

# ANNUAL REPORT 2005





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## COMPANY PROFILE

COMSTAR – United TeleSystems is one of Russia’s biggest communication operators established in May 2004 when COMSTAR, MTU-Inform and Telmos merged. The main shareholder in COMSTAR – United TeleSystems is (AFK) Sistema Joint Stock Company Financial Corporation.

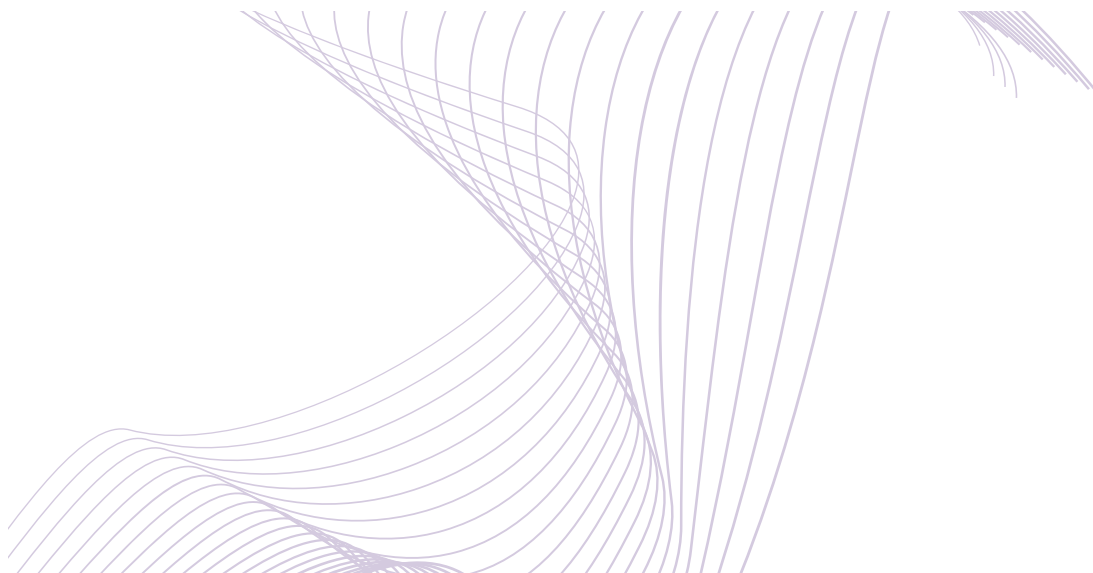
AFK Sistema’s assets in the fixed communications segment were restructured in the late 2005 with COMSTAR becoming the core, as a result of which COMSTAR – United TeleSystems acquired control of Moskovskaya Gorodskaya Telefonnaya Set (Moscow City Telephone Network) Public Joint Stock Company and MTU-Intel Private Joint Stock Company. This ownership structure allows to ensure prompt responses to market fluctuations, to improve corporate management efficiency.

The consolidation of the leading fixed communications operators with COMSTAR – United TeleSystems as the core allowed to establish a diversified company providing services to over 90% of the population of Moscow where a significant portion of high income corporate subscribers are located.

COMSTAR – United TeleSystems currently provides the full range of up-to-date telecommunication services, including telephony, data communication, high speed Internet access and pay television services, call centres and virtual private networks (VPNs). The broad range of possibilities allows COMSTAR – United TeleSystems to provide any required range of service to its customers with regard to their business needs and distinctive features.

The clear strategy and efficient analysis of market trends provided the possibility of covering all consumer segments from individual users to big corporations to COMSTAR – United TeleSystems.

The successful development of COMSTAR – United TeleSystems is determined in many respects by the avail-



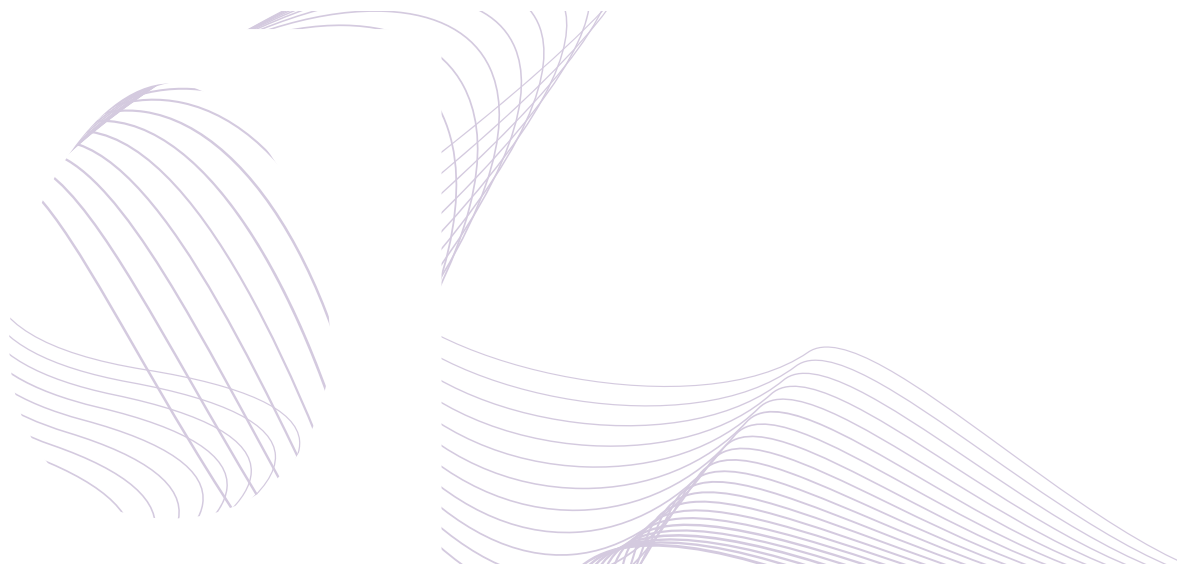
ability of powerful technology resources to the company, such as several backbone networks and access networks, including NGN COMSTAR, a new generation network, vacant numbering capacity, own video content production capabilities.

To make use of the investment and management potential which the company has acquired, COMSTAR – United TeleSystems has focused on addressing three key tasks: sales increase, regional development, optimisation of the structure and costs by integrating and implementing the advantages of unified business. COMSTAR – United TeleSystems is planning to become the leader in the fast-growing fixed communications market in Russia and the CIS through the implementation of this strategy.

The year 2005 was marked by the development of the company's branch network. This year COMSTAR – United TeleSystems has embarked upon active regional expansion plans by acquiring the leading alternative operators in different regions of Russia. The list of acquisitions included telecommunication companies, such as Metrokom in Saint-Petersburg, Tyumenneftegazsvyaz in Tyumen, Konversiya Svyaz and TK Overta in Saratov, as well as Yunitel and Kontrast Telekom in Moscow Oblast.

The company acquired the control stake in the authorised capital of Telmos Private Joint Stock Company, Kompaniya MTU-Inform Private Joint Stock Company, MTU-Intel Private and MGTS Public Joint Stock Company in November 2005 in the course of consolidating AFK Sistema's business in the fixed communications segment under the brand of COMSTAR – United TeleSystems.

COMSTAR – UTS became the first Russian company to successfully implement simultaneous public offering (IPO) of depositary receipts in the international market and ordinary shares in the Russian market in February 2006.

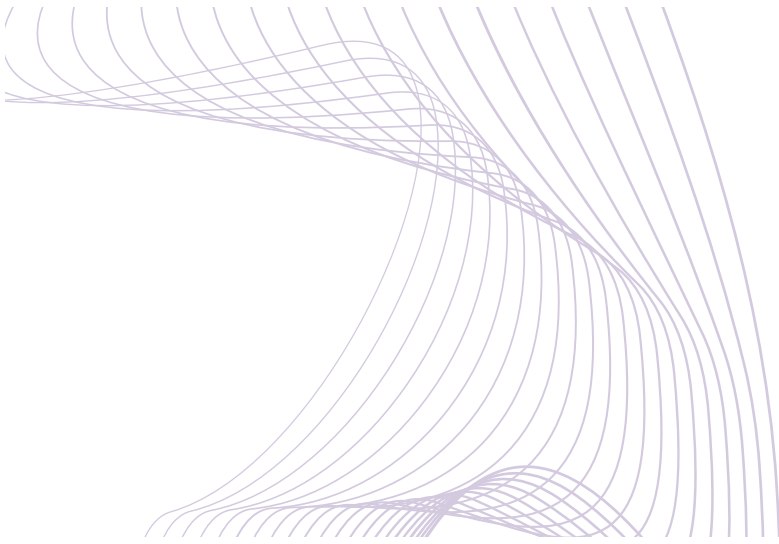


**Financial performance of COMSTAR – United TeleSystems Public Joint Stock Company in 2005 (mIn USD)**

Revenues	908
Revenues (without domestic sales with BN companies)	873
OIBDA	359
Net profit	106

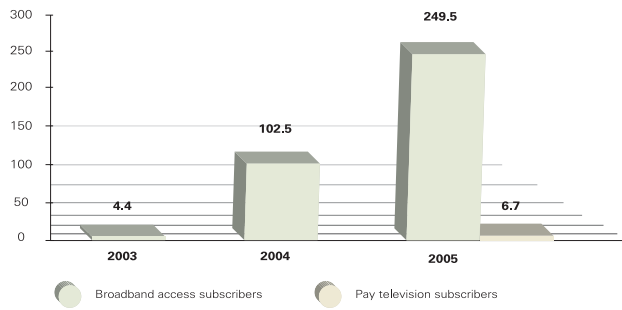
**Operating performance of Comstar – United TeleSystems Public Joint Stock Company in 2005**

	2003	2004	2005
<b>ALTERNATIVE SEGMENT</b>			
<u>Number of active subscribers</u>	525 566	478 666	475 959
Individuals	501 761	451 059	444 347
Broadband access subscribers	4 357	102 516	249 542
Dial-up subscribers	493 154	343 691	182 350
Voice communication subscribers	4 250	4 852	5 764
Pay television subscribers			6 691
Corporate users	23 555	27 258	31 170
Operators	250	349	442
<b>TRADITIONAL SEGMENT</b>			
<u>Number of active subscribers</u>	3 487 509	3 549 290	3 612 734
Individuals	3 409 841	3 472 661	3 536 479
Corporate subscribers	77 464	76 407	76 042
Communication operators	204	222	213

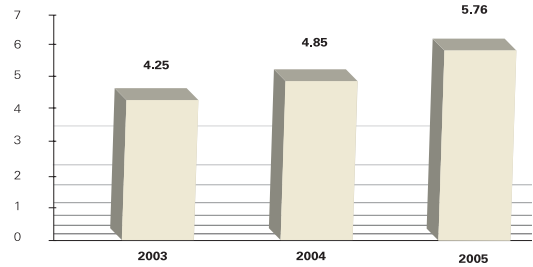


### Alternative segment

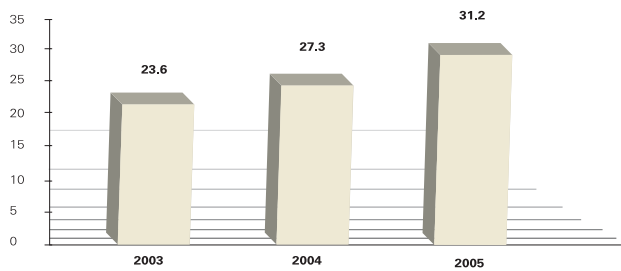
Broadband access and pay television subscribers, thousand



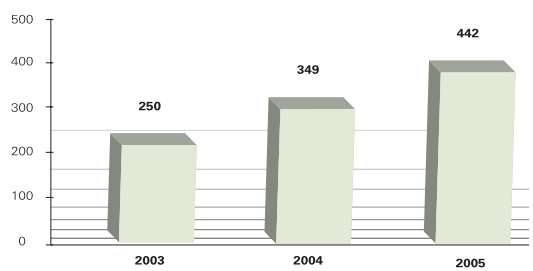
Voice communication subscribers, thousand



Corporate users, thousand

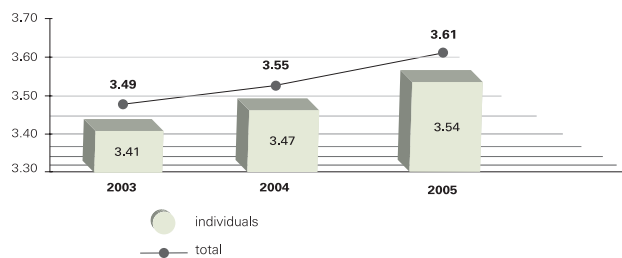


Operators



### Traditional segment

The number of active subscribers, mln



# ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



Sergey Schebetov

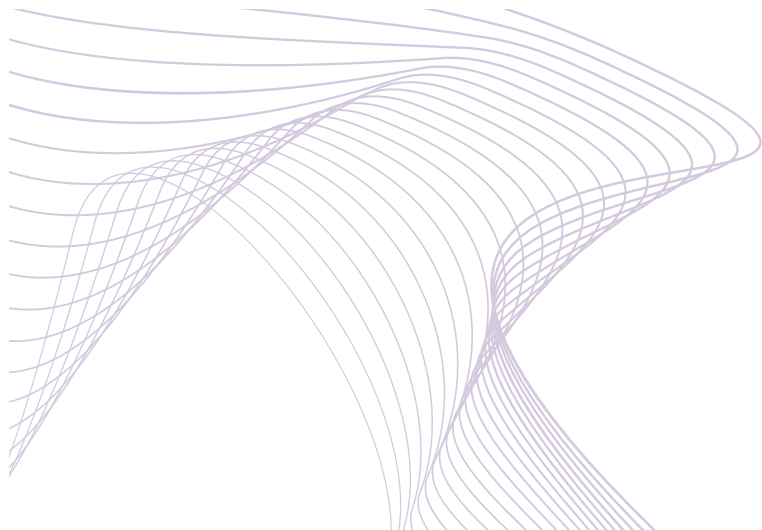
COMSTAR – United TeleSystems is Russia’s third biggest fixed communications operator by capitalisation. Our goal is to build a leader in the fast-growing and promising market of Russia and the CIS.

Two years ago we made the first step in building the new leader in the fast-growing and promising telecommunications market of Russia and the CIS. AFK Sistema took a decision at the initial stage to consolidate the assets of Comstar, MTU-Inform and Telmos with COMSTAR – United TeleSystems as the core.

The second step within the strategy chosen was to restructure AFK Sistema’s fixed communications assets by consolidating COMSTAR – United TeleSystems, MGTS and MTU-Intel. As a result, a transparent and clear ownership structure was established which allowed to improve the efficiency of fixed business and to concentrate the key management functions within COMSTAR – United TeleSystems.

The COMSTAR – United TeleSystems IPO which took place early this year set a record in the amount of the funds raised by telecommunication companies both in Russia and the CIS countries. One may be confident to say now that the business of COMSTAR – United TeleSystems as a public company fully complies with the standards accepted by the international investment community.

COMSTAR – United TeleSystems is entering a new stage which will allow it to broaden its possibilities and to develop the business by replicating its expertise in the regions. As a genuinely public company, COMSTAR – UTS



now considers the international standards of investment cooperation as the cornerstone of its principles. Compliance with these standards should also add value to the AFK Sistema fixed communications business as a whole.

Sergey Schebetov  
General Director,  
Sistema Telecom Private Joint Stock Company

Chairman of the Board of Directors  
COMSTAR – United TeleSystems



# ADDRESS OF THE GENERAL DIRECTOR



Semen Rabovskiy

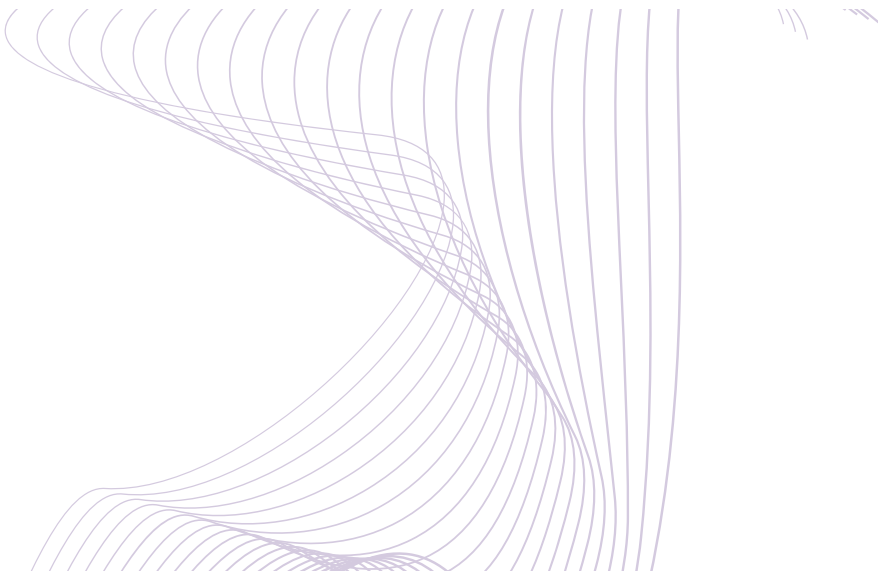
The synergy with MGTS and MTU-Intel has allowed COMSTAR – United TeleSystems to become the first operator providing integrated services in the market which provides a competitive edge to the company as compared with its competition.

