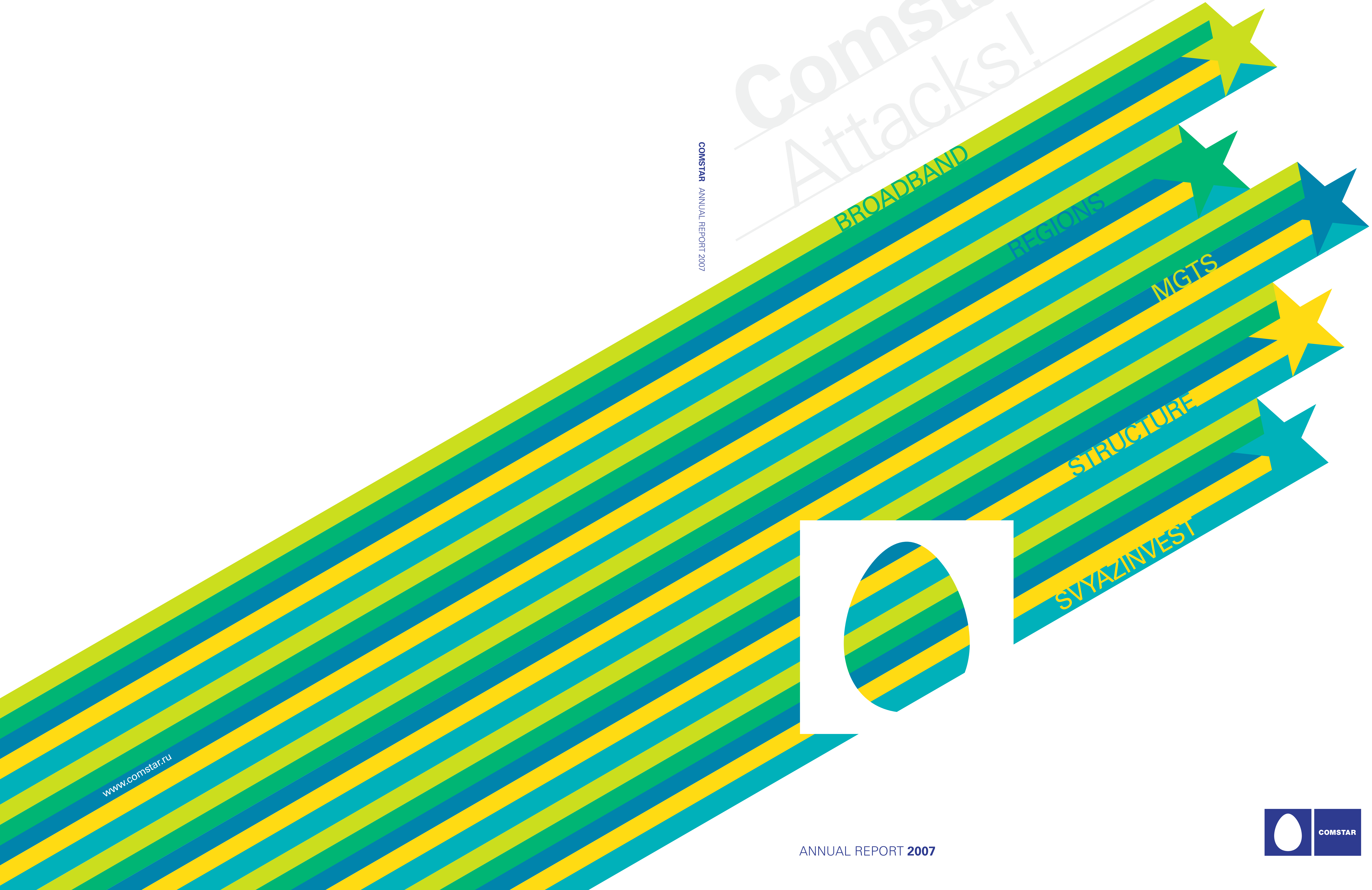
Comstar Attacks!



COMSTAR ANNUAL REPORT 2007

ANNUAL REPORT **2007**

COMSTAR

Content

About Comstar

Comstar-United Telesystems Joint Stock Company (Comstar or the Group) is a multi-service fixed-line telecommunications operator based in Moscow. Through incumbent operator MGTS, Comstar owns the 'last-mile' access to around 3.6 million households in Moscow, representing 97.3% of total households. Comstar is the number-one provider of broadband Internet access to residential users in Moscow with 34.3% market share and is a leading provider of complete service packages for corporate clients that incorporate local and long-distance voice calling, virtual private networks and other solutions. Comstar is also actively expanding into Russia's regions and selected CIS markets, including a presence in Ukraine and Armenia.

Operating in some of the world's most dynamically developing telecommunications marketplaces, Comstar combines the infrastructure and access to the last mile of a traditional operator with the product innovation capabilities, technology leadership and marketing strength of an integrated alternative operator. The Group is committed to investing infrastructure in order to deliver unique and world-class communications services wherever it does business while applying equal innovation to streamlining business processes, improving efficiency, cutting costs and building shareholder value.

Comstar operates a more than 11,000 kilometer fiber-optic network, more than 90,000 kilometer copper network and has five million active lines in Moscow. To boost its market-leading Moscow broadband service, it is engaged in a wide-scale modernization of the last mile to increase broadband access speed and ability to deliver additional services. At the same time, MGTS is digitizing its entire Moscow network, which was 54% digitalized as of the end of 2007.

The Group is currently building New Generation Networks in a number of Russian Regions and Ukraine. It plans to launch a Mobile WiMAX network in Moscow by the end of 2008, allowing broadband subscribers seamless access to service in the home or office or on the move. Mobile WiMAX and other wireless technologies are also being used to rapidly scale up coverage in Russian Regional and CIS markets, including a WiMAX network due to be launched in Armenia in 2008.

In addition, Comstar has a proven track-record of innovative product and service launches. In early 2008, it began test broadcasting of High Definition Television (HDTV) in parts of Moscow. As a part of the Sistema group of companies, Comstar can offer services and solutions in partnership with other leading consumer-focused technology companies, including MTS, Sitronics, Sistema Mass Media, the Moscow Bank for Reconstruction and Development, Intourist and others.

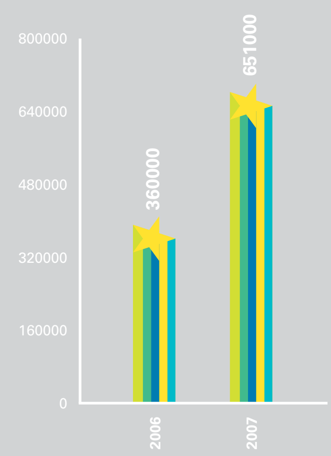
Comstar's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts and its ordinary shares trade on the Russian Trading System and Moscow Stock Exchange. The Group aims for the same level of innovation and efficiency in its corporate governance and transparency as in every other part of its business.

Highlights of 2007

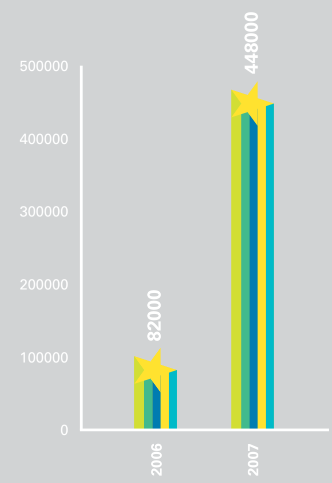
REVENUE	OIBDA[1]	PRE-TAX INCOME[2]
US$ 1562.4 mln + 39%	US$ 663.2 mln + 55%	US$ 446.1 mln + 31,6%

[1] Excl. stock bonus awards in the 4Q2006.
[2] Excl. non-cash revaluation of "call & put" option and stock bonus awards in the Q 2006.

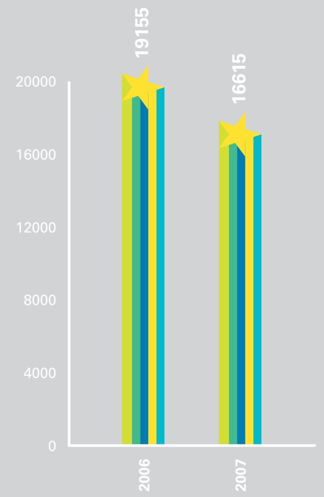
Moscow residential broadband subscriber base, Comstar



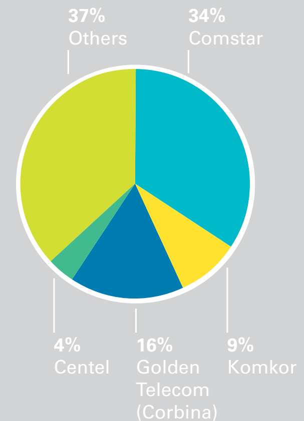
Number of subscribers outside Moscow



Number of personnel

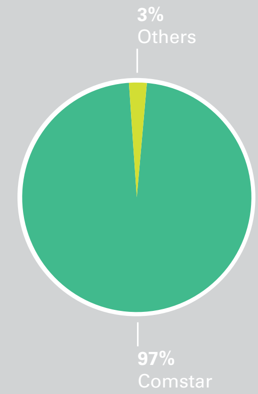


Moscow Residential Broadband Market, in terms of subscribers[3]



[3] Source: J'son & Partners

Active residential telephone lines in Moscow[4]



[4] Source: Direct INFO.

Letter from the Chairman and the CEO

Sergey V. Pridantsev, President & CEO, Comstar **Anton V. Abugov,** Chairman of the Board of Directors, Comstar[1]

[1] As at 31.12.2007.

Dear Investors, Clients, Partners and Employees,

In 2007, Comstar moved from restructuring a group of successful companies to becoming a single, efficient and integrated operator that is fighting fit to compete in the global telecommunications marketplace. We developed and implemented a long-term strategy we call the 'Five Angles of Attack' that underlines we are on the offensive in the marketplace, rolling back competitors and surrounding the customer with a unique package of bundled communications services that only Comstar can deliver.

Our strategy through 2011 is directed at fulfilling a range of specific and aggressive operational and financial objectives. Most importantly, it aims to achieve the primary overall mission that Comstar become the leading integrated fixed-line communications operator in the Russian marketplace. With our mission in hand, during the second half of 2007 we put into place the five angles of attack designed to ensure we can dominate the information battlefield.

Our codenames for these five angles are: Broadband, Regions, MGTS, Structure, and Svyazinvest. Each represents a detailed and specific set of strategic approaches building upon the groundwork laid in 2006 and the first half of 2007. In order to implement our strategy, we created and presented Regional, Financial, Marketing, IT and Communications strategies for the Group to the Board of Directors.

Ultimately, our stakeholders want to see results. Reviewing our operating results and financial indicators, we believe we already achieved important breakthroughs during 2007. We have integrated our five-fold approach into our 2008 budget and operational planning and are committed to deliver on the aggressive targets set before us.

Our first angle of attack is based on the clear recognition that broadband services represent the principal driver of the Group's future growth. The Moscow fixed-line market, valued at around US$5.4 billion[1] in 2007, is Russia's largest and most competitive. As the penetration of voice services is nearly complete, the main growth in the industry is coming from increasing broadband penetration. Therefore we are using the combined resources of Comstar and MGTS to sell and market our broadband offering, modernize the last mile in order to increase the speed and launch more value-added services and bundled services to residential and corporate subscribers.

Russia today is transforming as its economy grows and people need constant access to information as never before. In Moscow, broadband penetration grew from 29% in 2006 to an estimated 49% in 2007 and is forecast to reach 83% by 2011.[2] Competition has become far more intense and we had to fight erosion of our market share during 2007. A turning point came in the fourth quarter of 2007 when we stopped the decline in market share and even substantially increased it from 29% as of September 2007 to 34% as of the end of 2007.[3]

During the year, we increased the number of Moscow broadband subscribers by 81% to 695,000 including 651,000 residential subscribers. As a result of the complete revision of our approach towards selling broadband services as part of our strategy in the closing months of the year, we gained 198,000 clients in the fourth quarter alone out of total 291,000 added during the year. Our market share in Moscow broadband stood at 34% at the end of 2007 and we aim to have a market share of not less than 50% by the end of 2011.

[1] Preliminary 2007 estimate by Direct Info research group, includes fixed-line, data exchange and Internet.
[2] Company data, Pyramid Research, J'son & Partners.
[3] J'son & Partners.

Our angle of attack in **broadband** is based on three elements. First, we are using the MGTS brand and technical support teams to sell broadband services to subscriber base of MGTS. Second, we have introduced post-paid tariffs and a single billing system and third, the modernization of MGTS "last mile" access in Moscow.

The Telephone Master broadband offering represented a major breakthrough for MGTS in its approach to the mass market and it was a significant contributor to our record increase in broadband subscriber numbers in Moscow in the fourth quarter. A unique credit program now in place allows lower-income subscribers gain broadband access for the first time at a low price and with the option of switching to higher speeds in the future. In 2007 we eliminated the old Territorial Nodes and established modern Communications Service Centers.

In February 2008 we launched a High Definition Television (HDTV) on a test basis in the first districts in Moscow where the last mile has already been modernized and we moved to ADSL2+ technology from ADSL. By the end of the year, we plan to launch mobile WiMAX services as part of unique agreement with Intel. In essence, we anticipate being able to capture the subscriber with a 'Five-Angle' service offering no other competitor will be able to match. At home, the subscriber gets local and long distance telephony, unlimited wire-line broadband Internet and HDTV. When leaving home or the office they can always be in touch with WiMAX mobile Internet using a laptop.

Our **regional** approach is the second angle of attack.

We have made significant progress in the implementation of our regional consolidation and expansion strategy. This will also drive our growth in the coming years. We plan that our regional business will contribute at least 30% of Group's revenues by the end of 2011.

Our first priority is to expand our presence in the current operating regions. As of the beginning of 2007, we had operating subsidiaries covering the Moscow suburbs as well as the St. Petersburg, Krasnodar, Saratov, Samara, Tyumen, Khanty-Mansiisk and Yamalo-Nenetsk regions. We will expand this market presence by building out our network, launching new green-field operations, and making relatively small acquisitions that we can easily integrate into our existing subsidiaries.

Our regional development strategy also includes expansion into new target regions. This will be achieved through larger scale acquisitions of competitive local exchange carriers that are ranked number one or two after the incumbent operator in a particular local market. In this respect, we are focusing our attention on the Southern, Volga and Ural Federal Districts in Russia. We announced the acquisition of two such large alternative operators in the fourth quarter of 2007.

Specifically, in November 2007 we announced the acquisition of 87.5% of Regional Technical Center (RTC) for US$21 million. RTC is an alternative fixed-line operator in the Khanty-Mansiisk Autonomous Region. The company also has branches in Saratov, Ryazan and Moscow. RTC had approximately 16.000 corporate and residential customers, and over 31.700 installed active lines at the end of 2007. The Company's revenue in 2007 grew by 26% to US$20.3 million, with a 22.4% OIBDA margin. We are integrating RTC into our Tyumen branch, and our market share in the Khanty-Mansiisk region on revenue basis increased to around 33% as of the end of 2007.

Also in November 2007, we announced the acquisition of 100% of Digital Telephone Networks South (DTN) for approximately US$167.4 million. DTN is the largest alternative operator in Russia available for acquisition and provided over 185,700 installed lines in the Southern Federal District at the end of 2007. DTN revenue in 2007 grew by 60% to US$60.3 million, OIBDA margin was 51.5%. The combination of DTN with our existing Southern business will provide subscribers with a full range of integrated telecommunications services and enable us to derive significant operating synergies. This acquisition demonstrates our ability to identify and successfully acquire market-leading operators with above average profitability indicators.

The third element of our regional development plan relates to the deployment of long-distance services. Our long-distance network was launched at the beginning of 2008 and we are now attracting our corporate subscribers to this service

Our third angle of attack involves making MGTS more efficient. We have cut management, with three directors to cover the company's core functions today of finance, technology and commerce. This compares to eight in mid-2007. We anticipate a necessary longer term reduction in the number of employees from more than 15,600 at beginning of 2007 by tree times by the end of digitalization, through the re-engineering of business processes, outsourcing and improved efficiency, including the ongoing digitization of lines, which reached 54% at the end of the year. Our ambitious goal is to increase the number of lines per employee from 290 in 2007 to 900 by the end of digitalization.

"Structure" as the fourth angle of attack means the simplification of the legal and organizational structure and reengineering of business processes in order to increase efficiency. The rapidly changing environment in global communications and the demands of Russia's fast-growing economy require a lean organizational structure. We determined that a holding company structure was not needed any more at this stage of development. Instead, a classic operating company tightly focused on process management was needed to achieve our goals over a five-year and longer time horizon.

First of all, we changed the Group's structure so that it would serve our core process as a business, selling our products and maintaining and enhancing our networks to deliver the best product to the consumer. It is what we do and all other corporate functions must support this process, not distract from it. So we are simplifying the group with the ultimate aim of reducing it to two legal entities, Comstar and MGTS. As the regulated monopoly operator in Moscow, MGTS needs to be kept as a separate legal entity.

We already reduced layers of management and eliminated a range of support activities through outsourcing arrangements primarily at MGTS. We are pleased with the results achieved during the final months of 2007. The Group's former Corporate Center has been integrated into Comstar, which has assumed management functions turning Comstar from holding into operating company.

Therefore, Comstar today is focused on strategy, growth in Russia's regions and sales of multi-service tailor-made telecom solutions to our corporate subscribers.

Our main operating entity in Moscow and the local monopoly, MGTS is tasked with maintaining the infrastructure and modernizing the "last mile" in Moscow as both a regulated basic telephony provider and for the first time in its 125-year history, as a competitive and commercial player delivering mass market sales.

In addition, a number of non-telecommunications-related functions such as driving and cleaning services are planned to be outsourced. As of the beginning of 2007, approximately 1,500 MGTS employees were performing such functions. Now almost all of them are being moved to third-party service providers unrelated to the Comstar Group. We now pay for such services based on what we actually need. These third-party providers were selected through an electronic trading system that we began using in the fourth quarter of 2007 to carry out all significant purchases for the Group.

We were pleased to receive recognition for Comstar's corporate innovations during the year. Our efficient and tightly monitored procurement mechanism, based on the electronic trading system earned us a top rating in the National Rating of Purchasing Transparency among 328 Russian companies and organizations in December 2007.

We have begun the operational integration of Comstar-Direct and it is now focused solely on sales of broadband services to residential users in Moscow using the infrastructure of MGTS. The strategic development of this part of the business is now fully controlled by Comstar. We have strengthened cooperation between MGTS and Comstar-Direct and this has significantly enhanced customer service.

In the regions, we are turning our 100% subsidiaries into branches as this significantly simplifies the financing and management of these operations.

The new organizational structure makes Comstar both more efficient and transparent. In the middle of 2007, we created a streamlined Management Board with committees focused on key issues driving our core business, including tariff policies, technology and investment for all the operating companies of the Group. In 2007, we implemented an understandable, simple and consistent wage and motivation scheme for employees in all of our businesses based on achieving key performance indicators.

Our 25% plus one shareholding in regional fixed-line telecommunications holding **Svyazinvest** acquired in late 2006 continues to prove to be a profitable investment and is the focus of our fifth angle of attack. It is also an option for our investors to participate in a broader telecommunications business covering the whole territory of Russia.

Our financial performance in 2007 reflected the implementation of the Five Angles of Attack in the second half of the year and we are pleased with the top-line and bottom-line growth achieved in the midst of a major restructuring. In 2007, revenues reached US$1,562.4 million, up 39% compared to 2006. Consolidated OIBDA[1] grew by 55% and OIBDA margin stood at 42.5% in 2007.

Looking forward, we expect Group revenues to grow organically by 15 to 20% in 2008 when excluding the Federal Budget compensation received in 2007. We also expect to deliver a full year 2008 OIBDA margin of between 38 and 40%, despite the fact that we will not receive any Budget compensation in 2008 and excluding the impact of the new long term incentive plan introduced from April 2008, further acquisitions and any unforeseen regulatory changes. The margin guidance does however include the ongoing investments and start-up projects in the regions, which are expected to be principal drivers of revenue growth and profitability from 2009.

[1] Excluding US$62.1 million stock bonus awards in Q42006.

We launched a number of strategic projects during 2007, including the selective modernization of the "last mile" in Moscow, green-field start-ups in the Moscow suburbs, and the new WiMAX network development in Moscow. We therefore expect 2008 cash capital expenditure to continue to represent approximately 25% of revenues, again when excluding the non-recurring Federal Budget contribution received in 2007.

Today, Comstar has a clearly defined strategy in place and it is well on the way to being executed. We have made several key changes in senior management and we have presented our shareholders with a clear vision of where we want to be in 2011 as Russia's number-one fixed-line telecommunications operator.

The Russian telecommunications market is growing at a rate of 27% a year and developing world-class communications products is our greatest contribution towards creating a model of sustainable economic growth beyond traditional extractive industries. We also share the Russian government's vision of providing every Russian family with Internet access and believe this is an essential part of creating knowledge-based economy.

We believe in the fantastic potential of the Group and its assets and people as well as the Russian and CIS marketplace. We acknowledge that this has been in many ways a difficult year with many fast-moving changes and necessary reductions in the workforce. But as 2007 came to an end, Comstar was in good fighting shape and had already gone back on the offensive, winning some important early battles and ready for the long struggle ahead to deliver our shareholders maximum value on their investments.

On behalf of the Board of Directors and the Executive Management of Comstar, we wish to thank our investors, clients, partners and employees for their continued support in 2007.

Yours sincerely,

Anton V. Abugov,
Chairman of the Board of Directors, Comstar

Sergey V. Pridantsev,
President & CEO, Comstar

HD & IP TV

New generation of Television

More than 100 channels

Video-on-demand

TV-on-demand

Interactive services

New features of your TV

HDTV, or high-definition television, is the most promising area for the development of television worldwide. It is a new standard for television which ensures the highest quality image. Comstar provides its clients not only high-speed Internet access services but also high-quality content and the ability to watch TV channels and films in high definition.

Key Events in 2007

The year 2007 sees many important developments at Comstar, ranging from the execution of organizational restructuring to acquisitions of leading regional telecoms and from bold new marketing approaches to the beginning of WiMAX deployment in Moscow.

- In February, three new tariff plans are launched at MGTS for subscribers, with more than 50% of existing subscribers choosing the high-value unlimited tariff plan.

- In June, the Board of Directors has approved a five-year ruble-denominated credit facility of RUR 26 billion (approximately US$1 billion) at a fixed rate of 7.6% with Savings Bank of the Russian Federation (Sberbank). The collateral used to secure the credit facility consists of a 17.3% stake (3,378,173,750 shares) in Telecommunications Investment Joint Stock Company (Svyazinvest) owned by Comstar and a 7.7% stake (1,501,410,556 shares) in Svyazinvest owned by MGTS Finance S.A. Comstar partially used the credit line for refinancing of existing loans, such as the repayment of a US$675 million six month loan from ABN AMRO and Morgan Stanley, which were received in December 2006.

- In June, Sergey Pridantsev joins Comstar as President. Formerly the CEO of Center Telecom, he brings his substantial experience of the Russian telecommunications market to the Group. With the first stage of the Group's reorganization complete, Mr. Pridantsev moves rapidly to present the Board of Directors with a five-year Strategic Plan for the integration of Comstar's assets, the introduction of process management and aggressive plans for existing and new markets. Also during the summer, Comstar enters the next phase of its reorganization and consolidation of assets. A new Management Board is created at Comstar to lead the Group.

- One of the Group's most exciting and aggressive marketing drives is announced in September. In line with its strategic focus on the Moscow broadband market, Comstar implements its revised broadband strategy. Through the maximum exploitation of synergies between MGTS and Comstar and aggressive marketing, Comstar aims to have a market share exceeding 50% by 2011. As part of this strategy, in the third quarter MGTS launches broadband under its own brand for the first time, offering entry-level subscribers broadband that can be paid on credit. The offering encourages consumers to get broadband for the first time as it is easy to use, provided by a reliable supplier and can be easily upgraded without changing equipment in the home. The MGTS broadband initiative also represents a breakthrough commercial initiative for the 125-year-old incumbent carrier in Moscow. Hand-in-hand with new marketing initiatives, Comstar also launches major technical upgrades in order to be able to continue to deliver unique and top-quality products in the future.

- In October, Comstar launched an integrated program of modernizing of the Group companies' networks in order to reduce investment and operational costs associated with servicing the infrastructure, as well as to increase its capacity. The Group completed the upgrade of MGTS' backbone network to 40 Gbps. This will enable Comstar UTS to offer its customers a high quality connection and to reduce the connection time for new subscribers of STREAM and MGTS. The Group has also upgraded Comstar Direct's backbone network, resulting in the increase of its capacity from 20 Gbps to 40 Gbps.

- The year also sees Comstar acquire three leading regional alternative fixed-line telecommunications operators. The acquisitions reflect the ongoing strategy of strengthening its business in fast-growing Russian regions by acquiring alternative operators that occupy top positions in their marketplaces. In August, Comstar announces the purchase of Sochitelecomservice, a leading alternative fixed-line operator in Sochi, Krasnodar region. In November, Comstar announces the acquisition of regional alternative fixed-line carriers Digital Telephone Networks South (DTN) in Rostov and Regional Technical Center (RTC) in Khanty-Mansiisk Autonomous Region with the combined annual turnover of approximately US$80 million.

- Comstar is developing new unique offerings to drive broadband ARPU and enhance customer loyalty. Comstar and Intel, leading global semi-conductor component maker, announce the signing of a strategic cooperation agreement for the wide-scale development of Mobile WiMAX technology in Russia. With Intel's technical support, Comstar plans to deploy an IEE 802.16e WiMAX network covering the entire area of Moscow City and the surrounding Moscow Region by the end of 2008. Going forward, Comstar and Intel will work together on future launches of Mobile WiMAX networks in other Russian cities and regions.

Comstar Attacks!

BROADBAND

Our angle of attack in broadband is based on three main elements. First, we started using the MGTS brand and technical support teams to sell broadband services to the mass market. Second, we have introduced post-paid tariffs and a single billing for voice and Internet from MGTS and third, started the modernization of MGTS "last mile" access in Moscow.

Sergey V. Pridantsev
President & CEO,
Chairman of the Management Board

Strategy

Comstar's strategy for the period up to 2011 is called "Five Angles of Attack". Each angle represents a key area of the business where the application of management, time, financial and human resources provides the maximum opportunity to grow the shareholder value of the Group. The vision driving the strategy is that Comstar become the leading multi-service operator of fixed-line communications in Russia, building on its existing unique combination of strengths in the traditional and alternative segments.

The five angles — Broadband, Regions, MGTS, Structure and Svyazinvest — are accompanied by projects, many already well under way, backed by investment and possessing a range of goals to be met over the life of the strategy. The angles reinforce each other, magnifying the intensity of the attack on the marketplace. The current strategy was approved by the Board of Directors of Comstar in November 2007 and rapidly put into action. The first results were already clearly visible by the end of 2007.

This vision is accompanied by a set of aggressive but achievable quantitative and qualitative goals. By 2011, Comstar should become a unified, multi-service operator, with world-class levels of efficiency, taking full advantage of synergies within the Group via integration and future acquisitions and focused on delivering unique and innovative convergent services to subscribers.

In terms of market position, by 2011, Comstar aims to be the absolute leader in fixed-line communications in Moscow, with a share of greater than 50% of the broadband Internet access market and greater than 50% of the total fixed-line market. Comstar should also be the leading provider of fixed-line services in Russia's regions, with the regional business contributing at least 30% of Group revenues providing complete service packages for corporate clients that incorporate local and long-distance voice calling, virtual private networks and other solutions and providing "Triple-Play" services for residentials.

Broadband

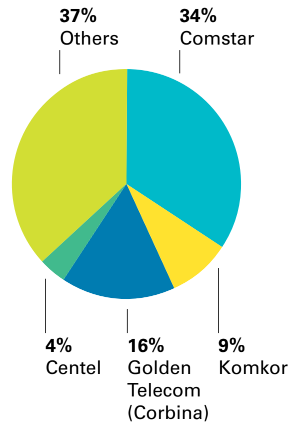
Broadband is and will be the key driver of the fixed-line telecommunications business in Russia over the next five years and beyond. This reflects the rapidly evolving market situation in both Moscow and the regions. Comstar's angle of attack here is an aggressive response in terms of marketing and technology investments designed to ensure market leadership in Moscow and the regions through 2011 and beyond.

Dial-up is rapidly disappearing from Moscow and broadband is becoming a truly mass market product. Competitors have developed infrastructure to cover large parts of the city and will increasingly target the suburban market. Broadband penetration in Moscow is forecast to reach 83% by 2011 compared to an estimated 49% in 2007.[1] Therefore the next few years will be a critical window for capturing first-time residential users with a service that is affordable, easy to use, reliable and simple to upgrade.

