

The Reorganization of Telecommunication Companies in the Russia's Northwest Federal District



Открытое Акционерное Общество
ЭЛЕКТРОСВЯЗЬ
Калининградской Области



ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
АРТЕЛЕКОМ



открытое акционерное общество
ЭЛЕКТРОСВЯЗЬ
Республики Карелия



НОВГОРОД
ТЕЛЕКОМ



ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
ЭЛЕКТРОСВЯЗЬ
ПСКОВСКОЙ ОБЛАСТИ



Открытое акционерное общество
ЭЛЕКТРОСВЯЗЬ
Волгодонской области



ЭЛЕКТРОСВЯЗЬ

PROJECT PRESENTATION

**Moscow, Marriott Royal Hotel (Aurora)
November 5, 2001**

- SECTION 1. INTRODUCTION
- SECTION 2. REORGANIZING COMPANIES AND THE MERGED COMPANY
- SECTION 3. LEGAL ASPECTS OF THE MERGER
- SECTION 4. MILESTONES AND TIMELINE
- SECTION 5. SHARE SWAP RATIOS
- SECTION 6. CORPORATE REORGANIZATION

SPEAKERS: **PTN**
Renaissance Capital

SECTION 1 INTRODUCTION

- REORGANIZATION OF TELECOMMUNICATION COMPANIES IN THE RUSSIA'S NORTHWEST FEDERAL DISTRICT
- GOALS OF THE MERGER
- MERGER BENEFITS FOR THE COMPANY'S BUSINESS
- MERGER BENEFITS FOR THE SHAREHOLDERS
- INVESTMENT ATTRACTIVENESS OF THE SHARES:
LIKELIHOOD AND POTENTIALITY OF THE MERGED COMPANY

PTN

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REORGANIZATION OF TELECOMMUNICATION COMPANIES IN THE RUSSIA'S NORTHWEST FEDERAL DISTRICT

- OAO Svyazinvest and other principal shareholders, who are investors in Russian telecommunication companies, initiated the reorganization. They are interested in increasing the value and improving the liquidity of their investments, which the reorganization has the potential to provide.
- The company's management realize that the reorganization could facilitate development of communication services in the region, and do not foresee any negative consequences.
- In addition to satisfying the strategic interests of shareholders in the companies, the reorganization is intended to create a number of significant financial, economic and technological advantages for the activity of the merged company.
- As a result of the reorganization, rather than having nine operators differentiated on the basis of geography, a unified operator will be established to provide a wide range of telecommunication services, ranging from traditional services (including local telephony, ILD and DLD, telegraph and telex services) to more modern services (data transfer, Internet access, Internet-telephony).
- The reorganization will produce a cross-regional combined operator that covers approximately 3 million subscribers in an area of 12.9 million people, which means it will be one of the major carriers in Russia, and – given the range of provided services – the largest universal operator in the North-Western super-region. No existing operators in the region will compare with the combined carrier in terms of business scale.

REORGANIZATION OF TELECOMMUNICATION COMPANIES IN THE RUSSIA'S NORTHWEST FEDERAL DISTRICT (CONTINUED)

- The boards of directors of reorganizing Companies at their meetings decided to submit the reorganization terms to shareholders for approval at the forthcoming EGMs of the Companies. The EGMs will be held for the period from 19 November, 2001 through 28 November, 2001.
- The merger will be effected by converting the common and preferred shares of each acquiring Company into the newly issued common and preferred shares of PTN.
- Share swap ratios are submitted by the boards of directors to shareholders of the acquiring Companies and PTN for approval have been approved by the boards of directors on the basis of recommendations proposed by financial advisor ZAO Renaissance Capital.
- If shareholders and the Ministry for Anti-Monopoly Policy approve the reorganization, the Companies expect to complete the merger by the fourth quarter 2002.
- The Company's boards of directors believe the reorganization will be advantageous for the Company's shareholders, and therefore recommend that their respective shareholders approve the reorganization at the forthcoming extraordinary shareholders' meetings.

GOALS OF THE MERGER

- The main goal of the reorganization is to increase the equity value of the reorganizing Companies by harnessing synergies to enhance:



Operating performance



Competitive position



Development opportunities



Investment attractiveness

MERGER BENEFITS FOR THE COMPANY'S BUSINESS

- The reorganization of the Companies is aimed at optimizing financial, administrative and technological resources, increasing competitiveness and facilitating further expansion of a range of communication services.
- Operating goals/benefits of reorganization:
 - Optimize service providing technology;
 - Introduce united standards for servicing subscribers;
 - Create conditions for creating a singular, unified technological and contractual policy.
- Administrative goals/benefits of reorganization:
 - Strengthen ability to implement strategic plan;
 - Improve co-operation with important clients, vendor suppliers, OAO Rostelecom and state bodies;
 - Concentrate resources in priority fields;
 - Professionals' potential for the merged Company management team.

MERGER BENEFITS FOR THE COMPANY'S BUSINESS (CONTINUED)

- Financial and economic goals/benefits of reorganization:
 - Reduce operational and general economic expenditures;
 - Increase ability to service existing debt; and
 - Increase feasibility of attracting capital at reasonable and accessible prices, including the use of new financial instruments such as corporate bonds, which are currently unavailable for the majority of Companies.
- Competitive goals/benefits of reorganization:
 - Receive significant opportunity to influence the development of the communication market in the region due to dominating position; and
 - Increase ability to strengthen competitive position prior to expected liberalization of the telecommunication market.

MERGER BENEFITS FOR THE SHAREHOLDERS

In the short-term prospect:

Improve liquidity - shareholders in the acquired Companies will receive shares in the merged Company, and therefore will get higher opportunity for selling shares at the stock market.

In the long-term prospect:

The advantage of owning shares in the merged Company which will develop more rapidly and efficiently go forward, and thereby an opportunity to realize higher share price and dividends.

