



FOR IMMEDIATE RELEASE

September 4, 2008

## **COMSTAR — UNITED TELESYSTEMS OJSC SECOND QUARTER AND FIRST SIX MONTHS OF 2008 FINANCIAL RESULTS**

**Moscow, Russia** – September 4, 2008 – “COMSTAR – United TeleSystems” OJSC (“Comstar” or “the Group”) (LSE: CMST), the leading integrated telecommunications operator in Russia and the CIS, today announced its unaudited consolidated US GAAP financial results for the second quarter and six months ended June 30, 2008.

### **SECOND QUARTER HIGHLIGHTS**

- Consolidated revenues of US\$ 417.3 million - up 18%<sup>1</sup> year on year when excluding Federal Budget compensation payments received in Q2 2007
- Adjusted OIBDA<sup>2</sup> of US\$ 163.5 million with margin of 39.2%
- Net income up 74% year on year to US\$ 29.9 million
- Net cash flow from operations up 12% year on year to US\$ 125.8 million
- 51% of MGTS residential subscribers on unlimited tariff plan at the end of the quarter
- 80% year on year increase to 783 thousand residential broadband subscribers in Moscow with substantially increased market share of 36.0%<sup>3</sup> – premium segment ARPU of US\$ 18.5<sup>4</sup> and mass market ARPU of US\$ 4.9
- Moscow alternative segment corporate subscriber ARPU up 40% year on year to US\$ 449.8
- Year on year addition of 46 thousand residential broadband subscribers in the regions and regional ARPU of US\$ 20.2

### **HALF YEAR HIGHLIGHTS**

- Consolidated revenues of US\$ 834.2 million - up 22%<sup>1</sup> year on year when excluding Federal Budget compensation payments received in Q2 2007
- Adjusted OIBDA<sup>2</sup> of US\$ 333.8 million with margin of 40.0%
- Net income up 38% year on year to US\$ 84.0 million
- Net cash flow from operations up 36% year on year to US\$ 274.2 million
- Total assets up 32% year on year to US\$ 4.98 billion
- Regulatory reduction in price of MGTS unlimited tariff plan for residential voice services from US\$ 16.1 (RUR 380<sup>5</sup>) to US\$ 14.6<sup>6</sup> (RUR 345<sup>5</sup>) from February 1, 2008

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<sup>1</sup> Excluding US\$ 27.0 million of non-recurring compensation payments received from the Federal Budget in Q2 2007

<sup>2</sup> Excluding US\$ 4.2 million of accruals relating to the long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar GDR price. Here and below, please refer to Attachment A to this statement for a full definition of OIBDA and adjusted OIBDA

<sup>3</sup> Source: analysts' research

<sup>4</sup> Excluding new subscribers in promotion periods

- Regulatory cancellation of monthly US\$ 25.4<sup>6</sup> (RUR 600) MGTS operator interconnect service charge from March 1, 2008
- 25% increase in weighted average regulated per minute charge for operators interconnected to MGTS network to US\$ 0.013<sup>6</sup> (RUR 0.30) from July 1, 2008

Sergey Pridantsev, President and Chief Executive Officer, commented: “The first half of the year has seen significant further progress in a number of our key strategic focus areas – Broadband, the Regions, and Group Structure. We have already now moved into the second phase of our Broadband development strategy in Moscow after the significant market share gains that we have reported in recent quarters. Our objective is to drive up ARPU levels in the premium customer segment, whilst focusing on growing the subscriber base in the mass market segment.

“Our regional footprint and market position has been enhanced by the recent acquisitions of Interlink Group in the Central region in June and Ural Telephone Company in the Ural region in July. At the same time, the development of our regional Broadband business will be accelerated through the management of STREAM-TV’s regional assets from September. STREAM-TV’s network already passes more than 3.5 million homes and the combination with our existing operations will make us the largest broadband operator in the Russian regions. Finally, the consolidation of the whole of the Comstar-Direct broadband business during the second quarter has also further simplified our corporate structure.”

Irina Matveeva, Chief Financial Officer, added: “We have continued to demonstrate healthy levels of growth and profitability despite the impact of the various regulatory changes introduced during the first half of the year. The alternative segment business has performed well in Moscow and the regions, and we have been working closely with the Regulator to bring the MGTS interconnect tariffs in line with the changes in legislation by cancelling the monthly service charge. As a result, the per-minute interconnect tariffs have been supplemented after the end of the quarter with a fixed payment by operators for the use of MGTS lines. We therefore maintain our previously stated full year organic revenue and OIBDA margin guidance for 2008”.

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<sup>5</sup> Including 18% VAT

<sup>6</sup> Using Q2 2008 average Ruble / US dollar exchange rate of 23.6279

## FINANCIAL SUMMARY

<i>(US\$ millions, except otherwise stated)</i>	<b>Q2 2008</b>	Q2 2007	<i>Growth</i>	Q1 2008	<i>Growth</i>	<b>H1 2008</b>	H1 2007	<i>Growth</i>
Revenues .....	<b>417.3</b>	379.2	10%	417.0	0%	<b>834.2</b>	708.0	18%
<i>Revenues excluding non-recurring Federal Budget compensation payments .....</i>	<i><b>417.3</b></i>	<i>352.2</i>	<i>18%</i>	<i>417.0</i>	<i>0%</i>	<i><b>834.2</b></i>	<i>681.0</i>	<i>22%</i>
OIBDA .....	<b>159.3</b>	173.2	(8%)	170.2	(6%)	<b>329.6</b>	303.6	9%
Margin .....	<b>38.2%</b>	45.7%		40.8%		<b>39.5%</b>	42.9%	
Adjusted OIBDA <sup>7</sup> .....	<b>163.5</b>	146.2	12%	170.2	(4%)	<b>333.8</b>	276.6	21%
Margin .....	<b>39.2%</b>	41.5%		40.8%		<b>40.0%</b>	40.6%	
Operating income .....	<b>107.1</b>	135.7	(21%)	121.3	(12%)	<b>228.4</b>	228.5	(0%)
Margin .....	<b>25.7%</b>	35.8%		29.1%		<b>27.4%</b>	32.3%	
Change in fair value of call and put option less minority share.....	1.8	(22.0)	(108%)	8.0	(78%)	<b>9.8</b>	(14.5)	(168%)
Net income .....	<b>29.9</b>	17.2	74%	54.1	(45%)	<b>84.0</b>	60.8	38%
Basic EPS (US\$) .....	<b>0.07</b>	0.05	54%	0.13	(45%)	<b>0.21</b>	0.17	22%
Weighted average number of shares outstanding – basic (000s).....	<b>404,457</b>	358,228	13%	404,457	–	<b>404,457</b>	358,228	13%
Cash flow from operations .....	<b>125.8</b>	112.4	12%	148.4	(15%)	<b>274.2</b>	201.5	36%
Cash CAPEX.....	<b>92.4</b>	78.7	17%	43.4	113%	<b>135.8</b>	142.8	(5%)
<i>% of revenues</i>	<i><b>22.1%</b></i>	<i>20.7%</i>		<i>10.4%</i>		<i><b>16.3%</b></i>	<i>20.2%</i>	
Total Assets .....	<b>4,975.0</b>	3,762.5	32%	4,971.5	0%	<b>4,975.0</b>	3,762.5	32%

