



## Comstar-UTS

Corporate presentation based on 3Q2009 results



# Disclaimer



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.

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## Comstar at a Glance



- 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>9m09</sub> – **US\$ 1,073.1 mln**, adjusted OIBDA\* margin<sub>9m09</sub> – **41.0 %**
- Over **7.5 million** households passed
- The leading national broadband provider: ~ **1.2 mln** residential broadband subs + over **2 mln** residential pay-TV subs
- The leading fixed-line telecommunications provider for corporates – over **1 mln** active lines
- **>90%** of revenues & opex, **>80%** of capex and **99%** of total debt are RUR-denominated
- Owner of **25% + 1** share in state-owned Svyazinvest national fixed line incumbent
- **14%** treasury shares

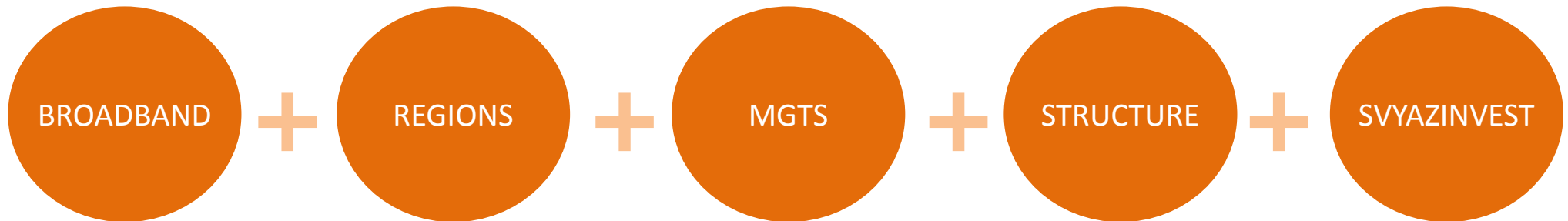
\* OIBDA is adjusted for stock-based compensation costs and non-recurring inventory obsolescence charges and other provisions

# Strategy: "5 Angles of Attack"



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

- ✓ 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

- ✓ Capitalizing on Svyazinvest stake

# Strategic priorities in crisis environment



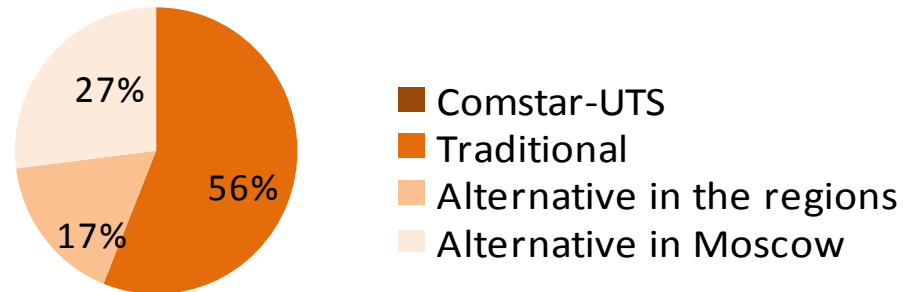
	Actions	9m09 results
1 Ensure financial stability	<ul style="list-style-type: none"><li>• Maximizing cash flows</li><li>• Optimization of capital investments</li><li>• Service the debt</li><li>• Reduction of debt level</li></ul>	<ul style="list-style-type: none"><li>• RUR 7.4 bln free cash flow</li><li>• Cash CAPEX of 9% of revenues</li><li>• Timely payment of interest</li><li>• Restructuring of terms of Sberbank loan repayment</li></ul>
2 Refocus from expansion to optimization	<ul style="list-style-type: none"><li>• Keep and develop the existing subscriber base</li><li>• 3K programme of quality enhancement</li><li>• Selective up-sell of existing subscribers to VAS</li></ul>	<ul style="list-style-type: none"><li>• BB subs growth with no promo</li><li>• Plug-and-play MGTS product</li><li>• 7% y-o-y residential BB RUR ARPU growth in Moscow</li></ul>
3 Strategic M&A & restructuring	<ul style="list-style-type: none"><li>• Acquisition of regional operators</li><li>• Restructuring of ownership in Svyazinvest</li></ul>	<ul style="list-style-type: none"><li>• In progress</li></ul>

In current market environment our strategic priorities are moved from active expansion towards maximizing cash flows and integration of the assets, the strategy is being revised to reflect the change in controlling shareholder

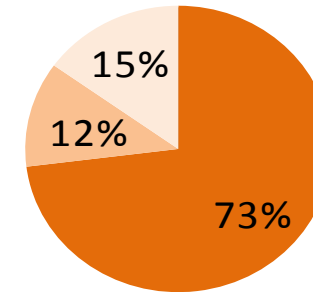
# Combination of high profitability and revenue growth



