



# COMSTAR-UTS

Presentation based on 2Q2009 results





Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events revenues or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “predict”, “could”, “plan”, “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, growth in demand for our products; economic outlook and industry trends; developments of our markets; legal trends and the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of revenues, profitability and growth, cost and synergy of our recent acquisitions and restructuring, the timely development and acceptance of new products, the impact of competition and competitive pricing, the ability to obtain necessary regulatory approvals and the ability to fund our future operations and capital needs through borrowing or otherwise, the ability to successfully implement any of our business strategies, the ability to integrate our business and to realize anticipated cost savings and operational benefits from such integration, our expectations about growth in demand for our products and services, the effects of inflation, interest rate and exchange rate fluctuations, and our success in identifying other risk to our business and managing the risk of the aforementioned factors, the condition of the economy and political stability in Russia and the other markets of operations and the impact of general business and global economic conditions.

Neither we, nor any of our respective agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this presentation.

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- Operations in 69 Russian cities with combined population of over 48 mln people
- 57% of revenues<sub>1H09</sub> and 73% of OIBDA<sub>1H09</sub> provided by incumbent business
- Revenue<sub>1H09</sub> – US\$ 698 mln, OIBDA margin<sub>1H09</sub> – 39.5 %
- The leading national broadband provider: ~ 1 mln residential broadband subs + over 2 mln residential pay-TV subs
- The leading integrated fixed-line telecommunications provider for corporates – over 1 mln active lines
- 98% of total debt is RUR-denominated
- Owner of 25% + 1 share in state-owned Svyazinvest national fixed line incumbent
- 14% treasury shares of which 11% can be used in possible M&A deals

# Investment case



## National operator

Traditional

Altnet

Stability

57% revenues

43% revenues

73% of OIBDA

27% of OIBDA

## Diversified subscriber base –

low dependence on large clients

➤ 3.6 mln residential subs

➤ 3.2 mln residential subs

➤ 70 K corporate subs (SME)

➤ 70 K corporate subs (SME)

High profitability

Potential to increase profitability

Source of cash (regulatory tariff increases)

Expansion via M&A (11% treasury shares)

Capitalize on low penetration

## RuR business:

Revenues > 90% RUR

OPEX > 90% RuR

CAPEX ~80% RuR

Debt ~98% RuR

## + Stake in Svyazinvest

25% + 1 share stake in the holding

Used as a collateral to RUR 26 bln loan from Sberbank

Svyazinvest owns 23% in MGTS

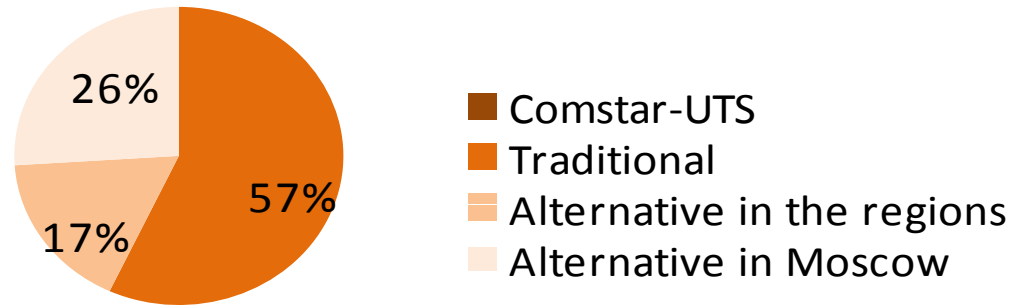
Upside

Potential to increase the value of the Group as a result of restructuring of ownership

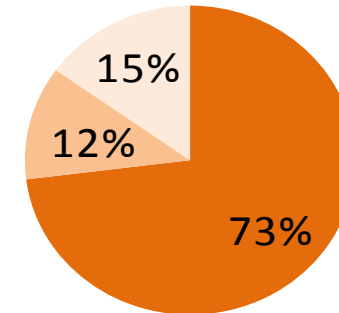
# Combination of high profitability and revenue growth



