

RISK MANAGEMENT

Risk factors

An investment in our shares and DRs involves risks, including:

Risks Relating to Our Business

- We face increasing competition in all segments of the Russian telecommunications market, which may adversely affect our ability to retain or increase our current subscriber base and could result in reduced operating margins and a loss of market share, as well as different pricing, service or marketing policies.
- We may not be able to successfully develop and/or deploy fourth generation (“4G”) wireless services in Russia, which could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Changes in the regulation of Russian telecommunication markets may materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If the demand for certain telecommunications services that we offer or are developing and promoting does not increase, our ability to achieve further revenue growth from these services will be limited.
- Significant delays in the collection of receivables and the inability to collect payments for various telecommunications services provided to our customers may result in losses and could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Continuing rapid changes in technologies could increase competition and/or require us to make substantial investments which may be ineffective.
- Our inability to obtain equipment, software and other network components and related services in a timely manner and at market prices could have a material adverse effect on our business, financial condition and results of operations.
- We depend on the reliability of our networks, and a system failure or breach of our security measures could result in a loss of subscribers and could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- If the calculation of our tax liability and certain initiatives we have used to reduce our tax burden are successfully challenged by Russian tax authorities, we will face significant losses associated with the assessed amount of unpaid tax and related interest and

penalties, which may have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.

- Our existing arrangements with trade unions may not be renewable on terms favourable to us, and our operations could be materially adversely affected by strikes and lockouts.
- Insurance coverage under our insurance agreements may be insufficient to compensate us for losses incurred.
- If our transactions and/or the transactions of members of our Group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, our business, financial condition, results of operations or prospects or the value of the Shares and DRs could be materially adversely affected.
- If our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions, or fail to approve interested party transactions or other matters in the future, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- A finding by the FAS that we have acted in contravention of Russian antimonopoly legislation could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- We are subject to the regulation and control of the FST and the FAS.
- We are subject to anti-corruption laws in the jurisdictions in which we operate, including anti-corruption laws of Russia, and we may be subject to the UK Bribery Act of 2010 (the "UK Bribery Act"). Our failure to comply therewith could result in penalties which could harm our reputation and have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Failure to renew our telecommunication licenses and radio frequency permits, comply with the terms thereof or receive renewed telecommunication licenses and radio frequency permits with similar terms to our existing licenses and permits could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Our intellectual property rights are costly and difficult to protect.
- If leaks of confidential information, including information relating to our subscribers, occur it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.

- A part of our fixed line infrastructure is outdated, and we may be required to make significant investments beyond those that are currently planned to modernize it.
- Social projects that we implement may put pressure on our margins.
- Alleged medical risks of cellular technology may subject us to negative publicity or litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.
- Systems failures, delays and failure to optimise our information technology systems could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- We may be forced to repay the indebtedness of our subsidiaries owed by them and we may not be able to recover the debt of our subsidiaries owed to us.
- We could be materially adversely affected if lenders accelerate our debt due to any failure to comply with loan agreements.

Risks Relating to the Reorganisation

- Both the merger of the IRCs and Dagsvyazinform into the Company and the proposed merger of Svyazinvest into the Company may be challenged by our shareholders and the former shareholders of the IRCs and Svyazinvest as well as Russian state authorities.
- We may have difficulty integrating the assets of the IRCs and Dagsvyazinform that have been acquired by us as a result of the Reorganisation.
- We may have difficulty integrating the assets of Svyazinvest that are to be acquired by us as a result of the proposed merger of Svyazinvest into the Company
- We cannot be certain that the anticipated positive synergy effects of the Reorganization will materialise or reach expected levels.
- We may face significant tax liabilities as the legal successor to the IRCs and Svyazinvest.
- A finding by the FAS that we have acted in contravention of Russian antimonopoly legislation in connection with the Reorganisation could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.

Risks Relating to our Strategy

The assumptions underlying our growth strategy may prove to be incorrect.

- We may acquire, invest in or merge with other companies to expand our operations which may pose risks to our business.

- We may have difficulty integrating the assets and companies that we have acquired and we may not realize the anticipated benefits from our acquisitions and business combinations.
- The failure of our geographic expansion strategy could hamper our continued growth and profitability and could have a material adverse effect on our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- We may not be able to secure sufficient financing to fund our acquisition strategy and capital expenditure plans.

Risks Relating to our Financial Condition

- Servicing and refinancing our indebtedness will require a significant amount of cash, and our ability to generate cash or obtain financing depends on many factors beyond our control.
- Fluctuations in the value of the rouble against the US dollar and the euro, as well as our inability to convert our revenues, could materially adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.
- Inflation could increase our costs and materially adversely affect our results of operations.

Additional Risks Relating to our Business

- Salary increases in Russia may reduce our profit margins.
- Our competitive position and future prospects depend on our senior management's experience and expertise and our ability to recruit and retain qualified personnel.
- Legal uncertainties relating to privatisation of our shares and assets may exist.
- Failure to fulfil our obligations to state authorities completely and in a timely manner in connection with a few of our significant projects could materially adversely affect our business and result in significant financial and reputation damages. In addition, any interruption in implementing these projects could materially adversely affect our financial results.
- Our beneficial controlling shareholder may have interests that conflict with the interests of our other shareholders.
- Failure to comply with the requirements of Russian customs authorities or to obtain pertinent certification for the import of telecommunications equipment could materially

adversely affect our business, financial condition, results of operations or prospects or the value of the Shares and DRs.