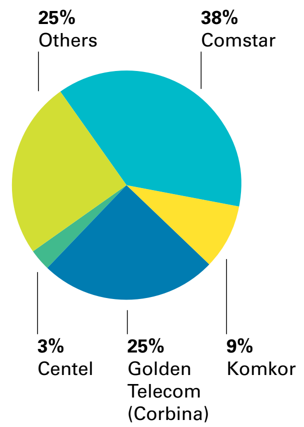
At the same time, selective last mile modernization using "fiber to the curb" technology will give existing subscribers more bandwidth to ensure capacity for delivering high-speed Internet of 24 megabits/ per second as well as adopt new value-added services such as HDTV. The deployment of a mobile WiMAX network across Moscow in later 2008 will provide a seamless way to extend broadband access out of the house

[1] Penetration is calculated as % of households;
Source: Company data, Pyramid Research, J'son & Partners.

Moscow Residential Broadband Market, in terms of subscribers, 2007



Moscow Residential Broadband Net Adds, 2007



Source: J'son & Partners

and office and reflects the need of the client to always be in touch in an information-rich and time-poor environment.

Broadband is also key to the regions, where growth in penetration is rapid, albeit from a low base and highly variable between regions. Overall broadband penetration outside of Moscow is forecast to reach 12% by 2011, but growth will be most intense in large cities and regional hubs. Russia has around 11 cities with populations of one million or more and they will be the engines of regional broadband growth. Ownership of backbone connection to Moscow is one key, deploying WiMAX and other wireless technology rapidly and economically access to the "last mile" is another key.

In view of the situation in the marketplace, Comstar has already begun to execute several projects designed to strengthen its market position and enhance its broadband infrastructure. In September 2007, it launched the revised Broadband strategy in Moscow, designed to grow the subscriber base through the maximum use of the joint technology and marketing resources of MGTS and Comstar. The "Broadband in every home", marketing campaign is targeting first-time broadband users by offering service on credit at low cost and relatively low speeds via direct sales by MGTS technicians using high levels of customer loyalty to the MGTS brand.

This program recognizes that most new users are at the lower range of the consumer market. In order to sign up they need a product that is simple to use, very reliable and provided by a trusted operator. It uses a number of direct marketing channels to reach new users, including telemarketing, inserts included with MGTS bills and use of specially trained MGTS engineers to deliver onsite advice and recommendations.

Using the MGTS brand, it is broadband from the trusted supplier of residential telephony, present in Moscow for 125 years. At speeds up to 2 megabit per second, they are able to meet practically all of their requirements on the Internet. If they want higher speeds for processing large volumes of information, they can easily upgrade their plan. The service is painless to upgrade as this does not require new equipment. The early result has been impressive, with a record 198,000 new broadband subscribers added in Moscow during the fourth quarter of 2007, including 66,000 by MGTS..

Another project already underway is the selective modernization of Moscow's "last mile". The goal of this project is to increase broadband speed for 80% of ADSL subscribers by the end of 2009. Key elements of the modernization are extending fiber-optic connections to the curb, moving Digital Subscriber Line Access Multiplexers (DSLAMs) closer to the customer and selective installation of fiber directly to the home, in particular apartment buildings with existing or clear potential for concentration of traffic. The project also involves transfer to the next version of ADSL technology, ADSL 2+, and the introduction of more advanced encoding, MPEG-4.

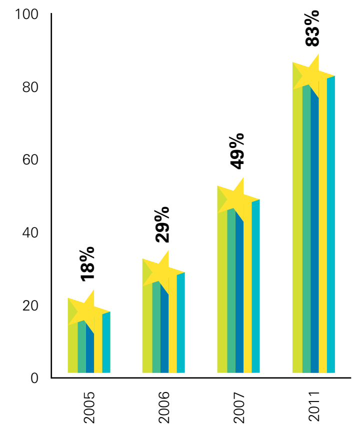
These solutions have clear advantages in terms of efficient use of CAPEX. It provides the fastest way to increase speed for the largest number of subscribers without requiring them to change their existing equipment. The added speed will allow subscribers to make full use of value-added services such as HDTV, Smart Home and Video Monitoring while simultaneously enjoying high Internet access speeds.

The modernization project will create a wide-scale fiber-optic network and technology platform for future development. Simultaneously, Comstar is developing new subscriber packages aimed at growing average revenue per user (ARPU), enhancing customer loyalty and attracting new subscribers. A single unified billing system is being developed that will allow subscribers to pay for the full-range of fixed-line services with a single bill. Further enhancements include a single online payment system for existing and new services provided by partners within the Sistema group, including leading cellular operator MTS, media group Sistema Mass Media and MBRD bank.

Along with an ever growing range of services, business and residential subscribers need to stay in touch when they leave the office or home. Moscow has the highest rate of laptop ownership in Russia and an ever larger percentage of laptops entering the market have integrated wireless broadband. Market research group J'son and Partners estimated that there were more than 9,000 Wi-Fi hotspots in Russia at the end of 2007, reflecting surging demand for mobile Internet services. Comstar is closely cooperating with its corporate clients to meet this demand installing Wi-Fi hot spots in public places such as restaurants, cafes, hotels, airports etc. In addition, Comstar signed a strategic cooperation agreement with Intel, the world's leading chip maker in December 2007. Intel will provide technical support and expertise as Comstar embarks on an ambitious deployment of an IEE 802.16e Mobile WiMAX network covering Moscow City and the surrounding Moscow Region by the end of 2008. Comstar has already obtained access to frequencies in the range of 2.5 to 2.7 gigahertz and band 36 megahertz and already begun work on a test zone in the city while also developing a service model. Mobile WiMAX represents a vital support and extension of Comstar's existing broadband service by providing seamless coverage on an emerging technology platform.

Here the Group is far ahead of the marketplace and working with Intel can gain access to the leading edge of mobile Internet technology and put infrastructure in place as WiMAX evolves as the new standard. Looking ahead, Comstar sees WiMAX as one solution for rapidly deploying broadband coverage in regional markets and its agreement with Intel includes cooperation on future launches in these markets.

Broadband Internet penetration in Moscow



Source: Company data, Pyramid research, J'son & Partners

Comstar Attacks!

REGIONS

Regional strategy is based on expansion of our presence in the current operating regions through green-field network development and M&As. Our regional development strategy also includes expansion into new target regions via larger scale acquisitions of competitive local exchange carriers that are ranked number one or two after the incumbent operator in a particular local market. The third element of our regional development plan relates to the deployment of long-distance services.

Viktor I. Koresh
Vice President for Regional Development,
Member of the Management Board

Regions

Comstar's regional business represents a clear area for long-term growth. One primary focus is the development of existing operations. At the end of 2007, Comstar was present in five of Russia's seven federal districts as well as two fast-growing CIS markets, Ukraine and Armenia. In markets where it is already present, Comstar is bolstering its position through smaller acquisitions as well as clients projects to establish infrastructure, including fiber-optic next-generation networks. In the interim, WiMAX and radio access technology provide ways to rapidly expand the potential subscriber base for high-speed broadband coverage as well as reach key clients.

One example of a "bolt-on" acquisition in an existing market is the purchase of Sochitelecomservice in the Black Sea city of Sochi in Krasnodar Province. This relatively small company strengthens Comstar's presence in this city of 200,000 and site of the 2014 Winter Olympic Games as well as in the wider Krasnodar Province and Southern Region as a whole.

A second key part of the strategic angle of attack in the regions is entering new markets. Comstar's approach is to make major acquisitions of competitive local exchange carriers (CLECs) that have a leading position in their local marketplace. One example of this was the fourth quarter of 2007 purchase of Digital Telephone Networks South (DTN), the largest alternative operator in Southern Russia. DTN is based in Rostov but has a strong presence in Krasnodar. DTN is being used as a hub to develop a new Southern Branch for Comstar in the Southern Federal District of Russia that will eventually see Comstar establish a market presence and single branch in Russia's seven federal districts.

The launch of the Southern Branch in early 2008, bolstered by the purchase of DTN, new network investments and "bolt-on" acquisitions such as Sochitelecomservice to existing areas where Comstar was already present, demonstrate how Comstar plans to develop its geographic footprint in Russia through M&A and Greenfield investments.

Another example is the acquisition of Regional Technical Center in Khanty-Mansiisk Autonomous Region, which provides an important base for developing business alongside Comstar's existing Tyumenneftegazsvyaz subsdiairy.

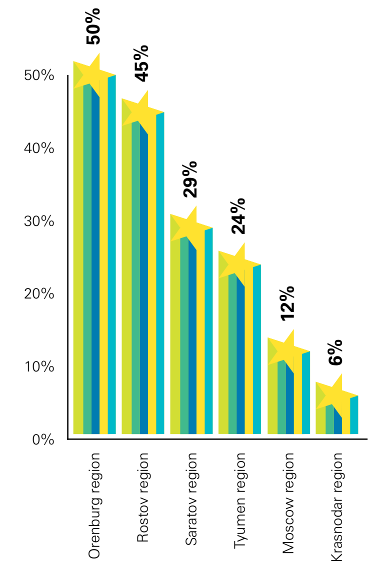
Within these new and existing regional businesses, Comstar is extending its centralized investment and purchasing mechanisms so that its regional and businesses operate as integral parts of a single operator with a single set of business processes.

A third important part of Comstar's regional strategy is to ensure that it can deliver a comprehensive and unique service package in every market in which it operates. Hence Comstar has built its own long-distance network with inter-city nodes in each of Russia's seven federal districts as well as international nodes. As of the end of February 2008, Comstar had applied for access codes in order to begin to deliver this service to its clients. The long-distance service launch means Comstar will be able to offer all of its clients a complete telecommunications package with a single bill for voice, broadband, television and long distance.

Going forward, Comstar's regional business is well-suited to exploit potential future synergies in case of the privatization of the holding, particularly in broadband, with regional incumbent fixed-line operators in the Svyazinvest holding, the owner of the "last mile" in Russia's regions, as discussed in greater detail in the following section.

While Russia remains a clear priority due to its demonstrated further growth potential, known regulatory environment and the Group's ability to utilize its well-known brand and economy of scale, Comstar remains committed to developing CIS markets. Comstar's subsidiaries in Ukraine and Armenia are present in rapidly growing markets where they are strong and established players in the alternative fixed-line market.

Market shares in the regions of presence, 2007, in revenue terms



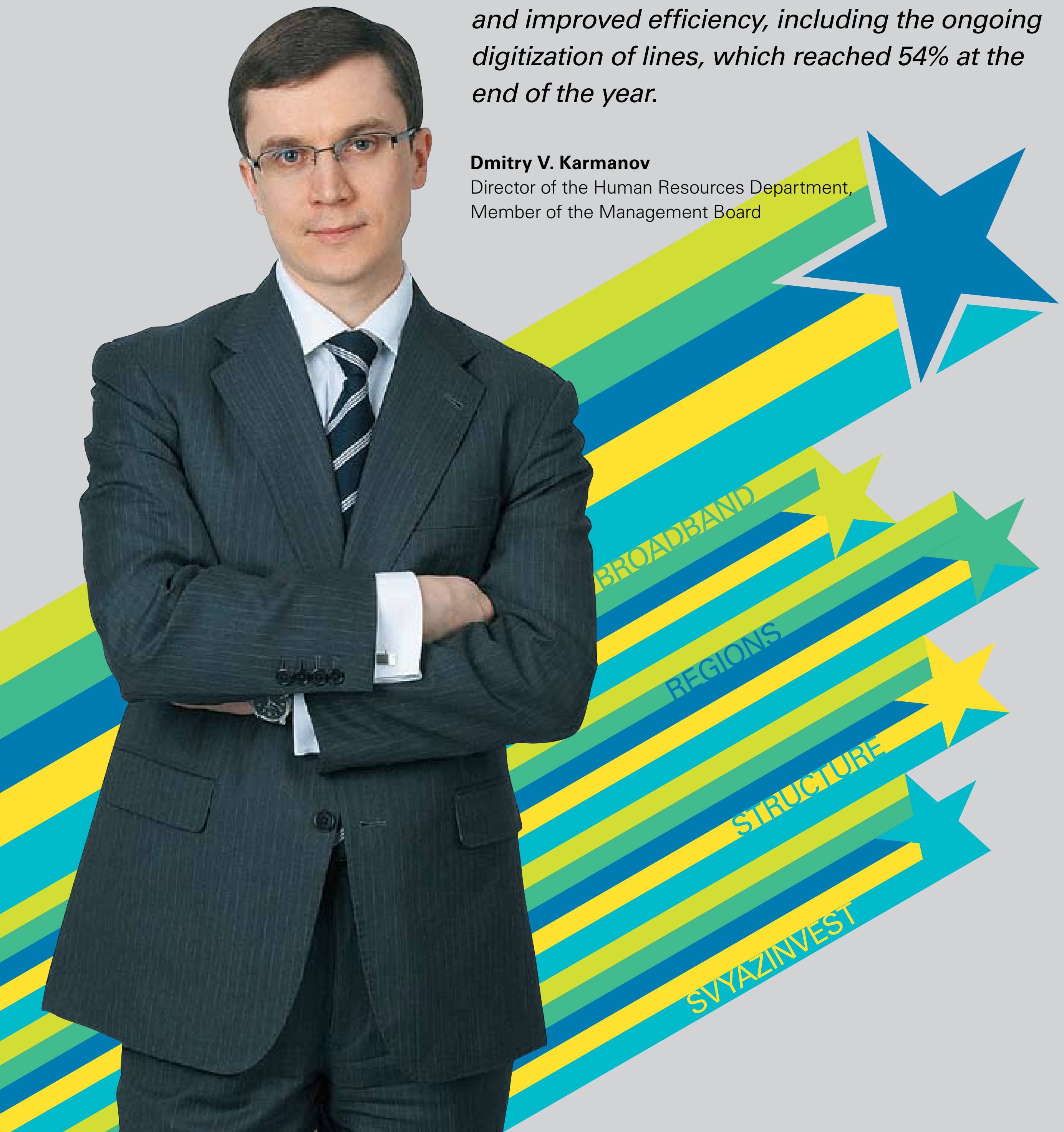
Source: Company estimates, excl. Svyazinvest

Comstar Attacks!

MGTS

Our third angle of attack involves making MGTS more efficient. We have cut management, with three directors to cover the company's core functions today of finance, technology and commerce. This compares to eight in mid-2007. We anticipate a necessary longer term reduction in the number of employees from more than 15,600 at beginning of 2007, through the reengineering of business processes, outsourcing and improved efficiency, including the ongoing digitization of lines, which reached 54% at the end of the year.

Dmitry V. Karmanov
Director of the Human Resources Department,
Member of the Management Board



MGTS

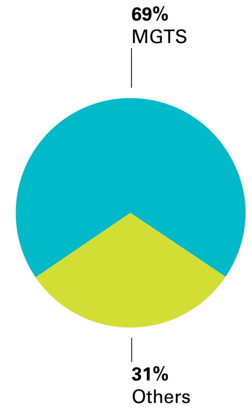
MGTS plays an integral role in the Five Angles of Attack as the owner of the last mile in Russia's largest telecommunications marketplace. MGTS's core business is regulated traditional telecommunications, primarily to residential customers, and its revenues are chiefly derived from regulated tariffs. By obtaining world-class levels of efficiency at the operator through investment in technology, training, reduction of staff and outsourcing of non-core functions, Comstar can achieve maximum profit growth at MGTS while developing new opportunities for the sale of non-regulated services by the Group.

A major project already underway at MGTS and in line with the broader restructuring of the Group is a significant reduction of management layers and a broader reduction of employee numbers. MGTS is already today more efficient as measured by the number of lines per employee than the average level of regional incumbent fixed-line operators. However, a comparison with peers in the wider Central and Eastern European telecommunications market shows substantial opportunities remain to reduce existing employee numbers.

With around 13,400 employees, MGTS had 290 lines per employee at the end of 2007. Comstar is targeting a level of 900 by the end of digitalization program and believes this can be achieved through technology upgrades, the outsourcing of non-core functions and training of retained technical staff to maintain and upgrade the network with maximum efficiency. To more efficiently serve subscribers and access mass market broadband sales, MGTS is transforming its existing Switching centers into full-fledged Sales and Service Centers. Eight of these centers are due to open in 2008.

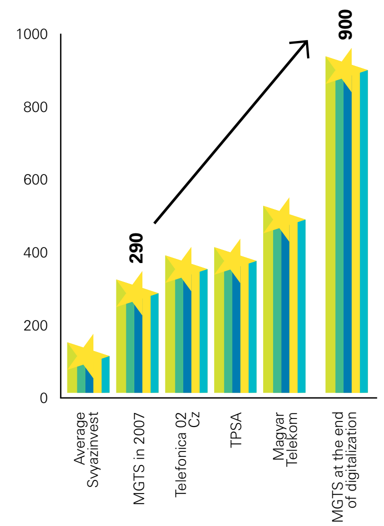
As noted above, MGTS is engaged in the long-term process of fully digitizing its network. A model for financing the project on the most attractive terms for the timescale and anticipated returns on investment has been developed, which will see funds raised through the sale of MGTS property, such as local switching stations, that will be made redundant by new technology. The digitization project is also closely coordinated with the timetable of the modernization of the "last mile".

Active lines in Moscow, 2007



Source: Direct Info

Lines/Employees



Source: Analysts researches, Company estimates

Comstar Attacks!

STRUCTURE

“Structure” as the fourth angle of attack means the simplification of the legal and organizational structure and reengineering of business processes in order to increase efficiency.

Irina A. Matveeva
Vice President for Economics and Finance,
Chief Financial Officer,
Member of the Management Board

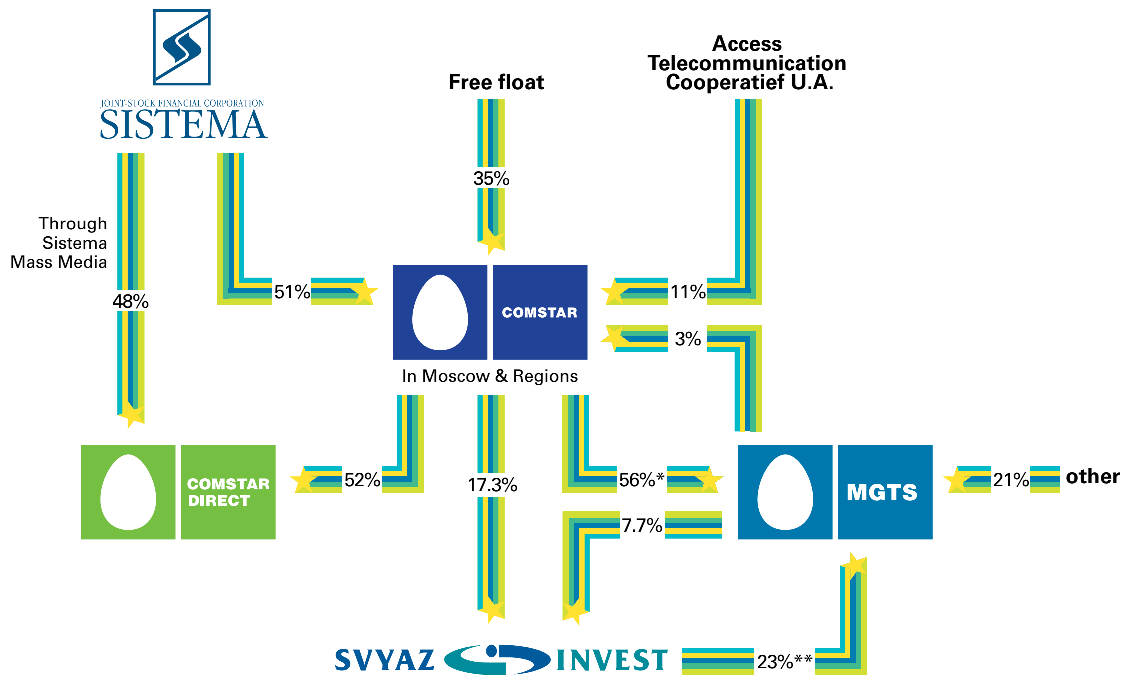
Structure

The goal of the restructuring is to change Comstar from a holding structure into a classic telecommunications operating company. All business units, with the exception of MGTS and overseas subsidiary companies will be integrated within Comstar as a single legal entity. Comstar will be focused on strategic management and the development of corporate client business and regional development. MGTS will focus on the development and maintenance of the network in Moscow and servicing existing clients in the traditional segment.

The consolidation of the holding into a single operator has clear advantages in terms of the overall efficiency of management and the simplified structure will be more transparent. Reporting lines will be shorter, top management will be closer to the ground and operating decisions can be taken more quickly. Uniting all purchasing will allow the Group to enjoy economies of scale and established relationships with suppliers, reducing costs. The use of electronic trading platforms for purchasing provides both efficiency and greater transparency.

The introduction of process management involves concentrating resources on what the Group actually does, selling services to subscribers and maintaining and expanding the network to deliver these services. All other activities support these two core functions. The consolidation of necessary back-office activities, such as accounting, legal and human resources departments will reduce costs, ensure common procedures and reduce layers of management. Other non-core activities are being outsourced on a competitive basis, with clear cost savings already achieved during the reporting period. Human resources policies, including criteria for performance-based bonuses, are aligned across the entire business.

Restructuring will remain an ongoing necessity as Comstar continues to pursue M&A to strengthen its regional business and these companies are integrated into the Group’s business. As described below, the regional business itself is being realigned on a regional basis, with affiliates to be centered in six of Russia’s seven federal districts.



* 67% of voting shares
** 28% of voting shares

Comstar Attacks!

SVYAZINVEST

It is an opportunity for our investors to participate in a broader telecommunications business covering the whole territory of Russia.

Alexander E. Gorbunov
Vice President for Strategy and Development,
Member of the Management Board

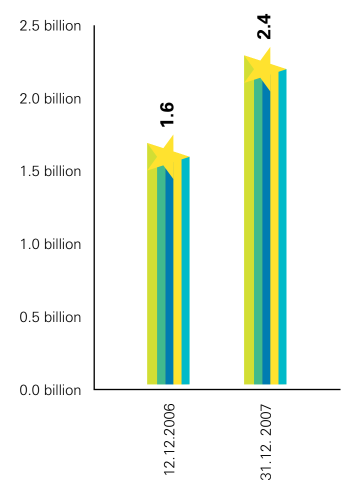
Svyazinvest

Comstar's 25% plus one shareholding in Svyazinvest provides the Group with both a profitable investment opportunity and a longer-term favorable position in the event of a future privatization of the holding. The strategy here is to lead improvements in Svyazinvest's corporate governance and overall performance, drawing upon Comstar's deep management resources and access to the broader experience of the Sistema group.

The high, long-term growth potential for developing broadband Internet access in the regions, the opportunity to improve efficiency through the application of advanced management and reporting techniques and the selective use of new technology are all factors that can drive growth in Svyazinvest's capitalization and the value of Comstar's existing stake, which was worth US$2.4 billion at the end of 2007, compared to the US$1.6 billion in late 2006 (see the graph).

Comstar considers Svyazinvest as an opportunity to participate in a future privatization of the holding, although at present there is not a clearly established timetable in place for this to occur. The potential for synergies with Comstar's existing regional business is immense, given Svyazinvest's ownership of Russia's regional "last mile".

Market value of stake in Svyazinvest



Calculated as sum of market caps of listed underlying subsidiaries of Svyazinvest

Long distance voice

High quality

Attractive tariffs

Full package for corporates

With its entry into the long-distance market, Comstar is opening up additional opportunities for the development of its business. The companies in the Group can provide the full range of telecommunications services in one package, representing a competitive advantage for a universal operator and a necessary condition for efficient and wide-scale regional development.

Operational Review

Traditional Segment in Moscow (MGTS)

MGTS is Comstar's operating subsidiary providing traditional fixed-line communications services to approximately 3.6 million residential and 766,700 corporate active access lines in Moscow. The Company is the incumbent fixed-line provider in Russia's largest local telecommunications market. It is making long-term investment in upgrading equipment, accounting for a 97.3% share of residential installed access lines in Moscow. At end of 2007, it had 4.8 million installed lines in the city. MGTS accounted for 20.5% of the Moscow fixed-line market in terms of revenue in 2007.[1]

In November 2007, MGTS launched its "Broadband in every home", an innovative breakthrough broadband offering for its subscribers. Under the package, lower-income subscribers can gain broadband access for the first time. The program is unique in that it offers the service on credit with an entry-level package offering speeds at a low price with the option of easily upgrading to higher speeds without having to obtain new equipment. A "one bill" approach adds to the level of convenience. In the fourth quarter of 2007, some 66,000 broadband subscribers were added under the program in November and December alone.

Over the past five years, MGTS has increased the level of digitalization of its network from 13% to 54%, having built a digital transport network and putting into use a data-exchange network for general use. At the same time, MGTS is conducting a selective modernization of its "last-mile" infrastructure to allow Comstar and MGTS to further exploit technical and marketing synergies and deliver broadband Internet access at a higher speed while also providing additional value-added services such as television, gaming, home monitoring and much more.

Currently the main driver of revenue growth for MGTS as the regulated monopoly operator is growth in tariffs, which are regulated by the Federal Tariff Service. In February 2007, following regulatory changes affecting residential telephone tariffs, MGTS offered its residential subscribers the choice of three calling plans aimed at best meeting their budgets and calling habits. MGTS was able to accomplish this transition smoothly, technically allowing all subscribers to make their choice, unlike other regulated Russian companies.

At the end of 2007, more than 50% still were on "unlimited", 28% on "per minute" and 21% on "combined" plans. From the beginning of December 2007, the time limit on the "combined" plan was increased to 450 minutes and from February 2008, the cost of "unlimited" monthly tariff plans was reduced by 10% from 380 rubles to 345 rubles under tariff rates agreed with the Federal Tariff Service in November 2007.

In October 2007, as part of Comstar's strategic focus on enhancing its broadband market share, MGTS began to conduct preparatory work on its project for the modernization of the "last mile", the part of the data-exchange network linking automated telephone stations with disbursed boxes installed in residential and office buildings and then the home. The project is using "Fiber-to-the-Curb" technology and conversion to the latest version of ADSL technology, ADSL 2+. In this way, it provides the fastest and most cost effective way to increase speed for the largest number of subscribers at the lowest cost without forcing users to acquire new equipment. This modernization of the "last mile" will allow the Company to substantially expand the opportunities to provide xDSL technology to subscribers by increasing broadband speed by several times. Currently MGTS can provide more than 90% of its voice subscribers with ADSL Internet as it has a public DT network all over Moscow territory.

At the same time as it is upgrading the "last mile", MGTS is also engaged in the ongoing digitization of its network in Moscow, a project begun in 2004. The level of digitization of the network reached 54% as the result of work performed during 2007, compared to a level of 41% at the end of 2006. It is planned that by the end of 2008, the level of digitization will reach 63%.

During 2007, MGTS replaced 47 analogue automated telephone stations (ATS) with digital ones. For the year, 660,500 numbers were introduced, of these, 608,100 numbers were linked to modernization and the remaining 52,400 to new construction. As a whole, construction volumes in 2007 were 20% greater than in 2007. In line with refocusing of the investment programme in 2008, MGTS plans to put into use more than 450,000 numbers, including more than 400,000 numbers as part of the network modernization and more than 50,000 as part of new build. Monitored number capacity in 2007 increased to 4.81 million numbers, compared to 4.76 million numbers at the end of 2006.

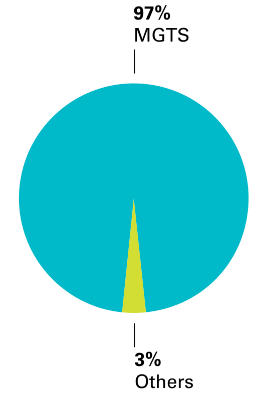
In addition, in October 2007, work on the wide-scale expansion of the monitored capacity of the data-exchange network of MTGS. Automated telephone stations have been equipped with additional Digital Subscriber Line Access Multiplexer (DSLAM) equipment, which maintains subscriber access to the data-exchange network and the ability to access the Internet. During the last four months of 2007, the monitored capacity of the data-exchange network was increased by 32% and reached 822,000 ADSL ports.

Also during 2007, MGTS transformed existing Territorial Nodes into modern Communications Service Centers to more efficiently serve subscribers. Modernization and establishment of new service centers has made a number of MGTS's facilities housing analogue equipment redundant, and the sale of these properties in one of Europe's fastest growing real-estate markets provides an important and cost-effective way of raising capital for modernization and digitization of the network.

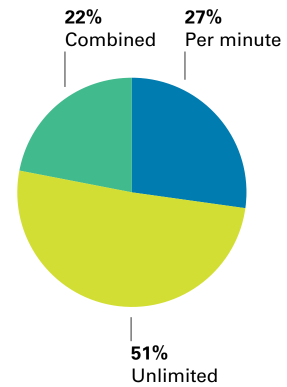
During the reporting period, Comstar implemented a major restructuring at MGTS aimed at making business processes more efficient and reducing total employee numbers. Layers of management have been reduced and non-core services, including cleaning and transport were outsourced to third parties on a competitive basis, using electronic tendering. Other functions have been shifted to Comstar, which sets strategy and key business indicators for MGTS. Some technical personnel have also been shifted from Comstar to MGTS. By the end of 2007, three directors were responsible for MTGS's core functions of finance, technology and commerce, compared to eight previously. Going forward, MGTS is engaged in a longer term reduction in the number of employees from more than 15,600 at beginning of 2007. This is being done through the continued re-engineering of business processes, further outsourcing and improved efficiency made possible through digitization and improved training of remaining workers. MGTS has established a strategic goal of reducing the number of lines per employee from 290 in 2007 to 900 by the end of digitalization.

