



FOR IMMEDIATE RELEASE

April 9, 2009

**COMSTAR — UNITED TELESYSTEMS OJSC  
FINANCIAL RESULTS FOR  
THE FOURTH QUARTER AND FULL YEAR 2008**

**Moscow, Russia** – April 9, 2009 – “COMSTAR – United TeleSystems” OJSC (“Comstar” or “the Group”) (LSE: CMST), the largest integrated telecommunications provider in Moscow and 69 Russian cities, today announced its unaudited consolidated US GAAP financial results for the fourth quarter and twelve months ended December 31, 2008.

**FOURTH QUARTER HIGHLIGHTS**

- Consolidated revenues of US\$ 391.9 million<sup>1</sup> (up 8% year on year in rubles)
- Adjusted OIBDA<sup>2</sup> of US\$ 163.9 million with adjusted OIBDA margin of 41.8%
- Net income of US\$ 59.2 million
- Cash flow from operations of US\$ 165.7 million
- Cash capital expenditure<sup>3</sup> of US\$ 112.8 million
- Total assets of US\$ 4.1 billion

**FULL YEAR FINANCIAL HIGHLIGHTS**

- Consolidated revenues of US\$ 1,647.7 million (up 11%<sup>4</sup> year on year in rubles)
- Adjusted OIBDA of US\$ 682.6 million with adjusted OIBDA margin of 41.4%
- Net income of US\$ 179.6 million
- Cash flow from operations of US\$ 593.6 million
- Cash capital expenditure of US\$ 354.0 million – primarily related to modernization of MGTS last mile, digitalization of MGTS network and build-out of WiMax network in Moscow

**DELIVERY OF STRATEGIC GOALS**

- Regional development:
  - Commencement of integration of STREAM-TV Group regional operations, covering 40 Russian cities with a combined population of over 15 million people

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<sup>1</sup> The average exchange rate for the period was 27.27 Russian Rubles (RUR) per US\$ 1 in the fourth quarter of 2008; RUR 24.65 per US\$ 1 in the fourth quarter of 2007; RUR 24.25 per US\$ 1 in the third quarter of 2008; RUR 24.86 per US\$ 1 for full year 2008; and RUR 25.58 per US\$ 1 for full year 2007.

<sup>2</sup> Here and below, please refer to Attachment A to this statement for a full definition of Adjusted OIBDA

<sup>3</sup> Here and below, cash capital expenditure comprises investments in property, plant and equipment, and intangible assets

<sup>4</sup> Excluding US\$ 36.5 mln. compensation from the Federal Budget, received in 2007

- Acquisition of Interlink Group and Ural Telephone Company and consolidation of combined revenues of US\$ 13.6 million since acquisition
- Launch of long distance service offering after build-out of proprietary DLD/ILD network
- Launch of national WiMax network in Armenia
- Group restructuring:
  - Consolidation of 100% ownership of Comstar-Direct
  - Legal merger of several subsidiaries with Comstar UTS, and of TNGS and RTC
  - Further reduction in MGTS headcount from 13.4 thousand to 10.4 thousand during 2008
- Broadband development:
  - Completion of modernization of MGTS last mile and increase in internet access speed for residential subscribers up to 24 megabits per second
  - Completion of build-out of mobile WiMax network in Moscow
  - Substantial growth in number of broadband subscribers in the regions

Sergey Pridantsev, President and Chief Executive Officer, commented: “2008 was another year of substantial progress for Comstar. Due to the execution of our long-term strategy and balanced financial policy we have ensured that we are as well positioned as possible in the current market environment. We have a stable and diversified customer base of residential and corporate subscribers and operators in Moscow, and our last mile access to 3.6 million MGTS connected homes in Moscow is now mirrored with STREAM-TV’s access to 3.6 million homes across the regions. The acquisition, consolidation and integration of STREAM-TV makes us the clear number one broadband operator and pay-TV provider in Russia. Furthermore, the launching of our long distance services establishes Comstar as a truly universal telecommunications provider.”

“We have continued to deliver on our key strategic objectives by expanding into the regions, building out our proprietary long distance network, simplifying our organizational structure by consolidating 100% of Comstar-Direct, merging our subsidiaries, further optimizing business processes at MGTS, and significantly enhancing our broadband offering by modernizing the MGTS network and launching internet access speeds of up to 24 megabits per second and HD TV services. These developments are now being supplemented by the creation of a unique user environment combining wireline and wireless services, through the launch of our WiMax network in Moscow and the extension of our ADSL broadband services.”

“Our primary focus moving forward into 2009 is to increase the utilization of our existing capacity, to enhance the quality of our services across all business segments, and to integrate STREAM-TV and our other regional operations into a single regional operating subsidiary.”

Irina Matveeva, Chief Financial Officer, added: “The Group’s performance in 2009 is impacted by a number of factors including the consolidation of STREAM-TV’s regional operations, the increase in our regulated and unregulated tariffs from the beginning of last month, and the effects of the economic downturn. It is too early to provide guidance for 2009 but, whilst Group revenue growth and margins will remain best in class by peer standards, although they will fluctuate between the quarters.”

“We are of course taking out cost over and above our longer term restructuring programmes, but are also mindful of protecting the medium and long term potential of the business. We are focused on cash management and are therefore cancelling or postponing any non-essential expenses, but these savings are not immediate. We expect CAPEX levels to be much lower in 2009 at approximately 6% of Group revenues including maintenance CAPEX, investments in subscriber acquisition and up-selling, and selective regional development projects.”

Effective January 1, 2008, the Group has changed its accounting policy with respect to acquisitions. The accounts of newly acquired subsidiaries had previously 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. The Group now consolidates the accounts of newly acquired subsidiaries from the date of acquisition. The Group's results for prior reporting periods have been restated accordingly. This change has had no impact on the Group's net income or equity.

## FINANCIAL SUMMARY

(US\$ millions,

except where stated otherwise)

	Q4 2008	Q4 2007	Growth (%)	Q3 2008	Growth (%)	FY 2008	FY 2007	Growth (%)
Revenues.....	<b>391.9</b>	401.6	(2%)	421.6	(7%)	<b>1,647.7</b>	1,481.5	11%
Revenues excluding non-recurring Federal Budget compensation payments ..	<b>391.9</b>	401.6	(2%)	421.6	(7%)	<b>1,647.7</b>	1,445.0	14%
OIBDA.....	<b>165.0</b>	164.4	0%	194.9	(15%)	<b>689.5</b>	627.6	10%
Margin (%).....	<b>42.1%</b>	40.9%		46.2%		<b>41.8%</b>	42.4%	
Adjusted OIBDA .....	<b>163.9</b>	171.9	(5%)	184.8	(11%)	<b>682.6</b>	601.3	14%
Margin (%).....	<b>41.8%</b>	42.8%		43.8%		<b>41.4%</b>	41.6%	
Operating income.....	<b>123.1</b>	110.7	11%	142.3	(14%)	<b>493.8</b>	456.8	8%
Margin (%).....	<b>31.4%</b>	27.6%		33.8%		<b>30.0%</b>	30.8%	
Change in fair value of call and put option less minority share.....	–	37.0		(25.4)		<b>(15.6)</b>	(81.3)	(81%)
Costs related to employee stock option programmes, net of revaluation of the purchased call option.....	<b>(1.0)</b>	7.5		3.4		<b>6.7</b>	10.3	(35%)
Net income.....	<b>59.2</b>	51.8	14%	36.4	63%	<b>179.6</b>	43.8	310%
Basic EPS (US\$).....	<b>\$0.17</b>	\$0.14	10%	\$0.09	70%	<b>\$0.45</b>	\$0.12	271%
Weighted average number of shares outstanding – basic (000s).....	<b>386,366</b>	404,457	(4%)	404,457	(4%)	399,909	369,880	8%
Cash flow from operations.....	<b>\$165.7</b>	\$153.4	8%	\$153.7	8%	<b>\$593.6</b>	\$488.4	22%
Cash CAPEX .....	<b>\$112.8</b>	\$135.8	(17%)	\$105.4	12%	<b>\$354.0</b>	\$345.4	2%
% of revenues.....	<b>28.8%</b>	33.8%		25.0%		<b>21.5%</b>	23.3%	
Total Assets .....	<b>4,136.1</b>	4,630.3	(11%)	4,717.6	(12%)	<b>4,136.1</b>	4,630.3	(11%)