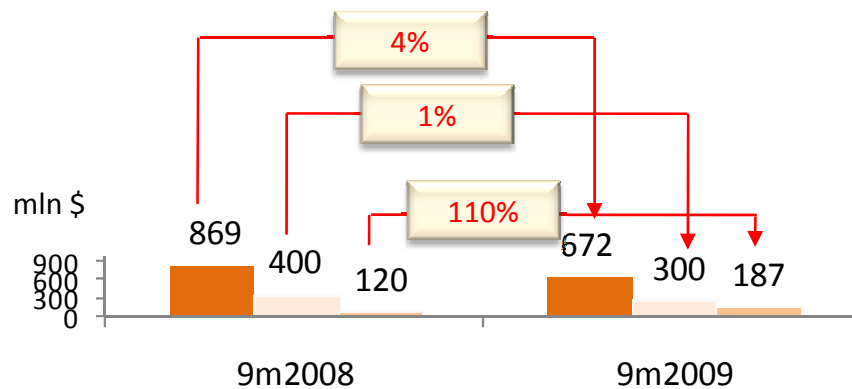
Breakdown of revenues, 9m2009



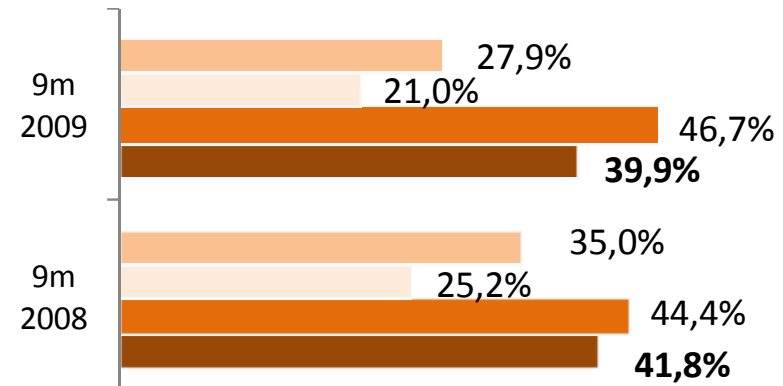
Breakdown of OIBDA, 9m2009



Revenue growth \*



RUR OIBDA margin dynamics, %



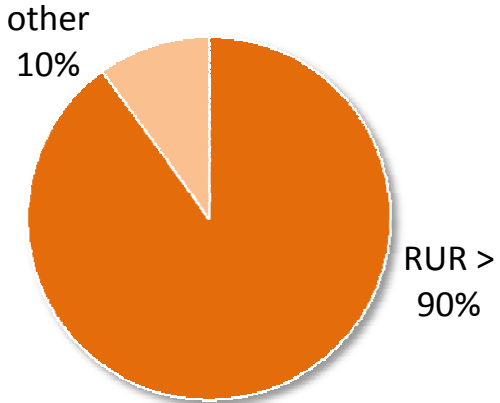
Stable traditional MGTS business provides sustainable cash flows and high profitability, regions drive revenue growth

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

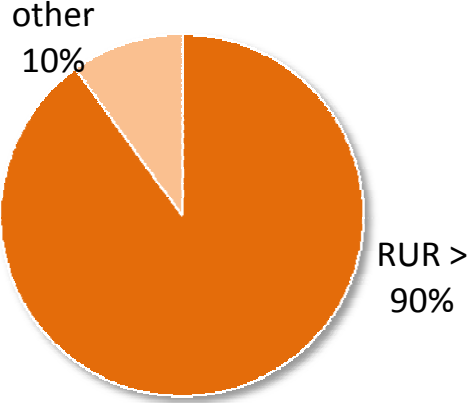
# Resilience to forex movements



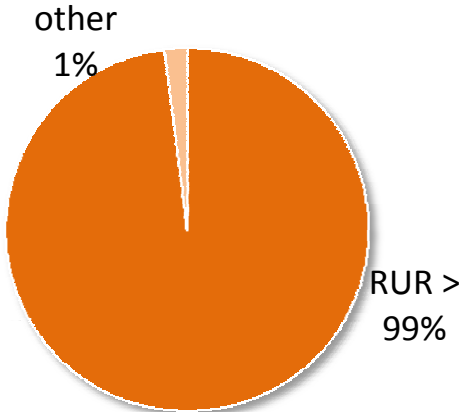
Revenue breakdown



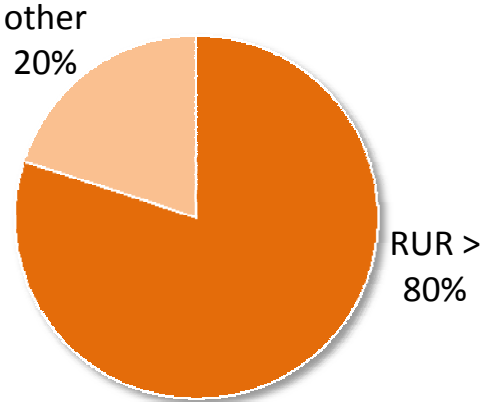
Operating expenses breakdown



Total debt breakdown



CAPEX breakdown



## 3Q2009 results proved the resilience of the business



(RUR Million)

	Q3 2009	Q3 2008	Growth	Q2 2009	Growth	9m 2009	9m 2008	Growth
<b>Revenues</b>	<b>11,747</b>	10,219	15%	11,702	-	<b>34,792</b>	30,191	15%
<b>OIBDA</b>	<b>4,778</b>	4,712	1%	4,803	(1%)	<b>13,872</b>	12,610	10%
<i>Margin (%)</i>	<b>40.7%</b>	46.1%		41.0%		<b>39.9%</b>	41.8%	
<b>Adjusted OIBDA*</b>	<b>5,052</b>	4,467	13%	4,871	4%	<b>14,254</b>	12,510	14%
<i>Margin (%)</i>	<b>43.0%</b>	43.7%		41.6%		<b>41.0%</b>	41.4%	
<b>Operating Income</b>	<b>3,389</b>	3,436	(1%)	3,378	-	<b>9,565</b>	8,914	7%
<i>Margin (%)</i>	<b>28.8%</b>	33.6%		28.9%		<b>27.5%</b>	29.5%	
<b>Net income attributable to Comstar-UTS</b>	<b>851</b>	874	(3%)	958	(11%)	<b>2,303</b>	2,889	(20%)
<i>Margin (%)</i>	<b>7.2%</b>	8.6%		8.2%		<b>6.6%</b>	9.6%	
<b>Cash Capex</b>	<b>565</b>	2,526	(78%)	500	13%	<b>3,089</b>	5,791	(47%)
<i>% of Revenues</i>	<b>4.8%</b>	24.7%		4.3%		<b>8.9%</b>	19.2%	

### 3Q2009 Highlights

- 15% year on year revenue growth in RUR
  - Consolidation of regional operators
  - Growing DLD/ILD and fixed-to-mobile traffic
  - Increase in RUR prices
- 13% year on year adjusted OIBDA\* growth
- 3% year on year net income attributable to Comstar-UTS decline in RUR

\* OIBDA is adjusted for stock-based compensation costs and non-recurring inventory obsolescence charges and other provisions