[1] Source: Direct Info.

Residential active lines in Moscow, 2007

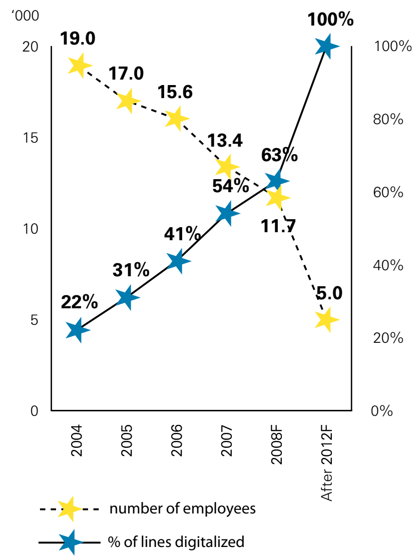


Breakdown of residential subscriber base of MGTS between tariff plans, as at December 31, 2007



Source: Company data

Reduction of personnel at MGTS*



* End of period

Alternative Segment in Moscow (Comstar & Comstar-Direct)

In Moscow and the surrounding Moscow region, Comstar is a leading multi-service alternative fixed-line services for corporate and residential subscribers, including local and long distance, unlimited wire-line broadband, IPTV, data exchange and other solutions. In late 2008, Comstar will further enhance its broadband service offering with the commercial launch of HDTV and a launch of Mobile WiMAX network in Moscow.

The combined value of the fixed-line telecommunications market in Moscow, including traditional and alternative services, was estimated by independent rsearch group Direct Info at US$5.4 billion in 2007. Comstar accounted for an 8% revenue share of the total fixed-line market. Including MGTS, Comstar's total share of the Moscow fixed-line market stood at 29%, making it the clear market leader.

The Moscow market is developing rapidly. Internet penetration reached an estimated 53% at the end of the year, with broadband Internet penetration of 49% and pay-television penetration of 17%.[1] The near-total penetration of voice services and the rapid decline in the use of dial-up services has meant that broadband has emerged as the primary market driver in Moscow. By 2011, total Internet penetration in Moscow is forecast to reach 84%, broadband Internet penetration 83% and pay-television 38%.[2]

Comstar is developing its alternative fixed-line business in **neighboring Moscow Region** as a priority region and one that is closely linked to Moscow City. Moscow Region is the fastest growing telecommunications market in the country and there is a clear overlap in existing and potential client base. Moscow Region is the third largest in Russia after Moscow City and St.Petersburg, with a population of 6.7 million and 2.2 million private households. The level of penetration of telephony remains low, at 26% and broadband stands at 6%, although it is growing quickly.

New business centers, holiday cottage complexes and growing personal incomes in the mass market are all key drivers of growth, with the rapid emergence of "Triple-Play" services for residential subscribers one the fastest areas of growth. In 2007, Comstar had a 2.5% revenue share of the combined traditional and alternative fixed-line market in the Moscow Region suburbs, which was valued by the Group at US$378 million. Comstar has targeted market share of 16.4% by 2011.

As part of its broadband strategy, Comstar is now using MGTS brand for mass-market tariffs for speeds lower than 2 megabit per second and which are available on credit-based payment plans. The Stream brand continues to be used for for premium tariff plans (from 1 megabit per second up to 6 megabits per second). During 2007, Comstar increased the number of Moscow broadband subscribers by 81% to 695,000, including 651,000 residential subscribers. This growth was achieved through a complete revision of the broadband sales strategy and the launch of the "Broadband in every home" program by MGTS in September, discussed in the previous section. The strategy is aimed at giving Comstar long-term and undisputed leadership in the ever more competitive broadband market, with broadband providing a platform for delivering an array of value-added services. The number of pay-television subscribers in Moscow increased by 47%, reaching 122,300.

Demonstrating the effectiveness of the revised strategy, some 198,000 broadband subscribers were added in the fourth quarter of 2007, out of a total of 291,000 additions for the year. Of those joining in the fourth quarter, 97% chose tariff plans with speeds of 1024 kbit/s and higher. Comstar's share of the Moscow broadband market stood at 34% at the end of 2007, compared to 32% at the end of 2006, representing a full recovery from a deterioration of market share earlier in the year.

In September, Comstar launched its revised broadband strategy aimed at using the combined technical and marketing resources of MGTS and Comstar to reach one million subscribers by the end of 2008. Under Comstar's current development strategy, it aims to have a market share of not less 50% by 2011.

As part of this strategy, Comstar undertook important preparatory work in 2007 for the development and deployment of a **Mobile WiMAX** network covering Moscow City and Moscow Region, a project due to be completed at the end of 2008. In December 2007, Comstar and leading global chip maker Intel announced the signing of a strategic cooperation agreement for the wide-scale development of Mobile WiMAX technology in Russia.

Under the agreement, Intel will provide components and technical support for the deployment of the IEE 802.16e WiMAX network. Going forward, Comstar and Intel will work together on future launches of Mobile WiMAX networks in other Russian cities and regions. The WiMAX network will significantly strengthen Comstar's unique broadband service package and enhance customer loyalty by providing a seamless service inside and outside the home and office.

In February 2008, Comstar launched **High Definition Television** (HDTV) on a test basis in the first districts in Moscow where the modernization of the "last mile" has already been completed and ADSL2+ technology is in place. The launch of this technology further enhances the unique nature of Comstar's product offering and underlines the business case for the rapid and selective modernization of the "last mile" by MGTS.

After the reporting period, in February 2008, Comstar **completed the construction** of its own domestic and international **long-distance network.** The Group installed seven inter-city transit nodes, accounting for each of the seven federal districts in Russia and four international nodes. In addition, Comstar concluded agreements with all Russian operators of zone telecommunications as well as with international operators. Comstar has made an application to receive access codes for providing long-distance services with the Russian Ministry of Information and Telecommunications. The investment of around US$14 million allows Comstar to further strengthen its client service offering with its own long-distance services.

In addition, Comstar focused its marketing and sales efforts in the alternative segment on commercial property, such as business centers, and elite housing. Comstar focused on sales of Internet Service Systems (ISS), Call-center and Data-Center products for corporate clients with a range of marketing programs and packaged ISS offering specifically targeted at the fast-growing small and medium enterprise sector. A new set of regulations were established for working with key corporate clients and this led to a further improvement in the level of service.

As many of Comstar's services for corporate and high-income clients are priced in US dollars, reflecting previous periods of high inflation in Russia, **a fixed exchange rate** of 28.7 rubles was established during the year to prevent losses in margin caused by the current strength of the ruble. In other moves, contracts with telecommunications operators were shifted to a new form aimed a maximum retention of revenues for Comstar. Relationships with mobile operators were simplified on the basis of changing telecommunications regulations.

[1] Penetration is calculated as % of households; 2007 data is forecast/estimate.
Source: Company data, Pyramid Research, J'son & Partners.
[2] Source: Company data, Pyramid Research, J'son & Partners.

Also in 2007, as part of its strategy of restructuring the Group, the operational integration of the Comstar-Direct broadband subsidiary was begun. Today, Comstar-Direct is focused solely on sales of broadband services to residential and corporate users in Moscow using the Stream brand and the infrastructure of MGTS. The strategic development of this part of the business is now under the full operational control of Comstar.

In Moscow Region, Comstar continued to invest in infrastructure and marketing to enhance its presence in the alternative corporate and high-income residential segments during 2007. A plan was developed for the expansion of the network backbone and construction of a carrier ring and radial arrays was begun as part of a project to build a Next Generation Network (NGN) covering the entire region by 2011 and using Cisco and Sitronics technology.

By the end of the year, Comstar had established points of presence in 26 out of 36 districts in the Moscow Region suburbs and implemented a major marketing program to increase subscriber numbers using wireless broadband technology as an interim solution as the network is built. It aims to be present in all districts by the end of 2008.

In order to establish an efficient and integrated operating affiliate in Moscow Region suburbs, and as part of its wider strategy to consolidate current separate legal entities into the operator, Comstar is in the process of merging its operating companies. Contrast-Telecom, Telmos and MTU-Inform were consolidated during 2007. Other companies in Moscow region which are planned to be consolidated in the first half of 2008 are Golden Line and Port Telecom. The same process is underway in regions — Conversia-Svyaz, Overta and Sochitelecomservice are expected to be integrated before the end of June 2008.

Alternative Segment in Regions and CIS (Comstar)

Comstar is developing its alternative business in Russia's regional markets and the CIS as an integral part of its "Five Angles of Attack" Strategy. Internet and broadband penetration outside of Moscow are low but increasing rapidly, underlining the long-term attractiveness of the regional marketplace. Internet penetration at the end of 2007 was estimated at 15%, up from 9% in 2006. It is forecast to grow by a compound annual growth rate of 25% through 2011, reaching a level of 28%, with the figure for broadband growing by an average rate of 43% over the same period. Broadband penetration was estimated to have roughly doubled between 2006 and 2007, reaching 4% and is expected to reach 12% of households by 2011.[1] Independent consultancy IKS estimates that 75% of Internet access in Russia as a whole will be through wire-line broadband in 2010, with a further 10% through wireless broadband. The share of dial-up will fall from 28% at the end of 2007 to 15% by 2010. The pay-television market similarly doubled year-on-year, reaching 4% at the end of 2007, with the expectation that it will grow to 8% by the end of 2011.[2]

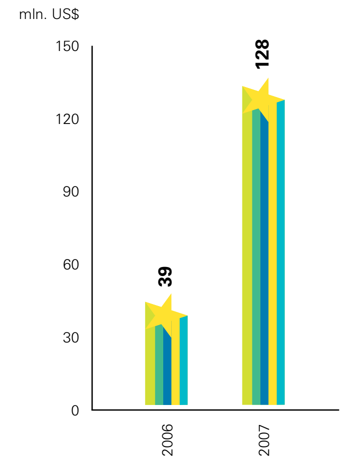
Comstar had 1% share of the billion combined traditional and alternative fixed-line market outside of Moscow in 2006, reflecting the fragmented and still early stage of development for alternative fixed-line services in the regions.[3] Svyazinvest, the holding company for fixed-line incumbent operators, in which Comstar has a 25% plus one stake, accounts for 78% of the lines outside of Moscow. In the alternative fixed-line market, Comstar had an approximate 3% market share in 2007.

Comstar's **broadband strategy extends** to the regional markets. At the end of 2007, it had some 44,000 broadband users in the regions including 33,000 residential users. Its pay-television subscriber base reached 102,200. In the CIS, Comstar's Ukrainian subsidiary has a base of 3,000 subscribers and number capacity of 22,800. In Armenia, Comstar's subsidiary has been limited to Internet access provision until deregulation at the end of 2007, and it accounted for around 20% of the Armenian Internet and data exchange market in late 2007.

At the beginning of 2007, Comstar had operating subsidiaries in the St Petersburg, Krasnodar, Saratov, Samara, Tyumen, Khanty-Mansiisk and Yamalo-Nenetsk regions, with an affiliate opened in St Petersburg in August on the base of Comstar's existing operations through subsidiary company Astelit. Comstar **boosted its presence** in these markets with acquisitions during the year and plans to expand its footprint in these geographies through further acquisitions as well as green-field projects. In August, Comstar acquired 100% of the shares of alternative operator Sochitelecomservice, located in Sochi in Krasnodar Province, for US$0.75 million. Later the company was consolidated into Comstar's Southern Branch.

Alongside the development of existing regions, Comstar is also focused on expansion into **selected target markets** through acquisitions of CLECs that are ranked number one or two after the incumbent operator in its local market. In this respect, we are focusing our attention on the Southern, Volga and Ural Federal Districts in Russia. **Two such acquisitions** were completed in the fourth quarter of 2007. Comstar bought Digital Telephone Networks South (DTN) for approximately US$167.4 million. DTN is the largest alternative operator in Southern Russia, with 186,000 installed lines in the Southern Federal District, a broadband subscriber base of 32,200 and revenues of

Comstar revenue outside Moscow



[1] Penetration is calculated as % of households; 2007 data is forecast/estimate. Source: Company data, Pyramid Research, J'son & Partners.
[2] Company data, Pyramid Research, J'son & Partners.
[3] Source: Direct Info.

US$60.3 million in 2007. At the end of 2007, DTN had 102,200 pay-television subscribers, all added since 2005.

In second major deal, Comstar acquired 87.5% of Regional Technical Center (RTC) for US$21 million. RTC is an alternative fixed-line operator in the Khanty-Mansiisk Autonomous Region. In addition, the operator also has branches in Saratov, Ryazan and Moscow. RTC had over 15,700 corporate and residential customers, and over 31,700 installed lines at the end of 2007.

Comstar also expanded its license coverage in 2007. In January 2007, Comstar obtained licenses for IP Voice Data transmission, including WiMAX services, in the twenty largest regions in Russia. The licenses are valid until November 17, 2011. This allows Comstar to start up green-field operations in these new regions and offer the latest telecommunication solutions in priority regions and strengthen its overall market position.

After the reporting period, in February 2008, Comstar announced the creation of a new regional division focused on the development of the Southern Federal District, as part of its longer term strategy to develop affiliates in Russia's seven federal districts. The Southern Branch will utilize the existing infrastructure of DTN in the Rostov region and the regional offices will be created in Southern Russian cities where Comstar is already present.

During 2007, Comstar **continued to invest in network infrastructure** in regional markets where it is present. In September, Comstar's Saratov branch launched an NGN network with 22 access points covering the whole city as well as a telematics access network based on ADSL2+ technology with 37 access points and 5,000 ports. In the fourth quarter, Saratov gained 2,500 subscribers.

In January 2008, Comstar's Tyumenneftegazsvyaz (TNGS) subsidiary and the leading CLEC in the Tyumen Region announced the completion of the first phase of building a microwave backbone in the Khanty-Mansiysk Autonomous Region and the neighbouring Yamalo-Nenets Autonomous Region. The microwave backbone, based on technology developed by NEC, is intended for zone communications, data exchange and leased-line services. Comstar plans to increase the number of broadband access points by additional 10,000 ports in 2008.

In Ukraine, Comstar is integrating its and optimizing separate operators into a single subsidiary with an integrated business structure. In January 2008, Comstar announced that it had singed a contract with Cisco for the supply of equipment for the construction of its own NGN multi-service data-exchange network.

On the base of its enhanced urban networks, Comstar-Ukraine plans to launch "Triple-Play" services for residential subscribers and services such as VPNs, telephony and high-speed Internet access. At the beginning of March 2008, Comstar launched commercial IPTV services in Odessa.

In Armenia, Comstar announced in January 2008 that it had begun building a wireless network based on WiMAX 802.16e standard technology, a project due to be completed in late 2008. The project is being implemented by Comstar's subsidiary in Armenia, Cornet. US company Airspan Networks was selected in a tender process to provide the equipment for the base stations. In the first stage of the project, Comstar plans to build 24 base stations and use leased fiber-optic lines as well as radio relay channels and bridges. Comstar is also installing two data transmission nodes connecting Armenia to the global network. The WiMAX network will be used as a base to provide high-speed Internet access, multi-media content delivery, voice services, data transmission and VPNs for residential and corporate subscribers.

Local voice

Stable quality

LogicLine office

Value-added services

Comstar is the absolute leader in the market for local telephone services in Moscow. Subsidiary company MGTS has access to practically every Moscow household, representing more than 3.6 million telephone lines. Comstar also provides local telecommunications services in Russia's regions and the CIS, occupying a leading position among alternative operators.

Financial review

- ★ Consolidated revenues up 39% year on year to US$ 1,562.4 million
- ★ OIBDA[1] almost doubles year on year to US$ 663.2 million with increased margin of 42.5%
- ★ Operating profit of US$ 485.3 million with increased margin of 31.1%
- ★ Net income of US$ 43.8 million
- ★ Cash flow from operations up 40% year on year to US$ 488.4 million (excluding non-recurring stock bonus awards in the fourth quarter of 2006)
- ★ Total assets up 31% year on year to US$ 4.6 billion

(US$ millions)	2007	2006	Growth (%)
Revenues	1,562.4	1,120.2	39
OIBDA	663.2	366.5	81
Margin (%)	42.5	32.7	–
Operating Profit	485.3	235.5	106
Margin (%)	31.1	21.0	–
Net income	43.8	82.5	(47)
Cash Flow from Operations	488.4	288.7	69
Cash CAPEX[2]	345.4	306.5	13
Total Assets	4,630.3	3,537.6	31

Comstar reported 39% year on year revenue growth to US$ 1,562.4 million resulted from the high subscriber demand for the unlimited tariff plan for regulated voice services to residential subscribers of MGTS introduced in February 2007, with 51% of MGTS residential subscribers opting for the unlimited plan by the end of the year, ongoing revenue boost from the fixed-to-mobile calls, as well as the ongoing Russian Ruble appreciation. The growth also included the consolidation of the full year 2007 results of Digital Telephone Networks South (DTN) and Regional Technical Centre (RTC), following the completion of the two acquisitions during the fourth quarter. The two operations reported combined full year 2007 revenues of US$ 80.6 million, up 50% year on year. The pro-forma year on year revenue growth (if the results of the acquired subsidiaries are consolidated from the date of acquisition) was 33.4%.

[1] Please see p.46–47 for a full definition of OIBDA.

[2] Cash CAPEX includes cash spent on acquisition of property, plant and equipment and intangible assets.

Operating Expenses (US$ millions)	2007	2006	Growth (%)
Employee costs	364.1	281.1	29
Network traffic costs	175.6	104.2	68
Selling and marketing	48.7	35.7	36
Repairs and maintenance	70.8	72.3	(2)
Taxes	43.2	37.8	14
Utility and energy costs	38.7	26.6	46
Other, net	158.0	133.9	18
Total Operating Expenses[1]	899.1	691.6	30

Group operating expenses, excluding depreciation and amortization charges, increased by 30% year on year when excluding the US$ 62.1 million non-recurring stock bonus awards in the fourth quarter of 2006. This increase primarily reflected the scaling of the Group's operations and increase in traffic costs, associated with increase in fixed-to-mobile traffic and consolidation of yearly expenses of regional companies acquired in the fourth quarter of 2007. However, operating expenses as a percentage of sales declined from 62% to 58% year on year. Group OIBDA, excluding the non-comparable stock bonus awards, consequently almost doubled year on year to US$ 663.2 million, with the OIBDA margin increasing from 38.3% to 42.5% year on year.

The Group's depreciation and amortisation charges increased to US$ 177.9 million and reflected the capital expenditure and acquisitions made during 2007. Underlying Group operating income, excluding the non-comparable item, therefore increased by 1.6 times year on year to US$ 485.3 million, and the Group reported an increased operating margin of 31.1%, up from 26.6% on an underlying basis for 2006.

Net interest expenses increased up to US$ 37.9 million year on year compared to net interest income US$ 21.4 in 2006, and reflected the lower amount of cash and cash equivalents on deposit and short-term investments during the period, as well as the increased gearing in the Group's balance sheet.

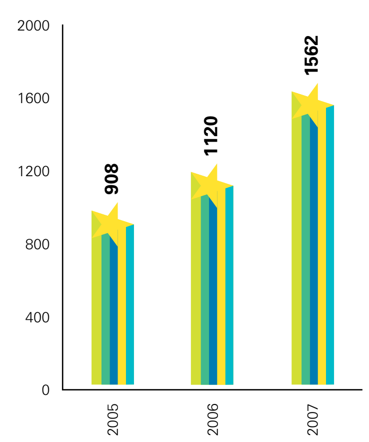
The Group's 2006 results under "Operating Income" line also included a US$ 60.0 million non-cash charge arising from the revaluation of the put and call option issued in part payment for the acquisition of a 25% plus one share stake in regional telecommunications holding company Svyazinvest in December 2006. The call element of the option was exercised in December 2007 with the substantially less volatile put element remaining in place for a further twenty four months or less should the owner of the option opt to exercise it earlier. The revaluation of the instrument gave a US$ 145.9 million non-cash expense in 2007. The 44% minority interest in the revaluation of the put and call option reduced the total net impact of the instrument on the Group's net income to US$ 81.3 million in 2007.

Group pre-tax profit, when excluding the stock bonus awards in 2006, the impact of the revaluation of the call and put option in both periods and writing off certain long-term investments in 2007, increased 30% year on year to US$ 446.1 million. The underlying tax rate, when excluding the impact of the aforementioned items, was 26.5% for the full year. The Group reported a net profit of US$ 43.8 million.

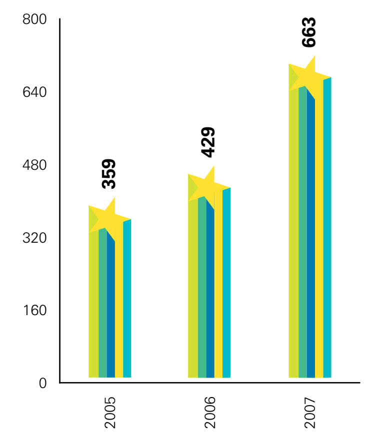
Group net cash provided by operations increased by 40% year on year to US$ 488.4 million, when excluding the stock bonus awards in 2006.

[1] Excluding depreciation and amortization and stock bonus, net.

Revenue, US$ million

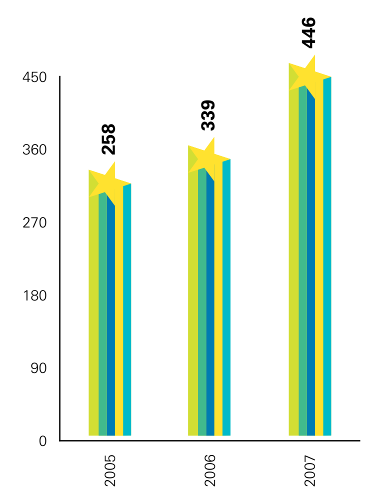


OIBDA, US$ million



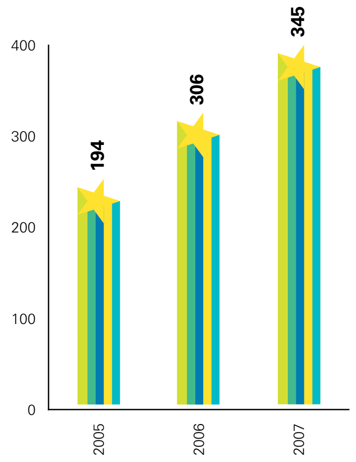
Excl. stock bonus of US$ 62.1 mln in 2006

Pre-tax profit, US$ million



Excl. non-cash impact from revaluation of call & put option in 2006 and 2007, stock-bonus in 2006, writing off certain long-term investments in 2007

Cash CAPEX, US$ million



Net cash used in investing activities decreased to US$ 859.9 million, as 2006 amounts included US$ 1.3 billion cash outlay for the acquisition of Svyazinvest stake. Group capital expenditure increased by 13% year on year to US$ 345.4 million, and primarily comprised the ongoing digitalization process, development of Next Generation Network infrastructure at MGTS and development of DLD/ILD network.

Net cash from financing activities totaled US$ 403.6 million and primarily comprised US$ 322.2 million proceeds from the exercise of the call option and the US$ 158.4 million drawdown from existing credit line from Sberbank.

The Group's cash and cash equivalents was US$ 179.8 million, whilst total Group borrowings, including capital lease obligations, increased to US$ 1,011.3 million by the end of the period. The Group's net debt position therefore increased to US$ 831.5 million, but the Group's total debt to twelve month trailing OIBDA[1] ratio declined to 1.5 times compared to 2.3 as at December 31, 2007.

Comstar continues to account for its 25% plus one share holding in Svyazinvest at cost. The investment has already proved highly successful with the value of the stake, based on the combined market value of the listed Svyazinvest subsidiaries, having risen by 50% from US$ 1.6 billion as at December 11, 2006 to US$ 2.4 billion as at the end of 2007.

[1] Calculated as total debt, as at the balance sheet date, divided by OIBDA for the twelve months precediny the balance sheet date.

Risk Management

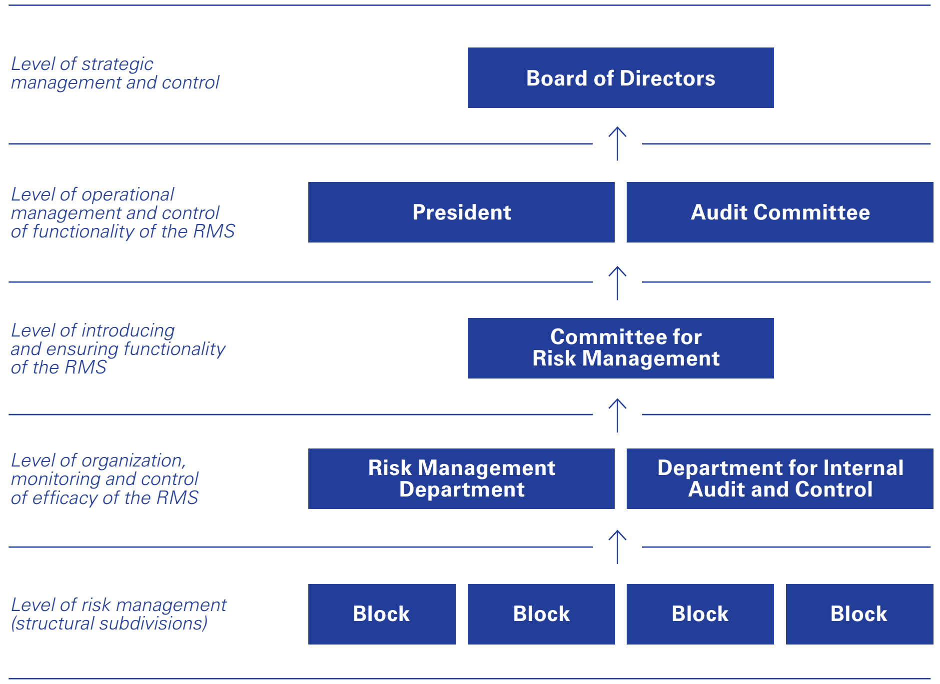
In the course of conducting its business, Comstar faces risks which could have a negative effect on its ability to achieve its operational or financial goals or implement its strategy. At present, the Company is developing a Risk Management System with the goal of reducing and managing uncertainty in order to improve the basis for management decisions that affect the value of the Company.

Comstar uses risk management in carrying out day-to-day operations. Risk management in the Company is a system of regular measures undertaken by the Board of Directors, Executive Management, President, Risk Management Committee and structural divisions and involves all of the activity of the Company.

Organizational Structure of the Risk Management System

The risk management system at Comstar is built taking into account international standards, recommendations and best practices in risk management. A Committee for Risk Management was created which analyzes and evaluates risk, creates a generalized risk map, develops a strategy to react to risks and Action Plans for managing risks. In addition, it audits the fulfillment of Action Plans and participates in the monitoring of the Risk Management System (RMS).

The committee is comprised of: head of risk management department of Sistema OJSC Ekaterina Karpinskaya, first vice-president Alexey Goncharuk, chief financial officer Irina Matveeva, vice-president for strategy and development Alexander Gorbunov, chief technology officer Alexander Kirillov, vice-president for regional development Victor Koresh, vice-president for marketing Sergey Nazarov, head of IR Masha Eliseeva, head of security department Evgeny Azeev, head of human resourses Dmitry Karmanov, commercial director Roman Akatov, head of legal department Kirill Andreichenko, deputy head of internal audit and controls department Svetlana Krjechevskaya, head of internal audit and controls department Elena Lagutina.



Risk Management Process

At present Comstar is formalizing all of the risk-management processes. Documents setting out these procedures include the Regulation for Risk Management as well as a Regulation for the Risk Management Committee and a set of rules for developing a Risk Management System. The Company's plans include the development of a risk-classification system, identification and evaluation of primary risks, the development of an Action Plan for the management of substantial and moderate risks. In 2008, Comstar plans to conduct regular audit procedures on the fulfillment of Risk Management Action Plans. The Company aims to spread its risk-management methodology to all of the Company's enterprises and regional affiliates.

Categories (areas) of potential risk events:

Strategic risks

- Risks that growing competition in the marketplace for fixed-line communications could lead to a loss of subscribers, a reduction in margins, a fall in the share price as well as changes in tariffs, services and sales policies. This competitive situation provides a stimulus for us to develop new services, introduce the latest technology, provide incentive savings offers and find new categories of clients.
- Competition from mobile telecommunications operators could lead to a loss of subscribers and have a significant impact on the Company's business.
- A shortage of personnel with the appropriate qualifications in the industry and competition with other companies in the telecommunications sector leads to the risk of a loss of top managers and other key personnel within the Company. This has raised the necessity of developing a new system for motivating employees in the Company.
- The risk of a future slowing in the growth of Russia's telecommunications industry could have an impact on the Company's business.
- There is a risk that changes in technology could increase competition and/or require increased levels of investment by the Company. The infrastrture of MGTS is drawing large sums of investment directed at its modeizaion.
- The fast growth and expansion of the Company could lead to difficulties in obtaining sufficient financial, human and material resources and cause a reduction in the efficiency of existing business processes and interactions.
- The risk of unsuccessful integration of existing and newly acquired enterprises could lead to negative consequences for the financial results of these enterprises and for the Company as a whole.
- The fast growth of the Company exposes it to risks inherent in the strategy of geographic expansion and the accompanying country risks.
- Strategic investments linked to the acquisition of minority shareholdings by the Company carry the risk of a future fall in their value and this could lead to a reduction in the profits and capitalization of the Company.
- The risk of a failure to successfully launch new products or services could have a negative influence on the business, financial indicators and the operational activities of the Company.
- There are risks that a failure to maintain the reliability or security of the network could lead to a loss of subscribers and have a negative influence on the business and the operating results of the Company.
- Comstar is subject to the risk common to companies in the telecommunications industry and linked to the potential loss of a portion of revenues in the billing process.
- The risk of violations of intellectual property in information sent over its networks could provoke a lawsuit from third parties. This requires us as a telecommunications company to have a large number of licenses and means of protecting information transmissions.
- Due to the fact that certain types of insurance cannot be obtained on competitive terms in Russia, for example insurance for business interruption, Comstar cannot insure against certain potential risks and losses.
- Svyazinvest owns a blocking shareholding in MGTS. A risk exists that certain strategic decisions would not be taken in connection with the fact Svyazinvest and Sistema may have different points of view regarding the future development of MGTS.