## OPERATING REVIEW

### **Group Overview**

Comstar generated 18% year on year revenue growth in the second quarter, and 22% growth for the first half of the year, when excluding the US\$ 27.0 million of non-recurring compensation payments received from the Federal Budget in the first half of 2007. This reflected the mixed effect of the ongoing growth of fixed-to-mobile voice traffic; the increased scale of the regional business and consolidation of recently acquired businesses (DTN, RTC and Interlink); the continued appreciation of the Russian Ruble<sup>8</sup>; the regulatory reduction in the price charged by MGTS for its unlimited monthly tariff plan for residential voice services from US\$ 16.1 (RUR 380) to US\$ 14.6 (RUR 345) with effect from February 1, 2008; and the cancellation by the Regulator of the US\$ 25.4 (RUR 600) monthly

<sup>7</sup> Excluding US\$ 27.0 million of non-recurring compensation payments received from the Federal Budget in Q2 2007 and US\$ 4.2 million of accruals relating to the long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar GDR price

<sup>8</sup> The average exchange rate for the period was RuR 23.6279 per US\$ 1 in the second quarter of 2008, RuR 24.2601 per US\$ 1 in the first quarter of 2008; RuR 25.8617 per US\$ 1 in the second quarter of 2007, RuR 26.3062 per US\$ 1 in the first quarter of 2007; RuR 23.9440 per US\$ 1 for the first six months of 2008; and RuR 26.0827 per US\$ 1 for the first six months of 2007

interconnect service charge applicable to 260 thousand MGTS interconnect points with effect from March 1, 2008.

Revenues from fixed-to-mobile calls increased by 60% year on year in the second quarter, and by 15% quarter on quarter, to US\$ 42.9 million and represented 10% of Group revenues for the period. This reflected a 48% year on year and 13% quarter on quarter increase in traffic levels to 746 million minutes. Revenues from fixed-to-mobile calls increased by 61% year on year for the year to date to US\$ 80.3 million and represented 10% of Group revenues for the period, following a 39% year on year increase in traffic levels to 1.4 billion minutes.

With effect from July 1, 2008, the weighted average regulatory per minute charge for operators interconnecting to the MGTS network was increased by 25% to US\$ 0.013<sup>6</sup> (RUR 0.30).

<b>Operating Expenses<sup>9</sup></b>	<b>Q2</b>	<b>Q2</b>	<b>Growth</b>	<b>Q1</b>	<b>Growth</b>	<b>H1</b>	<b>H1</b>	<b>Growth</b>
<i>(US\$ millions)</i>	<b>2008</b>	<b>2007</b>	<i>(%)</i>	<b>2008</b>	<i>(%)</i>	<b>2008</b>	<b>2007</b>	<i>(%)</i>
Employee costs.....	<b>97.4</b>	83.4	17%	92.2	6%	<b>189.6</b>	164.5	15%
Network traffic costs .....	<b>54.8</b>	34.6	58%	52.3	5%	<b>107.1</b>	70.9	51%
Selling & marketing .....	<b>15.6</b>	9.0	74%	14.4	9%	<b>30.0</b>	15.4	94%
Repairs & maintenance ..	<b>22.5</b>	17.3	31%	18.4	23%	<b>40.9</b>	30.9	32%
Taxes .....	<b>12.1</b>	11.9	2%	12.2	(1%)	<b>24.3</b>	21.6	13%
Utility & energy costs ....	<b>10.7</b>	8.5	25%	12.3	(13%)	<b>22.9</b>	18.9	21%
Other, net.....	<b>44.7</b>	41.3	8%	45.0	(1%)	<b>89.7</b>	82.2	9%
<b>Total Operating Expenses .....</b>	<b>257.9</b>	206.0	25%	246.7	5%	<b>504.6</b>	404.5	25%
<i>% of revenues .....</i>	<b>61.8%</b>	54.3%		59.2%		<b>60.5%</b>	57.1%	

Operating expenses increased by 25% year on year in the quarter and for the year to date due to the consolidation of DTN, RTC and Interlink; continued successful sales and marketing campaigns to accelerate residential broadband subscriber acquisition levels in Moscow; higher network costs due to the increase in CPP traffic and renting of DLD/ILD channels for Comstar's long-distance network; employee stock option programmes costs; and the appreciation of the Russian Ruble against the US dollar. Other expenses including IT maintenance costs were reduced year on year following the consolidation of resources across the Group. The quarter on quarter development also reflected growing repair and maintenance expenses, which were partially offset by seasonally lower utility and energy costs.

When excluding the US\$ 27.0 million of non-recurring Federal Budget compensation payments received in 2007 and US\$ 4.2 million of accruals relating to the long term programme employee incentive programme in the second quarter of 2008, the Group reported a 12% year on year increase in OIBDA to US\$ 163.5 million in the second quarter and an OIBDA margin of 39.2%. Excluding the aforementioned factors, Group OIBDA for the year to date was up 21% year on year to US\$ 333.8 million with a margin of 40.0%.

Group depreciation and amortisation charges increased year on year from US\$ 37.5 million to US\$ 52.2 million in the quarter, and compared to US\$ 48.9 million in the first quarter of 2008. Charges for the year to date increased year on year from US\$ 75.1 million to US\$ 101.2 million. The higher prevailing levels reflected the ongoing appreciation of the Russian Ruble, as well as the acquisitions made and capital expenditure levels.

<sup>9</sup> Excluding depreciation and amortisation, net

Group operating income amounted to US\$ 107.1 million in the quarter and US\$ 228.4 million for the year to date, with operating margins of 25.7% and 27.4% for the two respective periods.