## OPERATING REVIEW

### Group Overview

Comstar generated 8% year on year Russian ruble revenue growth in the fourth quarter, and 11% growth for the twelve month period, when excluding the non-recurring compensation from the Federal budget received in the second and third quarters of 2007. The growth reflected acquisition of DTN and RTC in the fourth quarter of 2007 and Interlink and UTC in 2008, growing 'Calling Party Pays' and long distance traffic volumes, as well as the development of the Group's broadband operations. The growth was partially offset by the 9% regulatory reduction in the price for the MGTS unlimited residential voice tariff plan from February 1, 2008; the regulator's cancellation of the compensation surcharge for long-distance calls from the beginning of 2008; and the regulatory change in the interconnect regime from March 1, 2008. The significant movement in the Russian ruble / US dollar exchange rate during the fourth quarter also adversely affected the Group's reported results for the period.

Revenues from fixed-to-mobile calls increased by 22% year on year to US\$ 42.8 million in the fourth quarter and by 45% to US\$ 166.7 million for the year to date, and represented 11% and 10% of Group revenues for the two respective periods. Traffic levels were up 29% year on year to 824.3 million minutes in the quarter, and up 39% to 3,001.5 million minutes for the full year.

<b>Operating Expenses<sup>5</sup></b>	<b>Q4 2008</b>	<b>Q4 2007</b>	<b>Growth (%)</b>	<b>Q3 2008</b>	<b>Growth (%)</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>Growth (%)</b>
<i>(US\$ millions)</i>								
Employee costs, net of stock-based compensation .....	<b>78.4</b>	87.9	(11%)	85.6	(8%)	<b>349.3</b>	339.1	3%
Stock-based compensation.....	<b>(1.1)</b>	7.5		(10.1)	(89%)	<b>(6.9)</b>	10.3	
Network traffic .....	<b>57.5</b>	44.6	29%	53.5	8%	<b>218.1</b>	159.7	37%
Selling & marketing .....	<b>14.0</b>	20.4	(32%)	14.8	(6%)	<b>58.5</b>	46.9	25%
Repair & maintenance .....	<b>15.6</b>	18.9	(17%)	18.5	(16%)	<b>75.0</b>	67.9	10%
Taxes.....	<b>12.4</b>	10.1	23%	12.3	1%	<b>49.0</b>	41.5	18%
Utility & energy.....	<b>11.6</b>	11.6	1%	9.8	18%	<b>44.4</b>	37.6	18%
Other, net .....	<b>38.5</b>	36.3	6%	42.3	(9%)	<b>170.8</b>	151.0	13%
<b>Total Operating Expenses.....</b>	<b>226.8</b>	237.2	(4%)	226.7	0%	<b>958.1</b>	854.0	12%
<i>% of revenues.....</i>	<b>57.9%</b>	59.1%		53.8%		<b>58.2%</b>	57.6%	

Total operating expenses, when excluding depreciation and amortisation costs, decreased by 4% year on year in the quarter despite the acquisition and consolidation of DTN and RTC in the fourth quarter of 2007, and of Interlink and UTC in the second and the third quarters of 2008, respectively. The decrease primarily reflected the significant reduction in the number of MGTS personnel during the year, the revaluation of the stock-based compensation programme in line with the public equity market valuation of the Company's shares, and the year on year depreciation of the ruble against the dollar. The full year increase in operating expenditure reflected the consolidation of the newly acquired businesses, the increase in network traffic costs as a result of the higher volumes of fixed-to-mobile calls and costs associated with the new long distance network, as well as the 2.9% year on year appreciation of the ruble against the dollar.

Full year Group adjusted OIBDA, when excluding the US\$ 36.5 million of Federal Budget payments received in 2007 and the stock-based compensation costs in 2007 and 2008, was up 14% year on year to US\$ 682.6 million with an adjusted OIBDA margin of 41.4% due to the decrease in MGTS employee costs, reduced transportation costs, optimization of selling and marketing costs in line with the movement to the

<sup>5</sup> Excluding depreciation and amortisation, net

next phase of broadband strategy due to the saturation of the market, partially offset by the consolidation of lower profitable regional operators, acquired in the fourth quarter of 2007 and in the second and third quarters of 2008, 9% regulatory reduction in the price for the MGTS unlimited residential voice tariff plan from February 1, 2008 and increase in lower marginal CPP-traffic. The 5% year on year decline in adjusted OIBDA in the fourth quarter to US\$ 163.9 million was primarily due to the 9.6% year on year depreciation of the ruble against the dollar.

Group depreciation and amortisation charges decreased by 22% year on year to US\$ 42.0 million in the quarter, due to the depreciation of the ruble against the dollar and revisions in the DTN and RTC purchase price allocations. Charges were up 15% to US\$ 195.7 million for the full year due to the increase in property, plant and equipment and intangible asset balances in line with the organic growth of the business and consolidation of acquired operators.

Net interest expenses<sup>6</sup> increased by 31% quarter on quarter and by 52% year on year to US\$ 14.2 million in the fourth quarter following the increase in interest rate payable on the Sberbank credit facility from 7.6% to 9.5% in July 2008 and the utilization of RUR 4.5 billion of previously undrawn funds from this facility during the quarter. Net interest expenses decreased by 12% to US\$ 33.9 million for the full year due to the net effect of the increase in the Group's average cash balances and short term investments, and the higher amount outstanding and interest rate payable on the Sberbank facility.

The Group's results for the fourth quarter included a US\$ 3.7 million currency transaction loss following the depreciation of the ruble against the dollar in the quarter. The Group reported a US\$ 1.0 million currency translation loss for the full year.

The adjusted effective tax rate<sup>7</sup> of the Group declined year on year and quarter on quarter to 20.7% in the fourth quarter, whilst the full year rate decreased from 28.1% to 23.2%. The change was the result of the impending reduction of the Russian corporate tax rate from 24% to 20% from January 1, 2009 and respective adjustment to deferred tax balances as of December 31, 2008. This reduced the Group's tax charges by US\$ 18.3 million for the fourth quarter and full year 2008.

Minority interests, which primarily comprise the minority interests in the net income of MGTS, totalled US\$ 22.6 million in the quarter and US\$ 132.8 million for the year to date. The full year increase was attributable to the growth in MGTS earnings, while the year on year decline in the fourth quarter reflected the positive effect in 2007 of the gain on the revaluation of the call and put option. The Group therefore reported increased net income of US\$ 59.2 million in the quarter and US\$ 179.6 million for the full year.

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<sup>6</sup> Determined as interest expense net of interest income.