INVESTMENT ATTRACTIVENESS OF THE SHARES: LIKELIHOOD AND POTENTIALITY OF THE MERGED COMPANY

- Increasing level of transparency of corporate policy in the merged Company.
- PTN obtained a corporate management rating at Standard&Poor's.
- The merged Company financial reporting according to International Accounting Standards.
- PTN's Level 1 ADR Program already exists.
- Obtaining of Standard&Poor's credit rating.
- Entering the international capital markets via an initial public offering of its shares in the form of a Level 3 ADR or Global Depository Receipts.

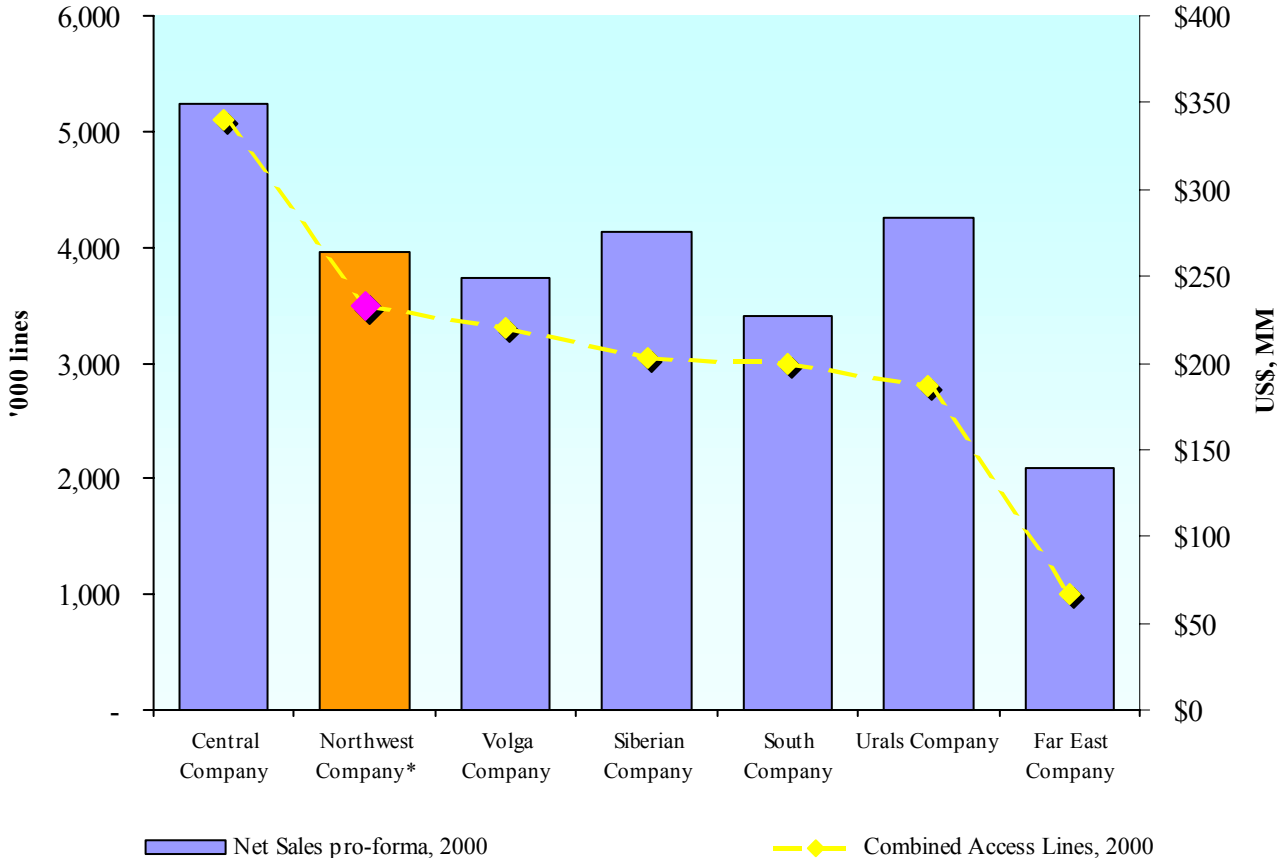
REORGANIZING COMPANIES AND THE MERGED COMPANY

- NORTHWEST MERGED COMPANY AMONG OTHER RUSSIA'S CROSS-REGIONAL INCUMBENT TELECOM OPERATORS
- REORGANIZING COMPANIES: ACCESS LINES AND FINANCIAL RESULTS
- PRO-FORMA OF KEY INDICATORS OF THE MERGED COMPANY: BASIS FOR FURTHER GROWTH

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NORTHWEST MERGED COMPANY AMONG OTHER RUSSIA'S CROSS-REGIONAL INCUMBENT TELECOM OPERATORS

