



# Comstar-UTS

## Corporate presentation



Based on 3Q2008 results



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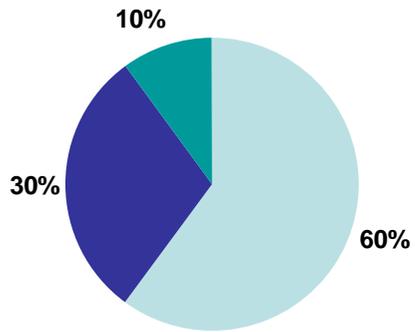
## Comstar at a Glance

- Operations in **67\*** Russian cities with combined population of over **48 mln** people
- The leading national broadband provider: over **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
- Owner of **25% + 1** share in state-owned Svyazinvest national fixed line incumbent
- 2008 Guidance : **15 %** organic revenue growth\*\*, **38 – 40%** OIBDA margin, CAPEX : 360 mln US\$

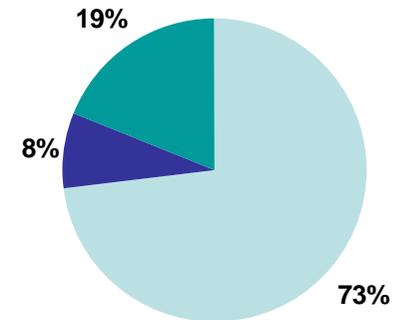


# Stable traditional MGTS business provides sustainable cash flows and high profitability, regions drives revenue growth

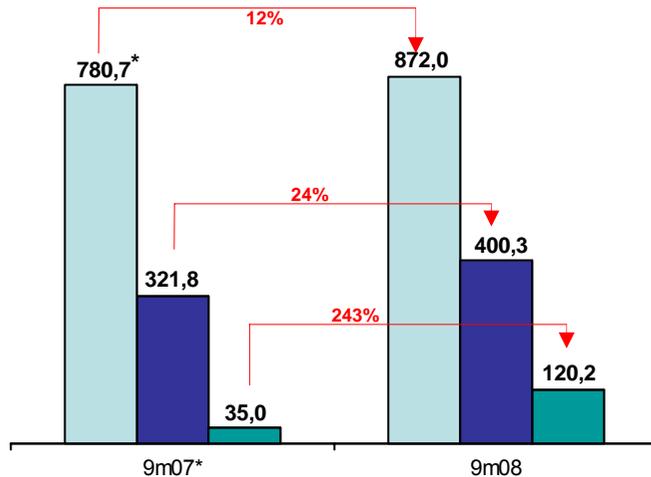
## Breakdown of revenues, 9m2008



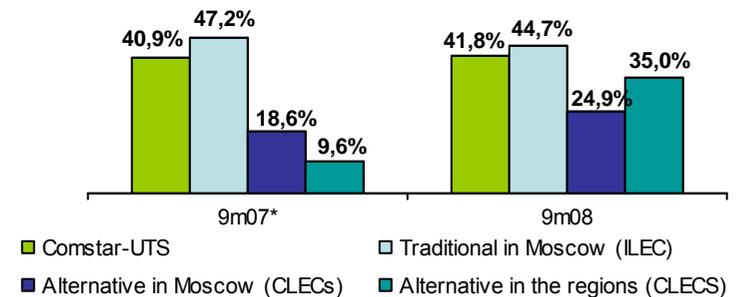
## Breakdown of OIBDA, 9m2008



## Revenue growth



## OIBDA margin growth, %



\* Excl. US\$ 36.5 million compensation from the budget received in 9m2007



## Use of cash in 2008

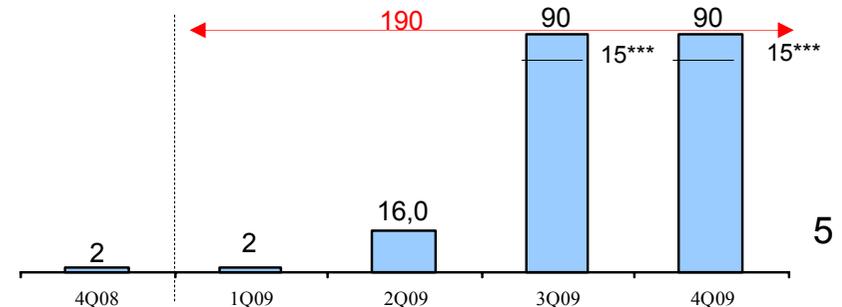
### 9 months ended September 30, 2008

- US\$ 428 mln operating cash flow
- US\$ 571 mln cash and cash equivalents + bank deposits and short-term investments
- US\$ 896 mln total debt
- ~ US\$ 177 mln\* under Sberbank credit facility remains undrawn
- US\$ 241 mln cash CAPEX

### 4Q 2008

- ~ US\$ 250 mln : enterprise value of STREAM-TV, half is debt
- ~ US\$ 200 mln payment under put option execution
- ~ US\$ 120 mln cash CAPEX
- No significant repayments in the 4Q2008