<sup>7</sup> See Attachment A for the determination of adjusted effective tax rate.

## Overview of Broadband Business in Moscow & the Regions

The Broadband business comprises the Group's broadband operations in Moscow and the Russian Regions. The presentation below therefore provides an aggregated breakdown of the broadband business across the Group. The operating and financial results for the broadband businesses are included in each of the three following reporting segments.

	Q4 2008	Q4 2007	Growth (%)	Q3 2008	Growth (%)
<b>MOSCOW</b>					
<b>Residential subscribers</b>					
Total number of subscribers (000s)	784	651	20%	793	(1%)
Premium tariff segment.....	664	585	14%	688	(3%)
Mass-market segment .....	120	66	82%	105	15%
Total Revenues (US\$ millions).....	26.4	27.7	(5%)	27.7	(5%)
Average monthly revenue per user (US\$).....	11.2	16.7	(33%)	11.6	(3%)
Premium segment.....	11.8	17.7	(34%)	12.4	(5%)
Mass market segment.....	7.8	–	–	5.8	34%
Average monthly revenue per user (RUR).....	306.6	411.5	(25%)	280.2	9%
Premium segment.....	321.0	437.2	(27%)	300.1	7%
Mass market segment.....	214.0	–	–	142.5	50%
<b>Corporate subscribers</b>					
Number of subscribers (000s).....	51	47	10%	51	0%
Revenues (US\$ millions) .....	24	25	(5%)	27	(13%)
Average monthly revenue per user (US\$).....	154.7	182.6	(15%)	178.7	(13%)
Average monthly revenue per user (RUR).....	4,210.9	4,504.7	(7%)	4,333.1	(3%)
<b>REGIONS</b>					
<b>Residential subscribers</b>					
Number of subscribers (000s).....	73	7	983%	61	19%
Revenues (US\$ millions) .....	3	0.3	917%	3	6%
Average monthly revenue per user (US\$).....	15.8	19.3	(18%)	17.7	(11%)
Average monthly revenue per user (RUR)	432.2	450.5	(4%)	429.8	1%
<b>Corporate subscribers</b>					
Number of subscribers (000s).....	17	4	354%	16	5%
Revenues (US\$ millions) .....	6.6	1.9	247%	7.3	(9%)
Average monthly revenue per user (US\$).....	133.0	178.7	(25%)	161.0	(17%)
Average monthly revenue per user (RUR)	3,631.5	4,342.5	(16%)	3,873.8	(6%)
<b>TOTAL</b>					
Number of broadband subscribers (000s) .....	925	708	31%	922	0%
Revenues (US\$ millions) .....	60.0	55.0	9%	65.3	(8%)

### Broadband in Moscow

The residential broadband subscriber base in Moscow increased by 20% year on year to 784 thousand customers by the end of 2008. 22% of MGTS residential voice customers now subscribe for broadband services, and the objective is to increase this level to 33% by the end of 2011.

The number of premium residential subscribers in Moscow increased by 14% year on year to 664 thousand and premium segment ARPU was down year on year in the fourth quarter from RUR 437.2 to RUR 321.0, and increased from RUR 300.1 in the third quarter of 2008. The number of double-play (internet & pay-TV) subscribers increased by 19% year on year to 145 thousand and was down by 1% quarter on quarter due to the optimization of subscriber spending on telecom services reflected in a slowdown in demand for value-added services during the fourth quarter of 2008.

Following the introduction of MGTS-branded mass market broadband services in October 2007, the number of mass market residential subscribers increased to 120 thousand from 105 thousand at the end of the third quarter, and almost doubled from 66 thousand at the end of 2007. The Mass market subscriber segment generated RUR 214 of ARPU in the fourth quarter, up 50% quarter on quarter.

Comstar completed the consolidation of a 100% stake in ZAO Comstar-Direct on December 30, 2008. Under the terms of the agreement, Comstar assumed management control of the the part of Comstar-Direct that provides multi-media services (broadband internet access and pay-TV) and its subscriber base.

## **Broadband in the Regions**

The results for the fourth quarter of 2007 do not include the results of DTN and RTC, which have been consolidated from the beginning of 2008 according to the Group's new accounting policy.

The number of residential subscribers was up 19% quarter on quarter to 73 thousand and ARPU was slightly up 1% quarter on quarter to RUR 432.2 following the introduction of unlimited plans that increased the competitiveness of the offering and successfully stimulated demand. The number of pay-TV subscribers in the regions grew by 3% quarter on quarter to 153 thousand customers due to the increased attractiveness of pay-TV services compared to more expensive kind of entertainment.

Comstar completed the acquisition of the STREAM-TV Group of regional operators in the first quarter of 2009. The operations will be consolidated since the beginning of the first quarter of 2009. Comstar commenced the reorganisation of the regional business in February 2009. The operations will be integrated under the wholly owned Comstar-Regions subsidiary, which is being created in the second quarter of 2009.

STREAM-TV's pay-TV subscriber base increased by 10% year on year in the fourth quarter of 2008 to 1.8 million, including 1.4 million cable-TV subscribers and 390 thousand 'social tariff' TV subscribers. Cable-TV ARPU increased by 11% year on year and 2% quarter on quarter to RUR 123. The Group's broadband internet access subscriber base increased by 74% year on year and 13% quarter on quarter to 205 thousand in the fourth quarter, and generated ARPU of RUR 376, compared to RUR 367 in the third quarter of 2008 and RUR 399 in the fourth quarter of 2007.

## SEGMENTAL OPERATING REVIEW

### 1. Traditional Segment in Moscow

Comstar owns 56% of Moscow City Telephone Network (MGTS), which is Moscow's incumbent fixed-line telecommunications operator and the infrastructure provider for the Comstar Group. MGTS is the owner of the 'last mile' access in Moscow, which is not unbundled and provides 4.4 million residential and corporate telephony lines. MGTS provides regulated voice services and unregulated mass market broadband services in Moscow.

#### *Operating Highlights*

	<b>Q4 2008</b>	Q4 2007	<i>Growth (%)</i>	Q3 2008	<i>Growth (%)</i>	<b>FY 2008</b>	FY 2007	<i>Growth (%)</i>
Installed telephone lines (000s) .....	<b>4,851</b>	4,795	1%	4,832	0%	<b>4,851</b>	4,795	1%
<b>Residential</b>								
Number of subscribers / active lines (000s) .....	<b>3,614</b>	3,586	1%	3,600	0%	<b>3,614</b>	3,586	1%
CPP traffic (millions of minutes) .....	<b>472</b>	386	22%	436	8%	<b>1,745</b>	1,323	32%
Average monthly revenue per line (US\$) .....	<b>11.0</b>	12.2	(10%)	11.9	(7%)	<b>11.8</b>	11.3	4%
Average monthly revenue per line (RUR) .....	<b>299.1</b>	300.0	0%	287.4	4%	<b>292.7</b>	287.7	2%
<b>Corporates</b>								
Number of active lines (000s) .....	<b>747</b>	767	(3%)	769	(3%)	<b>747</b>	767	(3%)
Number of subscribers (000s) .....	<b>73</b>	67	9%	68	8%	<b>73</b>	67	9%
CPP traffic (millions of minutes) .....	<b>209</b>	167	25%	202	3%	<b>771</b>	551	40%
Average monthly revenue per subscriber (excl. revenue from points of interconnect) (US\$) .....	<b>230.8</b>	236.8	(3%)	231.6	0%	<b>232.7</b>	215.1	8%
Average monthly revenue per subscriber (excl. revenue from points of interconnect) (RUR) ....	<b>6,294.0</b>	5,818.3	8%	5,912.0	6%	<b>5,934.3</b>	5,639.0	5%
Number of points of interconnect (000s) .....	<b>29</b>	32	(7%)	30	0%	<b>29</b>	32	(7%)
Average monthly revenue per point of interconnect (US\$) .....	<b>195.4</b>	177.6	10%	216.7	(10%)	<b>200.1</b>	201.1	0%
Average monthly revenue per point of interconnect (RUR) .....	<b>5,324.4</b>	4,364.2	22%	5,250.4	1%	<b>4,960.1</b>	5,125.1	(3%)
<b>Operators</b>								
Number of interconnected operators .....	<b>247</b>	227	9%	245	1%	<b>247</b>	227	9%
Number of points of interconnect (000s) .....	<b>223</b>	230	(3%)	201	11%	<b>223</b>	230	(3%)
Average monthly revenue per point of interconnect (US\$) .....	<b>35.1</b>	62.0	(43%)	41.1	(15%)	<b>50.4</b>	52.4	(4%)
Average monthly revenue per point of interconnect (RUR) .....	<b>950.1</b>	1,523.3	(38%)	959.3	(1%)	<b>1,229.5</b>	1,372.5	(10%)