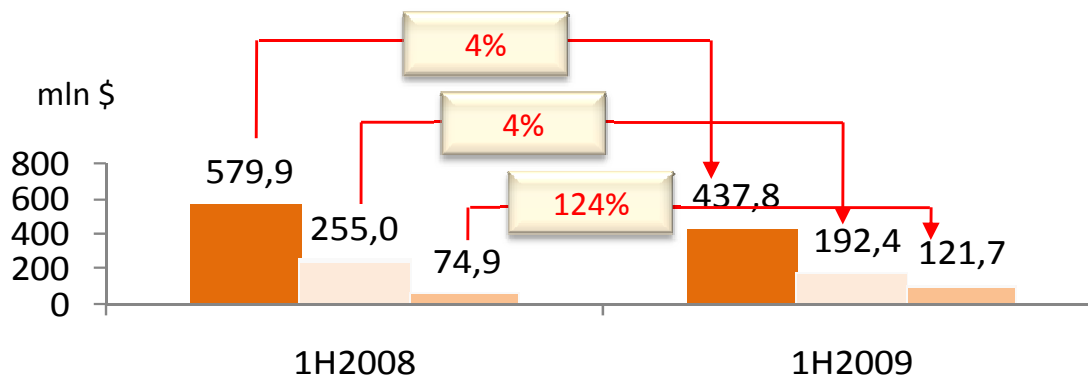
Breakdown of revenues, 1H2009



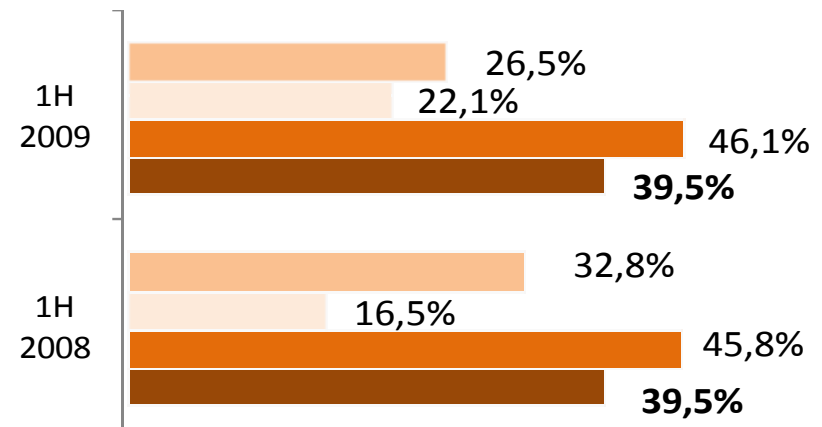
Breakdown of OIBDA, 1H2009



Revenue growth \*



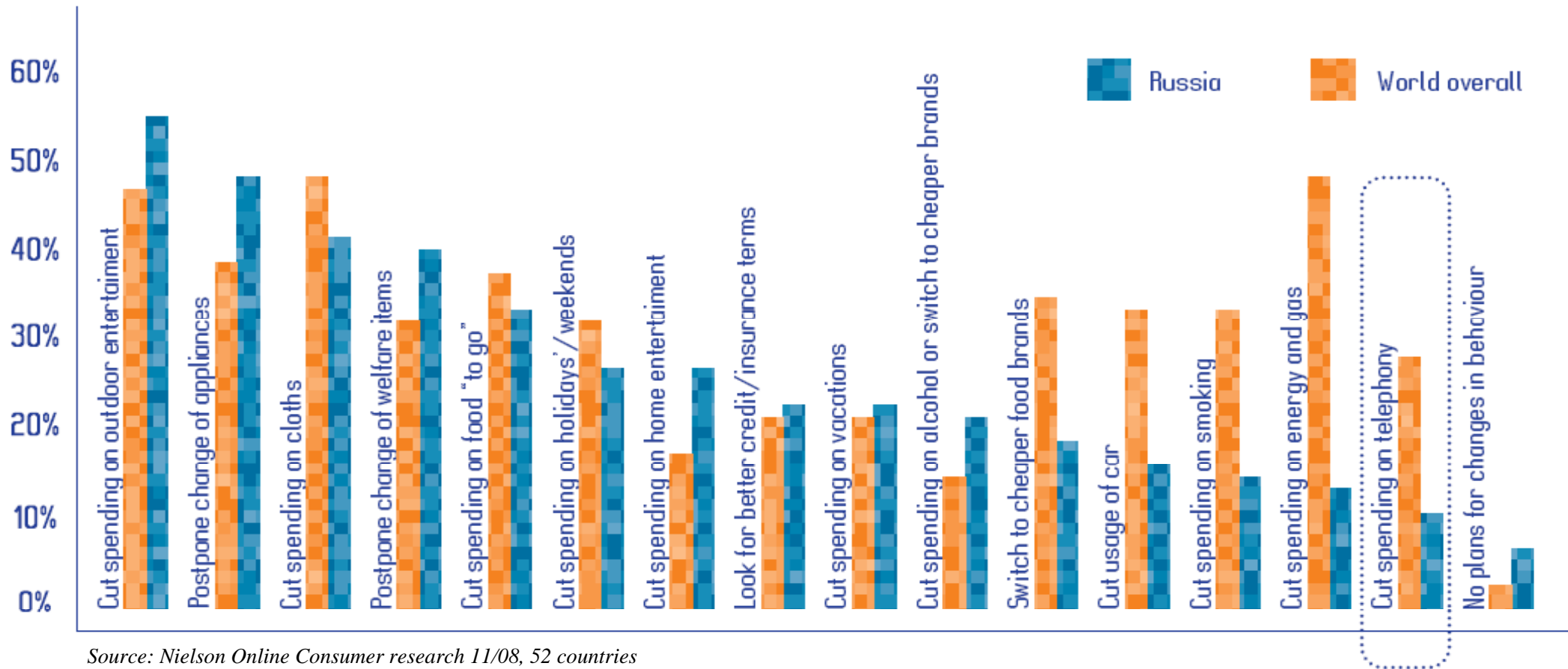
RUR OIBDA margin dynamics, %



Stable traditional MGTS business provides sustainable cash flows and high profitability, regions drive revenue growth

\*Revenue in US\$ millions, growth in rubles

# How do you plan to cut your spending due to the crisis?



Source: Nielson Online Consumer research 11/08, 52 countries

Spending on telephony are at the bottom of the list of savings

# Use of cash in the 1H2009



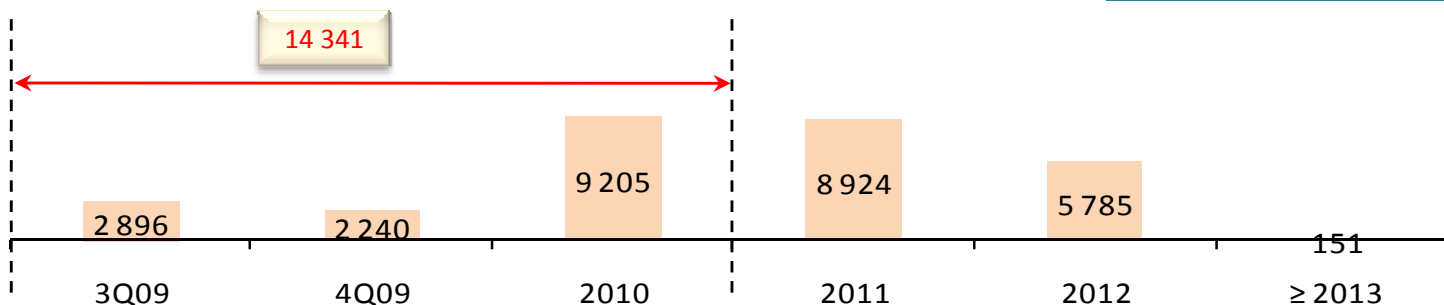
## 6 months ended June 30, 2009

- RUR 6.8 bln operating cash flow
- RUR 6.1 bln cash and cash equivalents and short-term investments
- RUR 29.2 bln total debt, including leasing
- RUR 2.5 bln cash CAPEX

## Debt structure as of June 30, 2009

Debt by currency	US\$ million
Russian Ruble	917
Euro	11
US Dollar	5
<b>Total debt *</b>	<b>933</b>

## Debt repayments schedule \*, mln RUR



## In the currency of debt, mln US\$, mln

	mln US\$	mln RUR
Sberbank credit line facility	26,000	831
SMM	1,787	57
Vendor financing	317	10
Others	various	35
<b>Total debt *</b>	<b>933</b>	

\* RUR/\$ = 31.2904 as at June 30, 2009

# Strategic priorities in crisis environment



1

Ensure financial stability

- Maximising cash flows
- Optimization of capital investments
- Service the Sberbank credit facility and start quarterly repayments of the body of the loan from September 2009
- Reduction of debt level

2

Refocus from expansion to optimization

- Keep and develop the existing subscriber base
- 3K programme of quality enhancement
- Selective up-sell of existing subscribers to value added services

3

Strategic M&A

- Acquisition of regional operators using treasure shares

In current market environment our strategic priorities are moving from active expansion towards maximizing cash flows and integration of the assets

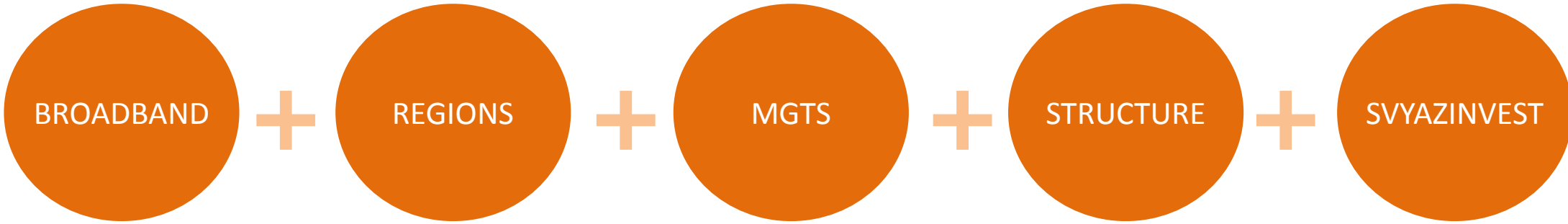


# Value Drivers



- ✓ Penetration into the mass market in Moscow
- ✓ Increasing ARPU in the premium segment
- ✓ 3K: Comstar → Client → Quality
- ✓ BB development in the regions (Stream-TV)