### Debt repayments schedule, mln US\$

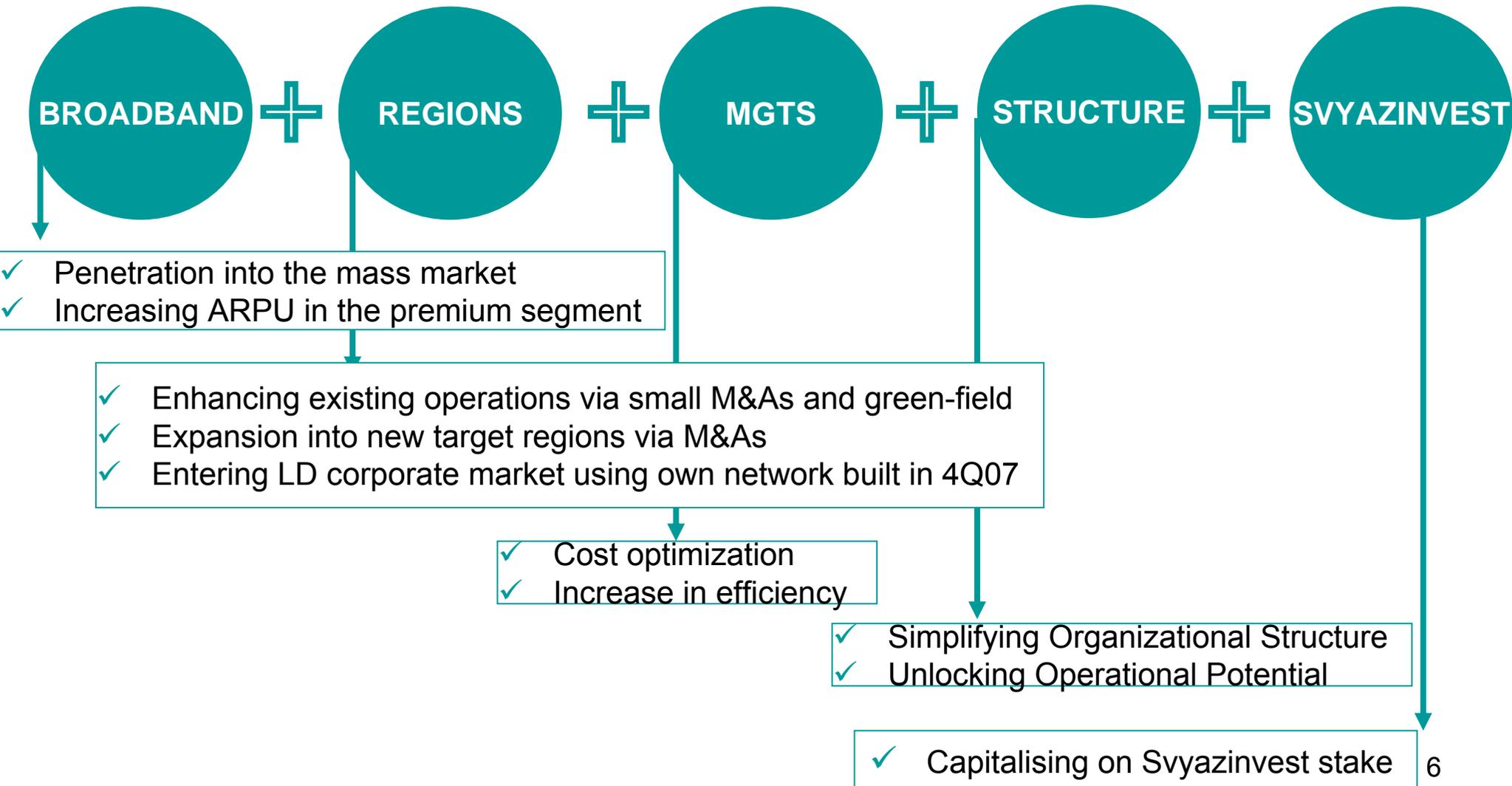


\*RUR 4.5 billion

\*\*FY2008: not more than US\$ 360 mln

\*\*\* Incl. 4.5 billion rubles of undrawn monies under Sberbank credit facility, expected to be used in the 4q2008