The number of residential fixed-line subscribers continued to grow in the fourth quarter, whilst residential fixed-to-mobile traffic volumes increased both year on year and quarter on quarter. Subscribers' choice of voice tariff plans remained unchanged with 50.5% of MGTS residential subscribers on the unlimited tariff plan, 28.0% on the per-minute plan, and the remaining 21.5% on a combination of the two plans, as at the end of the period. Residential ARPU consequently increased quarter on quarter to RUR 299.1, in line with the seasonal increase in CPP traffic volumes, and was stable year on year due to the mixed effect of increase in CPP traffic volumes and the decrease in the price of the unlimited tariff plan in February 2008. CPP traffic levels for residential subscribers were up 22% year on year and 8% quarter on quarter to 472 million minutes in the fourth quarter, and up 32% to 1,745 million minutes for the full year.

The number of active corporate subscribers increased by 9% year on year and 8% quarter on quarter, and corporate ARPU was up 8% year on year and 6% quarter on quarter to RUR 6,294. This reflected the



ongoing increase in CPP traffic volumes, which were up 25% year on year and 3% quarter on quarter to 209 million minutes in the fourth quarter, and up 40% to 771 million minutes for the full year. As at December 31, 2008, 12.8% of MGTS corporate subscribers were on the unlimited tariff plan, 5.5% were on the per-minute plan, and the remaining 81.7% were on a combination of the two plans.

### Financial Highlights

<i>(US\$ millions)</i>	<b>Q4 2008</b>	Q4 2007	<i>Growth (%)</i>	Q3 2008	<i>Growth (%)</i>	<b>FY 2008</b>	FY 2007	<i>Growth (%)</i>
<b>Revenues</b>								
Residential .....	<b>120.3</b>	133.2	<i>(10%)</i>	129.8	<i>(7%)</i>	<b>514.2</b>	531.8	<i>(3%)</i>
<i>Including non-recurring compensation from the Federal Budget.....</i>	-	-	-	-	-	-	36.5	-
Corporate .....	<b>69.2</b>	72.0	<i>(4%)</i>	72.6	<i>(5%)</i>	<b>284.3</b>	266.8	<i>7%</i>
Operators.....	<b>77.1</b>	89.1	<i>(14%)</i>	87.0	<i>(11%)</i>	<b>337.3</b>	313.9	<i>7%</i>
<b>Total .....</b>	<b>266.6</b>	294.3	<i>(9%)</i>	289.4	<i>(8%)</i>	<b>1,135.8</b>	1,112.5	<i>2%</i>
Intersegment sales.....	<b>(32.5)</b>	(33.0)	<i>(1%)</i>	(35.4)	<i>(8%)</i>	<b>(141.5)</b>	(127.0)	<i>11%</i>
<b>Net Revenues .....</b>	<b>234.1</b>	261.3	<i>(10%)</i>	254.0	<i>(8%)</i>	<b>994.3</b>	985.5	<i>1%</i>
<b>Operating Expenses (excluding depreciation and amortisation) .....</b>	<b>139.6</b>	149.3	<i>(7%)</i>	167.7	<i>(17%)</i>	<b>621.9</b>	564.6	<i>10%</i>
<b>OIBDA .....</b>	<b>127.0</b>	145.0	<i>(12%)</i>	121.6	<i>4%</i>	<b>513.9</b>	547.9	<i>(6%)</i>
<i>Margin (%) .....</i>	<b>47.6%</b>	49.3%		42.0%		<b>45.2%</b>	49.3%	
<b>Adjusted OIBDA<sup>8</sup> .....</b>	<b>126.6</b>	145.0	<i>(13%)</i>	121.5	<i>4%</i>	<b>514.5</b>	511.4	<i>1%</i>
<i>Margin (%) .....</i>	<b>47.5%</b>	49.3%		42.0%		<b>45.3%</b>	47.5%	

Ruble revenues were stable year on year in the fourth quarter and up 2% for the full year, when excluding the non-recurring compensation from the Federal Budget received during 2007. This reflected the growing level of CPP traffic, as well as the changes made by the Regulator in 2008 to decrease the price of the unlimited tariff plan for voice services for MGTS residential subscribers from February 1, 2008, to cancel the compensation surcharge for long-distance calls from the beginning of 2008, and to change the interconnect regime and reduce the revenues received from operators.

Operating expenses, excluding depreciation and amortization charges, were down 7% year on year and 17% quarter on quarter in the fourth quarter, which was primarily due to the further reduction in headcount from 13.4 thousand to 10.4 thousand during 2008, as well as the revaluation of the stock-based compensation programme, and the depreciation of the ruble against the dollar in the fourth quarter.

Adjusted OIBDA therefore declined year on year in the fourth quarter, but was up quarter on quarter due to the decrease in personnel expenses and approximately US\$ 16.5 million of intersegment charges (primarily interconnect charges) reported in the third quarter but relating to the first half of the year.

## 2. Alternative Segment in Moscow

Comstar owns a group of leading alternative fixed-line telecommunications operators in Moscow, which provide broadband internet and multi-service solutions to residential and corporate subscribers in Moscow and the surrounding region. The segment includes the Comstar-Direct and Comstar-Moscow operations.

<sup>8</sup> Excluding US\$ (0.4) million of stock-based compensation costs in Q4 2008, US\$ (0.1) million in Q3 2008 and US\$ 0.6 million for the twelve months of 2008 and US\$ 36.5 million of compensation from the Federal Budget for the twelve months of 2007.

