
ROSTELECOM DELIVERS SOLID INCREASE IN 2005 FY IFRS RESULTS DRIVEN BY GROWTH OF NEW SERVICES AND RISE IN TRAFFIC FROM RUSSIAN AND INTERNATIONAL OPERATORS

Moscow, July 3, 2006: Rostelecom (NYSE: ROS; RTS, MICEX: RTKM, RTKMP), Russia's national long-distance telecommunications operator, today announced audited results for the full year ended December 31, 2005 in accordance with International Financial Reporting Standards (IFRS):

- Consolidated revenue for the full year 2005 increased by 9.7% to RUR 40,955.0 million;
- Domestic long-distance traffic rose 2.8% compared to 2004, international outgoing traffic grew by 14.8% while international incoming traffic increased by 17.6%¹ in 2005;
- Full year 2005 OIBDA² rose to RUR 13,862.0 million, an increase of 9.0% year on year, OIBDA margin amounted to 33.8%;
- 2005 FY net profit totaled RUR 978.0 million compared to RUR 4,266.0³ million in 2004. Excluding the loss from impairment of property, plant and equipment and goodwill, 2005 FY net profit amounted to RUR 4,755.2 million – a year-on-year increase of 11.5%.

Rostelecom's CEO Dmitry Yerokhin commented: *"In 2005 Rostelecom delivered positive operating and financial performance supported by healthy increases in revenues and traffic. Our management successfully achieved its planned objectives, enhancing competitiveness and investing in Rostelecom's network and customer offering. This has enabled the Company to strengthen its market position in traditional telecom segments and accelerate the growth in revenues from new products and services.*

Our key priority for 2006 is to ensure the Company's success in the new market environment. We will build on our competitive advantages and further enhance our capabilities for managing and growing our business in end-user subscriber segments. Our strategic objectives remain the same – to maintain and further strengthen Rostelecom's market leadership, improve operational efficiency, drive the growth of new services and enter attractive new markets."

¹ This press release contains verified domestic and international long-distance traffic data for 2005 and incoming international traffic data for 2004.

² OIBDA is a non-U.S. GAAP and non-IFRS financial measure, which the Company defines as operating income before depreciation, amortization, loss from impairment of PP&E and goodwill and loss on disposal of PP&E. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. OIBDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP or IFRS.

³ 2004 FY net profit has been restated due to retrospective application of revised IAS 39 "Financial instruments: Recognition and Measurement".

Financial highlights

RUR million	2005	2004	% change, y-o-y
Revenue	40,955	37,318	9.7%
Operating expenses	40,555	32,313	25.5%
Depreciation	7,136	7,498	-4.8%
Impairment of property, plant and equipment and goodwill	4,970	-	n.a.
Loss on disposal of property, plant and equipment	1,356	217	524.9%
OIBDA	13,862	12,720	9.0%
<i>OIBDA margin, %</i>	<i>34%</i>	<i>34%</i>	<i>n.a.</i>
Operating income	400	5,005	-92.0%
<i>Operating margin, %</i>	<i>1%</i>	<i>13%</i>	<i>n.a.</i>
<i>Operating profit excluding loss from impairment of property, plant and equipment and goodwill</i>	<i>5,370</i>	<i>5,005</i>	<i>7.3%</i>
Net profit	978	4,298	-77.2%
<i>Net margin, %</i>	<i>2%</i>	<i>12%</i>	<i>n.a.</i>
<i>Net profit excluding loss from impairment of property, plant and equipment and goodwill</i>	<i>4,755</i>	<i>4,298</i>	<i>10.6%</i>

Consolidated revenue for the full year 2005 increased by 9.7% to RUR 40,955.0 million. In 2005 Rostelecom achieved healthy traffic growth across the DLD, outgoing and incoming ILD segments, further enhancing its already solid market position. The Company's strong performance was driven by active commercial partnering with Russian and international operators and optimized, market-driven tariffs. Domestic long-distance traffic grew by 2.8% year on year, outgoing international traffic increased 14.8%, while incoming international traffic was up 17.6%. Due to rising market demand for leased line and customer equipment services alongside the active development and promotion of the Company's intelligent network services, Rostelecom delivered a 34.8% increase in revenues from value-added and new services to RUR 9,326 million compared to 2004.

The 25.5% rise in operating expenses is attributable to higher payments to operators as a result of the increases in both domestic and international long-distance traffic volumes, as well as the scheduled growth of staff costs. In addition, the Company recognized in the statement of income for the year ended 31 December 2005 a RUR 4,970.0 million loss from impairment of property, plant and equipment and goodwill. The loss from impairment of property, plant and equipment was determined based on the net present value of future cash flows related to existing property, plant and equipment. The impairment loss is mainly attributable to the regulatory reform and restructuring of the national telecommunications sector. This includes changes in settlements between operators under the new system of interaction with Russian operators and subscribers for the provision of domestic and international long-distance services, which came into effect on January 1, 2006.