- ✓ Restructuring of regional operations
- ✓ 2 legal entities : Comstar & MGTS



- ✓ Integration of Stream-TV
- ✓ Enhancing existing operations via strategic M&As

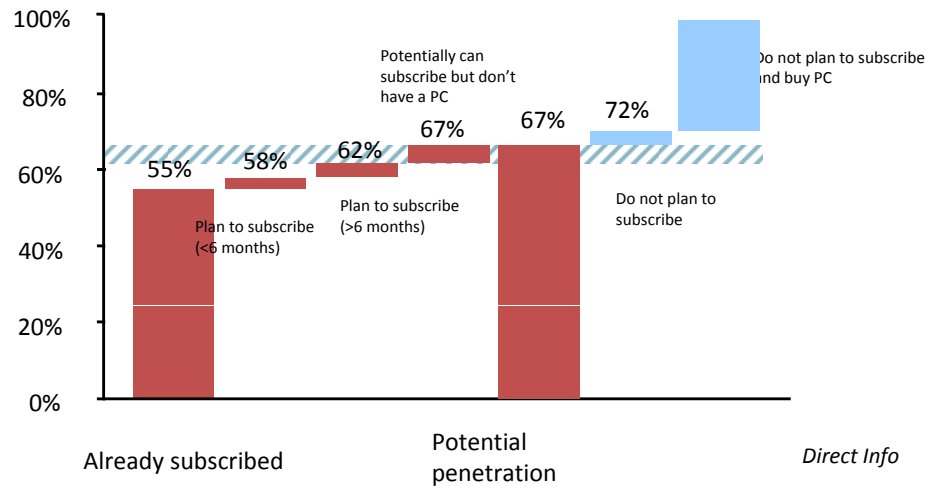
- ✓ Cost optimization & increase in efficiency
- ✓ Regulated tariff increases

- ✓ Capitalising on Svyazinvest stake

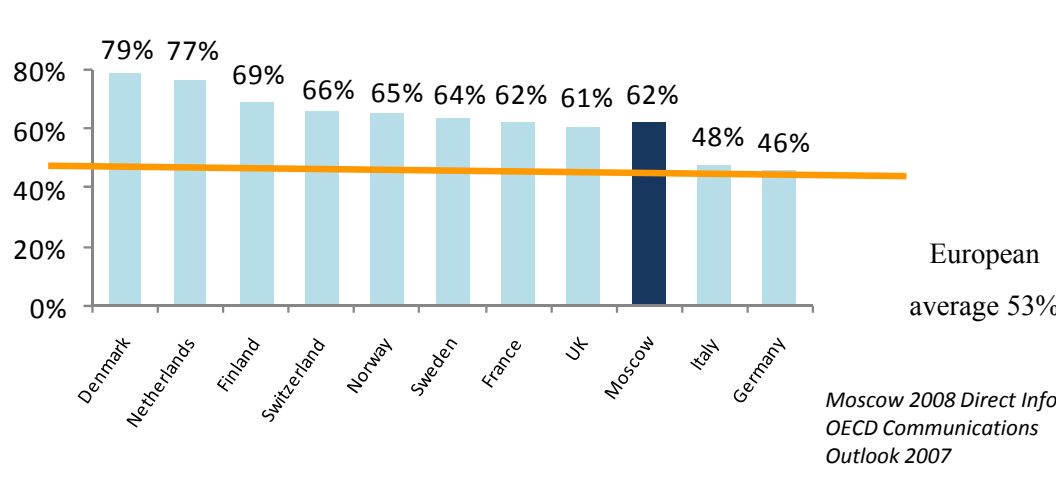
# BB In Moscow- platform for VAS



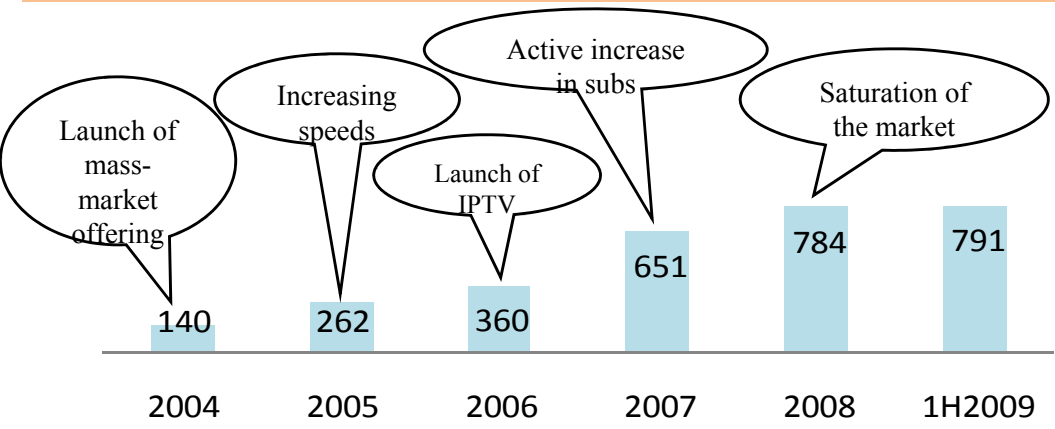
## Broadband potential in Moscow, %



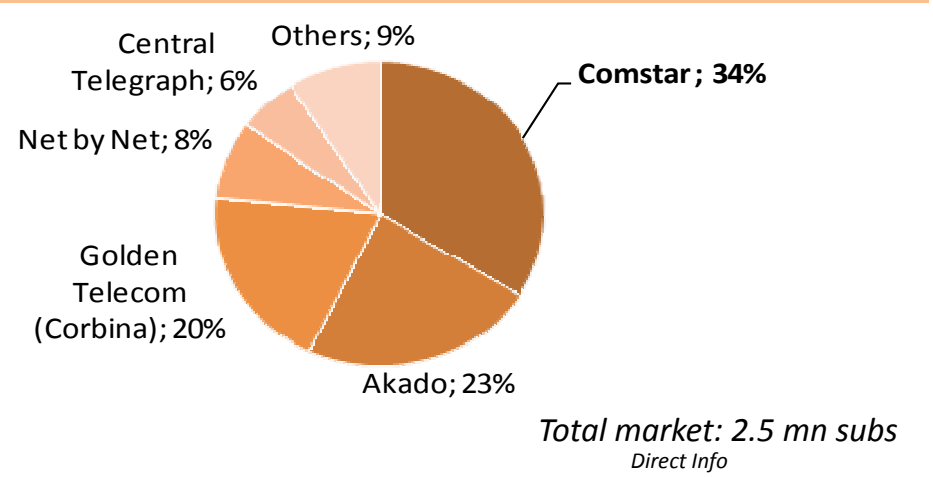
## Broadband penetration in Europe, %



## Comstar residential subscriber base, '000



## Moscow Residential BB Market, 1Q2009



Objective in Moscow is to have > 33% of MGTS voice customers (~3.6 million) connected to BB by the end of 2011 (~50% market share)

# BB development on saturated Moscow market



Residential broadband market in Moscow is close to saturation : SAC growth, tariffs erosion



- Voice ARPU : RUR 314\* = US\$ 9.7
- BB Internet + pay-TV ARPU : RUR 358\* = US\$ 11.1
- VAS : HDTV+ mobile WiMax + WiFi
- Focus on higher tariffs and speeds (2.5 - 20 Mb/sec)