Net interest expenses were reduced year on year from US\$ 10.0 million to US\$ 4.5 million in the quarter, and were stable compared to US\$ 4.4 million for the first quarter of 2008. Year to date net interest expenses were reduced year on year from US\$ 20.5 million to US\$ 8.8 million. This development reflected the higher levels of interest bearing deposits and investments.

The revaluation of the put option issued in part payment for the acquisition of the 25% plus one share stake in regional telecommunications holding company Svyazinvest in December 2006 gave rise to non-cash gains of US\$ 3.2 million in the quarter and US\$ 17.6 million for the year to date, compared to non-cash losses of US\$ 39.5 million and US\$ 26.0 million for the respective periods of 2007, and a non-cash gain of US\$ 14.4 million in the first quarter of 2008. The 44% minority interest in the revaluation reduced the total net impact of the instrument on the Group's net income to a US\$ 1.8 million gain in the quarter and US\$ 9.8 million gain for the year to date. It was announced after the end of the quarter that the put option is being exercised and that the transaction will close in November.

Group pre-tax income, when excluding the non-cash impact of the revaluation of the option, amounted to US\$ 104.7 million in the quarter and US\$ 217.8 million for the year to date, compared to US\$ 125.7 million and US\$ 214.6 million for the respective periods of 2007.

The effective tax rate, when excluding the revaluation of the option, decreased year on year from 28.4% to 22.4% in the quarter and from 29.1% to 23.6% for the year to date, and compared with a rate of 24.7% in the first quarter of 2008.

Minority interests in the Group's results increased year on year to US\$ 54.6 million in the quarter and to US\$ 100.0 million for the year to date, and primarily comprised the minority interest in MGTS's earnings. The minorities line increased by US\$ 16.0 million quarter on quarter due to the difference between the total dividends accrued to MGTS minorities and the share of those minorities in the dividends accrued.

The Group therefore reported a 74% year on year increase in net income to US\$ 29.9 million in the quarter and a 38% increase to US\$ 84.0 million for the year to date.

## 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, but the operating and financial results for the broadband businesses are included in each of the three following reporting segments.

	Q2 2008	Q2 2007	Growth (%)	Q1 2008	Growth (%)	H1 2008	H1 2007	Growth (%)
<b>MOSCOW</b>								
<b>Residential subscribers</b>								
Total number of subscribers (000s) <sup>10</sup> .....	783	435	80%	750	4%	783	435	80%
Premium tariff segment <sup>11</sup> .....	686	435	58%	663	3%	686	435	58%
Mass-market segment <sup>12</sup> .....	97	–	–	87	11%	97	–	–
Total Revenues (US\$ millions) .....	29.9	26.6	12%	28.6	5%	58.5	50.7	15%
Average monthly revenue per line								
(US\$) .....	12.8	20.6	(38%)	13.4	(4%)	13.1	19.7	(33%)
Premium segment .....	13.9	20.6	(33%)	14.6	(5%)	14.3	19.7	(27%)
Mass market segment .....	4.9	–	–	2.8	72%	4.0	–	–
<b>Corporate subscribers</b>								
Number of subscribers (000s) .....	51	43	18%	49	4%	51	43	18%
Revenues (US\$ millions) .....	25.8	19.1	35%	24.3	6%	50.1	35.7	40%
Average monthly revenue per line (US\$) .....	173.4	149.4	16%	169.5	2%	171.5	139.7	23%
<b>REGIONS</b>								
<b>Residential subscribers</b>								
Number of subscribers (000s) .....	49	3	1746%	40	22%	49	3	1746%
Revenues (US\$ millions) .....	2.6	0.2	1219%	2.5	4%	5.0	0.3	1424%
Average monthly revenue per line (US\$) <sup>13</sup> .....	20.2	28.1	(28%)	22.5	(10%)	21.3	23.9	(11%)
<b>Corporate subscribers</b>								
Number of subscribers (000s) .....	13	3	325%	12	10%	13	3	325%
Revenues (US\$ millions) .....	5.1	1.5	248%	4.4	15%	9.5	2.8	240%
Average monthly revenue per line (US\$) .....	142.7	161.9	(12%)	131.1	9%	137.1	160.1	(14%)
<b>TOTAL</b>								
<b>Number of broadband subscribers (000s) .....</b>								
	895	484	85%	850	5%	895	484	85%
<b>Revenues (US\$ millions) .....</b>								
	63.4	47.4	34%	59.7	6%	123.2	89.6	38%

The total number of broadband subscribers grew by 85% year on year to 895 thousand, which primarily reflected the substantial growth in the Moscow residential broadband subscriber base following the successful implementation of the first stage of the revised broadband development strategy launched in September 2007. The residential broadband subscriber base grew by 80% year on year to 783 thousand customers, and Comstar's share

<sup>10</sup> The number of subscribers for the first quarter of 2007 has been recalculated in line with the change in accounting policy in the second half of 2007.

<sup>11</sup> Comstar & Comstar-Direct

<sup>12</sup> MGTS

of the Moscow residential broadband market therefore increased year on year from 27.3% to 36.0%<sup>14</sup>.

Following the introduction of MGTS-branded mass market broadband services in October 2007, the number of mass market subscribers has increased to 97 thousand and generated US\$ 4.9 of ARPU in the second quarter. The 72% quarter on quarter ARPU increase was due to the fact that the vast majority of the new subscribers were added towards the end of the first quarter.

The number of Comstar-Direct premium subscribers was up 58% year on year to 686 thousand following continued successful promotion campaigns. This accelerated acquisition rate did have a short-term impact on overall premium segment APRU, which declined to US\$ 13.9, but premium segment ARPU for customers who have subscribed for more than six months was stable quarter on quarter at US\$ 18.5. The number of double-play (Internet & pay-TV) subscribers grew by 44% year on year and 9% quarter on quarter to 146 thousand and generated US\$ 21.4 of ARPU in the second quarter.

The number of corporate subscribers (primarily *Small Companies or Home Offices*) using ADSL internet connections grew by 18% year on year and 4% quarter on quarter to 51 thousand, with ARPU levels increasing year on year and quarter on quarter to US\$ 173.4 due to rising usage levels.

Comstar increased its regional residential broadband subscriber base by 46 thousand customers year on year to a total of 49 thousand subscribers at the end of the period. The underlying organic growth was boosted by the acquisition of leading alternative fixed-line operators in the Southern and Ural regions in the fourth quarter of 2007. ARPU for the segment decreased year on year and quarter on quarter to US\$ 20.2 due to the lower current ARPU levels in the recently acquired businesses and subscriber acquisition campaigns, but profitability increased due to lower traffic costs. The number of pay-TV subscribers in the regions increased by 32% quarter on quarter to 142 thousand customers.