## Operating Highlights

	Q4 2008	Q4 2007	Growth (%)	Q3 2008	Growth (%)	FY 2008	FY 2007	Growth (%)
Installed capacity / telephone lines (000s) .....	653	652	0%	652	0%	653	652	0%
<b>Residential subscribers</b>								
Number of subscribers (000s) .....	699	647	8%	727	(4%)	699	647	8%
ARPU (US\$) .....	12.2	18.4	(34%)	12.8	(5%)	13.6	18.0	(24%)
ARPU (RUR) .....	332.3	312.9	6%	311.1	7%	336.8	312.9	8%
<b>Corporate subscribers</b>								
Number of subscribers (000s) .....	30	32	(8%)	29	1%	30	32	(8%)
ARPU (US\$) .....	441.1	405.2	9%	472.8	(7%)	441.2	348.6	27%
ARPU (RUR) .....	12,021.5	9,987.1	20%	11,462.2	5%	10,954.2	8,894.5	23%
<b>Operators</b>								
Number of active lines (000s) .....	437	457	(4%)	446	(2%)	437	457	(4%)
- of which, used by mobile operators (000s) .....	307	326	(6%)	316	(3%)	307	326	(6%)

The number of residential subscribers to Stream and Comstar branded broadband, pay-TV and voice services increased by 8% year on year to 699 thousand subscribers and decreased by 4% quarter on quarter as described above (“Overview of Broadband Business in Moscow & the Regions”). CPP traffic levels were up 76% year on year and 13% quarter on quarter to 2 million minutes in the fourth quarter, and doubled year on year to 9 million minutes for the full year.

The number of corporate subscribers declined by 8% year on year but was slightly up quarter on quarter to 30 thousand, whilst CPP traffic levels were up 23% year on year and 4% quarter on quarter to 92 million minutes in the fourth quarter, and up 33% year on year to 339 million minutes for the full year.

## Financial Highlights

(US\$ millions)	Q4 2008	Q4 2007	Growth (%)	Q3 2008	Growth (%)	FY 2008	FY 2007	Growth (%)
<b>Revenues</b>								
Corporate .....	54.8	55.1	(1%)	58.8	(7%)	229.4	189.9	21%
Operators .....	38.1	42.0	(9%)	58.0	(34%)	172.0	142.2	21%
Residential .....	26.2	33.5	(22%)	28.6	(8%)	118.0	120.3	(2%)
<b>Total</b> .....	<b>119.2</b>	<b>130.7</b>	<b>(9%)</b>	<b>145.3</b>	<b>(18%)</b>	<b>519.5</b>	<b>452.5</b>	<b>15%</b>
Intersegment sales .....	(6.0)	(2.6)	131%	(23.1)	(74%)	(31.0)	(3.3)	844%
<b>Net Revenues</b> .....	<b>113.2</b>	<b>128.1</b>	<b>(12%)</b>	<b>122.3</b>	<b>(7%)</b>	<b>488.5</b>	<b>449.2</b>	<b>9%</b>
<b>Operating Expenses (excluding depreciation and amortisation)</b>								
.....	95.3	111.3	(14%)	87.5	9%	396.1	373.1	6%
<b>OIBDA</b> .....	<b>23.8</b>	<b>19.5</b>	<b>23%</b>	<b>57.9</b>	<b>(59%)</b>	<b>123.4</b>	<b>79.4</b>	<b>55%</b>
Margin (%) .....	20.0%	14.9%		39.8%		23.8%	17.5%	
<b>Adjusted OIBDA<sup>9</sup></b> .....	<b>23.2</b>	<b>26.9</b>	<b>(14%)</b>	<b>47.9</b>	<b>(52%)</b>	<b>115.8</b>	<b>89.7</b>	<b>29%</b>
Margin (%) .....	19.5%	20.6%		32.9%		22.3%	19.8%	

Ruble revenues increased by 1% year on year in the fourth quarter and by 12% for the full year, which primarily reflected the increase in CPP traffic volumes and rising ARPU levels.

<sup>9</sup> Excluding US\$ (0.7) million of stock-based compensation costs in Q4 2008, US\$ 7.5 million in Q4 2007, US\$ (10.0) million in Q3 2008, US\$ (7.7) million for the twelve months of 2008, US\$ 10.3 million for the twelve months of 2007.

Operating expenses, excluding depreciation and amortisation charges, were down 14% year on year in the fourth quarter, which was primarily due to the revaluation of the stock-based compensation programme in the fourth quarter of 2007 and the effect of cost optimization, and were up 9% quarter on quarter due to the increase in sales and marketing expenses and US\$ 10.0 million gain on stock-based compensation programmes recorded in the third quarter of 2008. Operating expenses for the full year were up 6% due to the mixed effect of a stock-based compensation gain in the fourth quarter of 2008, a year on year decrease in sales and marketing expenses, and an increase in network traffic costs due to the build-out of the long distance network.

The adjusted OIBDA margin was down year on year to 19.5% in the fourth quarter, which was primarily due to the increase in interconnect costs due to the build-out of the long distance network and increase in the CPP traffic, as well as the grossing up of revenues and expenses under certain interconnect agreements implemented to comply with new regulations. The quarter on quarter decrease in the adjusted OIBDA margin reflected approximately US\$ 16.5 million of intersegment revenues (primarily interconnect revenues) reported in the third quarter but related to the first half of the year. The adjusted OIBDA margin increased to 22.3% for the full year due to the ongoing cost optimization programme.

### 3. Alternative segment in the Regions & CIS

Comstar's regional and international business comprises the Group's operations in 69 Russian cities with a combined population of more than 30 million people, and in Ukraine and Armenia.

#### Operating Highlights

	Q4 2008	Q4 2007	Growth (%)	Q3 2008	Growth (%)	FY 2008	FY 2007	Growth (%)
<b>Residential subscribers</b>								
Number of subscribers (000s).....	505	73	588%	498	1%	505	73	588%
ARPU (US\$) .....	10	12	(22%)	9	3%	10	11	(16%)
ARPU (RUR) .....	259	289	(11%)	222	16%	240	289	(17%)
<b>Corporate subscribers</b>								
Number of subscribers (000s).....	44	8	430%	41	6%	44	8	430%
ARPU (US\$) .....	155.3	249.5	(38%)	171.6	(9%)	155.3	227.0	(32%)
ARPU (RUR) .....	4,229	6,031	(30%)	4,134	2%	4,118	5,764	(29%)
<b>Operators</b>								
Number of active lines (000s).....	2.0	9.2	(78%)	2.1	(6%)	2.0	9.2	(78%)

The significant increase in the number of residential subscribers reflected the consolidation of the subscriber bases of DTN and RTC, which were acquired in the fourth quarter of 2007, and of Interlink and UTC, which were acquired in the second and third quarters of 2008, respectively. The development in residential ARPU levels reflected the promotional subscriber acquisition campaigns, as well as the consolidation of regional operators with lower prevailing ARPU levels. CPP traffic levels for residential subscribers were up by six times year on year and 39% quarter on quarter to 21 million minutes in the fourth quarter, and up by four times year on year to 59 million minutes for the full year.

The same factors were reflected in the growing number of corporate subscribers and the ARPU development. CPP traffic levels for corporate subscribers were up by six times year on year and 9% quarter on quarter to 28 million minutes in the fourth quarter, and up by five times to 79 million minutes for the full year.