2005 full year operating profit totaled RUR 400.0 million compared to RUR 5,005.0 million in 2004. Excluding the loss from impairment of property, plant and equipment and goodwill, operating profit amounted to RUR 5,370.0 million – a year-on-year increase of 7.3%.

OIBDA rose by 9.0% year on year to RUR 13,862.0 million, while the OIBDA margin held steady at 33.8%.

Consolidated net income for the full year 2005 totaled RUR 978.0 million compared to RUR 4,266.0 million in the last year. Excluding the loss from impairment of property, plant and equipment and goodwill, net income amounted to RUR 4,755.2 million – an increase of 11.5% year on year.

In 2005 Rostelecom continued to invest in modernization and expansion of its nationwide network. Full year capital expenditures increased by 79% to USD 279 million compared to 2004, and investments are projected to increase to approximately USD 350 million this year. The key objective of the Company's investment program is to expand and modernize its network to support traffic and revenue growth and reinforce Rostelecom's leading position in the Russian telecommunications market.

Rostelecom's continuous focus on business process improvement and optimization of the organizational structure resulted in a 7.0% reduction in headcount compared to 2004. As of December 31, 2005 headcount amounted to 23.6 thousand employees.

Domestic Long-Distance (DLD) Services to Russian Subscribers and Operators

Continued Growth in Traffic and Revenue from Russian Operators Supports Rostelecom's Stable Position in the Regional Market

DLD revenues for the full year 2005 amounted to RUR 18,126.0 million, a year-on-year increase of 4.8%. DLD traffic from Russian operators and subscribers grew by 2.8% to 9,347.4 million minutes.

Full year 2005 revenues from Russian operators for DLD traffic transit surged by 7.1% year on year to RUR 14,358.0 million on the back of growth in demand for DLD telecommunication services as well as changes in the DLD traffic mix. DLD traffic from Russian operators rose 4.0% to 8,072.0 million minutes.

Due to increasing competition in Moscow the DLD traffic from subscribers in this area was down 2.0% to 1,331.5 million minutes. As a result, revenue from Moscow subscribers decreased by 3.0% to RUR 3,768.0 million compared to 2004.

International Long Distance (ILD) Services to Russian Subscribers and Operators

Effective Cooperation with Alternative Operators Bolsters Outgoing International Traffic Growth

Full year 2004 ILD revenues from Russian operators and subscribers totaled RUR 9,405.0 million - a year-on-year increase of 3.8%. Outgoing ILD traffic grew by 14.8% to 1,769.3 million minutes.

Outgoing ILD traffic from Russian operators rose 21.1% to 1,493.1 million minutes in 2005, primarily due to a significant growth of traffic volume carried to Rostelecom's network by alternative operators. Full year 2005 revenues from Russian operators for ILD traffic transit amounted to RUR 6,772.0 million, an increase of 9.9% year-on-year.

Full year 2005 ILD traffic from Moscow subscribers declined by 10.3% to 276.2 million minutes year on year, while ILD revenues from Moscow subscribers were down 9.2%, totaling RUR 2,633.0 million.

Incoming ILD Traffic Transit and Termination Services to International Operators

Further Gains in International Market Share on the Back of Impressive and Sustained Traffic Growth

Active cooperation with international operators and international settlement rate revisions underpinned growth in international incoming traffic volumes. Incoming traffic from international operators rose 17.6% to 1,875.0 million minutes year on year, while Rostelecom further grew its international market share. Full year 2005 revenues from international operators for incoming ILD traffic transit and termination increased 1.4% year on year to RUR 4,098.0 million.

Revenue from Value-Added and New Services

Active Development and Promotion of New Services Generates Increase in Revenues

The Company's revenue from other business segments rose by 34.8% compared to 2004 to RUR 9,326.0 million, reflecting the growth of value-added and new services. Supported by a surge in demand, Rostelecom delivered solid increases in revenues from leased lines, intelligent network services and customer equipment servicing.