# Liquidity



## 9 months ended September 30, 2009

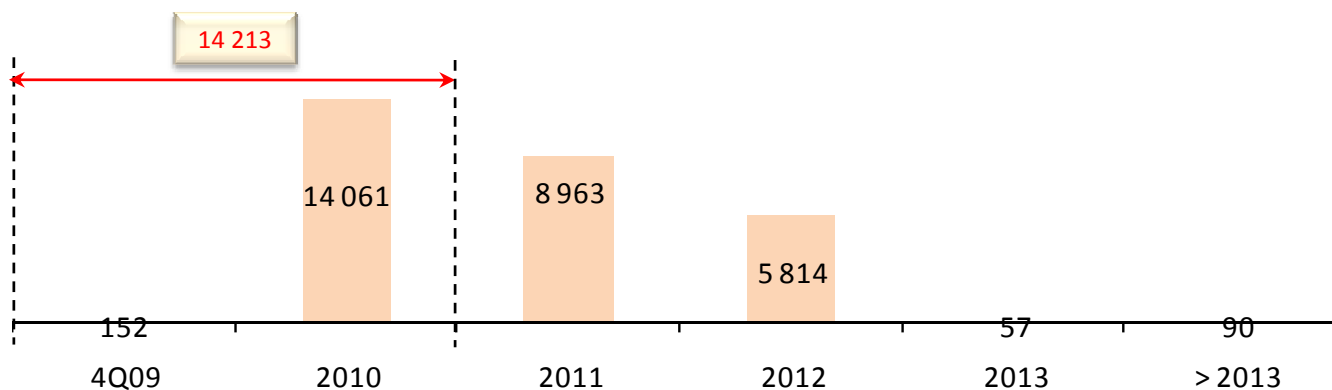
- Operating cash flow RUR 10.5 bln
- Cash, cash equivalents & short-term investments RUR 8.8 bln
- Cash CAPEX RUR 3.1 bln
- Free cash flow RUR 7.4 bln
- Total debt RUR 29.1 bln
- Total debt/OIBDA 1.5
- Net debt RUR 20.3 bln
- Net debt/OIBDA of 1.1

## Debt structure as of September 30, 2009

Debt by currency	US\$ million
Russian Ruble	957
Euro	1
US Dollar	10
<b>Total debt *</b>	<b>968</b>

	In the currency of debt, mln		US\$, mln
Sberbank credit line facility	26,000	RUR	864
SMM	1,787	RUR	59
Vendor financing	433	RUR	14
Others		various	31
<b>Total debt *</b>			<b>968</b>