- Increase in ARPU
- 2011: 50% of total subscriber base



- Voice ARPU : RUR 314\* = US\$ 9.7
- BB Internet ARPU : RUR 228\* = US\$ 7.1
- Post-paid & mass-market tariffs
- Focus on lower tariffs and speeds (up to 3 Mb/sec)

- Increase in subscriber base
- 2011: 50% of total subscriber base

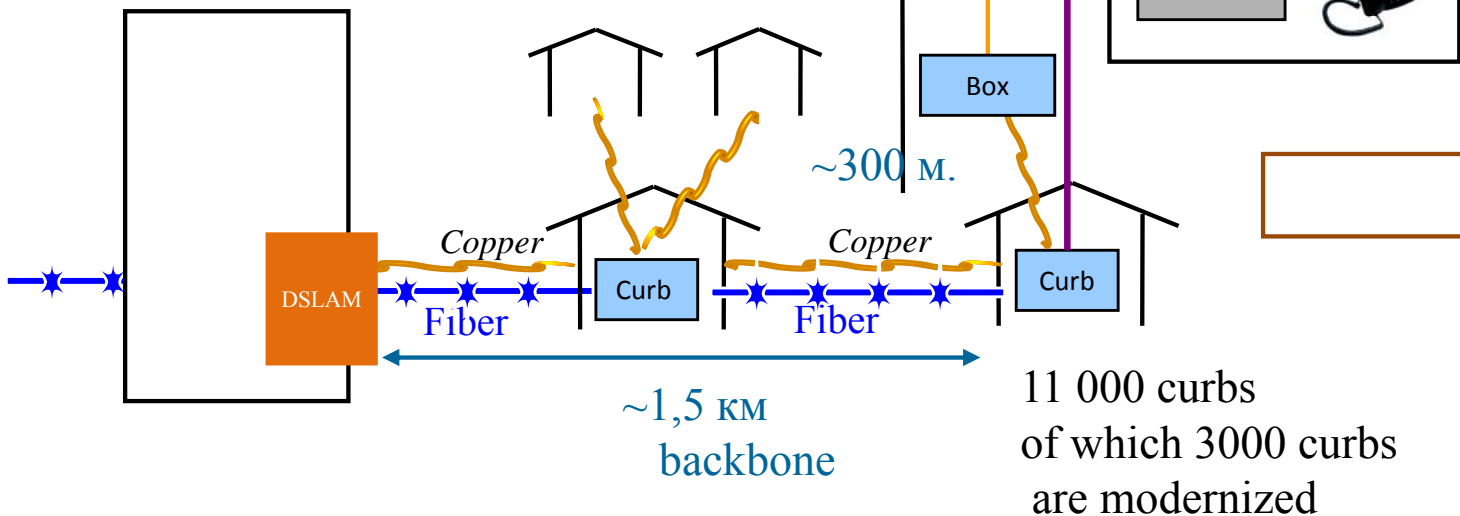
# Moscow network is fully ready for all types of VAS



1. Fiber to the curb
2. Moving DSLAM closer to the customer- to the curb
3. Selective installation of fiber to the home

35 000 apartment blocks

250 switching centers



## Services

Speed

1 Gbps

- HDTV
- Internet (100+ Mbps)
- Smart home
- Video monitoring
- etc

Up to 24 Mbps

- HDTV (2-3 TV sets)
- Internet (10-20 Mbps)

6 Mbps

- IPTV (1 TV set)
- Internet (up to 2 Mbps)

“Last mile” was “Sped Up” from 6 Mbps to 24 Mbps in 2008

# Be with Comstar and stay on-line!



## At home

ADSL



Wi-Fi

- Premium segment Internet 390 - 1180 RUR/month (average traffic 10 Gb/sub)
- Mass-market segment Internet 111 - 444 RUR/month or 20 RUR/month + 9 – 36 RUR/day
- IPTV 110-450 RUR/month

## Connection Manager



## In the car

WiMAX



- 300 – 700 RUR / month for 1 – 7.5 Gb/month + 0.15 – 0.5 RUR/Mb

## In public places

### At friends

Wi-Fi



- Wi-Fi – FON free or 30 RUR/month for the rent of router

Wi-Fi



- Wi-Fi or roaming 100-200 RUR/hour

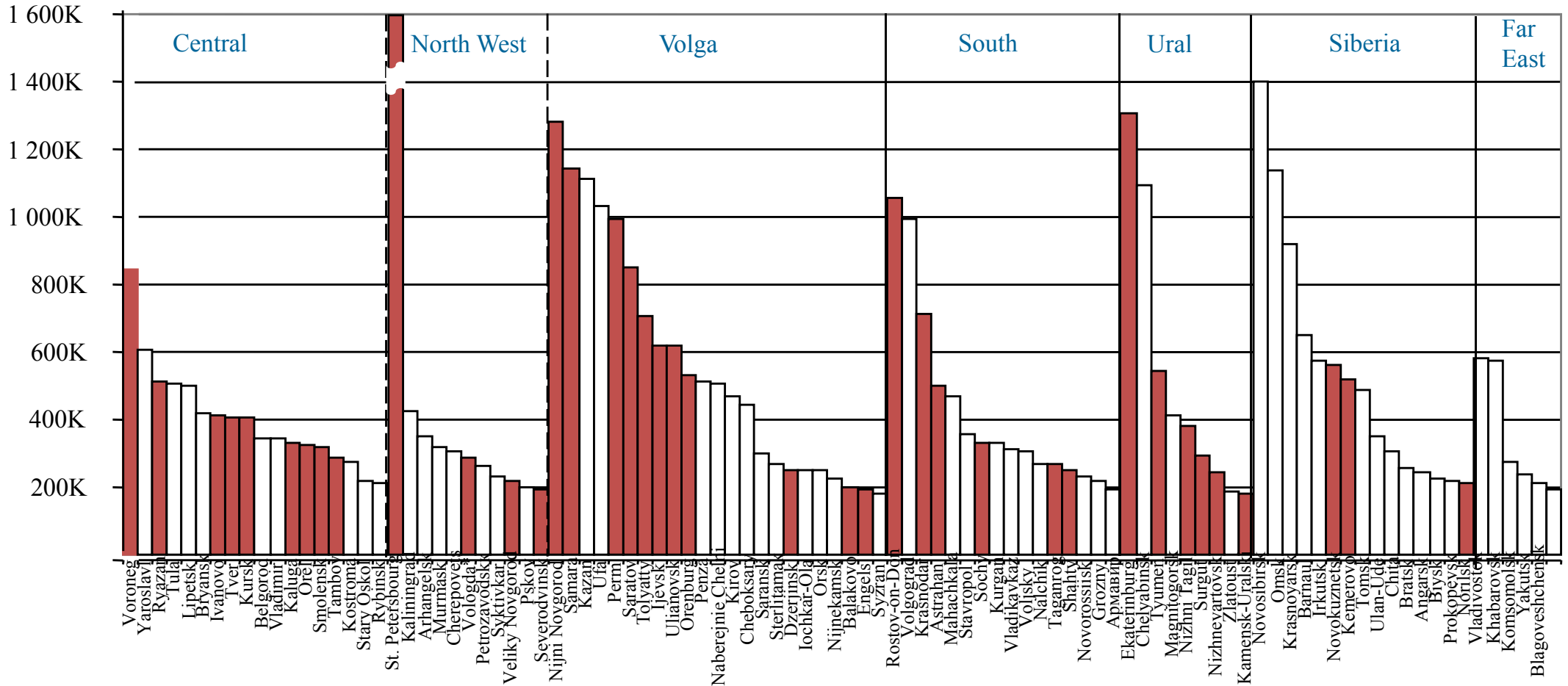
Combination of different technologies created unified communications space