## Financial Highlights

<i>(US\$ millions)</i>	<b>Q4 2008</b>	Q4 2007	<i>Growth (%)</i>	Q3 2008	<i>Growth (%)</i>	<b>FY 2008</b>	FY 2007	<i>Growth (%)</i>
<b>Revenues</b>								
Residential .....	<b>14.6</b>	1.9	652%	13.6	7%	<b>51.8</b>	9.3	459%
Corporate .....	<b>19.8</b>	7.0	183%	21.4	(7%)	<b>74.7</b>	22.1	238%
Operators.....	<b>10.2</b>	3.2	216%	10.3	(1%)	<b>38.4</b>	15.5	148%
<b>Total</b> .....	<b>44.7</b>	12.2	267%	45.3	(1%)	<b>164.9</b>	46.9	252%
<b>Operating Expenses (excluding depreciation and amortisation)</b> .....	<b>30.4</b>	11.0	176%	27.9	9%	<b>108.5</b>	42.3	156%
<b>OIBDA</b> .....	<b>14.3</b>	1.2	1122%	17.4	(18%)	<b>56.4</b>	4.5	1149%
<i>Margin (%)</i> .....	<b>32.0%</b>	9.6%		38.5%		<b>34.2%</b>	9.6%	
<b>Adjusted OIBDA</b> <sup>10</sup> .....	<b>14.2</b>	1.2	1115%	17.4	(18%)	<b>56.5</b>	4.5	1151%
<i>Margin (%)</i> .....	<b>31.8%</b>	9.6%		38.4%		<b>34.2%</b>	9.6%	

Ruble revenues increased more than four times year on year in the fourth quarter and more than tripled for the full year, which primarily reflected the consolidation of DTN, RTC, Interlink and UTC.

Operating expenses, excluding depreciation and amortisation charges, almost tripled year on year in the fourth quarter for the same reason, but were down 9% quarter on quarter due to the ongoing cost optimisation programme and the depreciation of the ruble against the dollar.

The adjusted OIBDA margin increased year on year to 31.8% in the quarter and 34.2% for the full year due to the higher prevailing margins in the acquired businesses and the optimization and restructuring of the existing businesses.

Following the acquisition and commencement of the consolidation of STREAM-TV in the first quarter of 2009, the operation's financial results for the previous periods were calculated using US GAAP standards and Comstar-UTS' accounting policies. Based on the preliminary unaudited estimates, STREAM-TV's revenues grew by 46% year on year in 2008 to approximately US\$ 118.0 million, whilst OIBDA increased by 30% to approximately US\$ 18.4 million with a reduced OIBDA margin of approximately 16%.

<sup>10</sup> Excluding US\$ (0.1) million of stock-based compensation costs in Q4 2008, US\$ (0.0) million in Q3 2008 and US\$ 0.1 million for the twelve months of 2008.

## **FINANCIAL REVIEW**

Net cash generated by operations increased by 8% year on year to US\$ 165.7 million in the quarter and by 22% to US\$ 593.6 million for the full year to date, in line with the operating performance of the Group.

Net cash used in investing activities amounted to US\$ 181.9 million in the quarter and US\$ 303.3 million for the year to date, which included Group capital expenditure related to the modernization of the MGTS last mile and the digitalization of the MGTS network, as well as the completion of the build-out of the WiMax network in Moscow. Group cash capital expenditure totaled US\$ 112.8 million in the quarter and US\$ 354.0 million for the full year, compared to US\$ 135.8 million and US\$ 345.4 million for the respective periods of 2007.

Free cash flow<sup>11</sup> generation increased year on year from US\$ 17.6 million to US\$ 53.0 million in the fourth quarter, and compared to US\$ 48.3 million in the third quarter of 2008. Free cash flow for the full year increased from US\$ 142.9 million to US\$ 239.6 million.

Net cash used in financing activities amounted to US\$ 19.8 million in the quarter and US\$ 154.8 million for the year to date, and primarily comprised the US\$ 200.0 million part payment to Access Telecommunications Cooperatief U.A. (“Access”) for the Comstar shares acquired as a result of the exercising of the put option, and the drawing down of RUR 4.5 billion of funds from the Sberbank credit line in order to acquire STREAM-TV Group.

The Group’s cash and cash equivalents amounted to US\$ 253.9 million at the end of the year, compared to US\$ 179.8 million at the end of 2007 and US\$ 334.8 million at the end of the third quarter.

The Group’s total borrowings including capital lease obligations amounted to US\$ 1,215.2 million at the end of the year, compared to US\$ 1,011.3 million at the end of 2007 and US\$ 896.5 million at the end of the third quarter. This included the remaining US\$ 263.6 million of payments due to Access under the terms of the exercised put option, which have been paid during the first quarter 2009, as well as the fully drawn RUR 26 billion Sberbank credit facility.

The Group’s net debt<sup>12</sup> therefore increased from US\$ 325.7 million to US\$ 832.5 million in the quarter and from US\$ 405.6 million at the end of 2007. The interest rate payable on the Sberbank facility increased from 7.6% to 9.5% from July 2008 and to 13.35% per annum from the beginning of January 2009. Approximately 77% of the Group’s total debt, or 99% of the Group’s total debt except for amounts due to Access, was ruble denominated at the year end and the Group’s net debt to twelve month trailing OIBDA ratio stood at 1.39 times at the end of the period.

Comstar announced on November 27, 2008 that the transfer of rights in relation to the previously announced exercising of the put option held by Access had been completed on November 26, 2008. Comstar subsidiary MGTS Finance S.A.<sup>13</sup> thereby acquired 46,232,000 Comstar shares, which represent approximately 11.06% of Comstar’s total issued ordinary shares. The shares were acquired for US\$ 10.03 per share and a total consideration of US\$ 463.6 million, of which US\$ 100.0 million was paid in cash immediately and US\$ 363.6 was payable in installments in the fourth quarter of 2008 and the first quarter of 2009.

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<sup>11</sup> Calculated as net cash provided by operations less cash CAPEX.

<sup>12</sup> Calculated as total debt less cash and cash equivalents and short term investments.

<sup>13</sup> MGTS Finance S.A. is a 100%-owned subsidiary of ZAO UTS MGTS, which is a wholly owned subsidiary of OJSC MGTS.

## **OTHER INFORMATION**

### **Conference call**

Comstar will host a conference call today at 8.00 am (ET) / 1.00 pm (UK time) / 2.00 pm (CET) / 4.00 pm (Moscow Time). Participants may access the call by dialling the following numbers:

UK / International: **+44 20 7190 1595**

US: **+1 480 629 1990**

A replay facility will also be made available for 7 days after the call and may be accessed by dialing the following numbers and using the following pin code:

UK / International: **+44 20 7154 2833**

US: **+1 303 590 3030**

PIN: **4050014#**

The replay facility will also be made available at

[http://www.comstar-uts.com/en/for\\_investors/finresults/2008/](http://www.comstar-uts.com/en/for_investors/finresults/2008/) in due course.

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**For further information, please visit [www.comstar-uts.com](http://www.comstar-uts.com) or contact:**

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**Comstar UTS is the leading fixed-line telecommunications company in Moscow. Comstar provides voice, data, television and other value-added services to residential and corporate subscribers and operators, using its extensive backbone network and exclusive last mile access to 97% of Moscow households. The Company also offers communications services in five Russian regions, Armenia and Ukraine. Comstar had 3.6 million residential subscribers and 784 thousand residential broadband internet subscribers in Moscow, as well as 73 thousand residential regional and international broadband internet subscribers at the end of December 2008. Comstar generated US\$ 1,647.7 million of revenues and a 41.4% adjusted OIBDA margin for the twelve months ended December 31, 2008. Comstar's Global Depositary Receipts are listed on the London Stock Exchange (ticker: CMST).**

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Comstar UTS. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might", the negative of such terms or other similar expressions. Comstar UTS wishes to caution that these statements are only predictions, and that actual events or results may differ materially. Comstar UTS does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of Comstar UTS, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, rapid technological and market change in the industries Comstar UTS operates in, as well as many other risks specifically related to Comstar UTS and its operations.*

## NON-GAAP FINANCIAL MEASURES

This results statement includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), as well as other non-GAAP financial information. The non-GAAP financial information should be considered as an addition to, but not as a substitute for, information prepared in accordance with US GAAP.