## Debt repayments schedule \*, mln RUR



\* RUR/\$ = 30.0922 as at September 30, 2009

# BB market In Moscow

BROADBAND

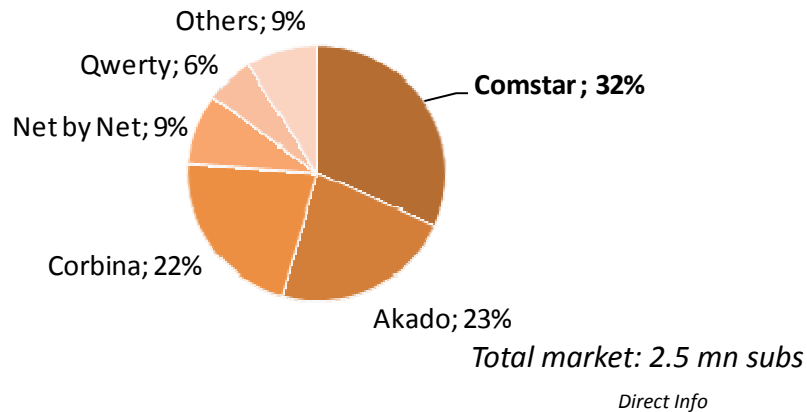
REGIONS

MGTS

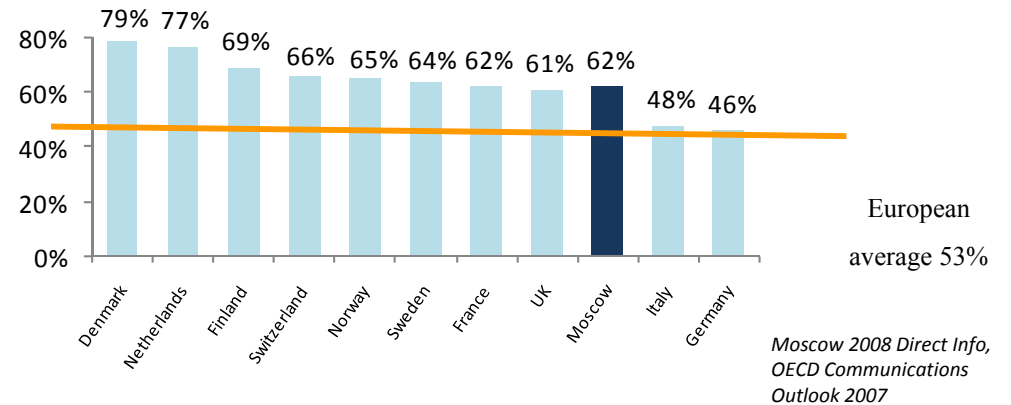
STRUCTURE

SVYAZINVEST

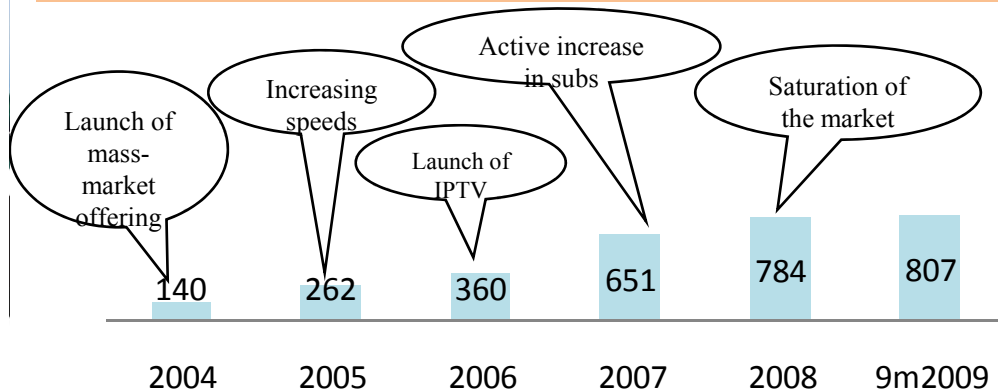
## Moscow Residential BB Market, 2Q2009



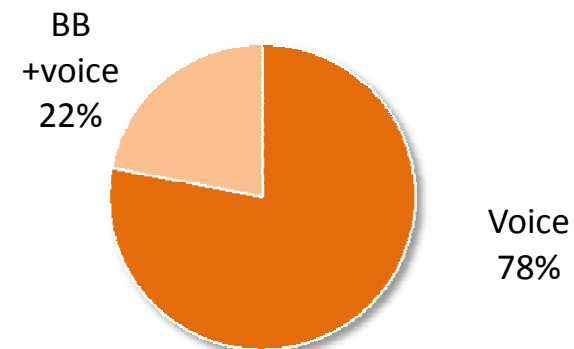
## Broadband penetration, %



## Comstar residential subscriber base, '000



## Penetration of BB among MGTS subscriber base, %



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)

## Analog->TDM

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Release of real estate
- VAS impact is minimal
- No BB impact

## Analog->NGN

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Centralization of equipment
- Release of real estate
- VAS impact is minimal
- No BB impact

## Analog->IMS (from 2010)

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Centralization of equipment
- Release of real estate
- BB connectivity as by product
- Major VAS development

Cost saving

Major service impact

Development reached the point of revolutionary step – full IP  
— connectivity to home with voice over the broadband

# Unique bundling in Moscow

BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST

## COMSTAR

Fixed  
(ADSL)

Wireless  
(WiMAX/Wi-Fi)

IMS Home  
Gateway



Ethernet, Wi-Fi



Client



Speed : up to 24  
Mb/sec, IP TV, HDTV

Connection Manager



IP-TV EPG

In the car

WiMAX

At friends

Wi-Fi

In public places



Client

Combination of different technologies already created unified communications space

# Russian fixed-line market

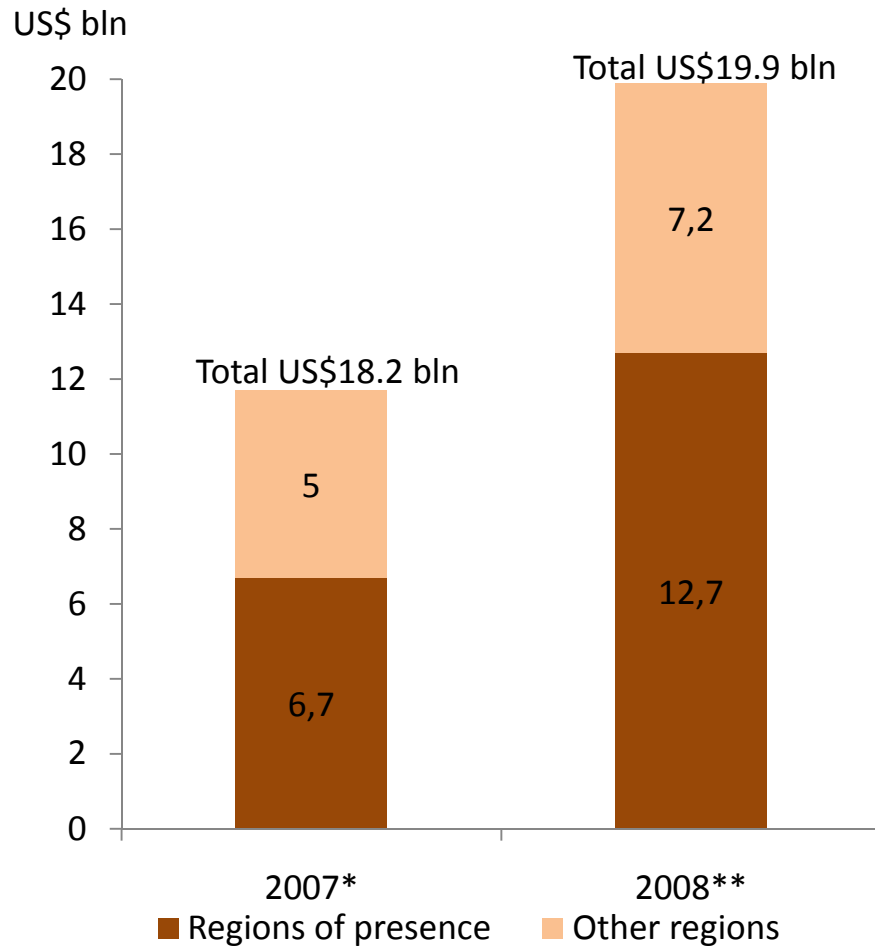
BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST



- In 2007 Comstar was present in 36% of the market
- In 2008 Comstar significantly increased its presence – to 64% of the market due to:
  - Penetration to DLD/ILD market
  - Significant increase of its share on the alternative market in the regions