# Comstar Regions of Presence in Russia



Cities with population, more than 200k

Regions



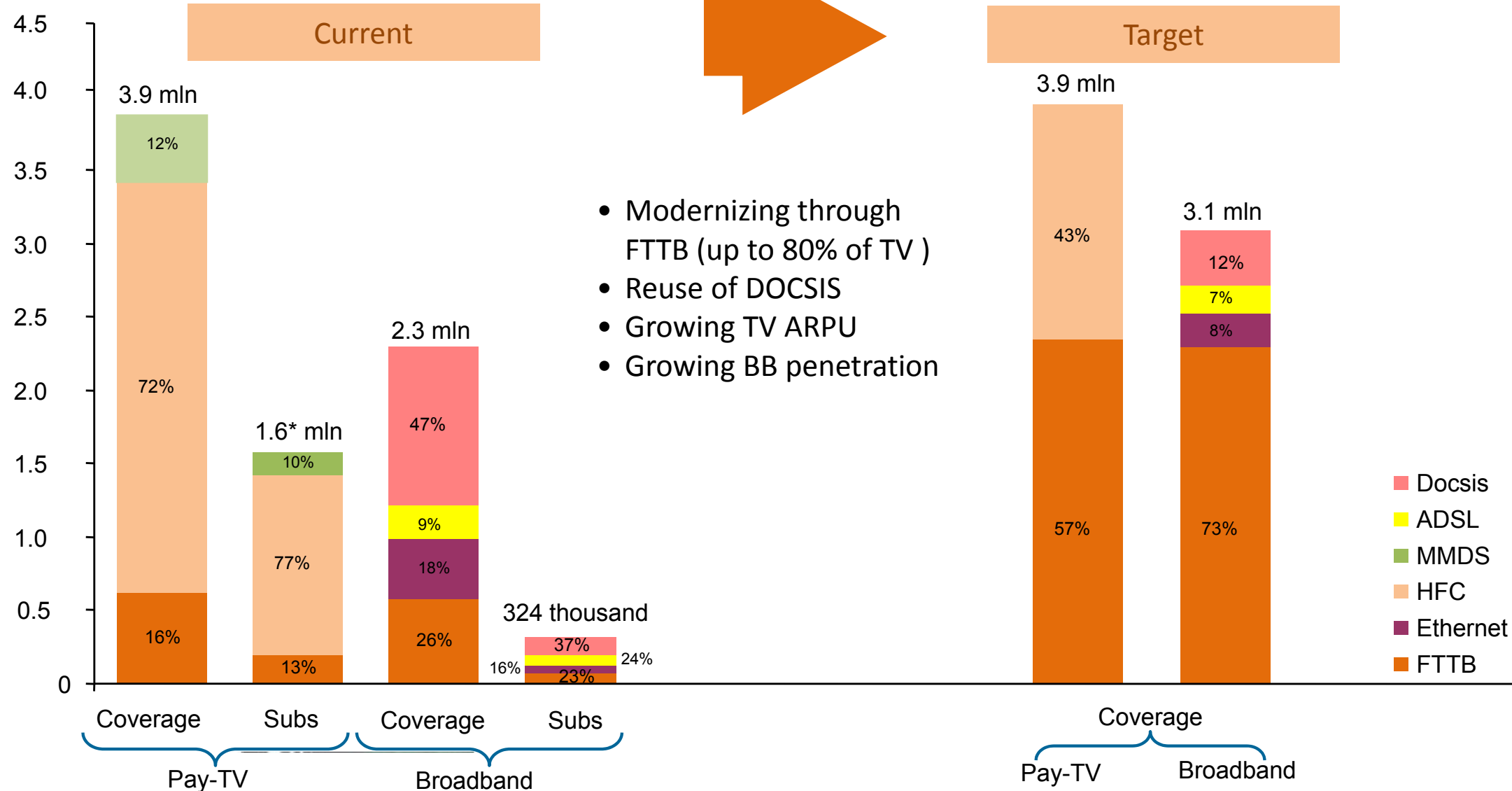
Regional operations cover 69 cities

with combined population exceeding 30 mln people (excl. Moscow)

# Regional networks: significant potential for BB development



HH, millions



- Modernizing through FTTB (up to 80% of TV )
- Reuse of DOCSIS
- Growing TV ARPU
- Growing BB penetration

Modernization of cable networks and conversion of TV subs to “double play” is the key goal

\*Excluding 374 thousand subscribers of social packages using shared access

# MGTS regulated tariff increases



## Per-Minute Tariff Plan

	Residential Subs		Independent Corporate Subs		State-Funded Org.	
	New*	Old	New	Old	New	Old
(RUR)						
Line Rental	135	125	160	160	145	136
Local connection fee per minute	0.30	0.28	0.30	0.28	0.30	0.28
Share of subs as of June 30, 2009	28.9%		6%		6%	

## Combined Tariff Plan

	Residential Subs		Independent Corporate Subs		State-Funded Org.	
	New	Old	New	Old	New	Old
(RUR)						
Line Rental	135	125	160	160	145	136
Fee for basic limit of 450 minutes per month	120	104	120	104	120	104
Fee per additional minute	0.28	0.24	0.28	0.24	0.28	0.24
Share of subs as of June 30, 2009	20.8%		79%		82%	

## Unlimited Tariff Plan

	Residential Subs		Independent Corporate Subs		State-Funded Org.	
	New	Old	New	Old	New	Old
(RUR)						
Line Rental	135	125	160	160	145	136
Unlimited connection	245	220	342	342	331	302
Share of subs as of June 30, 2009	50.3%		15%		12%	

## 1H2009 statistics

	# of lines, 000s	Voice revenue**, mln RUR	% of total MGTS revenues
Residential Subscribers	3,600	5,184	36%
Independent Corporate Subscribers	510	995	7%
State-Funded Organizations	252	495	3%

In addition, weighted average regulated per minute ruble charge for operators interconnected to MGTS network in Moscow is to be increased by 17% from September 01, 2009

\* Here and below - introduced on March 01, 2009

\*\* Excl. CPP revenues and additional services



# Cost control programme



## Operating expenses, RUR millions\*

	2Q2009	2Q2008	%	1Q2009	%
Employee costs	2,589	2,302	12%	2,754	(6%)
Network traffic costs	1,602	1,297	23%	1,537	4%
Selling & marketing	300	364	(18%)	345	(13%)
Repairs & maintenance	447	533	(16%)	406	10%
Taxes	339	286	19%	328	3%
Utility & energy costs	316	252	25%	400	(21%)
Other, net	1,307	1,061	23%	1,282	2%
<b>Total Operating Expenses</b>	<b>6,899</b>	<b>6,094</b>	<b>13%</b>	<b>7,052</b>	<b>(2%)</b>
% of revenues	59.0%	61.8%		62.2%	