Risks Relating to Russia

Risks relating to our business and the telecommunications industry

- Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate our telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.
- It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered.
- The accession of Russia into the World Trade Organization (WTO) may lead to legislative and other changes which may adversely affect our business, financial condition and results of operations.

Political risks

- Political and governmental instability, including conflicts among federal, regional and local authorities and other political conflicts, could create an uncertain operating environment hindering our long-term planning ability and could have an adverse effect on our business, financial condition and results of operations.
- The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on our business, as well as investments in Russia more generally.
- Deterioration of Russia's relations with other countries could result in a significant decrease in demand for securities of Russian companies and/or adversely affect the value of investments in Russia.
- Political and social conflicts or instability could create an uncertain operating environment and adversely affect the value of investments in Russia.

Social risks

- Social instability, particularly if caused by worsening economic conditions and turmoil in the Russian financial markets, could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.
- Crime, corruption and negative publicity could create a difficult business climate in Russia and harm our business.

Economic risks

- Companies operating in emerging markets such as Russia are generally subject to greater risks than companies operating in more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on our business.
- Economic instability in Russia could have an adverse effect on our business.
- The physical infrastructure in Russia is in poor condition, which may lead to interruptions in effective financial and economic activity.
- Weaknesses in the Russian banking sector make it more susceptible to market downturns or economic slowdowns.

Legislative and legal risks

- Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business, financial condition and results of operations.
- Unlawful, selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.
- Our failure to comply with new personal data protection laws in Russia may have a material adverse effect on our business, financial condition and results of operations.
- Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of the DRs from obtaining effective redress in a court proceeding, which could have a material adverse effect on our business, financial condition and results of operations or the price of the DRs.
- Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.
- The law relating to Russian corporate governance and control may be applied inconsistently and is difficult to enforce.
- Lack of developed corporate and securities laws and regulations in the Russian Federation may limit our ability to attract future investment.
- Shareholder rights provisions under Russian law may impose additional costs on us.
- Shareholder liability under Russian corporate law could cause us to become liable for the obligations of our subsidiaries.
- Russian currency regulation has been liberalised and may remain subject to change.
- Russian legislation may not adequately protect against expropriation and nationalisation.

- Russia's unpredictable acknowledgement and enforcement of foreign court judgements or arbitral awards give rise to significant uncertainties.
- The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Shares, including the Shares underlying the relevant DRs.

Risks Relating to the DRs and the Trading Market

- DR holders may have limited recourse against us, our Directors and our senior managers.
- We may decide not to pay dividends in the future, and our ability to pay dividends will depend upon the level of our net profit under RAS and IFRS and other factors.
- New Russian legislation will require the disclosure of beneficial ownership of the DRs, and a failure to provide such disclosure may restrict your ability to vote and/or receive dividends.
- Non-Russian resident DR holders may not be able to benefit from double tax treaties in relation to Russian withholding taxes on dividends paid via the Depositary.
- Resident holders of the DRs may be subject to increased effective rates of tax on dividends due to the lack of clarity in the Russian tax law with respect to beneficial ownership.
- Capital gains from the sale of the DRs may be subject to Russian income tax.
- Because the Depositary may be considered the beneficial holder of the Shares underlying the DRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.
- Voting rights with respect to the Shares represented by DRs are limited by the terms of the Deposit Agreements for the DRs and relevant requirements of Russian law.
- Sales of Shares or DRs following the Admission may result in a decline in the price of the DRs.
- We are not subject to the same takeover protection as a company incorporated in the United Kingdom.
- Holders of our DRs may not be able to exercise their pre-emptive rights in relation to future issues of Shares.
- The Shares may be de-listed from MICEX-RTS, the FSFM permission for the DR programmes may be revoked and the DR facilities may have to be terminated.

Risks Relating To Taxation

- Our business has a significant exposure to taxation in Russia.
- We are subject to tax audits by Russian tax authorities which may result in additional liabilities.

- We may be deemed to receive unjustified tax benefits.
- We may encounter difficulties in recovery of VAT paid to vendors or at customs.
- The Russian transfer pricing rules are vaguely drafted and are subject to varying interpretations by Russian tax authorities and courts.

Risk management system

In order to manage potential risks, the Company has introduced and developed a risk-based approach to conducting business. This ensures that the management of Rostelecom takes the most effective decisions when circumstances are uncertain, and also is able to form an opinion on business opportunities for the Company.

Each year, the Board of Directors approves a Risk Management Programme. Rostelecom regularly updates its risk profiles and develops and monitors its action plans in order to reduce the occurrence of risk to an acceptable level. The Company always assesses risks associated with the development of operational business solutions and their implementation.

This may be done during discussions at meetings of the Board of Directors, the BoD's Audit Committee, the Management Board and during working group meetings.