**In 2008 Comstar entered DLD/ILD market & significantly increased the number of regions of presence**

\* Direct Info, Mincomsvyaz

\*\* Comstar estimates based on Mincomsvyaz data

# Regions: current presence

BROADBAND

REGIONS

MGTS

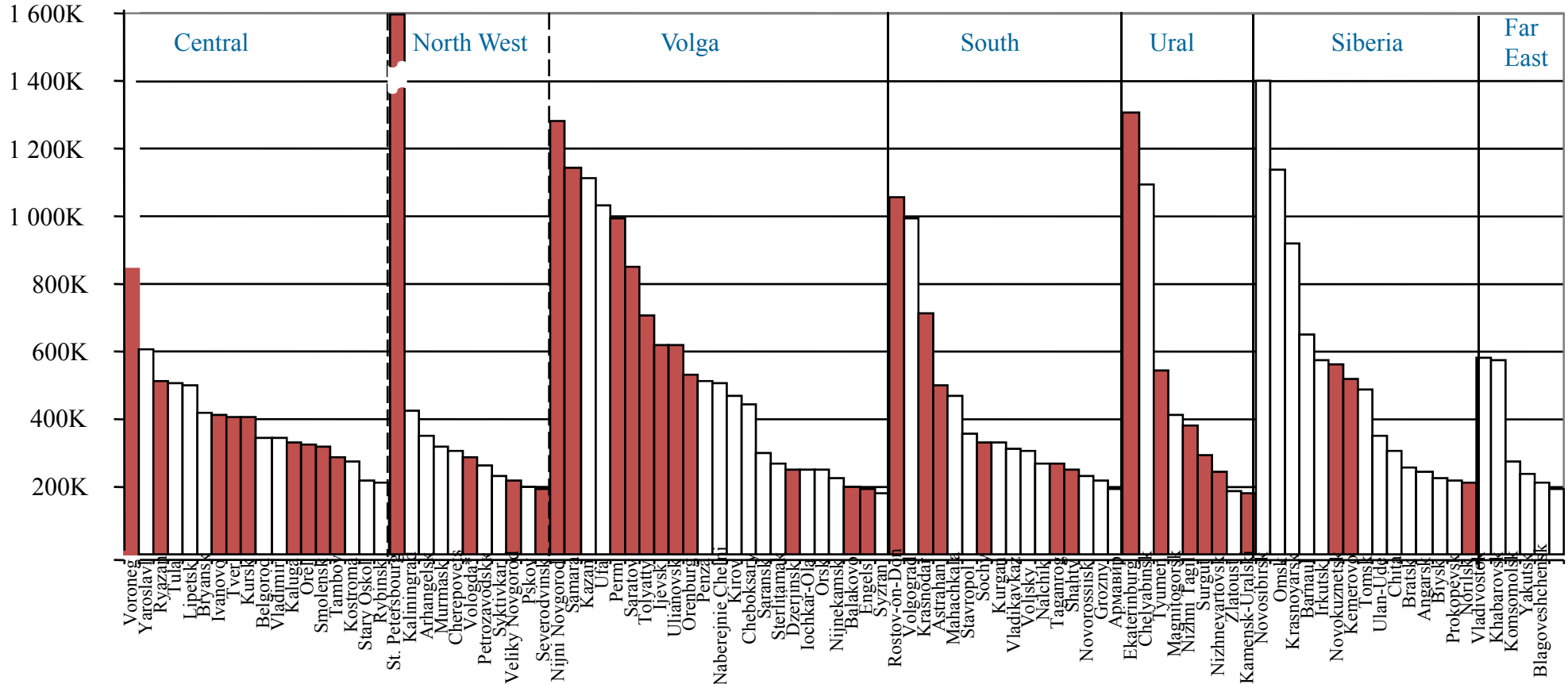
STRUCTURE

SVYAZINVEST



Cities with population of more than 200k

Regions



Regional operations cover 69 cities

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

\* Incl. cities where Comstar has the last mile to the homes and cities where Comstar has corporate clients

# Regional BB development

BROADBAND

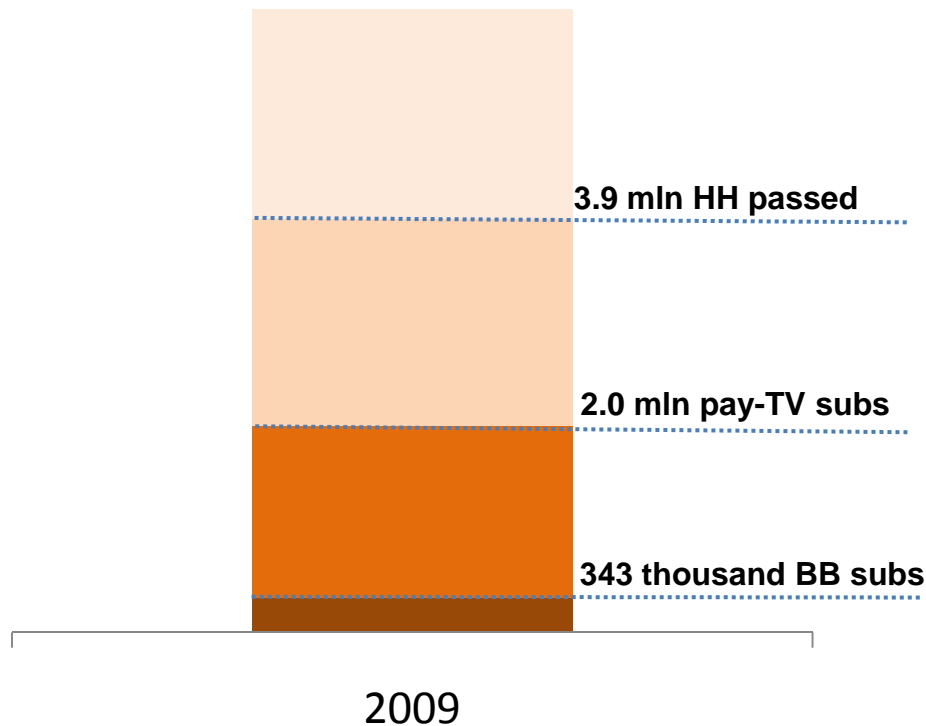
REGIONS

MGTS

STRUCTURE

SVYAZINVEST

Comstar's regional cities of presence – total of 5.9 mln households (HH)\*



- 59% of HH passed are BB ready
- Network modernization will increase the capacity of BB networks to 80% of HH passed
- Green field will allow to cover a significantly higher number of cities
- Reasonable in parallel with M&A with business case developed for each target market to identify comparative economics

Network modernization increases the BB networks capacity. M&A and 'green field' activities will allow us to reach maximum coverage