A number of significant changes affecting all key aspects of the company's operations have taken place in the recent several years at COMSTAR – United TeleSystems. A complex process followed which required the significant efforts aimed at merging MTU-Intel, Comstar and Telmos, three independent market players, with changes in their corporate structures and the unification of the companies' business processes. The COMSTAR – United TeleSystems brand found a steady foothold in the market and became the guarantee of the quality of service and technological leadership.

The main task set by the shareholders was fulfilled successfully. We have been able to reach the synergy of a fixed communications group of companies, merging assets and ensuring their maximum capitalisation.

The business structure which we have now rules out any competition between the companies which form part of COMSTAR – United TeleSystems. Besides, we have been able to establish a diversified communications operator specialising in comprehensive communication solutions and prevailing in different market segments. The clear positioning allows to ensure efficient penetration into all market segments and the possibility of handling any customer category.

The acquired practical expertise shows that the comprehensive approach to the development of a full range of services, the strong customer focus, as well as strict adherence to the strategy chosen have secured undoubted leadership in the Moscow region to COMSTAR – UTS. Cur-



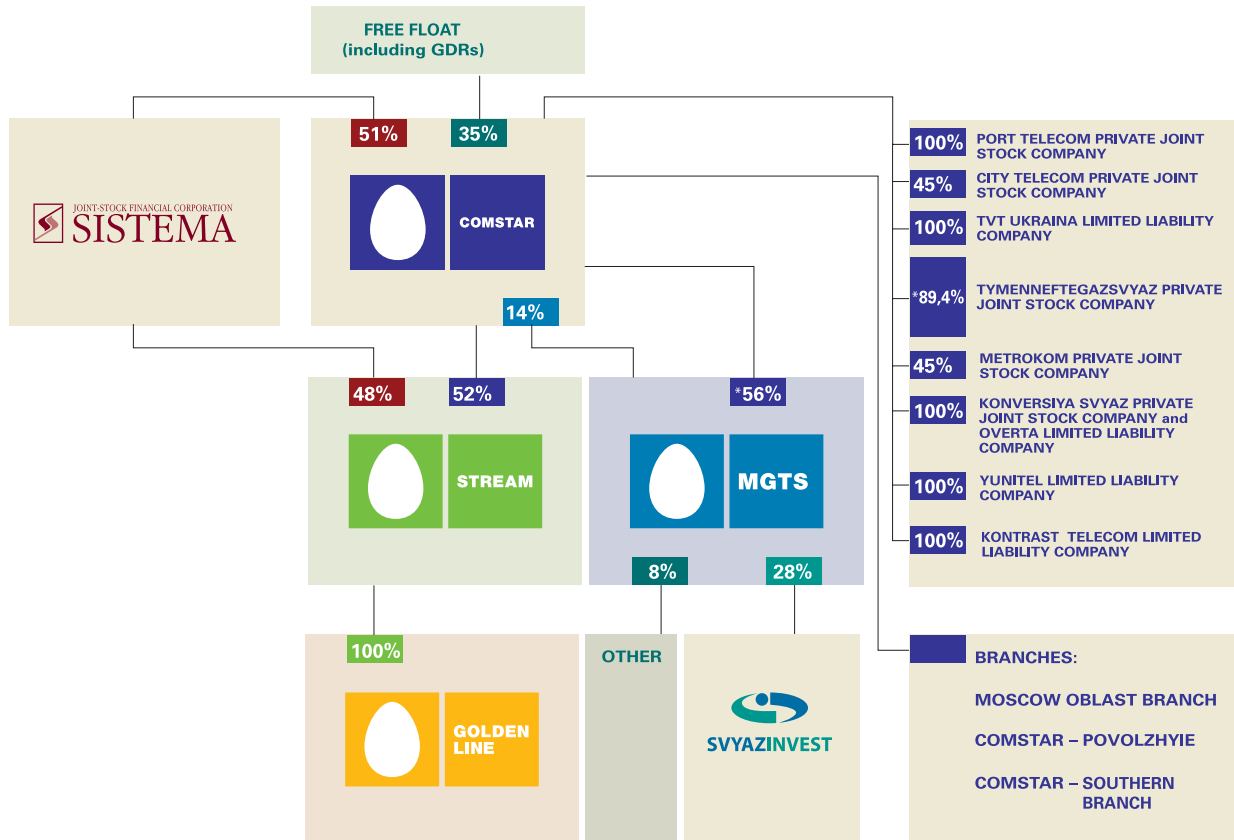
rently COMSTAR – United TeleSystems is moving steadily on its way to establishing a federal multiservice communication operator.

Semen Rabovskiy,  
General Director  
COMSTAR – United TeleSystems

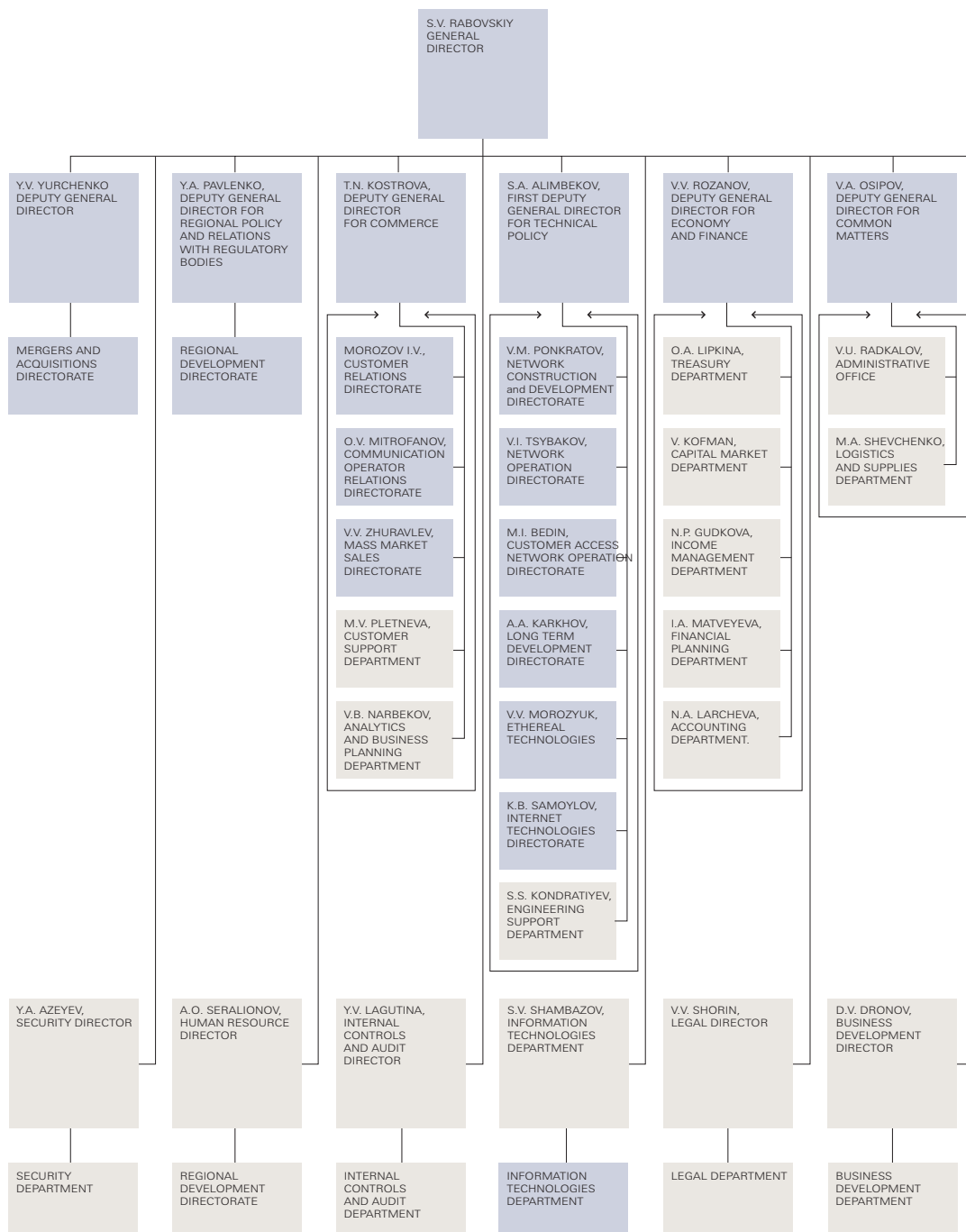
# SHAREHOLDING STRUCTURE

AFK Sistema, COMSTAR – United TeleSystems’ shareholder, consolidated the fixed communications business with COMSTAR – United TeleSystems being its core in 2005 to ensure efficient corporate management and maximise the value of fixed communication assets in 2005.

AFK Sistema transferred its interest in MGTS, Telmos, MTU-Intel, MTU-inform, Sistema Multimedia in the course of this process. As a result, a transparent and clear ownership structure was established which allowed to improve business efficiency by centralising management at COMSTAR – UTS.



# CORPORATE STRUCTURE





# THE BOARD OF DIRECTORS

## Chairman



Vladimir Sergeyevich Lagutin

Year of birth: 1947

Education: higher

General Director, Sistema Telecom Private Joint Stock Company



Semen Vladimirovich Rabovskiy

Year of birth: 1954

Education: higher

General Director, COMSTAR – United TeleSystems Public Joint Stock Company



Sergey Dmitriyevich Schebetov (joined the Board of Directors on June 30, 2005)

Year of birth: 1966

Education: higher

Head of AFK Sistema Public Joint Stock Company Corporate Development Department (before April 2005)  
First Deputy General Director, Sistema Telecom Private Joint Stock Company (from April 2005)

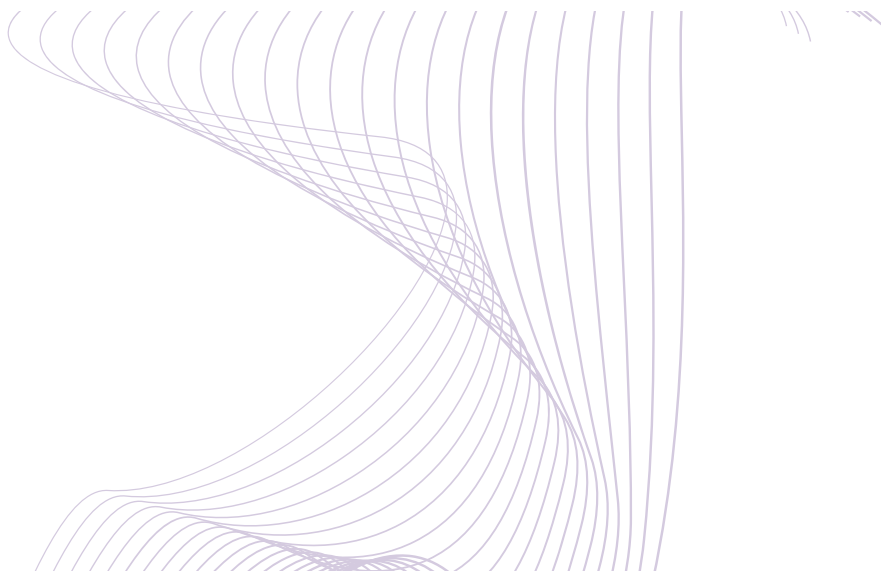


Levan Shioyevich Vasadze (was a member of the Board of Directors before June 30, 2005)

Year of birth: 1970

Education: higher

First Vice President, Head of the Strategy and Department Segment of AFK Sistema Public Joint Stock Company



Mikhail Alekseyevich Smirnov (was a members of the Board of Directors before June 30, 2005)  
Year of birth: 1950  
Education: higher  
General Director, Moskovskaya Gorodskaya Telefonnaya Set Public Joint Stock Company (before December, 2004)



Sergey Ivanovich Bayda (before 30.06.2005)  
Year of birth: 1954  
Education: higher  
Advisor to General Director of Sistema Telecom Private Joint Stock Company



Aleksandr Petrovich Vronets (joined the Board of Directors on June 30, 2005)  
Year of birth: 1954  
Education: higher  
First Deputy General Director, Sistema Telecom Private Joint Stock Company

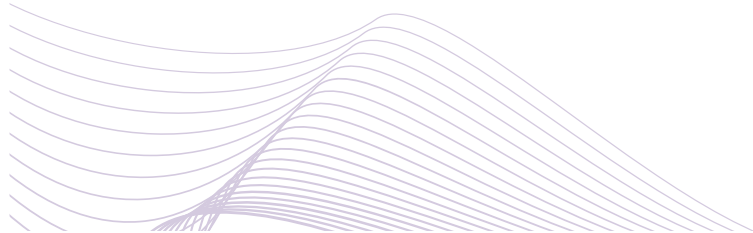


Aleksey Valentinovich Goltsov (joined the Board of Directors on June 30, 2005)  
Year of birth: 1965  
Education: higher  
General Director, Chairman of Moskovskaya Gorodskaya Telephonnyaya Set Public Joint Stock Company Management Board (from January, 2005)

The members of the Board of Directors owned no shares of the company during the reporting year.



# MANAGEMENT



## **General Director**

Semen Vladimirovich Rabovskiy

Year of birth: 1954

Education: higher

The General Director owned no shares of the company during the reporting year.

## **Management board (before November 11, 2005)**



### **Chairman**

Semen Vladimirovich Rabovskiy

Year of birth: 1954

Education: higher

General Director, COMSTAR – United TeleSystems



Said Sinyatulloevich Alimbekov

Year of birth: 1948

Education: higher

First Deputy General Director for Technical Policy, COMSTAR – United TeleSystems



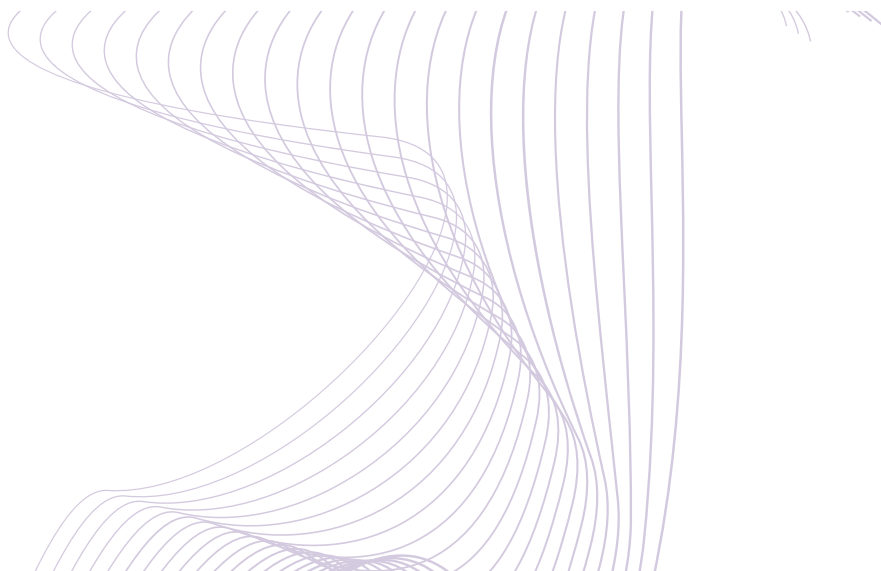
Dmitriy Vladimirovich Dronov

Year of birth: 1971

Education: higher

Marketing Director (before June, 2005)

Business Development Director, COMSTAR – United TeleSystems



**Tatiyana Nikolayevna Kostrova**

Year of birth: 1960

Education: higher

Deputy General Director for Commerce, COMSTAR – United TeleSystems



**Vladimir Ashotovich Osipov**

Year of birth: 1946

Education: higher

Deputy General Director for Common Matters, COMSTAR – United TeleSystems



**Yuriy Andreyevich Pavlenko**

Year of birth: 1947

Education: higher

Deputy General Director for Regional Policy and Relations with Regulatory Bodies, COMSTAR – United TeleSystems



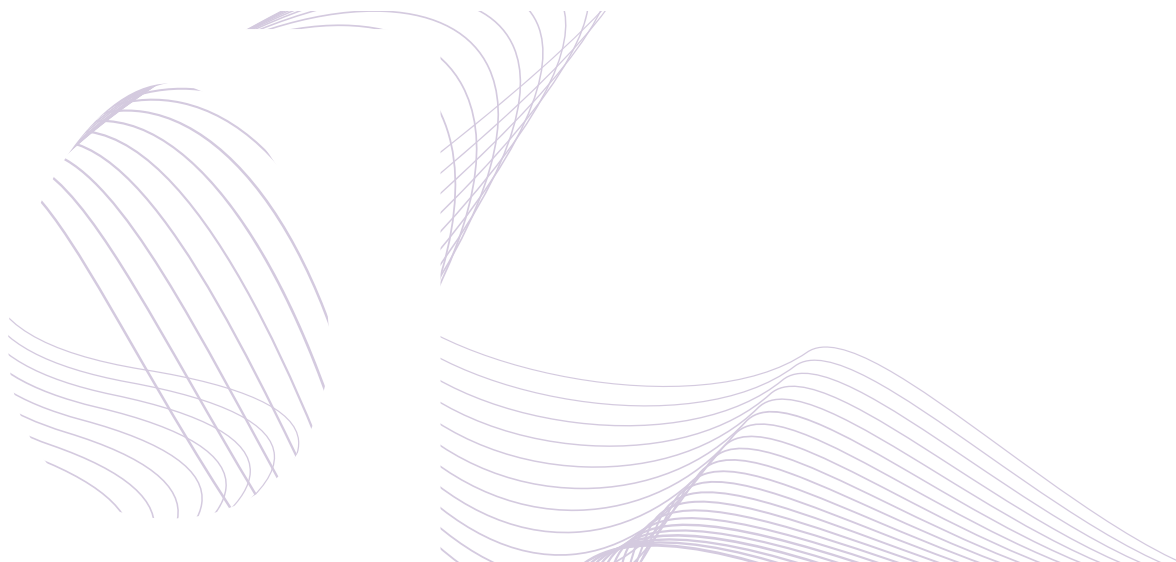
**Vsevolod Valeriyevich Rozanov**

Year of birth: 1971

Education: higher

Deputy General Director for Economy and Finance, COMSTAR – United TeleSystems





**Andrey Onikovich Serapionov**

Year of birth: 1958

Education: higher

Human Resources Director, COMSTAR – United TeleSystems



**Sabiriyon Valiyevich Shambazov**

Year of birth: 1947

Education: higher

Information Technologies Director, COMSTAR – United TeleSystems



**Vyacheslav Valeriyevich Shorin**

Year of birth: 1972

Education: higher

Legal Director, COMSTAR – United TeleSystems

The members of the Management Board did not own shares of the company during the reporting year.