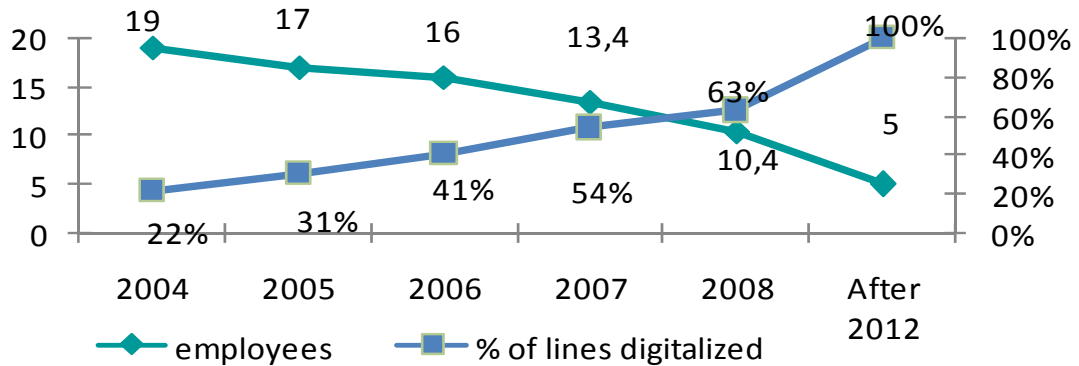
### Short-term measures

- Negotiating better price terms with the partners
- Decrease in advertising spent
- Decrease in expenses for exhibitions and conferences
- Decrease in employee costs due to optimization of headcount primarily at STREAM-TV
- Decrease in utility costs due to optimization of headcount

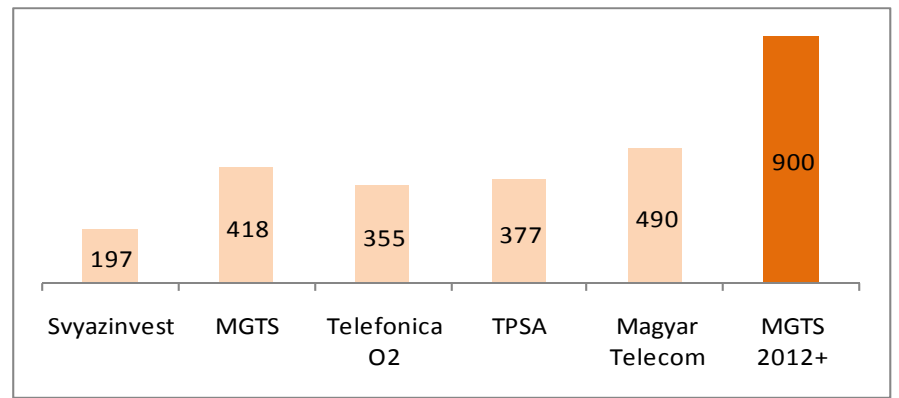
### Long-term measures

- Optimization of headcount at MGTS

## Number of MGTS Employees, 000\*\*



## Lines / Employees\*\*\*



Objective is to maintain the level of profitability exceeding the peer group

\* Excl. depreciation and amortization costs

\*\* End of period

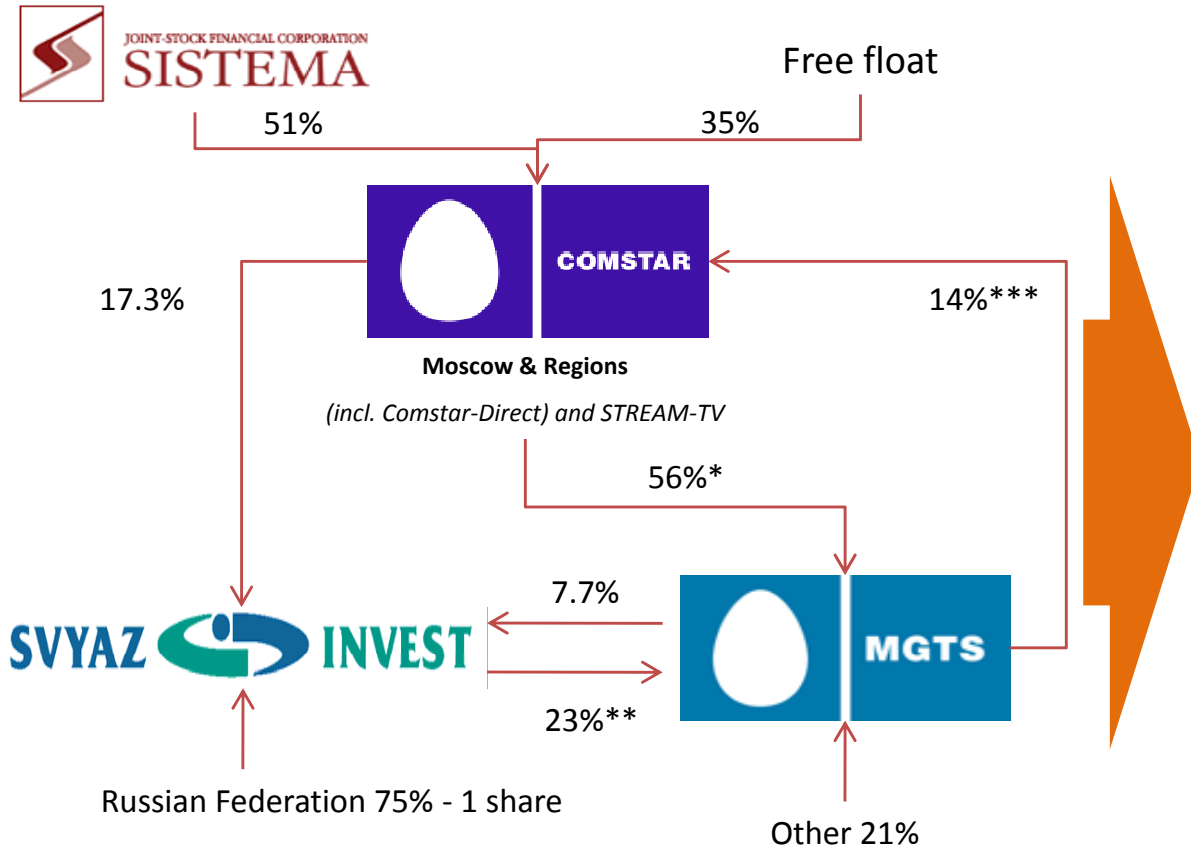
\*\*\*Source: Analysts reports, peer group results-based on 2007, Company data 1H2009 (total installed lines/employee)

# Simplifying Organizational Structure



Now

Objective



- Two operating companies: MGTS & Comstar
- Integration of STREAM-TV
- Turning regional subsidiaries into 6 macro-regions

\*67% of voting shares

\*\*28% of voting shares

\*\*\* treasury shares, of which 11% is owned by MGTS Finance SA

Ultimate goal is to have 2 legal entities: Comstar & MGTS



- 7 ILECs + Rostelecom + Central Telegraph
- Owner of the “last mile” in the regions
- >35 million installed lines covering 90% of Russia
- Owner of 23% in MGTS
- In Dec. 2006 Comstar Group acquired 25% +1 share in Svyazinvest
  - 17.3% owned by Comstar-UTS OJSC
  - 7.7% owned by MGTS Finance SA
- Comstar Group spent US\$ 1.4 billion, book value RUR 36.5 billion
- The acquisition was funded by own funds and credit facilities later refinanced by Sberbank
- 25% +1 share in Svyazinvest is used as a collateral for Sberbank credit facility for RUR 26 billion

