the Board of Directors
2011 – 2012	ZAO Parma-Inform	
2011 – 2011	ZAO BIT	Member of the Board of Directors
2011 – 2012	Non-Commercial Partnership "Russian Telecom Club"	Member of the Management Board
2011 – 2012	Russian Telecommunications History Foundation	Member of the Management Board
2011 – present	Not-for-Profit Partnership Telecomcenter	Chairman of the Partnership Board
2012 – present	OJSC Central Telegraph	Member of the Board of Directors

As on December 31, 2011 Mr. Golubitsky owned a 0.0033% interest in the charter capital and 0.0022% of the ordinary shares of the Company. In 2012 Mr. Golubitsky made no transactions with the Company's

securities.

Olga Koroleva, Chairperson of the Audit Commission

Ms. O. Koroleva was born in 1950. In 1972 she graduated from Tomsk State University where she specialized in economy. She holds a Ph.D. in Economics. In 1985 she completed a post-graduate course at All-Union Extramural Financial and Economic Institute.

The table below provides the list of offices Ms. Koroleva held over the past 5 years and her current position(s):

Period	Organization	Position
2005 – 2011	OJSC VolgaTelecom	Chairperson of the Audit Commission
2005 – 2011	OJSC Dalsvyaz	Chairperson of the Audit Commission
2005 – present	OJSC Svyazinvest	Chief Accountant
2006 – 2011	OJSC CenterTelecom	Chairperson of the Audit Commission
2006 – 2011	OJSC SibirTelecom	Chairperson of the Audit Commission
2006 – 2011	OJSC Uralsvyazinform	Member of the Board of Directors
2006 – present	OJSC Rostelecom	Chairperson of the Audit Commission
2007 – 2008	CJSC Eniseitelecom	Member of the Audit Commission
2007 – 2009	OJSC North-West Telecom	Member of the Board of Directors
2009 – 2009	OJSC North-West Telecom	Chairperson of the Board of Directors
2009 – 2010	OJSC North-West Telecom	Chairperson of the Audit Commission
2011 – present	OJSC GIPROSVYAZ	Member of the Board of Directors
2011 – present	OJSC Central Telegraph	Chairperson of the Audit Commission

As on December 31, 2012 Ms. Koroleva had a 0.00019% interest in the charter capital and 0.00020% of the ordinary shares of the Company. In 2012 Ms. O. Koroleva made no transactions with the Company's securities.

Vyacheslav Ulupov

Mr. V. Ulupov was born in 1952. In 1979 he graduated from Lomonosov Moscow State University with a degree in Economics.

The table below provides the list of offices Mr. Ulupov held over the past 5 years and his current position(s):

Period	Organization	Position
2007 – present	State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"	Internal Control Director, Vnesheconombank
2010 – present	OJSC Rostelecom	Member of the Audit Commission

As on December 31, 2012 Mr. Ulupov owned no interest in the charter capital of the Company. In 2012 Mr. Ulupov made no transactions with the Company's securities.