Financial risks

- In the event that Comstar is unable to attract the necessary finance in the order and within the time periods required by the Company, this could lead to significant constraints on the development of the business and its ability to function.
- The "put option", connected with the acquisition of the Company's shareholding in Svyazinvest, presents a risks through such unknowns as whether it will be exercised and the time and value of the execution of the obligation.
- Servicing and refinancing existing and future debt obligations could require significant amounts of cash. The ability to repay funds will depend on many factors which Comstar cannot always control.
- A risk exists of a loss of control over the shares of subsidiary companies when they are used as a guarantee of Comstar's credit obligations or other financial operations.
- Covenants and limits contained in credit and loan contracts of the Company as well as its controlling shareholder could present the risk of restraining the development of the Company's business.
- Limits on the conversion of Russian rubles into foreign currency in Russia could lead to a growth in the cost of making payments in foreign currencies to suppliers and creditors and present the risk of a default in payments to suppliers or creditors.
- The risk of a fall in the value of the ruble in relation to US dollar could have a negative impact through a growth in costs and a reduction in the operating margin.
- Inflation could be reflected in an increase in expenses and a reduction in operating profit.

Country risks

- Russia's developing economy contains greater risks than those present in developed countries, including political, economic and legislative risks.
- The Russian economy is less stable than the economy of Western countries and this can have a negative impact on the business and the value of the shares of the Company.
- Russia's underdeveloped banking system, as well as the possibility of another banking crisis, could have negative consequences for the Company's business, financial and indicators and operational activities.
- There are risks presented by the infrastructure in Russia (such as electricity supply interruptions, underdeveloped transportation connections and ageing building stock), which could interfere in the normal business activities of the Company.
- Instability in the global economy could have significant negative effects on the Russian economy and the value of the shares of the Company.
- Any instability in the country's political life (including a new president coming to power) could have a negative influence on the operational results, implementation of plans and value of the shares of the Company.
- Conflicts between the central and regional authorities in Russia could create uncertainties in the operating environment and hinder the Company's ability to conduct long-term planning.
- Generally high levels of corruption in Russia could have a negative impact on the Company.
- The current lack of financial liquidity in the country could hinder the ability of the Company to borrow and this could negatively affect the rates of development of the Company.

Legislative risks

- According to current Russian legislation, decisions on a significant number of issues at the General Meeting of Shareholders can be taken by a simple majority of votes. This leads to the risk of decisions being taken which could run against the interests of other shareholders and GDR holders.
- Legislation on privatization, including that which was applied during the privatization of MGTS, contained many ambiguities and conflicts with other legislation. A remote risk exists that the Company's rights to MGTS shares could be contested and this would negatively impact the business of the Company.
- There exists the risk that minority shareholders could refuse to approve or dispute past or future interested-party transactions by the Company.
- In the event that deals involving shares and shareholdings in group companies are judged to have been carried out in violation of legislative requirements, the risk exists that these deals will be annulled by a legal decision.
- Existing legislation does not contain specific conditions regarding the protection of foreign investment in the telecommunications industry. Taking into the account the fact that this industry is viewed as a strategic one, there exists the risk that in the future the participation of foreign investors in telecommunications enterprises could be limited.
- Failure to adhere to the conditions of licenses issued to the Company in any way could lead to a suspension or revocation of any of the licenses belonging to the Company and this could make it impossible to carry out business activities.
- The licenses owned by the Company are issued for a limited period of time. There exists the risk that upon the expiry of this period, the Company will not be in the position for one reason or another to renew the license for a new period and this could make it impossible to carry out business activities.
- Certain tariffs of Comstar and its subsidiary MGTS are controlled by the Russian Federal Anti-Monopoly Service (FAS) which establishes the maximum permitted tariff rate and this could have a significant influence on the results of the Company.
- The Company is required to obtain the preliminary agreement of the FAS in connection with any deal connected with the acquisition of other companies and this theoretically could have an influence on the regional expansion of the Company.
- Russian legislation is still in the development stage and this entails the presence of contradictions between various laws and acts. This complicates adherence to these laws and could make it necessary for the Company to defend itself in court against third parties and state organs.
- Contradictions in existing legislative acts significantly complicate establishing the property rights of the Company on range of facilities (in particular line-cable arrays линейно кабельные сооружения) that could entail difficulties in the legal defense of the interests of the Company in relation to these facilities.
- Violations of the requirements of existing legislation and results of inspections by state agencies or an increase in state control over the activity of the Company could lead to additional financial losses (in the form of fines and penalties or in the form of halting operations or rescinding licenses).
- Existing Russian legislation permits the liquidation of legal entities upon the petition of state agencies in the event of a failure to accord to legislative requirements (for example, in the event that the net assets of the Company are negative according to Russian Accounting Standards). This could negatively impact several of the subsidiaries of the Company.
- A lack of judicial independence, abuses and the difficulty of enforcing court decisions could make it impossible to conduct an adequate legal defense of Comstar's interests.
- The regulatory environment in Russia is not always clearly defined and to a significant degree is subject to political influence and this could entail negative judicial or regulatory decisions against the Company for reasons which fall outside of the legal sphere and also could be a consequence of unfair behavior by a competitor.
- The interests of minority shareholders of Russian companies are not always protected to the necessary degree by existing legislation and this could prevent an adequate legal defense of their interests.
- Existing legislation provides shareholders with the right to require the purchase of the shares they own of the Company in the event that the General Meeting of Shareholders passes a resolution to reorganize the Company, approve a deal the sum of which exceeds more than 50% of the assets of the Company, or which introduces changes in the charter documents of the Company which reduce the rights of shareholders if these shareholders voted against this resolution. This could place significant financial obligations on the Company.
- The absence of a centralized system of accounting for the ownership rights of shares of Russian companies (in accordance with existing legislation the register of shareholders can be maintained by both the Company itself and one of the specialized registrars) could entail an improper recording of the ownership rights of shares, including shares that underlie the GDRs.
- According to existing Russian legislation, GDR holders do not have the right to directly participate in the management of the Company and can only influence decision-making through directing to the intermediary Nominal Holder instructions on one or another issue on the agenda of the General Meeting of Shareholders.

ATTACHMENT

Reconciliation of OIBDA

OIBDA is operating income before depreciation and amortisation, and the OIBDA margin is defined as OIBDA as a percentage of net revenues. These measures are included in this results statement in order to provide additional information regarding the Group's ability to meet future debt service payments, capital expenditure and working capital requirements, and as a metric to evaluate profitability. OIBDA is not a measure of financial performance under US GAAP, and is not an alternative to operating income as a measure of operating performance, or to cash flows from operating activities as a measure of liquidity. While depreciation and amortisation are considered operating costs under US GAAP, these items primarily represent the non-cash current period allocation of costs arising from the acquisition or development of long-term assets in prior periods. OIBDA is commonly used as a criterion for evaluation of operating performance by credit and equity investors and analysts. The calculation of OIBDA may be different from the calculation used by other companies and comparability may therefore be limited. OIBDA can be reconciled to the Group's consolidated statements as follows:

	FY 2007		FY 2006	
	US$ 'mln	% of revenues	US$ 'mln	% of revenues
Operating profit/(loss)	485.3	31.1%	235.5	21.0%
Add: Depreciation and amortization	177.9	11.4%	130.9	11.7%
OIBDA (reported)	663.2	42.5%	366.5	32.7%
Add: stock bonus	–	–	62.1	5.5%
OIBDA (excluding the effect of stock bonus)	663.2	42.5%	428.6	38.3%

Adjusted pre-tax income

Pre-tax income before non-recurring stock bonus, impairment of long-term investments and the non-cash impact of the revaluation of the call and put option is pre-tax income adjusted for the effect of stock bonus, impairment of long-term investments and the change in the fair value of the derivative financial instrument (call and put option). This measure is included in the results statement in order to provide additional information regarding the Group's underlying performance. Stock bonus and impairment of long-term investments have non-recurring nature. While the revaluation of derivative financial instruments is included in the determination of pre-tax income under US GAAP, this item only partially affects the Group's future cash flows and is not under the control of the management, as the fair value of the call and put option is dependant primarily on the market price of Comstar UTS GDRs.

	FY 2007		FY 2006	
	US$ 'mln	% of revenues	US$ 'mln	% of revenues
Pre-tax income/(loss) (reported)	277.5	17.8%	216.9	19.4%
Add: impairment of long-term investments	22.7	1.5%	–	–
Add: stock bonus	–	–	62.1	5.5%
Add: change in fair value of financial instrument (call and put option)	145.9	9.3%	60.0	5.4%
Pre-tax income (adjusted)	**446.1**	**28.6%**	**339.0**	**30.3%**

Mobile WiMAX services allow a Comstar client to always be in touch, at home, at work and between the two. Using this wireless broadband Internet access technology, Comstar is providing an additional service to existing clients and attracting new users. Comstar is betting on emerging WiMAX technology in order to actively grow its business increase its level of client service.

Corporate Governance

Comstar strives for world-class levels of corporate governance and adheres to Russian securities legislation and UK regulatory and stock-exchange requirements. Maintaining the highest quality corporate governance procedures and practices help ensure Comstar can retain the trust of all of its stakeholders. It also allows the Group to raise money in the international marketplace at the most attractive terms possible.

Comstar is adjusting existing internal mechanisms to ensure updated rules and procedures are in place as restructuring continues to turn the Group into a fully integrated operating company. Restructuring will simplify Comstar's business structure through the ongoing reduction of legal entities and cross-holdings. The introduction of procedures, such as centralized purchasing and the use of electronic trading platforms are both cost effective and highly transparent.

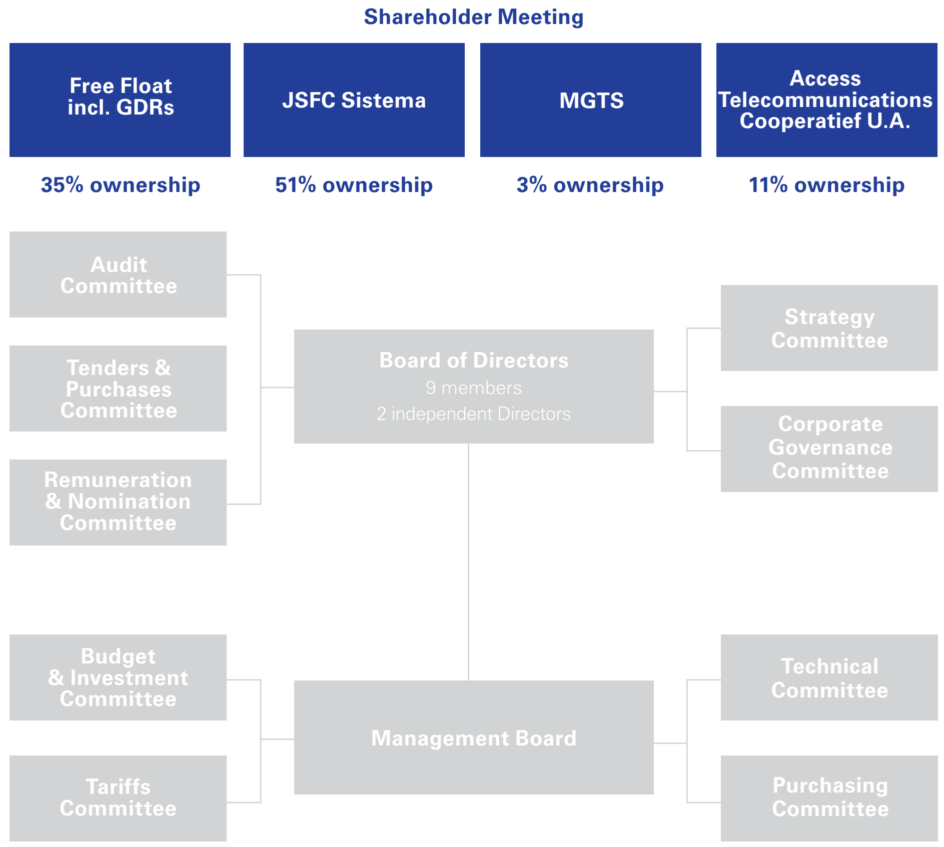
In July 2007, Comstar established the Management Board which provides a single body implementing the strategy confirmed by the Board of Directors as well as centralizing a number of critical functions for every part of the Group. On the executive level, specific committees have been created to oversee Budget and Investment, Tariffs, Research and Development and the Organization and Management of Purchasing.

Also during the year, Comstar established a new committee on the Board of Directors level, the Committee on Purchasing and Tenders, underlining its serious commitment to transparency and efficiency. The new committee bolsters existing Strategy, Audit, Corporate Governance and Compensation and Remuneration Committees. The continued presence of two independent directors with substantial international experience and expertise as well as the regular use of skilled outside consultants helps ensures that the Board of Directors has every resource available to perform its role on behalf of shareholders.

Strong corporate governance should also include a clear and consistent human resources policy and a transparent and easily understood framework for awarding bonuses and other performance-related payments. During 2007, Comstar developed a framework for a single human resources policy across the Group, including the development of a clear set of key business indicators and single procedure for regular performance assessment and feedback.

Comstar publishes its charters and regulations on its website (www.comstar.ru) as they are amended and new rules and procedures are put in place. In line with Comstar's Information Disclosure Policy, new and material developments at the Group are posted on the website and also disclosed to the marketplace through various information channels in a timely manner.

During 2007, senior management also continued to take advantage of opportunities to make itself available to the international investor community through investor road-shows and regular participation in international investment and industry conferences throughout the year. These allow management to keep investors up-to-date on Comstar's progress as it implements its current strategy as well as take advantage of the giant "brain trust" of experienced investment professionals to share ideas and challenge assumptions.



Shareholding Structure & Share Price

Shareholding Structure

Currently, Comstar has 417,940,860 outstanding shares with a nominal value of 1 ruble per share. Out of this total approximately 35% are traded in the form of Global Depositary Receipts (GDR's) on the London Stock Exchange, under the ticker "CMST". As of December 31st, 2007, the GDR to common share ratio was 1:1. The depositary company for the GDR's is Deutsche Bank Trust Americas.

Comstar's ordinary shares are also listed on Russian Trading System (RTS) and the Moscow Stock Exchange (MSE) under the ticker "CMST".

The chart above shows the shareholding structure, in percentage ownership terms, as of December 31st, 2007. Sistema directly or indirectly owns 51% of Comstar's ordinary shares. As of the end of 2007, MGTS owned 3% of Comstar (treasury shares).

The transfer of rights and receipt of payment in relation to the previously announced exercise of a call option by Access Telecommunications Cooperatief U.A. ("Access") was completed on December 18th, 2007. Access thereby became a shareholder in Comstar by acquiring 46,232,000 Comstar shares from Comstar subsidiary MGTS Finance S.A. for US$6.97 per share and a total cash consideration of US$322.2 million significantly reducing cross-ownership between Comstar and MGTS. The purchased shares represent 11.06% of the total number of ordinary Comstar shares issued.

The call option was originally issued by MGTS Finance S.A. to 2711 Centerville Cooperatief U.A. in part payment for the acquisition of a 25%+1 share stake in Telecommunications Investment company (Svyazinvest) in December 2006. Access retains a put option to sell the shares back to MGTS Finance S.A. at any time over the next twenty four months, at the trailing ninety trading day weighted average price of the Comstar Global Depositary Receipt.

Share Price Performance

Comstar's GDR's closed at US$8.55 on the LSE after their first day of trading of the year on January 2, 2007. The closing price on the last day of trading in 2007 was US$12.59. The yearly high closing price of US$13.71 occurred on October 3, 2007, and the lowest close of the year was US$7.70, which occurred on January 10th.

This share data is included for reference purposes only. Comstar's website includes the names and contact details of independent stock market analysts (www.comstar.ru/en/for_investors/analysts/).

Option programme/Long-term motivation programme

On March 28,2008 the Board of Directors has approved the introduction of a long-term incentive programme for the Company's management team.

The programme is set to run from April 1, 2008 with a two year vesting period. The programme participants are defined by the Board of Directors every two years starting from the launch of the programme. A total of 151 managers will participate in the scheme during 2008–2010, including the Company's CEO and a wide range of parent and subsidiary company management team members.

So-called "phantom" share options are to be granted to participants in the scheme. The programme participants will be entitled to receive bonuses at the end of the two year period. The bonus value will be calculated on the basis of the change in price of the Comstar Global Depositary Receipt. The base price will be calculated according to the trailing 60 day average trading price of the Comstar GDR prior to the granting of the phantom options, whilst the closing price will be calculated according to the trailing 60 day average trading price of the Comstar GDR on the exercise date. A total of 15,105,882 "phantom" share options, representing 3.6% of Comstar's share capital, will be granted to 151 Comstar managers.

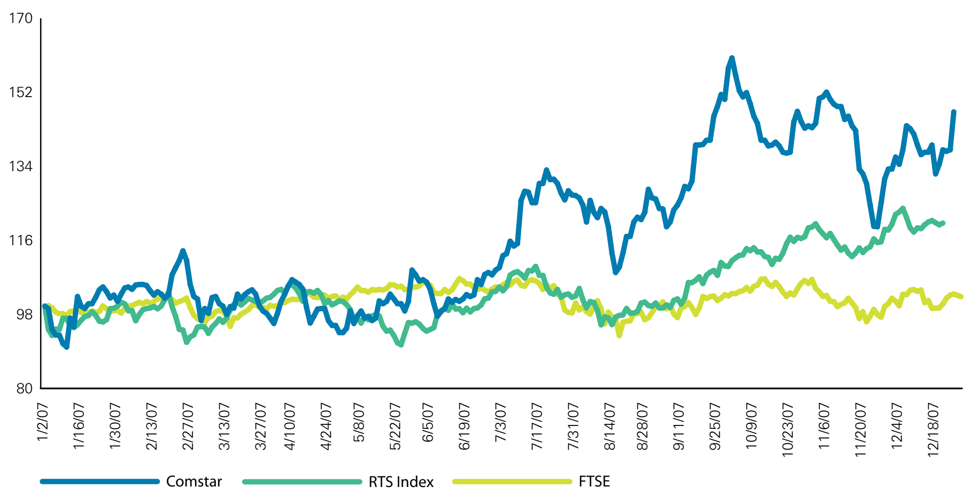
The bonuses will be received under the scheme, provided that certain corporate performance criteria — Total Shareholder Return, revenue growth, OIBDA profitability and market share increases — have been achieved.

The launch of this long-term incentive programme for a large number of key employees is intended to motivate our employees to implement the tasks aimed at increasing Comstar's market value. We also intend to align executive remuneration with shareholders' interests, creating a correlation between remuneration levels and the GDR price. The objective is also to maintain long-term relationships with those employees responsible for implementing the most challenging and important tasks.

Under the terms of the new scheme, the granting of share options and bonuses in the form of shares under the 2007–2009 programme, will be discontinued. A total of 10 individuals currently have options under the 2007–2009 scheme, which are exercisable in November 2008 over a combined total of 0.575% of the Company's share capital. According to the decision of the Board of Directors, these individuals will be able to sell the GDRs received under the option programme back to Comstar. Comstar will continue to hold the 1,970,004 GDRs, which were repurchased in the market for the share option programme between October and December 2006, as an efficient financial investment.

Comstar's Compensation and Remuneration Committee also recommended that the Shareholder Meeting should change the currency of the exercise price for the participants in the 2007–2008 programme from Russian rubles to US dollars, in order to align the strike price with the currency in which the GDRs are traded on the London Stock Exchange and in which Comstar would repurchase the GDRs if required to do so by the programme participants.

Comstar GDRs price, 2007*



* LSE

Dividend Policy

Comstar bases its dividend policy on achieving a correct balance between paying shareholders a fair share of the net profit generated by the Group and reinvesting profit in the further development of the business and hence its capitalization and long-term return on investment for shareholders.

When making its recommendation on the payment of dividends for the previous year, Comstar's Board of Directors takes into consideration a range of factors, including existing debt levels and ratios, future capital requirements and their expected return on investment periods. The same criteria are applied at MGTS, which as a separate legal entity and monopoly operator issues its own dividend recommendations.[1]

The dividend recommendation is then submitted to shareholders in advance of the Annual General Meeting (AGM) of Shareholders. The AGM votes on the final decision on the payment of dividends and the amount to be paid. In accordance with the Russian legislation, dividends are generally to be paid no later than 60 days after a positive decision on dividends is made by the AGM. As part of its legal requirements as well as its overall commitment to disclosure, Comstar discloses the decision of the AGM in English and Russian through local, UK and international disclosure channels as well as on its corporate websites.

The Board of Directors establishes the record date from which the list of holders of outstanding common shares is determined. Nominal shareholders, including the holders of ordinary shares underlying global depositary receipts, take responsibility for providing the Group with data regarding the beneficial owners of their shares.

[1] MGTS shares trade on the Moscow Inter-bank Currency Exchange (MICEX) and the Russian Trading System; they also trade outside of Russia in the form of American Depositary Receipts (ADRs).

Comstar dividends for 2006

On June 27th, 2007 the AGM of Comstar approved an annual dividend of approximately RUR 62.7 million, or approximately US$2.1 million, for the 12 months ended December 31st, 2006, to be paid to holders of Comstar's shares as at the record date of May 17th, 2007. The dividend, which amounts to a payment of RUR 0.15 per ordinary share, or approximately US$ 0.0058 per Global Depositary Receipt, was due to be paid within 60 days of today's AGM approval.

MGTS dividends for 2006

On June 29th, 2007 the AGM of MGTS approved an annual dividend of approximately RUR 1.3 billion, or approximately US$51.5 million, for the twelve months ended December 31st, 2006, to holders of MGTS shares as at the record date of May 12, 2007. The dividend, which amounts to a payment of RUR 8.75 per ordinary share (approximately US$0.34), and of RUR 39.77 per preferred share (approximately US$1.54), was due to be paid by the end of 2007. The total dividend payment to holders of ordinary shares will amount to approximately RUR 698.5 million (approximately US$27.0 million), which represents approximately 11% of MGTS' net income for 2006 under Russian Accounting Standards (RUR 6.3 billion or US$245.3 million). The total payment to holders of preferred shares will amount to approximately RUR 635.0 million (approximately US$24.5 million) and represent approximately 10% of MGTS' stand alone net income under RAS.

Board of Directors[1]

Comstar's Board of Directors acts in accordance with the Corporate Charter, the Statues on the Board of Directors and Committees of the Board of Directors and Regulations for the Conduct of Meetings of the Board of Directors. The Extraordinary General Meeting of Shareholders held on September 4th, 2007, elected nine members to the Board of Directors[2]. During 2007, the Board of Directors met 22 times, including 13 meetings in person and 9 meetings in absentee.

[1] As at December 31, 2007
[2] Before September 2007 the Board of Directors consisted of Sergey Shchebetov (Chairman), George Kikvadze, Sergey Baida,Dietmar Kuhnt, Vladimir Lagutin, Shamil Kurmashov, Yngve Redling, Alexey Goltsov and Eric Franke.

Dietmar Kuhnt
Independent Director

Anatoly D. Akimenko
Non-executive director

Dmitry V. Ustinov
Non-executive director

Anton V. Abugov
Chairman of the Board of Directors

Sergey V. Pridantsev
President, Chairman of the Management Board

Shamil R. Kurmashov
Non-Executive Director

Yngve Redling
Independent Director

Vladislav S. Vasin
Non-executive director

Vladimir M. Uvakin
Non-executive director

Members of the Board of Directors as of December 31, 2007

Anton V. Abugov
Chairman of the Board of Directors

Mr. Abugov is First Vice-president of Sistema, a post he has held since August 2006 and he is also a member of the Board of Directors of Sitronics. Between 2003 and 2006, Mr. Abugov was Managing Director of AKB Rosbank, in charge of its Corporate Finance Department. Prior to joining Rosbank, he was a partner in Eurasia Capital Partners, overseeing investment projects in Eastern European telecoms and Russian petrochemical businesses. From 1997 to 2006, he was strategic adviser to the TAIF Group of Companies, one of the largest financial-industrial groups in Russia. Between 1995 and 2002, Mr. Abugov was head of corporate finance at United Financial Group (UFG), seeing through a number of major fundraising, strategic consultancy and M&A projects in various industries in Russia and Eastern Europe. In 1999, he served as an adviser to RAO UES, Russia's monopoly electricity generator and supplier. In 1995, Mr. Abugov was involved in developing infrastructure and a regulatory framework for the securities market in Russia.

Mr. Abugov graduated from the National Economics Academy under the Government of the Russian Federation. He was born in 1976.

Mr. Abugov represents Sistema, 51% owner of Comstar shares.

Anatoly D. Akimenko
Non-executive director

Mr. Akimenko is Chief of Department and Vice-President at Access Industries (Eurasia) LLC, a position he has held since 2001.

In graduated from Lomonosov Moscow State University' Geography Department of and he has a doctorate (Ph D) in Georgraphy. Mr. Akimenko is the author of more than 30 scientific works. He was born in 1955.

Mr. Akimenko represents Access Telecommunications Cooperatief U.A., 11% owner of Comstar shares.

Vladislav S. Vasin
Non-executive director

Mr. Vasin is Director for Government Relations at Comstar, since February 2008. He was Vice President of the Telecommunication Assets Management Unit and Director of the Technology Department at Sistema OJSC since July 2007. Previously, from January 2007 to May 2007 he was First General Director of Sky Link; from 2006 to January 2007, he was Adviser to the General Director and interim Deputy General Director of Technology of Sistema Telecom; from May 2007 to July 2007, he was Deputy General Director of Technology for Sistema Telecom. From 2002 to 2006, Mr. Vasin served as Deputy General Director for Regional Programs at Sistema Telecom. In 2002, he was Vice President and Executive Director for SDO-Iskra Association. Previously, from 1998 to 2002, Mr. Vasin served as First Deputy General Director of Svyazinvest.

His present board positions include member of the Board of Directors of SPPOSS (since 2004), member of Board of Directors of Sky Link (since 2004), and member of the NP Telecom Forum Supervisory Committee. His previous directorships include member of the Management Council of Svyazinvest (1998 to 2002), member of the management council of Rostelecom (1999–2002) and member of the Board of Directors of Telecom CJSC.

He graduated from the All-Union Communications Electric Institute with a qualification in Multi-Channel Telecommunications. He was born in 1950.

Mr. Vasin represents Sistema, 51% owner of Comstar shares.

Dietmar Kuhnt
Independent Director

Dr. Dietmar Kuhnt is a member of the Supervisory Boards of Allianz Versicherungs AG, BDO Deutsche Warentreuhand AG, Dresdner Bank AG, GEA Group AG, Hapag Lloyd AG, Hochtief AG and TUI AG. From 1995 to 2003, he was President and CEO of RWE. From 1992, Dr. Kuhnt was Chairman of the Board of Directors of RWE Energie and a member of the Board of Directors of RWE. From 1968 to 1989, he served in a variety of senior positions at RWE and RWE Energie.

Dr. Kuhnt received his Law Degree from the University of Köln and studied law at the Universities of Köln and Freiburg. He was born in 1937.

Shamil R. Kurmashov
Non-Executive Director

Mr. Kurmashov is Deputy General Director of Finance and Investment at Sistema Telecom, a post he has held since March 2006. Prior to this, in 2004, he was appointed Director of the Department of Finance at Sistema Telecom. From 2002 to 2004, he held the position of the Head of Department of the Crisis Situations and Risks Analysis at Norilsk Nickel Mining and Metallurgical Company. Previously, from 2001–2002, he worked at Wimm-Bill-Dann Foods (WBD) as Deputy Chairman of the Management Board and Financial Director of WBD-Ukraine. From 1999–2001 he worked in finance departments of various Russian and foreign companies.

Mr. Kurmashov is a member of the Boards of Directors of MGTS, Sky Link, Inter-Regional Transit Telecom, and Metro Telecom.

Mr. Kurmashov graduated with a BA in International Economic Relations from the Moscow State Institute of International Relations, the Department of International Economic Relations. He has a qualification in Foreign Economic Relations and Language from Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the Russian. He has a PhD from the Central Institute of Economics and Mathematics of the Russian Academy of Sciences. He was born in 1978.

Mr. Kurmashov represents Sistema, 51% owner of Comstar shares.