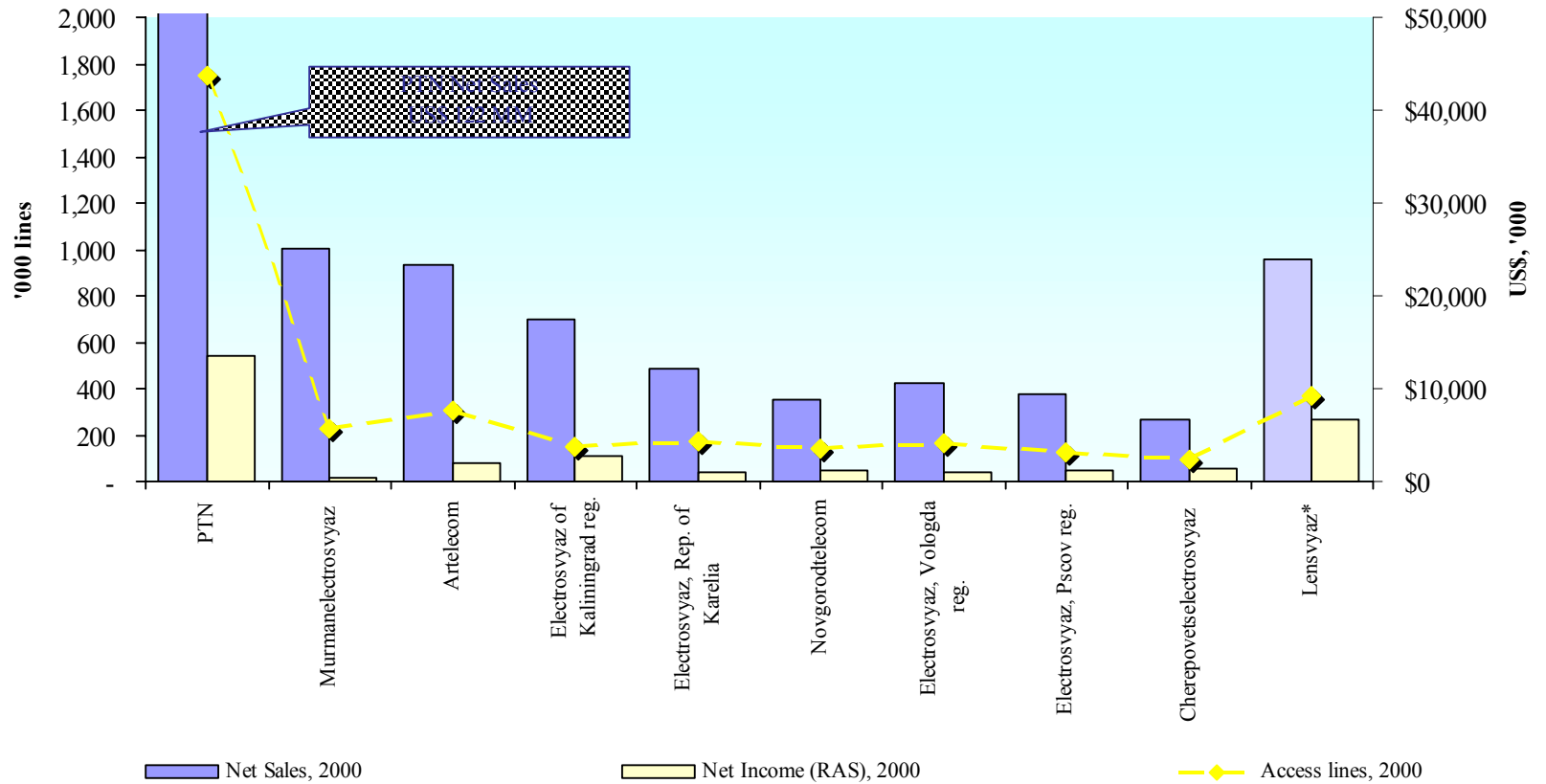
- In terms of number of access lines the Northwest merged Company will take a second position among Russia's seven cross-regional incumbent telecom operators.



Source: OAO Svyazinvest data; for the Northwest merged Company - data of reorganizing Companies.
 Note: Data for the Northwest merged Company include OAO Lensvyaz.

REORGANIZING COMPANIES: ACCESS LINES AND FINANCIAL RESULTS

- PTN, the acquiring company, is the second-biggest incumbent telecom operator in Russia in terms of subscribers providing a full range of basic telecommunication services.



Source: reorganizing Company's data.

Note: OAO Lensvyaz will not be merged into PTN at this stage of reorganization.

PRO-FORMA OF KEY INDICATORS OF THE MERGED COMPANY: BASIS FOR FURTHER GROWTH

- A number of key indicators of the merged Company are in line with average characteristics of reorganizing Companies, while some indicators outperform this average level.

Item	1999	2000	Change (%)
Subscriber base, '000	2,959	3,131	5.8%
Share urban, %	93.2%	93.0%	-0.2%
Digitalization ratio, %	27.4%	29.5%	7.6%
Number of employees	32,981	31,753	-3.7%
Net revenue, RUR mln.	5,154	6,630	28.6%
Net incom according to RSA, RUR mln.	354	687	94.4%
Total assets, RUR mln.	10,218	12,963	26.9%
Short-term liabilities, RUR mln.	818	1,418	73.2%
Long-term liabilities, RUR mln.	2,107	1,667	-20.9%
Shareholders' equity, RUR mln.	7,292	9,879	35.5%
Hard currency debt, US\$ '000	\$85,108	\$62,733	-26.3%

2000

Item	Merged Company	Values for Reorganizing Companies		
		Max	Min	Average
Revenue per line, US\$	\$77.3	\$122.3	\$63.9	\$81.8
Digitalization ratio	29.5%	58.7%	18.0%	31.0%
Lines per employee	99	185	52	77
Share urban, %	93.0%	100.0%	73.7%	86.0%
Hard currency debt per line, US\$	\$20.0	\$33.9	\$0.00	\$17.8

Source: reorganizing Company's data.

Note: without OAO Lensvyaz indicators.