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<sup>14</sup> Source: analysts' research

## 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 Group. MGTS is the owner of the 'last mile' access in Moscow, which is not unbundled, and provides 4.4 million active residential and corporate lines. MGTS provides regulated voice services and unregulated mass market broadband services in Moscow.

#### *Operating Highlights*

	<b>Q2 2008</b>	Q2 2007	<i>Growth (%)</i>	Q1 2008	<i>Growth (%)</i>	<b>H1 2008</b>	H1 2007	<i>Growth (%)</i>
Installed telephone lines (000s).....	<b>4,819<sup>15</sup></b>	4,832	0%	4,812	0%	<b>4,819</b>	4,832	0%
<b>Residential</b>								
Number of subscribers / active lines (000s) .....	<b>3,596</b>	3,578	1%	3,590	0%	<b>3,596</b>	3,578	1%
CPP traffic (millions of minutes) .....	<b>438</b>	315	39%	398	10%	<b>837</b>	598	40%
Average monthly revenue per line (US\$) .....	<b>12.2</b>	11.3	7%	12.2	0%	<b>12.2</b>	10.8	13%
<b>Corporates</b>								
Number of active lines (000s) ....	<b>768</b>	764	1%	766	0%	<b>768</b>	764	1%
Number of subscribers (000s) ....	<b>69<sup>16</sup></b>	74	(8%)	68	0%	<b>69</b>	74	(8%)
CPP traffic (millions of minutes) .....	<b>193</b>	130	48%	167	16%	<b>360</b>	237	52%
Average monthly revenue per subscriber (excl. revenue from points of interconnect) (US\$) .....	<b>238.6</b>	215.7	11%	230.3	4%	<b>234.2</b>	208.0	13%
Number of points of interconnect (000s).....	<b>31</b>	32	(1%)	32	(1%)	<b>31</b>	32	(1%)
Average monthly revenue per point of interconnect (US\$) .....	<b>200.4</b>	206.3	(3%)	186.9	7%	<b>194.4</b>	199.4	(3%)
<b>Operators</b>								
Number of interconnected operators .....	<b>247</b>	229	8%	243	2%	<b>247</b>	229	8%
Number of points of interconnect (000s).....	<b>236</b>	213	11%	230	3%	<b>236</b>	213	11%
Average monthly revenue per point of interconnect (US\$) .....	<b>61.5</b>	64.9	(5%)	67.5	(9%)	<b>61.5</b>	50.0	23%
DLD/ILD traffic (millions of minutes) .....	<b>340</b>	338	1%	359	(5%)	<b>699</b>	709	(1%)
DLD/ILD traffic charges per minute (US\$) .....	<b>0.013</b>	0.022	(39%)	0.013	1%	<b>0.013</b>	0.022	(39%)

<sup>15</sup> The year on year decline in installed capacity is attributable to the ongoing digitalization of the network and, therefore, the temporary simultaneous existence of analogue and digital lines in the second quarter of 2007

<sup>16</sup> The year on year decline in the number of corporate subscribers is attributable to the reclassification of a number of corporate subscribers to the operators line after getting the Operator's licence

The total number of active residential lines increased year on year to 3.596 million, while CPP traffic was up 39% to 438 million minutes. Residential ARPU was consequently up 7% year on year.

The number of active corporate lines also increased year on year and corporate ARPU was up 11% year on year and 4% quarter on quarter following the introduction of the new tariff plans for regulated voice services from February 1, 2008, as well as the 48% year on year and 16% quarter on quarter rise in CPP traffic.

The number of interconnect points with other telecom operators was up 11% year on year and 3% quarter on quarter, with average monthly revenue per point of interconnect declining by 5% and 9% for the respective periods due to the Regulator's cancellation of the fixed monthly charge per interconnect point with effect from March 1, 2008.

### *Financial Highlights*

<i>(US\$ millions)</i>	<b>Q2 2008</b>	Q2 2007	<i>Growth (%)</i>	Q1 2008	<i>Growth (%)</i>	<b>H1 2008</b>	H1 2007	<i>Growth (%)</i>
<b>Revenues</b>								
Residential .....	<b>131.8</b>	150.8	<i>(13%)</i>	134.2	<i>(2%)</i>	<b>266.0</b>	262.6	<i>1%</i>
<i>Including non-recurring compensation from the Federal Budget .....</i>	<i>–</i>	<i>27.0</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>27.0</i>	<i>–</i>
Corporate .....	<b>75.0</b>	66.5	<i>13%</i>	67.5	<i>11%</i>	<b>142.4</b>	128.4	<i>11%</i>
Operators .....	<b>85.7</b>	74.1	<i>16%</i>	87.5	<i>(2%)</i>	<b>173.3</b>	147.8	<i>17%</i>
<b>Total .....</b>	<b>292.5</b>	291.4	<i>0%</i>	289.2	<i>1%</i>	<b>581.7</b>	538.8	<i>8%</i>
Intersegment sales .....	<b>(40.9)</b>	(31.1)	<i>31%</i>	(34.6)	<i>18%</i>	<b>(75.5)</b>	(62.1)	<i>22%</i>
<b>Net Revenues .....</b>	<b>251.7</b>	260.3	<i>(3%)</i>	254.6	<i>(1%)</i>	<b>506.2</b>	476.7	<i>6%</i>
<b>Operating Expenses (excluding depreciation and amortisation) .....</b>	<b>161.8</b>	140.3	<i>15%</i>	152.8	<i>6%</i>	<b>314.6</b>	273.2	<i>15%</i>
<b>OIBDA .....</b>	<b>130.7</b>	151.1	<i>(13%)</i>	136.4	<i>(4%)</i>	<b>267.1</b>	265.5	<i>1%</i>
<i>Margin (%) .....</i>	<i>44.7%</i>	<i>51.9%</i>		<i>47.2%</i>		<i>45.9%</i>	<i>49.3%</i>	
<b>Adjusted OIBDA<sup>17</sup> .....</b>	<b>131.8</b>	124.2	<i>6%</i>	136.4	<i>(3%)</i>	<b>268.2</b>	238.5	<i>12%</i>
<i>Margin (%) .....</i>	<i>45.1%</i>	<i>46.9%</i>		<i>47.2%</i>		<i>46.1%</i>	<i>46.6%</i>	

MGTS revenues were slightly up year on year and quarter on quarter due to the mixed effect of the aforementioned regulatory reduction in the price charged for residential voice services from February 1, 2008; the cancellation by the Regulator of the fixed monthly payment previously received per point of interconnect with effect from March 1, 2008; approximately 2% of residential voice subscribers staying on the unlimited tariff plan during the second quarter of 2007 by default and migrating to other plans after the end of the period; and the seasonal decrease in local traffic. This was offset to some extent by the growth in fixed-to-mobile traffic; Russian Ruble appreciation; and the successful introduction of three new corporate customer tariff plans for regulated voice services from February 1, 2008. The growth in intersegment sales reflected the growing scale of the alternative segment in Moscow.

