

## Comstar-UTS

Presentation at MTS Analyst and Investor Day

Sergey V. Pridantsev, CEO

October 2009, Moscow, Russia



## Comstar at a Glance



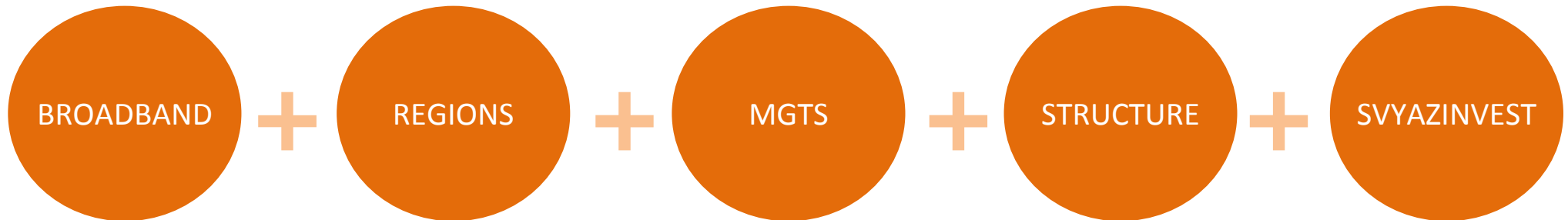
- Operations in 69 Russian cities with combined population of over 48 mln people
- 57% of revenues<sub>1H09</sub> and 73% of OIBDA<sub>1H09</sub> provided by incumbent business
- Revenue<sub>1H09</sub> – US\$ 698 mln, OIBDA margin<sub>1H09</sub> – 39.5 %
- The leading national broadband provider: ~ 1 mln residential broadband subs + over 2 mln residential pay-TV subs
- The leading fixed-line telecommunications provider for corporates – over 1 mln active lines
- >90% of revenues & opex, >80% of capex and 98% of total debt are RUR-denominated
- Owner of 25% + 1 share in state-owned Svyazinvest national fixed line incumbent
- 14% treasury shares

# Strategy: “5 Angles of Attack”



- ✓ Penetration into the mass market in Moscow
- ✓ Increasing ARPU in the premium segment
- ✓ 3K: Comstar → Client → Quality
- ✓ BB development in the regions

- ✓ Restructuring of regional operations
- ✓ 2 legal entities : Comstar & MGTS



- ✓ Integration of Stream-TV
- ✓ Enhancing existing operations via strategic M&As

- ✓ Cost optimization & increase in efficiency
- ✓ Regulated tariff increases

- ✓ Capitalising on Svyazinvest stake

# Strategic priorities in crisis environment



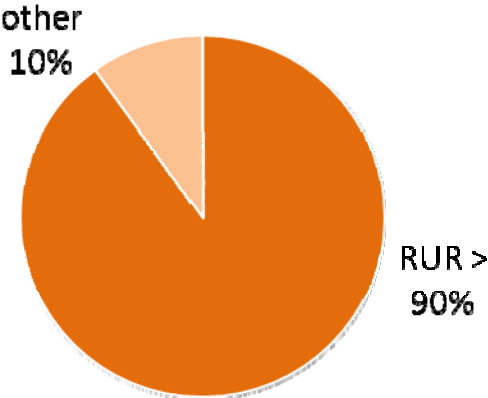
	Actions	1H09 results
1 Ensure financial stability	<ul style="list-style-type: none"><li>• Maximising cash flows</li><li>• Optimization of capital investments</li><li>• Service the debt</li><li>• Reduction of debt level</li></ul>	<ul style="list-style-type: none"><li>• RUR 4.2 bln free cash flow</li><li>• CAPEX of 11% of revenues</li><li>• Timely payment of interest</li><li>• Restructuring of terms of Sberbank credit repayment</li></ul>
2 Refocus from expansion to optimization	<ul style="list-style-type: none"><li>• Keep and develop the existing subscriber base</li><li>• 3K programme of quality enhancement</li><li>• Selective up-sell of existing subscribers to VAS</li></ul>	<ul style="list-style-type: none"><li>• BB subs growth with no promo</li><li>• Plug-and-play MGTS product</li><li>• 4% y-o-y BB ARPU growth in Moscow</li></ul>
3 Strategic M&A & restructuring	<ul style="list-style-type: none"><li>• Acquisition of regional operators</li><li>• Restructuring of ownership in Svyazinvest</li></ul>	<ul style="list-style-type: none"><li>• In progress</li></ul>