SECTION 3 LEGAL ASPECTS OF THE MERGER

- ‘ACQUISITION’ (*PRISOEDINENIE*) IS THE LEGAL FORM OF THE MERGER
- SHARE SWAP IS THE TECHNICAL WAY OF THE MERGER

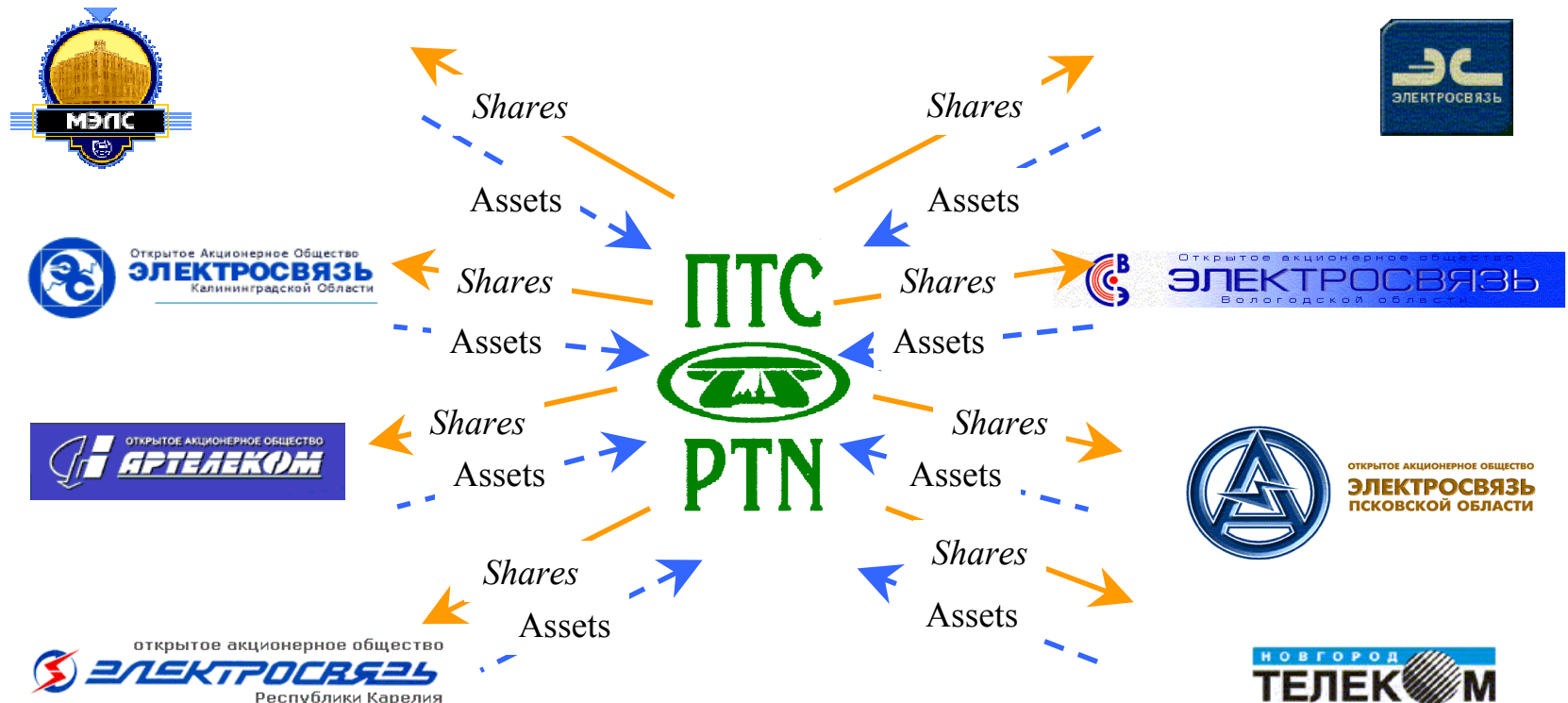
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‘ACQUISITION’ (‘PRISOEDINENIE’) IS THE LEGAL FORM OF THE MERGER

- As a preliminary stage of the project, a detailed analysis of the legal forms of merging was conducted for the purposes of reorganization. ‘*Acquisition*’ (‘*prisoedinenie*’) has been considered as the most appropriate form of legal reorganization:
 - PTN, the largest incumbent operator in the Northwest super-region, is the natural center of merging other regional operators.
 - PTN and the combined entity will continue their commercial and operating activities, while the acquired entities will no longer exist as separate legal entities. PTN will retain its incorporate status at every stage, as discontinued companies convert their shares into PTN shares.
 - ‘*Acquisition*’ allows to keep a history of PTN shares, which have been one the most liquid compared with its peers in telecom sector on the stock market in recent years.
 - In reality ‘*acquisition*’ procedures are more evolved, both legally and in terms of procedure, than those of the ‘*combination*’.
 - Difficulties with the acquisition of some Companies will not derail the process of creating the merged Company.
- PTN was chosen as the acquiring company for number of factors, such as: market position of the shares, scale and performance of its operations, superior technology, corporate structure, and and geopolitical location.

SHARE SWAP IS THE TECHNICAL WAY OF THE MERGER

- The acquisition will be effected by converting the existing shares of each acquiring Company into the newly issued shares of PTN.
- The shareholders of acquired Companies become the shareholders of PTN as the merged Company.
- The acquired Companies discontinue operation as separate businesses. PTN obtains the assets and liabilities of the acquired Company. The merged Company has the same legal status as PTN.