# STRATEGY

## **COMSTAR – UNITED TELESYSTEMS HAS HIGH INVESTMENT AND MANAGEMENT POTENTIAL WHILE DEVELOPING IN LINE WITH GLOBAL TELECOMMUNICATION MARKET TRENDS.**

COMSTAR – United TeleSystems develops in line with world telecommunication market trends while improving business models, developing the infrastructure, developing and introducing new technologies.

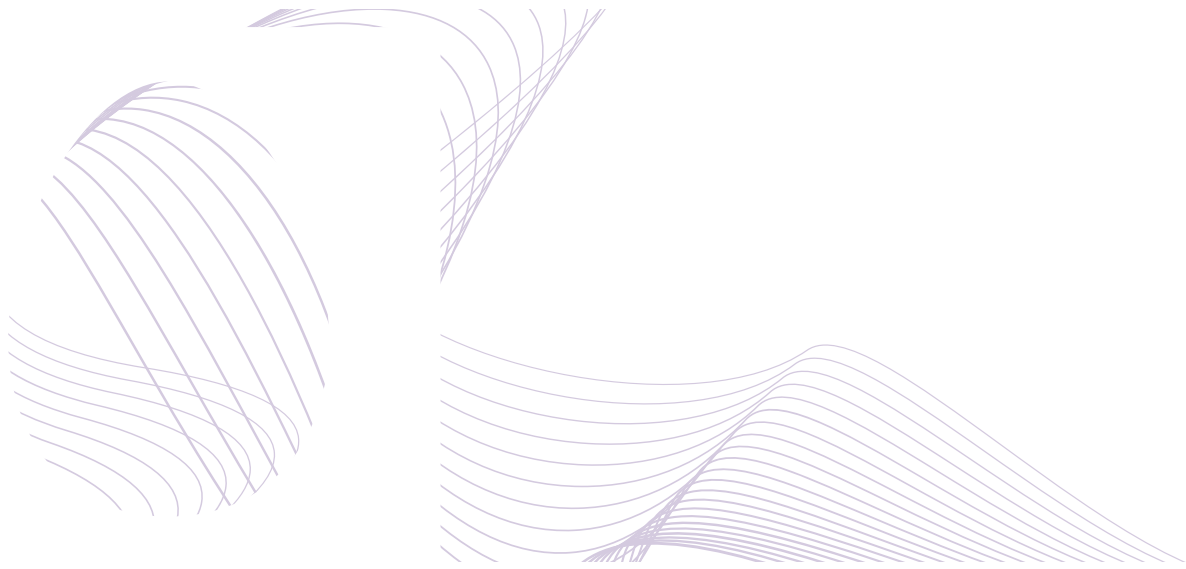
The company has high investment and management potential. The integration of the group of companies' business has allowed to optimise processes, to ensure prompt responses to market fluctuations, to improve corporate management efficiency.

COMSTAR – United TeleSystems is focused on increasing its share in the most rapidly growing and lucrative market segments while paying regard to customers' needs and shaping demand. This task is implemented also through clear positioning of the company and broadening its regional presence.

The company's key goal is to become a multi-service operator holding the leading positions in the fixed communications market in Russia and the CIS countries.

The consistent implementation of the policy of integrating the business of the member companies of COMSTAR – United TeleSystems provides a strong synergy and high competitive power of the services provided.

The company is actively tapping new regions and markets while broadening its geographic coverage. Improved efficiency of COMSTAR's regional business allows to satisfy customers' needs for up-to-date communication services in all regions of Russia.



The introduction of innovative solutions, the construction of a unified technological infrastructure, the development of new services, market front-running are the top priority lines of development for COMSTAR – United TeleSystems.

Customers' interests are the governing factor in choosing the strategy and addressing the tasks faced by the company. The key principles of COMSTAR's operations are reliability and the high quality of the services provided, partnership with customers.



# REGIONAL DEVELOPMENT

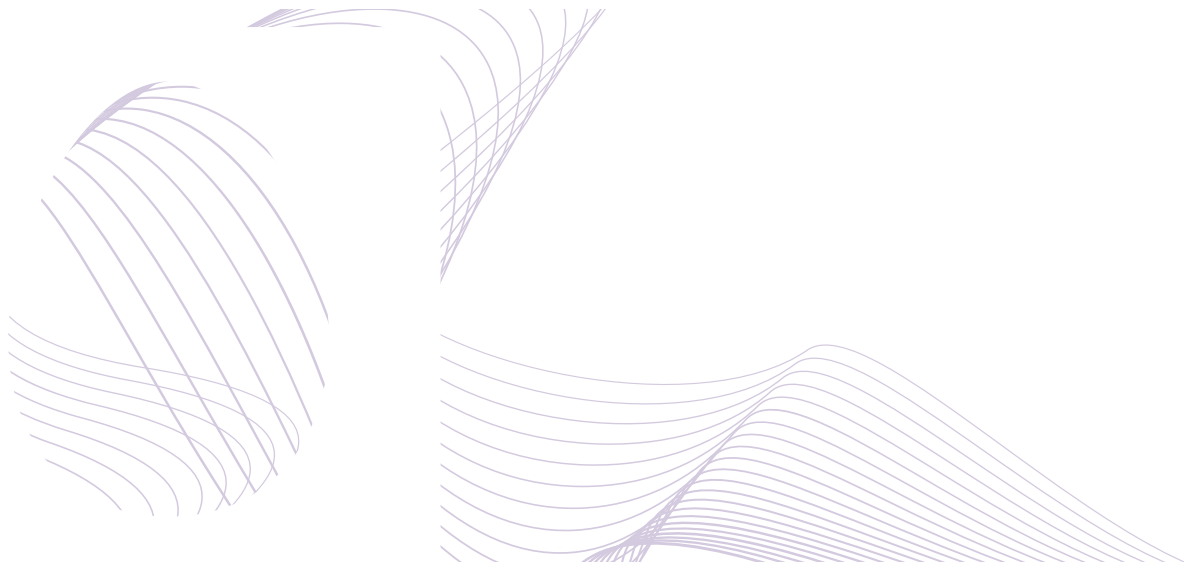
## **COMSTAR PROVIDES BUSINESS DEVELOPMENT OPPORTUNITIES TO ITS CUSTOMERS BY BROADENING ITS PRESENCE IN THE REGIONS OF RUSSIA**

COMSTAR – United TeleSystems is currently a fast-growing company providing a comprehensive range of up-to-date telecommunication services to all customer categories in Moscow, Moscow Oblast, the regions of Russia and the CIS.

COMSTAR – United TeleSystems maintains a single customer service standard in all points of presence which ensures the satisfaction of their needs for up-to-date, high quality and reliable communication services.

The company's regional development assumes broader geographic coverage through building the company's own regional infrastructure and acquiring the existing communication operators in the regions who will get access to the technological, intellectual and financial resources of COMSTAR – United TeleSystems.

COMSTAR's regional business efficiency will be improved through the unification of service packages, customer service systems, network solutions and management procedures. The implementation of the regional development programme will allow COMSTAR – United TeleSystems to satisfy its customers' needs for high quality and reliable communication services in all regions of Russia and to maintain a high service level.



## **COMPANY BRANCHES**

### **Moscow Oblast Branch**

Moscow Oblast Branch was established in December 2005 for providing high quality telecommunication services to companies and individuals in Moscow Oblast. The branch provides a broad range of up-to-date telecommunication services:

- digital telephone communication
- data communication
- Internet access
- channel lease
- videoconferencing

140000, Russia, Moscow Oblast, the city of Lyubertsy, 4 Krasnaya Street

Phone: (495) 228-00-00

Fax: (495) 228-00-88

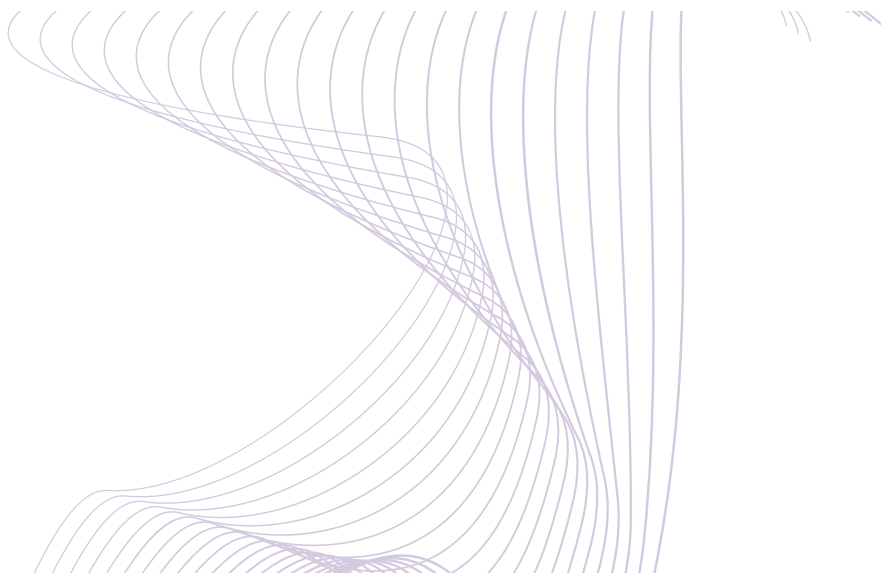
E-mail: info\_MO@comstar – uts.ru

### **COMSTAR – Povolzhye Branch**

The COMSTAR – Povolzhye Branch was established in November 2004 from KOM-INFO Limited Liability Company, a daughter company. Services have been provided in Samara Oblast since 1996. The branch provides a broad range of up-to-date telecommunication services:

- digital telephone communication
- data communication
- Internet access
- channel lease
- videoconferencing.
- card communications

445043, Russia, Samara Oblast, the city of Toliatti, Botanicheskaya St., d. 20



Phone: (8482) 75-90-40, 75-81-99  
Fax: (8482) 75-82-03  
E-mail: [info@tol.comstar – uts.ru](mailto:info@tol.comstar-uts.ru)

### **Southern Branch**

The Southern Branch has been providing communication services in the territories of Krasnodar and Stavropol Krays since 1992. The branch provides the following up-to-date high quality telecommunication services to spa and resort facilities and corporate customers:

- digital telephone communication
- data communication
- Internet access
- channel lease
- videoconferencing
- payphone communication

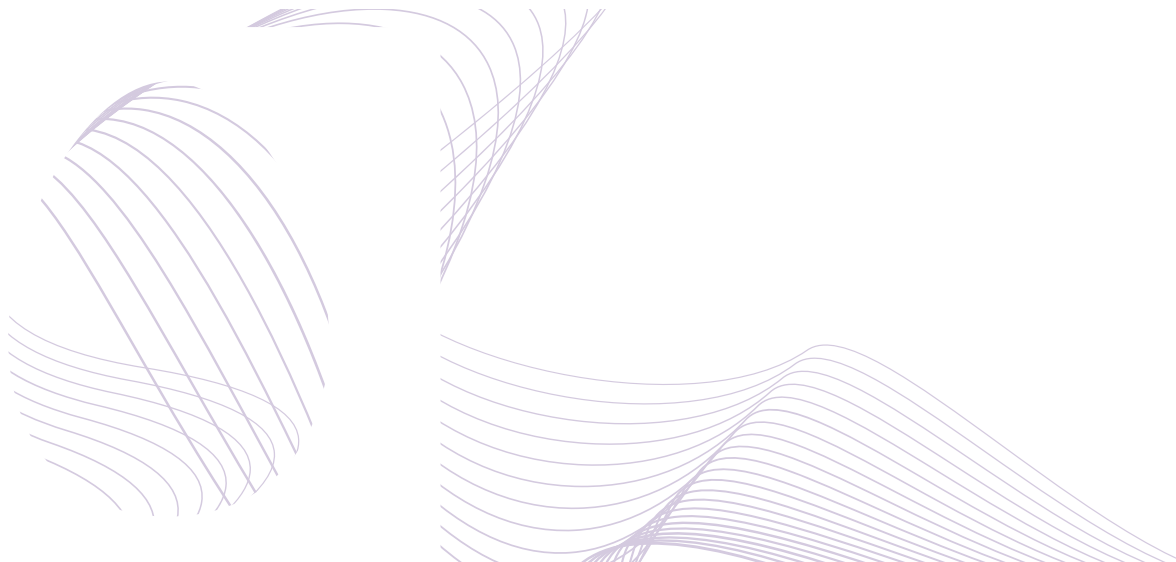
354000, Russia, the city of Sochi, Moskovskaya St., d. 5  
Phone: (8622) 69-33-00, 62-14-62, (495) 956-17-01  
Phone/fax: (495) 956-17-01  
E-mail: [info@sochi.comstar.ru](mailto:info@sochi.comstar.ru)

### **SUBSIDIARY COMPANIES AND REGIONAL REPRESENTATIVE OFFICES**

#### **Kvant Limited Liability Company**

A regional representative office of COMSTAR – United TeleSystems. Kvant Limited Liability Company provides a broad range of the following up-to-date telecommunication services to businesses and organisations in Kaluga Oblast:

- digital telephone communication
- data communication
- Internet access
- channel lease
- telematic services



249020, Russia, Kaluga Oblast, the city of Obninsk,  
Kurchatova St., d. 23  
Phone: (495) 956-80-33  
Fax: (495) 956-80-33  
E-mail: kvant@col.ru

#### **Svyazkontrakt Limited Liability Company**

A regional representative office of COMSTAR – United TeleSystems. Kvant Limited Liability Company provides a broad range of the following up-to-date telecommunication services to businesses and organisations in Ivanovo Oblast:

- digital telephone communication
- data communication
- Internet access
- channel lease

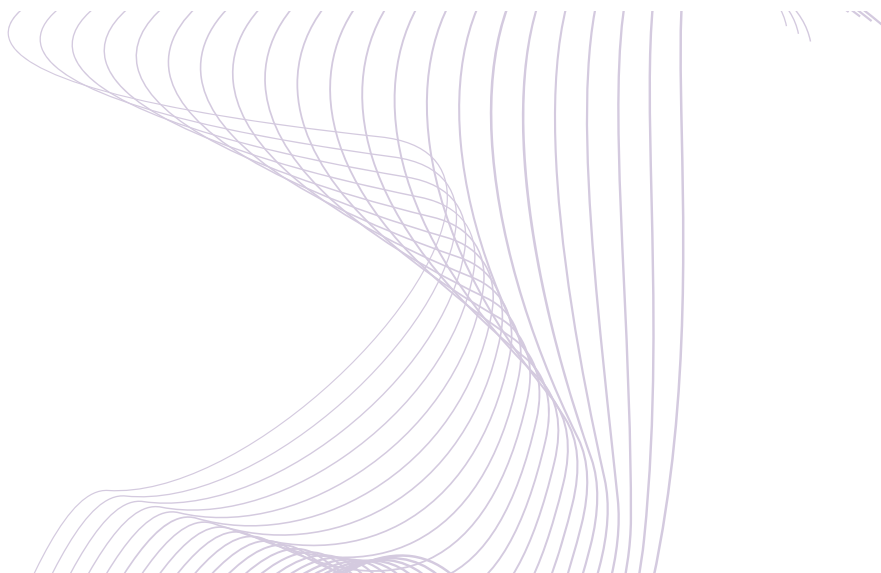
153000, Russia, Ivanovo Oblast, the city of Ivanovo,  
Zharova St, d. 10, office 318  
Phone: (0932) 32-56-01  
Fax: (0932) 32-56-01  
E-mail: vkl@ivanovo.comstar.ru

#### **TVT Ukraina Limited Liability Company**

A daughter company of COMSTAR – United TeleSystems. TVT Ukraina Limited Liability Company provides a broad range of the following up-to-date telecommunication services to businesses and organisations in the city of Odessa:

- digital telephone communication
- data communication
- Internet access
- channel lease

65026, Ukraine, the city of Odessa, pl. Tamozhennaya, d. 1  
Phone: (048) 729-42-42  
Fax: (048) 729-32-92  
E-mail: abon@tw.com.ua



### **PortTelecom Private Joint Stock Company**

A daughter company of COMSTAR – United TeleSystems. PortTelecom Private Joint Stock Company is a communication operator; its coverage includes the Sheremetiyev Airport. The fibre optical network owned by PortTelecom Private Joint Stock Company at the Sheremetiyev Airport area is over 25 km long. The company provides a broad range of the following communication services to its customers:

- telephone commercial
- leased line Internet access
- communication channel lease
- payphone communication

119146, the city of Moscow, Komsomolskiy pr-t, d. 9a

Phone: (495) 780-96-56

Fax: (495) 780-96-57

[www.porttelecom.ru](http://www.porttelecom.ru)

### **TsTK Kontrast-Telecom Limited Liability Company**

Kontrast-Telecom provides the following services on the grounds of the licenses which the company holds:

- local telephone communication
- traffic transmission
- Internet access

141300, Moscow Oblast, the city of Sergiyev Posad, pr-t Krasnoy Armii, d. 84/22

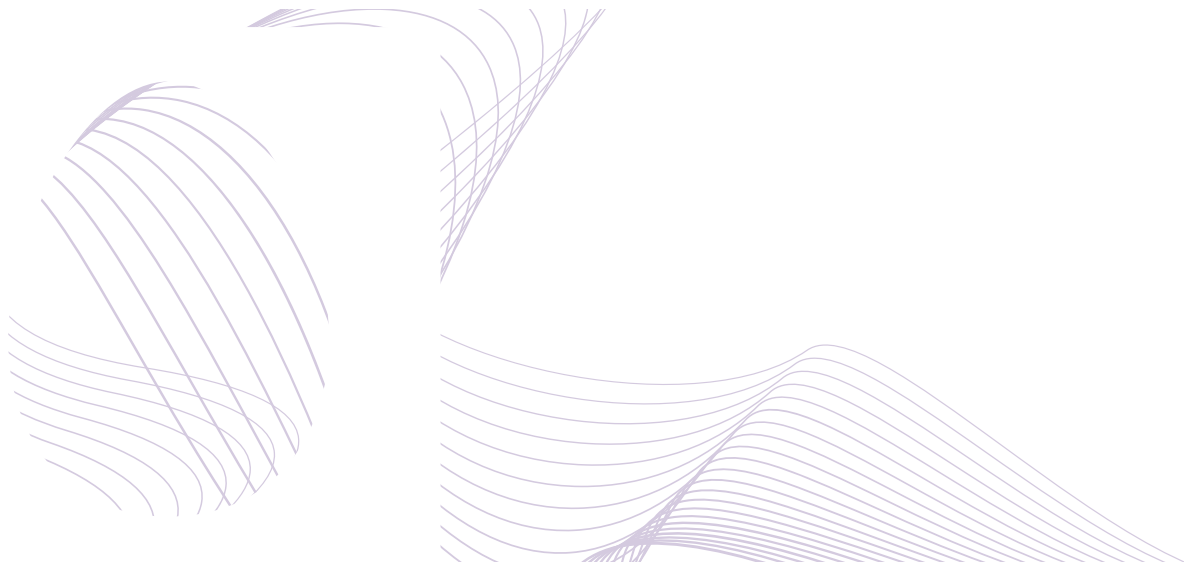
Phone: (496) 547-33-33

[www.conternet.ru](http://www.conternet.ru)

### **Yunitel Limited Liability Company**

A daughter company of COMSTAR – United TeleSystems. Yunitel Limited Liability Company is an alternative communication operator established in 1995. The company provides the following communication services in





10 population centres in the vicinity of Moscow:

- digital telephone communication
- Internet access
- channel lease

119607, the city of Moscow, Udaltsova Street, d. 85

Phone: (495) 363-33-63

[www.utel.ru](http://www.utel.ru)

**Konversiya-Svyaz Private Joint Stock Company/TK-Overta Limited Liability Company Group of Companies**

This group of companies being the biggest alternative fixed communications operator in Saratov Oblast provides the full range of telecommunication services to corporate customers and individuals in the city of Saratov and owns a well-developed network infrastructure.

410033, the city of Saratov, Panfilova St., d. 1

Phone: (845-2) 48-00-20

[www.kons.ru](http://www.kons.ru)

410017, the city of Saratov, Shelkovichnaya St., d. 37/45

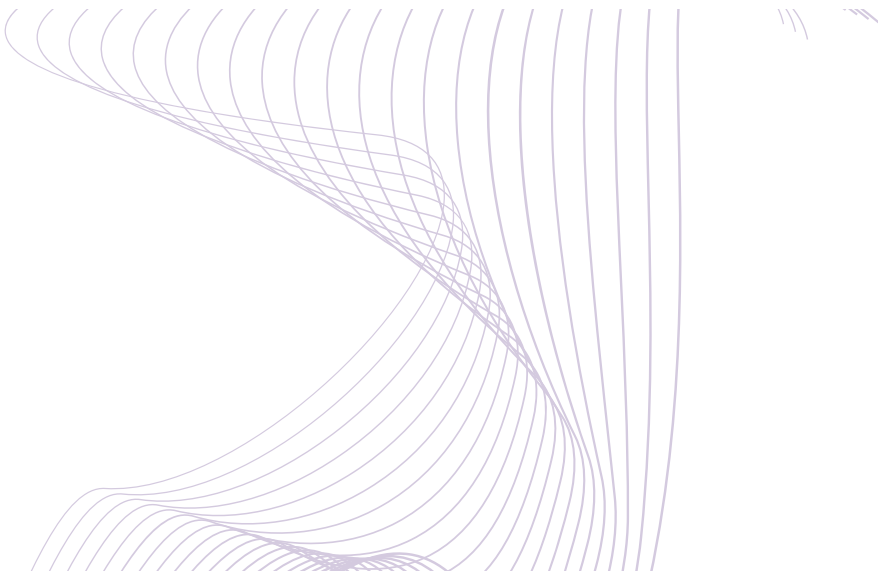
Phone: (845-2) 48-99-99

[www.overta.ru](http://www.overta.ru)

**Tyumenneftegazsvyaz Public Joint Stock Company**

The company is the leading alternative fixed communication operator in Tyumen Oblast and has 6 branches in Surgut, Nefteyugansk, Nyagan, Noyabrsk, Urayskiy, Raduzhnyi. The company's own communication network allows to provide telecommunication services to process facilities, state-financed entities and individuals in the Oblast. The company provides the following services:

- digital telephone communication
- Internet access
- data communication
- VHF radio communication (including trunking)



625043, Tyumen Oblast, the city of Tyumen, Scherbakova Street, d. 205

Phone: (3452) 46-56-72

[www.tngs.ru](http://www.tngs.ru)

#### **Metrokom Private Joint Stock Company**

COMSTAR – United TeleSystems has 45% interest in Metrokom Private Joint Stock Company. The company has a dense fibre optical communication network built in the Saint-Petersburg metro and specialised in providing the following services:

- digital telephone communication
- Internet access
- data communication

199155, the city of Saint-Petersburg, Odoyevskogo Street, d. 29

Phone: (812) 118-31-22

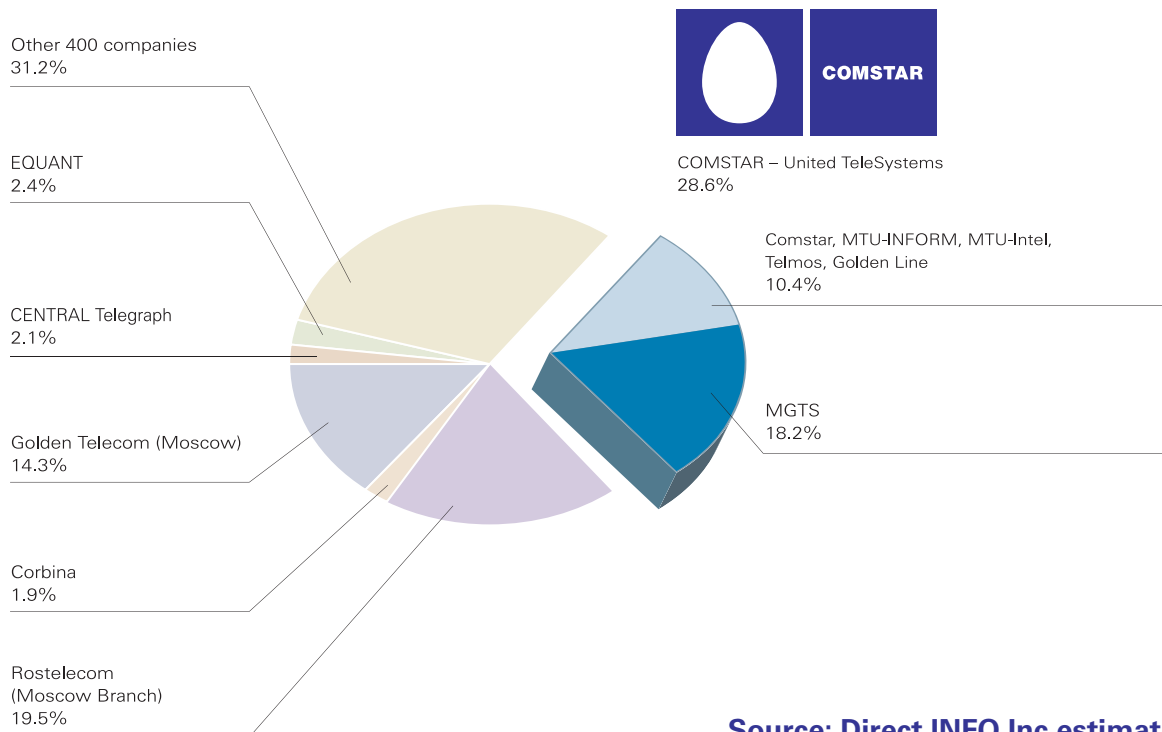
[www.metrocom.ru](http://www.metrocom.ru)

# COMPANY STATUS IN THE INDUSTRY

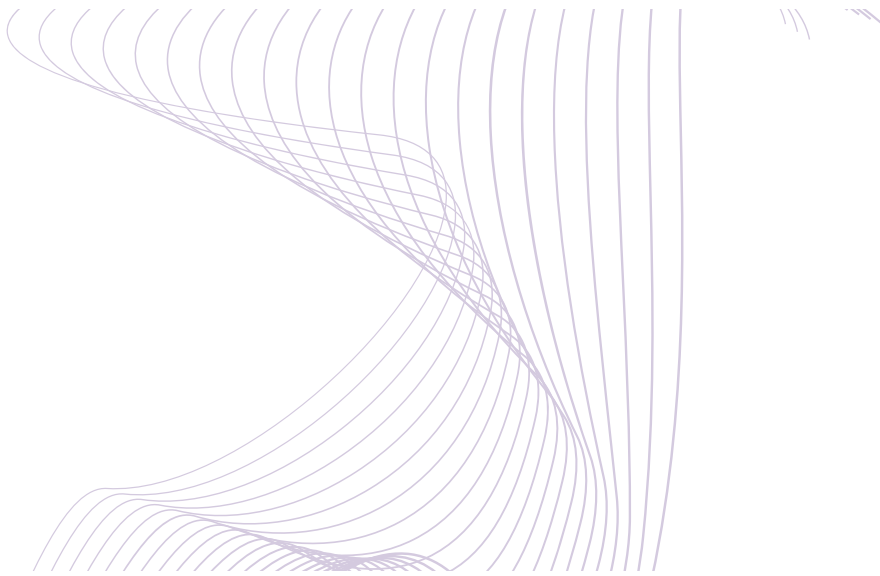
## The revenue status of the fixed communication, data communication and Internet market in the city of Moscow in 2005:

The total fixed communication, data communication and Internet market size (including corporate, operator and individual segment, excluding the revenues obtained by Moscow operators outside Moscow) reached slightly above 3.5 bln USD (100.9 bln RUR) in 2005.

### The structure of the Moscow fixed communication, for all operators



Source: Direct INFO Inc estimates



COMSTAR – United TeleSystems is the leader in the fixed communication, data communication and Internet market in the city of Moscow (its market share is 28.6%).

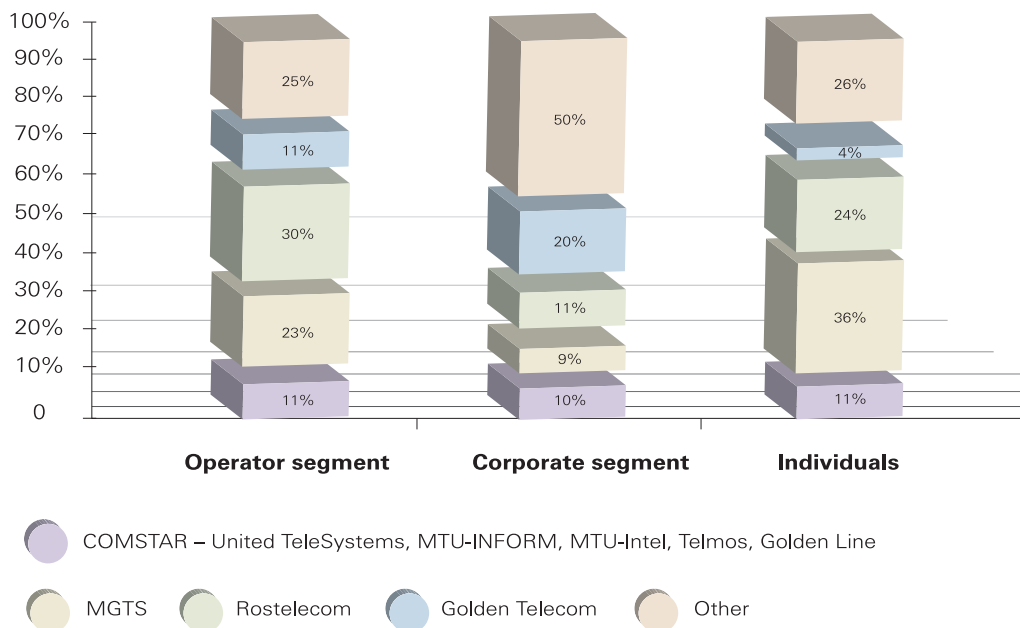
As compared with 2004, COMSTAR – UTS’s share grew by 0.5%.

Due to its strong position in Moscow and pointed acquisitions in the Russian Federation territory the share of COMSTAR – UTS in the Russian market reached 9.5% in 2005. It grew by 0.4% as compared with 2004.

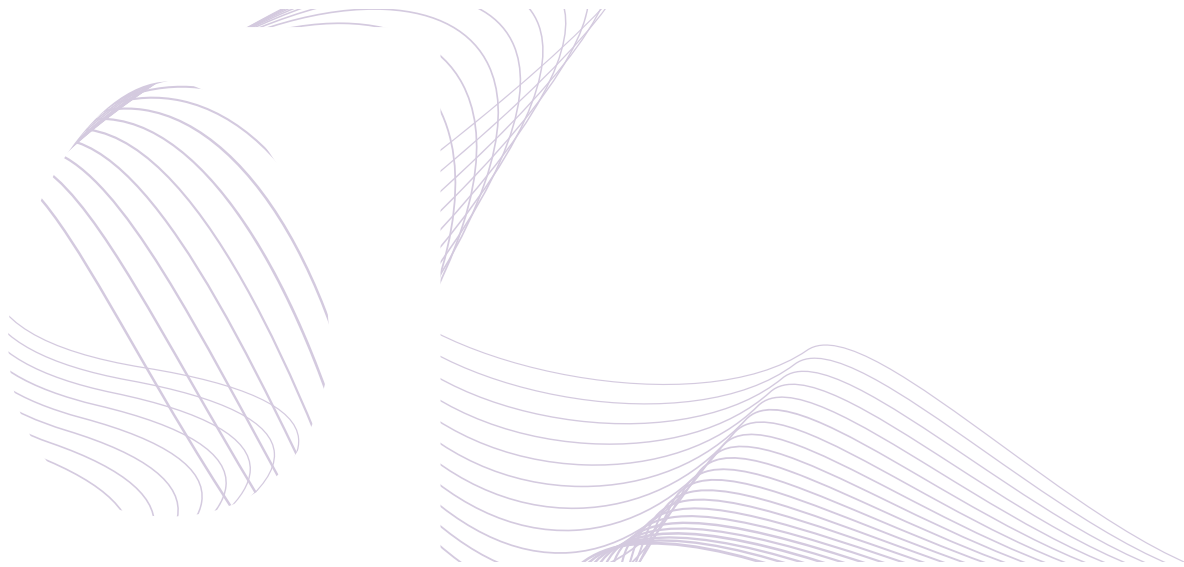
The share of COMSTAR – UTS among alternative operators was equal to 16.7%.