# Value Drivers

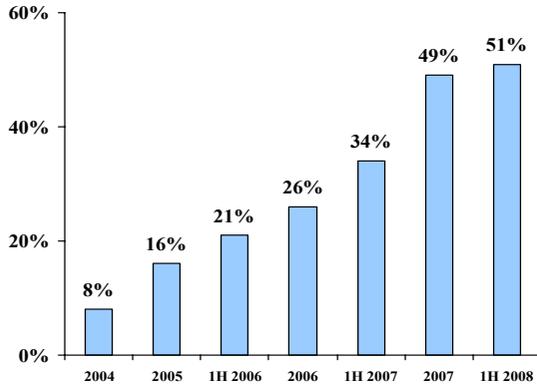


Based on 3Q2008 results



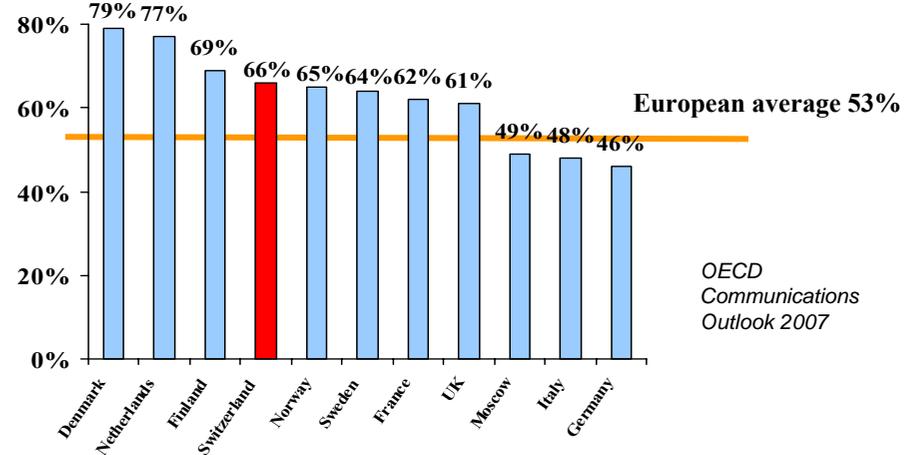
# BB In Moscow- impressive subscriber base- platform for VAS

Broadband penetration in Moscow, %



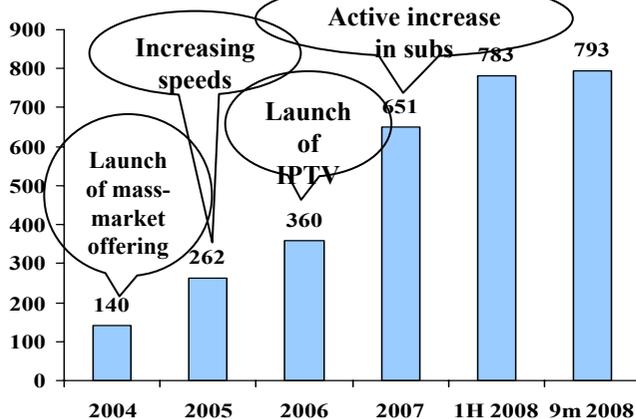
Direct Info

Broadband penetration in Europe 2007, %

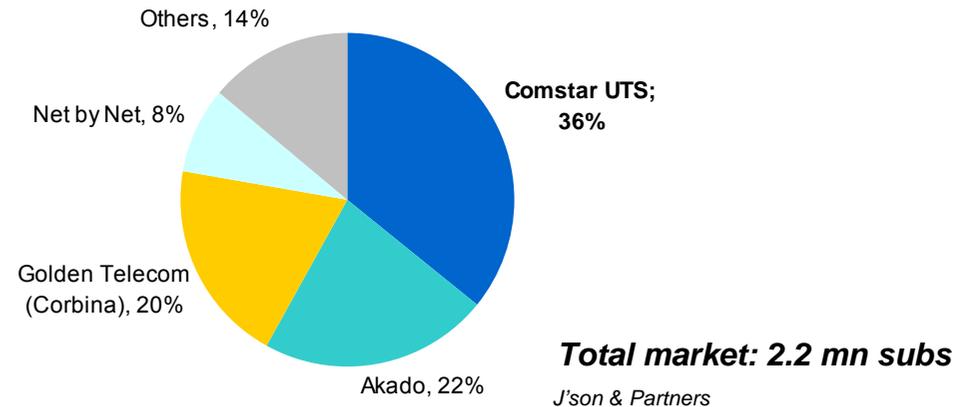


OECD Communications Outlook 2007

Comstar residential subscriber base, '000



Moscow Residential BB Market, 1H2008



Total market: 2.2 mn subs  
J'son & Partners

**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)**



# Moving to the 2nd step of revised Broadband Strategy in Moscow



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



- BB Internet + pay-TV (current ARPU : US\$ 12.4)
- VAS : HDTV+ mobile WiMax + WiFi
- Focus on higher tariffs and speeds (up to 24 Mb/sec)

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



- Voice + BB Internet (current ARPU : US\$ 11.9+US\$ 5.8)
- Post-paid & mass-market tariffs
- Massive subscription to broadband Internet using IMS technology from Sept. 2009