Sergey V. Pridantsev
Executive director, President,
Chairman of the Management Board

Mr. Pridantsev has been President and CEO of COMSTAR-UTS since June 2007. Prior to this, from January 2006, he was the CEO of CenterTelecom. From 2002 to 2006, Mr. Pridantsev has been with CenterTelecom, initially as an Adviser to the Company's CEO and then he was appointed Deputy CEO and Commercial Director of CenterTelecom in April 2003. In 1997, he started working for Lucent Technologies as head of the customer service in Moscow and Moscow region, and then was appointed First Deputy CEO and Sales Director in Russia and the CIS. In January 1995 to May 1997 he was the technical adviser to Hewlett-Packard (Moscow).

From 1994 to 1995 he was with Astelit, a telecommunications operator. From 1993 to 1994 he headed the laboratory of transport and technological robotics of the Moscow Automobile and Roads Institute.

In 1993 he graduated from the Moscow Automobile and Road Institute, and then Stanford Executive Institute (2000) and the Russian Academy of Public Service under the President of the Russian Federation (2004). He was awarded PhD in Economics. He was born in 1967.

Yngve Redling
Independent Director

Mr. Redling is the Chairman of the Swedish-Russian/CIS Chamber of Commerce, a post he has held since 2000 as well as Chairman of the Swedish-Russian bilateral working group for Information Technology, a post he has held since 2005. Previously, he worked at Ericsson in a number of leading management roles for more than 25 years. From 1992 to 2002 he was the company's Director for Corporate Markets and Public Affairs in the Europe, Middle East and Africa (EMEA). From its founding in 1994 until 1998, he was President of Ericsson Corporation in Moscow.

From 1990 to 1994, he worked as Director at Ericsson Telecom, which implemented marketing and sales systems and products for fixed-line networks. He was responsible for 10 large local companies in markets including the UK, France, Italy, the US, Mexico and Australia. Prior to this he held a number of senior sales and marketing roles in Scandinavia, the US and Eastern Europe. He was born in 1943.

Vladimir M. Uvakin
Non-executive director

Mr. Uvakin is Director of the Corporate Property Department at Sistema, a position he has held since August 2006. Prior to joining Sistema, he served from June 2004 to July 2006 as the Director of the Legal Department for National Container Company. From September 2002 to May 2004, he served as both the Head of the Legal Section of Sevmorput Capital and Head of the Corporate Section of Murmansk Shipping Company. Previously, he served as Senior Legal Counsel at LUKOIL Artic Tanker.

Mr. Uvakin graduated from the Baltic State Academy as Engineer and Navigator in 1997 and later from The Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the Russian Federation as an Extra-national Legal Counsel. He was born in 1975.

Mr. Uvakin represents Sistema, 51% owner of Comstar shares.

Dmitry V. Ustinov
Non-executive director

Mr. Ustinov is Head of the Finance Department of Sistema, a position he has held since May 2007. Previously, from October 2001 to May 2007, he served first as Head of Section, then Department Director and then as Vice President and Department Director at Sual Holding.

Mr. Ustinov graduated from Moscow State Railroad University (MIIT) with a qualification as an Engineer-Economist. He later attended the Post-Graduate School of the Moscow State Railroad University. He was born in 1972.

Mr. Ustinov represents Sistema, 51% owner of Comstar shares.

Committees of the Board of Directors

In accordance with Comstar's Corporate Charter, internal regulations and other resolutions made by the Board of Directors, the Board maintains specialized committees to review and provide expert advice on key issues. These committees also exist to ensure that the rights and interests of all shareholders are taken into account before any major decisions are taken by the Board or executive management in any of these areas.

- **Strategy Committee**. The purpose of the committee is to develop recommendations on issues affecting the strategic development of Comstar. The committee consists[1] of Mr. Abugov (Chairman), Mr. Akimenko, Mr. Pridantsev, all directors, as well as A. Gorbunov (Vice President for Strategy and Development of Comstar), S. Nazarov (Vice President for Marketing of Comstar) and E. Ryabchikova (Head of the Department for the Strategic Complex of Sistema Telecom, Sistema). There were 12 meetings of the Committee during 2007.

- **Corporate Governance Committee**. The purpose of the committee is to develop recommendations for the development of Comstar's corporate governance and conduct. The committee consists[1] of Mr. Akimenko (Chairman), K. Andreichenko (Head of Department of Corporate Governance and Legal Issues of Comstar), O. Mukovozov (Head of the Department of Corporate Governance of Comstar) and A. Shmakov (Head of the Department for Corporate Governance, Sistema). There was 1 meeting of the Committee during 2007.

- **Audit Committee**. The purpose of the committee is to develop proposals for the confirmation of financial reporting and increasing the effectiveness of internal control systems at Comstar. The committee consists[1] of Mr. Kuhnt (Chairman), Mr. Kurmashov, Mr. Redling and Mr. Ustinov, all directors. There were 4 meetings of the Committee during 2007.

- **Remuneration and Nomination Committee**. The purpose of the committee is to develop proposals on issues concerning human resources policy, criteria requirements for senior managers and incentive systems at Comstar. The committee consists[1] of Mr. Redling (Chairman), Mr. Kuhnt, (independent director) Mr. Kurmashov (non-executive director) and D. Karmanov (Head of the Human Resources Department of Comstar). There were 4 meetings of the Committee during 2007.

- **Tenders and Purchasing Committee**. The purpose of the committee is the management and regulation of processes for purchasing activity, formulating corporate standards for purchasing activity, confirming the results of competitive procedures and control over the conduct of purchasing at Comstar. The committee consists[1] of Mr. Vasin (Chairman), K. Avakov (Executive Director for Purchasing of Sistema), E. Azeev (Head of Security Department of Comstar), A. Kirillov (Vice President for Technology of Comstar), S. Nazarov (Vice President for Marketing of Comstar), A. Suleimanov (Director of the Department of Purchasing of Comstar) and A. Goncharuk (First Vice President of Comstar). The Committee was established on October 15, 2007. There were 7 meetings of the Committee during 2007.

[1] All committee compositions as of December 31, 2007.

Management Board

On June 13, 2007 Sergey Pridantsev was appointed the President & CEO of Comstar. Formerly the CEO of Center Telecom, he brings his substantial experience of the Russian telecommunications market to the Group. This appointment was approved by the Company's Board of Directors on June 7, 2007. Mr. Pridantsev replaced Eric Franke, who served as Chief Executive Officer since August 2006 till May 2007. In October, 2007 Irina Matveeva joined Comstar as Chief Financial Officer. This appointment was approved by the Company's Board of Directors on October 5, 2007. Ms. Matveeva previously held the position of Chief Financial Officer at Moscow City Telephone Network (MGTS). Irina Matveeva replaced Nikolay Tokarev, who served as Chief Financial Officer since May 2006.

Following a decision by the Board of Directors taken on July 13, 2007, the Management Board was created as the body for the executive management of Comstar and other companies within the Group[1]. The president of Comstar, Sergey Pridantsev was named as the Chairman of the Management Board, a role equivalent to Chief Executive Officer (CEO).

As part of the restructuring strategy currently being executed at Comstar in order to make it a fully integrated operating company, committees were created at the Management Board level to facilitate the integration of key functions across Comstar. These committees include: Budget and Investment, Tariffs, Research and Development and the Commission on the Organization and Management of Purchasing.

Management Board as of December 31, 2007

Sergey V. Pridantsev
President, Chairman of the Management Board

Mr. Pridantsev has been President and CEO of COMSTAR-UTS since June 2007. Prior to this, from January 2006, he was the CEO of CenterTelecom. From 2002 to 2006, Mr. Pridantsev has been with CenterTelecom, initially as an Adviser to the Company's CEO and then he was appointed Deputy CEO and Commercial Director of CenterTelecom in April 2003. In 1997, he started working for Lucent Technologies as head of the customer service in Moscow and Moscow region, and then was appointed First Deputy CEO and Sales Director in Russia and the CIS. In January 1995 to May 1997 he was the technical adviser to Hewlett-Packard (Moscow).

From 1994 to 1995 he was with Astelit, a telecommunications operator. From 1993 to 1994 he headed the laboratory of transport and technological robotics of the Moscow Automobile and Roads Institute.

In 1993 he graduated from the Moscow Automobile and Road Institute, and then Stanford Executive Institute (2000) and the Russian Academy of Public Service under the President of the Russian Federation (2004). He was awarded PhD in Economics. He was born in 1967.

Alexey Y. Goncharuk
First Vice President, Member of the Management Board

Mr. Goncharuk has been First Vice President at Comstar since 2007. In 2006 he was Deputy General Director for Strategy & Business Development at Comstar. From 2005 to 2006, he served as Deputy General Director for Commercial Activities at MGTS. From 2002 to 2005 — he was General Director of CJSC Macomnet. Prior to this in 2001 he occupied the post of Deputy CEO for Commerce at MTU-Inform and from 1998 he was the Deputy CEO of Novitel.

[1] Before establishing the Management Board in July 2007 the Company was managed by the Executive Committee which consisted of Eric Franke (CEO of Comstar from August 2006 till May 2007), Alexey Goncharuk, Vladimir Malyavin (current General Director of Comstar-Direct), Alexey Goltsov, Victor Koresh, Nikolay Tokarev (CFO from May 2006 till October 2007), Alexander Gorbunov, Dmitry Dronov (vice-president for marketing from November 2006 till June 2007) and Wolfgang Breuer (CTO from September 2006 till July 2007.

Sergey V. Pridantsev
President, CEO,
Chairman of the Management Board

Alexey Y. Goncharuk
First Vice President,
Member of the Management Board

Dmitry V. Karmanov
Director for Human Recourses,
Member of the Management Board

Alexander I. Kirillov
Vice President for Technology, CTO,
Member of the Management Board

Viktor I. Koresh
Vice President for Regional Development,
Member of the Management Board

Sergey V. Nazarov
Vice President for Marketing,
Member of the Management Board

Irina A. Matveeva
Vice President for Economics and Finance,
CFO, Member of the Management Board

Alexander E. Gorbunov
Vice President for Strategy
and Development,
Member of the Management Board

In addition to his role as First Vice President at Comstar, Mr. Goncharuk is a member of the Board of Directors of Comstar-Direct, Member of the Board of Directors of City-Telecom and Member of the Board of Directors of MGTS.

Mr. Goncharuk is a graduate of the Nakhimov Black Sea Higher Naval Academy and received an MBA from International University in Moscow. He is an academician at the International Academy for Informatics. He was born in 1965.

Alexander E. Gorbunov
Vice President for Strategy and Development,
Member of the Management Board

Mr. Gorbunov is Vice President for Strategy and Development at Comstar, a post he has held since November 2006. Prior to this, from 2005, he headed the Department Strategy and Development at Sistema. From 2003 to 2005, he was the Director of Strategy at MTS and from 2002 to 2003 he was the Head of the Department for Strategic Analysis at Sistema Telecom. Previously, from 1994 to 2002, he was a consultant at Bain & Company in its Moscow and Boston offices.

At present, Mr. Gorbunov is also a member of the Board of Directors of Svyazinvest, a member of the Board of Directors of Sibirtelecom, a member of the Board of Directors of MGTS, a member of the Board of Directors of MTT, a member of the Board of Directors of Comstar-Direct and a member of the Board of Directors of Intellect Telecom.

Mr. Gorbunov is a graduate of Moscow State Engineering and Physics Institute and has an MBA from Harvard Business School. He was born in 1967.

Alexander I. Kirillov
Vice President for Technology, Member of the Management Board

Mr. Kirillov has been Vice President for Technology since 2007. Prior to joining Comstar, he served as Deputy CEO of CenterTelecom from February 2006. From June 2004 to February 2006, he was the First Deputy CEO and Technical Director of VolgaTelecom, and from December 2002 to June 2004, he was the Deputy General Director of VolgaTelecom and the Director of its affiliate in the Russian Republic of Marii-El. Previously, he had served as CEO of Martelecom from 1993 and from 1991 to 1993 he headed Rossvyazinform MASSR. From 1989, he was the Head of the Production and Technical Department of Communications in Mariisk Autonomous SSR. Beginning in 1980, he worked at the Republican Radio and Television Broadcasting Center, where he rose from electrical repairman to the head of the Center.

Mr. Kirillov graduated from the Mariisk Polytechnic Institute with a specialization in the design and production of radio devices. He was born in 1956.

Viktor I. Koresh
Vice President for Regional Development, Member of the Management Board

Mr. Koresh has been the Vice President for Regional Development at Comstar since April 2007. Previously, from 2001 until April 2007, he was the CEO of Peterstar. Prior to this, from 1997, he was the head of the St Petersburg affiliate of Sovintel. Before 1997 he worked at a number of companies controlled by the Russian Ministry for Telecommunications.

In addition to his present post as Vice President for Regional Development, Mr. Koresh is the Chairman of the Board of Directors of Tyumenneftegazsvyaz, DTN and Chairman of the Board of Directors of Kornet-AM.

Mr. Koresh graduated from the M.A. Bonch-Bruevich Leningrad Electrical and Technical Institute of Communications with a specialization as a Electronic Communications Engineer. He was born in 1953.

Irina A. Matveeva
Vice President for Economics and Finance, Chief Financial Officer, Member of the Management Board

Ms. Matveeva has been Vice President for Economics and Finance of Comstar since October 2007. Previously, from June 2006 she was the Deputy General Director and Head of the Department for Economics and Finance of MGTS and from July 2007, after the management reorganization, the Deputy General Director and Finance Director of MGTS. From 2004, she served as Director of Financial Planning at Comstar. She began work in the future Comstar group in 1995 at MTU-Inform.

Ms. Matveeva graduated from the Moscow Technical Institute for Communications and Informatics with a specialization in Information Systems in the Economy. She has an MBA from the University of Antwerp. She was born in 1973.

Sergey V. Nazarov
Vice President for Marketing, Member of the Management Board

Mr. Nazarov has been Vice President for Marketing of Comstar since June 2007. Previously, from January 2006 to June 2007, he served as Deputy CEO and Commercial Director at CenterTelecom. From 2003, he was the head of the Department for Client Services at CenterTelecom. Prior to joining CenterTelecom, from 1994, he worked in a range of posts from Technical Sales Support Engineer at the Moscow office of AT&T to Deputy Sales Director at the Moscow office of Lucent Technologies.

Along with his current position as Vice President for Marketing at Comstar, Mr. Nazarov is a member of the Board of Directors of MTT.

Mr. Nazarov graduated from the Moscow Physics and Technical Institute and was a graduate student at the Moscow Technical Institute for Communications and Informatics. He also graduated from the Higher School of Economics with a specialization in Finance and Credit. He has a doctorate (Ph D) in technical sciences with a specialization in Telecommunications Systems, Networks and Devices. He was born in 1971.

Dmitry V. Karmanov
Director for Human Resourses, Member of the Management Board

Mr. Karmanov has been Director for Human Resourses in June 2007. Prior to this, from February 2006 to June 2007 he was HR Director, and Deputy CEO in CenterTelecom. From 2001 to 2006 he moved up from a personnel specialist to HR Director in Uralsvyazinform. From 1998 he worked in the Ministry of Justice of the Russian Federation.

In 1997 Mr. Karmanov graduated from the Perm Higher Military Command-Engineer School of Strategic Missile Troops. He was born in 1975.

Broadband Internet

High-speed broadband Internet access is the future of the fixed-line market and Comstar occupies leading positions in this marketplace. The strategic goal of the Group is to occupy 50% of the Moscow broadband market, substantially increase its subscriber base and grow its share in Russia's regions and the CIS.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Comstar UTS:

We have audited the accompanying consolidated balance sheets of OJSC "COMSTAR – United TeleSystems" and its subsidiaries (the "Group") as of December 31, 2007 and 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Group changed the manner in which it accounts for uncertain income tax positions effective January 1, 2007, following the adoption of Statement of Financial Accounting Standards Interpretation No 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109".

Deloitte & Touche

April 30, 2008

CONSOLIDATED BALANCE SHEETS

as of December 31, 2007 and 2006
(Amounts in thousands of US dollars)

		December 31,	
	Note	2007	2006
Assets			
Current assets:			
Cash and cash equivalents	4	$ 179,794	$ 136,621
Short-term investments	5	425,929	67,662
Trade receivables, net	6	163,028	95,868
Other receivables and prepaid expenses	7	101,668	87,654
Inventories and spare parts	8	41,328	33,740
Deferred tax assets, current portion	21	29,910	23,545
Total current assets		941,657	445,090
Property, plant and equipment, net	9	1,907,112	1,477,329
Intangible assets, net	10	191,006	91,835
Investments in shares of Svyazinvest	3	1,485,378	1,390,302
Other long-term investments	11	99,731	118,488
Restricted cash	13	2,447	4,008
Deferred tax assets, long-term portion	21	1,631	6,725
Deferred finance charges	13	1,375	3,808
Total assets		**$ 4,630,337**	**$ 3,537,585**

CONSOLIDATED BALANCE SHEETS

as of December 31, 2007 and 2006 (Continued)
(Amounts in thousands of US dollars)

	Note	December 31, 2007	2006
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable, accrued expenses and other current liabilities	12	$ 178,954	$ 113,653
Deferred connection fees, current portion		35,787	39,812
Subscriber prepayments		48,767	45,540
Debt, current portion	13	103,476	777,837
Capital lease obligations, current portion	14	10,360	14,107
Derivative financial instruments	15	88,000	150,000
Total current liabilities		465,344	1,140,949
Long-term liabilities:			
Deferred connection fees, net of current portion		117,884	109,040
Debt, net of current portion	13	891,321	33,529
Capital lease obligations, net of current portion	14	6,150	17,467
Retirement and post-retirement obligations	16	35,817	10,182
Property, plant and equipment contributions	17	112,779	103,793
Deferred tax liabilities, long-term portion	21	114,123	47,619
Other long-term liabilities	23	31,009	8,066
Total long-term liabilities		1,309,083	329,696
Total liabilities		1,774,427	1,470,645
Commitments and contingencies	24	–	–
Minority interests		765,005	496,745
Shareholders' equity:	18, 24,		
Common stock (par value of 1 Ruble, 417,940,860 shares authorized and issued)	25	23,900	23,900
Treasury stock (13,484,004 and 59,712,504 shares as of December 31, 2007 and 2006, respectively)		(857)	(4,004)
Additional paid-in capital		1,425,044	1,064,225
Retained earnings		472,431	433,145
Accumulated other comprehensive income		170,387	52,929
Total shareholders' equity		2,090,905	1,570,195
Total liabilities and shareholders' equity		**$ 4,630,337**	**$ 3,537,585**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

for the years ended December 31, 2007 and 2006
(Amounts in thousands of US dollars, except for share and per share amounts)

	Note	Years ended December 31, 2007	2006
Operating revenues	19	$ 1,562,385	$ 1,120,247
Operating expenses, excluding depreciation and amortization and stock-based compensation, net	20	(888,858)	(690,969)
Depreciation and amortization	9, 10, 17	(177,907)	(130,939)
Stock-based compensation	25	(10,287)	(62,800)
Operating income		**485,333**	**235,539**
Other income and expenses:			
Interest income		15,680	43,537
Interest expense, net of interest capitalized		(53,613)	(22,145)
Change in fair value of a derivative financial instruments	15	(145,859)	(60,000)
Impairment of long-term investments	11	(22,691)	–
Foreign currency transactions gain/(loss), net		(4,528)	19,938
Gain from disposal of an affiliate	3	3,216	–
Income before income tax, income from affiliates and minority interests		**277,538**	**216,869**
Income tax expense	21	(118,368)	(72,422)
Income from affiliates and other investees		2,703	3,292
Minority interests		(118,060)	(65,243)
Net income		**$ 43,813**	**$ 82,496**
Other comprehensive income/(loss):			
Unrecognized actuarial losses, net of minority interest of $7,219 and income tax of $nil	16	(9,089)	–
Translation adjustment, net of minority interest of $36,360 and $39,111, respectively, and income tax of $14,513 and $nil, respectively		126,547	41,309
Comprehensive income		**$ 161,271**	**$ 123,805**
Weighted average number of common shares outstanding:			
Basic	2	361,394,049	345,805,894
Diluted	2	373,488,887	346,083,856
Earnings per common share:			
basic	2	$ 0.12	$ 0.24
diluted	2	$ 0.12	$ 0.24

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2007 and 2006
(Amounts in thousands of US dollars)

	Years ended December 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 43,813	$ 82,496
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	177,907	130,939
Change in fair value of derivative financial instruments	145,859	60,000
Pre-acquisition operating cash flows of the acquired subsidiaries	(30,844)	–
Impairment of long-term investments	22,691	–
Stock-based compensation	10,287	2,746
Gain on compensation of losses from third parties	(10,778)	(9,217)
Loss/(gain) from disposal of fixed assets and assets held for sale and other non-cash items, net	1,484	(2,812)
Gain from disposal of an affiliate	(3,216)	–
Amortization of deferred finance charges	4,019	301
Deferred taxes	10,734	(653)
Income from affiliates and other investees, net of dividends received	(620)	(3,292)
Foreign currency transactions (gain)/loss on non-operating activities, net	(1,093)	(5,172)
Postretirement benefits	7,572	(7,125)
Minority interests	118,060	65,243
Bad debt expense	5,394	11,717
Inventory obsolescence charge and other provisions	4,932	2,735
Changes in operating assets and liabilities:		
Trade receivables	(51,541)	(46,938)
Other receivables and prepaid expenses	9,852	(6,276)
Inventories and spare parts	(8,784)	(6,710)
Trade accounts payable, accrued expenses and other current liabilities	37,609	25,608
Deferred connection fees	(3,964)	(7,445)
Subscriber prepayments	(1,017)	2,574
Net cash provided by operating activities	**488,356**	**288,719**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(303,416)	(280,298)
Proceeds from sale of property, plant and equipment	4,690	29,661
Purchases of intangible assets	(42,013)	(26,160)
Acquisition of subsidiaries, net of cash acquired	(183,162)	(20,050)
Acquisition of minority interests in existing subsidiaries	(1,832)	(184,052)
Purchases of long-term investments	(21,382)	(1,300,000)
Proceeds from sale of long-term investments	36,780	–
Purchases of short-term investments	(447,707)	(586,614)
Proceeds from sale of short-term investments	96,575	602,249
Decrease/(increase) in restricted cash	1,561	(1,736)
Net cash used in investing activities	**(859,906)**	**(1,767,000)**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2007 and 2006 (Continued)
(Amounts in thousands of US Dollars)

	Years ended December 31, 2007	2006
Cash flows from financing activities:		
Proceeds from exercise of the call option	322,237	–
Proceeds from issuance of common stock, net of issuance costs	–	975,519
Acquisition of treasury stock, net of stock bonus granted	(32)	(13,810)
Contributions from minority shareholders of subsidiaries.	–	510
Proceeds from borrowings	849,530	1,503,995
Principal payments on borrowings	(712,461)	(896,155)
Principal payments on capital lease obligations	(17,194)	(13,455)
Deferred finance charges	(1,492)	(4,050)
Dividends and other distributions to shareholders	(37,031)	(1,662)
Net cash (used in)/provided by financing activities	**403,557**	**1,550,892**
Effects of foreign currency translation on cash and cash equivalents	11,166	2,049
Net increase/(decrease) in cash and cash equivalents	**43,173**	**74,660**
Cash and cash equivalents, beginning of the year	136,621	61,961
Cash and cash equivalents, end of the year	**$ 179,794**	**$ 136,621**
Supplemental cash flows information:		
Cash paid for interest, net of amounts capitalized	$ 48,057	$ 22,278
Income taxes paid	98,801	88,312
Non-cash investing and financing activities:		
Contributed property, plant and equipment	$ 6,299	$ 5,387
Cost of construction incurred in transactions with Sistema Hals, a subsidiary of Sistema (see Notes 23 and 24)	17,621	6,836
(Decrease)/increase in accounts payable for the acquisition of property, plant and equipment	(4,813)	525
Equipment acquired through vendor financing	2,770	4,287
Building contributed in the share capital of Sistema Mass Media (see Note 11)	4,751	–

In addition, non-cash investing activities during the years ended December 31, 2007 and 2006 included acquisitions and disposals of subsidiaries and affiliates as described in Note 3.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2007 and 2006
(Amounts in thousands of US dollars)

	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2006	**$ 18,982**	**$ (3,929)**	**$ 100,051**	**$ 352,647**	**$ 11,620**	**$ 479,371**
Common stock issuance in the course of IPO, net of issuance costs (see Note 1)	4,918	–	969,316	–	–	974,234
Acquisition of own stock (see Note 25)	–	(404)	(73,460)	–	–	(73,864)
Stock-based compensation (see Note 25)	–	329	62,471	–	–	62,800
Minorities' share in fair value of the call and put option at the grant date (see Note 3)	–	–	27,606	–	–	27,606
Revaluation of treasury stock in connection with acquisition of a minority interest in MGTS (see Note 3)	–	–	(21,759)	–	–	(21,759)
Dividends declared	–	–	–	(1,998)	–	(1,998)
Net income	–	–	–	82,496	–	82,496
Translation adjustment, net of minority interest of $39,111 and tax of $nil	–	–	–	–	41,309	41,309
Balances at December 31, 2006	**$ 23,900**	**$ (4,004)**	**$ 1,064,225**	**$ 433,145**	**$ 52,929**	**$ 1,570,195**
Effect of adoption of FIN No. 48, net of minority interest of $1,061 (see Note 2)	–	–	–	(2,415)	–	(2,415)
Stock-based compensation (see Note 25)	–	–	(651)	–	–	(651)
Exercise of the call option net of minority interest of $183,821 (see Note 15)	–	3,147	358,713	–	–	361,860
Acquisition of minority interest in Golden Line, net of tax of $2,032 (see Note 3)	-	–	2,789	–	–	2,789
Acquisition of own stock	–	–	(32)	–	–	(32)
Dividends declared	–	–	–	(2,112)	–	(2,112)
Net income	–	–	–	43,813	–	43,813
Unrecognized actuarial losses (see Note 16), net of minority interest of $7,219 and tax of $nil	–	–	–	–	(9,089)	(9,089)
Translation adjustment, net of minority interest of $36,360 and tax of $14,513	–	–	–	–	126,547	126,547
Balances at December 31, 2007	**$ 23,900**	**$ (857)**	**$ 1,425,044**	**472,431**	**$ 170,387**	**$ 2,090,905**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2007 and 2006
(Amounts in thousands of US dollars, unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS

Nature of the Business

Open Joint-Stock Company "COMSTAR — United TeleSystems" ("Comstar UTS") and subsidiaries (together referred to as "the Company", or "the Group") is a provider of fixed line communications services, including voice, broadband and dial-up Internet access, pay TV and various value added services, to commercial and residential customers throughout the Moscow metropolitan area and in several other regions in Russia, Ukraine and Armenia. The controlling shareholder of Comstar UTS is JSFC AFK Sistema ("Sistema"). Primary operating entities of the Group are incorporated in the Russian Federation ("the RF"), Ukraine and Armenia.

The Group's Restructuring and the Initial Public Offering (IPO)

The Group was formed in the fourth quarter of 2005 through the consolidation by Sistema of its fixed line communications businesses under Comstar UTS. In November 2005, Comstar UTS issued 255,919,860 common shares to acquire Sistema's stakes in MGTS, MTU-Inform, Telmos and MTU-Intel and MGTS' stakes in MTU-Inform, Telmos and MTU-Intel. This merger was accounted for at cost as a transaction between entities under common control.

In December 2005, Sistema Multimedia, a subsidiary of Sistema, was merged into MTU-Intel, which was then renamed to Comstar-Direct in November 2006.

In February 2006, Comstar UTS completed an initial public offering of 146,500,000 common shares, including 139,000,000 newly issued shares and 7,500,000 shares sold by the shareholders.

The shares (in the form of global depositary receipts ("GDRs"), with one GDR representing one share) were admitted to trade on the London Stock Exchange. The Group's net proceeds from the offering approximated $975.5 million.

During the year ended December 31, 2007, Comstar UTS' wholly-owned subsidiaries Telmos, MTU-Inform and Contrast-Telecom were legally merged into Comstar UTS. These mergers were executed to streamline the decision-making process within the Group. The transactions had no material impact on the Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Group's operating entities maintain accounting records and prepare their financial statements in local currency in accordance with the requirements of accounting and tax legislation in the countries of their incorporation. These financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP") and are expressed in terms of US dollars (see "Foreign Currency Translation Methodology" below). The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes because they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

The principal adjustments are related to revenue recognition, foreign currency translation, accounting for derivative financial instruments, deferred taxation, consolidation, and valuation and depreciation of property, plant and equipment and intangible assets.

Principles of Consolidation

The assets and liabilities of the entities transferred to the Group by Sistema following the Group's restructuring in November 2005 (see Note 1) were recorded in these financial statements at the historical cost of their acquisition by Sistema.

All significant intercompany transactions, balances and unrealized gains (losses) have been eliminated.