**The Moscow market position by consumer segments (corporate, operator and individual) in 2005:**

**Moscow fixed communication, data communication and Internet market structure by the revenues obtained in different consumer segments in 2005**



Source: Direct INFO Inc estimates



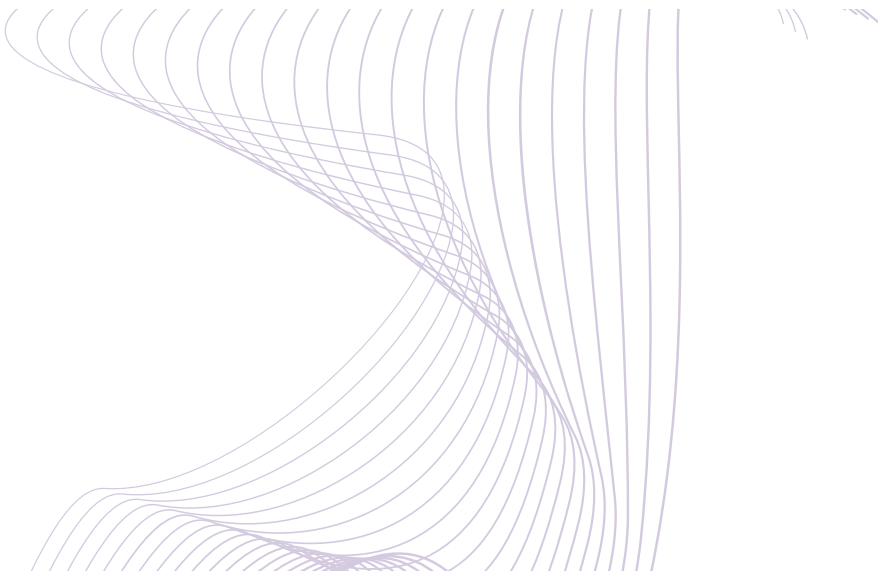
COMSTAR UTS (MGTS, Comstar, etc.) accounted for about 19% of the revenues in the corporate segment which reached 1,776 mln USD in 2005. The leader in the corporate segment is Golden Telecom (its share is 20%).

The operator segment reached 1,106 mln USD in 2005. COMSTAR UTS controls about 34% in this segment. Rostelecom accounted for 30% of the revenues in this segment.

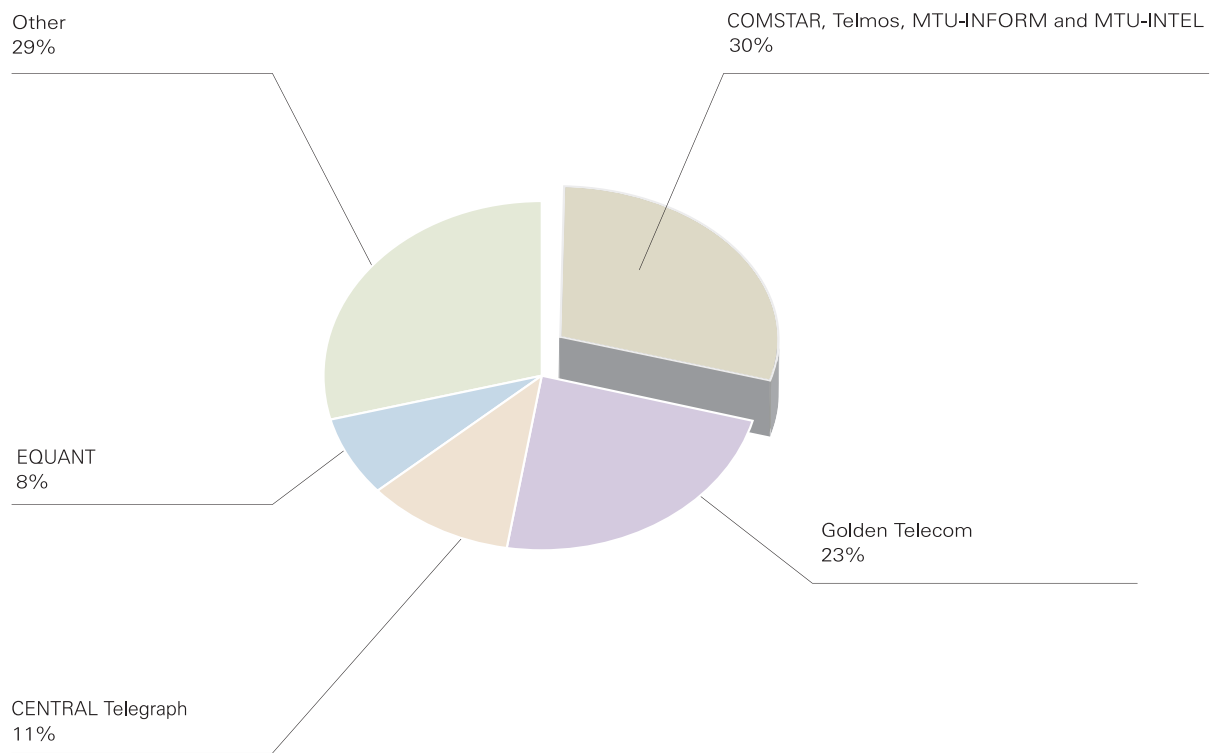
COMSTAR UTS is the biggest player (with its share equal to 47%) in the segment of fixed communications for individuals (its size reached 684 mln USD in 2005).

**The Moscow market position by the size of equipped numbering capacity in 2005:**

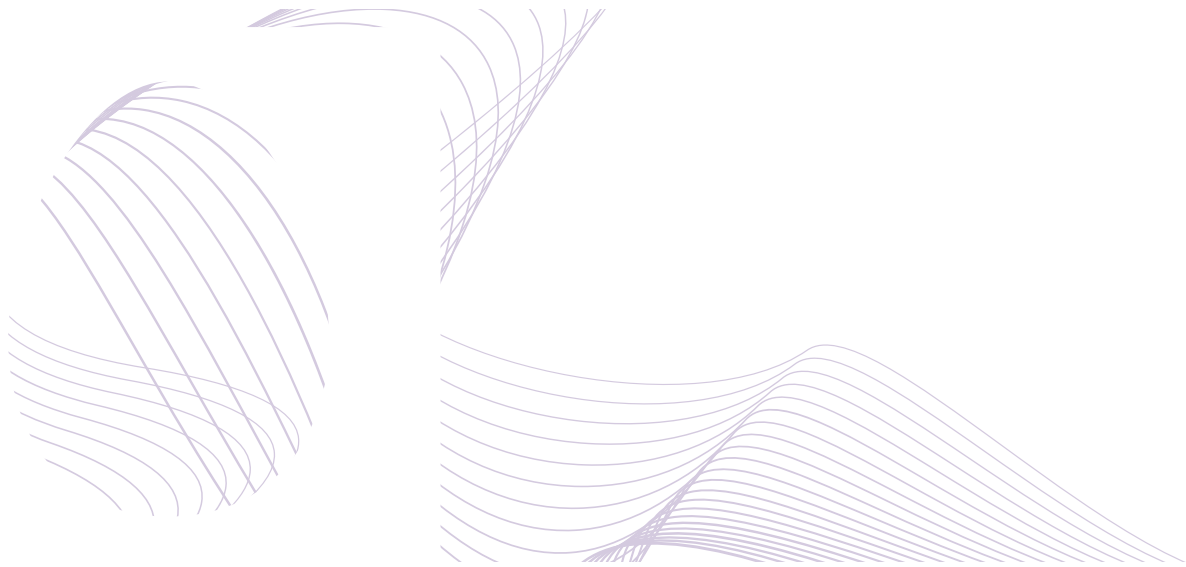
The total number of city telephone exchange numbers reached 6.2 mln in Moscow. The total growth was insignificant as compared with the previous year. The biggest numbering capacity holders in Moscow are still MGTS (4,264.8 thousand numbers, 1.6% growth during the year), COMSTAR UTS (581 thousand numbers, 9% yearly growth), Golden Telecom (450 thousand numbers), Tsentralnyi Telegraf (212.7 thousand numbers, 12% yearly growth) and Ekvant (150 thousand numbers).



### The breakdown of equipped numbering capacity in the Moscow market in 2005 (alternative segment)



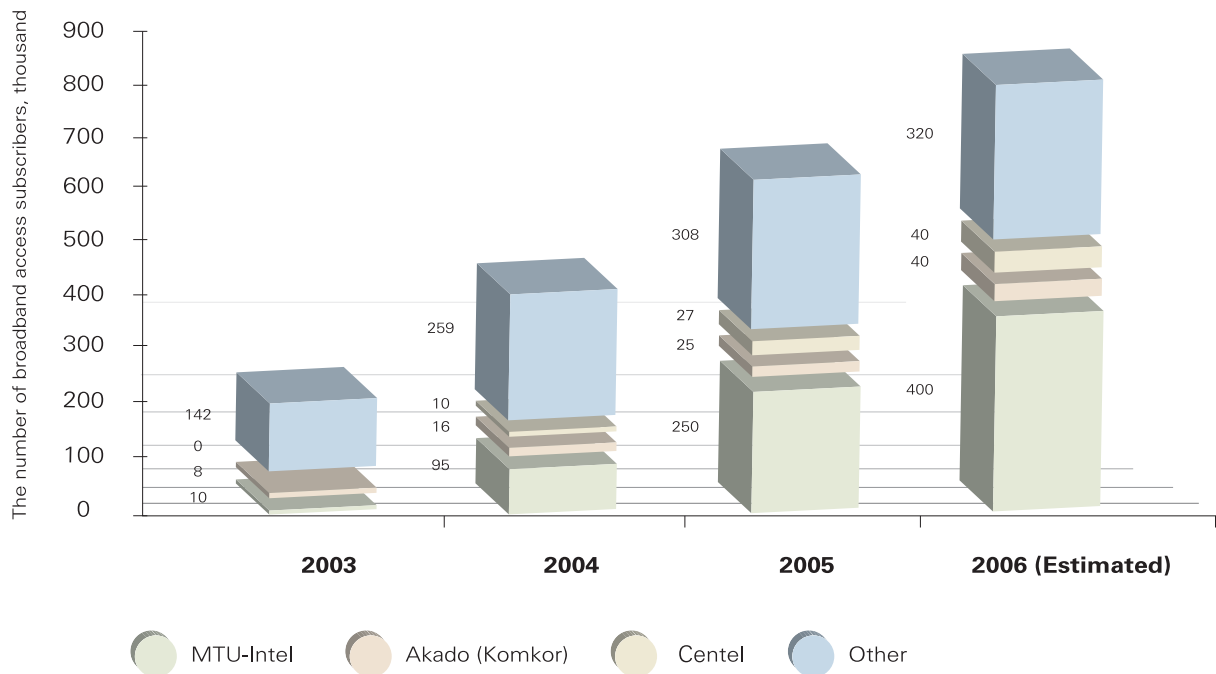
Source: Direct INFO Inc estimates



**The position in the Moscow broadband access market for individuals was as follows:**

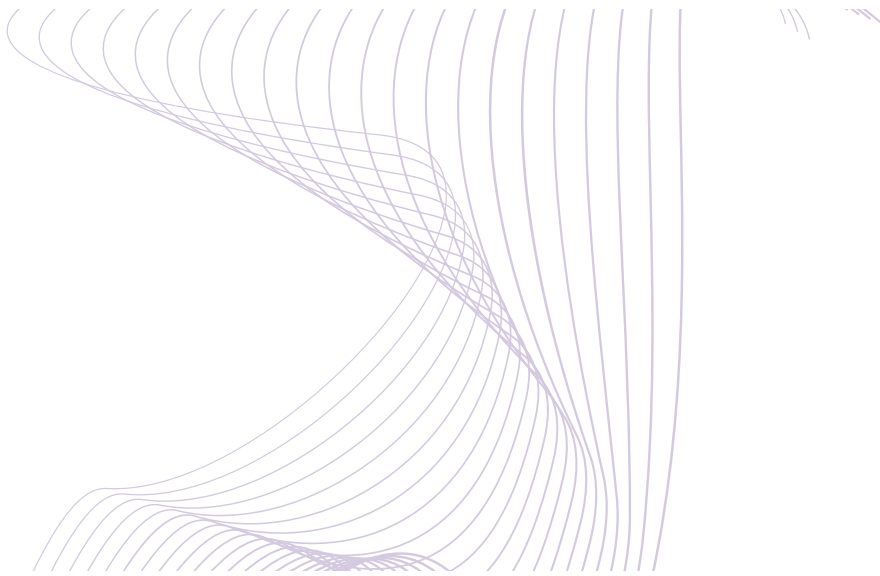
The total number of home Internet users is about 4.9 mln people. Over 2 mln of them log into the network more frequently than once a week (that is, are active users). The number of home Internet users grew by 20% in 2005.

**Broadband access market in Moscow in 2003 – 2006 (by the number of households)**

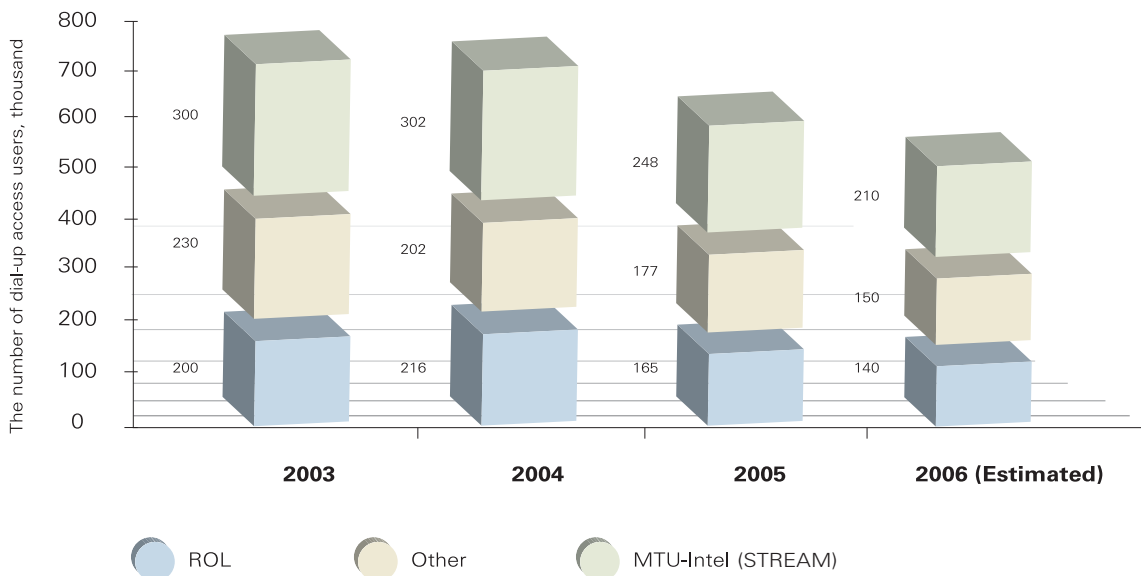


**Source: Direct INFO Inc estimates**

The share of STREAM grew by 16% as compared with 2004.



**The breakdown of active switched Internet access users in the city of Moscow in 2003 – 2006 (by the number of households)**



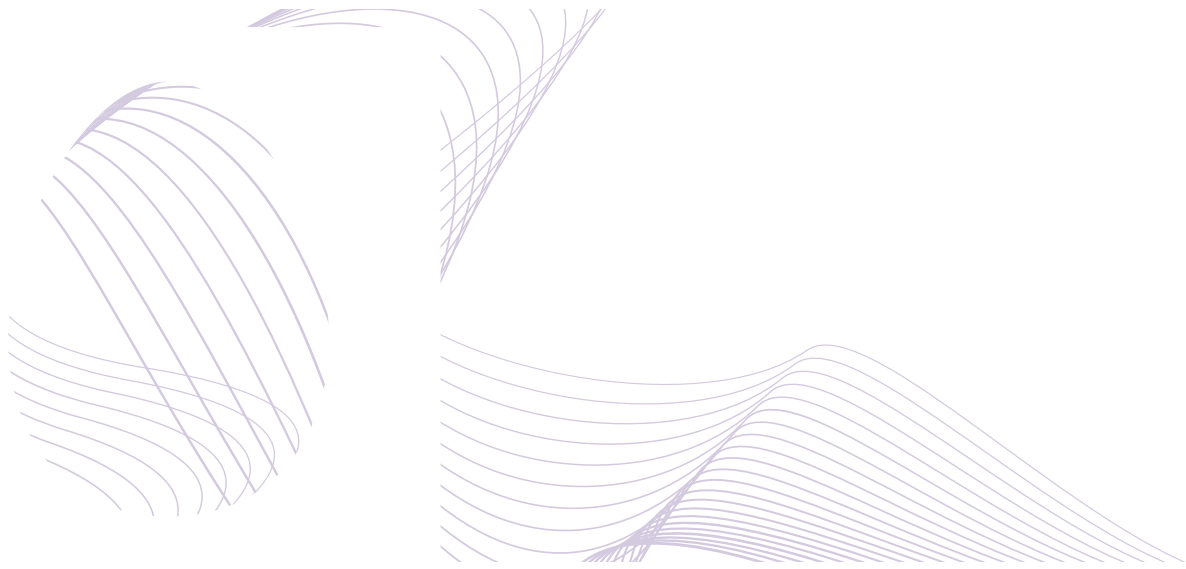
**Source: Direct INFO Inc estimates**

The share of COMSTAR UTS (MTU-Intel) reached 42% in the dial-up Internet access in the city of Moscow in 2005. It grew insignificantly as compared with 2004 (by less than 1%).