**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:

## Reconciliation of OIBDA and Adjusted OIBDA

	4Q 2008		4Q 2007		3Q 2008		FY 2008		FY 2007	
	US\$ 'mln	% of revs	US\$ 'mln	% of revs	US\$ 'mln	% of revs	US\$ 'mln	% of revs	US\$ 'mln	% of revs
Operating profit .....	123.1	31.4%	110.7	27.6%	142.3	33.8%	493.8	30.0%	456.8	30.8%
Add: Depreciation and amortization .....	42.0	10.7%	53.7	13.4%	52.6	12.5%	195.7	11.9%	170.8	11.5%
<b>OIBDA (reported)</b> .....	<b>165.0</b>	<b>42.1%</b>	<b>164.4</b>	<b>40.9%</b>	<b>194.9</b>	<b>46.2%</b>	<b>689.5</b>	<b>41.8%</b>	<b>627.6</b>	<b>42.4%</b>
Less: non-recurring compensation from the Federal Budget.....	-	-	-	-	-	-	-	-	(36.5)	(2.5%)
Add/(less): back stock-based compensation costs.....	(1.1)	(0.3%)	7.5	1.9%	(10.1)	(2.4%)	(6.9)	(0.4%)	10.3	0.7%
<b>OIBDA (adjusted)</b> .....	<b>163.9</b>	<b>41.8%</b>	<b>171.9</b>	<b>42.8%</b>	<b>184.8</b>	<b>43.8%</b>	<b>682.6</b>	<b>41.4%</b>	<b>601.3</b>	<b>40.6%</b>

## ADJUSTED PRE-TAX INCOME

**Adjusted pre-tax income** is pre-tax income adjusted for the effect of the change in the fair value of derivative financial instruments (call and put option issued as part payment for the Group's stake in Svyazinvest and the call option purchased in order to hedge against the Company's exposure resulting from new employee stock option program introduced in April 2008). This measure is included in the results statement in order to provide additional information regarding the Group's underlying performance and underlying effective tax rate. While the revaluation of derivative financial instruments is included in the determination of pre-tax income under US GAAP, these items only partially affect the Group's future cash flows and are not under the control of the management, as the fair values of the call and put option and the purchased call option are dependant primarily on the market price of Comstar UTS GDRs. Revaluation of these financial instruments does not affect tax position of the Group.

	4Q 2008		4Q 2007		3Q 2008		FY 2008		FY 2007	
	US\$ 'mln	% of revenues	US\$ 'mln	% of revenues	US\$ 'mln	% of revenues	US\$ 'mln	% of revenues	US\$ 'mln	% of revenues
Pre-tax income (reported) .....	103.3	26.3%	144.4	35.9%	76.9	18.2%	415.5	25.2%	248.5	16.8%
Add/(less): change in fair value of call and put option in 2007 and put option in 2008	-	0.0%	(66.4)	(16.5%)	45.5	10.8%	27.9	1.7%	145.9	9.8%
Add: change in fair value of purchased call option	0.1	0.0%	-	0.0%	13.5	3.2%	13.6	0.8%	-	0.0%
<b>Pre-tax income (adjusted) .....</b>	<b>103.3</b>	<b>26.4%</b>	<b>78.0</b>	<b>19.4%</b>	<b>135.9</b>	<b>32.2%</b>	<b>457.1</b>	<b>27.7%</b>	<b>394.4</b>	<b>26.6%</b>
Income tax expense.....	21.4	5.5%	18.2	4.5%	33.3	7.9%	106.1	6.4%	111.0	7.5%
<b>Effective tax rate (adjusted).....</b>	<b>20.7%</b>		<b>23.3%</b>		<b>24.5%</b>		<b>23.2%</b>		<b>28.1%</b>	



Attachment B

**“COMSTAR – United TeleSystems” OJSC**  
**UNAUDITED CONSOLIDATED INCOME STATEMENTS**

(US\$ thousand, except for share and per share amounts)

	Three months ended December 31,		Years ended December 31,	
	2008	2007 (*)	2008	2007 (*)
Operating revenues .....	\$ 391,888	\$ 401,581	\$ 1,647,665	\$ 1,481,522
Operating expenses, excluding depreciation and amortisation, net .....	(226,846)	(237,164)	(958,149)	(853,961)
<i>Net of / (Including) stock-based compensation</i> .....	1,123	(7,479)	6,943	(10,287)
Depreciation and amortisation .....	(41,954)	(53,710)	(195,671)	(170,752)
<b>Operating income</b> .....	<b>123,088</b>	<b>110,707</b>	<b>493,845</b>	<b>456,809</b>
Interest income .....	7,830	5,141	38,096	15,052
Interest expense .....	(22,011)	(14,489)	(71,979)	(53,440)
Change in fair value of call and put option in 2007 and put option in 2008 .....	–	66,364	(27,940)	(145,859)
Change in fair value of purchased call option .....	(95)	–	(13,614)	–
Impairment of long-term investments .....	(1,878)	(22,691)	(1,878)	(22,691)
Foreign currency transactions loss, net .....	(3,686)	(677)	(998)	(4,555)
Gain from disposal of an affiliate .....	–	–	–	3,216
<b>Income before income taxes, income from investments and minority interests</b> .....	<b>103,248</b>	<b>144,355</b>	<b>415,532</b>	<b>248,532</b>
Income tax expense .....	(21,364)	(18,188)	(106,098)	(111,001)
Income from investments .....	–	264	2,993	2,703
Minority interests .....	(22,646)	(74,603)	(132,782)	(96,421)
<b>Net income</b> .....	<b>\$ 59,238</b>	<b>\$ 51,828</b>	<b>\$ 179,645</b>	<b>\$ 43,813</b>
Weighted average number of common shares outstanding – basic .....	386,366,073	370,787,899	399,909,44	361,394,049
Earnings per common share – basic .....	\$ 0.15	\$ 0.14	\$ 0.45	\$ 0.12
Weighted average number of common shares outstanding – diluted .....	457,945,076	385,038,603	411,800,31	373,488,887
Earnings per common share – diluted .....	\$ 0.13	\$ 0.13	\$ 0.41	\$ 0.12

(\*) Amounts for the three months and year ended December 31, 2007 were restated to conform to the new accounting policy with respect to acquisitions adopted by Comstar UTS effective January 1, 2008.

**“COMSTAR – United TeleSystems” OJSC**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**

<i>(US\$ thousand)</i>	<b>December 31, 2008</b>	<b>December 31, 2007 (*)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 253,946	\$ 179,794
Short-term investments .....	128,734	425,929
Trade receivables, net .....	157,489	163,028
Other receivables, prepaid expenses and other current assets .....	70,756	101,668
Inventories and spare parts .....	25,166	41,328
Deferred tax assets, current portion .....	11,142	29,910
<b>Total current assets .....</b>	<b>647,233</b>	<b>941,657</b>
Property, plant and equipment, net .....	1,800,128	1,907,112
Intangible assets, net .....	202,452	191,006
Investments in shares of Svyazinvest .....	1,240,977	1,485,378
Other long-term investments .....	238,166	99,731
Derivative financial instrument (call option) .....	5,830	–
Restricted cash .....	–	2,447
Deferred tax assets, long-term portion .....	841	1,631
Deferred finance charges, net of current portion .....	479	1,375
<b>Total assets .....</b>	<b>\$ 4,136,106</b>	<b>\$ 4,630,337</b>

(\*) Amounts as of December 31, 2007 were derived from the audited consolidated financial statements of Comstar UTS for the years ended December 31, 2007 and 2006 and should be read in conjunction with these statements.