- Increase in subscriber base
- 2011: 50% of total subscriber base <sup>8</sup>

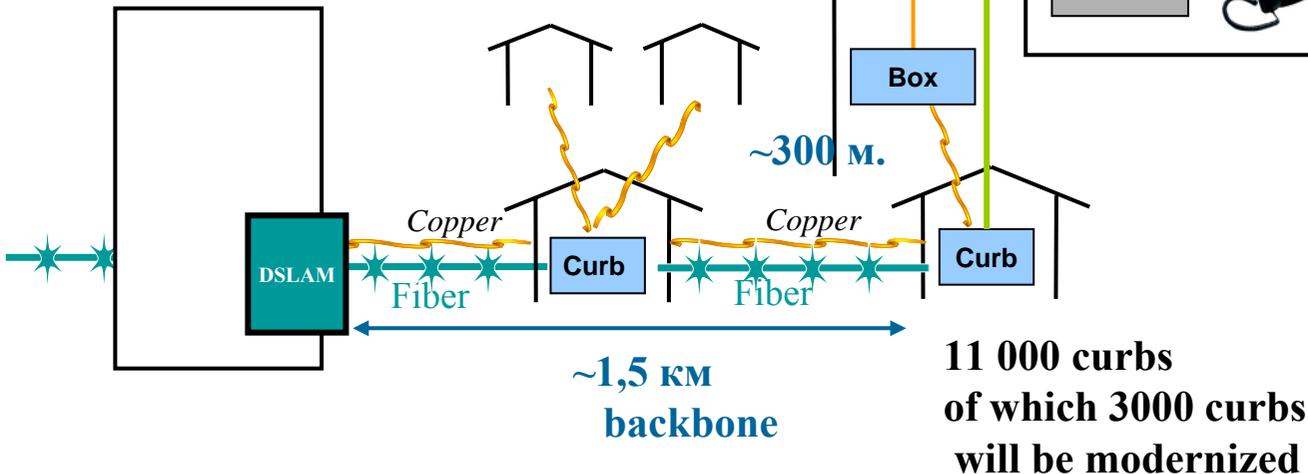


# Modernization of the “Last mile”

35 000 apartment blocks

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

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)

**CAPEX of up to \$72 million (2008)**

**70-80% of the “last mile” is to be “Sped Up” from 6 Mbps to 24 Mbps by the end of 2008**



# Be with Comstar and stay on-line!

**ADSL At home**

Update

- Fixed payment (300-400 RUR/month)

Connection Manager



At friends



- Wi-Fi – FON
- Free (or 50 RUR/hour)



In the car

WiMAX



In public places

• 10-20 RUR/MB



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

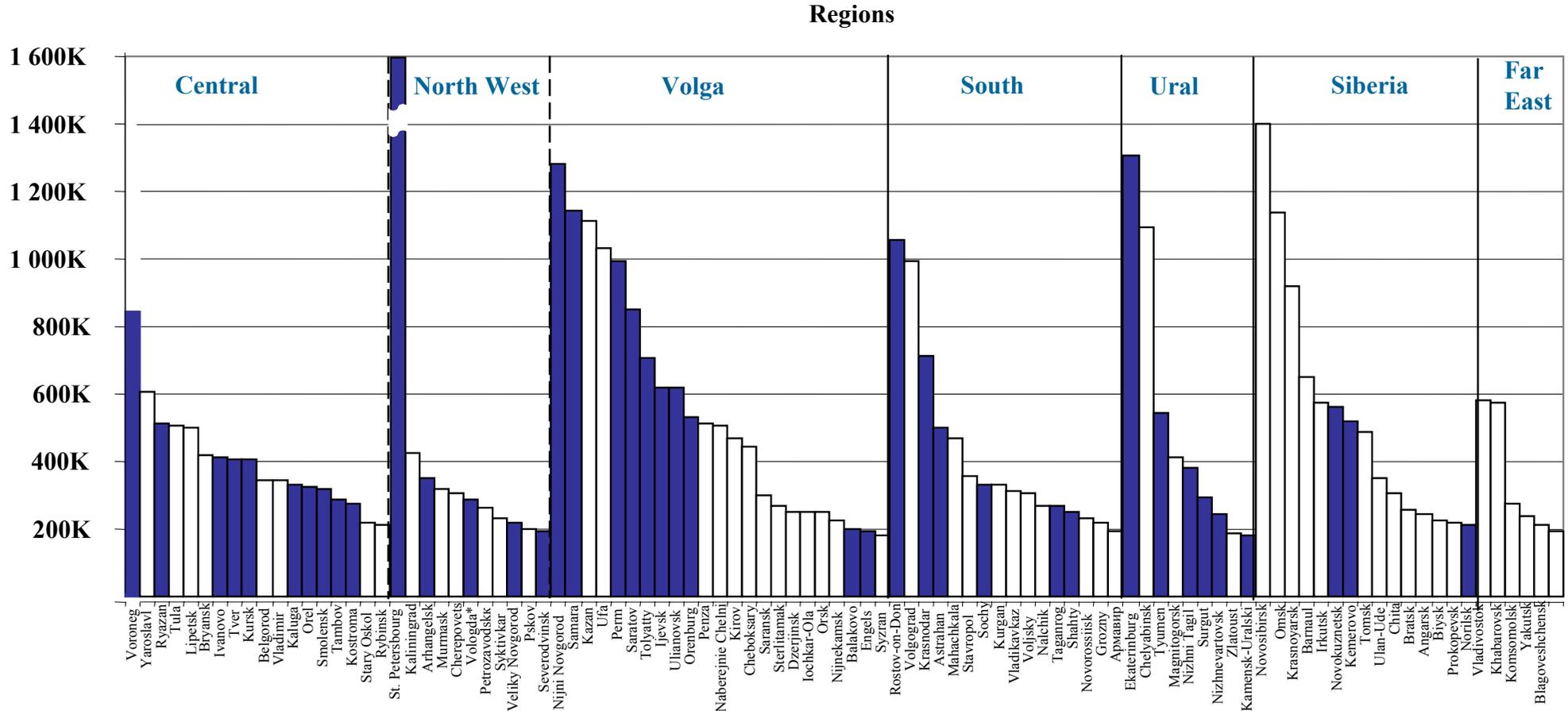
**Growing number of ADSL subscribers, already using WiFi access at home, will get access to the Internet everywhere from Comstar**

