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Rostelecom to Consolidate 100% of Tele2 Russia

The landmark deal creates the largest integrated digital service provider in Russia

Moscow, Russia - November 13, 2019 - Rostelecom PJSC (MOEX: RTKM, RTKMP; OTCQX: ROSYY), announces that its Board of Directors has approved a transaction to consolidate a 55% stake in T2 RTK holding LLC (hereinafter - Tele2 Russia). The transformational deal strengthens Rostelecom's position in the fast-growing mobile segment and creates the leading integrated digital provider of fixed-line and wireless solutions in Russia.

Transaction highlights:

- Rostelecom gains 100% control over the strategically vital asset at an attractive price;
- Potential to realise operational synergies on the back of the implementation of a unified strategic approach;
- Support of fixed-line business as wireless remains a key strategic trend in the industry;
- Benefits include joint involvement in the development of a 5G infrastructure;
- Attractive deal financing as an approximately 70% non-cash component to the deal;
- Attractive challenger^[1] multiple of 6.0 EV/EBITDA 2019F (5.2 EV/EBITDA 2020F).

Mikhail Oseevskiy, President of Rostelecom, commented:

"The acquisition of the remaining 55% stake in Tele2 Russia provides us with full control of the most successful and rapidly growing mobile player in Russia. The deal transforms Rostelecom into the largest integrated digital service provider in the country. We are consolidating 100% of Tele2 Russia, predominately on a non-cash basis, at a fair fundamental price and attractive multiple for this type of asset."

"Strategically, this is a landmark deal for Rostelecom and represents a key part of the Company's digital transformation. The transaction strengthens Rostelecom's service ecosystem through the addition of renewed convergent solutions that increases the competitiveness of our market proposition. This will drive sales opportunities through joint cross-selling and it increases the margins of our overall business."

"The deal also facilitates joint development of projects as part of Digital Russia program, including informational infrastructure projects, smart city solutions, unmanned vehicle transportation, big data analysis."

"Moreover, the deal provides Rostelecom with a significant competitive edge, which has potential to enhance our financial profile, and strengthen our leading position in telecom, IT and other hi-tech solutions sectors in the mid- and long-term. The unique mix of the largest fibre infrastructure, mobile network, spectrum resources will create and control a new foundation to develop 5G. The successful combination of Rostelecom and Tele2 assets forms an unrivalled integrated platform for rendering telecom, IT and other top-notch digital solutions."

Strategic Considerations

Acquisition of a rapidly growing high-margin mobile business

Tele2 Russia is the fastest growing mobile player in Russia and the only provider in the country that managed to substantially increase its market share in the last three years to 17% (+ 2 p.p.)^[2]. Tele2's subscriber base stands at 44 million^[3], while its Net Promoter Score ranks as the best in the sector. Tele2 posted 16% revenue CAGR for 2016-2018, against the 4% average in the industry. The company is proud of its increasingly developed mobile data network, and its six-fold increase in LTE base stations in the last three years^[4], which has enabled Tele2 to become the second mobile player in Russia by the number of Base Transceiver Stations. The company is the leader in telecom market in terms of the pace at which its network infrastructure is being rolled out. Tele2 Russia ranks third in the industry by the number of 2/3/4G BTS.

The enlarged company expects top-line and OIBDA growth to accelerate, and for margins and cash flow generation to increase.

Considerable upside potential for fixed and mobile assets

The deal will complement Rostelecom's digital ecosystem of services with new convergent offerings, which may stimulate consumption and increase sales as a result of higher cross-selling potential between its segments.

Convergence remains a key strategic trend in the telecommunications sector. International trends indicate that the promotion of convergent offerings decreases churn and generates higher ARPU. Following the conclusion of the deal, the enlarged company will become the only player in the market to offer a unified and fully-converged offering nationwide, based on Rostelecom's superior fixed-line network and Tele2's enhanced mobile infrastructure.

The deal will enable Rostelecom to realise substantial opportunity by offering the best convergent proposition, which strengthens the Company's competitive position and increases market shares both in the mobile and fixed-line segments.

5G prospects in Russia

In the run up to the upcoming rollout of the 5G network, the deal will enable Rostelecom, as potential infrastructure operator of 5G networks, to merge Rostelecom's technologically complimentary network (backbone and last mile) with Tele2's mobile infrastructure and bring together the required experience and expertise of both parties to build an economically viable next generation network.