The OIBDA margin consequently declined year on year and quarter on quarter, even when excluding the impact of the non-recurring compensation payments received from the Federal

<sup>17</sup> Excluding US\$ 27.0 million of non-recurring compensation payments from the Federal Budget in Q2 2007 and US\$ 1.1 million of accruals relating to the long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar GDR price.

Budget in the second quarter of 2007, and also reflected the growth in CPP traffic and the resulting increase in payments to mobile operators.

## 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.

### Operating Highlights

	<b>Q2 2008</b>	Q2 2007	<i>Growth (%)</i>	Q1 2008	<i>Growth (%)</i>	<b>H1 2008</b>	H1 2007	<i>Growth (%)</i>
Installed capacity / telephone lines (000s) .....	<b>655</b>	643	2%	655	0%	<b>655</b>	643	2%
<b>Residential subscribers</b>								
Number of subscribers (000s) .....	<b>730</b>	516	41%	718	2%	<b>730</b>	516	41%
Average monthly revenue per subscriber (US\$) .....	<b>14.2</b>	19.2	(26%)	15.2	(6%)	<b>14.7</b>	18.9	(22%)
<b>Corporate subscribers</b>								
Number of subscribers (000s) .....	<b>30</b>	32	(6%)	30	0%	<b>30</b>	32	(6%)
Average monthly revenue per subscriber (US\$) .....	<b>458.3</b>	322.1	42%	399.1	15%	<b>427.5</b>	319.3	34%
<b>Operators</b>								
Number of active lines (000s) .....	<b>448</b>	454	(1%)	448	0%	<b>448</b>	454	(1%)
- of which, used by mobile operators (000s) .....	<b>316</b>	326	(3%)	316	0%	<b>316</b>	326	(3%)

The total residential subscriber base increased by 41% year on year to 730 thousand due to the 58% year on year increase in the number of premium broadband service subscribers to 686 thousand. The lower ARPU level reflected the focus on adding new basic tier Internet subscribers during the first phase of the broadband development strategy, and the resulting reduction in the proportion of double-play (Internet & pay-TV) subscribers to 21% from 23% a year ago.

The Corporate business demonstrated the opposite trend, with subscriber levels stable but ARPU up 42% year on year and 15% quarter on quarter following the marketing of new services such as scalable dedicated Virtual Private Networks (VPNs), broadband channels based on IP/MPLS, and digital telephony services.

## Financial Highlights

(US\$ millions)	Q2 2008	Q2 2007	Growth (%)	Q1 2008	Growth (%)	H1 2008	H1 2007	Growth (%)
<b>Revenues</b>								
Corporate .....	59.2	44.7	33%	56.7	4%	115.8	87.6	32%
Operators .....	36.6	33.2	10%	39.3	(7%)	75.9	62.1	22%
Residential .....	31.5	29.8	6%	31.8	(1%)	63.2	59.0	7%
<b>Total</b> .....	<b>127.2</b>	107.6	18%	127.8	(0%)	<b>255.0</b>	208.7	22%
Intersegment sales .....	(0.3)	(0.3)	(8%)	(1.7)	(84%)	(1.9)	(0.5)	327%
<b>Net Revenues</b> .....	<b>127.0</b>	107.3	18%	126.1	1%	<b>253.1</b>	208.2	22%
<b>Operating Expenses (excluding depreciation and amortisation)</b> .....	<b>110.5</b>	85.5	29%	102.8	8%	<b>213.3</b>	169.5	26%
<b>OIBDA</b> .....	<b>16.7</b>	22.2	(25%)	25.0	(33%)	<b>41.7</b>	39.1	7%
<i>Margin (%)</i> .....	<b>13.1%</b>	20.6%		19.6%		<b>16.4%</b>	18.8%	
<b>Adjusted OIBDA</b> <sup>18</sup> .....	<b>19.6</b>	22.2	(12%)	25.0	(22%)	<b>44.6</b>	39.1	14%
<i>Margin (%)</i> .....	<b>15.4%</b>	20.6%		19.6%		<b>17.5%</b>	18.8%	

Revenues increased by 18% year on year in the quarter and by 22% for the year to date, which primarily reflected the rise in Corporate ARPU described above. Revenues were stable quarter on quarter despite the seasonal decline in business activity.

OIBDA was down year on year and quarter on quarter due to increased interconnect expenses following the growth in CPP traffic and rental of DLD/ILD channels; increased payments to MGTS for the use of infrastructure in line with the increased scale of the business; higher sales and marketing expenses; the growth in property costs due to the growing number of sales outlets; and the launch of the new incentive scheme from April 1, 2008 and the resulting quarterly allocation of related costs

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

Comstar's regional and international business comprises the Group's operations in five out of the seven Russian Federal regions (Central, North-West, South, Volga, and Ural) and presence in key cities with a combined population of 20 million people, Ukraine and Armenia.

#### Operating Highlights

	Q2 2008	Q2 2007	Growth (%)	Q1 2008	Growth (%)	H1 2008	H1 2007	Growth (%)
<b>Residential subscribers</b>								
Number of subscribers (000s) .....	459	72	533%	414	11%	459	72	533%
Average monthly revenue per user (US\$) .....	10.0	11.9	(16%)	9.3	8%	9.6	11.4	(16%)
<b>Corporate subscribers</b>								
Number of subscribers (000s) .....	36	8	379%	35	3%	36	8	379%
Average monthly revenue per user (US\$) .....	172.1	228.7	(25%)	148.3	16%	160.2	220.4	(27%)
<b>Operators</b>								
Number of active lines (000s) .....	2.2	8.6	(75%)	2.2	0%	2.2	8.6	(75%)

<sup>18</sup> Excluding US\$ 2.9 million of accruals relating to the new long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar GDR price

The number of residential subscribers in the regions increased more than six-fold year on year to 459 thousand following the acquisitions of DTN and RTC in November 2007, and by 11% quarter on quarter as a result of the acquisition of Interlink Group in June 2008.