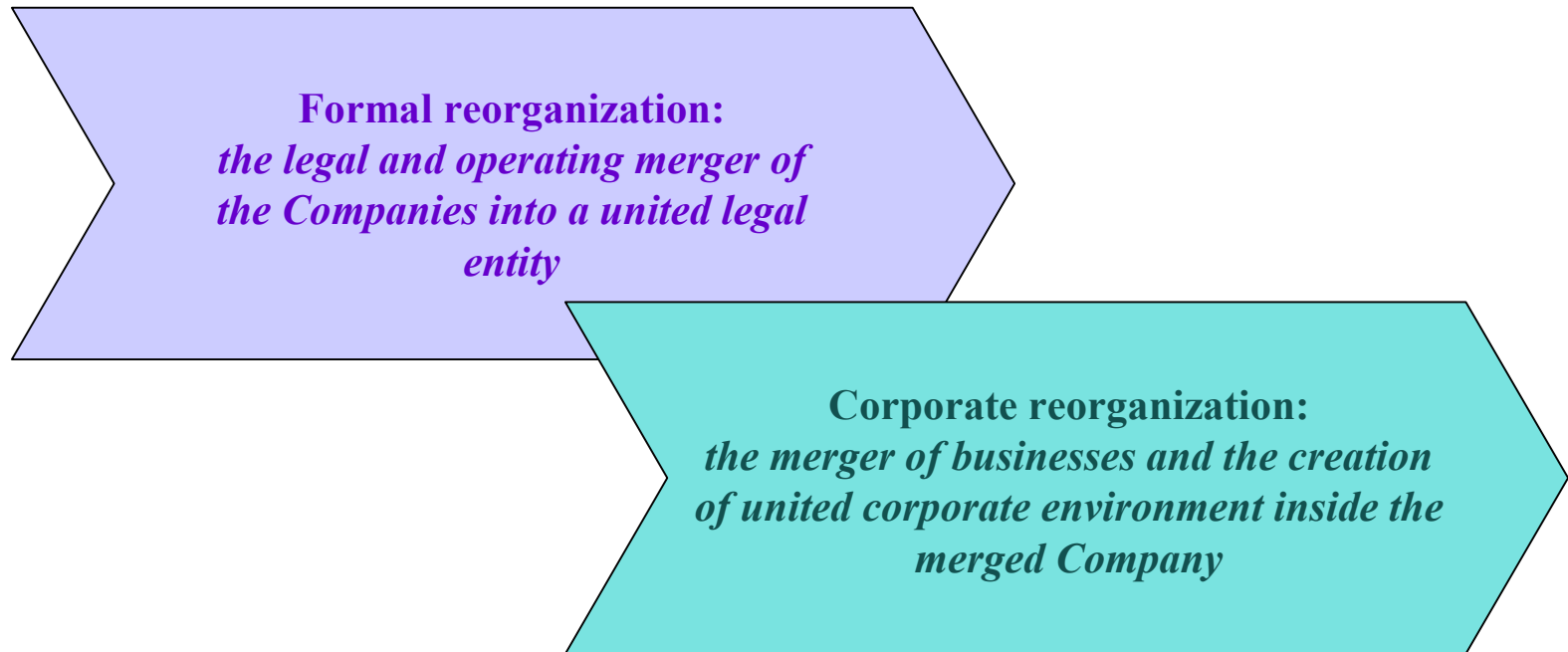
SECTION 4 MILESTONES AND TIMELINE

- REORGANIZATION: THE LEGAL MERGER AND THE MERGER OF BUSINESSES
- KEY STAGES AND PHASES OF THE MERGER

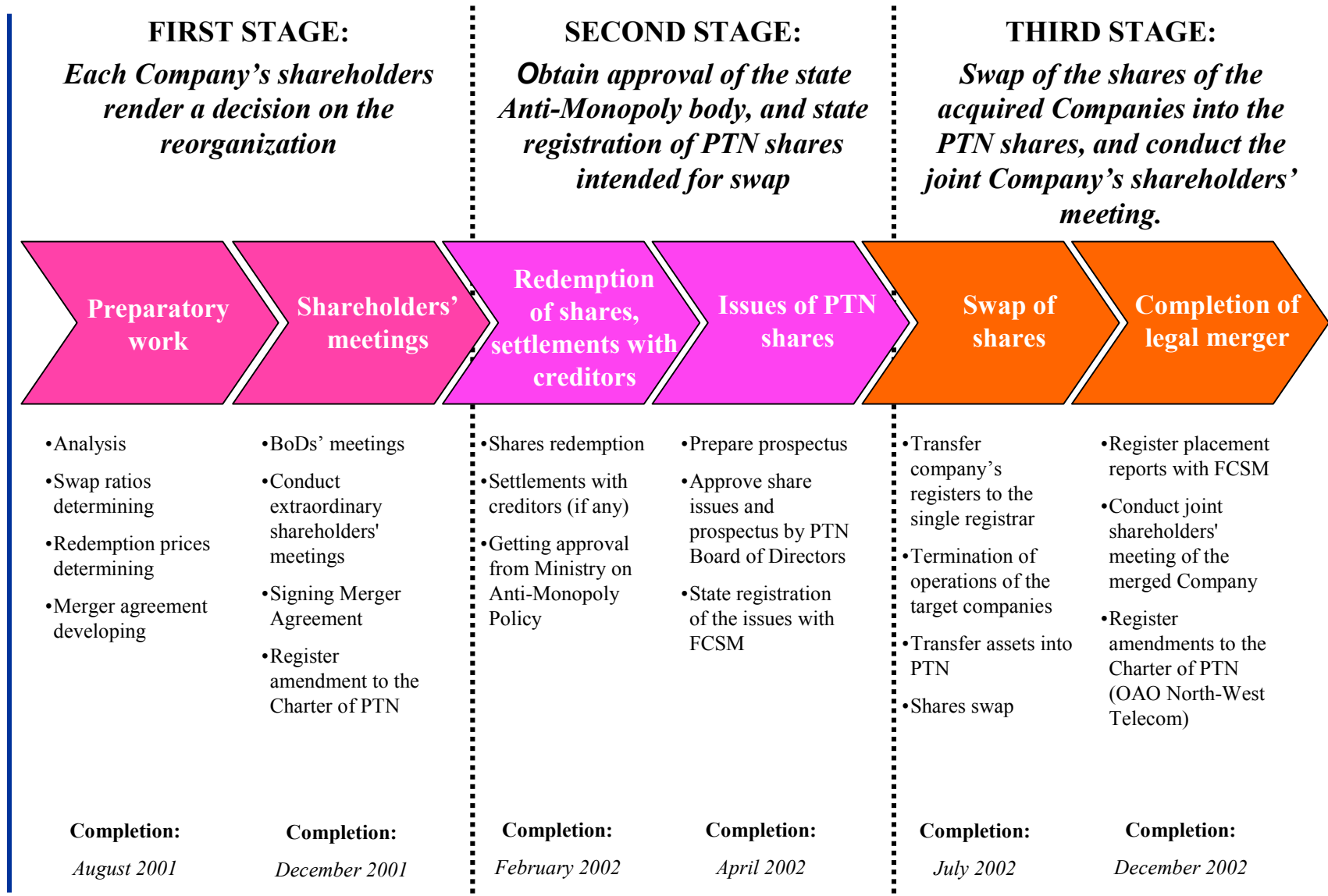
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REORGANIZATION: THE LEGAL MERGER AND THE MERGER OF BUSINESSES

- The overall process of reorganizing the telecommunication companies in the Russia's Northwest will flow in the next one and half to two years, in two basic steps:



KEY STAGES AND PHASES OF THE MERGER



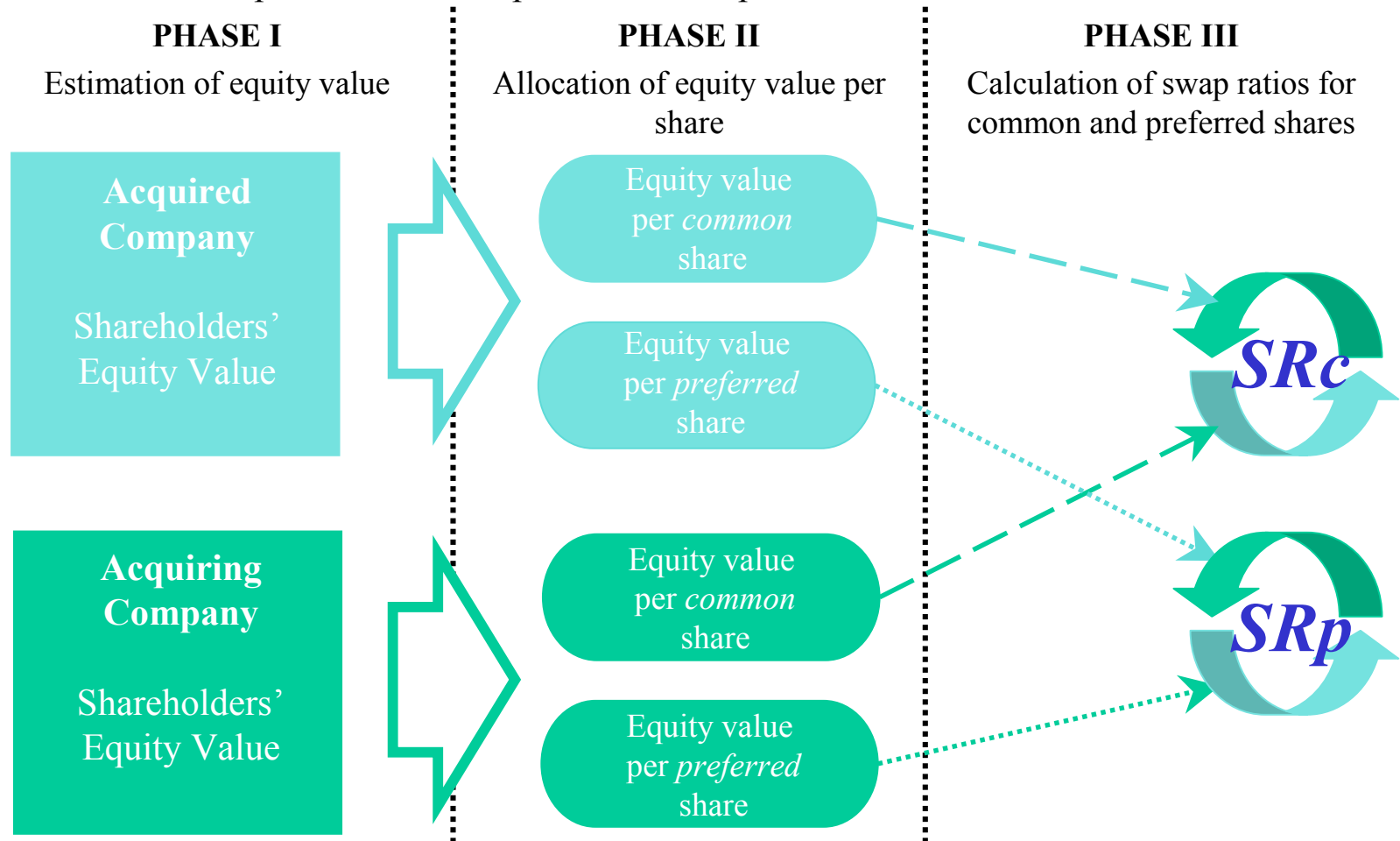
SECTION 5 SHARE SWAP RATIOS

- SWAP RATIOS CALCULATION PROCEDURE
- PROPOSED SHARE SWAP RATIOS
- STAKES OF THE COMPANY'S EXISTING SHAREHOLDERS IN THE MERGED COMPANY
- CHARTER CAPITAL STRUCTURE OF THE MERGED COMPANY

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SWAP RATIOS CALCULATION PROCEDURE

- The procedure applied to calculate share swap ratios is based on the fair values of the shares of PTN and acquired Companies.
- The calculation procedure is comprised of three phases:



SWAP RATIOS CALCULATION PROCEDURE (CONTINUED)