\* Cities where Comstar has the last mile to the homes

# Comstar Group Structure

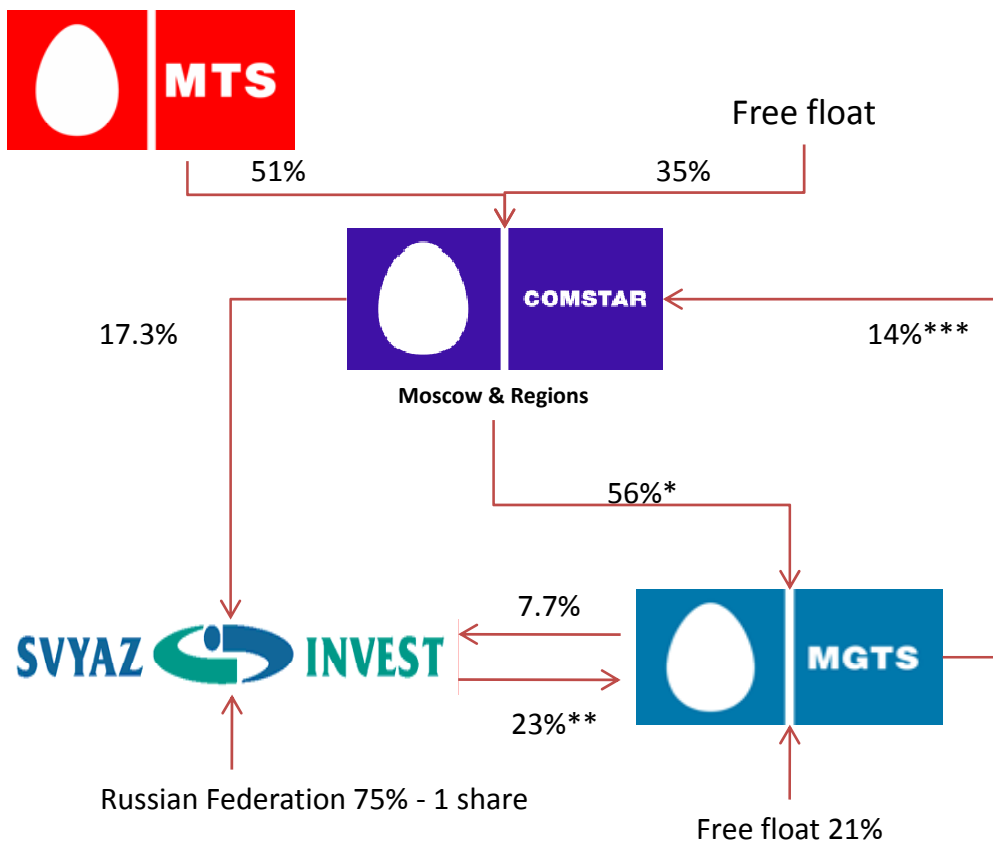
BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST



- On October 12, 2009 MTS acquired 51% stake in Comstar from Sistema

\*67% of voting shares

\*\*28% of voting shares

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

Comstar becomes part of MTS Group



# Comstar profile



## Traditional segment in Moscow (ILEC)

## Alternative segment in Moscow (CLEC)

## Alternative segment in regions and CIS (CLEC)



Present



56% of Group revenues  
73% of Group OIBDA

- >4.8 mln installed lines:
  - 3.6 mln residential, (incl.209 000 mass-market BB users)
  - 763 000 corporate (70 000 accounts)
- >90% of lines are ADSL compatible
- >63% of lines are digital
- >11 000 km combined backbone



27% of Group revenues  
15% of Group OIBDA

- >658 000 installed lines
- 620 000 residential accounts (incl. 603 000 premium BB users)
- 27 000 corporate accounts



17% of Group revenues  
12% of Group OIBDA

- >3.9 mln households passed (59% BB ready)
- 2.5 mln residential subs:
  - 2.0 mln pay-TV users
  - 343 000 BB users
- 42 000 corporate accounts

STATE HOLDING  
Comstar owns 25%+1 share

- 7ILECs + Rostelecom + Central Telegraph
- Owner of the “last mile” in the regions
- >35 million installed lines covering 90% of Russia

Future



- Mass-market BB
- Regulated voice tariff revisions
- Digitalization via IMS on 1.7 mln analogue lines (platform for future FMC)



- Rebrand to MTS
- Cross-sales with MTS on corporates
- Converged offering ADSL, WiMax, 3G for premium BB



- Rebrand to MTS
- Complete modernization
- Up-sell from pay-TV to BB
- Cross-sales with MTS
- Backbone channels optimization
- M&As

- Sell SI stake
- Increase the stake in MGTS

## Investment Case



- ✓ 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)
- ✓ Sell SI stake/Increase the stake in MGTS

### After MTS/SSA deal:

- + Brand
- + ILD/DLD channels
- + Combined offerings



For additional information please visit

[www.comstar-uts.com](http://www.comstar-uts.com)

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# Appendix. Income Statement



	(RUR Million)				(US\$ Million)			
	3Q2008	3Q2009	9m2008	9m2009	3Q2008	3Q2009	9m2008	9m2009
<b>Revenues</b>	10,219	<b>11,747</b>	30,191	<b>34,792</b>	421.6	<b>375.1</b>	1,255.8	<b>1,073.1</b>
<i>Y-o-Y Growth</i>	7.6%	<b>15.0%</b>	8.0%	<b>15.2%</b>	13.3%	<b>-11.0%</b>	16.2%	<b>-14.5%</b>
<b>Adjusted OIBDA*</b>	4,467	<b>5,052</b>	12,510	<b>14,254</b>	185.0	<b>161.1</b>	520.7	<b>439.8</b>
<i>Margin (%)</i>	43.7%	<b>43.0%</b>	41.4%	<b>41.0%</b>	43.9%	<b>42.9%</b>	41.5%	<b>41.0%</b>
<b>Operating Income</b>	3,436	<b>3,389</b>	8,914	<b>9,565</b>	142.3	<b>108.1</b>	370.8	<b>295.4</b>
<i>Margin</i>	33.6%	<b>28.8%</b>	29.5%	<b>27.5%</b>	33.8%	<b>28.8%</b>	29.5%	<b>27.5%</b>
<b>Net income attributable to Comstar-UTS</b>	874	<b>851</b>	2,889	<b>2,303</b>	36.4	<b>26.9</b>	120.4	<b>69.5</b>
<i>Margin</i>	8.6%	<b>7.2%</b>	9.6%	<b>6.6%</b>	8.6%	<b>7.2%</b>	9.6%	<b>6.5%</b>
<b>Cash Capex</b>	2,526	<b>565</b>	5,791	<b>3,089</b>	105.4	<b>18.0</b>	241.2	<b>93.2</b>
<i>% of Revenues</i>	24.7%	<b>4.8%</b>	19.2%	<b>8.9%</b>	25.0%	<b>4.8%</b>	19.2%	<b>8.7%</b>