**The position in the Moscow channel lease, data communication and corporate Internet market in 2005:**

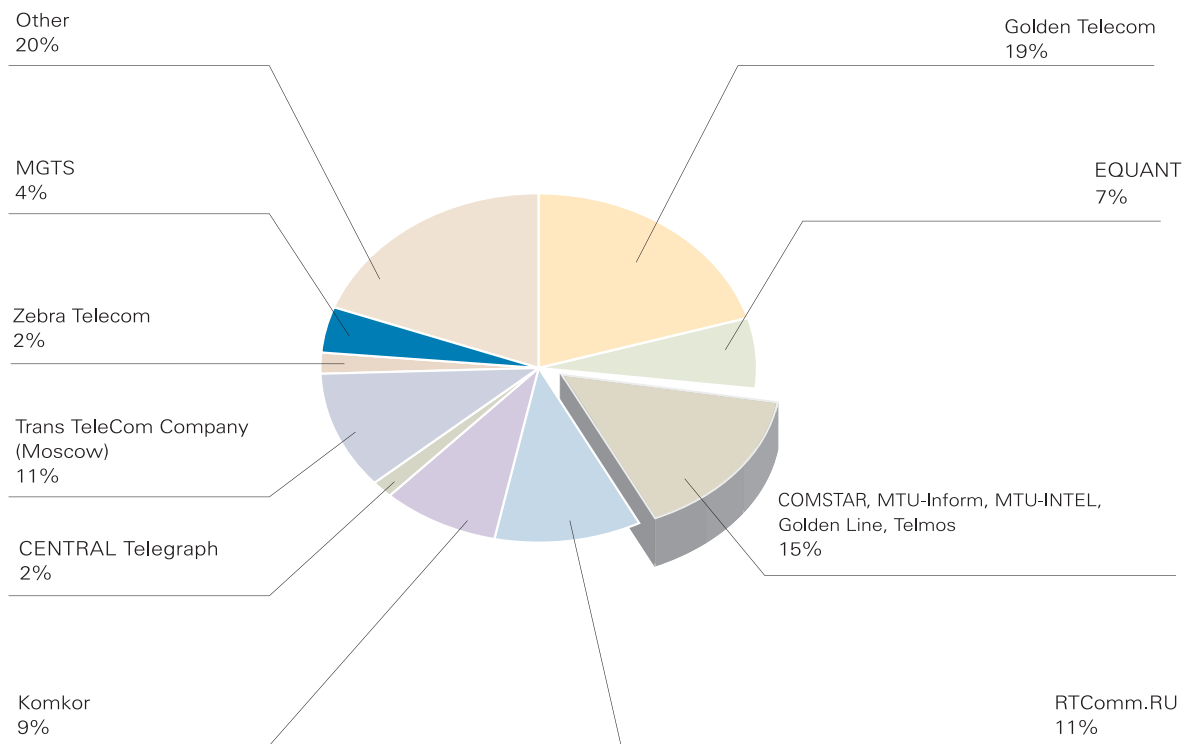
The total size of the channel lease, data communication and corporate Internet market in Moscow reached 0.89 mln USD in 2005, according to the Communications Ministry data (including the revenues of Moscow operators obtained outside the Moscow region). Revenues grew by





29% in this segment as compared with 2004. Over 1/3 of the revenues are controlled by COMSTAR UTS (MGTS, Comstar, etc.) and Golden Telecom with nearly equal market shares. Each of them accounts for 19% of all revenues in total.

**Channel lease, data communication and Internet market share breakdown into key players in Moscow in 2005**



**Source: Direct INFO Inc estimates**

The COMSTAR UTS market share grew by 1% as compared with 2004.

# COMPANY'S DEVELOPMENT PROSPECTS AND TOP PRIORITY LINES OF BUSINESS

The strategic goal of COMSTAR – United TeleSystems Public Joint Stock Company is to increase capitalisation by establishing a federal multiservice operator in the territory of the Russian Federation and the CIS.

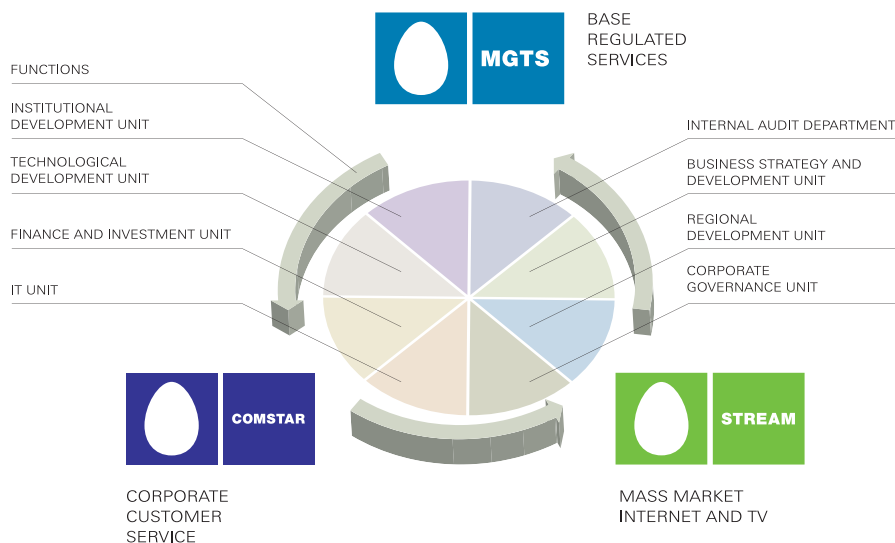
**The key development priorities of COMSTAR – United TeleSystems in 2006 will be:**

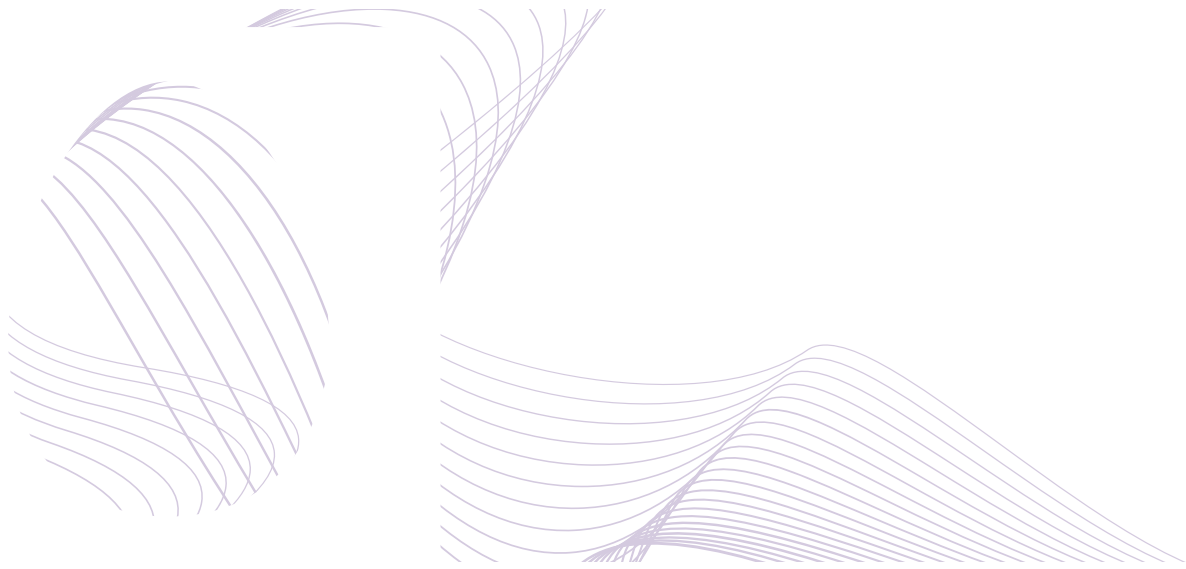
- establishing unified business space within the group of companies
- integrating the business of the COMSTAR – United TeleSystems Group of Companies on the basis of a single technological platform
- integrating the business of the acquired companies and making them a branch of COMSTAR – UTS

The unified business space will ensure:

- optimised resource utilisation
- regional development basis
- clearly defined market positioning of the Group

## COMMON BUSINESS SPACE





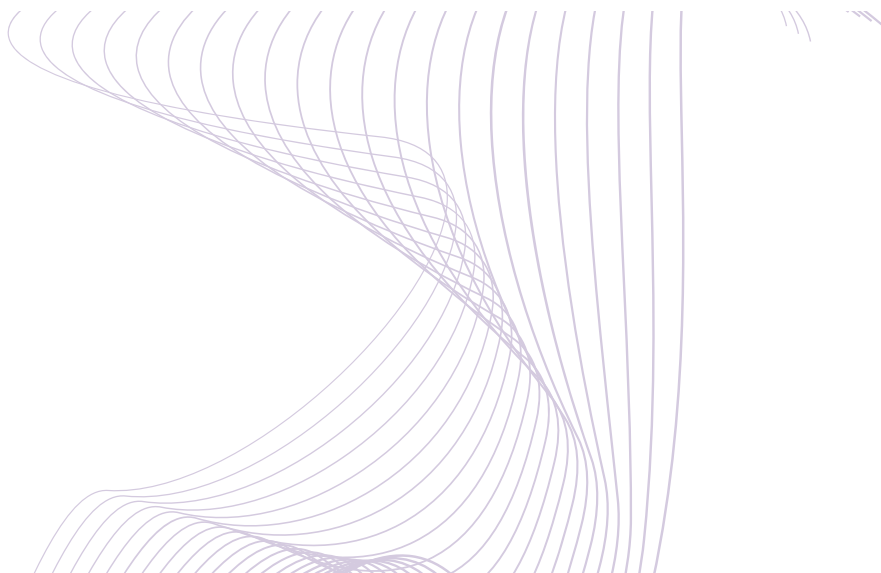
**The base management principles include:**

- the implementation of a single development strategy
- the management based on a division principle
- separating the corporate governance function and optimising corporate structures
- consolidation of the similar functions of the Group of Companies within a single centre
- establishing a common technological platform
- financial policy centralisation
- implementation of a common human resources policy

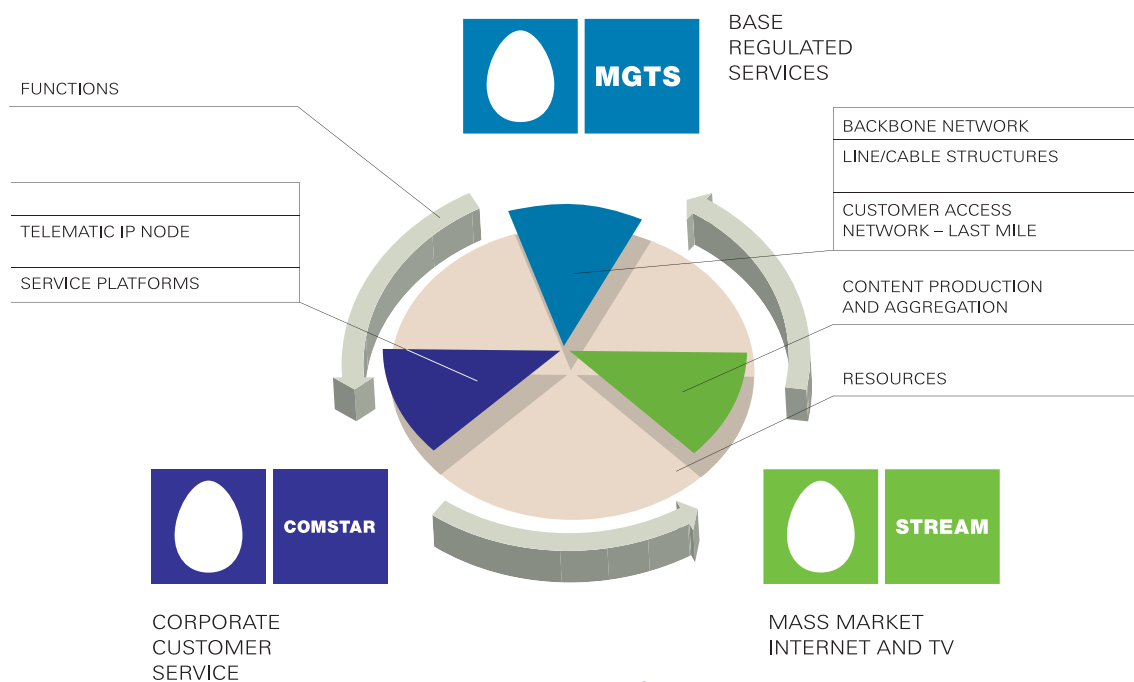
Establishing a common technological platform is one of the steps in the consolidation of COMSTAR – United TeleSystems, MTU-Intel and MGTS. This step will allow to cut costs, unify the companies’ technological and commercial policy and adhere to common structural principles, including the principles of building regional networks.

**The implementation of a common technological platform will ensure:**

- elimination of network building investment duplication
- technological development from a single centre
- a single backbone network in Moscow
- single regional network development principles



## COMMON TECHNOLOGICAL PLATFORM



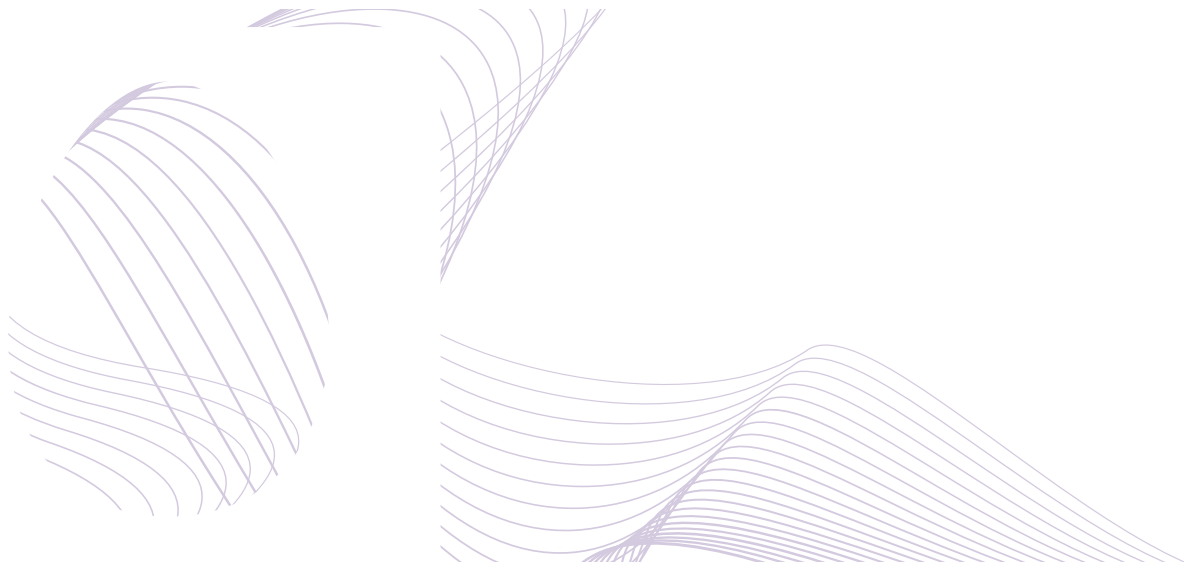
### The milestones for 2006:

- the packet networks of COMSTAR and MGTS will be integrated within a single network
- the construction of a single NGN COMSTAR network will start to make it the underlying core for the needs of all the companies
- the renovation of the MGTS network analogue segment will continue, including the use of the single NGN network of COMSTAR – United TeleSystems as the base

COMSTAR – United TeleSystems is focused on increasing its share in the fastest growing and lucrative market segments paying regard to customer needs and shaping demand.

This task is addressed by:

- 1) Improving business efficiency through
  - management structure optimisation
  - positioning the member companies of the group with



regard to their lines of business in accordance with key competencies

- building a common technological infrastructure
- the implementation of integrated solutions, the development of a full range of NGN services (IP Centrex, IP VPN)
- the optimised use of financial, technological and human resources

2) Regional development in the regions of Russia and the CIS countries by acquiring operators and building the company's own regional network.

3) The implementation of Triple Play and convergency multimedia services based on broadband access under the brand of STREAM at the federal level.

Focusing on the lines of business with the maximum competency level allows to strengthen the companies' positions in the corresponding segments.