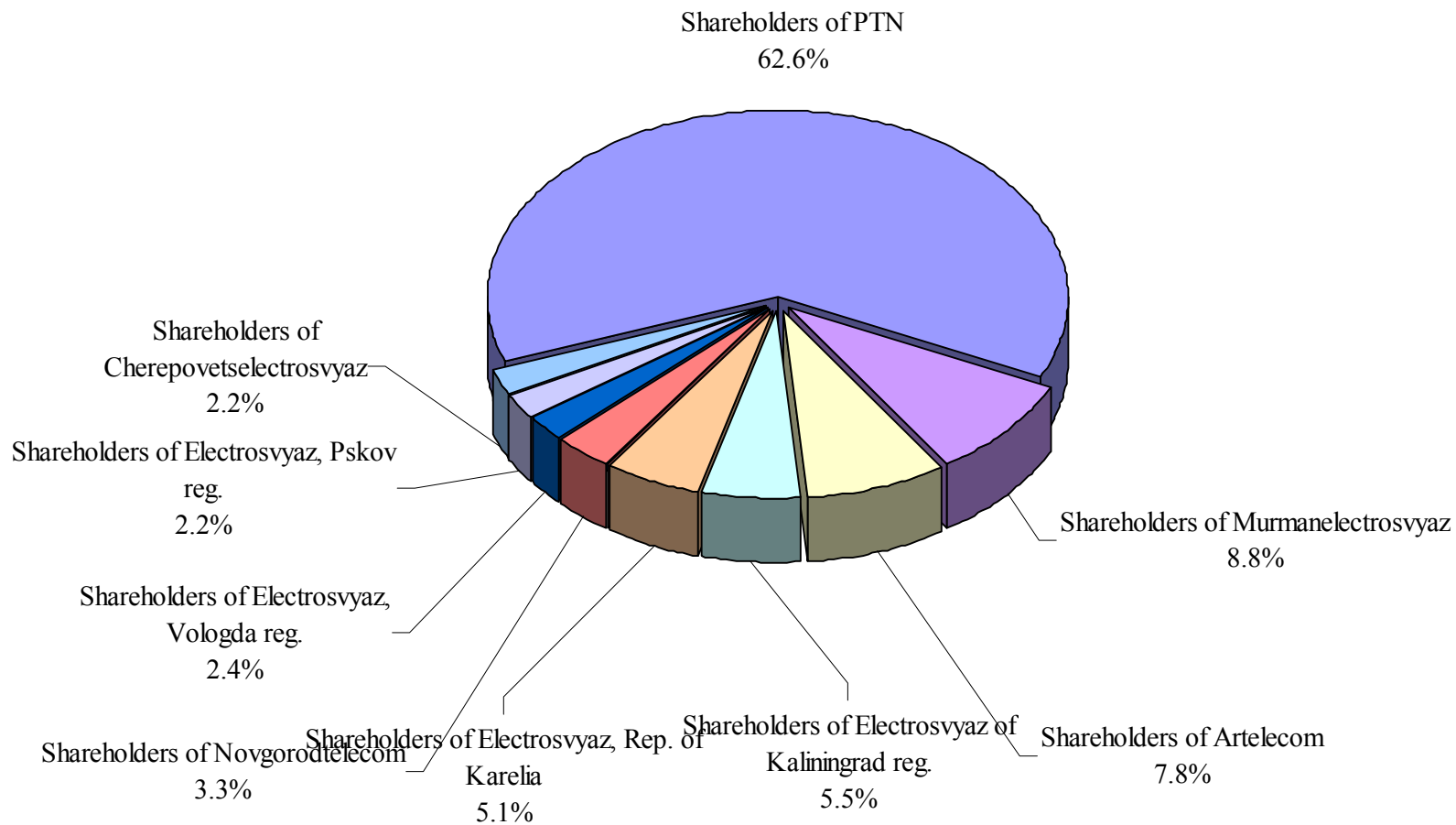
- The following four methodologies were applied to estimate the share capital value:
 - Historical quote analysis;
 - Comparable companies valuation method;
 - Discounted cash flow analysis;
 - Net asset value analysis.
- To derive the value ranges of common and preferred shares, the estimated equity value was allocated on a pro-rata basis relative to the quantity of issued shares (of each type) and applying a discount of preferred share value relative to common share value.
- Since the shares of the most reorganized Companies have low liquidity, their individual discounts of the preferred shares to the common shares implied by the market are not sufficiently reliable. As a result, the sole discount used is based on the market performance of the most liquid in 2000 shares of incumbent telecommunication companies (including OAO PTN).
- The sole discount, 67%, is assumed as an average value from the range of indicated discounts in the group of the most liquid companies of the industry.

PROPOSED SHARE SWAP RATIOS

- The following swap ratios for the shares of the acquiring Companies into the shares of PTN are proposed for the Merger Agreements:

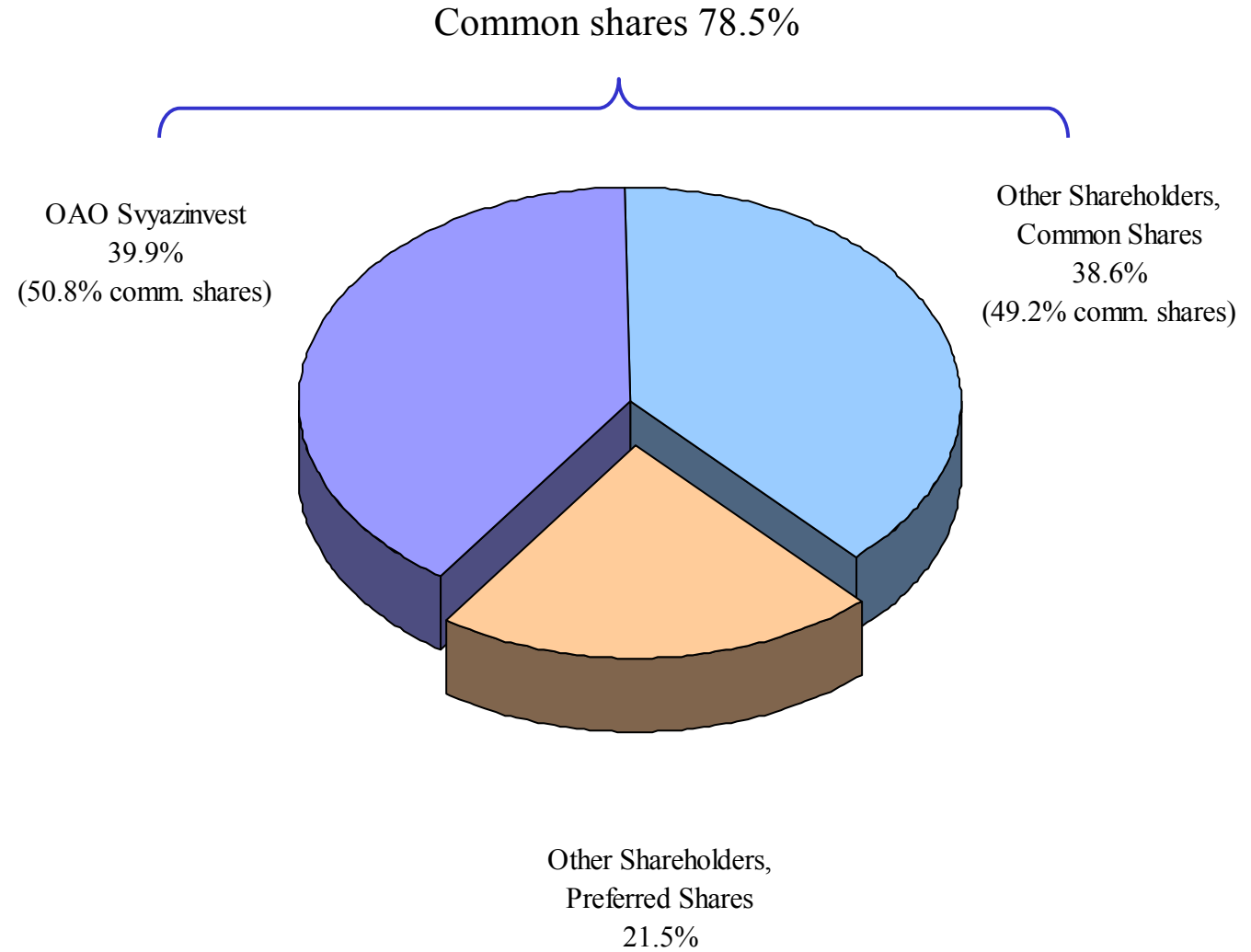
Shareholder of the acquired Company:	OAO Murmancelectrosvyaz	converts EACH of its share into	2.000	Shares of PTN
	OAO Artelecom		0.420	
	OAO Electrosvyaz of Kaliningrad region		7.110	
	OAO Electrosvyaz, Republic of Karelia		0.145	
	OAO Novgorodtelecom		229.750	
	OAO Electrosvyaz of Vologda region		2.345	
	OAO Electrosvyaz of Pskov region		1.610	
	OAO Cherepovetselectrosvyaz		53.525	