Based on 3Q2008 results



# Comstar Regions of Presence in Russia

Cities with population, more than 200k



Regional operations cover 66 cities with combined population exceeding 30 mln people

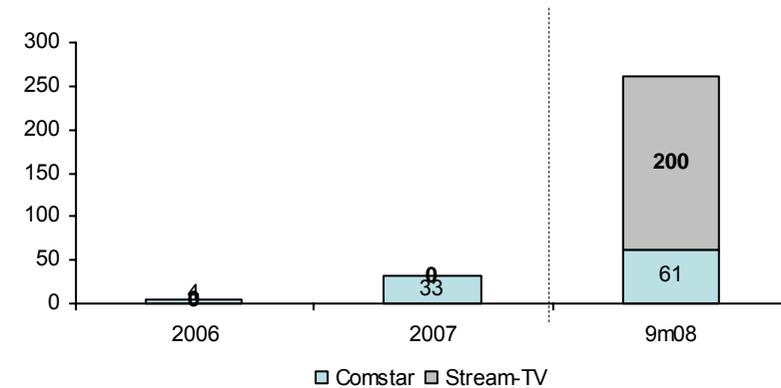


## Acquisition of Stream-TV

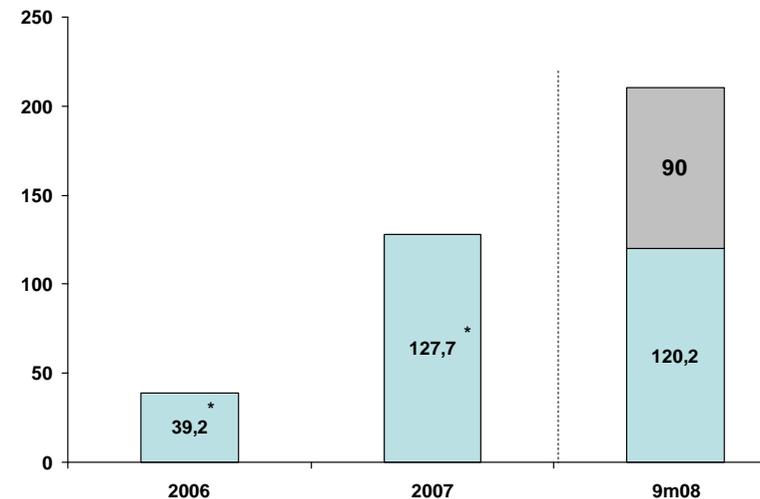
- ▶ 3.6 million households passed
- ▶ **1.8 million active pay-TV subscribers (ARPU ~ US\$5)**
- ▶ **200 thousand broadband subscribers (ARPU ~ US\$ 14)**
- ▶ 30% of the network has already been modernized
- ▶ Revenues in 2007 US\$ 89.8 million
- ▶ OIBDA margin in 2007 24.6%
- ▶ ~ 4000 employees
- ▶ Comstar takes STREAM-TV under management control from September 4, 2008
- ▶ Independent valuation by E&Y: enterprise value – US\$ 250, half is debt
- ▶ Acquisition to be completed by the end of 2008
- ▶ Will be consolidated into Comstar financials from 2009

**Comstar total broadband base increased to over 1 mln residential subs,  
Pay - TV – to over 2 mln residential subs**

### Residential BB subs outside Moscow, '000



### Revenue outside Moscow, mln. US\$





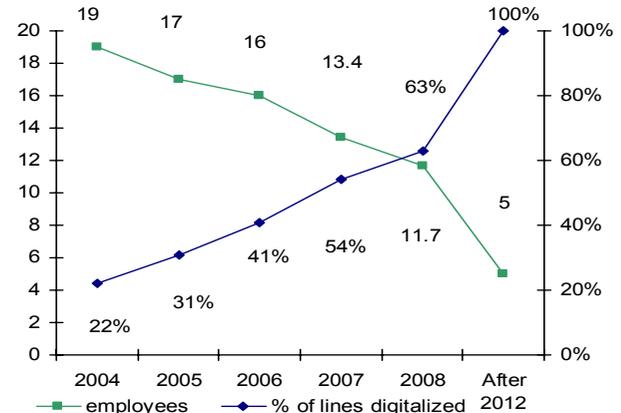
# Cost control programme

- ▶ Significant headcount reduction at MGTS & STREAM-TV
- ▶ Expected growth in salaries ~ 6-8 %
- ▶ Decrease in marketing budget by 20% in RUR terms in 2009 vs expected 5% increase y-o-y in 2008
- ▶ Reduction in consultancy costs
- ▶ Increase in network traffic costs in line with traffic growth