The ownership interest of Comstar UTS and proportion of its voting power in its major operating subsidiaries as of December 31, 2007 and 2006 were as follows:

Operating entities	December 31, 2007		December 31, 2006	
	Ownership interest	Proportion of voting power	Ownership interest	Proportion of voting power
MGTS	56%	67%*	56%	56%*
MTU-Inform**	–	–	100%	100%
Telmos**	–	–	100%	100%
Porttelecom	100%	100%	100%	100%
Comstar-Direct***	52%	52%	52%	52%
Golden Line****	100%	100%	52%	52%
Digital Telephone Networks – South (DTN)	100%	100%	–	–
Regional Technical Centre (RTC)	88%	88%	–	–
Tyumenneftegazsvyaz (TNGS)	75%	89%	75%	89%
TK Overta	100%	100%	100%	100%
Conversiya-Svyaz	100%	100%	100%	100%
CTK Contrast-Telecom**	–	–	100%	100%
Unitel	100%	100%	100%	100%
AMT	56%	67%*	56%	56%*
Astelit	100%	100%	100%	100%
Comstar Ukraine	100%	100%	75%	75%
Technological Systems	100%	100%	75%	75%
TC Digital Global Telecommunications	100%	100%	75%	75%
Degre	100%	100%	75%	75%
Neophone	100%	100%	74%	74%
Callnet	75%	75%	75%	75%
Cornet	75%	75%	75%	75%

* As of December 31, 2007 and 2006, Comstar UTS owned 67% of MGTS' common stock. MGTS decided not to pay dividend on preferred stock in 2006. Accordingly, in 2006 preferred stock received voting rights at par with common stock (see also Notes 18 and 24). In 2007, MGTS paid dividend on preferred stock, and preferred stockholders have lost their voting rights.
** Legally merged with Comstar UTS in 2007.
*** MTU-Intel prior to November 2006.
**** In April 2007, Comstar UTS acquired 100% of shares of Golden Line from Comstar-Direct.

The ownership interest of Comstar UTS in its subsidiaries is determined by taking into account both the common and preferred (non-voting) shares (see also Note 18).

Accounts of newly acquired subsidiaries have been consolidated in the Group's financial statements from the beginning of the year when control was acquired, with pre-acquisition earnings included in minority interests in the statements of operations.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, amounts of revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the useful lives and recoverability of long-lived tangible and intangible assets, average subscriber lives, fair value of financial instruments and valuation allowances on deferred tax assets.

Concentration of Business Risk

The Group's principal business activities are within the RF. Laws and regulations affecting businesses operating in the RF are subject to rapid changes, and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Foreign Currency Translation Methodology

Management has determined that in 2006 the functional currency of all the Group entities except for MGTS, Conversiya-Svyaz, TK Overta, CTK Contrast Telecom and TNGS, and Golden Line until August 1, 2006 had been the US dollar ("USD"), because the majority of their revenues, costs, capital expenditures and debt were either priced, incurred, payable or otherwise measured in USD.

Accordingly, transactions and balances not already measured in USD (primarily transactions involving Russian Rubles and Euros) have been re-measured into USD in accordance with the relevant provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". The objective of this re-measurement process is to produce the same results that would have been reported if the accounting records had been maintained in USD.

Cash, receivables, payables and loans are considered monetary assets and liabilities and have been translated using the exchange rate as of the balance sheet dates. Non-monetary assets and liabilities and shareholders' equity are stated at their actual USD cost or have been restated from their historic cost by applying the historical exchange rate as at the dates of the original transactions or approximations to these rates. Income, expenses and items in the statement of cash flows are restated by applying the actual exchange rates to underlying transactions or approximations to these rates.

Exchange gains and losses arising from the use of these different rates are credited or charged to the statement of operations.

Effective August 1, 2006, in connection with change of all tariffs previously denominated in or linked to the US dollar to the Russian Ruble, Golden Line has changed its functional currency to the Russian Ruble. The effect of this change has not been material to the financial statements and has been reflected as part of the translation adjustment in the statement of changes in shareholders' equity as part of other comprehensive income.

In January and February 2007, Comstar UTS, Telmos and MTU-Inform, for the purpose of subscriber billing, fixed the US dollar exchange rate at 28.70 Rubles for 1 US dollar for a significant majority of the subscribers. Further, in June 2007 Comstar UTS refinanced its $675.0 million USD-denominated loan with a ruble-denominated credit facility (see Note 13). Accordingly, management has reevaluated the functional currency criteria under SFAS No. 52 and determined that effective from June 30, 2007, Comstar UTS (including Telmos and MTU-Inform which were legally merged into Comstar UTS in April 2007 as discussed in Note 1) has changed its functional currency to the Russian Ruble. The change in functional currency resulted in approximately $12.2 million, net of income taxes of $14.5 million, of the translation adjustment recorded in the statement of changes in shareholders' equity as part of other comprehensive income as of the date of the change.

Effective July 1, 2007, in connection with change of all tarrifs previously denominated in or linked to the US dollar to the Russian Ruble, Comstar-Direct has changed its functional currency to the Russian Ruble. The effect of this change has not been material to the financial statements and has been reflected as part of the credit translation adjustment in the statement of changes in shareholders' equity as part of other comprehensive income.

Management has determined that the functional currency of MGTS, Conversiya-Svyaz, TK Overta, Contrast-Telecom and TNGS is the Russian Ruble ("RUR").

The Group has selected the USD as the reporting currency and translates the financial statements of the Group into USD in accordance with provisions of SFAS No. 52. All assets and liabilities are translated at the exchange rates current at the balance sheet date. Shareholders' equity is translated at the applicable historical rates. Income and expenses are translated at average rates of exchange prevailing during the year. Translation gains and losses resulting from the use of such rates are reported in the statement of changes in shareholders' equity as part of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF ("CBR"), between the RUR and the USD at December 31, 2007 was 24.55 Rubles to 1 US dollar (December 31, 2006: 26.33).

The translation of Ruble-denominated assets and liabilities into US dollars for the purpose of these financial statements does not indicate that the Group could realize or settle in US dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported US dollar values of capital and retained earnings to its shareholders.

Revenue Recognition

The Group's revenues are principally derived from the provision of telecommunication services which primarily consist of (i) monthly subscription fees, (ii) traffic charges, (iii) connection fees, (iv) revenues from data transmission services, (v) revenues from value-added and additional telecommunication services, and (vi) revenues from services to other operators, including commission for provision of domestic and international long-distance ("DLD/ILD") services through the Group's network to the Group's subscribers, servicing the connection points, interconnection and rent of technological resources. The Group records revenues over the periods they are earned as follows:

(i) Monthly subscription fees are recognized in the month during which the services are provided to the subscribers;

(ii) Traffic charges are recognized as the services are provided;

(iii) Upfront fees received for the connection of new subscribers are deferred and recognized over the expected subscriber relationship period, which varies between 1 and 15 years, depending on the type of the subscriber and the region of operations;

(iv) Revenues from the provision of data transmission services are recognized when the services are provided to the subscribers;

(v) Revenues derived from value-added and additional telecommunication services are recognized when the services are provided to the subscribers; and

(vi) Revenues from services to other operators are recognized when the services are provided to the operators.

The Company reports revenue net of value-added tax ("VAT") and other taxes included in the sales price. In accordance with the Emergency Issue Task Force Consensus No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", the Group reports as revenue gross amounts billed to a customer when it has earned revenue from the sale of services or goods, or the net amount retained (that is, the amount billed to a customer less the amount paid to supplier) when it has earned a commission or a fee.

Local telephone services provided by MGTS are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service ("FTS") approval. Further, effective July 1, 2006, the majority of MGTS' and Comstar UTS' services to operators, including interconnection and line rental became regulated. See Note 19 for the amounts the Group earned for such services during the years ended December 31, 2007 and 2006.

Fixed monthly fees approved by FTS for MGTS and effective during 2006 were RUR 200 (including value-added tax, approximately USD 7.60 as of December 31, 2006) for residential subscribers, RUR 200 (excluding VAT) for state-financed institutions and RUR 210 (excluding VAT, approximately USD 7.98 as of December 31, 2006) for other companies ("corporate entities"). In addition to a fixed monthly fee, corporate entities and state-financed institutions had been charged for local traffic.

In December 2006, regulatory bodies approved new tariffs for MGTS, which came in effect from February 1, 2007 (USD amounts represent translation of the RUR-denominated tariff plans using December 31, 2007 CBR rate):

Tariff	Tariff elements	State-financed institutions	Corporate subscribers	Individual subscribers*
Per-minute plan	monthly fee	RUR 136 (USD 5.54)	RUR 160 (USD 6.52)	RUR 125 (USD 5.09)
	per-minute charges	RUR 0.28 (USD 0.01)	RUR 0.28 (USD 0.01)	RUR 0.28 (USD 0.01)
Combined plan	monthly fee	RUR 240 (USD 9.78)	RUR 264 (USD 10.76)	RUR 229 (USD 9.33)
	prepaid minutes included in monthly fee	370	370	370
	per-minute charges for each additional minute	RUR 0.23 (USD 0.01)	RUR 0.23 (USD 0.01)	RUR 0.23 (USD 0.01)
Unlimited plan	monthly fee	RUR 438 (USD 17.84)	RUR 502 (USD 20.45)	RUR 380 (USD 15.48)

*Tariffs for individual subscribers include VAT. VAT rate prevailing in 2007 and 2006 was 18%.

Effective December 1, 2007, the number of prepaid minutes included in the combined plan was increased from 370 to 450. Furthermore, effective February 1, 2008, combined plan per-minute charges for additional minutes were increased from RUR 0.23 to RUR 0.24 for all categories of subscribers, and the unlimited plan monthly fee decreased from RUR 380 to RUR 345 for individual subscribers.

Before January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. During the years ended December 31, 2007 and 2006, MGTS received compensation from the federal budget in the amount of approximately $36.6 million and $25.8 million, respectively, which has been included in revenues for the respective years. As of December 31, 2007 MGTS' claims to the federal budget in respect of aforementioned reimbursements were fully satisfied.

In accordance with the legislation effective January 1, 2005, substantially all MGTS' subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

Historically, the Group has entered into interconnect agreements, under which the Group provides services to, and receives services from, other operators for a fixed periodic fee, regardless of the volume of the outgoing or incoming traffic. Revenues and expenses under these agreements are recognized in the amount of the net fixed fee receivable or payable by the Group. Following the introduction of the new interconnect rules in 2006, these arrangements are being phased out and replaced with agreements under which the Group bills its counterparties for the use of its network and pays other operators for the calls of its subscribers to other operators' customers. Revenues under these arrangements are recognized in the amounts receivable by the Group and expenses are recorded for charges payable by the Group.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various highly liquid instruments with original maturities of three months or less.

Fair Value of Financial Instruments
Financial instruments carried on the balance sheet include cash and bank balances, receivables, investments, accounts payable, capital lease obligations, debt and a liability under a call and put option granted in connection with acquisition of Svyazinvest shares (see Note 15). The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Short-term financial instruments consist primarily of cash and bank balances, receivables, short-term investments, payables, short-term debt and a call and put option. The estimated fair value of such financial instruments as of December 31, 2007 approximated their carrying value.

Long-term financial instruments consist primarily of long-term investments and long-term debt.
It is not practicable for the Group to estimate the fair values of all of its long-term investments, as quoted market prices are not readily available and, due to nature of the investments, valuations are not being completed or obtained.

Fair values of corporate bonds issued by MGTS are disclosed in Note 13. As of December 31, 2007, the fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

The Group does not discount promissory notes of and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value. The estimation of Group's fair value of financial instruments with related parties is not practicable based on the nature of underlying transactions.

Short-Term Investments
Short-term investments represent investments in promissory notes, loans and time deposits, which have original maturities in excess of three months and mature within twelve months from the balance sheet date. These investments are being accounted for at amortized cost. Management periodically assesses the recoverability of the carrying values of the investments and, if necessary, records impairment losses to write the investment down to fair value. For the years ended December 31, 2007 and 2006, no such impairments have occurred.

Accounts Receivable
Accounts receivable are stated net of allowance for doubtful accounts. Such allowance reflects either specific cases or estimates based on evidence of collectibility.

Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

Prepaid Expenses
Prepaid expenses are primarily comprised of advance payments for inventories, spare parts and services to vendors.

Value-Added Taxes
VAT related to sales are payable to the tax authorities upon provision of services and issuance of an invoice to the customer. VAT incurred for purchases ("VAT recoverable") may be reclaimed, subject to certain restrictions, against VAT related to sales. Management periodically reviews the recoverability of the balance of VAT recoverable and believes that the amounts reflected in the financial statements are fully recoverable within one year.

Inventories and Spare Parts
Inventories and spare parts are primarily comprised of goods for resale, cables and spare parts and are stated at the lower of cost or market value. Cost is computed on a weighted average basis. The management periodically assesses inventories and spare parts for obsolete or slow moving stock and writes down such inventories and spare parts to their market value.

Property, Plant & Equipment
For the entities acquired by the Group in the course of merger described in Note 1, property, plant and equipment ("PP&E") were assigned their fair values at the date of acquisition by Sistema. For the entities acquired by the Group subsequent to the merger described in Note 1, PP&E were assigned their fair values at the date of acquisition by the Group. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent purchases of PP&E have been recorded at cost.

Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, except for rental costs, as well as major expenditures for improvements and replacements which extend useful lives of the assets or increase their value or revenue generating capacity. Repairs and maintenance are charged to the statements of operations as incurred. Interest expense incurred during the period of construction of the qualifying assets is capitalized as part of property, plant and equipment until the project is completed and the asset is placed into service. Interest expense capitalized for the years ended December 31, 2007 and 2006 amounted to $15.7 million and $0.9 million, respectively.

Property, plant and equipment items transferred to MGTS free of charge (Note 17) are capitalized at their fair value at the date of transfer and deferred revenue is recorded and amortized to the consolidated statements of operations over the contributed asset's useful life.

The Group accounts for leases based on the requirements of SFAS No. 13, "Accounting for Leases". Leases are classified as capital leases whenever terms of the lease transfer substantially all of the benefits and rewards incident to the ownership. All other leases are classified as operating leases. Capital leases are recorded at the fair market value of the asset or the present value of future minimum lease payments, whichever is lower. The discount rate used in determining the present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to obtain the implicit rate computed by the lessor and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the consolidated statement of operations.

Property, plant and equipment are depreciated on a straight-line method over the estimated useful lives of the assets as follows:

Buildings and constructions	20–47 years
Cables and transmission devices	10–31 years
Other telecommunication equipment*	7–17 years
Office equipment and other	3–25 years

* Analogue switching equipment of MGTS is depreciated over the remaining useful lives ranging from 1 to 5 years.

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when such renewals are reasonably assured.

Construction in-progress and equipment for installation are not depreciated until an asset is placed into service.

Asset Retirement Obligations

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or contractual obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2007 and 2006, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

Intangible Assets and Goodwill

For the entities acquired by the Group in the course of merger described in Note 1, intangible assets were assigned their fair values at the date of acquisition by Sistema. For the entities acquired by the Group subsequent to the merger described in Note 1, intangible assets were assigned their fair values at the date of acquisition by the Group. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including intangible assets, were reduced by such excess. All subsequent purchases of intangible assets have been recorded at cost.

Current operating licenses of the Group do not provide for automatic renewal upon expiration. As the Group and the industry do not have sufficient experience with the renewal of licenses, license costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the license period starting from the date network in such license area becomes commercially operational. Amortization of other finite-life intangible assets, comprised mostly of billing systems and other software, is computed on a straight-line basis over their estimated useful lives, generally five years.

The goodwill recorded in connection with the acquisition of subsidiaries is not amortized but tested for impairment at least annually.

Impairment of Long-Lived Assets

The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets.

When these undiscounted cash flows are less than the carrying amounts of the assets, the Company records impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets.

Investments

Investments in businesses in which the Group does not have control, but exercises significant influence over operating and financial policies ("affiliates"), are accounted for using the equity method.

Investments in corporate shares where the Group does not have the ability or intent to control or exercise significant influence over operating and financial policies are accounted for at cost of acquisition. Management periodically assesses the ability to recover the carrying values of such investments and records an impairment loss if, based upon the expected undiscounted cash flows, such investment's carrying value will not be recovered. Any such impairment loss is based upon recording as a new carrying amount of the investment, the lesser of the historical carrying amount and the expected discounted future cash flows.

The promissory notes purchased and loans granted by the Group are carried at cost and a discount against the nominal value is accrued over the period to maturity, if it exceeds one year. A provision is made, based on management's assessment, for notes and loans that are considered uncollectible.

Deferred Finance Charges

Arrangement, commission, commitment and related legal fees paid to secure a firm commitment from lenders and other direct debt issuance costs incurred in connection with new borrowings are deferred and amortized over the expected terms of the related loans using the effective-interest method.

Income Taxes

Income taxes have been computed in accordance with the laws of the country of incorporation of respective companies included in the Group. Statutory income tax rates in the RF, Ukraine and Republic of Armenia equal 24%, 25% and 10%, respectively. Income tax rate on dividends paid within Russia is 9%.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On January 1, 2007, the Group adopted the provisions of the FASB Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes" — an interpretation of FASB Statement No. 109. FIN No. 48 removes income taxes from the scope of SFAS No. 5, "Accounting for Contingencies", creates a single model to address uncertainty in tax positions and prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement and classification of tax positions, accounting for interest and penalties, disclosure and transition. The adoption of FIN No. 48 resulted in the cumulative effect debit adjustment to the retained earnings as of January 1, 2007 of approximately $2.4 million. Included in trade accounts payable, accrued expenses and other current liabilities as of December 31, 2007 is a total of approximately $4.7 million of unrecognized income tax benefits. The management considers it reasonably possible that approximately $0.8 million of the unrecognized income tax benefit will be reversed within the next twelve months due to expiration of the statute of limitations.

The Company classifies accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense.

Retirement Benefit and Social Security Costs

In Russia, all social contributions, including contributions to the pension fund, are included in the unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the Pension Fund of the Russian Federation, where the rate of contributions vary from 20% to 2%, depending on the annual gross salary of each employee. UST contributions are expensed as incurred.

MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (see Note 16). The Group accounts for pension plans in accordance with the requirements of SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106" and SFES No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106, and 132(R).

Advertising Costs

Advertising costs are expensed as incurred and are reflected as a component of operating expenses in the statements of operations (see Note 20).

Subscriber Acquisition Costs

Subscriber acquisition costs represent the direct costs incurred to connect each new subscriber including dealer's commissions. The Group expenses these costs as incurred.

Distributions to Shareholders

Dividends are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of Comstar UTS and may differ from amounts calculated on the basis of US GAAP (see Note 18).

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of the call and put option using the treasury stock method. Net income available to Comstar UTS's shareholders for each period is divided by the weighted average number of common shares outstanding during the respective period.

The following table reconciles numerator (income) and denominator (shares) of the EPS calculation for the year ended December 31, 2006:

	Income ('000 USD)	Shares (units)	EPS (USD)
EPS – basic	$ 82,496	345,805,894	$ 0.24
Effect of call and put option (Note 15)	–	277,962	(0.00)
EPS – diluted	82,496	346,083,856	0.24

The following table reconciles numerator (income) and denominator (shares) of the EPS calculation for the year ended December 31, 2007:

	Income ('000 USD)	Shares (units)	EPS (USD)
EPS – basic	$ 43,813	361,394,049	$ 0.12
Effect of call and put option (Note 15)	–	12,094,838	(0.00)
EPS – diluted	43,813	373,488,887	0.12

Employee stock options (see Note 25) were outstanding for the period from November 15, 2006 until December 31, 2006 and during the year ended December 31, 2007 but were not included in the computation of diluted EPS because the effect of these options is anti-dilutive.

Comprehensive Income

Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Stock-Based Compensation

The Group accounts for stock-based compensation in accordance with provisions of SFAS No. 123R (revised 2004), "Share-Based Payment". Under SFAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the income statement. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted using a Black-Scholes option pricing model and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments. The Company adopted SFAF No. 123R effective January 1, 2006 in connection with the stock-based compensation plan approved in 2006 (see Note 25).

Derivative Financial Instruments (Call and Put Option)

The Company accounts for the call and put option granted in connection with acquisition of 25% plus one share stake in Svyazinvest (see Note 15) in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity".

Comparative Information

Certain prior year amounts and disclosures have been reclassified to conform to the 2007 presentation.

New Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157 ("SFAS No. 157"), "Fair Value Measurements". The standard provides guidance for using fair value to measure assets and liabilities and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. Management believes that the adoption of SFAS No. 157 will not have a material effect on the Company's financial statements.

In September 2006, the FASB issued FASB Statement No. 158 ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS No. 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS No. 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The adoption of SFAS No. 158 did not have a material effect on the Company's financial statements.

In February 2007, the FASB issued FASB Statement No. 159 ("SFAS No. 159"), "The Fair Value Option for Financial Assets and Financial Liabilities" — including an amendment of FASB Statement No. 115, which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or FVO). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements, and (3) elects to apply the provisions of FASB Statement No. 157, "Fair Value Measurements". The Group adopted the provisions of SFAS No. 159 effective January 1, 2008. Management has decided not to designate any additional financial instruments to be accounted for at the fair value effective January 1, 2008 and therefore believes that the adoption will not have a material impact on the Company's financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007) ("SFAS No. 141R"), "Business Combinations", which significantly changes the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling (minority) interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Retrospective application and early adoption of SFAS No. 141R is prohibited. Management believes that SFAS No. 141R will have an impact on the accounting for future business combinations once adopted but the effect cannot be quantified at the moment.

In December 2007, the FASB issued FASB Statement No. 160 ("SFAS No. 160"), "Noncontrolling Interests in Consolidated Financial Statements", which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires that a noncontrolling interest in a subsidiary (minority interest) should be reported as equity in the consolidated financial statements separately from the parent company's equity. Among other requirements, this statement requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. This statement is effective on January 1, 2009. Management is currently evaluating the provisions of SFAS No. 160 to determine the potential impact, if any, the adoption will have on the Company's financial statements.

In March 2008, the FASB issued FASB Statement No. 161 (SFAS No. 161), "Disclosures about Derivative Instruments and Hedging Activities". The new standard requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial statements. SFAS No. 161 becomes effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on the Company's financial statements.

3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATES

Acquisitions of controlling interests in regional fixed line operators

In 2007 and 2006, as a part of its program of regional expansion, the Group has acquired controlling interests in a number of alternative fixed-line operators in certain regions of Russia, Republic of Armenia and Ukraine. The acquisitions were accounted for using the purchase method of accounting.

The following table summarizes the purchase price allocation of the companies acquired during the year ended December 31, 2007:

	Sochitelecomservice	DTN*	RTC*	Comstar Ukraine**	Total
Month of acquisition	August	November	December	May	
Ownership interest acquired	100%	100%	88%	25%*	
Region of operations	Krasnodar region	Rostov region	Khanty Mansiisk and Orenburg Regions	Ukraine	
Current assets	$ 51	$ 11,377	$ 13,492	–	$ 24,920
Property, plant and equipment	114	121,856	6,854	–	128,824
Subscriber base	232	74,493	15,155	–	89,880
Goodwill	451	–	–	543	994
Current liabilities	(98)	(6,431)	(3,615)	–	(10,144)
Non-current liabilities	–	(34,139)	(3,637)	–	(37,776)
Minority interests	–	–	(2,123)	424	(1,699)
Purchase price	**$ 750**	**$ 167,156**	**$ 26,126**	**967**	**$ 194,999**

* The purchase price allocation of DTN and RTC has not been finalized as of the date of these financial statements.
** Acquisition of a minority interest in the existing subsidiary, Comstar Ukraine.

The following table summarizes the purchase price allocation of the companies acquired during the year ended December 31, 2006:

	M-Telecom Holding*	Callnet and Cornet	DG Tel, Technologic Systems, Degre, Neophone	MTU-Inform	MGTS	Total
Month of acquisition	June	October	October	February	various	
Ownership interest acquired	100%	75%	100%**	1%***	11.26% voting and 9.39% total shares***	
Region of operations	Moscow region	Republic of Armenia	Ukraine	Moscow	Moscow	
Current assets	$ 754	$ 1,080	$ 514	$ –	$ (903)	$ 1,445
Property, plant and equipment	2,900	407	2,409	–	49,229	54,945
Subscriber base	–	–	–	375	6,080	6,455
Licenses	–	5,252	3,179	–	–	8,431
Other intangible assets	–	–	1,457	–	6,713	8,170
Goodwill	4,353	–	–	–	–	4,353
Other non-current assets	335	–	–	–	–	335
Current liabilities	(530)	(963)	(852)	–	2,859	514
Non-current liabilities	–	(1,196)	(2,897)	–	123	(3,970)
Treasury stock	–	–	–	–	21,759	21,759
Minority interests	–	(133)	(430)	2,277	95,498	97,212
Purchase price	**$ 7,812**	**$ 4,447**	**$ 3,380**	**$ 2,652**	**$ 181,358**	**$ 199,649**

* A company holding a 100% stake in Astelit, an alternative fixed line operator based in the Moscow Region.
** The shares were acquired through a 75%-owned subsidiary Comstar-Ukraine.
*** Acquisition of minority interests in the existing subsidiaries. Acquisition of a 1% minority interest in MTU-Inform was executed to streamline the legal merger of MTU-Inform and Comstar-UTS (see Note 1). Acquisition of a minority stake in MGTS was executed as a part of Comstar's strategy to maximize control over its key subsidiaries.

The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. The excess purchase price over the fair value of the net assets acquired of approximately $4.4 million has been assigned to goodwill which is not deductible for tax purposes. Licenses and subscriber base are amortized over 10-year and up to 31-year periods, respectively. Other intangible assets primarily represent non-amortizable numbering capacity and a trademark.

Acquisition of a 25% stake plus one share in Svyazinvest

In December 2006, as a part of its program of regional expansion, the Group acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company ("Svyazinvest") from Mustcom Limited for a total consideration of approximately $1,390.0 million, including cash of $1,300.0 million and the fair value of the call and put option of $90.0 million (see Note 15). In a series of transactions, Comstar UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest.

Based on the analysis of all relevant factors, the management has determined that the acquisition of 25% plus one share of Svyazinvest does not allow the Group to exercise significant influence over this entity. Accordingly, the Group accounts for its investment in Svyazinvest under the cost method. Due to lack of consolidated financial statements of Svyazinvest prepared in accordance with US GAAP as of December 31, 2007 or earlier date, the Group is unable to present summarized information as to assets, liabilities and results of operations of Svyazinvest.

Disposal of shares in Metrocom

In March 2007, Comstar UTS sold its 45% stake in Metrocom (see Note 11) to a third party for a total cash consideration of $20.0 million.

Acquisition of minority interest in Golden Line

In April 2007, as a part of reorganization of Moscow and the Moscow Region operations of the Group, Comstar UTS has acquired 100% shares in Golden Line from Comstar-Direct, a 52%-owned subsidiary of the Group, thus increasing its effective shareholding in Golden Line to 100%. The acquisition has been accounted for at cost with excess of the book value of the net assets acquired over the purchase price, net of income taxes, recorded as an increase in the additional paid-in capital of the Group.

Pro-forma results of operations (unaudited)

The following pro-forma financial data for the years ended December 31, 2007 and 2006 give effect to the acquisition of subsidiaries and minority interests discussed above as if they had occurred as of January 1, 2006:

	2007	2006
Operating revenues	$ 1,562,385	$ 1,174,061
Operating income	485,333	254,891
Net income	66,211	127,984

The pro-forma information is based on various assumptions and estimates and is not necessarily indicative of the operating results that would have occurred if the Group's acquisitions had been consummated at the beginning of the respective period, nor is it necessarily indicative of future operating results. The pro-forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Cash	$ 82,992	$ 48.816
Cash equivalents:		
Promissory notes of MBRD	32,592	–
Deposits	63,964	87,579
Other	246	226
Total	**$ 179,794**	**$ 136,621**

Cash and cash equivalents with the Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema, as of December 31, 2007 and 2006 amounted to $66.8 million and $87.5 million, respectively. Interest income earned on cash and cash equivalents and short-term investments in MBRD is disclosed in Note 23.

5. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2007 and 2006 consisted of the following:

	Interest rate at December 31, 2007	2007	2006
RUR-denominated time deposits in MBRD		$ –	$ 8,888
USD-denominated time deposits in MBRD		–	7,940
RUR-denominated time deposits in other banks	7%	414	26,123
USD-denominated time deposits in other banks	7%	10,005	–
RUR-denominated promissory notes of other banks	5–8%	40,129	–
Funds transferred to the investment broker		95,821	–
Loan to Remstroytrest	10%	37,196	–
Promissory notes of and loans to other subsidiaries and affiliates of Sistema:			
Sky Link (see Note 11)	11%	12,741	–
Sistema Hals	9%	19,975	
MBRD	7–9%	209,648	24,711
Total		**$ 425,929**	**$ 67,662**

Interest income earned on cash and cash equivalents and short-term investments in MBRD and other related parties is disclosed in Note 23.

In 2007, the Group has transferred cash to the investment broker as part of a planned acquisition of a telecommunication company. Due to the changes in market conditions, as of December 31, 2007 and the date of the financial statements, the transaction has not been completed. Management believes that possibility that the transaction will be successfully closed is remote and expects that the deposit will be returned in cash in 2008.

The loan to Remstroytrest is guaranteed by Sistema Hals, a subsidiary of Sistema.

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Receivables from individuals	$ 55,677	$ 20,839
Receivables from legal entities	130,768	95,168
Provision for doubtful receivables	(23,417)	(20,139)
Total	**$ 163,028**	**$ 95,868**

Trade receivables as of December 31, 2007 and 2006 include receivables from subsidiaries and affiliates of Sistema of $18.8 million and $7.1 million, respectively.

7. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
VAT recoverable	$ 28 124	$ 28,048
Prepaid taxes	23 769	23,913
Prepayments	16 301	9,967
Other receivables	33 474	25,726
Total	**$ 101,668**	**$ 87,654**

Included in other receivables as of December 31, 2007 is $17.4 million of receivables from Sistema Mass Media, a subsidiary of Sistema (see Note 23).

8. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Equipment for resale	$ 16,978	$ 9,988
Spare parts and other materials	24,350	23,752
Total	**$ 41,328**	**$ 33,740**

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Buildings and constructions	$ 384,990	$ 335,493
Telecommunications equipment and cable	1,468,033	1,110,934
Other fixed assets	303,071	267,857
Construction in-progress and equipment for installation	365,080	251,979
Property, plant and equipment, at cost, total	2,521,174	1,966,263
Less: accumulated depreciation	(614,062)	(488,934)
Property, plant and equipment, net	**$ 1,907,112**	**$ 1,477,329**

The depreciation charge for the years ended December 31, 2007 and 2006, net of amortization of property, plant and equipment contributions (see Note 17), amounted to $145.5 million and $110.6 million, respectively.

10. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2007 and 2006 consisted of the following:

		2007			2006		
	Weighted average amortization period, years	Gross carrying value	Accu-mulated amorti-zation	Net carrying value	Gross car-rying value	Accu-mulated amorti-zation	Net carrying value
Billing systems and other software	4	$ 124,702	$ (62,717)	$ 61,985	$ 84,171	$ (38,772)	$ 45,399
Customer base	12	106,751	(6,467)	100,284	15,524	(1,222)	14,302
Licenses	3	13,128	(4,180)	8,948	11,566	(169)	11,397
TV content	6	1,420	(543)	877	8,272	(2,820)	5,452
Goodwill	–	4,209	–	4,209	3,459	–	3,459
Other	4	23,042	(8,339)	14,703	16,276	(4,450)	11,826
Total intangible assets	**7**	**$ 273,252**	**(82,246)**	**191,006**	**$ 139,268**	**$ (47,433)**	**$ 91,835**

Amortization expense recorded on intangible assets for the years ended December 31, 2007 and 2006 amounted to $32.4 million and $20.3 million, respectively. Based on the intangible assets existing at December 31, 2007, the estimated amortization expense for each of the five succeeding years is as follows: 2008 — $37.5 million; 2009 — $26.6 million; 2010 — $24.3 million; 2011 — $23.3 million and 2012 — $18.6 million.

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

During the year ended December 31, 2007, the Group has sold to Sistema Mass Media, a subsidiary of Sistema, certain TV content (see Note 23).

11. OTHER LONG-TERM INVESTMENTS

Other long-term investments as of December 31, 2007 and 2006 consisted of the following:

	2007		2006	
	Ownership, %	Investment	Ownership, %	Investment
Investments in shares				
MBRD	4.56%	$ 6,466	5.35%	$ 6,028
Metrocom (see Note 3)	–	–	45%	16,164
Sistema Mass Media	3%	4,751	–	–
TS-Retail	15%	2,105	–	–
Coral-Sistema Strategic Fund	10%	860	–	–
Other	various	1,127	various	1,418
Total investments in shares		15,309		23,610
Other investments				
Promissory notes of Sistema Telecom		58,319		55,296
Loans to and notes of Sky Link and subsidiaries, related parties (see also Note 5)		–		27,222
Advance to the Moscow City Government		11,203		10,400
Loan to Intellect Telecom		6,355		–
Advance to investment broker for acquisitions of subsidiaries		3,598		–
Other		4,947		1,960
Total other investments		84,422		94,878
Grand total		**$ 99,731**		**$ 118,488**

In 2007, MBRD issued additional stock. The Group did not acquire any stocks issued. Accordingly, its ownership interest in MBRD was diluted from 5.35% to 4.56%.

In October 2007, Golden Line contributed an office building with net book value of $4.8 million in the charter capital of Sistema Mass Media, a subsidiary of Sistema.

In September 2007, Comstar invested $2.1 million in cash in TS-Retail, a retail start-up jointly owned by several subsidiaries of Sistema. The Group plans to use TS-Retail as one of the distribution channels.

In September 2007, Comstar invested $0.9 million in cash in Coral-Sistema Strategic Fund (CSSF), a limited liability partnership owned by Sistema and several of its subsidiaries which is managed by Coral Capital Management. Comstar committed to invest a further $6.6 million in CSSF. CSSF will be investing in companies with strategic value to Comstar and other subsidiaries of Sistema.

Promissory notes of Sistema Telecom, a subsidiary of Sistema, include $36.7 million of RUR-denominated notes, which bear interest of 4.4% per annum, and $21.6 million of USD-denominated notes, which bear interest of 3.0% per annum. Interest income earned on investments in Sistema Telecom's promissory notes is disclosed in Note 23.

In 2006, the management of Sky Link, an affiliate of Sistema, started negotiations to extend the term of the repayment of certain receivables, loans and notes, the majority of which were overdue as of December 31, 2006. In 2007, the agreement has been reached in respect of such receivables, loans and notes totalling $29.5 million as of December 31, 2007, which will be repaid by Sky Link, together with interest charged at 10% and 11% p.a., depending on instrument, on various dates in 2008 and 2009. The negotiations in respect of the remaining portion of Skylink promissory notes and loans have not yet resulted in a firm repayment schedule. Due to historically experienced delays in payments as they become due and requests to extend maturity of the amounts owed made by Sky Link over the last several years, management believes that recoverability of the long-term portion of Sky Link debt is doubtful in the foreseeable future. Accordingly, in 2007 management has recorded a provision for impairment of the long-term portion of Sky Link debt for the amount of $21.1 million.

In connection with the long-term program of digitalization of MGTS' network (see Note 24) and planned renovation and disposal of certain MGTS' buildings, during the fourth quarter of 2005, MGTS has made an advance payment to the Moscow City Government, which will be offset against the future liability of MGTS to provide the Moscow City Government with its share in the buildings when their reconstruction is complete and the sales commence.

In July 2007, MGTS granted a 156.0 million ruble ($6.4 million as of December 31, 2007) loan to Intellect Telecom, a subsidiary of Sistema. The loan bears interest at 7% per annum and is repayable in 2012.

12. TRADE ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Trade accounts payable, accrued expenses and other current liabilities as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Trade accounts payable	$ 56,580	$ 51,023
Accrued payroll	48,068	24,034
Taxes payable	26,772	12,999
Accounts payable for the acquisition of property, plant and equipment	20,830	5,975
Liability under employee stock option program (see Note 25)	10,948	–
Accrued interest	1,775	2,542
Dividends payable	893	368
Other current liabilities	13,088	16,712
Total	**$ 178,954**	**$ 113,653**

Trade accounts payable, accrued expenses and other current liabilities as of December 31, 2007 and 2006 include payables from subsidiaries and affiliates of Sistema of $16.5 million and $14.0 million, respectively.

13. DEBT OBLIGATIONS

The Group's debt obligations as of December 31, 2007 and 2006 consisted of the following:

	Currency	Annual interest rate (actual at December 31, 2007)	2007	2006
MGTS Bonds 5th issue	RUR	7.1%	$ 29,338	$ 55,842
MGTS Bonds 4th issue	RUR	7.1%	59,903	27,533
Total corporate bonds			89,241	83,375
Sberbank credit line facility	RUR	7.6%	877,689	–
ABN Amro and Morgan Stanley	USD	LIBOR+1.2%	–	675,000
Citibank	USD	LIBOR+1.6%	–	17,117
MBRD	Euro	EURIBOR+2.75% (7.46%)	2,183	2,526
VTB	Euro	various	18,984	21,428
Commerzbank	Euro	4.0%	2,247	2,337
Vendor financing	various	various	3,158	6,001
Other	various	various	1,295	3,582
Total debt			994,797	811,366
Less: amounts maturing within one year			(103,476)	(777,837)
Debt, net of current portion			**$ 891,321**	**$ 33,529**

Corporate bonds

In April 2004, MGTS issued 5-year RUR-denominated bonds (fourth issue) with the face value of RUR 1,500 million (equivalent to $61.1 million as of December 31, 2007). The bonds carried a coupon of 10.0% per annum, which was decreased to 7.1% per annum in April 2006. MGTS made unconditional offers to repurchase the bonds at par value in April 2006 and April 2007, which were exercised in the amounts of approximately $30.1 million and $0.2 million, respectively. The interest rate will be re-set, at management discretion, in April 2009.

In May 2005, MGTS issued 5-year RUR-denominated bonds (fifth issue) with a face value of RUR 1,500 million (equivalent to $61.1 million as of December 31, 2007). The bonds carried a coupon of 8.3% per annum during the two years ending April 2007, and carries a coupon of 7.1% per annum further until May 2008, when the interest rate will be re-set at management discretion. In June 2006, the Group repurchased the bonds at par value for the amount of $0.6 million.

Currently, MGTS has an unconditional outstanding offer to repurchase the fourth and the fifth issues of the bonds at par in April and May 2008, respectively. Accordingly, both issues are classified as current liabilities in the accompanying consolidated balance sheet as of December 31, 2007.

As of December 31, 2007, the total fair value of the bonds was approximately $89.2 million.

Sberbank Credit Line Facility

In June 2007, Comstar UTS entered into a non-revolving credit line facility with Sberbank for the amount of RUR 26.0 billion (equivalent of $1,059.2 million as of December 31, 2007). In June 2007, Comstar UTS has drawn down approximately RUR 17.4 billion (equivalent of $675.0 million as of the date of the drawdown) under this facility and used the proceeds to repay a $675.0 million loan from ABN Amro and Morgan Stanley. In November 2007, Comstar UTS has drawn additional RUR 4.1 billion (equivalent of $167.4 million as of the date of the drawdown) under this facility to finance the acquisition of a 100% stake in DTN (see Note 3). The facility bears interest at 7.6% per annum and is repayable in equal quarterly installments from September 2009 until June 2012 and is secured by a pledge of a 25% plus one share stake in Svyazinvest (see Note 3). Deferred financing costs of approximately $1.5 million were capitalized in connection with this facility. As of December 31, 2007, approximately RUR 4.5 billion (equivalent of approximately $181.5 million) under the facility remains undrawn.

ABN Amro and Morgan Stanley

In December 2006, to finance the acquisition of a 25% plus one share stake in Svyazinvest (see Note 3), Comstar UTS entered into a credit facility with ABN Amro Bank and Morgan Stanley for the amount of $675.0 million. The facility bore interest at LIBOR+1.2% per annum (6.56% as of December 31, 2006) and was repaid in June 2007. Deferred financing costs of approximately $4.1 million were capitalized in connection with this facility.

Citibank

In 2003-2006, MGTS entered into four credit facilities with Citibank for a total amount of $25.1 million. These credit facilities were opened to finance the acquisitions of equipment from STROM Telecom, a subsidiary of Sistema. All facilities bore interest of LIBOR+1.6% per annum and were repaid by MGTS ahead of schedule.

MBRD

In July 2006, MGTS entered into a credit agreement with MBRD for an amount of Euro 2.1 million (equivalent of $3.1 million as of December 31, 2007) to finance the acquisition of equipment. The loan is repayable in equal semi-annual installments in 2006–2011 and bears interest at EURIBOR+2.75% per annum (7.46% as of December 31, 2007).

VTB

In January 2006, MGTS entered into a credit agreement with VTB bank (formerly known as Vneshtorgbank) for an amount of Euro 7.7 million (equivalent of $11.3 million as of December 31, 2007) to finance the acquisition of equipment. The loan matures in January 2012 and bears interest at EURIBOR+5.0% per annum (9.71% as of December 31, 2007). As of December 31, 2007, the amount outstanding under the agreement was $10.2 million.

In March 2005, MGTS entered into a credit agreement with VTB for an amount of Euro 5.3 million (equivalent of $7.8 million as of December 31, 2007) to finance the acquisition of equipment. The loan matures in September 2010 and bears interest at EURIBOR+5.0% per annum (9.71% as of December 31, 2007). As of December 31, 2007, the amount outstanding under the agreement was $4.6 million.

In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $10.7 million as of December 31, 2007) to finance the acquisition of equipment.
The loans mature in January 2010 and bear interest at the highest of EURIBOR+5.35% (10.1% as of December 31, 2007) or 7.5% per annum. As of December 31, 2007, the amount outstanding under the agreements totalled $4.3 million. In 2008, MGTS fully repaid these loans ahead of schedule.

In December 2007, MGTS and VTB dissolved the agreements under which the acquired equipment financed by these loans was pledged to collateralize the outstanding balances under the credit agreements. Accordingly, as of December 31, 2007, VTB loans are not secured.

Commerzbank

In December 2004, Sistema Multimedia (subsequently merged into MTU-Intel which was then renamed to Comstar-Direct, see Note 1) entered into a credit facility agreement with Commerzbank for Euro 5.5 million (equivalent of $8.1 million as of December 31, 2007). The loan bears interest at 4.0% per annum and matures in 2010.

Vendor financing

Suppliers of telecommunications equipment provide uncollateralized commercial credit to the Group denominated in various currencies on the short-term and long-term basis.

Debt Repayments Schedule
The debt repayments over future periods are as follows:

Year ended December 31,	
2008	$ 103,476
2009	151,138
2010	296,629
2011	295,131
2012	148,423
Total	**$ 994,797**

Compliance with Covenants and Other Restrictive Provisions
Loans from Sberbank effective as of December 31, 2007 impose certain covenants and restrictions on the Company, including but not limited to restrictions on Debt to Operating Income before Depreciation and Amortization ("OIBDA") ratio. Management believes that as of December 31, 2007, the Group is in compliance with all existing restrictive provisions and covenants of its debt obligations which could cause the technical default on the Group's obligations in case of non-compliance.

14. CAPITAL LEASE OBLIGATIONS

MGTS entered into several agreements for the lease of telecommunication equipment with InvestSvyazHolding, a subsidiary of Sistema. The agreements expire on various dates in 2008-2009 and provide for transfer of ownership of the equipment to the Group after the last lease payment is made.

In February 2005, Sistema Multimedia entered into an agreement for the lease of equipment with BSGV Leasing. After the legal merger with MTU-Intel in December 2005, the rights and obligations under the agreement were transferred to MTU-Intel (renamed Comstar-Direct in November 2006). In 2007, the Group made an early repayment of the lease and obtained the title to this equipment.

The net book value of leased assets approximated $55.8 million and $56.7 million as of December 31, 2007 and 2006, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2007 and 2006 amounted to $2.4 million and $3.8 million, respectively.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2007:

Year ended December 31,	
2008	$ 11,443
2009	5,501
2010	952
Total minimum lease payments (undiscounted)	17,896
Less: amount representing interest	(1,386)
Total present value of net minimum lease payments	**$ 16,510**

15. DERIVATIVE FINANCIAL INSTRUMENTS

Simultaneously with the acquisition of the 25% stake plus one share in Svyazinvest (see Note 3), MGTS Finance S.A. and "2711 Centerville Cooperatief U.A." ("2711 UA"), an affiliate of Mustcom Limited, signed a call and put option agreement, which gives 2711 UA a right to purchase 46,232,000 shares of Comstar UTS, representing 11.06% of total issued shares, from MGTS Finance S.A, and sell them back to MGTS Finance S.A. The call option acquired by 2711 UA could be exercised at a strike price of USD 6.97 per share at any time following the signing of the agreement with respect to 10.5% of Comstar UTS' shares. The call option for the remaining 0.56% stake could be exercised at any time beginning from April 1, 2007. The call option was to expire in one year from the date of signing of the agreement. 2711 UA may exercise its put option at any time within two years from the date of exercising the call option at a strike price, which will be calculated based on a weighted average price of Comstar UTS' GDRs during the 90 trading days period preceding the exercise of the put.

Fair value of the call and put option as of December 11, 2006, the grant date, was estimated at $90.0 million and included in cost of investment in Svyazinvest. The Group estimates the fair value of the respective liability using an option pricing model and re-measures it as of each balance sheet date. Respective gains and losses are included in the statement of operations for the period and amounted to $60.0 million loss for the year ended December 31, 2006.

On December 7, 2007, Access Telecommunications Cooperatief U.A. (previously known as 2711 UA) has exercised the call option for 46,232,000 shares and paid $322.2 million in cash to the Group. Fair value of the put option outstanding as of December 31, 2007 amounted to $88.0 million. Loss from revaluation of the call and put option for the period from January 1, 2007 till December 7, 2007 and the remaining put option for the period from December 7 till December 31, 2007 totalled $145.9 million and was included in the statement of operations for the year ended December 31, 2007.

16. RETIREMENT AND POST-RETIREMENT OBLIGATIONS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards, which include monthly regular pension, death-in-service payments, lump-sum upon retirement payments, death-while-pensioner payments and 50% monthly telephone subsidy for the pensioners who served more than 30 years at MGTS. As of December 31, 2007, there were 13,828 active employees eligible to the program. The pension plan is terminally funded, i.e., upon retirement MGTS transfers all its obligations to a pension fund (NPF "Sistema"), a subsidiary of Sistema, and from that moment onwards has no more obligations towards the pensioner regarding the pension plan. All other program benefits are financed on a pay-as-you-go basis.

MGTS' pension obligations are measured as of December 31. The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	6.50% p.a.
Expected return on plan assets	7.11% p.a.
Increase in unit pensions and other benefits	9.20% p.a.
Discount rate used for annuity contracts calculation	7.00% p.a.
Rate at which pension payment are assumed to be indexed	0.00% p.a
Long-term inflation	5.00% p.a
Staff turnover (for ages below 50)	10.00% p.a

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2007 and 2006 are presented in the following table:

	2007	2006
Change in projected benefit obligation		
Projected benefit obligation, beginning of the year	$ 15,942	$ 18,868
Service cost	1,556	(8,538)
Interest cost	970	1,232
Plan amendments	(746)	–
Actuarial losses	18,155	6,352
Benefit payments	(1,395)	(365)
Settlement and curtailment gain	(2,676)	–
Termination benefits	4,471	–
Foreign currency translation effect	2,013	(1,607)
Projected benefit obligation, end of the year	**38,290**	**15,942**
Change in fair value of plan asset		
Fair value of plan asset, beginning of the year	5,760	2,651
Actual return on plan assets	103	337
Employer contributions	2,760	3,137
Benefits paid	(1,395)	(365)
Settlement	(1,575)	–
Foreign currency translation effect	270	–
Other	(3,450)	–
Fair value of plan assets, end of the year	**2,473**	**5,760**
Unfunded status of the plan, end of the year, net	**$ (35,817)**	**$ (10,182)**

The changes in the projected benefit obligation due to actuarial losses for the years ended December 31, 2007 and 2006 relate primarily to the changes in the discount rate and employees turnover assumptions.

Reconciliations of the unfunded status of the plan for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Unfunded status of the plan, beginning of the year	$ 10,182	$ 16,217
Net periodic benefit cost	6,894	(7,643)
Contributions made	(2,760)	(3,137)
Charge to other comprehensive income, net	16,308	–
Foreign currency translation effect	1,743	(1,607)
Other	3,450	6,352
Unfunded status of the plan, end of the year	**$ 35,817**	**$ 10,182**

The components of the net periodic benefit costs for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Service cost	$ 1,556	$ (8,538)
Interest cost	970	1,232
Return on assets	(103)	(337)
Immediate recognition of prior service cost	4,471	–
Net periodic benefit cost	**$ 6,894**	**$ (7,643)**

Service cost in the year ended December 31, 2006 represents benefit and relates primarily to decrease in the number of employees and reduction of average age of MGTS' employees.

Amounts recognized in other comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Unrecognized losses	$ 17,072	$ –
Unrecognized prior service credit	(764)	–
Total recognized in other comprehensive income	**$ 16,308**	**$ –**

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the year ending December 31, 2008 are $1.6 million and $0.1 million, respectively.

The Group's management expects contributions to the plan during the year ended December 31, 2008 to amount to $5.9 million.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2008 — $5.9 million; 2009 — $1.8 million; 2010 — $1.9 million; 2011 — $2.5 million, 2012 — $2.9 million, and $25.0 million thereafter.

In connection with reorganization and headcount reduction program adopted in 2007, management has estimated an additional liability in respect to lump-sum payments upon retirement in the projected benefit obligation ("PBO"), which resulted in an increase in PBO of approximately $9.7 million as of December 31, 2007, and revised estimated staff turnover rate, which was increased to 10% per annum. In addition, due to adoption of new motivation scheme at MGTS, estimated future increase in unit pension and other benefits was increased to 9.2% per annum, which resulted in a difference of approximately $14.3 million between PBO and accumulated benefit obligation (ABO) as of December 31, 2007. Accumulated benefit obligation as of December 31, 2007 and 2006 amounted to $24.0 million and $15.9 million, respectively.

NPF "Sistema" does not allocate any separately identifiable assets to its clients such as MGTS. Instead, it operates a pool of investments where it invests the funds from the pension solidarity and individual accounts. The pool of investments includes primarily investments in Russian corporate bonds, Russian governmental bonds and shares of Russian issuers.

17. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the Moscow city wire line network from the real estate constructors free of charge as provided by the regulations of the city government. Property, plant and equipment contributions received by MGTS during the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Unamortized property, plant and equipment contributions, beginning of the year	$ 103,793	$ 102,746
Contributions received during the year	6,299	5,387
Change in the fair value of property, plant and equipment contributions in the course of allocation of purchase price of MGTS shares (Note 3)	–	(9,561)
Currency translation effect	6,815	9,217
Amortization for the year	(4,128)	(3,996)
Unamortized property, plant and equipment contributions, end of the year	**$ 112,779**	**$ 103,793**

18. SHAREHOLDERS' EQUITY

As of December 31, 2007 and 2006, Comstar UTS' share capital comprised of 417,940,860 authorized and issued common shares with par value of 1 Russian Ruble, and amounted to $23,900. As a result of the Group's reorganization, as of December 31, 2006 MGTS and its subsidiaries owned 57,742,500 shares, or approximately 13.8% of total issued shares of Comstar UTS. In addition, as a result of shares buy-back in October-December 2006 and stock bonus granted in November 2006 (see Note 25), as of December 31, 2006 the Group owned 1,970,004 own shares in the form of GDRs, or approximately 0.5% of total issued shares. All shares of Comstar UTS owned by the Group are accounted for as treasury stock and are recorded at par value in the accompanying consolidated financial statements with the difference between par value and the cost of acquisition accounted for as a reduction to additional paid-in capital in the statement of changes in shareholders' equity.

In December 2007, under the exercise of the call option, MGTS Finance S.A. has sold 46,232,000 shares of Comstar UTS, representing 11.06% of total issued shares, to Access Telecommunications Cooperatief U.A. (see Note 15). Further, in 2007 Comstar UTS has acquired 3,500 of own shares from a shareholder who voted against the legal merger of certain subsidiaries with Comstar UTS.

As a result, as of December 31, 2007 the Group owned 13,484,004 shares (including 1,970,004 shares in the form of GDRs) of Comstar UTS.

MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as reported in the Company's Russian statutory financial statements, subject to certain restrictions. Comstar UTS had approximately $564.4 million of undistributed and unreserved earnings as at December 31, 2007.

19. OPERATING REVENUES

Operating revenues for the years ended December 31, 2007 and 2006 consisted of the following:

	2007	2006
Traditional Segment in Moscow		
Residential subscribers		
Voice	$ 516,370	$ 317,167
Value-added services	11,601	10,588
Other	3,845	4,605
Total residential subscribers	531,816	332,330
Corporate subscribers		
Voice	167,585	142,752
Access node/Trunk rental	67,884	61,327
Value-added services	15,724	14,412
Other	15,584	11,348
Total corporate subscribers	266,777	229,839
Operators		
Rent of access nodes	188,537	130,750
Rent of data transmission ports	65,145	51,721
Initiation and termination of DLD/ILD traffic	35,037	36,685
Other	25,174	19,900
Total operators	313,893	239,056
Inter-segment revenue	(127,033)	(106,145)
Total revenue of the Traditional Segment in Moscow, net	**$ 985,453**	**$ 695,080**
Alternative Segment in Moscow		
Residential subscribers		
Broadband Internet access and pay-TV	$ 104,237	$ 77,644
Dial-up Internet access	4,650	10,325
Voice and other	11,454	12,130
Total residential subscribers	120,341	100,099
Corporate subscribers		
Voice	66,686	72,639
Data and Internet	93,852	76,586
Value-added services	19,150	11,945
Other	10,244	8,015
Total corporate subscribers	189,932	169,185
Operators	142,230	119,137
Inter-segment revenue	(3,286)	(2,489)
Total revenue of the Alternative Segment in Moscow, net	**$ 449,217**	**$ 385,932**
Alternative Segment in Regions and the CIS		
Corporate subscribers	$ 52,878	$ 19,910
Residential subscribers	38,857	9,700
Operators	35,080	9,333
Other	900	292
Total revenue of Alternative Segment in Regions and the CIS, net	**$ 127,715**	**$ 39,235**
Total revenue of the Group, net	**$ 1,562,385**	**$ 1,120,247**

To comply with the new long-distance traffic routing rules which came into effect starting January 1, 2006, the companies comprising Alternative Segment in Moscow and Alternative Segment in Regions and the CIS entered into agent agreements with authorized DLD/ILD providers and started migration of its end-user customer base to the agent contracts in June 2006. As of December 31, 2006, the migration has been substantially completed. Under the agent agreements, the Group re-sells the services of authorized DLD/ILD operators, receiving a share in long-distance revenues generated by the end users from authorized operators in the form of commission. Under the old arrangements, the Group had been providing services as a principal under its own operating licenses and, accordingly, reported all DLD/ILD revenues on a gross basis, i.e. full amount earned from subscriber was shown as revenue and corresponding traffic cost was included in operating expenses. Under the new rules, the DLD/ILD revenues generated by the customers are reported on a net basis, i.e. only the commission is shown as revenue from a DLD/ILD operator with no corresponding traffic cost. The long-distance revenues from subscribers that were not yet transferred in 2006 to the agent scheme were reported on a gross basis and approximated $22.0 million for the year ended December 31, 2006.

MGTS comprising the Traditional Segment in Moscow historically has been providing DLD/ILD services to its subscribers under the agent agreement with authorized DLD/ILD operators, reporting in revenues only a commission received from authorized DLD/ILD operators. Accordingly, new long-distance traffic routing rules had no impact on the revenues of the Traditional Segment in Moscow.

Effective July 1, 2006, the Calling Party Pays rule ("the CPP rule") was introduced in Russia, under which the subscribers are to pay for outgoing calls, and all incoming calls are free of charge. Accordingly, the Group started to charge its subscribers for calls to mobile operators; respective revenue for the years ended December 31, 2007 and 2006 totalled $118.8 million and $36.3 million, respectively.

Included in residential voice revenue of the Traditional Segment in Moscow for years ended December 31, 2007 and 2006 are approximately $36.6 million and $25.8 million of cash received as compensation from the federal budget of the discounts on installation and monthly fees to certain categories of residential subscribers, such as pensioners and military veterans, granted according to the applicable legislation prior to January 1, 2005 (see Note 2).

20. OPERATING EXPENSES, EXCLUDING DEPRECIATION AND AMORTIZATION AND STOCK-BASED COMPENSATION, NET

Operating expenses, excluding depreciation and amortization and stock-based compensation for the years ended December 31, 2007 and 2006 consisted of the following:

	2007	2006
Employee costs, net of stock-based compensation	$ 353,810	$ 280,766
Interconnection and line rental	175,631	104,237
Repairs and maintenance	70,757	72,251
Advertising, selling and marketing	48,675	35,664
Taxes other than income taxes	43,232	37,813
Utilities and energy	38,746	26,598
Rent	34,482	23,013
Security services	21,417	19,418
Bank charges	18,453	12,710
Consulting	16,327	14,733
Transportation	12,016	8,767
Cost of equipment sold	9,227	11,583
IT maintenance	7,854	5,942
Insurance	7,293	6,541
Bad debt expense	5,394	11,717
Compensation of losses from the third parties	(10,778)	(9,217)
Other operating expenses, net	36,322	28,433
Total	**$ 888,858**	**$ 690,969**

Included in interconnection and line rental expenses for the years ended December 31, 2007 and 2006 are approximately $92.5 million and $28.7 million of costs incurred by the Group in connection with introduction of the CPP Rule (see also Note 19).

During the years ended December 31, 2007 and 2006 MGTS has received in-kind compensation from the third parties for the cable and other fixed assets damaged in the course of construction works in Moscow in the amount of $10.8 million and $9.2 million, respectively, which have been capitalized in the cost of property, plant and equipment.

During the year ended December 31, 2006, MGTS sold a building renovated in cooperation with the co-investor for cash consideration of approximately $22.9 million, which resulted in a gain of $7.6 million included in other operating expenses.