In current market environment our strategic priorities are moved from active expansion towards maximizing cash flows and integration of the assets

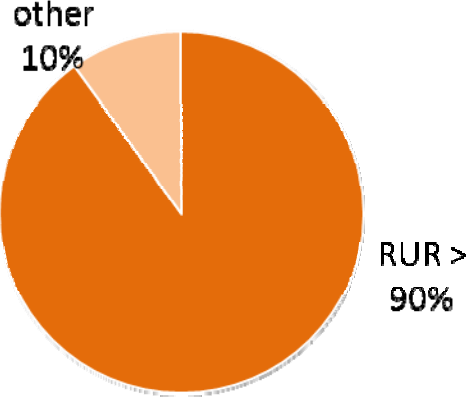
# Resilience to forex movements



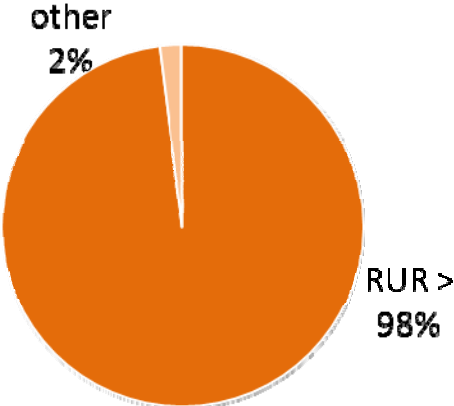
Revenue breakdown



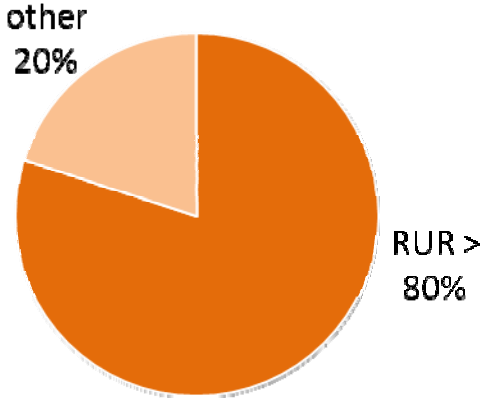
Operating expenses breakdown



Total debt breakdown



CAPEX breakdown



## 2Q2009 results proved the resilience of the business



(RUR Million)

	2Q2009	2Q2008	Growth	1Q2009	Growth
<b>Revenues</b>	<b>11,702</b>	9,858	<b>19.0%</b>	11,343	<b>3.0%</b>
<b>OIBDA</b>	<b>4,803</b>	3,764	<b>28.0%</b>	4,291	<b>12.0%</b>
<i>Margin</i>	<b>41.0%</b>	38.2%		37.8%	
<b>Operating Income</b>	<b>3,378</b>	2,529	<b>34.0%</b>	2,798	<b>21.0%</b>
<i>Margin</i>	<b>28.9%</b>	25.7%		24.7%	
<b>Net income attributable to Comstar-UTS</b>	<b>958</b>	703	<b>36.0%</b>	494	<b>94.0%</b>
<i>Margin</i>	<b>8.2%</b>	7.1%		4.4%	
<b>Cash Capex</b>	<b>500</b>	2,213	<b>-77.0%</b>	2,024	<b>-75.0%</b>
<i>% of Revenues</i>	<b>4.3%</b>	22.4%		17.8%	

### 2Q2009 Highlights

- 19% year on year and 3% quarter on quarter revenue growth in RUR
  - DLD/ILD traffic passed through Comstar' proprietary network increased by 50% q-o-q
  - growing fixed-to-mobile volumes
  - increase in RUR prices
- 41.0% OIBDA margin vs 38.2% in the 2Q08
  - negotiation of better price terms
  - focus on direct marketing
  - decrease in employee costs due to planned optimization of headcount
- 36% year on year and 94% quarter on quarter net income attributable to Comstar-UTS growth in RUR