The number of corporate subscribers increased more than four-fold year on year due to the acquisitions of DTN, RTC, and 3% quarter on quarter due to the acquisition of Interlink Group. Corporate ARPU was up 16% quarter on quarter due to the launch of new services and development of the networks.

Comstar commercially launched its intra-zone NGN fixed line telecommunications network in the Saratov region in June, with interconnection points in Saratov and 37 municipalities in the region. The regional network includes a transit zonal node, local telephone networks, backbones in Saratov and Engels, and a fiber-optic trunk between the two cities.

An NGN-based fiber-optic network is also being built in St. Petersburg, with 100 kilometers already completed and a further 500 kilometers to be built by the end of 2008. Comstar will provide local and long-distance voice services to its corporate clients in St. Petersburg during the second half of the year and has already applied for additional numbering capacity in the region. Comstar has a licence for intra-zone voice services and the zonal network under development is planned to be launched in the second half of the year.

Comstar's subsidiary in Orenburg has been expanding its network capacity to enable the development of its broadband services, which are based on ADSL2+ and Ethernet technology and were launched in February 2008.

Outside Russia, Comstar has launched double-play service offerings in Ukraine and a WiMax network in Armenia.

Comstar acquired Interlink Group in June, which is one of the leading players in the alternative fixed-line communications market in the Ryazan region and provides voice, internet access and leased channel services, as well as the design and the development of fibre-optic and other cable networks. The company provided over 15 thousand telephone numbers, internet access to over 2 thousand subscribers, and Cable TV to over 20 thousand customers at the end of 2007. Interlink's fiber-optic network covers over 95% of the Ryazan region, and the Group has licenses that will enable the development of WiMAX-based services.

Comstar acquired Ural Telephone Company, a leading alternative telecommunications operator in Ural region, after the end of the quarter. UTC provides local and zonal connection services, as well as broadband internet access based on ADSL and Ethernet technologies for residential and corporate subscribers. UTC has a capacity of 150 thousand telephone numbers in Ekaterinburg, of which 61 thousand are installed numbers. The Company also operates 13 thousand telephone numbers in other towns in the Sverdlovsk region, of which 5,5 thousand are installed numbers. The Company has a modern technical infrastructure and services more than 50 thousand telephone numbers, of which half are provided to corporate subscribers.

## Financial Highlights

<i>(US\$ millions)</i>	<b>Q2 2008</b>	Q2 2007	<i>Growth (%)</i>	Q1 2008	<i>Growth (%)</i>	<b>H1 2008</b>	H1 2007	<i>Growth (%)</i>
<b>Revenues</b>								
Residential.....	<b>12.2</b>	2.6	376%	11.4	7%	<b>23.6</b>	5.0	373%
Corporate.....	<b>17.9</b>	4.9	264%	15.6	15%	<b>33.5</b>	9.9	239%
Operators.....	<b>8.5</b>	4.1	107%	9.3	(9%)	<b>17.8</b>	8.2	116%
<b>Total.....</b>	<b>38.6</b>	11.6	233%	36.3	7%	<b>74.9</b>	23.1	224%
<b>Operating Expenses (excluding depreciation and amortisation).....</b>	<b>24.9</b>	10.2	145%	25.4	(2%)	<b>50.3</b>	21.0	140%
<b>OIBDA.....</b>	<b>13.7</b>	1.4	876%	10.9	26%	<b>24.6</b>	2.1	1,057%
<i>Margin (%).....</i>	<b>35.5%</b>	12.1%		30.1%		<b>32.9%</b>	9.2%	
<b>Adjusted OIBDA<sup>19</sup>.....</b>	<b>13.9</b>	1.4	892%	10.9	28%	<b>24.8</b>	2.1	1,068%
<i>Margin (%).....</i>	<b>36.1%</b>	12.1%		30.1%		<b>33.2%</b>	9.2%	

Revenues increased more than three-fold year on year following continued organic growth and the acquisitions of DTN, RTC and Interlink Group. Revenues were also up quarter on quarter despite the seasonal slowdown in business activity in the second quarter.

The OIBDA margin increased both year on year and quarter on quarter due to the higher margins reported by DTN and RTC, as well as the ongoing cost optimization programme.

UTC's operations will be consolidated in Comstar's results with effect from July 2008.

## FINANCIAL REVIEW

Group net cash provided by operations increased by 12% year on year to US\$ 125.8 million in the quarter and by 36% to US\$ 274.2 million for the half year. Net cash provided by investing activities amounted to US\$ 104.2 million in the quarter and US\$ 34.9 million for the year to date, and primarily comprised the cash proceeds from short term investments maturing during the quarter, net of cash CAPEX and other investments made. This compared with US\$ 53.3 million and US\$ 81.7 million of net cash used by investing activities in the respective periods of 2007. Group cash capital expenditure totaled US\$ 92.4 million in the quarter and US\$ 135.8 million for the year to date, compared to US\$ 78.7 million and US\$ 142.8 million for the respective periods of 2007. The Group's capital expenditure projects primarily comprised the development of the backbone in the regions and broadband network in Moscow.

Free cash flow generation, calculated as net cash provided by operations less cash CAPEX, slightly decreased year on year from US\$ 33.7 million to US\$ 33.4 million, and compared to US\$ 105.0 million for the first quarter of 2008. Free cash flow for the six month period more than doubled year on year from US\$ 58.6 million to US\$ 138.4 million due to the significant increase in net cash provided by operations and stable CAPEX levels.

Net cash used in financing activities amounted to US\$ 82.2 million in the quarter and US\$ 92.1 million for the year to date, and principally comprised the early redemption of US\$

<sup>19</sup> Excluding US\$ 0.2 million of accruals relating to the new long term employee incentive programme for the period from April 1, 2008 assuming a 20% annual increase in the Comstar GDR price

77.2 million of MGTS Ruble bonds. This compared with US\$ 20.9 million and US\$ 24.9 million of net cash used in financing activities during the respective periods of 2007.