Traffic and revenue dynamics

	2005 г.	2004 г.	2005/2004, %
DLD traffic			
Traffic, mln min	9,347.4	9,094.1	2.8%
Revenue, RUR mln	18,126.0	17,297.0	4.8%
Subscribers			
Traffic, mln min	1,275.4	1,331.5	-4.2%
Revenue, RUR mln	3,768.0	3,886.0	-3.0%
Local operators			
Traffic, mln min	8,072.0	7,762.6	4.0%
Revenue, RUR mln	14,358.0	13,411.0	7.1%
Outgoing ILD traffic			
Traffic, mln min	1,769.3	1,540.7	14.8%
Revenue, RUR mln	9,405.0	9,060.0	3.8%
Subscribers			
Traffic, mln min	276.2	307.8	-10.3%
Revenue, RUR mln	2,633.0	2,900.0	-9.2%
Local operators			
Traffic, mln min	1,493.1	1,232.9	21.1%
Revenue, RUR mln	6,772.0	6,160.0	9.9%
International operators			
Traffic, mln min	1,875.0	1,594.2	17.6%
Revenue, RUR mln	4,098.0	4,041.0	1.4%
Other			
Revenue, RUR mln	9,326.0	6,920.0	34.8%

Operating Expenses

Total operating expenses for the full year 2005 amounted to RUR 40,555.0 million. The year-on-year increase of 25.5% was the result of a scheduled increase in staff costs as well as higher payments to operators. In addition, the Company recognized in the statement of income for the year ended 31 December 2005 a RUR 4,970.0 million loss from impairment of property, plant and equipment and goodwill. The amount of loss from impairment of property, plant and equipment was determined based on the net present value of future cash flows related to existing property, plant and equipment. The impairment loss is mainly attributable to the regulatory reform and restructuring of the national telecommunications sector, including changes in settlements between operators under the new system of interaction with Russian operators and subscribers for the provision of domestic and international long-distance services, which came into effect on January 1, 2006.

Staff costs for the full year 2005 totaled RUR 6,242.0 million, a 22.2% increase year on year. Due to further optimization of business-processes and organizational structure, the Company's headcount was reduced by 7.0 % to 23.6 thousand employees in 2005.

Payments to Russian operators increased by 10.9% to RUR 8,741.0 million compared to 2004, while payments to international operators rose by 8.9% to RUR 7,059.0 million due to the growth in domestic and outgoing ILD traffic volumes, respectively.

As a result, OIBDA rose by 9.0% year on year to RUR 13,862.0 million. OIBDA margin remained steady compared to 2004 - at 33.8%.

Depreciation charges amounted to RUR 7,136.0 million – down 4.8% year-on-year.

Non-cash loss on disposal of property, plant and equipment totaled RUR 1,356.0 million in 2005 compared to RUR 217.0 million previous year. The increase was due to accelerated decommissioning of non-core and underperforming assets.

Thus, full year 2005 operating profit totaled RUR 400.0 million compared to RUR 5,005.0 million a year ago. Excluding the loss from impairment of property, plant and equipment and goodwill, operating profit amounted to RUR 5,370.0 million – a year-on-year increase of 7.3%.

Other Income/Loss

Other income for the full year 2005 amounted to RUR 1,104.0 million from RUR 639.0 million a year ago. The increase is due to additional income from the sale of investments as well as higher net interest income. In 2005 Rostelecom recorded an additional RUR 408.0 gain from the sale of its interests in Telmos, Telecom-Center and MTT.

Net interest income amounted to RUR 809.0 million – up 74.0% year on year. The increase is attributable to a rise in short-term deposits as well as reduced debt levels.

Income Tax

Income tax expense amounted to RUR 695.0 million in 2005.

Consolidation

Full year 2005 consolidated financial statements include results of operations of Rostelecom and its subsidiaries Westelcom and GlobalTel. The results of operations of GlobalTel were consolidated in the Company's financial statements prospectively beginning from April 25, 2005. The results of GlobalTel operations were included under the equity method in the Company's 2004 consolidated financial statements.

Net profit

In 2005 Rostelecom's consolidated net profit totaled RUR 978.0 million compared to RUR 4,266.0 million in 2004. Excluding the loss from impairment of property, plant and equipment and goodwill, 2005 full-year net profit amounted to RUR 4,755.2 million – a year-on-year increase of 11.5%

Rostelecom will host a webcast of the full year 2005 results conference call on July 3, 2006 beginning at 9.00 AM (Eastern US) / 2.00 PM (London) / 5.00 PM (Moscow). The webcast will be available both live, and for replay purposes, on the Investor Center of Rostelecom's website at www.rt.ru/en/icenter.

Appendices:

1. Consolidated profit and loss statements for the full year ended December 31, 2004 and December 31, 2005 in RUR;
2. Condensed consolidated balance sheets as of December 31, 2004 and December 31, 2005 in RUR.

Certain statements in this press release are “forward-looking statements” within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbors created thereby.

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

These risks include the risk of changes the Company’s operations and business prospects, the general financial and economic circumstances, relating to regulation of the Russian telecommunications industry and the Russian legislation; the competition and other risks.

For a more detailed discussion of these and other factors, see the Company’s Annual Report on Form 20-F for its most recently completed fiscal year and the Company’s other public filings with The U.S. Securities and Exchange Commission. Many of these factors are beyond the Company’s ability to control or predict. Given these and other uncertainties, the Company cautions not to place undue reliance on any of the forward-looking statements contained herein or otherwise.