# BB market In Moscow

BROADBAND

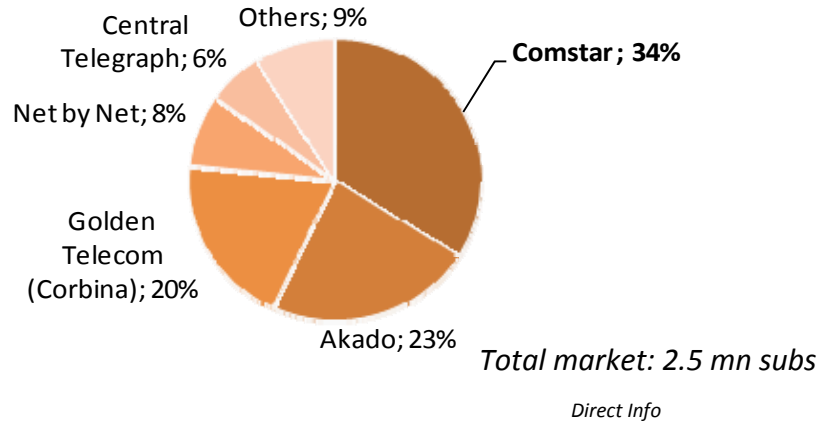
REGIONS

MGTS

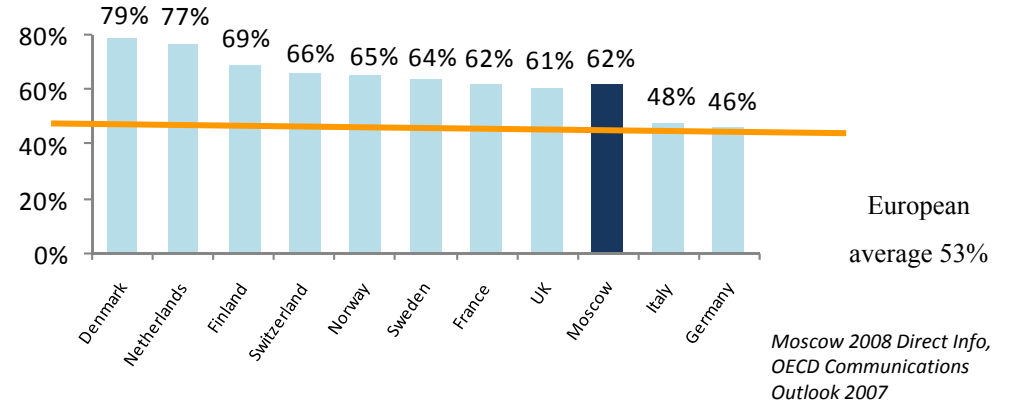
STRUCTURE

SVYAZINVEST

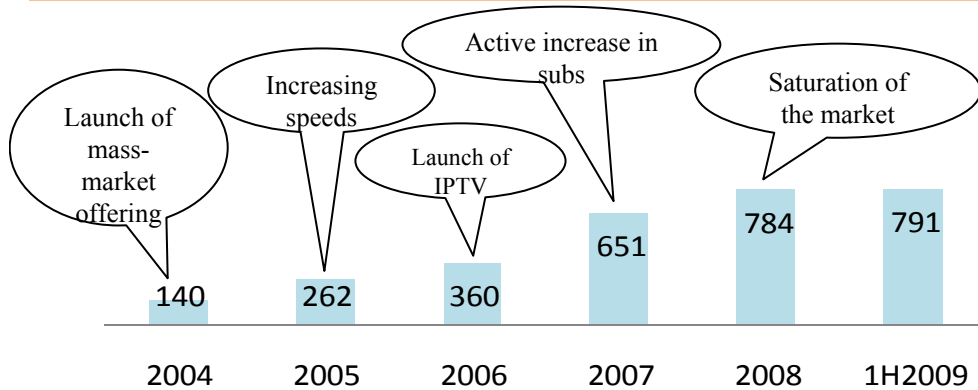
## Moscow Residential BB Market, 1Q2009



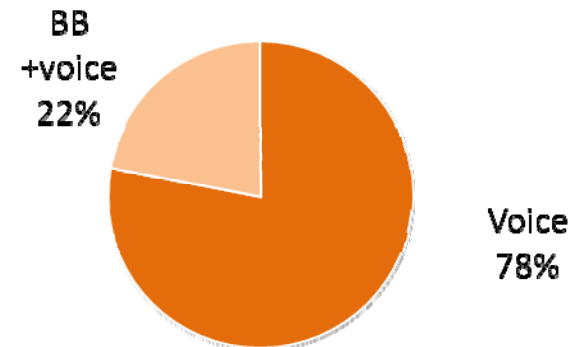
## Broadband penetration, %



## Comstar residential subscriber base, '000



## Penetration of BB among MGTS subscriber base, %



Objective in Moscow is to have > 33% of MGTS voice customers (~3.6 million) connected to BB by the end of 2011 (~50% market share)

# Unique bundling

BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST

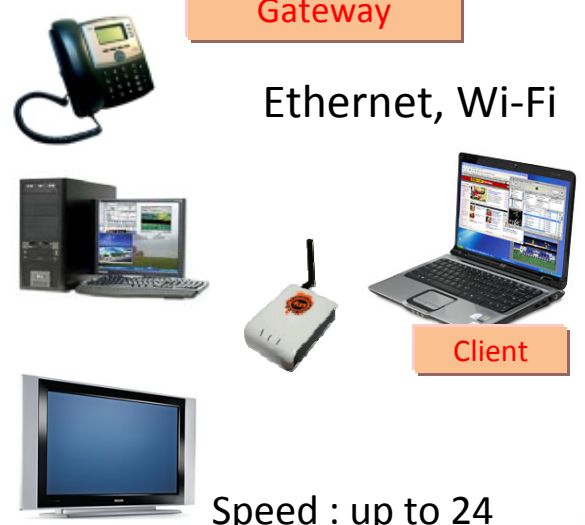
COMSTAR

Fixed  
(ADSL)

Wireless  
(WiMAX/Wi-Fi)

IMS Home Gateway

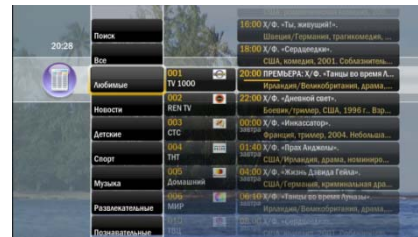
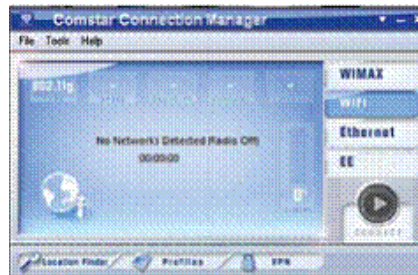
Ethernet, Wi-Fi



Client

Speed : up to 24 Mb/sec, IP TV, HDTV

Connection Manager



IP-TV EPG

In the car  
WiMAX  
At friends

Wi-Fi  
In public places



Client

Combination of different technologies already created unified communications space

# Digitalization of MGTS

BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST

## Analog->TDM

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Release of real estate
- VAS impact is minimal
- No BB impact

## Analog->NGN

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Centralization of equipment
- Release of real estate
- VAS impact is minimal
- No BB impact

## Analog->IMS (from 2010)

- Equipment obsolescence
- Regulatory compliance
- Savings on labor
- Centralization of equipment
- Release of real estate
- BB connectivity as by product
- Major VAS development

Cost saving

Major service impact

Development reached the point of revolutionary step – full IP connectivity to home with voice over the broadband

# Russian fixed-line market

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REGIONS

MGTS

STRUCTURE

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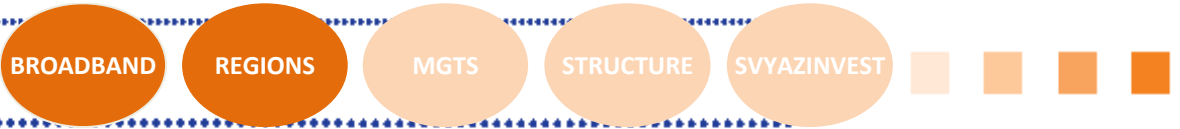