Moreover, the usage of Tele2 technological infrastructure will enable Rostelecom to optimise its network maintenance costs. For specific client groups and territories, the possibility exists to shift from fixed-line to wireless solutions.

Synergies potential

As a result of the deal, Rostelecom group will be able to extract synergies to deliver incremental value for the company.

The deal will enable the company to create new services, strengthen cross-selling potential and deliver new packaged and convergent solutions to accelerate revenue growth.

There is also tangible potential to reduce operating costs by increasing the scale of the business and by optimising external costs and business processes.

Deal Structure

The acquisition of the 55% stake in Tele2 Russia is expected to be completed in three parts:

- The acquisition of a 10% stake in Tele2 Russia through an exchange of 10% of ordinary Rostelecom shares held by MOBITELE (Rostelecom subsidiary). The valuation of this non-cash transaction is based on the report of an independent appraiser. The transaction has a value of RUB 24 bln;
- The acquisition of a 27.5% stake in Tele2 Russia using cash proceeds received from an additional share issue of Rostelecom ordinary shares awarded to VTB bank at a price of RUB 93.21 per share. The transaction will carry a value of RUB 66 bln.
- The acquisition of a 17.5% stake in Tele2 Russia for cash at a valuation determined by the independent appraiser. This cash component will be equal to RUB 42 bln.

Approach to Financing

Upon the completion of the deal, the enlarged company will maintain a comfortable level of debt which will enable Rostelecom to comply with the requirements of its current dividend policy.

Integration and management

Once the deal is complete, the company intends to:

- keep Tele2 Russia as a separate legal entity and maintain its existing brand;
- establish a joint integration committee with the aim of finding and extracting synergies while maintaining the ambitious pace of Tele2 Russia's development;
- preserve the status of Tele2's existing management team and approve a new motivation plan;
- renew and unveil the Rostelecom group strategy within the first half of 2020.

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[PJSC Rostelecom](#) is the largest digital service provider, operating in all segments of the telecommunications market in Russia, it serves millions of households, the state and private enterprises across the country.

Rostelecom is Russia's undisputed market leader, providing high-speed Internet access to over 13.1 million users and pay-TV services to more than 10.3 million clients, over 5.5 million of which are subscribed to Rostelecom's IPTV services on a national level.

In the nine months of 2019, the Group generated RUB 242.6 billion of revenues, RUB 81.4 billion of OIBDA (33.6% of revenue) and RUB 16.4 billion of net income.

The Group is the leading provider of telecommunications services to government bodies and corporates of all levels.

Rostelecom is a key strategic innovator that provides solutions in the following fields: E-Government, cybersecurity, data-centers and cloud computing, biometry, healthcare, education and housing & utility services.

The Group's stable financial position is confirmed by its credit ratings. Rostelecom has been assigned 'BBB-' and 'BB+' international credit ratings by Fitch Ratings and Standard&Poor's respectively, and AA(RU) by ACRA.

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

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

- Assessment of PAO Rostelecom's (the Company) future operating and financial results as well as forecasts of the present value of future cash flows and related factors;
- The Company's plans to take ownership stakes in other organisations;
- the Company's anticipated capital expenditures and plans to construct and modernize its network;
- the Company's expectations as to the growth in demand for its services, plans relating to the expansion of the range of its 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 forecasts on the development of the market segments within which the Company operates;
- economic outlook and industry trends;
- the Company's expectations as to the regulation of the Russian telecommunications industry and assessment of impact of regulatory initiatives on the Company's activity;
- other statements 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 materially 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 Russia as well as changes in global economic conditions;
- risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian telecommunications 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, 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 liberalized telecommunications market;
- technological risks associated with the functioning and development of the telecommunications infrastructure, technological innovations as well as the convergence of technologies;
- other risks and uncertainties. For a more detailed discussion of these and other factors, see the Company's Annual Report and the Company's other public filings.

Many of these factors are beyond the Company's ability to control or predict. 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 obligation to release publicly any revisions to these forward-looking statements (which are made as of the date hereof) to reflect events or circumstances upon the annual report publication or to reflect the occurrence of unanticipated events, except as may be required under applicable laws.

[1] A rapidly growing company that is entering the market later than incumbents, but through a differentiated offer is successfully increasing its share in an already well-established market

[2] According to ACOM consulting data for 6 months of 2019 excluding MNO subs

[3] According to Tele2 Russia forecast as at the end of 2019

[4] According to Roscomadzor data as of 30.10.2019

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