\* OIBDA is adjusted for stock-based compensation costs and non-recurring inventory obsolescence charges and other provisions

## Appendix. Segmental Breakdown



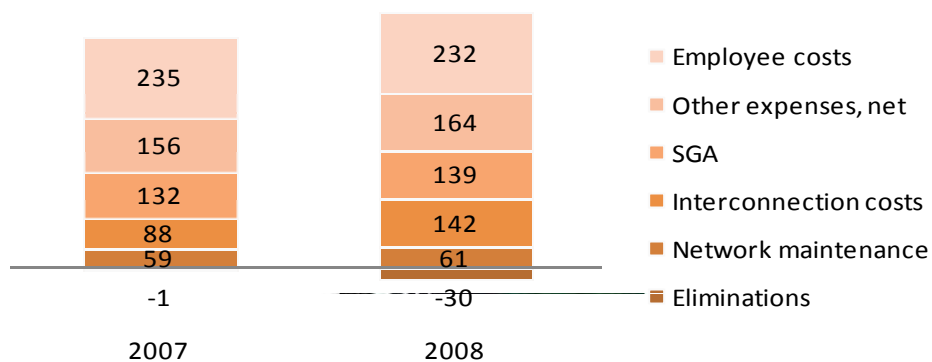
Revenue	(RUR Million)				(US\$ Million)			
	3Q2008	3Q2009	9m2008	9m2009	3Q2008	3Q2009	9m2008	9m2009
Traditional segment in Moscow (MGTS)	7,008	<b>7,332</b>	20,890	<b>21,788</b>	289.4	<b>234.2</b>	869.2	<b>671.9</b>
Alternative segment in Moscow (Comstar & Comstar-Direct)	3,540	<b>3,363</b>	9,646	<b>9,713</b>	145.3	<b>107.4</b>	400.3	<b>299.8</b>
Alternative segment in the regions & CIS (Comstar)	1,099	<b>2,055</b>	2,891	<b>6,072</b>	45.3	<b>65.7</b>	120.2	<b>187.3</b>
Intersegment Sales	(1,428)	<b>(1,003)</b>	(3,235)	<b>(2,781)</b>	(58.4)	<b>(32.2)</b>	133.9	<b>(85.9)</b>
<b>Total Revenue</b>	<b>10,219</b>	<b>11,747</b>	<b>30,191</b>	<b>34,792</b>	<b>421.6</b>	<b>375.1</b>	<b>1,255.8</b>	<b>1,073.1</b>
<b>OIBDA</b>								
Traditional segment in Moscow (MGTS)	2,915	<b>3,515</b>	9,267	<b>10,183</b>	121.6	<b>112.2</b>	386.9	<b>314.2</b>
Alternative segment in Moscow (Comstar & Comstar-Direct)	1,425	<b>639</b>	2,430	<b>2,043</b>	57.9	<b>20.3</b>	99.6	<b>63.2</b>
Alternative segment in the regions & CIS (Comstar)	422	<b>632</b>	1,011	<b>1,697</b>	17.4	<b>20.2</b>	42.1	<b>52.1</b>
Effect of eliminations and other consolidation adjustments	(50)	<b>(8)</b>	(98)	<b>(51)</b>	(2.0)	<b>(0.3)</b>	(4.1)	<b>(1.4)</b>
<b>Total OIBDA</b>	<b>4,712</b>	<b>4,778</b>	<b>12,610</b>	<b>13,872</b>	<b>194.9</b>	<b>152.4</b>	<b>524.5</b>	<b>428.1</b>

# Appendix. Segmental Operating Expenses & Employees

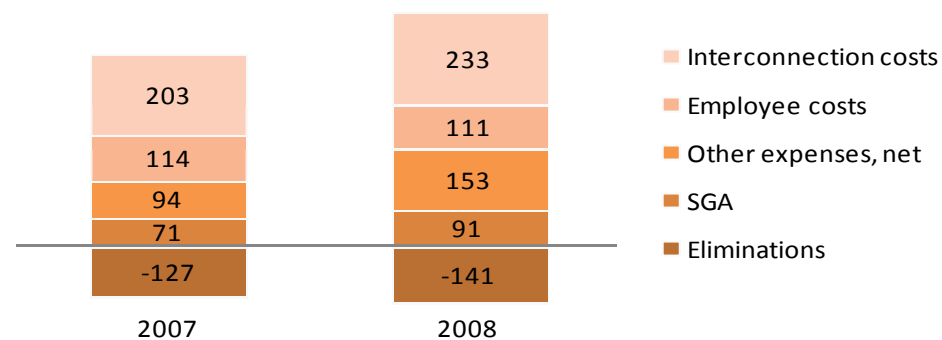


	2007	2008	9m2009
<b>#Employees *</b>			
Traditional segment	13,777	10,434	9,998
Alternative segment in Moscow	2,154	2,231	2,059
Alternative segment in the regions & CIS	1,084	2,878	5,656
<b>Average salary</b>			
Traditional segment	\$ 956	\$ 1,257	\$ 1,098
Alternative segment in Moscow	\$ 2,179	\$ 2,583	\$ 2,331
Alternative segment in the regions & CIS	\$ 1,340	\$ 1,099	\$ 782
<b>Average monthly revenue per Employee</b>			
Traditional segment	\$ 6,729	\$ 9,071	\$ 7,467
Alternative segment in Moscow	\$ 17,506	\$ 19,405	\$ 16,177
Alternative segment in the regions & CIS	\$ 3,602	\$ 4,775	\$ 3,680