- In 2007 Comstar was present in 36% of the market
- In 2008 Comstar significantly increased its presence – to 64% of the market due to:
  - Penetration to DLD/ILD market
  - Significant increase of its share on the alternative market in the regions

In 2008 Comstar entered DLD/ILD market & significantly increased the number of regions of presence

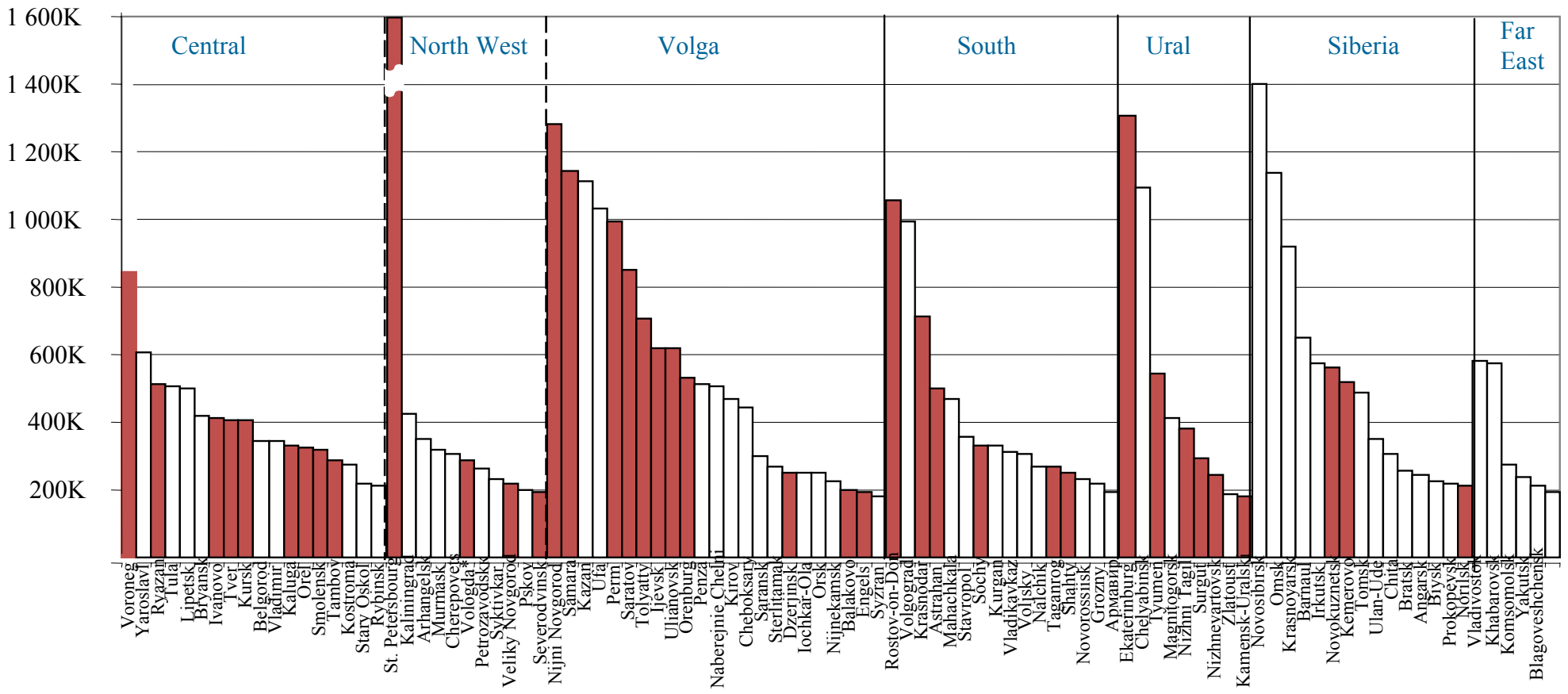
\* Direct Info, Mincomsvyaz  
\*\* Comstar estimates based on Mincomsvyaz data

# Regions: current presence



Cities with population, more than 200k

Regions



Regional operations cover 69 cities  
with combined population exceeding 30 mln people (excl. Moscow)