#### COMSTAR UTS

- focusing on the segment of corporate users and the installation of telecommunication networks for elite housing needs
- the provision of a full scope of services, including TV (content by MTU-Intel)

#### MTU-Intel

- focusing on the mass market
- providing Internet services (ADSL, dialup, etc.), TV, multimedia

#### MGTS

- providing services in the mass and operator market, including the provision of services at regulated tariffs

#### The strategic lines of organic growth

- attracting high income corporate customers
- improving the loyalty of existing customers
- increasing presence at (A and B class) business centres
- attracting medium-sized and small businesses
- STREAM project development, including the provision of broadband access services in the regions

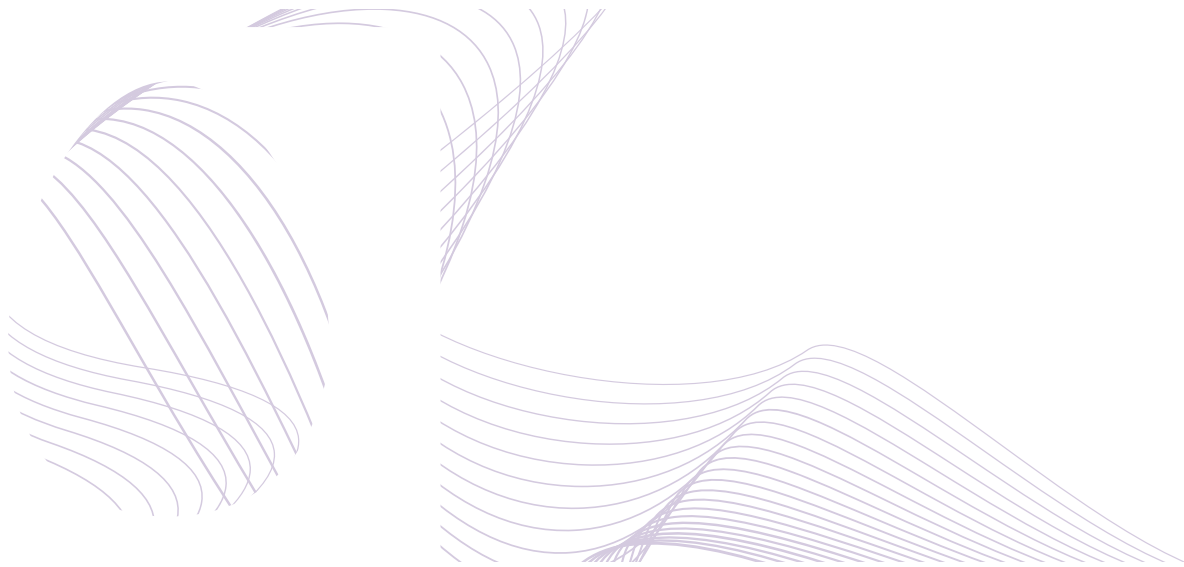


## THE MAIN RISK FACTORS ASSOCIATED WITH THE COMPANY'S OPERA- TIONS

Currently there is a number of risk factors associated with the operations of COMSTAR – United TeleSystems Public Joint Stock Company. Such factors may include the new regulatory documents developed and taking effect in accordance with Federal Law «On Communications» No. 126-FZ.

In accordance with the provisions of Article 29 of Federal Law «On Communications», communication services can be provided by legal entities on a paid basis only on the grounds of a license to engage in operations in this field. The list of the communication services which require licensing and the corresponding lists of licensing terms are established by the Russian Federation Government and are made more specific from time to time. Upon the expiration of existing licenses the issuer should obtain new licenses in accordance with the new rules and regulations, however, the application practice of such rules and regulations is under-developed so far.

In 2005 the Russian Federation Government approved «The Rules for the Distribution and Use of the Russian Federation Unified Electric Communication Network Numbering Resources», «The List of the Communication Services Requiring Licensing and the Lists of Licensing Terms», «Electric Communication Network Interconnection and Interaction Regulations», «The Rules for the Provision of Local, Intrazonal, Long Distance and International Telephone Communications Services», «Public Switched Telephone Network Structuring Requirements», «Public Switched Telephone Network Traffic Transmission Requirements», «The Rules for the State Regulation of Prices for Public Electric Communication Services, Public Mail Service», «The Rules for the State Regulation of Interconnection Fees and the Fees for the Traffic Transmission Services Provided by the Operators Having a Significant Position in a Public Switched Telephone Network».



According to the new rules for providing local, intra-zonal, long distance and international telephone communication services, provisions should be made for the subscriber's possibility of choosing the long distance/international communication operator in the contract with a subscriber.

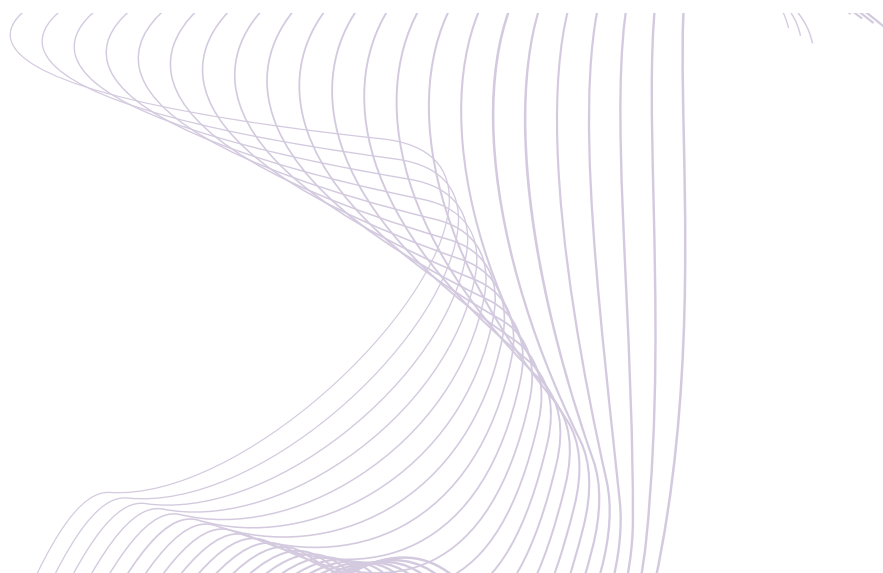
The taking effect of the new interconnection rules may affect the re-distribution of incomes in the operator market. Revenues from long-haul communication services will be allocated to long distance network operators. Local and zonal communication operators will have to conclude agency contracts with long distance/international operators and to subsequently act on their behalf.

Currently COMSTAR – United TeleSystems Public Joint Stock Company is providing long distance and international communication services on the grounds of License No. 12789 of September 25, 1999 to be effective until March 30, 2007. Upon the expiration of the license the provision of long distance and international communication services by COMSTAR – United TeleSystems as a long-haul communication operator will be possible only after the federal network is built in accordance with the new regulatory base.

There is a risk of modifications and amendments made in the effective license which will make it impossible for COMSTAR – United TeleSystems to operate in the long distance and international communication market.

New requirements regarding the use of numbering resources, network interconnection and interaction may create certain difficulties in the issuer's operations due to the absence of application practices.

Additional risk factors for COMSTAR – United TeleSystems also exist both in the domestic and foreign markets.



#### Domestic market factors:

The possible significant increase in the prices for the equipment and services used by COMSTAR – United TeleSystems Public Joint Stock Company in its business may adversely affect the company's financial performance, since it will result in higher costs and, as a result, a lower profit.

The possible integration of suppliers into big monopoly companies and, as a consequence, establishing high prices for the equipment purchased.

The growing competition in telecommunications may affect the price of the services provided by COMSTAR – United TeleSystems. On the whole, the price of the services provided by the company to customers will be declining, while the increase in the customer base of COMSTAR – United TeleSystems and the range of the services provided will compensate for the losses caused by the lower tariffs.

#### Foreign market factors:

To engage in its operations, COMSTAR – United TeleSystems Public Joint Stock Company purchases equipment from and orders equipment upgrade and maintenance to foreign vendors. The final cost of such equipment depends on foreign currency to ruble exchange rate fluctuations. Foreign currency exchange rate growth may result in the rise in equipment prices and cause possible decline in the rate of return on the company's operations.

Changes in the provisions of customs laws may also result in higher equipment prices.



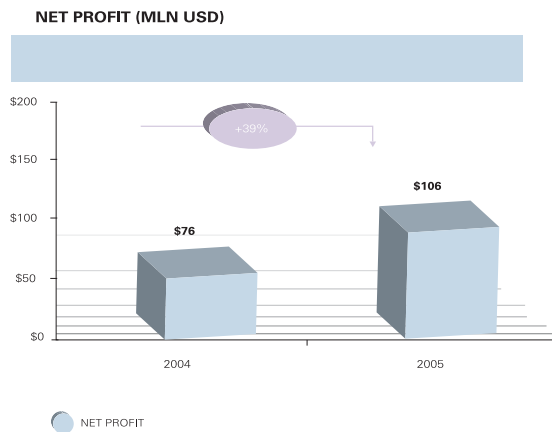


# BOARD OF DIRECTORS' REPORT ON THE RESULTS OF THE COMPANY'S DEVELOPMENT IN THE TOP PRIORITY LINES OF BUSINESS

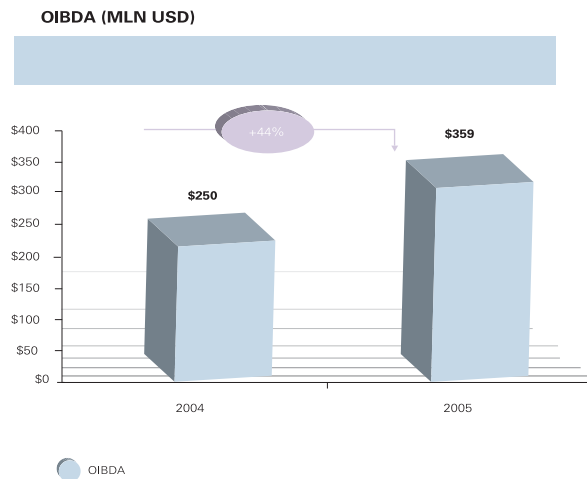
## The Financial Performance of COMSTAR – United TeleSystems

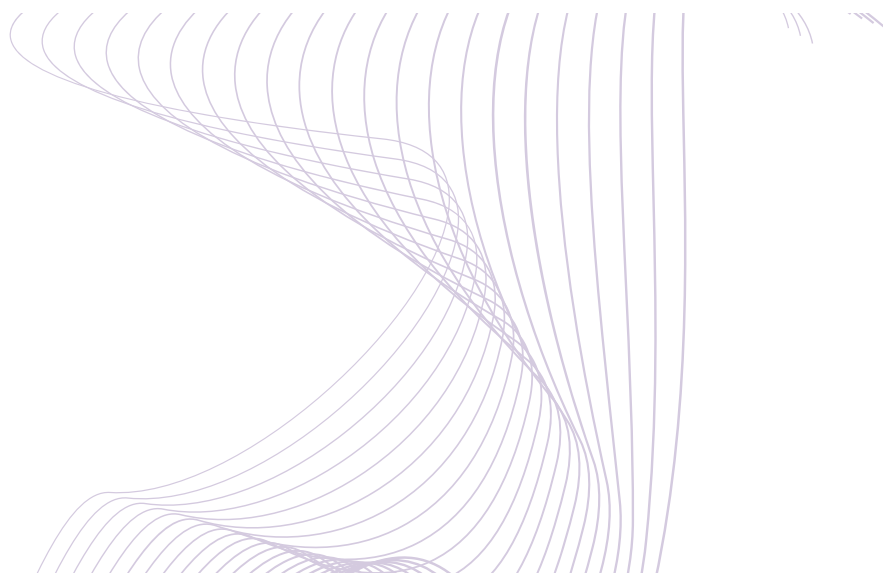
### Key Financial Indices

The net profit reached 106 mln USD in 2005; the growth reached 39% in 2005 as compared with 2004.



OIBDA reached 359 mln USD in 2005; the growth reached 44% as compared with 2004. OIBDA margin grew from 36% in 2004% to 39% in 2005.



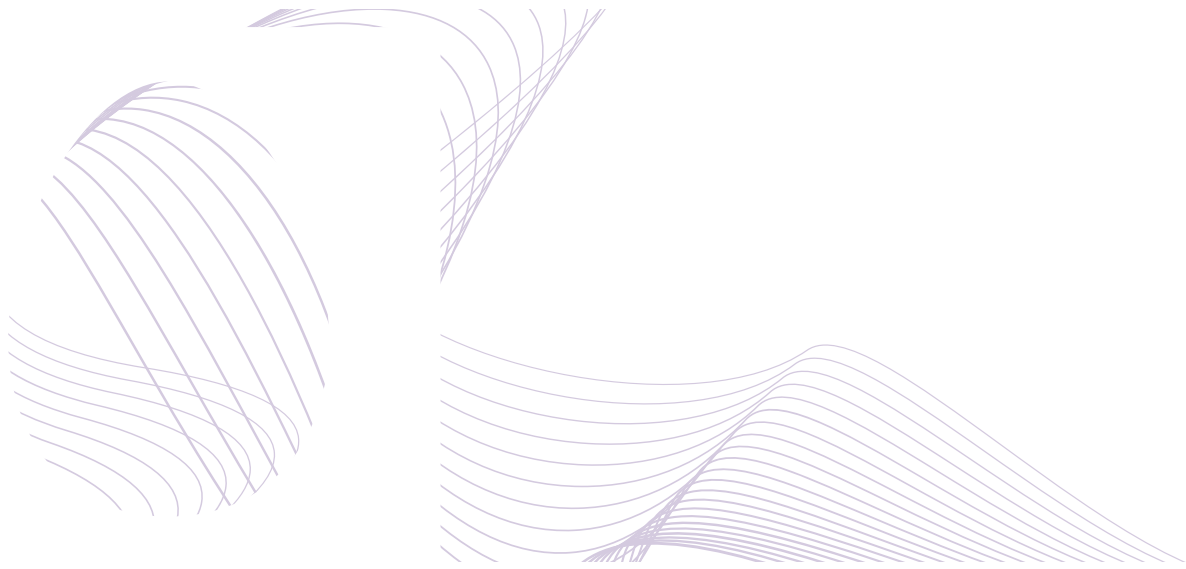


### Key financial indices

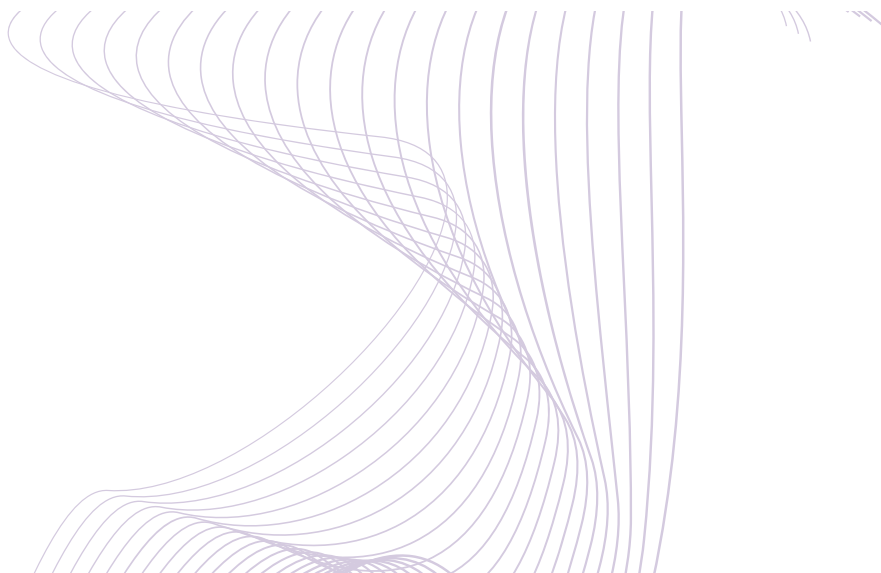
	2004	Alternative operator 2005	Traditional operator 2005	Total 2005	% changes
Sales, USD	\$695,13	\$372,83	\$639,65	\$907,62	31%
OIBDA, USD	\$249,86	\$94,75	\$266,76	\$358,79	44%
Margin, %	36%	25%	42%	40%	
Profit from core business, USD	\$173,72	\$64,72	\$206,36	\$268,35	54%
Margin, %	25%			30%	
Net profit, USD	\$76,14			\$105,89	39%
Margin, %	11%	12%	24%	12%	

### Profit and Loss Report of COMSTAR – United TeleSystems (GAAP)

	2004	2005	% changes
Operating revenues	695 133	907 624	31%
Operating expenses	-521 414	-639 273	23%
Operating profit	173 719	268 351	54%
Interest income	7 941	7 696	-3%
Interest expense	-18 695	-17 961	-4%
Currency transaction gain	4 368	2 219	-151%
Loss (gain) from disposal of an affiliate	-6 610	1 989	-130%
Income from continuing operations before income taxes and minority interest	160 723	257 856	60%



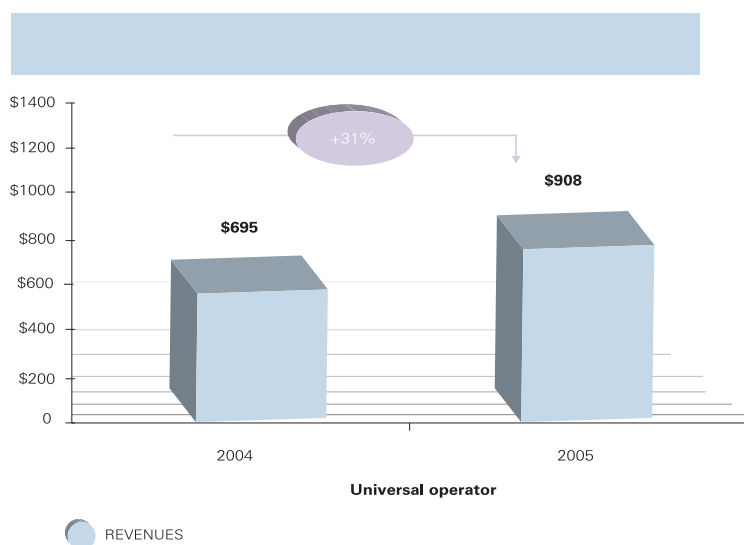
	2004	2005	% changes
Income tax expense	-41 076	-59 329	44%
Income from affiliates	542	499	-8%
Minority interests	-44 400	-93 141	110%
Income from continuing operations	75 789	105 885	40%
Gain (Loss) fro discontinued operations	351	-	-
Net income	76 140	105 885	39%