The Group's cash and cash equivalents therefore increased to US\$ 408.5 million at the end of the quarter, compared to US\$ 258.9 million at the end of the first quarter of 2008 and US\$ 232.1 million as at June 30, 2007. Total Group borrowings, including capital lease obligations, decreased quarter on quarter to US\$ 967.6 million at the end of the period, compared to US\$ 1,048.1 million at the end of the first quarter of 2008. The Group's net debt position (total borrowings less cash and cash equivalents) was therefore also reduced to US\$ 559.1 million at the end of the period, compared to US\$ 789.2 million at the end of the first quarter of 2008, and net debt excluding short-term investments was reduced to US\$ 294.9 million compared to US\$ 313.9 million at the end of the first quarter of 2008. The Group's total debt to twelve month trailing OIBDA ratio was 1.48 times at the end of the period, compared to 1.57 times at the end of the first quarter of 2008, and 1.82 times at the end of June 2007.

Access Telecommunications Coöperatief U.A. ("Access", previously known as 2711 Centerville Coöperatief U.A.) has initiated the process of exercising its put option to sell 46,232,000 Comstar shares to MGTS Finance S.A. at the weighted average closing price of the Comstar Global Depositary Receipt on the London Stock Exchange for the 90 trading day period up to and including the trading day prior to the date of exercise of the put option. The shares represent 11.06% of the total number of issued Comstar shares. The transaction is to be completed within 60 business days from August 25, 2008. As a result of the transaction, Comstar subsidiary MGTS Finance S.A. will acquire the 46,232,000 Comstar shares for approximately US\$ 460 million using the Group's own funds.

## **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 1232**

US: **+1 480 629 1990**

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

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

US: **+1 303 590 3030**

PIN: **3913354#**

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.

The slide presentation will be available for download on Comstar UTS' website [http://www.comstar.ru/en/for\\_investors/presentations/comp/](http://www.comstar.ru/en/for_investors/presentations/comp/) starting from 3.30 PM (Moscow time) today.

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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 783 thousand residential broadband internet subscribers in Moscow, as well as 49 thousand residential regional and international broadband internet subscribers at the end of June 2008. Comstar generated US\$ 834.2 million of revenues and a 39.5% OIBDA margin for the six months ended June 30, 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.*

## Attachment A

### 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

	2Q 2008		2Q 2007		1Q 2008		1H 2008		1H 2007	
	US\$ 'mln	% of revs								
Operating profit .....	107.1	25.7	135.7	35.8	121.3	29.1	228.4	27.4	228.5	32.3
Add: Depreciation and amortization .....	52.2	12.5	37.5	9.9	48.9	11.7	101.2	12.1	75.1	10.6
<b>OIBDA (reported)</b> .....	<b>159.3</b>	<b>38.2</b>	<b>173.2</b>	<b>45.7</b>	<b>170.2</b>	<b>40.8</b>	<b>329.6</b>	<b>39.5</b>	<b>303.6</b>	<b>42.9</b>
Less: non- recurring compensation from the Federal Budget .....	—	—	(27.0)	(7.1)	—	—	—	—	(27.0)	(3.8)
Add back accruals related to the new motivation system for the employees from April 1, 2008 assuming annual 20% increase in Comstar's GDR price .....	4.2	1.0	—	—	—	—	4.2	0.5	—	—
<b>OIBDA (adjusted)</b> .....	<b>163.5</b>	<b>39.2</b>	<b>146.2</b>	<b>38.6</b>	<b>170.2</b>	<b>40.8</b>	<b>333.8</b>	<b>40.0</b>	<b>276.6</b>	<b>39.1</b>

#### ADJUSTED PRE-TAX INCOME

**Pre-tax income before the non-cash impact of the revaluation of the call and put option** is pre-tax income adjusted for the effect of 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. 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.

	<b>2Q 2008</b>		<b>2Q 2007</b>		<b>1Q 2008</b>		<b>1H 2008</b>		<b>1H 2007</b>	
	US\$ 'mln	% of revenues								
Pre-tax income (reported).....	107.9	25.9	86.2	22.7	127.4	30.6	235.4	28.2	188.6	26.6
Less: change in fair value of financial instrument (put option in 2008 and call and put option in 2007).....	(3.2)	(0.8)	39.5	10.4	(14.4)	(3.4)	(17.6)	(2.1)	26.0	3.7
<b>Pre-tax income (adjusted).....</b>	<b>104.7</b>	<b>25.1</b>	<b>125.7</b>	<b>33.2</b>	<b>113.1</b>	<b>27.1</b>	<b>217.8</b>	<b>26.1</b>	<b>214.6</b>	<b>30.3</b>

**Attachment B**

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<i>(US\$ thousand, except for share and per share amounts)</i>				
Operating revenues.....	\$ 417,271	\$ 379,157	\$ 834,226	\$ 708,016
Operating expenses, excluding depreciation and amortisation, net.....	(257,939)	(205,972)	(504,646)	(404,459)
Depreciation and amortisation.....	(52,248)	(37,505)	(101,163)	(75,101)
<b>Operating income</b> .....	<b>107,084</b>	<b>135,680</b>	<b>228,417</b>	<b>228,456</b>
Interest income.....	11,096	3,690	21,766	5,917
Interest expense.....	(15,580)	(13,739)	(30,615)	(26,439)
Change in fair value of a derivative financial instrument (call and put option in 2007 and put option in 2008) .....	3,199	(39,500)	17,568	(26,000)
Foreign currency transactions gain/(loss), net .....	2,146	92	(1,768)	3,480
Gain from disposal of an affiliate .....	–	–	–	3,216
<b>Income before income taxes, income from affiliates and minority interests</b> .....	<b>107,945</b>	<b>86,223</b>	<b>235,368</b>	<b>188,630</b>
Income tax expense.....	(23,510)	(35,678)	(51,406)	(62,500)
Income from affiliates.....	–	–	–	620
Minority interests.....	(54,561)	(33,387)	(100,003)	(65,923)
<b>Net income</b> .....	<b>\$ 29,874</b>	<b>\$ 17,158</b>	<b>\$ 83,959</b>	<b>\$ 60,827</b>
Weighted average number of common shares outstanding – basic .....	404,456,856	358,228,356	404,456,856	358,228,356
Earnings per common share – basic.....	\$ 0.07	\$ 0.05	\$ 0.21	\$ 0.17
Weighted average number of common shares outstanding – diluted .....	404,456,856	367,681,783	405,351,792	367,776,527
Earnings per common share – diluted.....	\$ 0.07	\$ 0.05	\$ 0.21	\$ 0.17