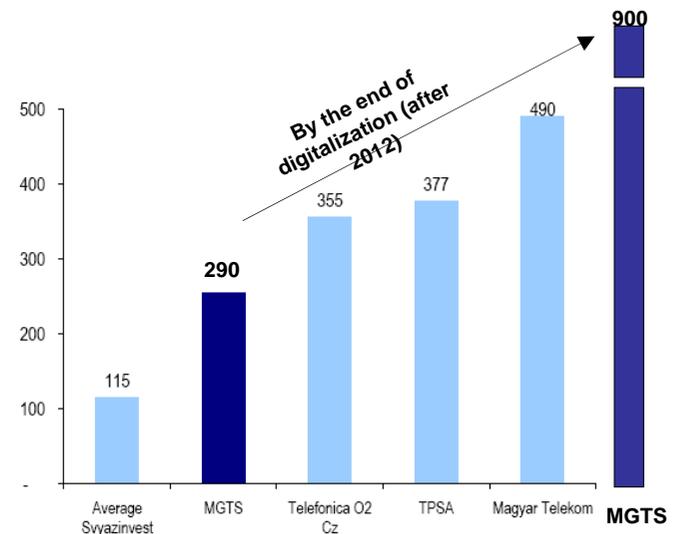


**Objective is to maintain the level of profitability at 35-40% despite consolidation of STREAM-TV and inflation**

### Number of MGTS Employees, 000\*



### Lines / Employees\*\*



\* End of period

\*\*Source: Analysts reports, Company data FY2007

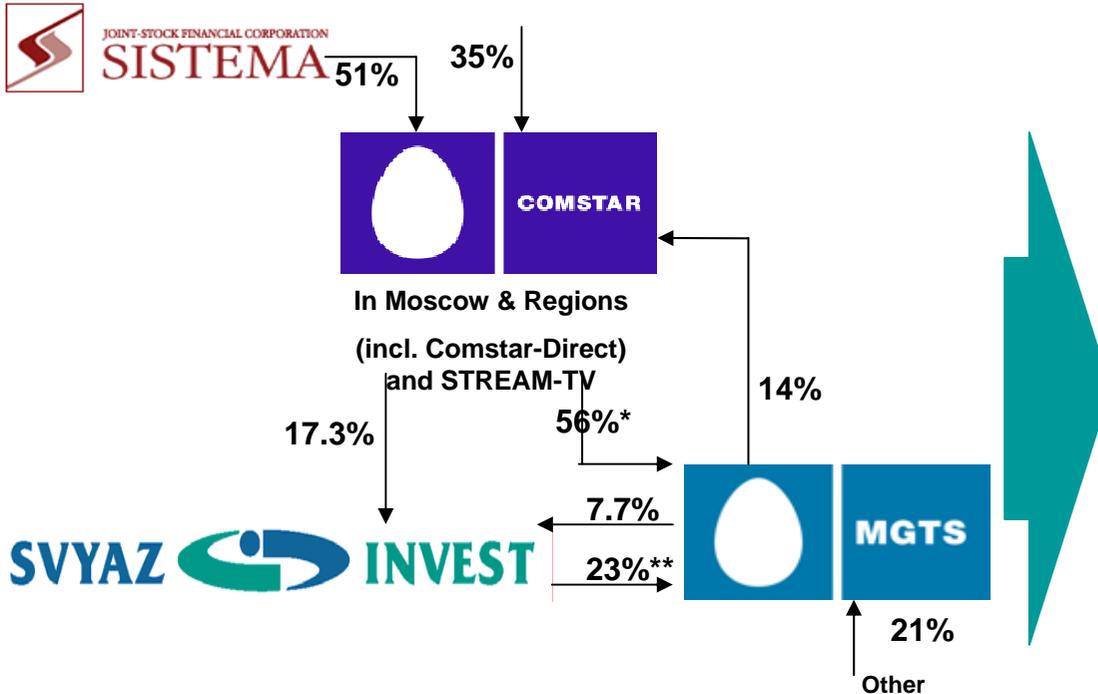


# Simplifying Organizational Structure

Now

Objective

Free float



- Two operating companies: MGTS & Comstar
- Integration of Comstar-Direct and STREAM-TV
- Turning regional subsidiaries into branches & re-branding

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

\*67% of voting shares

\*\*28% of voting shares



# SVYAZ INVEST

- 7 ILECs + Rostelecom + Central Telegraph
- Owner of the “last mile” in the regions
- >35 million installed lines covering 90% of Russia
- In Dec. 2006 Comstar acquired 25% +1 share in Svyazinvest from Access Industries for US\$ 1.3 billion + call & put option for 11% of Comstar shares held by MGTS Finance
- Call was exercised in Dec. '07 and Comstar received US\$ 322 mln in cash; Access Industries became the owner of 11% of Comstar shares
- Put was exercised in August '08 and Comstar will pay US\$464 mln by March 26, 2009; MGTS Finance became the owner of 11% of Comstar shares on November 26, 2008