The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as maybe required under applicable the U.S. federal securities laws.

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Appendix I

Consolidated Profit and Loss Statements for the full year ended December 31, 2005 and December 31, 2004 in RUR

RUR million	2005	2004	% change, y-o-y
Revenue from local operators	25,227.0	22,648.0	11.4%
ILD	6,772.0	6,160.0	9.9%
DLD	14,358.0	13,411.0	7.1%
Other	4,097.0	3,077.0	33.1%
Revenue from subscribers	8,955.0	8,740.0	2.5%
ILD	2,633.0	2,900.0	-9.2%
DLD	3,768.0	3,886.0	-3.0%
Internet	44.0	-	n.a.
Other	2,510.0	1,954.0	28.5%
Revenue from international operators	4,706.0	4,560.0	3.2%
Telephone	4,098.0	4,041.0	1.4%
Telex, telegraph, etc	608.0	519.0	17.1%
Other	2,067.0	1,370.0	50.9%
Total revenue	40,955.0	37,318.0	9.7%
Payments to international operators	(7,059.0)	(6,484.0)	8.9%
Payments to Russian operators	(8,741.0)	(7,883.0)	10.9%
Wages, salaries, etc.	(6,242.0)	(5,109.0)	22.2%
Taxes other than on income	(492.0)	(587.0)	-16.2%
Bad debt (expense) / recovery	140.0	(369.0)	n.a.
Other operating expenses	(4,699.0)	(4,166.0)	12.8%
Total operating expenses before depreciation, loss on disposal of PP&E and impairment of PP&E and goodwill	(27,093.0)	(24,598.0)	10.1%
OIBDA	13,862.0	12,720.0	9.0%
OIBDA margin, %	33.8%	34.1%	n.a.
Depreciation	(7,136.0)	(7,498.0)	-4.8%
Loss on disposal of property, plant and equipment	(1,356.0)	(217.0)	524.9%
Impairment of property, plant and equipment and goodwill	(4,970.0)	-	n.a.
Total operating expenses	(40,555.0)	(32,313.0)	25.5%
Operating profit	400.0	5,005.0	-92.0%
Operating profit excluding loss from impairment of property, plant and equipment and goodwill	5,370.0	5,005.0	7.3%
Operating margin, %	1.0%	13.4%	n.a.
Gain / (loss) from associates (excl. related tax)	169.0	(25.0)	n.a.
Interest expense	(77.0)	(13.0)	492.3%
Interest income	886.0	478.0	85.4%
Foreign exchange (loss) / gain	(168.0)	102.0	n.a.
Income from sale of investments	408.0	-	n.a.
Other non-operating income (loss)	55.0	72.0	-23.6%
Non-operating income (loss)	1,104.0	639.0	72.8%
Income before tax and minority interest	1,673.0	5,619.0	-70.2%
Income before tax and minority interest excluding loss from impairment of property, plant and equipment and goodwill	6,643.0	5,619.0	18.2%
Current tax charge	(2,829.0)	(2,892.0)	-2.2%
Deferred tax benefit / (charge)	2,134.0	1,539.0	38.7%
Income tax (expense) / benefit	(695.0)	(1,353.0)	-48.6%
Net income / (loss)	978.0	4,266.0	-77.1%
Net income excluding loss from impairment of property, plant and equipment and goodwill	4,755.2	4,266.0	11.5%

Appendix II

Condensed consolidated balance sheets as of December 31, 2005 and December 31, 2004 in RUR

RUR million	Dec. 31, 05	Dec. 31, 04	% change, y-o-y
ASSETS			
Non-current Assets	44,315	48,788	-9.2%
Property, plant and equipment	40,628	45,987	-11.7%
Current Assets	21,002	15,632	34.4%
Accounts receivable, net	5,232	5,375	-2.7%
Short-term investments	12,238	8,150	50.2%
Cash and cash equivalents	2,398	1,255	91.1%
Total Assets	65,317	64,420	1.4%
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Shareholder's equity	49,697	50,838	-2.2%
Current liabilities	7,470	6,158	21.3%
Current portion of interest bearing loans	851	1,107	-23.1%
Non-current liabilities	8,150	7,424	9.8%
Interest bearing loans - net of current portion	3,232	777	316.0%
Deferred tax liabilities	4,171	5,954	-29.9%
Total Liabilities	15,620	13,582	15.0%
Total Shareholders' equity, Minority interest and Liabilities	65,317	64,420	1.4%
Net debt¹	-10,553	-7,521	40.3%

¹ Net debt is calculated as the sum of interest bearing loans and short-term borrowings minus cash and cash equivalents and short-term investments.