21. INCOME TAXES

The Group's provision for income taxes for the years ended December 31, 2007 and 2006 was as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Current income tax	$ 107,634	$ 73,075
Deferred income tax (benefit)	10,734	(653)
Total	**$ 118,368**	**$ 72,422**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate to net income before income tax, income from affiliates and minority interests. The items causing this difference are as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Income tax charge computed on income before income taxes, income from affiliates and minority interests at standard rate applicable to the Group of 24%	$ 66,609	$ 52,049
Change in valuation allowance	(6,953)	(4,328)
Stock-based compensation (Note 25)	2,469	15,072
Decrease in deferred tax liability on property subject to registration	(10,018)	–
Change in fair value of derivative financial instruments (call and put option) (Note 15)	35,006	14,400
Impairment of long-term investments (Note 11)	5,446	–
Foreign currency transactions differences, net	1,884	(14,481)
Non-deductible expenses and other, net	23,925	9,710
Provision for income taxes reported in the consolidated financial statements	**$ 118,368**	**$ 72,422**

In November 2007, management has taken a decision to register certain property with the state authorities. Such registration will enable the Group to make the depreciation of respective property tax deductible. As a result, the Group has decreased its deferred tax liabilities as of December 31, 2007 and provision for income taxes for the year then ended by $10.0 million, which resulted in an increase in basic and diluted EPS for the year ended December 31, 2007 by USD 0.03.

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities at December 31, 2007 and 2006:

	2007	2006
Deferred tax assets		
Deferred connection fees	$ 36,881	$ 35,725
Property, plant and equipment contributions	27,067	24,910
Valuation of property, plant and equipment	27,005	30,781
Provision for doubtful accounts	824	469
Accrued operating expenses	13,290	9,435
Tax losses carry-forward	650	4,314
Other	11,754	15,731
Less: valuation allowance	(26,183)	(25,816)
Total	**91,288**	**95,549**
Deferred tax liabilities		
Property, plant and equipment	$ (117,590)	$ (93,320)
Assets recognized in purchase price allocations	(50,433)	(17,725)
Other	(5,847)	(1,853)
Total	**$ (173,870)**	**$ (112,898)**

Deferred tax assets relating to tax losses carried forward attributable to Comstar UTS in amount of $0.7 million as of December 31, 2007 expire in 2016.

22. SEGMENT INFORMATION

Prior to 2007, the Group had reported its results by two business segments — the Traditional fixed line communications segment, comprised of MGTS and its subsidiaries, and the Alternative fixed line communications segment, comprised of all other entities of the Group. Following the Group's reorganization at the end of 2006 and in the beginning of 2007, the Group operates in three business segments — Traditional segment in Moscow (comprised of MGTS and subsidiaries), Alternative segment in Moscow (comprised of Comstar UTS excluding regional branches, MTU-Inform, Telmos, Comstar-Direct, Golden Line, Contrast Telecom, Unitel, Porttelecom and Astelit) and Alternative segment in the regions and the CIS (comprised of all entities of the Group operating outside Moscow and the Moscow Region). The Group has presented its business segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources. The Group's management evaluates performance of the segments based on operating income and operating income before depreciation and amortization ("OIBDA").

An analysis and reconciliation of the Group's business segment information to the respective information in the financial statements and for the years ended December 31, 2007 and 2006 is as follows:

	Year ended December 31, 2007				
	Traditional segment in Moscow	Alternative segment in Moscow	Alternative segment in the regions and the CIS	Eliminations and other	Total
Operating revenues	$ 1,112,486	$ 452,503	$ 127,715	$ (130,319)	$ 1,562,385
Depreciation and amortization	109,281	49,634	19,612	(620)	177,907
Operating income	438,639	29,743	20,581	(3,630)	485,333
OIBDA	547,920	79,377	40,193	(4,250)	663,240
Interest income	8,584	36,674	852	(30,430)	15,680
Interest expense	25,654	55,640	2,749	(30,430)	53,613
Income tax expense	100,889	8,578	8,063	838	118,368
Change in fair value of derivative financial instruments	145,859	–	–	–	145,859
Impairment of long-term investments	5,860	16,831	–	–	22,691
Segment assets*	2,519,211	3,102,321	316,116	(1,307,311)	4,630,337
Cash and cash equivalents	93,624	72,799	13,371	–	179,794
Indebtedness**	227,781	879,935	29,092	(125,501)	1,011,307
Capital expenditures	246,191	86,110	13,128	–	345,429

	Year ended December 31, 2006				
	Traditional segment in Moscow	Alternative segment in Moscow	Alternative segment in the regions and the CIS	Eliminations and other	Total
Operating revenues	$ 801,225	$ 388,421	$ 39,235	$ (108,634)	$ 1,120,247
Depreciation and amortization	92,823	33,344	4,772	–	130,939
Operating income/(loss)	262,048	(20,853)	(701)	(4,955)	235,539
OIBDA	354,871	12,491	4,071	(4,955)	366,478
Interest income	6,312	38,160	145	(1,080)	43,537
Interest expense	16,073	6,612	540	(1,080)	22,145
Income tax expense	63,572	10,188	673	(2,011)	72,422
Change in fair value of derivative financial instruments	60,000	–	–	–	60,000
Segment assets*	2,063,257	2,728,253	62,197	(1,316,122)	3,537,585
Cash and cash equivalents	26,209	105,603	4,809	–	136,621
Indebtedness**	558,939	680,660	11,822	(408,481)	842,940
Capital expenditures	245,500	52,665	8,293	–	306,458

* Included in "eliminations and other" are adjustments to eliminate investments of the Alternative segment in Moscow in other segments of the Group.
** Represents the total of short-term and long-term debt and capital lease obligations.

The majority of the corporate costs are born by the Alternative segment in Moscow.

The reconciliation of segment OIBDA to the income before income tax, income from affiliates and minority interests for the years ended December 31, 2007 is as follows:

	Year ended December 31, 2007	2006
Total segment OIBDA	$ 667,490	$ 371,433
Inter-segment eliminations	(4,250)	(4,955)
OIBDA	663,240	366,478
Depreciation and amortization	(177,907)	(130,939)
Operating income	485,333	235,539
Interest income	15,680	43,537
Interest expense	(53,613)	(22,145)
Change in fair value of a derivative financial instrument	(145,859)	(60,000)
Impairment of long-term investments	(22,691)	–
Foreign currency transactions gain/(loss), net	(4,528)	19,938
Gain/(loss) from disposal of an affiliate	3,216	–
Income before income tax, income from affiliates and minority interests	**$ 277,538**	**$ 216,869**

For the years ended December 31, 2007 and 2006 the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's revenues.

23. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2007 and 2006, major transactions involving related parties (subsidiaries and affiliates of Sistema) were as follows:

Mobile Telesystems (MTS)

The Group has interconnection arrangements and line rental agreements with MTS, a subsidiary of Sistema. MTS also rents buildings for administrative, sales and marketing offices from the Group as well as premises for its switching and base station equipment, and pays Comstar UTS a fee for utilization of its numbering capacity by MTS' subscribers. Amounts received by the Group under these agreements during the years ended December 31, 2007 and 2006 were approximately $63.1 million and $45.9 million, respectively. Respective receivables as of December 31, 2007 and 2006 amounted to $7.6 million and $1.7 million, respectively.

In addition, during the years ended December 31, 2007 and 2006, the Group incurred costs, primarily interconnection, payable to MTS of approximately $39.2 million and $8.0 million, respectively. Respective payables as of December 31, 2007 and 2006 amounted to $5.9 million and $6.3 million, respectively.

Rosno

The Group purchases insurance services from Rosno, which had been a subsidiary of Sistema until February 2007. The insurance premiums paid to Rosno during the year ended December 31, 2006 amounted to $6.9 million.

Sitronics

The Group purchases telecommunication equipment, software and consulting services from Sitronics, a subsidiary of Sistema. The cost of equipment, software and consulting services purchased from these entities during the years ended December 31, 2007 and 2006 was $64.4 million and $25.6 million, respectively. Related accounts payable as of December 31, 2007 and 2006 amounted to $16.3 million and $8.3 million, respectively. As of December 31, 2007, advances related to acquisition of equipment and software from Sitronics amounted to $16.9 million.

MBRD

The Group has certain amounts of cash and cash equivalents and short-term investments in MBRD (see Notes 4 and 5). During the years ended December 31, 2007 and 2006, the Group has received interest income from MBRD of $3.9 million and $9.1 million, respectively.

Sistema Telecom, Sky Link

The Group provides financing in the form of loans and promissory notes to Sistema Telecom, a subsidiary of Sistema, and Sky Link, an affiliate of Sistema (see Notes 5 and 11). Interest income received by the Group on promissory notes of and loans to Sistema Telecom and Sky Link for the years ended December 31, 2007 and 2006 amounted to $2.9 and $1.7 million, respectively. In 2007, the Group recognized impairment of certain portion of loans receivable from Sky Link (see Note 11).

In addition, the Group provides interconnection and other services to Sky Link and subsidiaries. Respective revenues for the years ended December 31, 2007 and 2006 approximated $9.8 million and $7.9 million, respectively. Related receivables as of December 31, 2007 and 2006 amounted to $3.9 million and $4.8 million, respectively.

RA Maxima

During the years ended December 31, 2007 and 2006 the Group purchased advertising from advertising agency RA Maxima, a subsidiary of Sistema, in the amounts of $7.1 million and $9.2 million, respectively.

InvestSvyazHolding

The Group entered into agreements with InvestSvyazHolding, a subsidiary of Sistema, for leasing of network equipment and billing systems, which have been recorded as capital leases as required by SFAS No. 13, "Accounting for Leases". The net book value of assets leased under the agreements with InvestSvyazHolding as of December 31, 2007 and 2006 was $55.1 million and $54.1 million, respectively. The interest rate implicit in the leases varies from 10% to 14%. Respective obligations are denominated in Euro.

The following table summarizes the future minimum lease payments under capital leases to InvestSvyazHolding together with the present value of the net minimum lease payments as of December 31, 2007:

Year ended December 31,	
2008	$ 11,305
2009	5,484
2010	952
Total minimum lease payments (undiscounted)	17,741
Less: amount representing interest	(1,374)
Present value of net minimum lease payments	16,367
Less: current portion of lease obligations	(10,231)
Non-current portion of lease obligations	**$ 6,136**

Sistema Hals

As described in Note 24, MGTS entered into a series of agreements with Sistema Hals, a subsidiary of Sistema, on project development and reconstruction of buildings which house MGTS' automatic telephone exchanges. As of December 31, 2007 and December 31, 2006, as a result of the work performed by Sistema Hals under these contracts, MGTS recorded a liability of $30.8 million and $8.0 million, respectively, payable to Sistema Hals which was included in other long-term liabilities. In addition, as of December 31, 2007 and 2006, MGTS owed Sistema Hals $0.6 million and $0.4 million, respectively, for construction works performed.

In 2007, the Group provided Sistema Hals a loan (see Note 5). In addition, Sistema Hals guaranteed a loan provided by the Group to Remstroytrest, a subcontractor of Sistema Hals (see Note 5).

Svyazinvest and subsidiaries

Effective December 11, 2006, the Group owns 25% plus one share stake in Svyazinvest. Moreover, Svyazinvest owns approximately 28% voting shares in MGTS; accordingly, all transactions between MGTS and Svyazinvest are considered related party transactions. Entities of the Group enter in agent agreements with Rostelecom, a subsidiary of Svyazinvest, for provision of ILD/DLD services to the Group's subscribers and interconnection agreements with other subsidiaries of Svyazinvest. In December 2006 management recorded an allowance for receivable from Rostelecom in the amount of approximately $5.5 million.

The Group's accounts payable to and accounts receivable from the subsidiaries of Svyazinvest as of December 31, 2007 amounted to $7.5 million and $16.0 million, respectively, including approximately $5.0 million and $14.2 million owed to and from Rostelecom, respectively. The Group's accounts payable to and accounts receivable from the subsidiaries of Svyazinvest as of December 31, 2006 amounted to $2.2 million and $12.2 million, respectively, including approximately $1.0 million and $11.2 million owed to and from Rostelecom, respectively.

MGTS' revenue from Rostelecom for the years ended December 31, 2007 and 2006, respectively, consisted of:

(i) $25.1 million and $22.9 million earned under the agent agreement on provision of DLD/ILD services to MGTS' subscribers;

(ii) $2.7 million and $2.5 million for rental of telecommunication equipment; and

(iii) $10.1 million and $3.7 million, respectively, for interconnection and other services.

In addition, during the years ended December 31, 2007 and 2006, MGTS purchased services, including interconnection, from Rostelecom for the amounts of $17.4 million and $11.8 million, respectively

During the years ended December 31, 2007 and 2006, in connection with new regulations on telecommunications which came in effect in 2006, MGTS' revenue from Central Telegraph, a subsidiary of Svyazinvest, for incoming traffic amounted to $14.6 million and $12.0 million, respectively, and MGTS' costs associated with outgoing traffic amounted to $4.9 million and $3.8 million, respectively.

Revenues and expenses of the Group from other transactions with Svyazinvest subsidiaries, primarily interconnection, in 2007 amounted to $15.6 million and $17.9 million, respectively.

In 2007, the Group paid dividends to Svyazinvest totaling $7.6 million, and received dividends from Svyazinvest of $1.9 million.

Mezhregion Tranzit Telecom

The Group entered into a series of agreements with Mezhregion Tranzit Telecom (MTT), an affiliate of Sistema, under which MTT provides DLD/ILD services to the Group' subscribers for a commission (see Note 19), which amounted to approximately $36.4 million and $4.6 million for the years ended December 31, 2007 and 2006, respectively. In addition, the Group's interconnection costs incurred under the agreements with MTT in 2007 and 2006 totalled approximately $35.8 million and $15.1 million, respectively.

Sistema Mass Media

In 2007, Comstar-Direct has sold substantially all TV content and certain property, plant and equipment to Sistema Mass Media (SMM) for $14.8 million (exclusive of VAT). Respective gains totalling $2.7 million were included in accompanying consolidated statement of operations. As of December 31, 2007, SMM has not settled the Group's receivables under this transaction, which amounted to $17.4 million (including VAT) and were included in other receivables and prepaid expenses (see Note 7).

24. COMMITMENTS AND CONTINGENCIES

Capital Commitments

In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012, providing for extensive capital expenditures, including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government on December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1,600.0 million and included reconstruction of 350 local telephone stations and installation of 4.3 million of new phone lines. As a result of implementation of the investment program, new digital equipment will be installed in the buildings housing the telephone nodes, and a substantial amount of floor space will become available after the replacement of analogue switching equipment. The additional free floor space after reconstruction is expected to be sold to third parties or rented out. There are 113 automatic telephone station buildings which are to be reconstructed or rebuilt in the course of the investment program. Currently, the management had not made a decision whether to sell the free floor space created in the course of the investment program or to rent it out.

In November 2006, MGTS signed an agreement with the Moscow City Government, under which MGTS' investment program was approved. Under the agreement, the Moscow City Government is entitled to receive not less than 30% of the market value of additional floor space constructed during the course of the investment program. The obligation arises at the time the reconstruction of specified properties is completed. In December 2003, MGTS made a prepayment to Moscow City Government under this program which will be offset against the future liability arising as a result of the investment program (see Note 11).

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema Hals, a subsidiary of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The main portion of the work under these contracts will be performed between 2008 and 2012. Under the agreements, Sistema Hals will prepare the project documentation and perform construction works on behalf of MGTS, and MGTS will reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and will pay a fixed fee of $0.04 million per one building. During 2007 and 2006, project development and site preparation works were performed by Sistema Hals on 98 sites, which resulted in $17.6 million and $6.8 million addition to construction in-progress in 2007 and 2006, respectively, and recognition of payable to Sistema Hals (see Note 23). No construction or other works were performed in relation to the other sites in 2006, as the business plans are still under development.

In addition, MGTS has entered into joint venture agreements with ten project organizations affiliated with Sistema Hals. MGTS intends to engage these organizations in construction and reconstruction of certain sites and grant them the investor's rights to receive their share of property in new or reconstructed property.

Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. Most of these licenses expire in various years ranging from 2008 to 2017. The management has no reason to believe that the licenses will not be renewed or that any license will be suspended or terminated.

Issued Guarantees

MGTS is a guarantor under several credit facilities between Commerzbank (Eurasia) and InvestSvyazHolding, a subsidiary of Sistema. The credit facilities mature in 2008. The guarantees amounted to $14.5 million as of December 31, 2007.

In 2006, MGTS became a guarantor under a credit facility provided to InvestSvyazHolding by Komercni banka, a.s., Prague. The credit line for the total amount of Euro 10.4 million matures in April 2011. MGTS' guarantee amounted to $18.5 million as of December 31, 2007.

In 2006, MGTS became a guarantor under a credit facility provided to MBRD, a subsidiary of Sistema, by Bankgesellschaft Berlin AG, Berlin. The credit line for the total amount of Euro 2.1 million matures in June 2011. MGTS' guarantee amounted to $2.2 million as of December 31, 2007.

Under these guarantees the Group could be potentially liable for a maximum amount of $35.2 million in case of borrowers' default under the obligations. As of December 31, 2007, no event of default has occurred under any of the guarantees issued by the Group. The Group does not recognize a liability at inception for the fair value of the guarantor's obligation, as provisions of FIN No. 45 do not apply to the guarantees issued between corporations under common control.

Operating Environment

The Russian economy, while deemed to be of market status starting from 2002, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy depends on the government's continued actions with regard to legal and economic reforms.

Interest of the Moscow City Government in the Telecommunications Sector in the Moscow Metropolitan Area

The operations of the telecommunications network in Moscow are of considerable interest to the city government. The city government has exercised and may be expected to continue to exercise influence over the Group's operations. In particular, the city government may influence setting of tariffs charged to customers to protect low income groups, such as pensioners.

Taxation Environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to tax audits for a period of three years following the tax year. Tax declarations of Comstar UTS for 2005 were examined by the tax audit; tax declarations of Comstar UTS for 2006 and 2007 and of the other Group companies for 2005–2007 remain open for the audits.

Management believes that the Company is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

Certain MGTS agreements with operators connected on the analogue segment of the network do not provide for per-minute settlements based on actual volumes of traffic as prescribed by changes in the legislation effective from July 1, 2006 due to lack of technical ability to execute per-minute settlements. Tax authorities may assess additional taxes on such agreements in the amount that cannot be estimated reliably. Any such assessment may be significant to the financial statements, however, management believes that they can sustain their position in the court.

Legal Disputes

In May 2007, certain minority shareholder won the case against MGTS in respect of non-payment of dividend on preferred shares for 2005 (see Note 18) in the court of first instance, which determined such decision of MGTS' general shareholders' meeting in respect of dividends for 2005 null and void. Such dividend, if declared and paid, may amount to 879.0 million Rubles (approximately $35.8 million as of December 31, 2007). In February 2008, appeals to the court of the third instance ruled in favor of MGTS. Management believes that the likelihood of ruling against MGTS in case of appeal by the minority shareholders to the Supreme Arbitration Court is remote.

In the ordinary course of business, the Group is subjected to various proceedings, lawsuits, and other claims. While such matters are subject to many uncertainties, and outcomes are not predictable with assurance, management believes that any financial impact arising from these matters would not be material to the Group's financial position or annual operating results.

25. STOCK-BASED COMPENSATION AND SHARE BUY-BACK

On September 15, 2006, the Extraordinary General Meeting of shareholders approved the stock option and stock bonus program ("the Program") for the Board of Directors and senior management of Comstar UTS. The Program is being implemented based on separate decisions of the Board of Directors. In order to fund the Program, on September 25, 2006 the Board of Directors of Comstar UTS approved the share buyback of up to 4.5% of the total number of shares in the form of GDRs to be completed by the end of 2009.

During the year ended December 31, 2006, Comstar UTS acquired 10,746,761 shares in form of GDRs, or 2.6% of its total issued shares, for a total cash consideration of approximately $73.9 million.

Within the framework of the Program, and in accordance with a separate decision of the Board of Directors, on November 15, 2006, Comstar UTS granted stock bonuses in the form of shares (GDRs) for the total of 8,776,757 (2.1% of total issued shares) to Mr. Schebetov, the Chairman of the Board of Directors, who received 2,507,645 shares in the forms of GDRs (0.6% of total issued shares), and Mr. Lagutin, a member of the Board of Directors, who received 6,269,112 shares in the form of GDRs (1.5% of total issued shares). Fair value of the awards as of the grant date approximated $17.8 million and $44.4 million, respectively.

In November 2006, the Company's Board of Directors approved the grant of stock options to certain members of the Board of Directors and senior management of Comstar UTS. The exercise price for these options is 122.3 Rubles per one GDR (approximately USD 4.6 as of the grant date). These stock options vest in November 2008.

The following assumptions were used in the option-pricing model:

Risk-free interest rate	4.82%
Expected option life (years)	2
Expected dividend yield	Nil
Expected volatility	38.1%
Grant date fair value of options (per share)	USD 3.16

Expected volatilities were based on historical volatility of the Company's GDRs.

The following table summarizes information about non-vested common stock options during the year ended December 31, 2006:

	Quantity	Exercise price, Rubles
Non-vested as of January 1, 2006	–	–
Granted	3,343,525	122.3
Vested	–	–
Forfeited	–	–
Non-vested as of December 31, 2006	3,343,525	122.3

The following table summarizes information about non-vested common stock options during the year ended December 31, 2007:

	Quantity	Exercise price, Rubles
Non-vested as of January 1, 2007	3,343,525	122.3
Granted	–	–
Vested	–	–
Forfeited	(940,366)	122.3
Non-vested as of December 31, 2007	2,403,159	122.3

During the year ended December 31, 2007, certain options have been forfeited, as employment of certain members of management and the Board of Directors has been terminated. Accordingly, $0.1 million of costs under the cancelled options recorded during the year ended December 31, 2006 has been reversed in the accompanying consolidated statement of operations for the year ended December 31, 2007.

In connection with introduction of a repurchase feature of the option program (see Note 26), as of December 31, 2007 the Group re-classified the option program as liability (see Note 12), which resulted in a decrease in net income and basic and diluted earnings per share for the year ended December 31, 2007 by $6.2 million, USD 0.02 and USD 0.02, respectively. The following assumptions were used in the option-pricing model as of December 31, 2007:

In connection with introduction of a repurchase feature of the option program (see Note 26), as of December 31, 2007 the Group re-classified the option program as liability (see Note 12), which resulted in a decrease in net income for the year ended December 31, 2007 by $6.2 million. The following assumptions were used in the option-pricing model as of December 31, 2007:

Risk-free interest rate	3.34%
Expected option life (months)	11
Expected dividend yield	Nil
Expected volatility	37.7%
Fair value of options (per share) as of December 31, 2007	USD 7.76

The costs recognized in accordance with stock option plan for the years ended December 31, 2007 and 2006 approximated $10.3 million and $0.7 million, respectively. Total expected future compensation cost related to non-vested awards not yet recognized as of December 31, 2007 amounted to $7.7 million. This cost will be recognized in 2008.

Intrinsic value of the employee stock options as of December 31, 2007 and 2006 was USD 7.6 and USD 3.8, respectively. Management expects that some of the option holders will use the repurchase feature. The source of shares for the rest of the holders will be the treasury stock.

26. SUBSEQUENT EVENTS

Abolishment of the Compensational Surcharge

Effective January 2008, new agreements with Rostelecom was signed, under which compensational surcharge which in 2007 was included in the fees charged to Rostelecom for DLD/ILD calls made by MGTS subscribers and amounted to RUR 0.37 (approximately USD 0.02) per minute was cancelled. Compensational surcharge received by MGTS from Rostelecom in 2007 approximated $13.1 million.

Modification of Employee Stock Option Plan

In March 2008, the Board of Directors of Comstar UTS has granted the participants of the existing employee stock option plan (see Note 25) the right to sell the GDRs purchased by the participants at the exercise of the options back to the Group at a price equal to an average price of one GDR for the 60 calendar days preceding the date of exercise weighted by trading volumes of Comstar UTS GDRs on the London Stock Exchange.

Employee Phantom Option Program

In March 2008, the Board of Directors of Comstar UTS approved the employee phantom option program, under which the Group's top and middle management were granted 12,965,882 phantom options effective April 1, 2008. In addition, 2,140,000 phantom options may be granted during the two years ending March 31, 2010. The phantom options vest on March 31, 2010. Upon vesting, the participants will be entitled to cash compensation equal to the difference between weighted average price of one GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, timed by the number of phantom options granted. The compensation will be adjusted downwards should the return on Comstar UTS GDR be less than prescribed amount, and will not paid at all if the Group does not meet the benchmarks set for return on Comstar UTS GDR, revenue growth rate, OIBDA margin and market share.

Legal Merger of Golden Line

In April 2008, in line with the Group reorganization plan, Golden Line, a 100% subsidiary of the Group, has been legally merged into Comstar UTS.

Repurchase of MGTS ruble bonds

In April 2008, in accordance with the terms and conditions of the offer to the bondholders (see Note 13), MGTS has repurchased the ruble bonds for the total of 556.1 million rubles (equivalent of $22.7 million as of December 31, 2007).

Glossary

ADSL .... Asymmetric digital subscriber line. A common subset of DSL where upstream communication is conducted at a lower speed than downstream.

ADSL2+ .... ADSL technology using the ITU G.992.5 standard. Allows for downstream speed of up to 24 Mbps.

Analog .... A transmission mode in which the initial signal (e.g., voice) is converted into and transmitted as an electrical signal. Signals are conveyed by continuously varying, for example, the frequency, amplitude or phase of the transmission. Analog signals typically require higher amounts of capacity to transfer data than is possible using digital transmissions and are more susceptible to attenuation.

Base station .... Fixed transceiver equipment in each cell of a mobile telecommunications network that communicates by radio signal with mobile handsets in that cell.

broadband Internet service .... A general term for Internet services capable of delivering transmissions at speeds in excess of approximately 256Kbps.

bundle .... Combination of products and services that may be offered at a price lower than the sum of the prices of each of the services individually.

CLEC .... Competitive local exchange carrier. A telephone service company that provides local telephone service that competes with ILEC.

Digital .... A method of storing, processing and transmitting information through the use or distinct electronic of optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Compared to analog networks, digital networks allow for greater capacity, lower interference, protection against eavesdropping and automatic error correction. Signals are encoded into digits for transmission.

DLD .... Domestic long distance. Provision of telecommunications services outside of the local network.

DSL... Digital subscriber lines. A technology based on the use of copper lines in traditional telephone networks that are attached to telephone exchanges that have been upgraded to digital technology. DSL technology is most commonly used for the provision of Internet services at speeds that are significantly faster than dial-up Internet access. DSL (or sometimes, "xDSL") is commonly used as a generic term for several variants of technology offering different specifications but based on the same principles.

DSLAM .... Digital subscriber line access multiplexer. A device used by third party operators wishing to provide services to customers with existing copper wire connections to an incumbent telephony provider. The DSLAM acts as a switch enabling the routing of data and other communications between the end-user and the third party operator, avoiding the need to connect via the incumbent operator's principal exchange.

Ethernet .... Ethernet is a packet based transmission protocol that is primarily used in LANs. Ethernet is the common name for the IEEE 802.3 industry specification and it is often characterized by its data transmission rate and type of transmission medium (e.g., twisted pair is T and fiber is F). Ethernet can be provided on twisted pair, coaxial cable, wireless or fiber cable. Originally created by an alliance between Digital Equipment Corporation, Intel and Xerox, Ethernet is slightly different than IEEE 802.3. In Ethernet, the packet header includes a type field and the length of the packet is determined by detection. In IEEE 802.3, the packet header includes a length field and the packet type is encapsulated in an IEEE 802.2 header.

fiber optic cable .... Cable that uses optical glass fibers to transmit signals over long distances with minimal signal loss or distortion. Fiber optic cable has good broadband frequency characteristics and noise immunity and is capable of managing very high capacity, high speed transmissions.

Hot Spots .... Locations where computer users with appropriate wireless technology installed in their computers can access the Internet without need for a physical cable to provide a network connection.

ILD .... International long distance. Provision of telecommunications services across national borders.

ILEC .... Incumbent local exchange carrier. This is usually the incumbent local phone company, which owns most of the local loops and facilities in a serving area.

Interconnection .... The linking of telecommunications networks used by the same or different persons in order to allow the users of the services or networks of one person to communicate with the users of the services or networks of the same person or of another person, or to access services provided by another person.

IP .... Internet protocol. Protocol used in the Internet for communication among multiple networks in which data is sent in packets and routed according to traffic density.

"last mile" .... The last portion of the telephone access line that is installed between a local telephone company switching facility and the customer's premises.

local loop .... Network element used to connect a subscriber to the nearest switch or concentrator. The local loop is commonly referred to as the "last mile" because it is the part of the network that is connected directly to the subscriber.

NGN .... Next generation network. IP/MPLS protocol?based digital packet?switched network.

pay TV .... Television system in which the user needs to effect a special payment if he/she wants to receive certain programming.

switch .... A device used to set up and rout telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

TDM .... Time division multiplexer. A device which divides the time available on its composite link among its channels, usually interleaving bits (Bit TDM) or characters (Character TDM) of data from each terminal.

Wi-Fi .... Wireless LAN. A communication system in which a mobile user can connect to a LAN through a wireless (radio) connection. Wi-Fi communications are based on an open standard set out in the IEEE 802.11 specifications.

WiMax .... A higher specification form of Wi-Fi. WiMax, as defined by the IEEE 802.16 specification, offers higher transmission speeds and operating ranges than IEEE 802.11.

xDSL .... Refers to the family of digital subscriber line technologies, including ADSL, among others.

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2008. Design, pre-press by DuckDesign