## Investment Case

- National fixed-line provider with operations in 67 cities of Russia with combined population of >48 mln people
- Unique combination of
  - ▶ incumbent and alternative service provider
  - ▶ broadband growth potential and expansion into the regions
  - ▶ balancing double digit growth in ruble terms & 38-40% profitability



## Contacts

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# Appendix



# Income Statement

(US\$ Million)	2007*	9m2007	9m2008
<b>Revenues</b>	1,562.4	1,080.2	1,255.8
<i>Y-o-Y Growth</i>	39.5%	30.4%	16.2%
<b>OIBDA</b>	663.2	463.2	524.5
<i>Margin</i>	42.5%	42.9%	41.8%
<b>Operating Income</b>	485.3	346.2	370.8
<i>Margin</i>	31.1%	32.0%	29.5%
<b>Net Income</b>	43.8	-8.0	120.4
<i>Margin</i>	2.8%	-0.7%	9.6%
<b>Capex</b>	345.4	209.6	241.2
<i>% of Revenues</i>	22.1%	19.4%	19.2%

## 9m 2008 Highlights

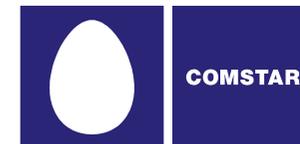
- 16.2% year on year revenue growth
- 41.8% OIBDA margin
- US\$ -15.6 million change in fair value of put option less minority share

\*In accordance with old accounting policy in respect of acquisitions. New policy was adopted effective January 1, 2008



# Segmental Breakdown

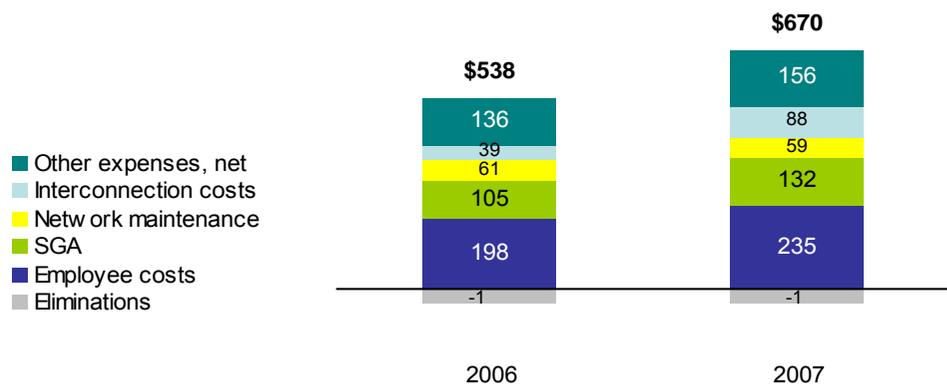
<b>Revenue (US\$ Million)</b>	<b>FY 2007 *</b>	<b>9m07</b>	<b>9m08</b>
Traditional segment in Moscow (MGTS)	<b>1,112.5</b>	817.3	872.0
Alternative segment in Moscow (Comstar & Comstar-Direct)	<b>452.5</b>	321.8	400.3
Alternative segment in the regions & CIS (Comstar)	<b>127.7</b>	35.0	120.2
Intersegment Sales	<b>-130.3</b>	-93.8	-136.8
<b>Total Revenue, net of intersegment transactions</b>	<b>1,562.4</b>	1,080.2	1,255.8
<b>OIBDA (US\$ Million)</b>			
Traditional segment in Moscow (MGTS)	<b>551.3</b>	405.4	389.7
Alternative segment in Moscow (Comstar & Comstar-Direct)	<b>76.1</b>	59.9	99.6
Alternative segment in the regions & CIS (Comstar)	<b>40.2</b>	3.3	42.0
Effect of eliminations and other consolidation adjustments	<b>-4.4</b>	-5.4	-6.8
<b>Total OIBDA</b>	<b>663.2</b>	463.2	524.5



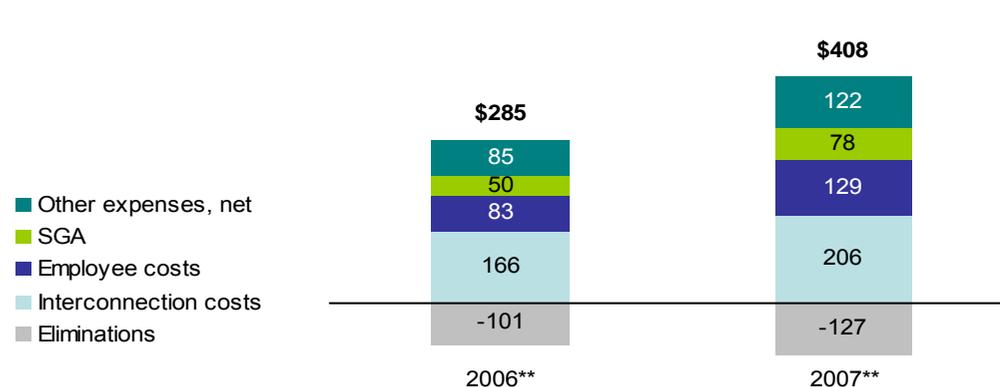
# Segmental Operating Expenses & Employees