STAKES OF THE COMPANY'S EXISTING SHAREHOLDERS IN THE MERGED COMPANY



Note: At merging all Companies into PTN and absence or the very insignificant redemption of shares.

CHARTER CAPITAL STRUCTURE OF THE MERGED COMPANY



Note: At merging all Companies into PTN and absence or the very insignificant redemption of shares.

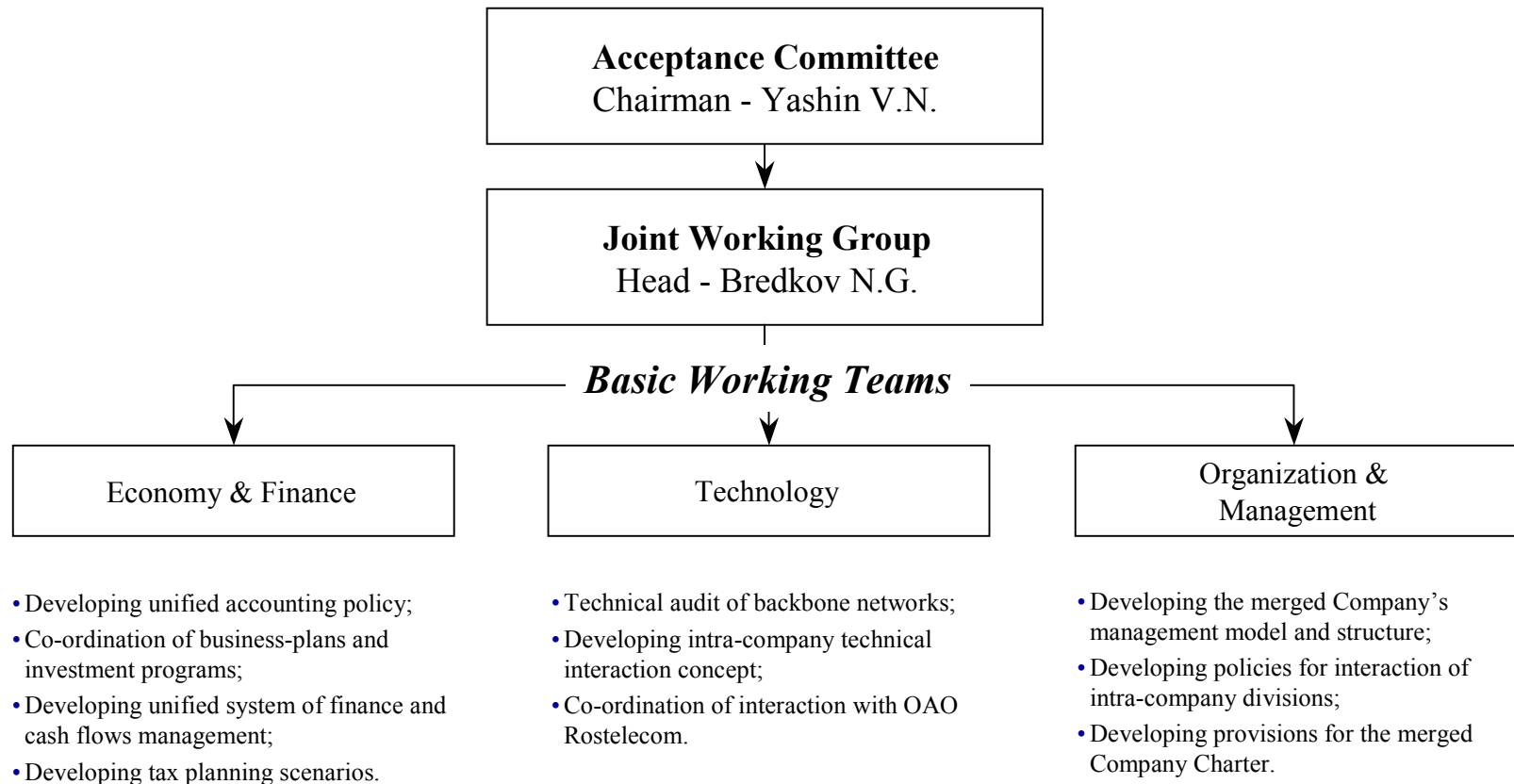
SECTION 6 CORPORATE REORGANIZATION

- MAIN GUIDELINES OF CORPORATE REORGANIZATION
- PLANNED MANAGEMENT STRUCTURE OF THE MERGED COMPANY

PTN

MAIN GUIDELINES OF CORPORATE REORGANIZATION

- As the legal merger is completed a key objective of reorganization is to integrated the company's corporate environment's into a standardized corporate environment. The respective works are already underway.



PLANNED MANAGEMENT STRUCTURE OF THE MERGED COMPANY