Traditional Segment, mIn US\$

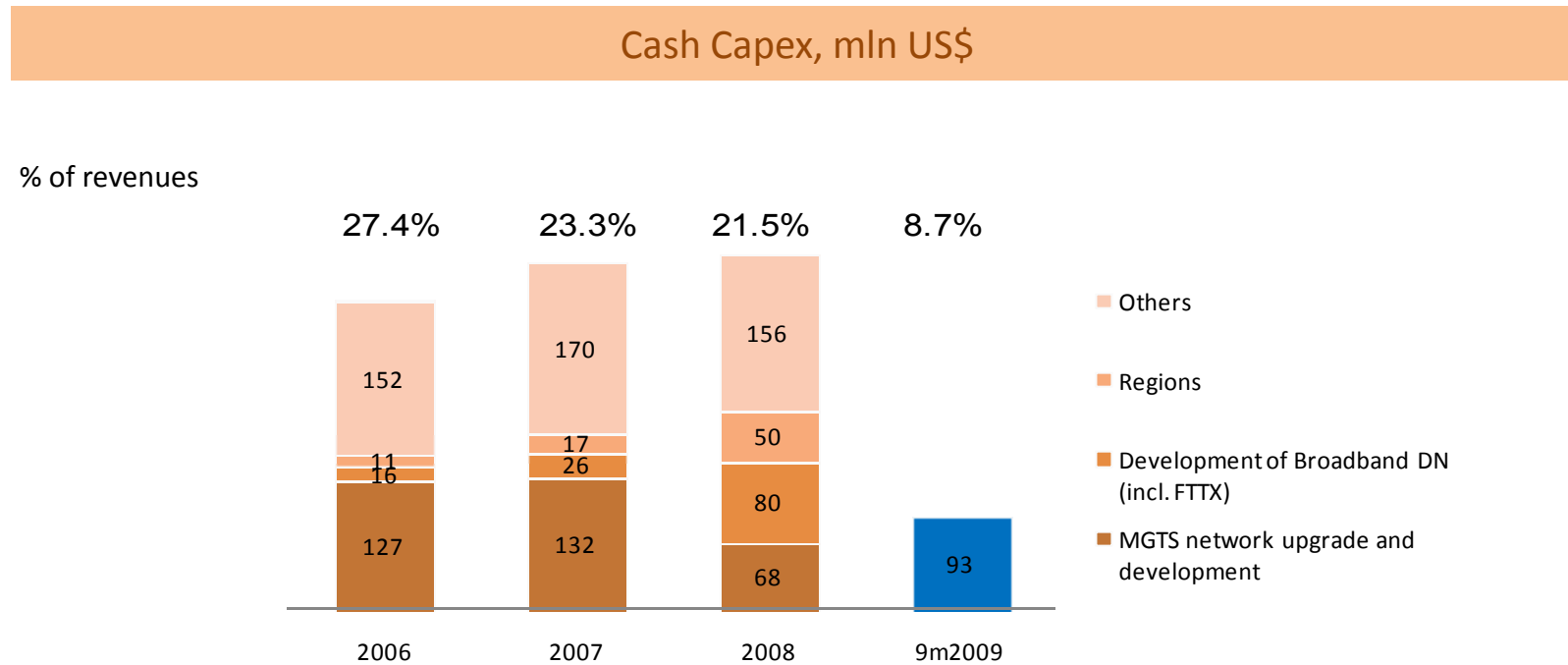


Alternative Segment, mIn US\$



\* At the end of period

# Appendix. Capital Expenditure Development



CAPEX levels are expected to be in 2009 at approximately 8% 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 & Balance Sheet



	(RUR Million)				(US\$ Thousand)			
	3Q2008	3Q2009	9m2008	9m2009	3Q2008	3Q2009	9m2008	9m2009
Net cash provided by operations	3,713	<b>3,698</b>	10,277	<b>10,466</b>	153,737	<b>117,796</b>	427,911	<b>319,162</b>
Net cash provided by/(used in) investing activities	(3,830)	<b>(4,059)</b>	(3,017)	<b>2,595</b>	(156,254)	<b>(129,538)</b>	(121,397)	<b>65,430</b>
Net cash used in financing activities	(1,012)	<b>(358)</b>	(3,220)	<b>(10,282)</b>	(42,840)	<b>(11,415)</b>	(134,940)	<b>(302,194)</b>
Effects of foreign currency translation of cash and cash equivalents	-	<b>(12)</b>	-	<b>14</b>	(28,303)	<b>5,660</b>	(16,541)	<b>8,962</b>
Cash and cash equivalents at the beginning of the period	9,582	<b>5,345</b>	4,413	<b>1,821</b>	408,487	<b>170,831</b>	179,794	<b>61,974</b>
Cash and cash equivalents at the end of the period	8,453	<b>4,614</b>	8,453	<b>4,614</b>	334,827	<b>153,334</b>	334,827	<b>153,334</b>
<b>FCF (Net cash provided by operations less Cash Capex)</b>	<b>1,187</b>	<b>3,133</b>	<b>4,486</b>	<b>7,377</b>	<b>48,312</b>	<b>99,784</b>	<b>186,689</b>	<b>225,989</b>

	(RUR Million)		(US\$ Million)	
	31.12.2008	30.09.2009	31.12.2008	30.09.2009
<b>Assets</b>	<b>123,152</b>	<b>118,127</b>	<b>4,191.7</b>	<b>3,925.5</b>
<i>Current Assets</i>	<i>19,810</i>	<i>17,611</i>	<i>674.3</i>	<i>585.2</i>
<i>Long-term assets</i>	<i>103,342</i>	<i>100,516</i>	<i>3,517.4</i>	<i>3,340.3</i>
<b>Liabilities</b>	<b>58,358</b>	<b>49,088</b>	<b>1,986.4</b>	<b>1,631.2</b>
<i>Current Liabilities</i>	<i>25,344</i>	<i>20,936</i>	<i>862.7</i>	<i>695.7</i>
<i>Long-term liabilities</i>	<i>33,014</i>	<i>28,152</i>	<i>1,123.7</i>	<i>935.5</i>
<b>Shareholder's equity</b>	<b>64,794</b>	<b>69,039</b>	<b>2,205.3</b>	<b>2,294.2</b>



## Appendix. Glossary



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