**“COMSTAR – United TeleSystems” OJSC**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS (continued)**

<i>(US\$ thousand)</i>	<b>December 31, 2008</b>	<b>December 31, 2007 (*)</b>
	<b>2008</b>	<b>2007 (*)</b>
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Trade accounts payable, accrued expenses and other current liabilities.....	\$ 228,977	\$ 178,954
Deferred connection fees, current portion.....	29,387	35,787
Subscriber prepayments .....	40,683	48,767
Debt, current portion .....	426,681	103,476
Capital lease obligations, current portion.....	5,517	10,360
Put option .....	–	88,000
	731,245	465,344
Total current liabilities .....		
Long-term liabilities:		
Deferred connection fees, net of current portion .....	96,115	117,884
Debt, net of current portion.....	781,955	891,321
Capital lease obligations, net of current portion .....	1,019	6,150
Post-retirement obligations .....	29,250	35,817
Property, plant and equipment contributions .....	93,197	112,779
Deferred tax liabilities, long-term portion .....	101,202	114,123
Other long-term liabilities .....	38,681	31,009
	1,141,419	1,309,083
Total long-term liabilities.....		
Total liabilities .....		
	1,872,664	1,774,427
Minority interests .....		
	703,891	765,005
Shareholders' equity:		
Common stock .....	23,900	23,900
Treasury stock.....	(2,545)	(857)
Additional paid-in capital.....	1,068,985	1,425,044
Retained earnings.....	649,478	472,431
Accumulated other comprehensive (loss) / income .....	(180,267)	170,387
	1,559,551	2,090,905
Total shareholders' equity.....		
<b>Total liabilities and shareholders' equity.....</b>		
	<b>\$ 4,136,106</b>	<b>\$ 4,630,337</b>

(\*) Amounts as of December 31, 2007 were derived from the audited consolidated financial statements of Comstar UTS for the years ended December 31, 2007 and 2006 and should be read in conjunction with these statements.

**“COMSTAR – United TeleSystems” OJSC**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(US\$ thousand)

	Three months ended December 31,		Years ended December 31,	
	2008	2007 (*)	2008	2007 (*)
<b>Operating activities:</b>			\$	
Net income .....	\$ 59,238	\$ 51,828	179,645	\$ 43,813
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortisation.....	41,954	53,710	195,671	170,752
Stock-based compensation .....	(1,123)	7,479	(6,943)	10,287
Change in fair value of call and put option in 2007 and put option in 2008 .....	–	(66,364)	27,940	145,859
Change in fair value of purchased call option .....	95	–	13,614	–
Impairment of long-term investments .....	1,878	22,691	1,878	22,691
(Gain) / loss from disposal of fixed assets and other non-cash items, net .....	2,450	(2,535)	4,341	1,484
Compensation of losses from third parties .....	(916)	(3,556)	(10,679)	(10,778)
Gain from disposal of an affiliate.....	–	–	–	(3,216)
Amortisation of deferred finance charges .....	90	170	400	4,019
Deferred taxes .....	6,454	1,260	9,393	9,871
Income from affiliates .....	–	–	–	(620)
Foreign currency transactions loss / (gain) on non- operating activities, net .....	8,348	245	11,042	(1,093)
Postretirement benefits .....	(1,448)	(9)	860	7,572
Minority interests .....	22,646	74,603	132,782	96,421
Provision for doubtful debts .....	(1,290)	322	6,552	5,374
Inventory obsolescence charge.....	448	1,606	2,475	4,932
Changes in operating assets and liabilities:				
Trade receivables.....	(3,126)	20,384	(30,053)	(52,708)
Other receivables, prepaid expenses and other current assets.....	30,024	11,872	16,602	9,852
Inventories and spare parts.....	5,397	(4,532)	1,919	(8,784)
Trade accounts payable, accrued expenses and other current liabilities .....	(3,549)	(15,512)	40,652	37,609
Deferred connection fees.....	(893)	(2,871)	(3,379)	(3,964)
Subscriber prepayments .....	(970)	2,565	(1,094)	(1,017)
<b>Net cash provided by operating activities.....</b>	<b>165,707</b>	<b>153,356</b>	<b>593,618</b>	<b>488,356</b>

(\*) Amounts for the three months and year ended December 31, 2007 were restated to conform to the new accounting policy with respect to acquisitions adopted by Comstar UTS effective January 1, 2008.

**“COMSTAR – United TeleSystems” OJSC**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(US\$ thousand)

	Three months ended December 31,		Years ended December 31,	
	2008	2007 (*)	2008	2007 (*)
<b>Investing activities:</b>				
		\$		\$
Purchases of property, plant and equipment .....	\$ (104,469)	(120,067)	\$ (333,118)	(303,416)
Proceeds from sale of property, plant and equipment .....	3,036	2,451	5,873	4,690
Purchases of intangible assets .....	(8,284)	(15,734)	(20,857)	(42,013)
Acquisition of subsidiaries, net of cash acquired .....	(121,094)	(182,412)	(171,250)	(183,162)
Acquisition of minority interests in existing subsidiaries .....	(1,684)	–	(1,684)	(1,832)
Purchases of long-term investments .....	(33,581)	(12,314)	(42,222)	(21,382)
Proceeds from sale and redemption of long-term investments .....	334	16,175	425	36,780
Purchases of short-term investments .....	(96,490)	(424,909)	(261,645)	(447,707)
Proceeds from sale and redemption of short-term investments .....	180,313	23,011	538,108	96,575
Purchase of a derivative financial instrument .....	–	–	(19,422)	–
(Increase) / decrease in restricted cash .....	–	(615)	2,476	1,561
<b>Net cash used in investing activities .....</b>	<b>(181,919)</b>	<b>(714,414)</b>	<b>(303,316)</b>	<b>(859,906)</b>
<b>Financing activities:</b>				
Cash payments and proceeds from the exercise of the put and call options .....	(100,000)	322,237	(100,000)	322,237
Acquisition of own stock .....	–	(32)	–	(32)
Proceeds from borrowings .....	189,841	166,988	192,931	849,530
Principal payments on borrowings .....	(104,584)	(3,984)	(200,160)	(712,461)
Principal payments on capital lease obligations .....	(659)	(4,851)	(9,274)	(17,194)
Dividends paid .....	(4,411)	(8,697)	(38,250)	(37,031)
Deferred finance charges .....	–	–	–	(1,492)
<b>Net cash (used in) / provided by financing activities ...</b>	<b>(19,813)</b>	<b>471,661</b>	<b>(154,753)</b>	<b>403,557</b>
Effects of foreign currency translation on cash and cash equivalents .....	(44,856)	8,754	(61,397)	11,166
<b>Net (decrease) / increase in cash and cash equivalents .....</b>	<b>(80,881)</b>	<b>(80,643)</b>	<b>74,152</b>	<b>43,173</b>
Cash and cash equivalents, beginning of the period .....	334,827	260,437	179,794	136,621
<b>Cash and cash equivalents, end of the period .....</b>	<b>\$ 253,946</b>	<b>\$ 179,794</b>	<b>\$ 253,946</b>	<b>\$ 179,794</b>

(\*) Amounts for the three months and year ended December 31, 2007 were restated to conform to the new accounting policy with respect to acquisitions adopted by Comstar UTS effective January 1, 2008.