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Comstar is working on restructuring of its ownership in Svyazinvest



- ✓ National fixed-line provider with operations in 69 cities of Russia with combined population of >48 mln people
  - ✓ Low exposure to forex risks – all business in RUR
  - ✓ Unique combination of
    - ✓ Regulated and non-regulated business
    - ✓ High profitable incumbent business and growing altnet business
    - ✓ Wire-line and wire-less technologies creating seamless telecommunication space
    - ✓ Balanced mix of customer types (residential, corporates, operators)
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For additional information please visit

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# Appendix. Income Statement



	(RUR Million)				(US\$ Million)			
	2Q2008	2Q2009	1H2008	1H2009	2Q2008	2Q2009	1H2008	1H2009
<b>Revenues</b>	9,858	<b>11,702</b>	19,972	<b>23,045</b>	417.3	<b>363.6</b>	834.2	<b>698.0</b>
<i>Y-o-Y Growth</i>	1.0%	<b>18.7%</b>	8.0%	<b>15.4%</b>	10.1%	<b>-12.9%</b>	17.8%	<b>-16.3%</b>
<b>OIBDA</b>	3,764	<b>4,803</b>	7,898	<b>9,094</b>	159.3	<b>149.3</b>	329.6	<b>275.7</b>
<i>Margin</i>	38.2%	<b>41.0%</b>	39.5%	<b>39.5%</b>	38.2%	<b>41.1%</b>	39.5%	<b>39.5%</b>
<b>Operating Income</b>	2,529	<b>3,378</b>	5,478	<b>6,176</b>	107.1	<b>105.1</b>	228.4	<b>187.3</b>
<i>Margin</i>	25.7%	<b>28.9%</b>	27.4%	<b>26.8%</b>	25.7%	<b>28.9%</b>	27.4%	<b>26.8%</b>
<b>Net income attributable to Comstar-UTS</b>	703	<b>958</b>	2,015	<b>1,452</b>	29.9	<b>30.0</b>	84.0	<b>42.6</b>
<i>Margin</i>	7.1%	<b>8.2%</b>	10.1%	<b>6.3%</b>	7.2%	<b>8.2%</b>	10.1%	<b>6.1%</b>
<b>Cash Capex</b>	2,213	<b>500</b>	3,265	<b>2,524</b>	92.4	<b>15.5</b>	135.8	<b>75.2</b>
<i>% of Revenues</i>	22.4%	<b>4.3%</b>	16.3%	<b>11.0%</b>	22.1%	<b>4.3%</b>	16.3%	<b>10.8%</b>

## 2Q2009 Highlights

- 19% year on year and 3% quarter on quarter revenue growth in RUR
- 41.0% OIBDA margin
- 36% year on year and 94% quarter on quarter net income attributable to Comstar-UTS growth in RUR

# Appendix. Segmental Breakdown



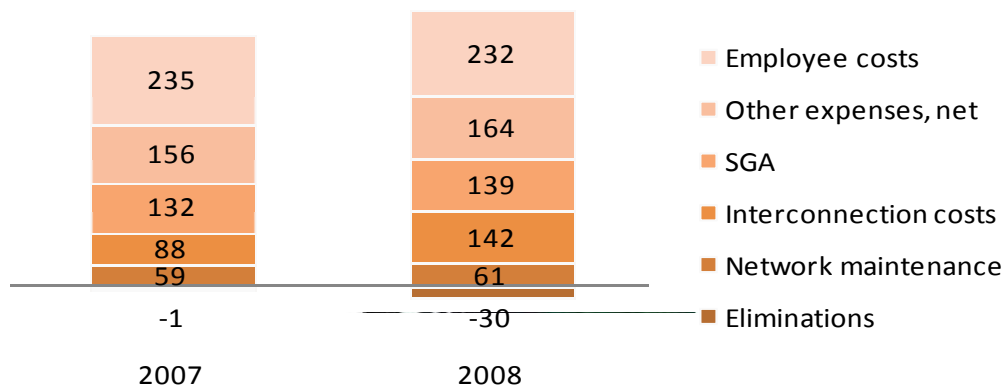
Revenue	(RUR Million)				(US\$ Million)			
	2Q2008	2Q2009	1H2008	1H2009	2Q2008	2Q2009	1H2008	1H2009
Traditional segment in Moscow (MGTS)	6,889	7,304	13,881	14,456	291.6	226.9	579.9	437.8
Alternative segment in Moscow (Comstar & Comstar-Direct)	3,006	3,273	6,106	6,350	127.2	101.7	255.0	192.4
Alternative segment in the regions & CIS (Comstar)	913	2,033	1,793	4,017	38.7	63.2	74.9	121.7
Intersegment Sales	-950	-908	-1,808	-1,778	-40.2	-28.2	-75.6	-53.9
<b>Total Revenue</b>	<b>9,858</b>	<b>11,702</b>	<b>19,972</b>	<b>23,045</b>	<b>417.3</b>	<b>363.6</b>	<b>834.2</b>	<b>698.0</b>
<b>OIBDA</b>								
Traditional segment in Moscow (MGTS)	3,067	3,488	6,353	6,668	129.8	108.3	265.3	202.1
Alternative segment in Moscow (Comstar & Comstar-Direct)	394	822	1,006	1,404	16.7	25.7	41.7	42.9
Alternative segment in the regions & CIS (Comstar)	324	505	588	1,065	13.7	15.7	24.6	32.0
Effect of eliminations and other consolidation adjustments	-21	-12	-48	-43	-0.9	-0.3	-2.0	-1.3
<b>Total OIBDA</b>	<b>3,764</b>	<b>4,803</b>	<b>7,898</b>	<b>9,094</b>	<b>159.3</b>	<b>149.3</b>	<b>329.6</b>	<b>275.7</b>

# Appendix. Segmental Operating Expenses & Employees

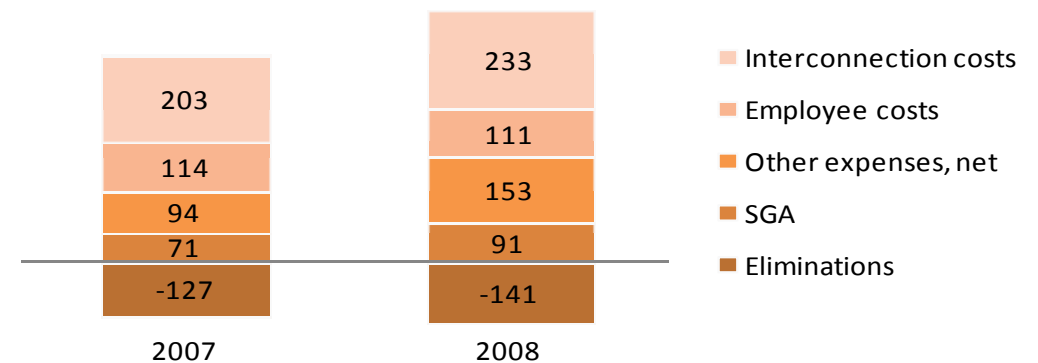


	2007	2008	1H2009
<b>#Employees *</b>			
Traditional segment	13,777	10,434	10,169
Alternative segment in Moscow	2,154	2,231	2,133
Alternative segment in the regions & CIS	1,084	2,878	5,755
<b>Average salary</b>			
Traditional segment	\$ 956	\$ 1,257	\$ 1,112
Alternative segment in Moscow	\$ 2,179	\$ 2,583	\$ 2,315
Alternative segment in the regions & CIS	\$ 1,340	\$ 1,099	\$ 759
<b>Average monthly revenue per Employee</b>			
Traditional segment	\$ 6,729	\$ 9,071	\$ 7,175
Alternative segment in Moscow	\$ 17,506	\$ 19,405	\$ 15,032
Alternative segment in the regions & CIS	\$ 3,602	\$ 4,775	\$ 3,523