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

<i>(US\$ thousand)</i>	<b>June 30, 2008</b>	<b>December 31, 2007 (*)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ 408,487	\$ 179,794
Short-term investments .....	264,200	425,929
Trade receivables, net.....	184,136	163,028
Other receivables and prepaid expenses.....	120,907	101,668
Inventories and spare parts.....	45,257	41,328
Deferred tax assets, current portion.....	33,871	29,910
<b>Total current assets.....</b>	<b>1,056,858</b>	<b>941,657</b>
Property, plant and equipment, net.....	2,075,731	1,907,112
Intangible assets, net .....	179,122	191,006
Investments in shares of Svyazinvest.....	1,554,331	1,485,378
Other long-term investments.....	106,504	99,731
Restricted cash .....	972	2,447
Deferred tax assets, long-term portion .....	282	1,631
Deferred finance charges.....	1,229	1,375
<b>Total assets.....</b>	<b>\$ 4,975,029</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>	<u>June 30, 2008</u>	<u>December 31, 2007 (*)</u>
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Trade accounts payable, accrued expenses and other current liabilities .....	\$ 263,391	\$ 178,954
Deferred connection fees, current portion .....	37,508	35,787
Subscriber prepayments .....	53,409	48,767
Debt, current portion .....	23,443	103,476
Capital lease obligations, current portion .....	9,755	10,360
Derivative financial instrument (put option) .....	74,000	88,000
Total current liabilities .....	<u>461,506</u>	<u>465,344</u>
Long-term liabilities:		
Deferred connection fees, net of current portion .....	122,169	117,884
Debt, net of current portion .....	931,869	891,321
Capital lease obligations, net of current portion .....	2,501	6,150
Post-retirement obligations .....	38,279	35,817
Property, plant and equipment contributions .....	117,345	112,779
Deferred tax liabilities, long-term portion .....	119,734	114,123
Other long-term liabilities .....	44,099	31,009
Total long-term liabilities .....	<u>1,375,996</u>	<u>1,309,083</u>
Total liabilities .....	<u>1,837,502</u>	<u>1,774,427</u>
Minority interests .....	865,287	765,005
Shareholders' equity:		
Common stock .....	23,900	23,900
Treasury stock .....	(857)	(857)
Additional paid-in capital .....	1,425,044	1,425,044
Retained earnings .....	554,025	472,431
Accumulated other comprehensive income .....	270,128	170,387
Total shareholders' equity .....	<u>2,272,240</u>	<u>2,090,905</u>
<b>Total liabilities and shareholders' equity .....</b>	<b>\$ 4,975,029</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 June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Operating activities:</b>				
Net income .....	\$ 29,874	\$ 17,158	\$ 83,959	\$ 60,827
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortisation .....	52,248	37,505	101,163	75,101
Stock-based compensation.....	6,001	495	4,207	1,817
Change in fair value of a derivative financial instrument (call and put option in 2007 and put option in 2008) .....	(3,199)	39,500	(17,568)	26,000
(Gain) / loss from disposal of fixed assets and assets held for resale and other non-cash items, net.....	1,114	2,166	1,645	2,954
Gain on compensation of losses from third parties ....	(3,293)	(2,570)	(5,912)	(4,072)
Gain from disposal of an affiliate .....	–	–	–	(3,216)
Amortisation of deferred finance charges.....	104	1,618	204	3,808
Deferred taxes .....	(484)	3,453	(1,805)	6,711
Income from affiliates.....	–	–	–	(620)
Foreign currency transactions loss / (gain) on non- operating activities, net .....	(550)	158	3,449	(1,096)
Postretirement benefits .....	584	1,296	1,521	207
Minority interests.....	54,561	33,387	100,003	65,923
Provision for doubtful debts .....	3,095	3,142	5,689	3,900
Inventory obsolescence charge .....	1,544	(18)	1,879	3,326
Changes in operating assets and liabilities:				
Trade receivables .....	(1,784)	(11,684)	(18,694)	(66,937)
Other receivables and prepaid expenses .....	(1,487)	11,317	(11,276)	4,487
Inventories and spare parts .....	(517)	(1,203)	(3,664)	(2,722)
Trade accounts payable, accrued expenses and other current liabilities .....	(13,743)	(21,778)	28,669	36,540
Deferred connection fees .....	104	(1,028)	(1,089)	(4,892)
Subscriber prepayments.....	1,595	(522)	1,794	(6,595)
<b>Net cash provided by operating activities .....</b>	<b>125,767</b>	<b>112,392</b>	<b>274,174</b>	<b>201,451</b>

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

(US\$ thousand)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Investing activities:</b>				
Purchases of property, plant and equipment .....	\$ (86,879)	\$ (71,625)	\$ (126,789)	\$ (126,287)
Proceeds from sale of property, plant and equipment.....	956	1,412	1,576	2,165
Purchases of intangible assets.....	(5,527)	(7,046)	(9,008)	(16,522)
Acquisition of subsidiaries, net of cash acquired.....	(8,279)	–	(8,279)	–
Acquisition of minority interests .....	–	(1,873)	–	(1,873)
Purchases of long-term investments .....	–	–	(1,617)	–
Proceeds from sale and redemption of long-term investments.....	–	8	91	20,605
Purchases of short-term investments .....	(37,924)	(6,156)	(99,540)	(8,421)
Proceeds from sale and redemption of short-term investments.....	241,871	25,134	276,887	46,911
Decrease in restricted cash.....	2	6,794	1,536	1,736
<b>Net cash provided by / (used in) investing activities....</b>	<b>104,220</b>	<b>(53,352)</b>	<b>34,857</b>	<b>(81,686)</b>
<b>Financing activities:</b>				
Proceeds from borrowings .....	2,451	675,131	3,004	682,030
Principal payments on borrowings .....	(81,609)	(688,831)	(88,994)	(696,491)
Principal payments on capital lease obligations .....	(3,060)	(5,666)	(5,570)	(8,954)
Dividends paid.....	(20)	–	(540)	–
Deferred finance charges .....	–	(1,492)	–	(1,492)
<b>Net cash used in financing activities .....</b>	<b>(82,238)</b>	<b>(20,858)</b>	<b>(92,100)</b>	<b>(24,907)</b>
Effects of foreign currency translation on cash and cash equivalents .....	1,832	217	11,762	619
<b>Net increase in cash and cash equivalents.....</b>	<b>149,581</b>	<b>38,399</b>	<b>228,693</b>	<b>95,477</b>
<b>Cash and cash equivalents, beginning of the period ...</b>	<b>258,906</b>	<b>193,699</b>	<b>179,794</b>	<b>136,621</b>
<b>Cash and cash equivalents, end of the period .....</b>	<b>\$ 408,487</b>	<b>\$ 232,098</b>	<b>\$ 408,487</b>	<b>\$ 232,098</b>