	2007**	9m08
<b>#Employees *</b>		
Traditional segment	13,777	11,616
Alternative segment in Moscow	2,154	2,111
Alternative segment in the regions & CIS	1,084	2,644
<b>Average salary</b>		
Traditional segment	\$ 956	\$ 1,227
Alternative segment in Moscow	\$ 2,179	\$ 2,743
Alternative segment in the regions & CIS	\$ 1,340	\$ 991
<b>Average monthly revenue per Employee</b>		
Traditional segment	\$ 6,729	\$ 8,341
Alternative segment in Moscow	\$ 17,506	\$ 21,072
Alternative segment in the regions & CIS	\$ 9,818	\$ 5,052

## Traditional Segment (\$m)



## Alternative Segment (\$m)



\* At the end of period

\*\* In accordance with old accounting policy in respect of acquisitions. New policy was adopted effective January 1, 2008



# Capital Expenditure Development

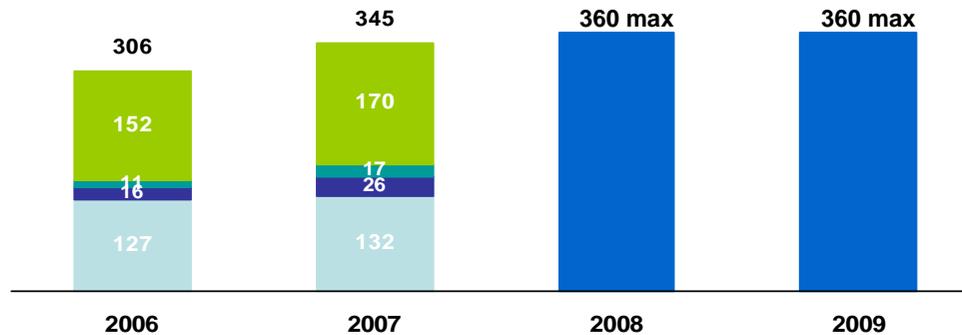
## Cash Capex (\$m)

Others

Regions

Development of  
Broadband DN (incl.  
FTTX)

MGTS network  
upgrade and  
development



### Comments

- Modernization of the last mile is expected to be completed by the end of 2009
- Long-distance network development has been completed in the 4Q of 2007
- Starting from 2007 network development reconstruction is based on NGN Technology, thus leapfrogging one generation in technology
- In the 2H2008 capex projects have been prioritized
- Building of WiMax network to be completed by the end of 2008
- Modernization of Stream-TV network will cost approximately US\$ 60 mln



# Cash Flow Statement

<b>(US\$ Million)</b>	<b>2006</b>	<b>2007</b>	<b>9m2007</b>	<b>9m2008</b>
Net cash provided by operations	288.7	488.4	335.0	427.9
Net cash provided by investing activities	-1,767.0	-859.9	-145.5	-121.4
Net cash provided by / (used in) financing activities	1,550.9	403.6	-68.1	-134.9
Effects of foreign currency translation of cash and cash equivalents	2.0	11.2	2.4	-16.5
Cash and cash equivalents at the beginning of the period	62.0	136.6	136.6	179.8
Cash and cash equivalents at the end of the period	136.6	179.8	260.4	334.8
<b>FCF</b>	<b>-17.7</b>	<b>142.9</b>	<b>125.4</b>	<b>186.7</b>



# Balance Sheet

<b>(US\$ Million)</b>	<b>2006</b>	<b>2007</b>	<b>9m 2007</b>	<b>9m 2008</b>
<b>Assets</b>	<b>3,537.6</b>	<b>4,630.3</b>	<b>3,963.7</b>	<b>4,717.6</b>
<i>Current Assets</i>	<i>445.1</i>	<i>941.7</i>	<i>600.1</i>	<i>938.2</i>
<i>Long-term assets</i>	<i>3,092.5</i>	<i>3,688.7</i>	<i>3,363.6</i>	<i>3,779.4</i>
<b>Liabilities</b>	<b>1,470.6</b>	<b>1,774.4</b>	<b>1,801.0</b>	<b>1,759.5</b>
<i>Current Liabilities</i>	<i>1,140.9</i>	<i>465.3</i>	<i>735.5</i>	<i>534.7</i>
<i>Long-term liabilities</i>	<i>329.7</i>	<i>1,309.1</i>	<i>1,065.5</i>	<i>1,224.9</i>
<b>Minority Interests</b>	<b>496.7</b>	<b>765.0</b>	<b>504.3</b>	<b>813.8</b>
<b>Shareholder's equity</b>	<b>1,570.2</b>	<b>2,090.9</b>	<b>1,658.4</b>	<b>2,144.2</b>

## 9m 2008 Highlights

- Cash and cash equivalents of US\$ 334.8 million
- Short-term investments of US\$ 235.9 million
- Total debt of US\$ 896.5 million
- Net debt of US\$ 561.7 million
- Net debt minus short-term investments of US\$ 325.8 million
- Total debt/OIBDA of 1.24
- Net debt/OIBDA of 0.82