## The Operating Revenues of COMSTAR United – TeleSystems

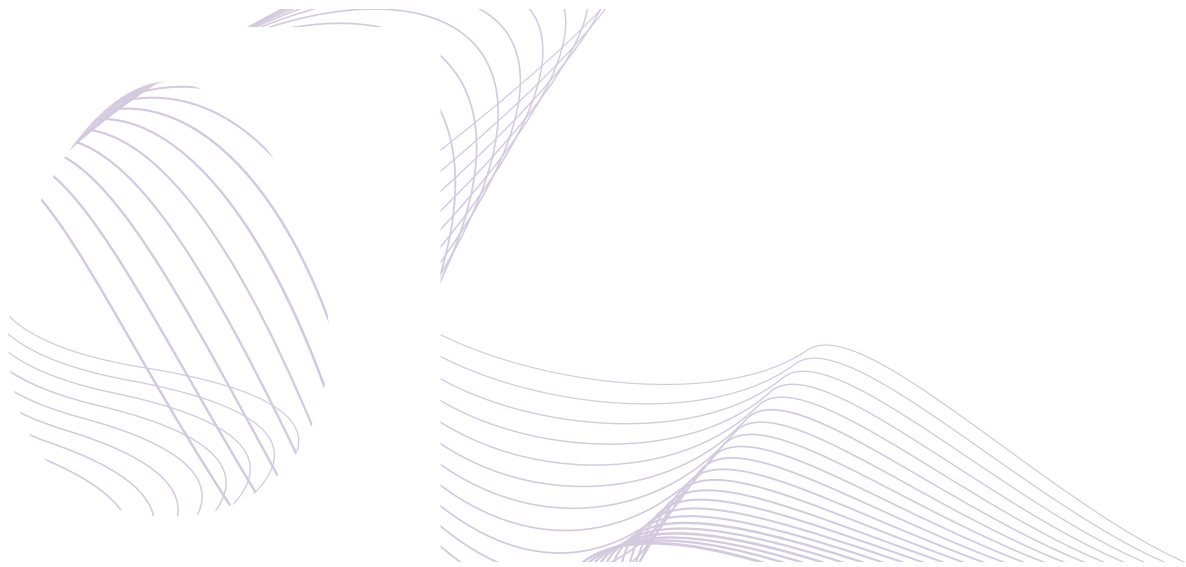
The Universal Operator's revenues reached 908 mln USD. The revenues grew by 31% in 2005 as compared with 2004. The Alternative and Traditional communication segments contributed to the growth of the group's revenues.

REVENUES, US GAAP (MLN USD)

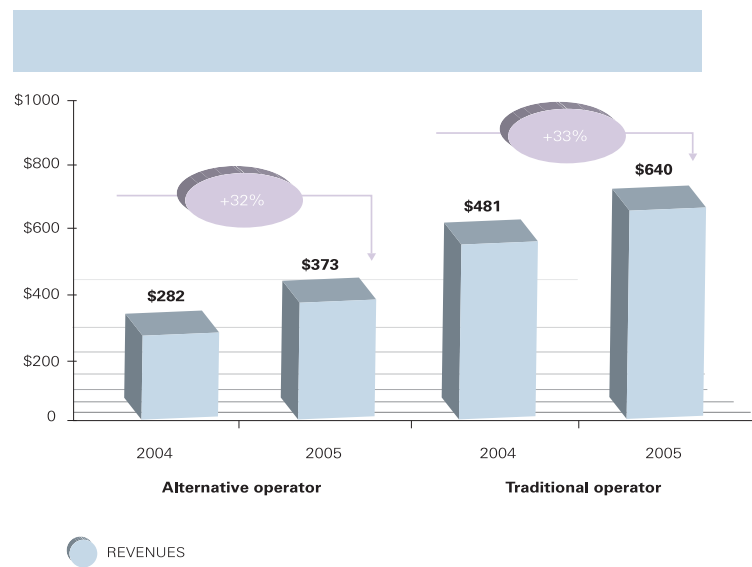


Revenues in the Alternative commercial segment (before Intersegment eliminations) reached 373 mln USD. The growth reached 32% as compared with 2004. The key income growth factors were the launching of STREAM and STREAM-TV projects, as well as the operators' active regional acquisitions.

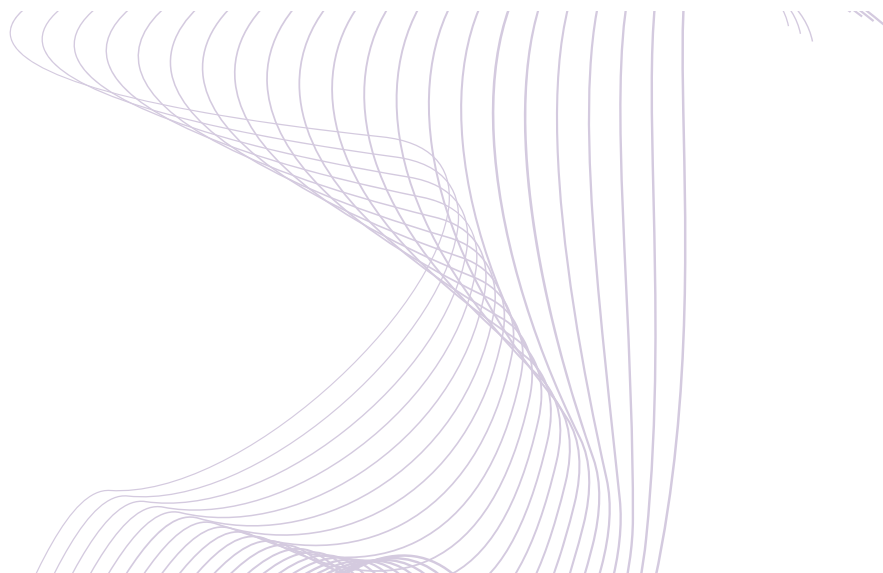
Revenues in the traditional communication segment (before Intersegment eliminations) reached 640 mln USD. The growth reached 33% in 2005 as compared with 2004. The key income growth factor was the increase of MGTS tariffs for individuals.



**REVENUES, US GAAP (MLN USD)**

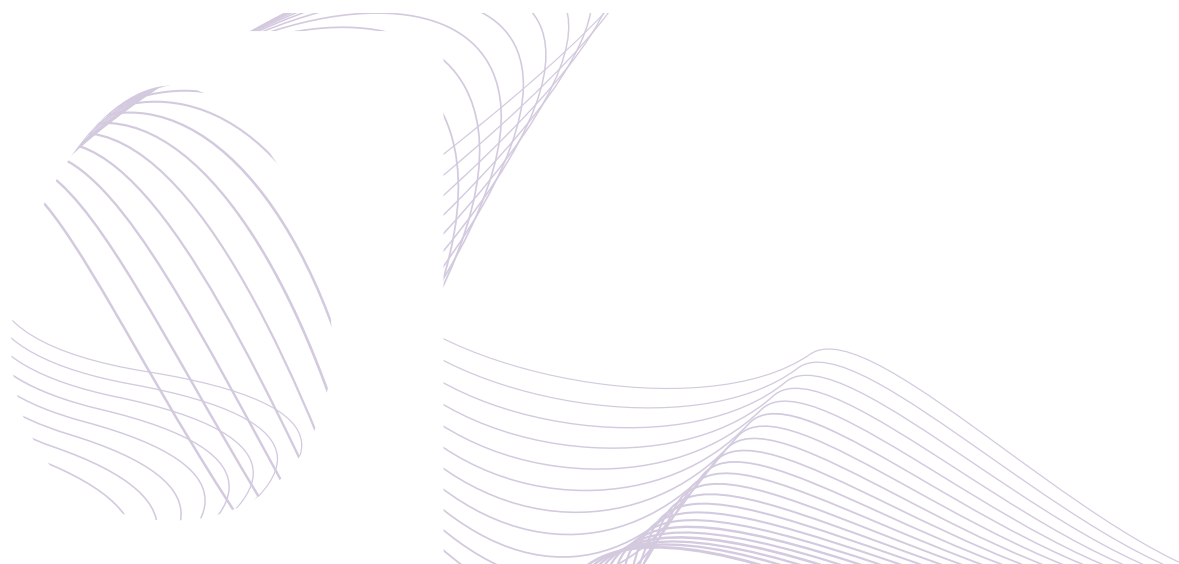


Alternative Revenues Breakdown by Service	2003	2004	2005
<b>OPERATORS REVENUE</b>	\$107.68	\$103.45	\$109.62
Numbering capacity rent (incl channels rent)	\$100.19	\$89.34	\$94.54
Interconnection	\$7.49	\$14.11	\$15.07
<b>CORPORATE REVENUE</b>	\$108.38	\$131.50	\$148.95
Voice Revenue, USDm	\$65.51	\$73.40	\$72.15
DATA and Internet Revenue	\$39.16	\$50.82	\$67.78
VAS Revenue	\$3.38	\$4.88	\$6.21
Other, USDm	\$0.33	\$2.40	\$2.80
<b>RESIDENTIAL REVENUE</b>	\$22.77	\$37.29	\$68.92
Voice Revenue, USDm	\$0.97	\$0.94	\$1.68
DATA and Internet Revenue	\$20.48	\$34.78	\$62.36



Broadband	\$1.63	\$9.68	\$42.32
Dial Up	\$18.84	\$25.10	\$20.03
Pay TV	\$0.05	\$0.08	\$0.75
Other, USDm	\$1.28	\$1.48	\$4.14
RECENT AQUISITIONS			\$31.4
OTHER REVENUE	\$10.19	\$10.15	\$13.95
<b>Total</b>	<b>\$249.03</b>	<b>\$282.39</b>	<b>\$ 372.83</b>

Traditional Revenues Breakdown by Service	2003	2004	2005
RESIDENTIAL REVENUE	139.8	171.4	241.0
Voice	118.6	156.1	226.8
Payphones	9.6	8.0	2.4
Additional telecommunication services	4.4	5.3	9.2
Other	7.3	2.1	2.5
CORPORATE REVENUE	145.1	161.7	189.6
Voice	117.8	125.4	129.2
Payphones	15.6	19.2	33.7
Additional telecommunication services	7.7	9.9	12.4
Other	4.0	7.2	14.3
OPERATORS REVENUE	100.7	147.7	209.1
Amortization of service activation fees	8.7	12.3	14.3
Data transmission	14.8	26.9	50.9
Long distance interconnect	24.7	28.8	27.1
Local traffic fees	4.2	5.7	5.6
Rental of lines	35.9	70.1	107.9
Other	12.4	4.0	3.3
<b>Total</b>	<b>385.7</b>	<b>480.8</b>	<b>639.7</b>



## Operating expenses

Alternative fixed line communications	2003	2004	2005
Interconnection costs	72.4	90.8	149.3
Employee costs	34.1	43.6	59.8
Depreciation and amortization	26.2	22.2	30.0
General and administrative expenses	13.1	13.6	23.0
Selling expenses	11.1	16.1	18.5
Network repair and maintenance	7.5	7.2	6.1
Other expenses, net	22.2	26.4	21.3
<b>Total</b>	<b>186.6</b>	<b>220.0</b>	<b>308.1</b>
<b>Traditional fixed line communications</b>			
	2003	2004	2005
Employee costs	114.8	154.6	177.3
Depreciation and amortization	46.0	53.9	60.4
General and administrative expenses	48.2	69.0	83.4
Selling expenses	3.3	3.3	9.4
Network repair and maintenance	49.5	59.9	63.7
Other expenses, net	22.6	26.9	39.1
<b>Total</b>	<b>284.5</b>	<b>367.7</b>	<b>433.3</b>
<b>Eliminations</b>	<b>-44.5</b>	<b>-66.3</b>	<b>-102.1</b>
<b>Total operating expenses</b>	<b>426.5</b>	<b>521.4</b>	<b>639.3</b>



# DECLARED SHARE DIVIDEND PAYMENT REPORT

The amount of the Dividends accrued and paid in 2005 reached 62,591,470.02 RUR.





## THE MAJOR TRANSACTIONS EXECUTED BY THE COMPANY IN THE REPORTING YEAR

No transactions deemed to be major transactions in accordance with Federal Law «On Joint Stock Companies» were executed by the company in the reporting year.



## THE RELATED PARTY TRANSACTIONS EXECUTED BY THE COMPANY IN THE REPORTING YEAR

No approval was required for the related party transactions executed by COMSTAR – United TeleSystems Public Joint Stock Company in accordance with Article 81 Paragraph 2 of Federal Law «On Joint Stock Companies» No. 208-FZ of December 24, 1995, since all shareholders of COMSTAR – United TeleSystems Public Joint Stock Company were related parties at the time of making such transactions.



## THE TOTAL AMOUNT OF THE REMUNERATION PAID TO THE COMPANY'S MANAGEMENT FOR THE YEAR

The company has paid remuneration of 98,838,000 RUR to the members of the Management for 2005.

The members of the Board of Directors received no remuneration for 2005.



## OBSERVANCE OF THE CORPORATE BEHAVIOUR CODE BY THE COMPANY

The code describes the Company's system of values and general ethical principles of business, as well as the ethical standards and staff behaviour norms, which, apart from the principles of process and business expediency, serve as a daily guideline for the staff in decision-making and staff behaviour model in the Company's both productive and non-productive operations.

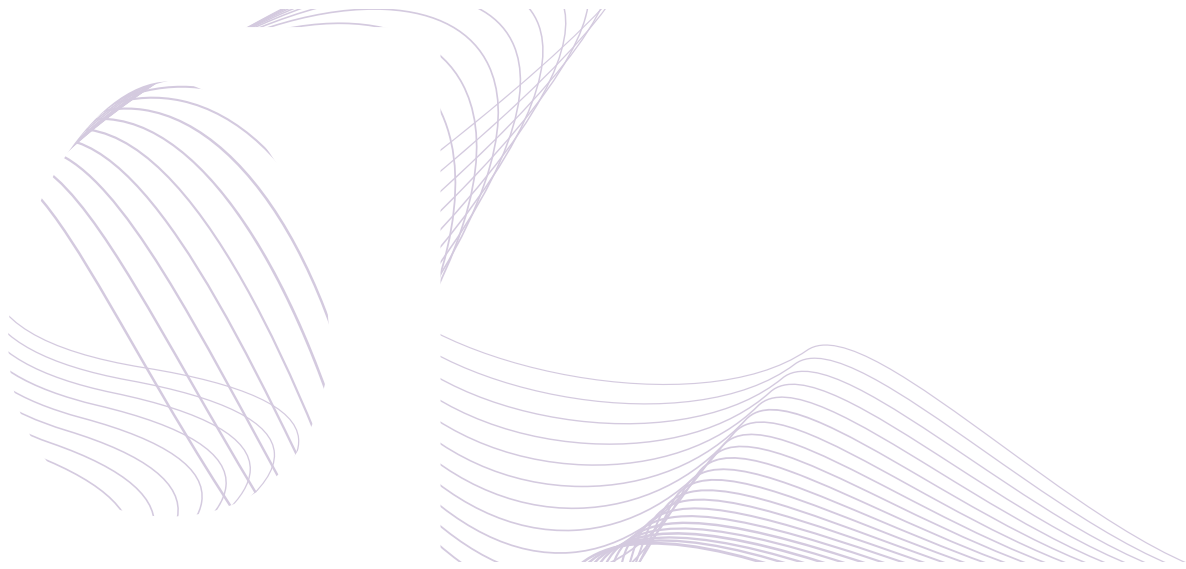
The code plays an important role in corporate governance development and provides a clear and comprehensible description of business prospects by formulating the Company's mission and its strategic goals as the tool of implementing the Mission with a focus on corporate values.

The code promotes the key principles which underlie corporate governance:

- respect for the rights and protection of the interests of shareholders
- the accountability of governing bodies in relation to shareholders
- the transparency and openness of the corporate policy
- regular and prompt provision of and easy access to reliable information
- the operation of efficient internal controls and audit procedures
- observance of ethical behaviour norms by the staff

The observance of corporate business customs and behaviour norms promotes the Company's favourable image in the eyes of the community which in close unity with its trademark and the high business reputation constitutes an important component of the intangible assets making the Company's market value and investment appeal much higher.

The code allows corporate communications to reach a higher level and can be an efficient tool for implementing



institutional changes. The code promotes a stronger corporate spirit, higher staff loyalty, the favourable moral and psychological environment at the Company in which the occurrence of various kinds of conflicts is prevented at the earliest possible stage and which serves as the basis for the fair resolution of such conflicts if they do occur.

The Code fixes the role and significance of the institutional (corporate) culture as a powerful tool of efficient company management. Practice has demonstrated that the conformance of the institutional culture to the Company's development strategy is an important pre-requisite for the successful implementation of the Company's mission.