# Regional BB development

BROADBAND

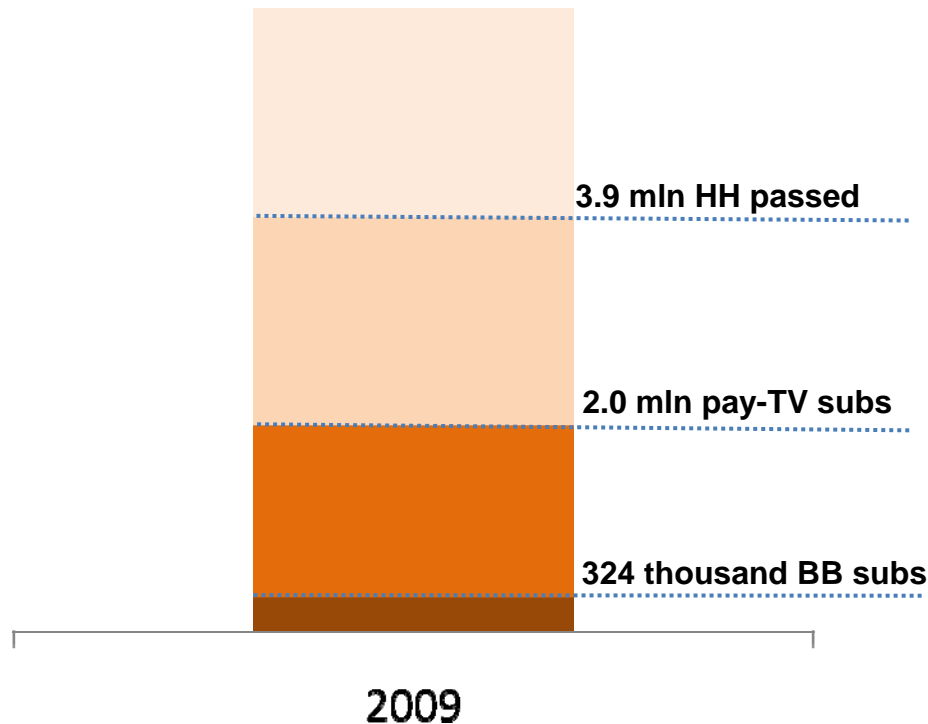
REGIONS

MGTS

STRUCTURE

SVYAZINVEST

Comstar's regional cities of presence – total of 5.9 mln households (HH)



- 59% of HH passed are BB ready
- Network modernization will increase the capacity of BB networks to 80% of HH passed
- Green field will allow to cover a significantly higher number of cities
- Reasonable in parallel with M&A with business case developed for each target market to identify comparative economics

Network modernization increases the BB networks capacity. M&A and 'green field' activities will allow us to reach maximum coverage