Traditional Segment, mln US\$



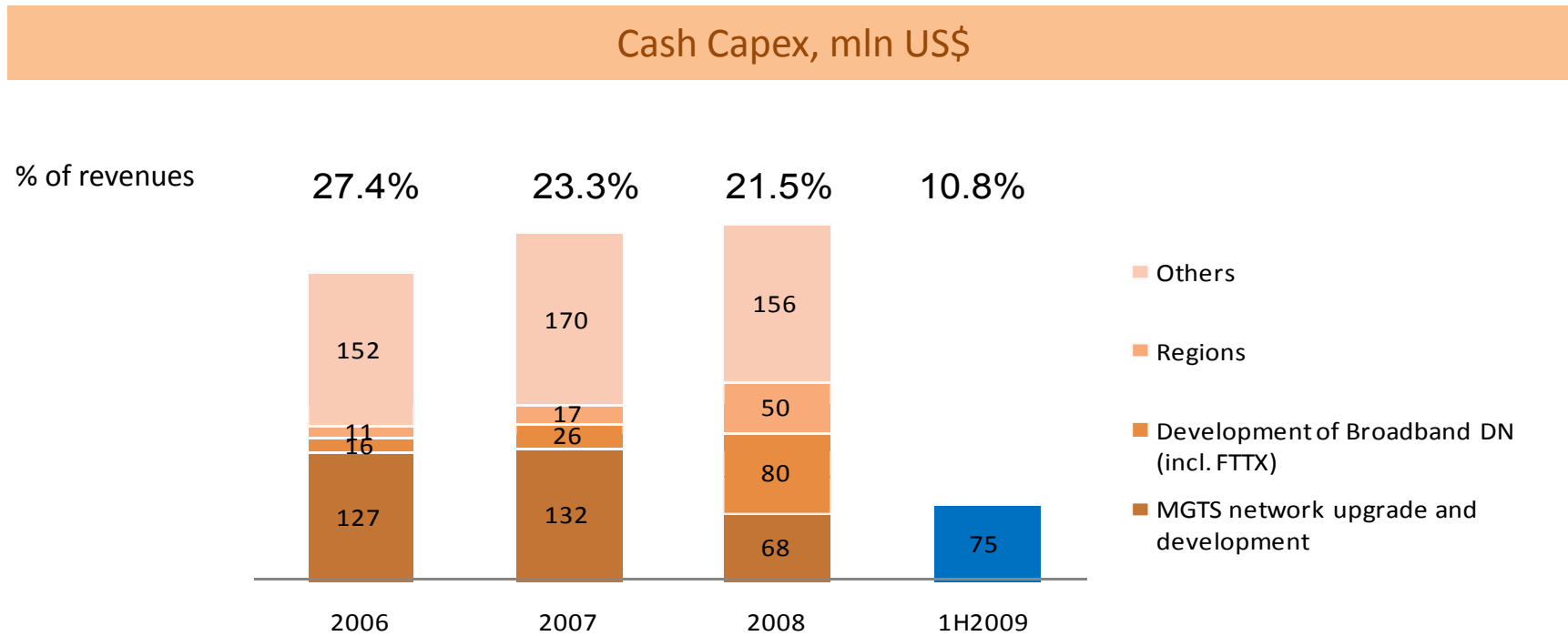
Alternative Segment, mln US\$



\* At the end of period



# Appendix. Capital Expenditure Development



CAPEX levels are expected to be in 2009 at approximately 6% of Group revenues, incl.

- maintenance CAPEX (up to 2% of revenues)
- investments in subscriber acquisition and up-selling
- selective regional development projects

# Appendix. Cash Flow Statement



	(RUR Million)				(US\$ Thousand)			
	2Q2008	2Q2009	1H2008	1H2009	2Q2008	2Q2009	1H2008	1H2009
Net cash provided by operations	2,966	3,308	6,564	6,768	125,767	102,186	274,174	201,366
Net cash provided by/(used in) investing activities	2,496	-217	813	6,654	104,220	-6,726	34,857	194,968
Net cash used in financing activities	-1,968	-663	-2,208	-9,924	-82,238	-20,599	-92,100	-290,779
Effects of foreign currency translation of cash and cash equivalents	0	-12	0	26	1,832	9,856	11,762	3,302
Cash and cash equivalents at the beginning of the period	6,088	2,929	4,413	1,821	258,906	86,114	179,794	61,974
Cash and cash equivalents at the end of the period	9,582	5,345	9,582	5,345	408,487	170,831	408,487	170,831
<b>FCF (Net cash provided by operations less Cash Capex)</b>	<b>753</b>	<b>2,808</b>	<b>3,299</b>	<b>4,244</b>	<b>33,361</b>	<b>86,689</b>	<b>138,377</b>	<b>126,205</b>

# Appendix. Balance Sheet



	(RUR Million)		(US\$ Million)	
	4Q2008	2Q2009	4Q2008	2Q2009
<b>Assets</b>	<b>123,152</b>	<b>116,591</b>	<b>4,191.7</b>	<b>3,726.1</b>
<i>Current Assets</i>	19,810	15,214	674.3	486.2
<i>Long-term assets</i>	103,342	101,377	3,517.4	3,239.9
<b>Liabilities</b>	<b>58,358</b>	<b>49,357</b>	<b>1,986.4</b>	<b>1,577.4</b>
<i>Current Liabilities</i>	25,344	18,865	862.7	602.9
<i>Long-term liabilities</i>	33,014	30,492	1,123.7	974.5
<b>Shareholder's equity</b>	<b>64,794</b>	<b>67,234</b>	<b>2,205.3</b>	<b>2,148.7</b>

## 2Q2009 Highlights

- Cash and cash equivalents of US\$ 171 million (RUR 5,345 million)
- Short-term investments of US\$ 23 million (RUR 717 million)
- Total debt of US\$ 933 million (RUR 29,200 million)
- 98% of total debt is in RUR
- Net debt of US\$ 739 million (RUR 23,138 million)
- Total debt/OIBDA of 1.6
- Net debt/OIBDA of 1.2



ADSL.....	Asymmetric digital subscriber line
ADSL2+.....	ADSL technology using the ITU G.992.5 standard. Allows for downstream speed of up to 24 Mbps.
Docsis.....	Data Over Cable Service Interface Specifications
Ethernet.....	Packet based transmission protocol primarily used in LANs
FTTB.....	Fiber-to-the-Building
HFC.....	Hybrid Fiber-Coaxial
MMDS.....	Microwave Multipoint Distribution System