# Comstar Group Structure

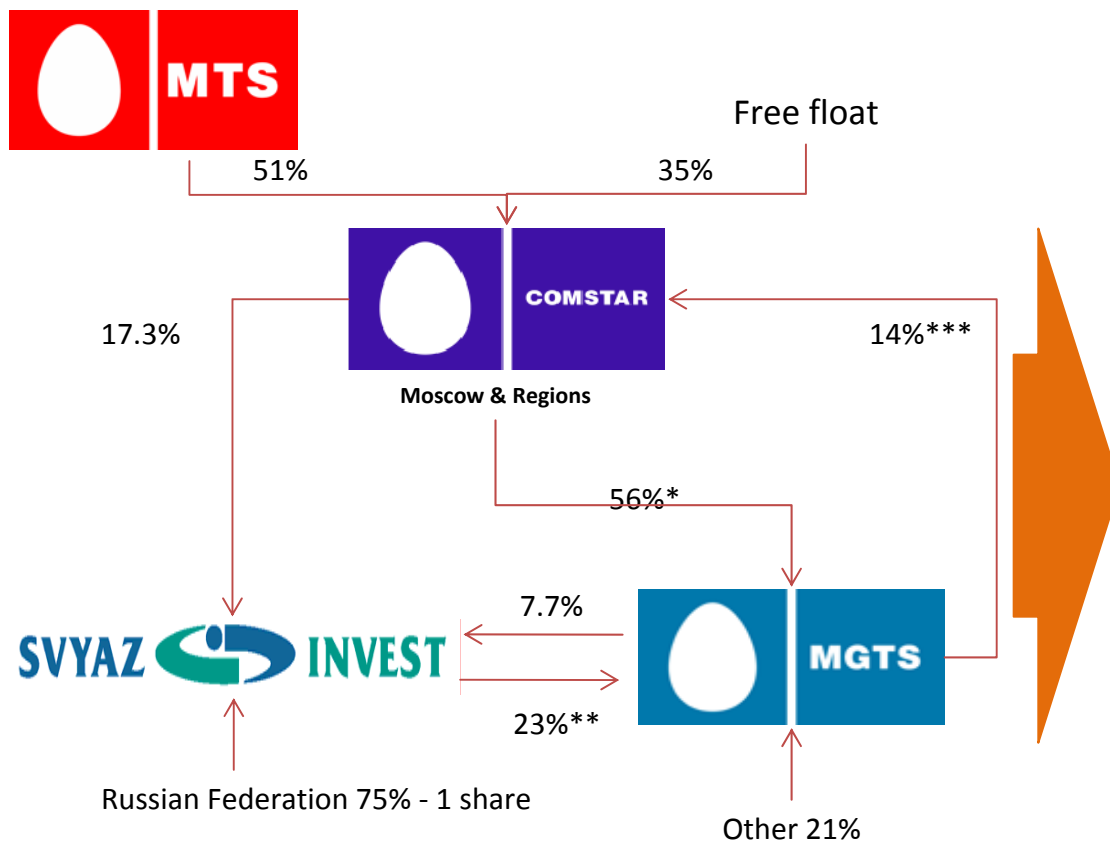
BROADBAND

REGIONS

MGTS

STRUCTURE

SVYAZINVEST



- MTS is acquiring 51% stake in Comstar from Sistema

\*67% of voting shares

\*\*28% of voting shares

\*\*\* treasury shares, of which 11% is owned by MGTS Finance SA

Comstar becomes part of MTS Group

# Comstar profile



Traditional segment  
in Moscow (ILEC)

Alternative segment  
in Moscow (CLEC)

Alternative segment  
in regions and CIS (CLEC)



Present

57% of Group revenues  
73% of Group OIBDA

26% of Group revenues  
15% of Group OIBDA

17% of Group revenues  
12% of Group OIBDA

STATE HOLDING

4.8 mln installed lines:  
•3.6 mln residential, (incl.182 000 mass-market BB users)  
•762 000 corporate (70 000 accounts)

•632 000 residential accounts (incl. 608 000 premium BB users)  
•28 000 corporate accounts

3.9 mln households passed (59% BB ready)  
•2.5 mln residential subs:  
•2.0 mln pay-TV users  
•324 000 BB users  
•42 000 corporate accounts

•Comstar owns 25%+1 share  
•7ILECs+Rostelecom+ Central Telegraph  
•Owner of the “last mile” in the regions  
•>35 million installed lines covering 90% of Russia

>90% of lines are ADSL compatible  
>63% of lines are digital  
>11 000 km combined backbone

Future



•Mass-market BB  
•Regulated voice tariff revisions  
•Digitalization via IMS on 1.7 mln analogue lines (platform for future FMC)

•Rebrand to MTS  
•Cross-sales with MTS on corporates  
•Converged offering ADSL, WiMax, 3G for premium BB

•Rebrand to MTS  
•Complete modernization  
•Up-sell from pay-TV to BB  
•Cross-sales with MTS  
•Backbone channels optimization  
•M&As

•Sell SI stake  
•Consolidate MGTS

# Investment Case



## Before MTS/SSA deal:

- ✓ National fixed-line provider with operations in 69 cities of Russia with combined population of >48 mln people
- ✓ Low exposure to forex risks – all business in RUR
- ✓ Unique combination of
  - ✓ Regulated and non-regulated business
  - ✓ High profitable incumbent business and growing altnet business
  - ✓ Wire-line and wire-less technologies creating seamless telecommunication space
  - ✓ Balanced mix of customer types (residential, corporates, operators)

## After MTS/SSA deal:

- + Brand
- + ILD/DLD channels
- + Combined offerings